



Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary
T 415.263.8283
ayeung@segalco.com

180 Howard Street, Suite 1100
San Francisco, CA 94105-6147
segalco.com

Via Email

May 26, 2022

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)
Addendum to the Governmental Accounting Standards (GAS) Statement 67
Actuarial Valuation Report as of June 30, 2021**

Dear Doris:

In our Governmental Accounting Standards (GAS) Statement 67 actuarial valuation report dated October 26, 2021, we provided the Net Pension Liability (NPL) and other elements that are required for completing the Plan's financial reporting requirements under GAS Statement 67. In this letter, we have provided as an Addendum to that report two additional schedules that the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel recommends be prepared by the Retirement Association's actuary (Segal). These schedules are used in allocating the NPL and pension expense by employer, before we issue the full companion report for the employer's financial reporting for MCERA under GAS Statement 68.

These two schedules have been developed based on the assumptions, methods, and results shown in our earlier report dated October 26, 2021. Exhibits A1 and A2 detail the method used for allocating the NPL and they provide the NPL amounts allocated to the three employers at the County, the Courts, and the Cemetery District in MCERA as of June 30, 2020 and June 30, 2021, respectively.¹

Exhibit B summarizes the allocated NPL, deferred outflows and inflows of resources, and pension expense by the three employers. Additional information required under GAS Statement 68 that each of the employers will need to disclose will be provided in a separate report.

These calculations were performed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary. The undersigned is a member of the American Academy of Actuaries and meets the

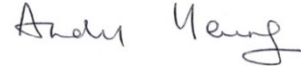
¹ The June 30, 2020 and June 30, 2021 NPL for the General membership class have been allocated to the three General employers in proportion to the employer contributions made by the employers during fiscal years 2019-2020 and 2020-2021, respectively. All of the June 30, 2020 and June 30, 2021 NPL for the Safety and Probation membership classes have been allocated to the County, as they are the sole active employer.

Doris L. Rentschler
May 26, 2022
Page 2

Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please give us a call if you have any questions.

Sincerely,



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

cc: Robert Reveles

ST/hy
Attachments

Schedule of Employer Allocations as of June 30, 2020

**Actual Employer Contributions by Employer and Membership Class
 July 1, 2019 to June 30, 2020**

Employer	General	General Percentage ⁽¹⁾	Safety	Safety Percentage	Probation	Probation Percentage	Total Contributions	Total Percentage
County of Mendocino	\$16,206,193	94.834%	\$6,436,897	100.000%	\$1,121,145	100.000%	\$23,764,235	96.418%
Mendocino County Courts	813,134	4.758%	0	0.000%	0	0.000%	813,134	3.299%
Russian River Cemetery District	<u>69,763</u>	<u>0.408%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>69,763</u>	<u>0.283%</u>
Total for all Employers	\$17,089,090	100.000%	\$6,436,897	100.000%	\$1,121,145	100.000%	\$24,647,132	100.000%

⁽¹⁾ The unrounded percentages are used in the allocation of the NPL amongst the General employers.

Allocation of June 30, 2020 Net Pension Liability

Employer	General	General Percentage	Safety	Safety Percentage	Probation	Probation Percentage	Total NPL	Total Percentage
County of Mendocino	\$176,396,319	94.834%	\$62,472,416	100.000%	\$8,377,607	100.000%	\$247,246,342	96.258%
Mendocino County Courts	8,850,558	4.758%	0	0.000%	0	0.000%	8,850,558	3.446%
Russian River Cemetery District	<u>759,335</u>	<u>0.408%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>759,335</u>	<u>0.296%</u>
Total for all Employers	\$186,006,212	100.000%	\$62,472,416	100.000%	\$8,377,607	100.000%	\$256,856,235	100.000%

Notes:

Based on the July 1, 2019 through June 30, 2020 employer contributions as provided by MCERA.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan's Fiduciary Net Position (plan assets). The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan's Fiduciary Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ratio of the total MCERA Plan's Fiduciary Net Position to total MCERA valuation value of assets.

The Safety and Probation membership classes have only one employer (the County), so all of the NPL for Safety and Probation is allocated to the County.

For the General membership class, the NPL is allocated based on the actual employer contributions within that membership class. The steps used for the allocation are as follows:

- First calculate the ratio of the employer's contributions to the total contributions for the membership class.
- This ratio is multiplied by the NPL for the membership class to determine the employer's proportionate share of the NPL for the membership class.

If the employer is in several membership classes, the employer's total allocated NPL is the sum of its allocated NPL from each membership class. The proportionate share of total plan NPL is then the ratio of the employer's total allocated NPL to the total NPL of all employers.

Schedule of Employer Allocations as of June 30, 2021

**Actual Employer Contributions by Employer and Membership Class
 July 1, 2020 to June 30, 2021**

Employer	General	General Percentage ⁽¹⁾	Safety	Safety Percentage	Probation	Probation Percentage	Total Contributions	Total Percentage
County of Mendocino	\$17,891,425	95.315%	\$6,225,066	100.000%	\$1,337,938	100.000%	\$25,454,429	96.661%
Mendocino County Courts	810,077	4.316%	0	0.000%	0	0.000%	810,077	3.076%
Russian River Cemetery District	<u>69,309</u>	<u>0.369%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>69,309</u>	<u>0.263%</u>
Total for all Employers	\$18,770,811	100.000%	\$6,225,066	100.000%	\$1,337,938	100.000%	\$26,333,815	100.000%

⁽¹⁾ The unrounded percentages are used in the allocation of the NPL amongst the General employers.

Allocation of June 30, 2021 Net Pension Liability

Employer	General	General Percentage	Safety	Safety Percentage	Probation	Probation Percentage	Total NPL	Total Percentage
County of Mendocino	\$88,959,442	95.315%	\$31,276,460	100.000%	\$(636,234)	100.000%	\$119,599,668	96.473%
Mendocino County Courts	4,027,851	4.316%	0	0.000%	0	0.000%	4,027,851	3.249%
Russian River Cemetery District	<u>344,617</u>	<u>0.369%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>344,617</u>	<u>0.278%</u>
Total for all Employers	\$93,331,910	100.000%	\$31,276,460	100.000%	\$(636,234)	100.000%	\$123,972,136	100.000%

Notes:

Based on the July 1, 2020 through June 30, 2021 employer contributions as provided by MCERA.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan's Fiduciary Net Position (plan assets). The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan's Fiduciary Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ratio of the total MCERA Plan's Fiduciary Net Position to total MCERA valuation value of assets.

The Safety and Probation membership classes have only one employer (the County), so all of the NPL for Safety and Probation is allocated to the County.

For the General membership class, the NPL is allocated based on the actual employer contributions within that membership class. The steps used for the allocation are as follows:

- First calculate the ratio of the employer's contributions to the total contributions for the membership class.
- This ratio is multiplied by the NPL for the membership class to determine the employer's proportionate share of the NPL for the membership class.

If the employer is in several membership classes, the employer's total allocated NPL is the sum of its allocated NPL from each membership class. The proportionate share of total plan NPL is then the ratio of the employer's total allocated NPL to the total NPL of all employers.

Schedule of Pension Amounts by Employer as of June 30, 2021

<u>Deferred Outflows of Resources</u>	County of Mendocino	Mendocino County Courts	Russian River Cemetery District	Total for all Employers
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	\$489,300	\$11,810	\$0	\$501,110
Changes of Assumptions or Other Inputs	3,672,875	108,847	9,313	3,791,035
Net Excess of Projected over Actual Earnings on Pension Plan Investments	0	0	0	0
Differences Between Actual and Expected Experience in the Total Pension Liability	<u>1,744,202</u>	<u>47,194</u>	<u>4,038</u>	<u>1,795,434</u>
Total Deferred Outflows of Resources	\$5,906,377	\$167,851	\$13,351	\$6,087,579
<u>Deferred Inflows of Resources</u>				
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	\$0	\$444,996	\$56,114	\$501,110
Changes of Assumptions or Other Inputs	0	0	0	0
Net Excess of Actual over Projected Earnings on Pension Plan Investments	84,189,164	2,490,623	213,094	86,892,881
Differences Between Expected and Actual Experience in the Total Pension Liability	<u>2,363,334</u>	<u>106,277</u>	<u>9,093</u>	<u>2,478,704</u>
Total Deferred Inflows of Resources	\$86,552,498	\$3,041,896	\$278,301	\$89,872,695
<u>Net Pension Liability</u>				
Net Pension Liability as of June 30, 2020	\$247,246,342	\$8,850,558	\$759,335	\$256,856,235
Net Pension Liability as of June 30, 2021	\$119,599,668	\$4,027,851	\$344,617	\$123,972,136
<u>Pension Expense</u>				
Proportionate Share of Plan Pension Expense	\$6,618,229	\$244,542	\$20,921	\$6,883,692
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>353,738</u>	<u>(318,982)</u>	<u>(34,756)</u>	<u>0</u>
Total Employer Pension Expense	\$6,971,967	\$(74,440)	\$(13,835)	\$6,883,692

Notes:

Amounts shown in this exhibit were allocated by employer based on the Employer Allocation Percentage calculated in Exhibit A2.

In determining the pension expense:

- Any differences between projected and actual investment earnings on pension plan investments are recognized over a period of five years beginning with the year in which they occur.
- Current-period (i.e., 2020-2021) differences between actual and expected experience and changes of assumptions, if any, are recognized over the average of the expected remaining service lives of all employees that are provided with pensions through MCERA determined as of June 30, 2020 (the beginning of the measurement period ending June 30, 2021) and is 2.61 years.
- Prior-period differences between actual and expected experience and changes of assumptions are continued to be recognized based on the expected remaining service lives of all employees calculated as of those prior measurement dates.
- Current-period benefit changes, if any, are recognized immediately.
- There was a decrease in the total employer pension expense from \$41.8 million calculated last year to \$6.9 million calculated this year. The primary causes of the decrease were the favorable investment return¹ and the recognition of prior-period gains in developing last year's pension expense, offset somewhat by the interest on the TPL and the recognition of prior-period losses in developing last year's pension expense.

The average of the expected remaining service lives of all employees was determined by:

- Calculating each active employee's expected remaining service life as the present value of \$1 per year of future service at zero percent interest.
- Setting the remaining service life to zero for each nonactive or retired member.
- Dividing the sum of the above amounts by the total number of active employees and nonactive and retired members.

¹ The return on the market value of assets (net of investment expenses only) for the year ended June 30, 2021 was 31.16%, which was more than the assumption of 6.75% used in the June 30, 2020 valuation. (The expensed portion of current period differences between actual and projected earnings on plan investments resulted in a \$26.1 million decrease in this year's pension expense.)