

# Comprehensive Annual Financial Report

FOR THE YEAR ENDED DECEMBER 31, 2013

# 2013



**SAN JOAQUIN COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**

A Pension Trust Fund of the County of  
San Joaquin, California and Nine Special Districts

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San Joaquin, California and Nine Special Districts



# **Comprehensive Annual Financial Report**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

# **2013**

**ISSUED BY:**

Annette St. Urbain  
Chief Executive Officer

Lily Cherng, CPA  
Retirement Financial Officer

**SAN JOAQUIN COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**

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Stockton, California 95202

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TRUE MORALITY

CONSISTS NOT IN FOLLOWING THE BEATEN TRACK, BUT IN FINDING THE TRUE

PATH FOR OURSELVES, AND FEARLESSLY FOLLOWING IT. — MAHATMA GANDHI

RARELY KNOW WHAT PATH IS BEST

WHEN WE TAKE THAT FIRST STEP.

CHRISTINE FEEHAN

# 2013

ARE HEADED

IN THE RIGHT DIRECTION. — MOLLY FRIEDENFELD

WHEN YOUR FOOTSTEPS AND THOUGHTS

IT'S ALL WELL AND GOOD TO

CARRY YOU

DOWN THE SAME PATH YOUR

HEART AND SOUL ARE DIRECTING YOU, YOU WILL KNOW WITHOUT A DOUBT THAT YOU

LOOK BACK AFTER THE FACT AND SEE WHAT WE SHOULD HAVE DONE, BUT WE

THE JOURNEY FROM FIRST EMPLOYMENT TO RETIREMENT HAS MANY VARIED PATHS LEADING TO A SIMILAR DESIRED DESTINATION: AN ADEQUATE AND SECURE RETIREMENT BENEFIT.

EACH SJCERA MEMBER HAS A DIFFERENT HISTORY, CONNECTION, ROLE, AND GOAL FOR OUR WORK AND LIFE IN SAN JOAQUIN COUNTY. OUR JOURNEY'S PACE AND DEGREE OF DIFFICULTY CHANGES WITH EACH HILL AND VALLEY, HEADWIND AND TAILWIND, CAREFUL DECISION AND CARELESS MISTAKE. OUR PERSPECTIVE ON THE SURROUNDING LANDSCAPE CHANGES WITH OUR PROGRESS ON THE PATH. CLEAR FOCUS ON THE ULTIMATE DESTINATION REDUCES DISTRACTIONS AND IMPROVES OUR SUCCESS.

PLANNING, SAVING, AND INVESTING FOR RETIREMENT REQUIRES PRUDENCE, PATIENCE, AND PERSEVERANCE. WE ARE ON THIS JOURNEY TO ENSURE WE ENDURE FOR THE LONG TERM, NOT SPRINT TO THE TOP OF THE FIRST HILL AHEAD OF THE PACK.

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2013 WAS THE FIRST YEAR THE PUBLIC EMPLOYEES' PENSION REFORM ACT, ALSO KNOWN AS PEPPRA, TOOK EFFECT. FIVE HUNDRED FIFTY-SEVEN (557) NEW EMPLOYEES BECAME MEMBERS OF SJCERA TIER II.

SJCERA HAS OVER 12,000 MEMBERS: 6,900 ACTIVE OR DEFERRED, AND 5,100 RETIRED.

# INTRODUCTION

Whether you are just entering the workforce or nearing retirement age, planning for the future is critical.

—RON LEWIS



# Introduction

## LETTER FROM CHAIR OF THE BOARD



On behalf of the Board of Retirement, I am pleased to present this Comprehensive Annual Financial Report for the San Joaquin County Employees' Retirement Association.

This CAFR is provided to all participating employers, and to the employee and retiree organizations that represent the members of SJCERA; the dedicated public employees who provide services, assistance, and support to the people of San Joaquin County. While the focus of this report is on information related to the financial status of the retirement system, it also highlights other changes that occurred during the year.

The Board is responsible for the administration of the retirement system in a manner that assures the prompt delivery of benefits and related services. As fiduciaries, the Board is responsible for prudently investing and managing pension trust assets to ensure proper funding of earned benefits and minimizing risk. We take seriously the trust you have placed in us to successfully discharge these duties on behalf of our members and their beneficiaries.

We thank the Audit Committee of the Board for its independent oversight of SJCERA's accounting and financial reporting as reflected in this CAFR.

We appreciate the dedicated effort of SJCERA staff and the partnership of our professional consultants and advisors who contribute to the continued success of SJCERA.

A handwritten signature in black ink that reads "Steve J. Bestolarides". The signature is written in a cursive style with a large, stylized "S" and "B".

Steve Bestolarides  
Chairperson, Board of Retirement

## LETTER OF TRANSMITTAL



# San Joaquin County Employees' Retirement Association

6 S. El Dorado Street, Suite 400 • Stockton, CA 95202 • (209) 468-2163 • (209) 468-0480 • www.sjcera.org

June 5, 2014

Board of Retirement  
6 S. El Dorado Street, Suite 400  
Stockton, CA 95202

Dear Board Members:

As the Chief Executive Officer of the San Joaquin County Employees' Retirement Association (SJCERA), I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the years ended December 31, 2013 and 2012.

This CAFR is intended to provide users with extensive and reliable information for making management decisions and determining compliance with legal provisions, and demonstrates the responsible management and stewardship of SJCERA. The management of SJCERA is responsible for both the accuracy of the data and the completeness and fairness of the presentation in this CAFR. To the best of management's knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System. This *Letter of Transmittal* is presented as a narrative introduction, overview and analysis and should be read in conjunction with the *Management's Discussion and Analysis* included in the Financial Section of this CAFR.

## SJCERA AND ITS SERVICES

### SJCERA Mission Statement

*We are trusted financial stewards committed to provide excellent service and lifetime retirement benefits to our members.*

SJCERA was established by the San Joaquin County Board of Supervisors by Ordinance No. 485, dated June 28, 1946, and is governed by the California State Constitution and the County Employees Retirement Law of 1937 (CERL), California Government Code, Section 31450 et. seq. SJCERA is a multi-employer public employee retirement system that provides retirement, disability, and survivors' benefits to eligible general and safety members employed by the County of San Joaquin and nine other public agencies:

- Lathrop-Manteca Rural Fire Protection District
- Mountain House Community Services District
- San Joaquin Local Agency Formation Commission
- San Joaquin County Historical Society and Museum
- San Joaquin County Law Library

- San Joaquin County Mosquito and Vector Control District
- San Joaquin County Superior Court
- Tracy Public Cemetery District
- Waterloo-Morada Rural Fire Protection District

The SJCERA Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances, and managing the investment of plan assets. The Board oversees the Chief Executive Officer and staff in the performance of their duties in accordance with the CERL and the bylaws, policies, and procedures adopted by the Board. The San Joaquin County Board of Supervisors, as the sponsor of the plan, may also adopt resolutions as authorized by the CERL that affect benefits of SJCERA members.

The SJCERA Board of Retirement is a nine-member board, with one alternate member. The County Treasurer serves as an ex-officio member. Four members are appointed by the San Joaquin County Board of Supervisors, one of which is a County Supervisor. Four members and the alternate member are participants in the plan and are elected by SJCERA members: Two are elected by active General members; one is elected by active Safety members; and two are elected by retired members, one of which is the alternate retired member and only votes in the absence of the retired member. With the exception of the County Treasurer, board members serve three-year terms with no term limits.

Steve Bestolarides, District 3 County Supervisor, was reappointed by the Board of Supervisors for a new term of office ending December 31, 2016, and Assistant County Sheriff Dave Souza will continue to serve as the Seventh (Safety) Member of the Board, having run unopposed in the June 2013 election for the three-year term ending June 30, 2016.

## HIGHLIGHTS OF YEAR 2013

The California Public Employees' Pension Reform Act of 2013 took effect January 1, 2013. This Act, also known as "PEPRA," mandates a lower benefit structure for new employees entering public retirement system membership on or after January 1, 2013, that is uniform across all public employers subject to this law.

While the impact of PEPRA on current members and retirees of SJCERA is minimal, it establishes a new tier of benefits for new members. For SJCERA, the benefit structure in place prior to PEPRA is designated as "Tier I," and the benefits mandated by PEPRA are designated as "Tier II." Members of Tier II pay higher member contributions, have a lower retirement benefit formula, an older age for retirement eligibility and a longer final compensation period than members of Tier I. PEPRA sets limits (indexed annually based on changes in CPI) on the amount of compensation earned by a member each year that is pensionable. PEPRA also establishes the standard of equal sharing of the normal cost of retirement benefits between employers and employees, and prohibits employers from paying any of the required employee contributions.

Since its enactment, SJCERA has dedicated substantial resources to understanding, interpreting, implementing, and communicating PEPRA pension reform. We have also participated in efforts

## LETTER OF TRANSMITTAL

of statewide associations of public pension systems to discuss and address implementation challenges and pursue technical and conforming amendments to facilitate implementation.

The changes enacted by PEPRA are intended to reduce the long-term cost, assure the sustainability of public employee pensions, and provide an adequate and secure retirement income to employees who dedicate their careers to serving the public. It will take a number of years for significant cost savings from the plan design changes enacted by PEPRA to be realized and the adequacy of retirement income under PEPRA to be assessed.

Beginning in 2011, the County and some special district employers have established employment resolutions and collective bargaining agreements that increase the employees' share of the cost of funding their retirement benefits. As of the close of 2013, most general members and some safety members pay one-half of the cost of pre-funding post-retirement cost-of-living adjustments. Prior to 2012, the employer paid 100% of the cost to fund this benefit. In 2013, some of these members also began paying an additional percentage of the basic member contribution rate. These increases in the employees' share of pension costs reduce the employers' required contribution.

Many believe that the pension reforms enacted by PEPRA are appropriate, necessary, and reasonable; yet others believe PEPRA did not go far enough. Some pension reform advocates are pressing for more dramatic changes to public employee pensions, including closing the current defined benefit plans and instead only providing contributions to a 401(k) plan for new public employees. Ballot initiatives to do just that were passed in 2012 by voters in the cities of San Diego and San Jose. The legality of these measures was subsequently challenged, particularly with respect to their impact on existing employees. Under current rules, the benefits provided to current workers generally cannot be reduced once granted. A similar initiative to reform public pension benefits in Ventura County has qualified for the November 2014 ballot.

While these measures are aimed at more immediately reducing or eliminating the pension obligations of fiscally constrained local governments, these reforms also shift all of the risk for full funding, benefit adequacy, longevity, and investment return to individual employees. Inadequate financial preparation for retirement is a growing national concern; all employees should have effective means to pursue retirement security. The pooled risks and professionally managed pooled investments of defined benefit pensions have proven over the long term to be a very cost-effective way to provide an adequate and secure retirement income to large groups of employees.

The pension benefits provided by participating employers through SJCERA is an important component of total compensation, and impacts recruitment and retention of a knowledgeable, skilled, and experienced public work force to provide essential services, assistance, and support to the people of San Joaquin County.

As the entity responsible for the administration and proper funding of earned pension benefits for our members and their beneficiaries, SJCERA will continue to serve as a trusted and impartial provider of information and expertise to plan sponsors and collective bargaining representatives.

The County and all SJCERA participating employers continue to contribute the full amount of the annual contribution required to appropriately fund accrued benefits for SJCERA members and their beneficiaries. Plan assets are growing steadily. We know you rely on SJCERA for your retirement, and we are honored to safeguard both your assets and your trust.

## FINANCIAL INFORMATION

SJCERA management acknowledges it is responsible for the entire contents of this CAFR, as well as for establishing and maintaining internal controls that ensure SJCERA's financial reporting is accurate and reliable and that SJCERA's assets are protected from loss, theft, or misuse.

Brown Armstrong Accountancy Corporation, a certified public accounting firm, has audited SJCERA's financial statements and related disclosures, which are prepared by management, and attests they are presented in conformity with generally accepted accounting principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and are free from material misstatement. Internal controls are sufficient to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. The accompanying basic financial statements and transactions of the organization are prepared on the accrual basis of accounting.

Maintaining appropriate internal controls is the responsibility of management; however, management recognizes that no control or combination of controls can entirely free an organization from all error or misstatement. At their best, controls provide reasonable assurance such failings do not occur. The concept of reasonable assurance recognizes the cost of a control should not exceed benefits likely derived; the valuation of costs and benefits requires estimates and judgments by management. SJCERA management is confident the established internal controls and the interactions of those controls detect all significant occurrences and prevent noteworthy inaccuracies. SJCERA recognizes that even sound internal controls have inherent limitations. We believe that SJCERA's internal controls are designed to provide reasonable, but not absolute assurance.

## ACTUARIAL FUNDING STATUS

SJCERA's funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, obtaining superior investment returns consistent with established risk controls, and minimizing employer contributions to the retirement fund. The advantage of a well-funded plan is that the benefits earned by plan participants are funded during their working careers and not by future generations of taxpayers. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SJCERA smoothes the calculation of actuarial assets over a rolling five-year period. This not only stabilizes contribution rates but also improves the ability of employers to plan for possible future adjustments to the retirement contribution rates.

## LETTER OF TRANSMITTAL

SJCERA engages a professional pension actuary to perform an annual actuarial valuation of the pension plan. The purpose of the annual valuation is to reassess the value of the benefit commitments and compare this to the assets expected to be available to support those commitments so employer and employee contribution rates can be adjusted accordingly. Economic assumptions are reviewed annually. The most recent annual actuarial valuation was performed as of January 1, 2013, by Cheiron (formerly EFI Actuaries).

Additionally, every three years, a triennial experience study is performed and the non-economic assumptions are reviewed. The experience study compares the assumed rate at which SJCERA's members terminate employment, retire, become disabled, or die to the actual experience of the plan for the previous three years. If actual experience differs significantly from what was expected, the assumptions are adjusted as appropriate.

The most recent actuarial valuation and triennial experience study completed as of December 31, 2012, recommended changes in plan assumptions that recognize our retirees are living longer and reduce the expected long-term rate of inflation, which also reduces the expected return on plan assets. The changes in plan assumptions adopted by the Board in 2013, resulted in significant employer contribution increases beginning in 2014. The County requested, and the Board agreed, to phase-in the impact of the plan assumption changes on employer contribution rates over three years, including interest on any contribution shortfall from the full employer rates without the phase in. This approach is consistent with model practice specified by the California Actuarial Advisory Panel (CAAP).

The actuarial funding status is determined from a long-term, ongoing perspective. The valuation determines the progress made in accumulating sufficient assets to pay benefits when due. As of January 1, 2013, the pension plan's actuarial accrued liability was \$3.35 billion, the actuarial value of assets was \$2.1 billion, and the unfunded actuarial accrued liability was \$1.2 billion. The funding status (the ratio of plan assets to plan liabilities) decreased to 67.1% before any method or assumption changes. This decrease was partly due to the rate of return on the actuarial value of assets being lower than the assumed return of 7.50% due to recognition of investment losses in 2008. The funded ratio further decreased from 67.1% to 63.4% following the method and assumption changes adopted by the Board and applied to the annual actuarial valuation as of January 1, 2013. A more detailed discussion of funding is provided in the Actuarial Section of this report.

In 2009, the Board of Retirement deemed one-half of the unprecedented decline in market value of assets experienced in 2008 as an Extraordinary Actuarial Loss to be separately amortized as a level percentage of pay over a closed 30-year period. The Board also modified the funding policy for the plan to amortize the remaining Unfunded Actuarial Accrued Liability (UAAL) using a 20-year open period until January 1, 2014. Thereafter, the amortization period will be decreased by one year in each valuation report until a 12-year amortization period is reached. Previously, the plan's entire UAAL was amortized as a level percentage of pay over an open 10-year period.

For the actuarial valuation as of January 1, 2013, the Board lowered its assumed annual rate of return on investments to 7.50%. The actual return on investments for calendar year 2013 was 9.7%. As of January 1, 2013, deferred gains under the five-year smoothing method exceeded losses by \$23.8 million. For the annual actuarial valuation as of January 1, 2014, the portion of deferred gains to be recognized are expected to exceed deferred losses to be recognized.

## INVESTMENTS

The California Constitution and the CERL confer exclusive control and fiduciary responsibility for investing SJCERA's funds on the Board of Retirement. Board members are legally required to carry out their duties under a standard of care in California commonly known as the "prudent expert rule." The prudent expert rule requires fiduciaries to discharge their duties solely in the interest of the fund participants and beneficiaries with the degree of diligence, care and skill that a prudent person familiar with such retirement and investment matters would ordinarily exercise under similar circumstances in a like capacity.

The Board has adopted investment policies that establish the investment program goals, asset allocation, performance objectives, investment management policies, and risk controls on investments. These provide the framework for the management of SJCERA's investments and define the principal duties of the Board, custodian bank, and investment managers. The asset allocation is an integral part of the Board's investment policy and is designed to provide an optimal diversified mix of assets with return expectations that correspond to expected liabilities, while reducing overall risk. A summary of SJCERA's asset allocation can be found in the Investment Section of this report.

Under the CERL, the Board is authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. The Board delegates much discretion to professional investment managers subject to investment policy and guidelines approved by the Board. SJCERA's assets are managed exclusively by external professional investment managers. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines.

The Board uses the services of a general investment consultant, Strategic Investment Solutions, Inc., and a real estate investment consultant, Courtland Partners, who, together with SJCERA staff, assist the Board in formulating investment policies and objectives, setting asset allocation, developing investment manager guidelines, and monitoring investment manager performance and compliance.

Investing plan assets with the liabilities in mind has been a key component of the Board's work in recent years on funding policy, investment policy, asset allocation, and investment manager structure. Rather than simply looking to maximize the return from individual asset classes, there is an improved awareness of risk in terms of growth, liquidity, volatility and

## LETTER OF TRANSMITTAL

inflation. The Board's current asset allocation is intended to make the portfolio more efficient and balanced to varying economic environments, and allocates active risk to a variety of uncorrelated investment strategies that have the potential to generate greater positive returns than the broad market. In general, the Board uses active management for asset classes and strategies for investments in less efficient markets where active decision-making has greater return potential, and passive or low tracking error management in more efficient markets where it is more difficult for active managers to achieve sustained returns in excess of the broad market indices over long periods of time. SJCERA will continue efforts to identify opportunistic investment strategies and managers with a correlation and risk profile that will enhance overall portfolio returns while reducing volatility.

For the year ended December 31, 2013, the portfolio gained 9.7% before fees. The Board's economic assumptions anticipate a 7.50% annualized rate of return. SJCERA's annualized rate of return before fees was 7.5% over the last three years, 10.2% over the last five-years, and 5.1% over the last ten years. For the year ended December 31, 2012, the portfolio gained 11.8% before fees.

The Investment Section of this report presents a summary of SJCERA's investment results, asset allocation, investment holdings, and other investment-related information.

## PROFESSIONAL SERVICES

Professional consultants and investment managers are retained by the Board of Retirement to provide professional services that are essential to the effective and efficient operations of SJCERA. The consultants and investment managers retained by the Board are listed on page 17 of this report.

This report includes an opinion from SJCERA's independent auditors, a letter from its general investment consultant, and a letter of certification from SJCERA's retained actuary.

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SJCERA for its Comprehensive Annual Financial Report for the Year Ended December 31, 2012. The Certificate of Achievement, reproduced on page 12, is a national award recognizing excellence in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we will again submit it to GFOA for appraisal.

### PUBLIC PENSION COORDINATING COUNCIL

SJCERA received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR).

### ACKNOWLEDGEMENT

This report is intended to provide complete and reliable information as the basis for making management decisions, determining compliance with legal provisions, and demonstrating the Board's responsible stewardship of SJCERA. The compilation of this report reflects the combined and dedicated effort of the SJCERA staff, in particular Retirement Financial Officer Lily Cherng and Retirement Investment Accountant Felipa Maliwat.

I appreciate the Board of Retirement for its leadership and dedication, which provide the basis for a strong retirement system. I value the staff of the SJCERA and their commitment and consistent effort to provide excellent service to our active and retired members. We are proud to count ourselves among the many public employees who diligently serve the people of San Joaquin County. We are grateful for the partnership of our consultants and advisors, and the many people whose dedicated efforts assure the successful operation of SJCERA.

Respectfully submitted,



Annette St. Urbain  
Chief Executive Officer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**San Joaquin County  
Employees' Retirement Association  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2012**

Executive Director/CEO



Public Pension Coordinating Council  
**Public Pension Standards**  
**2013 Award**

Presented to

**San Joaquin County Employees' Retirement Association**

In recognition of meeting professional standards for  
plan design and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

MEMBERS OF THE BOARD OF RETIREMENT AS OF DECEMBER 31, 2013



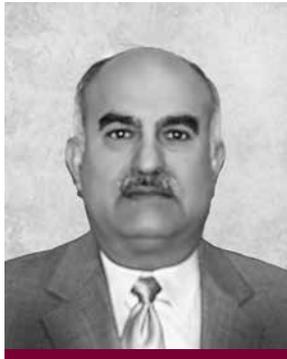
**STEVE BESTOLARIDES**  
CHAIR  
APPOINTED BY  
BOARD OF SUPERVISORS



**LAWRENCE MILLS**  
VICE-CHAIR  
ELECTED BY  
RETIRED MEMBERS



**RAYMOND MCCRAY**  
SECRETARY  
APPOINTED BY  
BOARD OF SUPERVISORS



**SHABBIR KHAN**  
TREASURER  
TAX COLLECTOR  
EX-OFFICIO MEMBER



**MICHAEL RESTUCCIA**  
APPOINTED BY  
BOARD OF SUPERVISORS



**MICHAEL DUFFY**  
APPOINTED BY  
BOARD OF SUPERVISORS



**CINDY GORMAN**  
ELECTED BY  
GENERAL MEMBERS



**J.C. WEYDERT**  
ELECTED BY  
GENERAL MEMBERS



**DAVID SOUZA**  
ELECTED BY  
SAFETY MEMBERS



**RICHARD CALLISTRO**  
ELECTED BY RETIRED  
MEMBERS - ALTERNATE

# Introduction

## SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION STAFF



SEATED ROW:  
(left to right)

Lily Cherng, Nancy Calkins, Annette St. Urbain,  
Patricia Pabst, Tallie Claypool

MIDDLE ROW:

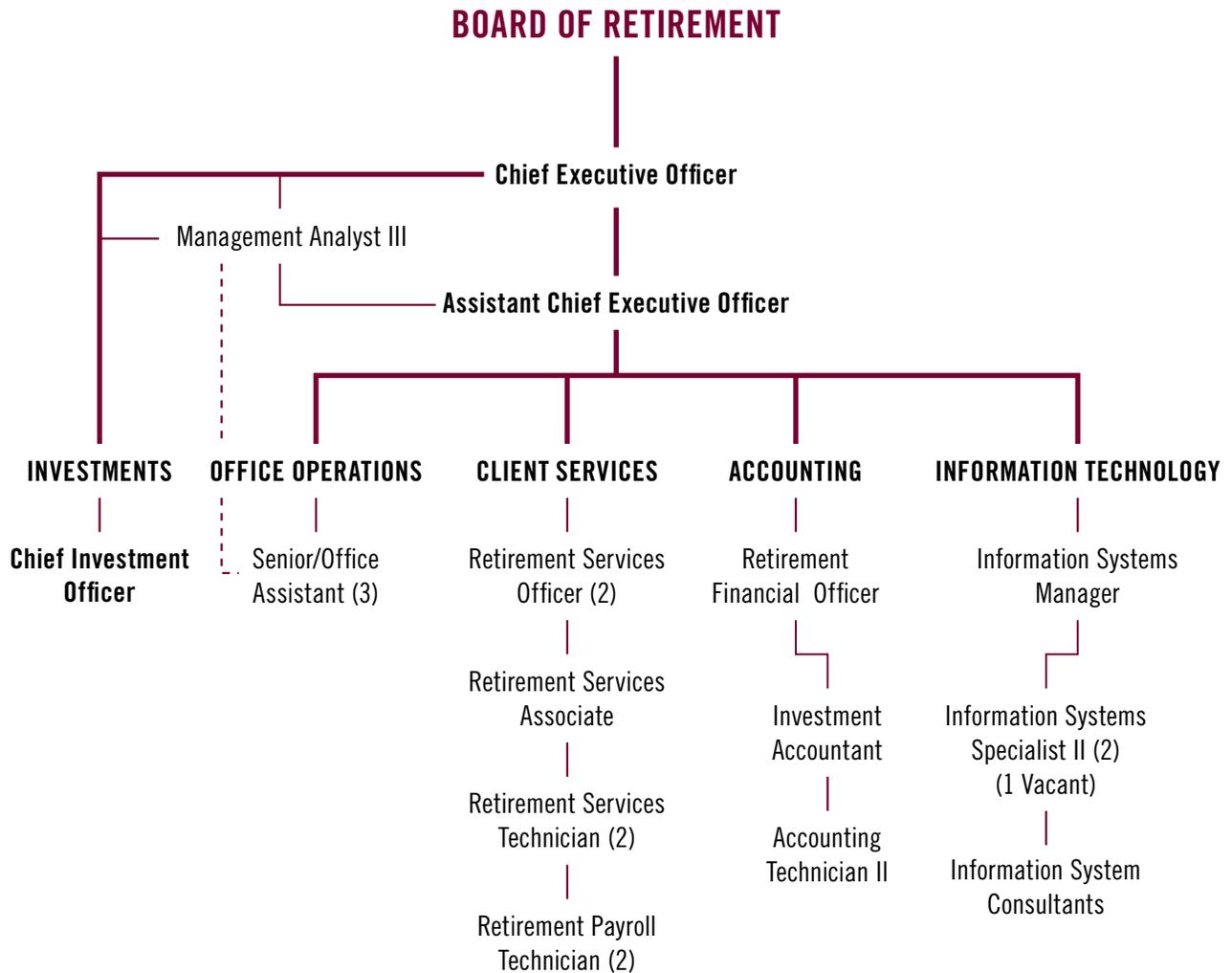
Mary Chris Johnson, Mercy Tayabas, Melinda DeOliveira,  
Jordan Regevig, Nieves Atterberry, Felipa Maliwat, Beatriz Garcia

BACK ROW:

Dana Duley, Tim Ankcorn, Greg Frank, Marissa Smith,  
Stephanie Conner, Debra Khan

ADMINISTRATIVE ORGANIZATION CHART

# San Joaquin County Employees' Retirement Association



### CONSULTING SERVICES

#### Actuary

Cheiron Actuaries

#### Auditors

Brown Armstrong Accountancy  
Corporation

#### Custodian

Northern Trust Company

#### Information Systems

IG, Incorporated  
V.2 Consulting

#### Investment Consultants

Courtland Partners  
Strategic Investment Solutions

#### Legal Counsel

Hanson, Bridgett, Marcus, Vlahos  
& Rudy  
Haydel and Ornellas  
Morrison & Foerster  
San Joaquin County Counsel

#### Securities Lending

Northern Trust Company

### INVESTMENT MANAGERS

#### U.S. Equity

Bernzott Capital Advisors  
BlackRock  
Capital Prospects  
Castleark Management  
Channing Capital Management  
EAM Investors  
InView Investment Management  
Keeley Asset Management  
Lee Munder Capital Group  
Legato Capital Management  
Pacific Ridge Management  
Riverbridge Partners  
Stephens Investment Group  
Walhausen & Co

#### Non-U.S. Equity

BlackRock  
Research Affiliates

#### Global Equity

Kleinwort Benson Investors

#### Fixed Income

Dodge & Cox Investment Managers  
DoubleLine Capital  
Mesa West Capital  
Prima Capital Advisors  
Stone Harbor Investment Partners

#### Real Estate

Almanac Realty  
Colony Realty Partners  
EII Capital Management  
Greenfield Partners  
Invesco Advisors, Inc.  
Legacy Partners  
Miller Global Properties  
Prologis  
RREEF  
Sarofim Realty Advisors  
Walton Street Capital

#### Real Asset

Bridgewater Associates  
Schroders Investment Management

#### Global Opportunistic Strategy

Bridgewater Associates  
Crestline Associates  
Marinus Capital Advisors  
Medley Capital  
Morgan Creek Capital  
Mount Lucas Management  
Ocean Avenue Capital Partners

#### Risk Parity

Bridgewater Associates  
Parametric Clifton Institutional  
Investment Solutions  
PIMCO

#### Short Term Investment

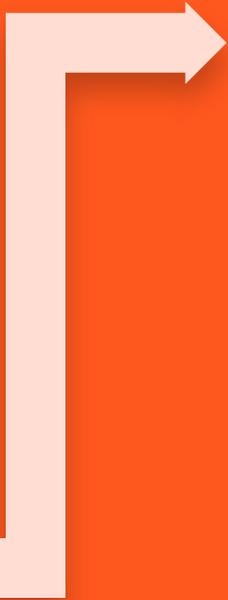
Parametric Clifton Institutional  
Investment Solutions  
STIF - Northern Trust

Note: For fees paid to investment professionals, refer to *Schedule of Investment Expenses* in the Financial section.

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Time is key to building your financial security.

—SUZE ORMAN



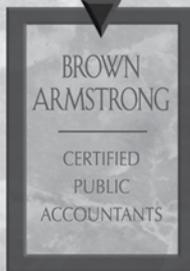
IN 2013, EMPLOYERS CONTRIBUTED \$119.5 MILLION, MEMBERS CONTRIBUTED \$22.7 MILLION, AND EARNINGS ON INVESTMENTS ADDED \$198.5 MILLION TO PLAN ASSETS, TOTALING \$2.3 BILLION AT YEAR END. THE COUNTY AND THE MAJORITY OF ITS EMPLOYEES EQUALLY SHARE THE NORMAL COST OF PRE-FUNDING POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS.

# FINANCIAL

Financial literacy is just as important in life as the other basics.

—JOHN W. ROGERS, JR





## BROWN ARMSTRONG

*Certified Public Accountants*

### INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Retirement of the  
San Joaquin County Employees' Retirement Association

#### Report on the Financial Statements

We have audited the accompanying Defined Benefit Pension Plan and Post-Employment Healthcare Agency Fund Statement of Plan Net Position of the San Joaquin County Employees' Retirement Association (SJCERA) as of December 31, 2013, and the related Defined Benefit Pension Plan Statement of Changes in Pension Plan Net Position for the year then ended and the related notes to the financial statements, which collectively comprise SJCERA's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. The December 31, 2012, comparative information has been derived from the 2012 financial statements and is included for additional analysis only. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 SJCERA'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 SJCERA'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.



REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Position of the Defined Benefit Pension Plan and Post-Employment Healthcare Agency Fund of the SJCERA as of December 31, 2013, and the changes in its Plan Net Position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 opinions on the financial statements that collectively comprise SJCERA's basic financial statements as a whole. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical 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 assurances on them.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2014, on our consideration of SJCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SJCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
June 5, 2014

The discussion and analysis of the San Joaquin County Employees' Retirement Association's (SJCERA) financial performance provides an overview of the financial activities for the year ended December 31, 2013. This discussion and analysis needs to be read in conjunction with SJCERA's financial statements, which follow this discussion.

### Financial Highlights

- Overall, SJCERA fund's return on plan net position is 8.4%.
- SJCERA's plan net position of \$2,341.5 million at December 31, 2013, increased by \$181.1 million, or 8.4%, as a result of this year's operation.
- SJCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2013, the date of the last actuarial valuation, the funded ratio for the actuarial accrued liability was approximately 63.4%. In general, this indicates that for every dollar of benefits liability, SJCERA has \$0.63 of plan net position to cover it. (Note 1c provides a more detailed explanation of recent changes in funded ratio.)
- Revenues for the year were \$340.6 million, a decrease of \$18.7 million, or 5.2%, from the prior year's \$359.3 million. The decrease was mainly caused by the decrease in unrealized gains in comparison to the prior year.
- Expenses for the year were \$159.5 million, an increase of \$10.7 million, or 7.2%, from the prior year's \$148.8 million. This increase was primarily due to the \$10.6 million increase in pension benefit payments to retirees.

### Statement of Plan Net Position and Statement of Changes in Pension Plan Net Position

This annual financial report consists of two financial statements:

1. The Statement of Plan Net Position provides a snapshot of account balances at year-end and indicates the assets available for future payments to retirees and any current liabilities that are owed at this time. The assets, less liabilities, give the reader a clear picture of what funds are available for future payments.
2. The Statement of Changes in Pension Plan Net Position gives the reader a view of current year additions and deductions to SJCERA.

	2013	2012	INCREASE (DECREASE) AMOUNT	PERCENT CHANGE
Cash and Receivables	\$ 198,192,037	\$ 219,183,974	\$ (20,991,937)	-9.58%
Investments	2,256,908,301	2,054,715,133	202,193,168	9.84%
Other Assets	508,820	587,978	(79,158)	-13.46%
<b>Total Assets</b>	<b>2,455,609,158</b>	<b>2,274,487,085</b>	<b>181,122,073</b>	<b>7.96%</b>
<b>Total Liabilities</b>	<b>114,096,795</b>	<b>114,071,626</b>	<b>25,169</b>	<b>0.02%</b>
<b>Total Plan Net Position</b>	<b>\$ 2,341,512,363</b>	<b>\$ 2,160,415,459</b>	<b>\$ 181,096,904</b>	<b>8.38%</b>

## MANAGEMENT’S DISCUSSION AND ANALYSIS

Together these two statements report SJCERA’s plan net position—the difference between assets and liabilities—as one way to measure SJCERA’s financial position. Over time, increases and decreases in plan net position is one indicator of whether SJCERA’s financial situation is improving or deteriorating. Additional factors, such as market conditions, also need to be considered in assessing SJCERA’s overall financial situation.

An important question asked about SJCERA’s financial condition is, “Does SJCERA have sufficient assets to pay the pension benefits that have been promised to the membership?” The two financial statements provide information about SJCERA’s activities in a way that helps answer this question. In summary, our current funding ratio, based on the January 1, 2013 valuation, is 63.4% and this means that SJCERA has \$0.63 for each \$1.00 of pension liability. It should be noted for pensions that are permanent and ongoing (such as SJCERA), funding ratios of better than 70.0% are considered adequately funded.

### Revenue – Additions to Pension Plan Net Position

The reserves needed to finance the retiree benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. The contributions and investment income for the year ended December 31, 2013, totaled \$340.4 million. Of the total \$198.2 million in net investment income, \$178.2 million is attributable to net appreciation in the fair market value of investments.

The overall year 2013 revenues decreased by \$18.7 million from that of the prior year, primarily due to much less appreciation in the fair market value of investments when compared to the prior year.

The employers’ contributions increased by \$11.4 million, or 10.6%, over the prior year, while employees’ contributions increased by \$2.8 million, or 14.0%, over the prior year. The County and the majority of its employees agreed to equally share the normal cost of pre-funding post-retirement cost-of-living adjustments. Prior to 2012, the employer paid 100% of the cost to fund this benefit.

Below is the summary of the changes from year 2012 to year 2013.

	2013	2012	INCREASE (DECREASE) AMOUNT	PERCENT CHANGE
Employers' Contributions	\$ 119,494,319	\$ 108,062,510	\$ 11,431,809	10.58%
Members' Contributions	22,689,882	19,900,088	2,789,794	14.02%
Net Investment and Miscellaneous Income	198,244,863	231,015,504	(32,770,641)	-14.19%
Transfer between Plans	204,375	339,344	(134,969)	-39.77%
<b>Total</b>	<b>\$ 340,633,439</b>	<b>\$ 359,317,446</b>	<b>\$ (18,684,007)</b>	<b>-5.20%</b>

### Expenses – Deductions from Pension Plan Net Position

The primary expenses of SJCERA include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, and the cost of administering the defined benefit pension plan. Expenses for the year 2013 totaled \$159.5 million, an increase of 7.2% over 2012. The increase is attributed to the additional benefit payments for retirees, as well as the growth in the number and average amount of benefits paid to retirees.

	2013	2012	INCREASE (DECREASE) AMOUNT	PERCENT CHANGE
Benefit Payments	\$ 153,620,152	\$ 143,061,687	\$ 10,558,465	7.38%
Members Death Benefits	612,733	607,453	5,280	0.87%
Refunds	1,168,934	1,308,900	(139,966)	-10.69%
Administrative and Miscellaneous	4,134,716	3,869,321	265,395	6.86%
<b>Total</b>	<b>\$ 159,536,535</b>	<b>\$ 148,847,361</b>	<b>\$ 10,689,174</b>	<b>7.18%</b>

### Reporting SJCERA's Fiduciary Responsibilities

SJCERA's Board of Retirement and staff are fiduciaries for the pension plan of the County of San Joaquin and certain special districts. Accordingly, SJCERA is responsible for ensuring that the assets reported in the statements are used for the intended purpose of paying retirement benefits to the retired employees of the County of San Joaquin and certain special districts.

### The Retirement Fund as a Whole

The fund increased by 8.4% for 2013 from 2012; the net increase in the fair market value of investments was \$202.2 million versus the prior year's increase of \$203.5 million. The investment section of Note 3d of this report reviews the result of investment activity for the year ended December 31, 2013.

### Contacting SJCERA's Management

This financial report is designed to provide the Board of Retirement, the membership, taxpayers, and investment managers with a general overview of SJCERA's finances and to show SJCERA's accountability for the money it receives. Any questions about this report, or need for additional financial information, can be addressed to Annette H. St. Urbain, Chief Executive Officer, 6 South El Dorado Street, Suite 400, Stockton, California 95202.

Respectfully Submitted,



Annette H. St. Urbain  
Chief Executive Officer

STATEMENT OF PLAN NET POSITION AVAILABLE FOR BENEFITS  
AS OF DECEMBER 31, 2013 AND 2012

**SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STATEMENTS OF PLAN NET POSITION  
AS OF DECEMBER 31, 2013 AND 2012**

	2013		2012	
	Defined Benefit Pension Plan	Post- Employment Healthcare Agency Fund	Defined Benefit Pension Plan	Post- Employment Healthcare Agency Fund
<b>Assets</b>				
Cash and Cash Equivalents	\$ 62,574,166	\$ 530,442	\$ 99,074,454	\$ 854,090
Cash Collateral - Securities Lending	107,126,504	908,111	108,957,685	939,291
Total Cash and Cash Equivalents	169,700,670	1,438,553	208,032,139	1,793,381
Receivables				
Investment Income Receivables	2,774,881	23,524	2,395,677	20,652
Contributions Receivable	7,537,892	-	6,661,993	-
Securities Sold, Not Received - Domestic	18,162,236	153,961	2,078,343	17,917
Other Investment Income Receivable	536	-	53	-
Miscellaneous Receivables	15,822	-	15,769	-
Total Receivables	28,491,367	177,485	11,151,835	38,569
Investments, at Fair Market Value				
Fixed Income	484,341,760	4,105,764	528,651,982	4,557,347
U.S. and Non U.S. Equities	891,888,949	7,560,540	734,025,936	6,327,812
Global Equity	59,253,441	502,291	31,065,682	267,807
Real Estate	258,866,921	2,194,414	243,187,074	2,096,441
Real Asset	155,406,359	1,317,379	171,933,365	1,482,185
Global Opportunistic Strategy	178,452,433	1,512,741	159,004,436	1,370,729
Risk Parity	228,698,438	1,938,676	186,846,658	1,610,748
Total Investments, at Fair Market Value	2,256,908,301	19,131,805	2,054,715,133	17,713,069
Other Assets				
Prepaid Expenses	81,357	-	100,529	-
Equipment and Fixtures, Net	427,463	-	487,449	-
Total Assets	2,455,609,158	20,747,843	2,274,487,085	19,545,019
<b>Liabilities</b>				
Securities Lending - Cash Collateral	107,126,504	908,110	108,957,685	939,291
Securities Purchased, Not Paid	5,432,718	46,053	3,783,034	32,612
Accrued Expenses and Other Payables	1,537,573	13,034	1,328,671	11,454
Securities Lending Interest and Other Expense	-	-	2,236	19
Retiree Sick Leave Bank Benefits Payable	-	19,780,646	-	18,561,643
Total Liabilities	114,096,795	20,747,843	114,071,626	19,545,019
<b>Plan Net Position Restricted for Pension Benefits</b>	<b>\$2,341,512,363</b>	<b>\$ -</b>	<b>\$2,160,415,459</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF CHANGES IN PLAN NET POSITION AVAILABLE FOR BENEFITS AS OF DECEMBER 31, 2013 AND 2012

### SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION DEFINED BENEFIT PENSION PLAN STATEMENTS OF CHANGES IN PENSION PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Additions</b>		
Contributions		
Employers' Contributions	\$ 119,494,319	\$ 108,062,510
Members' Contributions	22,689,882	19,900,088
Total Contributions	<u>142,184,201</u>	<u>127,962,598</u>
Net Investment Income		
Investment Income		
Net Appreciation in		
Fair Market Value of Investments	178,161,110	213,075,672
Interest	24,829,363	27,314,271
Dividends	4,796,804	3,040,855
Real Estate Income, Net	7,105,263	2,209,435
Investment Expenses	(17,141,459)	(15,087,444)
Miscellaneous Investment Income	7,804	14,004
Net Investment Income, Before Securities Lending Income (Loss)	<u>197,758,885</u>	<u>230,566,793</u>
Securities Lending Income (Loss)		
Earnings	374,904	412,154
Rebates	176,043	103,546
Fees	(137,436)	(128,646)
Net Securities Lending Income (Loss)	<u>413,511</u>	<u>387,054</u>
Net Investment Income (Loss)	<u>198,172,396</u>	<u>230,953,847</u>
Miscellaneous Income	72,467	61,657
Transfer Between Plans	204,375	339,344
<b>Total Additions</b>	<u>340,633,439</u>	<u>359,317,446</u>
<b>Deductions</b>		
Benefit Payments	153,620,152	143,061,687
Death Benefits	612,733	607,453
Refunds of Members' Contributions	1,168,934	1,308,900
Administrative and Other Expenses		
General Administrative Expenses	3,672,857	3,403,139
Actuary Fees	217,819	188,235
Fund Legal Fees	244,040	277,947
Total Administrative and Other Expenses	<u>4,134,716</u>	<u>3,869,321</u>
<b>Total Deductions</b>	<u>159,536,535</u>	<u>148,847,361</u>
Changes in Pension Plan Net Position	181,096,904	210,470,085
Net Position Restricted for Pension Benefits		
Beginning of Year	<u>2,160,415,459</u>	<u>1,949,945,374</u>
End of Year	<u>\$ 2,341,512,363</u>	<u>\$ 2,160,415,459</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

The San Joaquin County Employees' Retirement Association (SJCERA) is the public employee retirement system established by the County of San Joaquin (County) and is administered by the Board of Retirement of SJCERA to provide retirement, disability, death, and survivor benefits under the County Employees Retirement Law for the employees of the County and certain special districts within the County. SJCERA also administers the Post-Employment Healthcare Agency Fund. The Post-Employment Healthcare Agency Fund is an agency fund of SJCERA. Although the assets of the plans (defined benefit pension and post-employment healthcare) are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to eligible members and beneficiaries of that plan, in accordance with the terms of the plan. A description of the Post-Employment Healthcare Agency Fund is located in Note 2. All notes to the financial statements apply to both plans unless indicated otherwise.

### NOTE 1 – DEFINED BENEFIT PENSION PLAN DESCRIPTION

#### a. General Description

SJCERA is a contributory defined benefit pension plan initially organized on April 29, 1946, under the provisions of the County Employees Retirement Law. SJCERA is administered by the Board of Retirement (Board). Pursuant to Government Code Section 31520.1 and 31520.5, the Board consists of nine regular members, one alternate retired member, and under certain circumstances an alternate safety member. Four members and the alternate member(s) are elected by SJCERA's members, four are appointed by the County Board of Supervisors, and the County Treasurer is an ex-officio member. Board members serve for a term of three years, except for the County Treasurer who is a permanent member.

The Board members as of December 31, 2013, were as follows:

Steve Bestolarides, Chair	Michael Duffy
Larry Mills, Vice Chair	Cindy Garman
Raymond McCray, Secretary	Michael Restuccia
Shabbir Khan, County Treasurer	David Souza
Richard Callistro (Retired Alternate)	J.C. Weydert

SJCERA is a multiple-employer retirement system covering the County and certain special districts including the Historical Society, Local Agency Formation Commission (LAFCO), Lathrop-Manteca Fire District, Law Library, Mosquito and Vector Control District, Mountain House Community Services District, Superior Court, Tracy Public Cemetery District, and Waterloo-Morada Fire District. All employees of these special districts and employees of the County are required, automatically upon appointment to a full-time, permanent position, to become members of SJCERA. Persons who commence covered employment at age 60 or older may irrevocably elect to waive membership in SJCERA. Public Health, a division of the County's Healthcare Services Department, became a participant of SJCERA effective June 27, 1993. Prior to that date, they were members of the California Public Employees' Retirement System (CalPERS). The elected officials of the County may become members of SJCERA by applying to the Board of Retirement. All benefits vest after five years of service.

The Public Employees' Pension Reform Act of 2013 (PEPRA) (Article 4, Chapter 21, Division 7 of Title I of the California Government Code) became operative on January 1, 2013. PEPRA is applicable to most public pension systems in California, and mandates new, lower benefit formulas and later retirement ages for employees entering public employment for the first time on or after January 1, 2013.

For SJCERA, the benefit structure in place prior to PEPRA is designated as "Tier I," and the benefits mandated by PEPRA are designated as "Tier II."

There are two types of memberships:

1. **Safety Member** — Permanent employees engaged in the performance of active law enforcement, including probation officers and fire suppression employees, are considered safety members and are not generally covered by Social Security.
2. **General Member** — All other eligible employees not classified as safety members are considered general members and are covered by Social Security.

### MEMBERSHIP SUMMARY

SJCERA's membership as of December 31, 2013 and 2012, is presented below:

	RETIREEES		BENEFICIARIES		ACTIVE		DEFERRED		TOTAL	
	TIER I	TIER II	TIER I	TIER II	TIER I	TIER II	TIER I	TIER II	TIER I	TIER II
<b>Year 2013</b>										
General	3,615	-	557	-	4,232	516	1,238	21	9,642	537
Safety	715	-	154	-	786	19	151	1	1,806	20
<b>Total</b>	<b>4,330</b>	<b>-</b>	<b>711</b>	<b>-</b>	<b>5,018</b>	<b>535</b>	<b>1,389</b>	<b>22</b>	<b>11,448</b>	<b>557</b>
<b>Year 2012</b>										
General	3,500		541		4,492		1,242		9,775	
Safety	709		147		803		158		1,817	
<b>Total</b>	<b>4,209</b>		<b>688</b>		<b>5,295</b>		<b>1,400</b>		<b>11,592</b>	

### b. Plan Benefits

#### ELIGIBILITY FOR RETIREMENT

##### TIER I:

A Tier I member may retire for service at age 50 or older with five years of service credit, and at least ten years has elapsed since the date of membership. A General Member may retire at any age with 30 or more years of service. A Safety Member may retire at any age with 20 or more years of service.

## NOTES TO THE FINANCIAL STATEMENTS

### TIER II:

A Tier II member may retire for service with five years of service credit upon attaining the minimum retirement age: Age 52 for General Members, and Age 50 for Safety Members.

Any member of SJCERA, regardless of benefit tier, may retire at age 70 with no minimum service credit requirement.

### **RETIREE BENEFITS**

The amount of a monthly allowance at retirement depends upon the type of membership, years of retirement service credit, final compensation, age at retirement, and the optional settlement, if any, elected by the member.

### TIER I:

For Tier I members, final compensation for purposes of computing a retirement allowance is the average monthly salary for the highest twelve consecutive months of employment. In addition to base salary, final compensation may include other items defined as compensation earnable for retirement purposes.

In accordance with a settlement agreement issued on August 22, 2001, SJCERA implemented Government Code Sections 31676.14 and 31664.1 to provide a 2.0% of final compensation for each year of service credit at age 55 1/2 benefit formula for general members of Tier I, and a 3.0% of final compensation for each year of service credit at age 50 benefit formula for safety members of Tier I, effective January 1, 2001. The Settlement also provides an additional \$50 monthly supplemental pay to retirees who retired prior to April 1, 1982, with 15 years or more of County service commencing when the retiree attains age 65. It also provides a supplemental monthly benefit of \$10 per year of service up to 30 years to retirees who retired on or after April 1, 1982, but before January 1, 2001. This "Post 1982" supplemental benefit is payable if sufficient funds exist.

Federal law limits the annual compensation that may be used to calculate retirement benefits (applicable to persons who became SJCERA members January 1, 1996 or later), and the maximum annual benefit payable by SJCERA to any retired member. For 2013, the annual compensation limit under Internal Revenue Code Section 401(a)(17) is \$255,000, and the annual benefit limit under Internal Revenue Code Section 415(b) is \$205,000. Tier I retirees whose statutory benefits from SJCERA would exceed the annual benefit limitation are eligible for the County's Replacement Benefits Plan.

### TIER II:

For Tier II members, final compensation for purposes of computing a retirement allowance is the average monthly salary for the highest thirty-six consecutive months of employment. In addition to base salary, final compensation may include other items defined as pensionable compensation.

Tier II provides a 2% of final compensation for each year of service credit at age 62 benefit formula for general members, and a 2.7% of final compensation for each year of service credit at age 57 benefit formula for safety members. PEPRA specifies the maximum annual compensation that may be used to calculate retirement benefits. A lower limit applies to members whose service under SJCERA is also covered by Social Security, and a higher limit applies to members whose service under SJCERA is not covered by Social Security. These limits are adjusted annually based on changes in the Consumer Price Index. For 2013, these annual compensation limits are \$113,700 and \$136,440.

Active members receive a personalized Annual Member Statement that provides the member's accumulated member contributions and interest, years of service credit, and estimated projected retirement benefits based on various assumptions. Members may also use the benefit calculator on SJCERA's web site ([www.sjcera.org](http://www.sjcera.org)) to estimate their projected retirement benefits under the various available retirement options.

### **COST-OF-LIVING ADJUSTMENT (COLA)**

For both Tier I and Tier II members, monthly allowances are eligible for an annual cost-of-living adjustment (COLA) based on the change in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose area for the previous calendar year, up to a maximum of 3.0%. When the CPI exceeds 3.0% in any year, the difference between the actual change in CPI (rounded to the nearest one-half percent) and the 3.0% ceiling is "accumulated" for future years when the change is less than 3.0%.

The change in CPI for calendar years 2012 and 2011 was 2.65% and 2.68%, respectively. Under the statutory requirements of the County Employees Retirement Law, this change must be rounded to the nearest half percent. Therefore, members received an increase in benefits of at least 2.5% in 2013, and at least 2.5% in 2012, based on the change in the CPI. However, based on the accumulated carry-over balance as of April 2012, some retirees received an increase of up to 3.0% in 2013. The remaining carry-over balance was reduced by the amount of the increase above 2.5%.

The Board implemented "Purchasing Power Protection" (PPP) benefits at the 75% level in 2000, and the 80% level in 2001 for allowances with an "initial retirement date" of April 1, 1982, or earlier, pursuant to Government Code Section 31874.3. A one-time permanent increase was added to the monthly allowance amount to restore purchasing power to 80% of the purchasing power of the original allowance, determined as of April 1, 2001. The monthly allowances, including the PPP benefit, are adjusted each year by the annual COLA.

### **TERMINATED MEMBER'S DEFERRED ALLOWANCE AND WITHDRAWAL BENEFITS**

A member with less than five years of credited service who terminates all employment with participating employers may elect to withdraw his or her accumulated member contributions, including credited interest. A member electing such withdrawal terminates membership in, and forfeits all related rights and benefits from, SJCERA. A terminated member does not have a right to withdraw or otherwise receive employer contributions prior to the member's retirement.

## NOTES TO THE FINANCIAL STATEMENTS

Alternatively, terminated members with less than five years of service may leave their member contributions on account with SJCERA and continue participating in interest accumulation thereon.

A Member with five or more years of credited service who terminates all employment with participating employers is eligible for a deferred retirement. A deferred vested member may retire on or after the date the member meets the retirement eligibility requirements for the tier of benefits to which the member is subject.

### DEATH BENEFITS

The beneficiary of a member who dies prior to attaining five years of credited service is refunded the member's accumulated contributions, with interest, and receives one month's salary for each full year of service, up to a maximum of six months' salary.

If the death occurs after five years of credited service and is not the result of a service-related injury or disease, the surviving spouse or minor children may elect to receive, in lieu of the lump sum benefit of the retirement contributions to date including interest and one month's salary for each full year of service up to six months' salary, either 60% of the retirement allowance to which the deceased member would have been entitled had the member retired on either a service retirement or non-service-connected disability retirement on the date of death, or a lump sum payment of six months' salary and a reduced monthly retirement benefit. The monthly allowance to minor children is discontinued once they marry or reach age 18 (age 22 if a full-time student).

Upon the death of a retiree, the beneficiary receives a retirement benefit as determined by the optional settlement elected by the member at the time of retirement. In addition, the beneficiary also receives a \$5,000 death benefit, which is paid from retirement reserves.

### c. Funded Status and Funding Progress

The plan's funded status is determined from a long-term, ongoing perspective. The annual actuarial valuation determines the progress made in accumulating sufficient assets to pay benefits when due. As of January 1, 2013, the pension plan's actuarial accrued liability was \$3,353.3 million, the actuarial value of assets was \$2.125.7 million, resulting in an unfunded accrued liability (UAL) of \$1,227.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$365.9 million, and the ratio of the UAL to the covered payroll was 335.5%.

The funded status decreased to 67.1% before any method or assumption changes. This decrease was partly due to the rate of return on the actuarial value of assets being lower than the assumed return of 7.50% due to recognition of investment losses in 2008. The funded ratio further decreased from 67.1% to 63.4% following the method and assumption changes applied to the annual actuarial valuation as of January 1, 2013.

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. Examples include assumptions about future employment, mortality, and inflation. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SJCERA's funding policy provides for regular employer and employee contributions at actuarially determined rates, expressed as percentages of annual covered payroll. Contributions required and contributions made are explained in Note 6.

#### d. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013 actuarial valuation, the Entry Age Normal Funding Method (Cost Method) was used. The actuarial assumptions include a 7.50% investment rate of return, annual inflation rate of 3.00% per year, and projected salary increases at 3.25% per year. The actuarial value of the plan's assets was based on a 5-year smoothing of actual versus expected returns. Half the actuarial loss experienced in 2008 was deemed to be an Extraordinary Actuarial Loss. Thus, 50% of the loss is separately amortized as a level percentage of pay over a closed 30-year period. Currently, 26 years remain in this closed period. The plan's remaining UAL is being amortized on a 20-year open period amortization (22 year single equivalent period) until January 1, 2014, when it will be decreased by one year in each valuation report until a 12-year amortization period is reached.

## NOTE 2 – POST-EMPLOYMENT HEALTHCARE AGENCY FUND

### a. Description

The purpose of the Post-Employment Healthcare Agency Fund is to provide Sick Leave Bank Benefits to eligible retirees. The Sick Leave Bank Benefit provides that accumulated unused and uncashed sick leave upon retirement can be converted to a Sick Leave Bank at a rate of \$27.65 per hour. Retired or deferred members who were employed prior to August 27, 2001, are eligible for Sick Leave Bank Benefits. In 2007, the San Joaquin Superior Court (Court)

## NOTES TO THE FINANCIAL STATEMENTS

extended eligibility for Sick Leave Bank Benefits to Court employees hired on or after August 27, 2001. Employers fund the Sick Leave Bank Benefits and employees are not required to contribute to the plan.

Eligible retired and deferred members may use their Sick Leave Bank Benefits to pay for employer-sponsored group health, dental, and vision care insurance premiums and/or reimbursement of Medicare Part B premiums for the members, their spouses, and dependents. When a retiree's Sick Leave Bank is depleted, the retiree assumes responsibility for payment of health, dental, and vision care insurance premiums.

### b. Summary of Significant Accounting Policies

The Post-Employment Healthcare Agency Fund was established to account for the sick leave bank contribution for eligible members. In 2011, SJCERA filed a request for the determination letter and Voluntary Compliance Program (VCP) with the IRS. As the result of the IRS filing, the Board decided to "freeze" the Post-Employment Healthcare Agency Fund pending the response from the IRS. Participating employers are now funding Sick Leave Bank Benefits on a pay-as-you-go basis. Prior to 2011, participating employers were pre-funding these benefits. SJCERA continues its role as a third-party administrator of these benefits. SJCERA has determined that the proper presentation of this fund is as an agency fund, and not a trust fund.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of Accounting

SJCERA's financial statements are presented on the accrual basis of accounting. Employer and employee contributions that should have been made in the calendar year based on the actuarial determined contribution rates or amounts are recognized as revenues of that calendar year. Contributions receivable pursuant to an installment contract are also recognized in full in the year in which the contract is made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

### b. Reporting Entity

SJCERA, governed by the Board of Retirement and considered as an independent entity, is a blended component unit of the County in accordance with Statement No. 14, as amended by Statement No. 39 and amended further by Statement No. 61, of the Governmental Accounting Standards Board (GASB). SJCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

### c. Cash Equivalents

SJCERA's cash and short-term investments are managed by The Northern Trust Company and the County Treasurer.

### THE NORTHERN TRUST COMPANY (NT)

Cash not required for daily operations is deposited with NT, SJCERA's master custodian for investment securities. NT pools from its clients all cash pending permanent investment in its Short-Term Investment Fund (STIF). The cash in the STIF account is invested in high-grade money market instruments with very short maturities, such as bonds, notes, and other evidence of indebtedness, in accordance with SJCERA's investment policy.

The cash collateral received under the security-lending program is invested by NT through its security lending collateral fund, which is created solely for the investment of cash collateral.

### COUNTY TREASURER

Cash necessary for SJCERA's daily operations is pooled with other County funds for short-term investment by the County Treasurer. The County is responsible for the control and safekeeping of all instruments of title and for all investment of the pooled funds.

### d. Method Used to Value Investments

Investments are carried at fair market value. Fair values for investments are derived by various methods as indicated in the following table:

INVESTMENTS	SOURCE
Publicly traded stocks and bonds, and issues of the U.S. Government and its agencies	Most recent sales price as of the fiscal year-end. International securities reflect currency exchange rates in effect at December 31, 2013 and 2012.
Mortgages	Equivalent pricing to comparable Government National Mortgage Association (GNMA).
Real estate equity funds	Fair market value as provided by real estate fund manager unless an alternative value has been determined by the Board per SJCERA's Real Estate Investment Policy.
Real estate title holding corporations and limited liability companies	Fair market value of the investment as provided by fund managers.
Private equity	Fair market value as provided by the investment manager and reviewed by SJCERA's private equity consultant.
Private placement bonds	Face value of the security subject to designated conditions such as sales restrictions or limited marketability.

## NOTES TO THE FINANCIAL STATEMENTS

### e. Foreign Currency Transactions

Foreign currency transactions are translated into U.S. dollars on the following basis:

1. Fair market value of investment securities at the daily rates of exchange on December 31, 2013 and 2012; and
2. Purchases and sales of investment securities, dividend and interest income, and certain expenses at the rates of exchange prevailing on the respective dates when such transactions were incurred.

Gains and losses on investments that are due to changes in foreign exchange rates and market prices of the investments are accounted for in the net appreciation/(depreciation) in fair market value of investments in the statement of changes in pension plan net position.

Realized and unrealized gain/(loss) from foreign currency related transactions, such as gains and losses between trade and settlement dates on securities transactions, gains and losses arising from the sales of foreign currency, and gains and losses between the ex-date and the payment date on dividends and foreign withholding taxes, are also accounted for in net appreciation/(depreciation) in fair market value of investments in the statement of changes in pension plan net position.

### f. Forward Foreign Currency Exchange Contracts

A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. During the year, the investment managers utilize forward contracts as a hedge in connection with portfolio purchases and sales of securities denominated in foreign currencies. Forward contracts are valued at the prevailing forward exchange rate of the underlying currencies. Gain/(loss) is recorded on the trade date. Realized and unrealized gains and losses due to the difference between the value of the forward contract to buy and the forward contract to sell are included in net appreciation/(depreciation) in fair market value of investments in the statement of changes in pension plan net position.

### g. Securities Transactions and Related Investment Income

Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities.

Pursuant to GASB Statements No. 25 and 26, realized gains and losses on investments sold during the year are not displayed separately in the financial statements. Instead, the realized gains and losses, along with unrealized gains and losses on investments, are reported as “net appreciation/(depreciation) in fair value of investments.”

The realized gain/(loss) on the sale of securities was computed as the difference between the proceeds of sale in 2013 and the carrying cost of the securities at December 31, 2013, or the

original cost of the securities acquired during 2013. The calculation of realized gains/(losses) is independent of the calculation of net appreciation/(depreciation) in the fair market value of plan investments. Unrealized gain/(loss) on investments sold in the current year that had been held for more than one year were included in the net appreciation/(depreciation) reported in prior years and the current year.

### h. Method Used in Allocating Investments and Related Income between the Defined Benefit Pension Plan and the Post-Employment Healthcare Agency Fund

SJCERA allocates the investments held at December 31, 2013 and 2012, between the Defined Benefit Pension Plan and the Post-Employment Healthcare Agency Fund based on the internal records of the respective reserve level at December 31, 2013 and 2012. The actual earnings/loss is allocated to the Post-Employment Healthcare Agency Fund based on current year net market rate of return. A pro-rated share of remaining earnings/loss is allocated to the other reserves consistent with SJCERA Reserve Policy.

### i. Capital Assets

Capital assets, mainly leasehold improvements, furniture, and equipment, acquired by SJCERA are capitalized at cost. Depreciable capital assets are depreciated using the straight-line method over estimated useful lives of 4 to 7 years for computer equipment, furniture, and other equipment. Leasehold improvements are amortized over the life of the lease. Amortization and depreciation expenses of the capital assets are included in general administration expenses.

The change in capital assets owned for years 2013 and 2012 is presented below:

<b>2013</b>	<b>BALANCE 12/31/2012</b>	<b>ADDITIONS</b>	<b>DELETIONS</b>	<b>BALANCE 12/31/2013</b>
Original Cost	\$ 1,482,152	\$ 60,527	\$ (10,727)	\$ 1,531,952
Accumulated Amortization and Depreciation	(994,703)	(120,513)	10,727	(1,104,489)
<b>Net Book Value</b>	<b>\$ 487,449</b>	<b>\$ (59,986)</b>	<b>\$ -</b>	<b>\$ 427,463</b>

<b>2012</b>	<b>BALANCE 12/31/2011</b>	<b>ADDITIONS</b>	<b>DELETIONS</b>	<b>BALANCE 12/31/2012</b>
Original Cost	\$ 1,457,630	\$ 32,215	\$ (7,693)	\$ 1,482,152
Accumulated Amortization and Depreciation	(885,573)	(116,823)	7,693	(994,703)
<b>Net Book Value</b>	<b>\$ 572,057</b>	<b>\$ (84,608)</b>	<b>\$ -</b>	<b>\$ 487,449</b>

Amortization and depreciation expense for the years ended December 31, 2013 and 2012, was \$120,513 and \$116,823, respectively.

## NOTES TO THE FINANCIAL STATEMENTS

### j. Operating Lease

SJCERA leases office space for the administration of the plans. SJCERA administration relocated in June 2009 from the 7<sup>th</sup> floor of 6 S. El Dorado Street in Stockton to the 4<sup>th</sup> floor. The new lease specifies the actual rate for each year of term. Total rent expense under this agreement for the current year was \$239,391. The terms of the lease expire at the end of November 2019.

The estimated total minimum rent expense projected based on the remaining term of the lease agreement is \$1,543,566.

YEAR ENDED DECEMBER 31,	TOTAL
2014	245,230
2015	251,599
2016	257,969
2017	264,338
2018	270,708
2019	253,722
	<b>\$1,543,566</b>

### k. Unpaid Compensated Absences for Administration Employees

SJCERA accrues as a liability the vacation and other leave benefits earned by its employees. Accrued vacation hours that will be paid in cash to employees upon retirement is also accrued as a liability by SJCERA.

### l. Investment Income Receivable

Interest receivable consists of interest earned, but not received, as of December 31, 2013 and 2012, on debt securities, short-term investment funds, and securities lending.

Dividends receivable are those dividends declared, but not received, as of December 31, 2013, on stocks owned by SJCERA on the ex-dividend date

### m. Contribution Receivable

County, district, and member contributions made in the following year for the current year were accrued in accordance with accounting principles generally accepted in the United States of America. Contributions receivable pursuant to an installment contract between the employee and SJCERA for purchases of certain service credits are recognized in full in the year in which the contract is made even though the service credits are not granted until the full payment is received.

#### n. Securities/Foreign Exchange – Sold, Not Received and Purchased, Not Paid

The accrual basis of accounting requires that securities and foreign exchange purchase and sale transactions be recorded on a trade-date basis. Unsettled securities and foreign exchange transactions were accrued at year-end as either receivables or payables.

#### o. Miscellaneous Receivables

Other receivables at December 31, 2013 and 2012, consist mainly of overpaid benefit payments to be recovered from retirees or their beneficiaries.

#### p. Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying Statements of Plan Net Position and Changes in Pension Plan Net Position. Also, certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

### NOTE 4 – CASH AND INVESTMENTS

#### a. Investment Securities Lending

Under provisions of State statutes, SJCERA, along with other NT clients, participate in NT's pooled security lending program. Under the agreement, NT is authorized to lend securities of SJCERA that it holds to certain SJCERA approved security borrowers. NT does not have the ability to pledge or sell collateral securities absent a borrower default.

All loans are fully collateralized with either cash, securities issued or fully guaranteed by the U.S. government, or irrevocable bank letters of credit. All collateral is held or invested by NT. The term or maturity of the securities loaned is generally matched with the term or maturity of the investment of the cash collateral. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

## NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2013 and 2012, SJCERA had the following securities out-on-loan:

<b>2013</b>	<b>FAIR MARKET VALUE OF SECURITIES LENT</b>	<b>CASH COLLATERAL VALUE</b>	<b>NON-CASH COLLATERAL VALUE</b>
U.S. Equities	\$ 85,342,447	\$ 86,451,315	\$ 767,325
U.S. Debt Securities	21,835,009	20,320,841	1,993,099
<b>Total U.S. Securities</b>	<b>107,177,456</b>	<b>106,772,156</b>	<b>2,760,424</b>
Non-U.S. Equities	18,109,685	1,258,106	17,903,625
Non-U.S. Debt Securities	4,096	4,353	-
<b>Total Non-U.S. Securities</b>	<b>18,113,781</b>	<b>1,262,459</b>	<b>17,903,625</b>
<b>Total</b>	<b>\$ 125,291,237</b>	<b>\$ 108,034,615</b>	<b>\$ 20,664,049</b>

<b>2012</b>	<b>FAIR MARKET VALUE OF SECURITIES LENT</b>	<b>CASH COLLATERAL VALUE</b>	<b>NON-CASH COLLATERAL VALUE</b>
U.S. Equities	\$ 80,817,786	\$ 81,331,920	\$ 470,272
U.S. Debt Securities	27,672,694	28,168,176	-
<b>Total U.S. Securities</b>	<b>108,490,480</b>	<b>109,500,096</b>	<b>470,272</b>
Non-U.S. Equities	16,120,062	396,880	16,750,516
<b>Total Non-U.S. Securities</b>	<b>16,120,062</b>	<b>396,880</b>	<b>16,750,516</b>
<b>Total</b>	<b>\$ 124,610,542</b>	<b>\$ 109,896,976</b>	<b>\$ 17,220,788</b>

The cash collateral is reported on the financial statements as an asset and as a liability of SJCERA while the non-cash collateral is reported neither as an asset nor a liability in accordance with GASB Statement No. 28. The potential risks involved in the securities lending program include borrower bankruptcy, collateral deficiencies, settlement problems, corporate actions, dividends, and interest. In November 2009, NT made the first partial reversal of collateral deficiency; then in March 2010, NT made another reversal for remaining collateral deficiency payable. These two reversals basically eliminated the original security lending deficiency which occurred in 2008. SJCERA's pro-rata share of net income derived from NT's pooled security lending transactions in 2013 and 2012 was \$416,750 and \$390,081, respectively.

### b. Cash and Short-Term Investments

The carrying value of cash and short-term investments at December 31, 2013 and 2012, consists of the following:

	2013 AMOUNT	2012 AMOUNT
Cash and Investments - Custodian	\$ 62,067,254	\$ 99,074,468
Cash and Investments - County Treasury	1,037,354	854,076
<b>Total Cash and Cash Equivalents</b>	<b>63,104,608</b>	<b>99,928,544</b>
<b>Cash and Investments - Custodian-Security Lending</b>	<b>108,034,615</b>	<b>109,896,976</b>
<b>Total</b>	<b>171,139,223</b>	<b>209,825,520</b>

### c. Long-Term Investments

SJCERA owned the following long-term investments at December 31, 2013 and 2012, contained in both the pension trust and healthcare agency fund:

	2013 FAIR MARKET VALUE	2012 FAIR MARKET VALUE
<b>Investments - Categorized</b>		
Fixed Income	\$ 488,447,524	\$ 533,209,329
U.S. Equities	462,717,654	364,217,832
Non-U.S. Equities	436,731,835	376,135,916
Global Equity	59,755,732	31,333,489
Real Estate	261,061,335	245,283,515
Real Asset	156,723,738	173,415,550
Global Opportunistic Strategy	179,965,174	160,375,165
Risk Parity	230,637,114	188,457,406
<b>Total Investments - Categorized</b>	<b>2,276,040,106</b>	<b>2,072,428,202</b>
<b>Investments - Not Categorized</b>		
<b>INVESTMENTS HELD BY BROKER-DEALERS UNDER SECURITIES LOANS</b>		
U.S. Equities	86,451,315	81,331,920
Non-U.S. Equities	1,262,459	396,880
U.S. Debt Securities	20,320,841	28,168,176
<b>Total Investments Held by Broker-Dealers Under Securities Loans</b>	<b>108,034,615</b>	<b>109,896,976</b>
<b>Total Investments</b>	<b>\$2,384,074,721</b>	<b>\$2,182,325,178</b>

## NOTES TO THE FINANCIAL STATEMENTS

GASB Statement No. 40 (*Deposits and Investments Risk Disclosures*) establishes and modifies disclosure requirements related to the following:

- Credit risk
- Custodial credit risk
- Concentration of credit risk
- Interest rate risk
- Foreign currency risk

The list of investments exposed to those risks and the corresponding credit ratings from Standard & Poor's (S&P) at December 31, 2013 and 2012, is as follows:

QUALITY RATINGS	2013 FAIR MARKET VALUE	2012 FAIR MARKET VALUE
AAA	\$ 5,341,747	\$ 4,706,619
AA	8,633,911	11,885,170
A	31,814,347	36,614,113
BBB	39,276,855	39,952,995
BB	17,964,599	18,049,304
B	13,013,755	12,710,230
CCC	11,154,982	13,460,583
CC	1,922,863	9,040,709
C	-	510,325
D	14,184,559	23,791,698
Not Rated	220,329,798	259,113,554
	<b>363,637,416</b>	<b>429,835,300</b>
<b>U.S. Government Agencies - Implied AAA (FNMA, FHLB, FHLMC, FFCB, SLMA, Other)</b>	<b>124,810,108</b>	<b>103,374,029</b>
<b>Total Investments in Fixed Income Securities</b>	<b>\$ 488,447,524</b>	<b>\$ 533,209,329</b>

### CREDIT RISK

Per SJCERA's Investment Policy, at least 75.0% of the fair market value shall have a minimum quality rating of A or better, as determined by the middle rating of the three major rating agencies' opinions: Fitch Ratings (Fitch), Moody's Investors Service (Moody's), or Standard & Poor's (S&P), unless the investment manager received prior approval from the Board. Total portfolio quality shall maintain an A (S&P) minimum rating. No more than 10.0% of the manager's assets shall be invested in the securities of any single issuer, with the exception of the U.S. Government and its agencies. Firms that manage fixed income portfolios continually monitor the risk associated with their fixed income investments. They are expected to report as a component of their report a risk/reward analysis of the management decisions relative to their benchmark.

**CUSTODIAL CREDIT RISK**

The custodial credit risk represents the risk that, in the event of the failure of the counterparty of a transaction, SJCERA will not be able to recover the value of deposits and investments or collateral securities that are in the possession of an outside party.

**DEPOSITS:**

The deposits with the County Treasurer are uninsured, but secured by public funds of the pledging banks. The pool's investments are short-term and include U.S. Treasury Bills, certain Federal agencies' instruments, bankers' acceptances, "prime" commercial paper, certificates of deposit, repurchase agreements, and the State Treasurer's Local Agency Investment Fund are all held in the County's name.

The cash deposits with NT are uninsured and uncollateralized. All investments underlying the STIF account are not registered in SJCERA's name.

**INVESTMENTS:**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SJCERA would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in SJCERA's name, and held by the counterparty. SJCERA's investment securities are not exposed to custodial credit risk because all securities are held by SJCERA's custodial bank in SJCERA's name, or by other qualified third party administrator trust accounts.

**CONCENTRATION OF CREDIT RISK**

This risk represents the potential loss attributable to the magnitude of SJCERA's investment in a single issuer. SJCERA restricts investment holdings to a maximum of 5.0% of any single issuer within SJCERA's investment portfolio. As of December 31, 2013 and 2012, the investment portfolio contained no concentration of investments in any one entity that represented 5.0% or more of plan net position.

**INTEREST RATE RISK**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

To manage interest rate risk, the effective duration of the total fixed income portfolio is restricted to 0.5 to 1.5 times of the Barclays Aggregate Bond Index.

## NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, SJCERA had the following investments:

2013 INVESTMENT TYPE	2013 FAIR MARKET VALUE	WEIGHTED AVERAGE MATURITY – YEARS
<b>U.S. Government and Agency Instruments</b>		
U.S. Government Mortgages	\$ 82,624,518	23.21
U.S. Government Bonds	8,951,769	0.57
Index Linked Government Bonds	47,448,655	12.38
Municipal/Revenue Bonds	7,111,154	16.13
Agency	1,397,942	3.98
	<b>147,534,038</b>	
<b>Corporate Securities</b>		
Asset Backed Securities	18,372,739	15.43
Bank Loans	25,425,360	5.74
Commercial Mortgage-Backed	5,058,639	22.73
Corporate and Other Credit	73,653,395	10.40
Non-Government Backed Collateralized Mortgage Obligations (CMOs)	51,750,918	22.68
	<b>174,261,051</b>	
Real Estate Financing	<b>166,652,435</b>	-
<b>Total Fixed Income Securities</b>	<b>\$ 488,447,524</b>	

2012 INVESTMENT TYPE	2012 FAIR MARKET VALUE	WEIGHTED AVERAGE MATURITY – YEARS
<b>U.S. Government and Agency Instruments</b>		
U.S. Government Mortgages	\$ 83,326,146	24.56
U.S. Government Bonds	20,466,800	0.59
Municipal/Revenue Bonds	8,498,464	17.66
Agency	1,755,263	5.09
	<b>114,046,673</b>	
<b>Corporate Securities</b>		
Asset Backed Securities	21,209,046	16.59
Bank Loans	25,711,610	5.11
Commercial Mortgage-Backed	4,341,819	28.57
Corporate and Other Credit	78,119,062	7.99
Non-Government Backed (CMOs)	60,832,178	24.09
	<b>190,213,715</b>	
Real Estate Financing	<b>228,948,941</b>	-
<b>Total Fixed Income Securities</b>	<b>\$ 533,209,329</b>	

### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates may adversely affect the fair value of an investment. SJCERA's external non-U.S. equity investment managers may invest in international securities and must follow SJCERA's Investment Guidelines pertaining to these types of investments.

Currency hedging on an un-leveraged basis is permitted by non-U.S. equity managers as a strategy to protect against losses due to currency translations (defensive hedging). However, it is expected that the primary sources of value-added for non-U.S. equity investment managers will be issue and country selection, with currency management focused on limiting losses due to fluctuations in currency values. Managers may purchase or sell currency on a spot basis to accommodate securities settlements.

Managers may invest in developed market currencies and emerging market currencies. Cross hedging is allowed. Permitted instruments are the use of currency spots, currency forward contracts (deliverable or non-deliverable), currency futures, options on currency forwards or futures, and currency swaps. Other investments, contracts, or positions that, in the Managers' judgment, are of similar purpose and character and equal credit quality and marketability to any of the investments above, are also permissible. In September 30, 2011, SJCERA terminated its Currency Overlay Program which was managed by FX Concepts, but SJCERA continues to have currency exposure through other investments.

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## NOTES TO THE FINANCIAL STATEMENTS

SJCERA's exposure to foreign currency risk in U.S. dollars as of December 31, 2013 and 2012, is as follows:

CURRENCY	2013 FAIR MARKET VALUE	2012 FAIR MARKET VALUE
Australian Dollar	\$ 1,980,925	\$ 2,009,521
Brazilian Real	2,113,851	1,001,714
British Pound Sterling	22,468,850	3,936,786
Canadian Dollar	273,064	167,829
Danish Krone	-	350,043
Euro Currency	17,605,915	5,481,670
Hong Kong Dollar	5,177,627	5,953,939
Israel Skekel	646,920	-
Japanese Yen	6,649,831	4,358,076
Malaysian Ringgit	296,474	290,386
Norwegian Krone	1,187,629	922,102
Singapore Dollar	3,778,778	3,007,069
South Africa Rand	415,114	-
Swedish Krona	623,424	567,524
Swiss Franc	2,225,166	830,684
Thailand Baht	367,079	587,937
<b>Total</b>	<b>\$ 65,810,647</b>	<b>\$ 29,465,280</b>

### d. Summary of Investment Policy

The County Employees Retirement Law vests the Board with exclusive control over SJCERA's investment portfolio. The Board established Investment Policies in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the management of SJCERA's assets (the Plans) by setting policy which the Investment Staff executes either internally, or through the use of external prudent experts. The Board oversees and guides the Plans subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Diversify the investments of the Plans so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

## NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

The Board has authorized certain investment managers to invest in, or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. A professional investment consultant is employed to monitor and review each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation.

Investment derivatives involve the following types of risks:

**Market Risk:** Market risk is the risk of change in value of an instrument in response to changes in a market price or index. While all investments are subject to market risk, derivatives often have a higher degree of market risk than other types of investment instruments. Values of cash securities containing derivative features are often more susceptible to market risk than other types of fixed income securities because the amounts and/or timing of their scheduled cash flows may fluctuate under changing market conditions, according to their contractual terms. For other types of derivatives, amounts of contractual cash flows may be either positive or negative depending upon prevailing market conditions relative to the reference prices or rates, and thus the values of such instruments may be positive or negative, despite the fact that little or no cash is initially exchanged to enter into such contacts.

**Credit Risk:** Credit risk of cash securities containing derivative features is based upon the credit worthiness of the issuers of such securities. It includes the risk that counterparties to contracts will not perform and/or the public exchange will not meet its obligation to assume this counterparty risk. SJCERA establishes minimum credit requirements for such securities. Exchange traded derivatives are generally considered to be of lower credit risk than over-the-counter derivatives due to the exchange's margin requirements. SJCERA's investments include collateral associated with derivatives activity. The derivative investments are exchange traded, and credit risk is limited to the clearing corporation. As of December 31, 2013 and 2012, collateral for derivatives was \$17.2 million and \$17.7 million, respectively. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

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## NOTES TO THE FINANCIAL STATEMENTS

The following Credit Risk Analysis schedule discloses the counterparty credit ratings of SJCERA's derivative investments at December 31, 2013 and 2012.

### 2013 CREDIT RISK ANALYSIS (AS OF DECEMBER 31, 2013)

DERIVATIVE TYPE	S & P Credit Rating	
	A+	TOTAL FAIR VALUE
Option Contracts	\$ 289	\$ 289
Swap Agreements	(54,759)	(54,759)
<b>Total</b>	<b>\$ (54,470)</b>	<b>\$ (54,470)</b>

### 2012 CREDIT RISK ANALYSIS (AS OF DECEMBER 31, 2012)

DERIVATIVE TYPE	S & P Credit Rating	
	A+	TOTAL FAIR VALUE
Option Contracts	\$ 10,017	\$ 10,017
Swap Agreements	(746,590)	(746,590)
<b>Total</b>	<b>\$ (736,573)</b>	<b>\$ (736,573)</b>

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate swaps are an example of an investment that has a fair value that is highly sensitive to interest rate changes. SJCERA is exposed to interest rate risk in the form of futures contracts in the following global government bond markets:

### 2013 INTEREST RATE RISK (AS OF DECEMBER 31, 2013)

GLOBAL BONDS	FUTURES CONTRACTS	OPTION CONTRACTS
Canadian Government Bond	\$ (12,638,231)	\$ -
Long Gilt	(16,411,588)	-
Japanese Government Bond	12,247,828	-
Euro Bond	(5,548,799)	-
U.S. Ten Year Notes	(8,982,422)	219,391
<b>Total</b>	<b>\$ (31,333,212)</b>	<b>\$ 219,391</b>

### 2012 INTEREST RATE RISK (AS OF DECEMBER 31, 2012)

GLOBAL BONDS	FUTURES CONTRACTS	OPTION CONTRACTS
Canadian Government Bond	\$ 7,662,920	\$ -
Long Gilt	7,721,098	-
Japanese Government Bond	6,667,128	-
Euro Bond	7,795,837	-
U.S. Ten Year Notes	4,383,141	-
<b>Total</b>	<b>\$ 34,230,124</b>	<b>\$ -</b>

SJCERA measures derivative interest rate risk using duration with varying maturities of less than three months to five years. At December 31, 2013 and 2021, SJCERA had the following investment derivative interest rate risks:

### 2013 INTEREST RATE RISK (AS OF DECEMBER 31, 2013)

(DOLLARS IN THOUSANDS)

DERIVATIVE TYPE	NOTIONAL VALUE	FAIR MARKET VALUE	< 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	10+ YEARS
Futures Contracts	\$ 8,846	\$ -	\$ (26,397)	\$ 34,464	\$ 779	\$ -	\$ -	\$ -
Option Contracts	(284)	(568)	(139)	-	-	-	-	(145)
Swap Agreements	(357)	(715)	-	-	-	(303)	-	(55)
<b>Total</b>	<b>\$ 8,205</b>	<b>\$ (1,283)</b>	<b>\$ (26,536)</b>	<b>\$ 34,464</b>	<b>\$ 779</b>	<b>\$ (303)</b>	<b>\$ -</b>	<b>\$ (200)</b>

### 2012 INTEREST RATE RISK (AS OF DECEMBER 31, 2012)

(DOLLARS IN THOUSANDS)

DERIVATIVE TYPE	NOTIONAL VALUE	FAIR MARKET VALUE	< 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	10+ YEARS
Futures Contracts	\$133,892	\$ -	\$ 75,102	\$ 56,514	\$ 2,366	\$ -	\$ -	\$ -
Option Contracts	-	(213)	(223)	-	-	10	-	-
Swap Agreements	-	(747)	-	-	-	(222)	(393)	(132)
<b>Total</b>	<b>\$133,892</b>	<b>\$ (960)</b>	<b>\$ 74,789</b>	<b>\$ 56,514</b>	<b>\$ 2,366</b>	<b>\$ (212)</b>	<b>\$ (393)</b>	<b>\$ (132)</b>

**Foreign Currency Risk:** Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. Currency forward contracts represent foreign exchange contracts that are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. At December 31, 2013 and 2012, SJCERA had the derivative foreign currency exposures listed in the table below.

### 2013 FOREIGN CURRENCY RISK ANALYSIS (AS OF DECEMBER 31, 2013)

CURRENCY	FUTURES CONTRACTS	EQUITY CONTRACTS OPTION CONTRACTS
Australian Dollar	\$ (5,474,457)	\$ 115,380
Canadian Dollar	(14,036,565)	3,086,852
Euro Currency	14,215,560	27,288
British Pound Sterling	14,170,560	-
Japanese Yen	(13,712,554)	430,413
<b>Total</b>	<b>\$ (4,837,791)</b>	<b>\$ 3,659,933</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 2012 FOREIGN CURRENCY RISK ANALYSIS (AS OF DECEMBER 31, 2012)

CURRENCY	FUTURES CONTRACTS	EQUITY CONTRACTS OPTION CONTRACTS
Australian Dollar	\$ 15,427,988	\$ -
Canadian Dollar	(3,646,169)	1,714,733
Euro Currency	16,098,417	-
British Pound Sterling	(3,725,154)	-
Japanese Yen	2,392,479	-
<b>Total</b>	<b>\$ 26,392,479</b>	<b>\$ 1,714,733</b>

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from derivatives are included in net investment income. For financial reporting purposes, all SJCERA derivatives are classified as investment derivatives. Derivative financial instruments held by the Plans from time to time consist of the following:

**Futures Contracts:** A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

**Forward Contracts:** A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a nonstandardized contract that is tailored to each specific transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date. Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

**Option Contracts:** An option contract is a type of derivative security in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

**Swap Agreements:** A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows the counterparties exchange are tied to a "notional" amount. A swap agreement specifies the time period over which the periodic payments will be exchanged. The fair value represents the gains or losses as of the prior marking-to-market.

## NOTES TO THE FINANCIAL STATEMENTS

The Investment Derivatives schedule listed below reports the fair value balances, changes in fair value, and notional amounts of derivatives outstanding as of and for the years ended December 31, 2013 and 2012, classified by type.

### INVESTMENT DERIVATIVES (AS OF DECEMBER 31, 2013 AND 2012)

DERIVATIVE TYPE	2013		2012	2013/2012 CHANGE IN FAIR MARKET VALUE
	NOTIONAL AMOUNT	FAIR MARKET VALUE	FAIR MARKET VALUE	
Futures Contracts	\$ (24,587,775)	\$ 2,293,189	\$ (230,205)	\$ 2,523,394
Forward Contracts	-	-	(9)	9
Option Contracts	491,358	475,660	(197,556)	673,216
Swap Agreements	-	(357,392)	(746,590)	389,198
<b>Total</b>	<b>\$ (24,096,417)</b>	<b>\$ 2,411,457</b>	<b>\$ (1,174,360)</b>	<b>\$ 3,585,817</b>

All investment derivative positions are included as part of investments at fair value on the statement of plan net assets. All changes in fair value are reported as part of net appreciation/(depreciation) in fair value of investments in the statement of changes in plan net assets.

Investment information was provided either by investment managers or SJCERA's investment custodian.

## NOTE 6 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

### Defined Benefit Pension Plan

The funding objective of the plan is to establish contribution rates that, over time, are likely to remain as a level percentage of payroll unless plan benefit provisions are changed. Actuarial valuations involve estimates and make assumptions about the probability of events far into the future, therefore actuarially determined rates are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Beginning in 2011, the County and a few special district employers have established employment resolutions and collective bargaining agreements that increase the employees' share of the cost of funding their retirement benefits. As of the close of 2013, most general members and some safety members pay one-half of the cost of pre-funding post-retirement cost-of-living adjustments. Prior to 2012, the employer paid 100% of the cost to fund this benefit. Beginning in 2013, some of these members also began paying an additional percentage of the basic member contribution rate, which reduced the employers' Normal Cost portion of the required contribution. Employers pay all of the required UAL amortization payment.

## NOTES TO THE FINANCIAL STATEMENTS

Contribution rates are calculated by the actuary using the Entry Age Normal Funding Method (Cost Method) and the Actuarial Asset Valuation Method, consistent with the Board's Funding and Reserve Policies. The required contribution rates are expressed as a percentage of covered payroll. The 2013 and 2012 contribution rates were determined using the actuarial valuations performed as of January 1, 2012 and 2011, respectively.

The Actuarial Experience Study as of December 31, 2012, recommended significant contribution increases due to improving mortality rates and reducing the expected long-term rate of inflation, which also reduces the expected return on plan assets. The County requested, and the Board agreed, that employer contribution rates will increase by at least 2.97% per year (plus interest on any contribution shortfall from the full employer rates) in 2015 and 2016 to phase in the impact of the assumption changes adopted by the Board. This phase in of rate increases is consistent with model practice specified by the California Actuarial Advisory Panel (CAAP).

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### Employer Contributions

The required employer contribution rates include Normal Cost and amortization of the Unfunded Accrued Liability (UAL). The UAL is being amortized on a 20-year open period until January 1, 2014, when it will be decreased by one year with each annual valuation until a 12-year amortization period is reached.

EMPLOYER RETIREMENT CONTRIBUTION RATES Expressed as a Percentage of Active Member Payroll	2013 (Per 1/1/2012 Valuation)			2012 (Per 1/1/2011 Valuation)		
	Normal Cost	UAL Amortization	Total	Normal Cost	UAL Amortization	Total
<b>Tier I</b>						
FOR GENERAL MEMBERS						
Paying Basic Rate Only (G.C. 31621.3)	15.70%	14.99%	30.69%	15.69%	12.45%	28.13%
Paying Basic Rate with COLA Cost Share	13.54%	14.99%	28.54%	13.34%	12.45%	25.79%
Paying 114% of Basic Rate with COLA Cost Share	13.07%	14.99%	28.06%	Not Applicable Prior to 2013		
FOR SAFETY MEMBERS						
Paying Basic Rate Only (G.C. 31639.5)	28.05%	27.56%	55.61%	28.01%	22.48%	50.49%
Paying Basic Rate with COLA Cost Share	23.97%	27.56%	51.53%	23.62%	22.48%	46.11%
Paying 133% of Basic Rate with COLA Cost Share	22.44%	27.56%	50.00%	Not Applicable Prior to 2013		
COMPOSITE TOTAL FOR GENERAL & SAFETY COMBINED						
Paying Basic Rate Only (G.C. 31621.3)	17.88%	17.25%	35.12%	17.82%	14.22%	32.04%
Paying Basic Rate with COLA Cost Share	15.41%	17.25%	32.66%	15.08%	14.22%	29.30%
Paying 114%/133% of Basic Rate with COLA Cost Share	(Not Calculated for 2013)			Not Applicable Prior to 2013		
<b>Tier II</b>						
<b>For General Members</b>	8.47%	14.99%	23.46%	Not Applicable Prior to 2013		
<b>For Safety Members</b>	13.72%	27.56%	41.28%			
<b>Composite Total for General &amp; Safety Combined</b>	9.40%	17.25%	26.65%			

## NOTES TO THE FINANCIAL STATEMENTS

The composite employer contribution rates (for general and safety members combined) expressed as a percentage, or range of percentages, of covered payroll for the past six years are as follows:

CONTRIBUTION YEAR	TIER I	TIER II
2013	32.66% - 35.12%	26.65%
2012	29.30% - 32.04%	-
2011	31.92%	-
2010	28.91%	-
2009	27.07%	-
2008	26.86%	-

### Member Contributions

Employee contributions are deducted from the employees' salary on a biweekly basis.

Tier I members pay contributions based upon their membership category, General or Safety, and age at entry into membership. All Safety members of Tier I, and General members of Tier I employed prior to March 7, 1973, stop paying member contributions when they have 30 years of service, but continue to accrue retirement service credit for subsequent active employment subject to membership.

Tier II members pay contributions based upon their membership category equal to one-half of the normal cost of the applicable benefits.

In 2013, member contributions totaled \$22,689,882, and employer contributions totaled \$119,494,319. For 2012, members contributed \$19,900,088, and employers contributed \$108,062,510. Employee contributions increased by \$2.8 million, or 14.02%, over the prior year, and employer contributions increased by \$11.4 million, or 10.58%, over the prior year.

The member contribution rates adopted by the Board in 2013 (applicable for calendar year 2014) incorporate without phase-in the impact of the actuarial assumption changes recommended by the Actuarial Experience Study as of December 31, 2012, and adopted by the Board

### NOTE 7 – SIX-YEAR HISTORICAL TREND INFORMATION

The six-year historical trend information, designed to provide information about SJCERA's progress made in accumulating sufficient assets to pay pension benefits when due, is presented as required in the Required Supplementary Information following the notes to the financial statements.

## NOTE 8 – NET POSITION RESTRICTED FOR PENSION BENEFITS

As required by the County Employees Retirement Law and the Board's policy, the following reserves from Net Position Restricted for Pension Benefits must be established and used to account for the members', employers', and retirees' contributions.

For 2013, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 7.75% assumption rates for all of the reserves. In addition, there were excess earnings to fund the Contingency Reserve at 0.25% of fair market value of the total assets at December 31, 2013. During 2012, SJCERA did not have earnings in excess of total credited interest for the year to fund Contingency Reserve.

### a. Active and Deferred Members' Reserve

This reserve represents the cumulative contributions made by active members, net of refunds to the members, plus the investment earnings credited to the reserve at assumption rates determined by the actuary. For 2013 and 2012, the assumption rates were 7.75% compounded semi-annually, for each year. Earnings are credited to all appropriate active and deferred member accounts semi-annually. Upon retirement, a member's accumulated contributions are transferred from this reserve to the Retired Members' Annuity Reserve.

### b. Employer Advance Reserves

This reserve represents the cumulative contributions made by the County and certain special districts for the active members. Interest earnings are credited semi-annually to the reserves at assumption rates determined by the actuary if sufficient unappropriated earnings reserve funds exist. Upon a member's retirement, an actuarially determined amount of the member's vested interest is transferred from the Employer Advance Reserves to the Retired Members' Pension Reserve.

### c. Retired Members' Reserves

These reserves are established to account for the unpaid retirees' pension benefits. Upon a member's retirement, the member's accumulated contributions are transferred from the Active Members' Reserve account to the Retired Members' Annuity Reserve account. In addition, the actuarially determined amount of the member's vested interest is transferred from the Employer Advance Reserves to the Retired Members' Reserve account.

From these reserves, SJCERA pays benefits in amounts computed in accordance with the County Employees Retirement Law. Interest earnings are also credited to the reserves semi-annually at assumption rates determined by the actuary, if sufficient Unappropriated Earnings Reserve funds exist.

The reserve at December 31, 2013, includes the authorized "Purchasing Power" benefit reserve of \$5.6 million and additional pension benefits specified in the pre-April 1, 1982 class-action lawsuit settlement agreement. These benefits are explained in Note 1b. In November 2012, the Board adopted a revised Statement of Reserve Policy to classify

## NOTES TO THE FINANCIAL STATEMENTS

the post-April 1, 1982 Settlement Reserve as a Special Reserve, which is not included in valuation assets.

### d. Contingency Reserve

Earnings of the retirement fund during any year in excess of the total interest credited to contributions and reserves during the year remain in the fund as a reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies. The County Employees Retirement Law provides that when the contingency reserve exceeds one percent of total assets, the retirement board may transfer all or any part of the surplus as specified in Government Code Section 31592.2. By policy, the SJCERA Board has set the Contingency Reserve target at three percent of total assets. The Contingency Reserve is 0.25%, and 0.00%, of the fair market value of total assets at December 31, 2013, and 2012, respectively. During 2012, SJCERA did not have earnings in excess of total credited interest for the year to fund the Contingency Reserve.

### e. Market Stabilization Designation Reserve

This “designation” account is used to further minimize the impact of the fluctuations in the market value of the investments owned by SJCERA. It represents the difference between the actuarial value of assets and the fair value of assets at year-end.

### f. Unappropriated Earnings Reserve

The Unappropriated Earnings Reserve (UER) is used to accumulate investment income earned by SJCERA, net of the investment expenses and SJCERA’s administration cost. From this unappropriated earnings account, interest is credited to various reserve accounts at an actuarially determined assumption rate. In addition, at the Board’s discretion and subject to the settlement agreement in 2001, this account may also be used, from time to time, to stabilize the County’s and the special districts’ Annual Required Contribution (ARC), and to fund the market stabilization and contingency reserves accounts.

g. A summary of reserved and designated net assets at December 31, 2013, and December 31, 2012, is as follows:

	2013	2012
<b>Reserves</b>		
Active and Deferred Members	\$ 260,673,974	\$ 240,777,763
Employer Advance	808,003,483	712,477,297
Retired Members	1,216,224,499	1,172,323,421
Class Action Settlement - Post-4/1/82	8,765,004	11,063,855
Contingency	6,012,981	-
Market Stabilization Designation	41,832,422	23,773,123
<b>Total Reserves</b>	<b>\$ 2,341,512,363</b>	<b>\$ 2,160,415,459</b>

### h. Post-Employment Healthcare Agency Fund

The Post-Employment Healthcare Agency Fund was established to account for a sick leave bank contribution for eligible members. In 2011, SJCERA filed a request for a determination letter and Voluntary Compliance Program (VCP) with the IRS. As a result of the IRS filing, the Board decided to “freeze” the Post-Employment Healthcare Agency Fund pending the response from the IRS. This is explained in Notes 2, 13 and 14.

### NOTE 9 – INVESTMENT EXPENSES

Investment expenses include fees paid for investment management services, investment consulting services, fund evaluation services, securities custodian services, and interest expense and other fees incurred in security lending transactions.

### NOTE 10 – GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses, including the depreciation and amortization of capital assets, are funded by investment income earnings and are limited, pursuant to Government Code Section 31580.2, to twenty-one-hundredths of one percent (0.21%) of SJCERA’s actuarial accrued liability. The actual administration expense for years 2013 and 2012 was 0.12% and 0.13% of the actuarial accrued liability, respectively. SJCERA was in compliance with this requirement during 2013 and 2012.

### NOTE 11 – FUNDING STATUS

(DOLLARS IN THOUSANDS)							
PLAN	ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL (C)	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)
Pension Benefits	01/01/2013	\$ 2,125,700	\$ 3,353,294	\$ 1,227,594	63.4%	\$ 365,892	335.5%

A Schedule of Funding Progress for the plan is included in the required supplementary information which presents multi-year trend information.

### NOTE 12 – PENDING LITIGATION

There is no pending litigation impacting SJCERA as of December 31, 2013.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 13 – COMMITMENTS AND CONTINGENCIES

SJCERA participates in certain investments that require commitments of a specified amount of capital upfront that is then drawn down at a later time as the investment vehicle requires. The total unfunded capital commitment represents the amount of funds that SJCERA could potentially be required to contribute at a future date. SJCERA had unfunded capital commitments totaling \$219.4 million and \$81.8 million at December 31, 2013 and 2012, respectively.

The IRS has strongly encouraged all public sector retirement systems to file an application for an IRS determination letter on the tax qualified status of the system. As part of such a filing, if the retirement system determines that there are issues about the tax rules as applied to that system, the IRS also encourages the system to file an application under its Voluntary Compliance Program (VCP) procedure. SJCERA, as many other public sector systems across the country and many other California county systems operating under the County Employees Retirement Law of 1937, has filed an application with the IRS for a determination letter and also filed under the VCP process. The IRS has responded to SJCERA regarding its filings. This is explained in Note 14.

### NOTE 14 – SUBSEQUENT EVENTS

SJCERA has evaluated subsequent events through June 5, 2014, the date on which the financial statements were available to be issued. SJCERA received a favorable plan determination letter from the IRS dated January 29, 2014, that by its own terms expired on January 31, 2014, the end of the second remedial amendment Cycle C filing period. IRS Revenue Procedure 2012-50 provides that if Cycle E is elected as the plan's second remedial amendment cycle, the plan determination letter expiration date is extended to January 31, 2016, the end of the second Cycle E filing period. In 2014, the Board formally elected Cycle E as the second remedial amendment cycle for SJCERA.

In January 2014, SJCERA established a GASB 67 & 68 Implementation Task Force which includes the stakeholders from the County, special districts and external professional consultants to implement these new pension reporting standards and to provide ongoing communication and support to plan sponsors. For SJCERA, GASB 67 is effective beginning with the fiscal year ending December 31, 2014. For SJCERA's plan sponsors, GASB 68 is effective beginning with the fiscal year ending June 30, 2015.

### SCHEDULE OF FUNDING PROGRESS DEFINED BENEFIT PENSION PLAN

FOR THE SIX YEARS ENDING DECEMBER 31, 2013

(DOLLARS IN THOUSANDS)						
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS <sup>1</sup> (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL <sup>2</sup> (C)	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)
01/01/2008	2,029,949	2,334,521	304,572	87.0%	367,361	82.9%
01/01/2009	1,821,357	2,510,925	689,568	72.5%	377,559	182.6%
01/01/2010	1,949,011	2,769,612	820,601	70.4%	385,442	212.9%
01/01/2011	2,120,384	2,917,688	797,304	72.7%	367,344	217.0%
01/01/2012	2,130,053	3,048,321	918,268	69.9%	356,419	257.6%
01/01/2013	2,125,700	3,353,294	1,227,594	63.4%	365,892	335.5%

NOTE:

<sup>1</sup> The actuarial value of assets reflects the smoothing method that adjusts market value differences between the assumed and the actual investment return over a 5-year period.

<sup>2</sup> Represents the annualization of active members' pay rates on December 31 as determined by the actuarial study.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS  
AND OTHER CONTRIBUTING SOURCES  
DEFINED BENEFIT PENSION PLAN

FOR THE SIX YEARS ENDING DECEMBER 31, 2013

YEAR ENDED DECEMBER 31,	ACTUAL ANNUAL CONTRIBUTION	REQUIRED ANNUAL CONTRIBUTION	PERCENTAGE CONTRIBUTION
2008	94,162,866	94,162,866	100%
2009	97,805,585	97,805,585	100%
2010	104,451,673	104,451,673	100%
2011	112,891,701	112,891,701	100%
2012	108,062,510	108,062,510	100%
2013	119,494,319	119,494,319	100%

### ACTUARIAL ASSUMPTIONS AND METHODS DEFINED BENEFIT PENSION PLAN

DECEMBER 31, 2013

Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll with separate amortization periods for Extraordinary Actuarial Gains or Losses
Remaining Amortization Period	26 Years for 2008 Extraordinary Loss, 20 Years for Remaining UAAL (22 Year Single Equivalent Period)
Asset Valuation Method	Smoothed Actuarial Value (5 years) 80%-120% Asset Corridor
<b>Actuarial Assumptions:</b>	
Nominal Rate of Return	7.50%
Projected Salary Increases	3.25%, plus service-based rates
General Inflation Rate	3.00%
Cost of Living Adjustments	2.60% per year assumed

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Personnel Services</b>		
Staff Salaries	\$ 1,442,034	\$ 1,338,785
Cafeteria Benefits	147,428	151,373
Insurance	242,697	230,805
Social Security	96,003	90,839
Retirement	436,788	379,141
<b>Total Personnel Services</b>	<b>2,364,950</b>	<b>2,190,943</b>
<b>Professional Services</b>		
Professional & Specialized Services	603,283	503,389
Allocated Department Costs	47,853	24,717
<b>Total Professional Services</b>	<b>651,136</b>	<b>528,106</b>
<b>Communications</b>		
Postage	21,128	16,425
Telephone	14,446	12,239
Travel	66,096	77,626
<b>Total Communications</b>	<b>101,670</b>	<b>106,290</b>
<b>Rentals/Equipment</b>		
Office Space & Equipment	259,561	233,388
Equipment	5,034	20,229
Depreciation-Equipment (G/L)	120,514	116,823
Equipment Leasing	13,365	15,770
<b>Total Rentals</b>	<b>398,474</b>	<b>386,210</b>
<b>Miscellaneous</b>		
Office Supplies/Expense	44,124	92,135
Subscriptions & Periodicals	9,625	7,6189
Memberships	7,812	6,779
Maintenance	3,180	1,124
License & Permits	748	-
Insurance	91,138	83,933
<b>Total Miscellaneous</b>	<b>156,627</b>	<b>191,590</b>
<b>Total Administrative Expense</b>	<b>\$ 3,672,857</b>	<b>\$ 3,403,139</b>

\* Actuarial and Fund Legal Expenses are excluded from the 21/100th percent limitation.

### SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Investment Management Fees</b>		
Fixed Income	\$ 2,668,268	\$ 2,420,821
U.S. Equity	1,110,249	890,447
Non-U.S. Equity	462,967	369,657
Global Equity	196,551	32,952
Real Estate - Private Managers	3,909,080	2,907,886
Real Estate - Investment Trust	349,741	293,008
Real Assets	1,057,512	1,275,694
Global Opportunistic	4,729,983	3,684,439
Risk Parity	960,265	790,355
Short Term Investments/Cash & Equivalents	158,216	132,003
<b>Total Investment Management Fees</b>	<b>15,602,832</b>	<b>12,797,262</b>
<b>Other Investment Fees and Expenses</b>		
Custodian Fees	265,797	191,212
Investment Consultant Fees	438,350	420,521
Miscellaneous Investment Expense	90,530	77,365
Notional Interest Expense	743,950	1,601,084
<b>Total Investment Fees and Interest Expenses</b>	<b>1,538,627</b>	<b>2,290,182</b>
<b>Total Investment Expenses</b>	<b>\$ 17,141,459</b>	<b>\$ 15,087,444</b>

### SCHEDULE OF PAYMENTS TO CONSULTANTS

FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Nature of Service</b>		
Actuarial-Retainer & Valuation*	\$ 217,819	\$ 188,235
Audit	60,705	60,705
Legal Counsel-Processing of Disabilities	244,040	277,947
Business Technology Services	108,850	80,188
<b>Total Payments to Consultants</b>	<b>\$ 631,414</b>	<b>\$ 607,075</b>

\* For 2013, includes triennial experience study.

OTHER SUPPLEMENTARY INFORMATION

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 POST-EMPLOYMENT HEALTHCARE AGENCY FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

	BALANCE JANUARY 1, 2013	ADDITIONS	DELETIONS	BALANCE DECEMBER 31, 2013
<b>Assets</b>				
Cash and Cash Equivalents	\$ 854,090	\$ 158,322	\$ (481,970)	\$ 503,442
Cash Collateral - Securities Lending	939,291	271,045	(302,225)	908,111
Receivables	38,569	52,974	85,942	177,485
Investments	17,713,069	5,710,292	(4,291,556)	19,131,805
<b>Total Assets</b>	<b>\$19,545,019</b>	<b>\$6,192,633</b>	<b>\$(4,989,809)</b>	<b>\$20,747,843</b>
<b>Liabilities</b>				
Securities Lending - Cash Collateral	\$ 939,291	\$ 271,045	\$ (302,226)	\$ 908,110
Securities Purchased, Not Paid	32,612	13,745	(304)	46,053
Accrued Expense and Other Payables	11,454	3,890	(2,310)	13,034
Securities Lending Interest and Other Expense	19	-	(19)	-
Retiree Sick Leave Bank Benefits Payable	18,561,643	5,903,953	(4,684,950)	19,780,646
<b>Total Liabilities</b>	<b>\$19,545,019</b>	<b>\$6,192,633</b>	<b>\$(4,989,809)</b>	<b>\$20,747,843</b>

It's not how much money you make,  
but how much money you keep,  
how hard it works for you, and how  
many generations you keep it for.

—ROBERT KIYOSAKI

THE ANNUAL INVESTMENT  
RETURN ASSUMPTION FOR  
PLAN FUNDING IS 7.50%.  
SJCERA'S ACTUAL TOTAL  
ANNUALIZED RETURNS  
FOR THE PERIODS ENDING  
DECEMBER 31, 2013 ARE:

ONE YEAR: 9.7%  
THREE YEARS: 7.5%  
FIVE YEARS: 10.2%  
TEN YEARS: 5.1%



# INVESTMENT



### STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, SUITE. 2000  
SAN FRANCISCO, CALIFORNIA 94104  
TEL 415/362-3484 + FAX 415/362-2752

### SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

#### Summary

Calendar year 2013 was a strong year for global equities, particularly for U.S. Equities that were up in excess of 30% for the year, with the Dow Jones Industrials reaching a new all-time high at year-end. Fixed income market returns were slightly lower for the year as U.S. Treasury yields rose. Public U.S. real estate markets were up in 2013 and the private real estate markets also exhibited a good positive return for the year.

SJCERA at the total plan level experienced a +9.7% return for the year. The +9.7% result was above SJCERA's policy benchmark of +8.4% by +130 basis points for the year; primarily as a result of above-average performance by the U.S. Equity, International Equity, Fixed Income, and Real Estate active managers.

2013 was a strong positive year for the U.S. and foreign equity markets. For the year, the Russell 3000 US Stock Index gained +33.6% and the MSCI ACW (All Country World) ex-US Index of foreign stocks gained +15.3%. Within the Real Estate markets, the NAREIT Equity Index advanced by +2.5% while the NCREIF ODCE Index net +1% also advanced by +13.9%. The Federal Reserve Bank continued to hold short-term interest rates in 2013 at low levels and continued to provide liquidity to the financial system. The Federal Reserve did announce at year-end that it would begin a "tapering" program to withdraw its quantitative easing program of U.S Treasury and Mortgage purchases in monthly steps with the goal to complete this program by year-end 2014. The US fixed income market realized a return of -2.0% for the year as measured by the Barclays Capital Aggregate Bond Index, as yields rose in calendar year 2013.

#### Investment Policy, Asset Deployment Policy and Performance Measurement Standards

SJCERA periodically reviews and updates its asset allocation and investment policies. The primary financial objective is to earn a long-term return sufficient to avoid deterioration in funded status. In November 2013, the Board of Retirement lowered its annual earnings assumption from 7.75% to 7.50%. The SJCERA Board in May 2009 made significant changes to their asset allocation policy with the goals of creating a more balanced and better diversified portfolio that reduced the overall risk of the plan.

Secondary goals are to outperform the asset allocation-weighted benchmark (16.25% US Equities, 16.25% Non-US Equities, 1.5% Global Equities, 24% Fixed Income, 4.5% Global Inflation-Linked Bonds, 2.5% Commodities, 15% Global Opportunistic Strategy, 10% Risk Parity and 10.0% Real Estate). At quarterly intervals, the System reviews performance at the total fund, asset class and individual manager levels. At each level, returns are evaluated versus appropriate indices.

#### Investment Objectives

Investment returns achieved through December 31, 2013 have been calculated using a time-weighted rate of return methodology based upon market values. In 2013, SJCERA met its management goals of ensuring sufficient funds available to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards.

## INDEPENDENT CONSULTANT'S REPORT

### Investment Results

PERIODS ENDED 12/31/13	ONE YEAR	THREE YEARS	FIVE YEARS
<b>Domestic Equity</b> <i>Russell 3000</i>	+36.0% +33.6%	+15.9% +16.2%	+18.1% +18.7%
<b>Non-US Equity</b> <i>MSCI ACWI ex-US Free</i>	+19.4% +15.8%	+7.0% +5.6%	+13.3% +13.3%
<b>Global Equity</b> <i>MSCI World</i>	+16.1% +27.4%		
<b>Fixed Income</b> <i>Barclays US Aggregate</i>	+2.5% -2.0%	+6.4% +3.3%	+9.6% +4.3%
<b>Real Assets</b> <i>Real Assets Benchmark</i>	-9.2% -7.8%	-1.0% -0.8%	
<b>Global Opportunistic</b> <i>9.0% Annual Benchmark</i>	+4.8% +9.0%		
<b>Risk Parity</b> <i>Risk Parity Benchmark</i>	-16.3% -12.1%		
<b>Real Estate</b> <i>Real Estate Benchmark</i>	+12.8% +11.5%	+17.5% +12.4%	+0.3% +10.0%
<b>Total Fund</b> <i>Policy Benchmark*</i> <i>Public Fund Median</i>	+9.7% +8.4% +15.0%	+7.5% +6.6% +9.6%	+10.2% +9.5% +12.6%

Investment returns achieved through December 31, 2013 have been calculated using a time-weighted rate of return methodology based upon market values.

\* Policy Benchmark is 16.25% Russell 3000/ 17% Barclays US Aggregate/ 1.5% MSCI World/ 4% 3-Month US Libor/ 18% of 9% Annual/ 16.25% MS ACWI ex-US/ 1.5% NAREIT/1% EPRA NAREIT ex US / 7.5%NCREIF ODCE (net +1%)/ 4.5% Bridgewater Real Asset Benchmark/2.5% Customized Commodities Index / 10% Customized Risk Parity Index  
Returns for periods greater than one year are annualized.

*Paul S. Harte*

Paul S. Harte  
Senior Vice President  
Strategic Investment Solutions, Inc.

# Investment

ASSET ALLOCATION AS OF DECEMBER 31, 2013

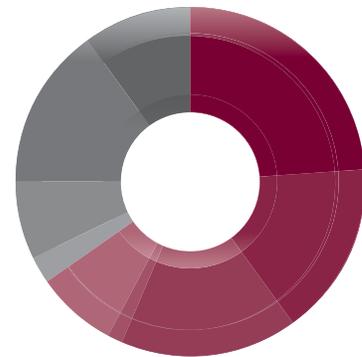
	INVESTMENT	ACTUAL ALLOCATION	TARGET ALLOCATION
Fixed Income	\$ 488,447,524	20.9%	24.0%
U.S. Equity	462,717,654	19.9%	16.2%
Non U.S. Equity	436,731,835	18.7%	16.3%
Global Equity	59,755,732	2.6%	1.5%
Real Estate (Private)	212,839,921	9.1%	7.5%
Real Estate Investment Trust	48,221,414	2.0%	2.5%
Real Assets	156,723,738	6.6%	7.0%
Global Opportunistic	179,965,174	7.6%	15.0%
Risk Parity	230,637,114	9.9%	10.0%
Short Term Investment/Cash/ Cash Equivalents	63,104,608	2.7%	0.0%
<b>Total</b>	<b>\$ 2,339,144,714</b>	<b>100.0%</b>	<b>100.0%</b>

## ACTUAL ALLOCATION



20.9%	<b>FIXED INCOME</b>	24.0%
19.9%	<b>U.S. EQUITY</b>	16.2%
18.7%	<b>NON U.S. EQUITY</b>	16.3%
2.6%	<b>GLOBAL EQUITY</b>	1.5%
9.1%	<b>REAL ESTATE ( PRIVATE)</b>	7.5%
2.0%	<b>REAL ESTATE INVESTMENT TRUST</b>	2.5%
6.6%	<b>REAL ASSETS</b>	7.0%
7.6%	<b>GLOBAL OPPORTUNISTIC</b>	15.0%
9.9%	<b>RISK PARITY</b>	10.0%
2.7%	<b>SHORT TERM INVESTMENT/ CASH/CASH EQUIVALENTS</b>	0.0%

## TARGET ALLOCATION



## LIST OF LARGEST ASSETS HELD

### Largest Stock Holdings (By Market Value)

DECEMBER 31, 2013

	SHARES	STOCKS	MARKET VALUE
1	50,000.00	mitsubishi estate co ltd	\$ 1,496,123
2	40,100.00	mitsui fudosan co ltd npv	1,444,065
3	17,413.00	bunge ltd	1,429,781
4	7,188.00	costar group inc com	1,326,761
5	26,000.00	sumitomo realty & development npv	1,293,754
6	41,352.00	hillenbrand inc com stk	1,216,576
7	27,606.00	yara international nok 1.7	1,187,629
8	19,900.00	agco corp com	1,177,881
9	143,386.00	adecoagro s a com	1,159,993
10	15,666.00	belden inc	1,103,670

A complete list of the stock holdings is available upon request.

### Largest Bond Holdings (By Market Value)

DECEMBER 31, 2013

	PAR	BONDS	MARKET VALUE
1	8,183,065.73	MFO STONE HBR INVT FDS EMERGING MKTS DEBT FD INSTL CL	\$ 7,671,768
2	6,717,724.16	US TREAS NTS INDEX LINKED NOTE 125 DUE 01-15-2022 REG	6,647,050
3	4,839,685.73	UNITES STATES OF AMER TREAS NOTES 1 NTS 15/05/2014	4,815,936
4	4,588,880.18	US TREAS NTS INDEX LINKED 1.625 DUE 0-15-2018 REG	4,553,415
5	3,923,318.99	US TREAS NTS INDEX LINKED 2.00 DUE 01-15-2016 REG	3,919,089
6	3,917,402.18	US TREAS BDS INDEX LINKED 2.00 DUE 01-15-2016 REG	3,880,871
7	4,006,214.65	MFO STONE HARBOR LOCAL MARKET FD	3,673,552
8	3,585,283.60	US (GOVT OF) 1.25% IDX-LKD GILT 2055 GBP	3,623,608
9	3,562,654.06	FEDERAL HOME LN MTG CORP CMO SER 3998 CLAZ 4 02-15-2042	3,341,418
10	3,171,957.46	FNMA REMIC TR 2012-133 CL-PB 6.5 04-25-2042	3,258,025

A complete list of the bond holdings is available upon request.

# Investment

## SCHEDULE OF INVESTMENT FEES

	2013	2012
<b>Investment Management Fees</b>		
Fixed Income	\$ 2,668,268	\$ 2,420,821
U.S. Equity	1,110,249	890,447
Non-U.S. Equity	462,967	369,657
Global Equity	196,551	32,952
Real Estate - Private Managers	3,909,080	2,907,886
Real Estate - Investment Trust	349,741	293,008
Real Assets	1,057,512	1,275,694
Global Opportunistic	4,729,983	3,684,439
Risk Parity	960,265	790,355
Short Term Investments/ Cash & Equivalents	158,216	132,003
	<b>\$ 15,602,832</b>	<b>\$ 12,797,262</b>
<b>Other Investment Fees</b>		
Custodian Fees	265,797	191,212
Investment Consultant Fees	438,350	420,521
Miscellaneous Investment Expense	90,530	77,365
Notional Interest Expense	743,950	1,601,084
	<b>\$ 1,538,627</b>	<b>\$ 2,290,182</b>
<b>Total Investment Expenses</b>	<b>\$ 17,141,459</b>	<b>\$ 15,087,444</b>
<b>Security Lending Fees</b>		
Security Lending Fees and Interest Expense	137,437	128,646
<b>Total Investment Fees and Expenses</b>	<b>\$ 17,278,896</b>	<b>\$ 15,216,090</b>

SCHEDULE OF FEES AND COMMISSIONS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	BROKER	COMMISSION PAID	COMMISSIONS PER SHARE
1	GOLDMAN, SACHS AND CO	43,064	9.67%
2	TOURMALINE PARTNERS LLC	32,434	7.28%
3	NORTHERN TRUST COMPANY, THE	30,000	6.74%
4	RBC DAIN RAUSCHER	25,222	5.66%
5	NORTHERN TRUST CO	18,074	4.06%
6	KNIGHT EQUITY MARKETS LP	13,739	3.09%
7	ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	12,937	2.91%
8	INSTINET	12,909	2.90%
9	JONESTRADING INST SERV	9,508	2.14%
10	LIQUIDNET INC	9,405	2.11%
11	OTHERS*	238,026	53.45%
<b>Grand Total</b>		<b>\$ 445,318</b>	<b>100.00%</b>

\* Includes approximately 141 additional firms, each with less than 2% of total commissions.

# Investment

## INVESTMENT SUMMARY

	FAIR VALUE DECEMBER 31, 2013	PERCENTAGE OF FAIR VALUE
<b>Fixed Income</b>		
Double Line	95,082,280	4.1%
Dodge & Cox	108,888,390	4.7%
Mesa West I	2,485,219	0.1%
Mesa West II	28,938,761	1.2%
Mesa West III	10,075,823	0.4%
Prima	161,385,786	6.9%
Stone Harbor	81,591,265	3.5%
<b>Total Fixed Income</b>	<b>\$ 488,447,524</b>	<b>20.9%</b>
<b>U.S. Equity</b>		
BlackRock R1000 Index	303,727,156	13.0%
Capital Prospects	78,041,333	3.3%
Legato	80,949,165	3.6%
<b>Total U.S. Equity</b>	<b>\$ 462,717,654</b>	<b>19.9%</b>
<b>Non-U.S. Equity</b>		
BlackRock MSCI World Ex-US	169,190,813	7.2%
Research Affiliates International	180,460,624	7.8%
Research Affiliates Emerging	87,080,398	3.7%
<b>Total Non-U.S. Equity</b>	<b>\$ 436,731,835</b>	<b>18.7%</b>
<b>Global Equity</b>		
Kleinwort Benson	59,755,732	2.6%
<b>Total Global Equity</b>	<b>\$ 59,755,732</b>	<b>2.6%</b>
<b>Real Estate - Private Managers</b>		
Almanac Realty	10,142,376	0.4%
Colony Realty Partners III	20,288,600	0.9%
Colony Realty Partners IV	10,966,400	0.5%
Greenfield V	19,629,694	0.8%
Greenfield VI	20,525,958	0.9%
Legacy Fund II	1,000	0.0%
Legacy Fund III	10,072,281	0.4%
Miller Global Fund V	6,731,970	0.3%
Miller Global Fund VI	19,969,028	0.9%
Miller Global Fund VII	8,821,033	0.4%
Prologis/AMB Property	28,770,819	1.2%
RREEF America III	11,530,151	0.5%
Sarofim	14,676,154	0.6%
Walton Street Fund V	16,318,873	0.7%
Walton Street Fund VI	14,395,584	0.6%
<b>Total Real Estate - Private Managers</b>	<b>\$ 212,839,921</b>	<b>9.1%</b>

(Continued on page 74)

## INVESTMENT SUMMARY

	FAIR VALUE DECEMBER 31, 2013	PERCENTAGE OF FAIR VALUE
<b>Real Estate - Investment Trust</b>		
European Investment	24,470,347	1.0%
Invesco REIT	23,751,067	1.0%
<b>Total Real Estate-Investment Trust</b>	<b>\$ 48,221,414</b>	<b>2.0%</b>
<b>Real Assets</b>		
Bridgewater Real Asset	104,073,836	4.3%
Schroder Commodity	52,649,902	2.3%
<b>Total Real Assets</b>	<b>\$ 156,723,738</b>	<b>6.6%</b>
<b>Global Opportunistic</b>		
Bridgewater Pure Alpha	78,057,699	3.3%
Crestline	6,561,161	0.3%
Ocean Avenue	4,573,435	0.2%
Marinus Opportunity	29,705,770	1.3%
Medley Opportunity	37,784,861	1.6%
Morgan Creek	3,084,368	0.0%
Mount Lucas	20,197,880	0.9%
<b>Total Global Opportunistic</b>	<b>\$ 179,965,174</b>	<b>7.6%</b>
<b>Risk Parity</b>		
Bridgewater All-Weather	71,627,905	3.1%
Clifton Risk Parity	69,279,180	3.0%
PIMCO	89,730,029	3.8%
<b>Total Risk Parity</b>	<b>\$ 230,637,114</b>	<b>9.9%</b>
<b>Short Term Investments/Cash/Cash Equivalents</b>		
Clifton Group	12,897,431	0.6%
STIF - Northern Trust	50,207,177	2.1%
<b>Total Short Term Investments</b>	<b>\$ 63,104,608</b>	<b>2.7%</b>
<b>Total</b>	<b>\$ 2,339,144,714</b>	<b>100%</b>

Retirement security is often compared to a three-legged stool supported by Social Security, employer-provided pension funds, and private savings.

—SANDER LEVIN



LONG-TERM PLANNING CAN HELP MEMBERS MAXIMIZE THEIR RETIREMENT BENEFITS. OF THE FIVE DIFFERENT RETIREMENT OPTIONS AVAILABLE TO SJCERA MEMBERS, NEARLY 80% SELECT THE UNMODIFIED ALLOWANCE AT RETIREMENT. UNDER THIS PROVISION, 60% OF THE RETIREE'S MONTHLY BENEFIT IS PAID TO THE RETIREE'S ELIGIBLE SURVIVING SPOUSE.

# ACTUARIAL





Classic Values, Innovative Advice

February 24, 2014

Retirement Board of San Joaquin  
County Employees' Retirement Association  
6 South El Dorado Street, Suite 400  
Stockton, CA 95202

Dear Members of the Board:

At your request, Cheiron has conducted the annual actuarial valuation of the San Joaquin County Employees' Retirement Association (SJCERA, the System, the Fund, the Plan) as of January 1, 2013. This report contains information on the System's assets and liabilities. This report also discloses employer contribution levels and required disclosures under the Governmental Accounting Standards Board Statement Nos. 25 and 27.

In preparing our report, we relied without audit, on information supplied by the SJCERA staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of the valuation date, the amortization period is 26 years for half of the 2008 investment loss and 20 years for the remaining UAAL. The funding objective of the Plan is to establish contribution rates that will adequately fund member benefits. For actuarial valuation purposes, Plan assets are valued at Actuarial Value with adjustments for certain Special Reserves. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all investment gains and losses (returns above or below expected returns) over a period of five years; the Actuarial Value so determined is constrained to remain within 20% of Market Value.

We selected the actuarial assumptions shown in the schedules to be appropriate for use under the Plan. We performed an analysis of the Plan's noneconomic experience for the years 2010 through 2012 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results that, individually and in aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis will take place during 2016 and is expected to cover the years 2013 through 2015. The results of this report rely on future plan experience conforming to the underlying assumptions. To the extent that actual plan experience deviates from the underlying assumptions, the results will vary accordingly.

Our firm has prepared the following schedules for the actuarial report: All demographic rate tables, salary increase rates, and Actuarial Value of Assets and Reserves. Additionally, we have prepared the following schedules based on historical information and our calculations as of January 1, 2013: Solvency Test, Schedule of Funding Progress, and Schedule of Contributions.

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[www.cheiron.us](http://www.cheiron.us)



## ACTUARY'S CERTIFICATION LETTER



Classic Values, Innovative Advice

The Cheiron report was prepared solely for the Retirement Board of San Joaquin for the purposes described herein, except that the plan auditor may rely on this report solely for the purpose of completing an audit related to the matters herein. It is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Respectfully Submitted,

Cheiron

A handwritten signature in black ink, appearing to read 'Robert T. McCrory'.

Robert T. McCrory, FSA, MAAA  
Principal Consulting Actuary

A handwritten signature in black ink, appearing to read 'Graham A. Schmidt'.

Graham A. Schmidt, ASA, MAAA  
Consulting Actuary

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## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial assumptions and methods are both recommended by our actuaries, Cheiron Actuaries, and adopted by the Board of Retirement on an annual basis. The most current Actuarial Valuation was conducted on January 1, 2013 for the period ending December 31, 2012.

An Experience Analysis is completed once every three years. The most recent Experience Analysis was conducted on November 1, 2013 for the years 2010 through 2012.

<b>Actuarial Cost Method</b>	Entry Age Normal Cost Method
<b>Unfunded Liability</b>	The excess of the Actuarial Accrued Liability over Plan assets is the Unfunded Accrued Liability (UAL). Half the actuarial loss experienced in 2008 was deemed to be an Extraordinary Actuarial Loss. Thus, 50% of the loss is separately amortized as a level percentage of pay over a closed 30-year period. The remainder of the Plan's unfunded actuarial accrued liability is being amortized over a 20-year open period amortization until January 1, 2014, when it will be decreased by one year in each annual valuation report until a 12-year amortization period is reached.
<b>Valuation Interest Rate</b>	The annual rate of return on all Plan assets is assumed to be 7.50%, net of investment and administrative expenses.
<b>Inflation Assumption</b>	3.00% per annum
<b>Increases in Pay</b>	Assumed pay increases for active members consist of increases due to base salary adjustments plus service-based increases due to longevity and promotion. Rates vary by age and classification (See <i>Salary Scale Schedule</i> ).
<b>Asset Valuation Method</b>	The Plan uses a modified market-related value method called the Actuarial Value of Plan Assets. The market value of assets is adjusted to recognize, over a five-year period, differences between actual investment earnings and the assumed investment return. Accordingly, only 20% of this difference is being recognized in any one year (See <i>Actuarial Value of Assets Schedule</i> ). The actuarial value of assets is limited to no less than 80% and no more than 120% of the market value.
<b>Healthy Member Mortality</b>	Mortality rates for active members, retirees, beneficiaries, terminated vested and reciprocal members are based on the sex distinct Retired Pensioner (RP) 2000 Combined Healthy Tables, published by the Society of Actuaries, with Generational Projection using Projection Scale BB.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

<b>Disabled Member Mortality</b>	Mortality rates for disabled members are based on the sex distinct Retired Pensioner (RP) 2000 Combined Healthy Tables, published by the Society of Actuaries, with Generational Projection using Projection Scale BB, set-forward eight years for males and females.
<b>Vested Termination Rates</b>	Rates vary by service and classification (See <i>Probabilities of Separation Schedule</i> ).
<b>Withdrawal Rates</b>	Rates vary by service and classification (See <i>Probabilities of Separation Schedule</i> ).
<b>Disability Rates</b>	Rates vary by age, gender and classification (See <i>Probabilities of Separation Schedule</i> ).
<b>Duty Disability Rates</b>	Rates vary by age, gender and classification (See <i>Probabilities of Separation Schedule</i> ).
<b>Service Retirement Rates</b>	Rates vary by age, service, gender and classification (See <i>Probabilities of Separation Schedule</i> ).
<b>Family Composition</b>	50% of female members and 70% of male members are assumed to be married. Male spouses are assumed to be three years older than their wives.
<b>Vested Terminations</b>	No terminations are assumed for participants who are eligible for retirement. For General Members who terminate with at least five years of service, 25% are assumed to go to work with a reciprocal employer. This rate is 50% for Safety Members.
<b>Deferral Age for Vested Terminators</b>	Vested terminated General Members are assumed to begin receiving benefits at age 58; terminated Safety Members are assumed to begin receiving benefits at age 53.
<b>Employment Status</b>	No future transfers among member groups are assumed.

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

ACTUARIAL VALUATION DATE	PLAN TYPE	MEMBERS	ANNUAL PAYROLL	AVERAGE ANNUAL SALARY	AVERAGE SALARY INCREASE
01/01/2004	General	5,116	238,914,000	46,699	10.3%
	Safety	812	47,515,000	58,516	8.2%
	<b>Total</b>	<b>5,928</b>	<b>\$286,429,000</b>	<b>\$ 48,318</b>	<b>10.0%</b>
01/01/2005	General	5,176	239,505,000	46,272	-0.9%
	Safety	832	47,567,000	57,168	-2.3%
	<b>Total</b>	<b>6,008</b>	<b>\$287,072,000</b>	<b>\$ 47,784</b>	<b>-1.1%</b>
01/01/2006	General	5,210	242,654,000	46,575	6.5%
	Safety	835	49,623,000	59,429	3.95%
	<b>Total</b>	<b>6,045</b>	<b>\$292,277,000</b>	<b>\$ 48,350</b>	<b>1.18%</b>
01/01/2007	General	5,234	288,178,806	55,059	18.22%
	Safety	820	56,293,820	68,651	15.52%
	<b>Total</b>	<b>6,054</b>	<b>\$344,472,626</b>	<b>\$ 56,900</b>	<b>17.68%</b>
01/01/2008	General	5,353	308,773,122	57,682	4.76%
	Safety	871	62,988,014	72,317	5.34%
	<b>Total</b>	<b>6,224</b>	<b>\$371,761,136</b>	<b>\$ 59,730</b>	<b>4.97%</b>
01/01/2009	General	5,180	315,202,954	60,850	5.49%
	Safety	900	67,127,759	74,586	3.14%
	<b>Total</b>	<b>6,080</b>	<b>\$382,330,713</b>	<b>\$ 62,883</b>	<b>5.28%</b>
01/01/2010	General	4,990	320,526,792	64,234	5.56%
	Safety	925	70,801,157	76,542	2.62%
	<b>Total</b>	<b>5,915</b>	<b>\$391,327,949</b>	<b>\$ 66,159</b>	<b>5.21%</b>
01/01/2011	General	4,643	308,183,424	66,376	3.33%
	Safety	830	64,817,396	78,093	2.03%
	<b>Total</b>	<b>5,473</b>	<b>\$373,000,820</b>	<b>\$ 68,153</b>	<b>3.01%</b>
01/01/2012	General	4,441	298,308,687	67,172	1.20%
	Safety	813	64,041,814	78,772	0.87%
	<b>Total</b>	<b>5,254</b>	<b>\$362,350,501</b>	<b>\$ 68,967</b>	<b>1.19%</b>
01/01/2013	General	4,492	301,505,122	67,120	-0.08%
	Safety	803	64,386,900	80,183	1.79%
	<b>Total</b>	<b>5,295</b>	<b>\$365,892,022</b>	<b>\$ 69,101</b>	<b>0.19%</b>

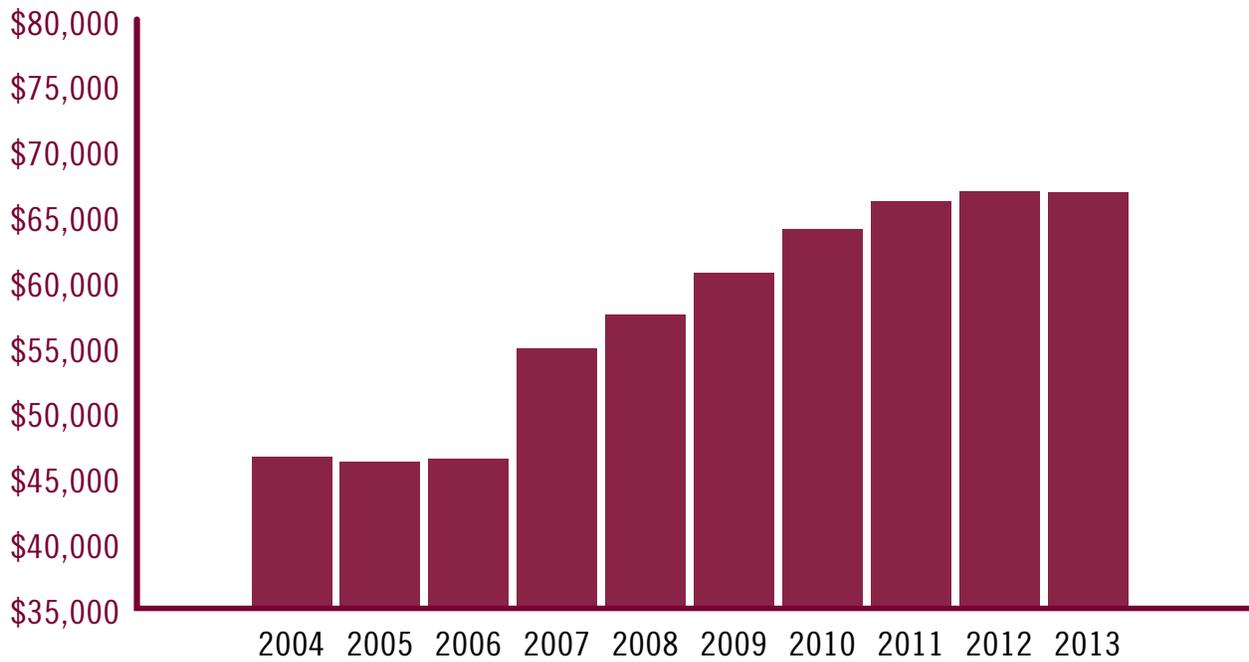
Payroll figures represent the annualization of active member's pay rates on December 31st.

The most current Actuarial Valuation was conducted as of January 1, 2013 for the period ending December 31, 2012.

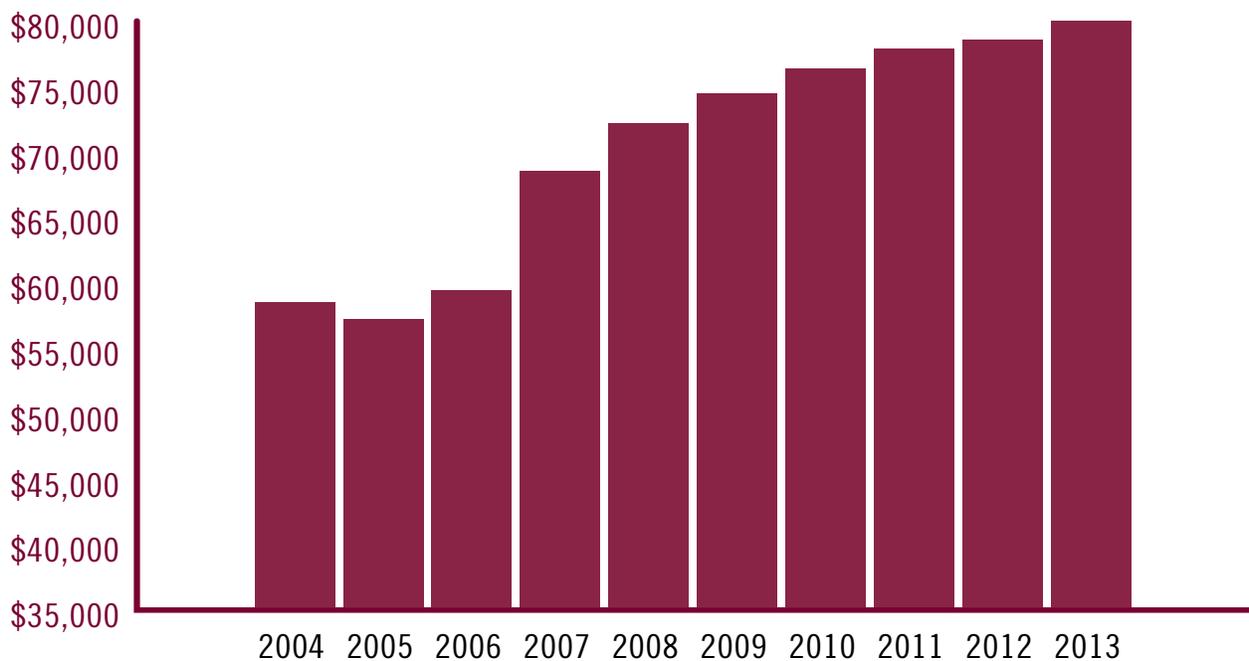
The information in subsequent years is currently not available.

## CHART OF ACTIVE MEMBER AVERAGE ANNUAL SALARY

### GENERAL MEMBERS



### SAFETY MEMBERS



## SCHEDULE OF RETIREES AND BENEFICIARIES VALUATION DATA

ACTUARIAL VALUATION DATE	PLAN TYPE	MEMBER RETIREMENTS	BENEFICIARY CONTINUANCE	MEMBERS AND BENEFICIARIES REMOVED	TOTAL RETIREES ON PAYROLL	ANNUAL RETIREMENT PAYROLL	AVERAGE ANNUAL ALLOWANCE	AVERAGE ALLOWANCE % INCREASE
01/01/2004	General	176	42	98	2,741	44,424,864	16,208	6.5%
	Safety	36	4	8	548	19,348,974	35,308	3.1%
	<b>Total</b>	<b>212</b>	<b>46</b>	<b>106</b>	<b>3,289</b>	<b>\$63,773,838</b>	<b>\$ 19,390</b>	<b>5.7%</b>
01/01/2005	General	196	23	83	2,856	48,699,000	17,052	5.2%
	Safety	46	6	14	577	21,444,000	37,164	10.8%
	<b>Total</b>	<b>242</b>	<b>29</b>	<b>97</b>	<b>3,433</b>	<b>\$70,143,000</b>	<b>\$20,436</b>	<b>5.4%</b>
01/01/2006	General	204	29	111	2,978	54,058,708	18,153	6.5%
	Safety	35	4	12	604	23,396,038	38,735	4.2%
	<b>Total</b>	<b>239</b>	<b>33</b>	<b>123</b>	<b>3,582</b>	<b>\$77,454,746</b>	<b>\$ 21,623</b>	<b>5.9%</b>
01/01/2007	General	190	41	102	3,107	58,634,478	18,872	4.0%
	Safety	31	8	11	632	25,003,422	39,562	2.1%
	<b>Total</b>	<b>221</b>	<b>49</b>	<b>113</b>	<b>3,739</b>	<b>\$83,637,900</b>	<b>\$ 22,369</b>	<b>3.5%</b>
01/01/2008	General	199	31	99	3,238	65,213,731	20,140	6.7%
	Safety	38	6	8	668	27,396,329	41,012	3.7%
	<b>Total</b>	<b>237</b>	<b>37</b>	<b>107</b>	<b>3,906</b>	<b>\$92,610,060</b>	<b>\$ 23,710</b>	<b>6.0%</b>
01/01/2009	General	203	30	83	3,388	71,488,335	21,100	4.8%
	Safety	50	10	18	710	30,575,540	43,064	5.0%
	<b>Total</b>	<b>253</b>	<b>40</b>	<b>101</b>	<b>4,098</b>	<b>\$102,063,875</b>	<b>\$ 24,906</b>	<b>5.0%</b>
01/01/2010	General	207	31	104	3,522	78,988,070	22,427	6.3%
	Safety	24	7	11	730	32,575,964	44,625	3.6%
	<b>Total</b>	<b>231</b>	<b>38</b>	<b>115</b>	<b>4,252</b>	<b>\$111,564,034</b>	<b>\$ 26,238</b>	<b>5.3%</b>
01/01/2011	General	242	35	102	3,697	85,931,078	23,243	3.6%
	Safety	65	5	8	792	36,354,738	45,902	2.9%
	<b>Total</b>	<b>307</b>	<b>40</b>	<b>110</b>	<b>4,489</b>	<b>\$122,285,816</b>	<b>\$ 27,241</b>	<b>3.8%</b>
01/01/2012	General	240	42	108	3,871	92,938,361	24,009	3.3%
	Safety	32	4	14	814	38,098,866	46,805	2.0%
	<b>Total</b>	<b>272</b>	<b>46</b>	<b>122</b>	<b>4,685</b>	<b>\$131,037,227</b>	<b>\$ 27,970</b>	<b>2.7%</b>
01/01/2013	General	278	27	135	4,041	102,025,575	25,248	5.2%
	Safety	52	12	20	856	42,008,598	49,075	4.9%
	<b>Total</b>	<b>330</b>	<b>39</b>	<b>155</b>	<b>4,897</b>	<b>\$144,034,172</b>	<b>\$ 29,413</b>	<b>5.2%</b>

Payroll figures represent year end monthly retirement benefits annualized and exclude Post-Employment.

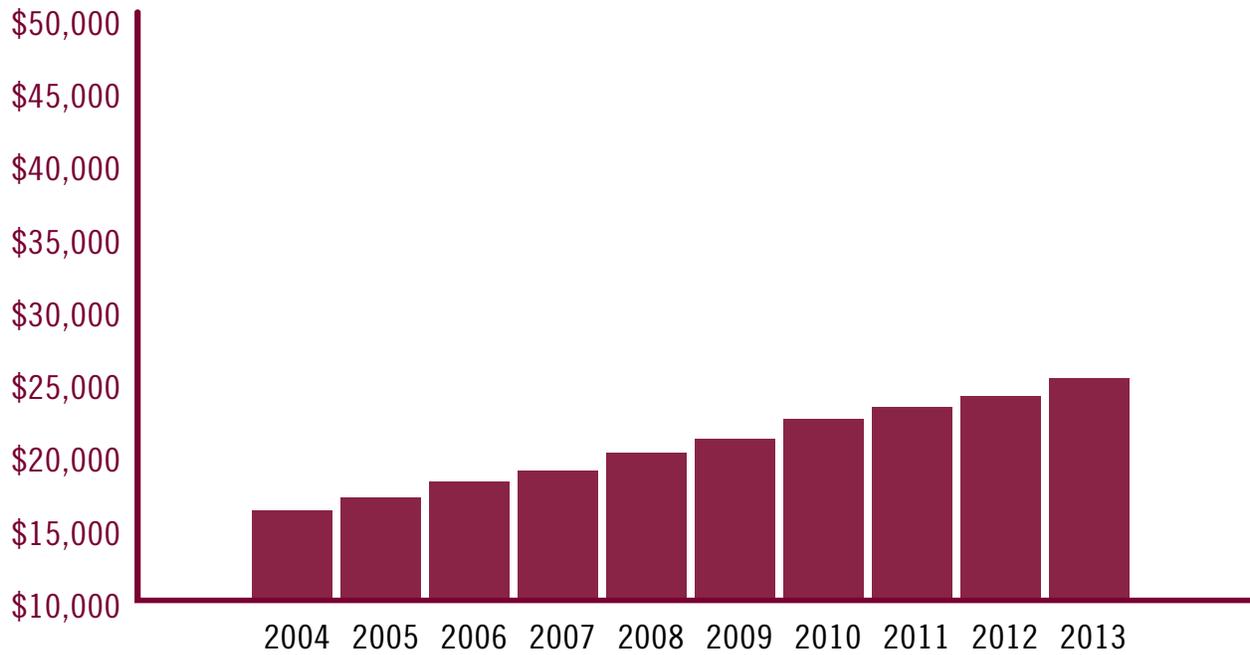
Healthcare benefit and benefits under the Class Action Settlement.

The most current Actuarial Valuation was conducted as of January 1, 2013 for the period ending December 31, 2012.

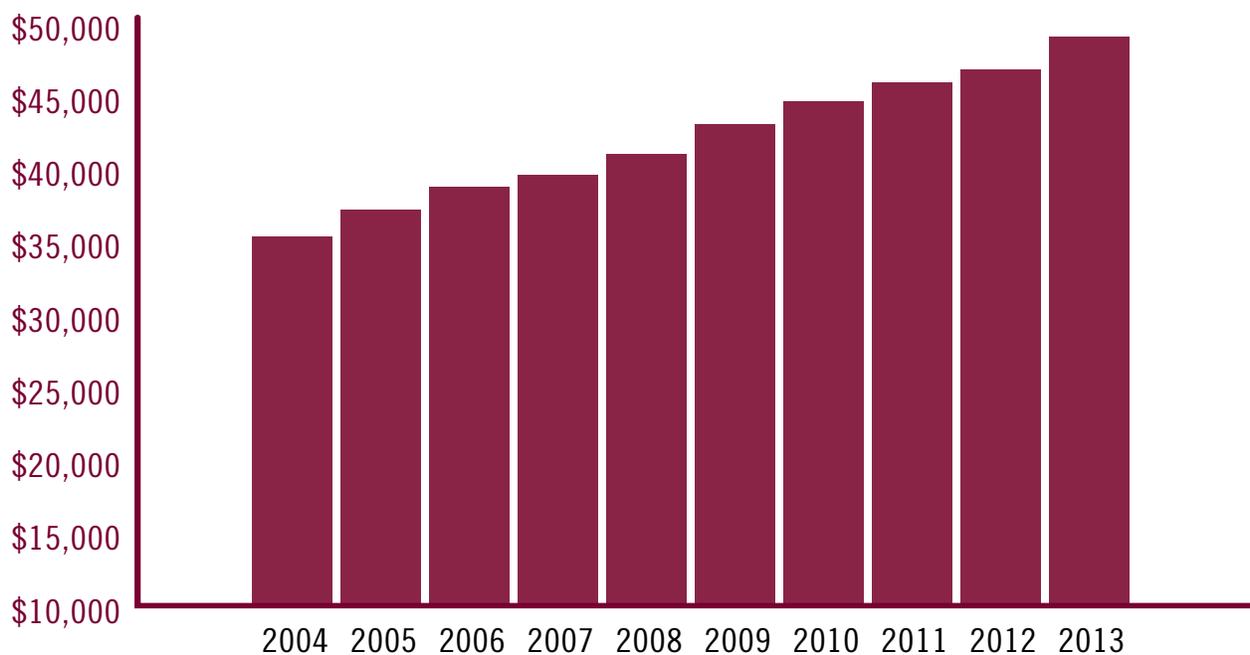
The information in subsequent years is currently not available.

# CHART OF RETIREES AND BENEFICIARIES AVERAGE ANNUAL ALLOWANCE

## GENERAL MEMBERS



## SAFETY MEMBERS



## RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

FISCAL YEAR	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS AT YEAR END		% INCREASE IN RETIREE ALLOWANCE	AVERAGE ANNUAL ALLOWANCE
	MEMBER COUNT	ANNUAL ALLOWANCE (IN 000'S) <sup>1</sup>	MEMBER COUNT	ANNUAL ALLOWANCE (IN 000'S)	MEMBER COUNT	ANNUAL ALLOWANCE (IN 000'S)		
2010	353	\$ 12,918	(116)	\$ (2,196)	4,489	\$122,286	3.82%	\$ 27,241
2011	318	11,544	(122)	(2,793)	4,685	131,037	2.67%	27,969
2012	361	16,400	(149)	(3,403)	4,897	144,034	5.16%	29,413
2013	297	12,908	(153)	(3,530)	5,041	153,412	3.47%	30,433

<sup>1</sup>Includes COLA amounts not included in previous year's Annual Allowance totals.

## SOLVENCY TEST

(DOLLARS IN THOUSANDS)								
ACTUARIAL ACCRUED LIABILITY						PORTION OF ACCRUED LIABILITIES COVERED BY ACTUARIAL VALUE OF ASSETS		
ACTUARIAL VALUATION DATE	(1) ACTIVE MEMBER CONTRIBUTIONS	(2) RETIREES AND BENEFICIARIES	(3) ACTIVE MEMBERS (EMPLOYER FINANCED PORTION)	TOTAL ACTUARIAL ACCRUED LIABILITY	ACTUARIAL VALUE OF ASSETS			
						(1)	(2)	(3)
1/1/2004	\$ 129,606	\$ 726,382	\$ 739,749	\$1,595,737	\$1,531,288	100%	100%	91.3%
1/1/2005	140,800	805,878	822,829	1,769,507	1,614,979	100%	100%	81.2%
1/1/2006	147,953	904,208	883,657	1,935,818	1,727,033	100%	100%	76.4%
1/1/2007	159,100	1,023,296	967,542	2,149,938	1,869,717	100%	100%	71.0%
1/1/2008	166,804	1,119,690	1,048,027	2,334,521	2,029,949	100%	100%	71.0%
1/1/2009	176,236	1,231,648	1,103,042	2,510,925	1,821,357	100%	100%	37.0%
1/1/2010	187,987	1,373,257	1,208,368	2,769,612	1,949,011	100%	100%	32.0%
1/1/2011	193,613	1,495,665	1,228,410	2,917,688	2,120,384	100%	100%	35.0%
1/1/2012	202,925	1,627,338	1,218,058	3,048,321	2,130,053	100%	100%	25.0%
1/1/2013	209,987	1,810,776	1,332,531	3,353,294	2,125,700	100%	100%	8.0%

This schedule excludes Post 4/1/82 Retiree Class Action Settlement Reserve and Unapportioned Earnings Reserve.

The most current Actuarial Valuation was conducted as of January 1, 2013 for the period ending December 31, 2012. The information in subsequent years is currently not available.

## ASSUMED PROBABILITIES OF SEPARATION FROM ACTIVE MEMBERSHIP (GENERAL)

AGE	NON-DUTY DEATH	ORDINARY DISABILITY	SERVICE RETIREMENT <sup>1</sup>	DUTY DEATH	DUTY DISABILITY
<b>General Members - Male</b>					
20	0.0003	0.000	0.000	0.000	0.001
25	0.0003	0.001	0.000	0.000	0.001
30	0.0004	0.001	0.000	0.000	0.001
35	0.0007	0.001	0.000	0.000	0.001
40	0.0010	0.001	0.000	0.000	0.004
45	0.0014	0.002	0.000	0.000	0.004
50	0.0019	0.002	0.050	0.000	0.002
55	0.0033	0.003	0.050	0.000	0.002
60	0.0052	0.003	0.150	0.000	0.002
65	0.0082	0.004	0.300	0.000	0.002
<b>General Members - Female</b>					
20	0.0002	0.000	0.000	0.000	0.000
25	0.0002	0.001	0.000	0.000	0.000
30	0.0002	0.001	0.000	0.000	0.000
35	0.0004	0.001	0.000	0.000	0.001
40	0.0006	0.001	0.000	0.000	0.001
45	0.0010	0.002	0.000	0.000	0.001
50	0.0015	0.002	0.020	0.000	0.001
55	0.0023	0.003	0.040	0.000	0.002
60	0.0035	0.004	0.100	0.000	0.002
65	0.0063	0.005	0.250	0.000	0.003

<sup>1</sup> Lower rates assumed for members with less than 10 years of service, and higher rates assumed for members with at least 30 years of service.

The probabilities for each cause of separation represent the likelihood that a given member will separate at a particular age for the indicated reason. As an example, if the probability of a male general member at age 50 is 0.050, that indicates that 5.0% of active general members are expected to separate from service during the year.

ASSUMED PROBABILITIES OF SEPARATION FROM ACTIVE MEMBERSHIP (SAFETY)

AGE	NON-DUTY DEATH	ORDINARY DISABILITY	SERVICE RETIREMENT <sup>1</sup>	DUTY DEATH	DUTY DISABILITY
<b>Safety Members - Male</b>					
20	0.0002	0.000	0.000	0.002	0.000
25	0.0002	0.000	0.000	0.002	0.001
30	0.0002	0.000	0.000	0.002	0.001
35	0.0004	0.000	0.000	0.002	0.002
40	0.0006	0.000	0.000	0.003	0.004
45	0.0009	0.001	0.050	0.004	0.008
50	0.0014	0.001	0.150	0.005	0.014
55	0.0026	0.002	0.300	0.007	0.023
<b>Safety Members - Female</b>					
20	0.0001	0.000	0.000	0.001	0.000
25	0.0001	0.000	0.000	0.001	0.001
30	0.0001	0.000	0.000	0.001	0.001
35	0.0002	0.000	0.000	0.002	0.002
40	0.0003	0.000	0.000	0.003	0.004
45	0.0006	0.001	0.050	0.004	0.008
50	0.0010	0.003	0.150	0.005	0.014
55	0.0017	0.005	0.300	0.006	0.023

<sup>1</sup> Lower rates assumed for members with less than 20 years of service.

The probabilities for each cause of separation represent the likelihood that a given member will separate at a particular age for the indicated reason. As an example, if the probability of a male safety member at age 50 is 0.150, that indicates that 1.5% of active general members are expected to separate from service during the year.

## SALARY INCREASE, TERMINATION, AND WITHDRAWAL ASSUMPTIONS

YEARS OF SERVICE	Salary Increase		Termination		Withdrawal	
	GENERAL	SAFETY	GENERAL	SAFETY	GENERAL	SAFETY
0	0.0724	0.0824	0.064	0.018	0.064	0.070
1	0.0724	0.0824	0.050	0.016	0.050	0.062
2	0.0724	0.0824	0.050	0.012	0.050	0.046
3	0.0724	0.0824	0.039	0.006	0.039	0.022
4	0.0724	0.0824	0.024	0.006	0.024	0.022
5	0.0424	0.0524	0.016	0.002	0.029	0.018
6	0.0424	0.0524	0.016	0.002	0.029	0.018
7	0.0424	0.0524	0.016	0.002	0.029	0.018
8	0.0424	0.0524	0.013	0.002	0.024	0.018
9	0.0424	0.0524	0.011	0.002	0.020	0.018
10	0.0424	0.0524	0.007	0.001	0.013	0.009
11	0.0424	0.0524	0.007	0.001	0.013	0.009
12	0.0424	0.0524	0.007	0.001	0.013	0.009
13	0.0424	0.0524	0.007	0.001	0.013	0.009
14	0.0424	0.0524	0.007	0.001	0.013	0.009
15	0.0424	0.0524	0.000	0.000	0.020	0.010
16	0.0424	0.0524	0.000	0.000	0.020	0.010
17	0.0424	0.0524	0.000	0.000	0.020	0.010
18	0.0424	0.0524	0.000	0.000	0.020	0.010
19	0.0424	0.0524	0.000	0.000	0.020	0.010
20	0.0424	0.0524	0.000	0.000	0.010	0.000
21	0.0424	0.0524	0.000	0.000	0.010	0.000
22	0.0424	0.0524	0.000	0.000	0.010	0.000
23	0.0424	0.0524	0.000	0.000	0.010	0.000
24	0.0424	0.0524	0.000	0.000	0.010	0.000
25	0.0424	0.0524	0.000	0.000	0.010	0.000
26	0.0424	0.0524	0.000	0.000	0.010	0.000
27	0.0424	0.0524	0.000	0.000	0.010	0.000
28	0.0424	0.0524	0.000	0.000	0.010	0.000
29	0.0424	0.0524	0.000	0.000	0.010	0.000
30+	0.0325	0.0524	0.000	0.000	0.000	0.000



### Membership

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Membership is mandatory upon appointment to a full-time, permanent position with the County or other participating employer. Persons who commence covered employment at age 60 or older may irrevocably elect to waive membership in SJCERA.

**Tier 1** - Employees who established and maintain membership in SJCERA prior to January 1, 2013, and other eligible employees as defined by law, participate in the defined benefit formula that was in place before January 1, 2013, termed "SJCERA Tier I."

**Tier II** - Employees who establish membership in SJCERA on or after January 1, 2013, who are subject to the provisions of the Public Employees' Pension Reform Act of 2013 (Article 4 (commencing with Section 7522, et seq.) of Chapter 21 of Division 7 of Title 1 of the Government Code), also known as "PEPRA," participate in the defined benefit formula prescribed by PEPRA for these employees, termed "SJCERA Tier II."

### Final Average Salary

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For Tier I members, final compensation for purposes of computing a retirement allowance is the average monthly salary for the highest twelve consecutive months of employment. In addition to base salary, final compensation may include other items defined as compensation earnable for retirement purposes. Overtime pay is excluded.

For Tier II members, final compensation for purposes of computing a retirement allowance is the average monthly salary for the highest thirty-six consecutive months of employment. In addition to base salary, final compensation may include other items defined as pensionable compensation.

Allowances, incentives, employer contributions to deferred compensation, annual leave cash outs and overtime pay are excluded.

### Contributions

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Member contributions are based upon membership category, General or Safety, are expressed as a percentage of covered payroll, and are deducted from employees' earnings on a biweekly basis. Collective bargaining agreements and employment resolutions may also specify terms that affect members' retirement contributions.

Tier I members pay contributions also based upon the age at which the employee entered SJCERA membership. General members of Tier I employed prior to March 7, 1973, and all Safety members of Tier I stop paying member contributions when they have 30 years of service credit, but continue to accrue retirement service credit for subsequent active employment subject to membership.

Tier II members pay contributions equal to one-half of the normal cost of their applicable benefits.

Member contributions are credited with interest semi-annually. Upon termination of employment prior to retirement, a member may elect to withdraw his or her accumulated member contributions and interest, terminating SJCERA membership and forfeiting all related rights and benefits.

### Vesting

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A member with 5 years of retirement service credit is vested in the plan as long as accumulated member contributions remain on deposit with SJCERA.

## SUMMARY OF MAJOR PLAN PROVISIONS

### Service Retirement

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#### Tier I Members:

For retirements effective January 1, 2001 and later, retirement benefits are as provided under Sections 31676.14 and 31664.1 of the County Employees' Retirement Law.

A Tier I member may retire for service at age 50 or older with five years of service credit, and at least ten years has elapsed since the date of membership. A General Member may retire at any age with 30 or more years of service. A Safety Member may retire at any age with 20 or more years of service.

Tier I provides a 2.0% of final compensation for each year of service credit at age 55 ½ benefit formula for General Members, and a 3.0% of final compensation for each year of service credit at age 50 benefit formula for safety members of Tier I. Social Security integration reduces benefits by one-third on the first \$350 of monthly final average salary. The maximum benefit payable is the lesser of 100% of final average salary or the federal annual compensation limit under Internal Revenue Code Section 401(a)(17), if applicable.

#### Tier II Members:

Tier II Members – Retirement benefits are as provided under Sections 7522.20 and 7522.25(d) of PEPRA.

A Tier II member may retire for service with five years of service credit upon attaining the minimum retirement age: Age 52 for General Members, and Age 50 for Safety Members.

Tier II provides a 2% of final compensation for each year of service credit at age 62 benefit formula for General Members, and a 2.7% of final compensation for each year of service credit at age 57 benefit formula

for Safety Members. PEPRA specifies the maximum annual compensation that may be used to calculate retirement benefits. A lower limit applies to members whose service under SJCERA is also covered by Social Security, and a higher limit applies to members whose service under SJCERA is not covered by Social Security. These limits are adjusted annually based on changes in the Consumer Price Index. The maximum benefit payable is 100% of final average salary.

Any member of SJCERA, regardless of benefit tier, may retire at age 70 with no minimum service credit requirement.

### Disability Retirement

---

Members with 5 years of service credit, regardless of age, are eligible to apply for a non-service connected disability retirement.

If granted, the benefit is the greater of:

- 1) 1.5% of final average salary for General Members, or 1.8% for final average salary for Safety Members, for each year of service, not to exceed 33 ⅓% of final average salary, or
- 2) the amount of the member's service retirement benefit, if the member is eligible to retire for service.

Any active member, regardless of years of service credit, is eligible to apply for a service-connected disability retirement.

If granted, the benefit is the greater of:

- 1) 50% of the member's final average salary, or
- 2) the amount of the member's service retirement benefit, if the member is eligible to retire for service.

### Death Benefits

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Basic Death Benefit - The beneficiary of a member who dies prior to attaining five years of credited service receives a refund of the member's accumulated contributions and interest plus one month's salary for each full year of service, up to a maximum of six months' salary.

If the death occurs after the member attained five years of credited service and is not the result of a service-related injury or disease, the surviving spouse or minor children may elect to receive, in lieu of the Basic Death Benefit, either 60% of the retirement allowance to which the deceased member would have been entitled had the member retired for service or non-service-connected disability on the date of death, or a lump sum payment of six months' salary and a reduced monthly retirement benefit. The monthly allowance payable to a minor child is discontinued when the child marries or attains age 18, or age 22 if a full-time student.

Upon the death of a retiree, the beneficiary may receive a continuance of 100%, 60%, or 50% of the deceased member's retirement benefit as determined by the type of retirement and optional settlement elected by the member. The beneficiary also receives a \$5,000 lump-sum death benefit.

### Cost-of-Living Benefits

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All monthly allowances are eligible for an annual cost-of-living adjustment (COLA) based on the change in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose area for the previous calendar year, up to a maximum of 3.0%. When the CPI exceeds 3.0% in any year, the difference between the actual change in CPI (rounded to the nearest one-half percent) and the 3.0% ceiling is "accumulated" for future years when the change is less than 3.0%.

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Don't simply retire from something;  
have something to retire to.

—HARRY EMERSON FOSDICK



PENSIONS CREATE JOBS, BOOST STATE AND LOCAL REVENUES,  
AND KEEP RETIREES CONTRIBUTING TO OUR ECONOMY.  
SJCERA PAID A TOTAL OF \$155.4 MILLION IN BENEFITS IN 2013.  
THE NUMBER OF PERSONS RECEIVING A MONTHLY BENEFIT  
FROM SJCERA INCREASES BY AN AVERAGE OF 200 ANNUALLY.  
THE AVERAGE MONTHLY ALLOWANCE IS \$2,500. OVER 700  
MEMBERS HAVE BEEN RETIRED FOR 20 OR MORE YEARS.

# STATISTICAL

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 2013



This section of the Comprehensive Annual Financial Report provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information.

This section provides supplementary information according to Governmental Accounting Standards Board (GASB) Statement No. 44, which establishes and modifies required data by providing multi-year trend information to provide an understanding of how the organization's financial activities and positions have changed over time. GASB Statement No. 44 specifically addresses five objectives: Financial Trends; Revenue Capacity; Debt Capacity; Demographic and Economic Information; and Operating Information.

### FINANCIAL TRENDS

Trend information is intended to assist users in understanding how the Plan's financial position has changed over time.

### REVENUE CAPACITY

Revenue Capacity information is intended to assist users in understanding and assessing factors affecting a government's ability to generate its own revenue. The Plan is engaged only in fiduciary activities and thus is not required to present revenue capacity schedules. However, the *Schedule of Revenues by Source* is presented in order to provide users with current and historical information regarding member and employer contributions, as well as investment income.

### DEBT CAPACITY

Debt Capacity Information is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt; however engaged in fiduciary duties only, the Plan has no long-term debt and therefore does not have debt capacity schedules to present.

### DEMOGRAPHIC AND ECONOMIC INFORMATION

Demographic and Economic Information is intended to assist users in understanding the socioeconomic environment within which it operates and provide information that facilitates comparison of financial statement information over time. The *Schedule of Benefit Expenses by Type*; *Schedule of Retired Members by Type*; and *Schedule of Average Monthly Benefit Payments* as well as membership information presented in the *Schedule by Participating Employers* offer demographic and economic information to enhance understanding of the environment within which the System's financial activities take place.

### OPERATING INFORMATION

Operating Information is intended to provide information about operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition. The *Schedule of Revenues by Source* and *Schedule of Expenses by Type* provide historical information as to the Plan's additions by source, deductions by type, and total changes in net assets.

SCHEDULE OF REVENUE BY SOURCE AND EXPENSES BY TYPE

SCHEDULE OF REVENUE BY SOURCE								
YEAR ENDED	Employer Contributions						TRANSFER BETWEEN PLANS	TOTAL
	MEMBER CONTRIBUTIONS	RETIREMENT PLAN	POST-EMPLOYMENT HEALTH PLAN	INVESTMENT INCOME	MISC			
2002	\$ 10,258,209	\$24,974,842	\$ 0	\$(74,406,359)	\$ 3,918	\$ 274,686	\$(38,894,704)	
2003	11,038,348	34,784,065	0	326,661,970	17,848	313,640	372,815,871	
2004	11,005,744	42,688,367	0	186,820,224	36,052	172,330	240,722,717	
2005	10,854,798	62,508,615	0	121,731,640	5,226	102,303	195,202,582	
2006	11,365,569	73,611,841	650,000	237,072,471	25,792	112,386	322,838,059	
2007	12,312,247	85,868,698	2,780,505	147,346,205	8,596	123,808	248,440,059	
2008	13,050,906	94,162,866	4,083,235	(666,774,282)	14,156	105,663	(555,357,456)	
2009	13,012,755	97,805,585	4,202,490	182,006,435	12,091	84,032	297,123,388	
2010	13,098,043	104,451,673	0	217,123,404	46,407	165,625	334,885,152	
2011	14,040,773	112,891,701	0	29,262,231	68,107	154,232	156,417,044	
2012	19,900,088	108,062,510	0	230,953,847	61,657	339,344	359,317,446	
2013	22,689,882	119,494,319	0	198,172,395	72,467	204,375	340,633,438	
SCHEDULE OF EXPENSES BY TYPE								
YEAR ENDED	POST-EMPLOYMENT HEALTH BENEFITS				MISC	TRANSFER BETWEEN PLANS	TOTAL	
	BENEFITS	BENEFITS	ADMINISTRATIVE EXPENSES	REFUNDS				
2002	\$ 62,051,744	\$ 3,134,135	\$ 1,836,201	\$ 624,611	\$ 77	\$ 274,686	\$ 67,921,454	
2003	67,754,723	3,366,187	2,033,737	651,928	0	313,640	74,120,215	
2004	73,888,771	3,592,793	2,371,853	891,734	899	172,330	80,918,380	
2005	81,165,796	3,800,215	2,407,673	1,113,623	0	102,303	88,589,610	
2006	84,863,279	3,811,464	3,065,859	1,035,866	671	112,386	92,889,525	
2007	91,115,158	3,764,679	3,555,503	1,042,459	0	123,808	99,601,607	
2008	104,068,212	3,679,325	3,458,096	1,253,610	0	105,663	112,564,906	
2009	112,646,911	3,430,517	3,527,196	1,038,467	0	84,032	120,727,123	
2010	121,640,992	0	3,681,545	1,250,644	0	0	126,573,181	
2011	131,641,539	0	3,748,948	1,067,734	0	0	136,458,221	
2012	143,669,140	0	3,869,321	1,308,900	0	0	148,847,361	
2013	154,232,885	0	4,134,716	1,168,934	0	0	159,536,535	

## SCHEDULE OF BENEFIT EXPENSES BY TYPE

YEAR END	PLAN TYPE	SERVICE RETIREMENT PAYROLL	DISABILITY RETIREMENT PAYROLL	SURVIVORS AND BENEFICIARIES	REFUNDS OF MEMBERS' CONTRIBUTIONS	DEATH BENEFITS	TOTAL
2005	General	44,451,907	4,781,320	4,825,481	1,030,784	492,710	55,582,202
	Safety	16,374,561	5,490,745	1,530,733	82,839	25,000	23,503,878
	<b>Total</b>	<b>\$60,826,468</b>	<b>\$10,272,065</b>	<b>\$ 6,356,214</b>	<b>\$ 1,113,623</b>	<b>\$ 517,710</b>	<b>\$79,086,080</b>
2006	General	47,921,167	4,979,490	5,520,792	942,933	497,855	59,862,237
	Safety	17,185,660	5,990,339	1,917,500	92,933	44,132	25,230,564
	<b>Total</b>	<b>\$65,106,827</b>	<b>\$10,969,829</b>	<b>\$ 7,438,292</b>	<b>\$ 1,035,866</b>	<b>\$ 541,987</b>	<b>\$85,092,801</b>
2007	General	53,749,170	5,700,707	5,763,247	915,087	441,474	66,569,685
	Safety	18,756,413	6,277,380	2,362,634	127,372	30,000	27,553,799
	<b>Total</b>	<b>\$72,505,583</b>	<b>\$11,978,087</b>	<b>\$8,125,881</b>	<b>\$1,042,459</b>	<b>\$ 471,474</b>	<b>\$94,123,484</b>
2008	General	58,899,375	6,149,648	6,399,648	1,091,876	398,092	72,938,639
	Safety	20,666,770	6,913,845	2,994,840	161,734	55,000	30,792,189
	<b>Total</b>	<b>\$79,566,145</b>	<b>\$13,063,493</b>	<b>\$ 9,394,488</b>	<b>\$ 1,253,610</b>	<b>\$ 453,092</b>	<b>\$103,730,828</b>
2009	General	65,145,084	6,712,540	7,129,980	914,476	517,085	80,419,165
	Safety	21,763,980	7,311,808	3,500,406	123,289	45,000	32,744,483
	<b>Total</b>	<b>\$86,909,064</b>	<b>\$14,024,348</b>	<b>\$10,630,386</b>	<b>\$ 1,037,765</b>	<b>\$ 562,085</b>	<b>\$113,163,648</b>
2010	General	71,097,399	7,044,294	7,789,890	1,159,876	511,293	87,602,752
	Safety	24,861,690	7,618,760	3,874,365	90,768	0	36,445,583
	<b>Total</b>	<b>\$95,959,089</b>	<b>\$14,663,054</b>	<b>\$11,664,255</b>	<b>\$ 1,250,644</b>	<b>\$ 511,293</b>	<b>\$124,048,335</b>
2011	General	77,067,730	7,136,889	8,549,504	1,016,661	537,007	94,307,791
	Safety	26,462,625	7,889,616	3,963,168	51,073	35,000	38,401,482
	<b>Total</b>	<b>\$103,530,355</b>	<b>\$15,026,505</b>	<b>\$12,512,672</b>	<b>\$ 1,067,734</b>	<b>\$ 572,007</b>	<b>\$132,709,273</b>
2012	General	82,676,254	9,694,257	8,823,169	1,150,943	503,221	102,847,844
	Safety	27,151,058	10,311,212	4,405,737	157,957	104,232	42,130,196
	<b>Total</b>	<b>\$109,827,312</b>	<b>\$20,005,469</b>	<b>\$13,228,906</b>	<b>\$ 1,308,900</b>	<b>\$ 607,453</b>	<b>\$144,978,040</b>
2013	General	95,109,549	5,667,332	8,876,109	900,756	572,733	111,126,479
	Safety	31,116,346	8,938,667	3,912,149	268,178	40,000	44,275,339
	<b>Total</b>	<b>\$126,225,895</b>	<b>\$14,605,999</b>	<b>\$12,788,257</b>	<b>\$ 1,168,934</b>	<b>\$ 612,733</b>	<b>\$155,401,817</b>

## SCHEDULE OF RETIRED MEMBERS BY TYPE

ACTUARIAL VALUATION DATE	PLAN TYPE	MEMBERS WITH SERVICE RETIREMENTS	MEMBERS WITH DISABILITY RETIREMENTS	SURVIVORS AND BENEFICIARIES	TOTAL
<b>01/01/2003</b>	General	1,959	279	383	2,621
	Safety	305	136	75	516
	<b>Total</b>	<b>2,264</b>	<b>415</b>	<b>458</b>	<b>3,137</b>
<b>01/01/2004</b>	General	2,047	287	407	2,741
	Safety	320	146	82	548
	<b>Total</b>	<b>2,367</b>	<b>433</b>	<b>489</b>	<b>3,289</b>
<b>01/01/2005</b>	General	2,148	295	413	2,856
	Safety	341	150	86	577
	<b>Total</b>	<b>2,489</b>	<b>445</b>	<b>499</b>	<b>3,433</b>
<b>01/01/2006</b>	General	2,242	311	425	2,978
	Safety	359	158	87	604
	<b>Total</b>	<b>2,601</b>	<b>469</b>	<b>512</b>	<b>3,582</b>
<b>01/01/2007</b>	General	2,323	328	456	3,107
	Safety	365	167	100	632
	<b>Total</b>	<b>2,688</b>	<b>495</b>	<b>556</b>	<b>3,739</b>
<b>01/01/2008</b>	General	2,430	341	467	3,238
	Safety	389	173	106	668
	<b>Total</b>	<b>2,819</b>	<b>514</b>	<b>573</b>	<b>3,906</b>
<b>01/01/2009</b>	General	2,547	355	486	3,388
	Safety	409	183	118	710
	<b>Total</b>	<b>2,956</b>	<b>538</b>	<b>604</b>	<b>4,098</b>
<b>01/01/2010</b>	General	2,654	373	495	3,522
	Safety	420	184	126	730
	<b>Total</b>	<b>3,074</b>	<b>557</b>	<b>621</b>	<b>4,252</b>
<b>01/01/2011</b>	General	2,799	383	515	3,697
	Safety	469	188	135	792
	<b>Total</b>	<b>3,268</b>	<b>571</b>	<b>650</b>	<b>4,489</b>
<b>01/01/2012</b>	General	2,946	381	544	3,871
	Safety	485	190	139	814
	<b>Total</b>	<b>3,431</b>	<b>571</b>	<b>683</b>	<b>4,685</b>
<b>01/01/2013</b>	General	3,113	387	541	4,041
	Safety	514	195	147	856
	<b>Total</b>	<b>3,627</b>	<b>582</b>	<b>688</b>	<b>4,897</b>

Figures are extracted from actuarial reports which include individuals receiving divorce settlement payments. The most current Actuarial Valuation was conducted as of January 1, 2013 for the period ending December 31, 2012. The information in subsequent years is currently not available.

## SCHEDULE OF AVERAGE MONTHLY BENEFIT PAYMENTS BY NUMBER OF YEARS OF CREDITED SERVICE

RETIREMENT EFFECTIVE DATE	Number of Years of County Service Credit						
	0-4	5-9	10-14	15-19	20-24	25-29	30 & OVER
<b>2011</b>							
<b>Retirees</b>							
<b>General Members</b>							
Average Benefit	\$ 470	\$ 1,205	\$ 1,464	\$ 2,615	\$ 3,302	\$ 3,968	\$ 4,670
Average Final Compensation	\$ 5,518	\$ 5,903	\$ 4,928	\$ 6,463	\$ 6,110	\$ 5,541	\$ 5,570
Count	12	26	56	27	41	16	39
<b>Safety Members</b>							
Average Benefit	\$ 922	\$ 1,112	\$ 2,551	\$ 3,970	\$ 7,499	\$ 7,790	\$10,586
Average Final Compensation	\$ 9,746	\$ 4,483	\$ 5,290	\$ 7,767	\$10,430	\$ 9,162	\$10,797
Count	2	6	3	3	4	5	3
<b>Survivors/QDROs</b>							
<b>General Members</b>							
Average Benefit	\$ 622	\$ 890	\$ 773	\$ 1,367	\$ 1,838	\$ 2,039	\$ 3,281
Average Final Compensation	\$ 9,807	\$ 4,816	\$ 3,578	\$ 4,371	\$ 4,108	\$ 3,364	\$ 5,366
Count	5	9	11	10	5	5	5
<b>Safety Members</b>							
Average Benefit	\$ 825	\$ 859	\$ 1,591	\$ 3,334	\$ 0	\$ 0	\$ 3,829
Average Final Compensation	\$ 9,779	\$ 4,960	\$ 2,795	\$ 9,010	\$ 0	\$ 0	\$ 5,257
Count	1	1	2	1	0	0	1
<b>2012</b>							
<b>Retirees</b>							
<b>General Members</b>							
Average Benefit	\$ 517	\$ 1,077	\$ 1,481	\$ 2,129	\$ 2,729	\$ 4,198	\$ 6,317
Average Final Compensation	\$ 7,532	\$ 5,925	\$ 5,233	\$ 4,900	\$ 5,338	\$ 6,449	\$ 7,295
Count	19	31	56	36	42	30	44
<b>Safety Members</b>							
Average Benefit	\$ 429	\$ 2,194	\$ 3,026	\$ 4,186	\$ 5,302	\$ 9,183	\$13,206
Average Final Compensation	\$ 6,793	\$ 5,812	\$ 6,636	\$ 8,124	\$ 7,306	\$13,360	\$13,606
Count	4	5	7	3	14	11	5
<b>Survivors/QDROs</b>							
<b>General Members</b>							
Average Benefit	\$ 331	\$ 1,189	\$ 1,017	\$ 1,525	\$ 1,274	\$ 3,105	\$ 2,783
Average Final Compensation	\$ 4,482	\$ 3,558	\$ 2,664	\$ 2,604	\$ 3,639	\$ 4,794	\$ 3,940
Count	4	4	8	3	1	2	4
<b>Safety Members</b>							
Average Benefit	\$ 0	\$ 1,039	\$ 2,423	\$ 3,450	\$ 3,573	\$ 3,206	\$ 4,887
Average Final Compensation	\$ 0	\$ 6,972	\$ 7,561	\$ 1,358	\$ 1,776	\$ 3,836	\$ 6,169
Count	0	2	2	2	1	3	2

Average Final Compensation is not available on a historical basis due to system constraints. It will be presented starting with the data for 2011 and subsequent years.

SCHEDULE OF AVERAGE MONTHLY BENEFIT PAYMENTS  
BY NUMBER OF YEARS OF CREDITED SERVICE

RETIREMENT EFFECTIVE DATE	Number of Years of County Service Credit						
	0-4	5-9	10-14	15-19	20-24	25-29	30 & OVER
<b>2013</b>							
<b>Retirees</b>							
<b>General Members</b>							
Average Benefit	\$ 433	\$ 1,410	\$ 1,589	\$ 2,556	\$ 3,149	\$ 4,241	\$ 5,837
Average Final Compensation	\$ 7,695	\$ 7,279	\$ 5,787	\$ 6,125	\$ 6,132	\$ 6,467	\$ 6,718
Count	10	25	40	35	35	26	29
<b>Safety Members</b>							
Average Benefit	\$ 1,165	\$ 1,435	\$ 2,621	\$ 3,501	\$ 4,260	\$11,134	\$ 9,279
Average Final Compensation	\$ 9,478	\$ 7,434	\$ 6,316	\$ 7,044	\$ 5,599	\$13,945	\$ 9,670
Count	3	2	7	4	1	2	2
<b>Survivors/QDROs</b>							
<b>General Members</b>							
Average Benefit	\$ 687	\$ 1,000	\$ 883	\$ 1,182	\$ 2,063	\$ 1,572	\$ 2,985
Average Final Compensation	\$ 3,804	\$ 4,531	\$ 3,953	\$ 3,163	\$ 3,722	\$ 1,821	\$ 3,681
Count	6	9	15	7	5	2	5
<b>Safety Members</b>							
Average Benefit	\$ 650	\$ 3,101	\$ 1,385	\$ 2,012	\$ 1,918	\$ 3,745	\$ 4,936
Average Final Compensation	\$ 4,955	\$10,868	\$ 2,506	\$ 3,966	\$ 2,525	\$ 6,184	\$ 5,381
Count	3	1	2	1	2	1	1

Average Final Compensation is not available on a historical basis due to system constraints.  
It will be presented starting with the data for 2011 and subsequent years.

## SCHEDULE OF AVERAGE MONTHLY BENEFIT PAYMENTS BY NUMBER OF YEARS SINCE RETIREMENT

GENERAL AND SAFETY MEMBERS								
YEAR END		Number of Years Since Retirement						
		0-4	5-9	10-14	15-19	20-24	25-29	30 & OVER
2004	Average Benefit	\$ 2,109	\$ 1,674	\$ 1,591	\$ 1,512	\$ 1,289	\$ 965	\$ 764
	Number of Retirees	1,153	813	578	389	242	178	80
2005	Average Benefit	\$ 2,281	\$ 1,759	\$ 1,621	\$ 1,506	\$ 1,424	\$ 985	\$ 807
	Number of Retirees	1,203	876	576	402	254	179	92
2006	Average Benefit	\$ 2,256	\$ 1,922	\$ 1,754	\$ 1,564	\$ 1,487	\$ 1,043	\$ 903
	Number of Retirees	1,255	912	593	427	262	185	105
2007	Average Benefit	\$ 2,321	\$ 2,168	\$ 1,826	\$ 1,578	\$ 1,639	\$ 1,191	\$ 930
	Number of Retirees	1,253	1,017	626	423	282	181	124
2008	Average Benefit	\$ 2,458	\$ 2,294	\$ 1,802	\$ 1,785	\$ 1,653	\$ 1,294	\$ 952
	Number of Retirees	1,285	1,073	659	479	303	168	131
2009	Average Benefit	\$ 2,549	\$ 2,408	\$ 1,959	\$ 1,846	\$ 1,723	\$ 1,527	\$ 1,339
	Number of Retirees	1,312	1,083	729	506	307	170	145
2010	Average Benefit	\$ 2,569	\$ 2,565	\$ 2,052	\$ 1,972	\$ 1,764	\$ 1,602	\$ 1,329
	Number of Retirees	1,384	1,153	790	502	319	185	156
2011	Average Benefit	\$2,639	\$2,564	\$2,199	\$2,006	\$1,870	\$1,743	\$1,364
	Number of Retirees	1,430	1,190	838	522	333	196	176
2012	Average Benefit	\$2,798	\$2,591	\$2,473	\$2,075	\$1,839	\$1,874	\$1,376
	Number of Retirees	1,515	1,185	947	545	334	194	177
2013	Average Benefit	\$2,840	\$2,755	\$2,609	\$2,049	\$2,029	\$1,881	\$1,348
	Number of Retirees	1,520	1,211	990	577	372	208	163

SCHEDULE OF AVERAGE MONTHLY BENEFIT PAYMENTS  
BY NUMBER OF YEARS SINCE RETIREMENT

GENERAL MEMBERS								
Number of Years Since Retirement								
YEAR END		0-4	5-9	10-14	15-19	20-24	25-29	30 & OVER
2004	Average Benefit	\$ 1,710	\$ 1,375	\$ 1,437	\$ 1,345	\$ 1,074	\$ 825	\$ 636
	Number of Retirees	917	668	497	345	207	160	62
2005	Average Benefit	\$ 1,885	\$ 1,446	\$ 1,498	\$ 1,342	\$ 1,172	\$ 826	\$ 705
	Number of Retirees	962	715	493	361	216	156	75
2006	Average Benefit	\$ 1,933	\$ 1,519	\$ 1,560	\$ 1,376	\$ 1,246	\$ 874	\$ 755
	Number of Retirees	1,036	721	505	375	226	161	83
2007	Average Benefit	\$ 2,063	\$ 1,675	\$ 1,615	\$ 1,389	\$ 1,403	\$ 974	\$ 803
	Number of Retirees	1,055	786	535	365	243	152	102
2008	Average Benefit	\$ 2,133	\$ 1,835	\$ 1,557	\$ 1,586	\$ 1,474	\$ 1,004	\$ 830
	Number of Retirees	1,068	839	555	414	265	135	112
2009	Average Benefit	\$ 2,278	\$ 1,923	\$ 1,632	\$ 1,683	\$ 1,524	\$ 1,250	\$ 1,073
	Number of Retirees	1,108	850	598	433	271	143	119
2010	Average Benefit	\$ 2,269	\$ 2,093	\$ 1,696	\$ 1,806	\$ 1,549	\$ 1,379	\$ 1,015
	Number of Retirees	1,149	912	640	428	285	157	126
2011	Average Benefit	\$ 2,349	\$ 2,168	\$ 1,737	\$ 1,799	\$ 1,649	\$ 1,506	\$ 1,050
	Number of Retirees	1,198	976	654	444	289	169	141
2012	Average Benefit	\$ 2,456	\$ 2,285	\$ 1,893	\$ 1,868	\$ 1,614	\$ 1,617	\$ 1,108
	Number of Retirees	1,267	992	721	467	283	166	145
2013	Average Benefit	\$ 2,572	\$ 2,370	\$ 2,062	\$ 1,787	\$ 1,855	\$ 1,623	\$ 1,003
	Number of Retirees	1,297	1,000	762	485	319	177	132

## SCHEDULE OF AVERAGE MONTHLY BENEFIT PAYMENTS BY NUMBER OF YEARS SINCE RETIREMENT

SAFETY MEMBERS								
Number of Years Since Retirement								
YEAR END		0-4	5-9	10-14	15-19	20-24	25-29	30 & OVER
2004	Average Benefit	\$ 3,661	\$ 3,052	\$ 2,537	\$ 2,816	\$ 2,563	\$ 2,209	\$ 1,207
	Number of Retirees	236	145	81	44	35	18	18
2005	Average Benefit	\$ 3,864	\$ 3,149	\$ 2,352	\$ 2,953	\$ 2,861	\$ 2,066	\$ 1,259
	Number of Retirees	241	161	83	41	38	23	17
2006	Average Benefit	\$ 3,788	\$ 3,443	\$ 2,867	\$ 2,914	\$ 3,000	\$ 2,178	\$ 1,461
	Number of Retirees	219	191	88	52	36	24	22
2007	Average Benefit	\$ 3,698	\$ 3,848	\$ 3,068	\$ 2,766	\$ 3,110	\$ 2,333	\$ 1,522
	Number of Retirees	198	231	91	58	39	29	22
2008	Average Benefit	\$ 4,056	\$ 3,940	\$ 3,109	\$ 3,055	\$ 2,904	\$ 2,481	\$ 1,673
	Number of Retirees	217	234	104	65	38	33	19
2009	Average Benefit	\$ 4,022	\$ 4,178	\$ 3,453	\$ 2,811	\$ 3,220	\$ 2,997	\$ 2,553
	Number of Retirees	204	233	131	73	36	27	26
2010	Average Benefit	\$ 4,033	\$ 4,353	\$ 3,570	\$ 2,931	\$ 3,567	\$ 2,848	\$ 2,646
	Number of Retirees	235	241	150	74	34	28	30
2011	Average Benefit	\$ 4,134	\$ 4,371	\$ 3,841	\$ 3,183	\$ 3,322	\$ 3,223	\$ 2,633
	Number of Retirees	232	214	184	78	44	27	35
2012	Average Benefit	\$ 4,543	\$ 4,164	\$ 4,322	\$ 3,312	\$ 3,086	\$ 3,397	\$ 2,589
	Number of Retirees	248	193	226	78	51	28	32
2013	Average Benefit	\$ 4,398	\$ 4,581	\$ 4,437	\$ 3,431	\$ 3,076	\$ 3,354	\$ 2,813
	Number of Retirees	223	211	228	92	53	31	31

SCHEDULE OF CHANGES IN NET ASSETS  
FOR THE LAST TEN FISCAL YEARS ENDED DECEMBER 31

	(DOLLARS IN THOUSANDS)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Contributions</b>										
Member	\$ 22,690	\$ 19,900	\$ 14,041	\$ 13,098	\$ 13,013	\$ 13,051	\$ 12,312	\$ 11,366	\$ 10,855	\$ 11,006
Employer										
Retirement Plan	119,494	108,063	112,892	104,452	97,806	94,163	85,869	73,612	62,509	42,688
Post-Employment Health Plan	0	0	0	0	4,202	4,083	2,781	650	0	0
Investment Income	198,173	230,954	29,262	217,123	182,006	(666,774)	147,346	237,072	121,732	186,820
Miscellaneous	72	62	68	46	12	14	9	26	5	36
Transfers Between Plan	204	339	154	166	84	106	124	112	102	172
<b>Total Additions</b>	<b>\$340,633</b>	<b>\$359,317</b>	<b>\$156,417</b>	<b>\$334,885</b>	<b>\$297,123</b>	<b>\$(555,357)</b>	<b>\$248,441</b>	<b>\$322,838</b>	<b>\$195,203</b>	<b>\$240,722</b>
<b>Benefits</b>	<b>\$154,233</b>	<b>\$143,669</b>	<b>\$131,642</b>	<b>\$121,641</b>	<b>\$112,647</b>	<b>\$104,068</b>	<b>\$ 91,115</b>	<b>\$ 84,863</b>	<b>\$ 81,166</b>	<b>\$ 73,889</b>
Post-Employment Health Benefits	0	0	0	0	3,431	3,679	3,765	3,811	3,800	3,593
Administrative Expenses	4,135	3,869	3,749	3,682	3,527	3,458	3,556	3,066	2,408	2,372
Refunds	1,169	1,309	1,068	1,251	1,038	1,254	1,042	1,036	1,114	892
Miscellaneous	0	0	0	0	0	0	0	1	0	1
Transfers Between Plan	0	0	0	0	84	106	124	112	102	172
<b>Total Deductions</b>	<b>\$159,537</b>	<b>\$148,847</b>	<b>\$136,459</b>	<b>\$126,574</b>	<b>\$120,727</b>	<b>\$112,565</b>	<b>\$ 99,602</b>	<b>\$ 92,889</b>	<b>\$ 88,590</b>	<b>\$ 80,919</b>
<b>Change in Plan Net Assets</b>	<b>\$181,096</b>	<b>\$210,470</b>	<b>\$ 19,958</b>	<b>\$208,311</b>	<b>\$176,396</b>	<b>\$(667,922)</b>	<b>\$148,839</b>	<b>\$229,949</b>	<b>\$106,613</b>	<b>\$159,803</b>

# Statistical

## SCHEDULE OF PARTICIPATING EMPLOYERS FOR THE LAST TEN FISCAL YEARS ENDED DECEMBER 31

	2013		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
	TIER I	TIER II										
<b>COUNTY OF SAN JOAQUIN</b>												
General Members	5,138	507	5,379	5,308	5,476	5,712	5,970	5,964	5,797	5,652	5,003	4,824
Safety Members	881	12	901	920	945	1,026	1,005	960	902	795	792	777
<b>Total</b>	<b>6,019</b>	<b>519</b>	<b>6,280</b>	<b>6,228</b>	<b>6,421</b>	<b>6,738</b>	<b>6,975</b>	<b>6,924</b>	<b>6,699</b>	<b>6,447</b>	<b>5,795</b>	<b>5,601</b>
<b>SUPERIOR COURT</b>												
General Members	269	20	289	326	357	375	369	334	301	289	275	272
Safety Members	0	0	0	0	0	0	0	0	1	0	0	0
<b>Total</b>	<b>269</b>	<b>20</b>	<b>289</b>	<b>326</b>	<b>357</b>	<b>375</b>	<b>369</b>	<b>334</b>	<b>302</b>	<b>289</b>	<b>275</b>	<b>272</b>
<b>MANTECA-LATHROP RURAL FIRE PROTECTION DISTRICT</b>												
General Members	1	0	1	0	0	1	2	2	1	1	1	1
Safety Members	43	3	45	39	41	43	44	48	50	41	30	30
<b>Total</b>	<b>44</b>	<b>3</b>	<b>46</b>	<b>39</b>	<b>41</b>	<b>44</b>	<b>46</b>	<b>50</b>	<b>51</b>	<b>42</b>	<b>31</b>	<b>31</b>
<b>WATERLOO-MORADA RURAL FIRE PROTECTION DISTRICT</b>												
General Members	0	0	0	0	1	1	1	1	1	2	1	1
Safety Members	13	5	15	15	17	17	17	19	20	32	19	17
<b>Total</b>	<b>13</b>	<b>5</b>	<b>15</b>	<b>15</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>20</b>	<b>21</b>	<b>34</b>	<b>20</b>	<b>18</b>
<b>OTHER SPECIAL DISTRICTS (GENERAL MEMBERS)</b>												
Tracy Public Cemetery District	6	3	6	8	7	8	7	6	4	5	5	3
SJC Mosquito & Vector Control District	38	2	38	38	37	39	36	36	36	35	31	31
SJC Historical Society & Museum	2	0	2	2	2	2	2	6	6	7	5	7
Mountain House Community Services Dist	13	5	16	14	14	16	23	17	14	12	8	6
Local Agency Formation Commission	1	0	1	1	2	2	3	2	3	4	3	3
San Joaquin County Law Library	2	0	2	1	1	1	1	1	1	1	1	1
<b>Total</b>	<b>62</b>	<b>10</b>	<b>65</b>	<b>64</b>	<b>63</b>	<b>68</b>	<b>72</b>	<b>68</b>	<b>64</b>	<b>64</b>	<b>53</b>	<b>51</b>
<b>Grand Total</b>	<b>6,407</b>	<b>557</b>	<b>6,695</b>	<b>6,672</b>	<b>6,900</b>	<b>7,243</b>	<b>7,480</b>	<b>7,396</b>	<b>7,137</b>	<b>6,876</b>	<b>6,174</b>	<b>5,973</b>

## ACKNOWLEDGEMENTS

Though no one can go back and make a brand new start,  
anyone can start from now and make a brand new ending.

—CARL BARD



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# 2013

## Comprehensive Annual Financial Report

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