

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

Annual Financial Report

Fiscal Year Ended June 30, 2015  
(With Comparative Totals as of June 30, 2014)



**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**  
A Component Unit of the City of Sacramento, California  
Fiscal Year Ended June 30, 2015

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Introductory Section:</b>	
Letter to the Members of the Sacramento City Employees' Retirement System and the Sacramento City Council.....	i-xi
<b>Financial Sections:</b>	
Independent Auditors' Report .....	1-2
Management's Discussion and Analysis (Required Supplementary Information).....	3-6
<b>Basic Financial Statements:</b>	
Statement of Net Position.....	7
Statement of Changes in Plan Net Position .....	8
Notes to the Basic Financial Statements.....	9-16
<b>Required Supplementary Information:</b>	
Schedule of Changes in Net Pension Liability and Related Ratios .....	17
Schedule of Employer Contributions.....	18-19
Schedule of Investment Returns .....	20
<b>Additional Information:</b>	
Schedule of Changes in Investment Position.....	21
Listing of Investments .....	22-25
<b>Actuarial Section:</b>	
Actuarial Valuation.....	Appendix A



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CITY TREASURER**

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December 24, 2015

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, 2015.

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

## **SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
Letter to the Members of the Sacramento City Employees'  
Retirement System and the Sacramento City Council  
Fiscal Year Ended June 30, 2015

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 was appointed to the position of Financial Operations Manager in 2014 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 the City enjoyed a contribution holiday. The City has been required to make contributions for the past five years.

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, 2015, the average age of SCERS active members is 61.0 years and the average years of service is 33.5 years. There are 19 active miscellaneous members and a total of 1,174 plan participants.

# SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento  
Letter to the Members of the Sacramento City Employees'  
Retirement System and the Sacramento City Council  
Fiscal Year Ended June 30, 2015

## 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 28, 2014. Pursuant to the Charter, the revised policy approved by the Board will be presented to the City Council for its approval.

## ASSET ALLOCATION

On February 23, 2015, the Board voted to continue the balanced asset allocation policy approved the prior year.

<u>Fixed Income</u>	
Fixed Bond	40%
<u>Equity</u>	
Large Cap Growth	35%
Equity Income	15%
International	<u>10%</u>
	100%

The Board typically revisits its asset allocation every February. It is expected to consider the allocation at its meeting in February 2016 to govern investments in the following fiscal year.

## ACTUARIAL EARNING ASSUMPTION

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

## SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento  
 Letter to the Members of the Sacramento City Employees'  
 Retirement System and the Sacramento City Council  
 Fiscal Year Ended June 30, 2015

### FINANCIAL RESULTS

The plan net assets of SCERS decreased from \$312.414 million to \$301.263 million for the fiscal year ended June 30, 2015. This \$11.151 million decrease is summarized as follows:

SCERS PLAN NET ASSETS	\$ in thousands
Plan net assets 6/30/14	\$ 312,414
Members Contributions	82
City Contributions	9,183
Net Investment Income	13,375
Benefit Payments & Expenses	(33,791)
Plan net assets 6/30/15	\$ 301,263

SCERS' Actuarial Accrued Liability (AAL) as of June 30, 2015 was \$ 376.478 million. AAL represents the present value of all future benefits that will be paid by SCERS. SCERS funding ratio was 80.0 percent at June 30, 2015. 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 \$0.80 of assets available for payment.

An analysis of assets shows the rate of investment return for fiscal 2014-15 was 4.86 percent net of investment expense, which is below 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, 2015:

SCERS Total Rate of Return <b>TOTAL FUND</b> For the periods ended June 30, 2015			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
<b>SCERS Performance</b>	4.86%	9.10%	6.01%
Custom Index – Target	1.93%	8.06%	5.06%
Actuarial Assumption	6.50%	6.50%	6.57%

A review of the total fund investment performance for the fiscal year ended June 30, 2015 shows a 4.86 percent overall return on SCERS assets.

## **SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento

Letter to the Members of the Sacramento City Employees'

Retirement System and the Sacramento City Council

Fiscal Year Ended June 30, 2015

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 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 2014 during the annual asset allocation review, the Board decided to further reduce the allocation to fixed income in favor of equity investments. While staff would like to hold a higher portion of the portfolio in fixed-income securities, given the closed nature of the plan, but continuing low interest-rate environment has made it extremely difficult to meet a performance assumption target of 6.5%, when long Treasury bonds yielding less than 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 approaching retirement age. 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.

## SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento  
 Letter to the Members of the Sacramento City Employees'  
 Retirement System and the Sacramento City Council  
 Fiscal Year Ended June 30, 2015

### Fixed Income Performance

Based on Board policy, 40% of SCERS assets are to be allocated to fixed income investments (reduced from 45% in February 2014). 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.

Table 2			
SCERS Total Rate of Return			
<b>FIXED INCOME</b>			
For the periods ended June 30, 2015			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
<b>SCERS Fixed-Income Fund</b>	3.44%	5.15%	6.79%
Fixed Portfolio Index*	1.86%	1.83%	4.551%

\*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.

As set forth in Table 2, that SCERS' Fixed Income investments produced a total rate of return of 3.44% for the one-year period ending June 30, 2015. For the past 10 years ending June 30, 2015, the Fixed Income portfolio returned 6.79% on an annualized basis. The Fixed Bond portfolio continued to outperform the benchmark Barclays US Aggregate Bond Index due to its heavy weighting in high-quality corporate and municipal securities that provided interest income substantially over interest provided by the government bonds that predominate Barclay's index. In addition, in the low interest rate environment over the past year, the value of the portfolio's high-coupon bonds remained relatively stable or increased. Moreover, the portfolio's average maturity of 10.02 years compared to the benchmark's average maturity of 7.32 years added to the outperformance as longer term bonds continued to provide more yield than those with shorter maturities. Over the fiscal year, the Federal Reserve trimmed and then completely ceased its bond purchase program (quantitative easing). The cessation of quantitative easing did not result in an anticipated increase in bond yields as persistent global concerns (slow growth, political unrest and other global tensions) drove high demand for U.S. bonds, keeping yields in check.

As a percentage of the total SCERS portfolio, Fixed income investments dropped to 39%, just below the 40% target allocation approved by the AIFM Board (SCERS Investment Policy allows for up to a 5%



## **SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento

Letter to the Members of the Sacramento City Employees'

Retirement System and the Sacramento City Council

Fiscal Year Ended June 30, 2015

deviation from approved allocations). Again due to the low interest rate environment, finding attractive fixed income yields within close range of the System's target actuarial rate of return of 6.5% remained difficult. Investment staff determined to increase allocation to equity investments rather than to venture into imprudent, low quality high yield bonds.

In the coming fiscal year, it is widely anticipated that the Federal Reserve will tighten its monetary policy and allow short term interest rates to increase. Such moves will result in an upward shift in the yield curve (which will drive down bond prices). However, consistent with past Fed tightening cycles, most of the impact should be on shorter term maturities, resulting in a flatter yield curve rather than a curve that shifts parallel fashion. Accordingly, the long term bonds in the Fixed Income portfolio should be largely unaffected by the rise in short term rates. Moreover, virtually every developed country in the world has vowed to lower or maintain low interest rates in the foreseeable future. Such contrary rate dynamics should provide strong support for the value of long term U.S. bonds; the Fixed Income portfolio should not materially detract from the performance of the System funds despite domestic short term rate increases.

### 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, 60% of SCERS assets are to be allocated to equity investments (increased from 55% in February 2014).

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.

## SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Letter to the Members of the Sacramento City Employees'

Retirement System and the Sacramento City Council

Fiscal Year Ended June 30, 2015

Table 3			
SCERS Total Rate of Return <b>EQUITY INVESTMENTS</b> For the periods ended June 30, 2015			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
<b>SCERS Performance Total Equity</b>	7.62%	13.61%	5.28%
Domestic Equity Index	5.28%	15.43%	5.93%
<b>Individual Equity Managers</b>			
Large Cap Growth	7.55%	14.98%	4.82%
Large Cap Index**	5.25%	14.84%	5.41%
Equity Income	7.80%	10.69%	8.66%
Equity Income Index***	1.25%	14.31%	6.45%
International	-5.77%	2.70%	NA
International Index****	-7.56%	6.62%	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 7.62% compounded for the one-year period and 5.28% compounded for the ten-year period ended June 30, 2015. 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.

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 7.55% and 14.98% respectively. The portfolio ended up outperforming its benchmark throughout the year in which markets continued to reach historical levels. Staff maintained a very cautious investment strategy throughout the year given the uncertainty in the sustainability of the U.S. economic recovery, the economic slowdown in China, and the geopolitical issues affecting Eastern Europe and the Middle East. The overhang of the Federal Reserve and the uncertainty of a pending policy change had staff very conservative in our approach to making strategic trades versus the S&P 500 Index benchmark. With so much uncertainty, staff chose to maintain equity exposure at index market cap weightings with minimal alpha bets by underweighting cyclical sectors like energy, materials and industrials and overweighting the consumer sectors benefiting from low energy costs and rising home values. This strategy proved prudent as the consumer continued to drive the recovery. Unlike last year where there were no real leaders, our sector weighting decisions enabled us to soundly outperform the benchmark and most active managers. Unlike in previous years, the option overlay was slightly positive as the program continues to evolve and be more proactive to market fluctuations. Going forward, with equity market performance expected to be muted, staff projects that the option overlay will enhance performance while protecting the portfolio on the downside.

## **SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento

Letter to the Members of the Sacramento City Employees'

Retirement System and the Sacramento City Council

Fiscal Year Ended June 30, 2015

The Equity Income Fund produced a rate of return of 7.80% for the one-year period and 10.69% for the three-year period ended June 30, 2015. 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. This is a very concentrated portfolio with only 22 names. Staff chooses portfolio constituents by screening stocks by dividend yield, increasing payout ratios and sustainable earnings growth. Therefore we are extremely pleased that the portfolio has a dividend yield of 5.50% based on historical cost and 13.22% in 5 year earnings per share (EPS) growth, in addition to returning nearly 8%. The use of a benchmark is for illustration only and does not enter into any of our decision making. The Board realizes that the main objective of this portfolio is to produce dividend growth to offset plan expenses, and total return is secondary.

In February 2006 the Board authorized the City Treasurer's Office to manage an international portfolio in-house. The one-year return was -5.77% and 2.70% for the three-year period ending June 30, 2015. This portfolio continued to be extremely volatile. Following a strong FY 2013-14 in which non-US markets returned nearly 20%, this fiscal year the portfolio was a drag on performance. The poor performance was due to low prices for commodities such as oil, instability in China, and the overhang of a changing U.S. Federal Reserve interest rate policy. Unlike in the U.S., global growth has stalled considerably. To stimulate economic growth, the European Central Bank and the Bank of Japan initiated aggressive quantitative easing programs; a strategy right out of the U.S. play book. Geopolitics, too, was a major driver of volatility during the year. Russia's intervention in the Ukraine, Islamic militants in Iraq and Syria, and Israel's military strikes in the Gaza had many non-U.S. investors clamoring for the safety of U.S. Treasuries (see fixed-income comments). If this economic and political climate wasn't enough, in August, the Chinese government decided to devalue the Chinese Yuan by 2% versus the U.S. dollar in order to make their exports more attractive. The result was a Chinese market that soared nearly 25% at the expense of the developed markets as depicted by EAFE's -4.60% return for the fiscal year. Staff's allocation to the international space remained extremely cautious. As in the previous year we elected to hold a good portion (3%) of the allocation in cash. This was prudent as cash was a better performer. In addition, we stayed fairly benchmark neutral and avoided most emerging markets as the U.S. dollar continued to appreciate. The strong dollar is affecting emerging markets the most because these countries have a majority of their government debt denominated in U.S. dollars. Thus debt payments become more expensive as they pay with their local currency. This dynamic will continue as the Fed begins to raise rates and the USD continues to get stronger. Staff does not anticipate a major change in the investment strategy as economic fundamentals aren't improving and geopolitical issues haven't stabilized. This portion of the SCERS' portfolio could continue to be a drag on the performance going forward.

### 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, 2015, 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 generated is adequate to prepare financial statements in conformity with accounting principles generally

## **SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
Letter to the Members of the Sacramento City Employees'  
Retirement System and the Sacramento City Council  
Fiscal Year Ended June 30, 2015

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, 2015 is presented in this document. Very briefly, this report identifies a Net Pension Liability (NPL) of \$75.215 million as of June 30, 2015. The \$15 million dollar increase from the prior year is mainly due to a change in the mortality assumption where participants are expected to live longer therefore increasing the long-term liability. The 2015 actuarial valuation report provides a comprehensive review of SCERS financial worth and is deserving of thoughtful reading.

## SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento  
Letter to the Members of the Sacramento City Employees'  
Retirement System and the Sacramento City Council  
Fiscal Year Ended June 30, 2015

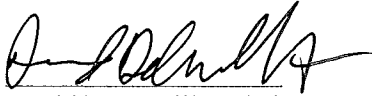
### PROFESSIONAL SERVICES

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

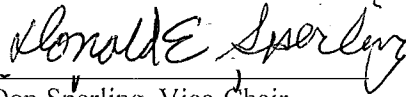
<u>Firm</u>	<u>Duties</u>
Segal Rogerscasey Bartel Associates	Performance evaluation Actuarial evaluation and asset allocation (Since 6/30/06)
Bank of New York	Custody and master trust (since 3/1/96)

### 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 2<sup>nd</sup> 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



## INDEPENDENT AUDITORS' REPORT

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

Honorable Mayor and City  
Council  
City of Sacramento  
Sacramento, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento City Employees' Retirement System (SCERS), a component unit of the City of Sacramento, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements.

### *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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 misstatement 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 financial position of the Sacramento Employees' Retirement System as of June 30, 2015, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### *Actuarial Valuation*

As discussed in Note F to the financial statements, based on the most recent actuarial valuation as of June 30, 2015, SCERS' independent actuarial firm determined that the total pension liability of \$376,479 thousand exceeded the fiduciary net position of \$301,263 thousand resulting in a net pension liability of \$75,216 thousand and a funded status of 80.0%. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SCERS' financial statements for the year ended June 30, 2014, from which such partial information was derived.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 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 audit 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 audit was conducted for the purpose of forming an opinion on the financial statements that comprise the SCERS' basic financial statements. The introductory section, schedule of changes in investment position, listing of investments, and actuarial section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of changes in investment position and listing of investments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of changes in investment position and listing of investments are 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 audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Varrinck, Trine, Day & Co. LLP*

Sacramento, California  
December 24, 2015

## SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento  
Management's Discussion and Analysis (Unaudited)  
Fiscal Year Ended June 30, 2015

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, 2015 and 2014. 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 \$301.2 million of net position restricted for pension benefits at June 30, 2015 and \$312.4 million at June 30, 2014. All of the net position is restricted for SCERS' ongoing obligation to plan participants and their beneficiaries.
- SCERS' funding objective is to maintain sufficient net position through investments and contributions to meet long-term obligations for benefits. As of June 30, 2015, for every dollar of total pension liability, SCERS had approximately \$0.80 available to pay those benefits. That number is based on the most recent actuarial valuation as of June 30, 2015 and is calculated based on the requirements of GASB Statement No. 67. As of June 30, 2014, SCERS had a funded status, as defined under GASB Statement No. 67, of 83.8% which means that for every dollar of benefits due as of that date, SCERS had approximately \$0.838 of assets available for payment. That number is based on the most recent actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014.
- SCERS' employer contribution was \$9.2 million for the fiscal year ended June 30, 2015, compared to \$9.6 million in 2014.
- For the fiscal year ended June 30, 2015, SCERS' net income from investment activity was \$13.2 million compared to net investment income of \$40.3 million in the prior year. The decrease in return was a result of less appreciation in the fair value of the investments during fiscal year 2015 compared to fiscal year 2014.

### 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. **Statement of Plan Net Position** is a snapshot of account balances as of June 30, 2015 with comparative amounts for 2014. 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. **Statement of Changes in Plan Net Position** provides 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 statement of plan net position and the statement 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 Year Ended June 30, 2015

### 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, 2015 and 2014 is represented in the chart below.

#### NET POSITION SUMMARY As of June 30, 2015 and 2014 (in thousands)

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>Percent</u>
Cash and cash equivalents	\$ 7,970	\$ 8,620	\$ (650)	-8%
Securities lending collateral	-	25,107	(25,107)	-100%
Receivables	2,147	2,248	(101)	-4%
Investments at fair value	<u>293,943</u>	<u>304,905</u>	<u>(10,962)</u>	<u>-4%</u>
Total assets	<u>304,060</u>	<u>340,880</u>	<u>(36,820)</u>	<u>-11%</u>
Total liabilities	<u>2,797</u>	<u>28,466</u>	<u>(25,669)</u>	<u>-90%</u>
Net position restricted for pension benefits	<u>\$ 301,263</u>	<u>\$ 312,414</u>	<u>\$ (11,151)</u>	<u>-4%</u>

SCERS' net position restricted for pension benefits decreased during the fiscal year ended June 30, 2015 due primarily to the decreased value of investments. Cash decreased as market conditions became more favorable for investment. The City discontinued the security lending activity program in fiscal year ended June 30, 2015 resulting in the decreases in security lending liabilities and security lending collateral between June 30, 2014 and June 30, 2015.

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
 Management's Discussion and Analysis (Unaudited)  
 Fiscal Year Ended June 30, 2015

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

**HIGHLIGHTS OF CHANGES IN PLAN NET POSITION**  
**Fiscal year ended June 30, 2015**  
 (in thousands)

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>Percent</u>
<b>Additions:</b>				
Employer contributions	\$ 9,183	\$ 9,649	\$ (466)	-5%
Employee contributions	82	161	(79)	-49%
Net appreciation in the fair value of investments	2,847	29,717	(26,870)	-90%
Interest	6,915	7,014	(99)	-1%
Dividends	4,671	4,680	(9)	0%
Investment expenses	(1,230)	(1,246)	16	-1%
Net securities lending activity	172	152	20	13%
<b>Total additions</b>	<u>22,640</u>	<u>50,127</u>	<u>(27,487)</u>	<u>-55%</u>
<b>Deductions:</b>				
Benefit payments	33,590	33,487	103	0%
Refunds of employee contributions	201	201	-	0%
<b>Total deductions</b>	<u>33,791</u>	<u>33,688</u>	<u>103</u>	<u>0%</u>
<b>Net increase/(decrease) in net position</b>	<b>(11,151)</b>	<b>16,439</b>	<b>(27,590)</b>	<b>-168%</b>
<b>Net position restricted for pension benefits:</b>				
Beginning of fiscal year	312,414	295,975	16,439	6%
End of fiscal year	<u>\$ 301,263</u>	<u>\$ 312,414</u>	<u>\$ (11,151)</u>	<u>-4%</u>

- Required employer contributions decreased for the fiscal year ended June 30, 2015 due to improved performance of the investment portfolio over the past several years.
- Employee contributions for the fiscal year ended June 30, 2015 decreased slightly from 2014 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 \$26.9 million. The 2.8 million gains during the fiscal year ended June 30, 2015 include \$12.2 million unrealized loss and \$15 million realized gain compared to \$27.8 million unrealized gains and \$1.8 million realized gains during the fiscal year ended June 30, 2014. The largest losses incurred in the equity portfolios, followed by exchange traded fund portfolios and corporate bond portfolios loss.
- 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 to new members 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 Year Ended June 30, 2015

### **Changes in Funded Ratio**

The funded ratio shows how much net position the plan has available to pay each dollar of benefit liability as of the measurement date. SCERS funded ratio for the years ended June 30, 2014 and 2015 is 83.8% and 80.0%, respectively. The decrease between June 30, 2014 and June 30, 2015 is largely due to investment performance.

### **Currently Known Facts and Events**

The overall risk profile of SCERS has remained unchanged since June 30, 2015, 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.

### **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, 4<sup>th</sup> floor, Sacramento, CA, 95814.

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

**Statement of Plan Net Position**

**June 30, 2015**

**With Comparative Amounts for June 30, 2014**

**(Amounts Expressed in Thousands)**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 7,970	\$ 8,620
Securities lending collateral	-	25,107
Receivables:		
Interest and dividends	2,147	2,248
Total receivables	2,147	2,248
Investments:		
U.S. agencies	1,859	2,413
Corporate bonds	59,085	68,535
Equities	102,566	118,027
Exchange traded funds	81,426	67,092
Municipal bonds	44,985	44,647
Mortgage loans	4,022	4,191
Total investments	293,943	304,905
Total assets	304,060	340,880
<b>Liabilities</b>		
Securities lending obligation	-	25,744
Benefits payable	2,766	2,695
Accounts payable	31	27
Total liabilities	2,797	28,466
<b>Net position restricted for pensions</b>	<u>\$ 301,263</u>	<u>\$ 312,414</u>

See accompanying notes to basic financial statements.

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**  
**Statement of Changes in Plan Net Position**  
**Fiscal Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014**  
**(Amounts Expressed in Thousands)**

	<u>2015</u>	<u>2014</u>
<b>Additions</b>		
Contributions:		
Employer	\$ 9,183	\$ 9,649
Employees	82	161
Total contributions	<u>9,265</u>	<u>9,810</u>
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	2,847	29,717
Interest	6,915	7,014
Dividends	4,671	4,680
Total investment income	<u>14,433</u>	<u>41,411</u>
Less investment expense:		
Banking, interest, fiscal agent & other	129	111
Professional services	1,101	1,135
Total investment expense	<u>1,230</u>	<u>1,246</u>
Net income from investing activities	<u>13,203</u>	<u>40,165</u>
From securities lending activities:		
Securities lending income	229	202
Total securities lending income	<u>229</u>	<u>202</u>
Securities lending expenses:		
Management fees	57	50
Total securities lending expenses	<u>57</u>	<u>50</u>
Net income from securities lending activities	<u>172</u>	<u>152</u>
Total net investment income	<u>13,375</u>	<u>40,317</u>
Total net additions	<u>22,640</u>	<u>50,127</u>
<b>Deductions</b>		
Benefits	33,590	33,487
Refunds of employee contributions	201	201
Total deductions	<u>33,791</u>	<u>33,688</u>
<b>Net increase/(decrease) in plan net position</b>	(11,151)	16,439
<b>Net position restricted for pensions</b>		
Beginning of fiscal year	312,414	295,975
End of fiscal year	<u>\$ 301,263</u>	<u>\$ 312,414</u>

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 (Continued)  
Fiscal Year Ended June 30, 2015  
(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 net pension liability 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. Active members contribute at a rate based upon entry age and type of employment.
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.

Plan membership at June 30, 2015 consisted of the following:

	Section 399	Equal Shares	Section 175	Total
Inactive members or beneficiaries receiving benefits	997	74	70	1,141
Inactive members entitled to but not yet receiving benefits	12		2	14
Active plan members	19	-	-	19
Total plan members	<u>1,028</u>	<u>74</u>	<u>72</u>	<u>1,174</u>

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 year 2015. 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.

## **SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
Notes to the Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015  
(Dollars in thousands, except as otherwise noted)

### **Note A – Plan Description (Continued)**

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, 2015 are fully vested.

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 year ended June 30, 2015 active member contributions ranged from 3% to 10% of payroll. At June 30, 2015, active members' accumulated contributions, including interest, totaled approximately \$4.5 million, respectively. For the fiscal year ended June 30, 2015, interest was credited to members' contributions at the rate of 3.5%. Members have an option to withdraw their accumulated contributions, including interest, upon termination of their employment with the City.

### **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. 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.

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
Notes to the Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015  
(Dollars in thousands, except as otherwise noted)

**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 is not rated and has a weighted average maturity of 2.15 years as of June 30, 2015.

***Investments***

The City Charter vests the authority to adopt investment standards and asset allocation policies in the Board. 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.

The Board reviews the asset allocation policy annually. On February 23, 2015, the Board adopted the following asset allocation policy to be implemented by June 30, 2015.

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	40%
Large Cap Growth	35%
Equity Income	15%
International	10%
Total	100%

***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 for operations.



**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
 Notes to the Basic Financial Statements (Continued)  
 Fiscal Year Ended June 30, 2015  
 (Dollars in thousands, except as otherwise noted)

**Note C – Cash and Investments (Continued)**

Information about the sensitivity of the fair values of SCERS' investments to market interest rate fluctuations is provided by the following tables that shows the distribution of SCERS' investments by maturity. The remaining maturity of the SCERS' investments included in the tables below 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. SCERS' investments have maturities as follows:

Investment Type	No Maturity	Remaining Maturity in Years				Fair Value
		Under 1	1-5	Over 5/ 10 or less	Over 10	
Cash and short-term investments:						
City of Sacramento Investment Pool	\$ -	\$ 7,970	\$ -	\$ -	\$ -	\$ 7,970
Investments:						
Corporate bonds	-	5,317	36,474	5,897	11,397	59,085
Equities	102,566	-	-	-	-	102,566
Exchange traded funds	81,426	-	-	-	-	81,426
Mortgage loans	-	-	1,918	2,104	-	4,022
Municipal bonds	-	-	1,840	4,613	38,532	44,985
U.S. agencies	-	1	11	59	1,788	1,859
Total Investments	<u>183,992</u>	<u>5,318</u>	<u>40,243</u>	<u>12,673</u>	<u>51,717</u>	<u>293,943</u>
Total Cash and Investments	<u>\$ 183,992</u>	<u>\$ 13,288</u>	<u>\$ 40,243</u>	<u>\$ 12,673</u>	<u>\$ 51,717</u>	<u>\$ 301,913</u>

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, 2015 by investment type are as follows:

Investment Type	Fair Value
Corporate bonds	\$ 4,906
Municipal bonds	17,526

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
 Notes to the Basic Financial Statements (Continued)  
 Fiscal Year Ended June 30, 2015  
 (Dollars in thousands, except as otherwise noted)

**Note C – Cash and Investments (Continued)**

***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, 2015, 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 \$272 as of June 30, 2015.

At June 30, 2015, SCERS' investments and credit ratings are as follows:

Investment Type	S & P	Moody	Fair Value
City of Sacramento Investment Pool	not rated	not rated	\$ 7,970
Corporate bonds	A	A	23,481
	AA	A	28,202
	AA	Aaa	2,085
	B	Baa	5,045
	not rated	WR	272
Equities (exempt from disclosure)	N/A	N/A	102,566
Exchange traded funds (exempt from disclosure)	N/A	N/A	81,426
Mortgage loans	not rated	not rated	4,022
Municipal bonds	A	Aa	9,336
	A	Ba	3,339
	AA	A	14,149
	AA	Aa	4,116
	AA	Aaa	2,815
	AA	Ba	6,095
	AA	not rated	5,135
U.S. agencies	AA	Aaa	1,859
<b>Total</b>			<b>\$ 301,913</b>

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
Notes to the Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015  
(Dollars in thousands, except as otherwise noted)

**Note C – Cash and Investments (Continued)**

*Concentration of Credit Risk*

As of June 30, 2015, SCERS had the following investments in one issuer exceeding 5% of plan net position or 5% of total investments excluding investments issued or explicitly guaranteed by the U.S. government:

General Electric Capital Corporation	\$25,914
iShares MSCI ACWI US ETF	\$21,427

*Money-weighted rate of return*

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 4.86%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note D – Related Party Transactions**

At June 30, 2015, SCERS held revenue bonds issued by the Sacramento City Financing Authority (SCFA) in the amount of \$6,238. 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.

**Note E – Funding Policy**

The City's funding policy provides for actuarially determined 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 year ended June 30, 2015, the City's annual required and actual contribution was \$9.2 million.

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
Notes to the Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015  
(Dollars in thousands, except as otherwise noted)

**Note F – Net Pension Liability of the City**

The components of the net pension liability of the City at June 30, 2015 are shown below (dollars in thousands). The total pension liability is based on an actuarial valuation as of June 30, 2015.

	<b>June 30, 2015</b>
Total pension liability	\$ 376,478
Plan fiduciary net position	(301,263)
City's net pension liability	<u>\$ 75,215</u>
Plan fiduciary net position as a percentage of the total pension liability	80.0%

***Actuarial assumptions***

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.0%
Salary increases	3.0% CPI plus 0.5% merit, average
Discount rate	6.5%

Mortality rates for service retirements and beneficiaries were based on CalPERS 1997-2011 Post-Retirement Mortality Table projected fully generational with Scale MP-2014 modified to converge to ultimate improvement rates in 2022. Mortality rates for disability retirements were based on CalPERS 1997-2011 Mortality Table for non-work Disabled Retirees for Miscellaneous and CalPERS 1997-2011 Mortality Table for work-related Disabled Retirees for Safety. Both tables were projected fully generational with Scale MP-2014 modified to converge to ultimate improvement rates for 2022.

***Long-term expected rate of return***

The 6.5% long-term expected rate of return was derived based on the inflation assumption of 3.0% and a long-term asset allocation of 60% equities and 40% fixed income. The geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.55%
Equities	5.35%

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**

A Component Unit of the City of Sacramento  
Notes to the Basic Financial Statements (Continued)  
Fiscal Year Ended June 30, 2015  
(Dollars in thousands, except as otherwise noted)

**Note F – Net Pension Liability of the City (Continued)**

*Discount rate*

The Discount Rate was set equal to the long-term expected rate of return of 6.5%. The long-term expected rate of return was used since current assets, future City contributions, and future member contributions are projected to be sufficient to cover all future benefit payments and expenses. This “crossover test” was performed in accordance with the requirements specified in GASB Statement No. 67, including a projection that Plan’s funding policy will remain unchanged.

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability of the City, calculated using the discount rate of 6.5%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.5%) or 1 percentage-point higher (7.5%) than the current rate:

	<u>1% decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% increase (7.5%)</u>
City’s net pension liability	\$110,440	\$75,215	\$45,119

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM**

A Component Unit of the City of Sacramento

Required Supplementary Information

## Schedule of Changes in Net Pension Liability and Related Ratios

Last Ten Fiscal Years

(in thousands)

	<b>2015</b>	<b>2014</b>
<b>Total pension liability</b>		
Service cost	\$ 131	\$ 176
Interest	23,134	23,779
Differences between expected and actual experience	(8,783)	-
Changes of assumptions	23,117	-
Benefit payments, including refunds of member contributions	(33,791)	(33,688)
<b>Net change in total pension liability</b>	<b>3,808</b>	<b>(9,733)</b>
<b>Total pension liability -- beginning</b>	<b>372,670</b>	<b>382,403</b>
<b>Total pension liability -- ending (a)</b>	<b>\$ 376,478</b>	<b>\$ 372,670</b>
<b>Plan fiduciary net position</b>		
Contributions -- employer	\$ 9,183	\$ 9,649
Contributions -- member	82	161
Net investment income	13,375	40,317
Benefits payments, including refunds of member contributions	(33,791)	(33,688)
<b>Net change in fiduciary net position</b>	<b>(11,151)</b>	<b>16,439</b>
<b>Plan fiduciary net position -- beginning</b>	<b>312,414</b>	<b>295,975</b>
<b>Plan fiduciary net position -- ending (b)</b>	<b>\$ 301,263</b>	<b>\$ 312,414</b>
<b>Net pension liability -- ending (a) - (b)</b>	<b>\$ 75,215</b>	<b>\$ 60,256</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>80.02%</b>	<b>83.83%</b>
<b>Covered-employee payroll</b>	<b>\$ 1,180</b>	<b>\$ 2,279</b>
<b>Net pension liability as a percentage of covered-enmployee payroll</b>	<b>6374.15%</b>	<b>2643.97%</b>

Only two years of data available.

The base mortality tables were updated to the newest CalPERS experience study and a new mortality improvement projection was used.

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM**

A Component Unit of the City of Sacramento  
Required Supplementary Information

Schedule of Employer Contributions  
Last Ten Fiscal Years  
(in thousands)

	Fiscal Year				
	2015	2014	2013	2012	2011
Actuarially determined contributions	\$ 9,183	\$ 9,649	\$ 10,573	\$ 10,361	\$ 10,547
Contributions in relation to the actuarially determined contribution	9,183	9,649	10,573	10,361	10,547
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,180	\$ 2,279	\$ 2,279	\$ 2,959	\$ 4,132
Contributions as a percentage of covered-employee payroll	778%	423%	464%	350%	255%

**Notes to Schedule**

Valuation date:

Actuarially determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar payments over 14 years, open period
Asset valuation method	3 year smoothed market value
Inflation	3%
Salary increases	3% CPI plus 0.5% merit
Investment rate of return	6.50%
Retirement age	Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under 175 are assumed to retire at age 65
Mortality	CalPERS 1997-2011 Mortality Tables with Scale MP-2014



**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM**

A Component Unit of the City of Sacramento  
Required Supplementary Information

Schedule of Employer Contributions (Continued)  
Last Ten Fiscal Years  
(in thousands)

	Fiscal Year				
	2010	2009	2008	2007	2006
Actuarially determined contributions	\$ 3,431	\$ 3,159	\$ 3,534	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	3,431	3,159	3,534	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 5,302	\$ 5,749	\$ 8,869	\$ 9,587	\$ 10,277
Contributions as a percentage of covered-employee payroll	65%	55%	40%	0%	0%

**Notes to Schedule**

Valuation date:

Actuarially determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar payments over 14 years, open period
Asset valuation method	3 year smoothed market value
Inflation	3%
Salary increases	3% CPI plus 0.5% merit
Investment rate of return	6.50%
Retirement age	Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under 175 are assumed to retire at age 65
Mortality	CalPERS 1997-2011 Mortality Tables with Scale MP-2014

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM**

A Component Unit of the City of Sacramento  
Required Supplementary Information

Schedule of Investment Returns  
Last Ten Fiscal Years

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	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	4.86%	14.56%

**Notes to Schedule:**

Only two years of data available

**ADDITIONAL INFORMATION**

**SACRAMENTO CITY EMPLOYEE'S RETIREMENT SYSTEM**

Schedule of Changes in Investment Position

For the Year Ended June 30, 2015

(in thousands)

Description	Balance June 30, 2014 (Fair Value)	Additions	Disposals	Change In Unrealized Gains	Balance June 30, 2015 (Fair Value)
U.S. agencies	\$ 2,413	\$ -	\$ (496)	\$ (58)	\$ 1,859
Corporate bonds	68,535	-	(6,868)	(2,582)	59,085
Equities	118,027	49,214	(58,181)	(6,493)	102,566
Exchange traded funds	67,092	38,071	(20,653)	(3,084)	81,426
Mortgage loans	4,191	-	(170)	-	4,022
Municipal bonds	44,647	725	(390)	3	44,985
 Total Investments	304,905	88,010	(86,758)	(12,214)	293,943
 Cash and short-term investments	8,620	311,947	(312,597)	-	7,970
Security lending collateral	25,107	-	(25,107)	-	-
	\$ 338,632	\$ 399,957	\$ (424,462)	\$ (12,214)	\$ 301,913

**SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM**  
**LISTING OF INVESTMENTS**  
**JUNE 30, 2015**

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
<b>US GOVERNMENT AGENCY</b>				
Gnma Pool #256393	9/1/2036	\$ 186,404	\$ 185,792	\$ 211,960
Gnma Pool #439515	3/15/2027	20,924	20,518	22,389
Gnma Pool #450066	12/15/2026	5,600	5,563	5,622
Gnma Pool #550718	11/15/2035	959,947	934,148	1,068,469
Gnma Pool #157445	6/15/2016	902	914	905
Gnma Pool #167166	8/15/2016	595	613	597
Gnma Pool #208975	3/15/2017	3,991	4,013	4,012
Gnma Pool #211421	4/15/2017	6,391	6,426	6,424
Gnma Pool #320296	3/15/2022	22,979	22,562	23,930
Gnma Pool #329837	11/15/2022	31,673	31,188	34,795
Gnma Pool #648348	10/15/2035	418,304	416,866	479,539
<b>Sub-total</b>			<b>1,628,605</b>	<b>1,858,643</b>
<b>CORPORATE BONDS</b>				
Bank Of America Na	6/15/2017	4,762,000	4,706,050	5,157,722
Ford Motor Credit - Mtn	9/15/2015	5,000,000	4,999,603	5,045,500
General Electric Capital Corp	5/1/2018	15,000,000	14,814,719	16,602,300
General Electric Capital Corp	8/24/2037	3,000,000	3,028,046	2,820,510
General Electric Capital Corp	3/15/2032	5,000,000	5,100,124	6,491,250
Goldman Sachs Group Inc	4/1/2018	6,000,000	5,918,182	6,671,280
Dps Lehman Brth Hld Escrow	4/4/2016	2,500,000	2,410,748	271,875
Lloyds Tsb Bk Plc	1/21/2021	5,000,000	5,203,019	5,897,050
Metlife Inc	8/15/2018	5,000,000	5,006,757	5,754,750
Pfizer Inc	3/15/2019	2,000,000	1,999,104	2,287,700
President&fellow Harvard Coll	10/1/2037	2,000,000	2,048,192	2,085,000
<b>Sub-total</b>			<b>55,234,544</b>	<b>59,084,937</b>
<b>EQUITIES - LARGE CAP GROWTH</b>				
American Aircls Grp Inc Com		22,000	860,885	878,570
Apple Inc.		22,400	929,913	2,809,520
Abbvie Inc. Com		30,000	1,005,430	2,015,700
Amazon.com Inc.		4,400	1,234,602	1,909,996
Arista Networks Inc Com		10,000	711,924	817,400
Avago Technologies Ltd Shs		8,000	1,012,995	1,063,440
Bank Of America Corp		120,000	1,752,660	2,042,400
Blackrock Inc Com		5,000	1,840,018	1,729,900
Berkshire Hathaway Inc-CI B		13,000	1,016,579	1,769,430
Blackstone Group L P Com Unit Ltd		36,000	1,393,129	1,471,320
Citigroup Inc		29,000	1,432,799	1,601,960
Cummins Inc Com		9,000	1,054,516	1,180,710
Delta Air Lines Del Com New		18,000	682,996	739,440
Disney (Walt) Com		16,000	1,037,590	1,826,240
Eastman Chem Co Com		14,000	667,719	1,145,480
Facebook Inc Cl A		20,000	1,159,635	1,715,300

F5 Networks Inc	\$	10,000	\$	1,090,324	\$	1,203,500
Google Inc Cl C		3,008		1,291,859		1,565,694
Halliburton Co		28,000		1,481,022		1,205,960
Home Depot Inc		17,000		1,297,760		1,889,210
Intel Corp		33,000		749,855		1,003,695
Ingersoll-Rand Plc Shs		18,000		908,112		1,213,560
Johnson & Johnson		11,000		727,995		1,072,060
Jpmorgan Chase & Co		30,000		1,208,405		2,032,800
Coca Cola Co Com		30,000		659,250		1,176,900
Mondelez Intl Inc Cl A		38,000		900,607		1,563,320
Medtronic Plc Shs		13,384		1,004,068		991,754
3m Company		5,000		438,408		771,500
Merck & Co Inc (new)		20,000		765,629		1,138,600
Nike Inc Cl B		11,000		1,083,841		1,188,220
Nxp Semiconductors N V Com		23,000		1,527,762		2,258,600
Procter & Gamble Co		15,000		977,744		1,173,600
Raytheon Company		12,000		717,553		1,148,160
Schlumberger Ltd		13,000		1,016,287		1,120,470
Splunk Inc Com		8,000		545,000		556,960
Skyworks Solutions Inc Com		33,000		853,199		3,435,300
At&t Inc		30,000		934,164		1,065,600
Tjx Companies Inc		20,500		844,869		1,356,485
Tesoro Corp Com		13,000		1,122,006		1,097,330
Unitedhealth Group Inc		4,000		483,414		488,000
U. S. Bancorp		35,000		1,088,947		1,519,000
United Technologies		10,000		729,280		1,109,300
Visa Inc Com Cl A		28,000		1,294,378		1,880,200
Valero Energy Corp New Com		18,000		1,075,059		1,126,800
Verizon Communications Inc		21,000		674,371		978,810
Wells Fargo & Company		34,000		1,111,731		1,912,160
Wal Mart Stores Inc		15,000		1,134,407		1,063,950
<b>Sub-total</b>				<b>47,530,696</b>		<b>66,024,304</b>
<b>EQUITIES - FIXED ALTERNATIVE EQUITIES</b>						
BP Plc Sponsored Adr		36,000		1,511,597		1,438,560
Blackstone Group L P Com Unit Ltd		52,000		1,989,510		2,125,240
Chevron Corporation		15,000		1,683,276		1,447,050
Dominion Res Va New Com		30,000		1,316,197		2,006,100
Duke Energy Corp New Com New		12,000		675,966		847,440
Health Care Reit Inc Com		12,000		535,698		787,560
Kkr & Co L P Del Com Units		90,000		1,615,489		2,056,500
Kinder Morgan Inc Del Com		71,244		2,948,077		2,735,057
Lockheed Martin Corp		7,500		1,016,037		1,394,250
Altria Group Inc		65,000		1,729,851		3,179,150
Microsoft Corp		22,000		1,048,210		971,300
Pfizer Inc		65,000		1,597,578		2,179,450
Philip Morris Intl Inc Com		33,000		1,597,485		2,645,610
Pinnacle West Cap Corp		33,000		1,359,032		1,877,370
Reynolds American Inc Com		40,000		1,214,321		2,986,400
Wells Fargo & Company		32,000		1,774,435		1,799,680

Cisco Sys Inc Com		\$ 45,000	\$ 1,129,905	\$ 1,235,700
Lilly Eli & Co		23,000	1,681,028	1,920,270
Metlife Inc Com		33,000	1,751,564	1,847,670
Ngl Energy Partners Lp Com Unit Repst		35,000	1,233,470	1,061,550
<b>Sub-total</b>			<b>29,408,725</b>	<b>36,541,907</b>
<b>EXCHANGE TRADED FUNDS</b>				
Ishares Tr Nasdq Bio Indx		4,600	1,079,410	1,697,262
Ishares Russell 2000 ETF		20,000	2,064,588	2,497,200
Ishares US Healthcare ETF		24,000	1,425,374	3,809,280
Ishares US Basic Materials ETF		34,000	2,367,023	2,739,720
Ishares Tr Transp Ave Idx		9,000	1,021,412	1,304,820
Ishares US Technology ETF		19,000	1,216,803	1,988,730
Spdr Series Trust Kbw Regn Bk Etf		45,000	1,650,087	1,987,200
Market Vectors Etf Tr Oil Svcs Etf		20,000	753,458	698,000
Market Vectors Etf Tr Semiconductor		15,000	803,116	818,550
Spdr Tr Unit Ser 1		46,000	7,628,169	9,469,100
Proshares Tr Pshs Ultsh 20yrs		30,000	1,428,977	1,493,700
Spdr Series Trust S&p Biotech		4,000	975,960	1,008,960
Spdr Series Trust S&p Homebuild		30,000	468,700	1,098,600
Select Sector Spdr Tr Sbi Int-Energy		13,000	1,028,340	977,080
Select Sector Spdr Tr Sbi Int-Finl		134,000	2,004,379	3,266,920
Select Sector Spdr Tr Sbi Cons Stpls		85,000	3,742,102	4,046,000
Select Sector Spdr Tr Sbi Int-Utills		40,000	1,536,047	1,658,400
Select Sector Spdr Tr Sbi Cons Discr		26,000	735,938	1,988,480
Spdr Series Trust S&p Oilgas Exp		19,000	1,021,229	886,540
Spdr Series Trust S&p Retail Etf		10,000	985,045	986,600
Ishares Msci Acwi Us Etf		485,000	20,453,843	21,427,300
Vanguard Ftse Europe Etf		25,000	1,390,155	1,349,500
Wisdomtree Tr Europe Hedged Eq		9,000	597,420	554,310
Wisdomtree Trust India Erngs Fd		64,000	1,468,422	1,386,880
Alps Etf Tr Alerian Mlp		70,000	1,124,525	1,089,200
Ishares Select Dividend ETF		149,000	11,217,851	11,197,350
<b>Sub-total</b>			<b>70,188,374</b>	<b>81,425,682</b>
<b>MUNICIPAL BONDS</b>				
Bay Area Toll Auth Calif Toll Bridge	4/1/2030	1,000,000	1,021,343	1,248,800
California St Build America Bonds	4/1/2034	500,000	475,850	692,515
California St Go Bds	3/1/2036	5,000,000	5,331,135	6,047,300
California St Go Bds	11/1/2026	2,000,000	2,000,000	2,596,440
Houston Tex Arpt Sys Rev Arpt Sys	1/1/2028	5,000,000	4,561,932	5,832,000
Millbrae Calif Sch Dist	7/1/2020	500,000	555,304	562,280
Pasadena Calif Wtr Rev	6/1/2031	3,000,000	2,954,485	3,077,790
Pasadena Calif Wtr Rev	6/1/2033	2,000,000	1,969,879	2,056,920
Riverside Calif Pub Fing Auth Tax Alloc	8/1/2017	810,000	796,890	830,760
Riverside Cnty Calif Redev Agy Tax Alloc	10/1/2037	3,000,000	3,013,979	3,338,610
Sacramento Calif City Fing Auth Rev	12/1/2020	4,000,000	3,817,986	4,051,120
Sacramento Calif City Fing Auth Rev Taxa	12/1/2025	1,855,000	1,855,000	1,874,774
Sacramento City Calif Fing Tax Alloc Rv	12/1/2016	310,000	309,578	311,646
San Francisco Calif City & Cnt Tax Alloc	8/1/2039	5,000,000	5,187,903	6,095,500
Univ Calif Regts Med Ctr Poole	5/15/2031	2,350,000	2,494,632	2,856,449

Vermont State Build America Bonds	8/15/2027	\$ 2,700,000	\$ 2,666,288	\$ 2,814,669
San Diego Cnty Calif POBs	8/15/2017	635,000	696,206	697,630
<b>Sub-total</b>			<b>39,708,388</b>	<b>44,985,203</b>
<b>MORTGAGE LOANS</b>				
Walgreens Drugs/Adahi, Inc	5/1/2024	2,104,356	2,104,356	2,104,356
2484 Natomas Park Dr.	7/1/2017	1,918,222	1,918,222	1,918,222
<b>Sub-total</b>			<b>4,022,578</b>	<b>4,022,578</b>
<b>Total</b>			<b>247,721,910</b>	<b>293,943,255</b>



## **APPENDIX A**



**BARTEL**  
ASSOCIATES, LLC

**City of Sacramento**

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**Sacramento City Employees' Retirement System**

**June 30, 2015**

**Actuarial Valuation**

December 2015

**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, 2015 actuarial valuation of the Sacramento City Employees' Retirement System (SCERS).

The purpose of this valuation is to:

- Determine the System's June 30, 2015 Funded Status, and
- Calculate the fiscal year 2016/17 Actuarially Determined Contribution (ADC).

The information in this report may not be appropriate for purposes other than System funding but 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.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries, meeting Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,



Mary Elizabeth Redding, FSA, MAAA, EA  
Vice President



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



Katherine Moore, ASA, MAAA  
Associate Actuary

# TABLE OF CONTENTS

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<b>SECTION</b>	<b>PAGE</b>
1. Executive Summary	1
2. Liability Information & Funded Status	4
3. Asset Information	7
4. Contribution Development	11
5. Schedule of Future Contributions	12
6. Actuarial Gain/Loss Analysis	13
7. Sensitivity Analysis	14
8. Headcount & Benefit Payment Projection	15
9. Plan Provisions	17
10. Methods and Assumptions	20
11. Participant Data	24

# SECTION 1

## EXECUTIVE SUMMARY

Following are the valuation results. See notes following the table for a description of terms. Results from the June 30, 2013 valuation are provided for comparative purposes.

	-----amounts in \$000's-----		
	June 30, 2013	June 30, 2015	% change
<b>■ Participant Counts</b>			
• Actives	35	19	-45.7%
• Terminated Vesteds	13	11	-15.4%
• Reciprocals	7	3	-57.1%
• Service Retirees	722	662	-8.3%
• Disableds	161	145	-9.9%
• Beneficiaries	335	334	-0.3%
• Total	1,273	1,174	-7.8%
<b>■ Actuarial Liabilities</b>			
• Present Value of Projected Benefits	\$ 382,930	\$ 376,767	-1.6%
• Actuarial Accrued Liability	382,403	376,479	-1.5%
<b>■ Assets</b>			
• Market Value of Assets	295,975	301,263	1.8%
• Approximate Annual Rate of Return	7.8%	4.5%	
• Actuarial Value of Assets	292,035	293,036	0.3%
• Approximate Annual Rate of Return	7.2%	8.0%	
<b>■ Plan Funded Status</b>			
• Actuarial Accrued Liability	382,403	376,479	-1.5%
• Actuarial Value of Plan Assets	292,035	293,036	0.3%
• Unfunded Actuarial Accrued Liability	90,368	83,443	-7.7%
• Funded Ratio	76.4%	77.8%	1.8%
• Funded Ratio, Market Value Basis	77.4%	80.0%	3.4%
	<b>2014/15<sup>1</sup></b>	<b>2016/17</b>	<b>% change</b>
<b>■ Annual Cost<sup>2</sup></b>	\$ 9,183	\$ 8,330	-2.6%
<b>■ Annual Cost (% Proj. Plan Payroll)<sup>1</sup></b>	509.7%	953.6%	
<b>■ Annual Cost (% Proj. City Payroll)</b>	3.4%	2.9%	

<sup>1</sup> The June 30, 2013 valuation report also provided the 2015/16 contribution.

<sup>2</sup> See page 11 for details.

# SECTION 1

## EXECUTIVE SUMMARY

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### **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 & Results**

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 19 active members (out of a total plan membership of 1,174) remain.

Usually an actuarial valuation is done each year, and it provides the actuarially determined contribution to fund the plan for the fiscal year beginning one year from the valuation date. The last valuation was performed as of June 30, 2013. In 2014 Bartel Associates was retained to recalculate benefits for 321 retirees who had either retired or turned age 62 since January 1, 2005. The City corrected benefit amounts paid on and after July 1, 2015 including certain retroactive payments. In addition, the City updated the COLA bank calculations and adjusted the COLA calculation procedures beginning at July 1, 2015 to correctly reflect each retiree's bank. The result of these adjustments was a reduction in the actuarial accrued liability of \$12.3 million at June 30, 2015.

Since the last valuation, the plan experienced overall gains on liabilities and gains on market assets. Plan liabilities decreased more than expected, by a net \$9.1 million. This was slightly offset by demographic losses of \$3.7 million, mostly due to retirees living longer than expected, and an increase in liabilities of \$200 thousand due to a clarification of the disability pension offset.

Market value return on assets was more than expected, resulting in a gain of \$13.2 million on the actuarial value of assets. The resulting July 1, 2015 total plan Unfunded Actuarial Accrued Liability (UAAL) prior to assumption changes is \$60.3 million, as compared to an expected UAAL of \$82.6 million.

The only assumption change made to the valuation was to reflect improved mortality and to provide for future mortality improvements. The base mortality tables were updated to the newest CalPERS experience study and a new mortality improvement projection was used. This assumption change resulted in a loss on liabilities of \$23.1 million. The resulting July 1, 2015 UAAL is \$83.4 million, slightly greater than the amount expected based on the 2013 valuation results.

The plan's funded ratio on an actuarial value of assets basis is 77.8%, an increase from 76.4% in the prior valuation. The plan's funded ratio on a market value of assets basis is 80.0%, an increase from 77.4% in the prior valuation.

The City's contribution has decreased from \$8.6 million in fiscal year 2014/15 to \$8.3 million for fiscal year 2016/17. The prior valuation projected a 2016/17 contribution of \$8.165 million, slightly lower than the actual contribution of \$8.330 million calculated in the current valuation.

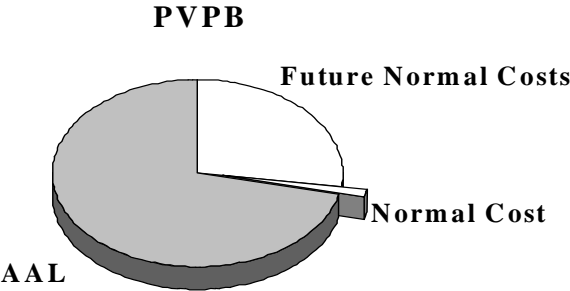
# SECTION 1

## EXECUTIVE SUMMARY

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### 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, 2013	June 30, 2015
<b>Present Value of Projected Benefits</b>		
■ Active Employees	\$ 16,354	\$ 8,678
■ Vested Terminated & Reciprocal	2,186	2,796
■ Service Retirees	270,856	265,580
■ Disabled Participants	44,460	43,990
■ Beneficiaries	49,075	55,724
■ Total	382,930	376,767

#### Actuarial Accrued Liability

■ Active Employees	\$ 15,827	\$ 8,390
■ Vested Terminated & Reciprocal	2,186	2,796
■ Service Retirees	270,856	265,580
■ Disabled Participants	44,460	43,990
■ Beneficiaries	49,075	55,724
■ Total	382,403	376,479

2013/14

2015/16

#### Normal Cost

■ Employer Normal Cost (beginning of year)	\$ 62	\$ 57
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June 30, 2013

June 30, 2015

#### Plan Funded Status

■ Total Actuarial Accrued Liability	\$ 382,403	\$ 376,479
■ Actuarial Value of Plan Assets	292,035	293,036
■ Unfunded Actuarial Accrued Liability	90,368	83,443
■ Funded Ratio	76.4%	77.8%
■ Market Value of Assets	295,975	301,263
■ Funded Ratio – Market Value Basis	77.4%	80.0%





## SECTION 2

### LIABILITY INFORMATION & FUNDED STATUS

---

Details of the June 30, 2015 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by employee category:

(amounts in \$000's)

	Safety	Miscellaneous	Total
<b>Present Value of Projected Benefits</b>			
■ Active Employees	\$ 0	\$ 8,678	\$ 8,678
■ Vested Terminated & Reciprocals		2,796	2,796
■ Service Retirees	29,175	236,405	265,580
■ Disabled Participants	20,439	23,550	43,990
■ Beneficiaries	18,272	37,452	55,724
■ Total	67,886	308,880	376,767

#### Actuarial Accrued Liability

■ Active Employees	0	8,390	8,390
■ Vested Terminated & Reciprocals	0	2,796	2,796
■ Service Retirees	29,175	236,405	265,580
■ Disabled Participants	20,439	23,550	43,990
■ Beneficiaries	18,272	37,452	55,724
■ Total	67,886	308,592	376,479

	Safety	Miscellaneous	Total
<b>Normal Cost</b>			
■ Employer Normal Cost (on June 30, 2015)	\$ 0	\$ 57	\$ 57

## SECTION 2

### LIABILITY INFORMATION & FUNDED STATUS

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Details of the June 30, 2015 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by benefit section:

(amounts in \$000's)

	Section 175	Sections 302 & 399	Total
<b>Present Value of Projected Benefits</b>			
■ Active Employees	\$ 0	\$ 8,678	\$ 8,678
■ Vested Terminated & Reciprocal	728	2,068	2,796
■ Service Retirees	8,725	256,855	265,580
■ Disabled Participants	2,461	41,529	43,990
■ Beneficiaries	4,540	51,184	55,724
■ Total	<u>16,454</u>	<u>360,313</u>	<u>376,767</u>

#### Actuarial Accrued Liability

■ Active Employees	0	8,390	8,390
■ Vested Terminated & Reciprocal	728	2,068	2,796
■ Service Retirees	8,725	256,855	265,580
■ Disabled Participants	2,461	41,529	43,990
■ Beneficiaries	4,540	51,184	55,724
■ Total	<u>16,454</u>	<u>360,025</u>	<u>376,479</u>

#### Normal Cost

	Section 175	Sections 302 & 399	Total
■ Employer Normal Cost (on 6/30/15)	\$ 0	\$ 57	\$ 57

## SECTION 3

### ASSET INFORMATION

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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, 2013 through June 30, 2014 and the June 30, 2014 through June 30, 2015 market value of assets.

	(amounts in \$000's)	
	2013/14	2014/15
■ Beginning of Year Balance:	\$ 295,975	\$ 312,414
• Member Contributions	\$ 161	\$ 82
• City Contributions	9,649	9,183
• Investment Income	41,613	14,662
■ Total Additions	51,423	23,927
• Benefit Payments	33,487	33,590
• Member Refunds	201	201
• Investment Expenses	1,296	1,287
■ Total Deductions	34,984	35,078
■ Net Assets at End of Year	312,414	301,263
■ Approximate Return on Assets	14.2%	4.5%

## SECTION 3

### ASSET INFORMATION

---

#### Asset Allocation – Market Value of Assets

The July 1, 2015 trust asset allocation is provided by the City of Sacramento and based on an allocation strategy of 40% fixed income and 60% equity. Details are shown below.

(amounts in \$000's)

	Market Value	Percentage
■ Cash & Short Term Investments	\$ 7,970	2.6%
■ Securities Lending Collateral	0	0.0%
■ Receivables	2,147	0.7%
■ Investments		
• US Agencies	\$ 1,859	0.6%
• Corporate Bonds	59,085	19.6%
• Equities	102,566	34.0%
• Exchange Traded Funds	81,426	27.0%
• Mortgage Loans	4,022	1.3%
• Municipal Bonds	44,985	14.9%
■ Total Investments	293,943	
■ Total Assets	304,060	
■ Securities Lending Obligation		0.0%
■ Other Liabilities Payable	(2,797)	-0.9%
■ Net Pension Benefit Trust Assets	301,263	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 2014, effective July 1, 2014, as shown below. The fund is rebalanced each year.

	Prior Allocation	Current Allocation
■ Fixed Bonds/Real Estate	45%	40%
Total Fixed	45%	40%
■ Large Cap Growth	30%	35%
■ Equity Income	15%	15%
■ International Equities	10%	10%
Total Equity	55%	60%
Total Fixed & Equity	100%	100%

## SECTION 3

### ASSET INFORMATION

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#### Discount Rate Development

We recommend the following discount rate assumption for the June 30, 2015 valuation, based upon a 55% confidence level:

Confidence Level	50%	55%	60%
■ Inflation Adjusted Return	7.30%	6.99%	6.70%
■ Investment Expenses <sup>3</sup>	<u>0.30%</u>	<u>0.30%</u>	<u>0.30%</u>
■ Net Return after Expenses	7.00%	6.69%	6.40%
■ <b>Discount Rate Assumption</b>		<b>6.50%</b>	

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<sup>3</sup> Based on average investment expenses for a typical passive investment strategy. This is not plan specific.

## SECTION 3

### ASSET INFORMATION

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#### 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)	
	2013/14	2014/15
■ <b>Actuarial Value of Assets, Beginning of Year</b>	\$ 292,035	\$ 295,055
• Contributions	9,810	9,265
• Expected Earnings	18,218	18,394
• Benefit Payments	(33,688)	(33,791)
■ Expected Actuarial Value of Assets, End of Year	286,375	288,923
■ Market Value of Assets, End of Year	312,414	301,263
■ Difference between MVA & Expected AVA	26,039	12,340
■ <b>Preliminary Actuarial Value of Assets, End of Year</b> <i>(Expected AVA + 1/3 Difference)</i>	295,055	293,036
■ Actuarial Value of Assets Corridor		
• Cap: 115% of Market Value	359,276	346,452
• Min: 85% of Market Value	265,552	256,074
■ <b>Actuarial Value of Assets, End of Year</b> <i>(No greater than Cap, not less than Min)</i>	295,055	293,036
■ Approximate Annual Rate of Return	9.6%	8.0%

## SECTION 4

### CONTRIBUTION DEVELOPMENT

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#### Actuarially Determined Contribution

Following is the development of the 2016/17 Actuarially Determined Contribution. The 2014/15 and 2015/16 Actuarially Determined Contributions, which were calculated in the June 30, 2013 actuarial valuation, are shown for comparison.

Contribution Year	(amounts in \$000's)		
	2014/15	2015/16	2016/17
■ Actuarially Determined Contribution			
• Employer Normal Cost	\$ 50	\$ 38	\$ 43
• UAAL Amortization <sup>4</sup>	9,133	8,607	8,287
• Total Cost	9,183	8,645	8,330
■ Projected Plan Payroll	1,802	1,370	874
■ Actuarially Determined Contribution (as a percent of plan payroll)			
• Employer Normal Cost	2.8%	2.8%	5.0%
• UAAL Amortization	506.9%	628.2%	948.6%
• Total Contribution	509.7%	631.0%	953.6%
■ Projected Total City Payroll	267,048	276,395	283,330
■ Actuarially Determined Contribution (as a percent of total City payroll)			
• Employer Normal Cost	0.0%	0.0%	0.0%
• UAAL Amortization	3.4%	3.1%	2.9%
• Total Contribution	3.4%	3.1%	2.9%

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<sup>4</sup> The Unfunded Actuarial Accrued Liability (UAAL) is being amortized as a level dollar amount over a 14 year period for the 2014/15, 2015/16, and 2016/17 ADC. As the plan continues to mature, this amortization period should be reviewed.

**SECTION 5**  
**SCHEDULE OF FUTURE CONTRIBUTIONS**

Year Ending <sup>5</sup>	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 <sup>6</sup>	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	161,000	9,649,000	33,688,000
6/30/2015	82,000	9,183,000	33,791,000
6/30/2016	54,000	8,645,000	32,790,000
6/30/2017	40,000	8,330,000	32,714,000
6/30/2018	29,000	7,715,000	32,591,000
6/30/2019	20,000	7,194,000	32,364,000
6/30/2012	14,000	6,745,000	32,048,000

<sup>5</sup> Information prior to 6/30/2006 valuation is taken from prior actuary's valuation report. Member contributions and benefit payments for years ending 6/30/2016 and later are estimated. City contributions for years ending 6/30/2018 and later are estimated (assuming 6/30/16 and subsequent market value of assets earn 6.5%).

<sup>6</sup> 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 Actuarial Accrued Liability
■ <b>June 30, 2013 Actual Value</b>	\$ 382,403	\$ 292,035	\$ 90,368
■ <b>June 30, 2015 Expected Value</b>	362,421	279,862	82,559
• Revised Benefit Calculations (Gain)/Loss	(12,253)		
• Actual COLA Less Than Expected (Gain)/Loss	(734)		
• No Social Security Offset for Disability Retirees (Gain)/Loss	203		
• Other Demographic (Gain)/Loss <sup>7</sup>	3,724		
	(9,060)		
■ Total Liability (Gain)/Loss	(9,060)		
■ Investment Gain/(Loss)		13,174	
■ <b>Total (Gain)/Loss</b>			(22,233)
■ <b>June 30, 2015 Actual Value Prior to Changes in Assumptions</b>	353,362	293,036	60,326
■ Change in Mortality Assumption (Gain)/Loss	23,117		23,117
■ <b>June 30, 2015 Actual Value After Changes in Assumptions</b>	376,479	293,036	83,443

<sup>7</sup> Primarily due to retirees and beneficiaries living longer than expected.

## SECTION 7

### SENSITIVITY ANALYSIS

The Plan's June 30, 2015 funded status and 2016/17 fiscal year contribution are shown below at 5.5%, 6.5% and 7.5% discount rates.

Discount Rate	(amounts in \$000's)		
	5.5%	6.5%	7.5%
■ Present Value of Projected Benefits	\$ 412,093	\$ 376,767	\$ 346,597
■ Funded Status			
• Actuarial Accrued Liability	411,703	376,479	346,382
• Actuarial Value of Assets	<u>293,036</u>	<u>293,036</u>	<u>293,036</u>
• Unfunded Actuarial Accrued Liability	118,667	83,443	53,346
■ Funded Ratio	71.2%	77.8%	84.6%
■ 2016/17 Actuarially Determined Contribution			
• Employer Normal Cost	69	43	25
• UAAL Amortization <sup>8</sup>	<u>11,525</u>	<u>8,287</u>	<u>5,166</u>
• Total Contribution	11,594	8,330	5,191
• Total Employer Contribution (as a percent of Plan payroll)	1327.1%	953.6%	594.2%
• Total Employer Contribution (as a percent of total City payroll)	4.1%	2.9%	1.8%

The Plan's 2016/17 fiscal year contribution would increase 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	(amounts in \$000's)			
	14	13	12	10
■ 2016/17 Actuarially Determined Contribution				
• Employer Normal Cost	\$ 43	\$ 43	\$ 43	\$ 43
• UAAL Amortization	<u>8,287</u>	<u>8,686</u>	<u>9,156</u>	<u>10,391</u>
• Total Employer Contribution	8,330	8,729	9,199	10,434
• Total Employer Contribution (as a percent of Plan payroll)	953.6%	999.2%	1053.0%	1194.4%
• Total Employer Contribution (as a percent of total City payroll)	2.9%	3.1%	3.2%	3.7%

<sup>8</sup> 14 year period

## SECTION 8

### HEADCOUNT AND BENEFIT PAYMENT PROJECTION

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#### Headcount and Benefit Payment Projection

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2016	19	14	1,141	\$ 32,790
2017	14	14	1,116	32,714
2018	9	14	1,088	32,591
2019	6	14	1,057	32,364
2020	4	14	1,023	32,048
2021	3	14	988	31,643
2022	2	14	952	31,170
2023	1	14	914	30,635
2024	1	14	876	30,038
2025	0	14	838	29,389
2026	0	13	799	28,692
2027	0	13	761	27,954
2028	0	13	723	27,177
2029	0	13	685	26,366
2030	0	13	647	25,521
2031	0	13	611	24,643
2032	0	12	574	23,733
2033	0	12	539	22,792
2034	0	12	504	21,819
2035	0	12	470	20,817
2036	0	11	437	19,785
2037	0	11	404	18,726
2038	0	10	373	17,643
2039	0	10	342	16,539
2040	0	9	312	15,421
2041	0	9	284	14,295
2042	0	8	256	13,170
2043	0	7	230	12,054
2044	0	7	206	10,956
2045	0	6	182	9,887

## SECTION 8

### HEADCOUNT AND BENEFIT PAYMENT PROJECTION

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Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2046	0	5	160	\$ 8,854
2047	0	5	140	7,867
2048	0	4	122	6,934
2049	0	3	105	6,058
2050	0	3	89	5,247
2051	0	2	76	4,505
2052	0	2	63	3,835
2053	0	1	53	3,239
2054	0	1	44	2,718
2055	0	1	36	2,268
2056	0	1	29	1,885
2057	0	0	24	1,563
2058	0	0	19	1,296
2059	0	0	16	1,080
2060	0	0	13	909
2061	0	0	10	777
2062	0	0	8	677
2063	0	0	7	603
2064	0	0	6	548
2065	0	0	5	508

## SECTION 9 PLAN PROVISIONS

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**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

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### **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

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### **O. Social Security Reduction at age 62**

For members participating in Social Security, 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. The City applies this offset to service retirees, not to disabled retirees.

### **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

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#### **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. Under current Board policy, when the average future life expectancy of the plan participants drops below 5 years, the amortization period will be reduced to no more than 5 years.

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 (2016/17). The June 30, 2013 valuation generated a contribution for fiscal years 2014/15 and 2015/16.

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**

The City provided participant data as of 7/1/2015. We reviewed the data, but did not perform an audit. The data in this valuation reflects recalculated benefits for retirees and corrected COLA banks based on the 2014/15 review.



# SECTION 10

## METHODS AND ASSUMPTIONS

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### Actuarial Assumptions

Assumptions used in the valuation are as follows:

- **Discount Rate**

6.50%, net of investment expenses<sup>9</sup>

- **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%

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<sup>9</sup> Administrative expenses are not paid from plan assets.

## SECTION 10

### METHODS AND ASSUMPTIONS

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■ **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 1997-2011 Pre-Retirement Mortality table for males and females and CalPERS 1997-2011 Post-Retirement Mortality table for males and females. Mortality projected fully generational with Scale MP-2014 modified to converge to ultimate improvement rates in 2022. For the June 30, 2013 valuation, the CalPERS 1997-2007 tables were used with generational projection scale AA 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	0.14%	0.10%	0.46%	0.47%
60	0.34%	0.20%	0.78%	0.48%
70	0.61%	0.40%	1.53%	1.08%
80	1.14%	0.90%	4.48%	3.21%
90	1.17%	0.90%	14.13%	10.67%
100	1.24%	0.95%	31.93%	29.08%

■ **Post-Retirement Disabled Mortality**

For Miscellaneous retirees, CalPERS 1997-2011 Non-Work-Related Disability table for males and females. For Safety retirees, CalPERS 1997-2011 Work-Related Disability table for males and females. Mortality projected fully generational with Scale MP-2014 modified to converge to ultimate improvement rates in 2022. For the June 30, 2013 valuation, the CalPERS 1997-2007 tables were used with generational projection scale AA applied. 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	1.55%	1.16%	0.46%	0.47%
60	2.51%	1.36%	0.83%	0.57%
70	3.37%	2.41%	1.92%	1.52%
80	7.00%	5.23%	5.63%	4.33%
90	16.12%	13.91%	14.13%	10.67%
100	31.93%	29.08%	31.93%	29.08%

## SECTION 10

### METHODS AND ASSUMPTIONS

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- **Social Security Offset**

Monthly benefits for current retirees and vested terminated assumed to decrease at the later of age 62 or actual retirement, based on the average expected offset of future retirees.

- **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.

- **Reciprocal Members**

All remaining deferred vested members are assumed to have reciprocity with other retirement systems, and their pay is assumed to increase with salary scale after separation from the City.

## SECTION 11 PARTICIPANT DATA

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### Data Summary

Following summarizes participant demographic information for the June 30, 2013 and June 30, 2015 actuarial valuations.

	June 30, 2013	June 30, 2015
<b>■ Participant Counts</b>		
• Actives	35	19
• Terminated Vesteds	13	11
• Reciprocals	7	3
• Service Retirees	722	662
• Disableds	161	145
• Beneficiaries	335	334
• Total	1,273	1,174
<b>■ Actives</b>		
• Average Age	59.3	61.0
• Average Service	32.9	33.5
• Salary		
> Total	\$ 2,279,093	\$ 1,179,884
> Average	65,117	62,099
• Overall City Payroll	249,292,000	264,491,000
<b>■ Terminated Vesteds &amp; Reciprocals</b>		
• Average Age	63.5	65.1
<b>■ Retirees, Disableds &amp; Beneficiaries</b>		
• Average Age	76.3	76.9
• Average Monthly Benefit	\$ 2,304	\$ 2,406

# SECTION 11 PARTICIPANT DATA

## June 30, 2015 Participant Data

Following summarizes participant demographic information for the June 30, 2015 actuarial valuation, broken out by employee category and benefit section.

	Safety		Miscellaneous		Total
	Section 175	Section 302 & 399	Section 175	Section 302 & 399	
<b>■ Actives</b>					
• Count	-	-	-	19	19
• Average Age	n/a	n/a	n/a	61.0	61.0
• Average Service	n/a	n/a	n/a	33.5	33.5
• Salary					
➤ Average	\$ -	\$ -	\$ -	\$62,099	\$62,099
➤ Total (000's)	-	-	-	1,180	1,180
<b>■ Vested Terms &amp; Reciprocals</b>					
• Count	-	-	2	12	14
• Average Age	n/a	n/a	66.8	64.8	65.1
<b>■ All Inactives</b>					
• Count	33	196	37	875	1,141
• Average Age	84.5	81.2	80.3	75.5	76.9
• Avg. Monthly Benefit	\$2,373	\$3,017	\$1,656	\$2,303	\$2,406
<b>■ Service Retirees</b>					
• Count	12	68	18	564	662
• Average Age	86.3	86.2	78.5	74.4	75.9
• Average Retirement Age	55.6	55.1	63.4	59.5	59.1
• Avg. Monthly Benefit	\$3,055	\$4,427	\$2,091	\$2,747	\$2,907
<b>■ Disabled Retirees</b>					
• Count	7	52	4	82	145
• Average Age	84.4	74.6	79.3	72.2	73.9
• Average Retirement Age	48.3	42.2	50.0	48.7	46.4
• Avg. Monthly Benefit	\$2,696	\$2,598	\$1,220	\$1,957	\$2,202
<b>■ Beneficiaries</b>					
• Count	14	76	15	229	334
• Average Age	83.1	81.3	82.7	79.3	80.1
• Avg. Monthly Benefit	\$1,626	\$2,042	\$1,251	\$1,333	\$1,503

## SECTION 11 PARTICIPANT DATA

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### Data Reconciliation 6/30/2013 to 6/30/2015

	Actives	Terminated		Receiving Payments			Total
		Vested	Reciprocal	Disabled	Benefic.	Retirees	
■ <b>June 30, 2013</b>	35	13	7	161	335	722	1,273
• New Hires	-	-	-	-	-	-	-
• Disabled	(1)	-	-	1	-	-	-
• Terminated	-	-	-	-	-	-	-
• Deceased	-	(1)	-	(17)	(43)	(80)	(141)
• New Beneficiaries	-	-	-	-	42	-	42
• Retired	(15)	(1)	(4)	-	-	20	-
• Adjustment	-	-	-	-	-	-	-
■ <b>June 30, 2015</b>	19	11	3	145	334	662	1,174

## SECTION 11 PARTICIPANT DATA

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### 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	
<b>Under 25</b>	-	-	-	-	-	-	-	-
<b>25-29</b>	-	-	-	-	-	-	-	-
<b>30-34</b>	-	-	-	-	-	-	-	-
<b>35-39</b>	-	-	-	-	-	-	-	-
<b>40-44</b>	-	-	-	-	-	-	-	-
<b>45-49</b>	-	-	-	-	-	-	-	-
<b>50-54</b>	-	-	-	-	-	-	-	-
<b>55-59</b>	-	-	-	1	-	1	5	7
<b>60-64</b>	-	-	-	-	-	3	8	11
<b>65 &amp; Over</b>	-	-	-	-	-	-	1	1
<b>Total</b>	-	-	-	1	-	4	14	19

## SECTION 11 PARTICIPANT DATA

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### Inactives Age/Status/Monthly Benefit

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

#### Safety

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
<b>Under 50</b>	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
<b>50-54</b>	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
<b>55-59</b>	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
<b>60-64</b>	Count	-	-	1	1
	Avg. Benefit	-	-	1,883	1,883
<b>65-69</b>	Count	1	12	10	23
	Avg. Benefit	6,354	2,934	1,836	2,605
<b>70-74</b>	Count	4	20	13	37
	Avg. Benefit	2,419	2,148	1,970	2,115
<b>75-79</b>	Count	3	10	10	23
	Avg. Benefit	5,145	2,893	2,548	3,036
<b>80-84</b>	Count	21	10	19	50
	Avg. Benefit	3,870	2,871	1,770	2,872
<b>85 &amp; Over</b>	Count	51	7	37	95
	Avg. Benefit	4,411	2,591	1,973	3,327
<b>Total</b>	Count	80	59	90	229
	Avg. Benefit	4,221	2,609	1,977	2,924



## SECTION 11 PARTICIPANT DATA

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### Miscellaneous

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
<b>Under 50</b>	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
<b>50-54</b>	Count	-	-	3	3
	Avg. Benefit	-	-	1,377	1,377
<b>55-59</b>	Count	5	2	8	15
	Avg. Benefit	3,288	1,803	1,017	1,878
<b>60-64</b>	Count	73	19	13	105
	Avg. Benefit	3,081	2,103	1,260	2,679
<b>65-69</b>	Count	125	15	29	169
	Avg. Benefit	2,828	2,341	1,466	2,551
<b>70-74</b>	Count	124	12	26	162
	Avg. Benefit	2,748	1,437	1,565	2,461
<b>75-79</b>	Count	98	21	38	157
	Avg. Benefit	2,587	1,921	1,580	2,254
<b>80-84</b>	Count	76	9	43	128
	Avg. Benefit	2,785	1,878	1,339	2,236
<b>85 &amp; Over</b>	Count	81	8	84	173
	Avg. Benefit	2,293	1,522	1,127	1,691
<b>Total</b>	Count	582	86	244	912
	Avg. Benefit	2,726	1,922	1,328	2,276