# Mendocino County Employees Retirement Association

**Ukiah, California**

# Popular Annual Financial Report

## For the Fiscal Year Ended June 30, 2024

A Pension Trust Fund of the County of Mendocino, Superior Court of Mendocino County, and the Russian River Cemetery District

Government Finance Officers Association

# Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**Mendocino County Employees' Retirement Association California**

For its Annual Financial Report
For the Fiscal Year Ended

June 30, 2023

Christopher P. Morrill

Executive Director/CEO

Mendocino County Employees Retirement Association

# 2023-2024 At A Glance

**$715** Million
Total Net Position

**3,733** Members Strong

**74.2%**
Funded (Valuation Value of Assets)

**9.41%**
Fiscal Year 23-24 Net Rate of Return

**7.75%**
Fiscal Year 23-24 5-Year Net Rate of Return

**$4,073**
Average Monthly Benefit

**3** Participating Employers

Mendocino County Employees Retirement Association

## MISSION

**Providing sustainable pensions, retirement planning education, and professional services to current and future members.**

## VISION

**To be a trusted resource for a well-planned and secure retirement.**

## GUIDING PRINCIPLES

- **We are mindful of the impacts to individual members when we fulfill our fiduciary role of making decisions in the best interests of all members.**
- **We value professionalism, inclusion, and collegiality in doing our work.**
- **We take the long term into consideration in everything we do while remaining adaptable and flexible in the short term.**

# Board of Retirement Trustees as of June 30, 2024

# A Message to Members

The Mendocino County Employees Retirement Association (MCERA) is pleased to present this Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2024. The PAFR is a snapshot of MCERA's financial activities during the year. The information presented in the PAFR comes from MCERA's Annual Comprehensive Financial Report (ACFR). The ACFR provides more detailed information and is available on MCERA's website, https://www.mendocinocounty.org/government/affiliated-agencies/retirement-association/reports.

MCERA's goals are to: achieve long-term funding of the cost of benefits; seek a reasonable and equitable allocation of the costs of benefits over time; and minimize volatility of the plan sponsor's contribution to the extent reasonably possible.

As of June 30, 2024, MCERA's Funded Ratio is 74.2%. The Funded Ratio is the ratio of the value of assets (smoothed asset values) to the actuarial value of liabilities (promised benefits). If considered on a market value basis, the ratio would be 74.2%.

For the fiscal year (FY), MCERA's total portfolio underperformed its custom benchmark. MCERA's annual return was 9.41%, compared to the benchmark of 10.04%. The underperformance is primarily due to performance of MCERA's domestic and international equity holdings. However, those losses were somewhat offset by performance of infrastructure and domestic fixed income holdings. MCERA remains financially strong and able to meet its obligations to plan participants and beneficiaries.

Brown Armstrong Accountancy Corp. audited the financial statements as of June 30, 2024 and stated that MCERA's financial statements fairly represent the financial position for the fiscal year.

Respectfully submitted,

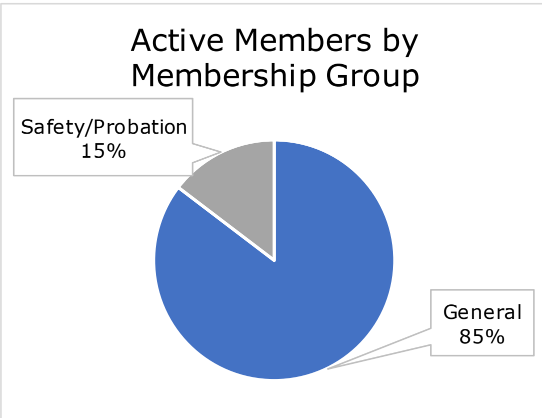
Doris L. Rentschler, CFP

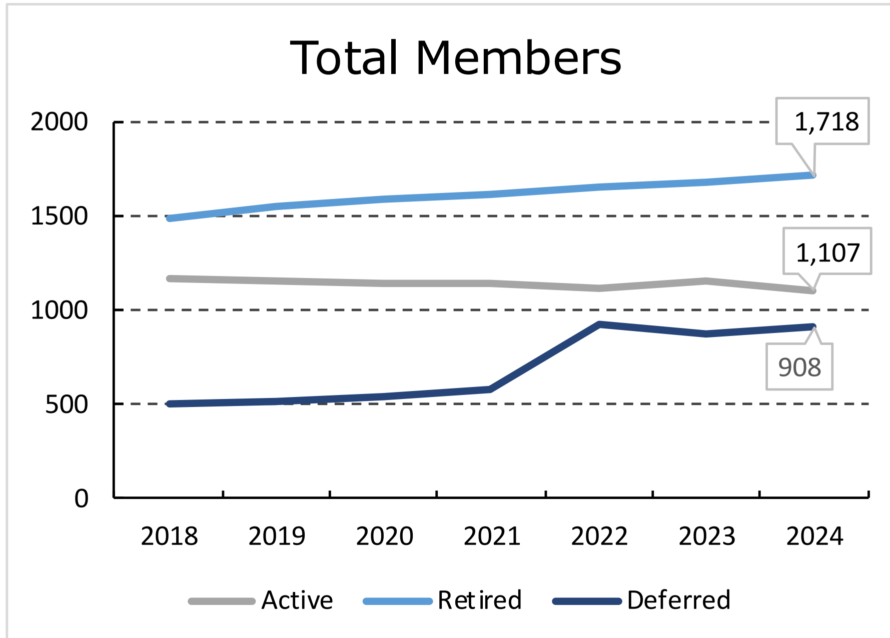
Executive Director

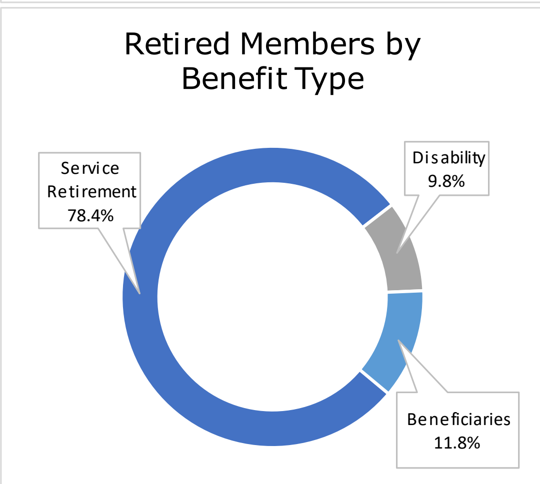
# MCERA Membership Highlights

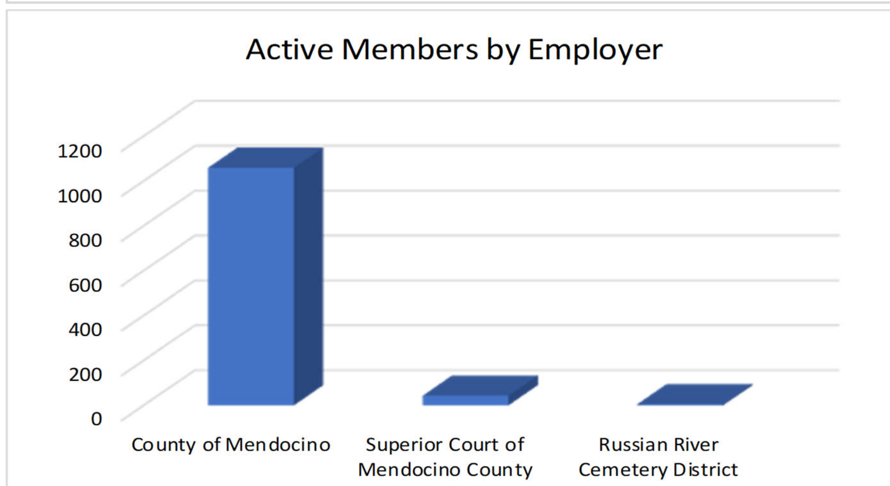
## All data as of June 30, 2024

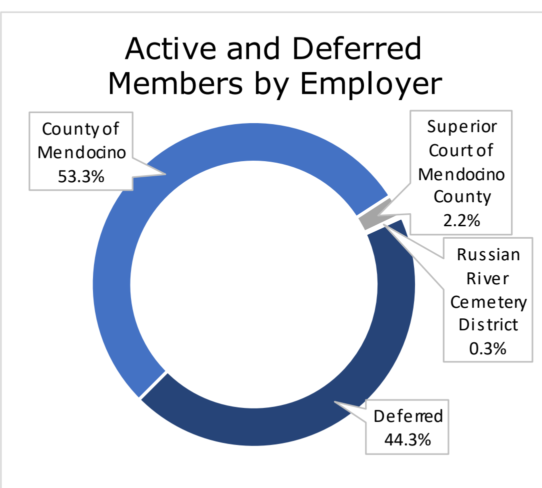
MCERA's membership consists of full time (working at least 64 hours per pay period) employees, members who have left service and have deferred their receipt of retirement benefits, and retirees and their beneficiaries from the County of Mendocino, Superior Court of Mendocino County, and the Russian River Cemetery District.



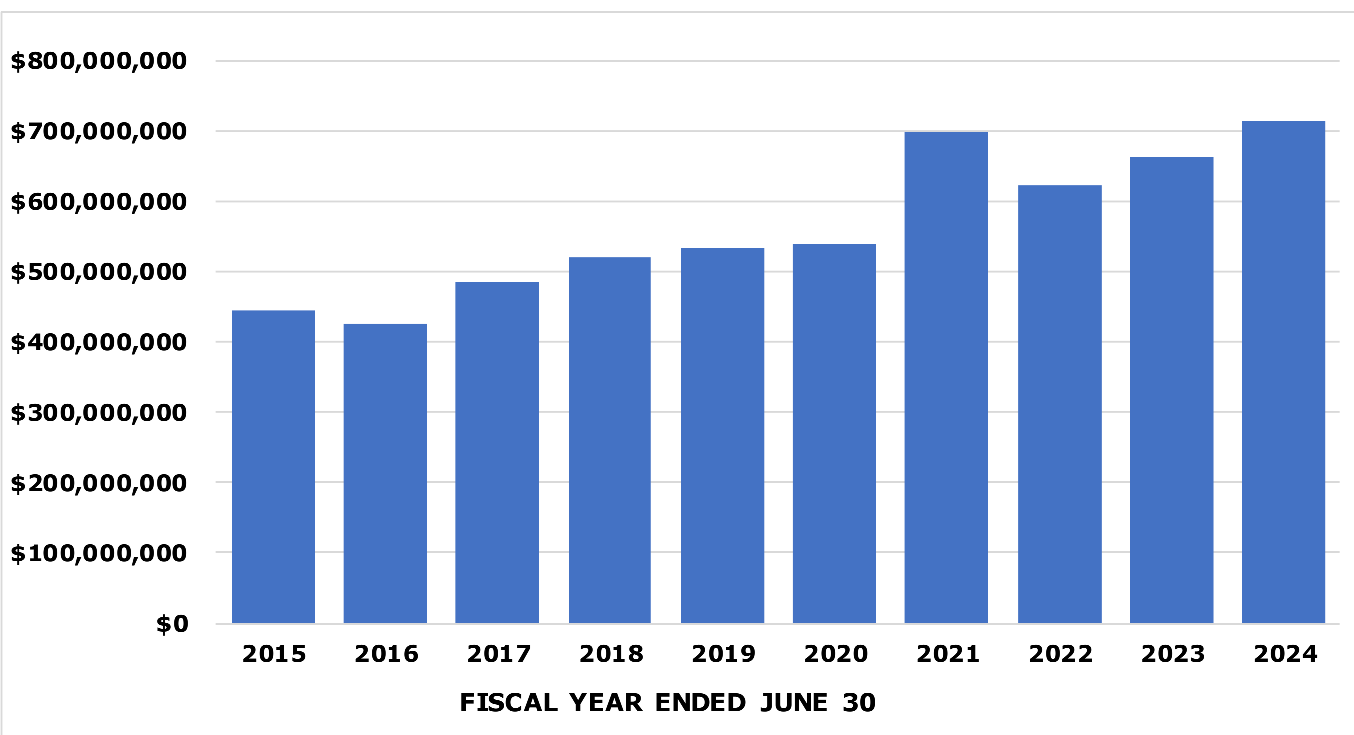

# Summary of Fiduciary Net Position

Fiduciary Net Position is a snapshot of account balances at fiscal year-end. It presents major categories of assets and liabilities at fiscal year-end. The difference between assets and liabilities, Fiduciary Net Position, represents funds available to pay benefits.

| (Dollars in Thousands) | 2024 | 2023 | Dollar Change | Percent Change |
|---|---|---|---|---|
| Cash Equivalents | $ 234 | $ 677 | $ (443) | (65.44%) |
| Receivables | 957 | 1,574 | (618) | (39.20%) |
| Capital Assets, Net | | | | |
| Software Equipment | - | 79 | (79) | (100.00%) |
| Investments, at Fair Value | 715,157 | 663,165 | 51,992 | 7.84% |
| Total Assets | 716,348 | 665,495 | 50,853 | 7.64% |
| Total Liabilities | 1,236 | 1,586 | (350) | (22.07%) |
| Fiduciary Net Position | $ 715,112 | $ 663,909 | $ 51,203 | 7.71% |

Total net position increased from $663.9 million in fiscal year 2023 to $715.1 million in fiscal year 2024. Increases and decreases in Fiduciary Net Position, when analyzed over time, may serve as an indicator of whether MCERA's financial position is improving or deteriorating. Management believes MCERA remains in a strong position to meet promised benefits.

## Net Position Over Time

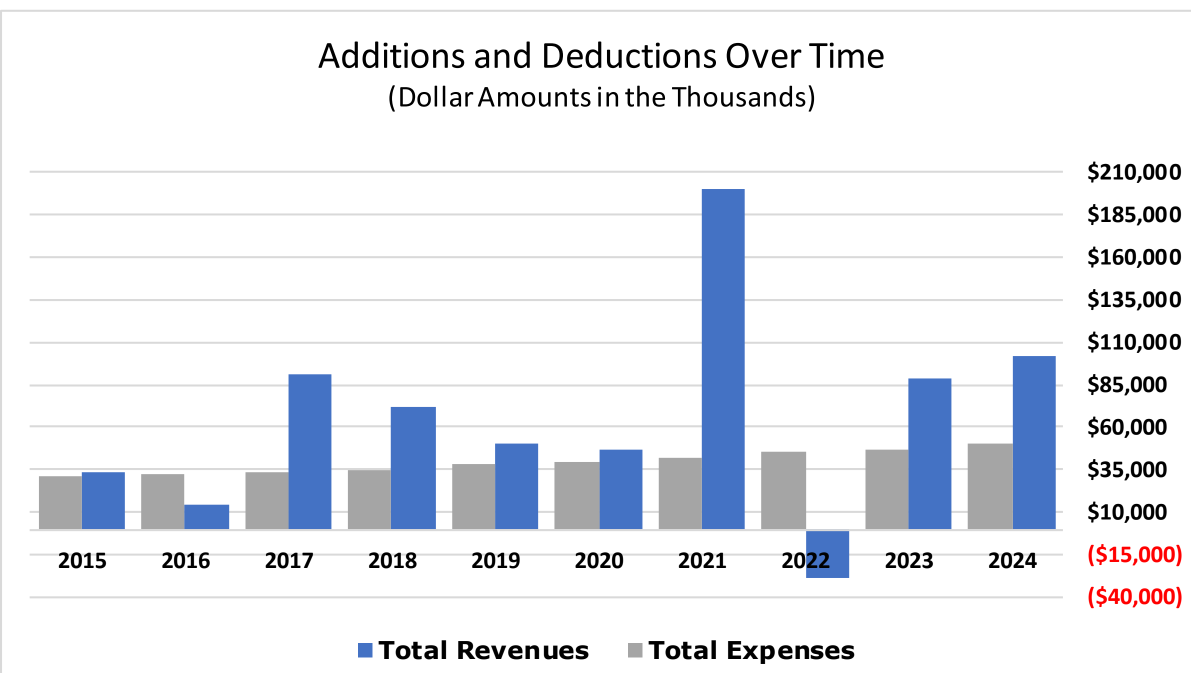


# Changes in Net Position

Benefits to MCERA members are provided through income on investments and the collection of employee and employer contributions. These income sources for the fiscal years ended June 30, 2024 and 2023 totaled $101.6 million and $88.9 million, respectively. The increase in additions from 2023 to 2024 can be attributed primarily to an increase in net investment income. Employer contributions increased  from fiscal year 2023 as a result of greater covered payroll.  Member contributions decreased in fiscal year 2024 as a result of lower non-safety service purchases.

MCERA's assets are primarily used for benefit payments to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering MCERA. These deductions for the fiscal years ended June 30, 2024 and 2023 were $50.4 million and $47.0 million, respectively. The primary reason for this change was an increase in benefits paid to retirees.  The increase in refunds of contributions was due to member deaths and resignations.

| (Dollars in Thousands) | 2024 | 2023 | Dollar Change | Percent Change |
|---|---|---|---|---|
| *Additions* | | | | |
| Employer Contributions | $ 32,096 | $ 30,309 | $ 1,787 | 5.90% |
| Member Contributions | 8,424 | 8,493 | (69) | (0.81%) |
| Net Investment Income | 61,117 | 50,150 | 10,967 | 21.87% |
| Insurance Reimbursement | - | 27 | (27) | (100.00%) |
| **Total Additions** | 101,637 | 88,979 | 12,658 | 14.23% |
| *Deductions* | | | | |
| Retirement Benefits | 47,384 | 44,310 | 3,074 | 6.94% |
| Refund of Contributions | 1,411 | 1,144 | 267 | 23.34% |
| Administrative Expenses | 1,639 | 1,550 | 89 | 5.74% |
| **Total Deductions** | 50,434 | 47,004 | 3,430 | 7.30% |
| Net Additions | 51,203 | 41,975 | 9,228 | 21.98% |



# Fund Revenues and Expenses

MCERA's revenues are employer and employee contributions and income on investments. Employer contributions increased as a result of greater covered payroll. Member contributions decreased as a result of lower non-safety service purchases. The increase in net investment income was due to investment outperformance. The large loss of Investment Net Income in 2022 was due to unrealized market losses, while the large increase in 2021 was due unrealized market gains.

## Revenues

| Fiscal Year Ended 6/30 | Employee Contributions | Employer Contributions | Investment Net Income | Total Revenues |
|---|---|---|---|---|
| 2024 | $ 8,424 | $ 32,096 | $ 61,117 | $ 101,637 |
| 2023 | 8,493 | 30,309 | 50,177 | 88,979 |
| 2022 | 8,186 | 30,485 | (67,368) | (28,697) |
| 2021 | 7,054 | 26,334 | 166,513 | 199,901 |
| 2020 | 6,820 | 24,647 | 14,799 | 46,266 |
| 2019 | 6,544 | 23,702 | 19,959 | 50,205 |
| 2018 | 5,996 | 20,431 | 45,272 | 71,699 |
| 2017 | 5,754 | 19,116 | 66,670 | 91,540 |
| 2016 | 5,545 | 19,129 | (10,352) | 14,322 |
| 2015 | 4,652 | 15,164 | 13,201 | 33,017 |

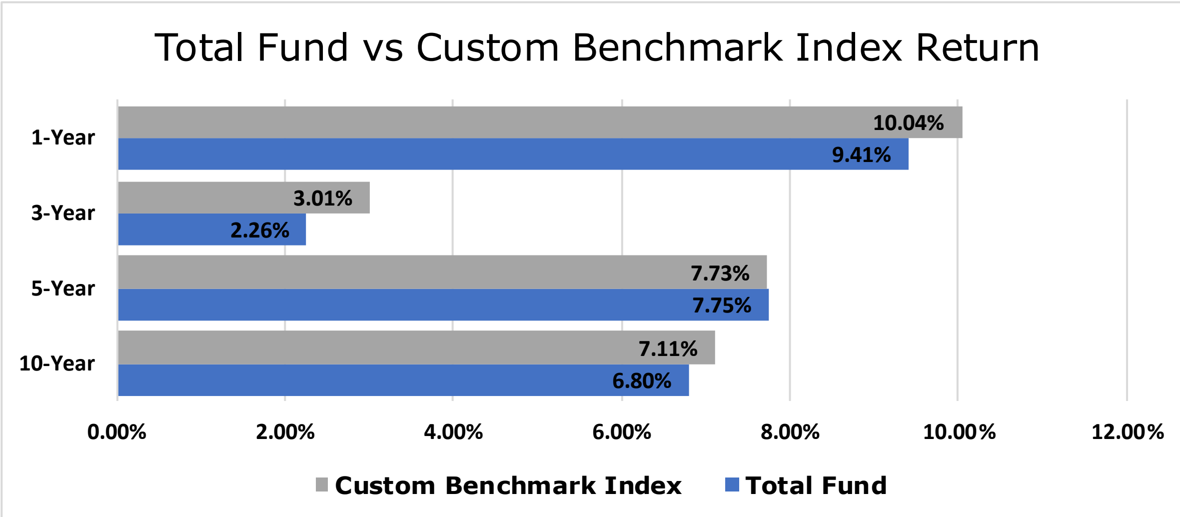
The uses of assets of the system are the payment of pension benefits to retirees and their beneficiaries, refund of contributions to former employees, and the cost of administering the system. Benefits paid is greater in fiscal year 2024 due to the increasing number of retirees. Refunds increased due to greater inactive member refunds. Administrative costs increased due to IT, contracts, and office expenses.

## Expenses

| Fiscal Year Ended 6/30 | Benefits | Administrative | Refunds | Total Expenses |
|---|---|---|---|---|
| 2024 | $ 47,384 | $ 1,639 | $ 1,411 | $ 50,434 |
| 2023 | 44,310 | 1,550 | 1,144 | 47,004 |
| 2022 | 42,750 | 1,463 | 1,596 | 45,809 |
| 2021 | 40,230 | 1,372 | 847 | 42,449 |
| 2020 | 38,036 | 1,226 | 742 | 40,004 |
| 2019 | 35,650 | 1,233 | 1,025 | 37,908 |
| 2018 | 33,332 | 1,142 | 822 | 35,296 |
| 2017 | 31,617 | 1,086 | 1,148 | 33,851 |
| 2016 | 30,435 | 1,142 | 624 | 32,201 |
| 2015 | 29,225 | 1,059 | 824 | 31,108 |

# Investments -Asset Values and Returns

Longer term annualized Total Fund returns are roughly in-line with the Custom Benchmark Index.




As of June 30, 2024, the assets of MCERA were valued at $715.4 million, up from the total asset value of $663.8 million at the start of the fiscal year, July 1, 2023.

| **June 30, 2024 Investment Portfolio** | **Fair Value** |
|---|---|
| Fixed income | $ 146,434,880 |
| International equities | 175,757,413 |
| Domestic equities – small cap | 40,797,176 |
| Domestic equities – mid cap | 39,924,646 |
| Domestic equities – large cap | 187,568,235 |
| Real estate partnerships | 68,779,185 |
| Infrastructure | 54,548,246 |
| Real estate – 625 Kings Court, Ukiah, CA | 1,347,000 |
| Cash | 233,783 |
| Total Cash and Investments | $ 715,390,564 |

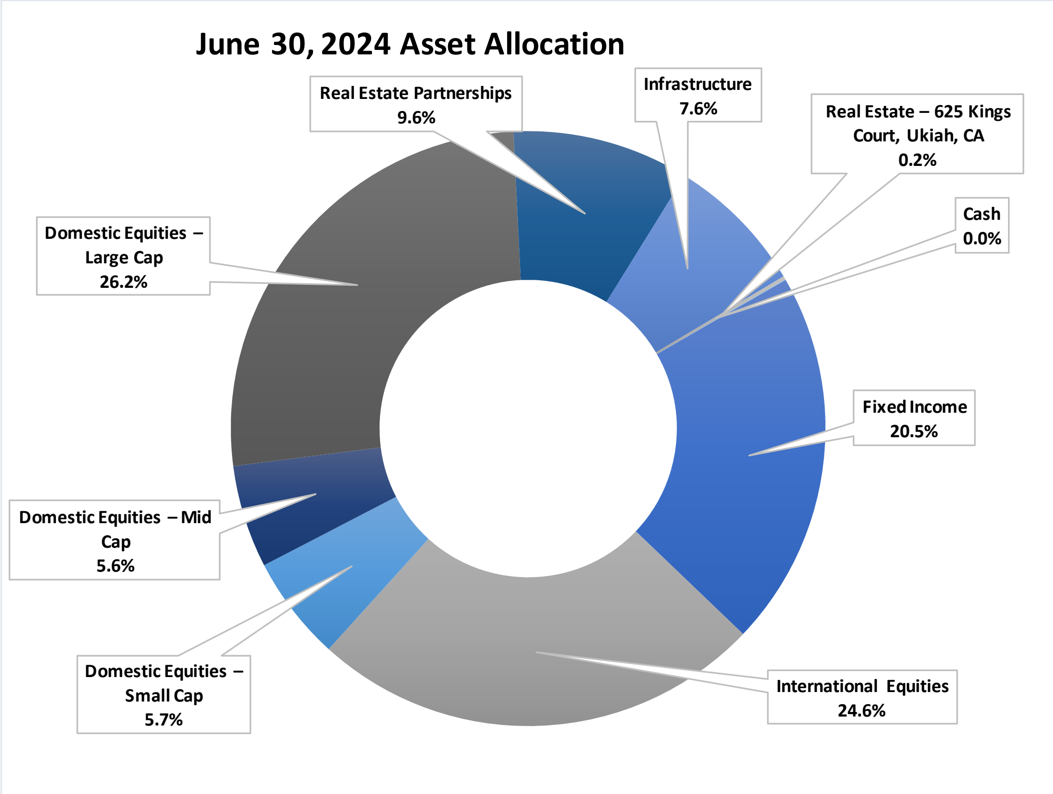
MCERA's Total Fund gained 9.41% for the fiscal year ended June 30, 2024, underperforming the Policy Index's 10.04% return.

**Investment Returns For Period Ended June 30, 2024**

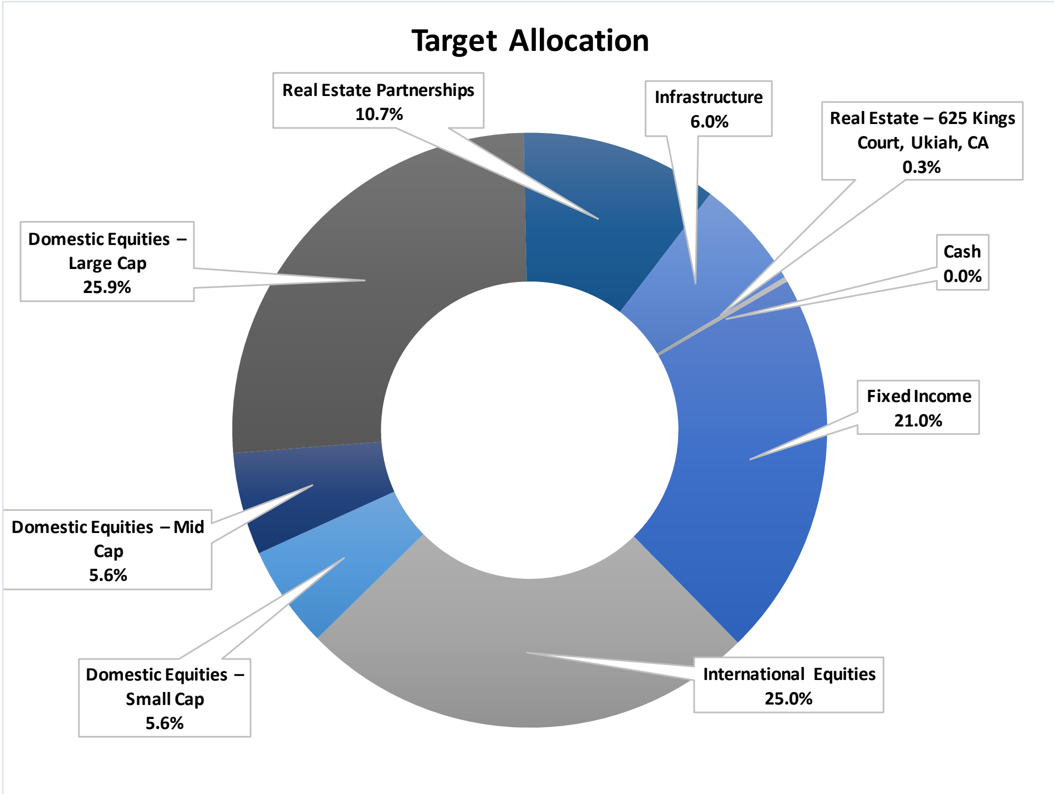
| | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| Fixed income | 4.43% | (2.10%) | 0.83% | 1.98% |
| International equities | 8.18% | (1.73%) | 5.54% | 3.32% |
| Domestic equities – small cap | 11.29% | (1.90%) | 9.52% | 9.21% |
| Domestic equities – mid cap | 13.23% | 5.00% | 10.82% | 9.76% |
| Domestic equities – large cap | 24.53% | 9.99% | 15.07% | 12.63% |
| Real estate | (11.60%) | (0.63%) | 1.47% | 5.04% |
| Infrastructure | 7.52% | 9.22% | 0.00% | 0.00% |
| **Total Fund** | **9.41%** | **2.26%** | **7.75%** | **6.80%** |
| Custom Benchmark Index* | 10.04% | 3.01% | 7.73% | 7.11% |

* Custom Benchmark Index = 37.0% Russell 3000 Index, 25.0% MSCI ACWI xUS GD, 21.0% Blmbg Aggregate, 11.0% NCREIF NFI-ODCE Eq Wt Net and 6.0% NCREIF NFI-ODCE Eq Wt Net.

# Investments -Asset Allocation

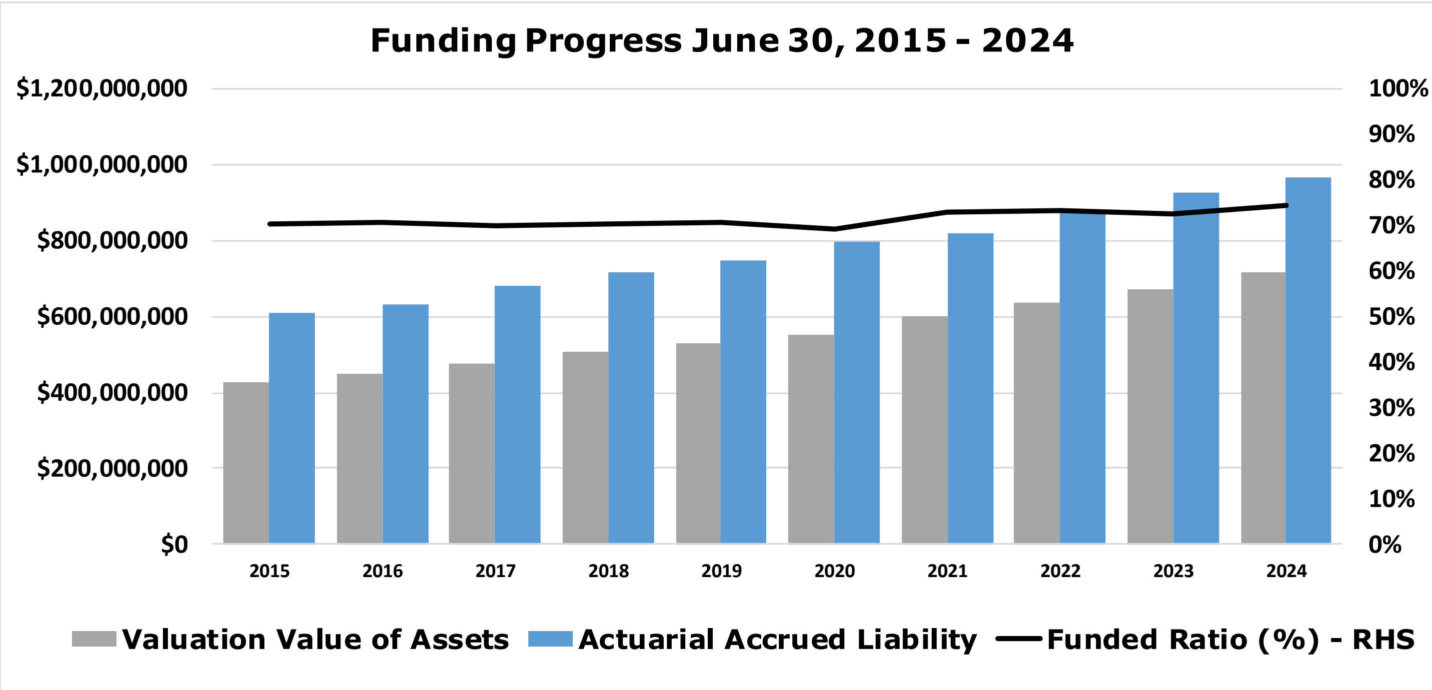



Actual allocations to international equity, domestic fixed income, and real estate were relatively underweight to that of the target and were offset by a relative overweight to domestic equity and infrastructure. All asset classes remain within their permitted ranges.



# Funded Status

MCERA maintains a funding goal to establish contributions that fully fund MCERA's liabilities. Those contributions, as a percentage of payroll, remain as level as possible for each generation of active members.




The Actuarial Accrued Liability is the present dollar value of all current and future promised benefits. Prior to 2024 the Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of MCERA's Contingency Reserve. Starting with the valuation in 2024 the Contingency Reserve is no longer deducted from Actuarial Value of Assets because the reserve was distributed to the system's other non-active member valuation reserves. The Actuarial Value of Assets is a smoothed value of assets used to establish employer contribution rates. The funded ratio is the ratio of the Valuation Value of Assets to the Actuarial Accrued Liability.

Some of the important estimates used to calculate the cost of the retirement plan are found below. The investment rate of return is the rate of investment yield the plan will earn over the long-term. The inflation rate is the long-term assumed rate of inflation. The Salary increase assumption is the rates of salary increases due to inflation, real wage growth and merit and promotion increases.

## Major Actuarial Assumptions

Investment rate of return: 6.50%

Inflation rate: 2.50%

Salary increase assumptions:

4.00% to 8.25%