July 2012

MCERA Pension Notes

INSIDE THIS ISSUE:

Merced County Employees' Retirement Association

3199 M St

Merced, Ca 95348

209-725-3636 Phone

209-725-3637 Fax

Mcera@merced.ca.us Email

www.mcera.merced.ca.us Website

Maria L. Arevalo

Plan Administrator

Long Term Strategies for System

In the recent past we have seen much volatility in the market place and an extended period of slow economic growth after the events of 2008 and 2009. In view of these present circumstances, the MCERA Board understands that it must seek to employ investment strategies that will continue to produce long term adequate returns for the retirement system. Earlier this spring, the Board completed a search for and funded an investment in an emerging markets mandate. The Board made this decision after a number of educational sessions related to this asset class and concluding that such an investment would add value to the MCERA portfolio. Last month, the Board also finalized and adopted an Actuarial Funding Policy. This policy will guide the Board when making future decisions affecting the funded status of the plan and the determination of contribution rates for the plan's sponsors and members. These two decisions are part of an overall strategy that is set to meet the long term funding requirements of the plan. Although short term performance may cause concern, the Board keeps a focus on the long term needs of the plan . This approach helps MCERA to navigate the ups and downs of the various market and economic cycles. In view of the changing economic environment, the Retirement Board continues to evaluate new investment vehicles and strategies that will deliver promised benefits.

Maria L. Arevalo

May 8, 2012 Board Election Results

On May 8, 2012, the County Elections Department conducted an election for the third miscellaneous seat on the Retirement board. There were four candidates for the seat including Michael Rhodes, the incumbent, Kissy Ward from the Risk Department, Noah Lor from Mental Health and Darlene Ingersoll from Human Resources. Trustee Rhodes won the election receiving 102 votes and retained his seat on the Board. His new term will expire June 30, 2015. Board member have significant duties and responsibilities to MCERA and we appreciate all the candidates' willingness to serve.

Frequently asked questions: Service Credit?

What is Service Credit?

Service Credit is one of the important factors used to calculate the benefit you will receive when you retire. Your retirement service credit is the number of years that you have earned working for an MCERA employer which count toward benefits in the MCERA retirement plan. Service credit is one of the three major factors that determines the monthly retirement benefit you receive when you retire; therefore, the more years of service credit you have, the higher your monthly retirement benefit will be.

One year of service credit is equal to 2,080 hours, excluding overtime hours. This is the maximum number of hours one can accrue in any given year . To increase your service credit other than by working, you may want to investigate some service credit purchase options. Service credit purchases may be made for previous employment time that qualifies as permanent, temporary, or part time service that you provided for an MCERA employer prior to becoming a member. Also, you may purchase service credit when you return from certain leaves such as authorized sick leave without pay or military leave of absence. If you are a returning employee and were previously an MCERA member but terminated service and withdrew your retirement contributions, you may restore the withdrawn service credit in full by re-depositing your previously withdrawn contributions, plus interest. The purchase of any of the aforementioned types of service credit will count toward vesting and retirement eligibility requirements but will not have any effect on seniority.

Office Notes

Members of the MCERA staff have attended a number of educational and training events in the last few months. They are well equipped to provide information on your retirement benefits and how best to fulfill the eligibility requirements. Please consider attending one of our lunch Brown Bag meetings to get answers to your retirement questions.

Retiree's corner: New Retired Trustee

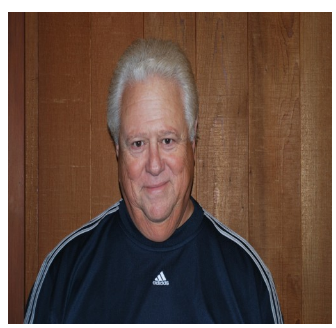
Sandy Leon Teague, the retired member representative on the Retirement Board has resigned from the Board. effective June 20, 2012.

Sandy was beginning his second term with the Board of Retirement .

Ronald Kinchloe, the alternate retired representative will replace Trustee Teague on the Board and will serve out the remainder of the term which ends December 2014.

The MCERA Board will communicate with REMCO, the retired member association about a possible replacement for the alternate representative.

The responsibility of being a public employee retirement system Board member is a significant and at times, an unap-- preciated job. Both Sandy and Ron merit the thanks of MCERA's members for their service.



Sandy

Fast Facts

Interest Crediting for Fiscal Year 2011/2012 ending June 30, 2012.

The Board approved interest credit on member accounts of 2% on December 30, 2011 and 2% on June 30, 2012.

Employer reserves received 4% on December 30, 2011 and 3.75% on June 30, 2012. Interest is determined by the fund's returns and in compliance with the Board's Interest Crediting Policy.

INVESTMENT REPORT

Equity market rallied strongly during the first quarter of 2012, US equities surged on strong corporate earnings, improved U.S. economic data, and improvement in the European debt crisis. The S&P 500 Index generated a 12.6% total return for the quarter versus 11.8% in the fourth quarter of 2011.

The International market also rose sharply on progress made by the Euro-zone officials to resolve the European debt crisis. International equity markets rose during the first quarter, but still trail the US market. The MSCI EAFE Index returned 11.0% during the first quarter compared to 12.6% for the domestic market. The domestic Real Estate market was also up, returning 2.8% for the first quarter of 2012.

MCERA's total portfolio returned 7.4% during the first quarter of 2012. This return marginally underperformed the benchmark of 7.7% and ranked in the 34th percentile. Over the past year, MCERA's fund returned 3.6%, underperformed the 5.8% return for the benchmark and ranked in the 67th percentile. Total assets on March 31, 2012 were $520 million, which represents an increase of $34 million from the December 31, 2012 total assets of $486 million.

Below you will find MCERA's cumulative performance results versus the benchmark as of March 31, 2012.

CUMULATIVE PERFORMANCE RESULTS PERIOD ENDING MARCH 31, 2012

	Last Quarter	1 Year	3 Year	5 Year	7 Year	10 Year
TOTAL FUND	7.4%	3.6%	17.0%	2.1%	4.7%	5.3%
FUND BENCHMARK	7.7%	5.8%	17.8%	2.7%	5.0%	5.3%

PENSION LEGISLATION UPDATE

The State Legislature is anticipated to adopt pension reform overhaul provisions the first week of July although it is uncertain when the month-long summer recess will begin .

While no final language has yet been issued, the provisions include those earlier proposed by the Governor and include the following:

For new employees, a hybrid program would be created:

- defined benefit would be capped at $100,000 for employees participating in social security and $130,000 for those who do not
- retirement age for non-safety public employees would be increased to 62 years (rather than 55 and 60) and public safety would be increased to 55
- change from final year comp to average of

Retirement Board Meeting

The Retirement Board Meetings for second quarter 2012 are:

July 12 and 26

August 9 and 23

September 13 and 27

Brown Bag Meetings

Next Brown bag meeting will be held on Wednesday , August 8, 2012

Location:
MCERA
3199 M St
Merced CA 95348

To reserve a seat:
Mcera@co.merced.ca.us
Or 209-725-3636

Retiree Pay Dates

The retiree payroll dates remaining for 2012 are:

July 31, 2012

August 31, 2012

September 28, 2012

October 31, 2012

November 30, 2012

December 31, 20 12

Pension Update Cont.

three highest years (MCERA Tier 2 already uses three years average)

For all employees:

- requirement that employee and employer share equally in contributions
- Prohibits employer pick ups of contributions
- limits on any items of compensation that could be deemed spiking
- eliminates purchase of "airtime"--service credit for years not actually worked (was never available to members of MCERA)
- forfeiture of pension for felony convictions related to official duties expanded to include all employees not just elected officials
- Prohibits benefit formula upgrades for prior service

The plan is the product of the conference committee on SB 827 and AB 340 and addresses many of the governor's pension reform demands.

The plan is not, however, expected to get Republican votes and may be enacted as a majority-vote bill that will take effect January 1.

We will be watching for the final results of this process.

Local Ballot Box Pension Reform

Both San Diego and San Jose overwhelmingly passed two significant pension reform proposals last month. These elections are significant on several levels, at the local level for San Jose and San Diego employees and at the state and national level as examples of what might be passed in other jurisdictions. If these measures pass legal challenge, it could be the start of using a ballot measure to affect current employee benefits.

In San Jose, among other provisions, current employees can chose to pay significantly more for their current pension formula or they can choose to opt into a reduced benefit plan. Employees will also be required to pay a certain percentage to cover the cost of unfunded liabilities. The new benefit plan would provide a 2% benefit with a normal retirement age of 57 for safety and 62 for miscellaneous. For new employees, their pension plan would be designed as a hybrid. The measure also allows the city to suspend COLA to retirees if the City declares a fiscal emergency.

In San Diego, new employees will only have a defined contribution plan or a 401k type plan . (safety members excluded) Current employees will have increased contributions and the measure caps pensionable employee compensation for five years. The unions have filed suit in San Diego contending the City did not bargain fairly. The courts will likely have the last say on these two measures.