



Mendocino County Employees'  
Retirement Association

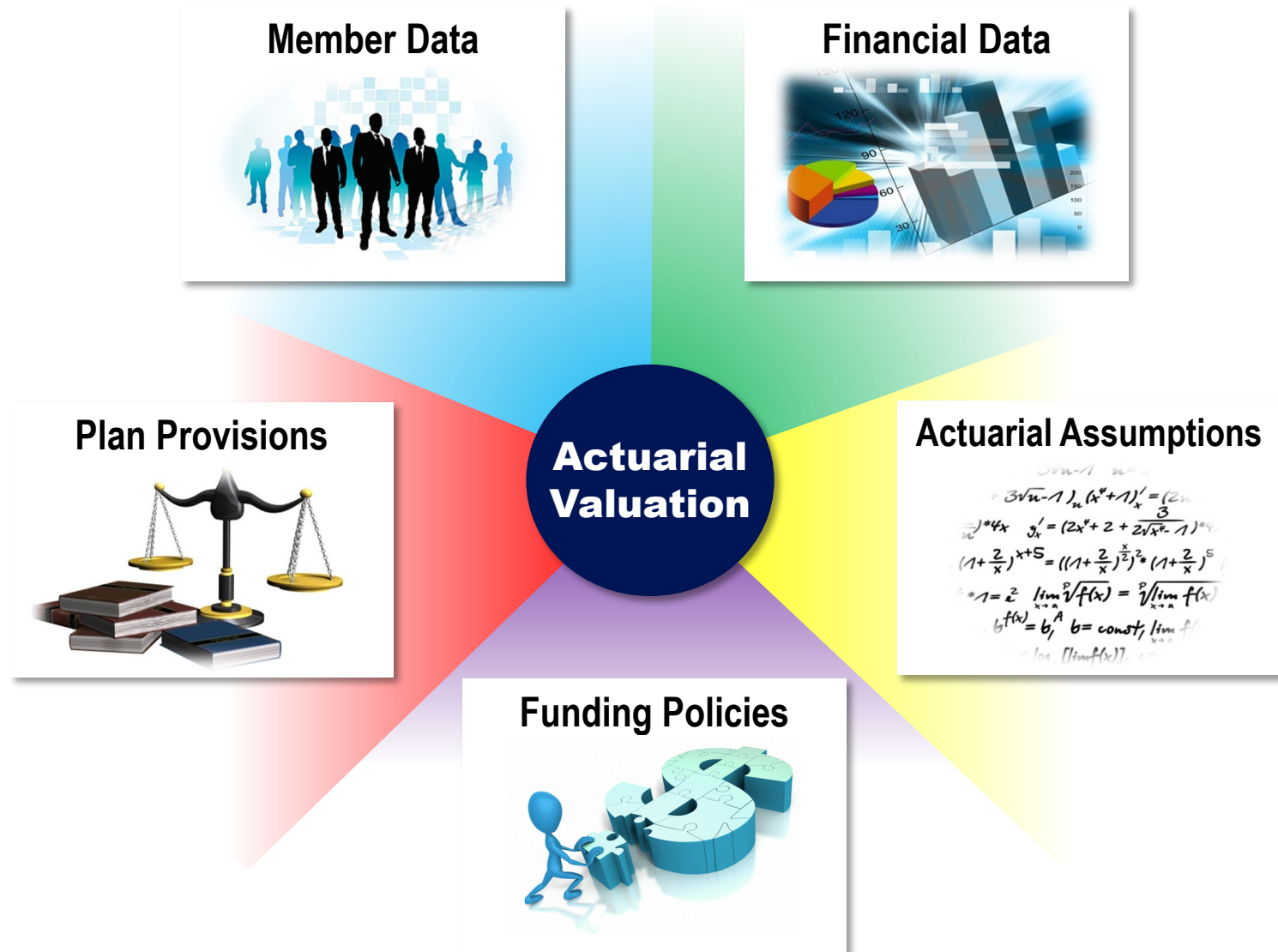
# Results of June 30, 2021 Actuarial Valuation Presentation to Board of Supervisors

March 1, 2022 / Andy Yeung, ASA, MAAA, FCA, EA

# Purpose of the Actuarial Valuation

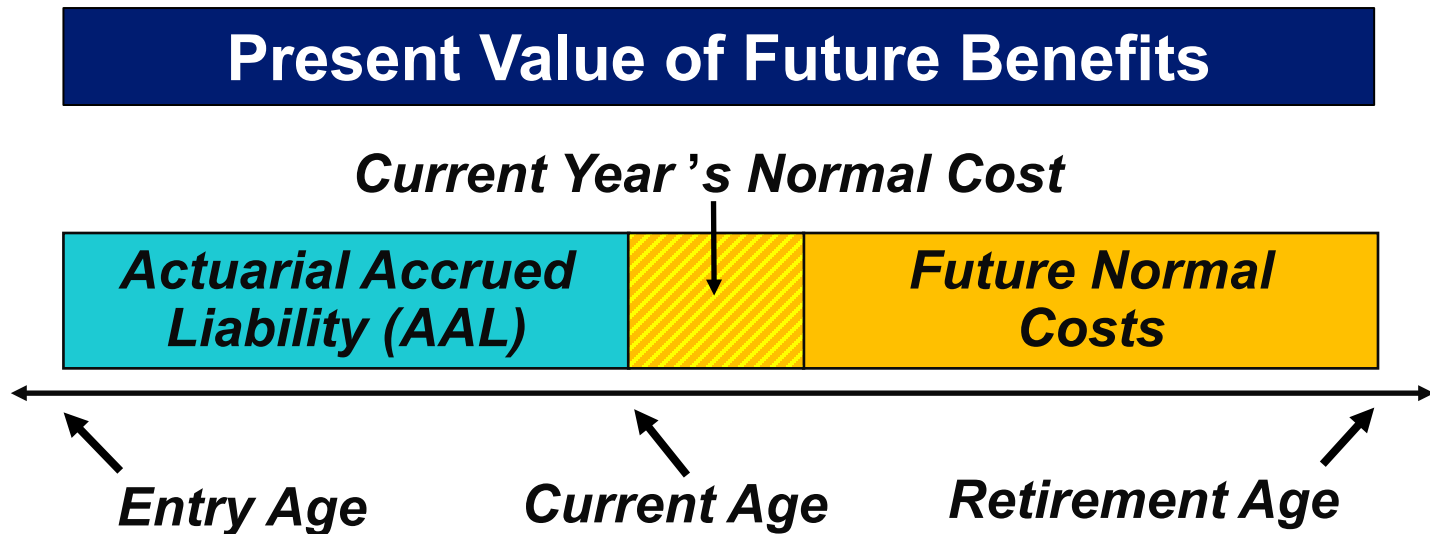
- **Summarizes the actuarial data used in the valuation**
- **Analyzes the preceding year's experience**
- **Determines the funded status as of June 30, 2021**
- **Establishes funding requirements for fiscal 2022 – 2023**

# What goes into an Actuarial Valuation?



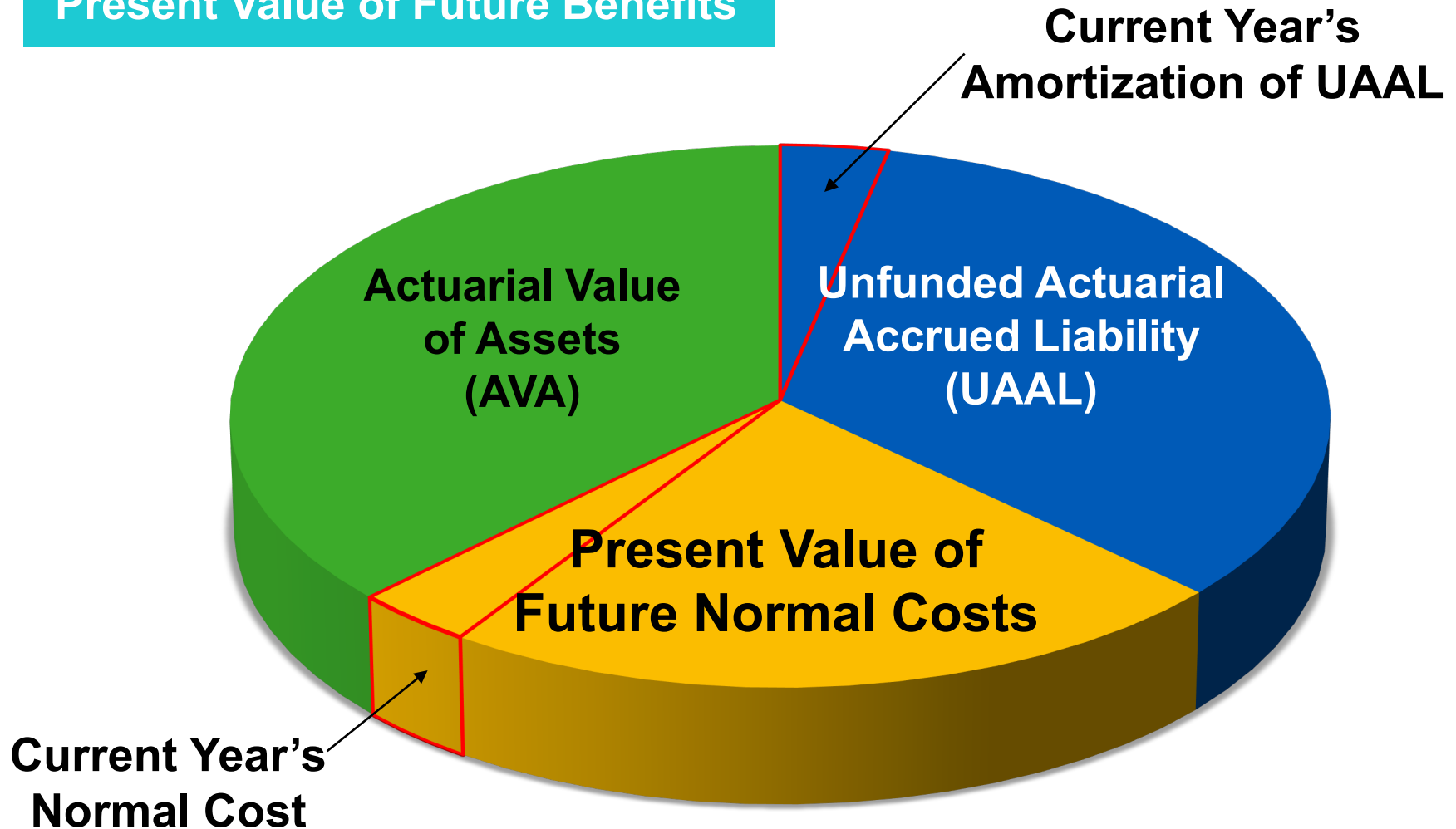
# Funding Retirement Benefits—Cost Elements

- **The Normal Cost is the portion of the long term cost allocated to a year of service**—only active members have a current Normal Cost
- **The Actuarial Accrued Liability (AAL) measures the Normal Costs from past years**—for retired members, the AAL is the entire value of their benefit



# Funding Retirement Benefits—Cost Elements

**Present Value of Future Benefits**



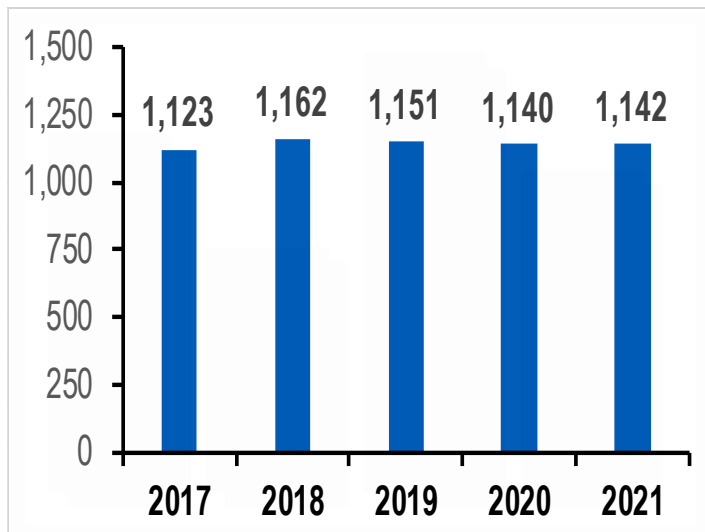
# Current Funding Policy

- **Last substantive review by Segal in 2013. Last reviewed and amended by the Board of Retirement on February 21, 2018.**
- **Actuarial cost method:** Allocates costs to time periods, past vs. future
  - Entry Age method
    - Most stable contribution rate as a percent of payroll
- **Asset smoothing method:** Assigns a value to assets for determining contribution requirements
  - Market value gains and losses recognized over 5 years with a 25% “market value corridor”
  - Association is currently deferring a net gain of \$91.1M
    - 13.1% of market value, to be recognized over next four years
    - Versus a net loss of \$17.7M last year

# Current Funding Policy (continued)

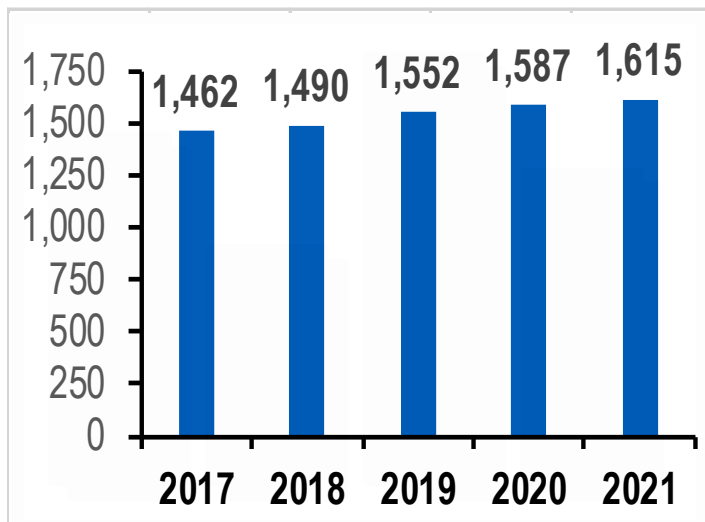
- **UAAL amortization policy:** How, and how long to fund difference between liabilities and assets
  - UAAL from June 30, 2012 and prior valuations (“restart” layer) funded over a fixed, declining period
    - Outstanding balance is about 60% of MCERA’s entire UAAL as of June 30, 2021
    - After requesting employers’ input, Board reduced remaining amortization period from 18 years to 15 years in June 30, 2021 valuation
  - Changes in UAAL after June 30, 2012 due to actuarial gains/losses or changes in assumptions/methods are amortized over separate, fixed 18-year periods
    - 18-year period was chosen by the Board in order to avoid “negative” amortization

# Membership Demographics *(as of June 30)*



## Active Members

	2021	2020
• Average Age	46.1	46.2
• Average Service	8.8	8.7
• Average Compensation	\$70,848	\$66,067



## Retired Members and Beneficiaries

	2021	2020
• Average Age	70.5	70.0
• Average Annual Benefit	\$24,702	\$24,564

## Terminated Vested Members

	2021	2020
	577	546

# Valuation Results (\$ in thousands)

	06/30/2021	06/30/2020
Actuarial Accrued Liability (AAL) <sup>(1)</sup>	\$819,983	\$795,398
Valuation Value of Assets (VVA) <sup>(2)</sup>	\$598,428	\$551,332
Market Value of Assets (MVA)	\$696,441	\$538,989
Funded Percentage on VVA Basis	73.0%	69.3%
Funded Percentage with Recognition of Deferred Gains/Losses (i.e., on MVA Basis)	84.9%	67.8%
Unfunded AAL on VVA Basis	\$221,555	\$244,066
Unfunded AAL on MVA Basis	\$123,542	\$256,409

<sup>(1)</sup> Excludes liabilities held for non-valuation reserves.

<sup>(2)</sup> Excludes Contingency Reserve.

**Note:** Dollar amounts herein may not total exactly, due to rounding.

# Valuation Results (\$ in thousands)

	6/30/2021	6/30/2020
<b>Employer Contributions:</b>		
Aggregate General Contribution Rate (% of payroll)	31.90%	32.96%
General Estimated Annual Contribution*	<u>\$21,022</u>	<u>\$21,722</u>
Aggregate Safety Contribution Rate (% of payroll)	61.03%	63.04%
Safety Estimated Annual Contribution*	<u>\$7,197</u>	<u>\$7,434</u>
Aggregate Probation Contribution Rate (% of payroll)	29.78%	35.25%
Probation Estimated Annual Contribution*	<u>\$959</u>	<u>\$1,135</u>
<b>Aggregate Total Contribution Rate (% of payroll)</b>	<b>36.06%</b>	<b>37.44%</b>
<b>Total Estimated Annual Contribution*</b>	<b><u>\$29,178</u></b>	<b><u>\$30,291</u></b>

\* Based on June 30, 2021 projected annual compensation.

# Experience During the Year

- Investment Experience for year ending June 30, 2021
  - Market Value of Assets earned 31.16%
    - Higher than the assumed rate of return of 6.75% for fiscal 2020 – 2021
  - Valuation (smoothed) Value of Assets earned 10.27%
    - Higher than 6.75%
    - Continued recognition of prior gains/losses
  - Association is currently deferring a net gain of \$91.1M
    - Versus a loss of \$17.7M last year
    - Will be recognized over next four years in the asset smoothing method

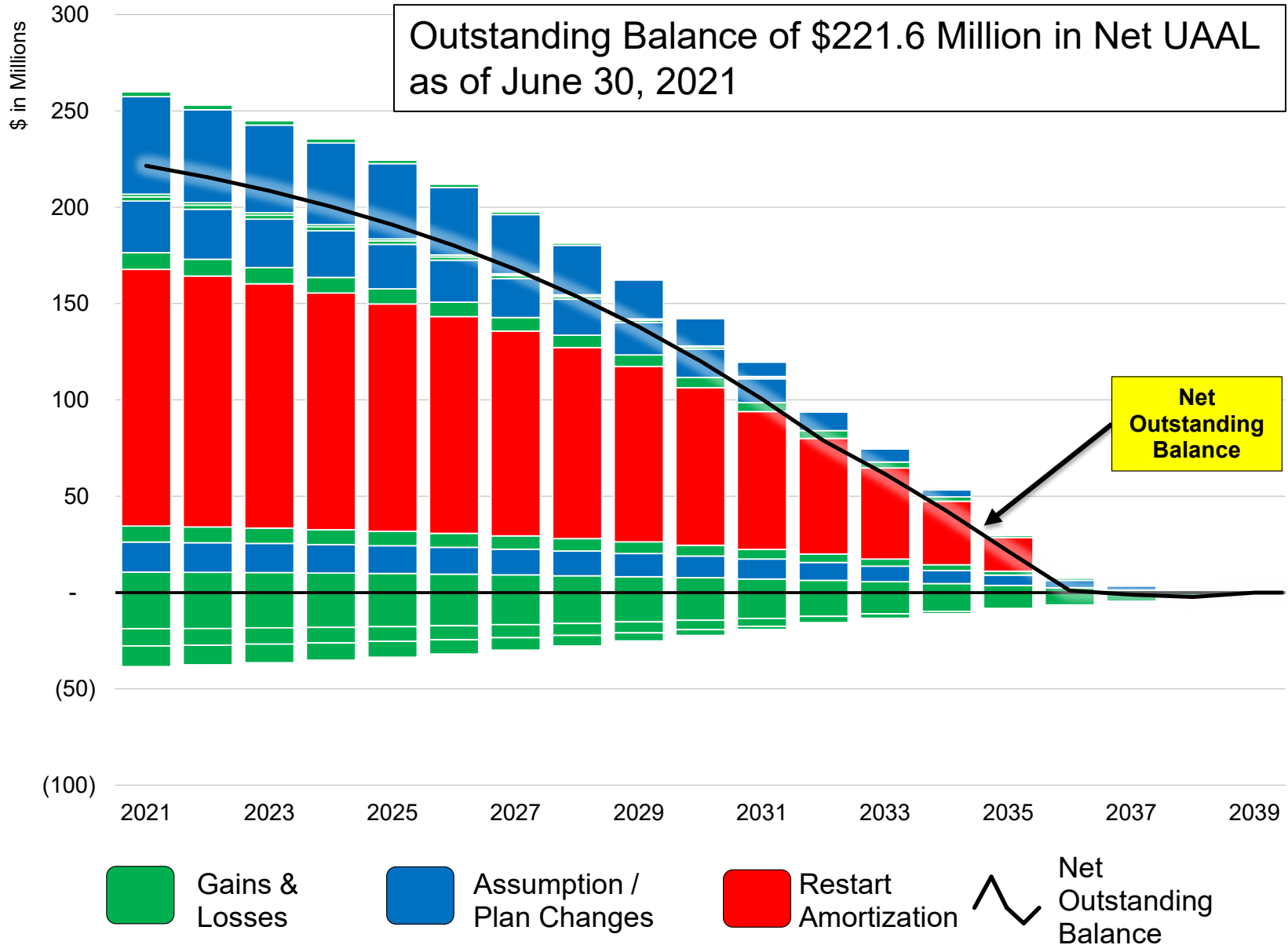
# Experience During the Year

- Plan funded ratio on Valuation Value of Assets (VVA) basis increased from 69.3% to 73.0%
  - On market value of assets basis, ratio increased from 67.8% to 84.9%
- Aggregate employer contribution rate decreased from 37.44% to 36.06% of payroll
- Aggregate employee rates decreased from 10.04% to 10.02% of payroll

# Development of Unfunded Actuarial Accrued Liability

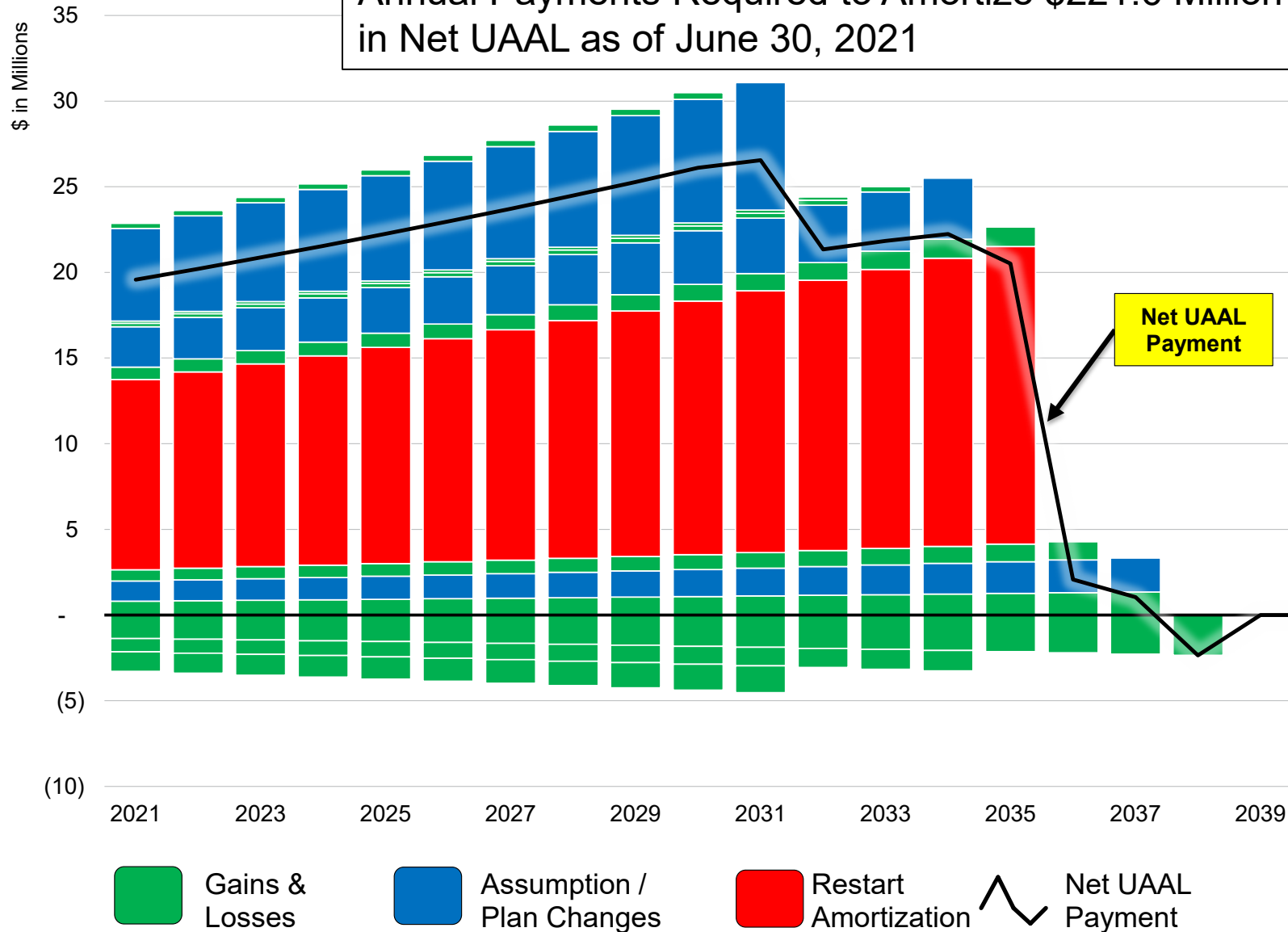
		(Amounts in Thousands)
1. Unfunded actuarial accrued liability at beginning of year		\$244,066
2. Total normal cost at middle of year		16,306
3. Expected employer and member contributions		- 35,895
4. Interest		15,879
5. Expected unfunded actuarial accrued liability at end of year		\$240,356
6. Actuarial (gain)/loss due to all changes:		
a. Investment return higher than expected	- \$19,248	
b. Higher than expected individual salary increases	9,531	
c. COLA increases lower than expected	- 5,698	
d. Employer contribution scheduled one-year delay	2,671	
e. Higher than expected retiree mortality	- 1,394	
f. Other net experience gains (including Alameda decision)	<u>- 4,663</u>	
g. Total changes		- \$18,801
7. Unfunded actuarial accrued liability at end of year		\$221,555

# Projection of UAAL Balances and Payments



# Projection of UAAL Balances and Payments (continued)

Annual Payments Required to Amortize \$221.6 Million  
in Net UAAL as of June 30, 2021



# Change in Aggregate Employer Contribution Rates

	Contribution Rate (% of pay)	Estimated Annual Dollar Cost <sup>(1)</sup> (\$000)
1. Aggregate Employer Contribution Rate as of June 30, 2020	37.44%	\$30,291
2. Effect of anticipated one-year delay in the future from implementing contribution rates in the June 30, 2021 valuation	- 0.23%	- 186
3. Effect of investment return less than expected	- 1.79%	- 1,448
4. Effect of higher than expected salary increases for actives	0.89%	720
5. Effect of amortizing prior year's UAAL over a larger than expected projected total payroll	- 1.19%	- 963
6. Effect of lower than expected COLA increases	- 0.53%	- 429
7. Effect of other experience gains and changes in membership demographics	- 0.48%	- 387
8. Effect of shortening amortization period for restart layer to 15 years	1.95%	1,580
9. Total Change	- 1.38%	- \$1,113
10. Aggregate Employer Contribution Rate as of June 30, 2021	36.06%	\$29,178

<sup>(1)</sup> Based on June 30, 2021 projected compensation.

# Discussion

