

## TO THE MEMBERS OF THE MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MCERA presents the 2010 Popular Annual Financial Report (PAFR). The Popular Report is a brief overview of the information contained in sections of the 2010 Comprehensive Annual Financial Report (CAFR) including a look at MCERA's 2010 investment and financial condition. The PAFR also describes the operation of MCERA's defined benefit (DB) plan.

The CAFR was prepared in accordance with accounting principles and reporting guidelines as set forth by the Government Accounting Standards Board. A copy of the MCERA CAFR can be obtained by contacting the MCERA office or on-line at [www.mcera.merced.ca.us](http://www.mcera.merced.ca.us).

### MANAGEMENT

Pursuant to the provisions of the County Employees' Retirement Law of 1937, MCERA's management is vested in a nine member and two alternate member Board of Retirement. The Board is responsible for the general management of the retirement system including making benefit determinations, setting investment policy and monitoring all investments. The Board appoints a Retirement Plan Administrator who is responsible for the day to day operations of the retirement system. The Board adopts an annual budget covering the expense of administration of the system.

### RETIREMENT BOARD'S RESPONSIBILITIES

The Board of Retirement has exclusive control of all investments of the retirement system and is responsible for establishing investment objectives, strategies and policies. In making such decisions, the Board acts in a fiduciary capacity and must act in accordance with fiduciary principles. Members of the Board have a legal duty to use the assets of the plan for the benefit of the plan participants and their beneficiaries and to act in the best interests of the plan and the general public.

### INVESTMENT POLICY OBJECTIVES

The Board has adopted an Investment Policy with a basic objective of obtaining a fully funded plan status while assuming a risk posture that is consistent with the Board's risk tolerance. The primary investment objective is to exceed the rate of return on assets established by the system's actuary.

The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure.

### CORE VALUES

In carrying out the policies and objectives, as set by the Board, the Board and MCERA staff will (1) discharge its duties in accordance with fiduciary principals (2) take responsibility for cost effective operations and minimize employer contributions; (3) display competency, courtesy, and respect; (4) continue professional growth through education and training; and (5) plan strategically for the future.

### SERVICE EFFORTS AND ACCOMPLISHMENTS

The Board and the MCERA staff are committed to providing timely and personalized member services while striving to be an efficient organization. The Board and the MCERA had a very busy year. Below you will find a summary of MCERA's accomplishments. Please see MCERA's CAFR on our website to view a complete list.

**Benefits**– Completed contracts with CPAS Systems for implementation of MCERA's new Pension Administration System. Implemented VSP Vision Insurance Plan for Retired members. Approved the addition of the Joint Powers Authority as a new district and member of MCERA. Amended and adopted new Disability Hearing Regulations.

**Operations**– Participated in the training with other 1937 Act systems for the IRS Tax Determination Letter. Appointed the first alternate retired member representative to the Retirement Board of Trustees. Retained new actuarial firm to perform actuarial services.

**Fiscal**– Implemented two new asset allocations; High Yield Bonds and TIPS, and adopted new asset allocation targets. Hired two new fund managers, Barrow Hanley for core fixed income and TIPS and AXA Investment Management for high yield bonds. Updated and amended the MCERA Investment Objectives and Policy Statement. Conducted on site Due-diligence meetings with fund managers UBS, AXA Management, GMO and Barrow Hanley.



MERCED COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION  
3199 M STREET  
MERCED, CA 95348

MCERA is committed to providing excellent service for its plan participants

## MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### POPULAR ANNUAL FINANCIAL REPORT For the Year ending June 30, 2010

#### *Plan Administrator*

**Maria L. Arevalo**

#### *ISSUED BY*

**Gale Garcia, RPA**

**Fiscal Supervisor**

**And**

**David Liu, Accountant**

#### **BOARD OF RETIREMENT**

##### *COUNTY TREASURER*

Karen Adams

##### *ELECTED BY GENERAL MEMBERS*

Karen Rodriguez

Michael Rhodes

##### *ELECTED BY SAFETY MEMBERS*

Tom Mackenzie

Alternate Safety Member

Dwayne McCoy

##### *ELECTED BY RETIRED MEMBERS*

Leon Teague

Alternate Retired Member

Ronald Kinchloe

##### *APPOINTED BY THE BOARD OF SUPERVISORS*

Deidre Kelsey

David Ness

Mark Bodley

Alfonso Peterson

The PAFR is a report of the fund's status as of fiscal year ending June 30, 2010. MCERA's assets began a positive momentum in the 3rd quarter of 2009 and continued thru the 1st quarter of 2010. In the 2nd quarter of 2010 the markets began to show challenges, once again, to the fundamental strength of the economy. Uncertainty about economic prospects has been heightened by the continuing scope and scale of Federal Reserve and Treasury interventions and the unknown extent to which they will prove effective.

Although there continues to be legitimate concern on the direction of the economy; the economy is showing a slow recovery.



#### Retirement Board Meeting Dates

Second and Fourth Thursday of  
each month at 8:15 A.M.

Phone: 209-725-3636

Fax: 209-725-3637

**ASSETS**

As of June 30, 2010, MCERA's net assets held in trust totaled \$419,678,393.

The table below shows how current financial transactions have impacted the net asset base.

**Changes in MCERA Net Assets (in thousands)**

	2010	2009
<b>ADDITIONS</b>		
Member Contributions	\$ 9,864	\$ 9,916
Employer Contributions	29,137	27,883
Net Investment Income	48,772	(105,689)
<b>Total Additions</b>	<b>87,773</b>	<b>(67,890)</b>
<b>DEDUCTIONS</b>		
401(h) Distribution to County	850	850
Benefits	40,929	36,479
Refunds of Contributions	673	761
Actuarial Expense	67	62
Administrative Expense	1,171	1,005
<b>Total Deductions</b>	<b>43,690</b>	<b>39,157</b>
<b>Change in Net Assets</b>	<b>\$ 44,083</b>	<b>\$ (107,047)</b>

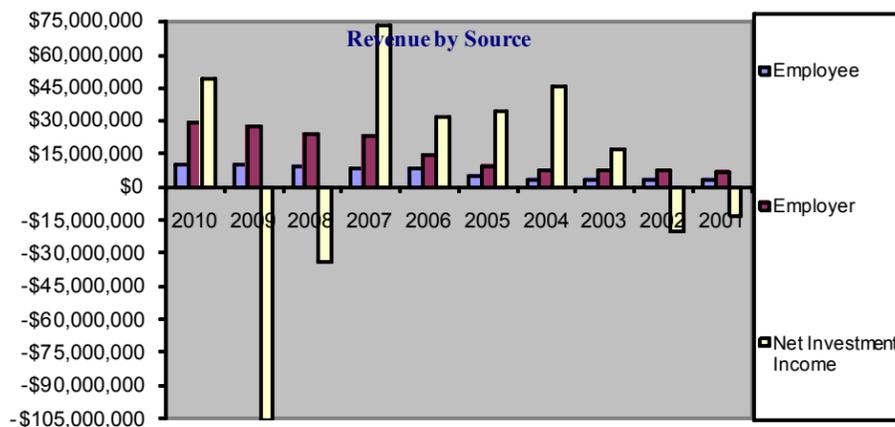
**Net assets held in trust for pension benefits**

Net Assets at beginning of year	\$ 375,595	\$ 482,642
Net Assets at end of year	\$ 419,678	\$ 375,595

Over the fiscal year, the MCERA's total net assets held in trust for pension benefits increased by \$44.1 million (an increase of 11.7%). This increase essentially reflects the increase of current and other assets of 19.5% and the increase of investments at fair value of 11.6% offset by the increase in the total liabilities of 25.5%.

(All \$ amounts in thousands)

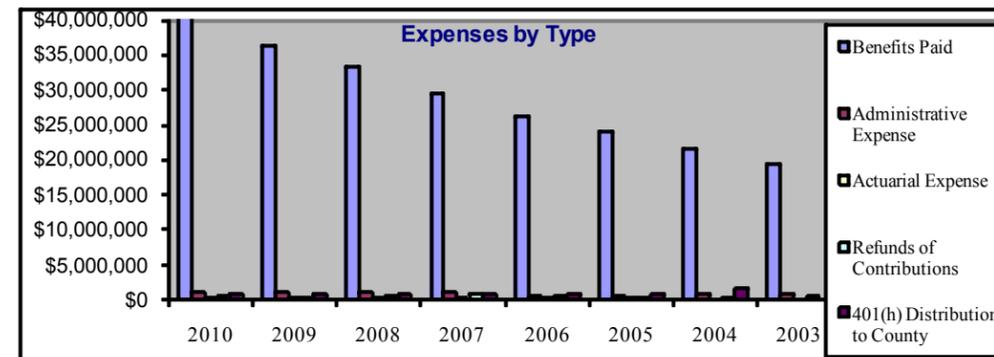
Fiscal years Ending 6/30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Employee Contributions</b>	\$9,864	\$9,916	\$9,358	\$8,755	\$8,222	\$4,584	\$3,347	\$3,298	\$3,187	\$3,043
<b>Employer Contributions</b>	\$29,137	\$27,883	\$23,751	\$23,232	\$14,750	\$8,931	\$7,269	\$7,201	\$7,731	\$6,927
<b>Net Investment (Loss)</b>	\$48,772	\$-105,689	\$-33,797	\$73,614	\$32,192	\$34,841	\$46,098	\$16,957	\$-19,790	\$-13,342



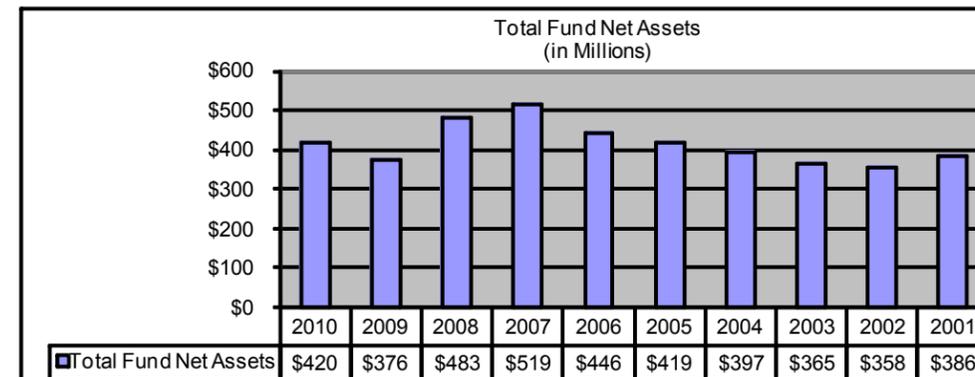
Deductions for the current fiscal year totaled \$43,689,423 an increase of 11.6% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew approximately 12.2% or \$4.5 million.

(All \$ Amounts in Thousands)

Fiscal years ending 6/30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Benefits Paid</b>	\$40,929	\$36,479	\$33,394	\$29,578	\$26,264	\$24,070	\$21,499	\$19,346	\$17,265	\$19,520
Administrative Expense	\$1,171	\$1,005	\$1,030	\$1,015	\$649	\$602	\$830	\$820	\$586	\$529
<b>Actuarial Expense</b>	\$67	\$62	\$54	\$41	\$48	\$62	-	-	-	\$44
Refunds of contributions	\$673	\$761	\$653	\$704	\$602	\$409	\$349	\$499	\$625	\$681
<b>401(h) Distribution to County</b>	<b>\$850</b>	<b>\$850</b>	<b>\$850</b>	<b>\$850</b>	<b>\$850</b>	<b>\$850</b>	<b>\$1,759</b>	-	<b>\$851</b>	<b>\$851</b>

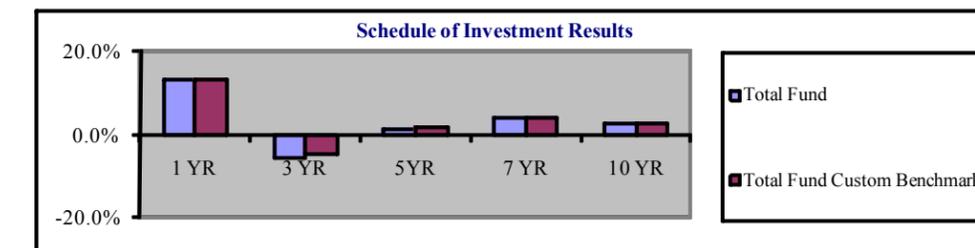


**NET ASSETS HELD IN TRUST FOR PENSION BENEFITS**



**INVESTMENTS**

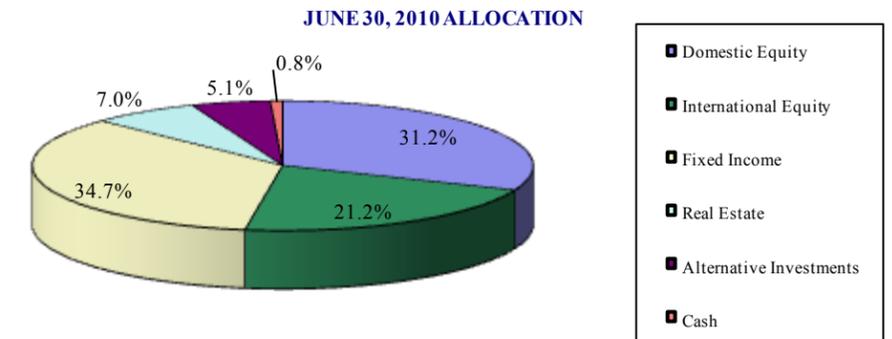
The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes the investment program goals, asset allocation policies, performance objectives, investment management policies, and risk controls. The Investment Policy also defines the principal duties of the Board, MCERA's custodian bank, and MCERA's investment managers. For the fiscal year ending June 30, 2010 MCERA's total fund return was 13.4% which was above MCERA's total fund benchmark of 13.1%.



**ASSET ALLOCATION**

The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. The asset allocation plan is adopted by the Board of Retirement and as shown below has produced a well balanced and diversified portfolio.

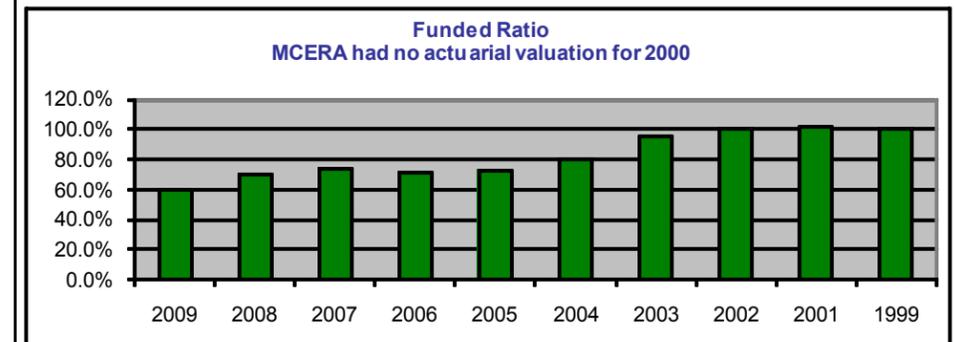
**Actual Asset Allocation**



**ACTUARIAL**

MCERA engages an independent actuarial consulting firm to conduct annual actuarial valuations of the Pension Plan. The actuarial funding status is determined from a long-term, ongoing plan perspective. MCERA's overall funding ratio compares the amount of benefits promised to the assets available to pay those benefits. MCERA's most recent actuarial valuation, June 30, 2009, found the retirement system's actuarial funding status to be 59.7%. This lower funded ratio compared to 2008 reflects the market volatility of 2008.

**Actuarial Funding Status for the Past 10 Years**



**HISTORICAL MEMBERSHIP**

Fiscal years ending 6/30	Active Members	Retired Members and Beneficiaries	Average Annual Benefit Received
2010	2,048	1,826	\$ 22,344
<b>2009</b>	<b>2,190</b>	<b>1,713</b>	<b>\$ 21,132</b>
2008	2,340	1,663	\$ 20,082
<b>2007</b>	<b>2,298</b>	<b>1,619</b>	<b>\$ 18,269</b>
2006	2,278	1,522	\$ 17,934

**Membership** includes the total number of active employees paying into the plan and the total number of retired members and beneficiaries drawing monthly pension benefits.

**Average Annual Benefit** is the average benefit received including the basic retirement pension plus COLAs.