Segal

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

Re: Mendocino County Employees Retirement Association (MCERA)
Change in allocation of the cost of COLA benefits for legacy members with 30 years of service

Dear Doris:

As you know, all Legacy members[1] with 30 or more years of service are exempt from paying member contributions. This plan provision has been reflected in our annual valuation results, particularly in the normal cost calculations. Effectively, the suspended **COLA** normal cost contributions for Legacy members with at least 30 years of service are currently allocated to the remaining Legacy members with less than 30 years of service in the development of the COLA loading factor for employee contribution rates. During our discussion on January 4, 2024, we brought up the possibility of a change to allocate the suspended COLA normal cost contributions for Legacy members with at least 30 years of service to the employers instead of to the remaining Legacy members with less than 30 years of service, starting with the June 30, 2024 valuation. This is consistent with the current practice to allocate the suspended **basic** normal cost contributions for Legacy members with over 30 years of service to the employer normal cost.

The purpose of this letter is to provide MCERA with the estimated effect on the employer and employee contribution rates and annual amounts associated with this recommended change, based on the June 30, 2023 valuation results, so the Board can decide if they would like to make this change starting with the June 30, 2024 valuation.

Background

Based on our understanding of the 1937 CERL, the basic normal cost for Legacy members with at least 30 years of service has been allocated to the employer. In contrast, in prior actuarial valuations one-half of the COLA normal cost for Legacy members with at least 30 years of service has been allocated to the Legacy members with less than 30 years of service (the other half has been allocated to the employer). This prior practice has produced stable member rates as long as there have been (1) relatively few members who continue to work after 30 years of

[1] Members in General Tiers 1, 2 and 3, Safety Tiers 1 and 2, and Probation Tiers 1 and 2.

service and (2) relatively small changes in the proportions of payroll for members with less than 30 years of service compared to payroll for members with at least 30 years of service.

However, the proportions of payroll could continue to shift over time with the enrollment of new members in the CalPEPRA tiers[1] instead of the Legacy tiers. For that reason, we believe it would be practical and reasonable to treat suspended COLA member contributions the same as current practice for suspended basic member contributions.

Results

We estimate that the recommended change discussed herein would result in the following net increases in the average employer contribution rates and annual amounts, based on the June 30, 2023 valuation results:

Employer Contribution Increases

	Normal Cost (% of Payroll)	Annual Amount ($000s)[2]
General Tier 1	0.00%	$0
General Tier 2 / Tier 3	0.17%	43
General Tier 4	Not Applicable[3]	0
Safety Tier 1	Not Calculated[4]	0
Safety Tier 2	0.33%	21
Safety Tier 3	Not Applicable[3]	0
Probation Tier 1	Not Calculated[4]	0
Probation Tier 2	0.00%	0
Probation Tier 3	Not Applicable[3]	0
All Categories Combined	**0.07%**	**$64**

The average employer contribution rate increase for all categories combined is about 0.07% of payroll. The variability in the rate increases among the various tiers is due to the different proportions of payroll for members with less than 30 years compared to payroll for members with over 30 years of service in those tiers.

Note that there would be corresponding net decreases in the average member contributions of about the same rates and amounts shown above.

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[1] General Tier 4, Safety Tier 3, and Probation Tier 3.
[2] Based on June 30, 2023 projected annual payroll.
[3] Not applicable for the CalPEPRA tiers, as members in those tiers continue to pay employee contribution rates after 30 years of service.
[4] There were no Safety Tier 1 or Probation Tier 1 active members reported for the June 30, 2023 valuation.

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The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, FCA, Enrolled Actuary. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions.

Sincerely,

Andy Yeung

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

/elf

cc: Robert Reveles