



## ANNUAL FINANCIAL REPORT SUMMARY

For The Fiscal Years Ended  
June 30, 2016 and 2015

Sacramento, California



## MESSAGE TO SCERS MEMBERS

On behalf of the Board of Retirement and Staff of the Sacramento County Employees' Retirement System ("SCERS" or "the System"), I am pleased to present the SCERS Annual Financial Report Summary ("Report") for the fiscal year ended June 30, 2016. This Report provides information on the financial status of your retirement system and is based on the Comprehensive Annual Financial Report ("CAFR") prepared by SCERS each year. The full CAFR for the fiscal years ended June 30, 2016 and 2015, and other important information about your retirement system, can be found on the SCERS website, [www.scers.org](http://www.scers.org).

Your SCERS benefits play an important role in your retirement security, so you should have confidence that SCERS is adhering to the highest fiduciary and professional standards in the management and expenditure of the assets of the System. Accordingly, our goal in providing this Report is to help you confirm that SCERS is responsible, accountable and transparent with respect to the management of the nearly \$8 billion SCERS pension trust, and that we are successfully meeting our long term responsibilities to our stakeholders.

As you will see in the Report, SCERS continues to be in a strong financial position, with a funded ratio of approximately 87% on an actuarial value of assets basis and 81% on a market value of assets basis, one of the highest funding ratios among California public employee retirement systems. This is due to SCERS' broadly diversified investment program and prudent approach to the management of the pension trust, which has allowed SCERS to remain strong and stable notwithstanding periodic volatility in the investment markets.

While SCERS has experienced a strong recovery in its assets since the Global Financial Crisis of 2008-2009 (GFC), in the fiscal year ended June 30, 2016, the investment markets continued the trend seen last year, with the post-GFC investment rally fueled by accommodative monetary policy losing further momentum. Several asset classes experienced negative returns, while others experienced nearly flat returns, and as a result SCERS total fund return for the period was -0.6%. This second consecutive year of weak investment performance has pulled down SCERS' trailing five year annualized return to 6.2%; however, SCERS' annualized return of 8.2% over the trailing thirty year period continues to exceed the actuarial investment target of 7.5%. Overall, SCERS' investment program remains focused on providing the bulk of the funding to pay your SCERS benefits, as promised.

In addition to confirming the financial health and fiduciary integrity of your retirement system, we believe this Report reflects the high standards and professionalism you should expect as a member of SCERS. In this regard, I would note that SCERS' CAFR has been awarded the Certificate for Excellence in Financial Reporting by the Government Finance Officers of the United States and Canada (GFOA) for the last seventeen years, and that this Report has received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for each of the seven years it has been published. For additional information, we encourage you to review the extensive financial, actuarial and benefits information available on the SCERS website, as well as the retirement-related news items and educational materials that can be found there.

All of us at SCERS are committed to addressing the questions and needs you may have regarding your retirement benefits, so please feel free to contact SCERS at [sacretire@saccounty.net](mailto:sacretire@saccounty.net) or call us at (916) 874-9119 if we can be of any assistance.

Respectfully Submitted,



Richard Stensrud  
Chief Executive Officer

# FINANCIAL STATEMENTS

## Fiduciary Net Position

Net Position represents the accumulation of assets that exceed liabilities, which are available to meet SCERS' obligations to plan participants and beneficiaries. As of June 30, 2016, the Net Position restricted for pension benefits totaled \$7.681 billion which represented a decrease of \$197.9 million, or 2.5%, from the \$7.879 billion in Net Position as of June 30, 2015. The Net Position as of June 30, 2015 increased \$68.8 million, or 0.9%, over the \$7.810 billion in Net Position as of June 30, 2014. Weaker investment performance was the primary reason for the decrease in total additions for the fiscal year ended June 30, 2016. Positive investment performance was the primary reason for the increase in Net Position for the years ended June 30, 2015.

### CHANGE IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed in Millions)

	2016	2015	Increase/(Decrease)	% Change
<b>Additions</b>				
Employee contributions	\$77.5	\$68.1	\$9.4	13.8%
Employer contributions	209.0	223.0	(14.0)	(6.3)
Net gain from investment activities	(12.6)	217.3	(229.9)	(105.8)
Net income from securities lending	1.9	1.0	0.9	90.0
Other income/(expenses)	(2.3)	1.3	(3.6)	(276.9)
Investment fees and expenses	(59.4)	(61.4)	2.0	(3.3)
<b>Total additions</b>	<b>214.1</b>	<b>449.3</b>	<b>(235.2)</b>	<b>(52.3)</b>
<b>Deductions</b>				
Benefits paid	403.3	372.4	30.9	8.3
Administrative expenses	6.4	5.8	0.6	10.3
Withdrawal of contributions	2.3	2.3	0.0	0.0
<b>Total deductions</b>	<b>412.0</b>	<b>380.5</b>	<b>31.5</b>	<b>8.3</b>
Increase/(decrease) in net position	(197.9)	68.8	(266.7)	387.6
Net position restricted for pension benefits, beginning	7,878.8	7,810.0	68.8	0.9
Net position restricted for pension benefits, ending	\$7,680.9	\$7,878.8	(\$197.9)	(2.5%)

### CHANGE IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed in Millions)

	2015	2014	Increase/(Decrease)	% Change
<b>Additions</b>				
Employee contributions	\$68.1	\$57.6	\$10.5	18.2%
Employer contributions	223.0	210.5	12.5	5.9
Net gain from investment activities	217.3	1,156.0	(938.7)	(81.2)
Net income from securities lending	1.0	1.3	(0.3)	(23.1)
Other expenses	1.3	(0.9)	2.2	(244.4)
Investment fees and expenses	(61.4)	(49.2)	(12.2)	24.8
<b>Total additions</b>	<b>449.3</b>	<b>1,375.3</b>	<b>(926.0)</b>	<b>(67.3)</b>
<b>Deductions</b>				
Benefits paid	372.4	344.9	27.5	8.0
Administrative expenses	5.8	5.7	0.1	1.8
Withdrawal of contributions	2.3	2.7	(0.4)	(14.8)
<b>Total deductions</b>	<b>380.5</b>	<b>353.3</b>	<b>27.2</b>	<b>7.7</b>
Increase/(decrease) in net position	68.8	1,022.0	(953.2)	93.3
Net position restricted for pension benefits, beginning	7,810.0	6,788.0	1,022.0	15.1
Net position restricted for pension benefits, ending	\$7,878.8	\$7,810.0	\$68.8	0.9%



## Additions to Net Position

(Dollar Amounts Expressed in Millions)

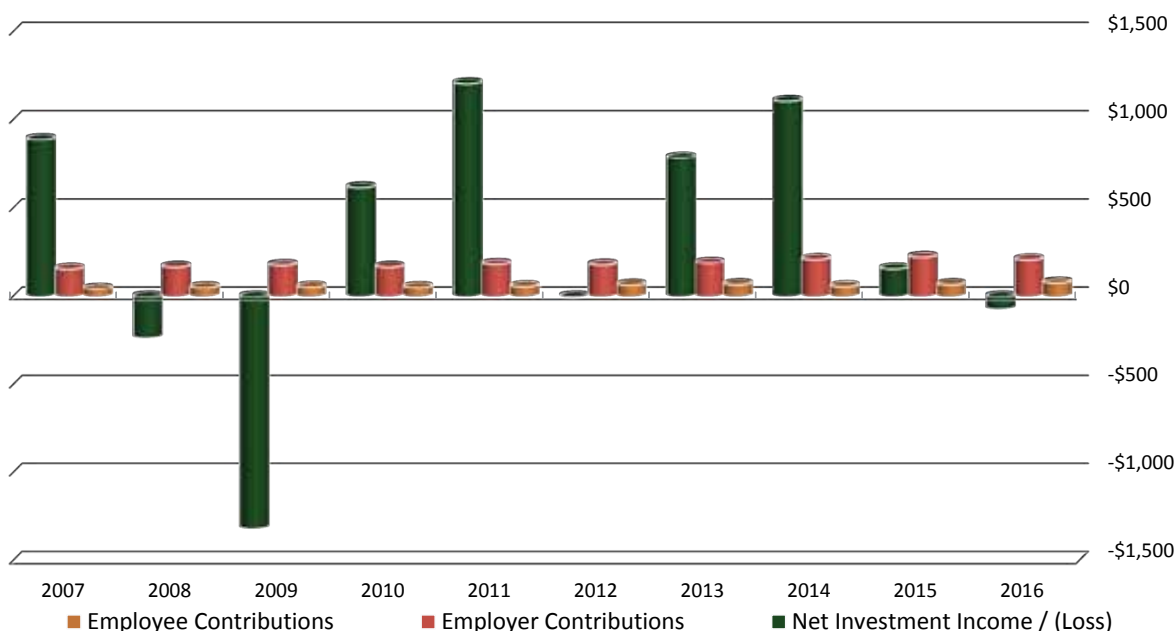
Year Ended June 30	Employee Contributions	Employer Contributions	Net Investment Income / (Loss)	Total
2016	\$77.5	\$209.0	(\$72.4)	\$214.1
2015	68.1	223.0	158.2	\$449.3
2014	57.6	210.5	1,107.2	1,375.3
2013	68.2	189.7	785.5	1,043.4
2012	65.7	179.1	(3.4)	241.4
2011	57.2	182.9	1,206.7	1,446.8
2010	52.4	167.1	617.5	837.0
2009	54.6	177.0	(1,318.4)	(1,086.8)
2008	52.1	167.1	(234.8)	(15.6)
2007	42.9	156.8	891.5	1,091.2

*Financing for the benefits SCERS provides to its participants comes primarily from investment returns and retirement contributions made by employers and employees.*

As noted above, financing for the benefits SCERS provides to its participants comes primarily from investment returns and the retirement contributions made by employers and employees. SCERS establishes the contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. The required employee and employer contribution rates vary depending on the member's tier, employer, and bargaining unit.

For the fiscal years ended June 30, 2016, 2015 and 2014, the total additions were \$214.1 million, \$449.3 million, and \$1,375.3 million, respectively. Net investment gains/(losses) were (\$72.4) million, \$158.2 million, and \$1,107.2 million for the fiscal years ended June 30, 2016, 2015, and 2014, respectively.

For the fiscal years ended June 30, 2016, 2015, and 2014, the combined employer and employee contributions were \$286.5 million, \$291.1 million, and \$268.1 million, respectively. Fiscal years 2015-2016 and 2014-2015 employee contributions increased as a result of the County and County employees' bargaining units entering into agreements under which the County employees pay more of the normal cost of the benefits. Fiscal year 2015-2016 employer contributions decreased as a result of the County employees paying more of the normal cost of the benefits. There was also a decrease in the employer contribution rates due to various actuarial gains. Fiscal year 2014-2015 employer contributions increased due to an increase in the aggregate employer contribution rate.



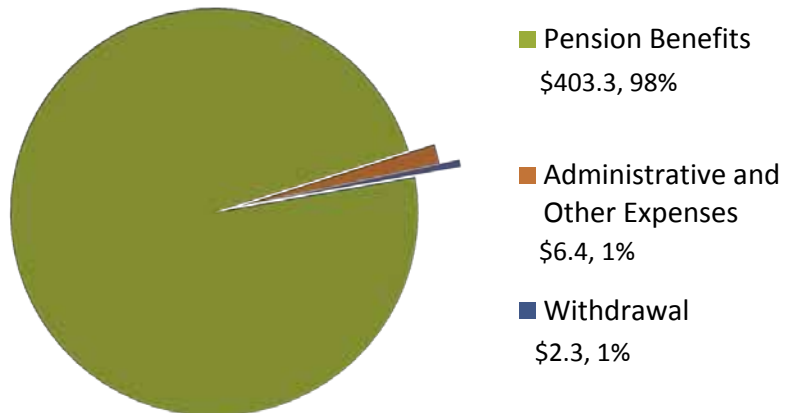
## Deductions from Net Position

(Dollar Amounts Expressed in Millions)

Deductions included benefit payments to members and their beneficiaries, for the payment of contribution withdrawals to terminated employees, and for the cost of administering the retirement system. For the fiscal years ended June 30, 2016 and 2015, total deductions were \$412.0 million and \$380.5 million, respectively. The primary reason for the increase in deductions in both years was an increase in benefit payments as a result of an increase in the number of retired members and the annual cost-of-living adjustments paid to retirees and beneficiaries. Administrative expenses have remained stable at less than half the level permitted by the County Employees' Retirement Law of 1937 (1937 Act).

Year Ended June 30:	Pension Benefits	Administrative and Other Expenses	Withdrawals	Total
2016	\$403.3	\$6.4	\$2.3	\$412.0
2015	372.4	5.8	2.3	380.5
2014	344.9	5.7	2.7	353.3
2013	320.8	5.7	2.8	329.3
2012	298.8	6.3	3.0	308.1
2011	276.2	6.6	4.4	287.2
2010	253.1	5.9	4.9	263.9
2009	232.3	6.0	3.3	241.6
2008	214.9	5.9	3.2	224.0
2007	196.0	5.8	4.4	206.2

### Fiscal Year 2015-2016 Deductions



## Reserves

SCERS' reserves are established in accordance with requirements of the 1937 Act, after satisfying administrative and investment expenses. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS utilizes a smoothing methodology under which a portion of the market gains and losses is recognized over a rolling seven-year period. The deferred gains and losses are tracked in the market stabilization reserve. Lower-than-expected investment performance for the year changed SCERS' market stabilization reserve from \$40.0 million as of June 30, 2015 to (\$555.5) million as of June 30, 2016. In other words, the deferred losses exceed deferred gains by \$555.5 million as of June 30, 2016, and this amount will be recognized over the next six years.

### Net Position Restricted for Benefits, at Fair Value

(Dollar Amounts Expressed in Millions)

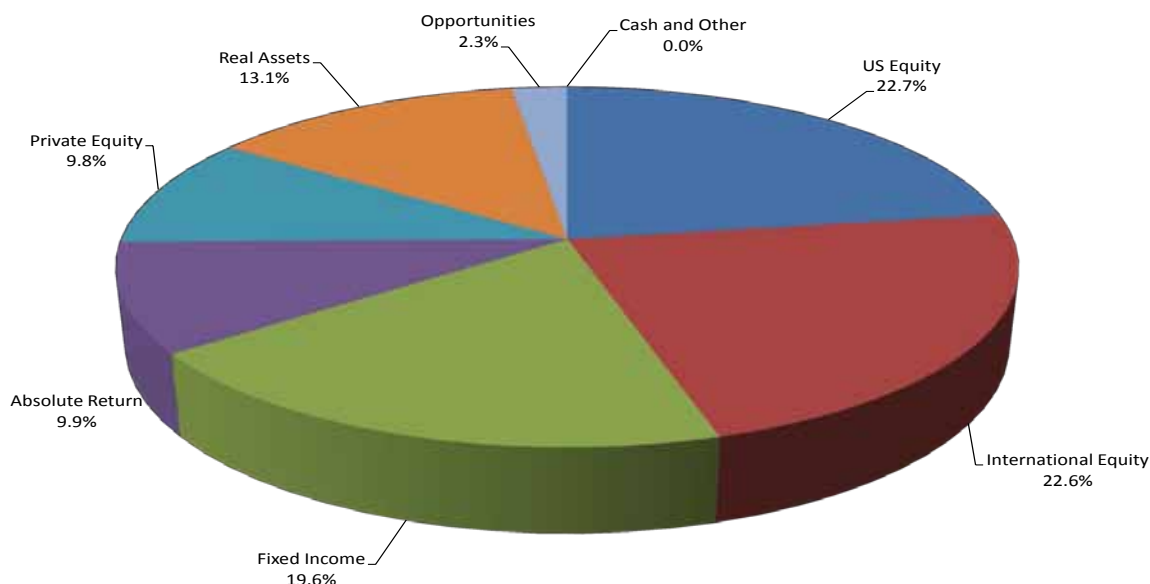
As of June 30	2016	2015
Employee Reserves	\$758.4	\$727.0
Employer Reserves	2,722.1	2,621.6
Retiree Reserves	4,658.7	4,393.3
Retiree Death Benefit Reserves	16.1	15.8
Contingency Reserve	81.1	81.1
Total allocated reserves and designation	8,236.4	7,838.8
Market Stabilization Reserve	(555.5)	40.0
<b>Net position restricted for benefits, at fair value</b>	<b>\$7,680.9</b>	<b>\$7,878.8</b>



# INVESTMENT PERFORMANCE

## Asset Allocation as of June 30, 2016

SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio that controls risk and provides stable performance across economic environments. An integral part of the investment policy is the strategic asset allocation, which is designed to provide an optimal mix of asset classes with return expectations that correspond to expected liabilities. The strategic asset allocation also emphasizes maximum diversification of the portfolio to protect the System from the possibility that a particular asset class may experience poor investment performance in a given period.



Asset Class	Fair Value (In Millions)	Annualized Returns*					
		1 Year		3 Years		5 Years	
		Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Domestic Equity	\$2,058.0	1.1%	2.1%	10.4%	11.1%	10.9%	11.6%
International Equity	1,345.1	(8.0)	(9.8)	2.2	1.6	1.1	0.6
Fixed Income	1,573.8	5.3	6.1	4.1	3.5	4.2	3.4
Real Assets**	1,087.7	1.2	6.0	4.3	5.7	2.7	N/A
Absolute Return	724.7	(4.5)	5.2	2.3	5.1	3.2	5.1
Private Equity***	537.7	2.3	3.5	12.7	14.4	10.5	14.3
Opportunities	165.2	15.3	1.5	16.5	6.6	15.6	8.5
Overlay	146.2	N/A	N/A	N/A	N/A	N/A	N/A
Cash	149.9	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Cash and Investments****</b>	<b>\$7,788.3</b>	<b>(0.6)%</b>	<b>1.5%</b>	<b>5.9%</b>	<b>6.6%</b>	<b>6.2%</b>	<b>6.6%</b>

\* Annualized returns shown on a gross of fee basis and includes the overlay, which rebalances asset classes and invests uninvested cash to replicate asset allocation policy targets.

\*\* Consists of (1) Core and core plus real estate; (2) Private real assets such as infrastructure, energy, timber, agriculture or other natural resources; (3) Commodities; and (4) Treasury Inflation Protected Securities.

\*\*\* Although fair value reported is as of June 30, 2016, returns cited are delayed one quarter.

\*\*\*\* The benchmark consists of 22.5% MSCI ACWI ex US, 22.5% Russell 3000, 15% Barclays Aggregate, 15% CPI-U +5% (RA), 10% 91-day UST Bill +5% (HF), 10% Russell 1000 +3% 1QL (PE), 2.4% Citigroup WGBI ex US Unhedged, 1% BofA ML High Yield II, 1% Credit Suisse Leveraged Loans and 0.6% JPM GBI EM Diversified. From 1/1/2012 to 12/31/2013, the Benchmark consisted of 22.5% MSCI ACWI ex US, 10% Russell 1000 +3% 1QL (PE), 22.5% Russell 3000, 20% Barclays Aggregate, 15% CPI-U +5% (RA), and 10% 91-day UST Bill +5% (HF).

## Investment Performance (continued)

(Dollar Amounts Expressed in Millions)

While SCERS has experienced a strong recovery in its asset base since the depths of the Global Financial Crisis, over the past few years, the recovery has slowed, evidenced by the near flat returns for the fiscal year ended June 30, 2016.

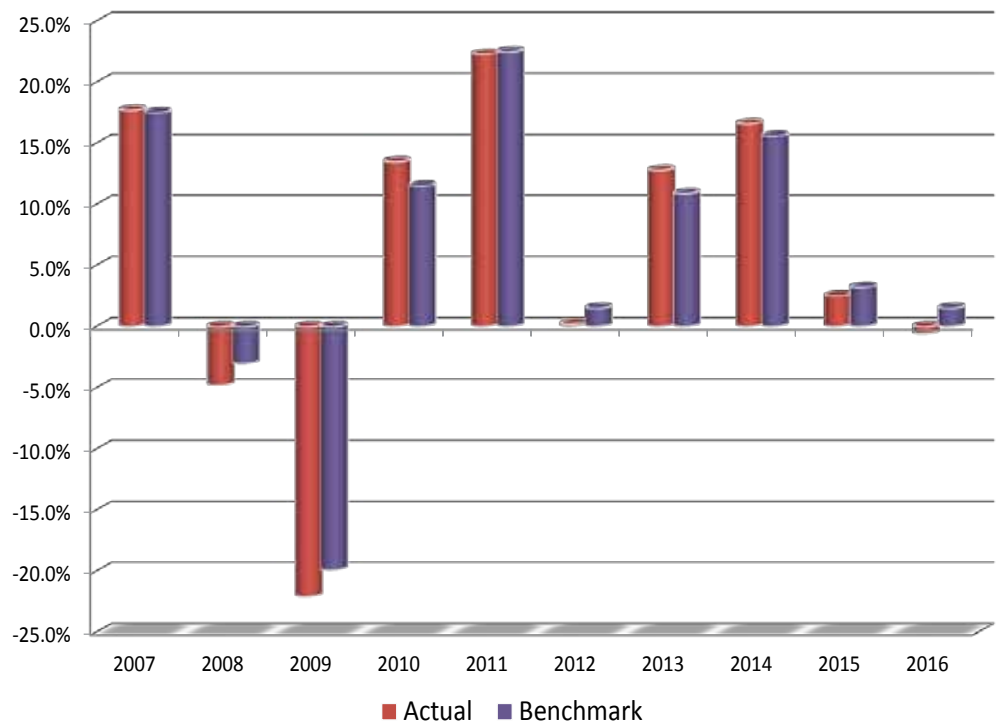
For the fiscal year ended June 30, 2016, SCERS' investments provided a 0.9% loss (net of fees) compared to a 2.2% gain (net of fees) for the fiscal year ended June 30, 2015.

SCERS' gross return of (0.6%) for fiscal year 2015-2016 was below its policy index by 2.1%.

For the latest information, review the SCERS website, [www.scers.org](http://www.scers.org).

## Net Investment Returns

Fiscal Year Ended June 30



## ACTUARIAL SUMMARY

### Actuarial Funding Status

SCERS' overall funding objective is to meet long-term benefit promises 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 retains an independent actuarial firm, Segal Consulting, to perform an annual actuarial valuation to monitor the funding status of the System.

An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which represents the actuarial present value of all future benefits expected to be paid with respect to each member. 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.



## Actuarial Summary (continued)

(Dollar Amounts Expressed in Millions)

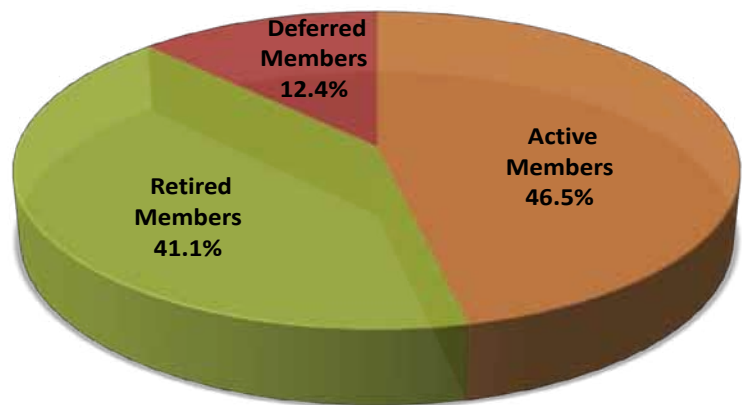
As of June 30, 2016, deferred losses under the smoothing methodology exceeded deferred gains by \$555.5 million as a result of investment performance below investment return target of 7.5%. SCERS' funding ratio based on actuarial value of assets increased to 87.3% from 86.8% as of June 30, 2015, with the actuarial value of assets totaling \$8.236 billion and the actuarial accrued liability totaling \$9.436 billion.

As of June 30	Total Pension Liability	Actuarial Value of Assets (AVA)	Funded Ratio on an AVA Basis	Plan Net Position	Plan Net Position as a Percentage of Total Pension Liability
2016	\$9,436.1	\$8,236.4	87.3%	\$7,680.9	81.4%
2015	9,028.7	7,838.8	86.8	7,878.8	87.3
2014	8,580.9	7,313.0	85.2	7,810.0	91.0
2013	8,211.0	6,797.8	82.8	6,788.0	82.7
2012	7,838.2	6,529.9	83.3	6,073.9	78.3

## System Membership

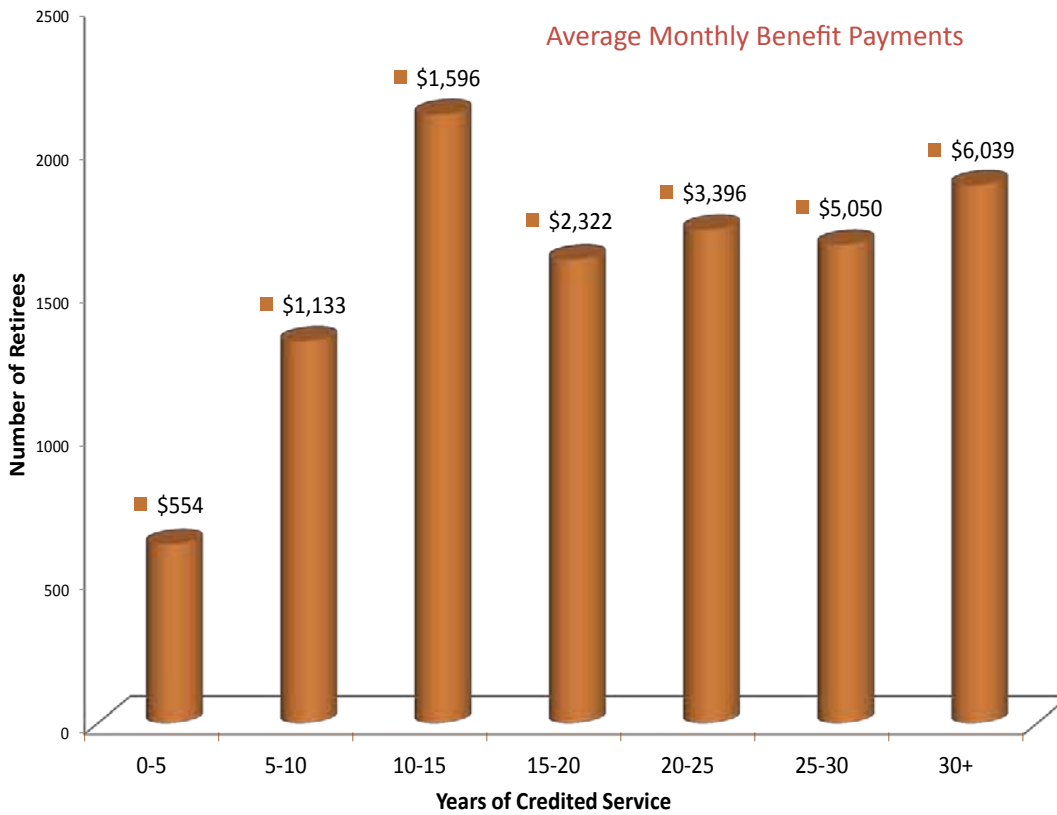
SCERS' members include permanent full-time and part-time employees of the County of Sacramento; Superior Court of California, County of Sacramento; and eleven Special Districts. As of June 30, 2016, SCERS had 46.5% or 12,393 active members (an increase of 2.7%), 41.1% or 10,960 retired members (an increase of 4.0%), and 12.4% or 3,301 deferred members (an increase of 1.2%).

Fiscal Year 2015-2016



As of June 30	Active Members	Retired Members	Deferred Members	Total
2016	12,393	10,960	3,301	26,654
2015	12,072	10,541	3,261	25,874
2014	12,049	10,049	3,201	25,299
2013	12,026	9,634	3,249	24,909
2012	12,155	9,239	2,851	24,245
2011	12,434	8,821	2,710	23,965
2010	13,340	8,346	2,740	24,426
2009	14,796	7,968	2,818	25,582
2008	15,180	7,709	2,661	25,550
2007	14,716	7,464	2,437	24,617

## Retired Members



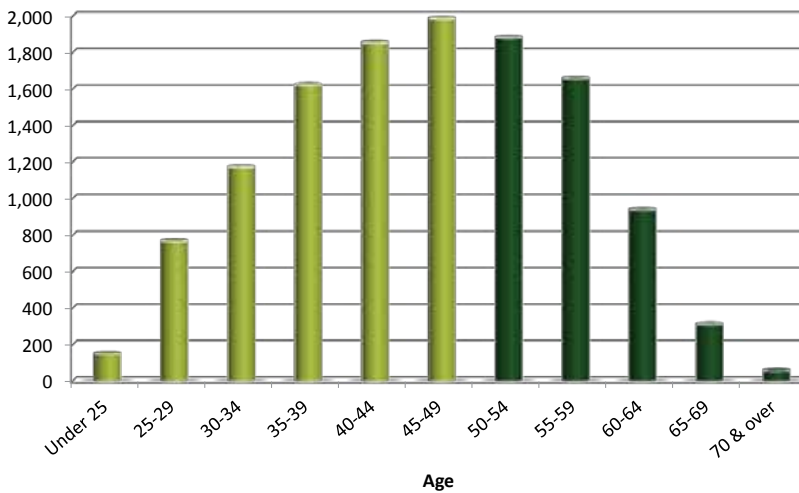
The graph shows a distribution of the current retired members based on their years of credited service and the corresponding average monthly benefit payments as of June 30, 2016.

- 63.0% of retired members have more than 15 years of credited service
- Average benefit is \$3,156 per month or \$37,872 per year
- Monthly benefit is higher for longer service
- Average age of retired members is 69.4

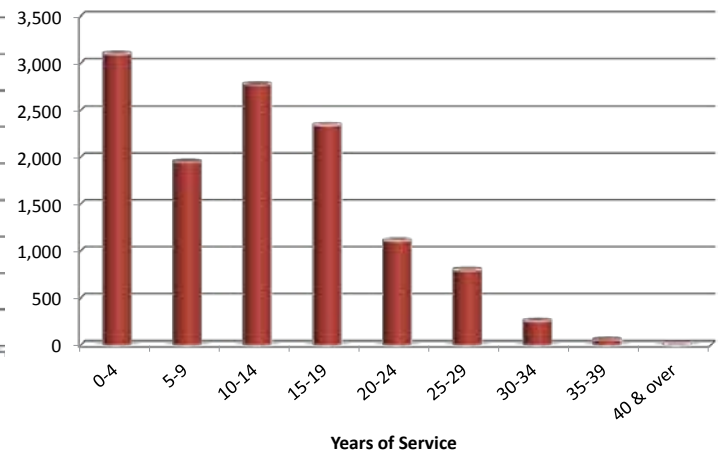
## Active Members

Plan costs are affected by the age, years of service and compensation of active members. As of June 30, 2016, there were 12,393 active members with an average age of 46.3 and average years of service of 12.4 years. Approximately, 39% of the active members have reached the retirement eligible age (age 50 and over).

Distribution of Active Members by Age



Distribution of Active Members by Years of Service



This Annual Financial Report Summary is derived from the information contained in SCERS' Comprehensive Annual Financial Report (CAFR) but does not include all information required for conformity with Generally Accepted Accounting Principles (GAAP). The CAFR, which provides more detailed information and is produced in conformity with GAAP, is available online at [www.scers.org](http://www.scers.org).



## **SCERS 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



SACRAMENTO COUNTY  
EMPLOYEES'  
RETIREMENT SYSTEM