

**SDCERA**

**Popular Annual Financial Report**  
*For the Fiscal Year ended June 30, 2019*



**San Diego County Employees Retirement Association**

**San Diego County, CA**

## SDCERA POPULAR ANNUAL FINANCIAL REPORT as of June 30, 2019

This Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2019 (FY 2019) provides a summary of the San Diego County Employees Retirement Association's (SDCERA), Membership, financial, investments, actuarial, management and Board of Retirement information as of June 30, 2019. The financial data was taken from SDCERA's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019 (CAFR). The CAFR is available on SDCERA's website at [www.sdcera.org](http://www.sdcera.org).

Unlike the financial data in the CAFR, the data in this PAFR is unaudited and does not include all of the financial statements and note disclosures required by generally accepted accounting principles. For detailed financial information, please refer to the CAFR.

### MEMBERSHIP

<b>MEMBERSHIP SUMMARY</b>			
As of June 30			
<b>Category</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Active Members	18,173	17,869	304
Deferred Members	6,151	5,928	223
Retired Members and beneficiaries	19,706	19,028	678
<b>Total Membership</b>	<b>44,030</b>	<b>42,825</b>	<b>1,205</b>

### FINANCIAL

The Statement of Fiduciary Net Position presents SDCERA's assets and liabilities as of June 30, 2019 and June 30, 2018.

<b>FIDUCIARY NET POSITION</b>				
For the fiscal years ended June 30				
(dollars in thousands)				
	<b>2019</b>	<b>2018</b>	<b>Increase/ (Decrease)</b>	<b>% Change</b>
Cash, cash equivalents and collateral cash	\$ 1,691,162	\$ 1,114,541	\$ 576,620	51.7%
Securities lending cash collateral	20,930	41,118	(20,188)	(49.1%)
Receivables	466,610	331,123	135,487	40.9%
Investments	11,314,307	11,258,433	55,874	0.5%
Property, plant and equipment	6,603	8,005	(1,402)	(17.5%)
<b>Total assets</b>	<b>\$13,499,612</b>	<b>\$12,753,220</b>	<b>\$ 746,391</b>	<b>5.9%</b>
Collateral payable for securities lending	20,964	41,141	(20,177)	(49.0%)
Investments purchased	562,946	401,209	161,737	40.3%
Other	33,168	21,955	11,213	51.1%
<b>Total liabilities</b>	<b>\$ 617,078</b>	<b>\$ 464,305</b>	<b>\$ 152,773</b>	<b>32.9%</b>
<b>Net Position</b>	<b>\$12,882,534</b>	<b>\$12,288,915</b>	<b>\$ 593,618</b>	<b>4.8%</b>

## SDCERA POPULAR ANNUAL FINANCIAL REPORT as of June 30, 2019

The Statement of Changes in Fiduciary Net Position provides an income statement presentation of annual additions to and deductions from the Plan for the fiscal years ended June 30, 2019 and June 30, 2018.

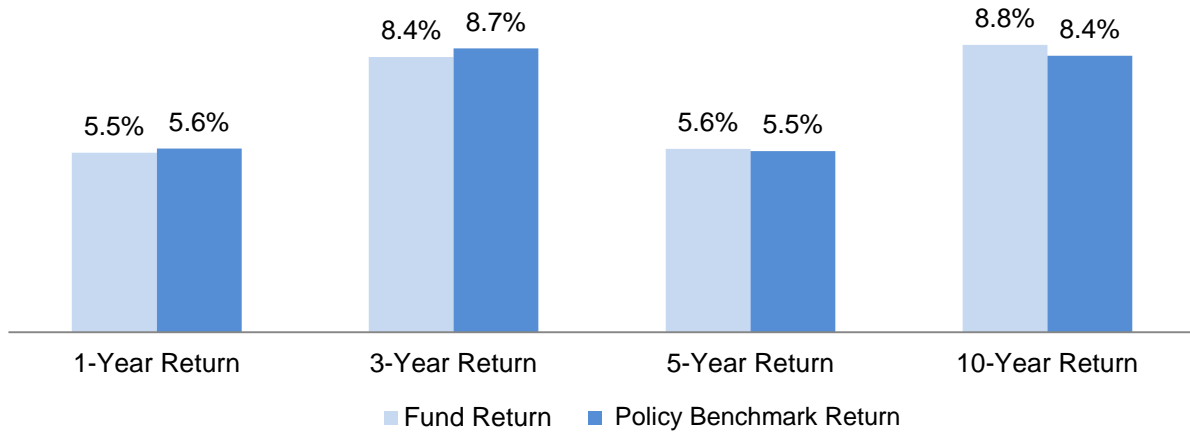
<b>CHANGES IN FIDUCIARY NET POSITION</b>				
For the fiscal years ended June 30				
(dollars in thousands)				
	2019	2018	Increase/ (Decrease)	% Change
<b>Additions</b>				
Employer pension contributions	\$ 532,408	\$ 524,487	\$ 7,921	1.5%
Employer OPEB contributions	20,310	19,638	672	3.4%
Member contributions	145,746	140,402	5,344	3.8%
Net investment income	668,050	916,029	(247,979)	(27.1%)
Net securities lending income	554	684	(130)	(19.0%)
<b>Total additions</b>	<b>\$ 1,367,068</b>	<b>\$ 1,601,240</b>	<b>\$ (234,172)</b>	<b>(14.6%)</b>
<b>Deductions</b>				
Retirement and death benefits	\$ 738,566	\$ 685,549	\$ 53,017	7.7%
Health benefits	16,161	16,878	(717)	(4.3%)
Refund of contributions	5,297	4,389	908	20.7%
Administrative expenses	13,425	13,187	238	1.8%
<b>Total deductions</b>	<b>\$ 773,449</b>	<b>\$ 720,003</b>	<b>\$ 53,446</b>	<b>7.4%</b>
<b>Net increase (decrease) in net position</b>	<b>\$ 593,619</b>	<b>\$ 881,237</b>	<b>\$ (287,618)</b>	<b>(32.6%)</b>
Net Position at beginning of year	12,288,915	11,407,678	881,237	7.7%
<b>Net Position at end of year</b>	<b>\$12,882,534</b>	<b>\$12,288,915</b>	<b>\$ 593,619</b>	<b>4.8%</b>

## INVESTMENTS

SDCERA invests Trust Fund assets in stocks, bonds, real estate and private equity around the world with the goal of generating adequate long-term returns. SDCERA's FY 2019 net investment return was 5.5 percent, and Trust Fund assets totaled \$12.9 billion as of June 30, 2019, an all-time fiscal year-end high. As of June 30, 2019, SDCERA's three-year net investment return was 8.4 percent, the five-year return was 5.6 percent and the 10-year return was 8.8 percent.

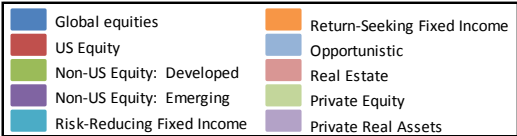
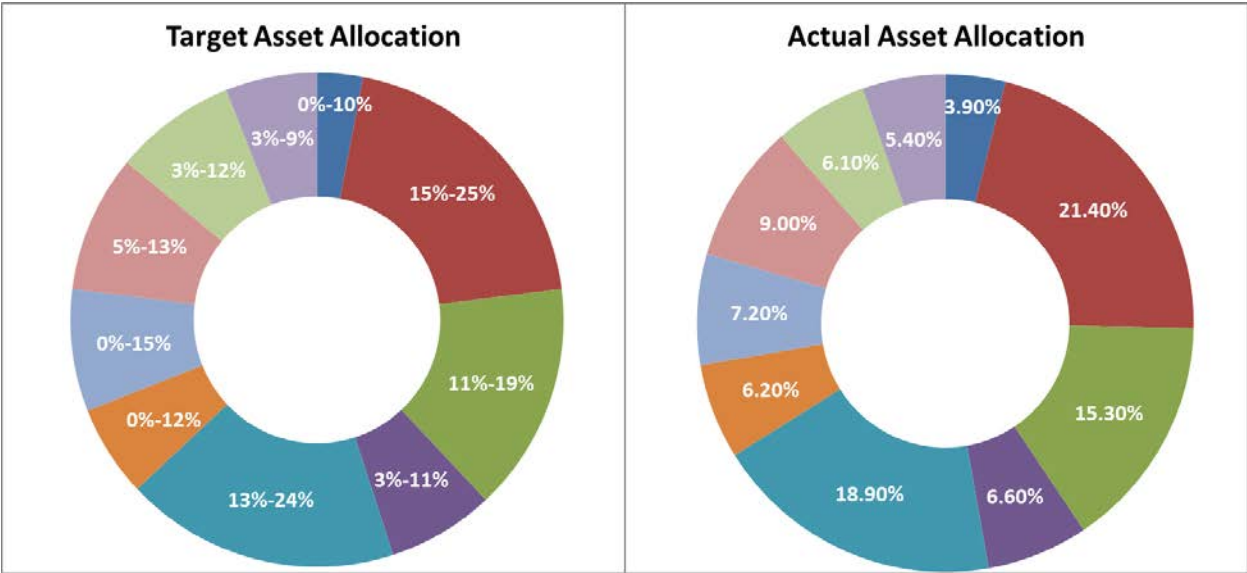
**TOTAL FUND PERFORMANCE RESULTS**

Annualized, Net of Fees  
As of June 30, 2019



The SDCERA Board of Retirement has adopted an Investment Policy Statement (IPS) that defines the Trust Fund’s governing principles, investment objectives and asset allocation. The governing principles are transparency, accountability and responsibility, and the investment objective is to generate long-term returns that, when combined with employer and employee contributions, will result in assets sufficient to pay SDCERA’s benefit obligations. In addition to defining acceptable asset classes, the IPS establishes Trust Fund policies, procedures and safeguards. The IPS and its asset allocation are updated at least annually to ensure that they remain consistent with the prevailing investment and economic circumstances. The IPS is monitored by staff for compliance on an ongoing basis and updates are reported regularly to the Board.

A time-tested investment principle is that “a penny saved is a penny earned.” This is particularly true for a public pension system where each penny saved is invested, with gains compounding year-after-year for decades. Because of this simple fact, SDCERA rigorously monitors investment expenses. Since 2015, investment expenses have been reduced from 1.07 percent of Trust Fund assets to 0.60 percent, now saving more than \$60 million annually. These savings, compounded annually and based on SDCERA’s current investment return assumption of 7.0 percent, is expected to add hundreds of millions of dollars to the Trust Fund in the coming years.



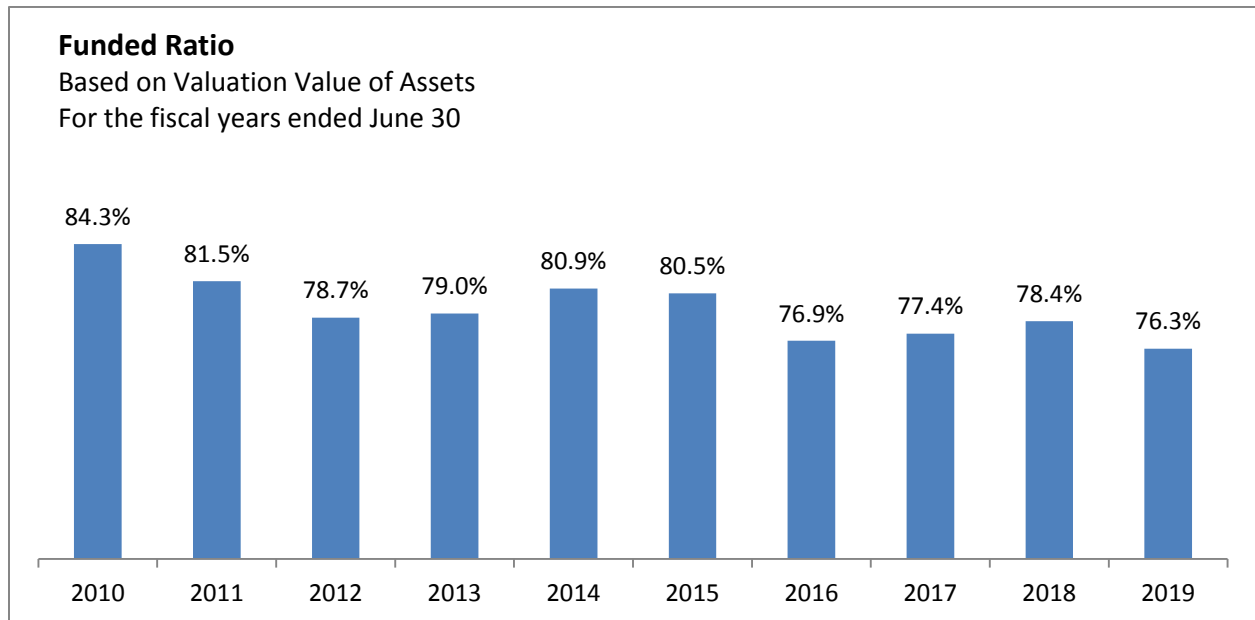
**ACTUARIAL**

Segal Consulting, SDCERA’s independent actuary, prepared SDCERA’s FY 2019 Actuarial Valuation and Review (Valuation), which summarizes SDCERA’s actuarial data and establishes the funding requirements for fiscal year 2021. All FY 2019 actuarially determined contributions were paid.

One important measure of SDCERA’s financial status is the funded ratio, which compares the Plan’s Valuation Value of Assets to its Actuarial Accrued Liabilities. The Valuation reflects that the funded ratio of SDCERA’s Valuation Value of Assets (\$12.9 billion) to the Actuarial Accrued Liability (\$17.0 billion) decreased slightly from 78.4 percent as of June 30, 2018 to 76.3 percent as of June 30, 2019. When calculated on the Market Value of Assets instead of the Valuation Value of Assets for the same time periods, the funded ratio decreased from 77.9 percent to 75.9 percent. The decrease is primarily due to changes in actuarial assumptions, including a change in the mortality assumption and a decrease in the assumed net investment rate of return from 7.25 percent to 7.0 percent. In addition, the actuarially-smoothed investment returns were lower than the 7.25 percent assumed return used in the FY 2018 Valuation.

When evaluating a Plan’s funding progress, the funded ratio should be viewed together with other relevant factors, including the plan sponsor’s financial health and cash flows. The financial strength of SDCERA’s plan sponsor, the County of San Diego, is evidenced by its triple-A ratings from Moody’s, Standard & Poor’s and Fitch Ratings. In addition, the County has adopted a policy to direct greater-than-expected revenues each year to SDCERA. In addition, the SDCERA Board of Retirement

lowered the assumed investment rate of return four times since 2010, from 8.0 to 7.0 percent. Each reduction in the assumed investment rate of return results in a lower funded ratio.



## MANAGEMENT

Each fiscal year, SDCERA’s senior management team develops an Action Plan, and the following are some of FY 2019’s Action Plan accomplishments: improved benefit processes, confirmed County Employees Retirement Law (CERL) compliance in all SDCERA activities, transitioned internal retiree payroll responsibilities, aligned investment performance fees and updated record retention schedule.

## BOARD OF RETIREMENT

In June 2019, Mark Oemcke concluded his second term as an SDCERA Trustee in June 2019, and he did not seek reappointment to a third term. To replace Mr. Oemcke, the San Diego County Board of Supervisors voted unanimously to appoint Mark A. Hovey to the SDCERA Board for a three-year term beginning July 1, 2019. Active General Member Bob Goodchild was re-elected to the Board in May 2019, and he began his second three-year term on July 1, 2019. He was also elected Board Secretary for FY 2020. In November 2019, an election was held for the Board’s Safety Member and Alternate Safety Member seats. Lieutenant David Gilmore of the San Diego County Sheriff’s Department and current alternate Trustee and Probation Department Division Chief Tim Hancock were elected, and each will serve a three-year term on the Board beginning on January 1, 2020.

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**Cover Photo: Linda Brewton**



**SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION**

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**[www.sdcera.org](http://www.sdcera.org)**