

PAFR

Fiscal year ended June 30, 2016



This Popular Annual Financial Report (PAFR) is a summary of the overall financial information for the Marin County Employees' Retirement Association (MCERA) as of the fiscal year ended June 30, 2016.

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, 2016 is also included, but the PAFR does not 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.

For over sixty-six years MCERA has managed retirement, disability and death benefits to public employees in Marin County. Our staff and Board of Retirement are committed to providing superior customer service to our members and employing sound investment and business strategies to fulfill our long-term objectives.

About MCERA

Current Trustees

Bernadette Bolger

Appointed by Board of Supervisors

Chris Cooper

Elected by Safety Members

Roy Given

Ex-officio, County Director of Finance

Maya Gladstern

Elected by Retired Members

Dorothy Jones

Elected by Retired Members (Alternate)

Laurie Murphy

Elected by General Members

Alan Piombo

Elected by Safety Members (Alternate)

Karen Shaw

Ex-officio (Alternate)

David Shore

Appointed by Board of Supervisors

Stephen Silberstein

Appointed by Board of Supervisors

Kim Stevens

Appointed by Board of Supervisors

Phillip Thomas

Elected by General Members

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.

Our Staff

MCERA staff, under direction from the Retirement Administrator, assist the Retirement Board in the administration of the retirement system. MCERA maintains records for all retirees, beneficiaries, active and deferred members. In executing its responsibility MCERA collects contributions from members and employers, calculates retirement benefits, pays monthly retirement benefits, processes contribution refunds, determines service purchase costs and pays death benefits. MCERA also maintains the accounting and financial records for the system's assets and investments.

Our Plan

MCERA is a multiple-employer governmental pension plan established by the County of Marin on July 1, 1950, under the County Employees Retirement Law of 1937 (California State Government Code Section 31450 et. seq., also referred to as the 1937 Act). MCERA is also governed by the California Constitution and the regulations, procedures and policies adopted by the Board of Retirement. The governing bodies of MCERA's employers may also adopt resolutions, as permitted by the 1937 Act, which may affect the benefits of MCERA members.

Our Board

The MCERA Board of Retirement is composed of nine members with three alternates. The Board consists of the Marin County Director of Finance, four trustees who are appointed by the Marin County Board of Supervisors, and six trustees who are elected by the MCERA membership (two general, one safety and one safety alternate, one retiree and one retiree alternate). The Director of Finance may also appoint an alternate ex-officio member. Except for the County Director of Finance, all trustees serve a three-year term with no limit on the number of terms that can be served.

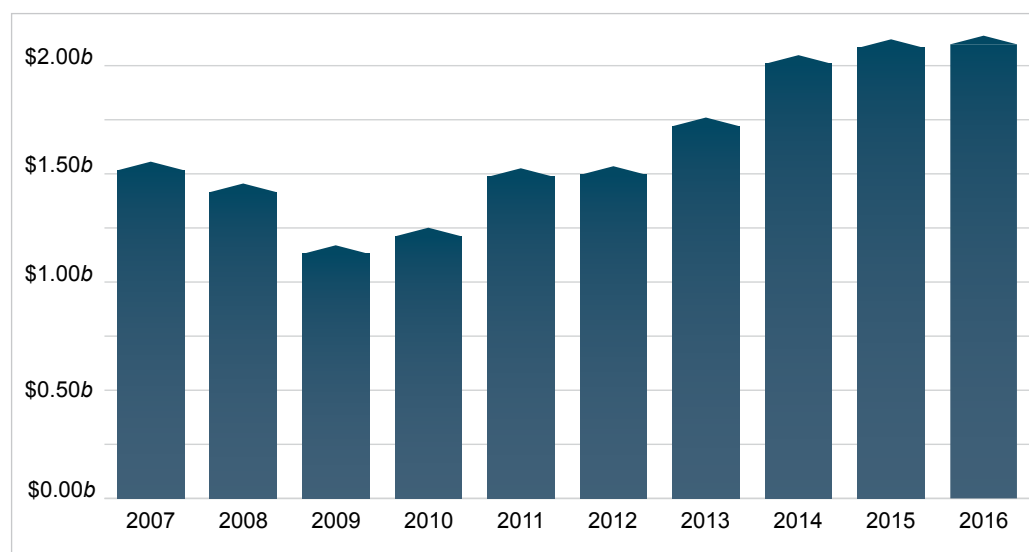
(Condensed)

Summary of Net Position

<i>(All \$ in millions)</i>	6/30/2016	6/30/2015	Dollar Change	Percent Change
Investments at Fair Value	\$ 2,056.4	\$ 2,026.4	\$ 30.0	1.5%
Cash & Cash Equivalents	35.6	43.3	(7.7)	(17.8%)
Capital Assets	5.9	6.4	(0.5)	(7.8%)
Collateral Held for Securities	36.3	48.8	(12.5)	(25.6%)
Other Assets	10.7	11.1	(0.4)	(3.6%)
Total Assets	2,144.9	2,136.0	8.9	0.4%
Total Liabilities	46.2	54.1	(7.9)	(14.6%)
Net Position	\$ 2,098.7	\$ 2,081.9	\$ 16.8	0.8%

Brown Armstrong Accountancy Corporation audited the financial statements for fiscal year ending June 30, 2016 and issued an unqualified (clean) opinion. Total assets of \$2,144.9 million less liabilities of \$46.2 million resulted in a plan net position of \$2,098.7 million available for benefits.

Net Position Over Time



Dollar amounts in billions, for fiscal years ended June 30.



MCERA's net position represents assets available to pay pension benefits. The fund is at \$2.1 billion at the end of fiscal year 2016.

Key Business Activity:

Adopted Investment Beliefs

In June 2016, the Board adopted a set of Investment Beliefs, intended to provide a basis for strategic management of the investment portfolio, inform organizational priorities, and ensure alignment between the Board and MCERA staff. The eight Investment Beliefs are a guide for making decisions that often require balancing multiple inter-related decision factors. Each Investment Belief also contains several sub-beliefs that are actionable statements that provide insight as to how the beliefs will be implemented.

The sources of funds to finance retirement benefits are employee and employer contributions and the investment returns on those contributions. By law, assets must be used for 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.

Other Expense includes fees for legal, actuarial and technology services.

Changes in Net Position

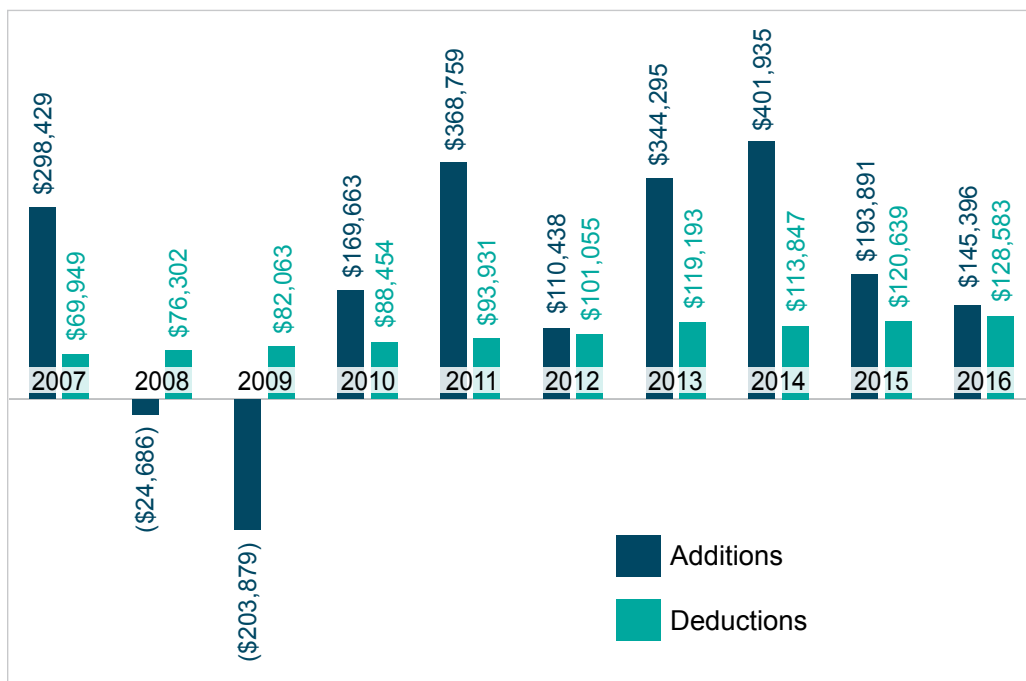
(Condensed)

<i>(All \$ in millions)</i>	6/30/2016	6/30/2015	Dollar Change	Percent Change
Additions				
Employer Contributions	\$ 78.1	\$ 72.9	\$ 5.2	7.1%
Employee Contributions	24.4	21.0	3.4	16.2%
Net Investment Income	42.9	100.0	(57.1)	(57.1%)
Total Additions	\$ 145.4	\$ 193.9	\$ (48.5)	(25.0%)
Deductions				
Retirement Benefits	\$ 123.2	\$ 115.3	\$ 7.9	6.9%
Contribution Refunds	1.0	0.7	0.3	42.9%
Administrative Expense	3.5	3.7	(0.2)	(5.4%)
Other Expense	0.9	0.9	0.0	0.0%
Total Deductions	\$ 128.6	\$ 120.6	\$ 8.0	6.6%

Additions & Deductions Over Time



Additions to the fund include employee and employer contributions, and earnings on investments. Deductions include payments to retirees and beneficiaries, contribution refunds, and the costs of administering the system.



Dollar amounts in thousands, for fiscal years ended June 30.

Assets & Investment Returns

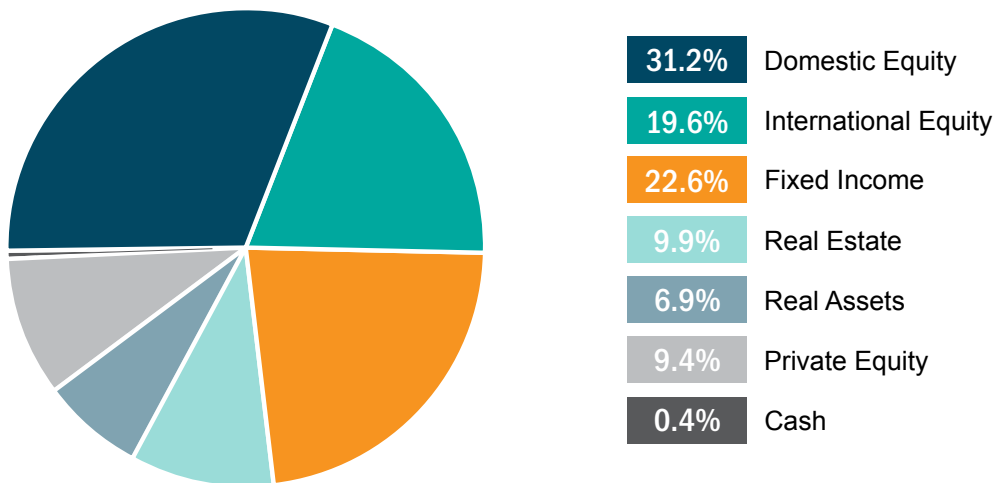
(All \$ in millions)

Investment	Market Value	2016 Return	5-Year Return	10-Year Return
Domestic Large Cap Equity	\$ 477.6	4.0%	11.5%	6.5%
Domestic Small Cap Equity	178.3	(11.1%)	6.6%	5.0%
International Equity	412.1	(6.9%)	3.6%	3.2%
Fixed Income	476.1	6.7%	4.2%	5.3%
Real Estate	207.6	19.8%	15.9%	7.8%
Real Assets	145.2	1.1%	—	—
Private Equity	197.2	8.9%	8.6%	—
Cash	8.4	0.2%	0.1%	1.1%
Total MCERA Fund	\$2,102.5	2.2%	8.2%	5.8%

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

(Actual)

Asset Allocation



Key Business Activity:

New Disability Retirement Publications

In December 2015, MCERA released all new disability retirement publications. The Disability Retirement Handbook reviews the types of disability retirement and eligibility requirements, explains the application process in detail and answers over twenty frequently asked questions. The Disability Retirement Process Brochure provides an overview of the application process and a brief comparison of the types of disability retirement. The Application Forms Packet contains all application forms as fillable PDFs, instructions for completing each section of the application, and a checklist to help members keep track of required documents.

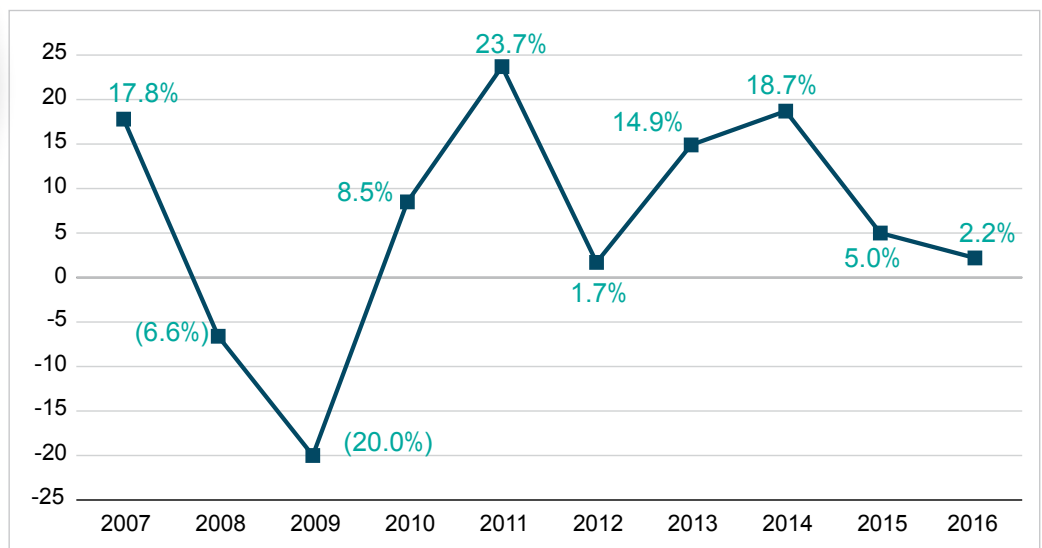
Investment Policy

The overall goal for MCERA investments is to construct a portfolio that meets or exceeds the long-term actuarial assumption for return on net assets in order to provide our members with their promised benefits. 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.

10 year
Snapshot

MCERA assumes the fund will earn 7.25% over the long term. For the past 10- and 20-year periods MCERA's investments have returned 5.81% and 7.07%, respectively, net of fees and expenses.

Investment Returns Over Time



For fiscal years ended June 30.

Key Business Activity:

Information Technology Risk Assessment

In June 2016, MCERA conducted its first Information Technology Risk Assessment to identify vulnerabilities related to MCERA's electronic business tools and recommend an action plan to mitigate any security exposures. The annual assessment includes a review of policies and procedures related to each business tool, as well as a review of the risk assessments performed by the other business entities to ensure that they have identified and mitigated any risk findings that may affect the confidentiality, integrity, organizational operations, organizational assets, members, staff or Board of MCERA.

Actuarial Highlights

Actuarial Methods

Assets are valued using the market value. The assets used to compute the unfunded actuarial liability are the market value of assets minus the value of any non-valuation contingency reserves.

The actuarial funding methods used in the June 30, 2016 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 14 years remaining as of June 30, 2016.
- 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 22 years remaining as of June 30, 2016.
- Subsequent unexpected changes 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.

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

Key Economic Assumptions

Investment Return

7.25%

Long-term Inflation Rate

2.75%

Mortality

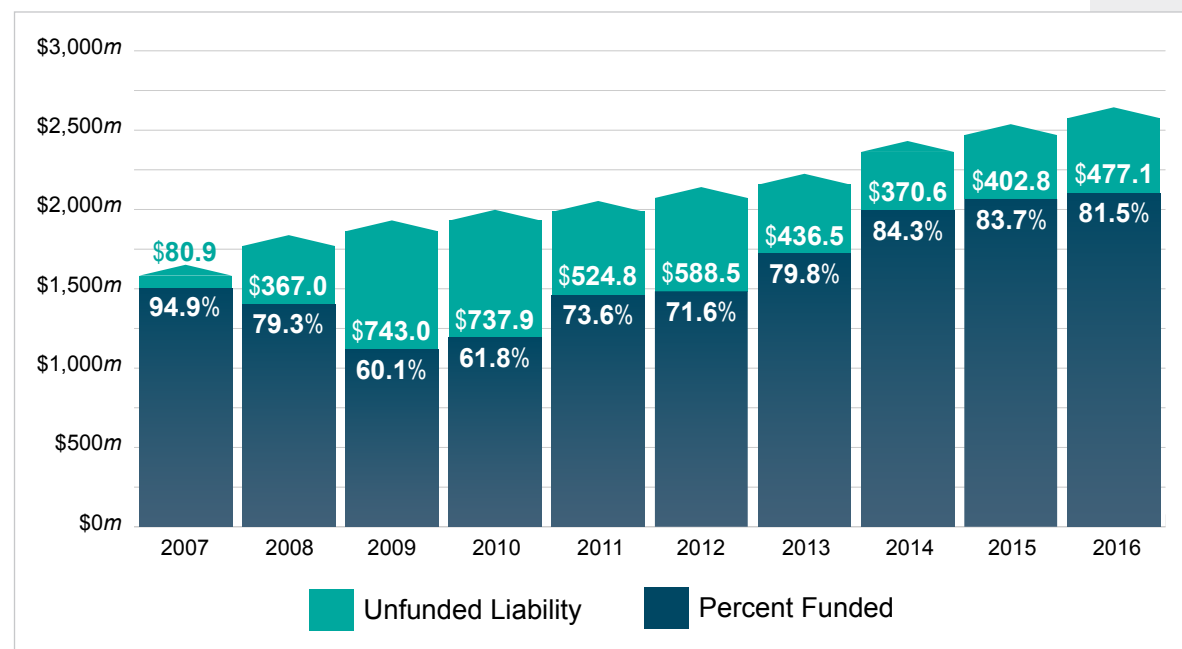
CalPERS 2014 mortality rates, with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2009 using Scale MP-2014

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

\$4.8 million, cost split between employers and employees



Data based on the Market Value of assets. Dollars in millions, for fiscal years ended June 30.

MCERA Membership

all data as of June 30, 2016

480

Benefit Calculations Completed

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.

146

Service Retirements

16

Member Workshops

24

Retirement Board & Committee Meetings

\$41,515

Average Annual Retirement Benefit

This is the average benefit received for service retirements, disability retirements and survivor benefits.

Total Members

	Active	Retired	Deferred
2016	2,677	3,057	658
2015	2,609	2,939	653
2014	2,533	2,868	638
2013	2,472	2,790	621
2012	2,491	2,679	599

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.

Active Members

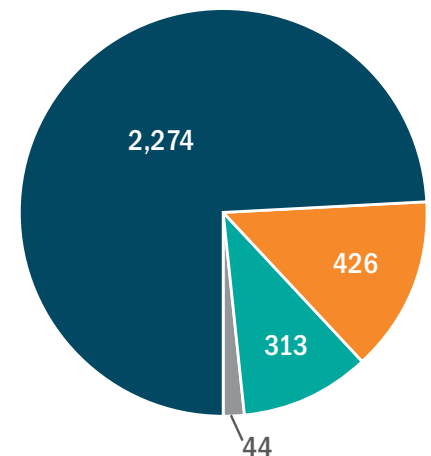
by Employer

2,039	County of Marin
357	City of San Rafael
100	Marin Superior Court
77	Novato Fire Protection District
54	Southern Marin Fire Protection District
31	Marin/Sonoma Mosquito & Vector Control District
11	Tamalpais Community Services District
5	Marin City Community Services District
3	Local Agency Formation Commission

Active General: 2,066
Active Safety: 611

Retired Members

by Benefit Type



74.4%	Service Retirement
13.9%	Beneficiaries
10.2%	Service Connected Disability
1.4%	Non-service Connected Disability

Disability Retirement

	Board Hearings	Granted	Denied
Service Connected	15	5	10
Non-service Connected	1	0	1
Total Applications	16	5	11

Disability data 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.