

# ANNUAL FINANCIAL REPORT SUMMARY



SACRAMENTO COUNTY  
EMPLOYEES'  
RETIREMENT SYSTEM

For the Fiscal Year Ended June 30, 2009  
Sacramento, California





## MESSAGE TO SCERS MEMBERS

As Chief Executive Officer of the Sacramento County Employees' Retirement System ('SCERS' or 'the System'), I am pleased to present the SCERS Annual Financial Report Summary for the fiscal year ended June 30, 2009. This report provides information on the financial status of your retirement system and is based on the Comprehensive Annual Financial Report ('CAFR') prepared by the System each year. The full CAFR for the fiscal years ended June 30, 2009 and 2008, and other important information about your retirement system, can be found on the SCERS website, [www.scers.org](http://www.scers.org).

Starting in the fall of 2007 and running through most of the fiscal year ended June 30, 2009, the U.S. and global financial markets experienced the worst financial crisis since the 1930's. Problems that initially started in the credit markets spread to all parts of the economy triggering serious questions regarding the soundness of many financial institutions. As the markets floundered, the U.S. Treasury, the Federal Reserve and Congress utilized a wide range of fiscal and monetary stimulus measures in an effort to restore investor confidence.

Like all investors, SCERS' investment performance over this period was extremely poor. However, that being said, SCERS continues to be in a strong financial condition, and whether you are a retiree or beneficiary already receiving a monthly SCERS benefit, an active employee contemplating retirement, or someone just starting your work career, you can rest assured that your SCERS benefits will be paid as promised.

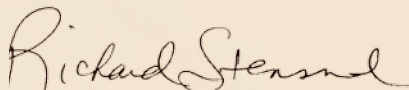
The following are some key reasons why this is the case:

- SCERS is a defined benefit pension plan, in which your benefits are fixed by law based on your years of service, your final average salary, and your age at retirement. Your SCERS benefits are not based on an individual account balance nor are they determined by how the investment markets are performing now or in the future.
- SCERS is designed for the long haul and built to ride out disruptions in the financial markets. Your SCERS benefits are pre-funded and are not 'pay as you go.' This means SCERS does not have to struggle each year to find the funds to pay benefits.
- SCERS has a broadly diversified investment program designed to help mitigate bad investment performance in one or more areas of the financial markets.
- SCERS utilizes widely accepted actuarial practices to help control the impact of the financial markets on the fund.
- SCERS entered the recent, difficult period in very strong financial condition.
- SCERS has successfully weathered difficult financial market experiences in the past and rebounded strongly when the investment markets recovered. This is because SCERS is a long term investor and is able to capitalize on the investment opportunities that follow a market downturn.
- By law, your SCERS benefits are ultimately guaranteed by your employer.

There can be no question that events in the financial markets and the economy have hit everyone hard, and SCERS is no exception. However, because of the way SCERS is designed and managed, your SCERS benefits remain secure.

On behalf of the SCERS Board of Retirement, and the rest of the staff at SCERS, we look forward to continuing to address your retirement questions and needs, and to paying your benefits as promised.

Respectfully Submitted,



Richard Stensrud  
Chief Executive Officer

# FINANCIAL STATEMENTS

## Fiduciary Net Assets

SCERS has \$4.408 billion in net assets held in trust for pension benefits as of June 30, 2009. This represents a decrease of \$1.328 billion or 23.2% from the \$5.736 billion in net assets as of June 30, 2008. The decrease in net assets was due to investment losses resulting from the expanding problems in the U.S. and global credit markets, as well as the slowdown in numerous segments of the U.S. economy and the decline in global growth. All of the net assets are available to meet SCERS' obligations to plan participants and beneficiaries.

### Summary Comparative Statements of Changes in Fiduciary Net Assets

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed in Millions)

	2009	2008	Increase/ (Decrease)	% Change
<b>Additions</b>				
Employee contributions	\$54.6	\$52.1	\$2.5	4.8%
Employer contributions	177.0	167.1	9.9	5.9
Net income/(loss) from investment activities	(1,307.8)	(233.8)	(1,074.0)	459.4
Net income from securities lending	5.6	5.5	0.1	1.8
Other income/(expenses)	1.7	19.3	(17.6)	(91.2)
Investment fees and expenses	(17.9)	(25.8)	7.9	(30.6)
<b>Total additions</b>	<b>(1,086.8)</b>	<b>(15.6)</b>	<b>(1,071.2)</b>	<b>6,866.7</b>
<b>Deductions</b>				
Benefits paid	232.3	214.9	17.4	8.1
Withdrawal of contributions	3.3	3.2	0.1	3.1
Administrative expenses	6.0	5.9	0.1	1.7
<b>Total deductions</b>	<b>241.6</b>	<b>224.0</b>	<b>17.6</b>	<b>7.9</b>
Increase/(Decrease) in net assets	(1,328.4)	(239.6)	(1,088.8)	454.4
Net assets held in trust for pension benefits, beginning	5,736.3	5,975.9	(239.6)	(4.0)
<b>Net assets held in trust for pension benefits, ending</b>	<b>\$4,407.9</b>	<b>\$5,736.3</b>	<b>\$(1,328.4)</b>	<b>(23.2)%</b>

## Additions to Net Assets

Financing for the benefits SCERS provides to its participants comes primarily from income on investments and the retirement contributions made by employers and employees. For the fiscal year ended June 30, 2009, the total additions were \$(1.087) billion. For the fiscal year ended June 30, 2008, the total additions were \$(15.6) million.

Net investment gains/(losses) were \$(1,318.4) and \$(234.8) million for the fiscal years ended June 30, 2009 and 2008, respectively.

For the years ended June 30, 2009 and 2008, the combined employer and employee contributions were \$231.6 million and \$219.2 million, respectively. The increase in the employer contributions in 2009 and 2008 was primarily due to increases in total annual compensation for active members.

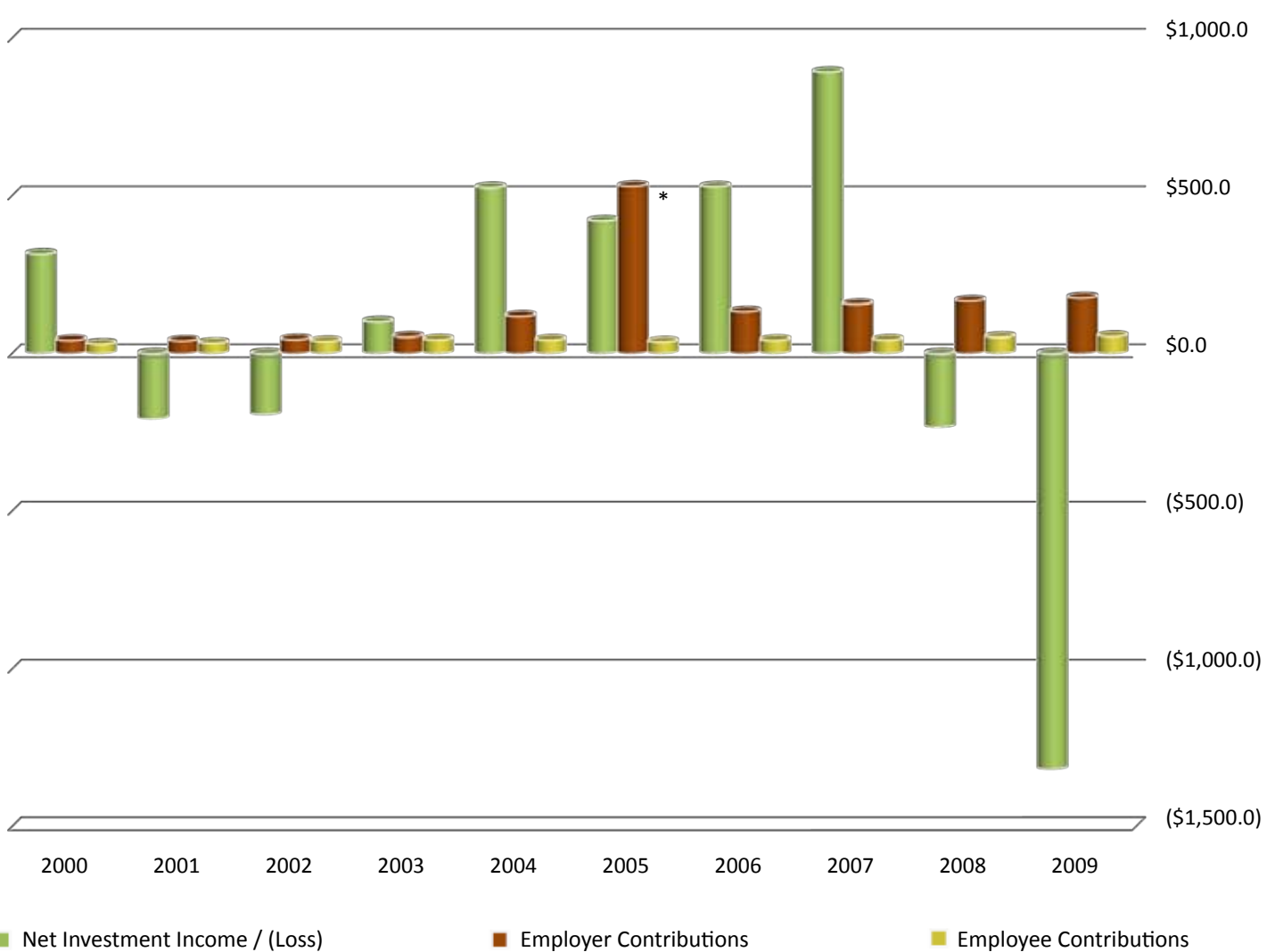


## Additions to Net Assets (continued)

(Dollar Amounts Expressed in Millions)

Year Ended June 30:	Employee Contributions	Employer Contributions	Net Investment Income / (Loss)	Total
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
2006	42.0	132.7	527.9	702.6
2005	36.9	529.6*	419.5	986.0
2004	42.9	119.1	525.2	687.2
2003	43.7	52.8	100.8	197.3
2002	38.4	44.5	(194.1)	(111.2)
2001	33.0	40.3	(207.6)	(134.3)
2000	30.0	42.0	315.8	387.8

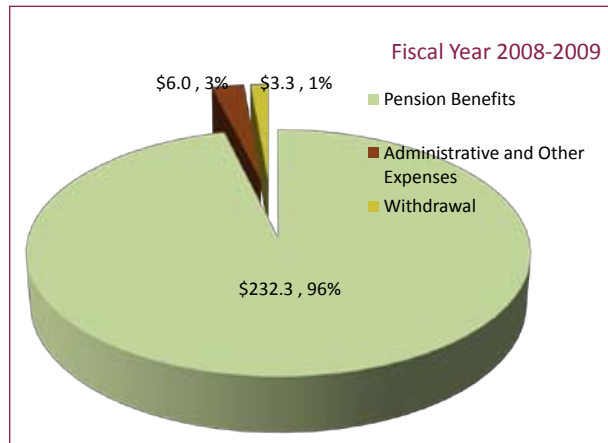
*Financing for the benefits SCERS provides to its participants comes primarily from income on investments and the retirement contributions made by employers and employees.*



\*This total includes \$420.0 and \$10.5 in proceeds from pension obligation bonds (POB) issued by the County of Sacramento and Sacramento Metropolitan Fire District, respectively.

## Deductions from Net Assets

(Dollar Amounts Expressed in Millions)



SCERS' assets were primarily used for the payment of benefits to members and beneficiaries, the refunding of contributions made by terminated employees, and the cost of administering the retirement system. For the years ended June 30, 2009 and 2008, the total deductions were \$241.6 million and \$224.0 million, respectively. The primary increase in deductions was an increase in monthly benefit payments due to an increase in number of retired members and the annual cost-of-living adjustment on those benefits.

Year Ended June 30:	Pension Benefits	Administrative and Other Expenses	Withdrawal	Total
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
2006	178.4	5.1	4.6	188.1
2005	162.5	5.3	3.5	171.3
2004	153.8	6.7	4.0	164.5
2003	123.1	31.8	2.9	157.8
2002	113.5	5.5	3.5	122.5
2001	105.4	3.8	3.6	112.8
2000	96.5	3.6	3.2	103.3

Note: For the years ended June 30, 2004 and 2003, Administrative and Other Expenses include retroactive benefits of \$0.8 and \$25.9, respectively, related to the Ventura litigation settlement.

## Reserves

SCERS' reserves are established in accordance with requirements of the County Employees' Retirement Law of 1937, after satisfying administrative and investment expenses. For actuarial purposes, SCERS utilizes a multi-year smoothing methodology under which a portion of the market gains and losses is recognized and allocated to the reserves through interest crediting. Gains or losses incurred prior to July 1, 2008 will be amortized over a five-year period. Gains or losses incurred after July 1, 2008 will be amortized over a seven-year period. The difference between market value of assets (equivalent to fiduciary net assets) and the smoothed actuarial value of assets is tracked in the market stabilization reserves. As of June 30, 2009 and 2008, the market stabilization reserve declined to \$(1,322.4) and (194.4) million, respectively, due to lower than expected investment performance.

## Net Assets Available for Benefits at Fair Value

(Dollar Amounts Expressed in Millions)

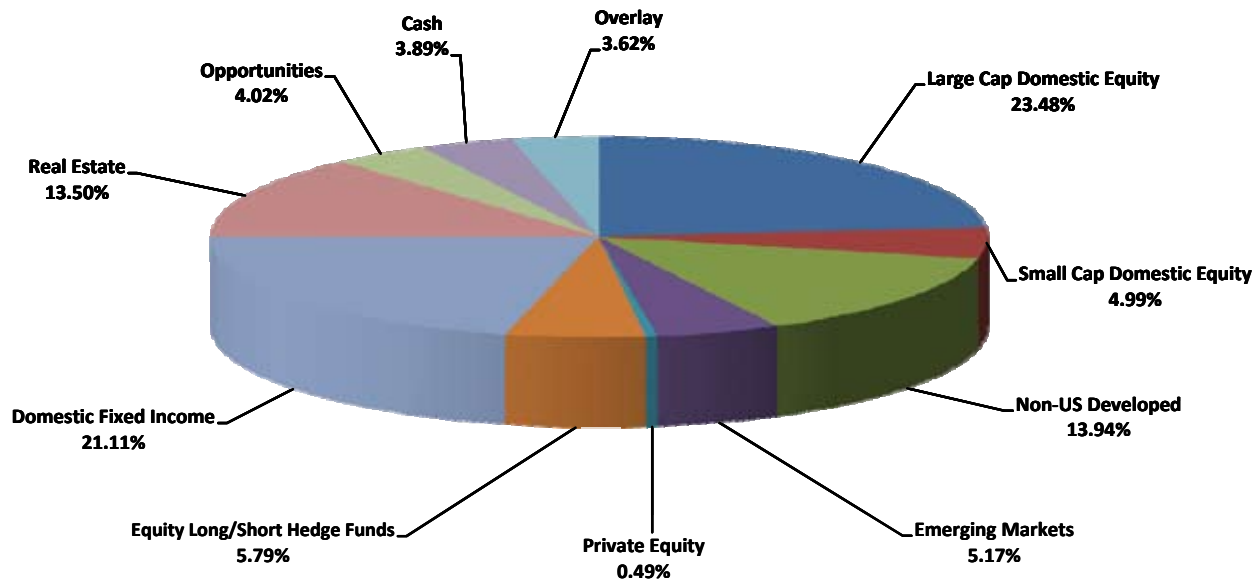
As of June 30	2009	2008
Employee reserves	\$634.3	\$623.2
Employer reserves	2,232.3	2,268.9
Retiree reserves	2,848.0	2,818.4
Retiree death benefit reserves	14.1	14.7
Retiree health care benefits designations	1.6	1.6
Contingency reserve	-	203.9
Total allocated reserves and designations	5,730.3	5,930.7
Unallocated earnings	-	-
Smoothed actuarial value of assets	5,730.3	5,930.7
Market stabilization reserve	(1,322.4)	(194.4)
<b>Net assets available for benefits, at fair value</b>	<b>\$4,407.9</b>	<b>\$5,736.3</b>



# INVESTMENT PERFORMANCE

## Asset Allocation as of June 30, 2009

SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio. 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.



### Annualized Returns\*

Asset Class	Fair Value (In Millions)	1 Year	3 Years	5 Years
Domestic Equity	\$1,220.7	(28.4)%	(9.9)%	(3.1)%
International Equity	842.4	(27.6)	(4.4)	6.1
Hedge Fund of Funds	255.6	(15.6)	(0.4)	N/A
Private Equity	21.4	(53.7)	N/A	N/A
Fixed Income	993.4	5.7	5.9	4.9
Real Estate	759.7	(30.2)	(5.2)	4.6
Futures Overlay	156.4	(0.8)	(0.3)	N/A
Opportunities	182.4	(40.2)	N/A	N/A
Cash	187.9	(0.6)	2.7	3.1
<b>Total Cash and Investments</b>	<b>\$4,619.9</b>	<b>(21.8)%</b>	<b>(4.0)%</b>	<b>1.8%</b>

\* Returns were shown on a gross of fee basis.

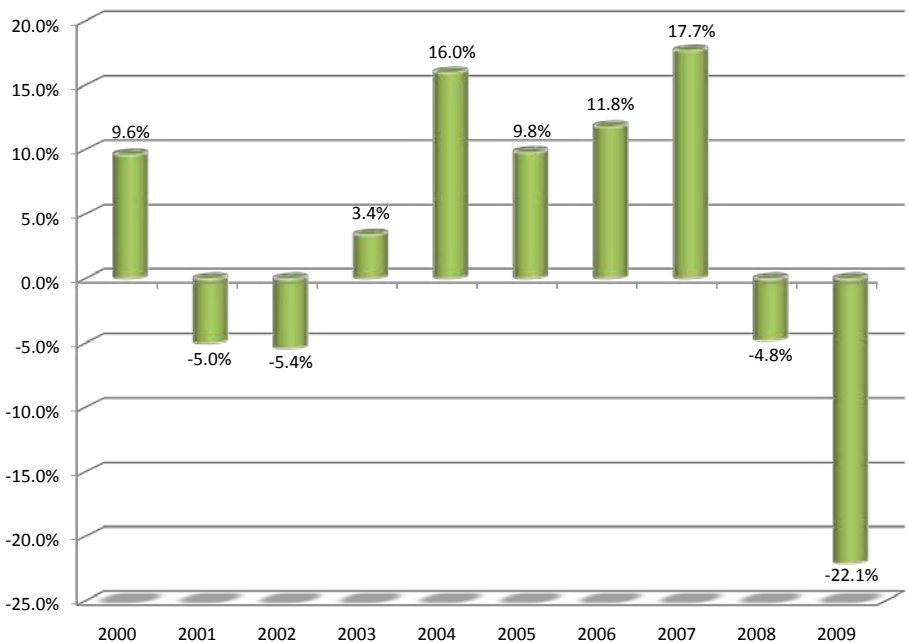
## Investment Performance (continued)

### Net Investment Returns Fiscal Year Ended June 30

For the fiscal year ended June 30, 2009, SCERS' investments provided a 22.1% loss (net of fees) compared to a 4.5% loss (net of fees) for the fiscal year ended June 30, 2008.

The net investment loss for the fiscal year ended June 30, 2009 was the result of the expanding problems in the U.S. and global credit markets, as well as the slowdown in several segments of the U.S. economy and the decline in global growth.

The overriding investment philosophy followed by SCERS continues to center on the principle of diversification and the search for long-term value. For the latest information, review the SCERS website, [www.scers.org](http://www.scers.org).



## ACTUARIAL SUMMARY

### Actuarial Funding Status

SCERS' overall funding objective is to meet long-term benefit promises by maintaining a well-funded plan status 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, The Segal Company, to perform 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 are 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 what future contributions will be needed by 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 multi-year period. Unrecognized return established before July 1, 2008 is recognized over a five-year period. Unrecognized return established after July 1, 2008 is recognized 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. As of June 30, 2009, deferred losses under the smoothing methodology exceeded deferred gains by \$1.322 billion. These deferred net losses will be amortized over the next four to six years.





## Actuarial Summary (continued)

(Dollar Amounts Expressed in Millions)

As of June 30, 2009, SCERS' funding ratio was 86.0%, with the actuarial value of assets totaling \$5,730.2 million and the actuarial accrued liability totaling \$6,662.0 million. In general terms, this ratio means that as of June 30, 2009, SCERS has approximately 86 cents available for each dollar of anticipated future liability.

As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio
2009	\$5,730.2	\$6,662.0	\$931.8	86.0%
2008	5,930.8	6,363.4	432.6	93.2
2007	5,406.4	5,788.3	381.9	93.4
2006	4,848.9	5,214.9	366.0	93.0
2005	4,530.6	4,860.9	330.3	93.2

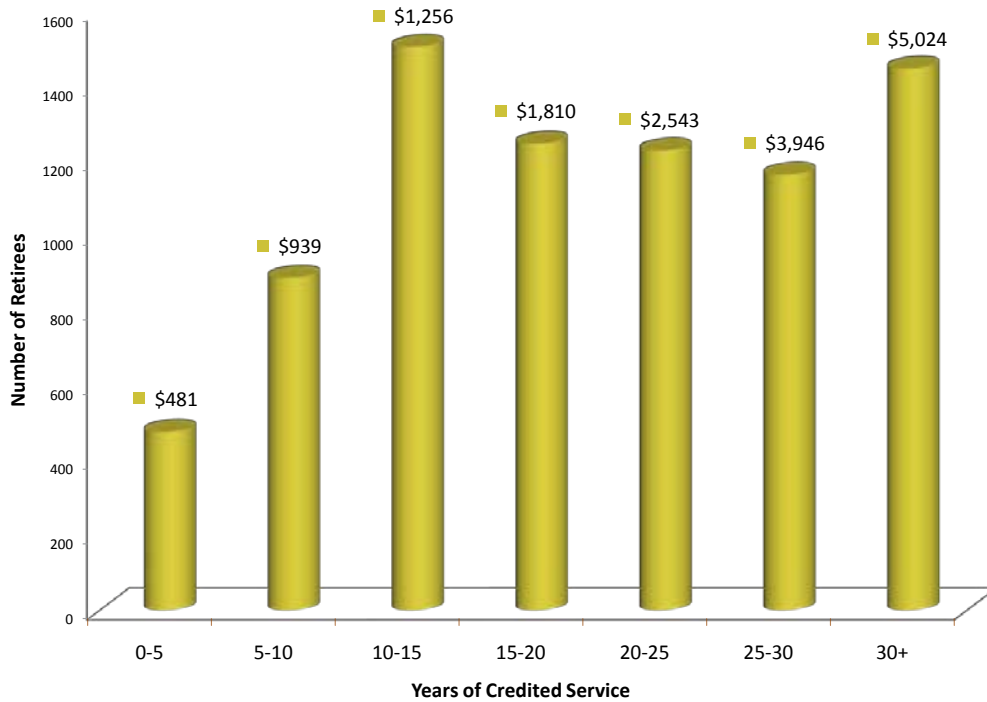
## System Membership

*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, 2009, SCERS had 14,796 active members (a decrease of 2.5%), 7,968 retired members (an increase of 3.4%), and 2,818 deferred members (an increase of 5.9%).*



As of June 30	Active Members	Retired Members	Deferred Members	Total
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
2006	14,412	7,108	2,192	23,712
2005	13,728	6,784	2,135	22,647
2004	13,672	6,291	2,110	22,073
2003	14,133	5,882	1,885	21,900
2002	14,033	5,742	1,944	21,719
2001	12,991	5,526	2,146	20,663
2000	12,235	5,488	1,828	19,551

## 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, 2009.

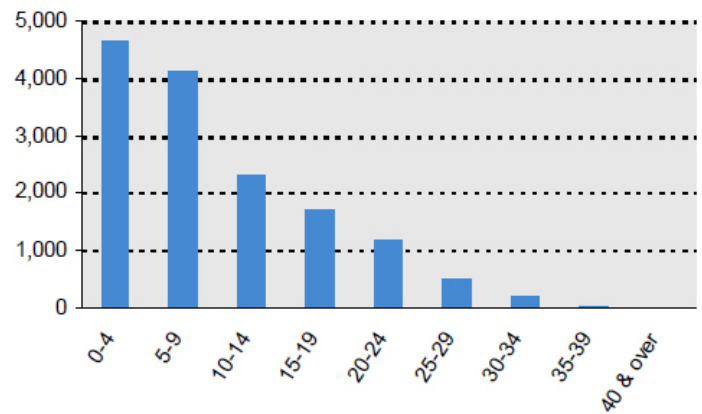
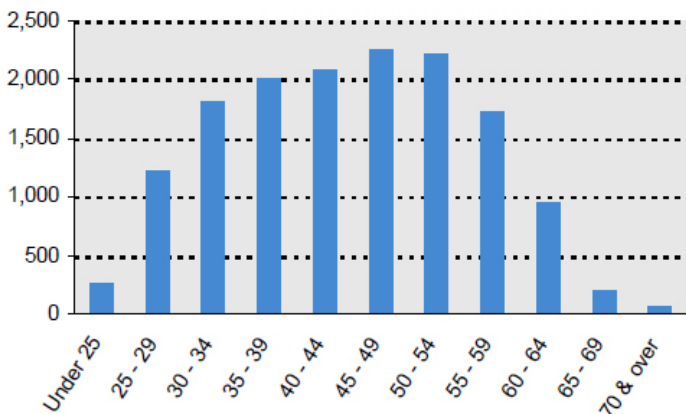
- 64% of retired members have more than 15 years of credited service
- Average benefit is \$2,538 per month or \$30,459 per year
- Monthly benefit is higher for longer service
- Average age of retired members is 68.5

■ Average Monthly Benefit Payments

## Active Members

Plan costs are affected by the age, years of service and compensation of active members. As of June 30, 2009, there were 14,796 active members with an average age of 44.8 and average years of service of 10.3 years.

The graphs below show a distribution of active members by age and 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



[www.scers.org](http://www.scers.org)



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