

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento, California

Annual Financial Report

Fiscal Years Ended June 30, 2013 and 2012



SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Fiscal Years Ended June 30, 2013 and 2012

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City of
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January 6, 2014

TO: Members of the Sacramento City Employees' Retirement System
Members of the Sacramento City Council

Transmitted herewith is the annual report of the Administration, Investment and Fiscal Management Board (Board) for the Sacramento City Employees' Retirement System (SCERS). This report addresses Board membership, history, investment objectives, asset allocation, financial results, members' interest credit, fund performance, administration highlights, independent auditor's report and the actuarial report for the fiscal year ended June 30, 2013.

The Annual Financial Report consists of three sections: an Introductory Section which contains the letter of transmittal and the identification of the administrative organization and consulting services utilized by SCERS; the Financial Section which contains the Independent Auditor's Report; Management's Discussion and Analysis (MD&A), and the financial statements of SCERS; and the Actuarial Section which contains the independent consulting actuary's valuation along with related actuarial data and statements.

The accuracy and completeness of the data contained in this report is the sole responsibility of the management of the Sacramento City Employees' Retirement System.

BOARD MEMBERSHIP

As set out in the Sacramento City Charter, the Board is comprised of five members, three of whom are City officials (or their designees), and two of whom are public citizen members appointed by the City Council. The Sacramento City Manager, City Treasurer and Director of Finance are the City officials designated to serve on this Board. By City Charter, the public citizen members must be residents of the City of Sacramento, not connected with City government, and at least one of these members must be qualified by training and experience in the management and investment of funds.

The following are the current members of the Board:

City Officials

John F. Shirey, City Manager (Dennis Kauffman, Designee)
Russell Fehr, City Treasurer
Leyne Milstein, Director of Finance

Public Citizen Members

David DeCamilla - President, DeCamilla Capital Management
Donald E. Sperling - Retired City Employee

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David DeCamilla was re-elected by the Board in January 2010 to serve as Board Chair, a position he has held since January 1988. Mr. DeCamilla has served on the Board since February 1985, when he was initially appointed to serve the remainder of the term of another public citizen member who resigned when he moved out of the City of Sacramento. Mr. DeCamilla's first full-term appointment as a public citizen member was made in January 1988.

Donald E. Sperling, retired City employee, was appointed to the Board in August 1993 as a public citizen Board member and has served as the Vice-Chair since January 2009. Mr. Sperling's City employment spanned approximately 33 years with the Office of the City Treasurer, where he advanced to the position of Assistant City Treasurer.

Russell Fehr, City Treasurer, was appointed to his current position in May 2008. Mr. Fehr has been an active participant on the Board since January 2006, when he assumed his position as Finance Director and has been a City employee since 2004.

John F. Shirey, City Manager, was appointed to his current position on September 1, 2011 and assumed the Board membership position. Mr. Shirey appointed Dennis Kauffman, Finance Operations Manager, as his designee on the Board. Mr. Kauffman has been an active participant on the Board since January 2006, when he was appointed as a designee by a former City Manager, and has been a City employee since 2000.

Leyne Milstein, Finance Director, assumed Board membership at the time she was appointed to her current position in October 2008. Prior to this appointment, Ms. Milstein held the position of Budget Manager and has been a City employee since 2005.

HISTORY

SCERS (the System) is a defined benefit plan in which retirement benefits for City member employees are based upon age, final compensation and length of service. City employee members make contributions to the System and, until 1993, the City made a normal contribution which was a percentage of total City payrolls. These cash payments plus the income they earn are held in trust to meet the retirement benefits of members. However, if these assets prove inadequate to meet the defined benefits, the City of Sacramento must find additional sources of monies to pay benefits. Between fiscal year 1988/1989 and fiscal year 2006/2007, the System was fully funded or in an actuarial surplus condition, and between fiscal year 1993/1994 and fiscal year 2006/2007, the City enjoyed a contribution holiday. The City has been required to make contributions each year since fiscal year 2007/2008.

In 1977, with the passage of Measure E, SCERS became a closed system. Since that time, all full-time and eligible part-time employees of the City participate in the California Public Employees' Retirement System (CalPERS) rather than SCERS. In 1977 the average age of SCERS active members was 36 years.

In June 1989, the voters of Sacramento approved the transfer of SCERS active safety members to CalPERS. Effective December 30, 1989, SCERS active safety members were transferred to CalPERS with a cash transfer of \$103.3 million in January 1990. As of June 30, 2013, the average age of SCERS active members is 59.3 years and the average years of service is 32.9 years. There are 35 active miscellaneous members and a total of 1,273 plan participants.

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INVESTMENT OBJECTIVES

The primary investment objective of SCERS is to prudently maximize income after giving consideration to plan benefit requirements. To accomplish this objective, the Board has adopted an investment policy which emphasizes the use of cash income and fixed-income investments structured to meet the actual and estimated benefit payments. Consequently, equity investments as a percentage of total plan assets are less in SCERS than in most retirement plans. All SCERS investments are held by a third-party trustee, except for real estate trust deeds.

This policy was adopted because there are no new entrants to the system. Cash payments for benefits have exceeded contributions since 1989. Further, volatility in investment markets could create investment losses, if the portfolio is not structured to meet benefit payments. The Board's investment policy is reviewed annually. The Board approved the investment policy at their meeting on July 23, 2012. Pursuant to the Charter, the revised policy approved by the Board was presented to and approved by the City Council on September 4, 2012.

ASSET ALLOCATION

On February 25, 2013, the Board voted to continue the balanced asset allocation policy approved the prior year.

| | |
|---------------------|------------|
| <u>Fixed Income</u> | |
| Fixed Bond | 45% |
| <u>Equity</u> | |
| Large Cap Growth | 30% |
| Equity Income | 15% |
| International | <u>10%</u> |
| | 55% |

The Board typically revisits its asset allocation every February. It is expected to consider the allocation at its meeting in February 2014 to govern investments in the following fiscal year.

ACTUARIAL EARNING ASSUMPTION

During the fiscal year, SCERS actuarial earnings assumption was 6.5 percent.

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FINANCIAL RESULTS

The plan net position of SCERS decreased from \$296.109 million to \$295.975 million for the fiscal year ended June 30, 2013. This decrease is summarized as follows:

| SCERS PLAN NET POSITION | \$ in thousands |
|--------------------------------|------------------------|
| Plan net position 6/30/12 | \$ 296,109 |
| Members Contributions | 219 |
| City Contributions | 10,573 |
| Investment Income | 23,577 |
| Benefit Payments & Expenses | (34,503) |
| Plan net position 6/30/13 | \$ 295,975 |

SCERS' Actuarial Accrued Liability (AAL) as of June 30, 2013 was \$ 382.403 million. AAL represents the present value of all future benefits that will be paid by SCERS. SCERS funding ratio was 76.4 percent at June 30, 2013. The funding ratio is defined as that portion of the total AAL for which there are assets available for benefits. In general, this indicates that for every dollar of benefits due, SCERS has approximately \$0.76 of assets available for payment.

An analysis of assets shows the rate of investment return for fiscal 2012-13 was 8.13 percent net of investment expense, which is above the assumed rate of 6.5 percent per annum.

TOTAL FUND PERFORMANCE

To accomplish the calculation of total investment return and investment performance measurement, the Board retained Segal Rogerscasey (formerly Rogerscasey). Segal Rogerscasey is an independent fund evaluation and performance measurement service that calculates and reports the investment results of over 2,500 managed pension investment portfolios in the U.S. Segal Rogerscasey calculates the investment results of the managed portfolios and compares such results to the database of predetermined industry benchmarks.

Table 1 below shows investment return results of SCERS for the specified periods ended June 30, 2013:

| SCERS Total Rate of Return TOTAL FUND For the periods ended June 30, 2013 | | | |
|--|-------|--------|---------|
| Annualized Compound Returns | 1 Yr. | 3 Yrs. | 10 Yrs. |
| SCERS Performance | 8.13% | 10.03% | 4.45% |
| Custom Index – Target | 8.63% | 9.44% | 5.31% |
| Actuarial Assumption | 6.50% | 6.50% | 6.78% |

A review of the total fund investment performance for the fiscal year ended June 30, 2013 shows an 8.13 percent overall return on SCERS assets.

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In response to the unique nature of SCERS pension plan, the Board adopted an asset allocation program which emphasized the preservation of principal, asset liquidity and the accumulation of interest and dividend income to sufficiently meet the benefit payments to SCERS retirees. Specifically, beginning in January 1990 and completed in February 1995, the Board adopted an annual asset allocation strategy which increased the fixed-income assets (primarily corporate bonds) by 2% per year, until bonds accounted for 70% of the plan's total assets. The investment strategy emphasized the purchase of fixed-income securities with income streams and yields that equal or exceed the actuarial earnings assumption of the plan, if available, which is 6.5%. To offset somewhat the effect of the significant portion of fixed income allocation, the Board had also approved a "fixed income alternative investment plan" (equity investments with fixed income-like characteristics) equal to 20% of the total portfolio. The emphasis of this program is to provide for dividend income growth over time; with increased valuation the return will exceed straight bond performance. The name of this plan was changed to Equity Income Fund in February 2008 and reallocated to the equity component of the plan. Currently, the target for this component of the portfolio is 15% of the total portfolio.

For SCERS, this asset allocation plan regarding fixed income is a departure from the overwhelming majority of other retirement fund asset allocation models, none of which are closed to new members. Therefore, while "Total System" performance is of interest, it is not necessarily the critical tool in assessing the total return performance of SCERS relative to other active plans. The issue of greater concern to the Board is the actuarial soundness of SCERS and the ability to pay member benefits from SCERS assets. In February 2013 during the annual asset allocation review, the Board decided to maintain the asset allocation strategy from the previous year. While staff would like to hold a higher portion of the portfolio in fixed-income securities, given the closed nature of the plan, the prolonged low interest-rate environment makes it extremely difficult to meet a performance assumption target of 6.5%, when long Treasury bonds are only earning 3% annually.

The asset allocation and fixed-income investment strategy of SCERS is deemed prudent by the Board, because of the closed-fund nature of SCERS as it moves toward a pay-out of benefits to retirees. Therefore, fixed income performance now and in the future will be measured more by (1) the ability to earn a greater cash rate-of-return than the actuarial earnings assumption, (2) fixed-income investments having maturity schedules which allow benefit payments to be made without having to liquidate investments at market risk, and (3) growth of dividend income on the equity income investment portfolio. In implementing this strategy, SCERS' equity managers are directed to maximize total return with their asset allocations.

The Board strongly believes this investment strategy provides System members with greater assurance that System assets can make benefit payments and minimizes the risk to the City of having to make retirement contributions with City resources due to fluctuating market value of investment securities during normal economic cycles.

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Fixed Income Performance

Based on Board policy, 45% of SCERS assets are to be allocated to fixed income investments. The portfolio is allocated to corporate bonds, private placements, second trust deeds and other short-term investments awaiting long-term placement in some other form of fixed income investment. In addition, the Real Estate portfolio has been folded into the fixed bond portfolio as the investments are structured notes. These assets are managed internally by the City Treasurer's Office.

Table 2 reflects SCERS' performance of all fixed income investments as follows.

| SCERS Total Rate of Return FIXED INCOME For the periods ended June 30, 2013 | | | |
|--|--------|--------|---------|
| | 1 Yr. | 3 Yrs. | 10 Yrs. |
| Annualized Compound Returns | | | |
| SCERS Fixed-Income Fund | 4.14% | 7.25% | 6.21% |
| Fixed Portfolio Index* | -0.69% | 3.51% | 4.51% |

*Fixed Portfolio Index = 100% Barclays US Aggregate from March 2008 to present; prior to March 2008, 100% Barclays US Intermediate Aggregate.

Fixed-income investment is a broad term used to categorize investments purchased for their income potential as opposed to principal growth or equity (ownership) potential. As an example, fixed or variable rate bonds, notes, debentures, mortgages, etc., are generally recognized as the most common forms of fixed-income investments. Different investment plans, however, may include other investment assets in this diversification mix such as public utility common stocks, second trust deeds, mortgages, and short-term interest-bearing instruments. Therefore, when comparing the investment results of a plan to a universe, it is necessary to understand the composition and the diversification of these assets. Knowledge of these differences makes it possible to better understand and evaluate performance.

Table 2 reveals that SCERS' Fixed Income investments produced total rates of return of 4.14% compounded for the one-year period and 6.21% compounded for the ten-year period ended June 30, 2013. The Fixed Bond portfolio continued to outperform the Barclays US Aggregate Index due to its weighting in high-quality corporate and municipal securities that appreciated as investors rebalanced their portfolios towards riskier assets and spreads narrowed. In addition, given the normal upward rising yield curve, the portfolio's average maturity of over eleven years compared to the benchmark's average maturity of just over seven years added to the outperformance. Given the historically low interest-rate environment, it has become extremely difficult to reinvest maturing assets into fixed-income instruments that yield anywhere near the actuarial assumption of 6.50% without forfeiting credit quality. Looking forward, the gradual improvement of both the U.S. and global economies has many investors believing that the Federal Reserve Board will begin to taper its \$85 billion monthly purchases of U.S. government and mortgage-backed securities and potentially even raise its Federal Funds rate. This tightening of the money supply will translate into a shift upward in the yield curve which could drastically affect the total return of fixed-income securities. Consequently, staff is concerned that a large portion of the SCERS portfolio could take a big hit to performance during the coming year.

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TOTAL FUND PERFORMANCE

Equity Investment Performance

Equity investment is a broad term used to describe investments purchased for growth potential of principal or ownership as opposed to income potential. Common stocks, convertible bonds, and real estate ownership (landlord as opposed to lender) are investments commonly referred to as equity investments. Other investments that could be characterized as equity investments are gold/silver, commodities and covered options. Although not all of these investments are owned by all investment funds, they can all be included in the asset diversification base of those funds that purchase this type of investment. By Board policy, 55% of SCERS assets are to be allocated to equity investments.

Table 3 shows the overall equity performance of SCERS' investment assets for various periods, the performance of SCERS total equity program, the performance as compared to industry benchmarks and the performance of the individual SCERS equity managers.

| Table 3 | | | |
|--|--------|--------|---------|
| SCERS Total Rate of Return EQUITY INVESTMENTS For the periods ended June 30, 2013 | | | |
| Annualized Compound Returns | 1 Yr. | 3 Yrs. | 10 Yrs. |
| SCERS Performance Total Equity | 13.84% | 15.47% | 4.45% |
| Domestic Equity Index | 18.94% | 16.28% | 5.33% |
| Individual Equity Managers | | | |
| Large Cap Growth | 14.74% | 14.77% | 3.70% |
| Large Cap Index** | 17.92% | 15.94% | 4.46% |
| Equity Income | 11.95% | 17.50% | 9.17% |
| Equity Income Index*** | 18.45% | 19.36% | 7.85% |
| International | -1.90% | 1.59% | NA |
| International Index**** | 10.48% | 4.96% | NA |

**Large Cap Index = Dec 1992 – June 2007 = 100% Russell 1000 Growth, June 2007 to present = 100% S&P 500

***Equity Income Index = Apr 1986 – Feb 1992 = 100% Fixed Portfolio, Mar 1992 to present = 100% Dow Jones Select Dividend Index

****International Index = Feb 2006 – Jun 2007 = 33% Nikkei, 67% MSCI EAFE, Jul 2007 to present = 100% MSCI ACWI ex US

Table 3 reveals that the overall SCERS equity performance was 13.84% compounded for the one-year period and 4.45% compounded for the ten-year period ended June 30, 2013. These overall equity returns are primarily the result of staff's conservative investment strategy as well as the use of equity call options during an extremely strong market rally.

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The Large Cap Growth portfolio was initiated by the Board in November 1992. The Board selected the City Treasurer to manage this portfolio with internal management. One-year and three-year rates of returns were 13.84% and 15.47% respectively. The portfolio ended up underperforming its benchmark throughout the year in which markets reached historical levels. Staff maintained a very cautious investment strategy throughout the year given the continuing sovereign issues in Europe and the lack of bipartisanship in the U.S. Senate and Congress. Beginning in December of last year, staff became concerned that the lack of professionalism in Washington would send the U.S. economy over the "fiscal cliff" and subsequently the debt ceiling would be breached. Given these uncertainties, the investment staff, wanting to hold onto portfolio gains, elected to reduce the risk of the portfolio by increasing the cash position and overweighting non-cyclical sectors such as consumer staples utilities and healthcare to insulate the portfolio against volatility. In addition, equity call options were written on the portfolio to increase income and reduce the risk of the portfolio. Unfortunately these strategies proved to be a drag on performance as the market rose almost 13% for the last two quarters of the fiscal year.

The Equity Income Fund produced a rate of return of 11.95% for the one-year period and 17.50% for the three-year period ended June 30, 2013. This portfolio continues to perform well as investors continue to buy dividend paying companies in lieu of bonds in order to derive income. Staff stayed its course by purchasing stocks in sectors that pay out a significant portion of their earnings in the form of dividends. The portfolio continues to underweight financial securities as they have yet to resume their pre-recession dividend payout levels. The main objective of this concentrated portfolio is to generate dividend income to offset the large monthly payments that the plan pays to beneficiaries with total return being a secondary objective. Therefore we are extremely pleased that the portfolio has a dividend yield of 4.46% in addition to returning almost 12%. The use of a benchmark is for illustration only and does not enter into any of our decision making.

In February 2006 the Board authorized the City Treasurer's Office to manage an international portfolio in-house. The portfolio was initially allocated 5% of the portfolio or approximately \$17 million, but the strong growth potential outside the U.S. caused the Board to increase the allocation to 10%. The one-year return was -1.90% and 1.59% for the three-year period ending June 30, 2013. Unfortunately, this portfolio was the worst performer. With a long term view, Staff chose to overweight the portfolio with emerging market equities believing that high single and low double-digit economic growth in the emerging markets space was a better alternative than the recessionary outlook for Europe and Japan. In addition, for the first half of the fiscal year, the portfolio had a significant weighting in gold and gold producing companies. Unfortunately, these strategies that had served the plan so well in the past were major drags on the portfolio's performance. Emerging markets (-1.62%) and gold (-23.25) both underperformed the broader non-US equity market (10.48%) and were the main contributors to the underperformance. Looking ahead, staff continues to believe that emerging markets will be the main global growth drivers, but has reduced the portfolio's emerging markets exposure given the volatility of the space and the perception that interest rates will rise domestically and choke off investment in emerging market assets.

INDEPENDENT AUDIT

SCERS receives an independent audit of the basic financial statements. An independent audit has been performed for the fiscal year ended June 30, 2013, and the auditor's opinion is included in this report. The City of Sacramento is responsible for establishing and maintaining internal controls designed to ensure the protection of assets from loss, theft, or misuse, and for ensuring the accounting information

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generated is adequate to prepare financial statements in conformity with accounting principles generally accepted in the U.S. The design of the internal controls is to provide reasonable assurance, although not absolute assurance, of achieving these objectives. The accuracy and completeness of the data outlined in this report is the sole responsibility of the management of SCERS.

ACTUARIAL VALUATION

The actuarial valuation report for SCERS as of June 30, 2013 is presented in this document. Very briefly, this report identifies an accumulated actuarial deficit of \$90.368 million as of June 30, 2013. The 2013 actuarial valuation report provides a comprehensive review of SCERS financial worth and is deserving of thoughtful reading.

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PROFESSIONAL SERVICES

SCERS engages the following consultants to assist in the management and investment of assets:

| <u>Firm</u> | <u>Duties</u> |
|-------------------|--|
| Segal Rogerscasey | Performance evaluation |
| Bartel Associates | Actuarial evaluation and asset allocation (since 6/30/06) |
| Bank of New York | Custody and master trust (since 3/1/96) |

CLOSING

Interest and input from active members and retirees of SCERS assist the Board in accomplishing its goals and is very much appreciated. Regular meetings of the Board are held in City Treasurer's Conference Room 2nd Floor, 915 "I" Street, at 1:30 p.m., the fourth working Monday of January, February, April, July, October and November. In the event that the fourth Monday of the month falls on a holiday, the regular meeting will be held on the third working Monday of that month. Ideas and comments regarding areas of interest and concern will be appreciated.



David DeCamilla, Chair
Administration, Investment and
Fiscal Management Board



Don Sperling, Vice-Chair
Administration, Investment and
Fiscal Management Board

POLICY STATEMENT

It is hereby resolved by the Administration, Investment and Fiscal Management Board that it is the policy of the Board to include the following schedules as addenda to the Annual Financial Report of the Sacramento City Employees' Retirement System:

1. A letter of transmittal to the City Council from the Board Chair;
2. An independent auditor's report;
3. A statement of the System's financial position;
4. A summary schedule of changes in the investment position during the year by security type;
5. A detailed listing of investments (by security) as of the end of the fiscal year;
6. A statement from the Actuary showing the estimated position of the Fund based on latest actuarial projections; and
7. The policy statement of the Board. The Board shall notify recognized employee organizations and the City Council of any changes in the policy statement that are to be made.

Adopted May 1978

Administration, Investment and Fiscal
Management Board
Sacramento City Employees' Retirement System
Sacramento, California

Honorable Mayor and City Council
City of Sacramento
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Sacramento City Employees' Retirement System (SCERS), a component unit of the City of Sacramento, California, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Sacramento City Employees' Retirement System, California, as of June 30, 2013 and 2012, and the changes in plan net position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note F to the basic financial statements, based on the most recent actuarial valuation as of June 30, 2013, SCERS' independent actuaries determined that as of June 30, 2013, the value of the actuarial accrued liability exceeded the actuarial value of its assets by \$90 million.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, listed as required supplementary information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise SCERS' basic financial statements. The introductory section, the data designated as additional information and the actuarial section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and actuarial sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macinnis Meiri & O'Connell LLP

Sacramento, California

January 6, 2014

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2013 and 2012

The management of the Sacramento City Employees' Retirement System (SCERS) is pleased to provide this overview and analysis of the financial activities of SCERS for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the Financial Statements and Supplemental Schedules that follow this discussion.

Financial Highlights

- SCERS held \$ 296.0 million of net position restricted for pension benefits at June 30, 2013 and \$296.1 million at June 30, 2012. All of the net position is available to meet SCERS' ongoing obligation to plan participants and their beneficiaries.
- SCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2013, the date of the last actuarial valuation, the funded ratio for SCERS was 76 percent. The funded ration was also 76 percent at June 30, 2012. In general, this indicates that for every dollar of benefits due, SCERS has approximately \$0.76 of assets available for payment based on the actuarial value of assets as of June 30, 2013 and 2012.
- SCERS' employer contribution was \$10.6 million for the fiscal year ended June 30, 2013, compared to \$10.4 million in 2012.
- For the fiscal year ended June 30, 2013, SCERS' net income from investment activity was \$22.3 million compared to net investment income of \$14.5 million in the prior year. The increase in return was a result of greater appreciation in the fair value of the investments during fiscal year 2013 compared to fiscal year 2012.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to SCERS' financial statements, which are comprised of the following components:

1. **Statements of Plan Net Position** are a snapshot of account balances as of June 30, 2013 and 2012. It indicates the total assets and the total liabilities as well as the net position available for future payment of retirement benefits and investment expenses.
2. **Statements of Changes in Plan Net Position** provide a view of additions and deductions to SCERS' net position during each of the fiscal years.
3. **Notes to Financial Statements** and **Required Supplementary Information** provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The statements of plan net position and the statements of changes in plan net position report information about SCERS' financial activities, prepared using the accrual basis of accounting. Contributions to SCERS are recognized when due, and benefits and refunds are recognized when due and payable. Investments are reported at fair value, except mortgage loans, which are reported at amortized cost. The estimated fair value of investments is the quoted market price. Purchases and sales of investments are recorded on a trade date basis.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2013 and 2012

Financial Analysis

SCERS' net position may serve over time as a useful indication of SCERS' financial position. All of SCERS' net position is restricted for SCERS ongoing obligation to plan participants and their beneficiaries.

SCERS' net position as of June 30, 2013, 2012, and 2011 is represented in the chart below.

NET POSITION SUMMARY As of June 30, 2013 and 2012 (in thousands)

| | <u>2013</u> | <u>2012</u> | <u>Change</u> | <u>Percent</u> |
|--|-------------------|-------------------|-----------------|----------------|
| Cash and cash equivalents | \$ 20,658 | \$ 21,051 | \$ (393) | -2% |
| Securities lending collateral | 8,006 | 29,364 | (21,358) | -73% |
| Receivables | 2,317 | 2,246 | 71 | 3% |
| Investments at fair value | 276,288 | 273,864 | 2,424 | 1% |
| Total assets | <u>307,269</u> | <u>326,525</u> | <u>(19,256)</u> | <u>-6%</u> |
| Total liabilities | <u>11,294</u> | <u>30,416</u> | <u>(19,122)</u> | <u>-63%</u> |
| Net position restricted for pension benefits | <u>\$ 295,975</u> | <u>\$ 296,109</u> | <u>\$ (134)</u> | <u>0%</u> |

SCERS' net position restricted for pension benefits declined slightly during the fiscal year ended June 30, 2013. Contributions and investment earnings were approximately equal to benefits paid. The decrease in total liabilities between June 30, 2013 and June 30, 2012 is mainly the result of a \$21 million decrease in securities lending obligations. Securities lending collateral also decreased by \$21 million. The decreased securities lending activity during the fiscal year ended June 2013 was a result of less favorable market conditions.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2013 and 2012

NET POSITION SUMMARY
As of June 30, 2012 and 2011
(in thousands)

| | <u>2012</u> | <u>2011</u> | <u>Change</u> | <u>Percent</u> |
|--|-------------------|-------------------|--------------------|----------------|
| Cash and cash equivalents | \$ 21,051 | \$ 13,540 | \$ 7,511 | 55% |
| Securities lending collateral | 29,364 | 54,209 | (24,845) | -46% |
| Receivables | 2,246 | 2,241 | 5 | 0% |
| Investments at fair value | 273,864 | 291,588 | (17,724) | -6% |
| Total assets | <u>\$ 326,525</u> | <u>\$ 361,578</u> | <u>\$ (35,053)</u> | <u>-10%</u> |
| Total liabilities | <u>\$ 30,416</u> | <u>\$ 57,577</u> | <u>\$ (27,161)</u> | <u>-47%</u> |
| Net position restricted for pension benefits | <u>\$ 296,109</u> | <u>\$ 304,001</u> | <u>\$ (7,892)</u> | <u>-3%</u> |

SCERS' net position restricted for pension benefits decreased during the fiscal year ended June 30, 2012, due largely to benefit payments during that period exceeding investment earnings and contributions for the same period. The decrease in total liabilities between June 30, 2012 and June 30, 2011 is mainly the result of a \$25 million decrease in securities lending obligations. Securities lending collateral also decreased by \$25 million. The City reduced its participation in the securities lending as market conditions became less favorable.

Cash increased, mostly from the bond portfolio, as a result of maturing investments and lack of suitable reinvestment opportunity.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Management's Discussion and Analysis (Unaudited)
 Fiscal Years Ended June 30, 2013 and 2012

The following table shows the changes in the various additions and deductions:

HIGHLIGHTS OF CHANGES IN NET POSITION
Fiscal years ended June 30, 2013 and 2012
 (in thousands)

| | <u>2013</u> | <u>2012</u> | <u>Change</u> |
|--|-------------------|-------------------|-----------------|
| Additions: | | | |
| Employer contributions | \$ 10,573 | \$ 10,361 | \$ 212 |
| Employee contributions | 219 | 332 | (113) |
| Net appreciation in the fair value of investments | 11,612 | 3,277 | 8,335 |
| Interest | 7,071 | 7,985 | (914) |
| Dividends | 4,798 | 4,302 | 496 |
| Investment expenses | (1,242) | (1,241) | (1) |
| Net securities lending activity | 72 | 149 | (77) |
| Total additions | <u>33,103</u> | <u>25,165</u> | <u>7,938</u> |
| Deductions: | | | |
| Benefit payments | 33,180 | 32,769 | 411 |
| Refunds of employee contributions | 57 | 288 | (231) |
| Total deductions | <u>33,237</u> | <u>33,057</u> | <u>180</u> |
| Net decrease in net position | (134) | (7,892) | 7,758 |
| Net position restricted for pension benefits: | | | |
| Beginning of fiscal year | <u>296,109</u> | <u>304,001</u> | <u>(7,892)</u> |
| End of fiscal year | <u>\$ 295,975</u> | <u>\$ 296,109</u> | <u>\$ (134)</u> |

- Required employer contributions have increased over the last few years to offset the reduction in portfolio value that occurred between the fiscal years ended June 30, 2008 and June 30, 2009 and as a result of changes in mortality assumptions.
- Employee contributions for the fiscal year ended June 30, 2013 decreased slightly from 2012 due to retirements. Contributions are expected to decline as the system is closed to new members and the number of active members is decreasing each year.
- Net appreciation in fair value of investments has increased by \$8.3 million. Gains during the fiscal year ended June 30, 2013 were \$8.5 million unrealized and \$3.1 million realized compared to \$1.7 million unrealized and \$1.6 million realized during the fiscal year ended June 30, 2012. The gains were made in the equity portfolios, while the bond portfolios experienced losses. Current year interest income declined slightly compared to fiscal year 2012 due to low yields on bond investments.
- Benefit payments to plan participants increased because of annual inflation adjustments. The increase was somewhat offset by a decline in the number of retirees receiving benefits. Because the plan has been closed for nearly 35 years, the number of participants receiving benefits declines each year.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2013 and 2012

HIGHLIGHTS OF CHANGES IN NET POSITION

Fiscal years ended June 30, 2012 and 2011

(in thousands)

| | <u>2012</u> | <u>2011</u> | <u>Change</u> | <u>Percent</u> |
|--|-------------------|-------------------|-------------------|----------------|
| Additions: | | | | |
| Employer contributions | \$ 10,361 | \$ 10,547 | \$ (186) | -2% |
| Employee contributions | 332 | 342 | (10) | -3% |
| Net appreciation in the fair value of investments | 3,277 | 34,829 | (31,552) | -91% |
| Interest | 7,985 | 8,356 | (371) | -4% |
| Dividends | 4,302 | 4,204 | 98 | 2% |
| Investment expenses | (1,241) | (1,202) | (39) | 3% |
| Net securities lending activity | 149 | 178 | (29) | -16% |
| Total additions | <u>25,165</u> | <u>57,254</u> | <u>(32,089)</u> | <u>-56%</u> |
| Deductions: | | | | |
| Benefit payments | 32,769 | 32,388 | 381 | 1% |
| Refunds of employee contributions | 288 | 615 | (327) | -53% |
| Total deductions | <u>33,057</u> | <u>33,003</u> | <u>54</u> | <u>0%</u> |
| Net (decrease) increase in net position | (7,892) | 24,251 | (32,143) | -133% |
| Net position restricted for pension benefits: | | | | |
| Beginning of fiscal year | <u>304,001</u> | <u>279,750</u> | <u>24,251</u> | <u>9%</u> |
| End of fiscal year | <u>\$ 296,109</u> | <u>\$ 304,001</u> | <u>\$ (7,892)</u> | <u>-3%</u> |

- Required employer contributions have increased over the last few years to offset the reduction in portfolio value that occurred between the fiscal years ended June 30, 2008 and June 30, 2009. Due to actuarial smoothing, the contributions required during the fiscal year ended June 30, 2012 were approximately the same as those required during the fiscal year ended June 30, 2011.
- Employee contributions for the fiscal year ended June 30, 2012 decreased slightly from 2011 due to retirements. Contributions are expected to decline as the system is closed to new members and the number of active members is decreasing each year.
- Net appreciation in fair value of investments has decreased by \$31.6 million. Gains during the fiscal year ended June 30, 2012 were \$1.7 million unrealized and \$1.6 million realized compared to \$28 million unrealized and \$7 million realized during the fiscal year ended June 30, 2011. The gains were made in the bond portfolios, while the equity portfolios experienced losses. Current year interest income declined slightly compared to fiscal year 2011 due to low yields on bond investments.
- Benefit payments to plan participants increased because of annual inflation adjustments.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2013 and 2012

Changes in Funded Status

Between June 30, 2008 and June 30, 2013, the actuarial value of SCERS' assets has declined by \$68 million due to general market conditions. During the same period, the actuarial accrued liability has decreased by \$10 million. As a result, the funded status of SCERS – the amount of the actuarial accrued liability funded by SCERS' existing assets has gone from 92% at June 30, 2008 to 76% at June 30, 2013.

Currently Known Facts and Events

The overall risk profile of SCERS has remained unchanged since June 30, 2013, and the volatility of the investment portfolio remains in line with the overall financial markets. The global capital markets are highly dynamic and the value of SCERS investments changes every day.

SCERS will adopt GASB Statement No. 67 for the fiscal year ending June 30, 2014. Provisions of GASB Statement No. 67 will significantly change required financial reporting disclosures.

Requests for Information

This financial report is designed to provide a general overview of SCERS' finances, and to demonstrate SCERS' accountability for the money it receives and distributes. If you have questions about this report, or need additional financial information, contact the City of Sacramento Department of Finance, Accounting Division, 915 I Street, 4th floor, Sacramento, CA, 95814.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Statements of Plan Net Position
As of June 30, 2013 and 2012
(Amounts Expressed in Thousands)

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 20,658 | \$ 21,051 |
| Securities lending collateral | 8,006 | 29,364 |
| Receivables: | | |
| Interest and dividends | 2,317 | 2,026 |
| Investment sale proceeds | - | 220 |
| Total receivables | <u>2,317</u> | <u>2,246</u> |
| Investments: | | |
| U.S. agencies | 2,856 | 4,309 |
| Corporate bonds | 67,993 | 62,694 |
| Equities | 105,821 | 109,132 |
| Exchange traded funds | 52,151 | 46,019 |
| Mortgage loans | 4,350 | 7,457 |
| Municipal bonds | 43,117 | 44,253 |
| Total investments | <u>276,288</u> | <u>273,864</u> |
| Total assets | <u>307,269</u> | <u>326,525</u> |
| Liabilities | | |
| Securities lending obligation | 8,643 | 30,024 |
| Benefits payable | 2,632 | 361 |
| Accounts payable | 19 | 31 |
| Total liabilities | <u>11,294</u> | <u>30,416</u> |
| Net position restricted for pension benefits | <u>\$ 295,975</u> | <u>\$ 296,109</u> |

See accompanying notes to basic financial statements.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Statements of Changes in Plan Net Position
Fiscal Years Ended June 30, 2013 and 2012
(Amounts Expressed in Thousands)

| | 2013 | 2012 |
|---|-------------|-------------|
| Additions | | |
| Contributions: | | |
| Employer | \$ 10,573 | \$ 10,361 |
| Employees | 219 | 332 |
| Total contributions | 10,792 | 10,693 |
| Investment income: | | |
| From investment activities: | | |
| Net appreciation in fair value of investments | 11,612 | 3,277 |
| Interest | 7,071 | 7,985 |
| Dividends | 4,798 | 4,302 |
| Total investment income | 23,481 | 15,564 |
| Less investment expense: | | |
| Banking, interest, fiscal agent & other | 100 | 63 |
| Professional services | 1,142 | 1,178 |
| Total investment expense | 1,242 | 1,241 |
| Net income from investing activities | 22,239 | 14,323 |
| From securities lending activities: | | |
| Securities lending income | 96 | 199 |
| Securities lending expenses: | | |
| Management fees | 24 | 50 |
| Net income from securities lending activities | 72 | 149 |
| Total net investment income | 22,311 | 14,472 |
| Total additions | 33,103 | 25,165 |
| Deductions | | |
| Benefits | 33,180 | 32,769 |
| Refunds of employee contributions | 57 | 288 |
| Total deductions | 33,237 | 33,057 |
| Net decrease in plan net position | (134) | (7,892) |
| Net position restricted for pension benefits | | |
| Beginning of fiscal year | 296,109 | 304,001 |
| End of fiscal year | \$ 295,975 | \$ 296,109 |

See accompanying notes to basic financial statements.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements
Fiscal Years Ended June 30, 2013 and 2012
(Dollars in thousands, except as otherwise noted)

Note A – Plan Description

The City of Sacramento, California, (City) sponsors and administers a defined benefit contributory pension system known as the Sacramento City Employees' Retirement System (SCERS). The fiscal management of SCERS is vested in the five member Administration, Investment, and Fiscal Management Board (Board), consisting of the City Manager, Director of Finance, City Treasurer and two public members who are appointed by the City Council. Because of this relationship with the City, SCERS is reported as a component unit of the City.

SCERS is a single-employer system and an integral part of the City. The accompanying financial statements are included as a pension trust fund in the basic financial statements of the City. The system covers all City employees hired before January 29, 1977 and is closed to new members. Employee contribution rates are generally frozen (with minor exceptions) and the City is responsible for any actuarially determined unfunded obligation of the plan. SCERS is comprised of the individual plans listed below. The City Charter establishes plan membership, contributions, and benefit provisions. Any changes must be approved by the electorate of the City.

1. Charter Section 399 Plan – This defined benefit plan was established effective January 1, 1977 to provide retirement, disability and death benefits. At June 30, 2013 and 2012, 35 and 47 active employees, respectively, were participating in this plan, contributing at a rate based upon entry age and type of employment. The City is required to fund all costs in excess of employees' contributions and investment earnings.
2. Equal Shares Plan – This defined benefit plan was established July 1, 1970 to provide retirement, disability and death benefits to all City employees electing coverage at that date and to all employees who were hired from that date through January 1, 1977. At June 30, 2013 and 2012, no active employee was participating in this plan.
3. Charter Section 175 Plans – These defined benefits were established in 1953 and provide for retirement, disability and death benefits at a lower amount than the successor Equal Shares Plan. At June 30, 2013, no active employees were participating in this plan. At June 30, 2012, 1 active employee was participating in this plan. Members' normal rates of contribution may be changed by the Board, on the basis of periodic actuarial valuations and investigations.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Notes to the Basic Financial Statements (Continued)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Note A – Plan Description (Continued)

Cost-of-Living Adjustment – This adjustment, established in 1969, provides for annual retirement benefit increases of up to 3% of normal benefits based on a corresponding rise in the consumer price index. Cost-of-living benefits are payable to retirees and beneficiaries of all of the above plans after one year of retirement. The cost-of-living adjustment was 3.0% for fiscal years 2013 and 2012. Members contribute to this adjustment at a rate of 1% of their normal retirement contributions. The City is required to fund all costs in excess of members' contributions and investment earnings.

SCERS reports the assets and activities of all plans in one trust fund. All assets accumulated for the payment of benefits may be used to pay benefits to any of the plan members or beneficiaries.

Since benefits fully vest after five years of service and admission to the plan was restricted in 1976 and closed in 1980, all accumulated benefits at June 30, 2013 and 2012 are fully vested. The chart below indicates changes in the membership of SCERS during the fiscal years ended June 30, 2013 and 2012.

| | Terminated Employees Entitled to | | | | |
|---------------|---|-----------------|-----------------|----------------------|--------------|
| | Actives | Benefits | Retirees | Beneficiaries | Total |
| June 30, 2011 | 68 | 26 | 939 | 328 | 1,361 |
| Retirement | (18) | (2) | 20 | - | - |
| Deaths | (1) | - | (46) | (20) | (67) |
| Other | (1) | - | 1 | 18 | 18 |
| June 30, 2012 | 48 | 24 | 914 | 326 | 1,312 |
| Retirement | (13) | (1) | 14 | - | - |
| Deaths | - | (1) | (49) | (14) | (64) |
| Other | - | (2) | 4 | 23 | 25 |
| June 30, 2013 | 35 | 20 | 883 | 335 | 1,273 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2013 and 2012
(Dollars in thousands, except as otherwise noted)

Note B – Summary of Significant Accounting Policies

Basis of Accounting

SCERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

SCERS' investments are recorded at fair value, except mortgage loans, which are recorded at amortized cost. Investments reported at fair value are based on quoted market prices. Purchases and sales of investments are recorded on a trade date basis.

Administrative Costs

The City charter requires all costs of administration, excluding investment activity, to be paid by the City. These costs are, therefore, excluded from the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

New Pronouncements

Effective July 1, 2012, SCERS implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. There was no impact on the financial statements,.

Effective July 1, 2012, SCERS also implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2013 and 2012
(Dollars in thousands, except as otherwise noted)

SCERS is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of GASB Statement No. 67 issued in June, 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

Note C – Cash and Investments

Cash and Cash Equivalents

SCERS participates in the City of Sacramento's investment pool, which is not rated by a nationally recognized statistical rating organization. The City Treasurer is granted authority for managing the pool by City Charter, City Council ordinances and resolutions. The City Treasurer reports investment activity quarterly to the City Council and quarterly the investment policy is reaffirmed by the City Council. The pool is accounted for on an amortized cost basis during the year. The value of the pool shares that may be withdrawn at any time is determined on an amortized cost basis, which is different than the fair value of SCERS' position in the pool. Information regarding the investments within the City's pool, including the related risks, can be found in the City's Comprehensive Annual Financial Report (CAFR). The City's investment pool has a weighted average maturity of 2.01 years and 1.89 as of June 30, 2013 and June 30, 2012, respectively.

Securities Lending

SCERS engages in securities lending transactions, whereby SCERS has authorized its bank to loan its securities to approved counterparties for collateral (cash or securities). Such loans are short-term and SCERS retains the right to sell, without penalty, its initial investment in the securities. SCERS' arrangement with the bank requires the bank to indemnify SCERS for failure of any counterparties to return the securities loaned. There are no restrictions on the amount of securities that may be lent.

Borrowers delivered collateral equal to 103% of the market value of the loaned securities. At year-end, the City has no credit risk exposure to borrowers because the amounts the City owes the borrowers exceed the amounts the borrowers owe the City. There have been no losses resulting from borrower or lending agent default. During the fiscal years ended June 30, 2013 and 2012, the weighted average maturity of the investments purchased with cash collateral was 1 day.

SCERS' securities loaned were equity and exchange traded funds and SCERS received cash collateral. At June 30, 2013 and 2012, SCERS lent securities totaling \$8,297 and \$29,810, respectively and received cash collateral of \$8,544 and \$29,804, respectively. SCERS invested the cash collateral in securities that had a fair value at June 30, 2013 and 2012 of \$8,004 and \$29,265 respectively.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2013 and 2012
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

SCERS also reports its proportionate share of the securities lending activities of the City's investment pool. At June 30, 2013 and 2012, SCERS' share of the investments purchased with cash collateral was \$2 and \$99, respectively; SCERS' share of the securities lending liability was \$99 and \$220, respectively. A Lehman Brothers bond held by the City's investment pool was written down from a value of \$140 to \$0 during the fiscal year ended June 30, 2009, of which \$23 was recovered during the fiscal year ended June 30, 2013.

Investments

Investment standards adopted by the Board authorize the City Treasurer to invest in debt securities, equity securities, promissory notes, mortgage loans or other securities and investments deemed to be prudent by the Board. Other securities and investments cannot exceed 25% of the total assets (cost basis). In addition, promissory notes (cost basis) cannot exceed 25% of the investment portfolio, while mortgage loans (cost basis) cannot exceed 10% of total assets of SCERS.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SCERS manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed to pay benefits.

Information about the sensitivity of the fair values of SCERS' investments to market interest rate fluctuations is provided by the following tables that present the distribution of SCERS' investments by maturity. The remaining maturity of SCERS' investments included in the tables on the following pages is based on the stated maturity dates of the individual investments, except in the case of variable rate investments where the maturity date below is the next reset date. Variable rate securities are investments with terms that provide for the adjustment of interest rates on specified dates based on predefined mathematical formulas. The fair value of such investments can reasonably be expected to be affected at each interest rate reset date.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Notes to the Basic Financial Statements (Continued)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2013, SCERS' investments have maturities as follows:

| Investment Type | Remaining Maturity in Years | | | | | Fair Value |
|-------------------------------------|-----------------------------|----------|-----------|-----------------------|-----------|------------|
| | No Maturity | Under 1 | 1-5 | Over 5/ 10 or less | Over 10 | |
| Cash and short-term investments: | | | | | | |
| City of Sacramento Investment Pool | \$ - | \$ - | \$ 20,658 | \$ - | \$ - | \$ 20,658 |
| Securities Lending Collateral: | | | | | | |
| City of Sacramento Investment Pool | - | 2 | - | - | - | 2 |
| Repurchase agreement | - | 8,004 | - | - | - | 8,004 |
| Total Securities Lending Collateral | - | 8,006 | - | - | - | 8,006 |
| Investments: | | | | | | |
| U.S. agencies | - | - | 35 | 81 | 2,740 | 2,856 |
| Corporate bonds | - | - | 42,487 | 14,240 | 11,266 | 67,993 |
| Equities | 105,821 | - | - | - | - | 105,821 |
| Exchange traded funds | 52,151 | - | - | - | - | 52,151 |
| Mortgage loans | - | - | 1,918 | - | 2,432 | 4,350 |
| Municipal bonds | - | - | 1,919 | 4,555 | 36,643 | 43,117 |
| Total Investments | 157,972 | - | 46,359 | 18,876 | 55,081 | 276,288 |
| Total Cash and Investments | \$ 157,972 | \$ 8,006 | \$ 67,017 | \$ 18,876 | \$ 53,081 | \$ 304,952 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Notes to the Basic Financial Statements (Continued)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2012, SCERS' investments have maturities as follows:

| Investment Type | Remaining Maturity in Years | | | | | Fair Value |
|-------------------------------------|-----------------------------|-----------|-----------|-----------------------|-----------|------------|
| | No Maturity | Under 1 | 1-5 | Over 5/ 10 or less | Over 10 | |
| Cash and short-term investments: | | | | | | |
| City of Sacramento Investment Pool | \$ - | \$ - | \$ 21,051 | \$ - | \$ - | \$ 21,051 |
| Securities Lending Collateral: | | | | | | |
| City of Sacramento Investment Pool | - | 99 | - | - | - | 99 |
| Repurchase agreement | - | 29,265 | - | - | - | 29,265 |
| Total Securities Lending Collateral | - | 29,364 | - | - | - | 29,364 |
| Investments: | | | | | | |
| U.S. agencies | - | - | 44 | 31 | 4,234 | 4,309 |
| Corporate bonds | - | - | 16,156 | 38,019 | 8,519 | 62,694 |
| Equities | 109,132 | - | - | - | - | 109,132 |
| Exchange traded funds | 46,019 | - | - | - | - | 46,019 |
| Mortgage loans | - | 4,877 | - | - | 2,580 | 7,457 |
| Municipal bonds | - | - | 733 | 5,649 | 37,871 | 44,253 |
| Total Investments | 155,151 | 4,877 | 16,933 | 43,699 | 53,204 | 273,864 |
| Total Cash and Investments | \$ 155,151 | \$ 34,241 | \$ 37,984 | \$ 43,699 | \$ 53,204 | \$ 324,279 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2013 and 2012
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yields than the original bonds.

The fair values of the callable bonds held at June 30, 2013 by investment type are as follows:

| <u>Investment Type</u> | <u>Fair Value</u> |
|------------------------|-------------------|
| Corporate bonds | \$ 4,197 |
| Municipal bonds | 24,486 |

The fair values of the callable bonds held at June 30, 2012 by investment type are as follows:

| <u>Investment Type</u> | <u>Fair Value</u> |
|------------------------|-------------------|
| Corporate bonds | \$ 2,327 |
| Municipal bonds | 9,962 |

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2013, SCERS held a bond that is currently in default of the semi-annual interest payments. The bond issuer Lehman Brothers filed for Chapter 11 bankruptcy protection on September 15, 2008. The bond has a maturity date of April 4, 2016 and a fair value of \$609 as of June 30, 2013.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Notes to the Basic Financial Statements (Continued)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2013, SCERS' investments and credit ratings are as follows:

| Investment Type | S & P | Moody | Fair Value |
|---|-----------|-----------|------------|
| City of Sacramento Investment Pool | not rated | not rated | \$ 20,658 |
| City of Sacramento Investment Pool - Investments purchased with securities lending cash collateral | not rated | not rated | 2 |
| Repurchase agreement | AA | Aaa | 8,004 |
| U.S. agencies | N/A | N/A | 2,856 |
| Corporate bonds | A | A | 20,538 |
| | A | Baa | 5,311 |
| | AA | A | 28,635 |
| | AA | Aaa | 2,248 |
| | B | Baa | 5,365 |
| | BBB | A | 5,287 |
| | not rated | withdrawn | 609 |
| Equities (exempt from disclosure) | N/A | N/A | 105,821 |
| Exchange traded funds (exempt from disclosure) | N/A | N/A | 52,151 |
| Mortgage loans | not rated | not rated | 4,350 |
| Municipal bonds | A | A | 15,635 |
| | A | Ba | 8,785 |
| | A | Baa | 3,760 |
| | A | WR | 4,002 |
| | AA | Aa | 3,240 |
| | AA | Aaa | 2,936 |
| | AA | not rated | 4,759 |
| Total | | | \$ 304,952 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Notes to the Basic Financial Statements (Continued)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2012, SCERS' investments and credit ratings are as follows:

| Investment Type | S & P | Moody | Fair Value |
|---|-----------|-----------|------------|
| City of Sacramento Investment Pool | not rated | not rated | \$ 21,051 |
| City of Sacramento Investment Pool - Investments | | | |
| purchased with securities lending cash collateral | not rated | not rated | 99 |
| Repurchase agreement | A | A | 6,948 |
| | A | Baa | 13,902 |
| | AA | Aaa | 6,951 |
| | BBB | Baa | 1,464 |
| U.S. agencies | N/A | N/A | 4,309 |
| Corporate Bonds | A | A | 23,600 |
| | A | Baa | 5,092 |
| | AA | A | 25,941 |
| | AAA | A | 2,327 |
| | B | Baa | 5,165 |
| | NR | WR | 569 |
| Equities (exempt from disclosure) | N/A | N/A | 109,132 |
| Exchange traded funds (exempt from disclosure) | N/A | N/A | 46,019 |
| Mortgage loans | not rated | not rated | 7,457 |
| Municipal bonds | A | A | 15,955 |
| | A | Ba | 9,186 |
| | A | Baa | 2,593 |
| | A | WR | 4,095 |
| | A | not rated | 5,153 |
| | AA | AA | 2,879 |
| | AA | Aaa | 2,838 |
| | BBB | Baa | 1,554 |
| Total | | | \$ 324,279 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2013 and 2012
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. SCERS had no deposits at June 30, 2013 or June 30, 2012.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2013 and 2012, investments purchased with cash collateral from securities lending transactions held by the same broker-dealer that was used for the purchase of securities totaled \$8,006 and \$29,364, respectively.

Concentration of Credit Risk

As of June 30, 2013 and 2012, SCERS had the following investments in one issuer exceeding 5% of plan net position and total investments, excluding investments issued or explicitly guaranteed by the U.S. government, investments in exchange traded funds, and the City's investment pool:

2013

| | |
|--------------------------------------|----------|
| General Electric Capital Corporation | \$26,223 |
|--------------------------------------|----------|

2012

| | |
|--------------------------------------|----------|
| General Electric Capital Corporation | \$25,101 |
|--------------------------------------|----------|

Note D – Related Party Transactions

At June 30, 2013 and 2012, SCERS held revenue bonds issued by the Sacramento City Financing Authority (SCFA) in the amount of \$6,438 and \$6,688, respectively. SCFA is also a blended component unit of the City of Sacramento because its Board is comprised of all City Council members, and there is a financial benefit/burden relationship between the City and SCFA.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Notes to the Basic Financial Statements (Continued)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Note E – Funding Policy

The City’s funding policy provides for actuarially determined periodic contributions under the entry age normal method, which are discounted and adjusted annually to ensure that sufficient assets will be available to pay benefits when due. The City Council established and may amend the obligations of the plan members and the City to contribute to the plan. For the fiscal years ended June 30, 2013 and 2012, the City’s annual required and actual contribution was \$10.6 million and \$10.4 million, respectively.

Since the plans included in SCERS are closed to new members, the number of active members in the system is declining. Member contributions have declined as members retire. During the fiscal years ended June 30, 2013 and 2012, active member contributions ranged from 3% to 10% of payroll. At June 30, 2013 and 2012, active members’ accumulated contributions, including interest, totaled approximately \$8.3 million and \$10.6 million, respectively. For the fiscal years ended June 30, 2013 and 2012, interest was credited to members’ contributions at the rate of 0.25% and 0.00%, respectively. Members have an option to withdraw their accumulated contributions, including interest, upon termination of their employment with the City.

Note F – Funded Status

The Plan’s funded status as of June 30, 2013, the most recent actuarial valuation date, is as follows (dollars in millions):

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (A)</u> | <u>Actuarial Accrued Liability (AAL) (B)</u> | <u>Unfunded AAL (B-A)</u> | <u>Funded Ratio (A/B)</u> | <u>Covered Total Plan Payroll (C)</u> | <u>Unfunded AAL as a Percentage of Covered Plan Payroll ([B-A]/C)</u> |
|---------------------------------|--------------------------------------|--|---------------------------|---------------------------|---------------------------------------|---|
| June 30, 2013 | \$ 292 | \$ 382 | \$ 90 | 76% | \$ 2.279 | 3,949% |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Notes to the Basic Financial Statements (Continued)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Note F – Funded Status (Continued)

The fiscal years 2012 and 2013 annual required contributions for the Plan were determined as part of the June 30, 2010 and June 30, 2011 actuarial valuations, respectively. The table below summarizes the actuarial methods and assumptions for the actuarial valuations of those years and for June 30, 2013:

| | <u>June 30, 2010</u> | <u>June 30, 2011</u> | <u>June 30, 2013</u> |
|-----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Actuarial cost method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization method | Level dollar | Level dollar | Level dollar |
| Amortization period | 15 year open | 15 year open | 14 year open |
| Asset valuation method | 3-year smoothed market value | 3-year smoothed market value | 3-year smoothed market value |
| Actuarial assumptions: | | | |
| Investment rate of return | 6.50% | 6.50% | 6.50% |
| Projected annual salary increases | 3.50% | 3.50% | 3.50% |
| Cost-of-living adjustments | 3.00% | 3.00% | 3.00% |

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation. Actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effect of legal or contractual funding limitations.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Required Supplementary Information (Unaudited)
 Fiscal Years Ended June 30, 2013 and 2012
 (Dollars in thousands, except as otherwise noted)

Schedule of Funding Progress
 (dollars in millions)

| Actuarial Valuation Date (June 30) | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) (B) | Unfunded AAL (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | Unfunded AAL as a Percentage of Covered Payroll [(B-A)/C] |
|---|--|--|-----------------------------------|-----------------------------------|--------------------------------|--|
| 2006 | \$365 | \$395 | \$30 | 92% | \$10.3 | 292% |
| 2007 | 365 | 395 | 30 | 92 | 9.6 | 313 |
| 2008 | 360 | 392 | 32 | 92 | 8.9 | 361 |
| 2009 | 314 | 398 | 84 | 79 | 5.7 | 1,461 |
| 2010 | 297 | 395 | 98 | 75 | 5.3 | 1,848 |
| 2011 | 297 | 397 | 100 | 75 | 4.1 | 2,420 |
| 2012 | 294 | 389 | 95 | 76 | 3.0 | 3,211 |
| 2013 | 292 | 382 | 90 | 76 | 2.3 | 3,949 |

Beginning in fiscal year 2010, the actuarial accrued liability was calculated using CalPERS 1997-2007 Mortality Tables. Previously the calculation was made using the 1994 Group Annuity Mortality Table.

Schedule of Employer Contributions
 (dollars in thousands)

| Year Ended June 30 | Annual Required Contribution | Percentage Contribution |
|-------------------------------|---|------------------------------------|
| 2006 | \$ - | - |
| 2007 | - | - |
| 2008 | 3,534 | 100% |
| 2009 | 3,159 | 100% |
| 2010 | 3,431 | 100% |
| 2011 | 10,547 | 100% |
| 2012 | 10,361 | 100% |
| 2013 | 10,573 | 100% |

ADDITIONAL INFORMATION

SACRAMENTO CITY EMPLOYEE'S RETIREMENT SYSTEM

Schedule of Changes in Investment Position

For the Year Ended June 30, 2013

(in thousands)

| Description | Balance June 30, 2012 (Fair Value) | Additions | Disposals | Change In Unrealized Gains | Balance June 30, 2013 (Fair Value) |
|----------------------------------|---|-------------------|---------------------|---|---|
| U.S. agencies | \$ 4,309 | \$ - | \$ (1,251) | \$ (202) | \$ 2,856 |
| Corporate bonds | 62,694 | 5,043 | - | 256 | 67,993 |
| Equities | 109,132 | 42,724 | (53,822) | 7,787 | 105,821 |
| Exchange traded funds | 46,019 | 25,299 | (21,382) | 2,215 | 52,151 |
| Mortgage loans | 7,457 | 1,918 | (5,025) | - | 4,350 |
| Municipal bonds | 44,253 | 588 | (322) | (1,402) | 43,117 |
| Total Investments | 273,864 | 75,572 | (81,802) | 8,654 | 276,288 |
| Cash and short-term investments | 21,051 | 236,978 | (237,371) | - | 20,658 |
| Security lending collateral | 29,364 | - | (21,358) | - | 8,006 |
| Total investment position | \$ 324,279 | \$ 312,550 | \$ (340,531) | \$ 8,654 | \$ 304,952 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF ASSETS
JUNE 30, 2013

| Investments | Maturity Date | Quantity | Amortized Cost | Market Value |
|------------------------------------|------------------|------------|-------------------|-------------------|
| US GOVERNMENT OBLIGATION | | | | |
| Gnma Pool #150426 | 5/15/2016 | 1,341 | \$ 1,473 | \$ 1,372 |
| Gnma Pool #157445 | 6/15/2016 | 11,020 | 11,166 | 11,625 |
| Gnma Pool #167166 | 8/15/2016 | 1,537 | 1,585 | 1,546 |
| Gnma Pool #208975 | 3/15/2017 | 7,781 | 7,824 | 7,827 |
| Gnma Pool #211421 | 4/15/2017 | 12,159 | 12,226 | 12,230 |
| Gnma Pool #320296 | 3/15/2022 | 27,764 | 27,260 | 29,265 |
| Gnma Pool #329837 | 11/15/2022 | 46,341 | 45,632 | 52,134 |
| Gnma Pool #450066 | 12/15/2026 | 6,860 | 6,815 | 6,890 |
| Gnma Pool #439515 | 3/15/2027 | 23,404 | 22,951 | 27,306 |
| Gnma Pool #648348 | 10/15/2035 | 647,644 | 645,418 | 713,943 |
| Gnma Pool #550718 | 11/15/2035 | 1,398,299 | 1,360,720 | 1,516,777 |
| Gnma Pool #256393 | 9/1/2036 | 436,171 | 434,739 | 474,637 |
| Sub-total | | | 2,577,807 | 2,855,552 |
| CORPORATE BONDS | | | | |
| M&i Marshall & Ilsley Bk Mtnbe | 6/16/2015 | 5,000,000 | 5,011,727 | 5,287,100 |
| Ford Motor Credit - Mtn | 9/15/2015 | 5,000,000 | 4,996,084 | 5,364,950 |
| Dps Lehman Brth Hld Escrow | 4/4/2016 | 2,500,000 | 2,370,324 | 609,375 |
| Bank Of America Na | 6/15/2017 | 4,762,000 | 4,655,959 | 5,311,201 |
| Goldman Sachs Group Inc | 4/1/2018 | 6,000,000 | 5,867,402 | 6,761,040 |
| General Electric Capital Corp | 5/1/2018 | 15,000,000 | 14,701,793 | 17,205,000 |
| Metlife Inc | 8/15/2018 | 5,000,000 | 5,010,398 | 6,056,550 |
| Pfizer Inc | 3/15/2019 | 2,000,000 | 1,998,699 | 2,411,700 |
| Lloyds Tsb Bk Plc | 1/21/2021 | 5,000,000 | 5,262,216 | 5,771,300 |
| General Electric Capital Corp | 3/15/2032 | 5,000,000 | 5,106,374 | 5,995,100 |
| General Electric Capital Corp | 8/24/2037 | 3,000,000 | 3,029,465 | 3,022,710 |
| President&fellow Harvard Coll | 10/1/2037 | 2,000,000 | 2,050,132 | 2,248,300 |
| Goldman Sachs Group Inc | 5/9/2025 | 2,000,000 | 2,000,000 | 1,948,640 |
| Sub-total | | | 62,060,573 | 67,992,966 |
| EQUITIES - LARGE CAP GROWTH | | | | |
| 3m Company | | 15,000 | 1,315,224 | 1,640,250 |
| Abbott Laboratories Com | | 30,000 | 1,005,430 | 1,240,200 |
| Apple Inc. | | 3,000 | 782,724 | 833,070 |
| Archer Daniels Midland Com | | 15,000 | 1,402,580 | 1,257,450 |
| At&t Inc | | 4,500 | 1,093,379 | 1,784,385 |
| Bank Of America Corp | | 45,000 | 1,401,246 | 1,593,000 |
| Berkshire Hathaway Inc-C1 B | | 147,500 | 2,154,311 | 1,896,850 |
| Bristol Myers Squibb Com | | 19,900 | 1,556,148 | 2,227,208 |
| Broadcom Corp Cl A | | 43,000 | 1,376,999 | 1,453,185 |
| Caterpillar Inc Del Com | | 10,000 | 863,307 | 1,183,400 |
| Chevron Corporation | | 18,000 | 876,070 | 863,460 |
| Clorox Co | | 30,000 | 659,250 | 1,203,300 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF ASSETS
JUNE 30, 2013

| Investments | Maturity Date | Quantity | Amortized Cost | Market Value |
|--|--------------------------|-----------------|-----------------------|---------------------|
| Coca Cola Co Com | | 11,000 | 1,070,359 | 1,216,270 |
| Colgate Palmolive Co Com | | 20,000 | 805,361 | 1,256,800 |
| Conagra Inc Com | | 23,000 | 1,418,988 | 1,193,240 |
| Covidien Plc Shs | | 5,000 | 313,500 | 315,750 |
| Cummins Inc Com | | 26,000 | 1,240,049 | 1,820,260 |
| Devon Energy Corporation | | 65,000 | 1,555,503 | 1,535,300 |
| Dollar Tree Inc Com | | 15,000 | 1,013,824 | 1,355,250 |
| Eastman Chem Co Com | | 7,000 | 996,074 | 952,140 |
| Emc Corp/Mass | | 80,000 | 1,558,757 | 1,855,200 |
| Exxon Mobil Corporation | | 2,500 | 1,413,067 | 2,200,925 |
| Freeport-Mcmoran Cop & G Cl B | | 15,000 | 373,399 | 1,128,270 |
| General Electric Co | | 5,000 | 371,257 | 387,350 |
| Google Inc Cl A | | 59,500 | 1,352,012 | 1,441,685 |
| Green Mtn Coffee Roast Com | | 10,000 | 1,614,300 | 1,911,100 |
| Intel Corp | | 11,000 | 727,995 | 944,460 |
| International Bus Mach | | 45,000 | 1,812,607 | 2,375,550 |
| Johnson & Johnson | | 20,000 | 765,629 | 929,000 |
| Jpmorgan Chase & Co | | 48,000 | 1,137,609 | 1,369,440 |
| Kraft Foods Inc Cl A | | 15,000 | 977,744 | 1,154,850 |
| Mcdonald's Corp | | 30,000 | 1,305,258 | 1,832,700 |
| Merck & Co Inc (new) | | 10,000 | 534,662 | 661,200 |
| Monsanto CO New Com | | 18,000 | 1,296,136 | 1,289,880 |
| Oracle Corp Com | | 55,000 | 1,421,999 | 1,203,950 |
| Philip Morris Intl Inc Com | | 22,000 | 1,362,414 | 1,514,920 |
| Procter & Gamble Co | | 5,000 | 180,598 | 174,250 |
| Qualcomm Inc. | | 29,000 | 1,195,181 | 1,451,740 |
| Tjx Companies Inc | | 35,000 | 1,088,947 | 1,265,250 |
| U. S. Bancorp | | 14,000 | 1,020,992 | 1,301,160 |
| United Technologies | | 40,000 | 861,580 | 1,390,800 |
| Valero Energy Corp New Com | | 35,000 | 1,123,952 | 1,761,900 |
| Verizon Communications Inc | | 15,000 | 1,134,407 | 1,117,350 |
| Wells Fargo & Company | | 55,000 | 1,798,389 | 2,269,850 |
| Sub-total | | | 49,329,217 | 59,753,548 |
| EQUITIES - FIXED ALTERNATIVE EQUITIES | | | | |
| Altria Group Inc | | 65,000 | 1,729,851 | 2,274,350 |
| American Cap Agy Corp Com | | 45,000 | 1,471,144 | 1,035,450 |
| Annaly Cap Mgmt Inc Com | | 100,000 | 1,715,598 | 1,257,000 |
| Cisco Sys Inc Com | | 65,000 | 1,190,066 | 1,581,775 |
| Dominion Res Va New Com | | 46,000 | 2,018,169 | 2,613,720 |
| Duke Energy Corp New Com New | | 25,000 | 1,408,262 | 1,687,500 |
| Exelon Corp | | 35,000 | 2,478,727 | 1,080,800 |
| Ford Mtr Co | | 150,000 | 1,589,128 | 2,320,500 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF ASSETS
JUNE 30, 2013

| Investments | Maturity Date | Quantity | Amortized Cost | Market Value |
|--|------------------|----------|-------------------|-------------------|
| Goldman Sachs Group Com | | 8,000 | 1,130,811 | 1,210,000 |
| Health Care Reit Inc Com | | 30,000 | 1,339,245 | 2,010,900 |
| Hollyfrontier Corp Com | | 27,500 | 1,148,691 | 1,176,450 |
| Jpmorgan Chase & Co | | 22,000 | 1,039,542 | 1,161,380 |
| Kinder Morgan Energy Partners Ltd | | 47,500 | 2,431,727 | 4,056,500 |
| Kkr & Co L P Del Com Units | | 60,000 | 926,200 | 1,179,600 |
| Lowes Companies Inc | | 40,000 | 1,086,196 | 1,636,000 |
| Marathon Pete Corp Com | | 19,000 | 962,146 | 1,350,140 |
| Microsoft Corp | | 40,000 | 1,065,368 | 1,381,800 |
| Pepsico Inc | | 15,000 | 1,073,334 | 1,226,850 |
| Pfizer Inc | | 95,000 | 2,334,922 | 2,660,950 |
| Philip Morris Intl Inc Com | | 33,000 | 1,597,485 | 2,858,460 |
| Pinnacle West Cap Corp | | 45,000 | 1,853,226 | 2,496,150 |
| Reynolds American Inc Com | | 40,000 | 1,214,321 | 1,934,800 |
| Texas Instruments Inc | | 5,000 | 176,300 | 174,250 |
| Travelers Companies Com | | 5,000 | 392,644 | 399,600 |
| Wells Fargo & Company | | 25,000 | 957,719 | 1,031,750 |
| Barclays Bank Plc Adr Pfd Sr 5 | | 45,000 | 1,097,667 | 1,139,850 |
| Jpmorgan Chase & Co | | 60,000 | 1,500,000 | 1,523,400 |
| Sub-total | | | 36,928,489 | 44,459,925 |
| EQUITIES - INTERNATIONAL EQUALITIES | | | | |
| Baidu Inc Spon Adr Rep A | | 17,000 | 1,886,967 | 1,608,234 |
| Sub-total | | | 1,886,967 | 1,608,234 |
| EXCHANGE TRADED FUNDS | | | | |
| Barclays Bk Plc Ipath S&p500 Vix | | 25,000 | 1,480,222 | 517,750 |
| Ishares Russell 2000 ETF | | 19,900 | 1,338,087 | 1,930,300 |
| Ishares Tr Transp Ave Idx | | 100 | 7,971 | 10,989 |
| Ishares US Basic Materials ETF | | 5,000 | 356,779 | 335,250 |
| Ishares US Healthcare ETF | | 24,000 | 1,425,374 | 2,404,560 |
| Ishares US Technology ETF | | 20,000 | 1,083,741 | 1,472,600 |
| Market Vectors Etf Tr Oil Svcs Etf | | 35,000 | 1,318,551 | 1,497,300 |
| Select Sector Spdr Tr Sbi Cons Discr | | 32,000 | 905,770 | 1,804,800 |
| Select Sector Spdr Tr Sbi Int-Finl | | 135,000 | 1,788,372 | 2,625,075 |
| Spdr Series Trust Kbw Regn Bk Etf | | 30,000 | 968,868 | 1,016,400 |
| Spdr Series Trust S&p Biotech | | 15,000 | 1,204,211 | 1,563,900 |
| Spdr Series Trust S&p Homebuild | | 35,000 | 546,816 | 1,029,700 |
| Spdr Tr Unit Ser 1 | | 90,000 | 12,873,476 | 14,437,800 |
| Alps Etf Tr Alerian Mlp | | 70,000 | 1,124,525 | 1,249,500 |
| Claymore Exchange Gugg Chn Sml Cap | | 50,000 | 1,190,963 | 1,110,500 |
| Ishares China Large Cap ETF | | 27,000 | 1,166,872 | 878,040 |
| Ishares Inc Core Msci Emkt | | 20,000 | 1,039,162 | 921,200 |
| Ishares Inc Msci German | | 44,900 | 1,056,055 | 1,109,030 |

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF ASSETS
JUNE 30, 2013

| Investments | Maturity Date | Quantity | Amortized Cost | Market Value |
|--|------------------|-----------|-----------------------|-----------------------|
| Ishares Latin America 40 ETF | | 70,000 | 3,381,938 | 2,573,200 |
| Ishares MSCI Canada ETF | | 70,000 | 1,986,146 | 1,830,500 |
| Ishares MSCI China ETF | | 24,000 | 1,121,820 | 980,640 |
| Ishares MSCI EAFE ETF | | 45,000 | 2,558,661 | 2,578,500 |
| Ishares MSCI Emerging Markets ETF | | 28,000 | 1,187,405 | 1,078,000 |
| Ishares MSCI Emerging Markets Min Vol ET | | 20,000 | 1,262,159 | 1,142,200 |
| Ishares MSCI Pacific Ex-Japan ETF | | 27,000 | 1,142,414 | 1,161,810 |
| Ishares MSCI South Korea Capped ETF | | 25,000 | 1,465,752 | 1,330,000 |
| Spdr Gold Trust Gold Shs | | 6,000 | 850,012 | 714,660 |
| Vanguard Ftse Europe Etf | | 20,000 | 1,014,177 | 962,600 |
| Wisdomtree Trust India Erngs Fd | | 60,000 | 1,132,015 | 972,000 |
| Wisdomtree Trust Japn Hedge Eqt | | 20,000 | 869,951 | 912,200 |
| Sub-total | | | 48,848,265 | 52,151,004 |
| MUNICIPAL BONDS | | | | |
| Sacramento City Calif Fing Tax Alloc Rv | 12/1/2016 | 585,000 | 583,178 | 596,302 |
| Riverside Calif Pub Fing Auth Tax Alloc | 8/1/2017 | 1,320,000 | 1,280,525 | 1,323,049 |
| Millbrae Calif Sch Dist | 7/1/2020 | 500,000 | 575,194 | 553,350 |
| Sacramento Calif City Fing Auth Rev | 12/1/2020 | 4,000,000 | 3,765,391 | 4,001,600 |
| Sacramento Calif City Fing Auth Rev Taxa | 12/1/2025 | 1,855,000 | 1,855,000 | 1,840,253 |
| California St Go Bds | 11/1/2026 | 2,000,000 | 2,000,000 | 2,302,540 |
| Vermont State Build America Bonds | 8/15/2027 | 2,700,000 | 2,662,227 | 2,936,547 |
| Houston Tex Arpt Sys Rev Arpt Sys | 1/1/2028 | 5,000,000 | 4,523,812 | 5,543,250 |
| Bay Area Toll Auth Calif Toll Toll Brid | 4/1/2030 | 1,000,000 | 1,022,964 | 1,207,870 |
| Univ Calif Regts Med Ctr Poole | 5/15/2031 | 2,350,000 | 2,505,196 | 2,686,403 |
| Pasadena Calif Wtr Rev | 6/1/2031 | 3,000,000 | 2,950,438 | 2,842,140 |
| Pasadena Calif Wtr Rev | 6/1/2033 | 2,000,000 | 1,967,629 | 1,917,280 |
| California St Build America Bonds | 4/1/2034 | 500,000 | 474,806 | 648,140 |
| California St Go Bds | 3/1/2036 | 5,000,000 | 5,344,084 | 5,933,550 |
| Riverside Cnty Calif Redev Agy Tax Alloc | 10/1/2037 | 3,000,000 | 3,014,426 | 3,094,920 |
| San Francisco Calif City & Cnt Tax Alloc | 8/1/2039 | 5,000,000 | 5,192,716 | 5,689,750 |
| Sub-total | | | 39,717,586 | 43,116,944 |
| MORTGAGE LOANS | | | | |
| 2484 Natomas Park Dr. | 7/1/2017 | 1,918,222 | 1,918,222 | 1,918,222 |
| Walgreens Drugs/Adahi, Inc | 5/1/2024 | 2,431,755 | 2,431,755 | 2,431,755 |
| Sub-total | | | 4,349,977 | 4,349,977 |
| Total | | | \$ 245,698,881 | \$ 276,288,150 |

APPENDIX A



BARTEL
ASSOCIATES, LLC

City of Sacramento

Sacramento City Employees' Retirement System

June 30, 2013

Actuarial Valuation

December 2013

ACTUARIAL VALUATION

**CITY OF SACRAMENTO
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM (SCERS)
DEFINED BENEFIT PLAN**

We are pleased to present the results of our June 30, 2013 actuarial valuation of the Sacramento City Employees' Retirement System (SCERS).

The purpose of this valuation is to:

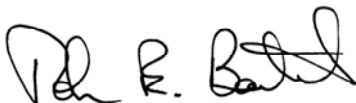
- Determine the Governmental Accounting Standards Board Statement No. 25 (GASB 25), as amended by GASB 50, June 30, 2013 Benefit Obligations,
- Determine the System's June 30, 2013 Funded Status, and
- Calculate the 2014/15 fiscal year actuarially determined contribution for purposes of Plan funding.

The report provides information intended for reporting under GASB 25 and 27, but may not be appropriate for other purposes. Information provided in this report may be useful to the City for the System's financial management. Future valuations may differ significantly if the System's experience differs from our assumptions or if there are changes in plan design, actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.

The valuation is based on the System's benefit provisions summarized in Section 9, employee data, and on the System's financial information, all furnished by the City. We reviewed the financial and employee data for reasonableness, including comparing to prior year data, but did not perform an audit. Our review earlier this year of 13 sample benefit calculations determined discrepancies in amounts and optional forms for some of these retirees. The impact on the sampled retirees was an approximate 2% reduction in their liabilities. We understand the System will undergo an expanded audit of benefit calculations and procedures. We cannot estimate the effect of any changes that might be made following such an audit.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. Additionally, in our opinion, actuarial methods and assumptions comply with GASB Statements 25, 27, and 50. As members of the American Academy of Actuaries, meeting Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,



John E. Bartel, ASA, MAAA, FCA
President



Deanna Van Valer, ASA, MAAA, EA, FCA
Assistant Vice President

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SECTION 1

EXECUTIVE SUMMARY

Following are the valuation results. See notes following the table for a description of terms. Results from the June 30, 2012 valuation are provided for comparative purposes.

| | -----amounts in \$000's----- | | |
|---|------------------------------|------------------|---------------------|
| | June 30, 2012 | June 30, 2013 | % change |
| ■ Participant Counts | | | |
| • Actives | 48 | 35 | -27.1% |
| • Terminated Vesteds | 17 | 13 | -23.5% |
| • Reciprocal | 7 | 7 | 0.0% |
| • Service Retirees | 744 | 722 | -3.0% |
| • Disableds | 170 | 161 | -5.3% |
| • Beneficiaries | 326 | 335 | 2.8% |
| • Total | 1,312 | 1,273 | -3.0% |
| ■ Actuarial Liabilities | | | |
| • Present Value of Projected Benefits | \$ 389,527 | \$ 382,930 | -1.7% |
| • Actuarial Accrued Liability | 388,862 | 382,403 | -1.7% |
| ■ Assets | | | |
| • Market Value of Assets | 296,109 | 295,975 | 0.0% |
| • Approximate Annual Rate of Return | 4.9% | 7.8% | |
| • Actuarial Value of Assets | 294,111 | 292,035 | -0.7% |
| • Approximate Annual Rate of Return | 6.9% | 7.2% | |
| ■ Plan Funded Status | | | |
| • Actuarial Accrued Liability | 388,862 | 382,403 | -1.7% |
| • Actuarial Value of Plan Assets | 294,111 | 292,035 | -0.7% |
| • Unfunded Actuarial Accrued Liability | 94,751 | 90,368 | -4.6% |
| • Funded Ratio | 75.6% | 76.4% | 1.1% |
| • Funded Ratio, Market Value Basis | 76.1% | 77.4% | 1.7% |
| | 2013/14 | 2014/15 | % change |
| ■ Annual Cost¹ | \$ 9,649 | \$ 9,183 | -4.8% |
| ■ Annual Cost (% Proj. Plan Payroll)¹ | 404.9% | 509.7% | |
| ■ Annual Cost (% Proj. City Payroll) | 3.6% | 3.4% | |

¹ See page 11 for details.

SECTION 1

EXECUTIVE SUMMARY

Purpose of Actuarial Valuation

The actual costs of a defined benefit plan are determined entirely by the amount of the benefit promise, the actual salaries and service of the plan participants, and how long they and their beneficiaries live to receive payments. An actuarial valuation is a mathematical model which attempts to quantify this actual cost by setting assumptions that, it is hoped, duplicate reality as closely as possible. In addition, the actuarial methodology provides a reasonable plan, or method, towards funding the expected plan costs. This information assists the plan trustees so they can make informed decisions regarding plan investments and how much in contributions will be required from the employer to eventually fully pay the plan's costs.

Summary Information

The Sacramento City Employees' Retirement System (SCERS) is a closed defined benefit pension plan. It has not accepted new members since January 28, 1977, and only 35 active members (out of a total plan membership of 1,273) remain.

Results

Since the last valuation, the plan experienced losses on liabilities and gains on market assets. Plan liabilities increased more than expected, by \$3.7 million. Approximately \$2.0 million of this was from the unexpected addition of 8 retirees and beneficiaries to the data. Market value return on assets was more than expected, resulting in a gain of \$2.3 million on the actuarial value of assets. The resulting July 1, 2013 total plan Unfunded Actuarial Accrued Liability (UAAL), prior to assumption changes, is \$91.5 million, as compared to an expected UAAL of \$90.0 million.

The plan's funded ratio on an actuarial value of assets basis is 76.4%, an increase from 75.6% in the prior valuation. The plan's funded ratio on a market value of assets basis is 77.4%, an increase from 76.1% in the prior valuation.

In order to better estimate the effect of the Social Security offset at age 62, a new assumption was added since the prior valuation. For current retirees and vested terminated participants, the Social Security offset at age 62 was assumed to be equal to the average expected offset for future retirees. This assumption change resulted in a modest gain on liabilities of \$1.1 million. The net result of all changes was a very modest \$0.3 million loss on liabilities.

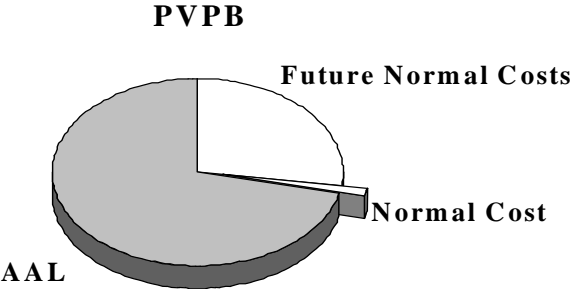
In line with expectations, the City's contribution has slightly decreased from \$9.6 million in the previous year to \$9.2 million for fiscal year 2014/15. The prior valuation projected a 2014/15 contribution of \$9.145 million, very close to the actual contribution of \$9.183 million calculated in the current valuation (somewhat smaller due to the small net loss to the plan).

SECTION 1

EXECUTIVE SUMMARY

Definitions

The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits. Therefore, the AAL is equal to the PVPB for current retirees. The Normal Cost is the portion of the PVPB allocated or earned during the year following the valuation date.



SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

A comparison of the Present Value of Benefits, Actuarial Accrued Liability, Employer Normal Cost, and the Funded Ratio for the current and prior valuations follows. (Note that numbers throughout the report may not add due to rounding.)

(amounts in \$000's)

| | June 30, 2012 | June 30, 2013 |
|--|---------------|---------------|
| Present Value of Projected Benefits | | |
| ■ Active Employees | \$ 20,301 | \$ 16,354 |
| ■ Vested Terminated & Reciprocal | 2,527 | 2,186 |
| ■ Service Retirees | 271,838 | 270,856 |
| ■ Disabled Participants | 47,163 | 44,460 |
| ■ Beneficiaries | 47,698 | 49,075 |
| ■ Total | 389,527 | 382,930 |

Actuarial Accrued Liability

| | | |
|----------------------------------|-----------|-----------|
| ■ Active Employees | \$ 19,636 | \$ 15,827 |
| ■ Vested Terminated & Reciprocal | 2,527 | 2,186 |
| ■ Service Retirees | 271,838 | 270,856 |
| ■ Disabled Participants | 47,163 | 44,460 |
| ■ Beneficiaries | 47,698 | 49,075 |
| ■ Total | 388,862 | 382,403 |

2012/13

2013/14

Normal Cost

| | | |
|--|-------|-------|
| ■ Employer Normal Cost (beginning of year) | \$ 52 | \$ 62 |
|--|-------|-------|

June 30, 2012

June 30, 2013

Plan Funded Status

| | | |
|--|------------|------------|
| ■ Total Actuarial Accrued Liability | \$ 388,862 | \$ 382,403 |
| ■ Actuarial Value of Plan Assets | 294,111 | 292,035 |
| ■ Unfunded Actuarial Accrued Liability | 94,751 | 90,368 |
| ■ Funded Ratio | 75.6% | 76.4% |
| ■ Market Value of Assets | 296,109 | 295,975 |
| ■ Funded Ratio – Market Value Basis | 76.1% | 77.4% |



SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2013 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by employee category:

(amounts in \$000's)

| | Safety | Miscellaneous | Total |
|--|---------------|----------------|----------------|
| Present Value of Projected Benefits | | | |
| ■ Active Employees | \$ 0 | \$ 16,354 | \$ 16,354 |
| ■ Vested Terminated & Reciprocals | 0 | 2,186 | 2,186 |
| ■ Service Retirees | 32,192 | 238,664 | 270,856 |
| ■ Disabled Participants | 20,939 | 23,521 | 44,460 |
| ■ Beneficiaries | 18,074 | 31,001 | 49,075 |
| ■ Total | <u>71,205</u> | <u>311,725</u> | <u>382,930</u> |

Actuarial Accrued Liability

| | | | |
|-----------------------------------|---------------|----------------|----------------|
| ■ Active Employees | 0 | 15,827 | 15,827 |
| ■ Vested Terminated & Reciprocals | 0 | 2,186 | 2,186 |
| ■ Service Retirees | 32,192 | 238,664 | 270,856 |
| ■ Disabled Participants | 20,939 | 23,521 | 44,460 |
| ■ Beneficiaries | 18,074 | 31,001 | 49,075 |
| ■ Total | <u>71,205</u> | <u>311,198</u> | <u>382,403</u> |

| | Safety | Miscellaneous | Total |
|---|--------|---------------|-------|
| Normal Cost | | | |
| ■ Employer Normal Cost (on June 30, 2013) | \$ 0 | \$ 62 | \$ 62 |

SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2013 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by benefit section:

(amounts in \$000's)

| | Section 175 | Sections 302 & 399 | Total |
|--|---------------|-----------------------|----------------|
| Present Value of Projected Benefits | | | |
| ■ Active Employees | \$ 0 | \$ 16,354 | \$ 16,354 |
| ■ Vested Terminated & Reciprocal | 345 | 1,840 | 2,186 |
| ■ Service Retirees | 9,344 | 261,511 | 270,856 |
| ■ Disabled Participants | 2,550 | 41,910 | 44,460 |
| ■ Beneficiaries | 3,997 | 45,078 | 49,075 |
| ■ Total | <u>16,236</u> | <u>366,694</u> | <u>382,930</u> |

Actuarial Accrued Liability

| | | | |
|----------------------------------|---------------|----------------|----------------|
| ■ Active Employees | 0 | 15,827 | 15,827 |
| ■ Vested Terminated & Reciprocal | 345 | 1,840 | 2,186 |
| ■ Service Retirees | 9,344 | 261,511 | 270,856 |
| ■ Disabled Participants | 2,550 | 41,910 | 44,460 |
| ■ Beneficiaries | 3,997 | 45,078 | 49,075 |
| ■ Total | <u>16,236</u> | <u>366,167</u> | <u>382,403</u> |

Normal Cost

| | Section 175 | Sections 302 & 399 | Total |
|-------------------------------------|-------------|-----------------------|-------|
| ■ Employer Normal Cost (on 6/30/13) | \$ 0 | \$ 62 | \$ 62 |

SECTION 3

ASSET INFORMATION

Assets for SCERS are held in trust. Trust monies may be used to pay benefits to plan participants and their beneficiaries. The trust is managed under the direction of the Administration, Investment, and Fiscal Management Board. Asset information is provided by the City of Sacramento, and has not yet been audited.

Asset Reconciliation – Market Value of Assets

Following reconciles the June 30, 2011 through June 30, 2012 and the June 30, 2012 through June 30, 2013 market value of assets.

| | (amounts in \$000's) | |
|--------------------------------|----------------------|------------|
| | 2011/12 | 2012/13 |
| ■ Beginning of Year Balance: | \$ 304,001 | \$ 296,109 |
| • Member Contributions | \$ 332 | \$ 219 |
| • City Contributions | 10,361 | 10,573 |
| • Investment Income | 15,763 | 23,577 |
| ■ Total Additions | 26,456 | 34,369 |
| • Benefit Payments | 32,769 | 33,180 |
| • Member Refunds | 288 | 57 |
| • Investment Expenses | 1,291 | 1,266 |
| ■ Total Deductions | 34,348 | 34,503 |
| ■ Net Assets at End of Year | 296,109 | 295,975 |
| | | |
| ■ Approximate Return on Assets | 4.9% | 7.8% |

SECTION 3

ASSET INFORMATION

Asset Allocation – Market Value of Assets

The July 1, 2013 trust asset allocation is provided by the City of Sacramento and based on an allocation strategy of 45% fixed income and 55% equity. Details are shown below.

(amounts in \$000's)

| | Market Value | Percentage |
|------------------------------------|----------------|--------------|
| ■ Cash & Short Term Investments | \$ 20,658 | 7.0% |
| ■ Securities Lending Collateral | 8,006 | 2.7% |
| ■ Receivables | 2,317 | 0.8% |
| ■ Investments | | |
| • US Agencies | \$ 2,856 | 1.0% |
| • Corporate Bonds | 67,993 | 23.0% |
| • Equities | 105,821 | 35.7% |
| • Exchange Traded Funds | 52,151 | 17.6% |
| • Mortgage Loans | 4,350 | 1.5% |
| • Municipal Bonds | <u>43,117</u> | 14.6% |
| ■ Total Investments | <u>276,288</u> | |
| ■ Total Assets | 307,269 | |
| ■ Securities Lending Obligation | (8,643) | -3.0% |
| ■ Other Liabilities Payable | <u>(2,651)</u> | <u>-0.9%</u> |
| ■ Net Pension Benefit Trust Assets | 295,975 | 100.0% |

Target Allocation by Asset Class

The Administration, Investment and Fiscal Management Board of the Sacramento City Employees' Retirement System last adopted a new asset allocation in February 2012, effective July 1, 2012, as shown below. The fund is rebalanced each year.

| | Current Allocation |
|---------------------------|--------------------|
| ■ Fixed Bonds/Real Estate | <u>45%</u> |
| Total Fixed | 45% |
| ■ Large Cap Growth | 30% |
| ■ Equity Income | 15% |
| ■ International Equities | <u>10%</u> |
| Total Equity | <u>55%</u> |
| Total Fixed & Equity | 100% |

SECTION 3

ASSET INFORMATION

Discount Rate Development

We recommend the following discount rate assumption for the June 30, 2013 valuation, based upon a 55% confidence level:

| Confidence Level | 50% | 55% | 60% |
|------------------------------------|--------------|--------------|--------------|
| ■ Inflation Adjusted Return | 6.95% | 6.70% | 6.44% |
| ■ Investment Expenses ² | <u>0.30%</u> | <u>0.30%</u> | <u>0.30%</u> |
| ■ Net Return after Expenses | 6.65% | 6.40% | 6.14% |
| ■ Discount Rate Assumption | | 6.50% | |

² Based on average investment expenses for a typical passive investment strategy. This is not plan specific.

SECTION 3

ASSET INFORMATION

Development of Actuarial Value of Assets

The Actuarial Value of Assets is based upon a three year smoothing of market assets. This method reduces volatility in contribution rates, and also reduces volatility in the size of the actuarial gains and losses due to asset returns. Because the plan is frozen to new membership and the membership is primarily composed of retirees and beneficiaries, it is important from a cash flow perspective that asset values used in calculating contribution rates not stray too far from market value. For this reason, a corridor of 15% around the market value is imposed upon the actuarial value.

| | (amounts in \$000's) |
|--|----------------------|
| ■ Actuarial Value of Assets 6/30/2012 | \$ 294,111 |
| • Contributions | 10,792 |
| • Expected Earnings | 18,399 |
| • Benefit Payments | (33,237) |
| ■ Expected Actuarial Value of Assets 6/30/2013 | 290,065 |
| ■ Market Value of Assets 6/30/2013 | 295,975 |
| ■ Difference between MVA & Expected AVA | 5,910 |
| ■ Preliminary Actuarial Value of Assets 6/30/2013 <i>(Expected AVA + 1/3 Difference)</i> | 292,035 |
| ■ Actuarial Value of Assets Corridor | |
| • Cap: 115% of Market Value | 340,371 |
| • Min: 85% of Market Value | 251,579 |
| ■ Actuarial Value of Assets 6/30/2013 <i>(No greater than Cap, not less than Min)</i> | 292,035 |
| ■ Approximate Annual Rate of Return | 7.2% |

SECTION 4

CONTRIBUTION DEVELOPMENT

Annual Required Contribution

Following is the development of the 2014/15 Annual Required Contribution. The 2013/14 Annual Required Contribution, which was calculated in the June 30, 2012 actuarial valuation, is shown for comparison.

| | (amounts in \$000's) | |
|--|----------------------|---------|
| Contribution Year | 2013/14 | 2014/15 |
| ■ Annual Required Contribution | | |
| • Normal Cost | \$ 43 | \$ 50 |
| • UAL Amortization ³ | 9,606 | 9,133 |
| • Total Cost | 9,649 | 9,183 |
| ■ Projected Plan Payroll | 2,383 | 1,802 |
| ■ Annual Required Contribution (as a percent of plan payroll) | | |
| • Normal Cost | 1.8% | 2.8% |
| • UAL Amortization | 403.1% | 506.9% |
| • Total Contribution | 404.9% | 509.7% |
| ■ Projected Total City Payroll | 271,460 | 267,048 |
| ■ Annual Required Contribution (as a percent of total City payroll) | | |
| • Normal Cost | 0.0% | 0.0% |
| • UAL Amortization | 3.6% | 3.4% |
| • Total Contribution | 3.6% | 3.4% |

³ The Unfunded Actuarial Liability is being amortized as a level dollar amount over a 14 year period for the 2013/14 ARC and for the 2014/15 ARC. As the plan continues to mature, this amortization period should be reviewed.

SECTION 5
SCHEDULE OF FUTURE CONTRIBUTIONS

| Year Ending ⁴ | Member Contributions | City Contributions | Benefit Payments |
|--------------------------|-------------------------|--------------------|-------------------|
| 6/30/1986 | \$ 3,953,000 | \$ 14,143,000 | \$ 14,693,000 |
| 6/30/1987 | 4,178,000 | 15,415,000 | 15,973,000 |
| 6/30/1988 | 4,233,000 | 14,057,000 | 17,400,000 |
| 6/30/1989 | 4,146,000 | 12,188,000 | 19,000,000 |
| 6/30/1990 | 3,305,000 | 9,664,000 | 20,000,000 |
| 6/30/1991 | 1,704,000 | 6,017,000 | 20,400,000 |
| 6/30/1992 | 1,818,000 | 2,984,000 | 22,000,000 |
| 6/30/1993 | 1,672,000 | 857,000 | 23,042,000 |
| 6/30/1994 | 1,432,000 | 0 | 24,165,000 |
| 6/30/1995 | 1,320,000 | 0 | 24,565,000 |
| 6/30/1996 | 1,228,000 | 0 | 25,027,000 |
| 6/30/1997 | 1,080,000 | 0 | 23,274,000 |
| 6/30/1998 | 1,090,000 | 0 | 23,825,000 |
| 6/30/1999 | 1,136,000 | 0 | 24,249,000 |
| 6/30/2000 | 1,079,000 | 0 ⁵ | 24,901,000 |
| 6/30/2001 | 989,000 | 0 | 25,087,000 |
| 6/30/2002 | 1,011,000 | 0 | 25,588,000 |
| 6/30/2003 | 978,000 | 0 | 26,619,000 |
| 6/30/2004 | 1,056,000 | 0 | 26,772,000 |
| 6/30/2005 | 809,000 | 0 | 27,524,000 |
| 6/30/2006 | 789,000 | 0 | 28,749,000 |
| 6/30/2007 | 699,000 | 0 | 29,604,000 |
| 6/30/2008 | 596,000 | 3,534,000 | 29,896,000 |
| 6/30/2009 | 607,000 | 3,159,000 | 30,707,000 |
| 6/30/2010 | 377,000 | 3,431,000 | 31,719,000 |
| 6/30/2011 | 342,000 | 10,547,000 | 33,003,000 |
| 6/30/2012 | 332,000 | 10,361,000 | 33,057,000 |
| 6/30/2013 | 219,000 | 10,573,000 | 33,237,000 |
| 6/30/2014 | <i>169,000</i> | 9,649,000 | <i>33,716,000</i> |
| 6/30/2015 | <i>133,000</i> | 9,183,000 | <i>33,585,000</i> |
| 6/30/2016 | <i>101,000</i> | <i>8,645,000</i> | <i>33,493,000</i> |
| 6/30/2017 | <i>75,000</i> | <i>8,165,000</i> | <i>33,196,000</i> |
| 6/30/2018 | <i>54,000</i> | <i>7,729,000</i> | <i>32,868,000</i> |

⁴ Information prior to 6/30/2006 valuation is taken from prior actuary's valuation report. Member contributions and benefit payments for years ending 6/30/2014 and later are estimated. City contributions for years ending 6/30/2016 and later are estimated (assuming 6/30/14 and subsequent market value of assets earn 6.5%).

⁵ Shown as a negative 1.367 million by prior actuary.

SECTION 6

ACTUARIAL (GAIN)/LOSS ANALYSIS

The gain/loss analysis of plan assets, actuarial liability, and unfunded actuarial liability for the one year period between valuation dates:

(amounts in 000's)

| | Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded Accrued Liability |
|---|-----------------------------------|---------------------------------|----------------------------------|
| ■ June 30, 2012 Actual Value | \$ 388,862 | \$ 294,111 | \$ 94,751 |
| ■ June 30, 2013 Expected Value | 379,784 | 289,758 | 90,025 |
| • Data Additions (Gain)/Loss ⁶ | 2,009 | | |
| • Other Demographic (Gain)/Loss | 1,703 | | |
| ■ Total Liability (Gain)/Loss | 3,713 | | |
| ■ Investment Gain/(Loss) | | 2,277 | |
| ■ Total (Gain)/Loss | | | 1,436 |
| ■ June 30, 2013 Actual Value Prior to Changes in Assumptions | 383,496 | 292,035 | 91,461 |
| ■ Change in Social Security Offset to Current Retirees | (1,093) | | (1,093) |
| ■ June 30, 2013 Actual Value After Changes in Assumptions | 382,403 | 292,035 | 90,368 |

⁶ Due to 8 retirees and beneficiaries who should have been included in prior valuation data.

SECTION 7

SENSITIVITY ANALYSIS

The Plan's June 30, 2013 funded status and 2014/15 fiscal year contribution are shown below at 5.5%, 6.5% and 7.5% discount rates.

| Discount Rate | 5.5% | 6.5% | 7.5% |
|---|------------|------------|------------|
| ■ Present Value of Projected Benefits | \$ 418,127 | \$ 382,930 | \$ 352,757 |
| ■ Funded Status | | | |
| • Actuarial Accrued Liability | 417,404 | 382,403 | 352,368 |
| • Actuarial Value of Assets | 292,035 | 292,035 | 292,035 |
| • Unfunded Actuarial Accrued Liability | 125,369 | 90,368 | 60,333 |
| ■ Funded Ratio | 70.0% | 76.4% | 82.9% |
| ■ 2014/15 Annual Required Contribution | | | |
| • Normal Cost | 96 | 50 | 17 |
| • UAL Amortization | 12,294 | 9,133 | 6,075 |
| • Total Contribution | 12,390 | 9,183 | 6,092 |
| • Total Contribution (as a percent of Plan payroll) | 687.6% | 509.7% | 338.1% |
| • Total Contribution (as a percent of total City payroll) | 4.6% | 3.4% | 2.3% |

The Plan's 2014/15 fiscal year contribution would change if the amortization period of the Unfunded Actuarial Accrued Liability were shorter. Shown below are results based on the current 14-year period, as well as for 13, 12 and 10 year periods.

| Amortization Years | 14 | 13 | 12 | 10 |
|---|--------|--------|--------|--------|
| ■ 2014/15 Annual Required Contribution | | | | |
| • Normal Cost | \$ 50 | \$ 50 | \$ 50 | \$ 50 |
| • UAL Amortization | 9,133 | 9,573 | 10,090 | 11,452 |
| • Total Contribution | 9,183 | 9,623 | 10,141 | 11,502 |
| • Total Contribution (as a percent of Plan payroll) | 509.7% | 534.1% | 562.8% | 638.3% |
| • Total Contribution (as a percent of total City payroll) | 3.4% | 3.6% | 3.8% | 4.3% |

SECTION 8

HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Headcount and Benefit Payment Projection

| Fiscal Year Ending June 30, | Active Count | Term Vested Count | Retiree Count | Benefit Payments (000's) |
|--------------------------------|-----------------|----------------------|------------------|-----------------------------|
| 2014 | 35 | 20 | 1,218 | \$ 33,716 |
| 2015 | 27 | 20 | 1,191 | 33,585 |
| 2016 | 20 | 20 | 1,160 | 33,493 |
| 2017 | 14 | 20 | 1,126 | 33,196 |
| 2018 | 10 | 20 | 1,088 | 32,868 |
| 2019 | 6 | 20 | 1,048 | 32,446 |
| 2020 | 4 | 20 | 1,007 | 31,940 |
| 2021 | 3 | 19 | 964 | 31,346 |
| 2022 | 2 | 19 | 921 | 30,697 |
| 2023 | 1 | 19 | 878 | 29,998 |
| 2024 | 1 | 19 | 835 | 29,252 |
| 2025 | 0 | 19 | 792 | 28,469 |
| 2026 | 0 | 19 | 750 | 27,647 |
| 2027 | 0 | 18 | 708 | 26,794 |
| 2028 | 0 | 18 | 667 | 25,909 |
| 2029 | 0 | 18 | 627 | 24,995 |
| 2030 | 0 | 17 | 588 | 24,048 |
| 2031 | 0 | 17 | 550 | 23,070 |
| 2032 | 0 | 17 | 513 | 22,057 |
| 2033 | 0 | 16 | 476 | 21,009 |
| 2034 | 0 | 15 | 441 | 19,926 |
| 2035 | 0 | 15 | 406 | 18,809 |
| 2036 | 0 | 14 | 373 | 17,661 |
| 2037 | 0 | 13 | 340 | 16,484 |
| 2038 | 0 | 12 | 309 | 15,285 |
| 2039 | 0 | 12 | 279 | 14,072 |
| 2040 | 0 | 11 | 250 | 12,856 |
| 2041 | 0 | 10 | 222 | 11,650 |
| 2042 | 0 | 8 | 196 | 10,464 |
| 2043 | 0 | 7 | 172 | 9,313 |

SECTION 8

HEADCOUNT AND BENEFIT PAYMENT PROJECTION

| Fiscal Year Ending June 30, | Active Count | Term Vested Count | Retiree Count | Benefit Payments (000's) |
|--------------------------------|-----------------|----------------------|------------------|-----------------------------|
| 2044 | 0 | 6 | 149 | \$ 8,211 |
| 2045 | 0 | 5 | 129 | 7,168 |
| 2046 | 0 | 5 | 110 | 6,194 |
| 2047 | 0 | 4 | 93 | 5,297 |
| 2048 | 0 | 3 | 78 | 4,482 |
| 2049 | 0 | 2 | 64 | 3,753 |
| 2050 | 0 | 2 | 53 | 3,109 |
| 2051 | 0 | 1 | 43 | 2,551 |
| 2052 | 0 | 1 | 34 | 2,075 |
| 2053 | 0 | 1 | 27 | 1,676 |
| 2054 | 0 | 0 | 22 | 1,347 |
| 2055 | 0 | 0 | 17 | 1,081 |
| 2056 | 0 | 0 | 13 | 869 |
| 2057 | 0 | 0 | 10 | 702 |
| 2058 | 0 | 0 | 8 | 573 |
| 2059 | 0 | 0 | 6 | 476 |
| 2060 | 0 | 0 | 5 | 403 |
| 2061 | 0 | 0 | 4 | 350 |
| 2062 | 0 | 0 | 3 | 310 |
| 2063 | 0 | 0 | 2 | 280 |

SECTION 9 PLAN PROVISIONS

A. Plan Effective Date

Originally established effective April 1, 1935.

B. Plan Year

July 1 to June 30.

C. Participation

The plan is closed with no new members since January 28, 1977.

D. Eligibility to Retire

Section 175: Age 70, or age 55 and 20 years of service.

Sections 302 and 399: Age 70, or age 50 and 5 years of service.

E. Vesting

100% vesting with five years of participation.

F. Average Monthly Compensation

Average monthly salary for the 36 months prior to termination.

G. Employee Contributions

Each participant contributes a certain percentage based on his or her age at entry into the plan.

H. Service Retirement Benefit

Section 175:

Average Monthly Compensation times years of service times Benefit Factor. For retirement after age 65 with 20 years of service, benefit is a minimum of \$60 per month.

Sections 302 and 399:

Average Monthly Compensation times years of service times Benefit Factor, but no larger than 75% of final average earnings.

Benefit Factors at sample ages:

| <u>Retirement Age</u> | <u>Section 175</u> | <u>Sections 302 and 399</u> |
|-----------------------|--------------------|-----------------------------|
| 50 | n/a | 1.10% |
| 55 | 1.10% | 1.75% |
| 60 | 1.67% | 2.40% |
| 65 | 2.44% | 2.40% |

SECTION 9 PLAN PROVISIONS

I. Vested Termination Benefit

Return of employee contributions with interest, or if the value is greater than \$500, the member may choose to leave the contributions in the system. The member may become eligible in the future for retirement, disability or death benefits.

J. Non-Industrial (Ordinary) Disability Benefit

Eligibility is ten years of service.

Section 175:

With 16 2/3 years of service: 1½% of final average salary times years of service to disability.

Less than 16 2/3 years of service: Minimum of 1½% of final average salary times years of service would have earned to age 60, or 25% of final average earnings.

Sections 302 and 399:

Not Eligible for Retirement: Lesser of 1½% of Final Average Earnings times years of service or final average earnings times benefit factor at age 50 times years of service at age 50, minimum of 25% of final average earnings.

Eligible for Retirement: Maximum of retirement allowance or 25% of final average earnings.

K. Industrial Disability Benefit

Sections 302 and 399:

Not Eligible for Retirement: 50% of final average earnings.

Eligible for retirement: Maximum of retirement allowance or 50% of final average earnings.

L. Death Benefit – Pre Retirement Eligibility

Return of employee contributions with interest, plus 1/12 of salary in the year preceding death multiplied by the smaller of 6 or years of service.

M. Death Benefit – Post Retirement Eligibility

50% of the member's benefit as if the member retired at the time of death, paid as a lifetime benefit to the spouse.

N. Death Benefit – Post Retirement Death

\$500 paid to the member's estate upon death.

SECTION 9 PLAN PROVISIONS

O. Social Security Reduction at age 62

For members who retired for service, their benefit will be reduced at the later of age 62 or actual retirement age. The amount of the reduction is one half of the PIA from Social Security, multiplied by the ratio of the sum of salary earned from the City to the sum of salary from all sources used in the calculation of the Social Security amount. The member's benefit under the System plus the amount received from Social Security cannot be less than the member's benefit under the System calculated with no reductions as of his retirement age.

P. Reduction Account

A member can choose to reduce his normal contributions to the System by an amount equal to the taxes paid for Social Security coverage. At the time of retirement, the regular retirement benefit will be reduced by the actuarial equivalent of the accumulated value of the reduction of contributions.

Q. Cost of Living

Benefits will be increased each July 1 by the change in the CPI for the San Francisco/Oakland area for the preceding calendar year limited to 3% (with COLA bank).

R. Benefit Forms

Section 175:

Lifetime benefit to the member, which may be actuarially reduced to provide a continuance to a beneficiary.

Section 302 and 399:

Lifetime benefit to the member, with an automatic 50% continuance to the spouse.

SECTION 10

METHODS AND ASSUMPTIONS

Actuarial Methods

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) method. The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits.

The current unfunded AAL will be amortized, over a 14 year rolling period, as a level dollar amount. Because the plan is closed the amortization period should be regularly reviewed.

Plan funded status based on excess of

- 1) Value of Normal Retirement Benefit in excess of employee contributions over
- 2) Actuarial Value of Assets

The contribution generated by the current valuation will be payable for the City's fiscal year beginning one year later (2014/15). The June 30, 2012 valuation generated a contribution for fiscal year 2013/14.

The Actuarial Value of Assets is a 3-year smoothed market value. Gains and losses will be recognized over a three year period. For June 30, 2006, the first year of this method, the Actuarial Asset Value was set equal to the Market Value. The Actuarial Value of Assets will be limited by a 15% corridor. The Actuarial Value of Assets will be no greater than 115% of Market Value of Assets and no less than 85% of Market Value of Assets.

Data Quality

The City provided participant data as of 7/1/2013. We reviewed the data, but did not perform an audit. We performed a very limited audit in July 2013 that reviewed benefit calculations for 13 recent retirees that were not chosen at random, but chosen to cover a variety of different retirement situations. Based on review of the 7/1/2013 data and the limited audit, we have the following unresolved concerns regarding the data: incorrect or no Social Security offset being performed at age 62, incorrect status provided for reciprocal vested terminated participants, and incorrect optional forms of benefit reported. Due to the limited scope of the audit, we are unsure if there is a material impact or bias to the valuation results. We understand the System will perform an expanded audit.

SECTION 10

METHODS AND ASSUMPTIONS

Actuarial Assumptions

Assumptions used in the valuation are as follows:

■ **Discount Rate**

6.50%, net of investment expenses⁷

■ **Inflation**

3.0%

■ **Salary Scale**

3.00% CPI

0.50% Merit

■ **Social Security Wage Base**

3.25%

■ **Termination**

Rates vary based on age and gender. Sample rates follow:

| <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|
| 30 | 9.56% | 11.32% |
| 35 | 6.92% | 8.58% |
| 40 | 4.48% | 5.82% |
| 45 | 2.28% | 3.08% |
| 50 | 0.00% | 0.00% |

■ **Retirement**

Rates vary based on age. Sample rates follow:

| <u>Age</u> | <u>Non Sec 175</u> |
|------------|--------------------|
| 50 | 1% |
| 55 | 6% |
| 60 | 26% |
| 65 | 40% |
| 70 | 100% |

⁷ Administrative expenses are not paid from plan assets.

SECTION 10

METHODS AND ASSUMPTIONS

■ **Disability**

Rates vary based on age, gender and if the disability is job-related or not. Sample rates follow:

| | <u>Job Related</u> | | <u>Ordinary</u> | |
|----|--------------------|---------------|-----------------|---------------|
| | <u>Male</u> | <u>Female</u> | <u>Male</u> | <u>Female</u> |
| 40 | .00075 | .00045 | .00204 | .00123 |
| 45 | .00192 | .00093 | .00525 | .00252 |
| 50 | .00351 | .00180 | .00966 | .00495 |
| 55 | .00502 | .00273 | .01374 | .00747 |
| 60 | .00639 | .003512 | .01761 | .00969 |

■ **Healthy Mortality**

CalPERS 1997-2007 Pre-Retirement Mortality table for males and females and CalPERS 1997-2007 Post-Retirement Mortality table for males and females. For the June 30, 2013 valuation, the generational projection scale AA was applied. Sample rates are as follows:

| <u>Age</u> | <u>Pre-Retirement</u> | | <u>Post-Retirement</u> | |
|------------|-----------------------|---------------|------------------------|---------------|
| | <u>Male</u> | <u>Female</u> | <u>Male</u> | <u>Female</u> |
| 50 | 0.2% | 0.1% | 0.2% | 0.1% |
| 60 | 0.4% | 0.3% | 0.7% | 0.4% |
| 70 | 0.9% | 0.6% | 1.7% | 1.2% |
| 80 | 1.5% | 1.1% | 5.3% | 3.7% |
| 90 | 1.5% | 1.1% | 16.7% | 12.4% |
| 100 | 1.5% | 1.1% | 34.6% | 31.9% |

■ **Post-Retirement Disabled Mortality**

For Miscellaneous retirees, CalPERS 1997-2007 Non-Work-Related Disability table for males and females. For Safety retirees, CalPERS 1997-2007 Work-Related Disability table for males and females. For the June 30, 2013 valuation, the generational projection scale AA was applied to both tables. Sample rates are as follows:

| <u>Age</u> | <u>Non-Work-Related</u> | | <u>Work-Related</u> | |
|------------|-------------------------|---------------|---------------------|---------------|
| | <u>Male</u> | <u>Female</u> | <u>Male</u> | <u>Female</u> |
| 50 | 1.6% | 1.2% | 0.4% | 0.4% |
| 60 | 2.3% | 1.6% | 0.8% | 0.8% |
| 70 | 3.9% | 3.0% | 2.2% | 1.7% |
| 80 | 8.4% | 5.6% | 6.9% | 4.5% |
| 90 | 21.6% | 14.9% | 16.6% | 13.8% |
| 100 | 45.9% | 37.7% | 40.9% | 35.2% |

SECTION 10

METHODS AND ASSUMPTIONS

- **Social Security Offset**

Monthly benefits for current retirees and vested terminated assumed to decrease at age 62 based on the average expected offset of future retirees. In the prior valuation, this offset was only valued for future retirees and not for current retirees and vested terminated.

- **Marriage**

85% of male employees and 60% of female employees are assumed to be married. Wives are assumed to be four years younger than husbands.

- **Retirement Age**

Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under Section 175 are assumed to retire at age 65.

SECTION 11 PARTICIPANT DATA

Data Summary

Following summarizes participant demographic information for the June 30, 2012 and June 30, 2013 actuarial valuations.

| | June 30, 2012 | June 30, 2013 |
|--|---------------|---------------|
| ■ Participant Counts | | |
| • Actives | 48 | 35 |
| • Terminated Vesteds | 17 | 13 |
| • Reciprocals | 7 | 7 |
| • Service Retirees | 744 | 722 |
| • Disableds | 170 | 161 |
| • Beneficiaries | 326 | 335 |
| • Total | 1,312 | 1,273 |
| ■ Actives | | |
| • Average Age | 59.1 | 59.3 |
| • Average Service | 33.2 | 32.9 |
| • Salary | | |
| > Total | \$ 2,959,189 | \$ 2,279,093 |
| > Average | 61,650 | 65,117 |
| • Overall City Payroll | 253,411,000 | 249,292,000 |
| ■ Terminated Vesteds & Reciprocals | | |
| • Average Age | 63.7 | 63.5 |
| ■ Retirees, Disableds & Beneficiaries | | |
| • Average Age | 75.9 | 76.3 |
| • Average Monthly Benefit | \$ 2,238 | \$ 2,304 |

SECTION 11 PARTICIPANT DATA

June 30, 2013 Participant Data

Following summarizes participant demographic information for the June 30, 2013 actuarial valuation, broken out by employee category and benefit section.

| | Safety | | Miscellaneous | | Total |
|---|-------------|-------------------|---------------|-------------------|----------|
| | Section 175 | Section 302 & 399 | Section 175 | Section 302 & 399 | |
| ■ Actives | | | | | |
| • Count | - | - | - | 35 | 35 |
| • Average Age | n/a | n/a | n/a | 59.3 | 59.3 |
| • Average Service | n/a | n/a | n/a | 32.9 | 32.9 |
| • Salary | | | | | |
| ➤ Average | \$ - | \$ - | \$ - | \$65,117 | \$65,117 |
| ➤ Total (000's) | - | - | - | 2,279 | 2,279 |
| ■ Vested Terms & Reciprocals | | | | | |
| • Count | - | - | 2 | 18 | 20 |
| • Average Age | n/a | n/a | 64.8 | 63.4 | 63.5 |
| ■ All Inactives | | | | | |
| • Count | 39 | 224 | 40 | 915 | 1,218 |
| • Average Age | 83.4 | 80.3 | 79.2 | 74.9 | 76.3 |
| • Avg. Monthly Benefit | \$2,040 | \$2,867 | \$1,571 | \$2,210 | \$2,304 |
| ■ Service Retirees | | | | | |
| • Count | 12 | 85 | 24 | 601 | 722 |
| • Average Age | 84.3 | 84.9 | 77.8 | 73.8 | 75.4 |
| • Average Retirement Age | 55.6 | 55.3 | 63.4 | 59.5 | 59.1 |
| • Avg. Monthly Benefit | \$2,881 | \$4,055 | \$1,862 | \$2,637 | \$2,782 |
| ■ Disabled Retirees | | | | | |
| • Count | 8 | 58 | 5 | 90 | 161 |
| • Average Age | 81.4 | 73.2 | 81.7 | 71.0 | 72.6 |
| • Average Retirement Age | 46.0 | 42.2 | 54.7 | 48.4 | 46.3 |
| • Avg. Monthly Benefit | \$2,404 | \$2,402 | \$1,022 | \$1,828 | \$2,038 |
| ■ Beneficiaries | | | | | |
| • Count | 19 | 81 | 11 | 224 | 335 |
| • Average Age | 83.6 | 80.5 | 81.1 | 79.6 | 80.1 |
| • Avg. Monthly Benefit | \$1,354 | \$1,954 | \$1,187 | \$1,218 | \$1,402 |

SECTION 11 PARTICIPANT DATA

Data Reconciliation 6/30/2012 to 6/30/2013

| | Actives | Terminated | | Receiving Payments | | | Total |
|------------------------|----------|------------|------------|--------------------|----------|----------|----------|
| | | Vested | Reciprocal | Disabled | Benefic. | Retirees | |
| ■ June 30, 2012 | 48 | 17 | 7 | 170 | 326 | 744 | 1,312 |
| • New Hires | - | - | - | - | - | - | - |
| • Disabled | - | - | - | - | - | - | - |
| • Terminated | - | - | - | - | - | - | - |
| • Deceased | - | (1) | - | (9) | (14) | (40) | (64) |
| • New Beneficiaries | - | - | - | - | 19 | - | 19 |
| • Retired | (13) | (1) | - | - | - | 14 | - |
| • Adjustment | <u>-</u> | <u>(2)</u> | <u>-</u> | <u>-</u> | <u>4</u> | <u>4</u> | <u>6</u> |
| ■ June 30, 2013 | 35 | 13 | 7 | 161 | 335 | 722 | 1,273 |

SECTION 11 PARTICIPANT DATA

Active Age/Service

Following are active counts by age and service groups:

| Age | Service | | | | | | | Total |
|----------------------|---------|-----|-------|-------|-------|-------|-----------|-------|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 & Over | |
| Under 25 | - | - | - | - | - | - | - | - |
| 25-29 | - | - | - | - | - | - | - | - |
| 30-34 | - | - | - | - | - | - | - | - |
| 35-39 | - | - | - | - | - | - | - | - |
| 40-44 | - | - | - | - | - | - | - | - |
| 45-49 | - | - | - | - | - | - | - | - |
| 50-54 | - | - | - | - | - | - | - | - |
| 55-59 | - | - | 1 | - | 2 | 5 | 16 | 24 |
| 60-64 | - | - | - | - | - | 2 | 9 | 11 |
| 65 & Over | - | - | - | - | - | - | - | - |
| Total | - | - | 1 | - | 2 | 7 | 25 | 35 |

SECTION 11 PARTICIPANT DATA

Inactives Age/Status/Monthly Benefit

Following are inactive counts and monthly benefit by age and status.

Safety

| Age | | Service Retirees | Disability Retirees | Beneficiaries | Total |
|----------------------|--------------|------------------|---------------------|---------------|-------|
| Under 50 | Count | - | - | - | - |
| | Avg. Benefit | - | - | - | - |
| 50-54 | Count | - | - | - | - |
| | Avg. Benefit | - | - | - | - |
| 55-59 | Count | - | - | - | - |
| | Avg. Benefit | - | - | - | - |
| 60-64 | Count | - | 3 | 2 | 5 |
| | Avg. Benefit | - | 2,364 | 1,468 | 2,006 |
| 65-69 | Count | 2 | 17 | 12 | 31 |
| | Avg. Benefit | 3,638 | 2,602 | 1,869 | 2,385 |
| 70-74 | Count | 4 | 20 | 11 | 35 |
| | Avg. Benefit | 2,658 | 2,056 | 2,053 | 2,124 |
| 75-79 | Count | 6 | 12 | 19 | 37 |
| | Avg. Benefit | 4,000 | 2,685 | 1,951 | 2,521 |
| 80-84 | Count | 34 | 9 | 19 | 62 |
| | Avg. Benefit | 4,145 | 2,540 | 2,046 | 3,269 |
| 85 & Over | Count | 51 | 5 | 37 | 93 |
| | Avg. Benefit | 3,851 | 2,200 | 1,624 | 2,876 |
| Total | Count | 97 | 66 | 100 | 263 |
| | Avg. Benefit | 3,909 | 2,402 | 1,840 | 2,744 |

SECTION 11 PARTICIPANT DATA

Miscellaneous

| Age | | Service Retirees | Disability Retirees | Beneficiaries | Total |
|----------------------|---------------------|------------------|---------------------|---------------|-------|
| Under 50 | Count | - | - | 1 | 1 |
| | Avg. Benefit | - | - | 2,368 | 2,368 |
| 50-54 | Count | - | - | 1 | 1 |
| | Avg. Benefit | - | - | 1,711 | 1,711 |
| 55-59 | Count | 19 | 12 | 8 | 39 |
| | Avg. Benefit | 2,906 | 2,229 | 809 | 2,267 |
| 60-64 | Count | 79 | 18 | 14 | 111 |
| | Avg. Benefit | 3,269 | 2,000 | 1,451 | 2,834 |
| 65-69 | Count | 151 | 15 | 30 | 196 |
| | Avg. Benefit | 2,903 | 1,615 | 1,339 | 2,565 |
| 70-74 | Count | 115 | 16 | 21 | 152 |
| | Avg. Benefit | 2,411 | 1,895 | 1,515 | 2,233 |
| 75-79 | Count | 93 | 16 | 36 | 145 |
| | Avg. Benefit | 2,555 | 1,476 | 1,358 | 2,139 |
| 80-84 | Count | 88 | 14 | 39 | 141 |
| | Avg. Benefit | 2,298 | 1,697 | 1,213 | 1,938 |
| 85 & Over | Count | 80 | 4 | 85 | 169 |
| | Avg. Benefit | 2,007 | 1,237 | 1,021 | 1,493 |
| Total | Count | 625 | 95 | 235 | 955 |
| | Avg. Benefit | 2,607 | 1,785 | 1,216 | 2,183 |

SECTION 12

GASB REPORTING AND DISCLOSURE

The Government Accounting Standards Board Statement Numbers 25 and 50 (GASB 25 and 50), requires defined benefit *plans* to disclose certain information. Government Accounting Standards Board Statement Number 27 (GASB 27), as amended by GASB 50, requires financial statement note disclosure and supplementary information by the *employer*.

Effective for the 2013/14 fiscal year, reporting and disclosure for SCERS will be governed by a new standard (GASB 67). For the City, GASB 27 will continue to apply for the 2013/14 fiscal year, unless they choose to implement the new standard a year early. However, effective for the 2014/15 fiscal year the City's reporting and disclosure will be governed by a new standard (GASB 68).

The following sections contain information suitable for use in the SCERS' and the City's required disclosures for the fiscal year ending June 30, 2013 under GASB 25, 50 and 27.

A. Notes to the Financial Statements

Plan Description and Contribution Information

The City of Sacramento (City) sponsors and administers a defined benefit contributory pension system known as the Sacramento City Employees' Retirement System (SCERS). The fiscal management of SCERS is vested in the five member Administration, Investment, and Fiscal Management Board (Board), consisting of the City Manager, Director of Finance, City Treasurer and two public members who are appointed by the City Council. SCERS was established effective April 1, 1935.

SCERS is a single employer system accounted for as a separate pension trust fund of the City. The system covers all City employees hired before January 29, 1977 and is closed to new members. Employee contribution rates, based on age at entry into the plan, are generally frozen and the City is responsible for any actuarially determined unfunded obligation of the plan. SCERS is comprised of the individual plans listed below. The City Charter establishes plan membership, contributions, and benefit provisions. Any changes must be approved by the electorate of the City.

1. Charter Section 399 Plan – This defined benefit plan was established effective January 1, 1977 to provide retirement, disability and death benefits.
2. Equal Shares Plan – This defined benefit plan was established July 1, 1970 to provide retirement, disability and death benefits to all City employees electing coverage at that date and to all employees who were hired from that date through January 1, 1977.
3. Charter Section 175 Plans – These defined benefits were established in 1953 and provide for retirement, disability and death benefits at a lower amount than the successor Equal Shares Plan.

The Plan benefit is a lifetime monthly annuity equal to a benefit factor times final average pay times years of service. The benefit factor depends on the employee's age and Plan. Current participants are vested after 5 years of service and employees are always vested in their employee contributions.

SECTION 12

GASB REPORTING AND DISCLOSURE

Membership in the plan consists of the following as of June 30, 2013:

| | |
|--|-------|
| Retirees and beneficiaries receiving payments | 1,218 |
| Terminated plan members entitled to, but not yet receiving, benefits | 20 |
| Active plan members | 35 |
| Total | 1,273 |

The City's funding policy is to make the contribution as determined by the Plan's actuary. The following information describes the calculation methodology:

- The Plan's annual pension cost (APC) for the fiscal year ending June 30, 2013 is based on the June 30, 2011 actuarial valuation. The APC for this period is \$10.573 million.
- The Plan's annual pension cost (APC) for the fiscal year ending June 30, 2014 is based on the June 30, 2012 actuarial valuation. The APC for this period is \$9.649 million, the same amount to be contributed for this period.
- The Plan's annual pension cost (APC) for the fiscal year ending June 30, 2015 is based on the June 30, 2013 actuarial valuation. The APC for this period is \$9.183 million, the same amount to be contributed for this period.
- The actuarial liabilities and assets are valued as of the valuation date.
- The actuarial funding method used is the entry age normal method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate.

The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. In determining the Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between past years and future years.

The unfunded actuarial liability is the difference between the actuarial accrued liability and Plan assets. This difference is amortized as a level dollar amount (over an open 15 year period, changing to open 14 year period for 2013/14) to determine the unfunded actuarial liability contribution.

Annual Pension Cost and Net Pension Obligation

The Annual Pension Cost for the current year and the two preceding years is:

| Fiscal Year Ending June 30 | Annual Pension Cost (APC) (000's omitted) | Percentage of APC Contributed | Net Pension Obligation (000's omitted) |
|----------------------------------|---|-------------------------------------|--|
| 2011 | \$10.547 | 100% | 0 |
| 2012 | \$10.361 | 100% | 0 |
| 2013 | \$10.573 | 100% | 0 |

SECTION 12

GASB REPORTING AND DISCLOSURE

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 76.4% funded. The actuarial accrued liability for benefits was \$382.4 million, and the actuarial value of assets was \$292.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$90.4 million. The covered plan payroll was \$2.3 million.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The following is a summary of significant June 30, 2013 actuarial assumptions and methods:

| | |
|------------------------|---|
| Interest rate: | 6.5% |
| Mortality: | CalPERS 1997-2007 Mortality Tables with Scale AA |
| Retirement: | Sample rates are: Non 175 Age Retirement 50 1% 55 6% 60 26% 65 40% 70 100% |
| Inflation: | 3.0% |
| Salary Scale: | 3.0% CPI plus 0.5% Merit |
| Cost of living: | 3% per year increases |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Asset Valuation Method | 3-year smoothed market value |
| Amortization: | Level Dollar Payments over 14 years, open period |

One assumption change was made since the prior valuation to value the decrease in benefits for the Social Security offset at age 62 for current retirees and vested terminated.

SECTION 12
GASB REPORTING AND DISCLOSURE

B. Required Supplementary Information

Schedule of Employer Contribution
(dollars in millions)

| <u>Fiscal Year</u> <u>Ending June 30</u> | <u>Annual</u> <u>Pension Costs</u> | <u>Actual</u> <u>Contribution</u> | <u>Percentage</u> <u>Contribution</u> | <u>Net Pension</u> <u>Obligation</u> |
|---|---------------------------------------|--------------------------------------|--|---|
| 2004 | - | - | 100% | - |
| 2005 | - | - | 100% | - |
| 2006 | - | - | 100% | - |
| 2007 | - | - | 100% | - |
| 2008 | \$3.534 | \$3.534 | 100% | - |
| 2009 | \$3.159 | \$3.159 | 100% | - |
| 2010 | \$3.431 | \$3.431 | 100% | - |
| 2011 | \$10.547 | \$10.547 | 100% | - |
| 2012 | \$10.361 | \$10.361 | 100% | - |
| 2013 | \$10.573 | \$10.573 | 100% | - |
| 2014 | \$ 9.649 | n/a | n/a | n/a |

Schedule of Funding Progress
(dollars in millions)

| <u>Actuarial</u> <u>Valuation</u> <u>Date</u> <u>(June 30)</u> | <u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(A)</u> | <u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>(B)</u> | <u>Unfunded</u> <u>(Funded)</u> <u>AAL</u> <u>(B-A)</u> | <u>Funded</u> <u>Ratio</u> <u>(A/B)</u> | <u>Covered</u> <u>Total Plan</u> <u>Payroll</u> <u>(C)</u> | <u>Unfunded/</u> <u>(Funded) AAL</u> <u>as a Percentage</u> <u>of Covered</u> <u>Plan Payroll</u> <u>[(B-A)/C]</u> |
|---|--|--|--|---|---|---|
| 2004 | 394 | 363 | (31) | 108% | 12.794 | (242%) |
| 2005 | 374 | 370 | (4) | 101% | 10.480 | (382%) |
| 2006 | 365 | 395 | 30 | 92% | 10.277 | 292% |
| 2007 | 365 | 395 | 30 | 92% | 9.587 | 313% |
| 2008 | 360 | 392 | 32 | 92% | 8.869 | 361% |
| 2009 | 314 | 398 | 84 | 79% | 5.749 | 1461% |
| 2010 | 297 | 395 | 98 | 75% | 5.302 | 1848% |
| 2011 | 297 | 397 | 100 | 75% | 4.132 | 2420% |
| 2012 | 294 | 389 | 95 | 76% | 2.959 | 3211% |
| 2013 | 292 | 382 | 90 | 76% | 2.279 | 3949% |

A summary of the actuarial assumptions and methods used to calculate the Annual Required Contribution (ARC) for the current year (2012/13) follows:

- Actuarial Cost Method: Entry Age Normal cost method
- Asset Valuation Method: 3 year smoothed market value
- Amortization: Level Dollar Payments over 15 years, open period

SECTION 12
GASB REPORTING AND DISCLOSURE

| Discount rate: | 6.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------|---|-------------|------------|---------|--|-----|------------|-----|------------|----|----|----|----|----|----|----|----|----|-----|----|-----|----|-----|----|-----|----|------|----|------|
| Mortality: | CalPERS 1997-2007 Mortality Tables with Scale AA | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inflation: | 3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary Scale: | 3.0% CPI plus 0.5% Merit | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retirement: | Sample rates are: <table><thead><tr><th colspan="2">Section 175</th><th colspan="2">Non 175</th></tr><tr><th>Age</th><th>Retirement</th><th>Age</th><th>Retirement</th></tr></thead><tbody><tr><td>50</td><td>0%</td><td>50</td><td>1%</td></tr><tr><td>55</td><td>6%</td><td>55</td><td>6%</td></tr><tr><td>60</td><td>26%</td><td>60</td><td>26%</td></tr><tr><td>65</td><td>40%</td><td>65</td><td>40%</td></tr><tr><td>70</td><td>100%</td><td>70</td><td>100%</td></tr></tbody></table> | Section 175 | | Non 175 | | Age | Retirement | Age | Retirement | 50 | 0% | 50 | 1% | 55 | 6% | 55 | 6% | 60 | 26% | 60 | 26% | 65 | 40% | 65 | 40% | 70 | 100% | 70 | 100% |
| Section 175 | | Non 175 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Age | Retirement | Age | Retirement | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 50 | 0% | 50 | 1% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 55 | 6% | 55 | 6% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 60 | 26% | 60 | 26% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 65 | 40% | 65 | 40% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 70 | 100% | 70 | 100% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of Living: | 3% per year increases | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

