SCERA TIMES
SPRING 2021
SONOMA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Who We Are; What We Do

In November of 1945, the Sonoma County Board of Supervisors recognized its obligation to provide retirement security to county government employees who became incapacitated from age or disability, and death benefits to the survivors of these employees. At this time, the Social Security Act, passed in 1935, did not extend coverage to state and local government employees because of concerns over constitutional issues related to federal taxation of state and local governments. The Supervisors turned to the County Employees Retirement Law (CERL), enacted in 1937, which created a pension system for county government employees. A resolution was passed adopting the County Employees Retirement Law, and on January 1, 1946 the Sonoma County Employees' Retirement Association (SCERA) came into existence.

The original SCERA Board was five members and the plan was administered out of the County Treasurer's office. While many of the operating guidelines were described in the CERL statutes, the Board and the actuary looked to other California county plans that had adopted the CERL earlier, like the Los Angeles County Employees' Retirement Association, which was enacted in 1938, to model the first actuarial assumptions to be applied to the first actuarial valuation. Six months after the plan was adopted the total number of members was 486 (all active members) and the plan had $39,008.81 in cash and securities owned. This money came from employee and employer contributions and interest earnings on those contributions. The plan was only able to invest in bonds.

Today, SCERA is governed by a nine member Board, with an alternate retired Board member, and the plan is administered independent of the County Treasurer's office. As of the latest actuarial valuation there are 10,685 active, deferred and retired members and the plan's assets are around $3 billion. Actuarial assumptions are based on SCERA plan member experience and the plan is able to invest across all investment markets.

While much has changed in the 75 years since SCERA's enactment, the basic principle of providing retirement security and death benefits has not. That's why SCERA's mission is to provide and protect retirement benefits for its members and beneficiaries. The provision of benefits is straightforward, SCERA collects contributions from employees and employers, invests them and pays retirement and death benefits once members or their beneficiaries are eligible.

You may wonder how SCERA protects retirement benefits. Does this mean that SCERA advocates for benefit formulas, cost of living adjustments or other plan changes impacting benefit levels? No, that is not what protect means to SCERA. SCERA protects retirement benefits by ensuring that proper contributions are made to pay for the benefits promised, only eligible members and their beneficiaries receive benefits, benefits are paid in the correct amount, financial reporting is accurate, funding policies are in place, investments are made prudently balancing risk and return, and administrative expenses are reasonable.

Benefit formulas, cost of living adjustments and other plan changes impacting benefit levels are authorized

Board of Retirement Meetings
Meetings are generally held at 8:30 a.m. on the third Thursday of the month in the SCERA Board Room.

The SCERA Times is published for members of the Sonoma County Employees' Retirement Association.

Comments and suggestions should be directed to:
Retirement@sonoma-county.org

Or contact SCERA at:
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Who Are We; What We Do *Continued from page 1.*

by the governing bodies of employers participating in the plan, often after collectively bargaining with employees. This is because retirement benefits are a form of deferred compensation and compensation decisions are the purview of the employer. SCERA does not participate in collective bargaining because SCERA is not the governing body of the employers in the plan. SCERA is an independent administrative organization charged with collecting contributions, maintaining member records, investing trust assets and paying benefits. We administer the plan that was put in place by the participating employers, the County of Sonoma, the Sonoma County Superior Court and Sonoma Valley Fire District.

SCERA's Board composition demonstrates its independence. There is a mix of actively employed members, the County Treasurer, retired members and members appointed by the Board of Supervisors that have no connection to county government, one of which may be a Board of Supervisors' member. The CERL Boards were designed to bring together differing viewpoints so that investment and administrative decisions can be thoroughly analyzed. Each Board member, although elected or appointed by a specific constituency or process, represents every plan member and beneficiary and the plan as a whole.

The California Constitution defines the Board's fiduciary duty and mandates that decisions are to be made in the best interests of all plan participants. If the Board began advocating for a new higher or lower benefit formula (which would only apply to some active members of the plan), or a cost of living adjustment (which would apply to retired members of the plan), the Board would be acting for a subset of the plan members. Advocating for a subset of plan members would be contrary to the Board's fiduciary duty. Contrast that with establishing funding policies so that the plan can meet its benefit obligations, investing trust assets so that risk and reward are properly balanced, paying benefits to only those who qualify and managing the financial reporting and accounting needs of the plan, all of which benefits the plan as a whole.

SCERA was enacted to provide and protect retirement benefits for the employees of Sonoma County, the Sonoma County Superior Court and the Sonoma Valley Fire District. For 75 years, SCERA has been doing just that as an independent administrator of the pension plan put in place by these employers, and will continue doing so for as long as the plan is in place.

Retirement Board Update

SCERA welcomes two new Trustees to the Board of Retirement. **Tim Tuscany** joins us in the 8th trustee position, elected by retired members. **Amos Eaton**, an active county employee, fills the seat of the 3rd trustee position, elected by active general members. Both trustees' terms will run through December 31, 2023. We look forward to the knowledge and experience Trustee Eaton and Trustee Tuscany will bring to the Board of Retirement. ***Thank you Trustees, for taking on this new responsibility.***

Spotlight on: Beneficiaries

Do you remember who you designated as a beneficiary? Have you recently reviewed your beneficiaries to ensure they reflect your wishes in the event of your death?

A beneficiary designation helps SCERA determine how to pay out any possible benefits or a refund of your contributions and interest. All employees designate a beneficiary or multiple beneficiaries upon becoming SCERA members.

Who is a beneficiary? A beneficiary is any person or legal entity entitled to receive a benefit or lump sum payment provided by the system. A beneficiary is the person that you name in writing to receive SCERA provided benefits upon your death.

Regardless of whom you have nominated on your Beneficiary Designation form, the County Employees Retirement Law states that a spouse/state-registered domestic partner or minor child(ren) override any beneficiary designation you have made.

When should I update my beneficiary? Any time a major life event such as marriage, partnership, divorce, birth of a child, change of employment status or a death in the family occurs you want to check and possibly revise your beneficiary(ies).

Active and Deferred members can change their beneficiaries at any time. Retirees need to contact SCERA directly for beneficiary designation changes. There are laws in place that limit the types of changes that can be made.

Please be aware that notifying your employer of any changes does not change your beneficiary(ies) with SCERA.

Forms are available through our website at scretire.org to update your beneficiary.

Investment Market Update

It is not an exaggeration to describe 2020 as "unprecedented." From the global pandemic to the policy responses shutting down large portions of many industries, there were large impacts for the global economy and the markets. The stock markets were down significantly in the first quarter as investors digested the impacts of the pandemic. Following the first quarter they bounced back and ultimately delivered a healthy return for the year above our current 7.0% assumed rate-of-return (ROR).

Over the long term much of the Plan's return is expected to be sourced from stock (Equity) returns which tend to be higher over time than those of fixed income but are often more volatile over shorter periods. Because of the Plan's long-term nature, we have a significant 61% allocation to stocks. This proved beneficial in 2020 with the broad US stock market returning 21% and non-US stocks up over 11%. Within the US market, there was significant dispersion with the Technology sector up 44% and the Energy sector down 34% and higher growth stocks significantly outperforming more value-oriented shares. The market was also unusually narrow in 2020 as a handful of large technology companies benefitted from acceleration in the trend to on-line activity and biotech stocks benefitted from "vaccine frenzy." In aggregate, SCERA's equity managers underperformed their benchmarks due to an overweight to value stocks and non-US markets. *Continued on back page.*

IMPORTANT DATES

Retiree Pay Dates

May 28, 2021
June 30, 2021
July 30, 2021
August 31, 2021
September 30, 2021
October 29, 2021
November 30, 2021
December 30, 2021

Holiday Schedule 2021

May 31: Memorial Day
July 5: Independence Day
September 6: Labor Day
November 11: Veterans Day
November 25: Thanksgiving Day
November 26: Day After Thanksgiving

Our office will be closed on these holidays, but we're still available at **www.scretire.org** when you need information on our programs and services. Our personalized, secure website **www.MySCERA.org** lets you view your account information and conduct much of your SCERA business online at any time.

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Investment Market Update

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To dampen the higher volatility of Equity returns the Plan holds diversifying assets including Fixed Income and Real Assets. These assets are less than perfectly correlated with stocks, meaning they do not move in lock step with stocks and they are less volatile though lower returning over the long run. The Plan has a 19% policy weight to Fixed Income and a 20% weight to Real Assets. The US fixed income benchmark returned 7.5% for 2020 as interest rates dropped, putting upward pressure on valuations of outstanding bonds. The Real Assets benchmark, a blend of real estate, farmland and infrastructure benchmarks, returned 3% for 2020. In aggregate, SCERA's managers led their benchmarks in both Fixed Income and Real Assets.

Regarding the Plan's investment manager lineup, the SCERA Board elected to discontinue two mandates in 2020. The Templeton non-US equity portfolio was transitioned to an index strategy in December and the GMO global asset allocation mandate is being defunded throughout 2021 with monthly drawdowns. These redemptions are being used to fund retiree benefits.

While 2020 was a good year for the Plan's return we remain focused on the long term given the protracted nature of SCERA's responsibilities. Long-term returns are healthy and, over most periods in the table below, above our current assumed ROR. We are confident the Plan's investment program, coupled with sponsor and employee contributions, is well positioned to deliver on the Plan's obligations well into the future. It is noteworthy that as of the end of 2020, the Plan's funded status based on the portfolio's market value was a healthy 94.2%.

Sonoma County Employees' Retirement Association
SCERA Summary of Performance (Gross-of-Fees) as of December 31, 2020

	4th Quarter	1 Year	3 Years	5 Years	10 Years	20 Years	25 Years
Plan Return (Gross-of-Fees)	11.6%	8.8%	7.2%	9.5%	9.0%	6.5%	7.8%
Policy Benchmark	10.0%	12.7%	8.8%	10.1%	8.9%	6.5%	7.4%
Difference	1.6%	-3.9%	-1.6%	-0.6%	0.1%	0.0%	0.4%

The impact of fees would be to reduce stated Plan returns by approximately 0.5% per annum.
The Assumed Rate of Return is 7%