Segal Consulting

Mendocino County Employees' Retirement Association

Results of the June 30, 2016 Actuarial Valuation Presentation to the Board of Supervisors

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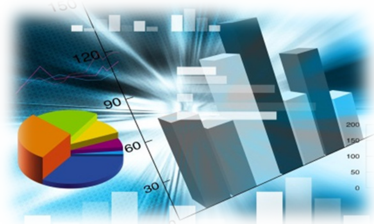
Purpose of the Actuarial Valuation

- Summarizes the actuarial data used in the valuation
- Analyzes the preceding year's experience
- Determines the funded status as of June 30, 2016
- Establishes funding requirements for fiscal 2017 – 2018

What goes into an Actuarial Valuation?

Member Data

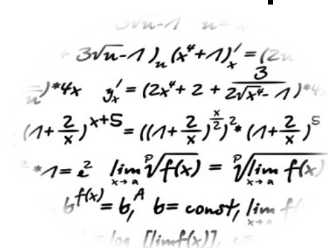
Financial Data



Actuarial Valuation

Plan Provisions

Actuarial Assumptions *

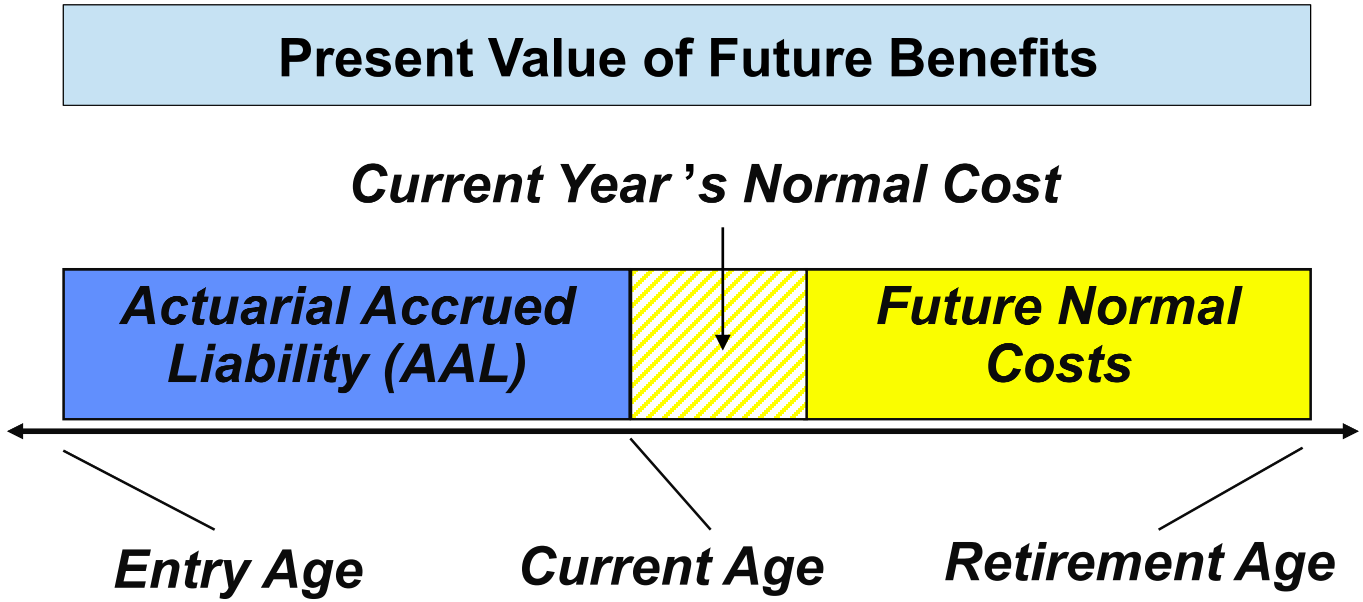


Funding Policies

* The last triennial experience study was as of June 30, 2014. The next triennial experience study is scheduled before the June 30, 2017 actuarial valuation.

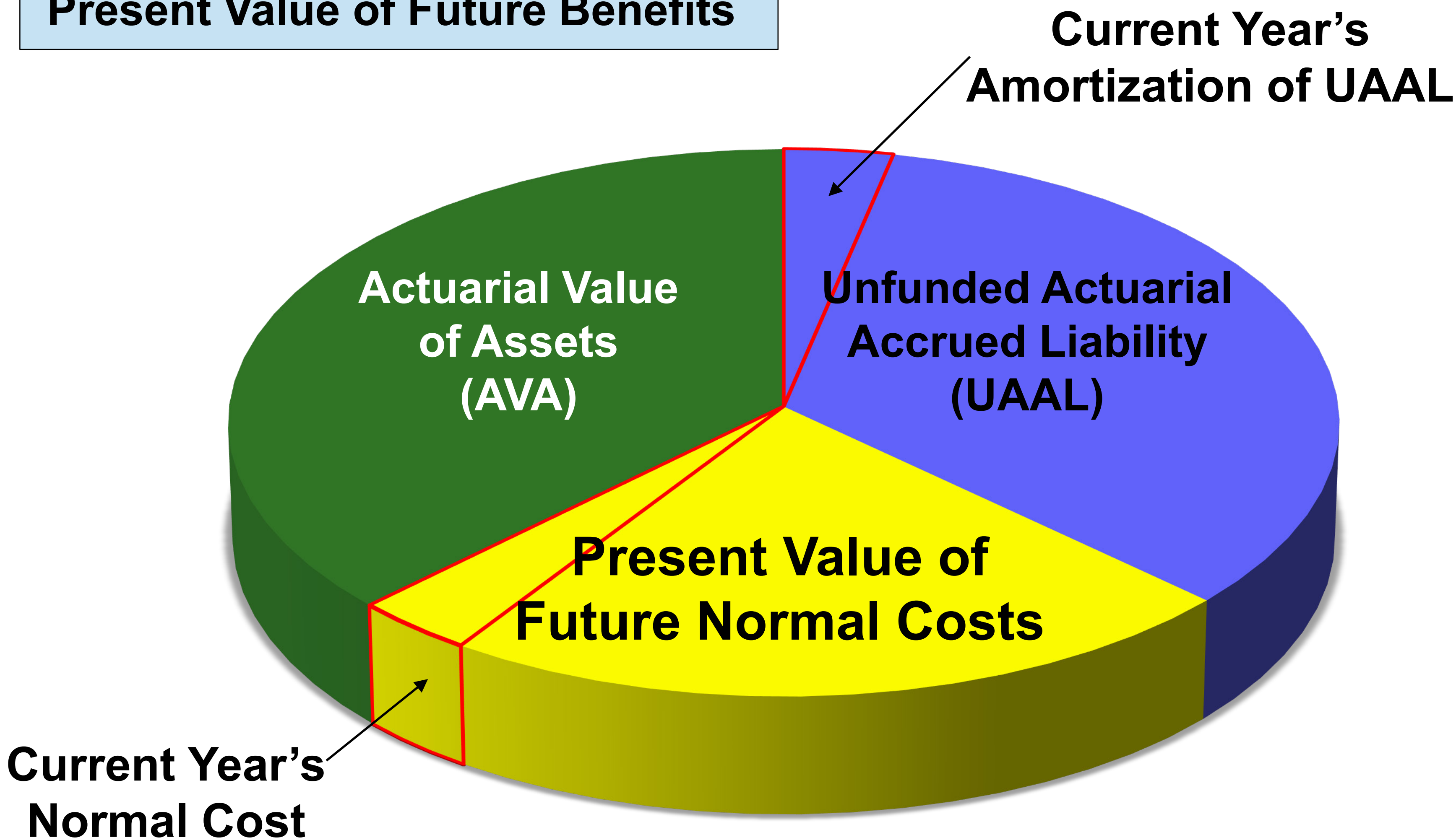
Funding Retirement Benefits—Cost Elements

- **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 review in 2013**

- **Actuarial cost method:** Allocates costs to time periods, past vs. future
  - Entry Age method
    - Most stable contribution rate as a percent of payroll

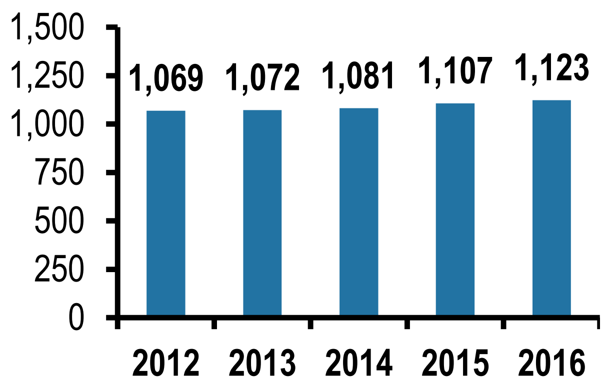
- **Asset smoothing method:** Assigns a value to assets for determining contribution requirements
  - Market value gains and losses recognized over 5 years with a 25% market value corridor
  - Association is currently deferring a $24.7M loss (versus a $11.5M gain last year), and will be recognized over next four years in the asset smoothing method

Current Funding Policy (continued)

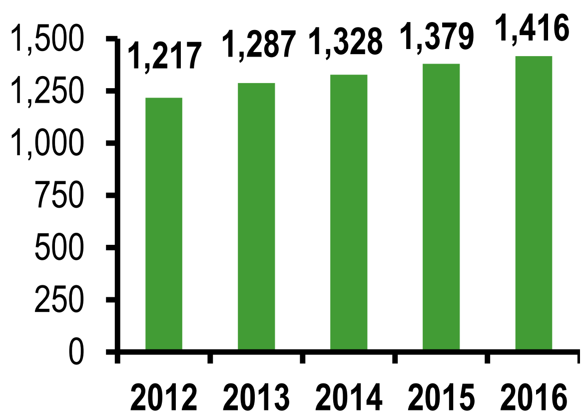
- **UAAL amortization policy:** How, and how long to fund difference between liabilities and assets
  - UAAL from June 30, 2012 valuation was paid over a declining period with 23 years remaining as of June 30, 2016
  - Changes in UAAL after June 30, 2012 due to actuarial gains/losses or changes in assumptions/methods are amortized over separate decreasing 18-year periods

    (18-year period was chosen by the Board in order to avoid “negative” amortization)

Membership Demographics *(as of June 30)*



	2016	2015
Active Members	1,123	1,107
• Average Age	47.0	47.2
• Average Service	9.1	9.4
• Average Compensation	$54,510	$52,490



	2016	2015
Retired Members and Beneficiaries	1,416	1,379
• Average Age	68.8	68.6
• Average Annual Benefit	$21,864	$21,216
Terminated Vested Members	428	414

Valuation Results ($ in thousands)

	06/30/2016	06/30/2015
Actuarial Accrued Liability (AAL)(1)	$632,058	$610,382
Valuation Value of Assets (VVA)(2)	$446,773	$428,229
Market Value of Assets (MVA)	$426,338	$444,217
Funded Percentage on VVA Basis	70.7%	70.2%
Funded Percentage with Recognition of Deferred Gains (i.e., on MVA Basis)	67.5%	72.8%
Unfunded AAL on VVA Basis	$185,284	$182,153
Unfunded AAL on MVA Basis	$205,720	$166,164

(1) Excludes liabilities held for non-valuation reserves.

(2) Excludes Contingency Reserve.

Valuation Results ($ in thousands)

	06/30/2016	06/30/2015
Employer Contributions:		
Aggregate General Contribution Rate (% of payroll)	27.79%	27.97%
General Estimated Annual Contribution*	$13,695	$13,782
Aggregate Safety Contribution Rate (% of payroll)	55.12%	54.74%
Safety Estimated Annual Contribution*	$5,065	$5,030
Aggregate Probation Contribution Rate (% of payroll)	31.35%	31.35%
Probation Estimated Annual Contribution*	$861	$861
Aggregate Total Contribution Rate (% of payroll)	**32.05%**	**32.14%**
Total Estimated Annual Contribution*	**$19,621**	**$19,673**

* Based on June 30, 2016 projected annual compensation.

Experience During the Year

- Investment Experience for year ending June 30, 2016
  - Market Value of Assets earned -2.35%, which is less than the assumed rate of return of 7.25%
  - Valuation (smoothed) Value of Assets earned 6.14% (less than 7.25%)
    - Continued recognition of prior gains/losses
  - Association is currently deferring a $24.7M loss (versus a $11.5M gain last year), and will be recognized over next four years in the asset smoothing method

Experience During the Year (continued)

- Plan funded ratio on Valuation Value of Assets (VVA) basis increased from 70.2% to 70.7%
  - On a market value of assets basis, funded ratio decreased from 72.8% to 67.5%
- Aggregate employer contribution rate decreased from 32.14% to 32.05% of payroll
- If the $24.7M in deferred losses were recognized immediately:
  - Funded ratio would decrease from 70.7% to 67.5%
  - Aggregate employer contribution rate would increase from 32.05% to about 34.8% of payroll

    (about $1.7M based on payroll of $61.2M as of June 30, 2016)

Development of Unfunded Actuarial Accrued Liability

		(Amounts in Thousands)
1. Unfunded actuarial accrued liability at beginning of year		$182,153
2. Total normal cost at middle of year		12,557
3. Expected employer and member contributions		-24,657
4. Interest		12,811
5. Expected unfunded actuarial accrued liability at end of year		$182,864
6. Actuarial (gain)/loss due to all changes:		
a. Investment return less than expected	$4,702	
b. Higher than expected individual salary increases	2,342	
c. Other experience	-4,624	
d. Total changes		$2,420
7. Unfunded actuarial accrued liability at end of year		$185,284

Note: There is an increase in the expected unfunded actuarial accrued liability in item 5 due to a net negative amortization. Such net negative amortization should be eliminated after the next valuation as of June 30, 2017.

Change in Aggregate Employer Contribution Rates

	Contribution Rate (% of pay)	Estimated Annual Dollar Cost[1] ($000)
Aggregate Employer Contribution Rate as of June 30, 2015	**32.14%**	**$19,673**
Effect of change in membership demographics	-0.13%	-81
Effect of anticipated one-year delay in the future from implementing contribution rates in the June 30, 2016 valuation	0.00%	0
Effect of investment loss	0.58%	355
Effect of higher than expected salary increases for actives	0.29%	178
Effect of amortizing prior year's UAAL over a larger than expected projected total payroll	-0.31%	-190
Effect of other experience gain	-0.52%	-314
Total Change	**-0.09%**	**-$52**
Aggregate Employer Contribution Rate as of June 30, 2016	**32.05%**	**$19,621**

[1] Based on June 30, 2016 projected compensation.