

THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY  
RETIREMENT SYSTEM OF FAIRFAX COUNTY

A COMPONENT UNIT OF FAIRFAX COUNTY PUBLIC SCHOOLS

FAIRFAX, VIRGINIA



# POPULAR ANNUAL FINANCIAL REPORT

# 2022

FOR THE FISCAL YEAR  
ENDED JUNE 30, 2022

# THE YEAR IN REVIEW



**Eli Martinez**, Executive Director and Chief Investment Officer

I am pleased to submit the Popular Annual Financial Report (PAFR) for the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) for the fiscal year (FY) 2022. ERFC management

holds responsibility for the financial information presented in this report. I extend my sincere thanks to the Board of Trustees, the ERFC staff, and all ERFC members for their continued support.

## ADMINISTRATION UPDATES

ERFC continued implementation of process enhancements that will result in improved efficiencies, cost savings, and member service. ERFC remained focused on improving operational excellence with a Lean Six Sigma mindset—which gives our staff the framework to continue to pursue peer leadership in providing professional and personalized service to our members. Quality and efficiency improvements over the next decade will allow us to continue to focus on servicing and educating all segments of our population.

## STRATEGIC PLAN AND OPERATIONAL UPDATES

The Board adopted the 2022-2024 Strategic Plan that revolves around sustainability, engagement, education, and operational excellence. On the marketing front, we began implementation of a three-year plan to help raise awareness and educate our membership. ERFC was able to effectively reach, educate, and improve services to its membership by continuing to simplify communications, create messaging targeted to specific audiences, and create media content that's available to members 24/7. Our online retirement information

sessions, paperwork tutorials, and video about Health Benefits in Retirement in collaboration with FCPS Human Resources helped us reach 17 times as many members as we reached with in-person-only offerings. We also carried out ERFC Ambassador recruitment campaigns targeted to specific member groups, increasing engagement and involvement.

ERFC continues to outperform its peers, receiving a CEM Benchmarking score 7.5 percent higher than its peers on the administration of the Fund—this includes comparisons to peers on criteria like quality of service to membership, costs to administer the Fund, and types of services provided—to name a few. To further help us achieve operational excellence, we've embarked on a multiyear effort to achieve two operational excellence awards—starting with the United States Senate Productivity and Quality Award (SPQA) and working toward the Malcolm Baldrige National Quality Award. Both awards align with ERFC's mission, vision, and values and will help us promote continual improvement strategies in pursuit of top tier member service, efficiency, and quality. ERFC continued to promote ERFCDirect, and 33,025 active and retired members now use the online service, up from 30,772 a year ago. We also implemented two-factor authentication to enhance security for all our members and began work on upgrades to the ERFCDirect member portal.

## PLAN FINANCIAL CONDITION

There's no doubt that 2022 was a challenging year for the market. The ERFC Fund was down 8.7 percent net of fees on investments in FY 2022—placing the fund at about the middle of the pack among public pension funds within the Investment Metrics Public Plan Universe >\$1B in assets. For the fiscal year, ERFC outperformed its policy index by 2.2 percent, largely driven by outperformance in private equity, hedge fund, and small cap equity investments.



**-8.7%**

FUND AFTER-FEES  
RETURN ON INVESTMENTS



**78.0%**

FUNDED RATIO

Effective December 31, 2021, the Board of Trustees voted to change the assumed rate of return to 7.0 percent from 7.25 percent, of which 2.75 percent constitutes an assumed rate of inflation and 4.25 percent reflects an assumed real rate of return on investments. The change was made to reflect investment industry consensus around lower capital market assumptions over the next 10 to 20 years, along with average national public fund assumed rates of return trending closer to 7.0 percent. In addition, in consultation with our actuary AON, ERFC changed the amortization period for assumption changes from 10 years to 20 years in order to continue adopting best actuarial practices.

ERFC's actuary reported that the System's funding ratio increased from 76.6 percent to 78.0 percent for the valuation period ending December 31, 2021. This increase is due to favorable investment performance in 2021 and favorable demographic experience. The recommended employer contribution rate was 6.70 percent of payroll, an increase from 6.44 percent in FY 2021.

The presentation of the PAFR is consistent with GAAP. To obtain additional detail regarding the fund, please refer to the 2022 Annual Comprehensive Financial Report (ACFR) at <https://www.fcps.edu/system/files/forms/2022-12/ERFC-Annual-Report-ACFR-2022.pdf>.

### INVESTMENT ACTIVITY

ERFC's return of -8.7 percent net of fees for FY 2022 outperformed the benchmark index return of -10.9 percent. On an intermediate basis, the Fund ranked in the top 26th percentile of public pension funds within the Investment Metrics Public Plan Universe >\$1B in assets over the last 3-year period ending FY 2022. The Fund's longer-term performance remained strong; the 10-year return of 7.3 percent exceeded the policy index return of 6.3 percent and exceeded the Fund's long-term target return of 7.25 percent.

### AWARDS

The System is proud to announce that we have taken the first step toward the SPQA award by submitting our self-assessment and completing the SPQA Discovery phase. Feedback from SPQA Examiners indicated that ERFC is on the pathway to operational excellence. ERFC also received the GFOA of the United States and Canada Certificate of Achievement for Excellence in Financial Reporting for its FY 2021 ACFR. This is the 25th consecutive year ERFC has earned the award. The GFOA certification remains valid for a period of one year and requires, at minimum, that each ACFR satisfy both generally accepted accounting principles and legal requirements. The GFOA also recognized ERFC with an Award for Outstanding Achievement in Popular Financial Reporting for its FY2021 Popular Annual Financial Report (PAFR). This is the third year ERFC has earned the award. The Public Pension Coordinating Council also honored ERFC recently, granting the System the Public Pension Standards' 2022 Award. ERFC earned the award in recognition for meeting or exceeding professional standards for funding and administration, as set forth in the Public Pension Standards.

### PROFESSIONAL SERVICES

The ERFC Board of Trustees appoints professional services to provide aid in the efficient management of the System. Segal Marco Advisors provides general investment consulting services, Meketa Investment Group provides discretionary private markets consulting services, and AON/Retirement and Investment provides actuarial services. In accordance with county code, the Fairfax County Board of Supervisors appointed Cherry Bekaert LLP, Raleigh, North Carolina, to audit the System's financial statements.



**\$3.0B**

TOTAL FUND VALUE



**41,450**

ACTIVE AND RETIREE MEMBERSHIP

# ERFC MISSION AND PRINCIPLES

## **MISSION**

The mission of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is to enhance the financial security of our members through prudent financial stewardship of a defined benefit plan while providing outstanding retirement services and education.

## **VISION**

To be the leader among peers providing professional and personalized service to our members and beneficiaries to support their efforts to achieve financial independence.

## **VALUES**

### **ACCOUNTABILITY**

We always operate with transparency and a commitment to think strategically while fulfilling fiduciary obligations.

### **CUSTOMER SERVICE**

We always respond promptly with quality as we strive to exceed the expectations of our members and their beneficiaries.

### **OPEN COMMUNICATION**

We always provide timely and pertinent information that improves processes, removes barriers and establishes accountabilities.

### **INTEGRITY**

We conduct operations by adhering to the highest standards of ethical conduct, striving for accuracy, efficiency, and effectiveness.

### **CONTINUOUS EDUCATION**

Through ongoing education efforts, we enable ERFC employees to continuously improve the service and value they provide to our members; Board of Trustees to more effectively guide and inform ERFC strategy; and our members to better understand and make the most of their ERFC benefits.

# BOARD MEMBERS



**KIMBERLY ADAMS**  
CHAIRPERSON/TRUSTEE  
ELECTED MEMBER



**KATHIE PFEFFER-HAHN**  
VICE CHAIRPERSON/TRUSTEE  
ELECTED MEMBER



**ERIC EICHELBERGER**  
TREASURER/TRUSTEE  
ELECTED MEMBER



**MARTY K. SMITH**  
TRUSTEE  
APPOINTED MEMBER



**LEIGH BURDEN**  
TRUSTEE  
APPOINTED MEMBER



**ADAM McCONAGHA**  
TRUSTEE

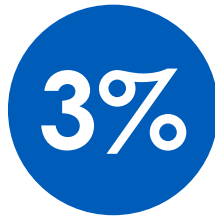
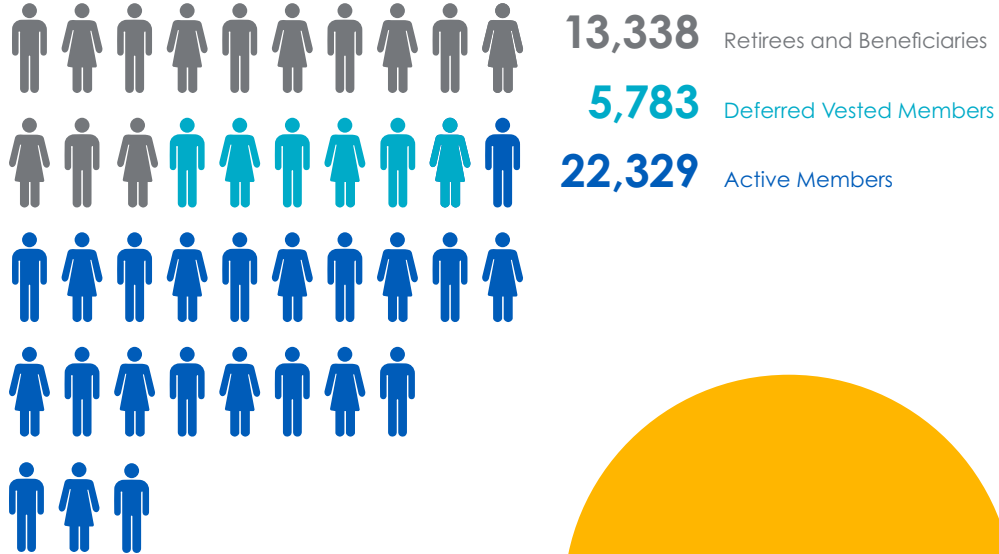


**SEAN McDONALD**  
TRUSTEE  
APPOINTED MEMBER

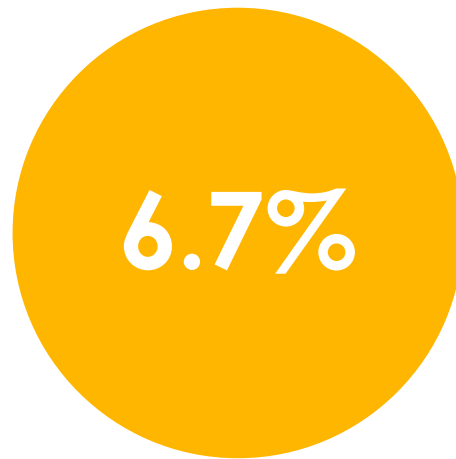


SCAN THE QR CODE TO ACCESS  
ERFC'S ANNUAL COMPREHENSIVE  
FINANCIAL REPORT (ACFR)

**TOTAL ERFC MEMBERSHIP**



MEMBER CONTRIBUTION RATE



FCPS EMPLOYER CONTRIBUTION RATE



**1973**

FCPS & FEA  
ESTABLISHED ERFC



**1988**

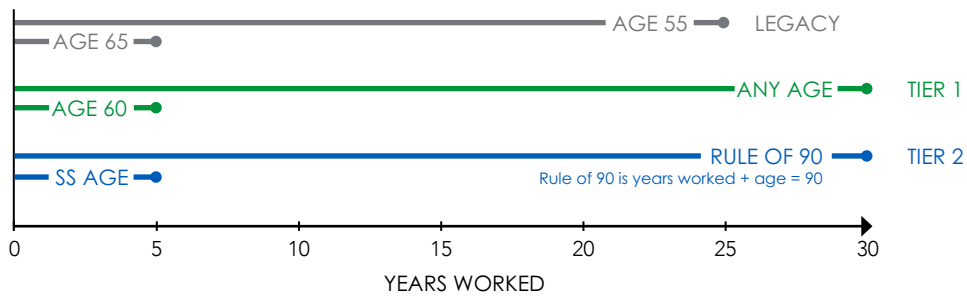
ALTERED PLAN:  
RESPONSE TO VRS CHANGES



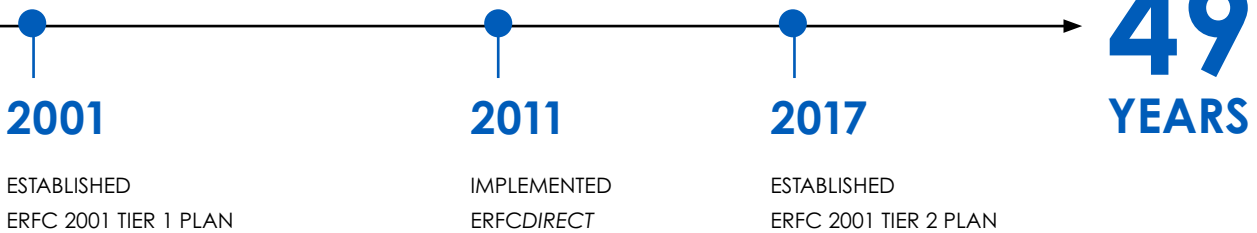
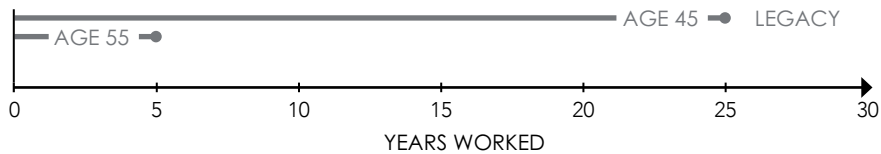
70% OF RETIREE BENEFITS PAID TO VIRGINIA RESIDENTS  
43.5% OF RETIREE BENEFITS PAID TO FAIRFAX COUNTY RESIDENTS

**RETIREMENT ELIGIBILITY**

UNREDUCED \$



REDUCED \$



## AWARD FOR OUTSTANDING ACHIEVEMENT IN POPULAR ANNUAL FINANCIAL REPORTING

Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to ERFC for its Popular Annual Financial Report for the fiscal year ended June 30, 2021. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. ERFC has received a Popular Award for the last three consecutive years.



Government Finance Officers Association

Award for  
Outstanding  
Achievement in  
Popular Annual  
Financial Reporting

Presented to

**Educational Employees' Supplementary Retirement  
System of Fairfax County  
Virginia**

For its Annual Financial Report  
For the Fiscal Year Ended

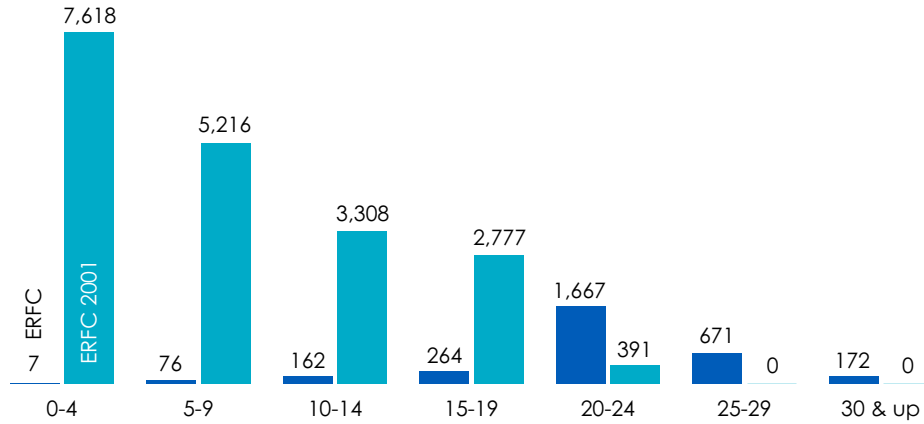
June 30, 2021

*Christopher P. Morill*

Executive Director/CEO



**ACTIVE MEMBER YEARS OF SERVICE\***

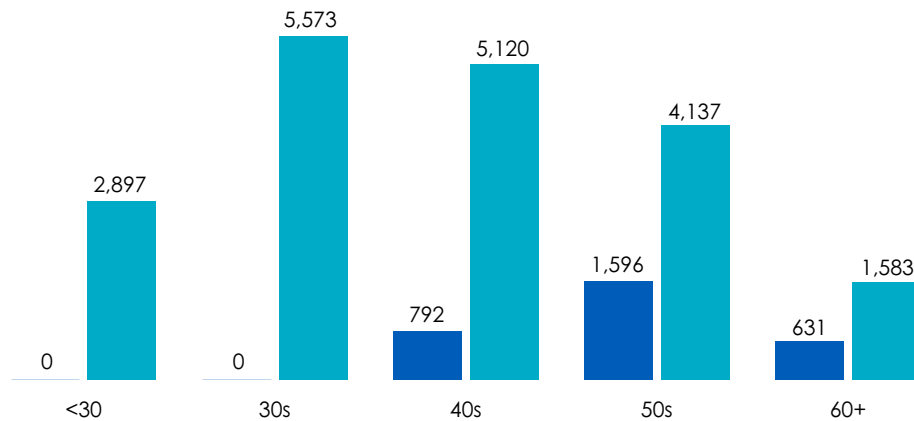


**ACTIVE MEMBER SALARIES^**

\$ THOUSANDS



**ACTIVE MEMBER AGES#**

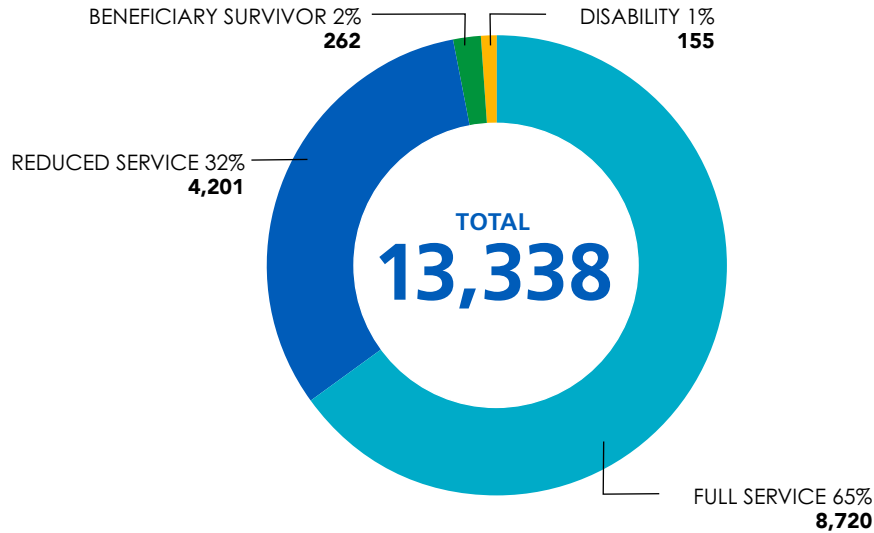


\* Average Service = 9.8 years

^ Average Annual Pay = \$74,468

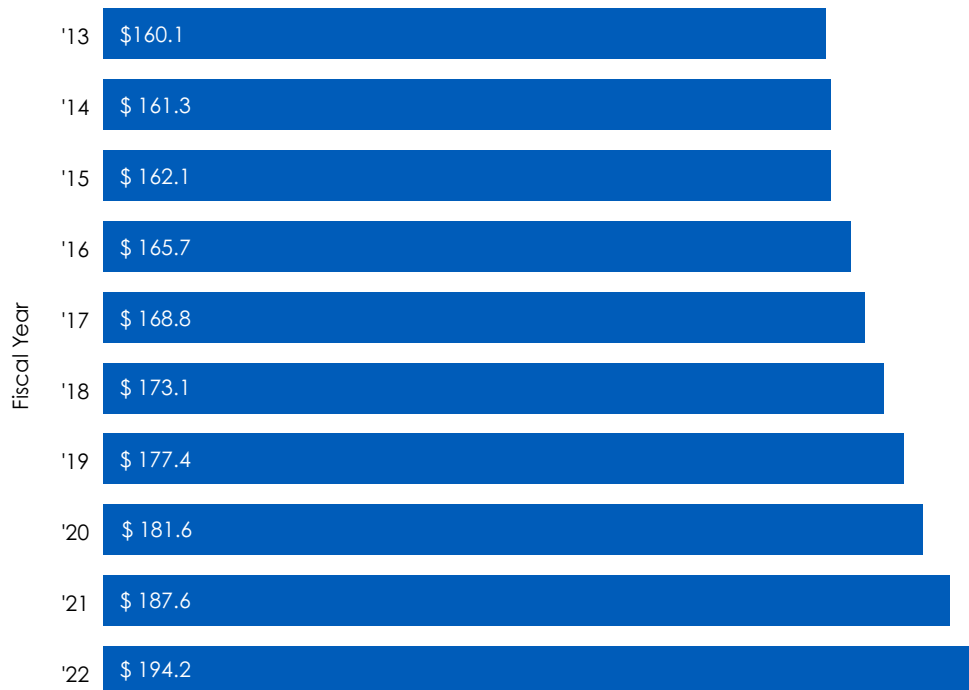
# Average Age = 44.5 years | Total Active Members = 22,329

**RETIRES AND BENEFICIARIES  
BY TYPE OF BENEFIT BEING PAID**

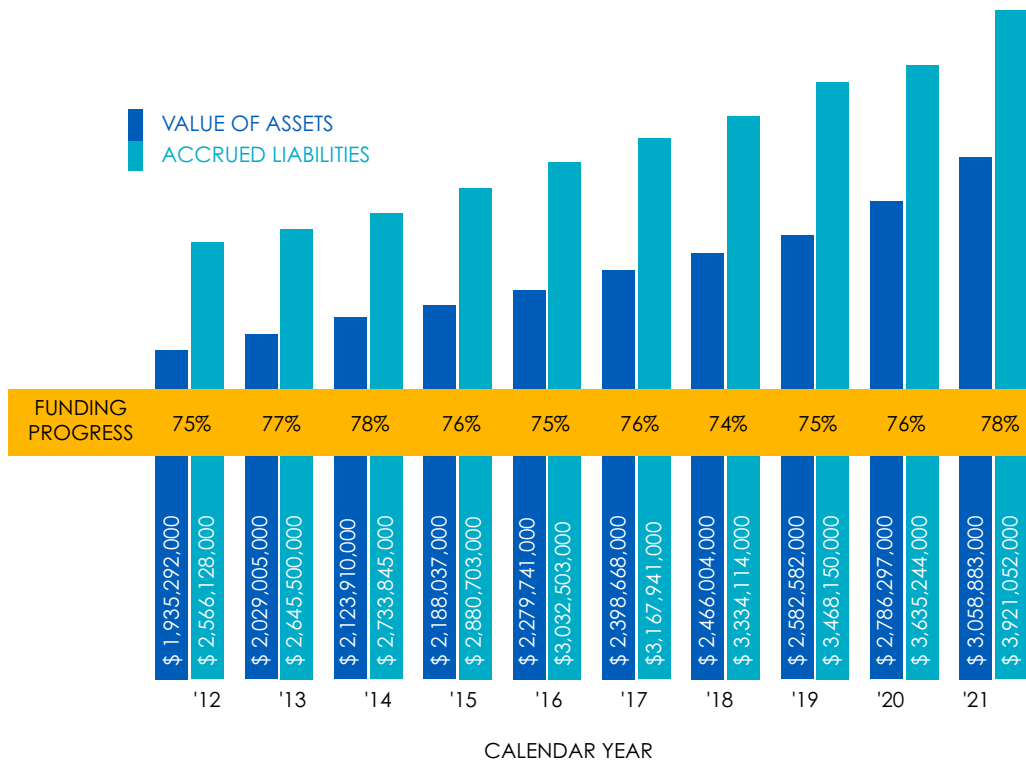


**BENEFITS PAID**

AS OF JUNE 30  
\$ MILLIONS



## FUNDING PROGRESS

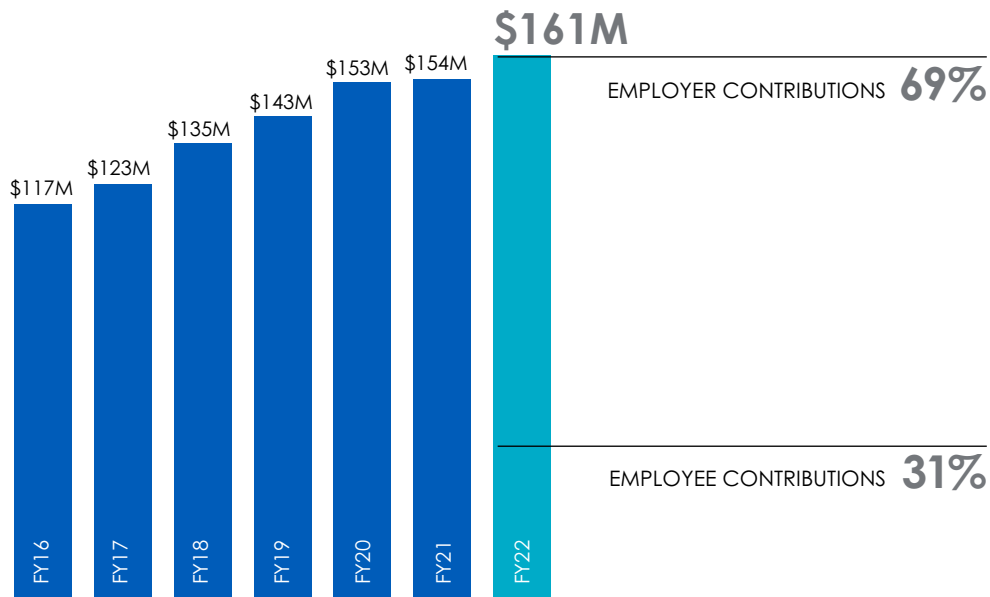


## SUMMARY OF FIDUCIARY NET POSITION

AS OF JUNE 30

	2022	2021	VARIANCE
<b>ASSETS</b>			
Total cash and investments	\$ 3,112,776,168	\$ 3,430,488,099	\$ (317,711,931)
Total receivables	10,576,455	42,178,337	(31,601,882)
Other assets	336,023	40,854	295,169
<b>TOTAL ASSETS</b>	<b>3,123,688,646</b>	<b>3,472,707,290</b>	<b>(349,018,644)</b>
<b>LIABILITIES</b>			
Capital leases	-	26,426	(26,426)
Right-to-use liability	334,590	-	334,590
Accounts payable	2,159,020	2,339,106	(180,086)
Securities purchased	22,923,839	51,085,575	(28,161,736)
Securities lending collateral	100,361,317	147,105,099	(46,743,782)
<b>TOTAL LIABILITIES</b>	<b>125,778,766</b>	<b>200,556,206</b>	<b>(74,777,440)</b>
PRIOR PERIOD ADJUSTMENT	-	(4,001)	4,001
<b>TOTAL NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 2,997,909,880</b>	<b>\$ 3,272,147,083</b>	<b>\$ (274,237,203)</b>

## TOTAL CONTRIBUTIONS

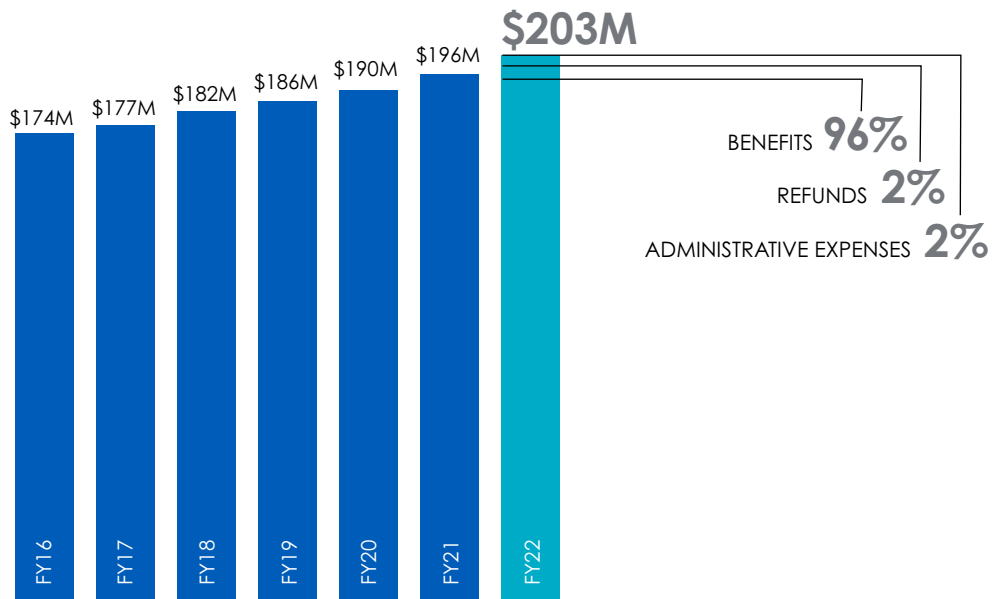


## SUMMARY OF CHANGES IN FIDUCIARY NET POSITION

AS OF JUNE 30

	2022	2021	VARIANCE
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 111,119,456	\$ 104,784,310	\$ 6,335,146
Member	50,017,839	48,934,340	1,083,499
Net investment income	(232,237,621)	720,738,680	(952,976,301)
<b>TOTAL ADDITIONS</b>	<b>(71,100,326)</b>	<b>874,457,330</b>	<b>(945,557,656)</b>
<b>DEDUCTIONS</b>			
Benefits	194,239,563	187,660,019	6,579,544
Refunds	4,415,933	3,605,963	809,970
Admin. Expenses	4,155,162	4,423,439	(268,277)
Depreciation Expenses	326,219	-	326,219
<b>TOTAL DEDUCTIONS</b>	<b>203,136,877</b>	<b>195,689,421</b>	<b>7,447,456</b>
<b>NET INCREASE (DECREASE) IN NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ (274,237,203)</b>	<b>\$ 678,767,909</b>	<b>\$ (953,005,112)</b>

## TOTAL DEDUCTIONS



### ASSETS

Cash, stocks, bonds, and equity are examples of financial assets. ERFC practices prudent management to maintain adequate funding and ensure the financial integrity of the system.



### ACCRUED LIABILITY

Measures, in today's dollars, the difference in the value of benefits and future normal costs to provide those benefits. ERFC's commitment to excellence in funding has resulted in financial strength that provides a solid basis for the future.



### DIVERSIFICATION

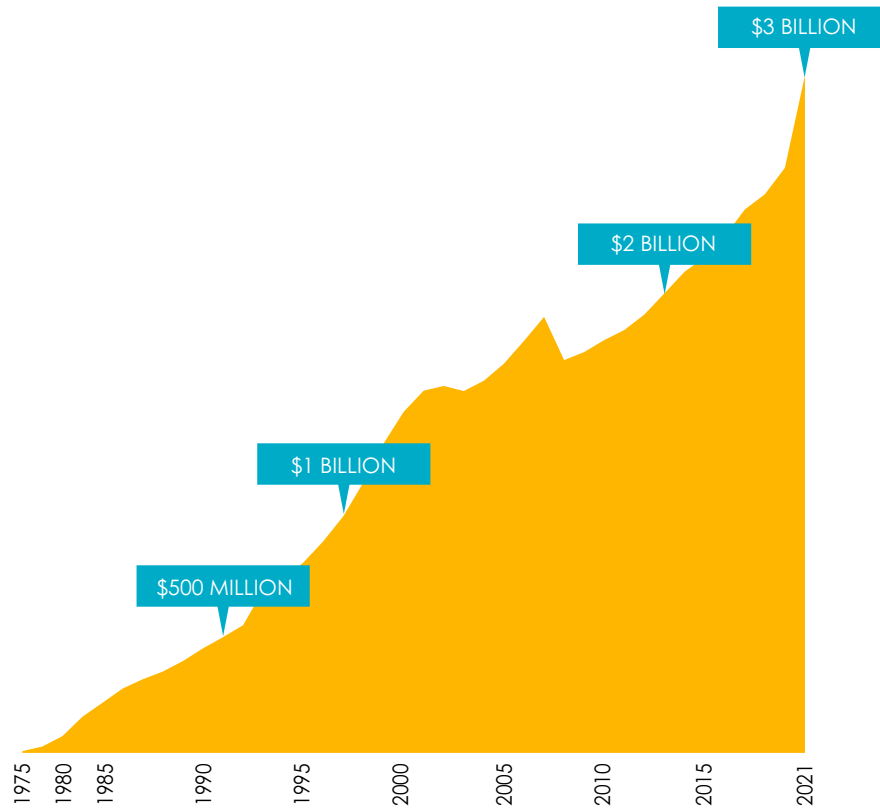
The process of spreading money among different securities, industries, sectors and strategies within a number of asset classes. ERFC's goal is to achieve the highest possible investment return at the lowest possible risk.



### FIDUCIARY

Acts solely in the interest of members and beneficiaries for the exclusive purpose of providing benefits to them and paying reasonable expenses to administer the system. ERFC operates with transparency and a commitment to think strategically while fulfilling its fiduciary obligations.

**ERFC TOTAL FUND GROWTH — VALUATION ASSETS SINCE INCEPTION**  
(AS REFLECTED IN THE DECEMBER 31, 2021 ACTUARIAL VALUATION)



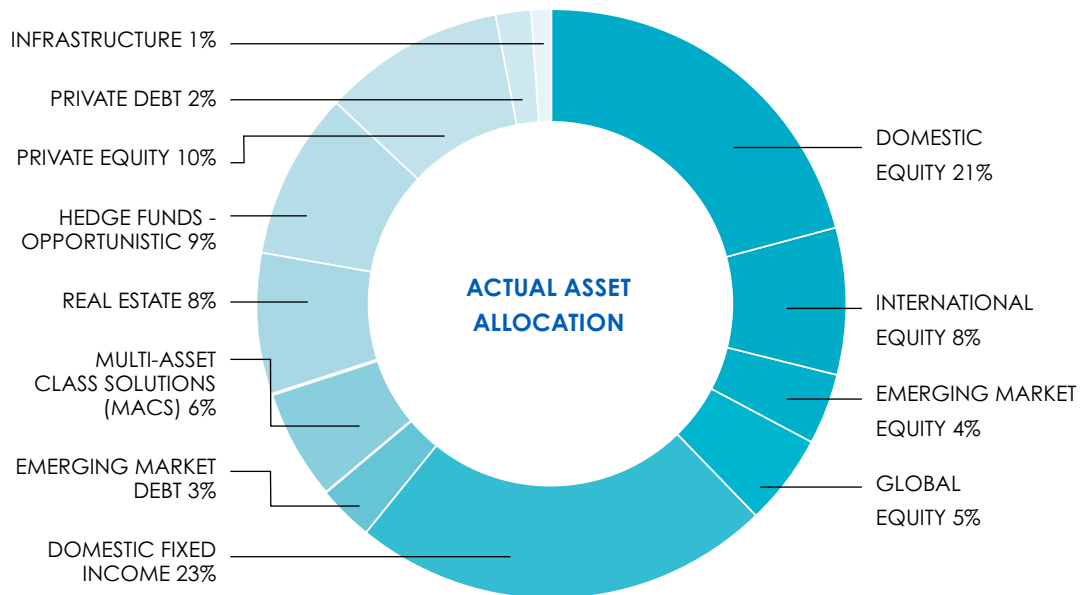
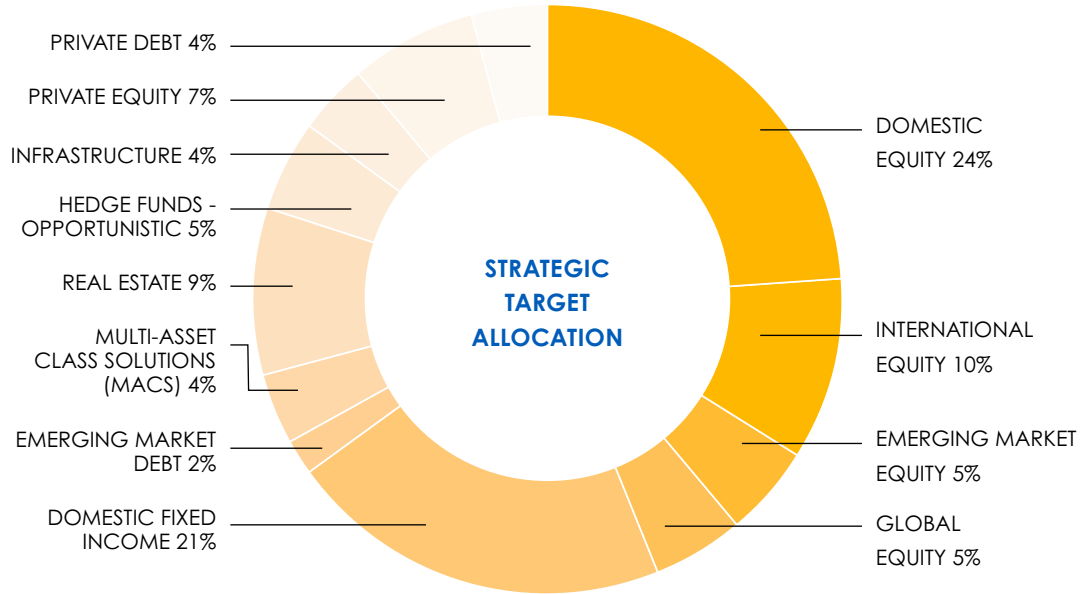
**ASSET ALLOCATION**

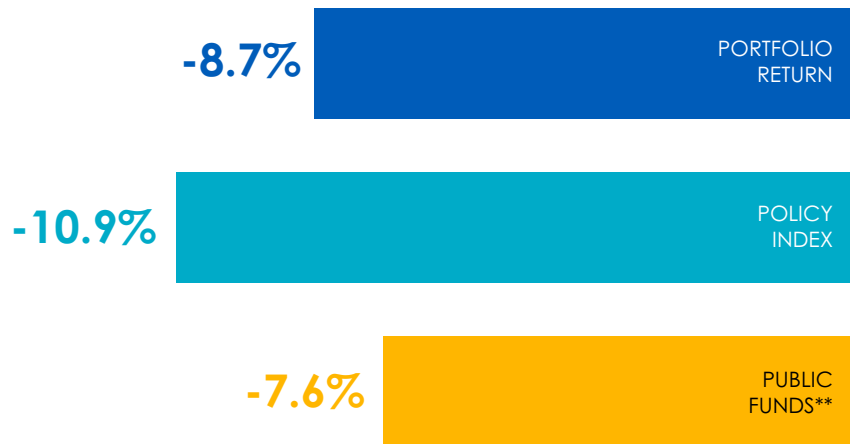
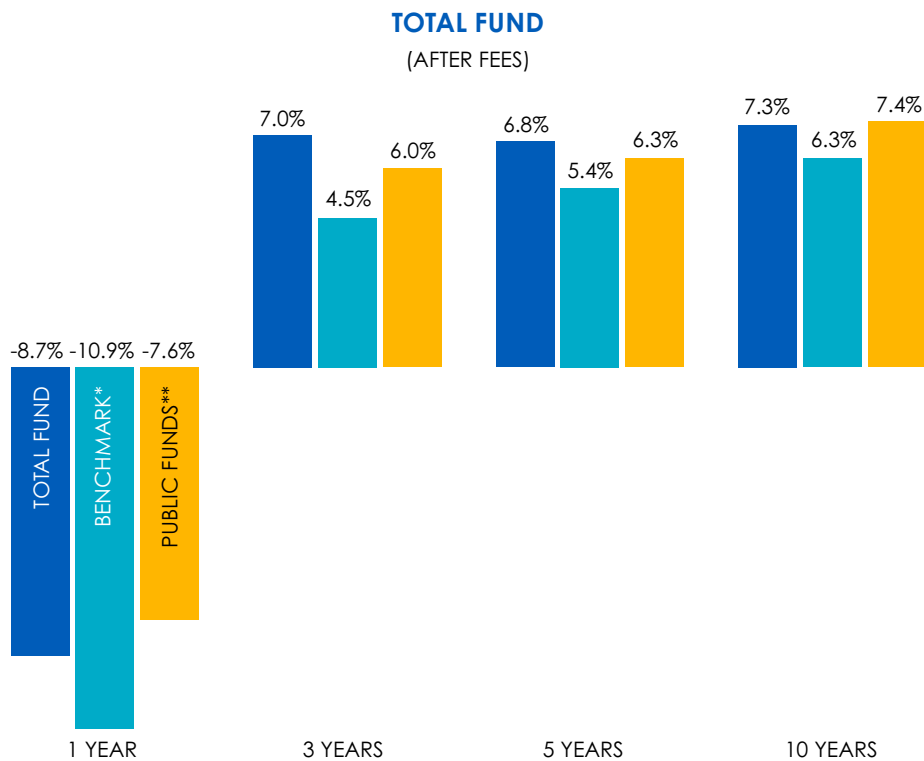
Assigning specific percentages of investments to different asset classes according to financial goals, risk tolerance, and investment time horizon. ERFC enhances the financial security of its members through responsible financial stewardship.



**BENCHMARK**

A standard against which the performance of an investment can be measured. Over the long term, ERFC has exceeded its policy benchmark.





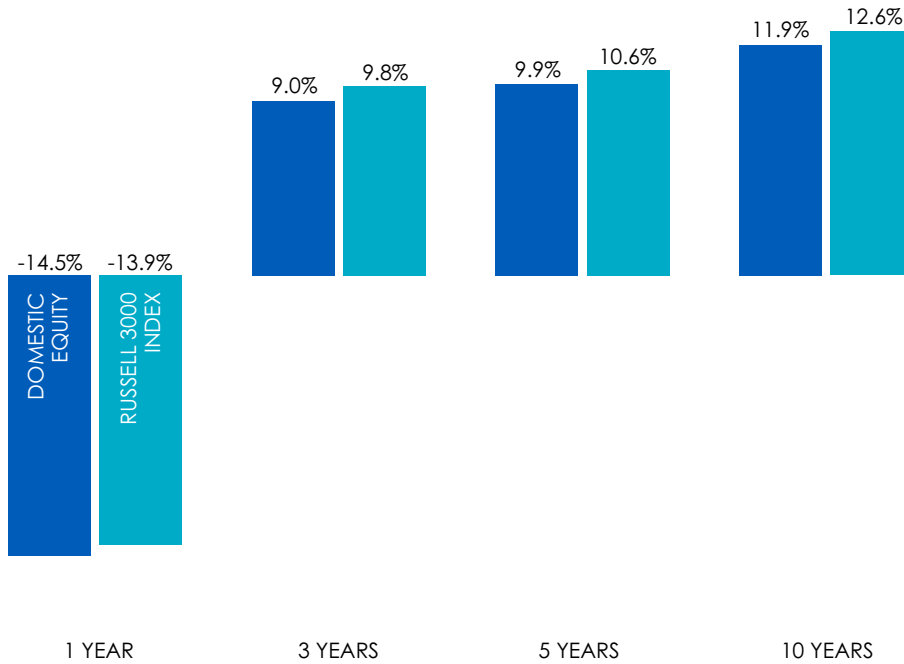
\* 16.0% Russell 1000 Index, 9.0% Russell 2000 Index, 5.0% MSCI AC World ex USA (Net), 5.0% MSCI EM (net), 5.0% MSCI AC World Index (Net), 11.0% Blmbg. U.S. Aggregate, 8.0% Blmbg. U.S. Gov't/Credit, 2.0% JPM GBI-EM Global Diversified TR, 4.0% Blmbg. U.S. TIPS, 4.6% MSCI AC World Index (Net), 2.5% Blmbg. U.S. Aggregate, 5.0% HFRI Fund of Funds Composite Index, 6.0% NCREIF - ODCE NET, 1.0% CPI + 4%, 2.0% Bloomberg Barclays U.S. Corp High Yield + 150 bps, 7.0% ThomsonOne All Regions PE, 2.0% 90 Day U.S. Treasury Bill, 5.0% MSCI EAFE Small Cap (Net)

\*\* Investment Metrics Public Plan Universe > \$1B



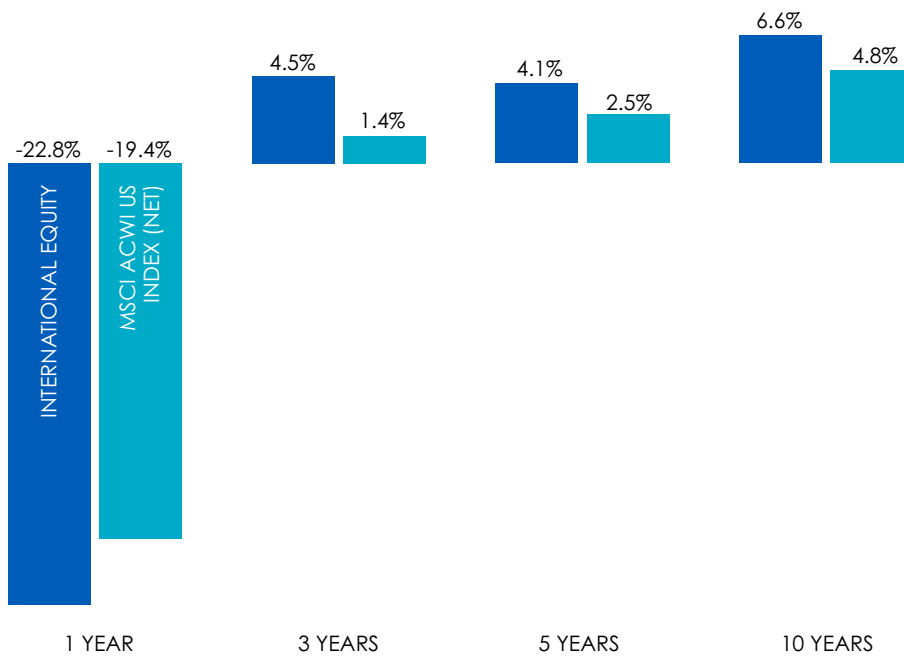
**DOMESTIC EQUITY**

(NET OF FEES)

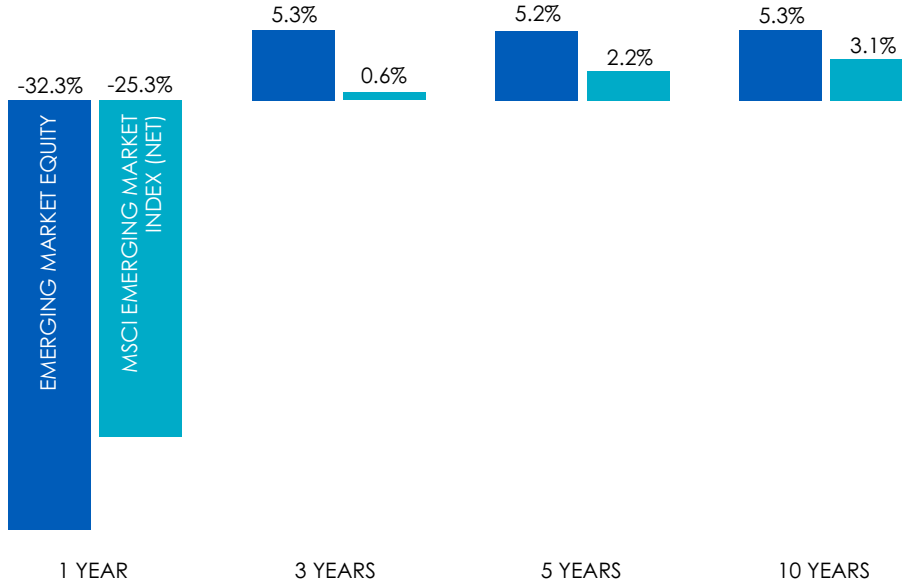


**INTERNATIONAL EQUITY**

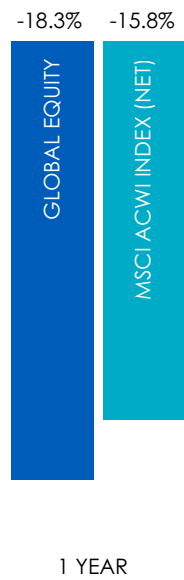
(NET OF FEES)



**EMERGING MARKET EQUITY**  
(NET OF FEES)

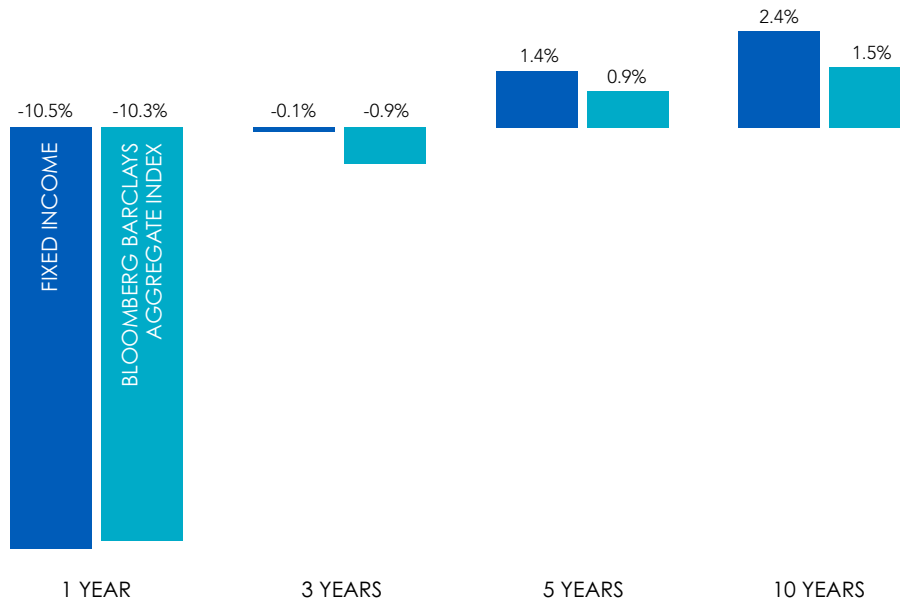


**GLOBAL EQUITY**  
(NET OF FEES)



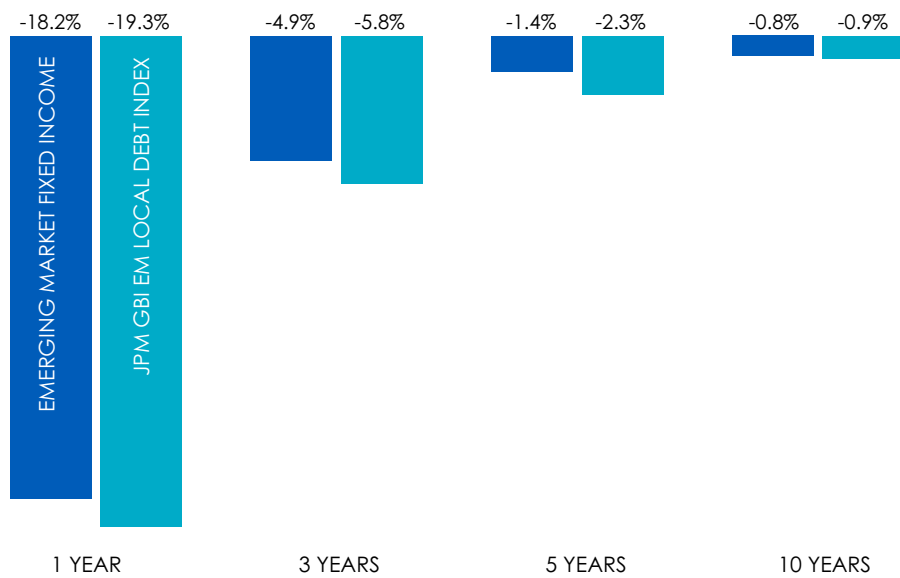
**DOMESTIC FIXED INCOME**

(NET OF FEES)



**EMERGING MARKET FIXED INCOME**

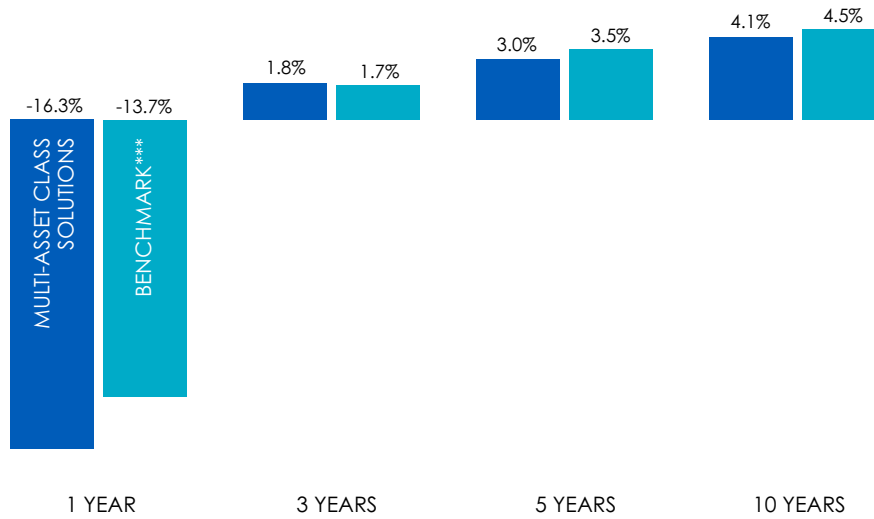
(NET OF FEES)



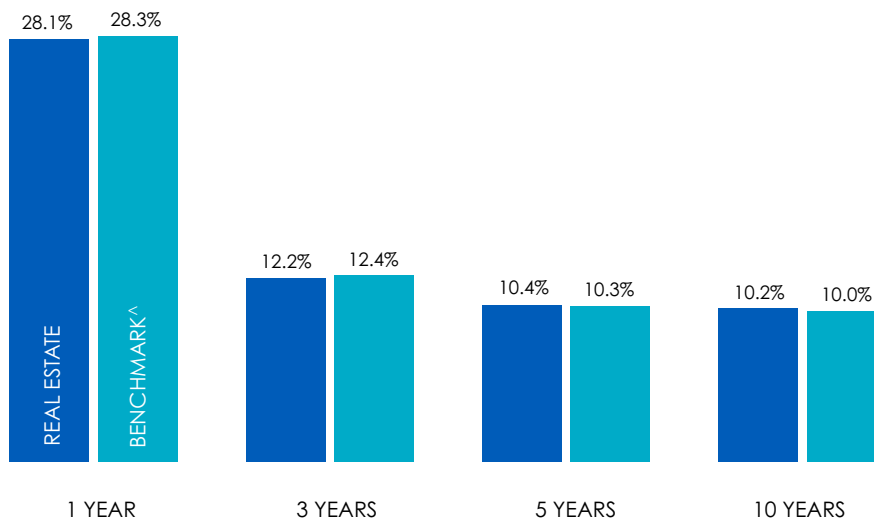
Note: All investment performance figures were calculated using time-weighted rate of return based on market values.

Custom benchmark members have changed over time.

**MULTI-ASSET CLASS SOLUTIONS**  
(NET OF FEES)



**REAL ESTATE**  
(NET OF FEES)



\*\*\* 65% MSCI (NET) / 35% BB Aggregate

^ 100% NCREIF ODCE

## KNOW YOUR PLAN



## OTHER RESOURCES

### FCPS HUMAN RESOURCES

Search Human Resources on fcps.edu  
571-423-3000 | 804-649-8059

### FCPS EMPLOYEE ASSISTANCE PROGRAM (EAP)

Financial Specialist Services  
Search EAP on fcps.edu  
855-355-9097

### VRS

www.varetire.org  
888-827-3847 | 800-333-1633

### SOCIAL SECURITY

www.ssa.gov  
800-772-1213

### MEDICARE

www.medicare.gov  
800-633-4227



### LOCATION

8001 Forbes Place, Suite 300  
Springfield, VA 22151-2205

Office Hours  
M-F 8 AM-4:30 PM



### CALL

703-426-3900



### FAX

703-426-3984



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erfcoffice@fcps.edu



### WEB

www.fcps.edu/erfc  
www.erfc.direct



THE EDUCATIONAL EMPLOYEES'  
SUPPLEMENTARY RETIREMENT SYSTEM OF FAIRFAX COUNTY  
8001 FORBES PLACE | SUITE 300 | SPRINGFIELD, VA 22151-2205

