

Mendocino County Board of Retirement
Audit and Budget Committee Meeting Minutes
November 21, 2014

9:30 a.m.

Participants: Lloyd Weer, Committee Chair, Bob Mirata, Randy Goodman, Jim Andersen, Interim Retirement Administrator, and Judy Zeller, Administrative Assistant. Absent: Ted Stephens.

Public Comment: Kristi Furman was present on behalf of Carmel Angelo and had no comment.

1) Approval of the October 9, 2014 Committee meeting minutes.

Mr. Goodman motioned to approve the October 9, 2014 minutes. Mr. Mirata seconded the motion and the minutes were approved by the following vote: Ayes: Mr. Weer, Mr. Goodman and Mr. Mirata. Noes: 0. Abstain: 0. Absent: Mr. Stephens.

2) Discussion Regarding The Actuarial Valuation Study for Fiscal Year Ending June 30, 2014 prepared by Segal Consulting.

- Discussion regarding phase in of Plan Sponsor's Rates.

Mr. Andersen stated that he had consulted with Segal Consulting regarding specific areas in the valuation study to highlight in today's discussion. This meeting was held to provide the committee an opportunity to ask questions or comment on the valuation study prior to the December 3rd board meeting. The committee may choose to make a recommendation or to wait and review the report with the full board. He then referred to page v. of the report stating that much of this information was discussed in the Triennial Experience Study. He referenced the funded status and mentioned that this includes the final phase in of the 2008 recession. We now have \$33 million in deferred gains to smooth over the next four years and the Unfunded Actuarial Accrued Liability (UAAL) is \$142 million. Page 5 includes the smoothing to be recognized and line 6 includes our actuarial value of assets as a percentage of market value as 92.5%. Page 19 demonstrates all changes effecting the valuation, including mortality.

Mr. Andersen stated that he had received a letter from the County Executive Officer asking the Board of Retirement to consider phase in approach on the employer rates, so Segal prepared a report on a two year and three year phase in of the employer rates. Most of Segal's other retirement systems have asked for similar reviews and so far very few have opted to phase in due to an increase of the UAAL. Absent any experience different from the assumptions and the addition of deferred market gains Segal feels we should see a lowering of rates and an increase in funding over the next five years. Mr. Weer asked how many systems asked for a

phase in and if they had an experience study and target rate change. Mr. Andersen will contact Segal to find out how many other systems had requested information on a phase in of employer rates, how many had adopted a phase in strategy, and if those systems had experience studies where assumptions were changed.

The committee discussed the phase in and that Segal would not recommend a phase in if a sponsor had not asked for it. Mr. Andersen again mentioned the UAAL and deferred gains stating that there is significant impact of increased unfunded liability. Segal anticipates rates to increase in the future, an increased rate is offset by deferred gains, and most retirement boards are not choosing a phase in. Mr. Mirata stated that in the next 3 year experience study we may have a new rate and new assumptions increasing our UAAL. What is not paid this year will be paid over eighteen years. Mr. Andersen added, per Segal, that it is not unlikely we will go to a 7% rate in our next experience study three years from now. MCERA can choose to tackle the UAAL aggressively now, or tackle it again in three years.

Mr. Goodman asked about the funded status on page 50 of the report. In 2008 we were at 94% and now we are down to 69.3%. Mr. Andersen explained that we realized deferred losses from 2008 during this period. Mr. Goodman stated that he preferred to defer any recommendation to board; he would adopt the report, but not the phase in. The committee agreed that they did not want to make a recommendation at this time and preferred to have a full discussion with the board.

Mr. Goodman referred to page 25 of the study and asked why we have vested terminated members listed in Tier 4. Tier 4 members hired after January 1, 2013 could not have met the five year vesting requirement. It's possible that this could be a carryover of formatting from other tables included in the report. Mr. Andersen will ask Segal about the vested terminated Tier 4 members listed on page 25 of the report.

3) Schedule the next Audit & Budget Committee meeting.

The next Audit and Budget Committee meeting has yet to be determined.

Meeting Adjourned (10:08 a.m.)