



Mendocino County Employees Retirement Association

# Actuarial Valuation Overview – Presentation to County Board of Supervisors

As of June 30, 2025

January 13, 2026 / Todd Tauzer / Andy Yeung

# Agenda

**Overview of an Actuarial Valuation**

**Pension Plan Valuation Highlights**

# Overview of an Actuarial Valuation

# The Actuarial Valuation

*A plan's funding GPS*

**A financial check-up serving as roadmap and guide**

- Where we are and where we are going

**Establishes how far along the plan is**

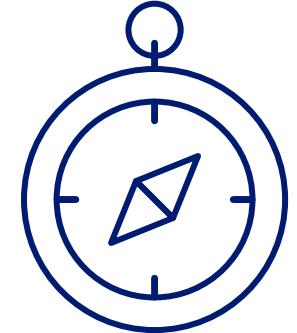
- Funding position – assets, liabilities, and unfunded liability

**Determines the next steps towards the ultimate goal**

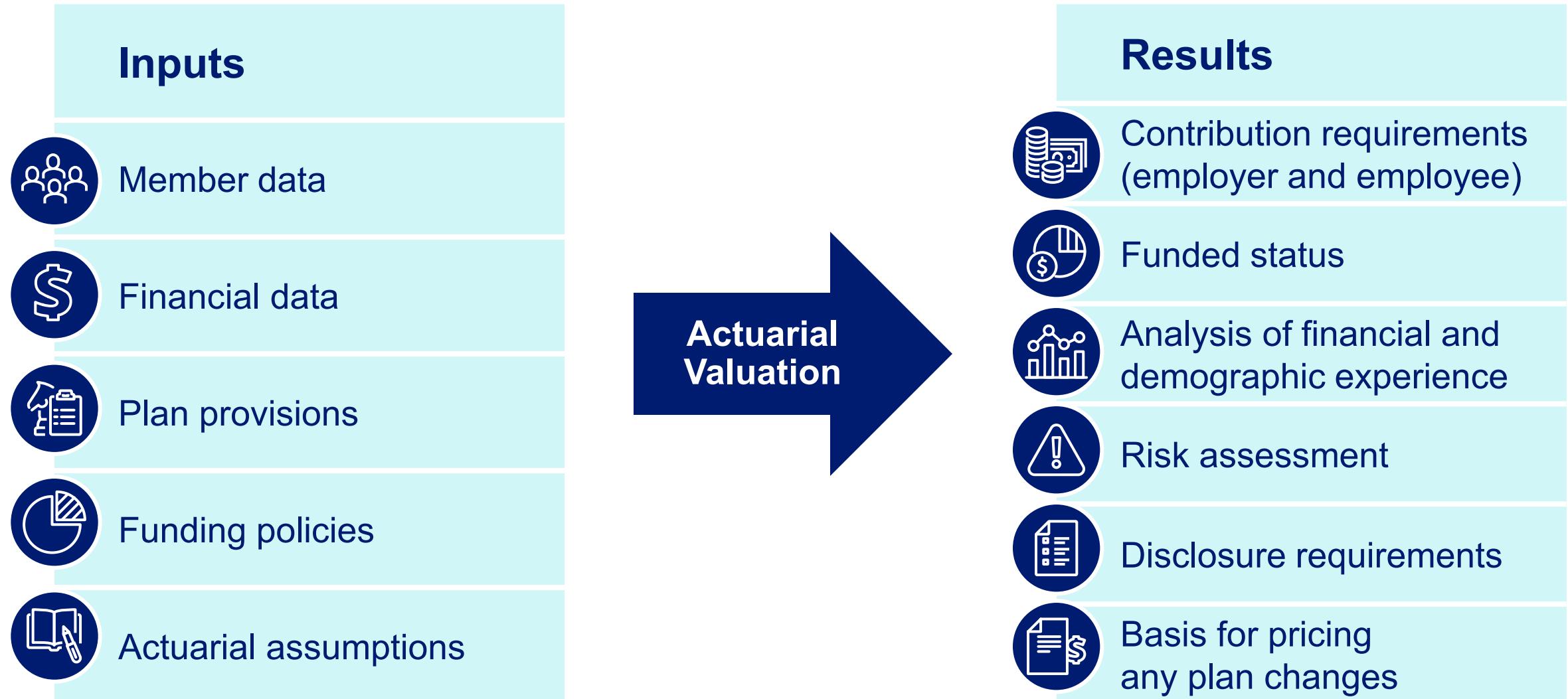
- Employer and employee contribution rates

**Every once in a while, the unexpected can cause “rerouting”**

- Experience studies with potential assumption changes
  - Next triennial study will be conducted before June 30, 2026 valuation



# The Actuarial Valuation

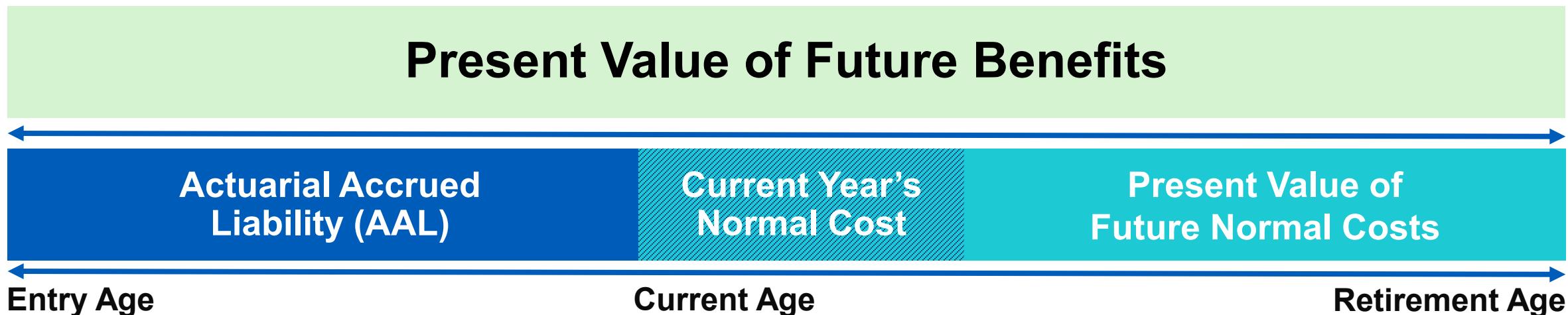


# Actuarial Funding Policy

## *Three core components*

**Actuarial cost (funding) method** allocates present value of member's projected benefits to years of service: past, current and future

- Defines normal cost and actuarial accrued liability (AAL)
- MCERA uses the **entry age method**
  - Provides for most stable contribution rates as a percent of payroll



# Actuarial Funding Policy

## *Three core components*

**Asset smoothing method** assigns a value to assets that manages short term volatility while tracking market value

- Defines the unfunded actuarial accrued liability (UAAL)
- Market value gains and losses recognized over 5 years

**Amortization policy** sets contributions to systematically pay off UAAL

- UAAL as of June 30, 2012 amortized separately from any subsequent changes in UAAL over a period of 15 years from June 30, 2021
- Any other UAAL as a result of experience gains/losses & assumption changes are amortized over separate, declining 18-year periods

# Pension Plan Valuation Highlights

# Summary of Valuation Results

Average Employer Contribution Rate	Average Member Contribution Rate	Valuation Value Investment Return
<b>40.27%</b> 41.82% prior year	<b>10.28%</b> 10.24% prior year	<b>7.61%</b> 12.02% market value
Funded Ratio on Valuation Basis	Unfunded Liability on Valuation Basis	Funded Ratio on Market Basis
<b>76.4%</b> 74.2% prior year	<b>\$235M</b> \$248M prior year	<b>79.6%</b> 74.2% prior year

# Valuation Experience Highlights

## Investment return experience

- Net gain from valuation (“smoothed”) value of assets earning 7.61%
  - Decreased UAAL by \$7.9 million (0.79% of AAL)
  - Decreased employer contribution rate by 0.64% of payroll

## Other experience

- Net loss from salary increases and sources other than investments
  - Increased UAAL by \$5.3 million (0.53% of AAL)
  - Decreased employer contribution rate by 0.91% of payroll
    - Included a reduction in UAAL contribution rate by 1.14% of payroll due to larger than expected projected total salary (5.2% actual increase vs. 3.00% expected increase)

# Funded Ratio

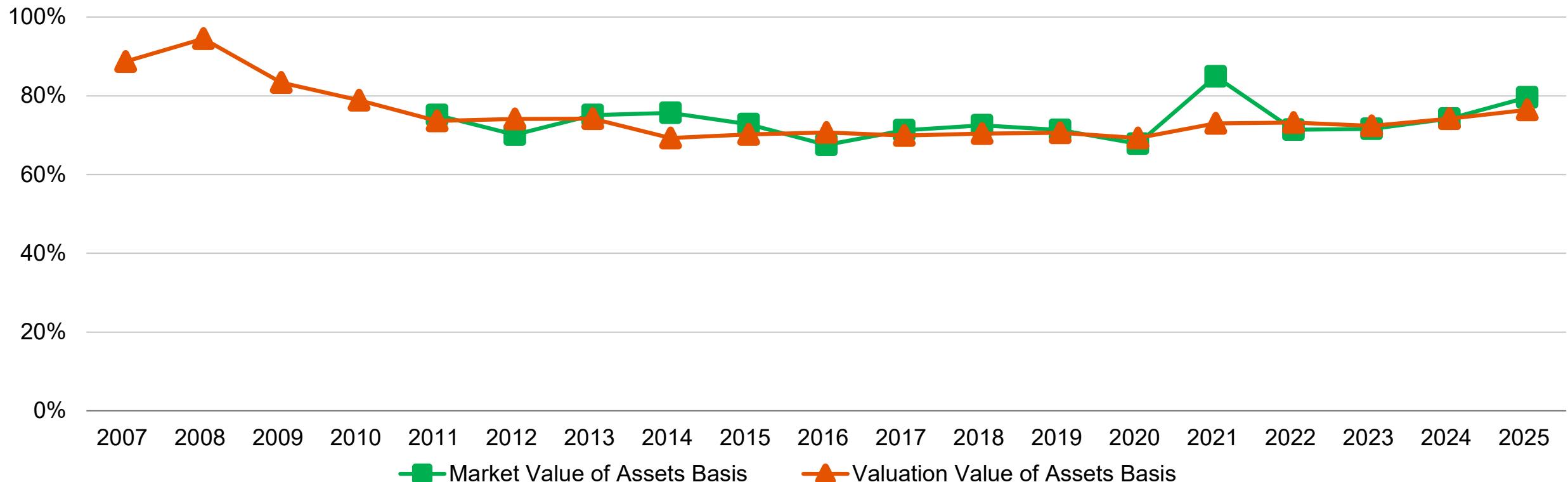
*Single point-in-time measurement, snapshot of funding progress*

**Market Basis: 79.6%**

**Increase** from 74.2% in prior year

**Valuation Basis: 76.4%**

**Increase** from 74.2% in prior year



Market Value of Assets Basis

Valuation Value of Assets Basis

# Unfunded Actuarial Accrued Liability (UAAL)

*Actuarial accrued liability minus valuation value of assets (\$ in millions)*

<b>1. UAAL as of June 30, 2024</b>	<b>\$248</b>
2. Total normal cost at middle of year	20
3. Expected total contributions	(45)
4. Interest to end of year	15
<b>5. Expected UAAL at end of year</b>	<b>\$238</b>
<hr/>	
<b>6. Changes due to:</b>	
a. Investment return greater than expected, after asset smoothing	\$(8)
b. Individual salary increases greater than expected	5
c. COLA increases lower than expected	(3)
d. Other net experience (gain)/loss, including contribution (gain)/loss	3
<b>e. Total changes</b>	<b>\$(3)</b>
<hr/>	
<b>7. UAAL as of June 30, 2025</b>	<b>\$235</b>

# Unfunded Actuarial Accrued Liability (UAAL)

Total Plan

Base Type	Date Established: June 30	Initial Amount	Initial Period	Outstanding Balance	Years Remaining	Annual Payment <sup>1</sup>
Combined base	2012	\$126,527,019	27	\$117,517,180	11 <sup>2</sup>	\$12,991,480
Experience loss	2013	3,057,276	18	1,848,148	6	345,916
Experience gain	2014	(12,246,353)	18	(8,165,492)	7	(1,331,257)
Change in assumptions/methods	2014	58,186,913	18	38,797,248	7	6,325,292
Experience loss	2015	1,491,989	18	1,078,539	8	156,343
Experience loss	2016	2,419,968	18	1,867,133	9	244,443
Experience gain	2017	(9,446,302)	18	(7,683,645)	10	(919,781)
Change in assumptions	2017	28,220,986	18	22,955,022	10	2,747,861
Experience loss	2018	9,094,701	18	7,740,030	11	855,658
Experience loss	2019	8,468,730	18	7,479,231	12	769,872
Experience loss	2020	10,791,774	18	9,822,662	13	947,941
Change in assumptions	2020	15,741,787	18	14,328,157	13	1,382,744
Experience gain	2021	(18,801,300)	18	(17,576,025)	14	(1,599,559)
Experience loss	2022	18,331,781	18	17,512,666	15	1,510,571
Experience loss	2023	9,648,941	18	9,378,801	16	770,087
Change in assumptions	2023	18,999,052	18	18,467,138	16	1,516,325
Experience loss	2024	2,247,660	18	2,219,716	17	174,163
Experience gain	2025	(2,606,674)	18	(2,606,674)	18	(196,098)
<b>Total</b>				<b>\$234,979,835</b>		<b>\$26,692,001</b>

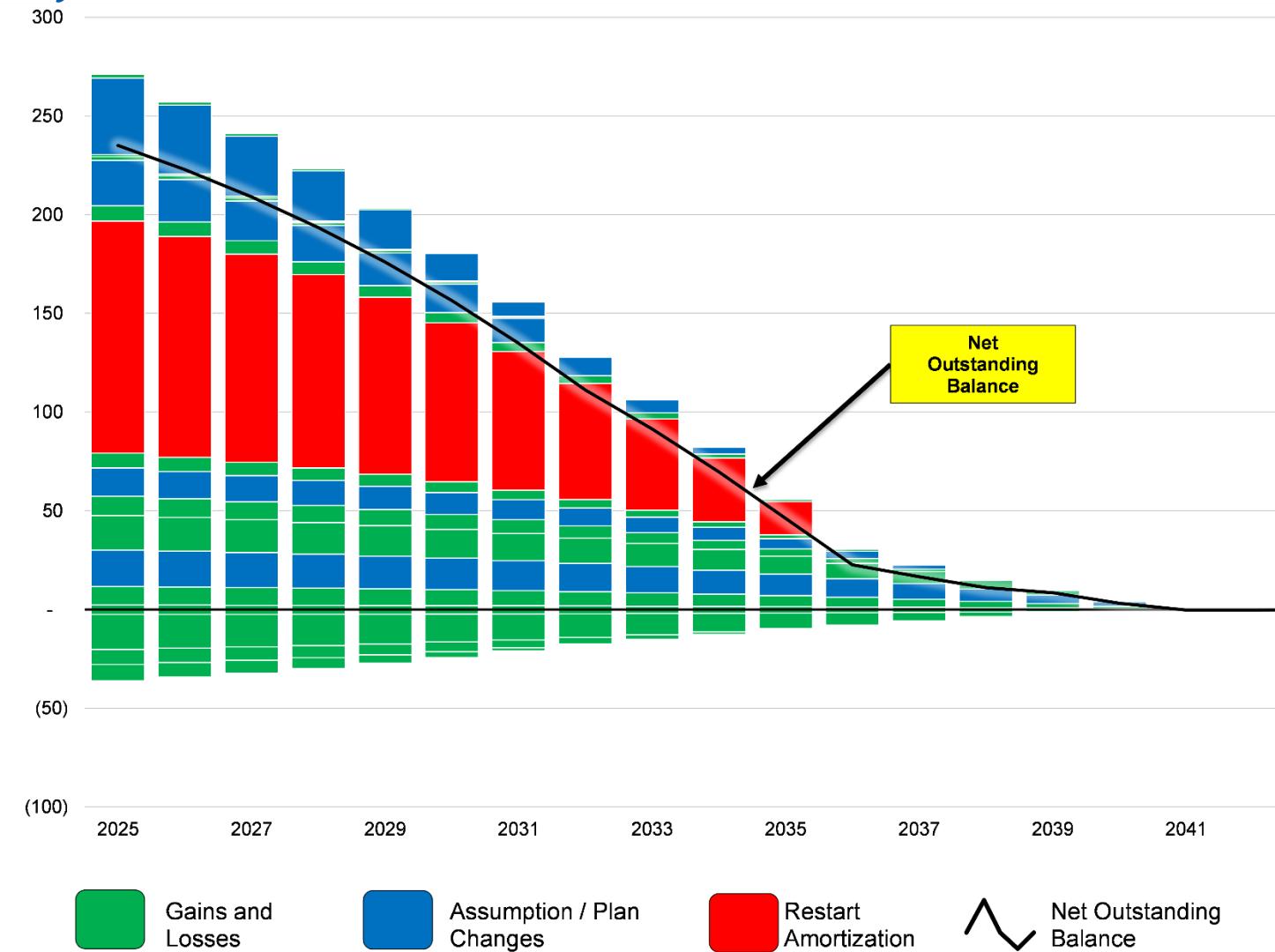
1. Calculated as a level % of payroll.

2. Reamortized over 15 years as of June 30, 2021.

# Projection of UAAL Balances

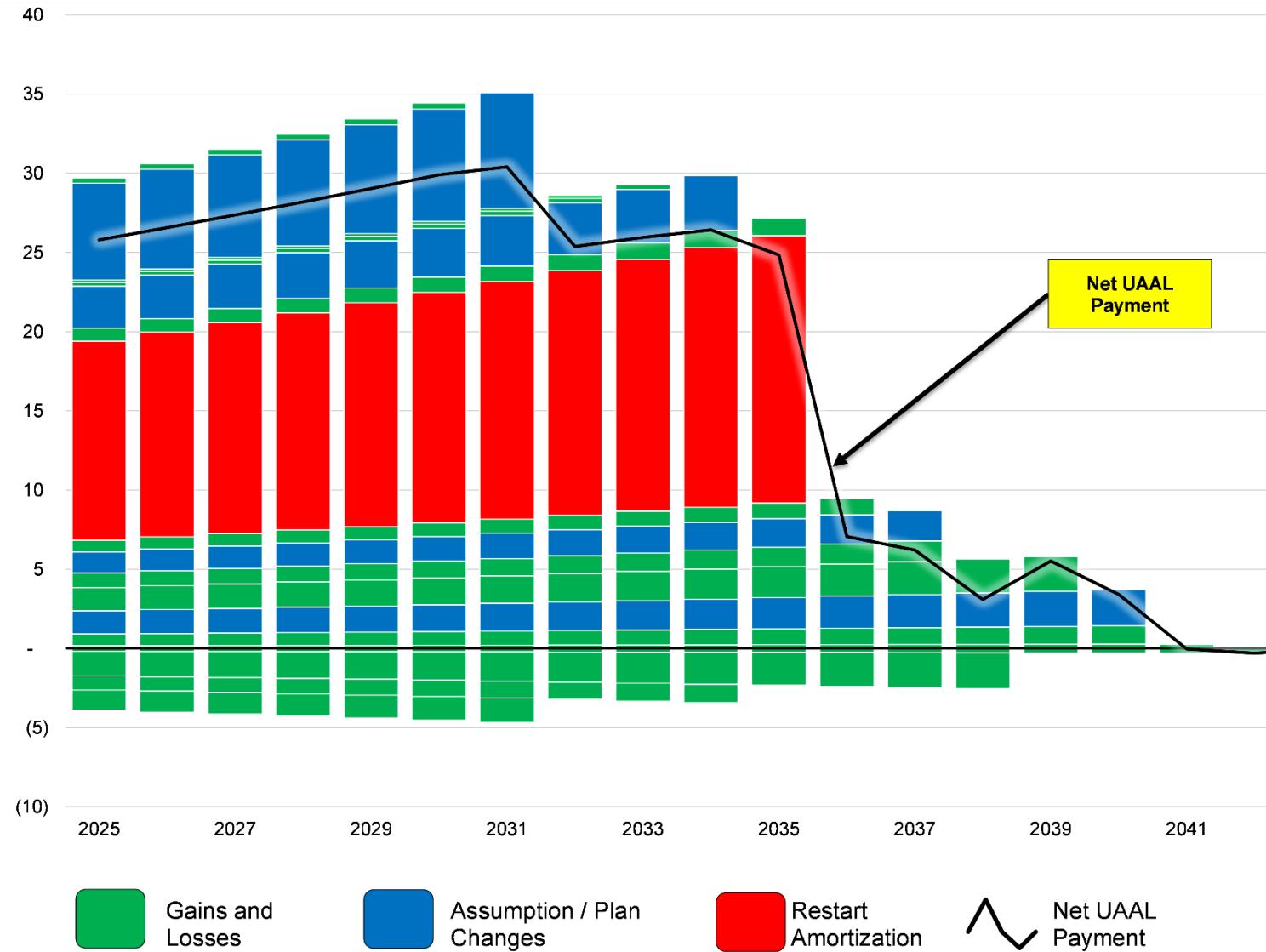
*Net outstanding balance of \$235 million in net UAAL*

- Amortization layers by source
- Shows when each layer is paid off
- Net outstanding balance at future valuation dates



# Projection of UAAL Payments

*Annual payments to amortize \$235 million in net UAAL*

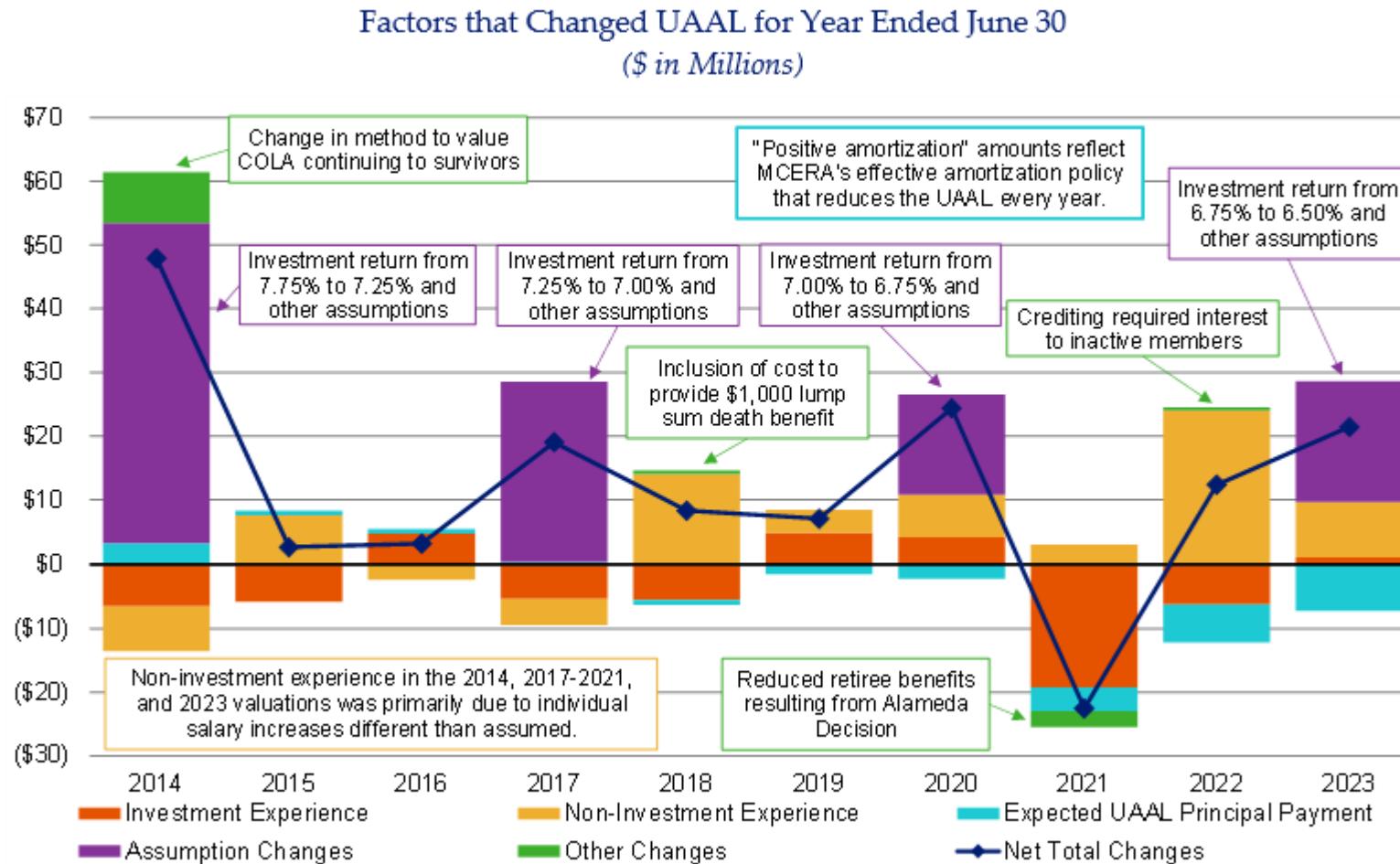


- Payment on amortization layer by source
- Progression of payments over time
- Net payment at future valuation dates

# Recent Changes in UAAL by Source

*Reference: June 30, 2023 Risk Assessment Report*

Chart 2



# Average Employer Contribution Rate

*\$ in millions*

	Contribution Rate	Estimated Annual Amount
<b>1. Average employer contribution as of June 30, 2024</b>	<b>41.82%</b>	<b>\$39.0</b>
<b>2. Changes due to:</b>		
a. Investment return greater than expected after asset smoothing	(0.64%)	\$(0.6)
b. Individual salary increases greater than expected	0.38%	0.3
c. Decrease in UAAL rate from greater than expected increase in total payroll	(1.14%)	(1.1)
d. COLA increases lower than expected	(0.24%)	(0.2)
e. Other net experience (gain)/loss, including contribution (gain)/loss	0.09%	0.1
<b>f. Total change</b>	<b>(1.55%)</b>	<b>\$(1.5)</b>
<b>3. Average employer contribution as of June 30, 2025</b>	<b>40.27%</b>	<b>\$37.5</b>

# Employer Contribution Rate Insights

## **Out of total June 30, 2025 employer rate of 40.27% of payroll**

- UAAL contribution rate is 28.52% of payroll
- UAAL contribution rate is calculated assuming future payroll would increase at annual rate of 3.00%
  - Actual payroll growth **larger** than 3.00% would result in **decrease** in UAAL rate
    - June 30, 2025 valuation: reduction in UAAL contribution rate by 1.14% of payroll due to larger than expected projected total salary (5.2% actual increase vs. 3.00% expected increase)
  - Actual payroll growth **smaller** than 3.00% would result in **increase** in UAAL rate

# Average Member Contribution Rate

*\$ in millions*

- Members only pay normal cost component
  - Increase in average rate primarily due to demographic changes
  - Different member rates based on cost sharing and other arrangements, tiers, and entry ages

	Contribution Rate	Estimated Annual Amount
<b>1. Average member contribution as of June 30, 2024</b>	<b>10.24%</b>	<b>\$9.6</b>
2. Change in demographics	0.04%	\$0.0
<b>3. Average member contribution as of June 30, 2025</b>	<b>10.28%</b>	<b>\$9.6</b>

# Investment Experience

*As of June 30, 2025*

## **Market value of assets earned 12.02%**

- Valuation (“smoothed”) value of assets earned 7.61%
  - Includes partial recognition of this year’s gains and prior gains/losses through asset smoothing method
- Net deferred gain of \$31.5 million
  - 4.0% of market value of assets
  - Will be recognized over next four years in the asset smoothing method
  - If recognized today, average employer contribution rate would decrease from 40.3% of payroll to 37.5% of payroll

# Determination of Actuarial & Valuation Assets

*As of June 30, 2025*

Step	Actual Return	Expected Return	Investment Gain/(Loss)	Percent Deferred	Amount
<b>1. Market value of assets (MVA)</b>					
<b>2. Calculation of deferred return</b>					
a. Year ended June 30, 2022	\$(67,368,382)	\$46,768,862	\$(114,137,244)		
b. Year ended June 30, 2023	50,177,503	41,703,744	8,473,759		
c. Year ended June 30, 2024	61,117,194	42,831,899	18,285,295	75%	\$108,816*
d. Year ended June 30, 2025	85,534,707	46,248,076	39,286,631	80%	31,429,305
<b>e. Total deferred return</b>					
<b>3. Actuarial and valuation value of assets (AVA and VVA)</b>					
<b>4. AVA as a percentage of MVA</b>					

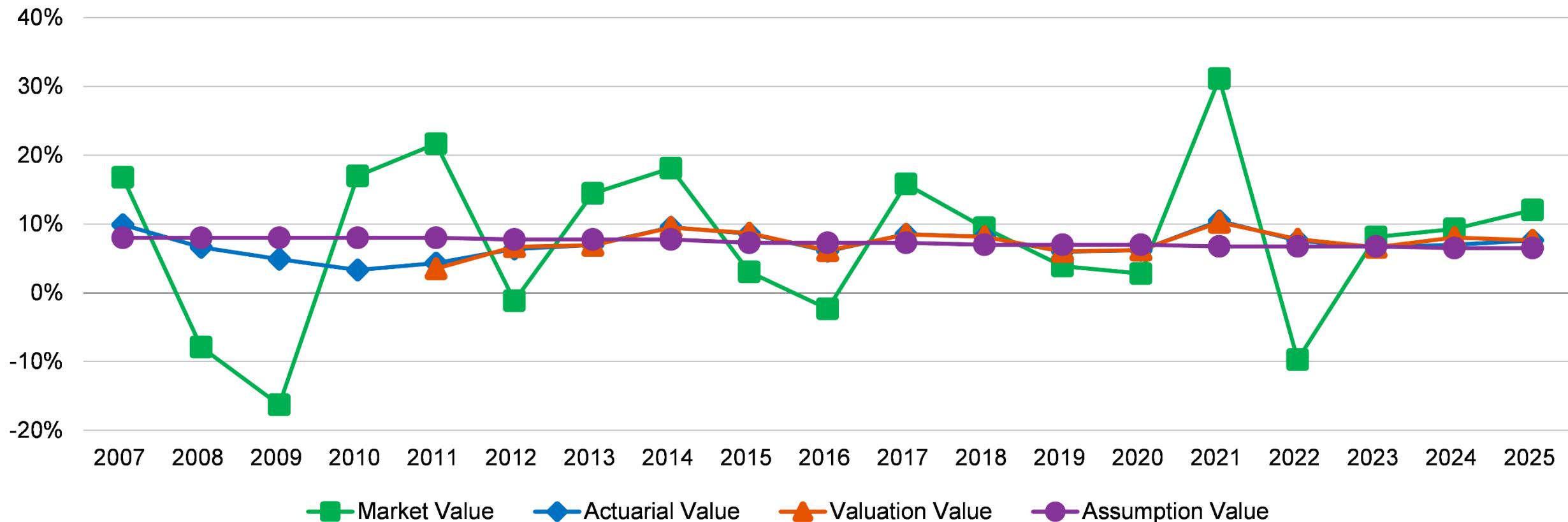
\*Total deferred investment gain of \$145,088 through June 30, 2024 will be recognized in four level amounts, with three years of recognition remaining after the June 30, 2025 valuation.

# Actuarial Assets Recognition in Future Years

The net deferred investment gain of \$31.5M is recognized in each of the next four years as follows:

Year Recognized	Amount
a. Amount recognized on year ended June 30, 2026	\$7,893,598
b. Amount recognized on year ended June 30, 2027	7,893,598
c. Amount recognized on year ended June 30, 2028	7,893,598
d. Amount recognized on year ended June 30, 2029	7,857,327
<b>e. Total unrecognized return as of June 30, 2025</b>	<b>\$31,538,121</b>

# Historical Investment Returns



Geometric Average Return	Market Value	Actuarial Value	Valuation Value
Most recent 5-year average	9.40%	7.84%	8.06%
Most recent 10-year average	7.55%	7.40%	7.53%
Most recent 15-year average	8.64%	7.32%	7.36%

# Membership Demographics

*As of June 30, 2025 & June 30, 2024*



<b>Active Members</b>	<b>2025</b>	<b>2024</b>
Count	1,094	1,107
Average age	45.0	44.6
Average service	8.9	8.7
Average compensation	\$85,234	\$80,093

<b>Retired Members &amp; Beneficiaries</b>	<b>2025</b>	<b>2024</b>
Count	1,734	1,718
Average age	72.1	71.7
Average monthly benefit	\$2,439	\$2,371

<b>Inactive Members</b>	<b>2025</b>	<b>2024</b>
Count	897	908

# Thank You

**Todd Tauzer, FSA, MAAA, FCA, CERA**

Senior Vice President and Actuary

[ttauzer@segalco.com](mailto:ttauzer@segalco.com)

**Andy Yeung, ASA, MAAA, FCA, EA**

Vice President and Actuary

[ayeung@segalco.com](mailto:ayeung@segalco.com)



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