



**2019**

POPULAR ANNUAL  
**FINANCIAL  
REPORT**

For the Fiscal Year Ended June 30, 2019

Sacramento, California

Sacramento County Employees' Retirement System

# TABLE OF CONTENTS

Message from the  
Chief Executive Officer . . . . . 3

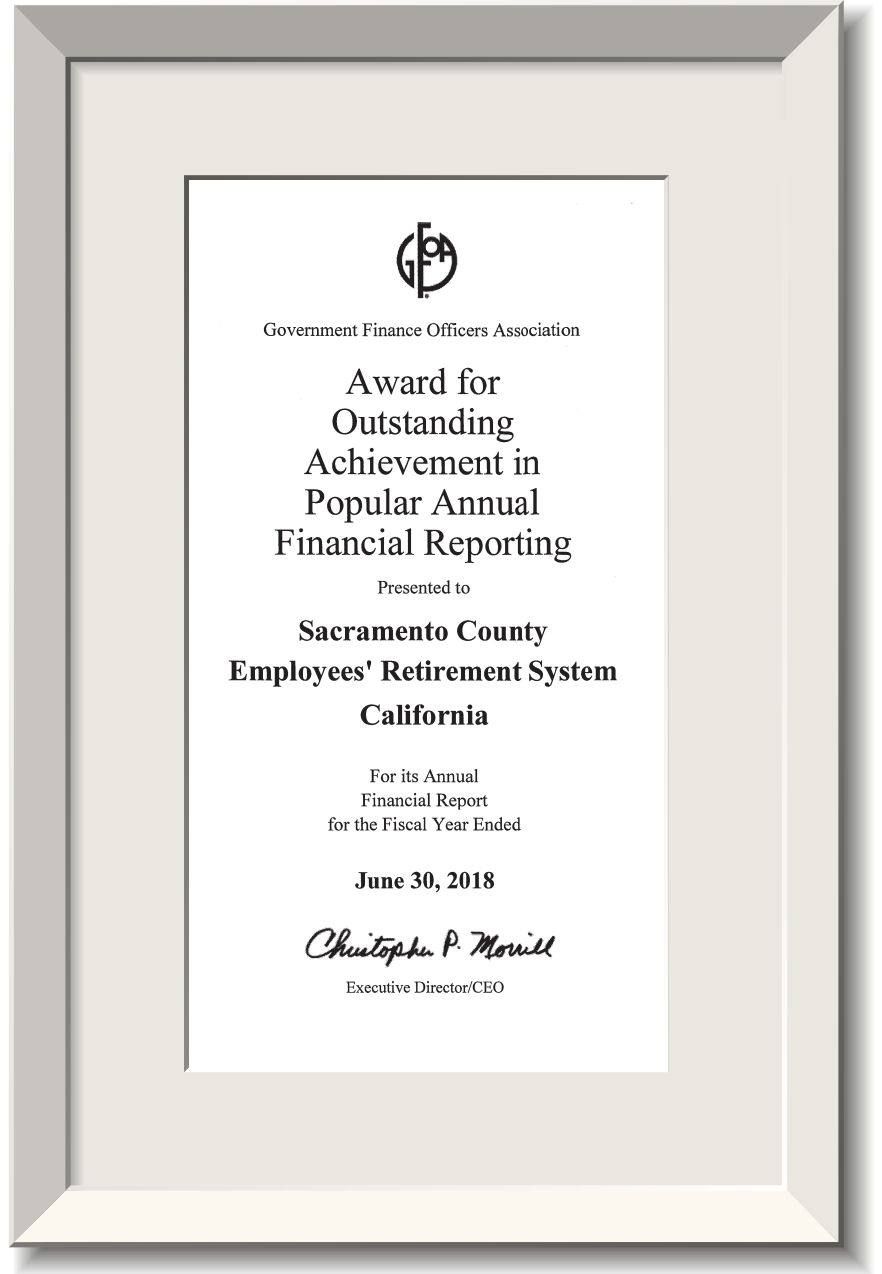
Financial Summary . . . . . 4

Funding Ratios . . . . . 9

Investments . . . . . 10

Members . . . . . 12

# AWARD: GFOA CERTIFICATE



## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



As Chief Executive Officer, I am pleased to issue the Popular Annual Financial Report (PAFR) on behalf of the Sacramento County Employees' Retirement System (SCERS or the System). The PAFR provides insight into the organization's services, financial results, investments, and membership information. The financial data presented in the PAFR is derived from SCERS' Comprehensive Annual Financial Report (CAFR) as of and for the fiscal years ended June 30, 2019 and 2018 and is presented in conformity with Generally Accepted Accounting Principles. The CAFR provides more detailed information and is available on SCERS' website at [www.scers.org](http://www.scers.org).

SCERS remains focused on maintaining a sustainable pension program for the long term. At June 30, 2019, SCERS was 82.6% funded with the market value of assets totaling \$9.8 billion and the actuarial accrued liability totaling \$11.9 billion. The funded status represents the percentage of future pension benefits covered by the System's assets. In general terms, this funded ratio means that as of June 30, 2019, SCERS had approximately 83 cents available for each dollar of anticipated future liability.

At June 30, 2019, SCERS' investments generated a 7.2% gross return, or \$802.7 million of investment income and administrative expenses totaled \$7.6 million for the fiscal year. To our members, this continued growth and cost containment allow SCERS to put more of its assets to work for you while providing more efficient customer service.

SCERS' current strategic asset allocation model was established as a result of an asset allocation study conducted in the 2016-17 fiscal year. During the study, SCERS' Board of Retirement identified and prioritized several investment-related plan objectives, principles, and risks that played a role in the design of the strategic asset allocation. These included: (1) reducing portfolio volatility; (2) improving the funding status of the plan; (3) protecting against significant drawdowns; (4) improving the cash flow generation of the portfolio; and (5) determining a reasonable and realistic expected investment return for the portfolio.

SCERS also has been working to improve the organization's technology to better serve our members. In the next two years, SCERS will be implementing a pension administration system that will speed the retirement application process and provide new online tools for members and employers.

I look forward to sharing our progress with you.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Eric Stern". The signature is stylized and fluid, written over a light blue circular background.

Eric Stern  
Chief Executive Officer

# FINANCIAL SUMMARY

(Dollar Amounts Expressed in Millions)

## FIDUCIARY NET POSITION

Net position restricted for pension benefits (net position) represents the accumulation of assets that exceed liabilities, which are available to meet SCERS' obligations to plan participants and beneficiaries.

The following tables present the statements of fiduciary net position:

### STATEMENTS OF FIDUCIARY NET POSITION

As of June 30

|   | 2019                    | 2018                    | Increase/<br>(Decrease) | % Change    |
|---|-------------------------|-------------------------|-------------------------|-------------|
| <b>Assets</b>                                       |                         |                         |                         |             |
| Cash and short-term investments                     | \$441.9                 | \$289.8                 | \$152.1                 | 52.5%       |
| Receivables   | 348.7                   | 82.2                    | 266.5                   | 324.2       |
| Investments   | 9,416.3                 | 9,090.0                 | 326.3                   | 3.6         |
| Securities lending collateral                       | 273.0                   | 365.7                   | (92.7)                  | (25.3)      |
| Other assets  | 0.5                     | 0.3                     | 0.2                     | 66.7        |
| Capital assets, net                                 | 6.8                     | 2.7                     | 4.1                     | 151.9       |
| Total assets  | <u>10,487.2</u>         | <u>9,830.7</u>          | <u>656.5</u>            | 6.7         |
| <b>Liabilities</b>                                  |                         |                         |                         |             |
| Other liabilities                                   | 11.1                    | 14.8                    | (3.7)                   | (25.0)      |
| Investment purchases and other                      | 386.5                   | 198.3                   | 188.2                   | 94.9        |
| Securities lending obligation                       | 267.9                   | 365.7                   | (97.8)                  | (26.7)      |
| Total liabilities                                   | <u>665.5</u>            | <u>578.8</u>            | <u>86.7</u>             | 15.0        |
| <b>Net position restricted for pension benefits</b> | <u><b>\$9,821.7</b></u> | <u><b>\$9,251.9</b></u> | <u><b>\$569.8</b></u>   | <b>6.2%</b> |

|   | 2018                    | 2017                    | Increase/<br>(Decrease) | % Change    |
|---|-------------------------|-------------------------|-------------------------|-------------|
| <b>Assets</b>                                       |                         |                         |                         |             |
| Cash and short-term investments                     | \$289.8                 | \$241.8                 | \$48.0                  | 19.9%       |
| Receivables   | 82.2                    | 61.1                    | 21.1                    | 34.5        |
| Investments   | 9,090.0                 | 8,445.0                 | 645.0                   | 7.6         |
| Securities lending collateral                       | 365.7                   | 352.2                   | 13.5                    | 3.8         |
| Other assets  | 0.3                     | 0.4                     | (0.1)                   | (25.0)      |
| Capital assets, net                                 | 2.7                     | 0.1                     | 2.6                     | 2,600.0     |
| Total assets  | <u>9,830.7</u>          | <u>9,100.6</u>          | <u>730.1</u>            | 8.0         |
| <b>Liabilities</b>                                  |                         |                         |                         |             |
| Other liabilities                                   | 14.8                    | 6.6                     | 8.2                     | 124.2       |
| Investment purchases and other                      | 198.3                   | 157.6                   | 40.7                    | 25.8        |
| Securities lending obligation                       | 365.7                   | 352.2                   | 13.5                    | 3.8         |
| Total liabilities                                   | <u>578.8</u>            | <u>516.4</u>            | <u>62.4</u>             | 12.1        |
| <b>Net position restricted for pension benefits</b> | <u><b>\$9,251.9</b></u> | <u><b>\$8,584.2</b></u> | <u><b>\$667.7</b></u>   | <b>7.8%</b> |



## FINANCIAL SUMMARY (CONTINUED)

(Dollar Amounts Expressed in Millions)

As of June 30, 2019, the net position restricted for pension benefits totaled \$9.8 billion, which represented an increase of \$569.8 million, or 6.2%, from the \$9.3 billion in net position as of June 30, 2018. The increase in net position was primarily due to strong investment returns offset to some degree by the benefits and expenses paid during the year exceeding the contributions received.

The table below presents the net position restricted for pension benefits comprised of the following reserves:

### SUMMARY OF RESERVES

As of June 30

|   | 2019             | 2018             | 2017             |
|---|------------------|------------------|------------------|
| Member reserves                                     | \$906.9          | \$843.8          | \$796.9          |
| Employer reserves                                   | 2,908.8          | 2,826.5          | 2,800.5          |
| Retiree and death benefit reserves                  | 5,757.8          | 5,375.2          | 5,020.9          |
| Contingency reserve                                 | 129.8            | 77.5             | 46.9             |
| Total allocated reserves and designations           | 9,703.3          | 9,123.0          | 8,665.2          |
| Market stabilization reserve                        | 118.4            | 128.9            | (81.0)           |
| <b>Net position restricted for pension benefits</b> | <b>\$9,821.7</b> | <b>\$9,251.9</b> | <b>\$8,584.2</b> |



## FINANCIAL SUMMARY (CONTINUED)

(Dollar Amounts Expressed in Millions)

The following tables present the statements of changes in fiduciary net position:

### STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

|   | 2019                    | 2018                    | Increase/<br>(Decrease) | % Change           |
|---|-------------------------|-------------------------|-------------------------|--------------------|
| <b>Additions</b>  |                         |                         |                         |                    |
| Member contributions  | \$121.8                 | \$99.9                  | \$21.9                  | 21.9%              |
| Employer contributions                                      | 285.6                   | 198.5                   | 87.1                    | 43.9               |
| Net investment income                                       | 802.7                   | 964.5                   | (161.8)                 | (16.8)             |
| Net securities lending income                               | 1.5                     | 1.9                     | (0.4)                   | (21.1)             |
| Investment fees and expenses                                | (131.3)                 | (125.0)                 | 6.3                     | 5.0                |
| Other income  | 2.9                     | 3.1                     | (0.2)                   | (6.5)              |
| Total additions   | <u>1,083.2</u>          | <u>1,142.9</u>          | <u>(59.7)</u>           | <u>(5.2)</u>       |
| <b>Deductions</b>   |                         |                         |                         |                    |
| Benefits paid   | 502.9                   | 465.3                   | 37.6                    | 8.1                |
| Withdrawal of contributions                                 | 2.9                     | 3.0                     | (0.1)                   | (3.3)              |
| Administrative expenses                                     | 7.6                     | 6.9                     | 0.7                     | 10.1               |
| Total deductions  | <u>513.4</u>            | <u>475.2</u>            | <u>38.2</u>             | <u>8.0</u>         |
| Increase in net position                                    | 569.8                   | 667.7                   | (97.9)                  | (14.7)             |
| Net position restricted for pension benefits, beginning     | 9,251.9                 | 8,584.2                 | 667.7                   | 7.8                |
| <b>Net position restricted for pension benefits, ending</b> | <u><b>\$9,821.7</b></u> | <u><b>\$9,251.9</b></u> | <u><b>\$569.8</b></u>   | <u><b>6.2%</b></u> |
|   | 2018                    | 2017                    | Increase/<br>(Decrease) | % Change           |
| <b>Additions</b>  |                         |                         |                         |                    |
| Member contributions  | \$99.9                  | \$89.5                  | \$10.4                  | 11.6%              |
| Employer contributions                                      | 198.5                   | 203.9                   | (5.4)                   | (2.6)              |
| Net investment income                                       | 964.5                   | 1,130.3                 | (165.8)                 | (14.7)             |
| Net securities lending income                               | 1.9                     | 2.5                     | (0.6)                   | (24.0)             |
| Investment fees and expenses                                | (125.0)                 | (83.9)                  | 41.1                    | 49.0               |
| Other income  | 3.1                     | -                       | 3.1                     | 100.0              |
| Total additions   | <u>1,142.9</u>          | <u>1,342.3</u>          | <u>(199.4)</u>          | <u>(14.9)</u>      |
| <b>Deductions</b>   |                         |                         |                         |                    |
| Benefits paid   | 465.3                   | 429.8                   | 35.5                    | 8.3                |
| Withdrawal of contributions                                 | 3.0                     | 2.3                     | 0.7                     | 30.4               |
| Administrative expenses                                     | 6.9                     | 6.9                     | -                       | -                  |
| Total deductions  | <u>475.2</u>            | <u>439.0</u>            | <u>36.2</u>             | <u>8.2</u>         |
| Increase in net position                                    | 667.7                   | 903.3                   | (235.6)                 | (26.1)             |
| Net position restricted for pension benefits, beginning     | 8,584.2                 | 7,680.9                 | 903.3                   | 11.8               |
| <b>Net position restricted for pension benefits, ending</b> | <u><b>\$9,251.9</b></u> | <u><b>\$8,584.2</b></u> | <u><b>\$667.7</b></u>   | <u><b>7.8%</b></u> |



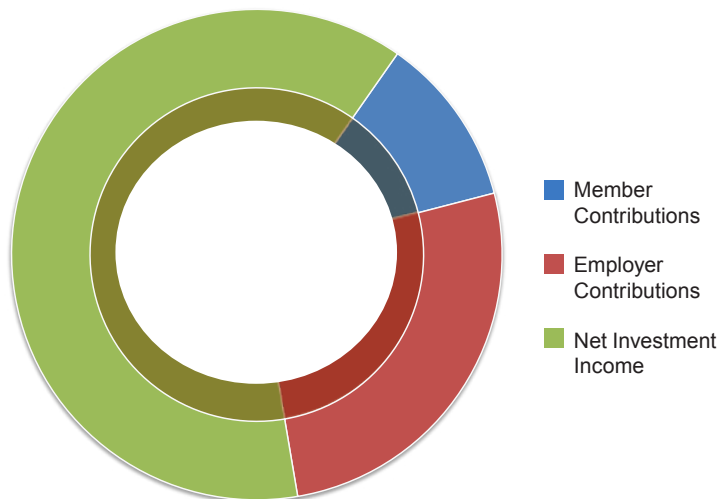
(Dollar Amounts Expressed in Millions)

The largest source of income is from investment earnings. Historically, more than 60 percent of retirement benefits have been funded by investment earnings. Annually SCERS establishes the contributions at actuarially-determined rates, expressed as percentages of covered payroll, that together with investment earnings are sufficient to accumulate adequate assets to pay benefits when due. The required member and employer contribution rates vary depending on the member’s plan, tier, employer, and bargaining unit.

**Additions by Source**

Fiscal Year Ended June 30, 2019

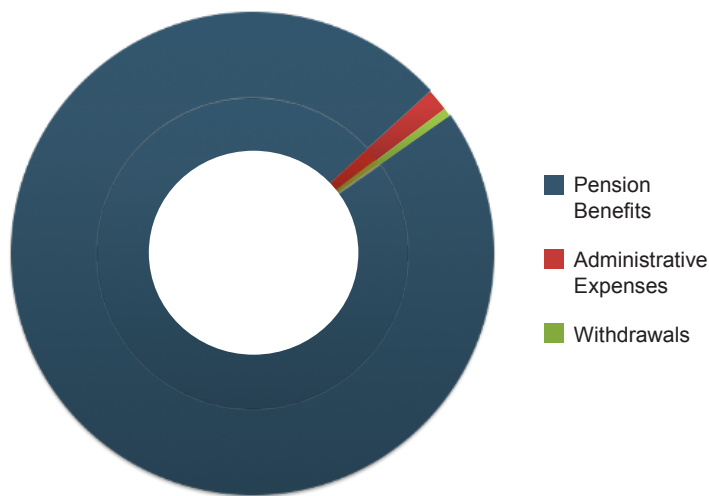
For fiscal year 2018-19, 62.4% of revenues were from investment income, 26.4% were from employer contributions, and 11.2% were from member contributions.



**Deductions by Type**

Fiscal Year Ended June 30, 2019

For fiscal year 2018-19, 98.0% of the total expenses were related to benefit payments, 1.5% were related to administrative expenses, and 0.5% were member contribution refunds.



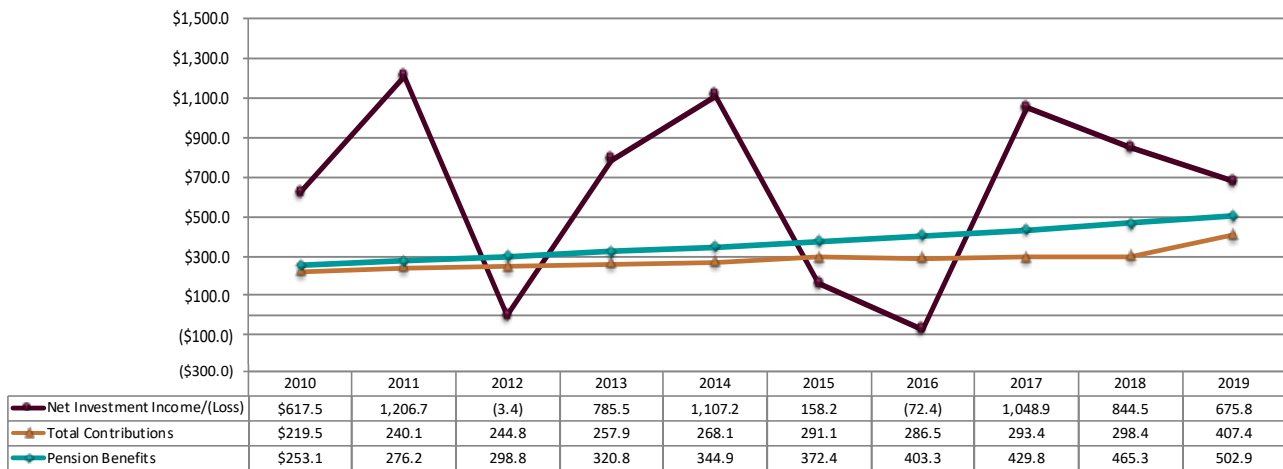
## FINANCIAL SUMMARY (CONTINUED)

(Dollar Amounts Expressed in Millions)

SCERS' expenses include service and disability retirement benefits, death benefits, refunds to members and the cost to administer the System. Total expenses for the fiscal year ended 2018-19 equaled \$513.4 million, or 8% increase compared to the prior year.

### Investment Income/(Loss), Contributions, and Pension Benefits

Fiscal Years Ended June 30



Since fiscal year 2009-10, benefit payments have been higher than the total member and employer contributions, and the gap between benefit payments and contributions continued to widen. This is partly due to the shift in population of active and retired members, a dynamic that is common in mature retirement systems. Active members decreased from 13,340 in fiscal year 2009-10 to 12,678 in fiscal year 2018-19, while the number of retired members increased from 8,346 to 12,381 during the same period.





# FUNDING RATIOS

(Dollar Amounts Expressed in Millions)

## FUNDED STATUS

SCERS' funded status is a key indicator of its financial health. It reflects the percentage of promised benefits that SCERS has assets to pay all current and projected future benefits (Actuarial Accrued Liability or AAL) as of a specific date in time.

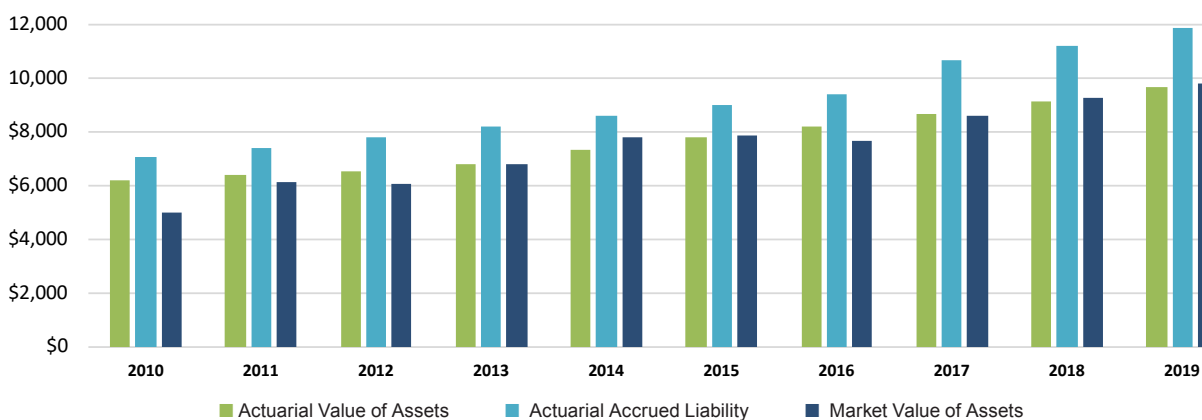
SCERS' overall funding objective is to meet long-term promised benefits by maintaining a well-funded plan through a combination of investment returns and member and employer contributions, which are both minimized and maintained as level as possible for each generation of active members. SCERS retained an independent actuarial firm to perform an annual actuarial valuation to monitor the funded status of the System. The purpose of the valuation is to determine the future contributions that will be needed from the members and participating employers to pay all expected future benefits. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS employs a smoothing approach, which recognizes any investment market returns that are above or below the assumed investment rate of return over a seven-year period. This not only stabilizes contribution rates, but also improves the ability of an employer to plan for possible future increases or decreases in pension costs.

One approach to determine funded status is based on actuarial value of assets (AVA). Under this approach, the independent actuary determines the actuarial value of SCERS' assets using a smoothing technique that recognizes investment gains and losses over a seven-year period. On an AVA basis, the funded ratio increased from 81.4% in 2018 to 81.6% in 2019. Another approach to determine funded status is based on the market value of assets (MVA). As of June 30, 2019, SCERS' funding ratio on the MVA basis was 82.6%, an increase from 82.5% as of June 30, 2018. Below is a summary of funding ratios.

| As of June 30 | Total Pension Liability | Actuarial Value of Assets (AVA) | Funded Ratio on an AVA Basis | Market Value of Assets (MVA) | Funded Ratio on an MVA Basis |
|---------------|-------------------------|---------------------------------|------------------------------|------------------------------|------------------------------|
| 2019          | \$11,895.5              | \$9,703.3                       | 81.6%                        | \$9,821.7                    | 82.6%                        |
| 2018          | 11,213.3                | 9,123.0                         | 81.4                         | 9,251.9                      | 82.5                         |

## Funded Status

As of June 30



|                   |       |       |       |       |       |       |       |       |       |       |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| AVA Funded Status | 87.7% | 87.0% | 83.3% | 82.8% | 85.2% | 86.8% | 87.3% | 81.1% | 81.4% | 81.6% |
| MVA Funded Status | 70.2% | 83.2% | 77.5% | 82.7% | 91.0% | 87.3% | 81.4% | 80.4% | 82.5% | 82.6% |



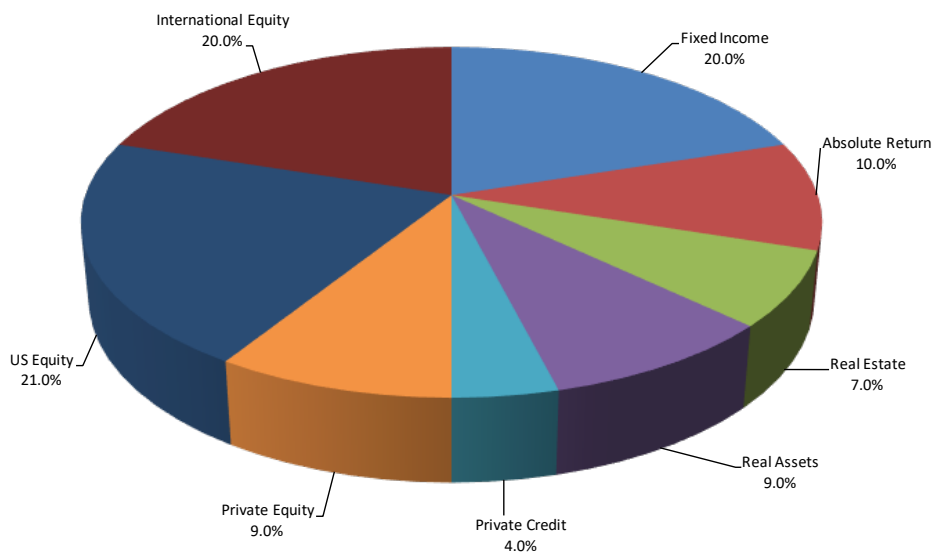
# INVESTMENTS

## ASSET ALLOCATION

SCERS' investment program is structured around a strategic asset allocation model established by SCERS' Board of Retirement with the assistance of SCERS' investment staff, general investment consultant, alternative assets consultant, and real estate consultant. The objective of the asset allocation model is to ensure the diversification of investments in a manner that generates a desired rate of investment return with an acceptable level of investment risk. Below are SCERS' target and actual asset allocations as of June 30, 2019.

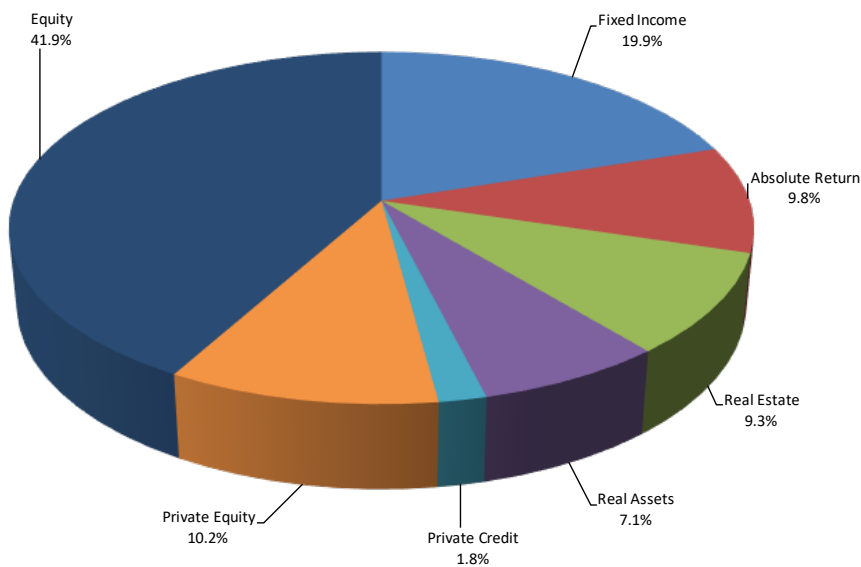
### Target Asset Allocation

As of June 30, 2019



### Actual Asset Allocation

As of June 30, 2019

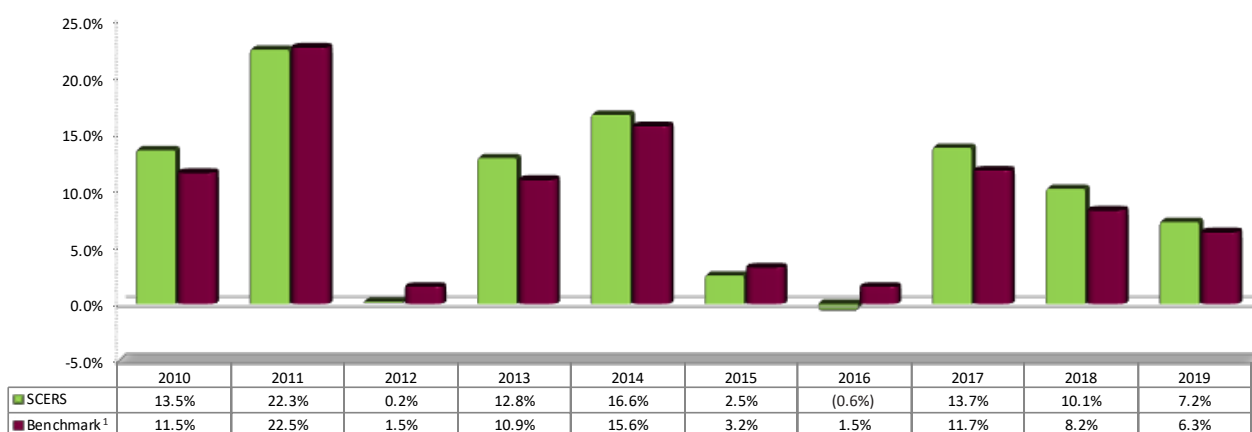


**INVESTMENT PERFORMANCE**

SCERS' investment portfolio was valued at \$9.7 billion on June 30, 2019. For the fiscal year ended June 30, 2019, the portfolio generated a 7.2% gross return, which continues to benefit from strong returns across most market segments. SCERS' gross return of 7.2% was also impressive on a relative basis, exceeding its policy index return of 6.3% as of June 30, 2019. Contributors to the generation of excess returns relative to SCERS' policy index were the Equity, Fixed Income, Real Assets, and Private Equity asset classes. Below is SCERS' total portfolio actual return compared to benchmarks for the past 10 years.

**Total Portfolio Returns and Benchmarks**

Fiscal Years Ended June 30



<sup>1</sup>As of June 30, 2019, the Policy Index benchmark consisted of 10% BBgBarc Aggregate, 5% BBgBarc US Treasury, 1% ICE BofA ML High Yield II, 2% Bloomberg Commodity, 2.5% Cambridge Associates Private Energy 1 Qtr Lag, 3.2% Cambridge Associates Private Infrastructure 1 Qtr Lag, 2.4% FTSE WBGI ex US Unhedged, 1% Credit Suisse Leverage Loans, 4% Credit Suisse Leverage Loans +2%, 0.6% JPM GBI EM Diversified, 3% HFRI FoF Composite Index + 1%, 7% HFRI FoF Conservative Index, 20% MSCI ACWI ex US, 4.6% NFI-ODCE, 2.5% NFI-ODCE net +1% 1Q Lag, 0.7% NCREIF Farmland 1 Qtr Lag, 0.7% Timberland Index Lagged, 21% Russell 3000, and 9% Thomson Reuters CJA All PE 1 Qtr Lag. From 4/1/17-6/30/17, the Policy Index benchmark consists of 10% 91-day UST Bill +5% (AR), 10% BBgBarc Aggregate, 5% BBgBarc US Treasury, 1% ICE BofA ML High Yield II, 2% Bloomberg Commodity, 2.4% FTSE WBGI ex US Unhedged, 7% CPI-U +5% (PRA), 1% Credit Suisse Leverage Loans, 4% Credit Suisse Leverage Loans +2%, 0.6% JPM GBI EM Diversified, 20% MSCI ACWI ex US, 7% NCREIF, 21% Russell 3000, and 9% Thomson Reuters CJA All PE 1 Qtr Lag. From 1/1/14-3/31/17, 22.5% MSCI ACWI ex U.S., 22.5% Russell 3000, 15% BBgBarc Aggregate, 15% CPI-U +5% (PRA), 10% 91-day UST Bill +5% (AR), 10% Russell 1000 +3% 1QL (PE), 2.4% FTSE WBGI ex US Unhedged, 1% ICE BofA ML High Yield II, 1% Credit Suisse Leveraged Loans and 0.6% JPM GBI EM Diversified.



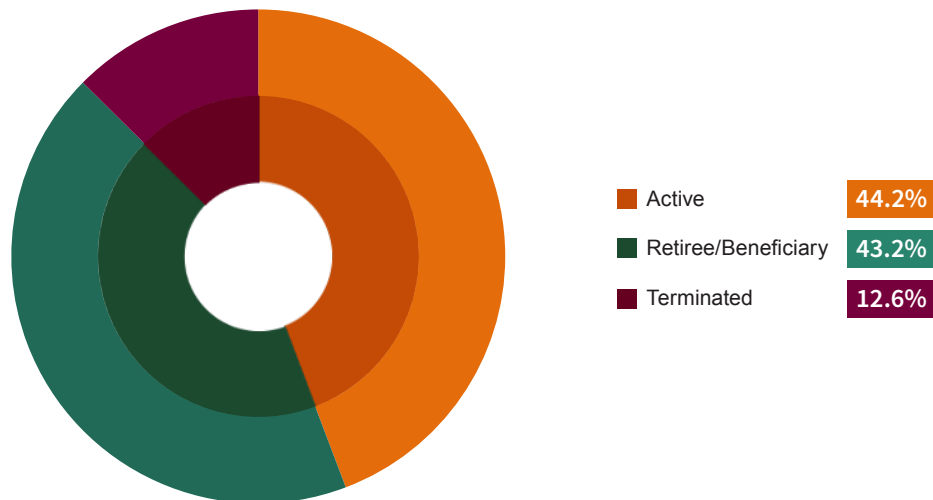
# MEMBERS

## SYSTEM MEMBERSHIP

SCERS' active members include permanent full-time and part-time employees of the County of Sacramento; Superior Court of California (County of Sacramento); and nine Special Districts. As of June 30, 2019, SCERS had 12,678 active members, 12,381 retired members, and 3,602 terminated members.

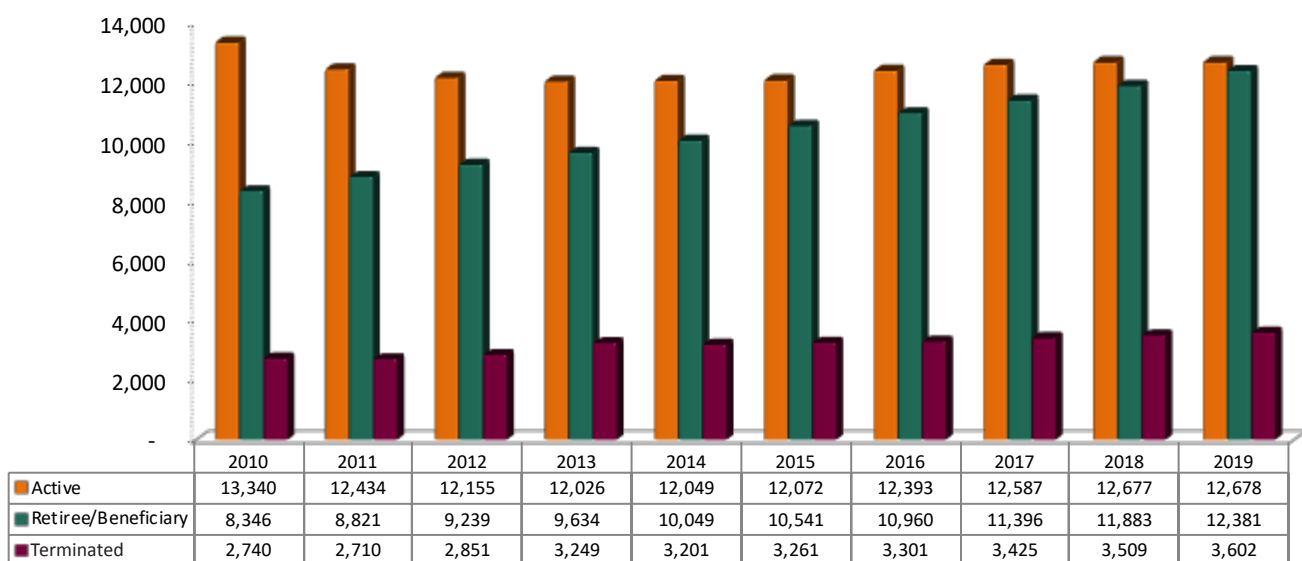
### Membership

As of June 30, 2019



### Membership

As of Fiscal Years Ended June 30



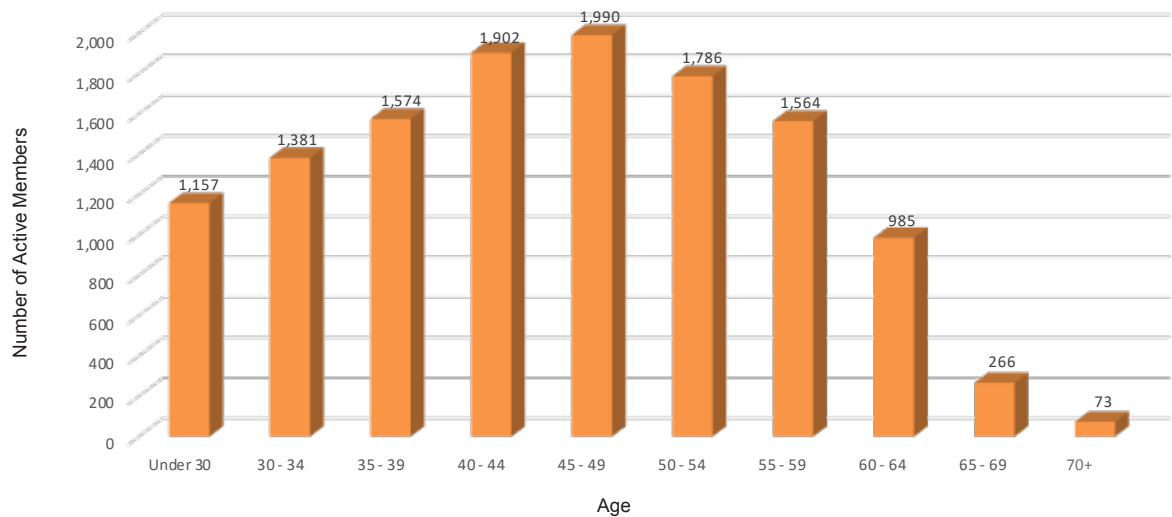
**ACTIVE MEMBERS**

| <b>Active Members</b><br>As of June 30 | 2019     | 2018     |
|--|----------|----------|
| Average Age                            | 45.7     | 45.7     |
| Average Years of Service               | 11.9     | 11.9     |
| Average Annual Salary                  | \$81,901 | \$79,500 |
| Active Members                         | 12,678   | 12,677   |

**Distribution of Active Members****By Age**

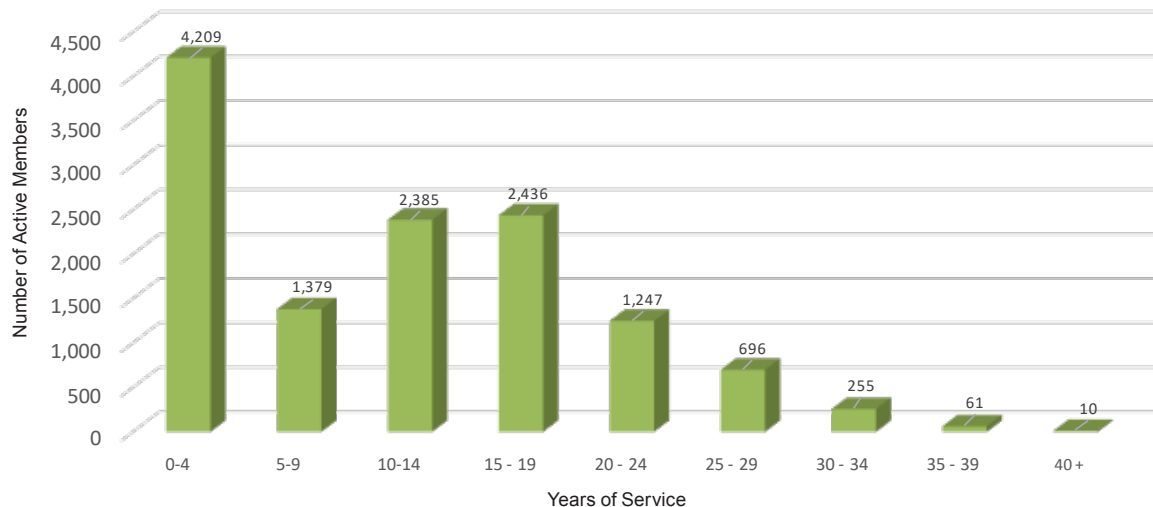
As of June 30, 2019

- The youngest member was 19.4 years old.
- The oldest member was 85.1 years old.

**Distribution of Active Members****By Years of Service**

As of June 30, 2019

- The member with the longest service had 47.3 years of service.



## MEMBERS (CONTINUED)

### BENEFIT RECIPIENTS

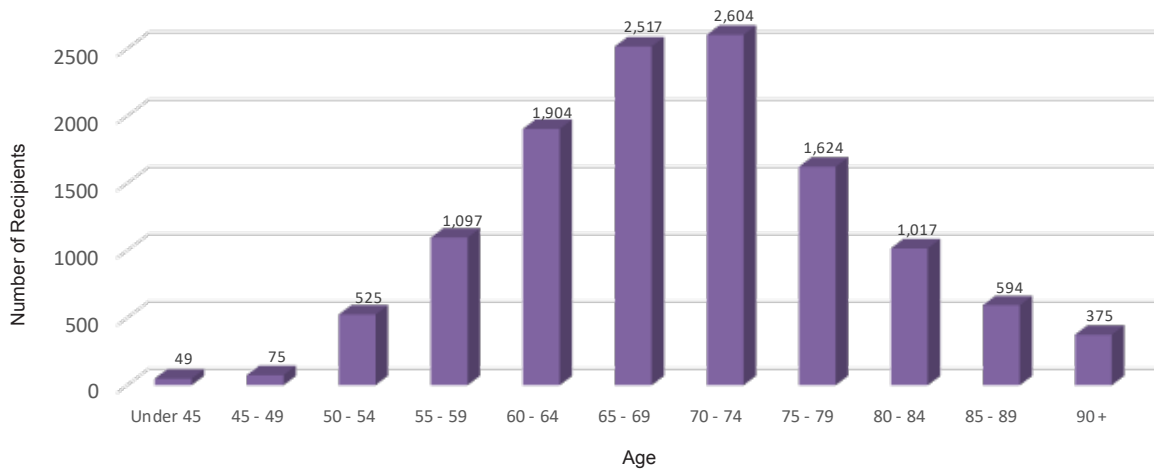
| <b>Benefit Recipients</b><br>As of June 30 | <b>2019</b> | <b>2018</b> | <b>Type of Retirement</b><br>As of June 30 | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|--|-------------|-------------|
| Average Age                                | 69.8        | 69.6        | Service                                    | 10,002      | 9,547       |
| Average Years of Service                   | 19.5        | 19.5        | Disability                                 | 718         | 716         |
| Average Monthly Benefit                    | \$3,521     | \$3,381     | Beneficiaries                              | 1,661       | 1,620       |
| Total Benefit Recipients                   | 12,381      | 11,883      | Total                                      | 12,381      | 11,883      |

### Distribution of Benefit Recipients

#### By Age

As of June 30, 2019

- The oldest benefit recipient was 105.1 years old.

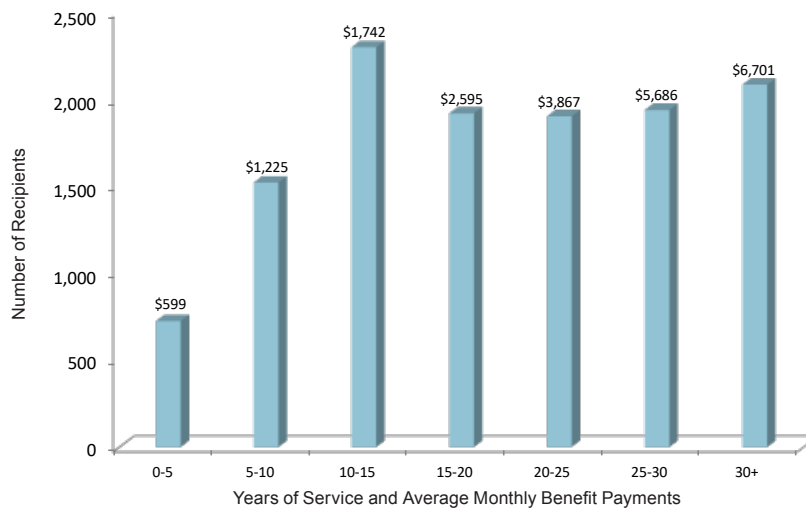


### Distribution of Benefit Recipients

#### By Average Monthly Benefit Payments And Years of Service

As of June 30, 2019

- The longest benefit payment to a retiree with continuance survivor was 57.7 years.
- 63% of retired members had 15 or more years of service.
- The lowest monthly benefit payment to a recipient was \$3 and the highest was \$20,780.







SCERS

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