

# **Alameda County Employees' Retirement Association**

**Governmental Accounting Standards Board  
(GASB) Statement 67  
Actuarial Valuation as of December 31, 2015**



This report has been prepared at the request of the Board of Retirement to assist in administering the Fund. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Retirement and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

Copyright © 2016 by The Segal Group, Inc. All rights reserved.



100 Montgomery Street Suite 500 San Francisco, CA 94104-4308  
T 415.263.8200 www.segalco.com

May 6, 2016

*Board of Retirement  
Alameda County Employees' Retirement Association  
475 14th Street, Suite 1000  
Oakland, CA 94612*

*Dear Board Members:*

*We are pleased to submit this Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2015. It contains various information that will need to be disclosed in order to comply with GASB Statement 67.*

*This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Association. The census and financial information on which our calculations were based was prepared by ACERA. That assistance is gratefully acknowledged.*

*The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.*

*The actuarial calculations were completed under the supervision of Eva Yum, FSA, MAAA, Enrolled Actuary. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and expectations for the Association.*

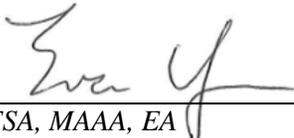
*We look forward to reviewing this report with you and to answering any questions.*

*Sincerely,*

*Segal Consulting, a Member of The Segal Group, Inc.*

By:

  
\_\_\_\_\_  
Andy Yeung, ASA, MAAA, FCA, EA  
Vice President and Actuary

  
\_\_\_\_\_  
Eva Yum, FSA, MAAA, EA  
Associate Actuary

MAM/bqb

5419323v5/05579.117

## SECTION 1

### VALUATION SUMMARY

|   |    |
|---|----|
| Purpose .....   | i  |
| Significant Issues in Valuation<br>Year.....              | i  |
| Summary of Key Valuation<br>Results.....                  | iv |
| Important Information about<br>Actuarial Valuations ..... | v  |

## SECTION 2

### GASB 67 INFORMATION

|  |    |
|--|----|
| EXHIBIT 1<br>General Information – “Financial<br>Statements”, Note Disclosures and<br>Required Supplementary<br>Information for a Cost-sharing<br>Pension Plan ..... | 1  |
| EXHIBIT 2<br>Net Pension Liability .....   | 5  |
| EXHIBIT 3<br>Schedule of Changes in Net<br>Pension Liability – Last Two<br>Fiscal Years .....  | 8  |
| EXHIBIT 4<br>Schedule of Contributions – Last<br>Ten Fiscal Years .....  | 9  |
| EXHIBIT 5<br>Projection of Pension Plan’s<br>Fiduciary Net Position for use in<br>Calculation of Discount Rate as of<br>December 31, 2015 .....                      | 12 |

## **SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association**

---

### **Purpose**

This report has been prepared by Segal Consulting to present certain disclosure information required by Governmental Accounting Standards Board (GASB) Statement 67 as of December 31, 2015. This valuation is based on:

- The benefit provisions of the Retirement Association, as administered by the Board of Retirement;
- The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of November 30, 2014, provided by the Retirement Association;
- The assets of the Plan as of December 31, 2015, provided by the Retirement Association;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

### **Significant Issues in Valuation Year**

The following key findings were the result of this actuarial valuation:

- The Governmental Accounting Standards Board (GASB) rules only redefine pension liability and expense for financial reporting purposes, and do not apply to contribution amounts for pension funding purposes. Employers and plans can still develop and adopt funding policies under current practices.
- When measuring pension liability, GASB uses the same actuarial cost method (Entry Age) and the same type of discount rate (expected return on assets) as ACERA uses for funding. This means that the Total Pension Liability (TPL) measure for financial reporting shown in this report is determined on generally the same basis as ACERA's Actuarial Accrued Liability (AAL) measure for funding. We note that the same is generally true for the Normal Cost component of the annual plan cost for funding and financial reporting.
- The Net Pension Liability (NPL) is equal to the difference between the TPL and the Plan's Fiduciary Net Position. The Plan's Fiduciary Net Position is equal to the market value of assets and therefore, the NPL measure is very similar to an Unfunded Actuarial Accrued Liability (UAAL) calculated on a market value basis. It should be noted that in determining the Plan's Fiduciary Net Position, we have included either 50% of any deferred market gains or a proportion of any

## SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association

---

deferred investment losses after netting out the Contingency Reserve<sup>1</sup> that is commensurate with the size of the valuation reserves<sup>2</sup> that would be available to the Pension Plan.

- As we disclosed in our December 31, 2015 funding valuation report, the 7.60% investment return assumption that the Board previously approved for determining the liabilities for funding purposes and used for establishing the employer and employee contribution rates has continued to be developed without considering the impact of any future 50/50 excess earnings allocation. This is based on our understanding that Article 5.5 of the Statute, which authorizes the allocation of 50% of excess earnings to the SRBR, does not allow for the use of a different investment return for funding than is used for interest crediting. This would appear in effect to preclude the prefunding of the SRBR through the use of an assumption lower than the market earnings assumption of 7.60%.

As required by the Actuarial Standard of Practice (ASOP) No. 4 (“Measuring Pension Obligations and Determining Pension Plan Costs or Contributions”), we performed a stochastic model in 2013 to estimate the impact of the 50% allocation of future excess earnings to the SRBR. The results of our model indicated that the 50/50 allocation of future excess earnings would have about the same impact as an “outflow” (i.e., assets not available to fund the benefits included in the determination of the TPL) that would average approximately 0.75% of assets over time. This approximated outflow was incorporated into our GASB crossover test<sup>3</sup> (Exhibit 5), along with the additional future employer contributions that would result from those future allocations of excess earnings to the SRBR under ACERA’s funding policy.

- The NPLs measured as of December 31, 2015 and 2014 were determined by rolling forward the TPLs for the funded benefits as of December 31, 2014 and December 31, 2013, respectively. In addition, we adjusted both the TPL and the Plan Fiduciary Net Position to include an additional \$33.7 million and \$37.6 million as of December 31, 2015 and December 31, 2014, respectively. The \$33.7 million as of December 31, 2015 has been calculated by (a) taking the \$35.2 million set aside by the Retirement Board in the SRBR reserve to pay non-vested Supplemental COLA and retired member death benefits<sup>4</sup> as of December 31, 2015 and (b) offsetting that by \$1.5 million, to reflect the proportion of the net deferred

---

<sup>1</sup> The recognition of the net deferred investment losses would result in an interest crediting rate that is less than 7.60% per year.

<sup>2</sup> For example, 50% of the deferred market gains as of December 31, 2014 is equal to \$121.4 million, whereas the proportionate share of the deferred market losses after netting out the Contingency Reserve as of December 31, 2015 is equal to \$263.8 million.

<sup>3</sup> The purpose of the GASB crossover test is to determine if the full expected return (or 7.60% in this case) can be used as the discount rate to determine the TPL and the NPL. That is, if there is no crossover point where the projected benefit payments would exceed the plan’s fiduciary net position, then the full expected return assumption can be used. As detailed later in this report, ACERA does pass the crossover test, which means that the full 7.60% investment rate of return assumption can be used as the discount rate to determine the TPL and the resulting NPL.

<sup>4</sup> We have excluded the liability and the assets associated with the OPEB component of the SRBR reserve account because it is our understanding that those amounts are reportable under GASB 43/45.

## SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association

---

investment losses that is commensurate with the size of those reserves, which causes the interest crediting rate to the SRBR reserve to drop below 7.60% per year. The \$37.6 million as of December 31, 2014 has been calculated by (a) taking the \$32.6 million set aside by the Retirement Board in the SRBR reserve to pay non-vested Supplemental COLA and retired member death benefits as of December 31, 2014 and (b) adding \$5.0 million to reflect the proportion of the net deferred investment gains that is commensurate with the size of those reserves.

- The NPL increased from \$1,741 million as of December 31, 2014 to \$2,118 million as of December 31, 2015 primarily as a result of (i) the unfavorable investment results during calendar year 2015 of about \$396 million, offset somewhat by (ii) the gains from lower than expected active salary increases during 2014 (because liabilities are rolled forward from December 31, 2014 to December 31, 2015, these gains are first reported in the December 31, 2015 results). Changes in these values during the last two fiscal years ending December 31, 2014 and December 31, 2015 can be found in Exhibit 3.
- The discount rate used to determine the TPL and NPL as of December 31, 2015 and 2014 was 7.60%, based on the assumption that was used by the Association in the pension funding valuations as of those dates. The detailed calculations of the discount rate of 7.60% used in the calculation of the TPL and NPL as of December 31, 2015 can be found in Exhibit 5 of Section 2. Various other information that is required to be disclosed can be found throughout Exhibits 1 through 4 in Section 2.

**SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association**

**Summary of Key Valuation Results**

|   | <b>2015</b>  | <b>2014</b>  |
|---|--|--|
| <b>Disclosure elements for plan year ending December 31:</b>            |  |  |
| Service cost <sup>(1)</sup>   | \$172,584,860  | \$167,119,699  |
| Total Pension Liability   | 7,971,890,739  | 7,653,068,752  |
| Plan Fiduciary Net Position   | 5,853,442,721  | 5,912,426,212  |
| Net Pension Liability   | 2,118,448,018  | 1,740,642,540  |
| <b>Schedule of contributions for plan year ending December 31:</b>      |  |  |
| Actuarially determined contributions                                    | \$224,607,104  | \$213,254,775  |
| Actual contributions  | 224,607,104  | 213,254,775  |
| Contribution deficiency (excess)  | 0  | 0  |
| <b>Demographic data for plan year ending December 31:<sup>(2)</sup></b> |  |  |
| Number of retired members and beneficiaries                             | 8,990  | 8,813  |
| Number of vested terminated members <sup>(3)</sup>                      | 2,027  | 1,995  |
| Number of active members  | 11,071   | 11,025   |
| <b>Key assumptions as of December 31:</b>                               |  |  |
| Investment rate of return   | 7.60%  | 7.60%  |
| Inflation rate  | 3.25%  | 3.25%  |
| Projected salary increases <sup>(4)</sup>                               | General: 7.45% to 4.15% and<br>Safety: 10.45% to 4.45% | General: 7.45% to 4.15% and<br>Safety: 10.45% to 4.45% |

<sup>(1)</sup> Service cost is always based on the previous year's assumptions, meaning the 2015 service cost is based on those assumptions shown as of December 31, 2014, whereas the 2014 service cost is based on the December 31, 2013 assumptions shown below:

| <b>Key assumptions as of December 31:</b> | <b>2013</b>   |
|---|---|
| Investment rate of return                 | 7.80%   |
| Inflation rate                            | 3.50%   |
| Projected salary increases*               | General: 7.20% to 4.60% and Safety: 10.20% to 4.70% |

\* Includes inflation at 3.50% plus real across the board salary increases of 0.50% plus merit and promotional increases.

<sup>(2)</sup> Data as of December 31, 2014 is used in the measurement of the TPL as of December 31, 2015.

<sup>(3)</sup> Includes members who left their contributions on deposit even though they have less than five years of service.

<sup>(4)</sup> Includes inflation at 3.25% plus real across-the-board salary increases of 0.50% plus merit and longevity increases.

## SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association

---

### Important Information about Actuarial Valuations

In order to prepare an actuarial valuation, Segal Consulting (“Segal”) relies on a number of input items. These include:

- **Plan of benefits** Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan description in this report (as well as the plan summary included in our funding valuation report) to confirm that Segal has correctly interpreted the plan of benefits.
- **Participant data** An actuarial valuation for a plan is based on data provided to the actuary by ACERA. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
- **Assets** This valuation is based on the market value of assets as of the valuation date, as provided by ACERA.
- **Actuarial assumptions** In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments. The projected benefits are then discounted to a present value, based on the assumed rate of return that is expected to be achieved on the plan’s assets. There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results, that does not mean that the previous assumptions were unreasonable.

The user of Segal’s actuarial valuation (or other actuarial calculations) should keep the following in mind:

- The valuation is prepared at the request of the Board to assist the sponsors of the Fund in preparing items related to the pension plan in their financial reports. Segal is not responsible for the use or misuse of its report, particularly by any other party.
- An actuarial valuation is a measurement of the plan’s assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

## **SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association**

---

- If the ACERA is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.
- Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The Board should look to their other advisors for expertise in these areas.

As Segal Consulting has no discretionary authority with respect to the management or assets of ACERA, it is not a fiduciary in its capacity as actuaries and consultants with respect to ACERA.

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

---

**EXHIBIT 1**

**General Information – “Financial Statements”, Note Disclosures and Required Supplementary Information for a Cost-Sharing Pension Plan**

---

**Plan Description**

*Plan administration.* The Alameda County Employees' Retirement Association (ACERA) was established by the Alameda County Board of Supervisors in 1947. ACERA is administered by the Board of Retirement and governed by the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et. seq.). ACERA is a cost-sharing, multiple employer, defined benefit, public employee retirement system whose main function is to provide service retirement, disability, death, and survivor benefits to the General and Safety members employed by the County of Alameda. ACERA also provides retirement benefits to the employee members of First 5 Alameda County, Housing Authority of the County of Alameda, Alameda Health System, Livermore Area Recreation and Park District (LARPD), Superior Court of California—County of Alameda, and Alameda County Office of Education.

The management of ACERA is vested with the ACERA Board of Retirement. The Board consists of nine members and two alternates. The County Treasurer is a member of the Board of Retirement by law and is elected by the general public. Four members are appointed by the Board of Supervisors, one of whom may be a County Supervisor. Two active members are elected by the General members; one active member and one alternate are elected by the Safety members; one retired member and one alternate are elected by the retired members. All members of the Board of Retirement serve terms of three years except for the County Treasurer whose term runs concurrent with his term as County Treasurer.

*Plan membership.* At December 31, 2015, pension plan membership consisted of the following:

|  |               |
|--|---------------|
| Retired members or beneficiaries currently receiving benefits                        | 8,990         |
| Vested terminated members entitled to, but not yet receiving benefits <sup>(1)</sup> | 2,027         |
| Active members   | <u>11,071</u> |
| Total  | 22,088        |

<sup>(1)</sup> Includes terminated members due a refund of member contributions.

Note: Data as of December 31, 2015 is not used in the measurement of the TPL as of December 31, 2015.

*Benefits provided.* ACERA provides service retirement, disability, death, and survivor benefits to eligible employees. The first date of ACERA membership varies by employer, as follows:

## SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association

---

- Alameda County, Alameda Health System and Alameda Superior Court Employees: Membership for these employees is effective on the first day of the second pay period following the employee's hire date in an ACERA-covered position. This is the date of entry into ACERA membership. As of the date of entry, payroll deductions for retirement contributions begin and service credit for each hour worked is earned. During the short period between the beginning of employment and the ACERA plan date of entry, the employee does not pay contributions or earn service credit. A member may purchase this service credit (referred to as "days prior to entry") any time before retirement without changing the membership, but date of entry does not change.
- Housing Authority and Livermore Area Recreation and Park District Employees: Membership for these employees is effective on the first day of employee's hire in an ACERA covered position. The first date of employment is the date of entry into ACERA membership. As of this date of entry, payroll deductions for retirement contributions begin and service credit for each hour work is earned.
- First 5 Employees: Membership for these employees is effective on the first day of the second pay period following the employee's hire date.
- Office of Education Employees: This is a closed plan with one employee (i.e., there is no new ACERA membership). Membership for this employee is the first day of the second month following employee's hire date.

There are separate retirement benefits for General and Safety members. Safety membership is extended to those involved in active law enforcement, deferred firefighters, or positions that have been designated as Safety by the Board of Retirement (e.g. Juvenile Hall Group Counselor, Probation Officer, etc.). All other employees are classified as General members.

Any new member who becomes a member on or after January 1, 2013 is placed into Tier 4 and is subject to the provisions of California Public Employees' Pension Reform Act of 2013 (PEPRA), California Government Code 7522 et seq. and Assembly Bill (AB) 197.

General members enrolled in Tiers 1, 2, or 3 are eligible to retire once they attain the age of 70 regardless of service or at age 50 with five or more years of retirement service credit and a total of 10 years of qualifying membership. A non-Tier 4 General member with 30 years of service is eligible to retire regardless of age. General members enrolled in Tier 4 are eligible to retire once they have attained the age of 52 and have acquired five years of retirement service credit, or at age 70 regardless of service.

Safety members enrolled in Tiers 1, 2, 2C, or 2D are eligible to retire once they attain the age of 70 regardless of service or at age 50 with five or more years of retirement service credit and a total of 10 years of qualifying membership. A non-Tier 4 Safety member with 20 years of service is eligible to retire regardless of age. Safety members enrolled in Tier 4 are

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

eligible to retire once they have attained the age of 50 and have acquired five years of retirement service credit, or at age 70 regardless of service.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

The tiers and their basic provisions are listed below:

| <u>Tier Name</u> | <u>Service Retirement Governing Code Section</u> | <u>Effective Date</u> | <u>Basic Provisions</u>        | <u>Final Average Salary Period</u> | <u>Plan Sponsors</u> |
|------------------|--|-----------------------|--------------------------------|------------------------------------|----------------------|
| General Tier 1   | §31676.12  | Various               | 2.0% at 57; maximum<br>3% COLA | Highest 1-year                     | All                  |
| General Tier 2   | §31676.1   | June 30, 1983*        | 2.0% at 61; maximum<br>2% COLA | Highest 3-years                    | All except<br>LARPD  |
| General Tier 3   | §31676.18  | October 1, 2008       | 2.5% at 55; maximum<br>3% COLA | Highest 1-year                     | LARPD                |
| General Tier 4   | §7522.20(a)                                      | January 1, 2013       | 2.5% at 67; maximum<br>2% COLA | Highest 3-years                    | All                  |
| Safety Tier 1    | §31664.1   | Various               | 3.0% at 50; maximum<br>3% COLA | Highest 1-year                     | County               |
| Safety Tier 2    | §31664.1   | June 30, 1983         | 3.0% at 50; maximum<br>2% COLA | Highest 3-years                    | County               |
| Safety Tier 2C   | §31664   | October 17, 2010      | 2.6% at 55; maximum<br>2% COLA | Highest 3-years                    | County               |
| Safety Tier 2D   | §31664.2   | October 17, 2010      | 3.0% at 55; maximum<br>2% COLA | Highest 3-years                    | County               |
| Safety Tier 4    | §7522.25(d)                                      | January 1, 2013       | 2.7% at 57; maximum<br>2% COLA | Highest 3-years                    | County               |

\* For Housing Authority members, the effective date is September 30, 2011.

## **SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

---

For members enrolled in Tiers 1, 2, 2C, 2D, or 3, the maximum monthly retirement allowance is 100% of final compensation. There is no maximum for members enrolled in Tier 4.

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

ACERA provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustment, based upon the Consumer Price Index for the San Francisco-Oakland-San Jose Area (with 1982-84 as the base period), is capped at 3.0% for General Tiers 1 and 3 and Safety Tier 1, and at 2.0% for General Tiers 2 and 4 and Safety Tiers 2, 2C, 2D, and 4.

The County of Alameda and the other participating agencies contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from ACERA's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of December 31, 2015 for 2015 (based on the December 31, 2013 valuation for the second half of 2014/2015 and on the December 31, 2014 valuation for the first half of 2015/2016) was 23.75% of compensation.

Members are required to make contributions to ACERA regardless of the retirement plan or tier in which they are included. The average member contribution rate as of December 31, 2015 for 2015 (based on the December 31, 2013 valuation for the second half of 2014/2015 and on the December 31, 2014 valuation for the first half of 2015/2016) was 8.77% of compensation.

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

**EXHIBIT 2**

**Net Pension Liability**

The components of the Net Pension Liability are as follows:

|  | <b>December 31, 2015</b> | <b>December 31, 2014</b> |
|--|--------------------------|--------------------------|
| Total Pension Liability  | \$7,971,890,739          | \$7,653,068,752          |
| Plan Fiduciary Net Position  | <u>5,853,442,721</u>     | <u>5,912,426,212</u>     |
| Net Pension Liability  | \$2,118,448,018          | \$1,740,642,540          |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 73.43%                   | 77.26%                   |

The Net Pension Liability was measured as of December 31, 2015 and 2014. Plan Fiduciary Net Position (plan assets) was valued as of the measurement date while the Total Pension Liability was determined based upon rolling forward the Total Pension Liability from actuarial valuations as of December 31, 2014 and 2013, respectively.

*Plan provisions.* The plan provisions used in the measurement of the NPL are the same as those used in ACERA's funding valuations as of December 31, 2014 and December 31, 2013, respectively.

*Actuarial assumptions.* The Total Pension Liabilities as of December 31, 2015 and December 31, 2014 were determined by actuarial valuations as of December 31, 2014 and December 31, 2013, respectively. The actuarial assumptions used to develop the December 31, 2015 and December 31, 2014 TPLs are the same assumptions used in the December 31, 2015 and 2014 funding valuations for ACERA, respectively. In particular, the following actuarial assumptions were applied to all periods included in the measurement:

|                           | <b><u>December 31, 2015 and December 31, 2014</u></b>   |
|---------------------------|---|
| Inflation                 | 3.25%   |
| Salary increases          | General: 7.45% to 4.15% and Safety: 10.45% to 4.45%, vary by service, including inflation         |
| Investment rate of return | 7.60%, net of pension plan investment expense, including inflation                                |
| Other assumptions         | See analysis of actuarial experience during the period December 1, 2010 through November 30, 2013 |

The long-term expected rate of return on pension plan investments for funding valuation purposes was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The returns are combined to produce the

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

---

long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

| <b>Asset Class</b>             | <b>Target Allocation</b> | <b>Long-Term Expected Real Rate of Return</b> |
|--------------------------------|--------------------------|---|
| Domestic Large Cap Equity      | 25.60%                   | 5.91%   |
| Domestic Small Cap Equity      | 6.40%                    | 6.47%   |
| Developed International Equity | 20.25%                   | 6.88%   |
| Emerging Market Equity         | 6.75%                    | 8.24%   |
| U.S. Core Fixed Income         | 11.25%                   | 0.73%   |
| High Yield Bonds               | 1.50%                    | 2.67%   |
| International Bonds            | 2.25%                    | 0.42%   |
| Real Estate                    | 6.00%                    | 4.95%   |
| Commodities                    | 2.00%                    | 4.25%   |
| Absolute Return (Hedge Fund)   | 7.50%                    | 3.17%   |
| Real Return                    | 3.00%                    | 0.70%   |
| Private Equity                 | <u>7.50%</u>             | 11.94%  |
| <b>Total</b>                   | 100.00%                  |   |

*Discount rate:* The discount rate used to measure the Total Pension Liability was 7.60% as of December 31, 2015 and December 31, 2014. Our understanding is that Article 5.5 of the Statute, which authorizes the allocation of 50% of excess earnings to the SRBR, does not allow for the use of a different investment return assumption for funding than is used for interest crediting. In order to reflect the provisions of Article 5.5, we have treated future allocations to the SRBR as an additional outflow against the Plan's Fiduciary Net Position in the GASB crossover test, as mentioned earlier in Section 1. While this is exactly the same method we used in preparing our GASB 67 report as of December 31, 2014, this method is currently under review and may be changed by the Board in a subsequent valuation. We have estimated that the additional outflow would average approximately 0.75% of assets over time, based on the results of our stochastic modeling of the 50% allocation of future excess earnings to the SRBR.

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

---

The projection of cash flows used to determine the discount rate assumes plan member contributions will be made at the current member contribution rates, and that employer contributions will be made at rates equal to the actuarially determined contribution rates<sup>5</sup> plus additional future contributions that would follow from the future allocation of excess earnings to the SRBR. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability as of both December 31, 2015 and December 31, 2014.

*Sensitivity of the Net Pension Liability to changes in the discount rate.* The following presents the Net Pension Liability as of December 31, 2015, calculated using the discount rate of 7.60%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

|   | <b>1% Decrease<br/>(6.60%)</b> | <b>Current<br/>Discount Rate<br/>(7.60%)</b> | <b>1% Increase<br/>(8.60%)</b> |
|---|--------------------------------|--|--------------------------------|
| Net Pension Liability as of December 31, 2015 | \$3,089,232,532                | \$2,118,448,018                              | \$1,308,115,611                |

---

<sup>5</sup> For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included.

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

**EXHIBIT 3**

**Schedule of Changes in Net Pension Liability – Last Two Fiscal Years**

|   | <b>2015</b>                  | <b>2014</b>            |
|---|------------------------------|------------------------|
| <b>Total Pension Liability</b>  |                              |                        |
| Service cost  | \$172,584,860                | \$167,119,699          |
| Interest  | 579,500,335                  | 542,377,025            |
| Change of benefit terms   | 0                            | 0                      |
| Differences between expected and actual experience                                | -31,964,793                  | -85,378,608            |
| Changes of assumptions  | 0                            | 431,863,478            |
| Benefit payments, including refunds of employee contributions                     | <u>-401,298,415</u>          | <u>-378,689,492</u>    |
| <b>Net change in Total Pension Liability</b>                                      | <u>\$318,821,987</u>         | <u>\$677,292,102</u>   |
| <b>Total Pension Liability – beginning</b>  | <u>7,653,068,752</u>         | <u>6,975,776,650</u>   |
| <b>Total Pension Liability – ending (a)</b>                                       | <u>\$7,971,890,739</u>       | <u>\$7,653,068,752</u> |
| <b>Plan Fiduciary Net Position</b>  |                              |                        |
| Contributions – employer  | \$224,607,104                | \$213,254,775          |
| Contributions – employee  | 82,948,934                   | 79,714,187             |
| Net investment income   | 49,020,511                   | 318,245,465            |
| Benefit payments, including refunds of employee contributions                     | -401,298,415                 | -378,689,492           |
| Administrative expense  | -14,261,625                  | -13,854,830            |
| Other   | <u>0</u>                     | <u>0</u>               |
| <b>Net change in Plan Fiduciary Net Position</b>                                  | <u>-\$58,983,491</u>         | <u>\$218,670,105</u>   |
| <b>Plan Fiduciary Net Position<sup>(1)</sup> – beginning</b>                      | <u>5,912,426,212</u>         | <u>5,693,756,107</u>   |
| <b>Plan Fiduciary Net Position<sup>(1)</sup> – ending (b)</b>                     | <u>\$5,853,442,721</u>       | <u>\$5,912,426,212</u> |
| <b>Net Pension Liability – ending (a) – (b)</b>                                   | <u>\$2,118,448,018</u>       | <u>\$1,740,642,540</u> |
| <b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b> | 73.43%                       | 77.26%                 |
| <b>Covered employee payroll<sup>(2)</sup></b>                                     | \$945,858,017 <sup>(3)</sup> | \$886,924,862          |
| <b>Plan Net Pension Liability as percentage of covered employee payroll</b>       | 223.97%                      | 196.26%                |

<sup>(1)</sup> Market value of assets, less OPEB-related SRBR assets (OPEB-related SRBR assets include a proportionate share of the deferred market losses after netting out the Contingency Reserve as of December 31, 2015 and 50% of the deferred market gains as of December 31, 2014, both reduced on a proportional basis relative to the total actual balances in the OPEB and non-OPEB reserves).

<sup>(2)</sup> Covered employee payroll shown represents Compensation Earnable and Pensionable Compensation. Only Compensation Earnable and Pensionable Compensation that would possibly go into the determination of retirement benefits are included.

<sup>(3)</sup> ACERA indicated that this amount is based on 27 pay periods for 2015.

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

**EXHIBIT 4**

**Schedule of Contributions – Last Ten Fiscal Years**

| <b>Year Ended<br/>December 31</b> | <b>Actuarially<br/>Determined<br/>Contributions</b> | <b>Contributions in<br/>Relation to the<br/>Actuarially<br/>Determined<br/>Contributions</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Covered<br/>Employee<br/>Payroll<sup>(1)</sup></b> | <b>Contributions as<br/>a Percentage of<br/>Covered Employee<br/>Payroll</b> |
|-----------------------------------|---|--|---|---|--|
| 2006                              | \$127,095,644                                       | \$127,095,644  | \$0   | \$708,162,267   | 17.95%   |
| 2007                              | 130,039,582   | 130,039,582  | 0   | 757,852,846   | 17.16%   |
| 2008                              | 129,660,363   | 129,660,363  | 0   | 810,712,790   | 15.99%   |
| 2009                              | 132,198,602   | 132,198,602  | 0   | 838,141,323   | 15.77%   |
| 2010                              | 147,543,301   | 147,543,301  | 0   | 839,617,361   | 17.57%   |
| 2011                              | 162,879,221   | 162,879,221  | 0   | 837,482,162   | 19.45%   |
| 2012                              | 179,648,812   | 179,648,812  | 0   | 845,932,592   | 21.24%   |
| 2013                              | 191,180,146   | 191,180,146  | 0   | 853,349,657   | 22.40%   |
| 2014                              | 213,254,775   | 213,254,775  | 0   | 886,924,862   | 24.04%   |
| 2015                              | 224,607,104   | 224,607,104  | 0   | 945,858,017 <sup>(2)</sup>                            | 23.75%   |

<sup>(1)</sup> Covered employee payroll shown represents Compensation Earnable and Pensionable Compensation. Only Compensation Earnable and Pensionable Compensation that would possibly go into the determination of retirement benefits are included.

<sup>(2)</sup> ACERA indicated that this amount is based on 27 pay periods for 2015.

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

---

**Notes to Exhibit 4**

---

**Methods and assumptions used to establish "actuarially determined contribution" rates:**

|                                      |   |
|--------------------------------------|---|
| <b>Valuation date</b>                | Actuarially determined contribution rates for the first six months of calendar year 2015 (or the second half of fiscal year 2014/2015) are calculated based on the December 31, 2013 valuation. Actuarially determined contribution rates for the last six months of calendar year 2015 (or the first half of fiscal year 2015/2016) are calculated based on the December 31, 2014 valuation.   |
| <b>Actuarial cost method</b>         | Entry Age Actuarial Cost Method   |
| <b>Amortization method</b>           | Level percent of payroll (3.75% payroll growth assumed)   |
| <b>Remaining amortization period</b> |   |
| December 31, 2013 valuation          | Prior to January 1, 2012, the total UAAL was amortized on a 30-year decreasing period, with 21 years remaining as of December 31, 2011 (and 19 years remaining as of December 31, 2013). On or after January 1, 2012, any new UAAL resulting from plan amendments are amortized over separate decreasing 15-year periods; early retirement incentive programs (ERIPs) are amortized over separate decreasing 5-year periods; assumption and method changes are amortized over separate decreasing 20-year periods; and experience gains/losses are also amortized over separate decreasing 20-year periods. |
| December 31, 2014 valuation          | Prior to January 1, 2012, the total UAAL was amortized on a 30-year decreasing period, with 21 years remaining as of December 31, 2011 (and 18 years remaining as of December 31, 2014). On or after January 1, 2012, any new UAAL resulting from plan amendments are amortized over separate decreasing 15-year periods; early retirement incentive programs (ERIPs) are amortized over separate decreasing 5-year periods; assumption and method changes are amortized over separate decreasing 20-year periods; and experience gains/losses are also amortized over separate decreasing 20-year periods. |
| <b>Asset valuation method</b>        | The actuarial value of assets is determined by recognizing any difference between the actual and the expected market return over 10 six-month interest crediting periods. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.   |

---

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

---

**Notes to Exhibit 4 - continued**

| <b>Actuarial assumptions:</b>          | <b>December 31, 2013 Valuation</b>  | <b>December 31, 2014 Valuation</b>  |
|--|---|---|
| Investment rate of return              | 7.80%, net of pension plan investment expense, including inflation  | 7.60%, net of pension plan investment expense, including inflation  |
| Inflation rate                         | 3.50%   | 3.25%   |
| Real across-the-board salary increases | 0.50%   | 0.50%   |
| Projected salary increases             | General: 7.20% to 4.60% and Safety: 10.20% to 4.70%, vary by service, including inflation   | General: 7.45% and 4.15% and Safety: 10.45% to 4.45%, vary by service, including inflation  |
| Cost of living adjustments             | 3.00% of retirement income for General Tiers 1 and 3, and Safety Tier 1; 2.00% for General Tiers 2 and 4, and Safety Tiers 2, 2C, 2D, and 4 | 3.00% of retirement income for General Tiers 1 and 3, and Safety Tier 1; 2.00% for General Tiers 2 and 4, and Safety Tiers 2, 2C, 2D, and 4 |
| Other assumptions                      | Same as those used in the December 31, 2013 funding actuarial valuation   | Same as those used in the December 31, 2014 funding actuarial valuation   |

**SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association**

**EXHIBIT 5**

**Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of December 31, 2015**

**(\$ in millions)**

| <b>Year<br/>Beginning<br/>January 1,</b> | <b>Projected Beginning<br/>Plan Fiduciary<br/>Net Position<br/>(a)</b> | <b>Projected<br/>Total<br/>Contributions<br/>(b)</b> | <b>Projected<br/>Benefit<br/>Payments<br/>(c)</b> | <b>Projected<br/>Administrative<br/>Expenses<br/>(d)</b> | <b>Projected<br/>Investment<br/>Earnings<br/>(e)</b> | <b>Projected Ending<br/>Plan Fiduciary<br/>Net Position<br/>(f) = (a) + (b) - (c) - (d) + (e)</b> |
|--|--|--|---|--|--|---|
| 2015                                     | 5,912  | 308  | 401   | 14   | 49   | 5,853   |
| 2016                                     | 5,853  | 305  | 485   | 14   | 435  | 6,095   |
| 2017                                     | 6,095  | 311  | 509   | 15   | 452  | 6,334   |
| 2018                                     | 6,334  | 316  | 535   | 15   | 470  | 6,569   |
| 2019                                     | 6,569  | 331  | 561   | 16   | 487  | 6,811   |
| 2020                                     | 6,811  | 349  | 588   | 16   | 505  | 7,060   |
| 2021                                     | 7,060  | 360  | 615   | 17   | 523  | 7,312   |
| 2022                                     | 7,312  | 368  | 644   | 18   | 541  | 7,559   |
| 2023                                     | 7,559  | 376  | 673   | 18   | 559  | 7,802   |
| 2024                                     | 7,802  | 384  | 702   | 19   | 577  | 8,042   |
| 2039                                     | 9,584  | 248  | 1,048   | 23   | 692  | 9,454   |
| 2040                                     | 9,454  | 224  | 1,057   | 23   | 681  | 9,279   |
| 2041                                     | 9,279  | 214  | 1,063   | 22   | 667  | 9,075   |
| 2042                                     | 9,075  | 214  | 1,065   | 22   | 651  | 8,853   |
| 2043                                     | 8,853  | 213  | 1,064   | 21   | 634  | 8,614   |
| 2083                                     | 89   | 29   | 58  | 0 *  | 5  | 64  |
| 2084                                     | 64   | 25   | 48  | 0 *  | 4  | 45  |
| 2085                                     | 45   | 22   | 39  | 0 *  | 3  | 31  |
| 2086                                     | 31   | 19   | 31  | 0 *  | 2  | 20  |
| 2087                                     | 20   | 17   | 25  | 0 *  | 1  | 13  |
| 2102                                     | 2  | 1  | 1   | 0 *  | 0 *  | 1   |
| 2103                                     | 1  | 0 *  | 1   | 0 *  | 0 *  | 1   |
| 2104                                     | 1  | 0 *  | 1   | 0 *  | 0 *  | 1   |
| 2127                                     | 0 *  | 0 *  | 0 *   | 0  | 0 *  | 0 *   |
| 2128                                     | 0 *  | 0 *  | 0 *   | 0  | 0 *  | 0 *   |
| 2129                                     | 0 *  | 0 *  | 0   | 0  | 0 *  | 0 *   |
| 2129                                     | Discounted Value:  | 0 *  |   |  |  |   |

\* Less than \$1 M, when rounded.

## SECTION 2: GASB 67 Information for the Alameda County Employees' Retirement Association

---

### EXHIBIT 5

#### Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of December 31, 2015

(\$ in millions) - continued

---

Notes:

- (1) Amounts may not total exactly due to rounding.
- (2) Amounts shown in the year beginning January 1, 2015 row are actual amounts, based on the financial statements provided by ACERA.
- (3) Years 2025-2038, 2044-2082, 2088-2101, and 2105-2126 have been omitted from this table.
- (4) Column (a): Except for the "discounted value" shown for 2129, all of the projected beginning plan fiduciary net position amounts shown have not been adjusted for the time value of money.
- (5) Column (b): Projected total contributions include employee and employer normal cost contributions based on closed group projections (based on covered active members as of November 30, 2014); plus employer contributions to the unfunded actuarial accrued liability; plus employer contributions to fund each year's annual administrative expenses as well as future allocations of excess earnings to the SRBR under ACERA's funding policy, both reflecting a 20-year amortization schedule. Contributions are assumed to occur halfway through the year, on average.
- (6) Column (c): Projected benefit payments have been determined in accordance with paragraph 39 of GASB Statement No. 67, and are based on the closed group of active, inactive vested, retired members, and beneficiaries as of November 30, 2014. The projected benefit payments reflect the cost of living increase assumption of 3.00% per annum for Tiers 1 and 3, and 2.00% per annum for Tiers 2 and 4. In addition, an amount equal to 0.75% of the beginning-of-year market value has been included to reflect the approximated outflow of future allocations to the SRBR. (This outflow has an estimated present value of \$0.77 billion.) Benefit payments are assumed to occur halfway through the year, on average. In accordance with paragraph 31.b.(1)(e) of GASB Statement No. 67, the long-term expected rate of return on Plan investments of 7.60% per annum was applied to all periods of projected benefit payments to determine the discount rate.
- (7) Column (d): Projected administrative expenses are calculated as approximately 0.24% of the beginning plan fiduciary net position amount. The 0.24% portion was based on the actual fiscal year 2015 administrative expenses as a percentage of the beginning plan fiduciary net position amount as of January 1, 2015. Administrative expenses are assumed to occur halfway through the year, on average.
- (8) Column (e): Projected investment earnings are based on the assumed investment rate of return of 7.60% per annum.
- (9) As illustrated in this Exhibit, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan members. In other words, there is no projected "cross-over date" when projected benefits are not covered by projected assets. Therefore, the long-term expected rate of return on Plan investments of 7.60% per annum was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2015 shown earlier in this report, pursuant to paragraph 44 of GASB Statement No. 67.

5419323v5/05579.117