



Popular Annual Financial Report

Fiscal Year Ended June 30, 2013

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A pension trust
fund of the
County of Marin
& Participating
Employers

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Dear MCERA Members,

This Popular Annual Financial Report (PAFR) is an easy-to-read summary of the overall financial position of the Marin County Employees' Retirement Association (MCERA) as of the fiscal year ended June 30, 2013.

The financial data presented in the PAFR derives from the more detailed financial statements that have been prepared and audited consistent with generally accepted accounting principles and guidelines established by the Governmental Accounting Standards Board. Data from the actuarial valuation report for June 30, 2013 is also included. The complete audited financial statements and actuarial valuation report are available online at www.mcera.org.

The services MCERA provides include collecting member and employer contributions, investing of trust fund dollars, developing the funding policy to pay for the promised benefits, calculating and paying retirement benefits, determining eligibility for service and non-service connected disability retirements, calculating service purchases, and developing informational and educational publications for members and participating employers. Following are a few highlights of our efforts and accomplishments over the past year.

Implemented Provisions of Pension Reform Legislation | We implemented the provisions of the Public Employees' Pension Reform Act (PEPRA) which went into effect January 1, 2013, including the addition of thirteen new benefit tiers. Staff delivered seven presentations on PEPRA to educate both members and participating employers on the new law.

Customer Service Goal Achieved | We modified our business processes to ensure that new retirees receive their first benefit payment the month after they leave employment. Throughout the fiscal year, 97% of retiring members received their first check no later in the month following their retirement date.

Audit of Actuarial Reports | MCERA hired Milliman, an independent actuarial firm, to audit the work of MCERA's consulting actuary, Cheiron EFI. Milliman reviewed MCERA's triennial experience study and annual actuarial

valuation for the period ending June 30, 2011. The audit indicated the need for small changes to the calculation of contribution rates to reflect assumptions for reciprocal members and active member deaths. The auditors concluded that overall calculations and actuarial assumptions used were reasonable and appropriate.

Enhanced Retirement Workshop Program |

The full length pre-retirement seminar was split into two workshops with one specific to members who are early to mid-career and the other specific to members within five years of retirement. The new workshop program debuted in May and received positive member feedback.

Initiated Debit Card Program |

In partnership with the Bank of America, we created a new program that allows retirees to receive monthly retirement benefits on a prepaid debit card. The card is an alternative to paper checks and allows members to receive their benefits electronically without the need for a checking or savings account.

Completed First Business Cycle using New Database Software |

Since implementing our new pension administration software system on January 1, 2012, we have successfully passed all business milestones including application of the April retiree cost of living adjustment, credit of interest to member accounts, reporting quarterly taxes, and producing annual benefit statements and retiree 1099-R forms.

For over sixty years MCERA has provided retirement, disability and death benefits to public employees in Marin County. Our staff and Board of Retirement remain committed to providing superior customer service to our members and employing solid investment and business strategies to fulfil our long-term objectives of providing benefits well into the future.

Respectfully submitted,

Jeff Wickman
Retirement Administrator

Actuarial Highlights

Funding Status

MCERA hires an independent consultant to conduct annual actuarial valuations of the pension assets and expenses. The actuarial values are compared to determine the annual contribution rates that MCERA's participating employers are required to pay to meet pension obligations. The actuarial value of assets differs from the market value of assets because gains and losses are smoothed over five years in the future to avoid sharp fluctuations in the value.

Participating employers have contributed at least 100% of required contributions each year.

| FYE June 30 | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio |
|-------------|---------------------------|-----------------------------|--------------------------------------|--------------|
| 2013 | \$ 1,619.7 | \$ 2,156.6 | \$ 536.8 | 75.1% |
| 2012 | 1,477.8 | 2,072.8 | 594.9 | 71.3% |
| 2011 | 1,430.3 | 1,985.1 | 554.8 | 72.1% |
| 2010 | 1,368.7 | 1,929.7 | 561.0 | 70.9% |
| 2009 | \$ 1,343.3 | \$ 1,862.4 | \$ 519.2 | 72.1% |

(All \$ in millions)

Actuarial Methods

The actuarial funding methods used in the June 30, 2013 valuation are as follows:

- entry age normal to final decrement cost method
- unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 17 years
- half of the unfunded liability due to extraordinary market losses from 2008-2009 is amortized as a level percentage of payroll over a closed 30 year period, with 25 years remaining as of June 30, 2013

The assets were valued using a five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. The smoothed asset value is constrained within 20% of the market value.

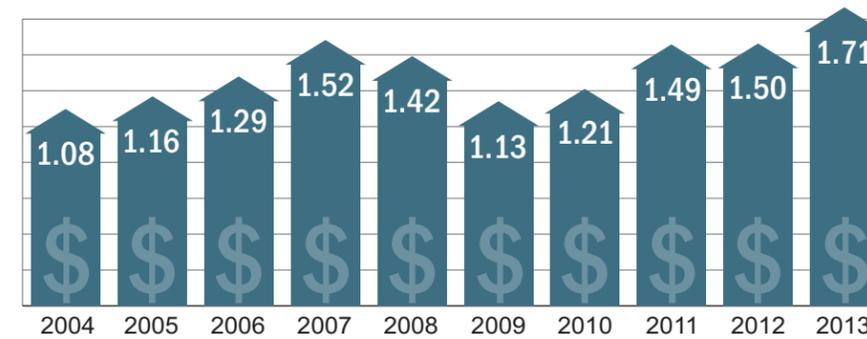
Actuarial Assumptions

Below are the main actuarial assumptions used in the valuation to measure MCERA's liabilities for future benefit payments.

| | |
|----------------------------|--|
| Investment Return | 7.5% |
| Long-term Inflation Rate | 3.25% |
| Projected Salary Increases | 3.75%-8.25% |
| Mortality | RP 2000 Mortality Tables projected to 2010 using Scale AA, set back one year for males and two years for females |
| Post-retirement COLA | 3.0% for tiers with a 4% COLA cap, 2.7% for tiers with a 3% COLA cap, 1.9% for tiers with a 2% COLA cap |
| Administrative Expenses | \$4.5 million, cost split between employers and employees |

Plan Net Assets Over Time

(All \$ in billions)



Summary of Plan Net Assets

(Condensed)

Brown Armstrong Accountancy Corporation audited the financial statements for fiscal year ending June 30, 2013 and issued an unqualified (clean) opinion. Total assets of \$1,814.7 million less liabilities of \$94.2 million resulted in total net assets held in trust for retirement benefits of \$1,720.5 million.

| (All \$ in millions) | 6/30/2013 | 6/30/2012 | Dollar Change | Percent Change |
|------------------------------|-------------------|-------------------|-----------------|----------------|
| Investments at Fair Value | \$ 1,682.2 | \$ 1,422.5 | \$ 259.7 | 18.3% |
| Other Assets | 132.5 | 204.5 | (72.0) | (35.2%) |
| Total Assets | 1,814.7 | 1,627.0 | 187.7 | 11.5% |
| Total Liabilities | 94.2 | 131.6 | (37.4) | (28.4%) |
| Total Plan Net Assets | \$ 1,720.5 | \$ 1,495.4 | \$ 225.1 | 15.1% |

Changes in Plan Net Assets

(Condensed)

The primary sources of funds to finance retirement benefits are income on investments and employee and employer contributions. The primary uses of assets are the payment of retirement benefits to retirees and beneficiaries, refunds of contributions to former employees, and the cost of administering the system.

Net Investment Income is the total interest and dividends earned by all investments as well as the change in market value of all investments, less investment fees.

| (All \$ in millions) | 6/30/2013 | 6/30/2012 | Dollar Change | Percent Change |
|-------------------------------------|-----------------|-----------------|-----------------|----------------|
| Additions | | | | |
| Employer Contributions | \$ 103.0 | \$ 66.2 | \$ 36.8 | 55.6% |
| Employee Contributions | 17.7 | 15.9 | 1.8 | 11.3% |
| Net Investment Income | 223.6 | 28.4 | 195.2 | 687.3% |
| Total Additions | \$ 344.3 | \$ 110.4 | \$ 233.9 | 211.9% |
| Deductions | | | | |
| Retirement Benefits | \$ 101.7 | \$ 96.0 | \$ 5.8 | 6.0% |
| Contribution Refunds | 0.5 | 0.8 | (0.3) | (37.5%) |
| Return of City of San Rafael 401(h) | 12.0 | — | 12.0 | — |
| Administrative Expense | 3.8 | 3.0 | 0.8 | 26.7% |
| Other Expense | 1.2 | 1.2 | 0.0 | 0.0% |
| Total Deductions | \$ 119.2 | \$ 101.0 | \$ 18.1 | 17.9% |

Assets and Investment Returns

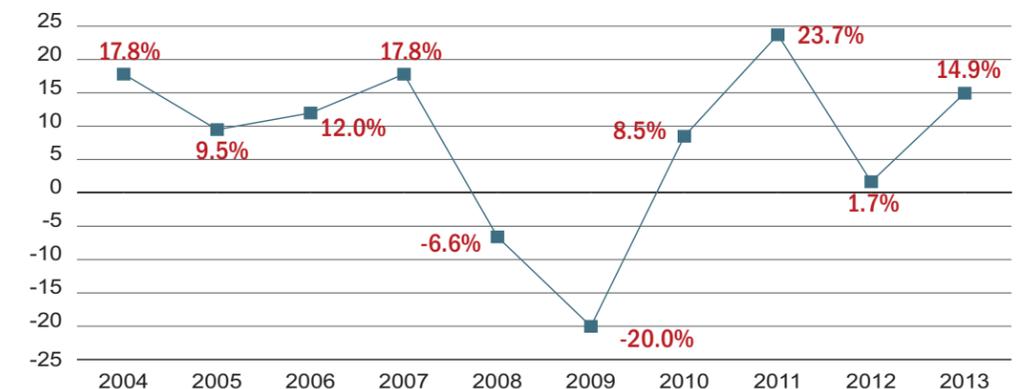
MCERA's Investment Policy Statement (IPS) provides the framework for the management of trust fund assets. The IPS establishes the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls. The IPS also defines the principal duties of the Board, custodian bank, and investment managers.

The chart below shows the market value at fiscal year end and the investment returns for 1-year, 3-year, 5-year and 10-year periods. The Private Equity program was initiated less than 5 years ago; 5-year and 10-year returns are not available. Cash is cash held by the custodian. Returns are shown after investment fees and administrative expenses.

| (All \$ in millions) | Market Value | 2013 Return | 3-Year Return | 5-Year Return | 10-Year Return |
|---------------------------|-------------------|--------------|---------------|---------------|----------------|
| Domestic Large Cap Equity | \$ 527.5 | 21.4% | 17.7% | 5.6% | 7.0% |
| Domestic Small Cap Equity | 229.3 | 25.3% | 21.0% | 10.6% | 9.3% |
| International Equity | 353.8 | 19.8% | 13.0% | 1.4% | 8.4% |
| Fixed Income | 361.0 | 1.9% | 5.2% | 6.0% | 5.0% |
| Real Estate | 159.8 | 13.2% | 12.9% | (0.3%) | 6.4% |
| Private Equity | 80.7 | 12.4% | 8.1% | — | — |
| Cash | 1.1 | 0.1% | 0.1% | 0.3% | 1.9% |
| Total MCERA Fund | \$ 1,713.2 | 14.9% | 13.0% | 4.6% | 7.1% |

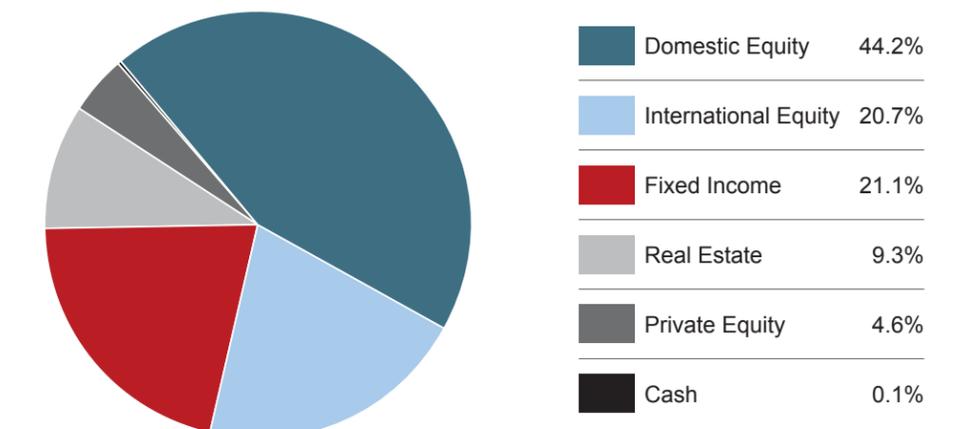
Annual Investment Returns

For the fiscal year ending June 30, 2013, MCERA's investments returned 14.9% after fees and expenses, bringing the total fund to \$1.71 billion. The graph below shows MCERA's annual rates of return over the last ten years after fees and expenses for periods ending June 30.



Asset Allocation

(Actual)



2013 Highlights¹

Funded Ratio² **75.1%**

Net Assets **\$1.71b**

Investment Return **14.9%**

Average Annual Retirement Benefit³ **\$38,253**

Service Retirements⁴ **126**

Benefit Calculations Completed⁵ **553**

Workshops Held **8**

Workshop Guests **179**

¹ All data as of June 30, 2013.

² Funded ratio based on actuarial value of assets.

³ Average annual benefits are the average benefits received for service retirements, disability retirements and survivor benefits.

⁴ Service retirement data does not include disability retirements.

⁵ Benefit calculations include service retirement benefits, estimates of retirement benefits, cost to purchase or redeposit service, account splits with domestic relation orders and contribution refunds.

Board of Retirement

Jeffrey Bartfeld • Appointed by Board of Supervisors
Bernadette Bolger • Appointed by Board of Supervisors
Greg Brenk • Appointed by Board of Supervisors
Chris Cooper • Elected by Safety Members (Alternate)
Roy Given • Ex-officio, County Director of Finance
Maya Gladstern • Elected by General Members
Howard McFarland • Elected by General Members
Alan Piombo • Elected by Safety Members
Karen Shaw • Ex-officio (Alternate)
David Shore • Appointed by Board of Supervisors
Michael Smith • Elected by Retired Members
Sean Webb • Elected by Retired Members (Alternate)

MCERA Membership

MCERA's membership includes all regular hire employees working at least 75% of full-time in eligible positions for one of nine participating employers, and retired members and beneficiaries drawing monthly pension benefits. Membership also includes deferred members who have left employment but have not yet retired.

Total Members

| | Active | Retired | Deferred |
|------|--------|---------|----------|
| 2013 | 2,472 | 2,790 | 621 |
| 2012 | 2,491 | 2,679 | 599 |
| 2011 | 2,546 | 2,545 | 582 |
| 2010 | 2,628 | 2,431 | 596 |
| 2009 | 2,763 | 2,335 | 717 |

Active Members by Employer

| | |
|-------|---|
| 1,829 | County of Marin |
| 349 | City of San Rafael |
| 120 | Marin Superior Court |
| 73 | Novato Fire Protection District |
| 48 | Southern Marin Fire Protection District |
| 36 | Marin/Sonoma Mosquito & Vector Control District |
| 10 | Tamalpais Community Services District |
| 5 | Marin City Community Services District |
| 2 | Local Agency Formation Commission |

Disability Retirement

The data below reflects the number of disability retirement applications heard by the Board of Retirement during the fiscal year and the Board's decisions on those applications. "Other" includes applications that were referred to an administrative law judge or remanded to staff for further information.

| | Board Hearings | Granted | Denied | Other |
|---------------------------|----------------|-----------|----------|----------|
| Service Connected | 17 | 7 | 5 | 5 |
| Non-service Connected | 3 | 3 | 0 | 0 |
| Total Applications | 20 | 10 | 5 | 5 |

Our mission:

Our mission is to provide superior customer service to members and beneficiaries of the Marin County Employees' Retirement Association through efficient benefits administration and a commitment to integrity and prudent financial management.