

James Wilbanks, Ph.D.
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: December 2, 2015
To: Board of Retirement
From: James Wilbanks, Retirement Administrator
Subject: Excess Earnings Policy

Attached you will find a DRAFT Excess Earnings Policy for your consideration. To refresh your memory, I would like to provide a summary timeline of the events around this policy.

August 13, 2015:

During the first day of the MCERA Strategic Planning Off-Site, the Board discussed a number of historical issues which continue to impact the organization. During the meeting, direction was given to staff to bring the policy regarding excess earnings to the Board at the September Board meeting to address the issue of excess earnings. It was agreed by all, that if this was done, the issue of excess earnings would be considered closed and Trustees would "never bring it up again".

September 16, 2015:

At the September Board meeting the Board approved the change to the Interest Crediting and Undistributed Earnings Policy to clarify that when there is no longer an unfunded actuarial accrued liability, excess earnings would be held in the trust as a reserve against future economic downturns. I made it very clear in my comments during the discussion that this was the correction of the excess earnings issue the Board had requested during the August 13, 2015 Strategic Planning Off Site meeting. The motion to approve the policy change was made by Trustee Ted Stephens, seconded by Trustee Kathryn Cavness and passed with 7 yes votes and 0 no votes.

November 12, 2015:

During discussion regarding the Retirement Administrator Report, the issue of the policy regarding excess earnings was again raised. Further, during the General Board Member Discussion agenda item, Trustee Ted Stephens requested that this agenda item be placed on the December 2, 2015 agenda for further discussion. Following the Board meeting, Mr. Stephens clarified his position regarding the re-opening of the excess earnings issue in a series of e-mails, stating "...to put this divisive issue to rest, I would like to see a simple policy saying that MCERA would not use excess earnings ever again."

December 2, 2015:

The attached policy is submitted for your consideration. In regards to the attached policy, I forward you the following recommendations:

- I recommend the Board adopt the attached Excess Earnings Policy;
- I recommend the Board revoke the Interest Crediting and Undistributed Earnings Policy; and
- I recommend the Board direct staff to create a written procedure outlining the process used to credit interest to accounts.

The reasons for the second and third bullets above are two-fold. First, I would be concerned to have two separate policies speaking to the same topic. Such situations can lead to confusion if there is any difference between the two policies. Maintaining cohesion between two different policies requires focused attention, which we cannot ensure in the future. Thus, it is preferable to have a single policy on a given topic.

The second reason supporting the second and third recommendations above has to do with the Board strategy of being a policy-focused governance Board. Interest crediting, as described in the Interest Crediting and Undistributed Earnings Policy is squarely in the domain of process, instead of policy. As such, and in keeping with the MCERA Strategic Plan, that process need not be outlined in policy, but should be described in a written procedure at the staff level.

Finally, I hope that adopting a clear and concise policy outlining the Board's position may allow us to move past this issue. Thus, I recommend adopting the attached policy and eliminating the alternative policy.

I have discussed these recommendations with Legal Counsel and he is comfortable with the recommendations as presented.

MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
EXCESS EARNINGS POLICY

I. PURPOSE AND BACKGROUND

The purpose of this policy is primarily to provide benefit security for members of the Mendocino County Employees' Retirement Association (MCERA) and secondarily to achieve and maintain stable employer contributions that are as low as possible. The authority of the Board of Retirement (Board) in such matters is governed by the provisions of the County Employees' Retirement Law of 1937 ('CERL'), Government Code sections 31591 and 31592 (et. seq.), and other provisions of state and federal law applicable to MCERA.

II. OBJECTIVES

The objective of this policy is to provide for long term, stable funding of the retirement system.

III. POLICY GUIDELINES

Excess earning is covered under County Employees Retirement Law of 1937 ("CERL") Government Code sections 31592 to 31592.6. In the past MCERA utilized excess earnings for additional benefits. MCERA realizes the use of excess earnings could negatively impact the long-term stability of the plan. Accordingly, MCERA will apply all future excess earning to the unfunded actuarial accrued liability of the trust. If no unfunded actuarial accrued liability exists, MCERA will hold excess earnings as a reserve against future economic downturns.

IV. POLICY REVIEW

This Policy is subject to change in the exercise of the Board's judgment. The Board will review this policy at least every five years to ensure that it remains relevant and appropriate and consistent with state and federal laws and regulations. In the event of legislative changes to the pertinent sections addressed in this policy, the Board will review the policy as appropriate.

V. POLICY HISTORY

The Board adopted this policy on December 2, 2015.