



2017-18

ANNUAL FINANCIAL
**REPORT
SUMMARY**

For the Fiscal Year Ended
June 30, 2018

Sacramento, California

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

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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' fiscal years ended June 30, 2018 and 2017 Comprehensive Annual Financial Report (CAFR) and is consistent with Generally Accepted Accounting Principles (GAAP). The CAFR provides more detailed information and is available online at www.scers.org.

SCERS remains focused on maintaining a sustainable pension program for the long term. At June 30, 2018, SCERS was 82.5% funded with the market value of assets totaling \$9.3 billion and the actuarial accrued liability totaling \$11.2 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, 2018, SCERS had approximately 82.5 cents available for each dollar of anticipated future liability.

At June 30, 2018, SCERS' investments generated a robust 10.1% gross return, or \$964.5 million investment income while administrative expenses remained the same at \$6.9 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. SCERS has redesigned and enhanced the www.scers.org website in 2018 with a new look and user-friendly features that provide better access to additional resources for members and stakeholders. In the next four years, SCERS will be implementing a pension administration system that will speed the retirement application process and provide new online tools for members.

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 written in a cursive-like font.

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.

STATEMENTS OF FIDUCIARY NET POSITION

As of June 30

	2018	2017	Increase/ (Decrease)	% Change
Assets				
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	9,830.7	9,100.6	730.1	8.0
Liabilities				
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	578.8	516.4	62.4	12.1
Net position restricted for pension benefits	\$9,251.9	\$8,584.2	\$667.7	7.8%

As of June 30, 2018, the net position restricted for pension benefits totaled \$9.252 billion, which represented an increase of \$667.7 million, or 7.8%, from the \$8.584 billion in net position as of June 30, 2017. Changes in net position were primarily due to employee and employer contributions and investment income resulting from strong investment performance, offset by benefit payments. As of June 30, 2018 and 2017, net position restricted for pension benefits comprised of the following reserves:

SUMMARY OF RESERVES

As of June 30

	2018	2017
Employee reserve	\$843.8	\$796.9
Employer reserve	2,826.5	2,800.5
Retiree reserve	5,358.1	5,004.3
Retiree death benefit reserve	17.1	16.6
Contingency reserve	77.5	46.9
Total allocated reserves and designations	9,123.0	8,665.2
Market stabilization reserve	128.9	(81.0)
Net position restricted for pension benefits	\$9,251.9	\$8,584.2



FINANCIAL SUMMARY (CONTINUED)

(Dollar Amounts Expressed in Millions)

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

	2018	2017	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$99.9	\$89.5	\$10.4	11.6%
Employer contributions	201.6	203.9	(2.3)	(1.1)
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
Total additions	<u>1,142.9</u>	<u>1,342.3</u>	<u>(199.4)</u>	<u>(14.9)</u>
Deductions				
Withdrawal of contributions	3.0	2.3	0.7	30.4
Administrative expenses	6.9	6.9	-	-
Benefits paid	465.3	429.8	35.5	8.3
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	<u>8,584.2</u>	<u>7,680.9</u>	<u>903.3</u>	<u>11.8</u>
Net position restricted for pension benefits, ending	<u>\$9,251.9</u>	<u>\$8,584.2</u>	<u>\$667.7</u>	<u>7.8%</u>



FINANCIAL SUMMARY (CONTINUED)

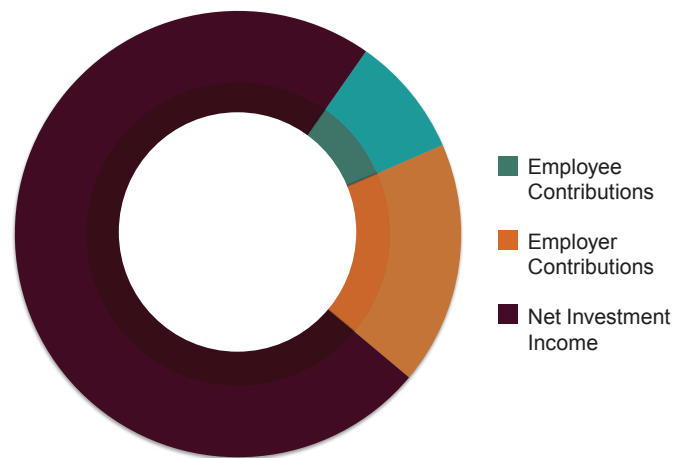
(Dollar Amounts Expressed in Millions)

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 employee and employer contribution rates vary depending on the member's plan, tier, employer, and bargaining unit.

Additions by Source

Fiscal Year Ended June 30, 2018

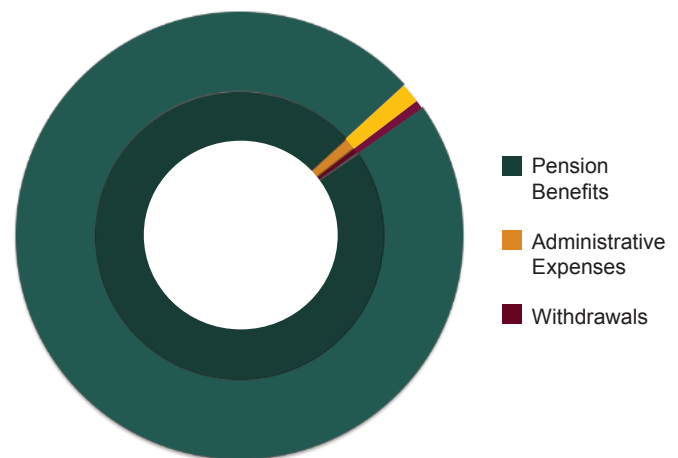
For fiscal year 2017-18, 73.7% of revenues were from investment income, 17.6% were from employer contributions, and 8.7% were from employee contributions.



Deductions by Type

Fiscal Year Ended June 30, 2018

For fiscal year 2017-18, 97.9% of the total expenses were related to benefit payments, 1.5% were related to administrative expenses, and 0.6% were member contribution refunds.



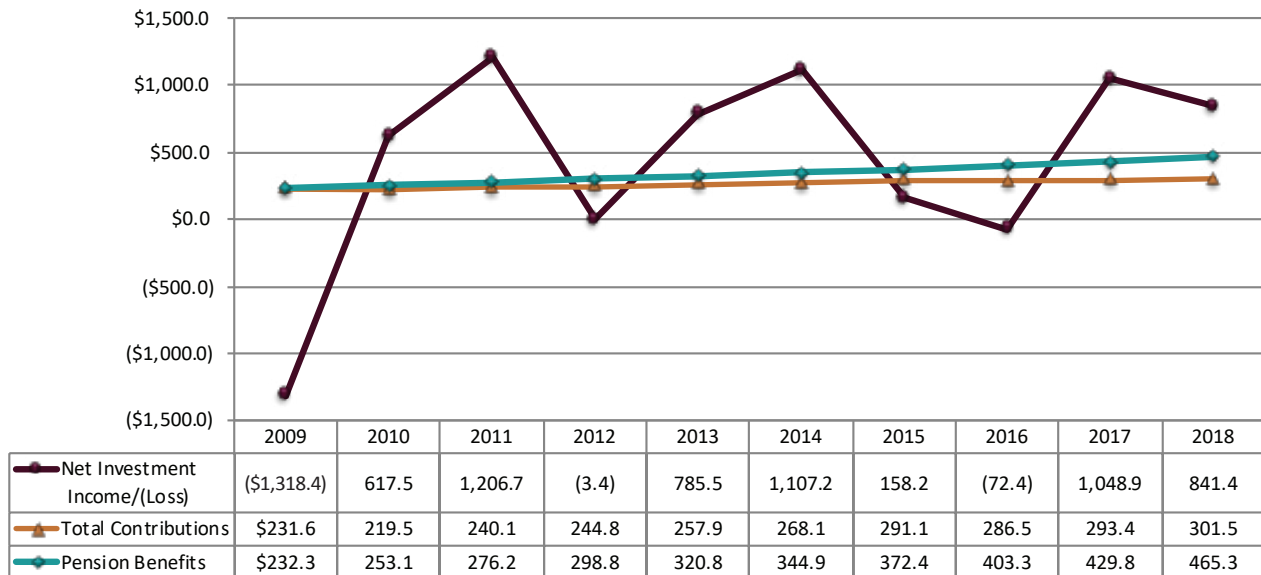
FINANCIAL SUMMARY (CONTINUED)

(Dollar Amounts Expressed in Millions)

SCERS' expenses include retirement benefits, disability and death benefits, refunds to members and the cost to administer the System. Total expenses during fiscal year 2017-18 equaled \$475.2 million, or 8.2% increase compared to the prior year.

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

Fiscal Years Ended June 30



Since fiscal year 2008-09, benefit payments have been higher than the total employee 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 14,796 in fiscal year 2008-09 to 12,677 in fiscal year 2017-18, while the number of retired members increased from 7,968 to 11,883 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.

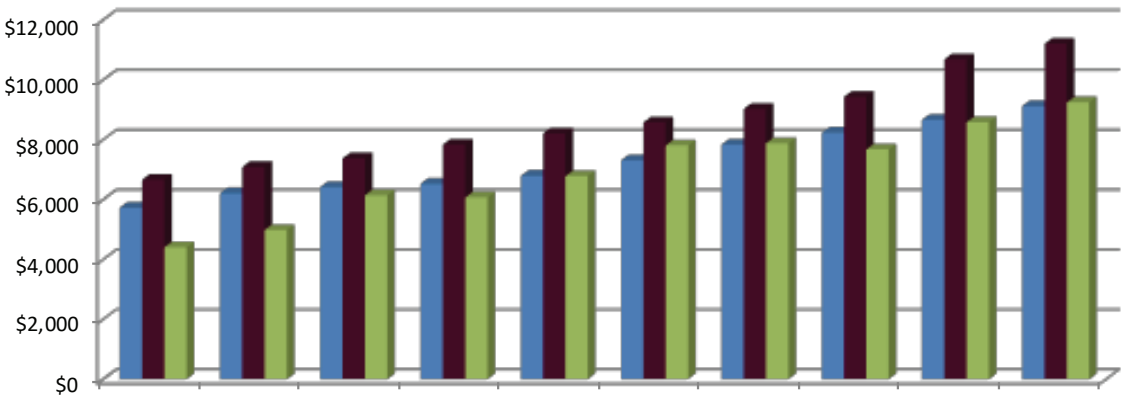
SCERS' overall funding objective is to meet long-term promised benefits by maintaining a well-funded plan through a combination of superior investment returns and employer and employee contributions, which are both minimized and maintained as level as possible for each generation of active members. SCERS retained an independent actuarial firm, Segal Consulting, 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 smoothes the calculation of actuarial assets 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 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 81.1% to 81.4%. Another approach to determine funded status is based on the market value of assets (MVA). As of June 30, 2018, SCERS' funding ratio on the MVA basis was 82.5%, an increase from 80.4% as of June 30, 2017. Below is a summary for both years:

As of June 30	Total Pension Liability	Actuarial Value of Assets	Funded Ratio on an AVA Basis	Market Value of Assets	Funded Ratio on an MVA Basis
2018	\$11,213.3	\$9,123.0	81.4%	\$9,251.9	82.5%
2017	10,681.0	8,665.2	81.1	8,584.2	80.4

Funded Status

As of June 30



AVA Funded Status	86.0%	87.7%	87.0%	83.3%	82.8%	85.2%	86.8%	87.3%	81.1%	81.4%
MVA Funded Status	66.2%	70.2%	83.2%	77.5%	82.7%	91.0%	87.3%	81.4%	80.4%	82.5%

■ Actuarial Value of Assets ■ Actuarial Accrued Liability ■ Market Value of Assets

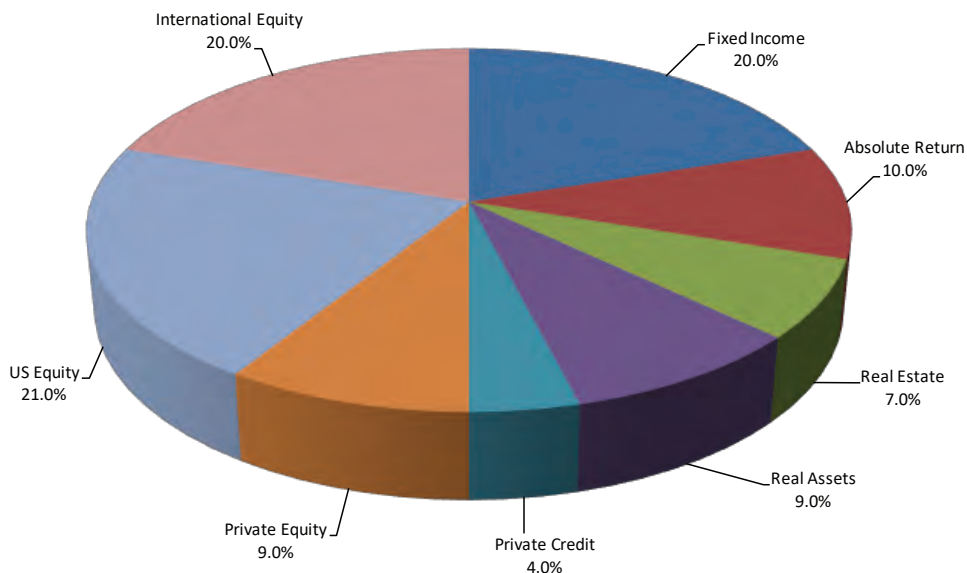


ASSET ALLOCATION

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 Verus Advisory Inc., alternative assets consultant Cliffwater LLC, and real estate consultant The Townsend Group. 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.

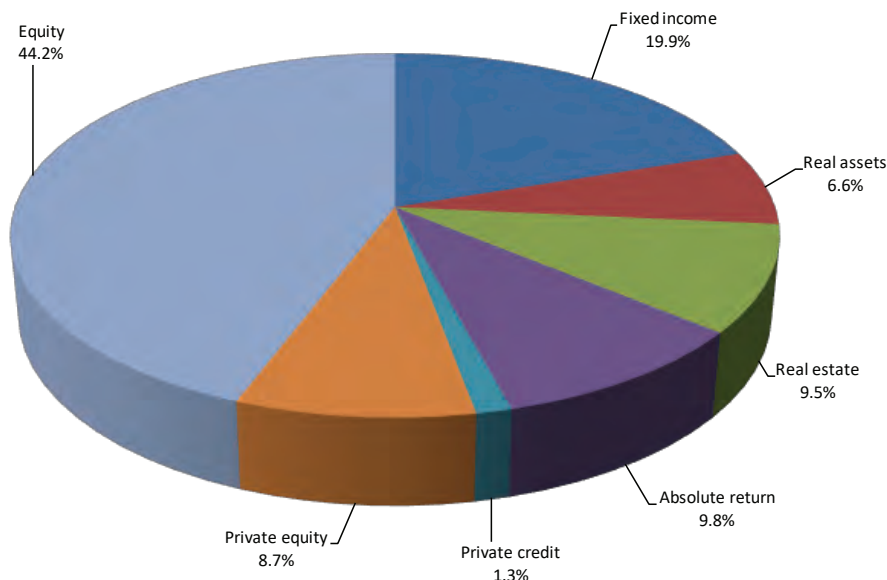
Target Asset Allocation

As of June 30, 2018



Actual Asset Allocation

As of June 30, 2018



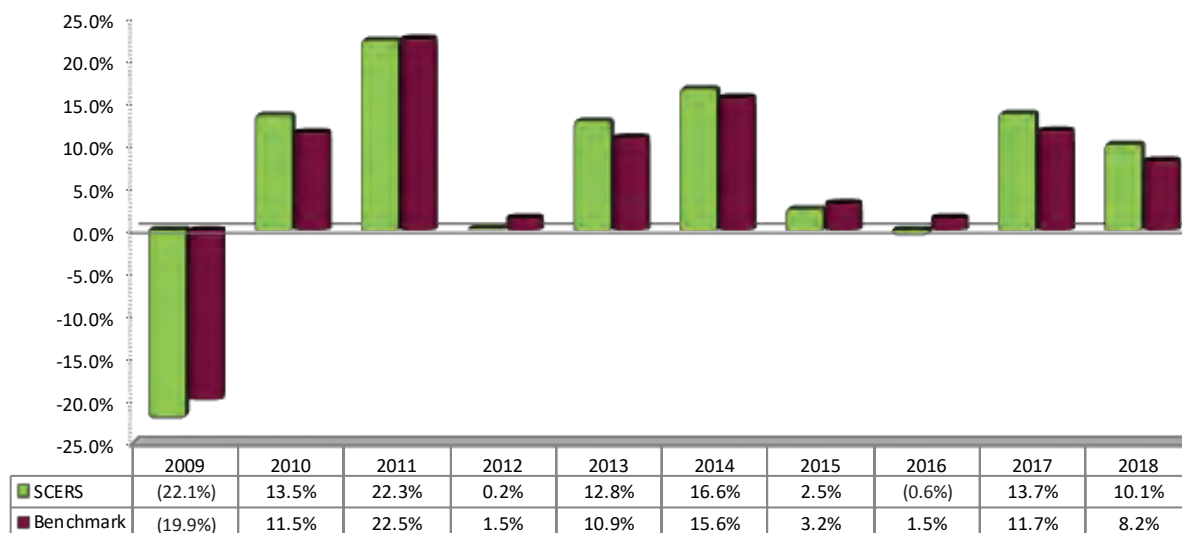
INVESTMENTS (CONTINUED)

INVESTMENT PERFORMANCE

SCERS' investment portfolio was valued at \$9.1 billion on June 30, 2018. For the fiscal year ended June 30, 2018, the portfolio generated a robust 10.1% gross return, which continues to benefit from strong returns across most market segments. The investment returns from fiscal years ended 2018 and 2017 were a welcome change after near flat performance over the fiscal years ended 2016 and 2015. SCERS' gross return of 10.1% was also impressive on a relative basis, exceeding its policy index return of 8.2% as of June 30, 2018. Contributors to the generation of excess returns relative to SCERS' policy index were the Equity, Real Assets, Real Estate, and Private Equity asset classes.

Total Portfolio Returns and Benchmarks

Fiscal Years Ended June 30

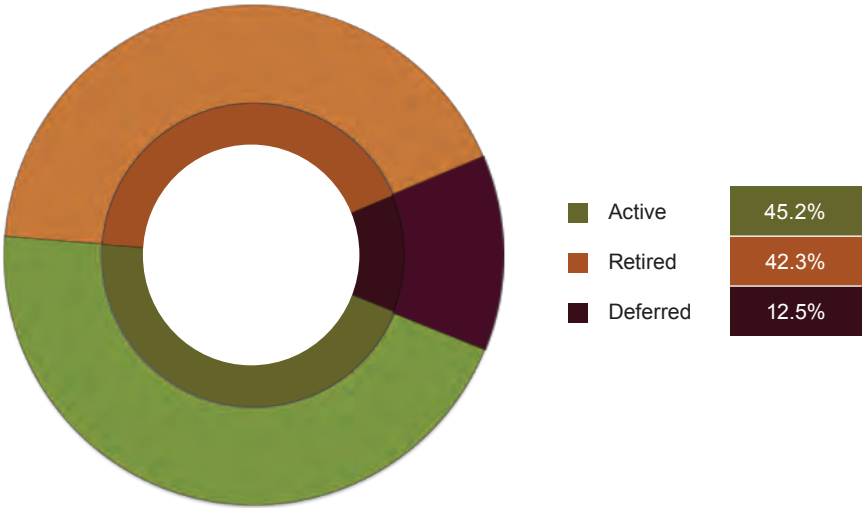


SYSTEM MEMBERSHIP

SCERS’ members include permanent full-time and part-time employees of the County of Sacramento; Superior Court of California, County of Sacramento; and twelve Special Districts. As of June 30, 2018, SCERS had 12,677 active members, 11,883 retired members, and 3,509 deferred members.

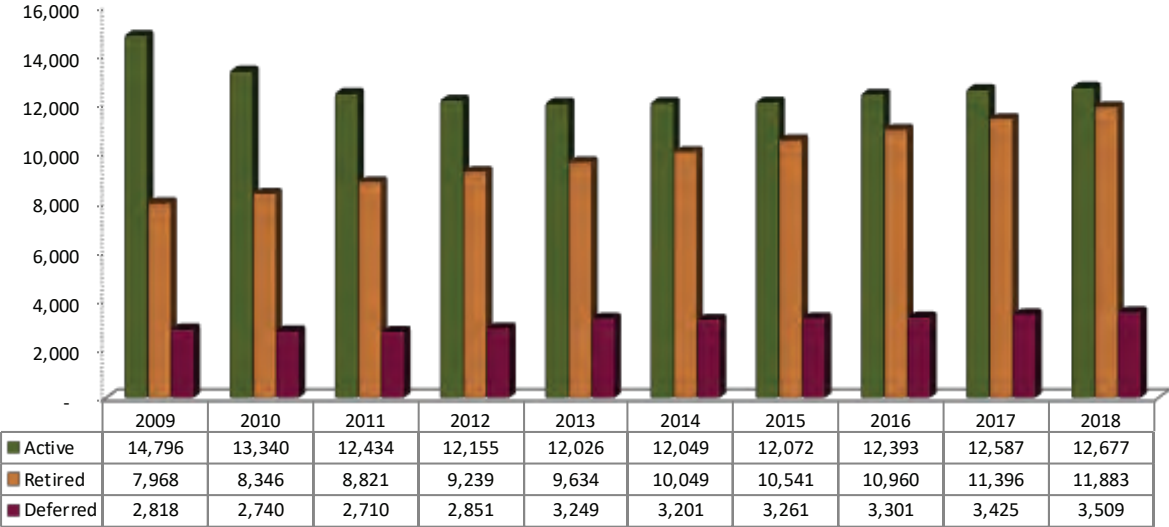
Membership

As of June 30, 2018



Membership

As of Fiscal Years Ended June 30



MEMBERS (CONTINUED)

ACTIVE MEMBERS

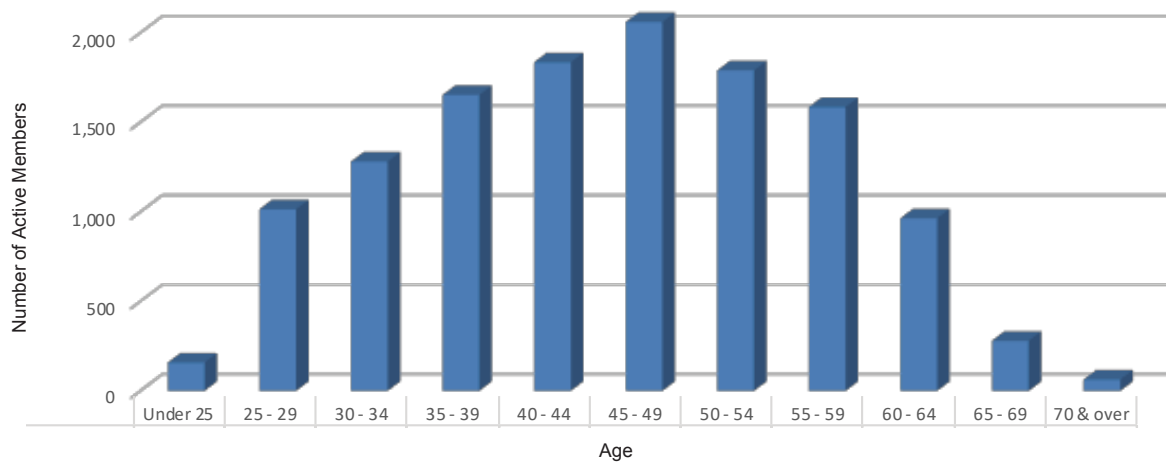
Active Members As of June 30	2018	2017
Average Age	45.7	46.0
Average Years of Service	11.9	12.1
Average Annual Salary	\$79,500	\$77,887
Active Members	12,677	12,587

Distribution of Active Members

By Age

As of June 30, 2018

- The youngest member is 18.6 years old.
- The oldest member is 84.2 years old.

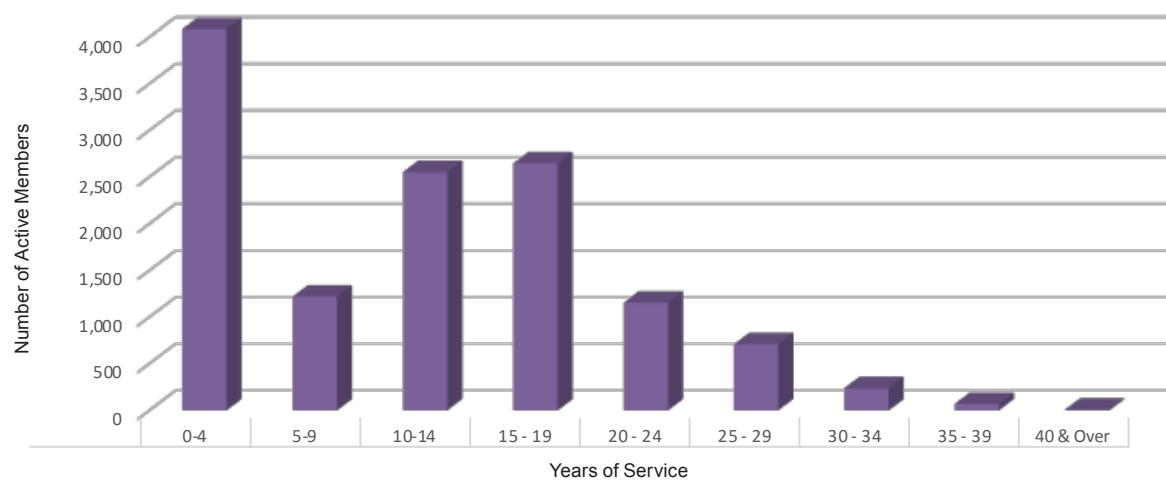


Distribution of Active Members

By Years of Service

As of June 30, 2018

- The member with the longest service has 46.3 years of service.



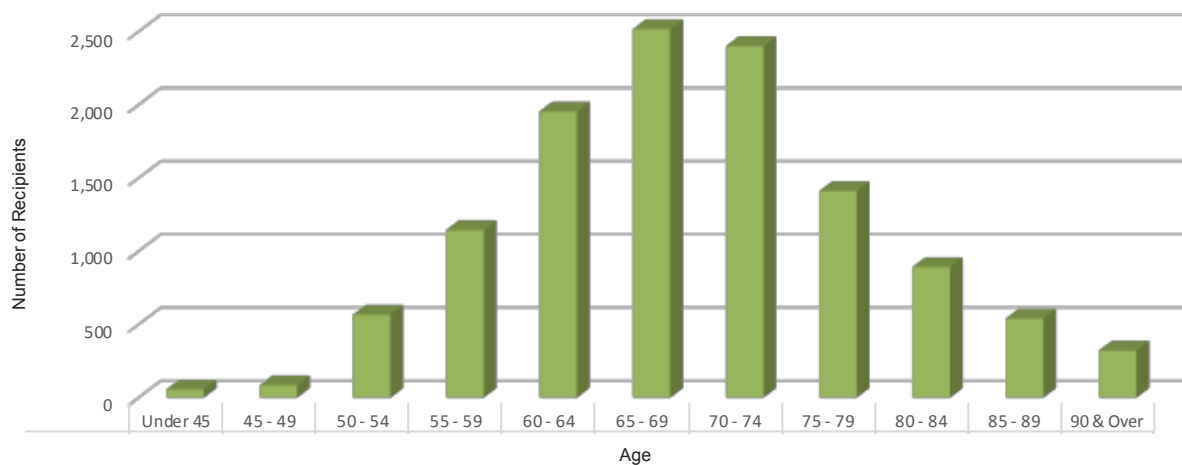
BENEFIT RECIPIENTS

Benefit Recipients As of June 30	2018	2017	Type of Retirement As of June 30	2018	2017
Average Age	69.6	69.5	Service	9,547	9,103
Average Years of Service	19.5	19.4	Disability	716	717
Average Monthly Benefit	\$3,381	\$3,260	Beneficiaries	1,620	1,576
Total Benefit Recipients	11,883	11,396	Total	11,883	11,396

Distribution of Benefit Recipients**By Age**

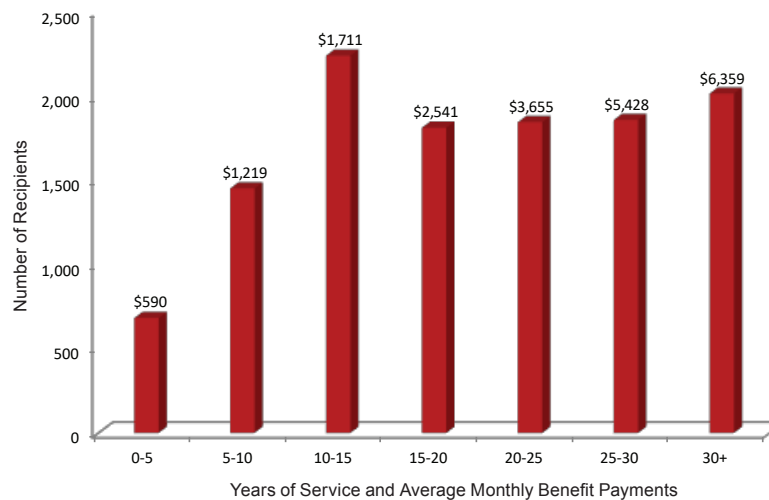
As of June 30, 2018

- The oldest benefit recipient currently receiving benefits is 104.2 years old.

**Distribution of Benefit Recipients****By Average Monthly Benefit Payments And Years of Service**

As of June 30, 2018

- The longest benefit payment to a current benefit recipient is 56.7 years.
- 63% of retired members have more than 15 years of service.
- As of June 30, 2018, the lowest monthly benefit payment to a recipient is \$3 and the highest is \$19,982.














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MISSION STATEMENT AND CORE VALUES

We are dedicated to providing the highest level of retirement services and managing system resources in an effective and prudent manner.

In fulfilling our mission as a retirement system, we are committed to:

-  The highest levels of professionalism and fiduciary responsibility
-  Acting with integrity
-  Competent, courteous and respectful service to all
-  Open and fair processes
-  Safeguarding confidential information
-  Cost-effective operations
-  Stable funding and minimal contribution volatility
-  Effective communication and helpful education
-  Maintaining a highly competent and committed staff
-  Continuous improvement
-  Planning strategically for the future



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