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Date:	July 23, 2014
To:	Concerned Citizens of Mendocino County
From:	Mendocino County Board of Retirement
Subject:	Response to Your Concerns Regarding Public Pension Management

The Mendocino County Employees' Retirement Association (MCERA) received your correspondence entitled *Questions about Mendocino County's Unfunded Pension Debt and Analysis of That Debt (*Report*)* dated April 22, 2014. The Board of Retirement (Board) has placed your request to respond to specific questions or validate findings on its publicly noticed agenda three times. The MCERA Board appreciates all concerned citizens' interest in public pension issues and encourages them to follow the activities of the Board through its website, televised meetings, or by attending its meetings. We would especially like to encourage any citizen or group to attend the triennial experience study this fall, guided by MCERA's actuary, Segal Consultants (Segal), given many of the concerns raised in the Report will be discussed at that time.

Board member and Mendocino County Supervisor John McCowen offered a partial response to the Report, which resulted in yet another set of questions and points of debate. The Board members question the value and use of limited staff resources to enter into never-ending volleys of correspondence, especially on many issues that have been or are being resolved. As a result, the Board would like to respond to what it believes are the general themes brought up in the Report.

First, it is our intent to address your characterization that Board membership is skewed to allow MCERA members to protect or enhance their own financial interests; you infer self-dealing by certain members who are legal and committed fiduciaries of the pension trust. The Board, pursuant to state law, is comprised of four members of the retirement system, four Board of Supervisor appointees (one of which <u>may</u> be a Board of Supervisors member), and the County Treasurer-Tax Collector, who is elected.

It may be useful to understand the respective roles of both the Board of Retirement and Board of Supervisors. As a brief background, in 1992, the voters passed Proposition 162 (the "Pension Protection Act"), which is part of the California Constitution. Among other things, it provides that a retirement board of a public pension plan has "plenary authority and fiduciary responsibility for investment of moneys and administration of the system." Indeed, one primary role of the Board is to invest moneys. The Board does not determine salaries or the formula(s) that are used to determine pension amounts, that is the role of the employer. Prop 162 further provides that "a retirement board's duty is to its participants and beneficiaries takes precedence over any other duty."

The Board agrees that one of the most significant issues facing state and local governments is making the required contributions to employee pension plans while striving to maintain other government services. The stress building between sufficient pension reserves and the County's financing sources is, in part, the result of an aging "baby-boom" population which is living longer than past generations. The challenge of all retirement boards has been amplified by volatile and less predictable earnings on investments, including two deep, historical recessions since the year 2000. Retirement benefits and wages were increased by the County some ten years ago in an effort to retain and attract employees, thereby increasing long-term pension liabilities. As a result of the conditions and actions described above, employer contributions rose. At the same time, unfunded pension obligations were also rising. MCERA is responsible for setting contribution rates and investing moneys to meet pension obligations. The Board of Supervisors is responsible to meet its legal obligation to make contributions to the pension trust and determine what level of other government services can be provided.

The MCERA Board has been working within its authority to prudently invest assets to pay for pension obligations, protect those assets, and accurately report the funded status of the pension trust. Contrary to statements contained in the Report, MCERA's return on investments has compared favorably to other institutional investors. With the guidance of its nationally respected financial advisor, Callan Associates (Callan), MCERA reviews the performance of its investments quarterly, and conducts an extensive review of how its assets are invested every three years. MCERA has performed well against a universe of roughly 235 funds tracked by Callan. MCERA is also ranked annually by RVKuhns & Associates, Inc., and consistently performs near the top of all 1937 Act retirement systems. MCERA works closely with Segal, its actuarial advisor, to annually determine its pension liabilities, assets, and the amount of unfunded liabilities. Segal conducts an experience study every three years to determine if the assumptions used to project the funded status of the pension plan were accurate. The experience study is where and when important decisions are made regarding the assumed rate of return on our investments, retirement ages, mortality rates, etc.

In Supervisor McCowen's response to the Report, he describes a large number of actions taken by MCERA to better manage the pension system. The Board wholeheartedly agrees with his depiction of MCERA's accomplishments thus far (response number 3). We have heard the process of pension reform being compared to steering a blimp, where the pilots enter course corrections that result in the nose of the airship beginning to turn ten miles down the flight path. Similarly, pension obligations have been driven by events that occurred over decades, and the strategies to meet those obligations will likely take time as well.

Again, the Board invites and encourages any concerned citizen to be engaged in discussions, ask questions or offer comments.

Sincerely,

Shari Schapmire

Shari Schapmire, Chair

JA/SS/JB/BOR