

# Mendocino County Employees Retirement Association

**Governmental Accounting Standards Board  
Statement No. 67 (GASB 67) Actuarial Valuation  
as of June 30, 2024**



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November 12, 2024

Board of Retirement  
Mendocino County Employees Retirement Association  
625-B Kings Court  
Ukiah, CA 95482-5027

Dear Board Members:

We are pleased to submit this Governmental Accounting Standards Board Statement No. 67 (GASB 67) Actuarial Valuation as of June 30, 2024 for the Mendocino County Employees Retirement Association (“MCERA” or “the Plan”). It contains various information that will need to be disclosed in order to comply with GASB 67. Please refer to MCERA’s Actuarial Valuation and Review as of June 30, 2024, dated November 6, 2024, for the data, assumptions, and plan of benefits underlying these calculations.

This report has been prepared in accordance with generally accepted actuarial principles and practices for the exclusive use and benefit of the Board of Retirement (the Board), based upon information provided by the staff of the Plan and the Plan’s other service providers.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

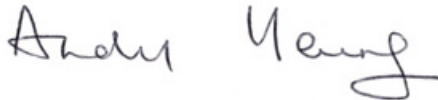
The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, FCA, Enrolled Actuary. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in the actuarial valuation is complete and accurate. The assumptions used in this actuarial valuation were selected by the Board based upon our analysis and recommendations. In our opinion, the assumptions are reasonable and take into account the experience of MCERA and reasonable expectations. In addition, in our opinion, the combined effect of these assumptions is expected to have no significant bias.

Segal makes no representation or warranty as to the future status of the Plan and does not guarantee any particular result. This document does not constitute legal, tax, accounting or investment advice or create or imply a fiduciary relationship. The Board is encouraged to discuss any issues raised in this report with the Plan's legal, tax and other advisors before taking, or refraining from taking, any action.

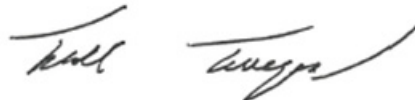
We look forward to reviewing this report with you and to answering any questions.

Sincerely,

Segal



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



Todd Tauzer, FSA, MAAA, FCA, CERA  
Senior Vice President and Actuary

DNA/jl

# Table of Contents

Section 1: Actuarial Valuation Summary .....	5
Purpose and basis .....	5
General observations on a GASB 67 actuarial valuation .....	5
Highlights of the valuation .....	6
Summary of key valuation results .....	7
Important information about actuarial valuations .....	9
Section 2: GASB 67 Information .....	11
General information about the pension plan .....	11
Exhibit 1 – Net Pension Liability .....	15
Exhibit 2 – Discount rate .....	17
Exhibit 3 – Schedule of changes in Net Pension Liability .....	19
Exhibit 4 – Schedule of employer contributions .....	20
Appendix A: Projection of Plan Fiduciary Net Position .....	23
Appendix B: Definition of Terms .....	25

# Section 1: Actuarial Valuation Summary

## Purpose and basis

This report has been prepared by Segal to present certain disclosure information required by Governmental Accounting Standards Board Statement No. 67 (GASB 67) as of June 30, 2024. This report is based on:

- The benefit provisions of MCERA, as administered by the Board;
- The characteristics of covered active, inactive, and retired members and beneficiaries as of June 30, 2024, provided by MCERA;
- The assets of the Plan as of June 30, 2024, provided by MCERA;
- Economic assumptions regarding future salary increases and investment earnings adopted by the Board for the June 30, 2024 funding valuation; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc. adopted by the Board for the June 30, 2024 funding valuation.

## General observations on a GASB 67 actuarial valuation

1. The Governmental Accounting Standards Board (GASB) rules only define pension liability and expense for financial reporting purposes, they do not apply to contribution amounts for pension funding purposes. Employers and plans should continue to develop and adopt funding policies under current practices.
2. When measuring pension liability, GASB uses the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as MCERA uses for funding. This means that the Total Pension Liability (TPL) measure for financial reporting shown in this report is generally determined on the same basis as MCERA's actuarial accrued liability (AAL) measure for funding. We note that the same is generally true for the service cost for financial reporting shown in this report and the normal cost component of the annual plan cost for funding.
3. The Net Pension Liability (NPL) is equal to the difference between the TPL and the Plan Fiduciary Net Position (FNP). The Plan FNP is equal to the fair value of assets and therefore, the NPL measure is very similar to an unfunded actuarial accrued liability<sup>1</sup> (UAAL) on a market value basis.

<sup>1</sup> Besides the use of different values of assets, there is another minor difference due to the use of "replacement life with a tier" variant of the entry age cost method in the funding valuation which assumes each active member's current benefit formula has always been in effect. That variant of the entry age cost method is not used in this GASB 67 valuation.

## Section 1: Actuarial Valuation Summary

### Highlights of the valuation

1. The reporting date for the Plan is June 30, 2024 and the NPL was measured as of the same date. The TPL was determined based upon the actuarial valuation as of June 30, 2024 and the Plan FNP was also valued as of the measurement date.
2. The NPL decreased from \$263.1 million as of June 30, 2023 to \$248.5 million as of June 30, 2024 primarily due to a return on the market value of assets of 9.3% during fiscal year 2023-2024 that was more than the assumption of 6.50% used in the June 30, 2023 valuation (a gain of about \$18 million). Changes in these values during the last two fiscal years can be found in *Section 2, Exhibit 3 - Schedule of changes in Net Pension Liability* on page 19.
3. The discount rate used to measure the TPL and NPL as of June 30, 2024 was 6.50%, following the same assumption used by MCERA in the actuarial funding valuation as of June 30, 2024. The detailed calculations used in the derivation of the 6.50% discount rate can be found in *Appendix A*. Various other information that is required to be disclosed can be found throughout *Section 2*.

## Section 1: Actuarial Valuation Summary

### Summary of key valuation results

Line Description	Current Year		Prior Year	
Reporting and Measurement Date	June 30, 2024		June 30, 2023	
<b>Disclosure elements</b>				
Service cost <sup>1</sup>	\$19,851,255		\$16,836,674	
Total Pension Liability	963,609,568		927,038,575	
Plan Fiduciary Net Position	715,112,157		663,909,608	
Net Pension Liability	248,497,411		263,128,967	
<b>Schedule of contributions</b>				
Actuarially determined contributions	\$32,095,794		\$30,309,355	
Actual contributions	32,095,794		30,309,355	
Contribution deficiency / (excess)	0		0	
<b>Demographic data</b>				
Number of retired members and beneficiaries	1,718		1,678	
Number of inactive members <sup>2</sup>	908		879	
Number of active members	1,107		1,150	
<b>Key assumptions</b>				
Investment rate of return	6.50%		6.50%	
Inflation rate	2.50%		2.50%	
“Across-the-board” salary increase	0.50%		0.50%	
Projected salary increases <sup>3</sup>	General:	8.00% to 4.00%	General:	8.00% to 4.00%
	Safety & Probation:	8.25% to 4.00%	Safety & Probation:	8.25% to 4.00%
Cost-of-living adjustments	Non-CalPEPRA Tiers: <sup>4</sup>	2.75%	Non-CalPEPRA Tiers: <sup>4</sup>	2.75%
	CalPEPRA Tiers: <sup>4</sup>	0.00%	CalPEPRA Tiers: <sup>4</sup>	0.00%

<sup>1</sup> The service cost is based on the previous year’s valuation, meaning the service cost as of the June 30, 2024 and June 30, 2023 measurement dates are based on the valuations as of June 30, 2023 and June 30, 2022, respectively. The June 30, 2024 service cost has been calculated using the assumptions shown in the Prior Year column, but the June 30, 2023 service cost has been calculated using the assumptions from the June 30, 2022 valuation. Please refer to the note on the next page for the assumptions used for the June 30, 2023 service cost.

<sup>2</sup> Includes inactive members due a refund of member contributions.

<sup>3</sup> Includes inflation at 2.50% plus “across-the-board” salary increase of 0.50% plus merit and promotion increases that vary by service.

<sup>4</sup> Non-CALPEPRA Tiers are General Tiers 1, 2, and 3, Safety Tiers 1 and 2, and Probation Tiers 1 and 2; CALPEPRA Tiers are General Tier 4, Safety Tier 3, and Probation Tier 3.

# Section 1: Actuarial Valuation Summary

## Note to footnote 1 from prior page

The June 30, 2023 service cost has been calculated using the following assumptions as of June 30, 2022:

- Investment rate of return: 6.75%
- Inflation rate 2.75%
- “Across-the-board” salary increase 0.50%
- Projected salary increases: General, Safety and Probation: 8.25% to 4.25%
  - Projected salary increases include inflation at 2.75% plus across-the-board increase of 0.50% plus merit and promotion increases that vary by service.
- Cost-of-living adjustments
  - Non-CALPEPRA Tiers: 2.75%
  - CALPEPRA Tiers 0.00%
  - Non-CALPEPRA Tiers are General Tiers 1, 2, and 3, Safety Tiers 1 and 2, and Probation Tiers 1 and 2; CALPEPRA Tiers are General Tier 4, Safety Tier 3, and Probation Tier 3.

## Section 1: Actuarial Valuation Summary

### Important information about actuarial valuations

In order to prepare a valuation, Segal relies on a number of input items. These include:

Input Item	Description
<b>Plan provisions</b>	Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. Even where they appear precise, outside factors may change how they operate. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan summary included in our report (as well as the plan summary included in our funding valuation report) to confirm that Segal has correctly interpreted the plan of benefits.
<b>Member information</b>	An actuarial valuation for a plan is based on data provided to the actuary by MCERA. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
<b>Financial information</b>	The valuation is based on the fair value of assets as of the measurement date, as provided by MCERA.
<b>Actuarial assumptions</b>	In preparing an actuarial valuation, Segal starts by developing a forecast of the benefits to be paid to existing plan members for the rest of their lives and the lives of their beneficiaries. This requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of members in each year, as well as forecasts of the plan's benefits for each of those events. In addition, the benefits forecasted for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments (if any). The forecasted benefits are then discounted to a present value, typically based on an estimate of the rate of return that will be achieved on the plan's assets. All of these factors are uncertain and unknowable. Thus, there will be a range of reasonable assumptions, and the results may vary materially based on which assumptions are selected within that range. That is, there is no right answer (except with hindsight). It is important for any user of an actuarial valuation to understand and accept this constraint. The actuarial model may use approximations and estimates that will have an immaterial impact on our results. In addition, the actuarial assumptions may change over time, and while this can have a significant impact on the reported results, it does not mean that the previous assumptions or results were unreasonable or wrong.
<b>Actuarial models</b>	Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary. The discount rate used for calculating Total Pension Liability is based on a model developed by our Actuarial Technology and Systems unit, comprised of both actuaries and programmers. The model allows the client team, under the supervision of the responsible actuary, control over the entry of future expected contribution income, benefit payments and administrative expenses. The projection of fiduciary net position and the discounting of benefits is part of the model.

## Section 1: Actuarial Valuation Summary

The user of Segal's actuarial valuation (or other actuarial calculations) should keep the following in mind:

- The actuarial valuation is prepared at the request of the Board. Segal is not responsible for the use or misuse of its report, particularly by any other party.
- An actuarial valuation is a measurement at a specific date — it is not a prediction of a plan's future financial condition. Accordingly, Segal did not perform an analysis of the potential range of financial measurements, except where otherwise noted.
- If MCERA is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.
- Segal does not provide investment, legal, accounting or tax advice and is not acting as a fiduciary to the Plan. This valuation is based on Segal's understanding of applicable guidance in these areas and of the Plan's provisions, but they may be subject to alternative interpretations. The Board should look to their other advisors for expertise in these areas.
- While Segal maintains extensive quality assurance procedures, an actuarial valuation involves complex computer models and numerous inputs. In the event that an inaccuracy is discovered after presentation of Segal's valuation, Segal may revise that valuation or make an appropriate adjustment in the next valuation.
- Segal's report shall be deemed to be final and accepted by MCERA upon delivery and review. MCERA should notify Segal immediately of any questions or concerns about the final content.

# Section 2: GASB 67 Information

## General information about the pension plan

### Plan administration

The Mendocino County Employees Retirement Association (MCERA) was established by the County of Mendocino on January 1, 1948. MCERA is administered by the Board of Retirement (Board) and governed by the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et. seq.). MCERA is a cost-sharing multiple employer public employee retirement system whose main function is to provide service retirement, disability, death and survivor benefits to the General and Safety (Law Enforcement or Probation) members employed by the County of Mendocino. MCERA also provides retirement benefits to the employee members of the Mendocino County Courts and the Russian River Cemetery District.

The management of MCERA is vested with the Mendocino County Board of Retirement. The Board consists of nine members and one alternate.

- The County Treasurer is a member of the Board of Retirement by law;
- Four members are appointed by the Board of Supervisors, one of whom may be a County Supervisor;
- Two members are elected by the General membership;
- One member is elected by the Safety membership; and
- One member and one alternative are elected by the retired members of the Association.

All members of the Board of Retirement serve terms of three years except for the County Treasurer whose term runs concurrent with their term as County Treasurer.

## Section 2: GASB 67 Information

### Plan membership

At June 30, 2024, pension plan membership consisted of the following:

Membership	Count
Retired members and beneficiaries	1,718
Inactive members <sup>1</sup>	908
Active members	1,107
<b>Total</b>	<b>3,733</b>

### Benefits provided

MCERA provides service retirement, disability, death and survivor benefits to eligible employees. All permanent employees of the County of Mendocino or contracting districts who work at least 32 hours per week become members of MCERA effective on the first day of the pay period following employment (although, employees who are age 60 or older at their date of hire may waive MCERA membership).

There are separate retirement plans for General, Safety, and Probation member employees. Any new employees who become members on or after January 1, 2013 are subject to the provisions of California Public Employees' Pension Reform Act of 2013 (PEPRA), California Government Code 7522 et seq. and Assembly Bill (AB) 197.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

- Final average compensation consists of the highest 12 consecutive months of pay for a General Tier 1, Safety Tier 1, or Probation Tier 1 member, and the highest 36 consecutive months<sup>2</sup> for all other members.
- For members with membership dates before January 1, 2013, the maximum monthly retirement allowance at retirement is 100% of final compensation. There is no maximum for members with membership dates on or after January 1, 2013.

The member may elect an unmodified retirement allowance or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An

<sup>1</sup> Includes inactive members due a refund of member contributions.

<sup>2</sup> California Government Code Section 7522.32(a) states that "Final pensionable compensation shall mean the highest average annual pensionable compensation earned by the member during a period of at least 36 consecutive months, or at least three consecutive school years if applicable, immediately preceding his or her retirement or last separation from service if earlier, or during any other period of at least 36 consecutive months, or at least three consecutive school years if applicable, during the member's applicable service that the member designates on the application for retirement."

## Section 2: GASB 67 Information

eligible surviving spouse or domestic partner is someone who is married to or registered with the member one year prior to the effective retirement date. There are four optional retirement allowances the member may choose: Option 1 (cash refund), Option 2 (100% continuance), Option 3 (50% continuance), or Option 4 (specific percentage continuance). Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

MCERA provides an annual cost-of-living benefit to all non-PEPRA retirees. The cost-of-living adjustment, based upon the Consumer Price Index prepared by the Bureau of Labor Statistics that applies to the West Region, is capped at 3.0%.

### General member benefits

General members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired 5 or more years of retirement service credit and 10 years of membership. A member with 30 years of service is eligible to retire regardless of age. A member who is age 70 or older is eligible to retire.

General members who are first hired on or after January 1, 2013 are eligible to retire once they have attained the age of 52 and have acquired 5 years of retirement service credit, or attained age 70.

General member benefits are calculated pursuant to the provisions of Section 31676.12<sup>1</sup>. The monthly allowance is equal to 1/50th of final compensation times years of accrued retirement service credit times the age factor from Section 31676.12. General member benefits for those who are first hired on or after January 1, 2013 are calculated pursuant to the provision of California Government Code Section 7522.20(a). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

### Safety member benefits

Safety members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired 5 or more years of retirement service credit and 10 years of membership. A member with 20 years of service is eligible to retire regardless of age. A member who is age 70 or older is eligible to retire.

Safety members who are first hired on or after January 1, 2013 are eligible to retire once they have attained the age of 50 and have acquired 5 years of retirement service credit, or attained age 70.

<sup>1</sup> For members in Bargaining Groups 01 and 101 who have service prior to October 1, 2003 and who have not purchased this service to be covered under Section 31676.12, their prior service will be covered under Section 31676.11 for Tier 1 and Tier 2 and Section 31676.1 for Tier 3. For all other Bargaining Groups, the prior service date is January 1, 2002 (instead of October 1, 2003).

## Section 2: GASB 67 Information

Safety member benefits are calculated pursuant to the provisions of Section 31664.2. The monthly allowance is equal to 3% of final compensation times years of accrued retirement service credit times the age factor from Section 31664.2. Safety member benefits for those who are first hired on or after January 1, 2013 are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.25(d).

### Probation member benefits

Probation members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired 5 or more years of retirement service credit and 10 years of membership. A member with 20 years of service is eligible to retire regardless of age. A member who is age 70 or older is eligible to retire.

Probation members who are first hired on or after January 1, 2013 are eligible to retire once they have attained the age of 50 and have acquired 5 years of retirement service credit, or attained age 70.

Probation member benefits are calculated pursuant to the provisions of Section 31664. The monthly allowance is equal to 1/50th of final compensation times years of accrued retirement service credit times the age factor from Section 31664. Probation member benefits for those who are first hired on or after January 1, 2013 are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.25(d).

### Contributions

The County of Mendocino and contracting districts contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from MCERA's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2024 for 2023-2024 (based on the June 30, 2022 valuation) was 36.81% of covered payroll.

All members are required to make contributions to MCERA regardless of the retirement plan or tier in which they are included; however, non-PEPRA members with 30 or more years of service are exempt from paying member contributions. The average member contribution rate as of June 30, 2024 for 2023-2024 (based on the June 30, 2022 valuation) was 9.66% of covered payroll.

## Section 2: GASB 67 Information

### Exhibit 1 – Net Pension Liability

Line Description	Current Year	Prior Year
Reporting and Measurement Date	June 30, 2024	June 30, 2023
<b>Components of the Net Pension Liability</b>		
Total Pension Liability	\$963,609,568	\$927,038,575
Plan Fiduciary Net Position	(715,112,157)	(663,909,608)
<b>Net Pension Liability</b>	<b>\$248,497,411</b>	<b>\$263,128,967</b>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability <sup>1</sup>	74.2%	71.6%

The NPL for the Plan in this valuation was measured as of June 30, 2024. The Plan FNP was valued as of the measurement date and the TPL was generally determined based upon the actuarial valuation as of June 30, 2024. Note, however that the calculation of the TPL measured as of June 30, 2024 is slightly different than the calculation of the AAL in the actuarial funding valuation as of June 30, 2024.<sup>2</sup>

### Plan provisions

The plan provisions used in the measurement of the NPL as of June 30, 2024 are the same as those used in MCERA's actuarial funding valuation as of June 30, 2024.

### Actuarial assumptions

The TPL as of June 30, 2024 uses the same actuarial assumptions as the actuarial funding valuation as of June 30, 2024. The actuarial assumptions used in that funding valuation were based on the results of an experience study for the period July 1, 2019 through June 30, 2022. In particular, the following actuarial assumptions were applied to all periods included in the measurement:

<sup>1</sup> These funded percentages are not necessarily appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligation or the need for or the amount of future contributions.

<sup>2</sup> Again, for the actuarial funding valuation, the normal cost and actuarial accrued liability are determined as if the current benefit accrual rate had always been in effect.

## Section 2: GASB 67 Information

Assumption Type	Assumption
Investment rate of return	6.50%, net of pension plan investment expense, including inflation
Inflation rate	2.50%
“Across-the-board” salary increase	0.50%
Projected salary increases	General: 8.00% to 4.00% Safety & Probation: 8.25% to 4.00% The above salary increases vary by service and include inflation and “across-the-board” salary increase.
Cost-of-living adjustments	Non-CalPEPRA Tiers: <sup>1</sup> 2.75% CalPEPRA Tiers: <sup>1</sup> 0.00% For non-CalPEPRA members who have COLA banks, we assume they receive up to 3.0% COLA increases until their COLA banks are exhausted and 2.75% thereafter.
Other assumptions	See analysis of actuarial experience during the period July 1, 2019 through June 30, 2022.

Detailed information regarding all actuarial assumptions can be found in the June 30, 2024 Actuarial Valuation and Review.

<sup>1</sup> Non-CALPEPRA Tiers are General Tiers 1, 2, and 3, Safety Tiers 1 and 2, and Probation Tiers 1 and 2; CALPEPRA Tiers are General Tier 4, Safety Tier 3, and Probation Tier 3.

## Section 2: GASB 67 Information

### Exhibit 2 – Discount rate

#### Determination of discount rate and investment rates of return

The long-term expected rate of return on pension plan investments<sup>1</sup> was determined using a building-block method in which expected arithmetic real rates of return (expected returns, net of inflation and, beginning with June 30, 2023, any applicable investment management expenses) are developed for each major asset class. These returns are combined to produce the long-term expected arithmetic rate of return for the portfolio by weighting the expected arithmetic real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses (beginning with June 30, 2023 including only investment consulting fees, custodian fees and other miscellaneous investment expenses) and a risk margin. Beginning with June 30, 2023 this portfolio return is also adjusted to an expected geometric real rate of return for the portfolio.

The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class (after deducting inflation and applicable investment management expenses) are shown in the following table. This information was used in the derivation of the long-term expected investment rate of return assumption for the actuarial funding valuation as of June 30, 2024. This information will be subject to change every three years based on the results of an actuarial experience study.

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return <sup>2</sup>
Large cap U.S. equity	25.9%	6.00%
Small cap U.S. equity	11.1%	6.65%
Global ex-US equity	25.0%	7.05%
U.S. fixed income	21.0%	1.97%
Real estate	11.0%	3.86%
Private Infrastructure	6.0%	4.65%
<b>Total</b>	<b>100.0%</b>	<b>5.17%</b>

<sup>1</sup> Note that the investment return assumption for funding purposes was developed net of both investment and administrative expenses; however, the same investment return assumption was used for financial reporting purposes, where it is considered gross of administrative expenses. This results in an increase in the margin for adverse deviation when using that investment return assumption for financial reporting.

<sup>2</sup> Arithmetic real rates of return are net of inflation.

## Section 2: GASB 67 Information

### Discount rate

The discount rate used to measure the TPL was 6.50% as of June 30, 2024.

The projection of cash flows used to determine the discount rate assumes plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially determined contribution rates.<sup>1</sup> Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan FNP was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2024.

### Discount rate sensitivity

The following presents the NPL of MCERA as of June 30, 2024 calculated using the current discount rate of 6.50%, as well as what MCERA's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate.

Line Description	1% Decrease in Discount Rate (5.50%)	Current Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
Net Pension Liability	\$374,309,057	\$248,497,411	\$144,974,054

<sup>1</sup> For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included.

## Section 2: GASB 67 Information

### Exhibit 3 – Schedule of changes in Net Pension Liability

Line Description	Current Year	Prior Year
Reporting and Measurement Date	June 30, 2024	June 30, 2023
<b>Total Pension Liability</b>		
Service cost	\$19,851,255	\$16,836,674
Interest	59,961,996	58,458,800
Change of benefit terms	0	0
Differences between expected and actual experience	5,552,911	6,180,810
Changes of assumptions	0	19,069,933
Benefit payments, including refunds of member contributions	(48,795,169)	(45,454,533)
<b>Net change in Total Pension Liability</b>	<b>\$36,570,993</b>	<b>\$55,091,684</b>
Total Pension Liability — beginning	\$927,038,575	\$871,946,891
<b>Total Pension Liability — ending</b>	<b>\$963,609,568</b>	<b>\$927,038,575</b>
<b>Plan Fiduciary Net Position</b>		
Contributions — employer	\$32,095,794	\$30,309,355
Contributions — member	8,423,567	8,492,670
Net investment income	61,117,194	50,177,503
Benefit payments, including refunds of member contributions	(48,795,169)	(45,454,533)
Administrative expense	(1,638,837)	(1,549,772)
<b>Net change in Plan Fiduciary Net Position</b>	<b>\$51,202,549</b>	<b>\$41,975,223</b>
Plan Fiduciary Net Position — beginning	\$663,909,608	\$621,934,385
<b>Plan Fiduciary Net Position — ending</b>	<b>\$715,112,157</b>	<b>\$663,909,608</b>
<b>Net Pension Liability — ending</b>	<b>\$248,497,411</b>	<b>\$263,128,967</b>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	74.2%	71.6%
Covered payroll <sup>1</sup>	\$87,186,296	\$85,729,491
Net Pension Liability as percentage of covered payroll	285.0%	306.9%

<sup>1</sup> Covered payroll represents payroll on which contributions to the pension plan are based.

## Section 2: GASB 67 Information

### Exhibit 4 – Schedule of employer contributions

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency / (Excess)	Covered Payroll <sup>1</sup>	Contributions as a Percentage of Covered Payroll
2015	\$15,164,044	\$15,164,044	\$0	\$54,891,785	27.63%
2016	19,129,191	19,129,191	0	57,407,928	33.32%
2017	19,116,426	19,116,426	0	59,801,480	31.97%
2018	20,430,644	20,430,644	0	64,340,578	31.75%
2019	23,702,064 <sup>2</sup>	23,702,064 <sup>2</sup>	0	68,254,197	34.73%
2020	24,647,132	24,647,132	0	72,040,768	34.21%
2021	26,333,815	26,333,815	0	77,319,043	34.06%
2022	30,485,006	30,485,006	0	81,780,476	37.28%
2023	30,309,355	30,309,355	0	85,729,491	35.35%
2024	32,095,794	32,095,794	0	87,186,296	36.81%

See accompanying notes to this schedule on next page.

<sup>1</sup> Covered payroll represents payroll on which contributions to the pension plan are based.

<sup>2</sup> As referenced on page 6 of the June 30, 2019 funding valuation report, this amount includes additional UAAL contributions made by the Mendocino County Superior Court and the Russian River Cemetery District during FY 2018/2019 based on the minimum dollar UAAL amortization amount for FY 2017/2018. We understand that the Mendocino County Superior Court and the Russian River Cemetery District had paid \$31,588 and \$5,949 less than the minimum UAAL contributions in FY 2017/2018, respectively.

## Section 2: GASB 67 Information

### **Methods and assumptions used to establish the actuarially determined contribution for the year ended June 30, 2024**

#### **Valuation date**

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (the June 30, 2022 valuation sets the rates for the 2023-2024 fiscal year).

#### **Actuarial cost method**

Entry age cost method (individual basis)

#### **Amortization method**

Level percent of payroll

#### **Remaining amortization period**

Prior to July 1, 2012, the total UAAL was being amortized on a 30-year decreasing period, with 27 years remaining as of June 30, 2012. On December 15, 2021, the Board reduced the amortization period for the 2012 UAAL restart layer by 3 years, from 18 years remaining as of June 30, 2021 to 15 years (14 years remaining as of June 30, 2022).

On or after July 1, 2012, any new UAAL resulting from plan amendments are amortized over separate decreasing 15-year periods; early retirement incentive programs (ERIPs) are amortized over separate decreasing 5-year periods; assumption and method changes are amortized over separate decreasing 18-year periods; and experience gains/losses are also amortized over separate decreasing 18-year periods.

#### **Asset valuation method**

The actuarial value of assets is equal to the market value (or fair value) of assets less unrecognized returns from each of the last five years. The unrecognized return each year is equal to the difference between the actual and expected returns on the market value of assets, and is recognized over a five-year period. The actuarial value of assets is further adjusted, if necessary, to be within 25% of the market value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.

## Section 2: GASB 67 Information

### Actuarial assumptions

The actuarially determined contribution for the year ended June 30, 2024 is based on the results of the MCERA June 30, 2022 Actuarial Valuation and Review. The actuarial assumptions used in that valuation are as follows:

Assumption Type	Assumptions Used in the June 30, 2022 Valuation
Investment rate of return	6.75%
Inflation rate	2.75%
“Across-the-board” salary increase	0.50%
Projected salary increases	General, Safety and Probation: 8.25% to 4.25% The above salary increases vary by service and include inflation and “across-the-board” salary increase.
Cost-of-living adjustments	Non-CalPEPRA Tiers: <sup>1</sup> 2.75% CalPEPRA Tiers: <sup>1</sup> 0.00% For non-CalPEPRA members who have COLA banks, we assume they receive up to 3.0% COLA increases until their COLA banks are exhausted and 2.75% thereafter.
Other assumptions	Same as those used in the funding actuarial valuation as of June 30, 2022.

<sup>1</sup> Non-CALPEPRA Tiers are General Tiers 1, 2, and 3, Safety Tiers 1 and 2, and Probation Tiers 1 and 2; CALPEPRA Tiers are General Tier 4, Safety Tier 3, and Probation Tier 3.

# Appendix A: Projection of Plan Fiduciary Net Position

Projection of Plan Fiduciary Net Position for use in the Calculation of Discount Rate  
as of June 30, 2024 (\$ in millions)

Year Beginning July 1	Beginning Plan Fiduciary Net Position (a)	Total Contributions (b)	Benefit Payments (c)	Administrative Expenses (d)	Investment Earnings (e)	Ending Plan Fiduciary Net Position (a) + (b) – (c) – (d) + (e)
2023	\$664	\$41	\$49	\$2	\$61	\$715
2024	715	43	55	2	46	747
2025	747	42	55	2	48	780
2026	780	43	58	2	50	814
2027	814	42	60	2	52	846
2028	846	42	62	2	54	878
2029	878	42	65	2	56	909
2030	909	42	67	2	58	941
2031	941	42	69	2	60	971
2032	971	37	72	2	62	996
2048	933	7	84	2	58	911
2049	911	7	83	2	56	889
2050	889	6	82	2	55	866
2051	866	6	82	2	53	841
2097	8	0 <sup>1</sup>	2	0 <sup>1</sup>	0 <sup>1</sup>	7
2098	7	0 <sup>1</sup>	2	0 <sup>1</sup>	0 <sup>1</sup>	6
2099	6	0 <sup>1</sup>	1	0 <sup>1</sup>	0 <sup>1</sup>	5
2100	5	0 <sup>1</sup>	1	0 <sup>1</sup>	0 <sup>1</sup>	4
2127	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>
2128	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>	0 <sup>1</sup>

**Note:** In preparing the above projections, we have not taken into consideration the one-year delay between the date of the contribution rate calculation and the implementation.

<sup>1</sup> Less than \$1 million, when rounded.

# Appendix A: Projection of Plan Fiduciary Net Position

## Notes

1. Amounts may not total exactly due to rounding.
2. Amounts shown in the year beginning July 1, 2023 row are actual amounts, based on the unaudited financial statements provided by MCERA.
3. Various years have been omitted from this table.
4. **Column (a):** None of the Plan FNP amounts shown have been adjusted for the time value of money.
5. **Column (b):** Projected total contributions include member and employer normal cost contributions based on closed group projections (based on covered active members as of June 30, 2024); plus employer contributions to the UAAL, plus contributions to fund each year's annual administrative expenses reflecting an 18-year amortization schedule, based on the Plan's funding policy. Contributions are assumed to occur halfway through the year, on average.
6. **Column (c):** Projected benefit payments have been determined in accordance with paragraph 39 of GASB Statement No. 67, and are based on the closed group of active, inactive and retired members and beneficiaries as of June 30, 2024. The projected benefit payments reflect the cost-of-living increase assumptions used in the June 30, 2024 report. Benefit payments are assumed to occur halfway through the year, on average.
7. **Column (d):** Projected administrative expenses are calculated as approximately 0.25% of the beginning Plan FNP. The 0.25% was based on the actual fiscal year 2023-2024 administrative expenses as a percentage of the beginning Plan FNP as of July 1, 2023. Administrative expenses are assumed to occur halfway through the year, on average.
8. **Column (e):** Projected investment earnings are based on the assumed investment rate of return of 6.50% per annum and reflect the assumed timing of cashflows, as noted above.
9. As illustrated in this appendix, the Plan FNP was projected to be available to make all projected future benefit payments for current Plan members. In other words, there is no projected "cross-over date" when projected benefits are **not** covered by projected assets. Therefore, the long-term expected rate of return on Plan investments of 6.50% per annum was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2024 shown earlier in this report, pursuant to paragraph 44 of GASB Statement No. 67.

# Appendix B: Definition of Terms

Definitions of certain terms as they are used in GASB Statement No. 67. The terms may have different meanings in other contexts.

Term	Definition
<b>Active employees</b>	Individuals employed at the end of the reporting or measurement period, as applicable.
<b>Actual contributions</b>	Cash contributions recognized as additions to the Plan Fiduciary Net Position.
<b>Actuarial present value of projected benefit payments</b>	Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.
<b>Actuarial valuation</b>	The determination, as of a point in time (the actuarial valuation date), of the service cost, Total Pension Liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.
<b>Actuarial valuation date</b>	The date as of which an actuarial valuation is performed.
<b>Actuarially determined contribution</b>	A target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.
<b>Ad hoc cost-of-living adjustments (Ad Hoc COLAs)</b>	Cost-of-living adjustments that require a decision to grant by the authority responsible for making such decisions.
<b>Ad hoc postemployment benefit changes</b>	Postemployment benefit changes that require a decision to grant by the authority responsible for making such decisions.
<b>Agent employer</b>	An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.
<b>Agent multiple-employer defined benefit pension plan (agent pension plan)</b>	A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
<b>Automatic cost-of-living adjustments (Automatic COLAs)</b>	Cost-of-living adjustments that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).
<b>Automatic postemployment benefit changes</b>	Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

## Appendix B: Definition of Terms

Term	Definition
<b>Closed period</b>	A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.
<b>Contributions</b>	Additions to the Plan Fiduciary Net Position for amounts from employers, non-employer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.
<b>Cost-of-living adjustments</b>	Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.
<b>Cost-sharing employer</b>	An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.
<b>Cost-sharing multiple employer defined benefit pension plan (Cost-sharing pension plan)</b>	A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.
<b>Covered payroll</b>	Payroll on which contributions to a pension plan are based.
<b>Deferred retirement option program (DROP)</b>	A program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service to the employer and is paid for that service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee account within the defined benefit pension plan until the end of the DROP period.
<b>Defined benefit pension plans</b>	Pension plans that are used to provide defined benefit pensions.
<b>Defined benefit pensions</b>	Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of GASB Statement No. 67.)
<b>Defined contribution pension plans</b>	Pension plans that are used to provide defined contribution pensions.

## Appendix B: Definition of Terms

Term	Definition
<b>Defined contribution pensions</b>	Pensions having terms that: <ol style="list-style-type: none"> <li>1. Provide an individual account for each employee;</li> <li>2. Define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and</li> <li>3. Provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.</li> </ol>
<b>Discount rate</b>	The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following: <ol style="list-style-type: none"> <li>1. The actuarial present value of benefit payments projected to be made in future periods in which:               <ol style="list-style-type: none"> <li>a. The amount of the Plan Fiduciary Net Position is projected (under the requirements of GASB Statement No. 67) to be greater than the benefit payments that are projected to be made in that period, and</li> <li>b. Pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on pension plan investments.</li> </ol> </li> <li>2. The actuarial present value of projected benefit payments not included in 1., calculated using the municipal bond rate.</li> </ol>
<b>Entry age actuarial cost method</b>	A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.
<b>Inactive employees</b>	Terminated individuals that have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries currently receiving benefits.
<b>Measurement period</b>	The period between the prior and the current measurement dates.
<b>Multiple-employer defined benefit pension plan</b>	A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.
<b>Net Pension Liability (NPL)</b>	The liability of employers and non-employer contributing entities to employees for benefits provided through a defined benefit pension plan.
<b>Non-employer contributing entities</b>	Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities.

## Appendix B: Definition of Terms

Term	Definition
<b>Other postemployment benefits</b>	All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits.
<b>Pension plans</b>	Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed and benefits are paid as they come due.
<b>Pensions</b>	Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.
<b>Plan members</b>	Individuals that are covered under the terms of a pension plan. Plan members generally include: <ol style="list-style-type: none"> <li>1. Employees in active service (active plan members), and</li> <li>2. Terminated employees who have accumulated benefits but are not yet receiving them and retirees or their beneficiaries currently receiving benefits (inactive plan members).</li> </ol>
<b>Postemployment</b>	The period after employment.
<b>Postemployment benefit changes</b>	Adjustments to the pension of an inactive employee.
<b>Postemployment healthcare benefits</b>	Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.
<b>Projected benefit payments</b>	All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and their expected future service.
<b>Public employee retirement system</b>	A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.
<b>Real rate of return</b>	The rate of return on an investment after adjustment to eliminate inflation.
<b>Service costs</b>	The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.
<b>Single employer</b>	An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.
<b>Single-employer defined benefit pension plan (Single-employer pension plan)</b>	A defined benefit pension plan that is used to provide pensions to employees of only one employer.

## Appendix B: Definition of Terms

Term	Definition
<b>Special funding situations</b>	<p>Circumstances in which a non-employer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists:</p> <ol style="list-style-type: none"> <li>1. The amount of contributions for which the non-employer entity legally is responsible is not dependent upon one or more events or circumstances unrelated to the pensions.</li> <li>2. The non-employer entity is the only entity with a legal obligation to make contributions directly to a pension plan.</li> </ol>
<b>Termination benefits</b>	<p>Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.</p>
<b>Total Pension Liability (TPL)</b>	<p>The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statement No. 67.</p>

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