

# Popular Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2014

mcera



MARIN COUNTY  
EMPLOYEES'  
RETIREMENT  
ASSOCIATION

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

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This Popular Annual Financial Report (PAFR) was developed as an easy-to-read summary of the overall financial information for the Marin County Employees' Retirement Association (MCERA) as of the fiscal year ended June 30, 2014.

The 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, 2014 is also included, but the PAFR is not intended to replace the measure of assets and liabilities presented in the valuation. The complete audited financial statements and actuarial valuation report are available online at 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.

#### **IRS Affirmed MCERA's Tax-Qualified Status**

MCERA received a favorable determination letter from the Internal Revenue Service (IRS) stating that the plan satisfies Internal Revenue Code requirements and is therefore a tax-qualified retirement plan.

#### **Retirement Board Packets Distributed Electronically**

The Retirement Board transitioned from printed board packets to electronic board packets, enabling MCERA to reduce the time

and costs associated with the preparation and distribution of paper meeting materials.

#### **Retirement Application Streamlined**

Staff revised the retirement application packet and streamlined the retirement process for members. The application was reduced from nine pages requiring six signatures down to four pages and one signature. Members may also choose their benefit payment option on the retirement application for the first time.

#### **Divestment Policy Adopted**

The Retirement Board adopted the Statement of Investment Policy Regarding Divestment to set forth the Board's policy for responding to external or internal initiatives that urge MCERA to sell investments or refrain from making specific investments in certain industries.

#### **Real Estate Portfolio Transition**

The Board's Investment Committee made the decision to sell all but one of its properties in the fund's direct real estate portfolio and reinvest the proceeds in MCERA's current core open-ended funds and new public real asset portfolio.

#### **Enhanced Information for PEPR Members**

Staff developed a Member Handbook and an Early Career Workshop specifically for members in retirement tiers implemented as a result of the Public Employees' Pension Reform Act (PEPRA) to help them understand their benefits.

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.

# Actuarial Highlights

## Funding Status

MCERA hires an independent consultant to conduct annual actuarial valuations of the pension assets and expenses. The actuarial values are reviewed to determine the annual contribution rates required to pay to meet pension obligations.

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

FYE June 30	Funded Ratio
2014	84.3%
2013	79.8%
2012	71.6%
2011	73.6%
2010	61.8%

In the table above, all funded ratios are based on the market value of assets.

## Actuarial Methods

As of the June 30, 2014 valuation, the assets were valued using the market value. Prior valuations used 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 actuarial funding methods used in the June 30, 2014 valuation are as follows:

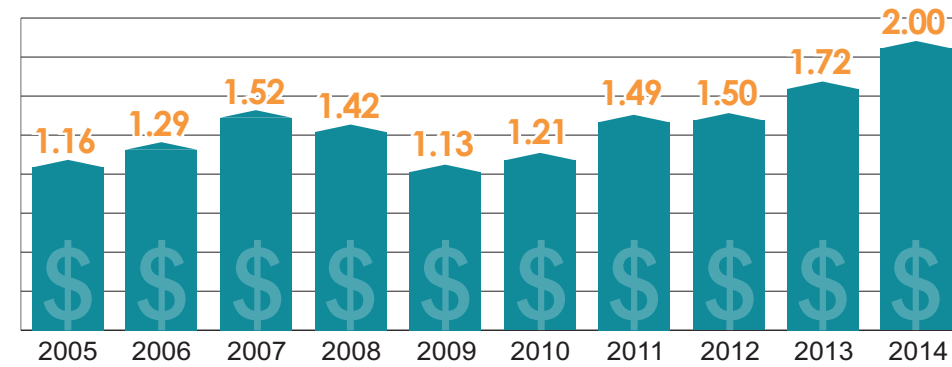
- Entry age normal to final decrement cost method.
- Unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items as of June 30, 2013 is amortized as a level percentage of payroll over a closed 17 year period, with 16 years remaining as of June 30, 2014.
- Half of 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 24 years remaining as of June 30, 2014.
- Any subsequent unexpected change in the unfunded liability after June 30, 2013 will be amortized over 24 years (22 years for assumption changes) and will include a 5-year phase-in/out (3 years for assumption changes) of the payments/credits for each annual layer.

## Key Actuarial Assumptions

Investment Return	7.25%
Long-term Inflation Rate	2.75%
Mortality	CalPERS 2014 mortality rates, with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2009 using Scale MP-2014
Post-retirement COLA	2.7% for tiers with a 4% COLA cap, 2.6% 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 Net Position

(Condensed)

Brown Armstrong Accountancy Corporation audited the financial statements for fiscal year ending June 30, 2014 and issued an unqualified (clean) opinion. Total assets of \$2,094.7 million less liabilities of \$86.1 million resulted in a plan net position of \$2,008.6 million available for benefits.

(All \$ in millions)	6/30/2014	6/30/2013	Dollar Change	Percent Change
Investments at Fair Value	\$ 1,977.3	\$ 1,682.2	\$ 295.1	17.5%
Other Assets	117.5	133.8	(16.3)	(12.2%)
<b>Total Assets</b>	<b>2,094.7</b>	<b>1,816.0</b>	<b>278.7</b>	<b>15.3%</b>
<b>Total Liabilities</b>	<b>86.1</b>	<b>95.5</b>	<b>(9.4)</b>	<b>(9.8%)</b>
<b>Net Position</b>	<b>\$ 2,008.6</b>	<b>\$ 1,720.5</b>	<b>\$ 288.1</b>	<b>16.7%</b>

## Changes in Net Position

(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)	6/30/2014	6/30/2013	Dollar Change	Percent Change
<b>Additions</b>				
Employer Contributions	\$ 74.4	\$ 103.0	\$ (28.6)	(27.8%)
Employee Contributions	18.5	17.7	0.8	4.5%
Net Investment Income	309.0	223.6	85.4	38.2%
<b>Total Additions</b>	<b>\$ 401.9</b>	<b>\$ 344.3</b>	<b>\$ 57.6</b>	<b>16.7%</b>
<b>Deductions</b>				
Retirement Benefits	\$ 108.3	\$ 101.7	\$ 6.6	6.5%
Contribution Refunds	1.0	0.5	0.5	100.0%
Administrative Expense	3.5	3.8	(0.3)	(7.9%)
Other Expense	1.0	1.2	(0.2)	(16.7%)
<b>Total Deductions</b>	<b>\$ 113.8</b>	<b>\$ 119.2</b>	<b>\$ (5.4)</b>	<b>(4.5%)</b>

## Assets and Investment Returns

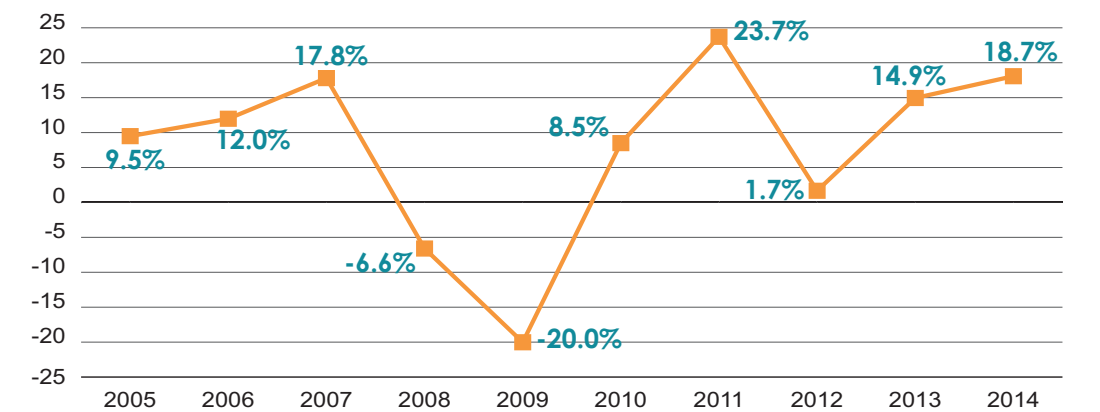
MCERA's Investment Policy Statement (IPS) provides the framework for the management of trust fund assets. The IPS establishes the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls. The IPS also defines the principal duties of 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 10 years ago; 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	2014 Return	3-Year Return	5-Year Return	10-Year Return
Domestic Large Cap Equity	\$ 564.5	24.6%	15.4%	17.9%	7.3%
Domestic Small Cap Equity	236.7	23.6%	13.6%	23.0%	7.8%
International Equity	443.5	22.6%	10.1%	13.3%	7.9%
Fixed Income	412.0	6.0%	5.3%	7.0%	5.5%
Real Estate	223.0	13.7%	13.0%	6.0%	6.8%
Private Equity	125.6	25.7%	10.6%	8.9%	—
Cash	0.3	0.1%	0.1%	0.1%	1.8%
<b>Total MCERA Fund</b>	<b>\$ 2,005.7</b>	<b>18.7%</b>	<b>11.3%</b>	<b>13.1%</b>	<b>7.2%</b>

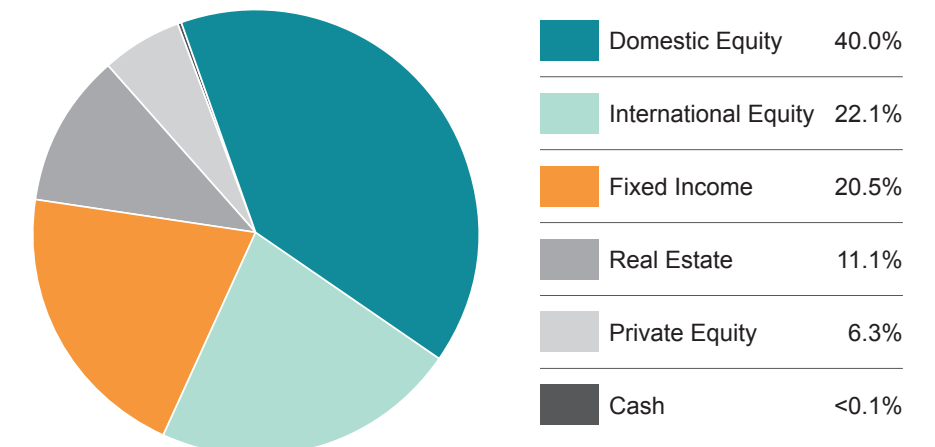
## Annual Investment Returns

For the fiscal year ending June 30, 2014, MCERA's investments returned 18.1% after fees and expenses, bringing the total fund to \$1.99 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)



# 2014 Highlights<sup>1</sup>

Funded Ratio<sup>2</sup> 84.3%

Net Assets \$2.00b

Investment Return 18.7%

Average Annual Retirement Benefit<sup>3</sup> \$39,138

Service Retirements<sup>4</sup> 113

Benefit Calculations Completed<sup>5</sup> 553

Workshops Held 22

Workshop Attendees 525

<sup>1</sup> All data as of June 30, 2014.

<sup>2</sup> Funded ratio based on market value of assets.

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

<sup>4</sup> Service retirement data does not include disability retirements.

<sup>5</sup> Benefit calculations include service retirement benefits, estimates of retirement benefits, death 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  
**Allen Haim** • Elected by Retired Members (Alternate)  
**Alan Piombo** • Elected by Safety Members  
**Karen Shaw** • Ex-officio (Alternate)  
**David Shore** • Appointed by Board of Supervisors  
**Phillip Thomas** • Elected by General Members  
**Sean Webb** • Elected by Retired Members

## 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
2014	2,533	2,868	638
2013	2,472	2,790	621
2012	2,491	2,679	599
2011	2,546	2,545	582
2010	2,628	2,431	596

### Active Members by Employer

1,897	County of Marin
346	City of San Rafael
113	Marin Superior Court
75	Novato Fire Protection District
50	Southern Marin Fire Protection District
34	Marin/Sonoma Mosquito & Vector Control District
11	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" are service connected applications that were denied service connection but granted non-service connected disability retirements.

	Board Hearings	Granted	Denied	Other
Service Connected	12	7	3	2
Non-service Connected	1	1	0	0
<b>Total Applications</b>	<b>13</b>	<b>8</b>	<b>3</b>	<b>2</b>

## 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.