February 6, 2013

Mr. Jeff Wickman
Administrator, MCERA
1 McInnis Parkway, 1st Floor
San Rafael, CA 94903

Re: Response to Milliman's Actuarial Audit of the June 30, 2011 Valuation

Dear Jeff:

We have been provided with a copy of Milliman's report detailing the findings of their audit of the June 30, 2011 actuarial valuation. We appreciate the opportunity to comment on their findings, and we would like to complement Milliman for what we perceive to be a thorough review, which has added value to the actuarial process.

While we would be pleased to discuss any of the findings in their report with the Board, we would like to focus this letter on the primary issues raised in their report, as contained in the "Statement of Key Findings".

Member Contribution Rates

During the course of their review, Milliman identified an issue related to the calculation of the member contribution rates for the COLA cost-sharing provision for some members. We reviewed these calculations, and confirmed that there was a discrepancy in the calculation of the member's COLA contribution associated with one particular benefit – benefits for those members who are assumed to terminate employment before retirement and begin working for a reciprocal employer.

As a result of this issue, the COLA contribution rates for some members should have been somewhat higher, particularly for those at early entry ages. For members at later entry ages, there would have been little or no difference in the computed rates. In addition, for some County members, there was no impact due to the caps on employee COLA contributions. The issue has a larger impact on members hired at an earlier age, because there is more opportunity for expected growth in the final average compensation used to compute the member's final reciprocal benefit.

After Milliman identified the issue, we calculated new employee contribution rates, which Milliman then reviewed and matched closely. We applied the revised contribution rates to the June 30, 2011 data and estimated that the employee contribution rates would have been less than 0.18% of payroll higher, on average, if the revised COLA rates were used; Milliman also confirmed this estimate. However, the use of the original rates did not result in any overall funding shortfall for MCERA. The total actuarial cost of the Plans was contributed; the issue only affected the split in the actuarial cost between the employers and employees.

We also reviewed our prior valuations, and confirmed that the issue associated with the COLA contribution rates existed in the prior two valuations (June 30, 2009 and 2010), but not in previous valuations. The estimated impact of the issue in each of the prior two valuations was slightly less than the 0.18% payroll rate identified for the 2011 report. In addition, the 0.18% of pay impact identified above is a conservative estimate of the actual impact, since some employers (particularly the County) have paid all or a portion of the member's contributions, in which case the impact of the issue would be reduced or eliminated.

We anticipate that there will be reasonable methods to resolve the impact of the issue, by adjusting the member's and employer's future contribution rates for a specified time period. All work that has or will be done by our firm to resolve the issuewill be tracked separately and not be billed to MCERA.

Active Member Death Benefit

We reviewed Milliman's comment regarding the active death benefit, in particular, their recommendation that we include a liability for a contribution refund for a small percentage of active members who are assumed to die during employment with at least five years of service and who do not have an eligible spouse or dependent. We agree that this is an appropriate recommendation, and will include this calculation in future valuations. We also concur that this will not have a material impact, due to the small likelihood of such a minor benefit.

In closing, if you or the Board have any questions on the issues discussed above or any other issues raised in the audit, we would be happy to discuss them.

Sincerely,
Cheiron

Graham Schmidt

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