



Santa Barbara County Employees' Retirement System

POPULAR ANNUAL FINANCIAL REPORT

For the Fiscal Year Ending June 30, 2023

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A NOTE FROM THE CEO



DEAR MEMBERS,

SBCERS is pleased to present this annual report for the fiscal year ending June 30, 2023. The report is designed to give you an overview of the Santa Barbara County Employees' Retirement System's financial health and key issues facing our members.

Reflecting on the past year, our first full year of operation in our new facilities, we had many successes. We retired 230 valued members, counseled 572 new Active members on benefits, and processed 918 beneficiary changes (is yours up to date?) during the year. In June, we hosted the first annual Open House event that was well attended by both retired and active members.

Over the summer, we were pleased to lend a helping hand to our partners at the County of Santa Barbara by hosting several board and commission meetings for various county agencies in our Board Room. In September, we conducted a first-of-its-kind educational summit for the executive leaders of our 12 participating employers. In October, we held an in-person Open Enrollment event that was the most well-attended health fair in years. In December, we were proud to receive the GFOA certificate of excellence in financial reporting for our work on the annual comprehensive financial report which serves as the basis for this report.

The fiscal year ending June 30, 2023 saw improved market returns over the prior year. The portfolio slightly exceeded its assumed rate of return with a 7.11% increase in net assets. This was close to the median result of our peers in the pension industry and largely because of our defensive focus on risk adjusted returns and lower volatility. We are proud of the fact that we continue to outperform over the longer time periods and are in the top 25% of our peers over the three-, five- and seven-year trailing time periods. Through the first six months of the fiscal year 2024 (December 31, 2023) the fund has generated a 4.07% return. We continue to exceed our investment performance objectives on a since inception basis and your SBCERS benefit remains well-funded and secure. The most recent actuarial valuation calculated SBCERS funded ratio at 83.9%.

We look forward to hosting another member event in June of this year and hope you will come visit. In the meantime, I hope you enjoy reading this report and learning more about your retirement benefits. If you have any questions about SBCERS please do not hesitate to call or visit. You will find information on how to contact us on the last page of the report.

Sincerely,

Greg Levin, CPA
Chief Executive Officer

ABOUT SBCERS

The Santa Barbara County Employees' Retirement System ("SBCERS") was established on January 1, 1944 to provide service retirement, disability, death, and survivor benefits for all permanent full- and part-time employees of the County of Santa Barbara, Santa Barbara Superior Court, and ten other contracting participating employers.

As set forth by the Board of Retirement, SBCERS provides:

- Care, skill, and prudence in the administration of the retirement plan.
- Investment of the assets of the plan in a diversified manner which will minimize the risk of loss and maximize the rate of return.
- Hold the assets of the plan in trust for the exclusive purpose of providing benefits to plan participants and beneficiaries, minimizing employer contributions, and defraying reasonable expenses of administration.
- Provide benefit information and retirement consultations for all active and retired members prior and subsequent to retirement.

SBCERS also administers an Other Post-Employment Benefits Trust ("OPEB"), or 401(h) Retiree Health Medical Trust, that was established in September 2008.

Participating Employer	# of Active Members	# of Retired Members & Beneficiaries
County of Santa Barbara	4,063	4,846
Santa Barbara County Superior Court	213	211
Carpinteria-Summerland Fire Protection District	34	54
Santa Barbara County Air Pollution Control District (APCD)	33	76
Santa Barbara County Association of Governments (SBCAG)	18	20
Santa Maria Cemetery District	7	10
Mosquito & Vector Management District of Santa Barbara County*	6	2
Goleta Cemetery District	4	6
Summerland Sanitary District	4	3
Oak Hill Cemetery District*	3	1
Carpinteria Cemetery District	2	2
Local Agency Formation Commission (LAFCO)	2	0
Total	4,389	5,231

*These districts do not participate in the Other Post-Employment Benefits Plan.

The Santa Barbara County Employees' Retirement System is committed to fulfilling its fiduciary responsibility by providing the highest quality of service to all members and participating employers, and protecting promised benefits through prudent investing, while ensuring reasonable expenses of administration.

FINANCIAL STATUS

FIDUCIARY NET POSITION

Dollars in thousands

The Statement of Fiduciary Net Position displays the Fund's assets and liabilities as of June 30, 2023. The difference between assets and liabilities is called *net position restricted for benefits*, representing the funds available for future payments to retirees and their beneficiaries.

	Pension Fund	OPEB Fund	June 30, 2023 Total
Assets			
Investments	\$ 4,081,089	\$ 55,733	\$ 4,136,822
Cash & Cash Equivalents	41,122	1,056	42,178
Collateral Held for Securities Lent	33,912	-	33,912
Prepays & Receivables	32,663	859	33,522
Total Assets	\$ 4,188,786	\$ 57,648	\$ 4,246,434
Liabilities			
Benefits Payable	\$ 16,482	\$ -	\$ 16,482
Securities Lent	33,912	-	33,912
Other Liabilities	6,302	8	6,310
Total Liabilities	\$ 56,696	\$ 8	\$ 56,704
Net Position Restricted for Benefits	\$ 4,132,090	\$ 57,640	\$ 4,189,730

Total funds available for future benefit payments increased 6.2% from 2022 to 2023.

Net Position Restricted for Pension Benefits totaled \$4.1 billion, an increase of \$235.2 million or 6.0% from the prior year.

Net Position Restricted for Other Post-Employment Benefits (OPEB), also reported in the Statement of Fiduciary Net Position, totaled \$57.6 million, an increase of \$11 million or 23.7% from prior year.

ABOUT THE OPEB FUND

The Other Post-Employment Benefits ("OPEB") Trust Fund is a separate fund used to invest current funds toward future obligations for retiree health benefits.

Other Post-Employment Benefits are healthcare, vision, and dental benefits that a member may receive during retirement, in addition to pension benefits. The County closed the OPEB Plan to new General employees in 2012, and in 2016, to new County Safety members.

The OPEB Plan has been closed to all new employees with start dates on or after December 31, 2018. At June 30, 2023, 100% of the 4,744 eligible SBCERS retirees participated in the OPEB program.

	Benefits	Enrollees
Health Premium Subsidy	\$ 7,064	1,479
Healthcare Reimbursement Arrangement	2,215	3,265
Total	\$ 9,279	4,744

Health Premium Subsidy

Retirees who purchase participating employer-qualified health plans are eligible to receive \$15 per year of service for medical premiums.

31% of enrollees have opted for the Health Premium Subsidy.

Healthcare Reimbursement Arrangement (HRA)

Retirees who choose not to purchase a participating employer-qualified health plan receive a monthly benefit of \$4 per year of service in a health reimbursement account (HRA) to reimburse qualified healthcare expenses.

69% of enrollees have opted for the HRA benefit.

CHANGES IN NET POSITION

Dollars in thousands

The Statement of Fiduciary Net Position displays the Fund's assets and liabilities as of June 30, 2023. The difference between assets and liabilities is called *net position restricted for benefits*, representing the funds available for future payments to retirees and their beneficiaries.

	Pension Fund	OPEB Fund	June 30, 2023 Total	Pension Fund	OPEB Fund	June 30, 2022 Total	1-Year % Difference
Additions							
Employer & Employee Contributions	\$ 195,829	\$ 15,345	\$ 211,174	\$ 197,952	\$ 15,129	\$ 213,081	- 0.90 %
Net Investment Income	277,245	4,962	282,207	- 70,912	- 5,719	- 76,631	- 468.3 %
Net Securities Income	356	-	356	167	-	167	113.2%
Other Additions	183	496	679	215	474	689	- 1.5 %
Total Additions	\$ 473,613	\$ 20,803	\$ 494,416	\$ 127,422	\$ 9,884	\$ 137,306	260.1 %
Deductions							
Benefits Paid	\$ 229,393	\$ 9,279	\$ 238,672	\$ 213,237	\$ 9,259	\$ 222,496	7.3 %
Member Withdrawals	2,563	-	2,563	2,079	-	2,079	23.3 %
Administrative Expenses	6,410	502	6,912	6,162	476	6,638	4.1 %
Total Deductions	\$ 238,366	\$ 9,781	\$ 248,147	\$ 221,478	\$ 9,735	\$ 231,213	7.3 %
Net Change in Position	\$ 235,247	\$ 11,022	\$ 246,269	\$ - 94,056	\$ 149	\$ - 93,907	-362.2 %

The largest sources of assets that fund SBCERS benefits are member and employer contributions and investment returns.

- Total contributions (Pension and OPEB) decreased by \$1.9 million, driven by demographic changes in the workforce, namely, higher paid employees retiring and being replaced by younger lower paid employees that participate in less expensive retirement plans.
- Pension investment income experienced an increase because of positive market conditions, which led to a 7.11% gain on invested assets.

The primary uses of SBCERS' assets include the payment of benefits to retired members and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering SBCERS.

- Pension benefit payments increased by \$16.2 million or 7.58% due to an increase in the number of retirees and beneficiaries receiving payments, as well as a 3% cost-of-living adjustment (COLA) applied to most retirement benefits (2% for PEPR and none for Plan 2).

FUNDED STATUS

The System's funded status is

83.9%



The Funded Status, or Funded Ratio, is one indicator of the health of a pension fund. It is calculated by dividing the Plan's assets by the Plan's future liabilities. Future liabilities, or benefit obligations, are what the Plan needs to pay its members. Plan assets are used to pay for retiree benefits and are comprised of investments funded by contributions.

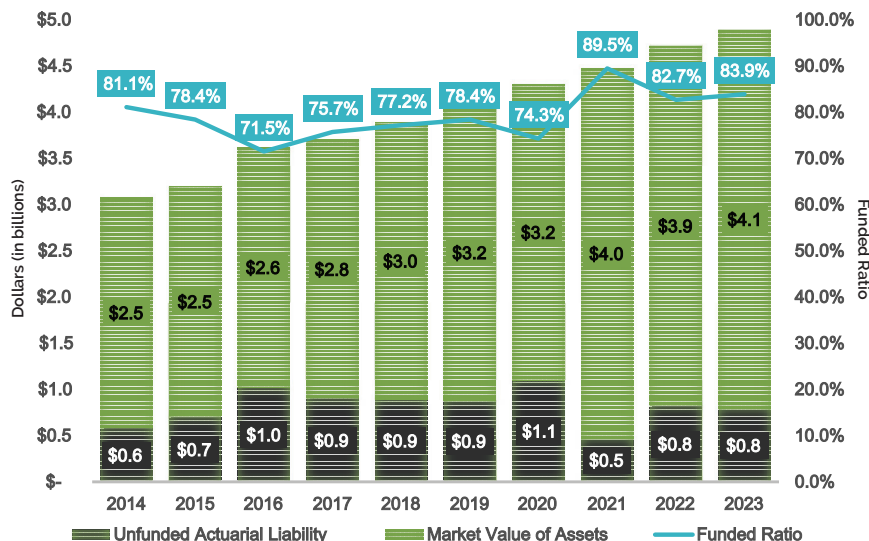
SBCERS' funded ratio, the ratio of the Market Value of Assets over the Actuarial Liability, increased from 82.7% last year to 83.9% as of June 30, 2023.

OVER THE PAST YEAR...

- The investment portfolio returned more than the 7.0% assumption (7.11%), slightly exceeding the Plan's assumed rate of return improving the Plans net position restricted for benefits.
- Projected payroll grew more than the 3.0% assumed growth rate (6.1%) bringing more money to the System since contributions are a percentage of payroll.
- Liabilities were more than expected due to active employee salary increases and because the System processed more retirements than anticipated. The effect of these increases was offset by an increased number of lower-cost PEPPA plan participants in the active population.

10-YEAR FUNDED RATIO

A plan's funded ratio is a financial snapshot of a plan's status at a single moment. Assets can change in value – they rise during good economic times and drop in recessions. It is a positive indicator for the funded ratio to remain relatively steady and gradually improve over time.



The graph to the left illustrates the funded status over the past decade. The line shows the funded ratio, with the scale shown along the right-hand axis, and the stacked columns show the market value of assets and unfunded liability, with the scale along the left-hand axis.

The liability increased in 2016 from assumption changes. The volatility in liabilities from 2020 to 2022 is due to market volatility. There was very little change in the funded ratio from last fiscal year.

INVESTMENT RESULTS

PENSION FUND PERFORMANCE

The fair value of the Pension Fund investment portfolio was \$4.08 billion as of June 30, 2023, an increase of approximately \$213 million from the previous fiscal year. The Pension Fund returned 7.11%, net of fees, and ranked in the 58th percentile among the Public Plans \$1B-\$5B peer group. The Total Fund underperformed the Policy Benchmark by 7 basis points, or 0.07%.

All asset classes were within their respective target allocation ranges as of June 30, 2023.

\$212,771,363
 INCREASE IN FAIR VALUE OF THE
 INVESTMENT PORTFOLIO
7.11%
 ANNUAL RETURN
\$4,081,089,094
 FAIR VALUE OF INVESTMENTS

BENCHMARKS

	1-Year	3-Year	5-Year	10-Year
Fund Performance	7.11%	10.47%	7.73%	7.33%
Benchmark Performance*	7.18%	8.31%	7.02%	7.26%
Difference	▼ 0.07%	▲ 2.16%	▲ 0.71%	▲ 0.07%

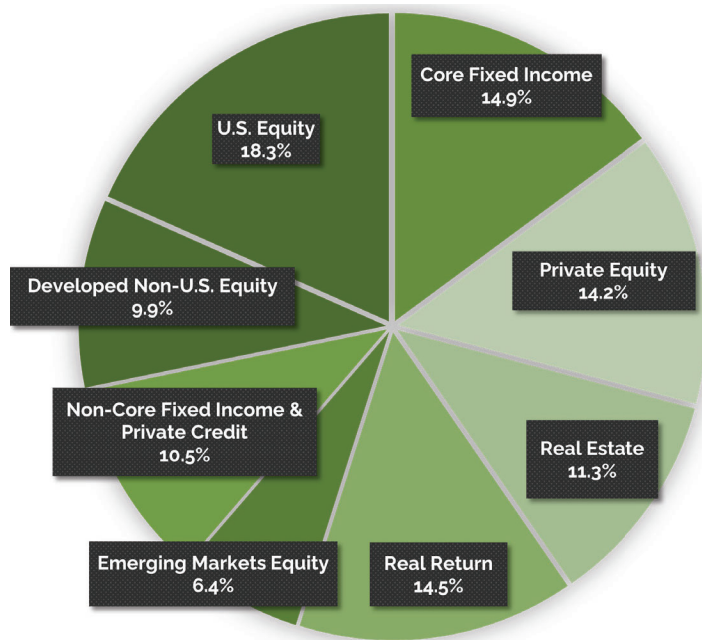
* Data provided by RVK, Inc.

Comparing actual performance to the benchmark performance is a way to measure the fund against a similarly invested portfolio.

SBCERS investments have beaten policy benchmarks on a 3-year, 5-year, and 10-year basis.

ASSET ALLOCATION & DEFINITIONS

- U.S. EQUITY:** stocks of U.S. companies
- DEVELOPED NON-U.S. EQUITY:** stocks of companies in countries such as UK, Japan, and Australia.
- EMERGING MARKETS EQUITY:** stocks of companies in countries such as Brazil, India, China, and South Africa.
- CORE FIXED INCOME:** treasury bonds and bills, municipal bonds, corporate bonds, and certificates of deposit (CDs).
- NON-CORE FIXED INCOME & PRIVATE CREDIT:** high-yield bonds, emerging-market debt, leveraged loans, real estate securities.
- REAL RETURN:** real assets include precious metals, commodities, infrastructure, land, equipment, and natural resources.
- REAL ESTATE:** commercial property such as offices, retail, apartments, and industrial, and REITs issued by companies that own and manage commercial property.
- PRIVATE EQUITY:** investments or interest in entities that are not publicly listed or traded.



Excluding Short-Term Investments

CONTRIBUTORS TO FUND PERFORMANCE

U.S. Equity, Developed International Equity, and Non-Core Fixed Income had the highest absolute performance during the fiscal year, returning 18.53%, 17.47%, and 9.82%, respectively.

DETRACTORS TO FUND PERFORMANCE

Core Fixed Income, Private Equity, and Real Estate had the lowest absolute performance during the fiscal year, returning -0.50%, 0.25%, and 0.67%, respectively.

MEMBERSHIP STATISTICS

For most plans (except General Plan 2), pension benefits are based upon a combination of plan, age, years of service, average monthly salary for the highest one or three consecutive years' covered compensation, and the benefit payment option selected by the member.

Just under 40% are active employees (4,389), with the rest in pay status (5,231) - retirees, disabled members, or beneficiaries - or eligible for a deferred benefit (1,867).

COUNT OF ALL MEMBERSHIP TYPE



ACTIVE MEMBERSHIP AS OF JUNE 30, 2023

The active membership increased by 2.6% and projected payroll increased by 6.1% from June 30, 2022 to June 30, 2023. Almost 80% of the actives are General members. The rest are Safety members.

Plan	Tier	Membership Date	Count
General (all eligible County and Special District employees, except Safety)	Plan 2	Hired on or after 7/1/1986 and before 1/10/1999.	3
	Plan 5	Hired before 6/24/2012.	1,312
	Plan 7	Hired on or after 6/25/2012 and before 1/1/2013.	103
	Plan 8	Hired on or after 1/1/2013.	2,002
Safety (all eligible employees whose principal duty is active law enforcement or active fire suppression)	Plan 4	Fire and Probation employees hired before 1/1/2013.	263
	Plan 6	Sheriff/District Attorney Investigator employees hired before 1/1/2013.	198
	Plan 8	All Safety members hired on or after 1/1/2013.	478
APCD (all eligible APCD employees)	Plan 1	Hired before 1/1/1981.	3
	Plan 2	Hired on or after 7/3/1995.	6
	Plan 8	Hired on or after 1/1/2013.	21
Total			4,389

\$96,475/YEAR

AVERAGE ACTIVE MEMBER SALARY

43.8 YEARS

AVERAGE ACTIVE MEMBER AGE

11.0 YEARS

AVERAGE YEARS OF SERVICE



71% OF ACTIVE MEMBERS ARE VESTED

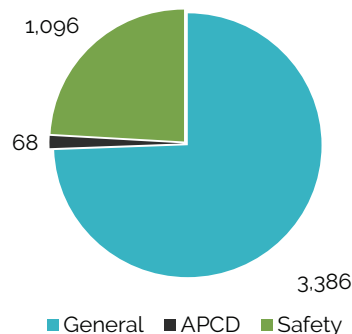
A member is vested after earning five years of County and/or reciprocal service.

RETIRED MEMBERSHIP AS OF JUNE 30, 2023

Retired members are people who have retired from an SBCERS participating employer and are currently receiving benefits. The average retired member has been retired for over 12 years and receives an annual benefit of \$49,056.

Retired Membership Type	Average Age at Retirement	Average Current Age	Average Monthly Benefit	Count
General	59.8	72.1	\$3,363	3,386
APCD	58.9	69.4	\$3,990	68
Safety	55.3	67.9	\$6,335	1,096
Total	58.8	71.0	\$ 4,088	4,550

COUNT OF RETIRED MEMBERSHIP



BENEFICIARIES & SURVIVING SPOUSES

A beneficiary is the person or people who may receive any benefits from the System in the event of the member's death. A beneficiary can be a surviving spouse, minor child(ren) or any other person having an insurable interest in the life of the member. The average beneficiary benefit is \$46,284.

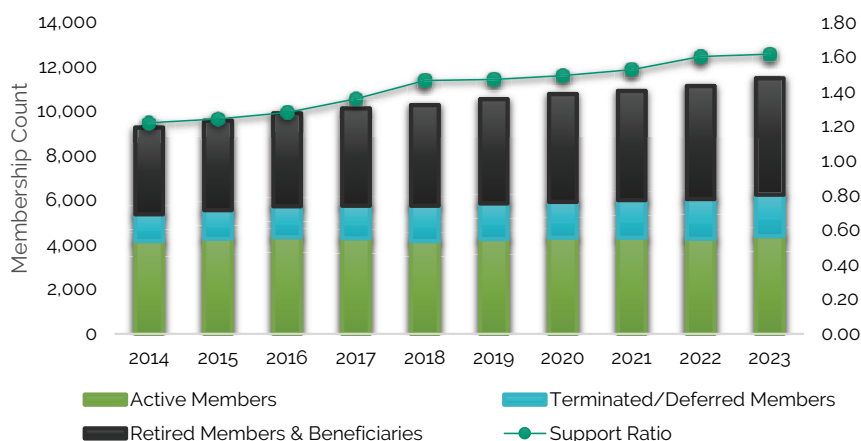
Beneficiary Type	Average Monthly Benefit	Count
General	\$1,792	466
APCD	\$2,563	8
Safety	\$3,475	207
Total	\$ 3,857	681

DID YOU KNOW... Members who are married or have a registered domestic partner, have an "automatic" beneficiary under community property laws in California. If a member wishes to designate someone other than a spouse or domestic partner as their beneficiary, SBCERS requires the member to obtain the spouse's/ domestic partner's written, notarized consent and waiver of rights.

MEMBERSHIP TOTALS OVER TIME

Shown in the table to the right, total membership in SBCERS increased by 3.1%. Active membership increased by 2.6%, terminated/deferred members increased by 4.7%, and members receiving benefits increased by 3.1%.

Membership Type	June 30, 2022	June 30, 2023	% Change
Active Members	4,279	4,389	2.6%
Terminated/Deferred Members	1,784	1,867	4.7%
Retired Members & Beneficiaries	5,075	5,231	3.1%
Total	11,138	11,487	3.1%

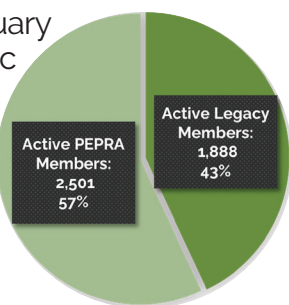


The Support Ratio is a simple measure of plan maturity. The ratio is the number of inactive members (those receiving benefits and those entitled to a deferred benefit) divided by the number of active members. The Support Ratio is expected to increase gradually as a plan matures. The chart to the left shows the growth in the Support Ratio from 2014 to 2023 as the number of active members has increased by only 5%, while the number of inactives has increased by almost 40%.

PEPRA VS. LEGACY PLAN MEMBERS

As of June 30, 2023, the newest plan tier (PEPRA) now makes up almost 60% of the active workforce.

If you were hired on or after January 1, 2013, it's likely that the Public Employees' Pension Reform Act (PEPRA) applies to you. The law changed the way SBCERS retirement benefits are applied and when members are eligible to retire:



- PEPRA members are required to contribute at least 50% of the total annual normal cost of their pension benefit.
- PEPRA members have a lower limit for their

pensionable compensation. The compensation limits for both legacy and PEPRA members do not limit the salary an employer can pay, but rather the amount of compensation considered when calculating a member's retirement. Active members do not pay contributions on earnings over the compensation limit once it is reached for the remainder of that calendar year.

- The minimum retirement age is 52 for PEPRA members compared to age 50 for legacy members.

This is an abbreviated list of differences between legacy and PEPRA plans. For more comprehensive information, visit the Summary Plan Documents at www.sbcers.org.

LEARNING POINT:

IMPLICATIONS OF LEGAL SEPARATION & DISSOLUTION OF MARRIAGE ON RETIREMENT BENEFITS

A member's retirement service credit that accrues during a marriage is considered community property under California law.

Accordingly, when an SBCERS member (active, deferred, or retired) is divorced or legally separated, the spouse's community property interest in the member's retirement account or pension benefit *must be addressed in the court judgment* allocating the community property accrued during the marriage. In order to implement that judgment, it is generally required for the parties to join SBCERS as a party to the court case and obtain a domestic relations order ("DRO") from the court dividing the parties' interest in the SBCERS retirement account or pension benefit.

In cases where the dissolution occurs prior to retirement, the member and non-member cannot begin receiving SBCERS benefits or update their beneficiaries until the DRO is finalized. If you are currently going through a dissolution process, please contact an SBCERS member services representative.

There are three ways in which community property rights in a retirement account or pension benefit are addressed:

1. Account Division for Active and Deferred Members

SBCERS follows a statutory process set forth in the County Employees' Retirement Law of 1937 ("CERL") that requires the member's retirement account be split into two separate retirement accounts. The member and non-member may then each retire separately with separate pensions and each separately control the timing of their respective refunds or retirements.

2. Account Division for Retired Members

For members who are already retired and receiving a benefit when they are legally separated or divorced, SBCERS divides the benefit being received by the member. Both the member and non-member receive a share of what had previously been paid to the member under one account. If the member dies before the non-member, the non-member's share of the benefit generally ceases. The surviving former spouse is not eligible to receive a continuance benefit following the member's death unless the member elected an optional retirement allowance and designated the former spouse as a beneficiary.

3. Waiver of Interest

The third way that retirement accounts or pension benefits may be adjudicated is for the member to retain 100 % of their retirement account or pension benefit, usually in exchange for receiving a lesser share of other community property. In such circumstances, the non-member may waive their interest in the SBCERS pension account or pension benefit, with or without joinder of SBCERS in the dissolution proceedings.

A more detailed description of the DRO process is described in a related document entitled "[Legal Separation and Dissolution of Marriage: Overview of SBCERS Guidelines & Policies](http://www.sbcers.org)" on our website at www.sbcers.org. Every case is unique, members and their spouses are encouraged to contact an SBCERS member services representative with any questions.

Although the guidelines referenced above refer throughout to dissolution or legal separation of marriage, the same standards apply to a dissolution or legal separation of a domestic partnership registered with the State of California.

SBCERS

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM

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W: www.sbcers.org
E: info@sbcers.org

Register your MySBCERS member portal account.

View your retirement account contributions and estimate your retirement benefits.

View your retiree 1099-R online.



SCAN WITH
PHONE

Sign up for upcoming seminars, including retirement planning or Open Enrollment.

Receive your Board of Retirement ballot via email.

Go to mysbcers.org or scan the QR code above with your smartphone camera to register.

UPCOMING EVENTS

JUNE: ALL MEMBER OPEN HOUSE

SBCERS welcomes you to join for a morning of mingling to learn more about your retirement benefits and the administration of SBCERS, and meet with other local organizations. The 2023 Open House featured guests from Retired Employees of Santa Barbara County (RESBC), United Way, Alzheimer's Association, Firefighters Benevolent Fund, Empower Retirement, Hearts Therapeutic, and Guide Dogs of Santa Barbara.

More details coming in Spring 2024!

OCTOBER: RETIREE OPEN ENROLLMENT

The SBCERS Retiree Open Enrollment Health Fair typically offers coffee, light breakfast snacks, free flu shots, and a raffle with giveaways. Representatives from health plan providers and SBCERS will be on-site to answer any questions.

More details coming in Fall 2024!

