

PAFR

Fiscal year ended June 30, 2018



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, 2018.

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, 2018 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 sixty-eight 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

Steven Block

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)

Sara Klein

Appointed by Board of Supervisors

Laurie Murphy

Elected by General Members

Alan Piombo

Elected by Safety Members (Alternate)

Karen Shaw

Ex-officio (Alternate)

Stephen Silberstein

Appointed by Board of Supervisors

Phillip Thomas

Elected by General Members

Todd Werby

Appointed by Board of Supervisors

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.

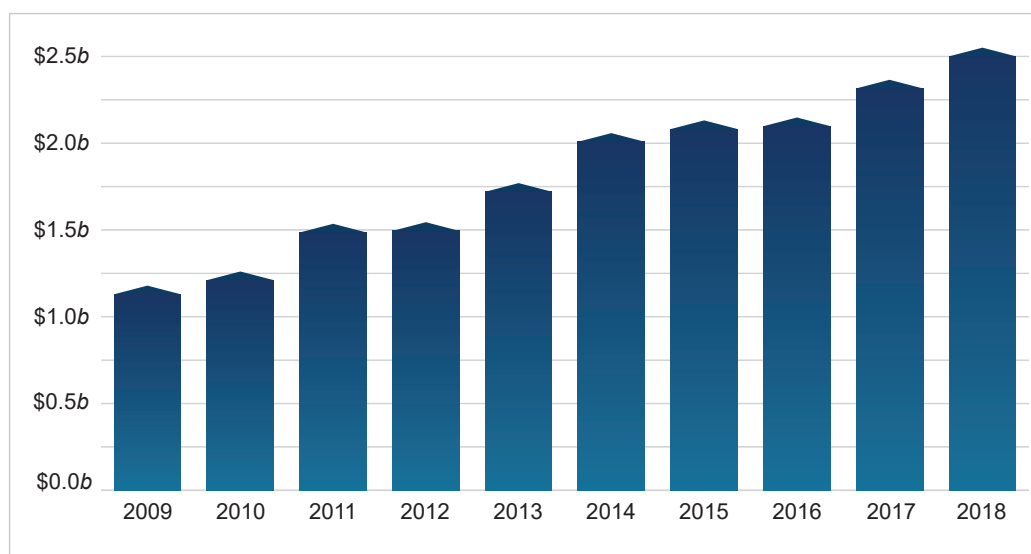
(Condensed)

Summary of Net Position

<i>(All \$ in millions)</i>	6/30/2018	6/30/2017	Dollar Change	Percent Change
Investments at Fair Value	\$ 2,474.3	\$ 2,258.5	\$ 215.8	9.6%
Cash & Cash Equivalents	31.5	46.8	(15.3)	(32.7%)
Capital Assets	5.0	5.5	(0.5)	(9.1%)
Collateral Held for Securities	42.1	36.9	5.2	14.1%
Other Assets	7.7	11.9	(4.2)	(35.3%)
Total Assets	2,560.6	2,359.6	201.0	8.5%
Total Liabilities	59.2	43.4	15.8	36.4%
Net Position	\$ 2,501.4	\$ 2,316.2	\$ 185.2	8.0%

Brown Armstrong Accountancy Corporation audited the financial statements for fiscal year ending June 30, 2018 and issued an unqualified (clean) opinion. Total assets of \$2,560.6 million less liabilities of \$59.2 million resulted in a plan net position of \$2,501.4 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 \$2.5 billion at the end of fiscal year 2018.

Key Business Activity:

Audit Committee Established

In June 2018, the Board Chair directed staff to prepare a charter for the establishment of a standing Audit Committee. This Committee will serve as an advisory committee to the Board on matters relating to the integrity of the MCERA trust fund's financial reports, operations, and internal controls. The Audit Committee will also help promote and enhance effective internal controls for MCERA operations and oversee communication between external auditors and management. Recommendations of the Audit Committee will be subject to final approval by the full Board.

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.

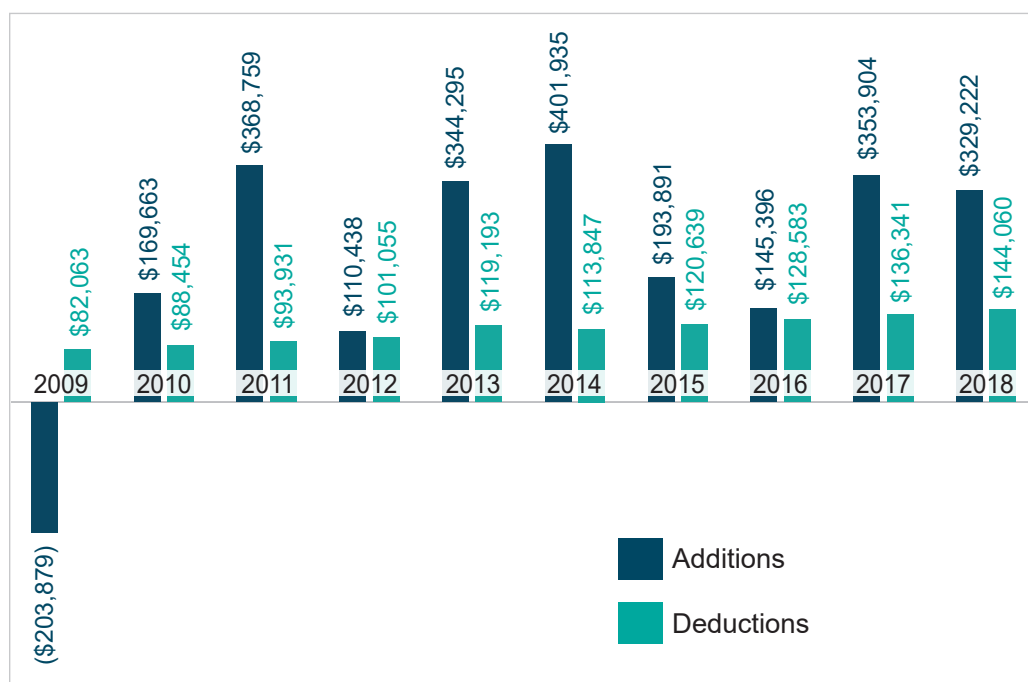
Other Expense includes fees for legal, actuarial and technology services.

Changes in Net Position

(Condensed)

<i>(All \$ in millions)</i>	6/30/2018	6/30/2017	Dollar Change	Percent Change
Additions				
Employer Contributions	\$ 78.8	\$ 77.5	\$ 1.3	1.7%
Employee Contributions	28.6	28.1	0.5	1.8%
Net Investment Income	221.8	248.3	(26.5)	(10.7%)
Total Additions	\$ 329.2	\$ 353.9	\$ (24.7)	(7.0%)
Deductions				
Retirement Benefits	\$ 138.6	\$ 130.8	\$ 7.8	6.0%
Contribution Refunds	1.2	1.2	0.0	0.0%
Administrative Expense	3.3	3.5	(0.2)	(5.7%)
Other Expense	0.9	0.8	0.1	12.5%
Total Deductions	\$ 144.0	\$ 136.3	\$ 7.7	5.6%

Additions & Deductions Over Time



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



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.

Assets & Investment Returns

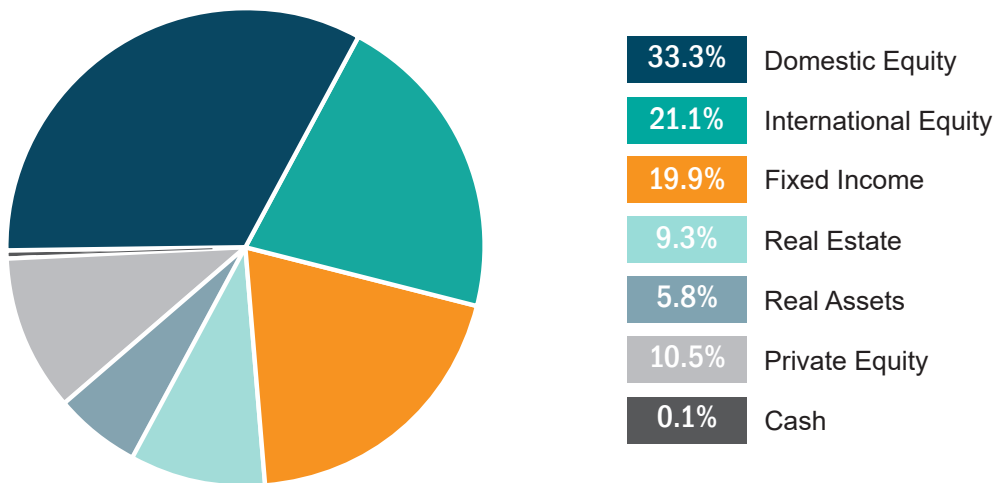
(All \$ in millions)

Investment	Market Value	2018 Return	5-Year Return	10-Year Return
Domestic Equity	\$ 836.2	16.6%	12.9%	9.7%
International Equity	531.0	7.1%	6.5%	3.9%
Fixed Income	500.4	0.0%	2.4%	4.2%
Real Estate	233.1	6.7%	13.1%	6.2%
Real Assets	146.5	6.4%	—	—
Private Equity	263.4	20.8%	14.3%	—
Cash	0.9	1.7%	1.2%	0.1%
Total MCERA Fund	\$2,511.5	9.7%	9.8%	7.0%

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:

Internal Reference Guide

In February 2018, MCERA implemented an Internal Reference Guide. The Guide is a comprehensive reference point for MCERA employees that includes historical plan information, frequently asked questions and procedures for all areas of the business.

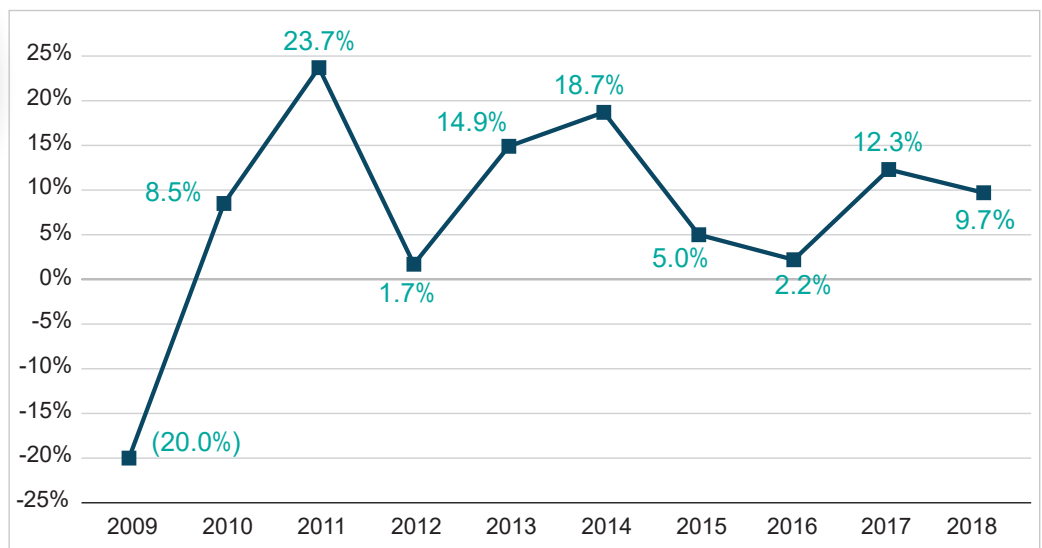
Investment Policy

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 7.00% over the long term. For the past 10- and 20-year periods MCERA's investments have returned 7.02% and 6.35%, respectively, net of fees and expenses.

Investment Returns Over Time



For fiscal years ended June 30.

On Our Website:

MCERA's Investment Beliefs

The Retirement Board's Investment Beliefs 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, and each contains several sub-beliefs that are actionable statements that provide insight as to how the beliefs will be implemented.

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, 2018 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 12 years remaining as of June 30, 2018.
- 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 20 years remaining as of June 30, 2018.
- 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

7.00%

Long-term Inflation Rate

2.75%

Mortality

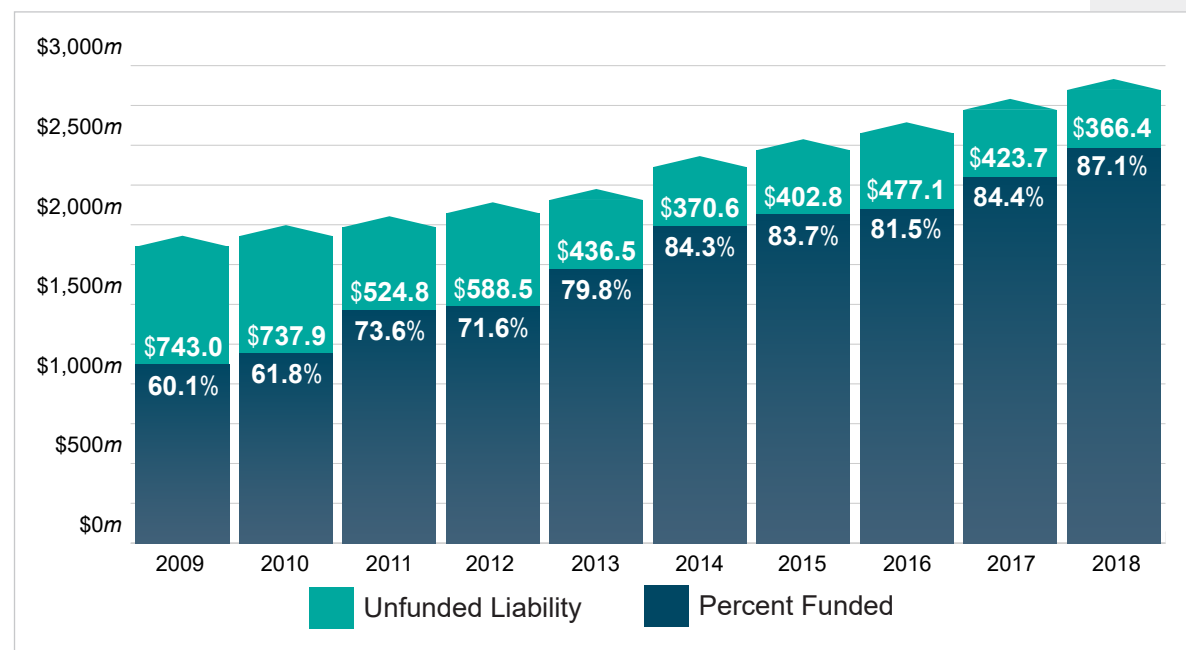
CalPERS 2017 mortality rates, with the 15-year static projection used by CalPERS replaced by generational improvements from a base year of 2014 using Scale MP-2017

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

\$5.1 million, cost split between employers and employees



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

170
Service
Retirements

25
Retirement
Board &
Committee
Meetings

99
Age of Oldest
Retired Member

20
Age of Youngest
Active Member

\$43,913
Average Annual
Retirement
Benefit

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

MCERA Membership

all data as of June 30, 2018

Total Members

	Active	Retired	Deferred
2018	2,732	3,270	668
2017	2,685	3,141	668
2016	2,677	3,057	658
2015	2,609	2,939	653
2014	2,533	2,868	638

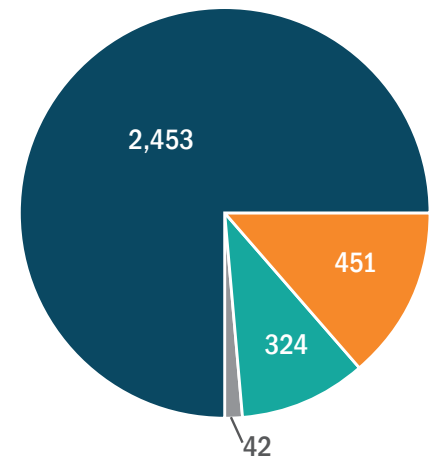
MCERA's membership includes all regular hire employees working at least 75% of full-time in eligible positions for one of nine participating employers, and retired members and beneficiaries drawing monthly pension benefits. Membership also includes deferred members who have left employment but have not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

Active Members *by Employer*

2,095	County of Marin
359	City of San Rafael
98	Marin Superior Court
74	Novato Fire Protection District
53	Southern Marin Fire Protection District
32	Marin/Sonoma Mosquito & Vector Control District
13	Tamalpais Community Services District
7	Marin City Community Services District
1	Local Agency Formation Commission

Active General: 2,118
Active Safety: 614

Retired Members *by Benefit Type*



75.0% Service Retirement
13.8% Beneficiaries
9.9% Service Connected Disability
1.3% Non-service Connected Disability

Disability Retirement

	Board Hearings	Granted	Denied
Service Connected	16	9	7
Non-service Connected	0	0	0
Total Applications	16	9	7

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.