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May 1, 2018

Dr. James R. Wilbanks
Retirement Administrator
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482

Re: Mendocino County Employees' Retirement Association
Audit Findings from Cheiron on Valuation and Experience Study

Dear James:

Cheiron was contracted by the Board to review the liabilities and the contribution rates determined in the June 30, 2017 valuation for the 2018/2019 fiscal year. They were also contracted to review the economic and demographic assumptions recommended in our July 1, 2013 through June 30, 2016 triennial experience study for use in the June 30, 2017, 2018 and 2019 valuations.

According to Cheiron, the results of "the valuation as of June 30, 2017 are reasonably accurate and were computed in accordance with generally accepted actuarial principles." In addition, Cheiron found the economic and demographic assumptions "to be reasonable and in accordance with generally accepted actuarial principles." As noted in their report, these are the principal results of the actuarial audit.

Cheiron also recommended that Segal review the methodology used to analyze the mortality assumptions. In the rest of this letter, we provide a high-level response to the points raised by Cheiron regarding mortality. In addition, we also provide clarifications in response to the comments they made with respect to our description of the procedure we use to establish our 7.00% investment return assumption. Lastly, we have confirmed with MCERA that the $1,000 ancillary death benefit should be valued in future valuations, pursuant to Cheiron's comment on the MCERA plan provisions.

BENEFIT-WEIGHTED VERSUS HEADCOUNT-WEIGHTED MORTALITY ASSUMPTIONS

As part of the current triennial experience study, Segal recommended a static approach to predict future post-retirement mortality improvements. Under that static approach, the amount of margin used by Segal in the current triennial experience study to anticipate future mortality improvement is about double the margin we used just three years ago in the last triennial experience study. Furthermore, as discussed on page 26 of our current experience study report, we introduced the Board to the possible use of a benefit-weighted approach to setting the mortality tables whereby mortality experience would be weighted based on the level of a retiree's income at MCERA. We have not recommended the benefit-weighted approach in the current study because we believe it would be reasonable for the Board to wait until more information pertaining to the income effect on mortality for public pension plans becomes available from the Society of Actuaries in 2018/2019. (We note that the Society's "RP-2014" benefit-weighted mortality table was prepared without any data from public and multi-employer pension plans.)

We do expect to recommend that change to using benefit-weighted mortality tables for MCERA at the next triennial experience study after those public sector experience mortality tables become available.

DESCRIPTION OF SEGAL'S PROCEDURE USED TO ESTABLISH 7.00% INVESTMENT RETURN ASSUMPTION

According to Cheiron, "the economic assumptions proposed in Segal's review represent a reasonable set of assumptions. In particular, we agree with Segal's recommendation to reduce the assumed rate of price inflation from 3.25% to 3.00%, and to reduce the investment return assumption from 7.25% to 7.00%, reflecting a net real return of 4.00%."

Cheiron commented on the terminology we use to describe the effect of the "risk adjustment" component of the investment return. In our next experience study report, we will provide a revised and clarified description of the risk adjustment as part of the expected arithmetic average return approach we use to develop our recommended investment return assumption.

Also, in developing the investment return assumption Cheiron commented on the difference between the arithmetic return used by Segal (primarily to determine the expected value of the liabilities) and the geometric return used by Callan (primarily to advise the Board on asset allocation). These two approaches were discussed in some detail with the Board during our presentation of the triennial experience study. As part of that discussion, Callan's expected return of 6.90%, after adjustment for the difference in the inflation assumption used by the two firms and for investment expense, was determined to be very comparable to Segal's 7.00% assumption.

PLAN PROVISIONS - $1,000 DEATH BENEFIT

On page 8 of their report, Cheiron mentions that, "In general, the plan provisions shown in the *(Segal valuation)* exhibit match the materials on the *(MCERA)* website, although we do not see mention of the $1,000 death benefit in Segal's summary." We have gone back and reviewed the documents we received from MCERA for setting up our initial valuation program for the Association, including past valuation reports from the prior actuarial firm and a member handbook from MCERA, and we did not see any reference to the $1,000 death benefit in those earlier documents. However, based on a follow-up conversation with MCERA, we understand this is a benefit available to beneficiaries of deceased MCERA members, and we will include the relatively minor value of this benefit starting with our next valuation.

Please let us know if you have any questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA	Andy Yeung ASA, MAAA, FCA, EA
Senior Vice President and Actuary	Vice President and Actuary

JRC/bqb