

James Wilbanks, Ph.D.  
Retirement Administrator



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

Date: January 19, 2016  
To: Board of Retirement  
From: James Wilbanks, Retirement Administrator  
Subject: Interest Crediting and Undistributed Earnings Policy Revocation and Direction to Staff

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Attached you will find my memo from the December 2, 2015 MCERA Board meeting regarding the adoption of the new Excess Earnings Policy as well as the Interest Crediting and Undistributed Earnings Policy. The Board approved the recommendation in the attached memo to adopt the proposed Excess Earnings Policy at the meeting on December 2, 2015. The revocation of the Interest Crediting and Undistributed Earnings Policy was not specifically listed as an agenda item on the December 2, 2015 MCERA Board meeting. To ensure compliance with the Brown Act, direction was given to staff to bring back the revocation of said policy and providing direction to staff to prepare a written procedure outlining the crediting of interest to accounts for inclusion on the Consent Agenda at the next MCERA Board meeting.

By approving this action the Board revokes the Interest Crediting and Undistributed Earnings Policy and directs staff to create a written procedure outlining the process used to credit interest to accounts.

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

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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

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**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.

# MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION INTEREST CREDITING AND UNDISTRIBUTED EARNINGS POLICY

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## 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 objectives of this policy are to:

1. Provide for long term, stable funding of the retirement system through the reasonable and prudent allocation of earnings; and
2. Provide guidance to MCERA staff to ensure appropriate allocation of earnings to reserve accounts, including the appropriate allocation of undistributed (excess) earnings.

## III. DEFINITIONS

"Available Earnings" are the most recent annual earnings of the fund calculated on an accounting methodology pursuant to Government Code Sections 31591 and 31592 (et seq.), plus any fund balance in Undistributed Earnings including the Contingency Reserve. Specifically, Available Earnings are the annual net value of:

- a) Interest, dividend and principal payments on fixed income investments;
- b) Gains and losses on the sale of fixed income investments;
- c) Gains and losses on the sale of equities;
- d) Aggregate market value of investments in excess of the cost value of those investments;
- e) Recapture of commissions;
- f) Rental income;
- g) Balance of Accrued Undistributed Earnings
- h) Changes decreasing Contingency Reserve

### **Less**

- i) Building expenses on real estate held for investment, occupancy and rental purposes;
- j) System expenses;
- k) Changes increasing Contingency Reserve.

# MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION INTEREST CREDITING AND UNDISTRIBUTED EARNINGS POLICY

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"Undistributed Earnings" are the accrued earnings of the fund calculated on an accounting methodology after payment of system expenses and in excess of earnings posted to the appropriate valuation reserves (i.e., Members Deposit Reserve, County Advance Reserve, and Retired Members Reserve) and the Contingency Reserve.

## **IV. POLICY GUIDELINES**

Available earnings of MCERA will be allocated prior to December 31st of each fiscal year in an amount not to exceed on half (1/2) of the actuarial assumed earnings rate for that fiscal year, and prior to June 30th of the same fiscal year in an amount not to exceed the total actuarial assumed earnings rate for that fiscal year. The earnings will be allocated in the following order:

1. Payment of system expenses; then
2. Credit of regular interest to the following valuation reserves (all at an equal rate):
  - a) (Active) Members Deposit Reserve;
  - b) County Reserves; and
  - c) Retired Members Reserve; then
3. Replenish the Contingency Reserve to an amount no less than 1% of assets; then
4. Credit the balance to Undistributed Earnings.

Undistributed Earnings of MCERA will be allocated in the following order:

1. Credit to County Advance Reserve and Retired Members COLA Reserve so as to reduce the unfunded accrued actuarial liability ('UAAL') of the system until an actuarial funded ratio of 100% exists; then
2. Credit the balance to the Unallocated Fund Balance as a reserve against future economic downturns.

## **V. 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 two 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.

## **VI. POLICY HISTORY**

The Board adopted this policy on June 16, 2010.

The Board reviewed and revised the policy on September 16, 2015

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Date: January 19, 2016  
To: Board of Retirement  
From: James Wilbanks, Retirement Administrator  
Subject: December 2015 Retirement Report

MEMBERSHIP AS OF DECEMBER 31, 2015:

MEMBERSHIP CATEGORY	NUMBER OF MEMBERS
ACTIVE MEMBERS	1,125
ACTIVE DECEASED	0
RETIRED MEMBERS	1,402
RETIRED DECEASED	0
NEW MEMBERS	37
TERMINATIONS	27
WITHDRAWN NOT VESTED	8
WITHDRAWN VESTED	2
INACTIVE VESTED	292

RETIREMENTS PROCESSED IN DECEMBER:

RETIREE NAME	DATE OF RETIREMENT	DEPARTMENT
JILL DONOVAN	11/01/15	COURT
JOHN ROGERS	10/24/15	EH

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Date: January 19, 2016  
To: Board of Retirement  
From: Judy Zeller, Administrative Assistant  
Subject: Trustee Education and Training Annual Report

**History:**

January 1, 2013 Section 31522.8 was added to the Government Code which requires trustees to receive education in general pension related topic areas. MCERA's Trustee Education and Travel Policy, adopted December 12, 2012, ensures that board members receive education and the reporting of that education is compliant with the new statute. Some highlights of the Trustee Education and Travel Policy include:

- ◇ Board members are required to complete a minimum of 24 hours of education within the first two years of assuming office and for every subsequent two-year period in which the board member continues to hold office.
- ◇ The goal of the policy is that all trustees agree to develop and maintain an adequate level of knowledge and understanding of relevant issues involved in the administration of MCERA throughout their terms as trustees of MCERA.
- ◇ Establishes a means for determining the programs, training, and educational sessions that qualify as Board member education. Educational seminars sponsored by the state, national pension fund organizations, and seminars sponsored by accredited academic institutions shall be deemed to meet board member educational requirements.
- ◇ Requires that each Board maintain a record of board member compliance with the Trustee Education and Travel Policy and that the Policy and an annual report on board member compliance be placed on MCERA's internet website. The first annual trustee and education report was posted to the website on January 22, 2015 for the two-year period ending 12/31/2014.
- ◇ Mandates that the Board allocate sufficient funds annually in its budget to enable trustees to attend specified conferences.

**Annual Trustee Education Report:**

Staff would like to provide an annual report on the progress of our trustees towards their educational requirements for the year 2015 and provide a current list of future educational opportunities. Board members are required to complete a minimum of 24 hours of education within the first two years of assuming office and for every subsequent two-year period in which the board member continues to hold office. For the majority of board members the current two-year period began 1/1/15 and ends 12/31/2016. The first two-year period began 1/1/2013 and ended 12/31/2014 per the government code.

2015 Trustee Conference/Seminar Attendance and Educational Hours Credited										
Trustee	Jeri Harris	Craig Walker	John Sakowicz	Kathryn Cavness	Randall Goodman	Richard Shoemaker	Shari Schapmire	Ted Stephens	Tim Knudsen	Dan Gjerde
First Meeting Date	January 21, 2015	December 15, 2010	February 15, 2012	December 3, 2014	December 17, 2008	December 12, 2011	January 17, 2007	January 19, 2011	December 17, 2008	January 21, 2015
2-Year Report Cycle	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016
Ethics Training	2.50	2.00		3.00	2.00		2.00			
2015 Callan Conference 1/26-28/15					8.00	7.75	7.75			
CALAPRS Advanced Pension Mgmt for Trustees 1/28-30/15			24.00							
CALAPRS General Assembly 3/8-10/15				17.00						
SACRS Spring Conference 5/12-15/15				12.00					12.00	
Series 66 Securities								24.00		
CALAPRS Principles of Pension Mgmt 8/25-28/15				24.00						
SACRS Fall Conference 11/17-20/15		13.00			13.25		15.40			
<b>Totals</b>	2.50	15.00	24.00	32.00	23.25	7.75	25.15	24.00	12.00	0.00

The table on page 2 of this report reflects educational hours credited during the year 2015. Credit may also be received for viewing recordings of past educational conferences and for participating in online trainings or webinars. Please contact retirement staff for assistance. If you would like to receive credit for other trainings or conferences attended which are related to retirement system issues, please complete and submit a Report of Trustee Education and Training form. A copy is included with this report.

**2016 Educational Opportunities:**

Anytime	The Segal Group June 2015 Webinar: Analytics of Managing Risk in Your Defined Benefit Plan <a href="http://www.segalco.com/publications-videos/videos-webinars/analytics-of-managing-risk-in-your-defined-benefit-plan/#PublicSector">http://www.segalco.com/publications-videos/videos-webinars/analytics-of-managing-risk-in-your-defined-benefit-plan/#PublicSector</a> .	
Anytime	Callan Research online at <a href="https://www.callan.com/research/">https://www.callan.com/research/</a> . (If you do not already have a password choose request password to obtain access to the Callan site.)	
January 25-27, 2016	Callan 2016 National Conference	San Francisco, CA
January 27-29, 2016	CALAPRS Advanced Principles of Pension Management for Trustees UCLA	Los Angeles, CA
February 5, 2016	CALAPRS Trustees’ Roundtable	Burbank, CA
March 5-8, 2016	CALAPRS General Assembly 2016	Indian Wells, CA
May 10-13, 2016	SACRS Spring Conference	Costa Mesa, CA
June 10, 2016	CALAPRS Trustees’ Roundtable	San Jose, CA
June 29, 2016	Callan Regional Workshop	San Francisco, CA
July 19-20, 2016	Callan Introduction to Investments	San Francisco, CA
August 9, 2016	CALAPRS Principles of Pension Management for Trustees at Pepperdine University	Malibu, CA
September 30, 2016	CALAPRS Trustees’ Roundtable	Burbank, CA
November 7-11, 2016	SACRS Fall Conference	Indian Wells, CA



## Mendocino County Employees' Retirement Association

625-B Kings Ct. Ukiah, CA 95482 · (707) 463-4328 · Fax (707) 467-6472

### **REPORT OF TRUSTEE EDUCATION AND TRAINING**

Name of Board Member: \_\_\_\_\_

Name of Conference/Seminar: \_\_\_\_\_

Dates of Conference/Seminar: \_\_\_\_\_

List Each Presentation Attended or Presentation Materials Reviewed:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Brief Summary of Information and Knowledge Gained:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Evaluation of the Conference/Seminar and its Presentations:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I Would Recommend This Conference/Seminar to other Board Members: Yes: \_\_\_\_\_ No: \_\_\_\_\_

Total Number of Educational Hours Completed\*: \_\_\_\_\_

\*Excludes breaks and meals periods

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

Please Submit Completed Form to Judy Zeller, Administrative Assistant, to receive credit for educational/training hours.