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November 29, 2021

Doris L. Rentschler
Executive Director
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482-5027

**Re: Mendocino County Employees' Retirement Association (MCERA)
Purchases of Service Credit While on Deferred Status or While on Layoffs**

Dear Doris:

As requested, we have estimated in a limited study the potential foregone savings to the County of Mendocino (County) and the two District employers (collectively, the employers) if the County decides to ratify certain purchases of service credit (PSC) by approximately 67 members as described below. The potential ratification action that the County Board of Supervisors may consider would be to conform the MCERA plan to the practice of MCERA having previously permitted those purchases.

Executive Summary of Limited Study

As a threshold point, it is critical to note that the liabilities identified in this limited study have already been reflected in the contribution rates that we recommended in the June 30, 2021 valuation and in prior years' valuations. This is because, when performing the valuations, we have implicitly assumed that the membership data provided to us for the valuations only included service credits that would be allowed by the Board in determining retirement benefits. Therefore, conforming the MCERA plan to the practice with respect to the PSC topic results in no added cost to either the County or the District employers.

Rather, if the County chooses not to ratify the PSC, there would be a potential reduction in the employer contribution rates recommended in the June 30, 2021 valuation. For example, under the assumption that the 32 members not included in the sample of 35 members provided for this study have the same proportion of contributions and service as those included in the sample, there would potentially be a reduction in the all employers aggregate contribution rate of about 0.23% of payroll (or about \$190,000 per year), if the PSC are reversed. Note, however, that in addition to the multiple simplifying assumptions used in this limited study, this calculation also does not fully take into account the financial cost to the employers of refunding member contributions made for PSC to retirees plus interest at the assumed rate of return, should the PSC be reversed, since the required information to determine such amounts is not currently

available. Accordingly, the potential savings to employers calculated in the limited study is not precise, and the actual savings to the employers of reversing the PSC could be lower.

Limited Study

Even though the relevant statutory provisions stated below have not been adopted by the County, we understand that the members included in this study purchased time either:

- While on deferred status, for service performed in a position excluded from active membership pursuant to Section 31641.56 and/or
- After layoffs, for full-time employees laid off but returned to employment within 12 months pursuant to Section 31648.3.

We understand in preparing the results of this study that if the County were to ratify such purchases, only the closed group of members identified by MCERA as having previously purchased such service would benefit. (In other words, we have not included in this study any additional costs to allow similar purchases by any other members.)

Data Provided by MCERA for the Limited Study

As part of the study, we were initially asked by MCERA to provide a list of all the data elements that we would need to receive for the 67 members MCERA identified as previously purchased service credit under Sections that have not yet been ratified.¹ Those members included 7 actives, 3 deferred (vested), 54 retirees, and 3 beneficiaries.

After discussing the comprehensive data needs, MCERA estimated that it could take several months to compile the comprehensive set of data requested for all 67 members. Upon further discussions, it was concluded that MCERA would provide a subset of the requested data elements for a sample of 35 members, consisting of 5 actives, 1 deferred, 27 retirees, and 2 beneficiaries.

In order to produce the results for the study within a reasonable amount of time, for the sample actives/deferred members, the breakdown of the purchased years of service by plan/tier for those members who accrued service at more than one plan/tier was not provided and so was not used in the study.

For the sample retirees/beneficiaries, the breakdown of the purchased service by plan/tier, the amount of purchased contributions paid, and information required to compare the value of the additional benefits received to the contributions paid for the purchases was not provided and so was not used in the study.

¹ In the Appendix to this letter, we have provided information on the data elements we requested of MCERA in order to produce a full study and the steps we would have taken under such study.

Assumptions Required for the Limited Cost Study

Due to the availability of only partial data for the sample members, we have to make the following simplifying assumptions in the study for the sample members as well as for the other members when we extrapolate the information related to the purchased service developed from the sample members so as to apply that to the other members included in the study:

- All other members in the same status (i.e., actives/deferred, or retirees/beneficiaries) would have about the same proportion of purchased service relative to total service as those sample members provided by MCERA.
- We also developed results assuming all other members in the same status have either one-half or two times the proportion of purchased service to total service as the sample members. After discussion with MCERA, we have included these alternatives to illustrate for the Board how sensitive our results are to the simplifying assumptions we made due to lack of comprehensive data that would otherwise be required for the study.
- For the retirees/beneficiaries, we have not been able to compare the contributions paid by the members to purchase those service amounts with the additional benefits they have received. As a further simplification, we understand that MCERA has agreed to allow us to exclude that comparison from the study.
- For the actives/deferred members, we have taken the ratio of contributions paid for the purchased service to the total contributions provided for the sample members in this study and applied that ratio to the members' contribution balances provided in the June 30, 2021 valuation data. We applied a simplifying assumption that all other similarly situated members could potentially receive those proportionate amounts back from MCERA if the employers choose not to ratify the purchase retroactively. As a sensitivity illustration, we also developed results assuming that the ratio of contributions paid for the purchased service to the total contributions for all other similarly situated members would be either one-half or two times the ratio for the sample members.
- For each of the active/deferred and retiree/beneficiary groups, we understand that MCERA has agreed to a simplifying assumption to approximate the cost for the purchased service by calculating the ratio of purchased service to the total service and applying that to the value of the total benefit.

Under this simplification, there will be no need for MCERA to research the amounts of basic and COLA benefits for retirees/beneficiaries or the formula that would be used to calculate the benefit for actives/deferred associated with the purchased service. In other words, we would only need the purchased service and total service (including the purchased service) for each of the retirees, beneficiaries, actives and deferred vested members, regardless of what formula the purchased service would apply to.

- We understand that incorrect interest might have been applied for some members who purchased service under both Section 31641.56 and Section 31648.3. Because of very limited information collected and made available to us, as a simplification we understand that MCERA has agreed to exclude that analysis from the study.

Results of the Limited Study as of June 30, 2021

Actives – 5 Sample Members, 2 Members not in Sample

Average Proportion of Purchased Service to Regular Service for Sample Members: 6.98%

Average Ratio of Contributions Paid for the Purchased Service to Total Contributions for Sample Members: 7.01%

	(A) Contributions With Purchases of Service	(B) Contributions Without Purchases of Service	(C) Years of Service With Purchases of Service	(D) Years of Service Without Purchases of Service	(E) Present Value of Benefit With Purchases of Service	(F) Present Value of Benefit Without Purchases of Services	(G) Potential Savings From Not Ratifying the Purchases (E) – (F) – [(A) – (B)]
1a) Total – Sample	\$828,669	\$750,690 ²	112.75	103.21	\$4,194,026	\$4,011,832	\$104,215 ²
1b) Average	\$165,734	\$150,138	22.55	20.64	\$838,805	\$802,366	\$20,843
2a) Total for members not in sample assuming same proportion as for sample group	\$345,171	\$320,974	37.99	35.34	\$1,620,332	\$1,531,821	\$64,315
2b) Average	\$172,585	\$160,487	19.00	17.67	\$810,166	\$765,910	\$32,158
3a) Total for members not in sample assuming one half of proportion for sample group	\$345,171	\$333,073	37.99	36.67	\$1,620,332	\$1,576,134	\$32,101
3b) Average	\$172,585	\$166,536	19.00	18.33	\$810,166	\$788,067	\$16,050
4a) Total for members not in sample assuming two times proportion for sample group	\$345,171	\$296,778	37.99	32.69	\$1,620,332	\$1,443,138	\$128,802
4b) Average	\$172,585	\$148,389	19.00	16.34	\$810,166	\$721,569	\$64,401

Note: Results may not total due to rounding.

² Excludes contributions one member would owe because the 30-year suspension of contributions would no longer apply without the purchased service. MCERA calculates that this member would owe \$85,697 in additional contributions if the County does not ratify the PSC, which amount would be reduced by the refunded service purchase contributions.

Deferred Members – 1 Sample Member, 2 Members not in Sample

Average Proportion of Purchased Service to Regular Service for Sample Member: 2.79%

Average Ratio of Contributions Paid for the Purchased Service to Total Contributions for Sample Member: 2.67%

	(A) Contributions With Purchases of Service	(B) Contributions Without Purchases of Service	(C) Years of Service With Purchases of Service	(D) Years of Service Without Purchases of Service	(E) Present Value of Benefit With Purchases of Service	(F) Present Value of Benefit Without Purchases of Services	(G) Potential Savings From Not Ratifying the Purchases (E) – (F) – [(A) – (B)]
1a) Sample	\$99,291	\$96,637	13.77	13.39	\$291,953	\$283,814	\$5,486
2a) Total for members not in sample assuming same proportion as for sample group	\$74,951	\$72,948	14.17	13.78	\$134,602	\$130,867	\$1,733
2b) Average	\$37,475	\$36,474	7.09	6.89	\$67,301	\$65,433	\$866
3a) Total for members not in sample assuming one half of proportion for sample group	\$74,951	\$73,949	14.17	13.97	\$134,602	\$132,735	\$866
3b) Average	\$37,475	\$36,975	7.09	6.99	\$67,301	\$66,367	\$433
4a) Total for members not in sample assuming two times proportion for sample group	\$74,951	\$70,945	14.17	13.38	\$134,602	\$127,131	\$3,466
4b) Average	\$37,475	\$35,472	7.09	6.69	\$67,301	\$63,565	\$1,733

Note: Results may not total due to rounding.

Retirees and Beneficiaries – 29 Sample Members, 28 Members not in Sample

Average Proportion of Purchased Service to Regular Service for Sample Members: 10.83%

	(A) Years of Service With Purchases of Service	(B) Years of Service Without Purchases of Service	(C) Present Value of Benefit With Purchases of Service	(D) Present Value of Benefit Without Purchases of Services	(E) Potential Savings From Not Ratifying the Purchases (C) – (D)
1a) Total – Sample	506.90	461.49	\$9,508,081	\$8,777,020	\$731,060
1b) Average	17.48	15.91	\$327,865	\$302,656	\$25,209
2a) Total for members not in sample assuming same proportion as for sample group	Unknown	Unknown	\$13,363,206	\$11,916,199	\$1,447,007
2b) Average			\$477,257	\$425,579	\$51,679
3a) Total for members not in sample assuming one half of proportion for sample group			\$13,363,206	\$12,639,703	\$723,503
3b) Average			\$477,257	\$451,418	\$25,839
4a) Total for members not in sample assuming two times proportion for sample group			\$13,363,206	\$10,469,193	\$2,894,013
4b) Average			\$477,257	\$373,900	\$103,358

Note: Results may not total due to rounding.

In summary, the potential collective savings to the three employers over the anticipated lives of the 67 members and their beneficiaries from the County not ratifying the purchases of service are as follows:

Potential Collective Savings (\$ in 000's)	
1) Based on actual contributions and service for sample members plus same proportion of contributions and service for members not in sample	\$2,400
2) Based on actual contributions and service for sample members plus one-half proportion of contributions and service for members not in sample	\$1,600
3) Based on actual contributions and service for sample members plus two times proportion of contributions and service for members not in sample	\$3,900

As stated in the Executive Summary, however, conforming the MCERA plan to the practice with respect to the PSC topic results in no added cost to either the County or the District employers, because that cost is already built into the current funding of the plan.

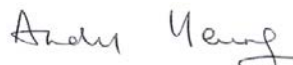
In preparing the above results, we have used membership, assumptions and other information used in preparing the June 30, 2021 valuation.

Please let us know if you have any questions.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary



Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary

AYY/hy
Appendix

Comprehensive Data Requested and Steps Originally Intended for a Full Study

We were initially asked by MCERA to provide a list of all the data elements that we would need to receive for the 67 members MCERA identified as previously purchased service credit under Sections that have not yet been ratified in order to produce a full study. Those members included 7 actives, 3 deferred (vested), 54 retirees, and 3 beneficiaries.

For the smaller group of 10 actives/deferred members, we asked for their contributions and years of service with and without the purchase of service credits, by plan and by tier. In step one of a full cost study, we would calculate the change in the present value of future benefits expected to be paid to the members with and without the purchased service. Then in step two of the study, we would reduce the change in the present value of benefits by the value of contributions with interest as of June 30, 2021 paid for the purchased service, based on our understanding that even if the employers decide not to ratify the purchases retroactively, those contributions already paid into the Association would have to be refunded to the members.

For the 57 retirees/beneficiaries, we asked for their contributions and benefits with and without the purchase of service credits, by plan and by tier. We also asked for the annual COLAs granted from the retirees' (or the beneficiaries') date of retirement or benefit commencement. The two-step process described above for the actives/deferred members would be repeated for the retirees/beneficiaries. The only change is that in step two of the study for the retirees/beneficiaries, the value of the contributions paid by the retirees for the purchased service would be reduced by the value of additional benefits already received by the retirees/beneficiaries as of June 30, 2021. Furthermore, to the extent that the value of the additional benefits paid is greater than the value of the contributions, we have been asked to assume for the purpose of the study that such amount would not be collected from the retirees even if the employers do not agree to ratify the purchases retroactively.

After discussing the above outline of what we would need for a full study, MCERA estimated that it could take several months to compile for all 67 members the comprehensive set of data requested. Upon further discussions, it was concluded that MCERA would provide a subset of the requested data elements for a sample of 35 members under a limited study.