



# ERFC

CONTINUED SUPPORT  
WITH RESILIENCE  
& INNOVATION

POPULAR ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
A COMPONENT UNIT OF FAIRFAX COUNTY PUBLIC SCHOOLS



# 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 2020. 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

The ERFC staff continued to increase efforts to implement process enhancements that will result in improved efficiencies, cost savings and member service. ERFC concluded work with Linea Solutions—a firm specializing in change management, business process reengineering, organizational restructuring, and continuous process improvement for pension organizations—identifying over \$2 million in operational improvements in the process. As part of the implementation process ERFC contracted Orion Development Group—a pioneer in strategic process management that helps clients in all industries create distinctive process capabilities and leverage those capabilities for competitive advantage.

Communication activities continued to increase awareness of ERFC. Prior to transitioning to remote operations due to COVID, staff conducted five retirement information sessions and visited seven schools and administrative centers. The ERFC Ambassador Program—composed of member volunteers who distribute and guide other members to appropriate ERFC resources—increased 6.3% to 185 ambassadors located at 128 FCPS worksites. Redesign of the ERFC website was also completed, improving navigability and member interaction. Efforts to remain in close communication with ERFC members during remote

operations resulted in successful virtual project implementations including, the development of a COVID-19 information page on the ERFC website, virtual plan information webinars with live Q & A, readily accessible plan information videos, and the updating and simplification of plan brochures.

ERFC continued to promote *ERFCDirect*, and over 28,000 active and retired members now use the online service, up from 27,000 a year ago.

## STRATEGIC PLAN AND OPERATIONAL UPDATES

Despite overwhelming challenges, brought on by the COVID-19 pandemic, the ERFC staff successfully continued to move through the 2018-2021 Strategic Plan. A significant RFP for a discretionary private markets consultant was completed, which will ultimately lead to approximately \$23.4 million in Net Present Value (NPV) savings through restructuring of the private markets program.

## PLAN FINANCIAL CONDITION

In spite of the unprecedented challenges as a result of the COVID-19 global pandemic, the ERFC Fund earned a 4.7% net of fees return on investments in fiscal year 2020—placing the fund in the top 8th percentile of public pension funds within the Investment Metrics Public Plan Universe >\$1B in assets. For the fiscal year, ERFC outperformed its policy index by 0.9%, driven by outperformance in international and emerging market equities, and private market investments.

ERFC's independent actuary reported that the System's funding ratio increased slightly from 74.0% to 74.5% for the valuation period ending December 31, 2019. This increase is due to favorable investment performance in 2019 and favorable demographic experience. The recommended employer contribution rate increased to 6.44% of payroll, from 6.26%, for fiscal year 2020.

The presentation of this PAFR is consistent with GAAP. To obtain additional detail regarding the fund please refer to the 2020 Comprehensive Annual Financial Report (CAFR) at [https://www.fcps.edu/sites/default/files/media/forms/CAFR\\_2020\\_www.pdf](https://www.fcps.edu/sites/default/files/media/forms/CAFR_2020_www.pdf)

## INVESTMENT ACTIVITY

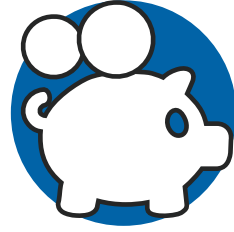
The ERFRC's return of 4.7% net of fees for FY 2020 outperformed the benchmark index return of 3.8%, and the Investment Metrics Public Plan Universe >\$1B in assets universe for the fiscal year with the median fund returning 1.5%. On an intermediate basis, the Fund ranked in the top 26th percentile of public pension funds within the Investment Metrics Public Plan Universe >\$1B in assets over the last 3-year period ending FY 2020. The Fund's longer-term performance remained strong as well; the 10-year return of 7.7% exceeded the policy index return of 7.5% and exceeded the Fund's long-term target return of 7.25%.

## AWARDS

The System proudly announces that the Government Finance Officers Association of the United States and Canada (GFOA) awarded ERFRC the **Certificate of Achievement for Excellence in Financial Reporting** for its FY 2019 Comprehensive Annual Financial Report (CAFR). This is the 23rd consecutive year ERFRC 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 ERFRC recently, granting the System the **Public Pension Standards' 2020 Award**. ERFRC earned the award in recognition for meeting or exceeding professional standards for plan design and administration, as set forth in the Public Pension Standards.

## PROFESSIONAL SERVICES

The ERFRC 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, Certified Public Accountants, Richmond, Virginia, to audit the System's financial statements.



**4.7%**

FUND AFTER-FEES  
RETURN ON INVESTMENTS



**74.5%**

FUNDED RATIO



**\$2.6B**

TOTAL FUND VALUE



**39,898**

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



**LEIGH BURDEN**  
TREASURER/TRUSTEE  
APPOINTED MEMBER



**MICHAEL BURKE**  
INDIVIDUAL TRUSTEE  
APPOINTED MEMBER



**MARTY K. SMITH**  
TRUSTEE  
APPOINTED MEMBER



**ERIC EICHELBERGER**  
TRUSTEE  
ELECTED MEMBER



**HELEN NIXON**  
TRUSTEE  
APPOINTED MEMBER

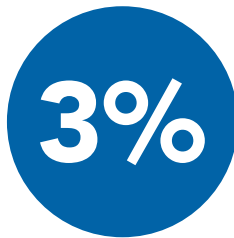
ERFC's Comprehensive Annual Financial Report (CAFR) is available at:  
[https://www.fcps.edu/sites/default/files/media/forms/CAFR\\_2020\\_www.pdf](https://www.fcps.edu/sites/default/files/media/forms/CAFR_2020_www.pdf)



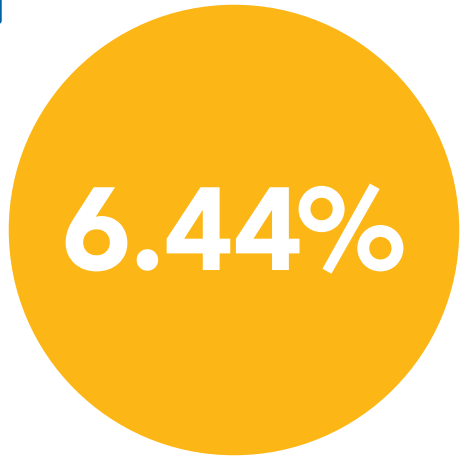
## TOTAL ERFC MEMBERSHIP



**12,497** Retirees and Beneficiaries  
**5,225** Deferred Vested Members  
**22,176** Active Members



MEMBER  
CONTRIBUTION  
RATE

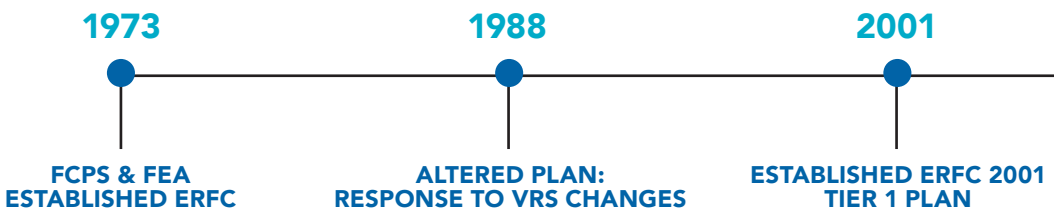


FCPS EMPLOYER  
CONTRIBUTION  
RATE



**10,998** Legacy Retirees

**1,499** 2001 Retirees

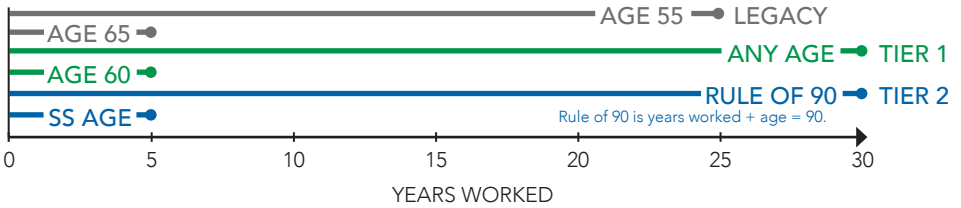




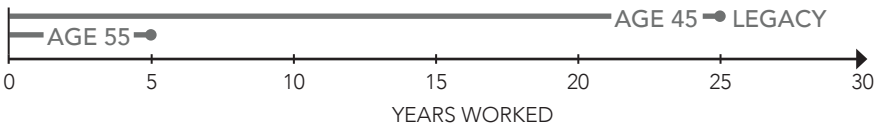
70% OF RETIREE BENEFITS PAID TO VIRGINIA RESIDENTS  
 42% OF RETIREE BENEFITS PAID TO FAIRFAX COUNTY RESIDENTS

## RETIREMENT ELIGIBILITY

UNREDUCED \$



REDUCED \$



2011

2017

IMPLEMENTED  
ERFC/DIRECT

ESTABLISHED ERFC 2001  
TIER 2 PLAN

47  
YEARS

# ACHIEVEMENTS

## CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to ERFC for its Popular Annual Financial Report for the fiscal year ended June 30, 2019. 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.



Government Finance Officers Association

### Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

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

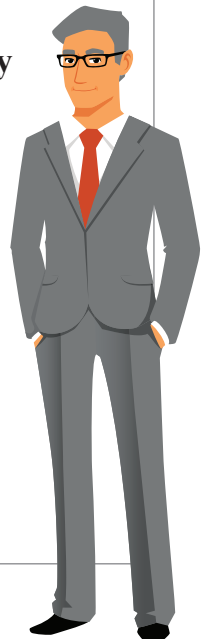
**Virginia**

For its Annual Financial Report  
for the Fiscal Year Ended

**June 30, 2019**

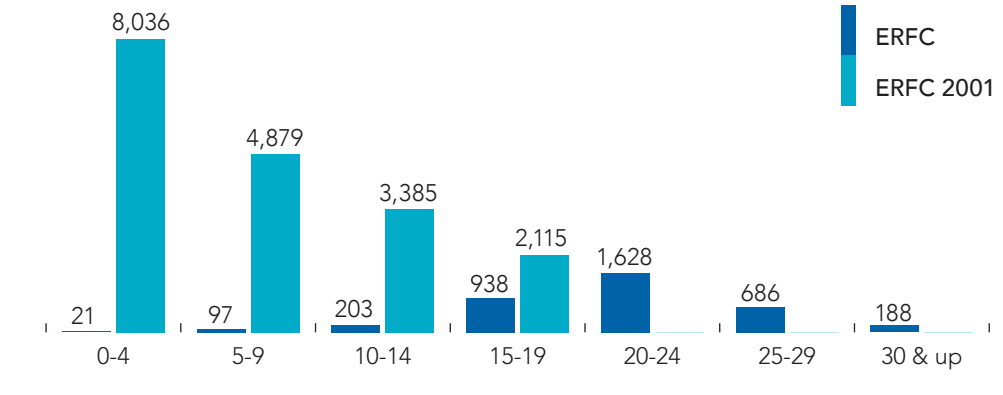
*Christopher P. Morrell*

Executive Director/CEO

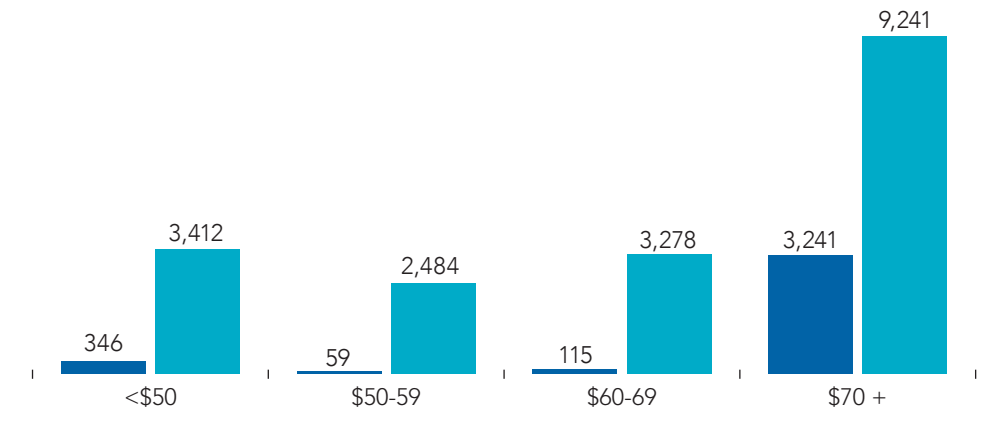




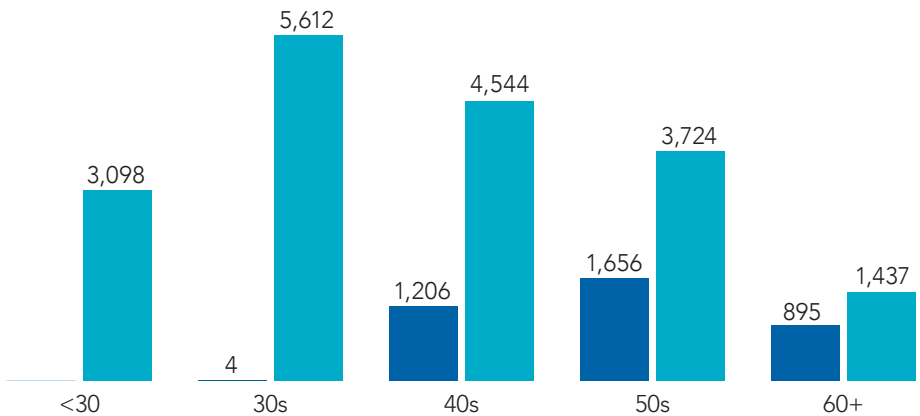
## ACTIVE MEMBER YEARS OF SERVICE\*



## ACTIVE MEMBER SALARIES^ \$ THOUSANDS



## ACTIVE MEMBER AGES#

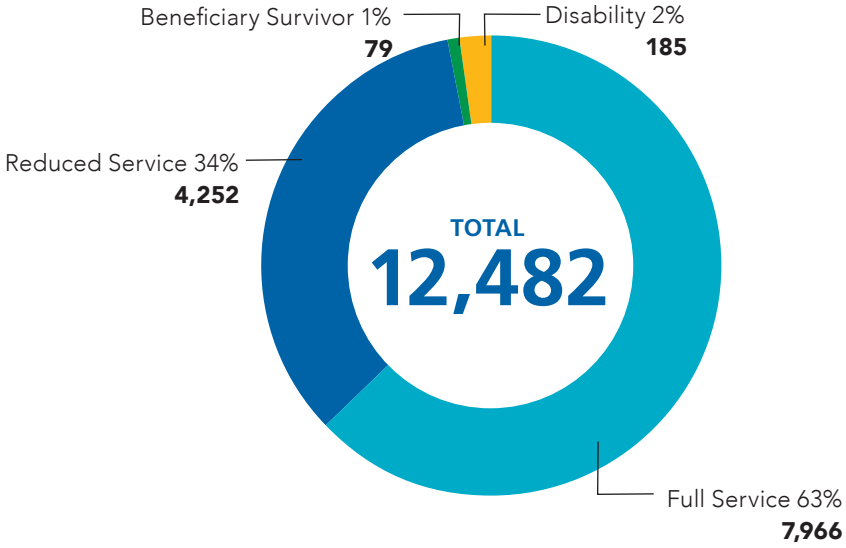


\* Average Service = 9.6 years

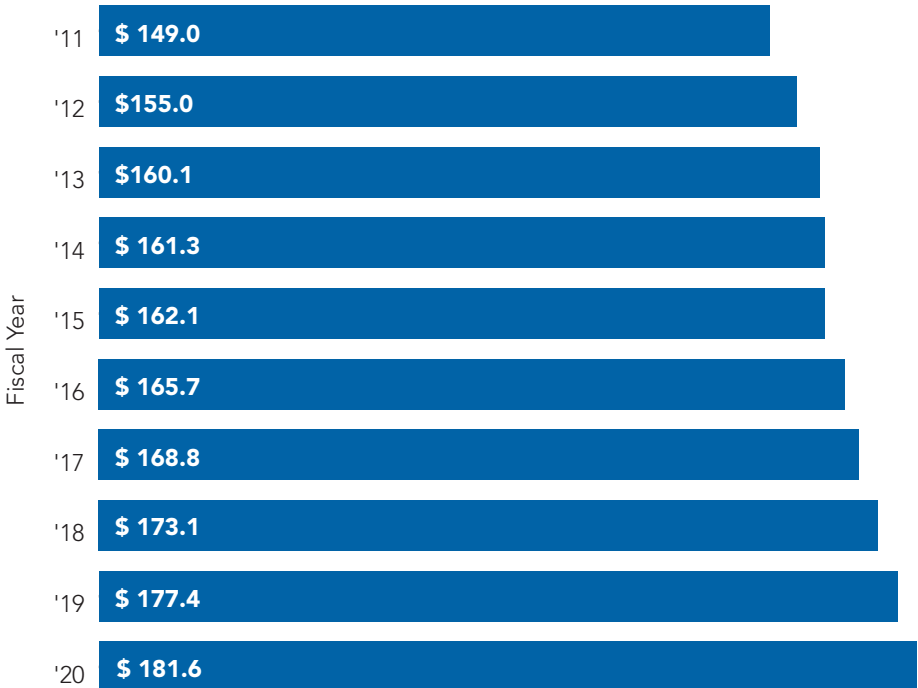
^ Average Annual Pay = \$73,612

# Average Age = 44.3 years | Total Active Members = 22,176

## RETIREES AND BENEFICIARIES BY TYPE OF BENEFIT BEING PAID

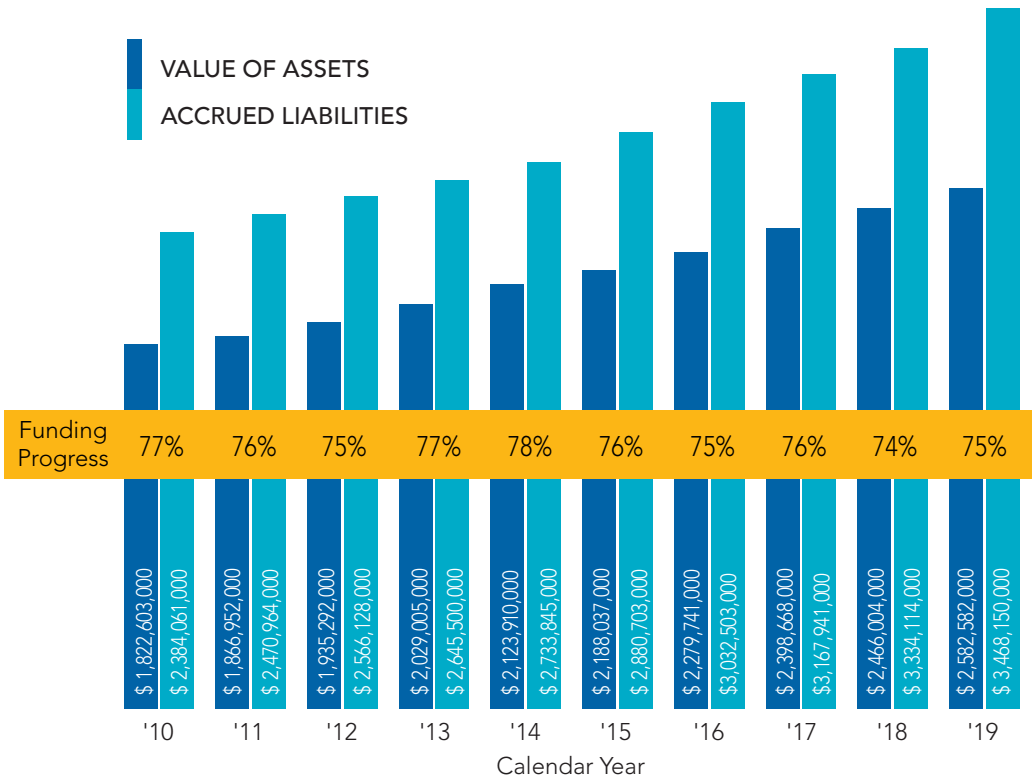


## BENEFITS PAID AS OF JUNE 30 \$ MILLIONS



# 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.

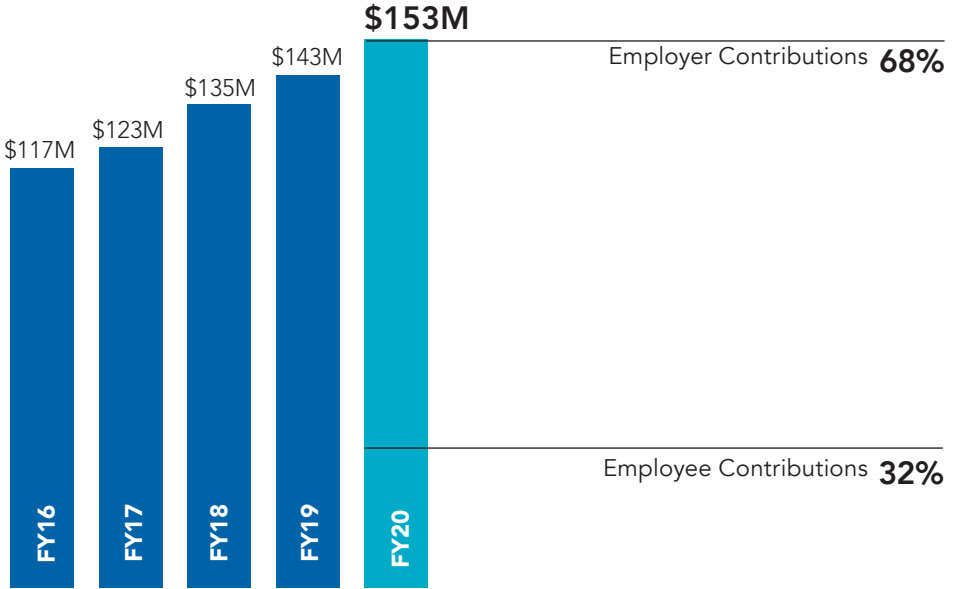


### FIDUCIARY

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

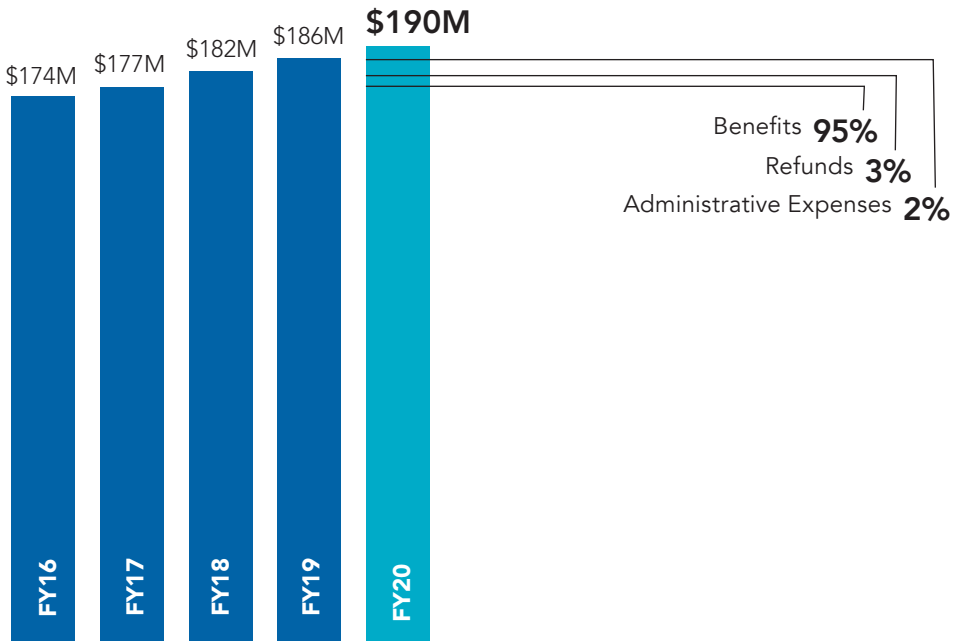


## SUMMARY OF FIDUCIARY NET POSITION

AS OF JUNE 30

	2020	2019	VARIANCE
<b>ASSETS</b>			
Total cash and investments	\$ 2,796,033,651	\$ 2,661,830,887	\$ 134,202,764
Total receivables	14,052,270	11,919,56	2,132,705
Other assets	33,468	43,010	(9,542)
<b>TOTAL ASSETS</b>	<b>2,810,119,389</b>	<b>2,673,793,462</b>	<b>136,325,927</b>
<b>LIABILITIES</b>			
Capital leases	8,782	12,455	(3,673)
Accounts payable	1,843,713	2,095,788	(252,075)
Securities purchased	88,500,826	6,606,218	81,894,608
Securities lending collateral	126,382,893	143,637,529	(17,254,636)
<b>TOTAL LIABILITIES</b>	<b>216,736,214</b>	<b>152,351,990</b>	<b>64,384,224</b>
<b>TOTAL NET POSITION</b>			
<b>RESTRICTED FOR PENSIONS</b>	<b>\$ 2,593,383,175</b>	<b>\$ 2,521,441,472</b>	<b>\$ 71,941,703</b>

## TOTAL DEDUCTIONS

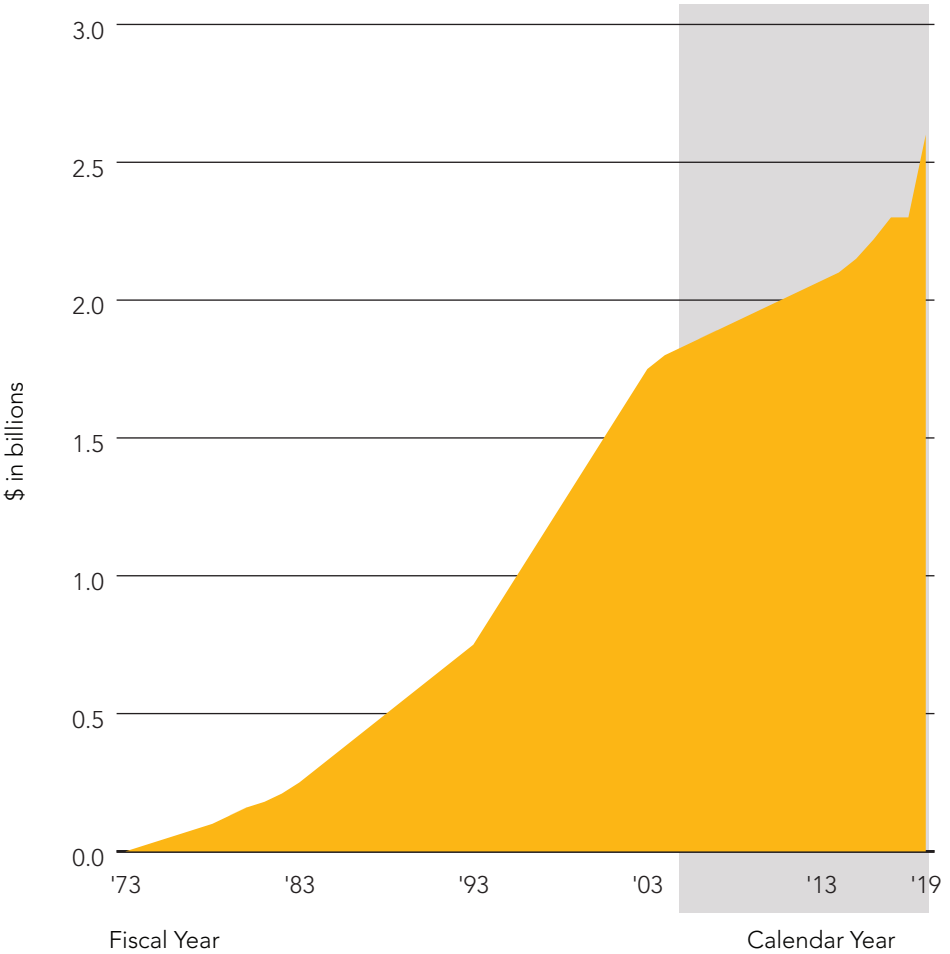


## SUMMARY OF CHANGES IN FIDUCIARY NET POSITION

AS OF JUNE 30

	2020	2019	VARIANCE
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 104,741,255	\$ 96,982,911	\$ 7,758,344
Member	49,095,601	46,645,396	2,450,205
Net investment income	108,472,534	117,727,500	(9,254,966)
<b>TOTAL ADDITIONS</b>	<b>262,309,390</b>	<b>261,355,807</b>	<b>953,583</b>
<b>DEDUCTIONS</b>			
Benefits	181,587,150	177,422,308	4,164,842
Refunds	4,399,346	4,509,765	(110,419)
Admin. Expenses	4,381,191	4,262,159	119,032
<b>TOTAL DEDUCTIONS</b>	<b>190,367,687</b>	<b>186,194,232</b>	<b>4,173,455</b>
<b>NET INCREASE IN NET POSITION</b>	<b>\$ 71,941,703</b>	<b>\$ 75,161,575</b>	<b>\$ (3,219,872)</b>

## ERFC TOTAL FUND GROWTH — VALUATION ASSETS SINCE INCEPTION (AS REFLECTED IN THE DECEMBER 31, 2019 ACTUARIAL VALUATION)



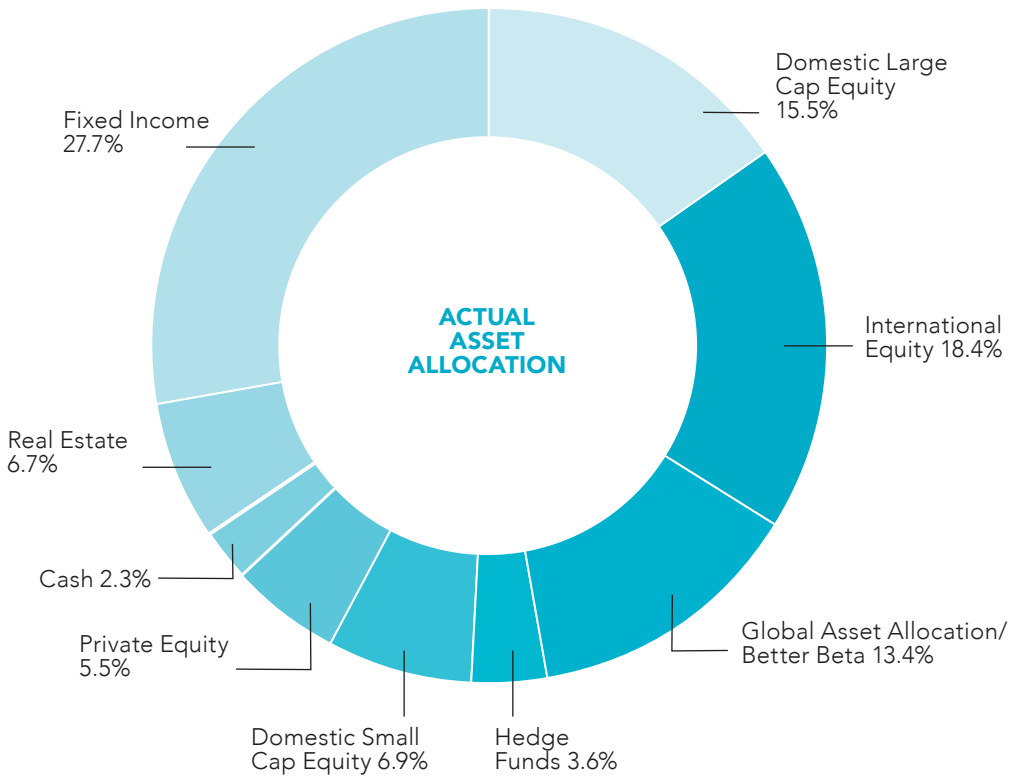
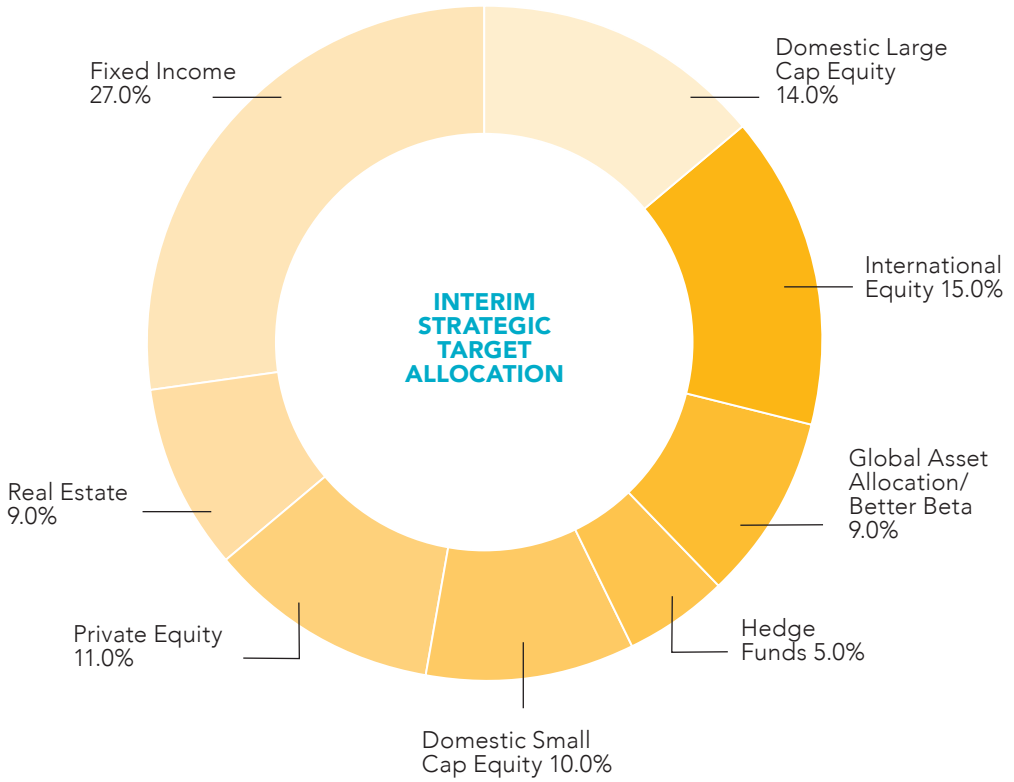
### ASSET ALLOCATION

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.

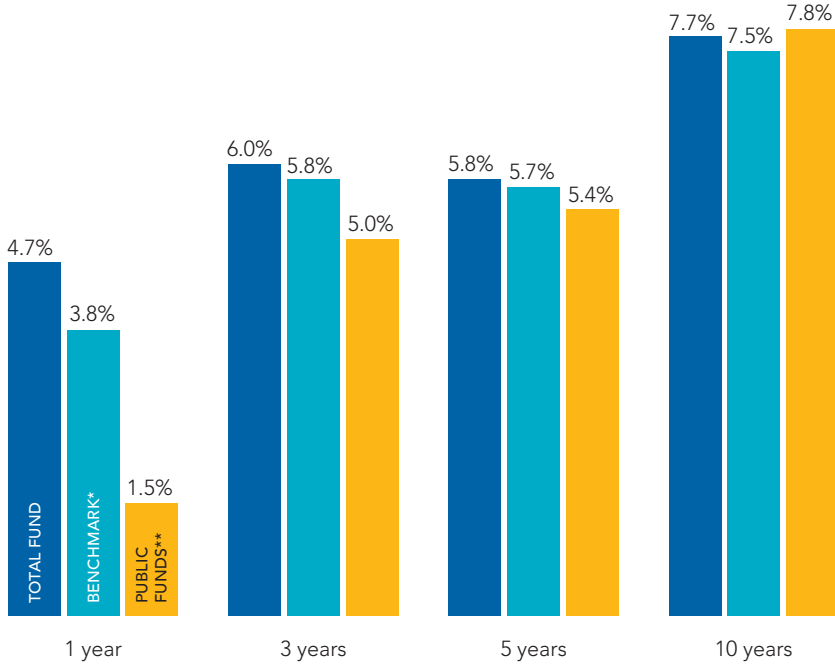


### BENCHMARK

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



## TOTAL FUND (AFTER FEES)



PORTFOLIO  
RETURN

**4.7%**

POLICY  
INDEX

**3.8%**

ALLOCATION  
INDEX

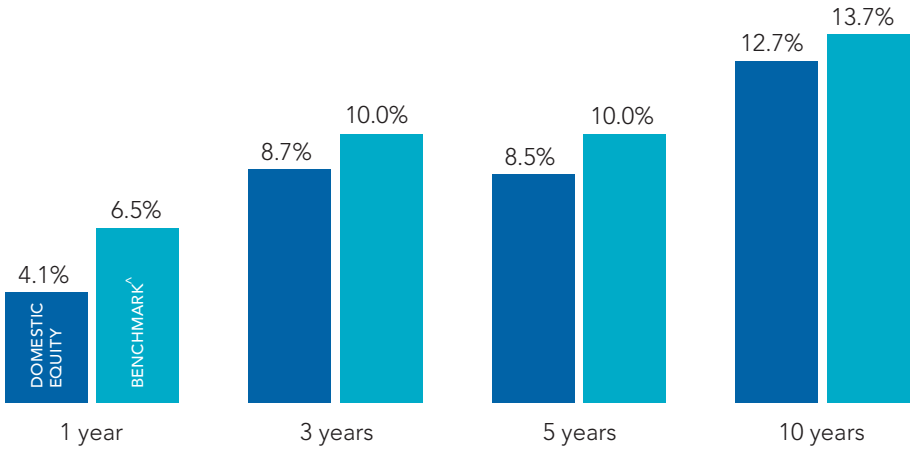
**1.5%**

\* 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

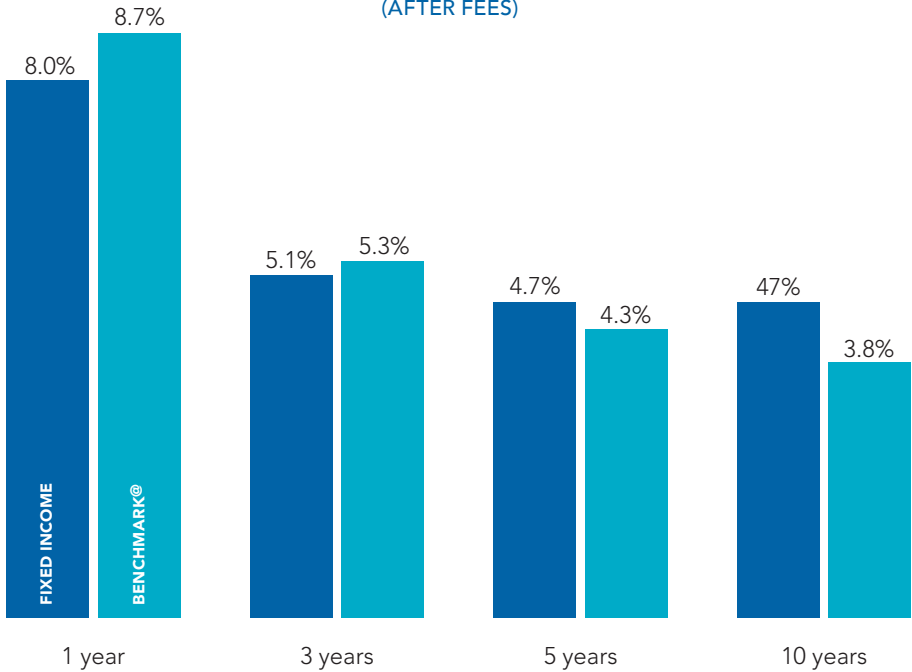
\*\* Investor Force Public Defined Benefit Plan Universe



## DOMESTIC EQUITY (AFTER FEES)



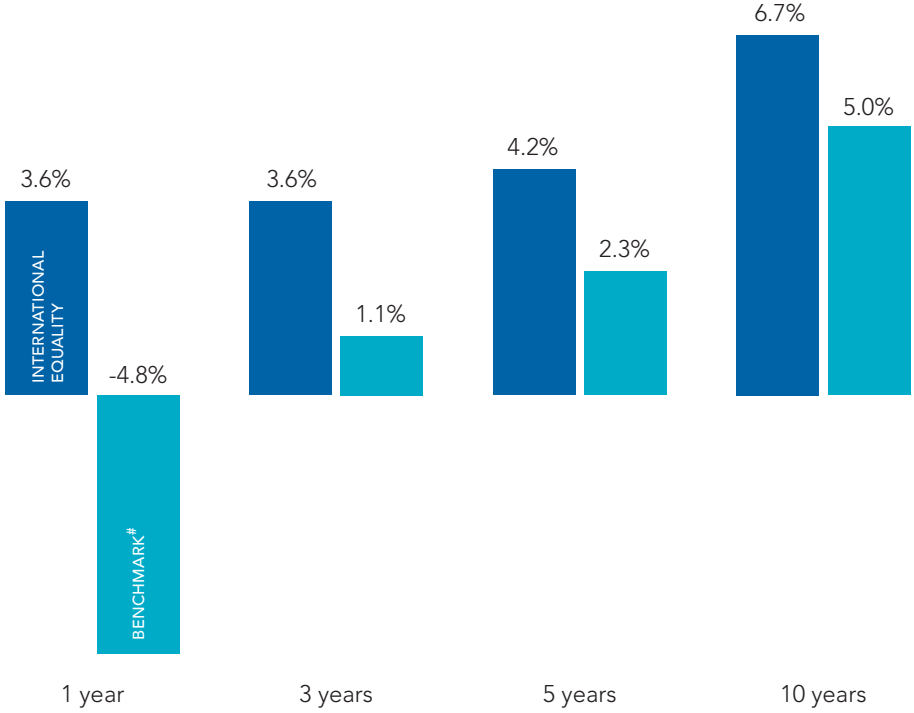
## DOMESTIC FIXED INCOME (AFTER FEES)



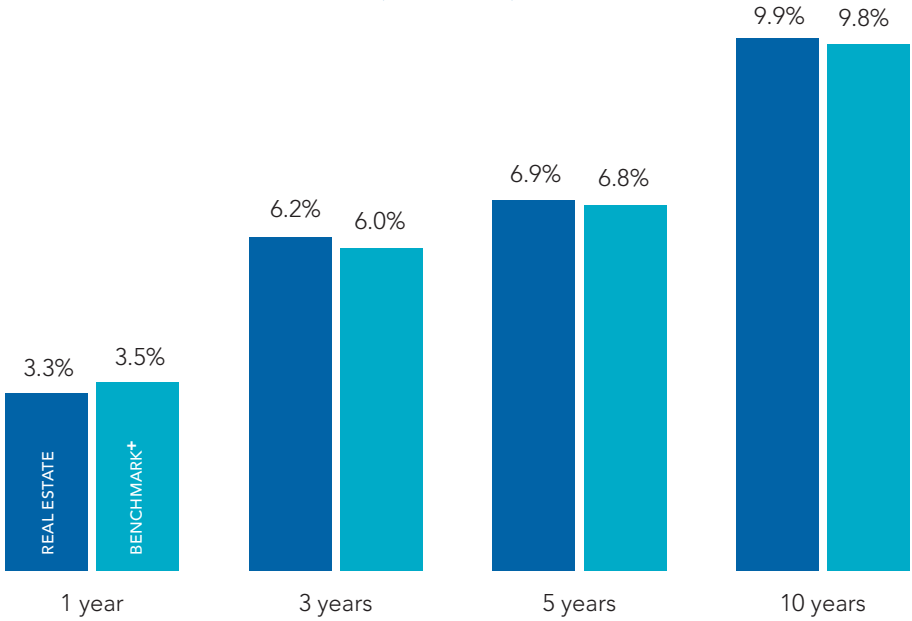
<sup>^</sup> Benchmark; Russell 3000 Index

<sup>@</sup> Benchmark; Bloomberg Barclays US Aggregate TR

## INTERNATIONAL EQUITY (AFTER FEES)



## REAL ESTATE (AFTER FEES)



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

+ Benchmark: Blended Real Estate Index

ERFC IS CONTINUOUSLY  
SUPPORTING ITS MEMBERS  
WITH RESILIENCE AND  
INNOVATION SO THAT EVERY  
MEMBER'S CAREER JOURNEY  
TO RETIREMENT IS A PATH  
THAT ULTIMATELY LEADS TO  
*FINANCIAL INDEPENDENCE.*



## KNOW YOUR PLAN

DO IT YOURSELF  
WITH ERFCDIRECT 24/7

- Run retirement benefit estimates
- Keep your personal information up-to-date
- Check your member statement annually
- and much more...

[www.fcps.edu/erfcdirect](http://www.fcps.edu/erfcdirect)

## OTHER RESOURCES

### FCPS HUMAN RESOURCES

*Active Member Health Benefits*

Search Human Resources on [fcps.edu](http://fcps.edu)

571-423-3000 | 804-649-8059

### VRS

*Calculate Your Retirement Income*

[www.varetire.org](http://www.varetire.org)

888-827-3847 | 800-333-1633

### SOCIAL SECURITY

[www.ssa.gov](http://www.ssa.gov)

800-772-1213

### MEDICARE

[www.medicare.gov](http://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  
1-844-758-3793



### FAX

703-426-3984



### EMAIL

[erfcoffice@fcps.edu](mailto:erfcoffice@fcps.edu)



### WEB

[www.fcps.edu/erfc](http://www.fcps.edu/erfc)  
[www.fcps.edu/erfcdirect](http://www.fcps.edu/erfcdirect)



FOR THE FISCAL YEAR ENDED JUNE 30, 2020

THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY  
RETIREMENT SYSTEM OF FAIRFAX COUNTY

A COMPONENT UNIT OF  
FAIRFAX COUNTY PUBLIC SCHOOLS

FAIRFAX, VIRGINIA