



Mendocino County Employees' Retirement Association

Update on the Status of Plan Assets
and

Accomplishments and Future Plans

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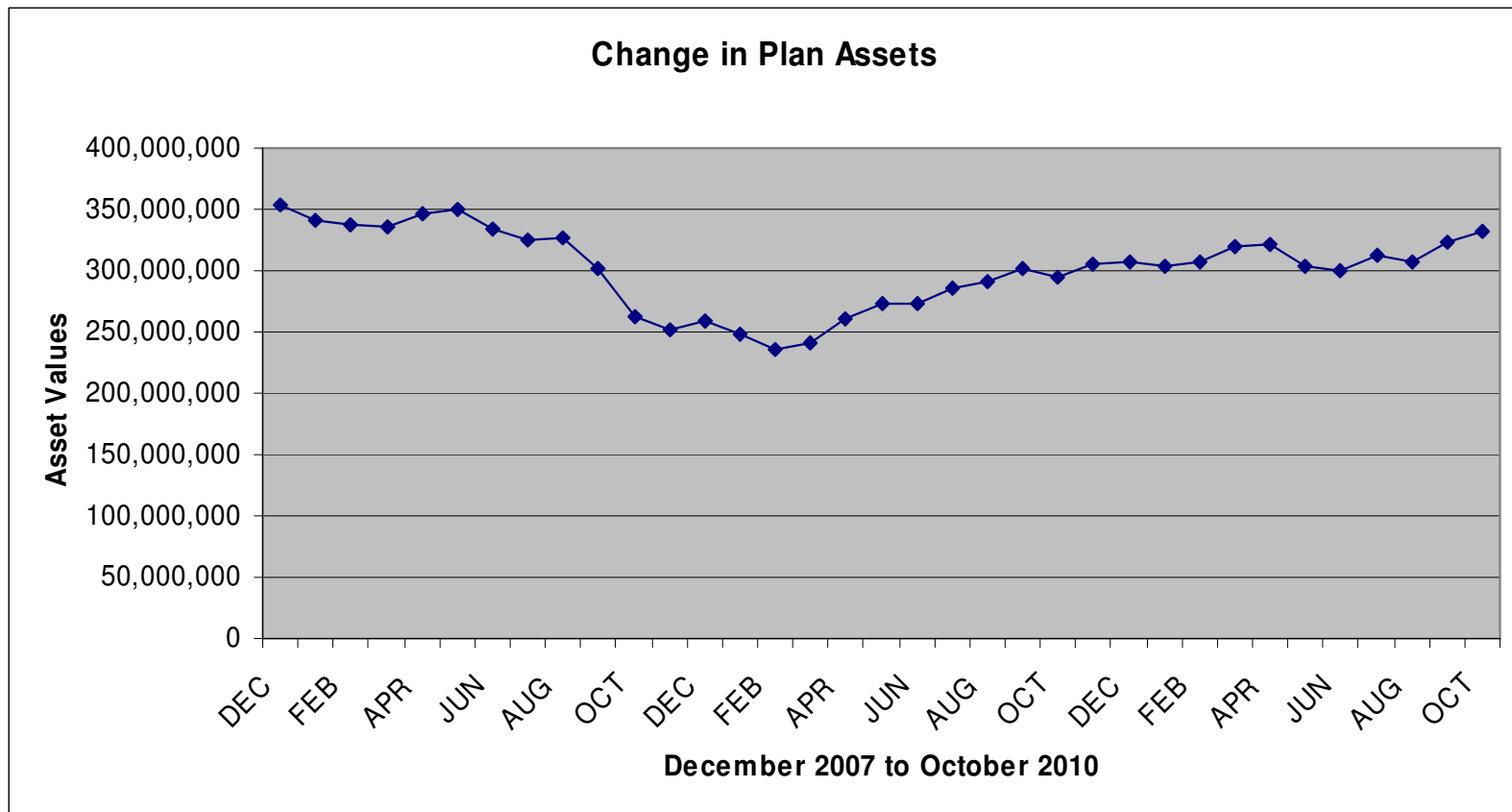
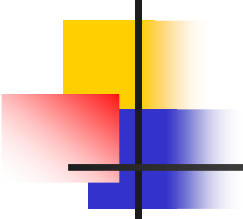


Current Status of Plan Assets

(Investments and Cash)

- In December of 2007, prior to the “great recession,” the plan assets were \$354 million.
- The plan assets reached a low at the end February, 2009, dropping to roughly \$235.8 million; recovering to \$271 million by the end of the 2009 fiscal year.
- Plan assets increased \$28.5 million in fiscal year 2009/10 (despite a rough 2nd quarter), and have increased \$32.5 million this fiscal year.
- As of the end of October 2010, the preliminary report of assets in the plan were \$332.5 million, having climbed \$96.7 million from their low point in February of 2009. Investments will need to grow an additional \$21.5 million to return to the December 2007 level.
- The following slide contains a line chart depicting the course of plan assets since December, 2007.

MCERA Plan Assets Through the Great Recession





Comparison of MCERA Investment Performance

- For the last quarter (ending September 30, 2010), and the one, three and five year periods ending that quarter, MCERA's return on its invested assets exceeded its benchmark for returns, and was at or above the top quartile of the CAI Public Fund Sponsor Database (Exhibit A).
- Mercer's Public Fund Universe Analysis, Period Ending June 30, 2010 (Exhibit B), showed MCERA ranked 8th, 4th and 4th among 1937 Act systems in total returns for the one, three and five year periods.
- CalPERS overall portfolio returned 13.3% for the period ending June 30, 2010, while MCERA returned 14.47% for that same period. In addition, for the year ending June 30, 2009, where the greatest losses were incurred, CalPERS lost in excess of 20% of the value of its assets, while MCERA's losses were 16.5%.



Comparison of Total Contribution Rates

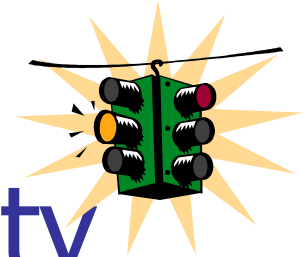
- In December of 2009, MCERA conducted a survey of other 1937 Act systems to determine the true cost of retirement benefits as a percent of each payroll dollar. A total of 17 of the 20 systems responded. It is important to note that the cost includes both the employer contribution and debt service on any Pension Obligation Bonds, thereby creating an “apples to apples” comparison. The results are on the next page.
- MCERA has already begun collecting the same information, updated to be as current as possible, from the other 1937 Act systems.
- The comparison shows the competitiveness of MCERA’s cost to the plan sponsor for each payroll dollar they spend. We expect to be even more competitive in future surveys given the returns on our assets and less generous benefits than those negotiated by most other counties in the survey. However, the relative data will also be impacted by the changes in total salaries.

Comparison of Total Contribution Rates

System	Date of Calculation	Combined Employer Share	Combined P&I on POBs	Combined Total % of Payroll
Tulare	6/30/2009	10.67%	2.64%	13.31%
Ventura	6/30/2009	19.19%	0.00%	19.19%
Imperial	6/30/2009	13.79%	6.44%	20.23%
Mendocino	6/30/2009	13.25%	7.40%	20.65%
Alameda	12/31/2008	16.91%	4.64%	21.55%
San Bernardino	6/30/2009	15.40%	6.59%	21.99%
Sonoma	12/31/2008	16.12%	8.15%	24.27%
Merced	6/30/2008	23.19%	3.25%	26.44%
San Diego	6/30/2009	20.46%	7.20%	27.66%
Orange	12/31/2008	27.73%	1.37%	28.67%
Santa Barbara	6/30/2009	28.88%	0.00%	28.88%
San Joaquin	1/1/2009	28.91%	0.00%	28.91%
San Mateo	6/30/2009	34.00%	0.00%	34.00%
Sacramento	6/30/2009	22.38%	12.42%	34.80%
Kern	6/30/2008	29.79%	5.53%	35.32%
Contra Costa	6/30/2008	24.41%	13.07%	39.21%
Fresno	6/30/2009	33.91%	8.26%	42.17%



Pension Sustainability



- MCERA believes it is a sound business practice to find valid comparisons and measurements to assist in evaluating how well we are doing our job, and that the continued recovery of the market value of our plan assets is another positive indicator of the performance of the retirement system.
- Pension sustainability boils down to Contributions plus Investment income equaling Benefits plus system Expenses ($C+I=B+E$).
- Despite competitive investment performance, it has taken 18 months just to nearly recover losses, and the future direction of capital markets is uncertain.
- No matter how successfully MCERA invests plan assets or how we compare to other retirement systems, only the County can determine if retirement contributions are affordable given other budgetary demands and if the current pension benefits are sustainable into the future.



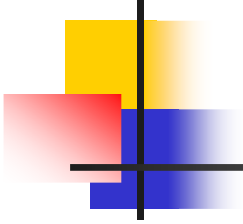
Accomplishments Since Becoming Independent

- When looking at an organizational lifecycle, MCERA has moved from a toddler into adolescence. Milestones in its growth include the following:
 - Soliciting proposals and selecting a new Investment Consultant.
 - Preparing MCERA's first Comprehensive Annual Financial Report (CAFR).
 - Televising meetings, and creating a website which includes all reports on MCERA's financial condition and investment performance.
 - Participating in independent, comparative analyses of public pension plan.
 - Reviewing and amending MCERA's excess earnings policy to maximize reinvestment of earnings into pension assets and unfunded liabilities.
 - With Callan Associates, conducting a comprehensive liability and asset allocation study to best position our portfolio for future market cycles.
 - Soliciting and selecting a firm, EFI Actuaries, to conduct the first actuarial audit for MCERA.
 - Completing an application to the IRS for a Determination Letter and Voluntary Correction Program to ensure compliance with federal tax laws.



Still Work to be Done!

- In continuing to mature as a system, in the foreseeable future MCERA will be:
 - Completing our actuarial audit and evaluating potential improvements to our annual valuation report and triennial experience study.
 - Soliciting proposals for professional services where longstanding relationships may be good, but evaluating new providers is an appropriate business practice. This includes general legal counsel, external auditing, and ongoing actuarial services.
 - Completing an Information Technology strategic plan and modernizing record keeping and retirement calculation tools. This will provide greater accuracy and consistency of retirement calculations, and important improvements to business continuity and disaster recovery.
 - Reviewing and completing policies that will help to guide the actions of the Board and staff rather than relying on historical practices or ad hoc decision making.
 - Reviewing our disability application and review processes to ensure that the fairest and most defensible decisions are made on applications for disability retirement.



Questions?

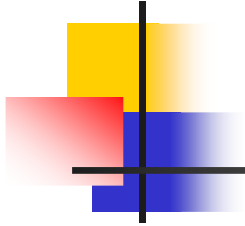


Exhibit A

Callan Associates

September 30, 2010 Investment Measurement Services

Asset Allocation and Performance

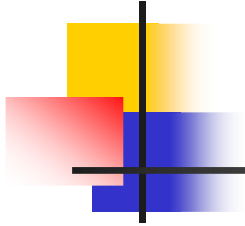


Exhibit B

Mercer

Mendocino County Employees' Retirement Association
(25)

Public Fund Universe Analysis
Period Ending June 30, 2010