



MENDOCINO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

Popular Annual Financial Report

June 30, 2022

A Pension Trust Fund of the County of Mendocino, Superior Court of
Mendocino County, and the Russian River Cemetery District



Our Plan

MCERA is a cost-sharing governmental pension plan established by the County of Mendocino on January 1, 1948. MCERA provides retirement, death and disability benefits to the employees of the County of Mendocino, Superior Court of Mendocino County, and Russian River Cemetery District.

Our Mission

Providing sustainable pensions, retirement planning education, and professional services to current and future members.

Our Vision

To be a trusted resource for a well-planned and secure retirement.

Our Guiding Principles

- We are mindful of the impacts to individual members when we fulfill our fiduciary role of making decisions in the best interests of all members.
- We value professionalism, inclusion, and collegiality in doing our work.
- We take the long term into consideration in everything we do while remaining adaptable and flexible in the short term.

Board of Retirement Trustees as of June 30, 2022

Kathryn Smith Appointed by Board of Supervisors	Dan Gjerde Appointed by Board of Supervisors	1st Seat– Vacant Ex-Officio by Statute
Richard Shoemaker Elected by Retired Members	Quincy Cromer Elected by Safety Members	2nd Seat– Vacant Elected by General Members
Jerilyn Harris Appointed by Board of Supervisors	James Andersen Elected by Retired Members (Alternate)	4th Seat– Vacant Appointed by Board of Supervisors
Kathryn Cavness Elected by General Members		

A Message to Members -

The Mendocino County Employees Retirement Association (MCERA) is pleased to present this Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2022. The PAFR is a snapshot of MCERA's financial activities during the year. The information presented in the PAFR comes from MCERA's Annual Comprehensive Financial Report (ACFR). The ACFR provides more detailed information and is available on MCERA's website, <https://www.mendocinocounty.org/government/affiliated-agencies/retirement-association/reports>.

MCERA's goals are to: achieve long-term funding of the cost of benefits; seek a reasonable and equitable allocation of the costs of benefits over time; and minimize volatility of the plan sponsor's contribution to the extent reasonably possible.

As of June 30, 2022, MCERA's Funded Ratio is 73.2%. The Funded Ratio is the ratio of the actuarial value of assets (smoothed asset values) to the actuarial value of liabilities (promised benefits). If considered on a market value basis, the ratio would be 71.4%.

For the fiscal year (FY), MCERA's total portfolio underperformed its custom benchmark. MCERA's annual return was (9.72)%, compared to the benchmark of (8.20)%. The underperformance is primarily due to poor performance of MCERA's investments. MCERA remains financially strong and able to meet its obligations to plan participants and beneficiaries.

Brown Armstrong Accountancy Corp. audited the financial statements as of June 30, 2022 and stated that MCERA's financial statements fairly represent the financial position for the fiscal year.

Respectfully submitted,



Doris L. Rentschler, CFP
Executive Director

MCERA Membership Highlights

All data as of June 30, 2022

MCERA’s membership consists of full time (working at least 64 hours per pay period) employees, members who have left service and have deferred their receipt of retirement benefits, and retirees and their beneficiaries from the County of Mendocino, Superior Court of Mendocino County, and the Russian River Cemetery District.

Total Members

Year	Active	Retired	Deferred
2018	1,162	1,490	497
2019	1,151	1,552	515
2020	1,140	1,587	546
2021	1,142	1,615	577
2022	1,123	1,650	923

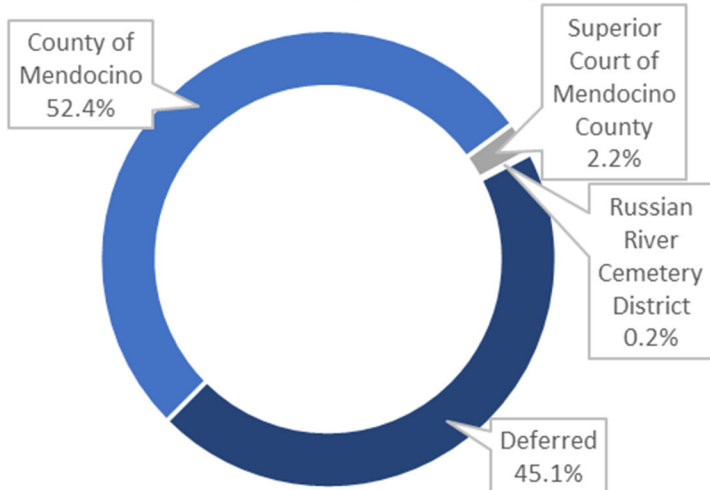
Active Members by Employer

1,073	County of Mendocino
46	Superior Court of Mendocino County
4	Russian River Cemetery District

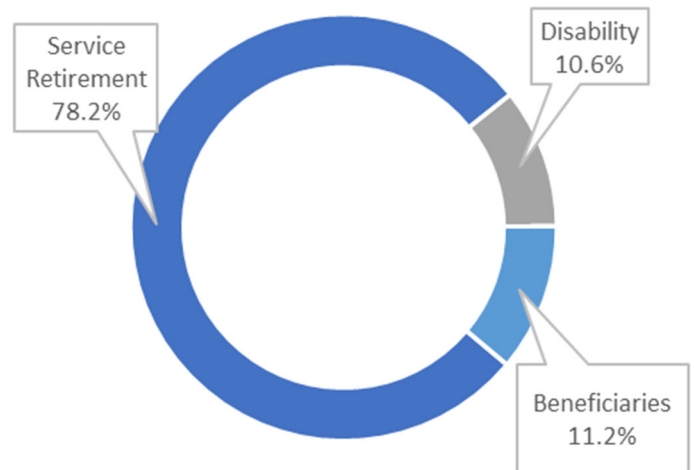
Active Members by Membership Group

959	General
164	Safety/Probation

Active and Deferred Members by Employer



Retired Members by Benefit Type



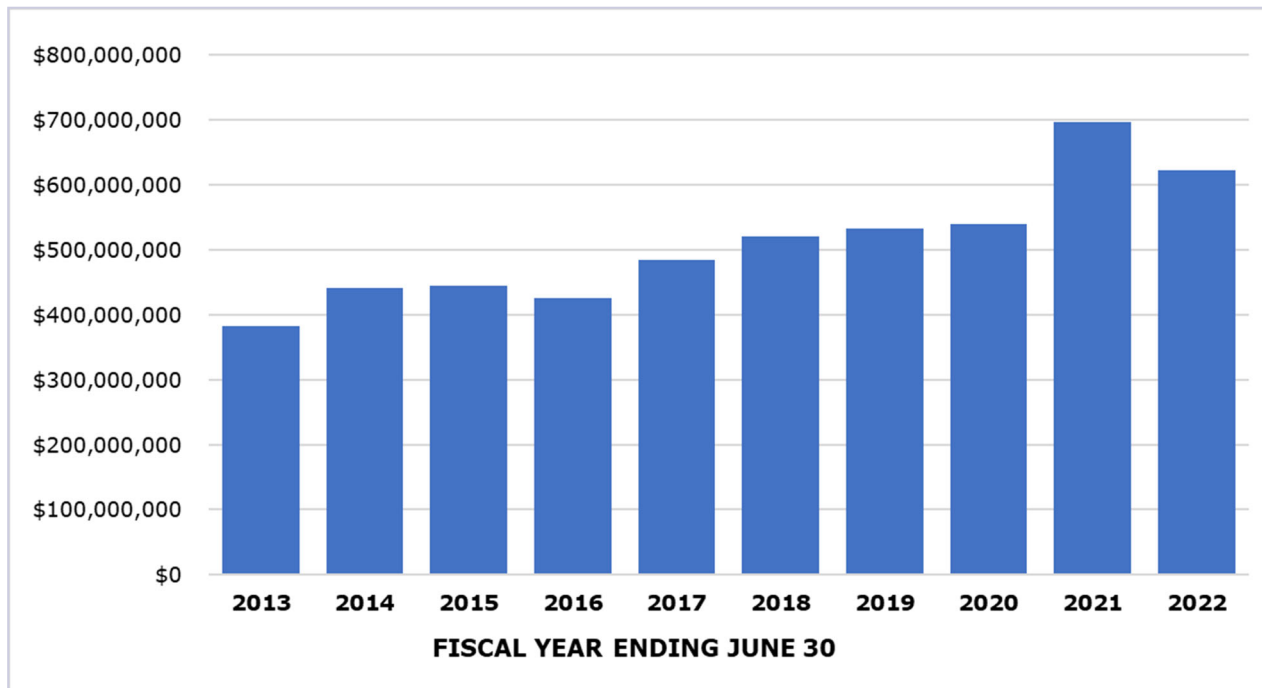
Summary of Fiduciary Net Position

Fiduciary Net Position is a snapshot of account balances at fiscal year-end. It presents major categories of assets and liabilities at fiscal year-end. The difference between assets and liabilities, Fiduciary Net Position, represents funds available to pay benefits.

(Dollars in Thousands)	2022		2021		Dollar Change	Percent Change	
Cash Equivalents	\$	1,615	\$	110	\$	1,505	1,368.18%
Receivables		1,142		1,750		(608)	(34.74%)
Capital Assets, Net							
Software Equipment		159		238		(79)	(33.19%)
Investments, at Fair Value		620,437		695,862		(75,425)	(10.84%)
Total Assets		623,353		697,960		(74,607)	(10.69%)
Total Liabilities		1,419		1,519		(100)	(6.58%)
Fiduciary Net Position	\$	621,934	\$	696,441	\$	(74,507)	(10.70%)

Total net position decreased from \$696.4 million in FY 2021 to \$621.9 million in FY 2022. Increases and decreases in Fiduciary Net Position, when analyzed over time, may serve as an indicator of whether MCERA's financial position is improving or deteriorating. Management believes MCERA remains in a strong position to meet promised benefits.

Net Position Over Time

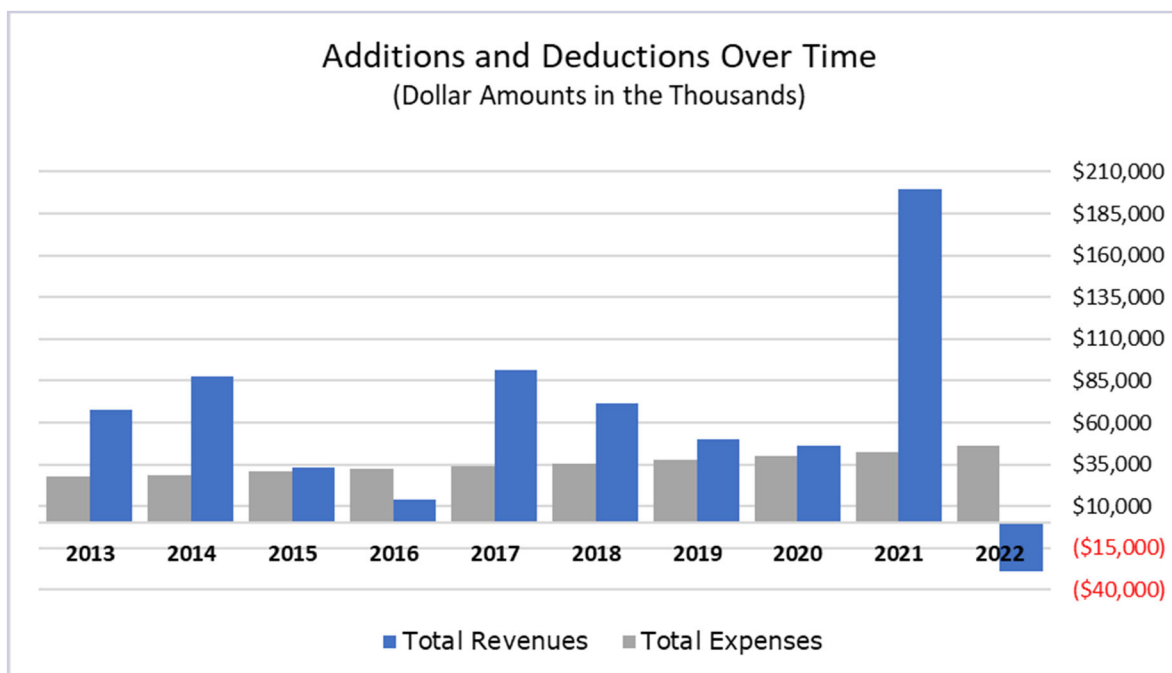


Changes in Net Position

The primary sources to finance the benefits MCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal years ending June 30, 2022 and 2021 totaled \$(28.7) million and \$199.9 million, respectively. The decrease in additions from 2021 to 2022 can be attributed primarily to a decrease in net investment income. Employer contributions and member contributions increased in fiscal year 2022 as a result of higher non-safety covered payroll and higher average contribution rates.

The primary uses of MCERA assets are the payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering MCERA. These deductions for the fiscal years ending June 30, 2022 and 2021 were \$45.8 million and \$42.5 million, respectively. The primary reason for this change was an increase in benefits paid to retirees.

(Dollars in Thousands)	2022	2021	Dollar Change	Percent Change
<i>Additions</i>				
Employer Contributions	\$ 30,485	\$ 26,334	\$ 4,151	15.76%
Member Contributions	8,186	7,054	1,132	16.05%
Net Investment Income	(67,540)	166,513	(234,053)	(140.56%)
Insurance Reimbursement	171	-	171	100.00%
Total Additions	(28,698)	199,901	(228,599)	(114.36%)
<i>Deductions</i>				
Retirement Benefits	42,750	40,230	2,520	6.26%
Refund of Contributions	1,596	847	749	88.43%
Administrative Expenses	1,463	1,372	91	6.63%
Total Deductions	45,809	42,449	3,360	7.92%
Net Additions	(74,507)	157,452	(231,959)	(147.32%)



Fund Revenues and Expenses

The sources of revenue are provided through collection of employee and employer contributions and income on investments. Employer and employee contributions increased in fiscal year 2022 as a result of higher covered payroll and higher average contribution rates. The decrease in net investment income was due to investment underperformance.

Revenues

Fiscal Year Ended 6/30	Employee Contributions	Employer Contributions	Investment Net Income	Total Revenues
2022	\$ 8,186	\$ 30,485	\$ (67,369)	\$ (28,698)
2021	7,054	26,334	166,513	199,901
2020	6,820	24,647	14,799	46,266
2019	6,544	23,702	19,959	50,205
2018	5,996	20,431	45,272	71,699
2017	5,754	19,116	66,670	91,540
2016	5,545	19,129	(10,352)	14,322
2015	4,652	15,164	13,201	33,017
2014	4,576	14,325	68,495	87,396
2013	4,713	14,260	48,890	67,863

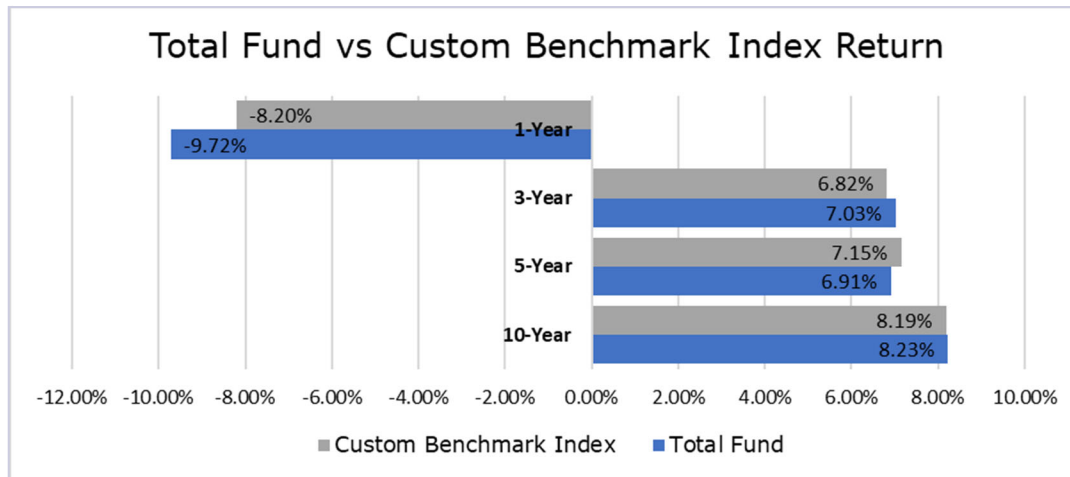
The uses of assets of the system are the payment of pension benefits to retirees and their beneficiaries, refund of contributions to former employees, and the cost of administering the system. Benefits paid is greater in fiscal year 2022 due to the increasing number of retirees. Refunds increased due to changes in pensionable compensation. Administrative costs increased due to personnel expenses.

Expenses

Fiscal Year Ended 6/30	Benefits	Administrative	Refunds	Total Expenses
2022	\$ 42,750	\$ 1,463	\$ 1,596	\$ 45,809
2021	40,230	1,372	847	42,449
2020	38,036	1,226	742	40,004
2019	35,650	1,233	1,025	37,908
2018	33,332	1,142	822	35,296
2017	31,617	1,086	1,148	33,851
2016	30,435	1,142	624	32,201
2015	29,225	1,059	824	31,108
2014	26,702	930	652	28,284
2013	25,500	830	1,073	27,403

Investments - *Asset Values and Returns*

Longer term annualized Total Fund returns are roughly in-line with the Custom Benchmark Index.



As of June 30, 2022, the assets of MCERA were valued at \$622.0 million, down from the total asset value of \$695.8 million at the start of the fiscal year, July 1, 2021.

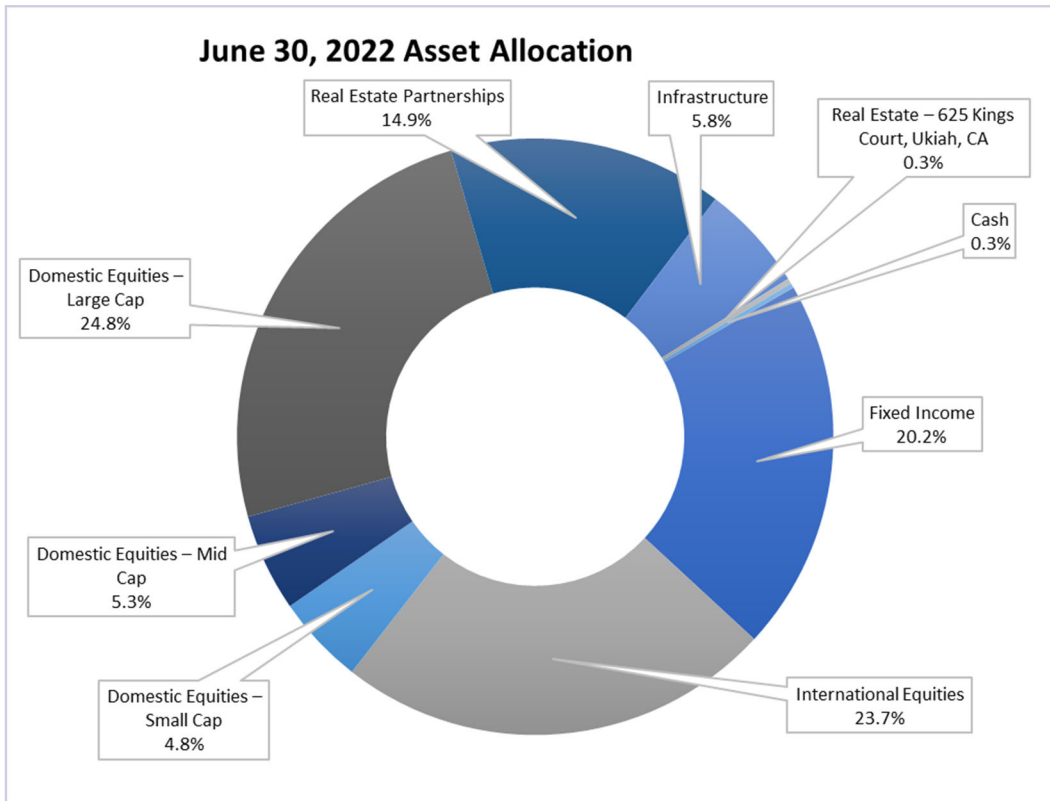
June 30, 2022 Investment Portfolio	Market Value
Fixed income	\$ 125,692,476
International equities	147,243,715
Domestic equities – small cap	30,134,731
Domestic equities – mid cap	32,897,702
Domestic equities – large cap	154,017,544
Real estate partnerships	92,676,198
Infrastructure	36,025,184
Real estate – 625 Kings Court, Ukiah, CA	1,750,000
Cash	1,614,712
Total Cash and Investments	\$622,052,262

MCERA's Total Fund lost 9.72% for the fiscal year ending June 30, 2022, underperforming the Policy Index's (8.20)% return.

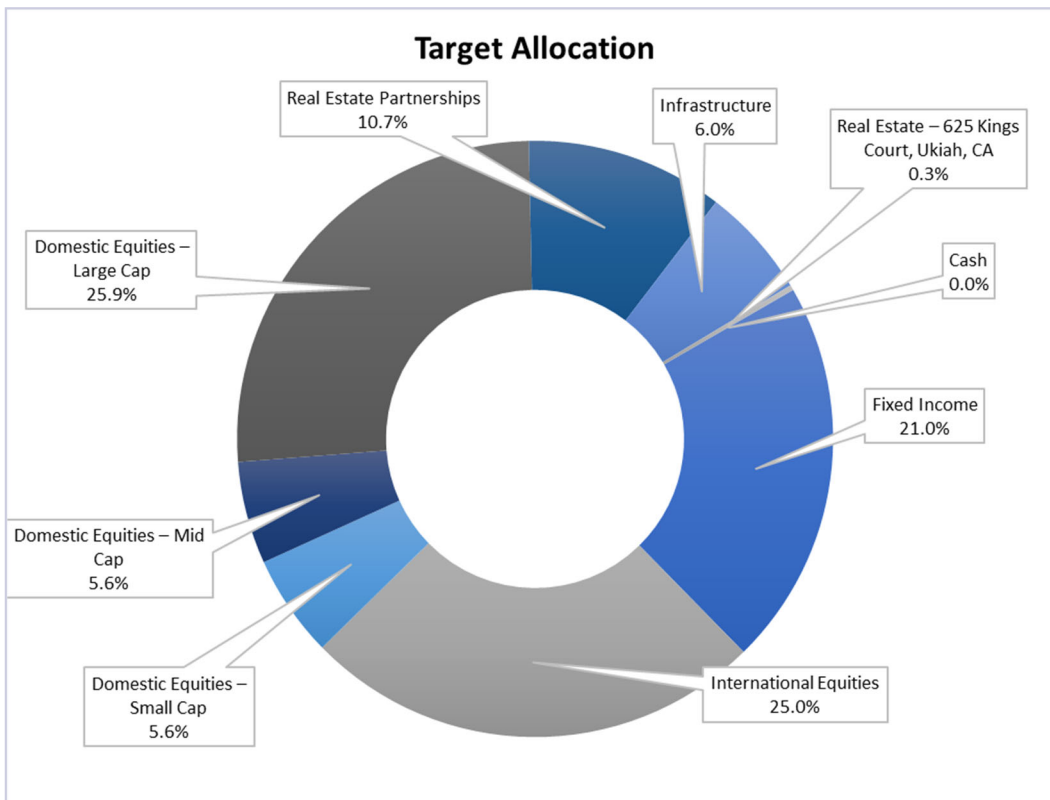
Investment Returns For Period Ended June 30, 2022				
	1-Year	3-Year	5-Year	10-Year
Fixed income	(10.54%)	(0.21%)	1.37%	2.23%
International equities	(23.13%)	1.99%	1.92%	4.84%
Domestic equities – small cap	(22.84%)	8.79%	9.78%	11.84%
Domestic equities – mid cap	(12.13%)	8.26%	9.74%	11.11%
Domestic equities – large cap	(10.64%)	10.66%	11.20%	13.19%
Real estate	27.66%	11.86%	9.93%	10.10%
Infrastructure	10.31%	0.00%	0.00%	0.00%
Total Fund	(9.72%)	7.03%	6.91%	8.23%
Custom Benchmark Index*	(8.20%)	6.82%	7.15%	8.19%

* Custom Benchmark Index = 37.0% Russell 3000 Index, 25.0% MSCI ACWI xUS GD, 21.0% Blmbg Aggregate, 11.0% NCREIF NFI-ODCE Eq Wt Net and 6.0% NCREIF NFI-ODCE Eq Wt Net.

Investments - Asset Allocation

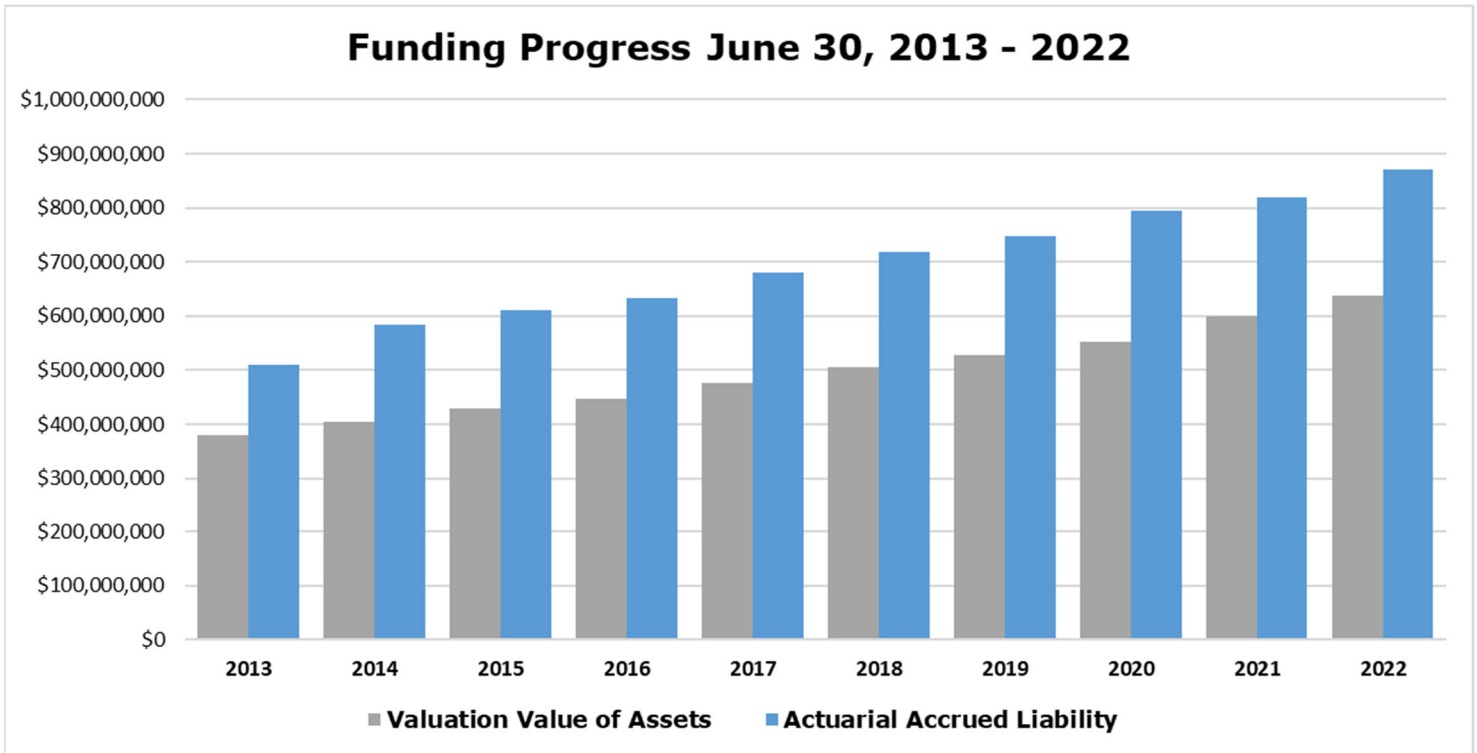


Actual allocations to domestic equity, international equity, and domestic fixed income were relatively underweight to that of the target and were offset by a relative overweight to domestic real estate. All asset classes remain within their permitted ranges.



Funded Status

MCERA maintains a funding goal to establish contributions that fully fund MCERA’s liabilities. Those contributions, as a percentage of payroll, remain as level as possible for each generation of active members.



The Actuarial Accrued Liability is the present dollar value of all current and future promised benefits. The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of MCERA’s Contingency Reserve. The Actuarial Value of Assets is a smoothed value of assets used to establish employer contribution rates.

Some of the important estimates used to calculate the cost of the retirement plan are found below. The investment rate of return is the rate of investment yield the plan will earn over the long-term. The inflation rate is the long-term assumed rate of inflation. The Salary increase assumption is the rates of salary increases due to inflation, real wage growth and merit and promotion increases.

Major Actuarial Assumptions

Investment rate of return: 6.75%

Inflation rate: 2.75%

Salary increase assumptions: 4.25% to 8.25%

June 30, 2022

Funded Ratio

73.2%