



Mendocino County Employees Retirement Association

# Plan Maturity and Sustainability— Board of Retirement Educational Offsite

As of June 30, 2025

February 18, 2026 / Andy Yeung / Daniel Siblik

# Agenda

**Comparison to Peer Retirement Systems**

**Key Metrics for Plan Maturity**

**Projections of Key Metrics for MCERA**

**Considerations of Future Funding and Related Risks for MCERA**

# Comparison to Peer Retirement Systems

# Peer Retirement Systems

*Information as of most recent valuation date*

- MCERA is becoming more mature when compared to its peer 1937 Act retirement systems that are closest to the County in location or size.

Retirement System	Active Members	Members in Pay Status (Retirees and Beneficiaries)	Payroll	Actuarial Accrued Liability (AAL)	Market Value of Assets (MVA)
<b>MCERA</b>	1,094	1,734	\$93 million	\$997 million	\$793 million
<b>System 1 – Sonoma County (SCERA)</b>	4,482	5,911	\$511 million	\$3,926 million	\$3,758 million
<b>System 2 – Imperial County (ICERS)</b>	2,358	1,494	\$159 million	\$1,379 million	\$1,309 million

# Key Metrics for Plan Maturity

# Key Metrics for Plan Maturity

## **Ratio of members in pay status to actives**

- Members in pay status include retirees and beneficiaries

## **Asset Volatility Ratio (AVR)**

- Assets divided by payroll

## **Liability Volatility Ratio (LVR)**

- Liabilities divided by payroll

## **Cash flow**

- Contributions vs benefit payments

# Key Metrics for Plan Maturity

## **Ratio of members in pay status to actives**

- Members in pay status have and are generally anticipated to increase in the near future as baby boomers retire
- Ratio may rise further if plan experiences a reduction in actives

# Ratio of Members in Pay Status to Actives

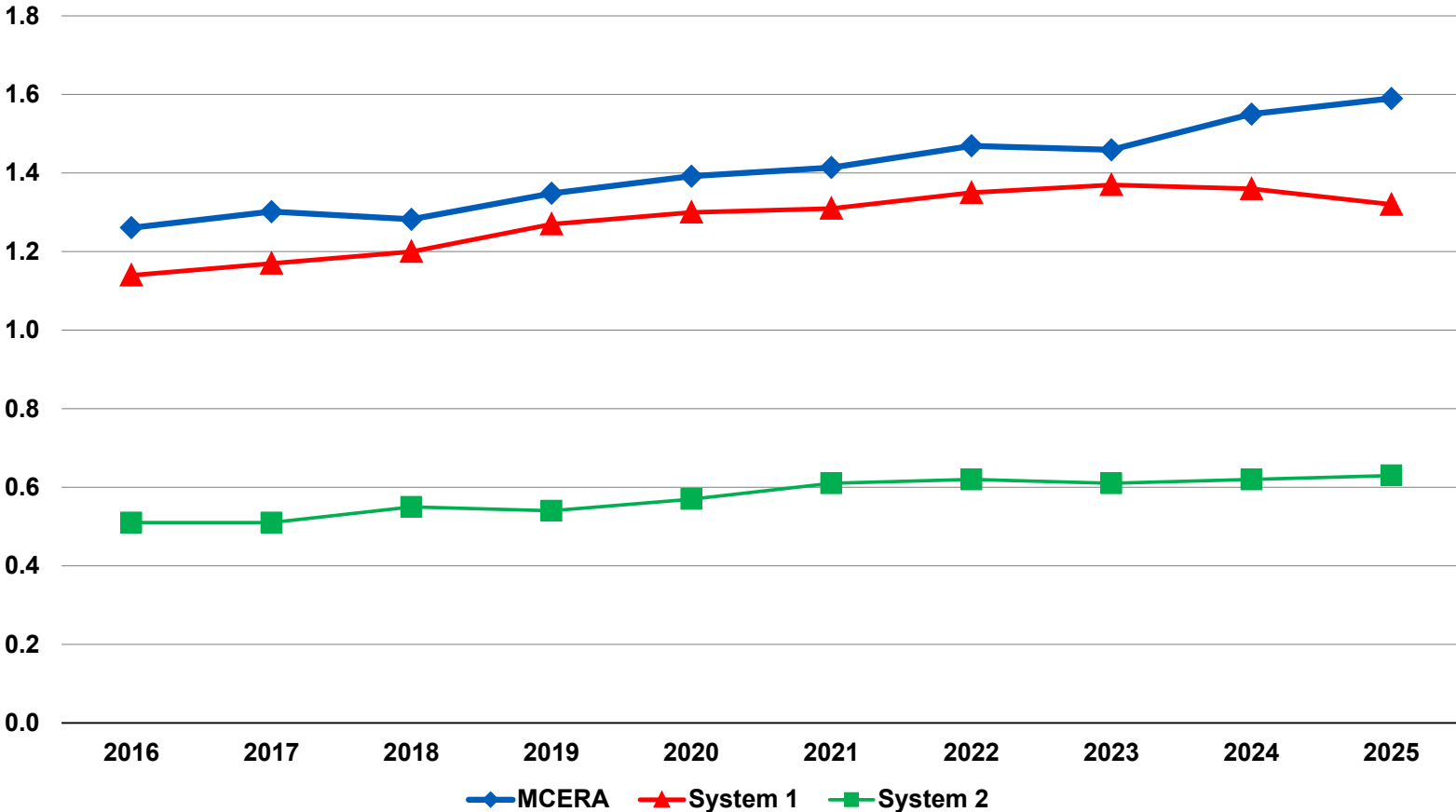
*Trend over last 10 years*

## MCERA

<b>As of June 30</b>	<b>Active Members</b>	<b>Members in Pay Status</b>	<b>Ratio of Pay Status to Actives</b>
2016	1,123	1,416	1.26
2017	1,123	1,462	1.30
2018	1,162	1,490	1.28
2019	1,151	1,552	1.35
2020	1,140	1,587	1.39
2021	1,142	1,615	1.41
2022	1,123	1,650	1.47
2023	1,150	1,678	1.46
2024	1,107	1,718	1.55
2025	1,094	1,734	1.59
% change over last 10 years	(3%)	22%	

# Ratio of Members in Pay Status to Actives

*Trend over last 10 years*



- All three systems have experienced increase in number of members in pay status
- Increase at MCERA exacerbated by a reduction in number of actives while Systems 1 and 2 have both seen 11% increase in actives over the last 10 years

# Key Metrics for Plan Maturity

## **Asset Volatility Ratio (AVR): assets divided by payroll**

- Ratio expected to increase as unfunded liabilities are paid off and more assets are available to pay benefit already promised
- Ratio may rise further if plan experiences a reduction in actives
- MCERA June 30, 2025 AVR = 8.5  
= \$793 M market value of assets / \$93 M payroll

# Asset Volatility Ratio (AVR)

*Trend over last 10 years*

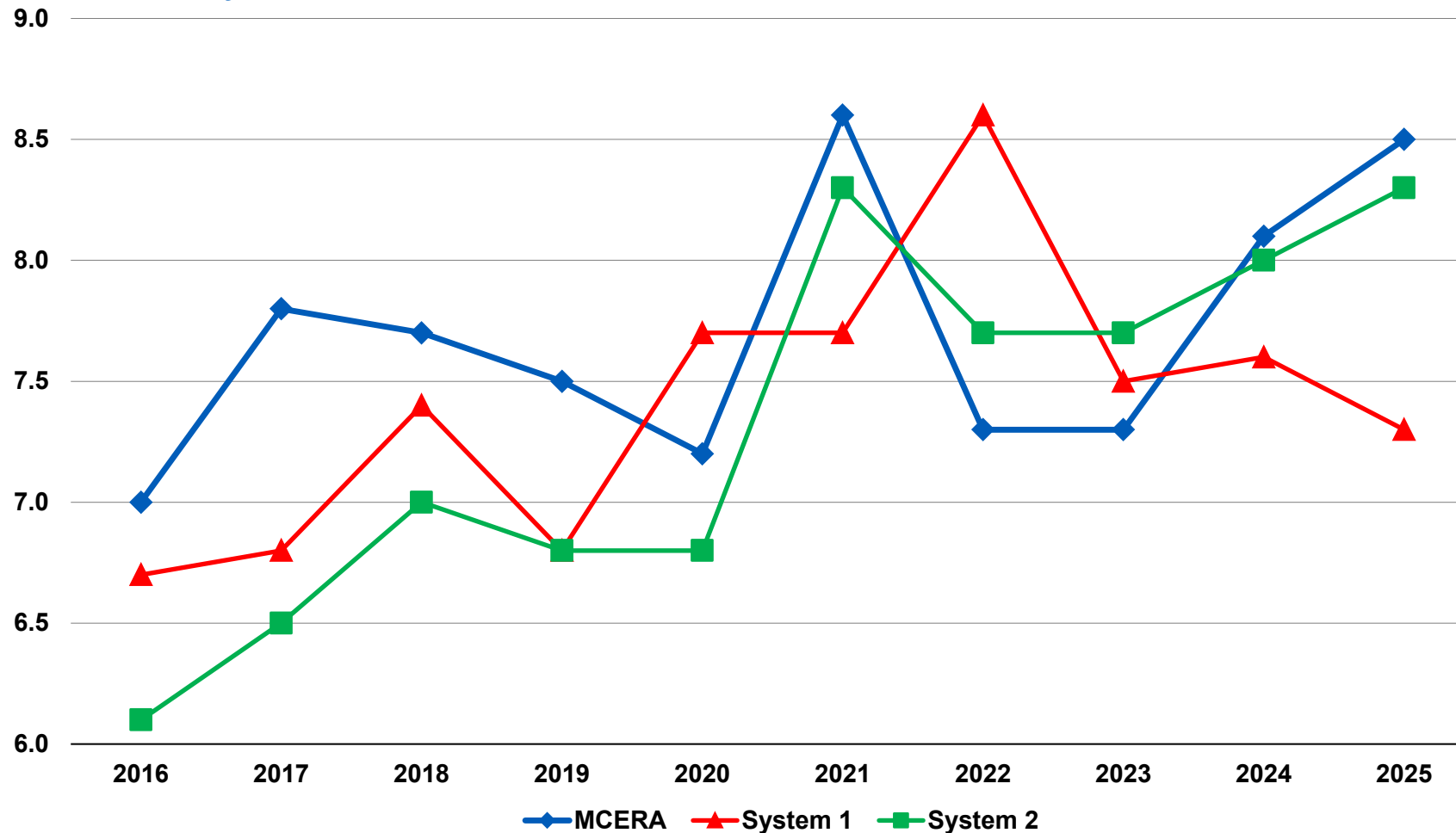
## MCERA

<b>As of June 30</b>	<b>AVR</b>	<b>Market Value of Assets (\$ millions)</b>	<b>Payroll (\$ millions)</b>
2016	7.0	426	61
2017	7.8	484	62
2018	7.7	520	68
2019	7.5	533	71
2020	7.2	539	75
2021	8.6	696	81
2022	7.3	622	85
2023	7.3	664	91
2024	8.1	715	89
2025	8.5	793	93

- AVR has increased by 1.5 (over 20%) over the last 10 years.
- AVR was higher in 2021

# Asset Volatility Ratio (AVR)

*Trend over last 10 years*



- All three systems have experienced comparable change in their AVR
- Size of assets under management at each system is comparable to the size of payroll
- Ratio for System 1 has dropped in the last 3 years due to 25% increase in payroll

# Key Metrics for Plan Maturity

## **Liability Volatility Ratio (LVR): liabilities divided by payroll**

- Ratio reflects underlying benefits earned but not yet paid out
- Ratio expected to stabilize or even trend down gradually as more members are covered under PEPRA\* tiers with lower benefits
- Ratio may rise further if a plan experiences a reduction in actives and associated payroll
- MCERA June 30, 2025 LVR = 10.7  
= \$997 M actuarial accrued liability / \$93 M payroll

\* PEPRA stands for Public Employees' Pension Reform Act of 2013

# Liability Volatility Ratio (LVR)

*Trend over last 10 years*

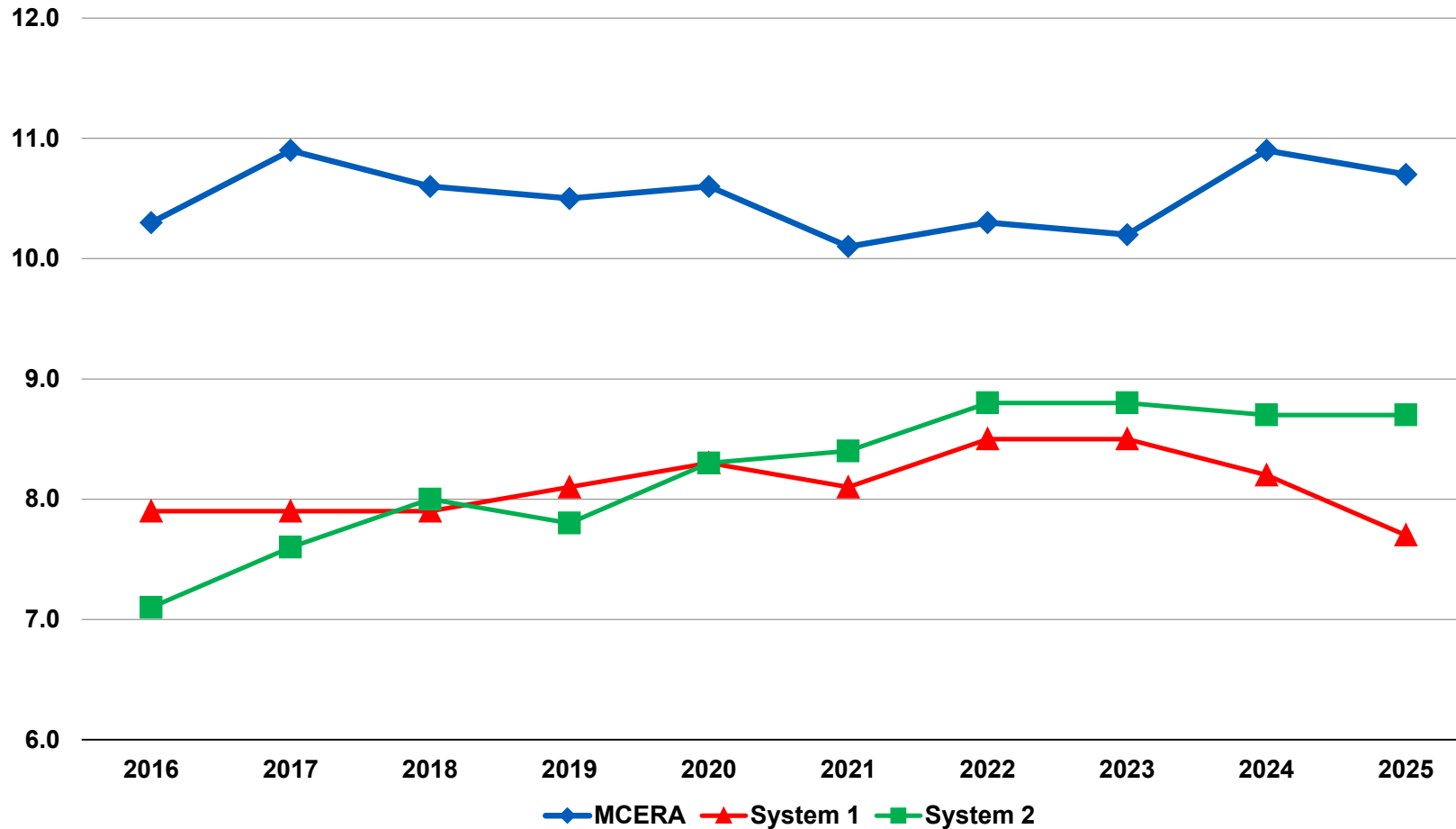
## MCERA

As of June 30	LVR	Actuarial Accrued Liability (\$ millions)	Payroll (\$ millions)
2016	10.3	632	61
2017	10.9	680	62
2018	10.6	717	68
2019	10.5	747	71
2020	10.6	795	75
2021	10.1	820	81
2022	10.3	872	85
2023	10.2	927	91
2024	10.9	963	89
2025	10.7	997	93

- LVR is much less volatile than the AVR

# Liability Volatility Ratio (LVR)

*Trend over last 10 years*



- MCERA has the highest LVR
- With about 75% actives currently in PEPRA, MCERA could see a gradual reduction in LVR
- Ratio for System 1 has dropped in the last 3 years due to 25% increase in payroll

# Key Metrics for Plan Maturity

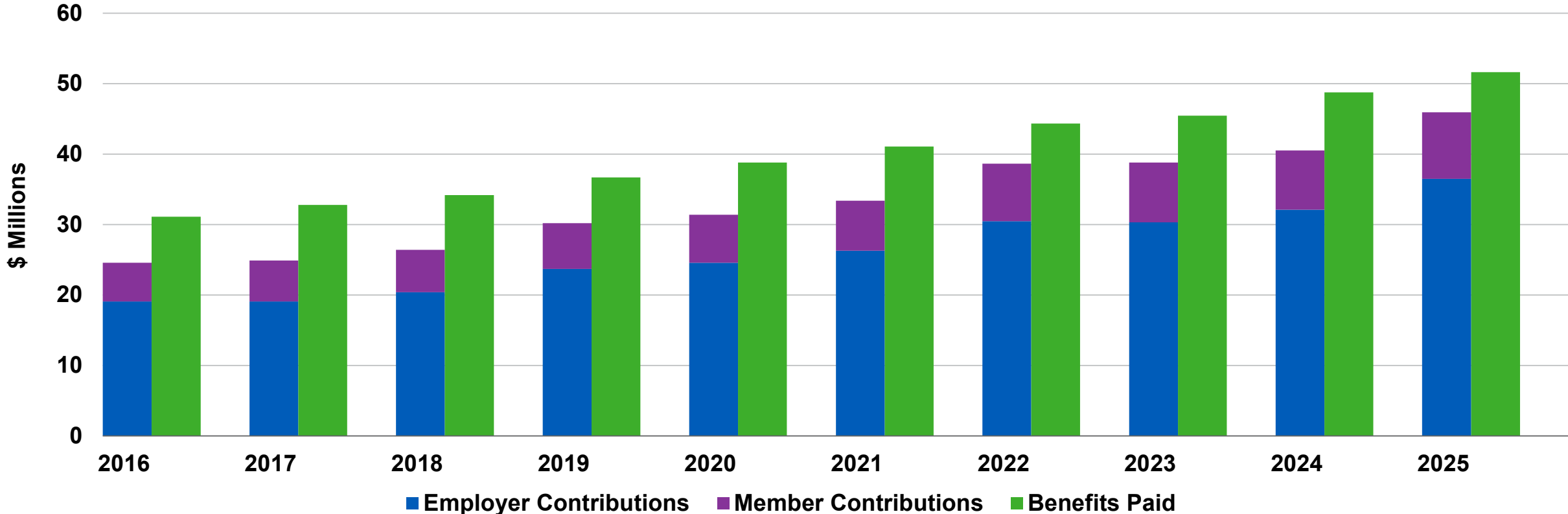
## Cash flow: contributions vs benefit payments

- As a plan matures, the cash needed to fulfill benefit obligations will increase over time
- More cash may be needed in some plans due to potential reductions in employer and employee contributions compared to payments for members in pay status
  - Interest, dividends and rental income from portfolio would mitigate some of the cash need. At MCERA, the above averaged about 1.7% of assets over the past 10 years

# Cash Flow – contributions vs benefit payments

*Trend over last 10 years*

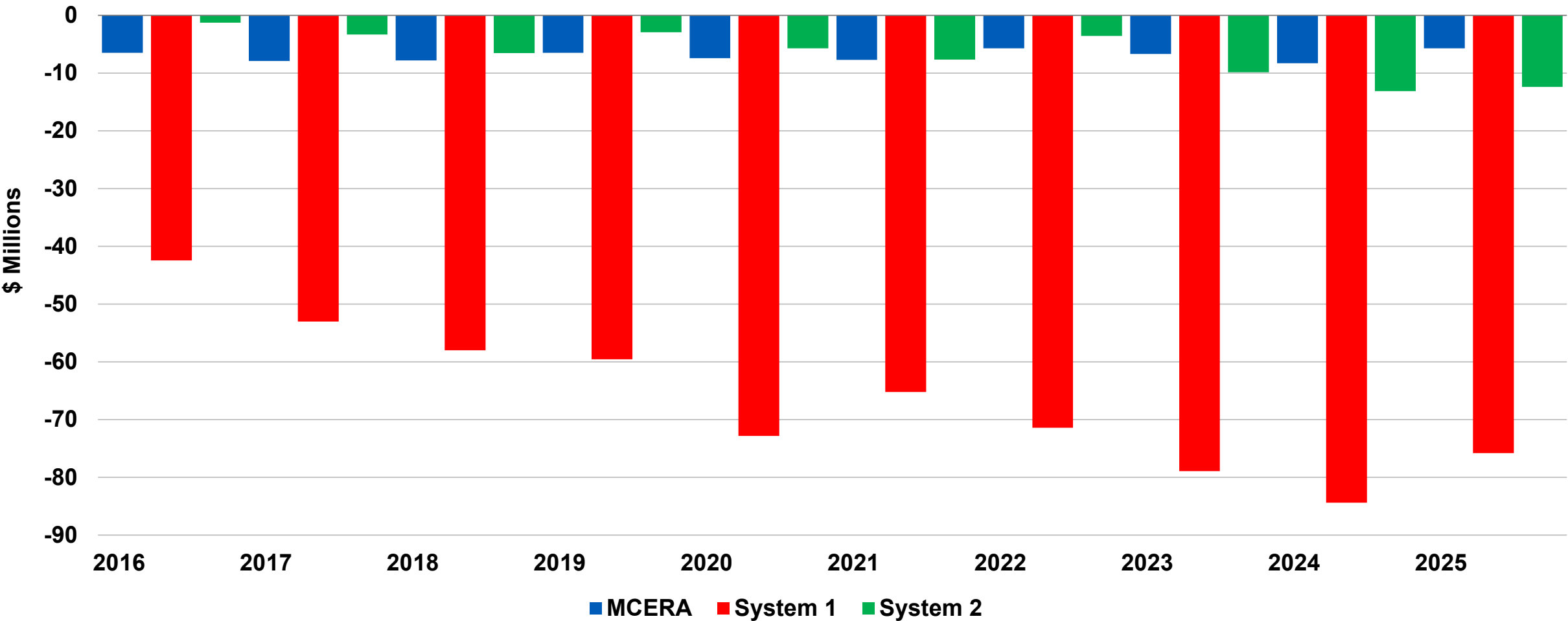
## MCERA



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Difference Between Cash Inflows and Cash Outflows (\$ millions)	\$ (6.5)	\$ (7.9)	\$ (7.8)	\$ (6.5)	\$ (7.4)	\$ (7.7)	\$ (5.7)	\$ (6.7)	\$ (8.3)	\$ (5.7)

# Net Cash Flow – contributions vs benefit payments

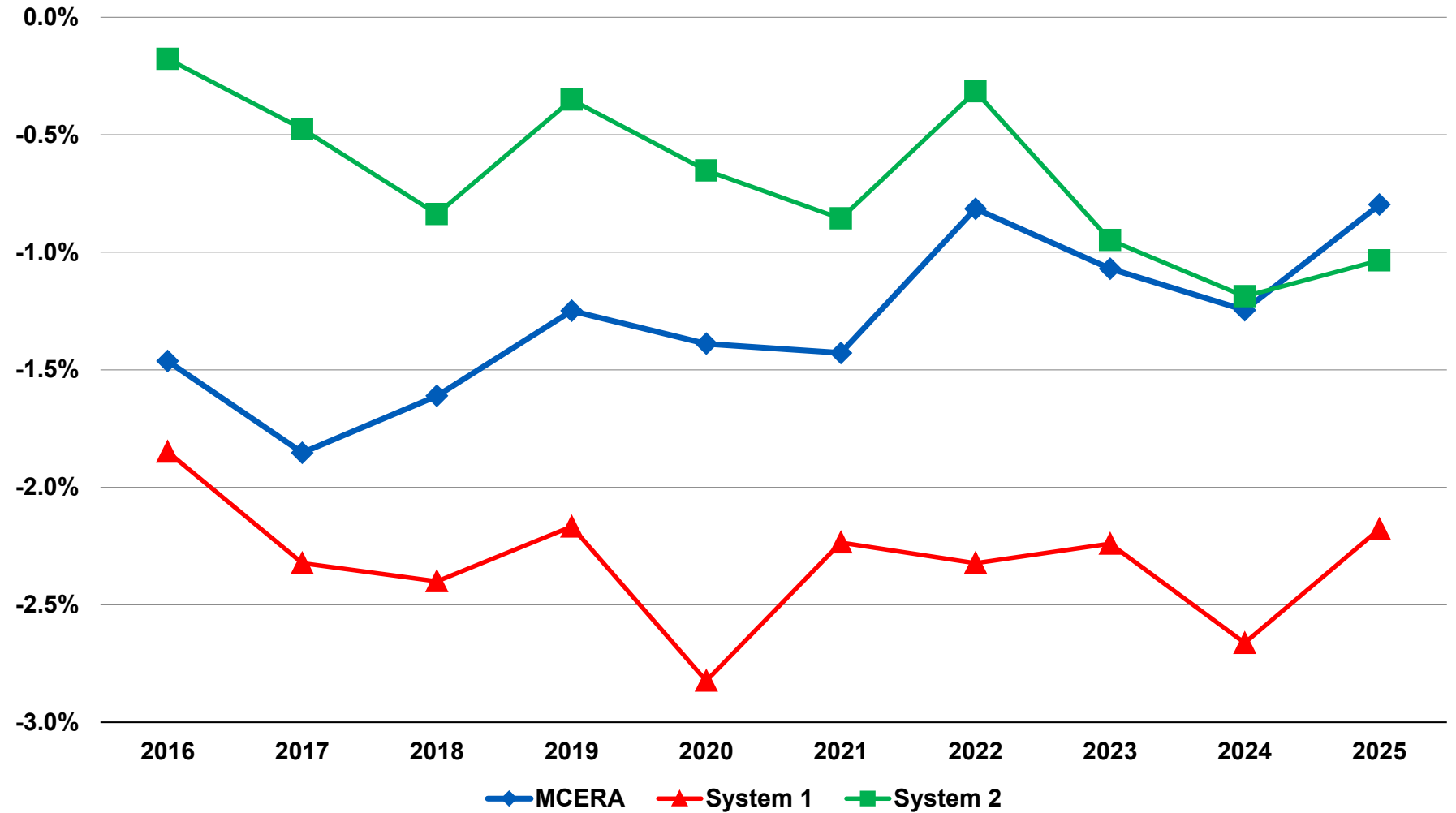
*Trend over last 10 years*



- All three systems have negative cash flow comparable to the size of assets

# Net Cash Flow – contributions vs benefit payments as percentage of MVA\*

*Trend over last 10 years*



- All three systems have negative cash flow comparable to the size of assets

\* MVA stands for market value of assets

# Projections of Key Metrics for MCERA

# Ratio of Pay Status to Actives

*20-year projection*

<b>As of June 30</b>	<b>Active Members</b>	<b>Pay Status</b>	<b>Ratio of Pay Status to Actives</b>	<b>As of June 30</b>	<b>Active Members</b>	<b>Pay Status</b>	<b>Ratio of Pay Status to Actives</b>
2025	1,094	1,734	1.59	2035	1,094	2,051	1.87
2026	1,094	1,828	1.67	2036	1,094	2,054	1.88
2027	1,094	1,869	1.71	2037	1,094	2,058	1.88
2028	1,094	1,903	1.74	2038	1,094	2,054	1.88
2029	1,094	1,932	1.77	2039	1,094	2,052	1.88
2030	1,094	1,963	1.79	2040	1,094	2,044	1.87
2031	1,094	1,986	1.82	2041	1,094	2,036	1.86
2032	1,094	2,012	1.84	2042	1,094	2,028	1.85
2033	1,094	2,033	1.86	2043	1,094	2,019	1.85
2034	1,094	2,042	1.87	2044	1,094	2,007	1.83

- Ratio projected to level off at less than 1.9, assuming no reduction in number of active members.

# AVR and LVR

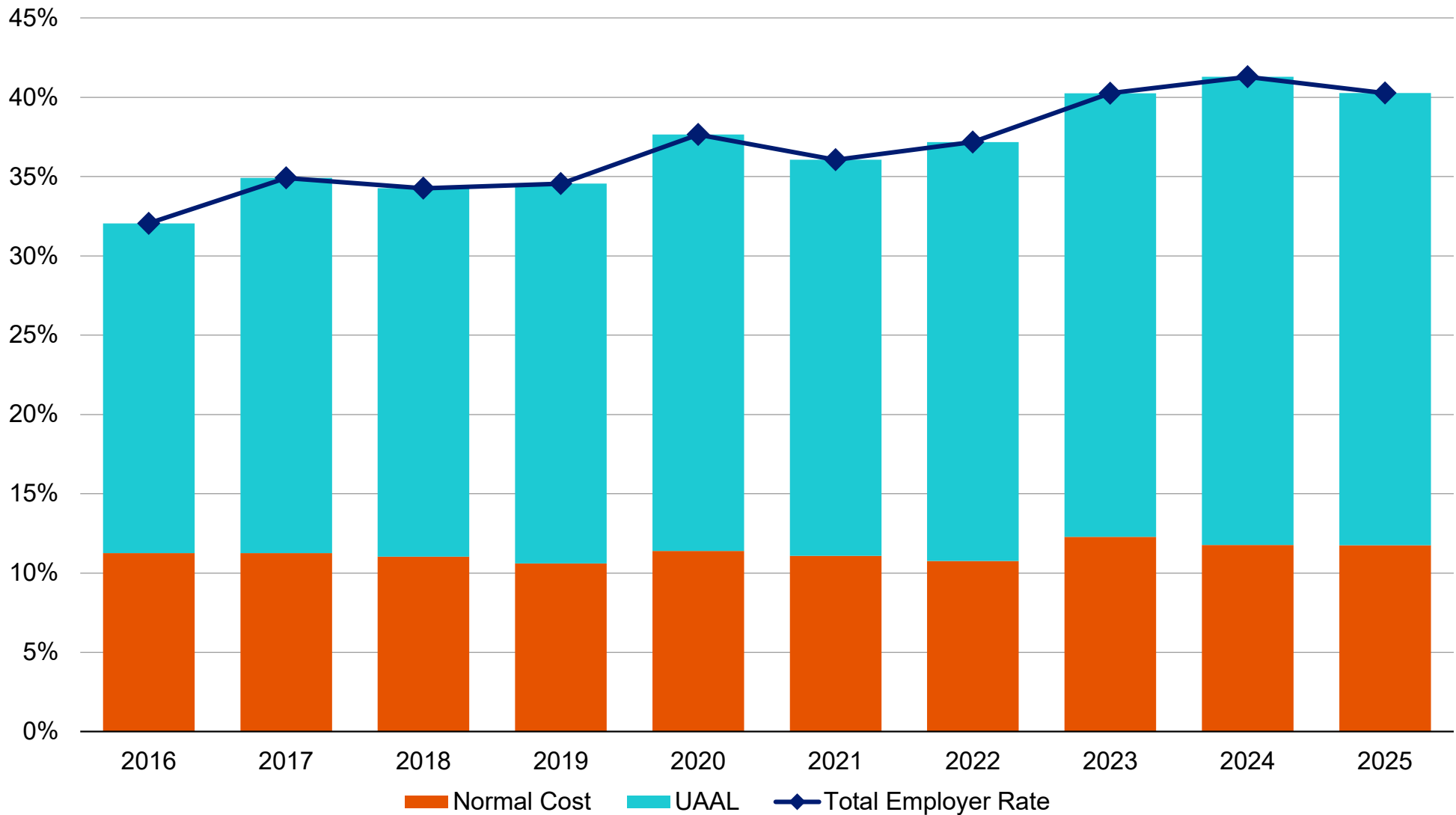
## *20-year projection*

<b>As of June 30</b>	<b>AVR</b>	<b>LVR</b>	<b>As of June 30</b>	<b>AVR</b>	<b>LVR</b>
2025	8.5	10.7	2035	10.1	10.1
2026	8.7	10.7	2036	10.2	10.0
2027	8.9	10.6	2037	10.3	9.9
2028	9.1	10.6	2038	10.2	9.9
2029	9.3	10.5	2039	10.2	9.8
2030	9.4	10.5	2040	10.2	9.8
2031	9.6	10.4	2041	10.1	9.7
2032	9.7	10.3	2042	10.1	9.7
2033	9.9	10.3	2043	10.1	9.7
2034	10.0	10.2	2044	10.1	9.7

- MCERA projected to reach full funding at around 2036, after 2012 UAAL restart layer is paid off and taking into account June 30, 2025 deferred investment gains
- Scheduled one-year delay in implementing employer contribution rate results in accumulating more assets after full funding which explains why AVR > LVR in later years

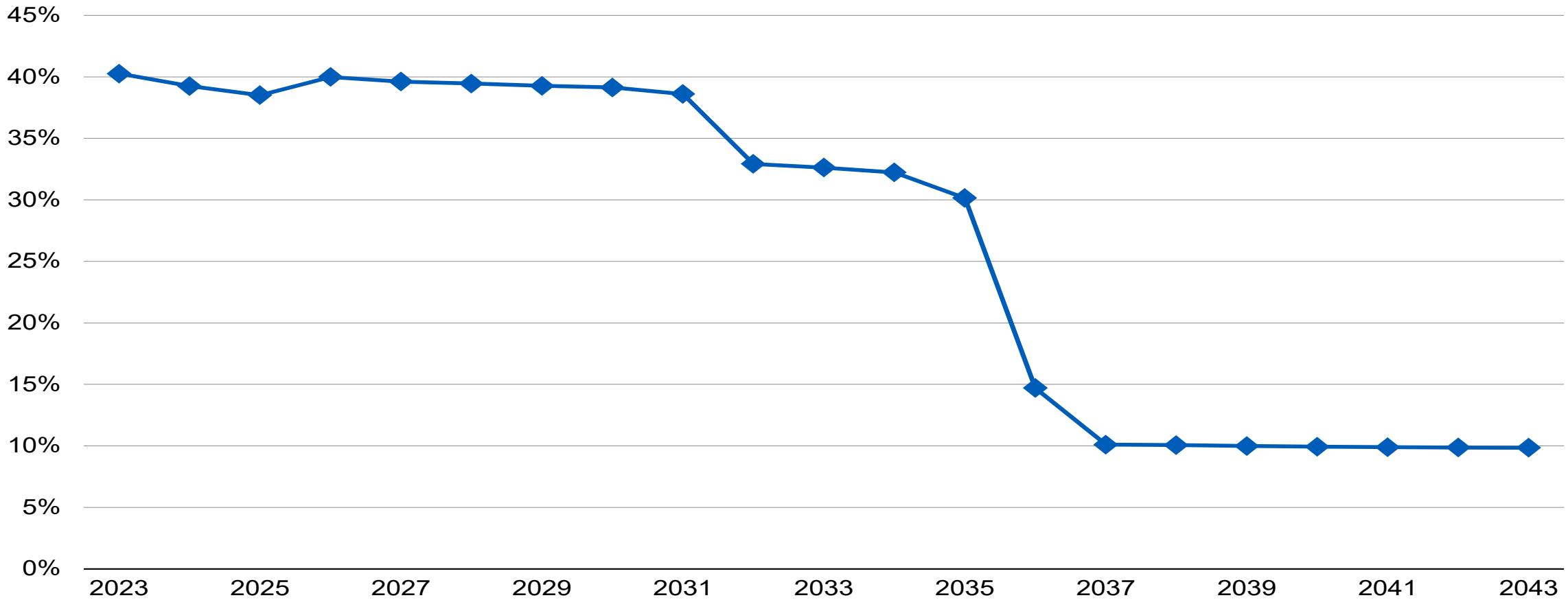
# Historical Employer Contribution Rate

*Percent of payroll calculated as of June 30*



# Employer Contribution Rate

*20-year deterministic projection from 2023 risk report*

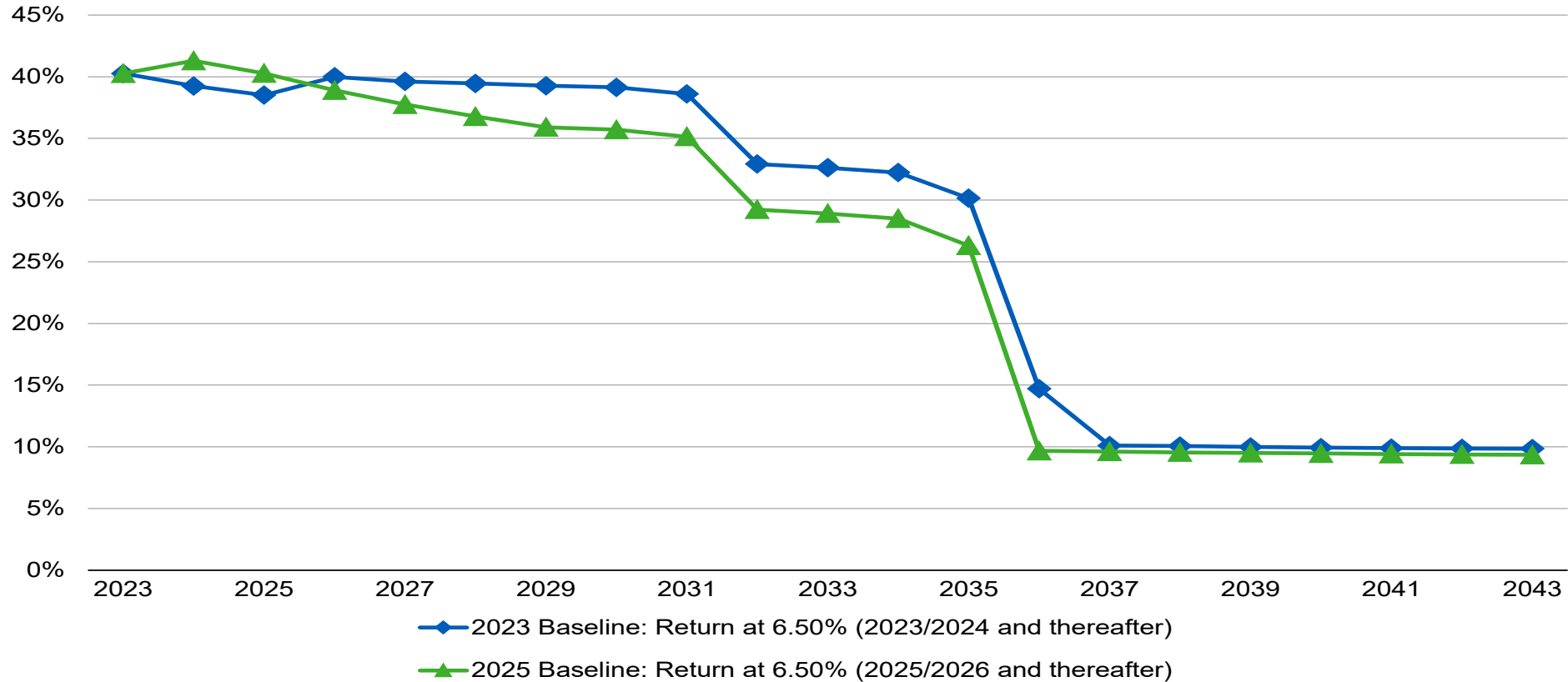


◆ 2023 Baseline: Return at 6.50% (2023/2024 and thereafter)

2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
40.26%	39.25%	38.51%	39.99%	39.61%	39.45%	39.27%	39.13%	38.60%	32.92%	32.62%	32.23%	30.15%	14.70%	10.10%	10.06%	9.99%	9.93%	9.89%	9.87%	9.85%

# Employer Contribution Rate

*20-year deterministic projection based on 2025 valuation report*

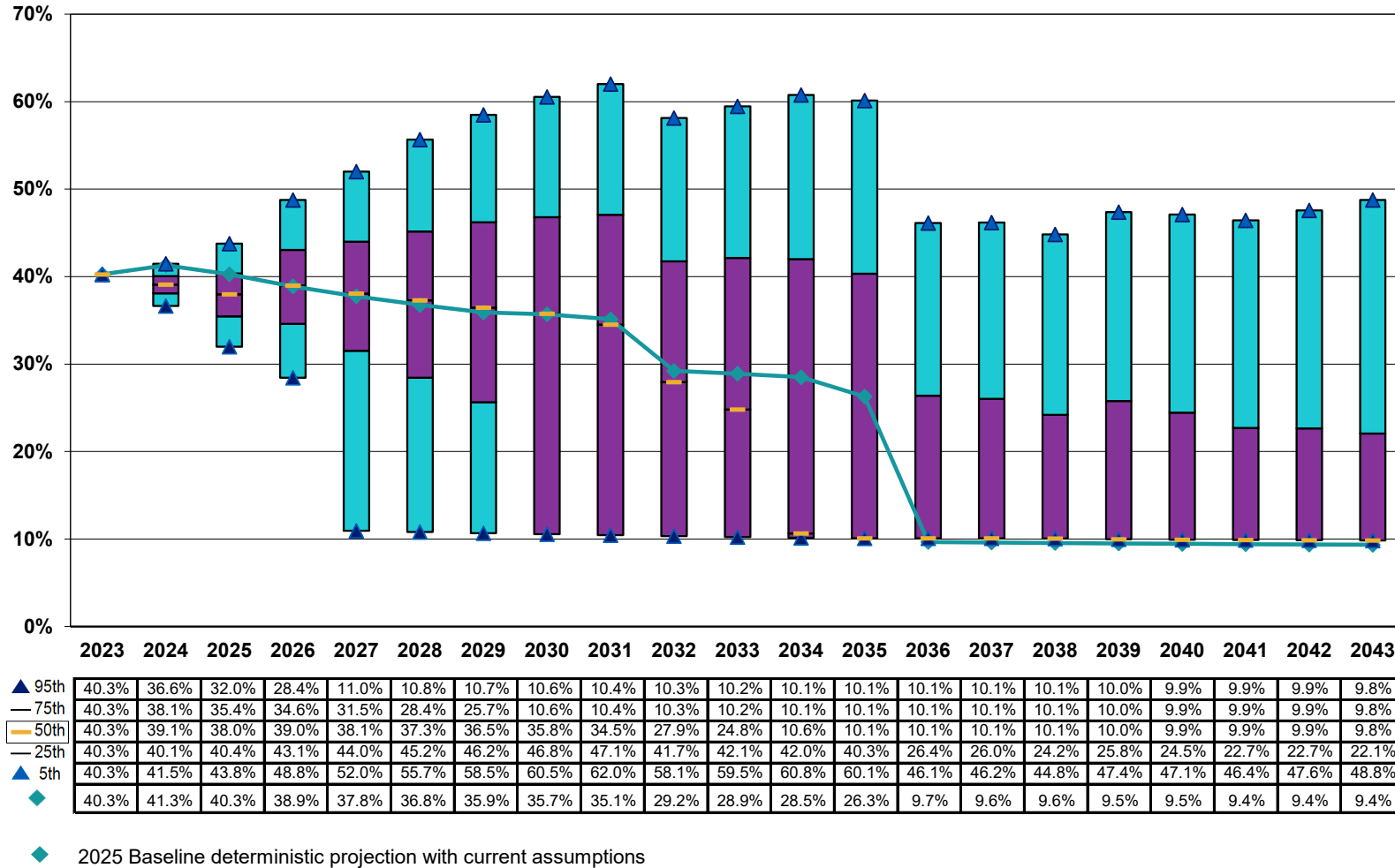


	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
◆ 2023 Baseline: Return at 6.50% (2023/2024 and thereafter)	40.26%	39.25%	38.51%	39.99%	39.61%	39.45%	39.27%	39.13%	38.60%	32.92%	32.62%	32.23%	30.15%	14.70%	10.10%	10.06%	9.99%	9.93%	9.89%	9.87%	9.85%
▲ 2025 Baseline: Return at 6.50% (2025/2026 and thereafter)	40.26%	41.29%	40.27%	38.89%	37.75%	36.77%	35.90%	35.70%	35.13%	29.23%	28.91%	28.50%	26.30%	9.67%	9.61%	9.55%	9.50%	9.46%	9.42%	9.38%	9.35%

- Actual 2025 contribution rate is higher than that projected in 2023 risk report
- When recognized, June 30, 2025 investment gains would result in lower future contribution rates

# Employer Contribution Rate

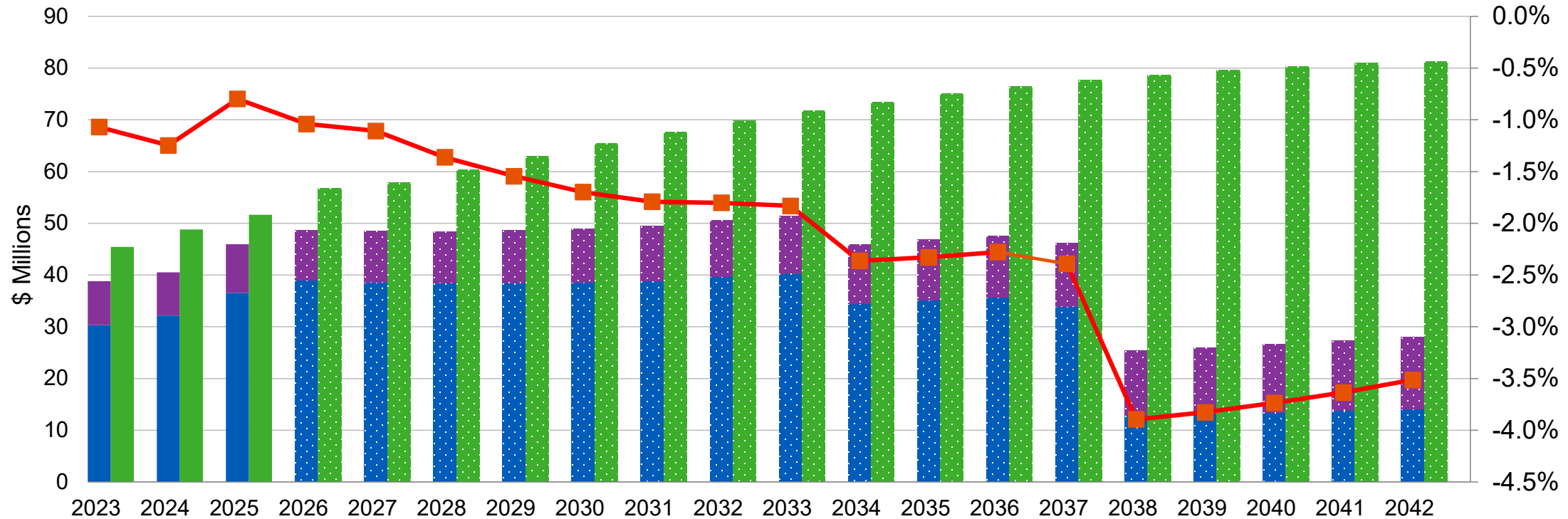
## 20-year stochastic projection from 2023 risk report



- If we update 2023 risk report to reflect actual results from June 30, 2025 valuation, all the future projected contribution rates should come in somewhat lower than those included in that report.

# Cash Flows – contributions vs benefit payments

*20-year projection*

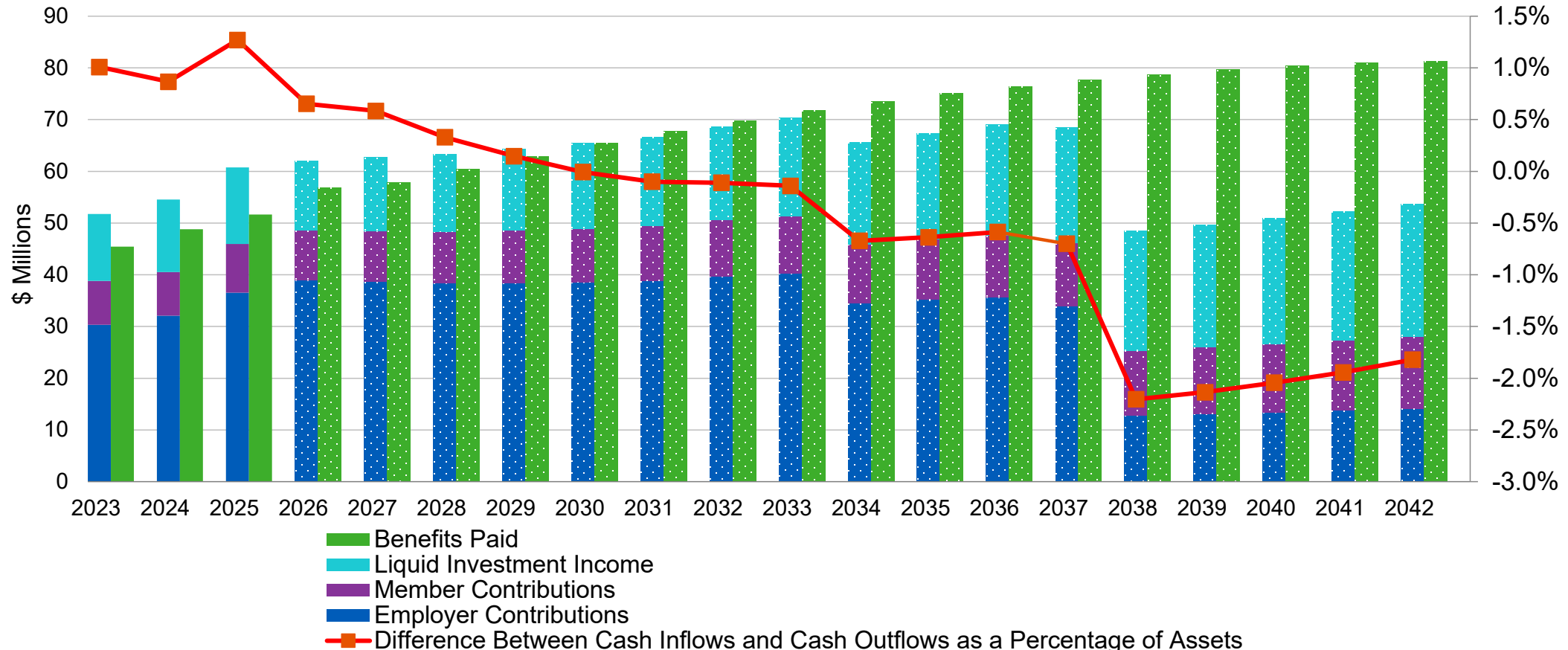


- Benefits Paid
- Member Contributions
- Employer Contributions
- Difference Between Cash Inflows and Cash Outflows as a Percentage of Assets

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Difference Between Cash Inflows and Cash Outflows (\$ millions)	\$ (6.7)	\$ (8.3)	\$ (5.7)	\$ (8.2)	\$ (9.3)	\$ (12.0)	\$ (14.3)	\$ (16.5)	\$ (18.2)	\$ (19.2)	\$ (20.4)	\$ (27.6)	\$ (28.3)	\$ (28.8)	\$ (31.5)	\$ (53.3)	\$ (53.7)	\$ (53.7)	\$ (53.7)	\$ (53.3)

# Cash Flows – including liquid investment income\*

## 20-year projection



	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Difference Between Cash Inflows and Cash Outflows (\$ millions)	\$ 6.3	\$ 5.7	\$ 9.1	\$ 5.2	\$ 4.9	\$ 2.9	\$ 1.4	\$ (0.1)	\$ (1.0)	\$ (1.2)	\$ (1.6)	\$ (7.8)	\$ (7.7)	\$ (7.4)	\$ (9.2)	\$ (30.1)	\$ (29.9)	\$ (29.4)	\$ (28.7)	\$ (27.6)

- Maximum drawdown is about 2.2%

\* Includes average interest, dividends and rental income of about 1.7% of assets  28

# Considerations of Future Funding and Related Risks for MCERA

# Future Funding and Related Risks

## Maturity of plan

- Using ratio of members in pay status to actives, MCERA is expected to reach peak of maturity in about 10 years\*
- That's also when MCERA would be expected to be fully funded\*

*\*Assuming a level active headcount and all assumptions unfold as expected.*

## Liquidity considerations

- According to the projections, cash flow need even after including liquid investment income would have to be addressed in about 5 to 10 years
  - How would that affect MCERA's asset allocation?
  - With current cash allocation of 0%, which current allocation would be reduced?
  - What impact that might have on the investment return assumption?

# Future Funding and Related Risks

## Level active headcount

- Projections in this presentation assume level active headcount. Any decrease in active headcount and associated payroll would result in:
  - An increase in the maturity of the plan
  - An increase in employer's UAAL contribution rate expressed as percent of payroll
  - A decrease in normal cost contribution dollars collected resulting in higher negative cash flow
  - If persistent, considerations on funding policy adjustments, especially related to the amortization of the UAAL

# Future Funding and Related Risks

## Funding policy

- Gradual reductions in employer contribution rate from 2026 to 2031 valuations followed by substantive reductions after 2031 **if all assumptions were to be met**
  - Should some measures be considered by the Board to enhance stability in employer contribution rate if assumptions are not met in the future or the current 6.50% investment return assumption has to be changed?

# Thank You

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