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VIA E-MAIL AND USPS

August 16, 2016

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

**Re: Mendocino County Employees' Retirement Association  
Detailed Discussion on Development of Member Contribution Rates**

Dear James:

We understand that the Board of Retirement is interested in learning how the member normal cost contribution rates<sup>1</sup> are calculated for MCERA members and we have provided a detailed discussion on the development of the member basic and COLA contributions rates in the attachment to this letter.

Note that the attachment provides the methods and types of assumptions that are utilized in the calculation of the member contribution rates for employees covered in the legacy (i.e., non-CalPEPRA) tiers. For members covered in the CalPEPRA tiers<sup>2</sup>, the member rates have been calculated as 50% of the total normal cost rates for those tiers. Accordingly, the methods and assumptions used in the calculation of the member rates for CalPEPRA members are the same as those used in calculating the employer normal cost rates for the CalPEPRA tiers.

Please feel free to call me with any questions.

Sincerely,

A handwritten signature in black ink that reads "Andy Yeung". The signature is written in a cursive style.

Andy Yeung

DNA/bbf  
Attachment

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<sup>1</sup> MCERA's member rates are not calculated to pay off any of the employer's unfunded actuarial accrued liabilities.

<sup>2</sup> That is, General Tier 4, Safety Tier 3, and Probation Tier 3.

## Attachment

### Detailed Discussion on Development of Member Basic and Member COLA Contribution Rates for MCERA Employees Covered in the Legacy Tiers

#### Member Basic Contribution Rate

The member basic contribution rate is calculated to fund the present value of a specified percent of final average salary at a specified age. Both the percent and age are specified in the relevant section of the County Employees Retirement Law of 1937 (CERL) for each retirement benefit formula. For instance, for General Tier 3 members covered under the 2.62% at 62 benefit formula (i.e., Section 31676.12), member basic contribution rates are calculated to fund the present value of a benefit equal to 1% of three-year final average salary per year of service assuming that the benefit would be paid commencing at age 60, pursuant to Section 31621.2.

The present value is calculated assuming a level benefit (i.e., no COLA) payable over a member's lifetime only (i.e., it excludes the 60% automatic continuance payable to an eligible spouse/domestic partner).

Under the current procedure, the following actuarial assumptions are used to calculate member basic rates:

- Salary increase assumption to project the change in compensation from entry age to the specified age,
- Mortality assumption used for service retiree to estimate how long the benefit would be paid to a member at the specified benefit commencement age, and
- Investment return assumption to calculate the present value of the future benefit and the present value of the future salary in determining the contribution rate.

In addition to the partial set of actuarial assumptions described above for calculating the member basic rate, the following experience-based actuarial assumptions are included in the valuation to determine the total basic contribution rate (and hence the net employer's basic contribution rate, as that rate is just the difference between the total rate and the member rate):

- Probability of a member with a spouse/domestic partner eligible for an automatic continuance benefit,
- Probability of a member either dying, terminating, or becoming disabled and receiving benefits specific to those events, and
- Probability of service retirement (this is different from the specified benefit commencement age used in developing the member basic rate because the probability of service retirement has been developed based on the experience of members retiring at various actual retirement ages).

As can be observed from the above discussions, the last three actuarial assumptions are only used in developing the employer's basic rate.

## **Attachment**

### **Detailed Discussion on Development of Member Basic and Member COLA Contribution Rates for MCERA Employees Covered in the Legacy Tiers**

#### **Member COLA Contribution Rate**

The member COLA contribution rate is calculated so that the cost to provide a COLA benefit is “shared equally between the county or district and the contributing members” as described in Section 31873 of the CERL.

Based on this definition, the member COLA contribution rates are calculated taking into account the level of the annual COLA benefit plus the full set of actuarial assumptions described above for use in setting the total basic contribution rates. In particular, the actual retirement ages are used in developing both the member and the employer’s COLA rates.