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VIA E-MAIL AND USPS

December 8, 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  
Impact of Lower Interest Rate Assumptions on Contribution Rates, UAAL and  
Funded Percentage, Based on the Results of the June 30, 2016 Valuation  
(for informational purposes only)**

Dear James:

At the November 2, 2016 meeting, the Board of Retirement adopted the results of our June 30, 2016 valuation which was based, in part, on a 7.25% interest rate assumption. Based on discussions at that meeting, the Board has directed Segal Consulting to prepare illustrations using results as of June 30, 2016 but modified to include two lower alternative interest rate assumptions, **for informational purposes only**. Accordingly, we have attached an exhibit herein that illustrates the estimated employer and employee contribution rates, unfunded actuarial accrued liability (UAAL), and funded percentage as of June 30, 2016 based on the current 7.25% interest rate assumption and on the alternative assumptions of 6.75% and 6.25%, as directed.

**BACKGROUND**

The current 7.25% interest rate assumption was recommended in our July 1, 2011 through June 30, 2014 experience study report and was adopted by the Board for use starting with the June 30, 2014 valuation. Under the Board's practice, the 7.25% assumption was carried over unchanged for the June 30, 2015 and June 30, 2016 valuations, until MCERA conducts a full review of all of the actuarial assumptions in the 2017 experience study. There was discussion at the November 2 Board meeting pertaining to a recent trend observed among public retirement systems in adopting lower and more conservative interest rate assumptions when the systems went through their experience studies.

For purposes of the illustrations in this letter, the specific alternative interest rate assumptions we have been directed to use are 6.75% and 6.25%, as mentioned above. It should be noted that the results shown herein have only been prepared to illustrate the sensitivity of the results from a

change in the interest rate assumption. These interest rate assumptions may not reflect the final assumption we would recommend in our 2017 experience study. Additionally, there may be changes to the other actuarial assumptions that we would recommend in the 2017 experience study that would increase or decrease the costs of the plan. However, for purposes of these illustrations, it was suggested that we change only the interest rate assumption, and leave all of the other actuarial assumptions unchanged.

## RESULTS

An illustration of the June 30, 2016 valuation results under the alternative interest rate assumptions of 6.75% and 6.25% is provided in the exhibit attached herein. Based on these results, the estimated additional contribution rates (expressed as a percent of payroll) and the increase in the UAAL associated with lowering the interest rate assumption are as follows:

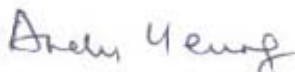
	<b>Estimated Increase in Costs Compared to 7.25% Interest Rate Assumption (based on the June 30, 2016 valuation results)</b>	
	<b>6.75% Interest Rate Assumption</b>	<b>6.25% Interest Rate Assumption</b>
Combined Employer Rate	5.36%	11.03%
Combined Employee Rate	1.10%	2.37%
UAAL*	\$38.4 M	\$81.3 M

\* Valuation value of assets basis.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please give us a call if you have any questions.

Sincerely,



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



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

JRC/gxk  
Enclosure

**Mendocino County Employees' Retirement Association**  
**Impact of Lower Interest Rate Assumptions on Contribution Rates and UAAL (for informational purposes only)**  
**Estimated Results as of June 30, 2016**

<b>Interest Rate</b>	<b>7.25%<sup>(1)</sup></b>		<b>6.75%</b>		<b>6.25%</b>	
<b>Employer Contribution Rates: (\$ in thousands)</b>						
	Total Rate	Estimated Annual Amount <sup>(2)</sup>	Total Rate	Estimated Annual Amount <sup>(2)</sup>	Total Rate	Estimated Annual Amount <sup>(2)</sup>
General Tier 1	31.53%	\$285	37.45%	\$339	43.92%	\$398
General Tier 2/Tier 3	28.86%	9,188	33.69%	10,726	38.79%	12,350
General Tier 4	25.53%	4,222	29.71%	4,913	34.09%	5,638
Safety Tier 1	Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>	
Safety Tier 2	57.04%	4,166	66.10%	4,827	75.81%	5,536
Safety Tier 3	47.69%	899	55.42%	1,045	63.59%	1,199
Probation Tier 1	Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>	
Probation Tier 2	32.48%	764	39.52%	930	47.05%	1,107
Probation Tier 3	24.65%	97	30.74%	121	37.20%	146
All Categories Combined	32.05%	\$19,621	37.41%	\$22,901	43.08%	\$26,374
<b>Average Member Contribution Rates: (\$ in thousands)</b>						
	Total Rate	Estimated Annual Amount <sup>(2)</sup>	Total Rate	Estimated Annual Amount <sup>(2)</sup>	Total Rate	Estimated Annual Amount <sup>(2)</sup>
General Tier 1	0.98%	\$9	1.10%	\$10	1.24%	\$11
General Tier 2/Tier 3	10.40%	3,311	11.58%	3,687	12.94%	4,120
General Tier 4	7.46%	1,234	8.14%	1,346	8.94%	1,478
Safety Tier 1	Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>	
Safety Tier 2	11.02%	805	12.63%	922	14.51%	1,060
Safety Tier 3	10.58%	199	11.76%	222	13.13%	248
Probation Tier 1	Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>		Not Calculated <sup>(3)</sup>	
Probation Tier 2	13.40%	315	14.95%	352	16.74%	394
Probation Tier 3	9.40%	37	10.57%	42	11.93%	47
All Categories Combined	9.65%	\$5,910	10.75%	\$6,581	12.02%	\$7,358
<b>Funded Status: (\$ in millions)</b>						
Actuarial Accrued Liability (AAL) <sup>(4)</sup>		\$632.1		\$670.5		\$713.4
Valuation Value of Assets (VVA) <sup>(5)</sup>		446.8		446.8		446.8
Market Value of Assets (MVA)		426.3		426.3		426.3
Funded Percentage on VVA Basis		70.7%		66.6%		62.6%
Funded Percentage on MVA Basis		67.5%		63.6%		59.8%
Unfunded Actuarial Accrued Liability (UAAL) on VVA Basis		\$185.3		\$223.7		\$266.6
Unfunded Actuarial Accrued Liability (UAAL) on MVA Basis		205.7		244.1		287.1
<b>Other Key Economic Assumptions:</b>						
Inflation Rate		3.25%		3.25%		3.25%
Across-the-Board Salary Increase		0.50%		0.50%		0.50%

<sup>(1)</sup> These results were adopted by the Board of Retirement at their November 2, 2016 meeting.

<sup>(2)</sup> Based on June 30, 2016 projected annual compensation.

<sup>(3)</sup> There were no Safety Tier 1 or Probation Tier 1 active members reported for the June 30, 2016 valuation.

<sup>(4)</sup> Does not include an additional liability held for the Contingency Reserve.

<sup>(5)</sup> Excludes Contingency Reserve.

Note: Amounts may not total exactly due to rounding.