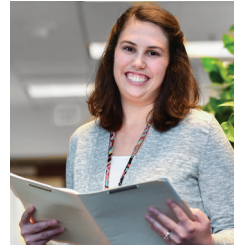


# EFFRE

SUPPORTING  
**SUCCESS**  
*with fcps*



# 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 2019. The 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

Communication activities to increase the understanding and appreciation of the value of ERFC and the total retirement program continued to receive emphasis during the fiscal year. ERFC staff visited 24 schools and administrative centers, explaining to members the provisions and importance of their retirement benefits. The ERFC Ambassador Program increased 96% to 174 worksite volunteers, up from 89 one year ago. Ambassadors are now located at 72 elementary schools, 10 middle schools, 20 high schools and 9 administrative centers.

The ERFC staff increased its efforts to implement process enhancements that will result in improved efficiencies, cost savings and customer service. ERFC worked with Linea Solutions, specializing in change management, business process reengineering, organizational restructuring and continuous process improvement for pension organizations.

## STRATEGIC PLAN AND OPERATIONAL UPDATES

ERFC staff successfully completed action items included in the 2018-2021 Strategic Plan. Two significant RFP's were completed leading to a new General Investment Consultant (Segal Marco) and a new actuary

(AON), resulting in greater than \$1M in Net Present Value (NPV) savings within renegotiated contracts. Succession and Staff Development Plans were successfully developed and implemented, aimed at increasing the sustainability of the Plan across all organizational levels. We created a Marketing Plan using data science, which identified member segments for targeted outreach – promoting Plan awareness and supporting FCPS recruitment and retention efforts. The Board of Trustees reinforced their commitment to continuous education with a Trustee Education Plan. The asset allocation was reviewed and changed, resulting in projected money manager fee savings of \$17.24M over the next ten years. In addition, ERFC is lowering expected portfolio risk and increasing expected returns over the next 10 years – increasing overall probability to achieve its expected rate of return over the next 20 years.

## PLAN FINANCIAL CONDITION

The ERFC Fund earned a 4.7 percent net of fees return on investments in fiscal year 2019. For the fiscal year, ERFC underperformed its policy index by 1.9 percent, driven by slight underperformance in all asset classes, except for emerging market debt.

ERFC's independent actuary reported that the System's funding ratio decreased slightly from 75.7 percent to 74.0 percent for the valuation period ending December 31, 2018. This decrease is due to unfavorable investment performance in the prior 2018 calendar year, higher than anticipated pay increases and unfavorable demographic experience. The recommended employer contribution rate increased to 6.26 percent of payroll, from 6.24 percent, for fiscal year 2019.

## INVESTMENT ACTIVITY

The ERFC's return of 4.7 percent net of fees for FY 2019 underperformed the benchmark index return of 6.6 percent, and the InvestorForce Public Defined Benefit (funds of \$1 billion to \$5 billion in assets) universe

for the fiscal year with the median fund returning 5.1 percent. The Fund's longer-term return remained strong, however, with the 10-year return of 8.9 percent exceeding the policy index return of 8.5 percent.

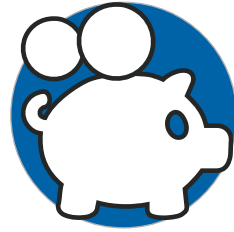
## AWARDS

The System proudly announces that the Government Finance Officers Association of the United States and Canada (GFOA) awarded ERFC the **Certificate of Achievement for Excellence in Financial Reporting** for its FY 2018 Comprehensive Annual Financial Report (CAFR). This is the 22nd consecutive year ERFC has earned the award. The GFOA certification remains valid for a period of one year and requires, at minimum, that each CAFR satisfy both generally accepted accounting principles and legal requirements. The Public Pension Coordinating Council also honored ERFC recently, granting the System the **Public Pension Standards' 2019 Award**. ERFC earned the award in recognition of meeting or exceeding professional standards for plan design 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, based in New York, NY, provides investment consulting services, and AON/Retirement and Investment, of Washington D.C. provides actuarial services. In accordance with county code, the Fairfax County Board of Supervisors appointed Cherry Bekaert LLP, Certified Public Accountants, Richmond, Virginia, to audit the System's financial statements.

This PAFR presents an overview of the System's financial activity during the 2019 fiscal year. ERFC's Comprehensive Financial Annual Report for FY 2019, which was published in December 2019, provides additional information in greater detail. Copies of both publications are posted on the System's website at [www.fcps.edu/erfc](http://www.fcps.edu/erfc).



**4.7%**

FUND AFTER-FEES  
RETURN ON INVESTMENTS



**74%**

FUNDED RATIO



**\$2.5B**

TOTAL FUND VALUE



**39,145**

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



**DARYL RICHARDS**  
VICE CHAIRPERSON/  
TRUSTEE  
ELECTED MEMBER



**LEIGH BURDEN**  
TREASURER/TRUSTEE  
APPOINTED MEMBER



**MICHAEL BURKE**  
INDIVIDUAL TRUSTEE  
APPOINTED MEMBER



**MARTY K. SMITH**  
TRUSTEE  
APPOINTED MEMBER

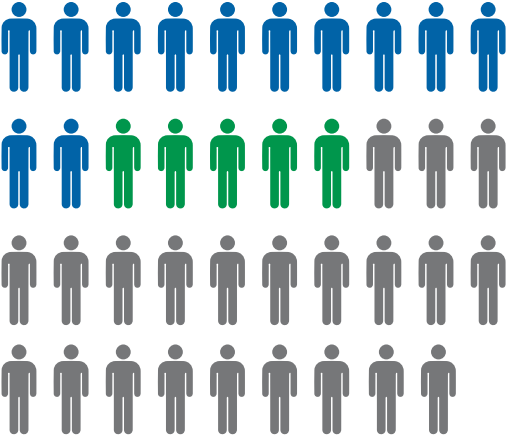


**KATHIE PFEFFER-HAHN**  
TRUSTEE  
ELECTED MEMBER



**HELEN NIXON**  
TRUSTEE  
APPOINTED MEMBER

TOTAL ERFC MEMBERSHIP



**12,101** Retirees and Beneficiaries  
**4,996** Deferred Vested Members  
**22,048** Active Members



MEMBER CONTRIBUTION RATE

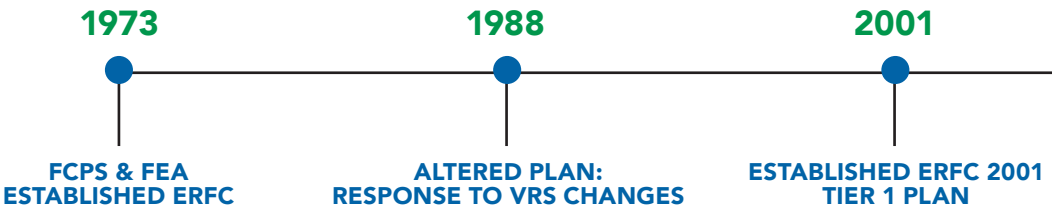


FCPS EMPLOYER CONTRIBUTION RATE



**10,815** Legacy Retirees

**1,286** 2001 Retirees





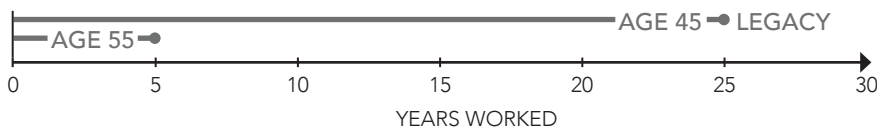
70% OF RETIREE BENEFITS PAID TO VIRGINIA RESIDENTS  
 42% OF RETIREE BENEFITS PAID TO FAIRFAX COUNTY RESIDENTS

## RETIREMENT ELIGIBILITY

UNREDUCED \$



REDUCED \$



2011

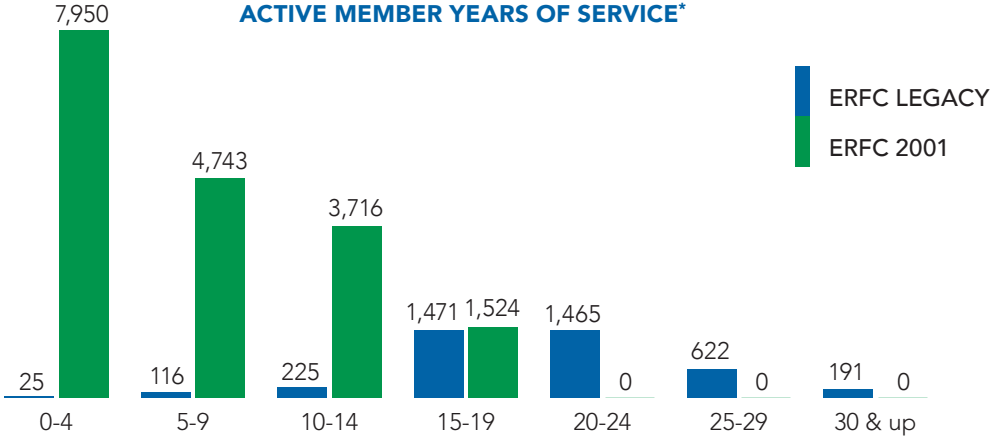
2017

IMPLEMENTED  
ERFCDIRECT

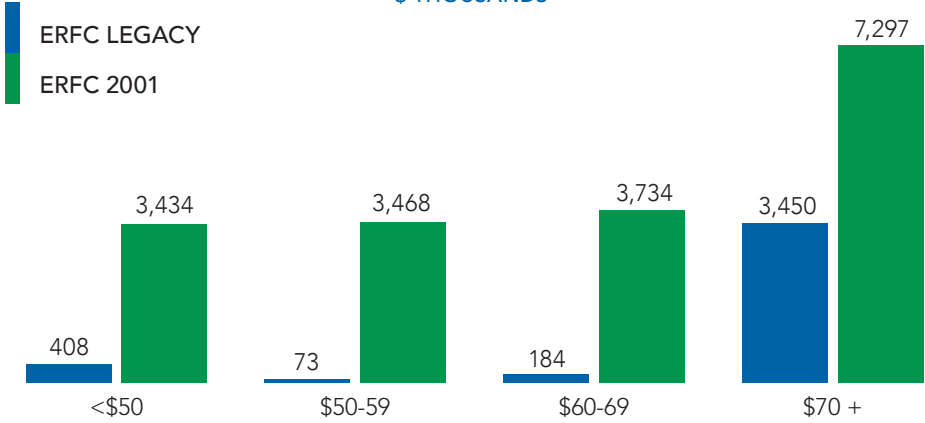
ESTABLISHED ERFC 2001  
TIER 2 PLAN

46  
YEARS

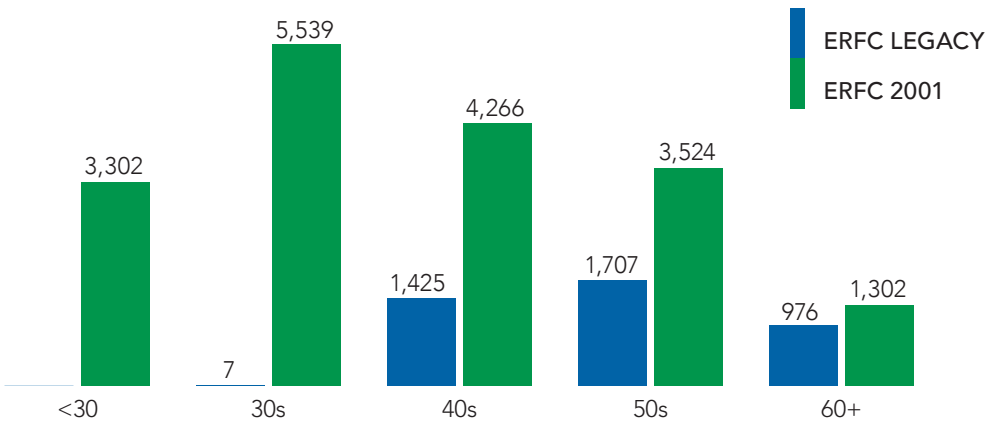
## ACTIVE MEMBER YEARS OF SERVICE\*



## ACTIVE MEMBER SALARIES^ \$ THOUSANDS



## ACTIVE MEMBER AGES#



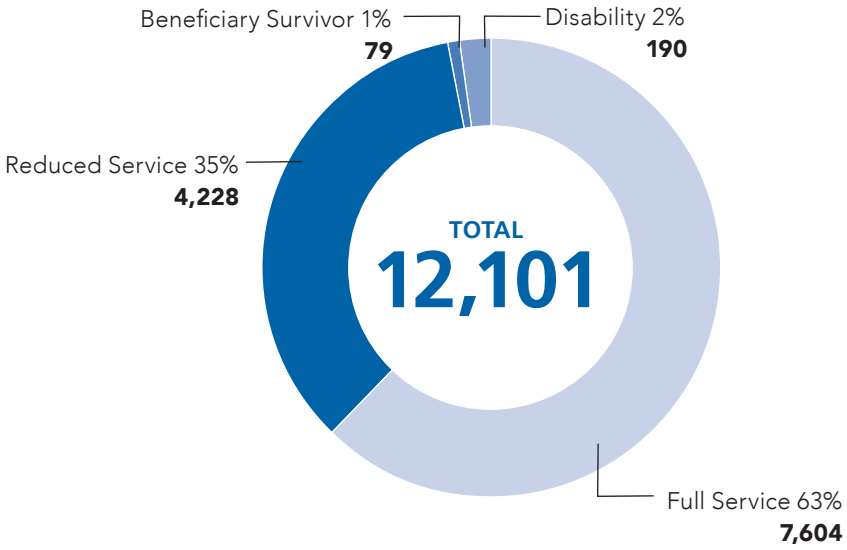
\* Average Service = 9.4 years

^ Average Annual Pay = \$70,510

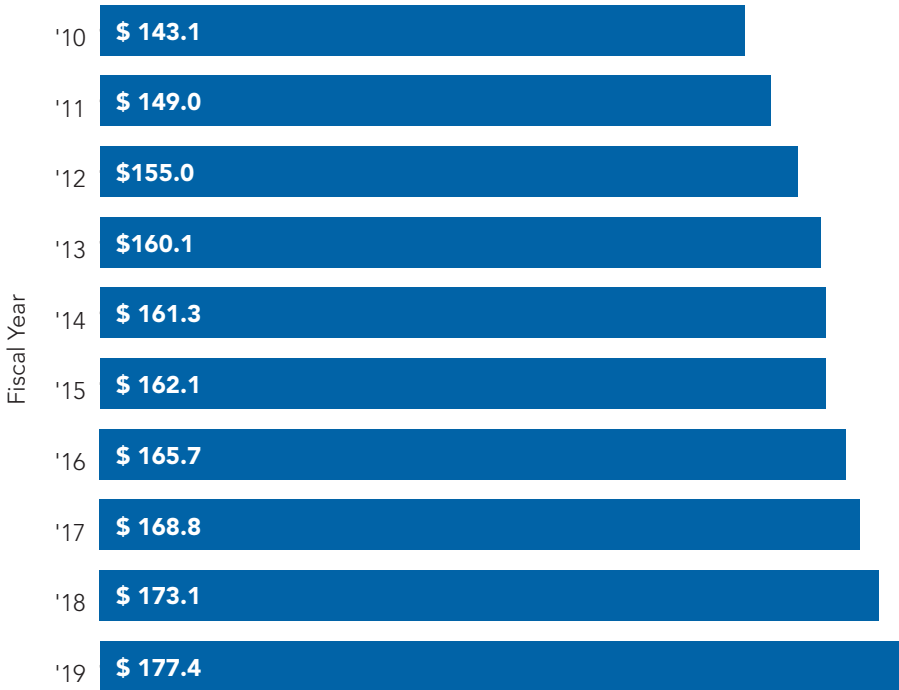
# Average Age = 43.6 years | Total Active Members = 22,048



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

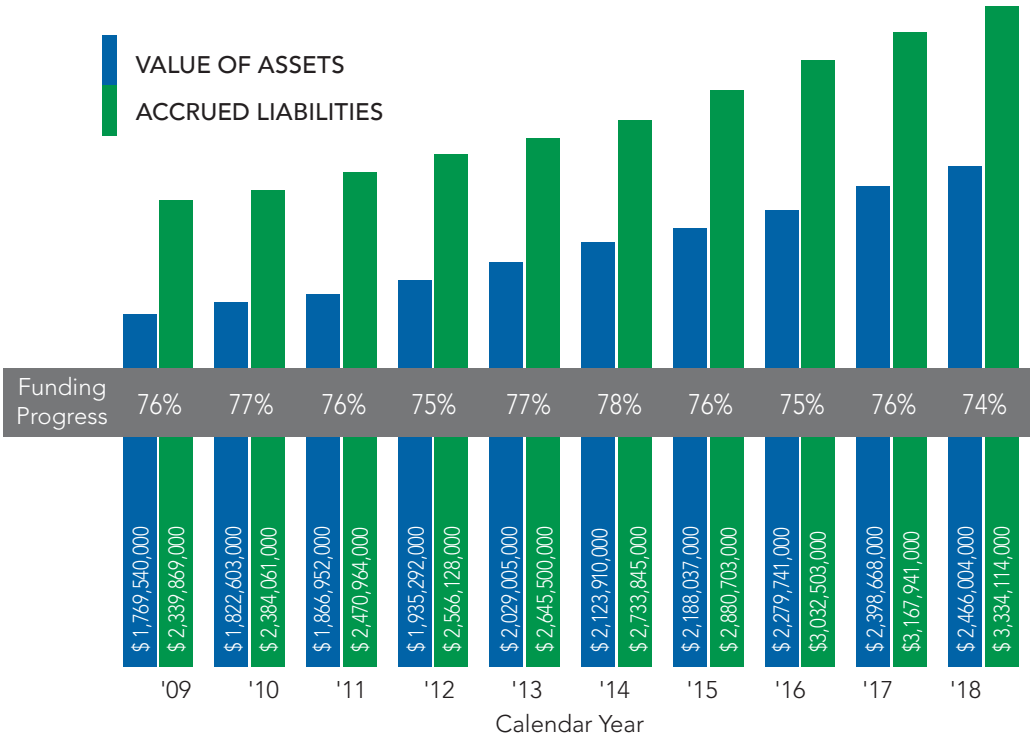


**BENEFITS PAID**  
AS OF JUNE 30  
\$ MILLIONS



# FUNDING

## FUNDING PROGRESS



## 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

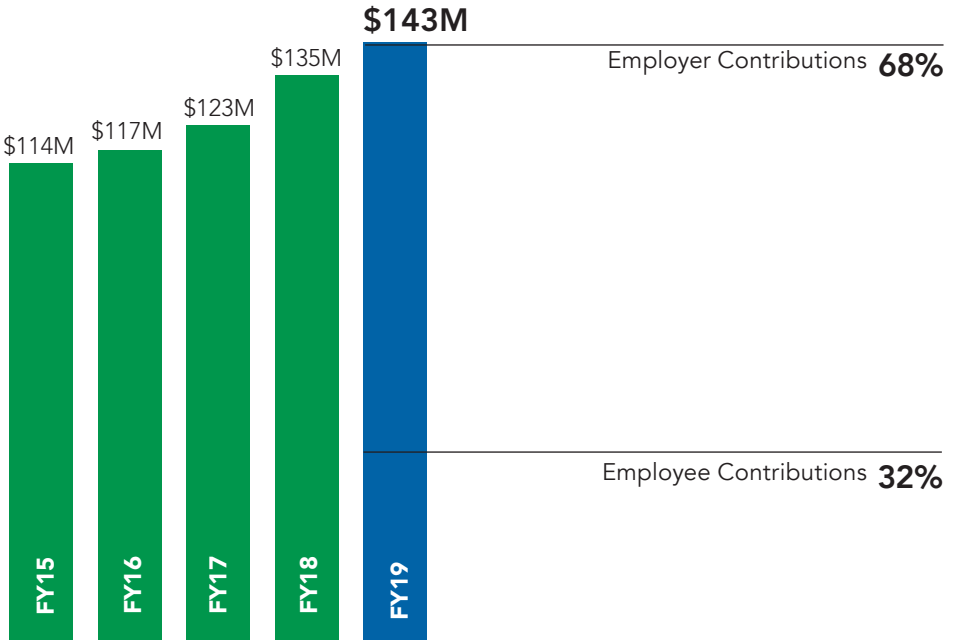


Acts solely in the interest of members and beneficiaries for the exclusive purpose of providing benefits to

them, and paying reasonable expenses to administer the system. ERFC operates with transparency and a commitment to think strategically while fulfilling its fiduciary obligations.

# FUNDING

## TOTAL CONTRIBUTIONS



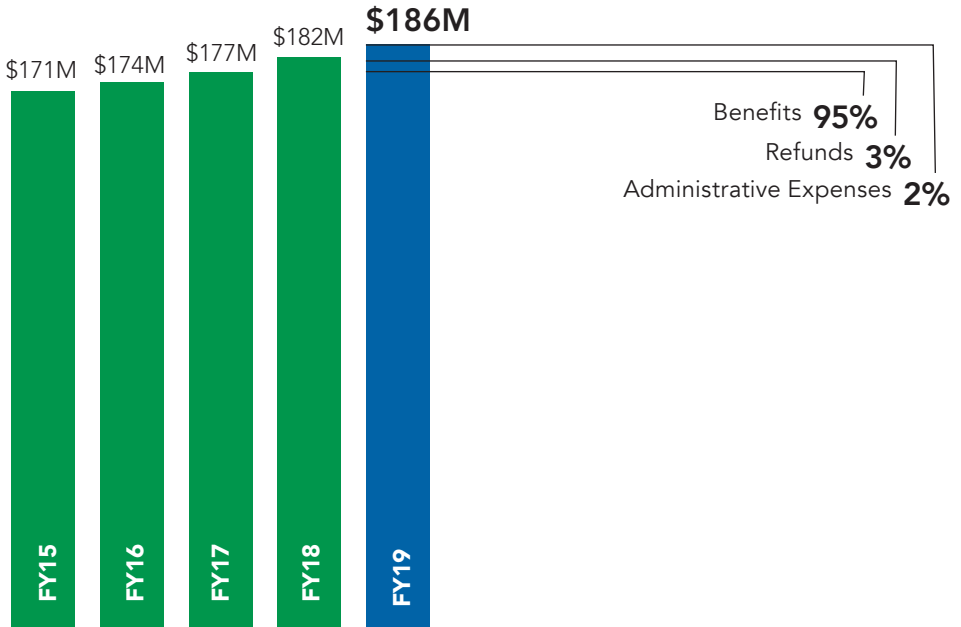
## SUMMARY OF FIDUCIARY NET POSITION

AS OF JUNE 30

	2019	2018	VARIANCE
<b>ASSETS</b>			
Total cash and investments	\$ 2,661,830,887	\$ 2,579,998,120	\$ 81,832,767
Total receivables	11,919,565	5,972,204	5,947,361
Other assets	43,010	39,369	3,641
<b>TOTAL ASSETS</b>	<b>2,673,793,462</b>	<b>2,586,009,693</b>	<b>87,783,769</b>
<b>LIABILITIES</b>			
Capital leases	12,455	21,107	(8,652)
Accounts payable	2,095,788	1,992,441	103,347
Securities purchased	6,606,218	3,928,604	2,677,614
Securities lending collateral	143,637,529	133,787,644	9,849,885
<b>TOTAL LIABILITIES</b>	<b>152,351,990</b>	<b>139,729,796</b>	<b>12,622,194</b>
<b>TOTAL NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 2,521,441,472</b>	<b>\$ 2,446,279,897</b>	<b>\$ 75,161,575</b>

# FUNDING

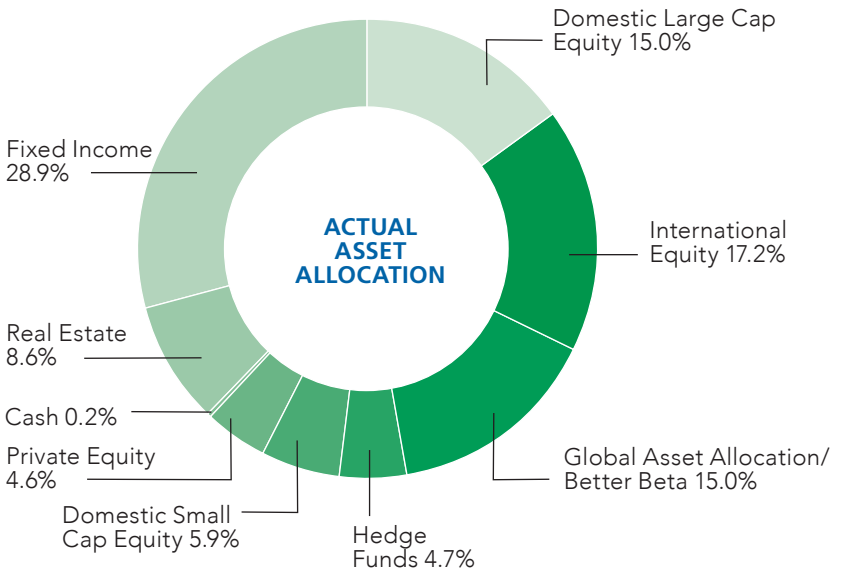
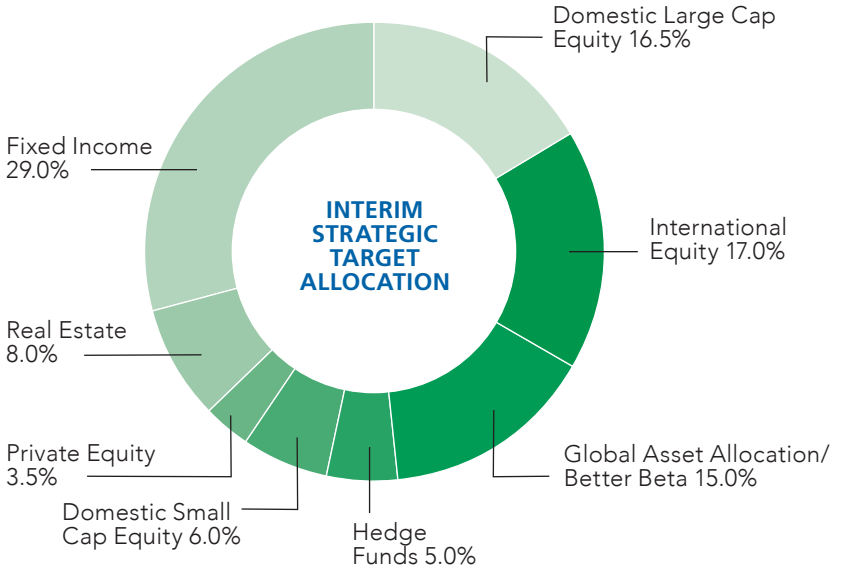
## TOTAL DEDUCTIONS



## SUMMARY OF ADDITIONS AND DEDUCTIONS

AS OF JUNE 30

	2019	2018	DIFFERENCE
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 96,982,911	\$ 91,704,877	\$ 5,278,034
Member	46,645,396	44,169,100	2,476,296
Net investment income	117,727,500	188,145,489	(70,417,989)
<b>TOTAL ADDITIONS</b>	<b>261,355,807</b>	<b>324,019,466</b>	<b>(62,663,659)</b>
<b>DEDUCTIONS</b>			
Benefits	177,422,308	173,052,461	4,369,847
Refunds	4,509,765	4,667,835	(158,070)
Admin. Expenses	4,262,159	4,300,927	(38,768)
<b>TOTAL DEDUCTIONS</b>	<b>186,194,232</b>	<b>182,021,223</b>	<b>4,173,009</b>
<b>NET INCREASE IN NET POSITION</b>	<b>\$ 75,161,575</b>	<b>\$ 141,998,243</b>	<b>\$ (66,836,668)</b>



## 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.

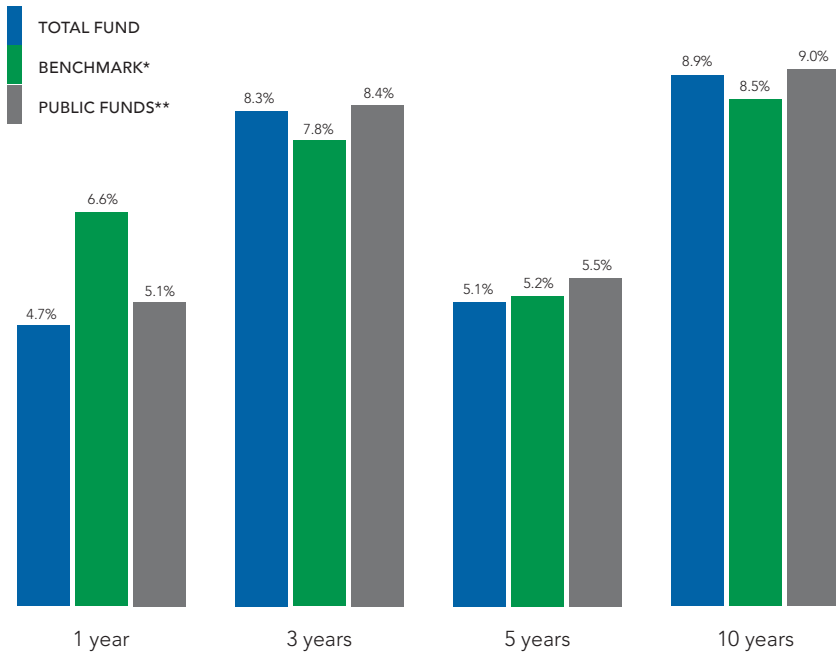
## BENCHMARK



A standard against which the performance of an investment can be measured. Over the long

term, ERFC has exceeded its policy benchmark.

## TOTAL FUND (AFTER FEES)



PORTFOLIO  
RETURN

**4.7%**

POLICY  
INDEX

**6.6%**

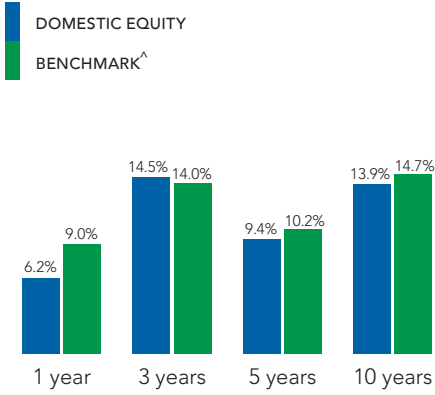
ALLOCATION  
INDEX

**5.1%**

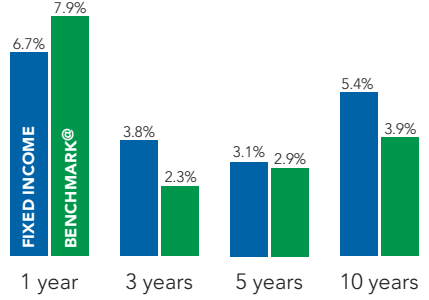
\* Diversified benchmark is 16.5% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI ex USA, 3.0% MSCI Emerging Markets, 5% MSCI World, 5% Citi WGBI, 5% BBgBarc US TIPS TR, 3% JPM GBI-EM Global Diversified TR, 4% FTSE EPRA/NAREIT Developed TR USD, 4% NCREIF-ODCE NET, 18% BBgBarc US Aggregate TR, 4% BBgBarc US Credit TR, 4% BBgBarc US Credit Long TR, 5% HFRI Fund of Funds Composite Index, 3.5% Venture Economics All US Private Equity Index

\*\* Investor Force Public Defined Benefit Plan Universe

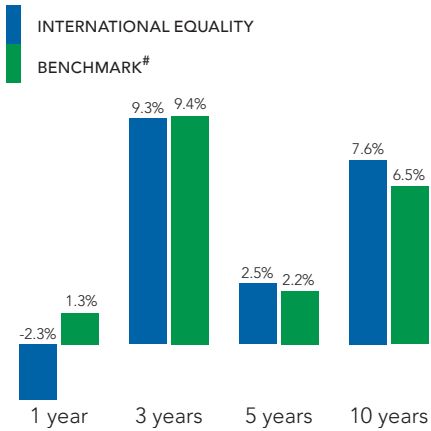
## DOMESTIC EQUITY (AFTER FEES)



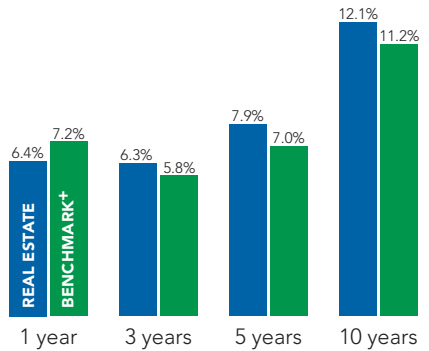
## DOMESTIC FIXED INCOME (AFTER FEES)



## INTERNATIONAL EQUITY (AFTER FEES)



## REAL ESTATE (AFTER FEES)



^ Benchmark; Russell 3000 Index

@ Benchmark; Bloomberg Barclays US Aggregate TR

# Benchmark; JP Morgan GBI-EM Broad/Global Div Ind

+ Benchmark; Blended Real Estate Index

THE 2019 POPULAR ANNUAL FINANCIAL REPORT FEATURES ERFC AMBASSADORS AND ACTIVE AND RETIRED MEMBERS.

**WE SERVE FCPS EDUCATORS AND THOSE WHO SUPPORT THE EDUCATION OF FAIRFAX COUNTY CHILDREN. IN DOING SO, WE HELP IMPROVE COLLECTIVE FUTURES.**



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Springfield, VA 22151-2205



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1-844-758-3793



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**EMAIL**

erfcoffice@fcps.edu



**WEB**

www.fcps.edu/erfc  
www.fcps.edu/erfcdirect

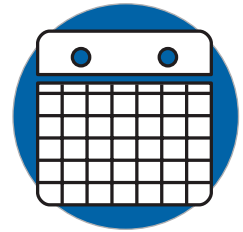


For the Fiscal Year Ended June 30, 2019  
The Educational Employees' Supplementary Retirement System of Fairfax County  
A Component Unit of Fairfax County Public Schools  
Fairfax, Virginia



**59**

AVERAGE RETIREMENT AGE



**22**

AVERAGE YEARS OF SERVICE



**24**

SCHOOL & ADMIN CENTER VISITS



**174**

ERFC VOLUNTEER AMBASSADORS