Regrowth, Renewal

Comprehensive Annual Financial Report for the Year Ended December 31, 2012

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda
(State of California) and Participating Employers

This page is intentionally left blank.

Regrowth, Renewal

A Comprehensive Annual Financial Report for the Year Ended December 31, 2012

Issued By:

Vincent P. Brown

Chief Executive Officer

ACERA

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14th Street, Suite 1000, Oakland, CA 94612

A Pension Trust Fund of the County of Alameda
(State of California) and Participating Employers

Table of Contents

1 Introduction

2 Financial

3 Investment

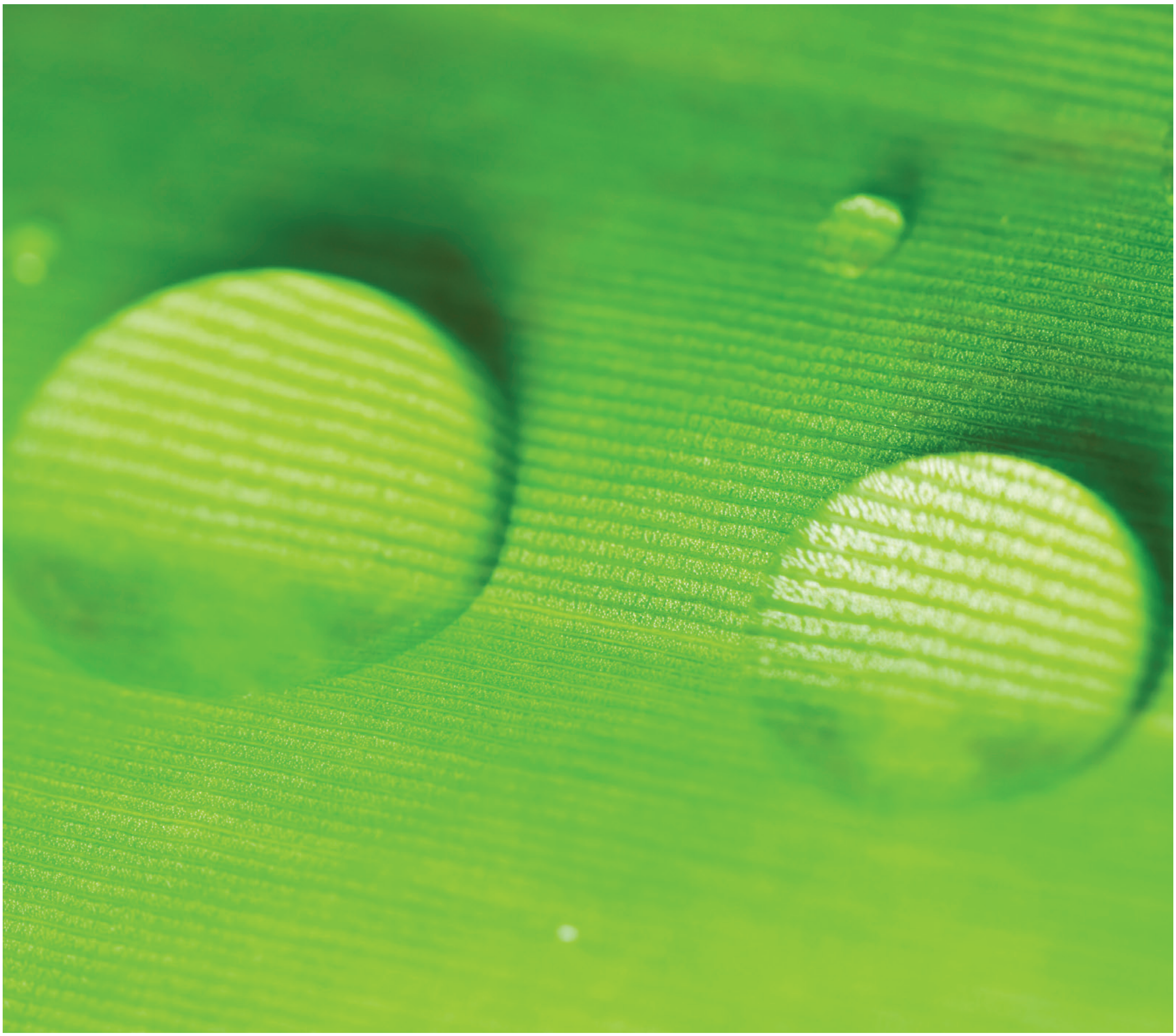
4 Actuarial

5 Statistical

6 Compliance

This page is intentionally left blank.

Introduction



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

Letter of Transmittal

Dear Board Members:

I am pleased to submit this *Comprehensive Annual Financial Report (CAFR) of the Alameda County Employees' Retirement Association for the Year Ended December 31, 2012.*

This report presents the financial condition of the Pension Plan, the Other Postemployment Medical Benefits (OPEB), and Non-OPEB, as well as, investment results for the year ended December 31, 2012. It also includes the current actuarial valuation as of December 31, 2011. All data and information presented are accurate and reliable, conform to generally accepted accounting principles, and are free of material misstatements.

ACERA 2012 – OVERVIEW

Mission

ACERA provides members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services. Under the supervision and direction of the Board of Retirement (the Board), ACERA deploys competent, professional, impartial, and open procedures designed to treat all members fairly and with courtesy and respect. ACERA manages investments, balancing the need for financial security of its members with superior performance.

ACERA and its Services

ACERA was established by the Alameda County Board of Supervisors in 1947 under the County Employees Retirement Law of 1937 (CERL) to provide retirement allowances and other benefits for County employees. ACERA's membership base has increased and now spans the following participating employers:

- Alameda County
- Alameda County Medical Center
- Alameda County Office of Education
- First 5 Alameda County
- Housing Authority of the County of Alameda
- Livermore Area Recreation and Park District
- The Superior Court of California for the County of Alameda

In accordance with the CERL and ACERA's investment policies, ACERA collects and invests employer and member contributions to fund member benefits (including lifetime retirement, disability, and death benefits), pay administration expenses, and offer non-vested benefit programs for select medical and supplemental COLA benefits (subject to annual Board approval under CERL Article 5.5).

Political Developments

Signed into law in September of 2012, the California Public Employees' Pension Reform Act (PEPRA) created a new tier for employees hired after the January 1, 2013 implementation date of the new law. Also signed into law was a companion bill that amended the definition of compensation earnable that ACERA interpreted will change the way salary is calculated for the retirement allowances of members hired prior to PEPRA. Employee groups sought legal action to stay the implementation of the companion bill, and the matter is pending court review as of the finalization of this report.

Investment Performance

In the midst of global monetary easing, perceived political stability in the U.S., and a slightly improving GDP, the market value of ACERA's investments increased by $602.3 million, representing a 15.0% rate of return and ranking ACERA's fund in the 1st percentile for the year ending December 31, 2012. ACERA's annualized rate of return over the last five and ten years was 3.0% and 8.3%, ranking ACERA's fund in the 71st and 10th percentiles, respectively. ACERA's investment goal is to operate at a level of performance in the upper quartile of comparable pension funds on a risk-adjusted basis.

Financial Reporting

ACERA management is responsible for the accuracy, completeness, and fair presentation of the information in this report. Williams, Adley & Company-CA, LLP provides external audit services to determine whether the financial statements are presented in conformity with generally accepted accounting principles and government auditing standards. The Management's Discussion and Analysis (MD&A) Section starting on page 12 provides a thorough analysis of ACERA's operations and financial status.

Actuarial Funding Status

ACERA engages an independent firm to conduct annual actuarial valuations. The Pension Plan's Actuarial Accrued Liability increased from $6,162.7 million in 2010 to $6,359.5 million in 2011 as of December 31. The plan's actuarial value of assets increased from $4,776.1 million in 2010 to $4,868.7 million in 2011 as of December 31. The Unfunded Actuarial Accrued Liability increased from $1,386.6 million in 2010 to $1,490.8 million in 2011 as of December 31 with the funded ratio decreasing from 77.5% to 76.6%. The Actuarial Section of this report contains a more detailed discussion of the funding requirements.

Supplemental Retiree Benefits Reserve

ACERA administers a Supplemental Retiree Benefits Reserve (SRBR) funded by regular earnings and sharing gains above the assumed actuarial investment rates. As of December 31, 2011 the SRBR held $610.0 million in actuarial value of assets which will fund the current benefit structure until the year 2027 for Postemployment Medical Benefits and 2031 for Non-OPEB, even if no new excess investment earnings are available.

Membership

ACERA's active membership decreased from 10,746 to 10,584 as the number of retired members receiving pension benefits increased from 7,903 to 8,400. Deferred membership decreased slightly from 1,826 to 1,814. Total membership increased from 20,475 to 20,798.

2012 ACCOMPLISHMENTS

Administration

Administrative efficiency efforts have continued and accomplishments include revamping ACERA's budget document; aligning ACERA's Five-Year Business Plan with the 2013 Budget; implementing project management methodology to manage enterprise-wide projects; producing internal audit manuals; completing a vendor compliance remediation audit, a wire transfer authorization audit, and a cash management audit; and reorganizing the Accounting Department into the new Fiscal Services Department, headed by a Fiscal Services Officer (FSO).

ACERA also conducted a Board election for the position of Second Member to Represent the General Members.

Furthermore, ACERA prepared for January 1 implementation of the California Public Employees' Pension Reform Act (PEPRA) which included conducting a web and direct mail communications campaign; holding stakeholder meetings; making determinations on compensation earnable calculations; reprogramming the pension administration system; and adopting a new tier and a single contribution rate for new members.

Investments

At the end of the third quarter of 2012, ACERA amended its Target Asset Allocation to 32% US Equity, 27% International Equity, 15% Fixed Income, 6% Real Estate, 15% Private Equity and Alternatives Returns Leading Strategy (PEARLS), and 5% Real Return Pool—a new asset allocation target, to take effect starting in 2013. During 2012, ACERA made new investments of $180.7 million in Real Return Pool (bringing the total actual allocation to 5.0%), as well as $228.5 million in new commitments to the PEARLS asset class increasing the total PEARLS commitment to 10.6% of the portfolio. ACERA conducted an Asset Liability Study to achieve systematic construction of the total fund portfolio to maximize expected return for the chosen level of risk. ACERA also adopted an amended Real Estate Strategic Plan.

The Investment Section of this report details ACERA's investment results, asset allocation, investment holdings, and other investment-related information.

Benefits

ACERA concentrated on controlling costs by discontinuing an expensive group Medicare plan, replacing it with a Medicare Exchange estimated to save $1-3 million annually, and conducting a broad member outreach campaign. Staff conducted extensive analyses on the non-vested benefits and Supplemental Retiree Benefit Reserve (SRBR) to enhance long-term reserve fund sustainability. To increase efficiency of members' access to personal retirement data and accurate estimates of retirement allowance, ACERA launched a secure web application for members on www.acera.org. Additionally, as a result of changes to state pension law contained in PEPRA, ACERA processed hundreds of extra retirements in November and December of 2012.

ACKNOWLEDGEMENTS

The compilation of this report reflects the combined effort of ACERA's management and staff under the leadership of the Board of Retirement. This report—and the corresponding Popular Annual Financial Report—are available to members and the general public on ACERA's website at www.acera.org.

The dedication of ACERA staff forms the nucleus of our service mission, and I wish to express deep gratitude to them for the success of our operation.

Respectfully submitted,

Vincent P. Brown

Vincent P. Brown

Chief Executive Officer

June 7, 2013

Members of the Board of Retirement as of January 1, 2013

Dale E. Amaral
Chair
Elected by Safety Members

Keith Carson
First Vice Chair
Appointed by and Member of the Board of Supervisors

Elizabeth Rogers
Second Vice Chair
Elected by General Members

Ophelia B. Basgal
Appointed by the Board of Supervisors

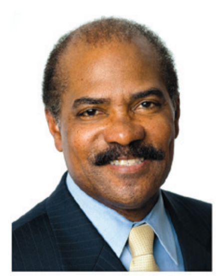
Annette Cain-Darnes
Appointed by the Board of Supervisors

George Dewey
Appointed by the Board of Supervisors

Liz Koppenhaver
Elected by Retired Members

David M. Safer
Alternate
Elected by Retired Members

Darryl L. Walker Sr.
Alternate
Elected by Safety Members



Donald R. White
Ex-Officio Member
Treasurer-Tax Collector, County of Alameda

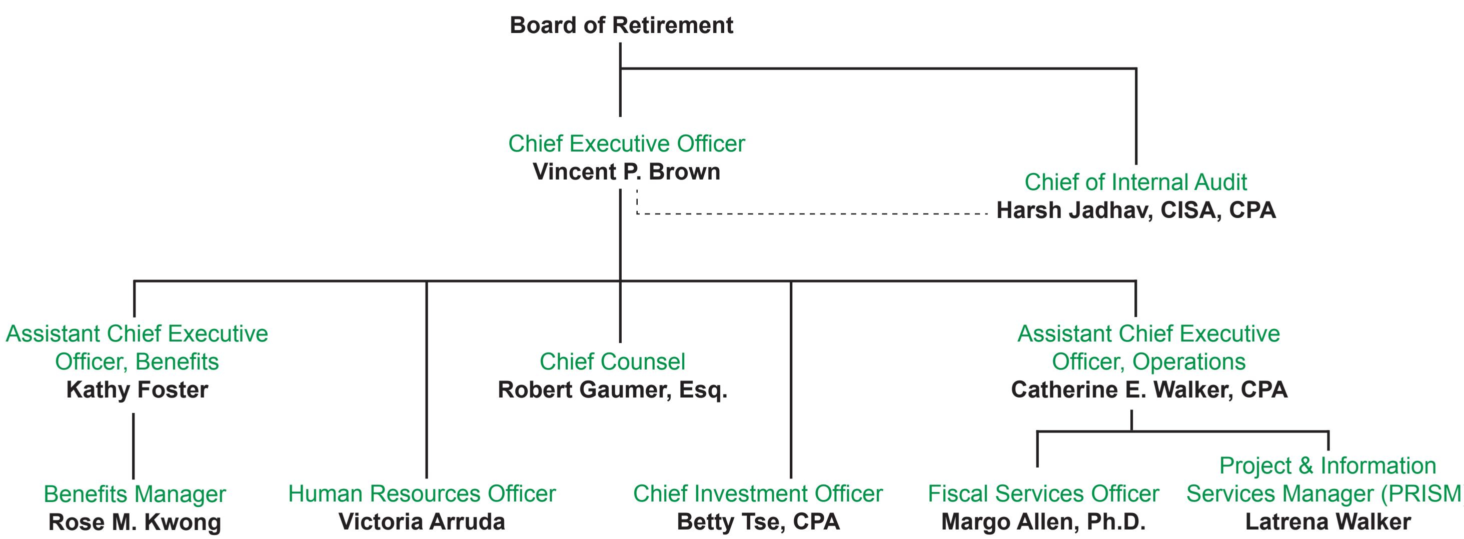
George Wood
Elected by General Members

2012 Board of Retirement

George Dewey (***Chair***), Dale E. Amaral (***First Vice Chair***), Keith Carson (***Second Vice Chair***), Ophelia B. Basgal, Annette Cain-Darnes, Liz Koppenhaver, Elizabeth Rogers, Donald R. White, George Wood, David M. Safer (***Alternate Retiree***), Darryl L. Walker, Sr (***Alternate Safety***)

Administrative Organizational Chart

As of June 2013



Professional Consultants[1]

Actuary
The Segal Company[2]

Administration
CPS Human Resources Services

Benefits
Keenan

Human Resources
Lakeside Group

Independent Auditors
Williams, Adley & Company-CA, LLP

Information Technology
CTG Inc. of Illinois dba Novanis

L.R. Wechsler, Ltd.

Quinlan Consulting

Legal
Amy Oppenheimer

Barry Winograd

Corporate Executive Board

DigiStream Investigations

Gilmore, Wood & Vinnard & Magness, LLP

Hanson, Bridgett, Marcus, Vlahos, LLP

Ice Miller, LLP

Jeffrey A. Ross

John L. Williams

Manatt, Phelps & Phillips, LLP

Nolan, Armstrong & Barton, LLP

Nossaman, LLP

Reed Smith, LLP

Swanson & McNamara, LLP

Tidrick Law Firm

Other Specialized Services
American Arbitration Association

Tobico LLC dba Tobi Designs

U.S. Healthworks

1 Investment Professionals are listed on page 72 of this report. Not all of the professional consultants listed above are required to file a Statement of Economic Interests (Form 700) under ACERA's Conflict of Interest Policy.

2 The Segal Company also provides Administration and Benefits consulting services.

This page is intentionally left blank.

Financial

WILLIAMS ADLEY

Independent Auditors' Report

Board of Retirement
Alameda County Employees' Retirement Association
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Alameda County Employees' Retirement Association (ACERA), which comprise the statement of ACERA's net position as of December 31, 2012, and the related statement of changes in ACERA's net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

ACERA management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of ACERA as of December 31, 2012, and the change in its net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in note 1 to the financial statements, in 2012, ACERA adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

WILLIAMS, ADLEY & COMPANY-CA, LLP
Certified Public Accountants / Management Consultants
1330 Broadway, Ste. 1825 • Oakland, CA 94612 • (510) 893-8114 • Fax: (510) 893-2603
5 Thomas Mellon Circle, Ste. 104 • San Francisco, CA 94134 • (415) 656-1330 • Fax: (415) 467-6106
www.williamsadley.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12-18 and the schedules of funding progress and employer contributions on pages 48-50 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of ACERA taken as a whole. The schedules of investment expenses, payments to other consultants, and administration expense on pages 52 and 53, and the introduction, investment, actuarial, and statistical sections, are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of investment expenses, payments to other consultants, and administration expense are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introduction, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited ACERA's 2011 financial statements, and our report dated June 7, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2013, on our consideration of ACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ACERA's internal control over financial reporting and compliance.

Williams, Adley & Company-CA, LLP

Oakland, California

May 23, 2013

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of ACERA's financial position and the combined results of its operations for the Pension Plan, the Other Postemployment Benefits (OPEB), and the Non-OPEB for the year ended December 31, 2012. The information presented here, in conjunction with the Financial Statements and the Notes to the Financial Statements beginning on page 22, provides a fair presentation of ACERA's overall financial position and the results of its operations. This discussion and analysis should be read in conjunction with the Chief Executive Officer's Letter of Transmittal on pages 2-4 of this Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

- ACERA's Net Position at the close of 2012 was $5.7 billion. This Net Position is held in trust to meet ACERA's specific ongoing program obligations for pension, Postemployment Medical Benefits, and Non-OPEB to plan members and their beneficiaries.
- 2012 ended the year with a $593.8 million increase in ACERA's Net Position over the prior year. This 12% increase was primarily attributable to an increase in investment performance in 2012.
- As of the December 31, 2011 actuarial valuation, the funded ratio for ACERA's Pension Plan compared to the December 31, 2010 valuation declined slightly from 77.5 % to 76.6%. This 0.9% decline is a result of a drop in the market value of assets and increase in actuarial accrued liabilities.
- As of December 31, 2011, the funded ratios for ACERA's Postemployment Medical Benefits and Non-OPEB provided by the Supplemental Retirees Benefit Reserve (SRBR) were 72% and 36.1%, respectively. The OPEB funded ratio declined by 4.6% mainly due to lower than expected interest crediting rate/investment return to the SRBR. However, the freeze in Monthly Medical Allowance (MMA) helped the OPEB plan funding ratio from declining further. The Non-OPEB funded ratio decreased by 3.1% also due to lower than expected interest crediting rate/investment return to SRBR.
- As of December 31, 2011, the date of the actuarial valuation used in the 2012 CAFR, the actuarial investment rate of return used was 7.8%. The inflation rate remained at 3.5% with across-the-board salary increases of 0.5%.
- ACERA had $481.8 million of unrecognized investment losses, representing 9.5% of the market value of assets as of the December 31, 2011 actuarial valuation date. These losses will be recognized in determining the actuarial value of assets for funding purposes over the next five years. Unless offset by future investment gains in excess of the 7.8% actuarially assumed net rate of investment return per year or other favorable actuarial

experience; these losses are expected to result in higher future employer contribution rates.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to ACERA's Basic Financial Statements, which include the following four components:

- Statement of ACERA's Net Position
- Statement of Changes in ACERA's Net Position
- Notes to the Basic Financial Statements
- Required Supplementary Schedules and Supporting Schedules

The Basic Financial Statements report the components of ACERA's Net Position Held in Trust for Benefits, the components of the changes in the Net Position (additions and deductions), along with explanatory Notes to the Basic Financial Statements. These Basic Financial Statements include separate columns for ACERA's Pension Plan, Postemployment Medical Benefits, and Non-OPEB. In addition to the Basic Financial Statements, this report contains required supplementary information and supporting schedules intended to assess the historical context of ACERA's progress in meeting benefit obligations through funding of contributions and investment income.

The *Statement of ACERA's Net Position* on page 19 shows a snapshot of account balances at year-end. It indicates the assets available for future benefit payments as well as current liabilities outstanding at year end.

ACERA did not have any transactions that met the criteria for deferred outflows of resources or deferred inflows of resources as defined in GASB 63. As a result, those line items are not displayed on the 2012 Statement of ACERA's Net Position.

The *Statement of Changes in ACERA's Net Position* on pages 20 and 21 provides a summary view of the additions to and deductions from ACERA's Net Position that occurred over the course of 2012.

The Basic Financial Statements include all assets and liabilities, using the accrual basis of accounting, in compliance with Generally Accepted Accounting Principles, similar to the accounting method used by most private-sector companies. All of the year's asset additions and deductions are taken into account regardless of when the corresponding cash is received or paid. All investment purchases and sales are reported as of the trade date. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized. Each depreciable component of capital assets is depreciated over its useful life.

Notes to the Basic Financial Statements on pages 22-47 provide additional information essential to a full understanding of the Basic Financial Statements.

Required Supplementary Schedules on pages 48-52 show ACERA's funding progress with its obligations to provide Pension, Postemployment Medical Benefits, and Non-OPEB to members, as well as historical trend information reflecting how much employers have contributed in relation to their annual required contributions.

Supporting Schedules of investment expenses, payments to other consultants, and administration expense are presented on pages 52 and 53.

Table 1 and Table 2 present condensed information about ACERA's financial position and results of operations for the current year in comparison to the preceding year, and are the basis for the following discussion.

Table 1: ACERA's Net Position (Condensed)

As of December 31, 2012 and 2011 (Dollars in Millions)

	2012	2011	Increase (Decrease) Amount	Percent Change
ASSETS				
Current Assets	$ 321.6	$ 483.2	$ (161.6)	(33%)
Investments at Fair Value	5,655.5	5,053.2	602.3	12%
Capital Assets, net	5.6	6.3	(0.7)	(11%)
Total Assets	**5,982.7**	**5,542.7**	**440.0**	**8%**
LIABILITIES				
Current Liabilities	314.5	468.3	(153.8)	(33%)
Total Liabilities	**314.5**	**468.3**	**(153.8)**	**(33%)**
NET POSITION				
Restricted - Held in Trust for Benefits	**$ 5,668.2**	**$ 5,074.4**	**$ 593.8**	**12%**

Table 2: Changes In ACERA's Net Position (Condensed)

For the Years Ended December 31, 2012 and 2011 (Dollars in Millions)	2012	2011	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	$ 78.6	$ 78.0	$ 0.6	1%
Employer Contributions	179.6	162.9	16.7	10%
Net Investment Income (Loss)	711.9	(40.7)	752.6	1,849%
Miscellaneous Income	0.9	0.7	0.2	29%
Transfer to Employers' Advance Reserve from SRBR for Employer Contributions to 401(h) Account	33.4	32.3	1.1	3%
Transfer to Employers' Advance Reserve from SRBR for Implicit Subsidy	4.4	4.4	-	-
Transfer from Employers' Advance Reserve to SRBR for OPEB Related Administrative Expenses	1.0	0.4	0.6	150%
Total Additions	**1,009.8**	**238.0**	**771.8**	**324%**
DEDUCTIONS				
Retirement Benefit Payments	324.5	300.2	24.3	8%
Postemployment Medical Benefits	32.7	31.6	1.1	3%
Member Refunds	5.9	5.4	0.5	9%
Administration	14.1	13.8	0.3	2%
Transfer from SRBR to Employers' Advance Reserve for Employer Contributions to 401(h) Account	33.4	32.3	1.1	3%
Transfer from SRBR to Employers' Advance Reserve for Implicit Subsidy	4.4	4.4	-	-
Transfer to SRBR from Employers' Advance Reserve for OPEB Related Administrative Expenses	1.0	0.4	0.6	150%
Total Deductions	**416.0**	**388.1**	**27.9**	**7%**
Change in Net Position	**593.8**	**(150.1)**	**743.9**	**496%**
Net Position - January 1	**5,074.4**	**5,224.5**	**(150.1)**	**(3%)**
Net Position - December 31	**$ 5,668.2**	**$ 5,074.4**	**$ 593.8**	**12%**

ANALYSIS OF FINANCIAL POSITION

ACERA's Net Position Held in Trust for Benefits consist of assets less liabilities. Table 1 shows condensed information on ACERA's Net Position, which as of December 31, 2012 totaled approximately $5.7 billion. This is $593.8 million or 12% more net asset value than the prior year, primarily a result of an increase in the fair value of ACERA's investments. The Investment Section, starting on page 56, provides further details about ACERA's investment performance.

Current Assets

The components of current assets are detailed on the Statement of ACERA's Net Position on page 19. Current assets decreased by $161.6 million from $483.2 million in 2011 to $321.6 million in 2012. This decrease was mostly due to a $181.9 million reduction in securities lending cash collateral. The cash collateral decrease was the result of lower securities lending activity. The securities lending cash collateral is matched by an equal amount of offsetting securities lending liability reported as part of ACERA's current liabilities. Other current assets increased by a net of $20.3 million, due primarily to the unsettled trades receivable.

Investments at Fair Value

The fair value of ACERA's investments increased 12% from $5,053.2 million in 2011 to $5,655.5 million in 2012. The primary sources for this $602.3 million increase were the international equity investment funds and private equity and alternatives including the real return pool with increases of approximately $383.8 million and $341.7 million, respectively. These increases were offset by net decreases of approximately $123.1 million in fixed income investments, real estate and other investment categories.

Capital Assets, Net

Capital assets include equipment, furniture, information systems, and leasehold improvements. In 2012, capital assets had a net decrease of $0.7 million due to accumulated depreciation.

Current Liabilities

The components of current liabilities are detailed on the Statement of ACERA's Net Position on page 19. Current liabilities decreased from $468.3 million in 2011 to $314.5 million in 2012. This $153.8 million decrease is primarily due to the $182 million decrease in securities lending cash collateral; however, that decrease is slightly offset by a $28.1 million increase in other current liabilities primarily due to the timing of cash disbursements for unsettled trades.

ANALYSIS OF RESULTS OF OPERATIONS

Changes in ACERA's Net Position consist of total additions less total deductions. Table 2 on page 14 shows condensed information about this financial activity. ACERA's Net Position increased by $593.8 million. The increase was primarily the result of investment gains.

Additions to ACERA's Net Position

The primary funding sources for ACERA's member benefits are Member Contributions, Employer Contributions, and Net Investment Income. Additions to and deductions from ACERA's Net Position include transfers to and from the Employers' Advance Reserve and the Supplemental Retirees Benefit Reserve (SRBR).

Total additions to ACERA's Net Position for the years ending December 31, 2012 and 2011 were $1.0 billion and $238.0 million, respectively. For 2012, total additions increased $771.8 million primarily due to net investment gains. In 2012, ACERA had $752.6 million more in Net Investment Income compared to 2011. See the Net Investment Income (Loss) section below for a more comprehensive discussion of this increase.

The December 31, 2011 actuarial valuation report recommended contribution rates, which were approved by the Board of Retirement and became effective September 2012. Average member contribution rates decreased slightly, while the aggregate employer rate experienced an overall increase of 0.8% of total payroll. Refer to the following

Member and Employer Contributions sections for a discussion of these respective decreases and increases.

Member Contributions

Total Member Contributions for 2012 were $78.6 million, up by $0.6 million from 2011. The aggregate member rate has decreased slightly from 8.63% to 8.33% of payroll as a result of change in membership demographics.

Employer Contributions

Total Employer Contributions for 2012 were $179.6 million, which was $16.7 million higher than 2011. This was primarily attributable to the 2011 increase in employer contribution rates. Effective September 2011, the aggregate employer rate increased from 20.72% to 21.52%, an increase of 0.8%. The change was attributable to the lower than expected return on investments after smoothing and amortizing the prior year's Unfunded Actuarial Accrued Liability (UAAL).

Net Investment Income (Loss)

Net investment income was $752.6 million higher than the prior year, from a $40.7 million loss in 2011 to a $711.9 million gain in 2012. The increase in net investment income was primarily due to the net appreciation in fair value of investments. The net appreciation of investments in 2012 was $614.7 million compared to net depreciation in 2011 of $155.3 million, giving rise to an increase in fair value of $770.0 million. The 2012 Net Investment Income gain represents ACERA's gross investment return of positive 15.0% compared to a negative 0.4 % return in 2011. The Investment Section of this report describes investment results and comparatives in greater detail.

Miscellaneous Income

Miscellaneous income for 2012 totaled $0.9 million, mainly composed of class action securities litigation settlements.

Transfers between Employers' Advance Reserve and SRBR

Postemployment Medical Benefits are paid from the 401(h) account. The Participating Employers identify a portion of their contributions as 401(h) contributions. For the years 2012 and 2011, the employers funded $33.4 million and $32.3 million, respectively, as 401(h) contributions. See 401(h) Postemployment Medical Benefits account on page 30.

In July 2011, ACERA applied the provisions of the 1937 Act (Section 31596.1) and allocated a portion of the 401(h) contributions towards administrative costs. As a result, in 2012 and 2011 $1.0 million and $0.4 million, respectively, were transferred from the Employers' Advance Reserve to SRBR.

A transfer of $4.4 million for the year 2012 was made to the Employers' Advance Reserve from the SRBR to compensate for the 2011 Alameda County implicit subsidy. The implicit subsidy transfer amount remained level due in part to changes in health plan management and in part to previous reductions in the utilization rates for retirees under age 65.

Deductions from ACERA's Net Position

The five main categories of deductions from ACERA's Net Position are retirement benefits, Postemployment Medical Benefits, Non-OPEB, member refunds, and the expenses of administering the system.

Total deductions from ACERA's Net Position for 2012 were $416.0 million, compared to $388.1 million in 2011, an increase of $27.9 million or 7% over the prior year. Most of this increase was a result of a $24.3 million or 8% increase in retirement benefit payments.

Retirement Benefits Payments

Retirement benefit payments in 2012 were $324.5 million, a $24.3 million or 8% increase over the prior year. Retirement benefits include service retirement and disability allowances, death payments, and supplemental cost-of-living adjustments. The increase in retirement benefit payments was partially due to a 6% increase in the number of retirees during the year. The increase was also attributable to higher average benefits of retirees added to the retirement payroll compared to the lower average retirement allowance of those retirees removed from the retirement payroll.

Postemployment Medical Benefits

Postemployment Medical Benefits paid from the 401(h) account for 2012 were $32.7 million, an increase of $1.1 million or 3% over the prior year. This increase was largely due to the 6% net increase in the number of retirees receiving these benefits. The maximum monthly medical benefits remained at $522 per member in 2012.

Member Refunds

Member refunds originate from either a member separation from service (termination) or active member death. Member refunds were $5.9 million in 2012 , which were $0.5 million or 9% more than 2011. The increase was primarily due to a rise in termination refunds.

Administration Expense

Administration expense covers the basic costs of operating the retirement system. These include staffing, professional service expenses, communications, software maintenance, depreciation, insurance, and other expenses. Approximately 61% of total administration expense is for staffing (wages, fringe benefits, and temporary labor). Professional services expense includes the cost of member communications, audit fees, and legal fees. The annual amount of administrative expense is subject to legal and budgetary restrictions. Every year the ACERA Board adopts an administration expense budget for the following year in accordance with legal spending restrictions outlined in the County Employee Retirement Law of 1937 ("1937 Act"). Note 10 to the Basic Financial Statements on page 46 describes these legal limitations. ACERA's administration expense for 2012 was in compliance with the 1937 Act.

Total administration expense was $14.1 million for 2012, a modest $0.3 million or 2% increase from the prior year. The $0.3 million net increase was primarily due to slight increases in technology and business continuity expenses. Note that overall administration expenses are subject to statutory limit, which excludes legal, technology, business continuity and actuarial expenses.

CURRENTLY KNOWN FACTS AND EVENTS

In September 2011, ACERA's Board approved a 7.8% actuarial investment rate of return to be used for a triennial period; hence, no changes were made to the actuarial economic assumptions that would affect reporting for 2012.

An actuarial valuation was performed as of December 31, 2012 for the Pension Plan using the economic assumptions adopted by ACERA's Board in September 2011. The funded ratio as of December 31, 2012 was 73.9%.

In 2012, the California Public Employees' Pension Reform Act (Cal PEPRA) of 2013 (AB 340) was passed and became effective on January 1, 2013. The general impact to pension reform includes new benefit formulas, a limit on pensionable income, three-year final average salary, and new cost sharing by members.

In 2012, Assembly Bill No. 197 prompted pension reform action to comply with new legislative mandates to government code relating to public employees' retirement systems. The most notable change prompted by AB197 was a new determination of compensation earnable which will affect the way ACERA calculates the Final Average Salary for legacy members. However, due to pending litigation, implementation of the bill is currently on hold awaiting the court's decision on the constitutionality of its mandates.

In 2012, the Retirement Board eliminated the retired member lump sum death benefit payment of $4,250, effective January 1, 2013.

In 2012, the Retirement Board eliminated the active death equity benefit to eligible beneficiaries, effective January 1, 2013.

In June of 2012 GASB issued GASB 67 and GASB 68 which describe how local and state government pension plans and local and state government employers who sponsor or contribute to state or local pension plans, respectively, account for and report on the plan's liabilities. As a defined benefit, cost-sharing multiple-employer pension plan, ACERA is required to adopt GASB 67 for the 2014 CAFR. ACERA's employers will need to implement GASB 68 for their 2014-2015 CAFRs. These new standards significantly redefine pension expense and require the plan to report a measure of its over or under funded liability pension obligation called the net pension liability (NPL). The NPL is the total pension liability (TPL) minus the plan's fiduciary net position or market value of the plan's assets. The participating employers will be required to report their portion of the NPL on their statements of net position. The challenge for ACERA will be to create a reporting mechanism which apportions the NPL amongst the employers.

FIDUCIARY RESPONSIBILITIES

ACERA's Board and management are fiduciaries of the retirement plan. Under the California Constitution and the County Employees Retirement Law of 1937, assets of the retirement plan can be used only for the exclusive benefit for the plan participants and their beneficiaries.

REQUESTS FOR INFORMATION

This report is designed to provide the Board of Retirement, our membership, Participating Employers, taxpayers, investment managers, vendors, and other stakeholders or interested parties with a general overview of ACERA's financial condition, financial activities, and funding status. Questions regarding any of the information provided in this report or requests for additional information should be addressed to:

ACERA
Fiscal Services Department
475 14th Street, Suite 1000
Oakland, California 94612-1900

You can also contact us by e-mail at info@acera.org or by phone at (510) 628-3000 during normal business hours. Our website www.acera.org contains a wealth of information and is always accessible.

Respectfully submitted,

Margaret M Allen

Margo Allen
Fiscal Services Officer
May 20, 2013

Statement of ACERA's Net Position

As of December 31, 2012, with Comparative Totals as of December 31, 2011 (Dollars in Thousands)

	Pension Plan	Post Employment Medical Benefits	Non-OPEB	Total 2012	Total 2011
ASSETS					
Cash	$ 399	$ -	$ -	$ 399	$ 530
Securities Lending Cash Collateral	257,433	-	-	257,433	439,350
RECEIVABLES					
Contributions	16,926	-	-	16,926	14,217
Investment Receivables	12,763	-	-	12,763	18,773
Unsettled Trades - Investments Sold	29,233	-	-	29,233	6,510
Future Contracts - Equity Index	842	-	-	842	1,648
Foreign Exchange Contracts	3,148	-	-	3,148	1,342
Other Receivables	290	-	-	290	302
Total Receivables	**63,202**	**-**	**-**	**63,202**	**42,792**
Prepaid Expenses	567	-	-	567	543
Total Current Assets	**321,601**	**-**	**-**	**321,601**	**483,215**
INVESTMENTS AT FAIR VALUE					
Short-Term Investments	180,854	-	-	180,854	144,922
Domestic Equity	1,147,608	-	-	1,147,608	1,194,408
Domestic Equity Commingled Funds	878,943	-	-	878,943	848,614
International Equity	1,290,786	-	-	1,290,786	987,022
International Equity Commingled Funds	276,394	-	-	276,394	196,391
Domestic Fixed Income	666,109	-	-	666,109	774,484
International Fixed Income	282,927	-	-	282,927	290,971
Real Estate - Separate Properties	78,503	-	-	78,503	96,828
Real Estate - Commingled Funds	216,126	-	-	216,126	223,929
Real Return Pool	279,421	-	-	279,421	108,926
Private Equity and Alternatives	357,878	-	-	357,878	186,716
Total Investments	**5,655,549**	**-**	**-**	**5,655,549**	**5,053,211**
Due from Pension Plan	(583,043)	518,687	64,356	-	-
Capital Assets at Cost (Net of Accumulated Depreciation and Amortization)	5,563	-	-	5,563	6,274
Total Assets	**5,399,670**	**518,687**	**64,356**	**5,982,713**	**5,542,700**
LIABILITIES					
Securities Lending Liability	257,433	-	-	257,433	439,350
Unsettled Trades - Investments Purchased	45,216	-	-	45,216	12,361
Future Contracts - Equity Index	571	-	-	571	1,698
Equity Index Swaps	-	-	-	-	43
Foreign Exchange Contracts	1,307	-	-	1,307	2,475
Investment-Related Payables	5,599	-	-	5,599	8,006
Accrued Administration Expenses	1,948	-	-	1,948	2,064
Members Benefits & Refunds Payable	2,425	-	-	2,425	2,293
Retirement Payroll Deductions Payable	10	-	-	10	12
Total Liabilities	**314,509**	**-**	**-**	**314,509**	**468,302**
Net Position					
Restricted - Held in Trust for Benefits	**$ 5,085,161**	**$ 518,687**	**$ 64,356**	**$ 5,668,204**	**$ 5,074,398**

The accompanying Notes to the Basic Financial Statements are an integral part of these Basic Financial Statements.

Statement of Changes in ACERA's Net Position

For the Year Ended December 31, 2012, with Comparative Totals for the Year Ended December 31, 2011 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB	Total 2012	Total 2011
ADDITIONS					
CONTRIBUTIONS					
Member	$ 78,608	$ -	$ -	$ 78,608	$ 77,991
Employer	146,296	33,353	-	179,649	162,879
Total Contributions	**224,904**	**33,353**	**-**	**258,257**	**240,870**
INVESTMENT INCOME					
From Investment Activities:					
Net Appreciation (Depreciation) in Fair Value of Investments	614,698	-	-	614,698	(155,274)
Dividends, Interest, & Other Investment Income	126,674	-	-	126,674	141,342
Total Income from Investment Activities	**741,372**	**-**	**-**	**741,372**	**(13,932)**
Total Investment Expenses	(31,745)	-	-	(31,745)	(29,166)
Net Income from Investment Activities	**709,627**	**-**	**-**	**709,627**	**(43,098)**
From Securities Lending Activities:					
Securities Lending Income	3,016	-	-	3,016	3,329
Securities Lending Expenses					
Borrower Rebates	(215)	-	-	(215)	(346)
Management Fees	(560)	-	-	(560)	(591)
Total Securities Lending Activity Expenses	(775)	-	-	(775)	(937)
Net Income from Securities Lending Activities	**2,241**	**-**	**-**	**2,241**	**2,392**
Earnings Allocated	(9,483)	8,443	1,040	-	-
Total Net Investment Income (Loss)	**702,385**	**8,443**	**1,040**	**711,868**	**(40,706)**
MISCELLANEOUS INCOME	912	-	-	912	664
Transfer to Employers' Advance Reserve from SRBR for Employer Contributions to 401(h) Account	33,353	-	-	33,353	32,320
Transfer to Employers' Advance Reserve from SRBR for Implicit Subsidy	4,411	-	-	4,411	4,403
Transfer from Employers' Advance Reserve to SRBR for OPEB Related Administrative Expense	-	1,001	-	1,001	462
Total Additions	**$ 965,965**	**$ 42,797**	**$ 1,040**	**$ 1,009,802**	**$ 238,013**

Statement of Changes in ACERA's Net Position (Continued)

For the Year Ended December 31, 2012, with Comparative Totals for the Year Ended December 31, 2011 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB	Total 2012	Total 2011
DEDUCTIONS					
BENEFITS					
Service Retirement and Disability Benefits	$ 318,566	$ -	$ 427	$ 318,993	$ 294,365
Death Benefits	2,278	-	-	2,278	2,397
Burial Benefits	-	-	931	931	878
Supplemental Cost of Living Allowance	-	-	2,346	2,346	2,556
Post Employment Medical Benefits	-	32,692	-	32,692	31,555
Total Benefit Payments	**320,844**	**32,692**	**3,704**	**357,240**	**331,751**
MEMBER REFUNDS	5,893	-	-	5,893	5,406
ADMINISTRATION					
Administrative Expenses	9,243	1,001	-	10,244	10,137
Legal Expenses	1,517	-	-	1,517	1,827
Technology Expenses	1,220	-	-	1,220	888
Actuarial Expenses	327	-	-	327	367
Business Continuity Expenses	790	-	-	790	549
Total Administration	**13,097**	**1,001**	**-**	**14,098**	**13,768**
Transfer from SRBR to Employers' Advance Reserve for Employer Contributions to 401(h) Account	-	33,353	-	33,353	32,320
Transfer from SRBR to Employers' Advance Reserve for Implicit Subsidy	-	4,411	-	4,411	4,403
Transfer to SRBR from Employers' Advance Reserve for OPEB Related Administrative Expense	1,001	-	-	1,001	462
Total Deductions	**340,835**	**71,457**	**3,704**	**415,996**	**388,110**
Change in Net Position	**625,130**	**(28,660)**	**(2,664)**	**593,806**	**(150,097)**
Net Position - January 1	**4,460,031**	**547,347**	**67,020**	**5,074,398**	**5,224,495**
Net Position - December 31	**$ 5,085,161**	**$ 518,687**	**$ 64,356**	**$ 5,668,204**	**$ 5,074,398**

The accompanying Notes to the Basic Financial Statements are an integral part of these Basic Financial Statements.

Notes to the Basic Financial Statements

(an integral part of the Basic Financial Statements)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACERA is an independent public employee retirement system with its own governing board. ACERA's financial statements are included in the County of Alameda's financial statements as a pension and other employee benefit fiduciary trust fund.

Basis of Accounting

ACERA follows the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB). The major pronouncements that prescribe ACERA defined benefit Pension Plan and Other Postemployment Benefits for financial reporting are GASB 25, 26, 43, 45, 50 and 51.

ACERA's (fiduciary trust fund) financial statements are prepared on the accrual basis of accounting. Employer and employee contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Security purchases and sales are recognized in the financial statements as of the trade date. Retirement benefits and member refunds are recognized as liabilities when due and payable in accordance with the terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred.

Implementation of New Accounting Principle

ACERA implemented the provisions of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for fiscal year ended December 31, 2012. This Statement provides guidance on how to present two new financial statement elements "Deferred Outflows of Resources" and "Deferred Inflows of Resources" and changes the term Net Assets to Net Position. As a result, the Statement of ACERA's Net Position was prepared using the new format provided by Statement No. 63. GASB 63 requires governments to account for deferred outflows of resource and deferred inflows of resources as it relates to GASB Statement No 53, *Accounting and Financial Reporting for Derivative Instruments* and Statement No 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60 does not apply to ACERA). Under GASB 53, the changes in fair value of hedging derivatives are reported as either deferred outflows of resources or deferred inflows of resources. As of December 31, 2012 and 2011, ACERA did not have any hedging derivative instruments. Therefore, ACERA did not have any deferred outflows of resources or deferred inflows of resources to be reported on the Statement of Net Position and the line items for "Deferred Outflows of Resources" and "Deferred Inflows of Resources" were omitted from the Statement of ACERA's Net Position.

ACERA implemented the provisions of GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*, for fiscal year ended December 31, 2012. Under the provisions of GASB 53, hedge accounting ceases upon the termination of the hedging derivative instrument, which results in an immediate recognition of deferred outflows and inflows of resources as a component of investment income. GASB 64 clarifies that when certain conditions are met, the hedging relationship is maintained and hedge accounting should continue. These conditions are that the collectability of swap payments is considered to be probable, the replacement of the swap counterparty or swap counterparty's credit support provider is replaced with an assignment or in-substance assignment and the government enters into assignment or in-substance assignment in response to swap counterparty or swap counterparty's credit support provider, either committing or experiencing an act of default or termination event per the swap agreement. The implementation of GASB 64 had no impact on ACERA because ACERA did not hold derivative instruments that require the application of hedge accounting for the periods ended December 31, 2012 and 2011.

Cash

Cash includes cash on hand and deposits with a financial institution.

Investments

Investments are reported at fair value.

Fair value for investments of publicly traded stocks and bonds and issues of the U.S. Government and its agencies is based on the last reported sale price as of the fiscal year end. Fair value of securities denominated in a foreign currency reflects exchange rates in effect at fiscal year end. The fair value of ACERA's short-term investments held in external investment pools managed by the master custodian and securities lending agent is provided by the pool manager and is reported at net asset per share value for the pool. Fair value of investments in commingled funds of debt securities, equity securities, and real estate is based on the fund share price provided by the fund manager which is based on net asset value. Fair value of investments in real estate separate properties is based on prices in a competitive market as determined by specialists relying on periodic appraisals and is reported net of the outstanding balance of associated mortgages. Fair value of investments in private equity and alternative investments are ACERA's respective net asset values as a limited partner. The fair value of private equity and alternative investments is typically determined by the fund's general partner based on a variety of valuation methods including current market multiples for comparable companies, recent sales of comparable companies, net present value of expected cash flows, appraisals and adjustments to prevailing public market values based on control and/or liquidity as appropriate. The funds are audited annually by the funds' independent auditors.

Investment Income

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported together as the net appreciation (depreciation) in the fair value of investments.

Securities Lending Activity

Securities lending transactions are short-term collateralized loans of ACERA's securities for the purpose of generating additional investment income. For each lending transaction, ACERA receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on Statement of ACERA's Net Position as if the lending transaction had not occurred.

Cash collateral held (or any security that can be sold or pledged without a default by the borrower) is separately reported on the Statement of ACERA's Net Position in current assets. A corresponding liability of an equal amount (the obligation to return the cash collateral) is reported as a liability.

Non-cash collateral held is not reported on Statement of ACERA's Net Position nor is there a corresponding liability reported on this statement.

Derivatives

ACERA's investments include the following types of investment derivatives: futures contracts-equity index, currency forward contracts, rights, and warrants. ACERA enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio.

The fair value of exchange traded derivatives such as futures contracts, rights and warrants are based on quoted market prices. The fair value of non-exchange traded derivatives such as currency forward contracts and certain futures contracts are determined using external pricing service using various proprietary methods.

The fair value of derivative contracts is reported in investments as assets or liabilities on the Statement of ACERA's Net Position.

Collateral and Margin Account

For the equity index futures, there is an initial margin requirement to open a position as well as a collateral maintenance requirement that must be kept until the position is closed out.

ACERA reports the collateral for the equity index futures in short term investments.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation or amortization. Capital assets with an initial cost of $3,000 or more and an estimated useful life in excess of one year are capitalized and depreciated. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the depreciable assets or over the term of the lease on leasehold improvements.

For each asset, ACERA recognizes one-half year of expense in the year the asset is placed in service and one-half year of expense in the year of retirement. The estimated useful lives for the assets in each category are as follows:

	Years
Leasehold Improvements	27.5
Information System - Retirement	7.0
Office Furniture	7.0
Business Continuity Assets	5.0
Computer Hardware	5.0
Offsite Office Equipment	5.0
Electronic Document Management System	5.0
Information System - Accounting	3.0
Computer Software	3.0

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

2. PLAN DESCRIPTION

ACERA is an independent public employees' retirement system which operates a cost-sharing multiple-employer defined benefit Pension Plan serving Participating Employers. In addition, ACERA administers Other Postemployment Medical Benefits (OPEB) and Non-OPEB. ACERA began operations in its present form on January 1, 1948.

ACERA is governed by State and Federal Laws as well as the California Constitution, and the County Employees Retirement Law of 1937 (1937 Act) found in the California Government Code at Section 31450 et. seq., and the bylaws and policies adopted by the ACERA Board of Retirement.

These laws and policies govern ACERA's plan structure and operation. The provisions of the 1937 Act govern requirements concerning membership, governance, contributions, benefits, service, retirement eligibility, disability, cost of living adjustment, financial provisions, optional allowances, reciprocal benefits, administration expenses, etc.

ACERA is not affiliated with the California Public Employees' Retirement System (CalPERS).

ACERA meets member and beneficiary obligations through member contributions, Participating Employer contributions, and investment income. Contributions are prudently invested in accordance with the 1937 Act and ACERA's investment policies to generate investment income to fund benefits and pay administration expenses.

ACERA provides basic lifetime retirement, disability, and death benefits to members who meet the minimum age and length-of-service requirements. In addition, ACERA administers supplemental retirees postemployment medical, dental care, vision care, cost of living adjustments, and death benefit programs. (In this report, "basic" benefits refers to vested benefits provided for in accordance with the 1937 Act, whereas "supplemental" benefits refers to additional non-vested benefits paid at the discretion of the Board of Retirement and subject to available funding.)

Board of Retirement

The ACERA Board of Retirement has sole and exclusive responsibility over the assets of the system and the responsibility to administer the system to assure prompt delivery of benefits and related services as provided in Article XVI of the California Constitution.

The Board has nine members and two alternates. The Alameda County Board of Supervisors appoints four members, and four are elected by ACERA's membership. The County Treasurer serves as an *ex-officio* Board member. One alternate member is elected by safety members and one alternate member is elected by retired members.

Board members, with the exception of the County Treasurer, serve three-year terms in office, with no term limits. The four elected Board members are selected as follows:

- Two Board members are elected by General members of ACERA.
- One Board member is elected by Safety members of ACERA.
- One Board member is elected by retired members of ACERA.

The Board of Retirement oversees the Chief Executive Officer and ACERA staff in the performance of their duties in accordance with the 1937 Act, ACERA's by-laws, and Board policies.

Authority for Establishing and Amending Benefit Provisions

State and Federal laws as well as the California Constitution provide the authority for the establishment of ACERA's benefit provisions. In most cases where the 1937 Act provides options concerning the allowance of credit for service, the offering of benefits, or the modification of benefit levels, the law generally requires approval of the employers' governing boards for the option to take effect.

Separately, in 1984 the Alameda County Board of Supervisors and the Board of Retirement approved the adoption of Article 5.5 of the 1937 Act. This adoption permitted the establishment of an SRBR for ACERA.

Article 5.5 provides for the systematic funding of the SRBR and stipulates that its assets be used only for the benefit of retired members and their beneficiaries. The 1937 Act grants exclusive authority over the use of SRBR funds to the Board of Retirement. The SRBR provides funding for non-vested and non-pension benefits including Supplemental COLA, Retiree Death Benefit and Active Death Equity Benefit. Other non-vested retiree health benefits are provided in agreement with ACERA's Participating Employers through the use of Internal Revenue Code 401(h) accounts. These retiree health benefits include dental and vision care, Medicare Part B reimbursement, and the Monthly Medical Allowance (MMA). 401(h) benefits are funded by employer contributions. ACERA treats an equal amount of SRBR assets as employer contributions for pensions. The provision of all supplemental benefits is subject to annual review and authorization by the Board of Retirement.

ACERA operates as a defined benefit Pension Plan, qualified under section 401(a) of the Internal Revenue Code and is not subject to tax under present income tax laws. All assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the plan.

PARTICIPATING EMPLOYERS

ACERA operates as a cost-sharing multiple-employer defined benefit plan for Alameda County (the "County"), the Superior Court of California for the County of Alameda, and five other Participating Employers (which are special districts) located in the County but not under the control of the County Board of Supervisors. In this report, Alameda County and special districts are referred to as "Participating Employers". All risks and costs, including benefit costs, are shared by the Participating Employers. The five other Participating Employers are:

- Alameda County Medical Center
- Alameda County Office of Education
- First 5 Alameda County
- Housing Authority of the County of Alameda
- Livermore Area Recreation and Park District

PLAN MEMBERSHIP

All full-time employees of Participating Employers who are appointed to permanent positions are statutorily required to become members of ACERA.

SAFETY AND GENERAL MEMBERS

ACERA has two membership types, Safety and General, which are based on job classifications:

- Safety members are employees working in active law enforcement, deferred firefighters, or positions that have been designated Safety positions by the Board of Retirement (e.g., Juvenile Hall Group Counselors and Probation Officers).
- General members are all other members.

Defined Benefit Pension Plan

ACERA's Membership

As of December 31, 2012

Members, Survivors, and Beneficiaries Now Receiving Benefits	
Service Retirement	6,461
Disability Retirement	822
Beneficiaries and Survivors	1,117
Subtotal	**8,400**
Active Members	
Active Vested Members	7,957
Active Non-vested Members	2,627
Subtotal	**10,584**
Deferred Members	1,814
Total Membership	**20,798**

MEMBERSHIP STATUS AND VESTING

Members are considered to be active members, so long as they remain employed full-time by a Participating Employer (or subsequently change to part-time employment).

Members become vested in retirement benefits upon completion of five years of credited service.

SERVICE RETIREMENT

ACERA's regular (service) retirement benefits are based on years of credited service, final average salary, and age at retirement, according to the applicable statutory formula. Members who qualify for service retirement are entitled to receive monthly service retirement benefits for life.

Vested General members may retire at age 50, with 10 years of qualifying service, or at any age with 30 years of qualifying service, or at age 70, regardless of service credit.

Vested Safety members may retire at age 50, with 10 years of qualifying service, or at any age, with 20 years of qualifying service, or age 70, regardless of service credit.

DEATH BENEFITS

ACERA provides specified death benefits to beneficiaries and members' survivors. The death benefits provided depend on whether the member is active or retired.

The basic active member death benefit consists of a member's retirement contributions plus interest plus one month's pay for each full year of service (up to the maximum of six month's pay). Other death benefits may be available based on years of service, marital status, and whether the member has minor children.

TIER 1, TIER 2, AND TIER 3 BENEFIT LEVELS

The structure of the plan provides for three benefit levels or tiers within General membership and two tiers within Safety membership. The tiers differ mainly in the magnitude of contributions required and benefits received. Generally, members with an entry date prior to July 1, 1983, belong to Tier 1, while those with an entry date on or after July 1, 1983 belong to Tier 2. Most active ACERA members belong to Tier 2. Alameda County Housing Authority members are mostly in Tier 1, but effective September 30, 2011, new hires are in Tier 2. Relative to the Tier 1 members, active members in Tier 2 contribute somewhat less to the Pension Plan as a percent of compensation and will receive somewhat lower retirement benefits. Effective October 1, 2008, Livermore Area Recreation and Park District (LARPD) implemented a General Tier 3 plan for new employees and current employees. Those who elect General Tier 3 membership, will receive an enhanced benefit of 2.5% at 55, which is higher than the Tier 1 benefit (at most retirement ages) as a result of higher employer and employee contributions rates. Effective October 17, 2010, there are three benefit formula options for Safety membership Tier 2. Two new benefit formulas of 2% at 50 and 3% at 55 were implemented for new Safety members with different contribution rates. The existing Safety members are still under the benefit formula of 3% at 50. Note 3 Contributions starting on page 28 explains retirement plan contribution rates.

INTEGRATION WITH SOCIAL SECURITY

The contributions and benefits associated with the federal Social Security program are completely separate from ACERA members' contributions and benefits. Most General members of ACERA are covered by Social Security, and most Safety members are not.

ACERA contributions and benefits are integrated with Social Security for members who are covered by Social Security. The purpose of integration is to reduce the degree to which ACERA's plan coverage overlaps Social Security coverage.

BASIC COST OF LIVING ADJUSTMENT

Retirement allowances are indexed for inflation. Retirees receive automatic basic Cost-of-Living Adjustments (COLAs) based upon the Consumer Price Index (CPI) for the San Francisco Bay Area. The adjustments go into effect on April 1 each year. Under the 1937 Act annual COLA increases are capped at 3% for Tier 1 and LARPD Tier 3, and 2% for Tier 2 members. The expected impact of future basic Cost-of-Living Adjustments is a factor in setting the contribution rates for members and employers. In any year that the basic COLA adjustment for a retiree falls short of the CPI increase for that year due to the statutory cap, the shortfall is carried over and applied in a future year to the extent that the CPI falls short of the statutory cap in the future year.

For 2012, there was a maximum of 3.0% granted COLA increase for Tier 1 and Tier 3 members, and a maximum of 2.0% granted COLA increase for Tier 2 members, depending on the retirement dates.

Postemployment Medical Benefits

ACERA administers a medical benefits program for eligible retired members. Benefits include monthly medical allowances and Medicare Part B premium reimbursements. All retirees are eligible to enroll in dental and vision coverage. The benefits are paid through a 401(h) account, in accordance with federal tax laws. The maximum levels of the monthly medical allowance are reviewed by the Board of Retirement annually.

PROGRAM MEMBERSHIP

Retired members with a minimum of ten years of service or those who retire due to duty disability are eligible to receive a monthly medical allowance benefit if they enroll in one of the ACERA-sponsored medical plans. Retired members eligible for the monthly medical allowance benefit may also be reimbursed for the lowest standard Medicare Part B premium with proof of enrollment in Medicare Part B. All retired members are eligible to receive dental and vision benefits.

Non-OPEB

ACERA also provides other non-health postemployment benefits. Benefits include supplemental COLA, retired member death benefit, and active death equity benefit.

Separately from the basic Cost-of-Living Adjustment, the Board of Retirement implemented an ad-hoc supplemental Cost-of-Living Adjustment (supplemental COLA) program effective January 1, 1998. The supplemental COLA is structured to maintain each retiree's purchasing power at no less than 85% of the purchasing power of the original benefit. Under this program, each retiree's current allowance is adjusted, as necessary, so that the adjusted allowance becomes at least 85% of the original benefit amount indexed with the CPI.

The retired member death benefit is a one-time $4,250 lump sum death benefit payable to the beneficiary of a retiree. This benefit is only paid upon the death of a retiree; it is not paid upon the death of a beneficiary.

The active death equity benefit is available to an eligible beneficiary of an active member with five or more years of service. ACERA will fund the difference between the member's vested surviving spouse/domestic partner annuity benefit and a 100% surviving spouse/domestic partner annuity benefit.

PROGRAM MEMBERSHIP

All retired members are eligible to receive the supplemental COLA once they fall under 85% of the purchasing power of the original benefit and their beneficiaries will receive the retired member death benefit.

Actuarial Valuation

An actuarial valuation is normally performed annually for the Pension Plan. In addition, there is a separate actuarial valuation conducted annually for Postemployment Medical Benefits and Non-OPEB. Note 5 Actuarial Valuation starting on page 31 provides additional information about this topic.

3. CONTRIBUTIONS

Pension Plan

AUTHORITY FOR ESTABLISHING AND AMENDING OBLIGATIONS TO MAKE CONTRIBUTIONS

State and Federal laws as well as the California Constitution establish the basic obligations for Participating Employers and active members to make contributions to the Pension Plan. Member and employer contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. These rates are based on membership type (General and Safety) and tier (Tier 1, Tier 2, and Tier 3). The Pension Plan under the 1937 Act has no legal or contractual maximum contribution rates.

FUNDING OBJECTIVE

One of the funding objectives of the Pension Plan is to establish member and Participating Employer contribution rates that will remain as level as possible over time as a percentage of payroll, unless plan benefit provisions are changed. The funding for retirement benefits arises from three sources: member contributions, employer contributions, and the earnings on investments held by the plan.

MEMBER CONTRIBUTIONS AND REFUNDS

Active members are required by statute to contribute toward Pension Plan benefits. The member contribution rates are formulated on the basis of age at the date of entry and actuarially calculated benefits. The 1937 Act authorizes Participating Employers to pay all or a portion of an employee's retirement contribution obligation on the employee's behalf. These employer payments are called contribution offsets. Member contributions and credited interest are refundable upon termination of membership. The employer paid contribution offsets may or may not be refundable, as determined by the code section of the 37 Act that the employer adopted. Note 4 Reserves on page 29 explains semi-annual interest crediting.

EMPLOYER CONTRIBUTIONS

The Pension Plan provides lifetime retirement and disability benefits to its members. Participating Employers are required by statute to contribute the necessary amounts to fund these estimated benefits not otherwise funded by member contributions or expected investment earnings.

Employer contribution rates vary from year to year and depend on the level of benefits established, the rate of return on investments, and the cost of administering benefits.

MEMBER RATES BASED ON AGE-AT-DATE-OF-ENTRY

The ranges of current member contribution rates based on age-at-date-of-entry are shown below (effective September, 2012). Generally, each pair of percentages ranges from youngest to oldest age-at-date-of-entry within the category.

Current Member Contribution Rates

Effective September, 2012	
Tier 1: (entry date prior to July 1, 1983)	
General	7.48% - 14.64%
Safety 3% @ 50	14.70% - 22.24%
Tier 2: (entry date July 1, 1983 or later)	
General	5.09% - 10.39%
Safety 3% @ 50	12.23% - 18.18%
Tier 2: (entry date October 17, 2010 or later)	
Safety 2% @ 50	8.83% - 14.51%
Safety 3% @ 55	14.10% - 19.97%
Tier 3: (LARPD only)	
General	8.70% - 15.51%

For members covered by Social Security the contribution rates shown apply to biweekly salary over $161 (a one-third reduction in the rates applies to the first $161 of biweekly salary).

Postemployment Medical Benefits and Contributions

In accordance with federal tax law, Postemployment Medical Benefits and related administrative expenses are paid through a 401(h) account with contributions from the Participating Employers. There is no requirement and no guarantee that the employers will continue to contribute to the 401(h) account. If authorized by the Board of Retirement, ACERA treats an equal amount of SRBR assets as employer contributions available for paying pension benefits. ACERA's Board of Retirement has no authority to demand future payments from employers to fund the 401(h) account. These benefits can only be paid as long as assets are available. When assets are fully depleted, no Postemployment Medical Benefits will be paid by ACERA. In compliance with 1937 Act Section 31618.5, employers allocate a portion of their contribution to the 401(h) account for administrative costs related to providing benefits, in addition to contributions for the Postemployment Medical Benefits.

Pension Obligation Bonds

In 1995 and 1996 Alameda County issued pension obligation bonds and contributed the net bond proceeds to the ACERA Pension Plan. ACERA received aggregate net proceeds of $591 million from these bonds. Alameda County Medical Center, First 5 Alameda County, and the Superior Court of California for the County of Alameda (Employers) were part of the County of Alameda when the pension obligation bonds were issued. They subsequently separated and became discretely presented component units or special districts of the County of Alameda. The net bond proceeds contributions allow ACERA to provide "pension obligation bond credits" to these Employers (thus reducing contributions otherwise payable) over the period of time used by ACERA to amortize its unfunded actuarial accrued liability (UAAL). These Employers received pension obligation bond credits of approximately $44.1 million in the year ended December 31, 2012.

4. RESERVES

Reserves represent components of ACERA's Net Position. The annual change in ACERA's reserves equals the annual change in ACERA's Net Position.

Actuarial Asset Smoothing

Net investment income reported on the Statement of Changes in ACERA's Net Position affects the reserves indirectly through an actuarial asset "smoothing" process approved by the Board of Retirement. This process is intended to minimize the impact of short-term investment gains or losses, and is conducted semi-annually with calculation periods ending June 30 and December 31. It involves spreading the difference between actual and expected market returns over ten successive semi-annual periods to determine the actuarial value of assets.

Semi-annual Interest Crediting

ACERA updates reserve balances on a semi-annual basis as of June 30 and December 31 each year. At these times, ACERA carries out a multi-step process to calculate new reserve balances as specified in Article 5.5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited to specified components of reserves in a prescribed sequence after crediting the Contingency Reserve as described on page 31. Interest credited is based upon the actuarial assumed interest rate (or the actual rate if lower). This is defined as "Regular Earnings." If there are investment earnings that are above the target investments return remaining, 50% is credited to the SRBR and the remaining 50% is credited proportionally to all other reserves (except for the Contingency Reserve and the Market Stabilization Reserve).

While a member is active, member and employer contributions associated with that member are accumulated in two separate components of reserves—the Member Reserve and Employers' Advance Reserve. At the time of the member's retirement, ACERA makes a one-time transfer of the associated contributions plus credited interest from these two components of reserves to the Retired Member Reserve.

Components of Reserves

The Member Reserve represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest; deductions include refunds of member contributions along with credited interest and transfers to Retired Member Reserve made when a member retires.

The Employers' Advance Reserve represents the total net accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest; and deductions include transfers to Retired Member Reserve made when each member retires. Employer contribution rates are actuarially determined taking into account other events such as members electing refund of contributions. Therefore, a refund of member contributions should not have an adverse impact on the accumulation of funds in the Employers' Advance Reserve.

According to Section 31618.5 of the 1937 Act, to the extent that an employer contributes to the 401(h) account to pay the cost of administering Postemployment Medical Benefits, there is an annual transfer from the Employers' Advance Reserve to the Supplemental Retirees Benefit Reserve for an amount equal to the Postemployment Medical Benefit related administrative expenses. For the year ended December 31, 2012, the transferred amount was $1.0 million.

The Retired Member Reserve represents funds accumulated to pay retirement benefits to retired members. This reserve represents the total net accumulated transfers from the Member Reserve and the Employers' Advance Reserve (both made at the time each member retires), and credited interest, reduced by payments to retired members, beneficiaries, and survivors.

The Supplemental Retirees Benefit Reserve (SRBR) was established on January 1, 1985 under Article 5.5 of the 1937 Act. The SRBR represents funds required by statute to be set aside from Regular Earnings and investment earnings that are above the target investments return to provide supplemental benefits to retirees. Effective December 31, 2006, the Board of Retirement approved an allocation from the SRBR and other reserves to the Postemployment Medical Benefits and Non-OPEB. The Board of Retirement decides on an annual basis what member benefits to pay from the SRBR. The reserves table on page 31 shows the amounts of the SRBR currently available to pay for non-vested benefits. When there are funds available in the SRBR, the Board of Retirement can approve a transfer of an amount equal to the Participating Employers' 401(h) contributions and 401(h) administrative cost contributions from the SRBR to the Employers' Advance Reserve. The Board of Retirement may also approve a transfer from the SRBR to the Employers' Advance Reserve to reimburse the employers' payment of implicit subsidy to pay the full cost of Postemployment Medical Benefits. Non-vested benefits currently paid by the SRBR are described in the following two paragraphs.

The 401(h) Postemployment Medical Benefits Account is used to pay the medical allowance, Medicare Part B reimbursement, dental, and vision and the associated administrative cost. The account is set up under the provisions of Internal Revenue Code section 401(h), which provides for payment of benefits on a tax-free basis. Participating Employers decide each year whether to contribute the funds needed and identify them as 401(h) account contributions. For the year ended December 31, 2012, the employers funded $34.4 million of 401(h) contributions including $33.4 million of estimated cost of Postemployment Medical Benefits and $1.0 million of 401(h) administrative cost contributions.

The Non-OPEB Reserve is used to pay for the Supplemental COLA, active death equity benefits, and death (burial) benefits. A total amount of $2.3 million was paid for the Supplemental COLA for the year ended December 31, 2012. An amount of $0.9 million in death burial benefits was paid, and an amount of $0.4 million was transferred to survivors death benefit reserve for future annuity payment of active death equity benefits for the year ended December 31, 2012. The reserve is increased through Regular Earnings and investment earnings that are above the target investments return.

The Contingency Reserve represents reserves accumulated to satisfy the statutory requirement of establishing a reserve against deficiencies in future interest crediting. The size of the reserve is determined semi-annually by the Board. The 1937 Act stipulates that the contingency reserve cannot exceed 3.0% of total assets and that, if the reserve falls below 1.0% of total assets, earnings from subsequent periods shall fund the reserve until the reserve level is at least 1.0% of total assets. The Board set the contingency reserve to be a minimum of 1.4% as of June 30, 2009. The reserve is accumulated from Regular Earnings before crediting other reserves as described on page 29 under Semi-annual Interest Crediting.

The Market Stabilization Reserve Account represents the deferred balance of investment earnings or losses not yet credited to other reserves. This balance arises from the five-year actuarial smoothing process for investment earnings. The Market Stabilization Reserve Account balance thus represents the difference between (1) the aggregate amounts initially deferred (smoothed) from the ten most recent semi-annual periods and (2) the amounts subsequently recognized for semi-annual interest crediting from these same ten periods.

Allocation of Earnings to Reserves for 2012

ACERA had earnings of $698.7 million for the year ended December 31, 2012. $6.2 million of earnings were allocated to the Contingency Reserve for the year ended December 31, 2012. The Market Stabilization Reserve increased by $606.7 million for 2012 as a result of applying the actuarial five-year smoothing process and the actuarial value corridor limits. All other reserve accounts received interest credit of approximately $85.8 million.

Reserves

As of December 31, 2012

(Dollars in Thousands)

	Pension	Postemployment Medical Benefits	Non-OPEB	Total
Member Reserves	$ 1,083,916	$ -	$ -	$ 1,083,916
Employers' Advance Reserve	445,103	-	-	445,103
Retired Member Reserves	3,347,483	-	-	3,347,483
SRBR	-	512,593	58,286	570,879
401(h) Account	-	6,094	-	6,094
Basic Death (Burial) Benefit	-	-	6,070	6,070
Contingency Reserve	83,758	-	-	83,758
Market Stabilization Reserve Account	124,901	-	-	124,901
Total Reserves	**$ 5,085,161**	**$ 518,687**	**$ 64,356**	**$ 5,668,204**

5. ACTUARIAL VALUATION

ACERA retains an independent actuarial firm to conduct actuarial valuations of the Pension Plan, Postemployment Medical Benefits and Non-OPEB, to monitor ACERA's funding status and to establish the contribution rate requirements for the Pension Plan.

Pension Plan

The purpose of the valuations is to reassess the magnitude of ACERA's benefit commitments in comparison with the assets currently available to support those commitments. As a result, employer and member contribution rates can be adjusted accordingly. For the Pension Plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actual cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Contribution requirements are determined under the entry age normal actuarial cost method. This method is designed to collect contributions as a level percentage of pay. Any actuarial gains or losses that occur under this method are amortized as a level percentage of pay. To minimize the impact of short-term investment gains or losses, the Board of Retirement adopted an asset smoothing process described on page 29 under Actuarial Asset Smoothing. The December 31, 2011 actuarial valuation determined that the Pension Plan was 76.6% funded.

The information for the funding progress of the Pension Plan, which includes the actuarial value of assets, the actuarial accrued liability, the UAAL, the funded ratio, the annual covered payroll, and the ratio of UAAL to annual covered payroll are all presented in the Funded Status and Funding Progress - Pension Plan table on page 34. There are no legal or contractual maximum contribution rates under the 1937 Act that would affect the projection of benefits for financial reporting purposes.

Postemployment Medical Benefits and Non-OPEB

If Participating Employers continue to make contributions to the 401(h) account and the Board of Retirement continues to treat equal amounts of SRBR assets as contributions for pensions, then the Postemployment Medical Benefits are 72.0% funded assuming that the current benefit continues in perpetuity. This is the GASB 43 "funded ratio." The December 31, 2011 actuarial valuation determined that the Non-OPEB were 36.1% funded. The information for the funding progress of the Postemployment Medical Benefits and Non-OPEB, which includes the actuarial value of assets, the actuarial accrued liability, the UAAL, the funded ratio, the annual covered payroll, and the ratio of UAAL to annual covered payroll is presented in two separate tables on page 34.

Under the actuarial assumed rate of 7.8% per year for future investment earnings, it is anticipated that available assets will be sufficient to fund Postemployment Medical Benefits through year 2027 and the Supplemental COLA and death benefits program through year 2031.

Actuarial Methods and Assumptions

The status and funding progress for the Pension Plan, Postemployment Medical Benefits, and Non-OPEB are calculated based on the following actuarial methods and assumptions.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

	Pension Plan	Postemployment Medical Benefits	Non-OPEB
Valuation Date	12/31/11		
Actuarial Cost Method	Entry Age Normal		
Amortization of UAAL	Closed period 30 years (decreasing)		
Remaining Amortization Period	21 years	24 years	24 years
Assets Valuation Method	Difference between actual and expected market return smoothed over ten 6-months periods		
Actuarial Assumptions	Interest Rate: 7.80% Inflation Rate: 3.50% Across-the-Board Salary Increases: 0.50% Salary Increases: General 4.6% – 7.2% Safety 4.7% – 10.2% Demographic: refer to page 84		
Health care Cost Trend Rates:			
Medical	Graded down from 9% by 0.5% per annum until ultimate rate of 5%		
Dental and Vision	5%		
Medicare Part B	5%		
Postemployment Benefit Increases	For Tier 1 and 3 Members: 3.00% For Tier 2 Members: 2.00%	Dental, vision, and Medicare Part B subsidies are assumed to increase at 100% of the health care cost trend rates for these benefits. Monthly Medical Allowance (MMA) subsidies are assumed to increase at 50% of the health care cost trend rates for the MMA benefit.	Supplemental COLA benefits, payable when the current allowance from the Pension Plan drops below 85% of the original Pension Plan benefit indexed with CPI, are assumed to increase by the difference between inflation and the cost-of-living benefit guaranteed in the Pension Plan (3.00% for Tier 1 and Tier 3; and 2.00% for Tier 2, Tier 2C and Tier 2D), subject to other limitations.

The required supplementary schedules of funding progress on pages 48-50 present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits over time. The calculation of the unfunded actuarial accrued liabilities each year is based on the benefits provided under the terms of the respective plan in effect at the time of each valuation and on the pattern of cost sharing between the employer and plan members up to that date.

The funded status and funding progress of the Pension Plan, Postemployment Medical Benefits, and Non-OPEB as of December 31, 2011, the actuarial valuation date, are as follows:

Funded Status and Funding Progress – Pension Plan

(Dollar Amounts in Thousands)

Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL)[2] (b)	Unfunded AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b–a) /c
$ 4,868,689[3]	$ 6,359,483	$ 1,490,794	76.6	$ 892,489	167.0

1 Excludes assets for SRBR and other non-valuation reserves.
2 Excludes liabilities for SRBR and other non-valuation reserves.
3 Includes estimated $4,411,206 transferred from the SRBR to the employers' advance reserve to compensate the County for 2011 implicit subsidy.

Funded Status and Funding Progress – Postemployment Medical Benefits Without Limit [2]

(Dollar Amounts in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b–a) /c
$ 542,936	$ 754,216	$ 211,280	72.0	$ 892,489	23.7

1 SRBR assets that may be treated as employer contributions to the extent that Participating Employers make contributions to the 401(h) account. ACERA has no authority to require future funding from Participating Employers to the 401(h) account.
2 Postemployment Medical Benefits are paid from the 401(h) account. The funded status for the Postemployment Medical Benefits does not incorporate the potential effect of legal or contractual funding limitations. Please refer to Required Supplementary Information for limitations imposed under Article 5.5 of the County Employees Retirement Law of 1937.

Funded Status and Funding Progress – Non-OPEB Without Limit [2]

(Dollar Amounts in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b–a) /c
$ 67,020	$ 185,846	$ 118,826	36.1	$ 892,489	13.3

1 Portion of SRBR assets allocated to Non-OPEB for non-vested Supplemental COLA and death benefits.
2 The funded status for the Non-OPEB does not incorporate the potential effect of legal or contractual funding limitations. Please refer to Required Supplementary Information for limitations imposed under Article 5.5 of the County Employees Retirement Law of 1937.

6. POSTEMPLOYMENT MEDICAL BENEFITS

ACERA administers a medical benefits program for retired members and their eligible dependents. The County negotiates the medical contracts with the providers covering both active and retired members. This arrangement results in "blended" medical premium rates that allow early retirees not yet medicare-eligible to purchase medical care from one of these providers at rates lower than otherwise available (an "implicit subsidy"). ACERA and the County collectively determined that the total amount of implicit subsidy for the blended medical premium rate for the year 2011 was $4.4 million. SRBR assets in this amount were treated as a pension contribution in 2012 upon the Board's approval to compensate the County for the implicit subsidy. The implicit subsidy amount for 2012 has not yet been determined. Approximately 73.0% of ACERA's retirees purchased medical coverage as of December 31, 2012. Approximately 96.7% of retirees were enrolled in vision and dental through this program as of December 31, 2012.

ACERA's retirees are eligible to receive a subsidy for medical premiums funded by the Participating Employer's 401(h) account contributions. This subsidy takes the form of a monthly medical allowance. The allowance is subject to annual reauthorization by the Board of Retirement.

The actual amount of the allowance for each retiree depends on the retiree's number of years of service. The subsidy ranges from 50% for retirees with 10 years of service to 100% for retirees with 20+ years of service. Disability retirees are also eligible for the medical benefits program; the amount of their subsidy depends on the type of disability retirement (service connected or non-service connected).

Postemployment Medical Benefits Paid by the 401(h) Account[1]

For the Year ended December 31, 2012
(Dollars in Thousands)

Medical Premium Account Balance	$ 6,094
Health Insurance Subsidies Paid	32,692
Number of Subsidized Retirees	
Medical	5,315
Medicare Part B	3,655
Dental and Vision	7,040

[1] The program may be amended, revised or discontinued at any time.

7. DEPOSITS AND INVESTMENTS

The 1937 Act gives the Board of Retirement exclusive control over ACERA's investment portfolio. Except as otherwise restricted by the California Constitution or other laws, the 1937 Act allows the Board to prudently invest, or delegate the authority to invest the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction.

Moreover, the 1937 Act requires the Board, its officers, and employees to discharge their duties with respect to ACERA and the investment portfolio under the following rules:

- "The members of the retirement board shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
- The members of the retirement board shall discharge their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- The members of the retirement board shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so."

The Board of Retirement investment authority granted under the 1937 Act was also incorporated into the state constitution as the California Pension Protection Act of 1992 (Article 16, Section 17 of the California Constitution).

Deposits

Operational cash accounts held with a financial institution are swept daily into a pooled money market fund, which invests in repurchase agreements and U.S. treasury bills and notes.

Investments

ACERA's asset classes include domestic equity, international equity, domestic fixed income, international fixed income, real estate, real return pool, and private equity and alternative investments. Investments in any asset class may be held in direct form, pooled form, or both.

As of December 31, 2012, thirteen external investment managers managed securities portfolios, eight investment managers were used for real estate investments, eighteen investment managers were used for private equity and alternative investments, and two for real return pool investments.

Available cash held by investment managers is swept daily into a pooled short-term investment fund managed by the custodial bank. This short term investment fund holds short-term obligations and deposits, including U.S. treasury and agency obligations, corporate bonds, commercial paper, repurchase agreements, certificates of deposit, banker's acceptances, time deposits, and floating-rate notes.

Likewise, cash collateral received in connection with the securities lending program in which ACERA participates is held in a separate short-term investment pool.

These two investment pools are each held in a trust fund sponsored by State Street Bank and Trust Company, the investment custodian and securities lending agent. They are regulated by the Federal Reserve, the Massachusetts Commissioner of Banks, and the U.S. Department of Labor.

The value of the underlying instruments in these investments pools is adjusted to fair value. The fair value of ACERA's position in these investment pools is not materially different from the value of the pool shares.

Derivatives

ACERA has the following types of derivatives: futures contracts-equity index, currency forward contracts, rights, and warrants. An equity index futures contract represents an agreement to purchase or sell an equity index for a given price at a specified future date. Currency forward contracts generally serve to hedge or offset, the impact of foreign currency exchange rate fluctuations on the reported U.S. dollars fair value of investments denominated in foreign currencies. Rights and warrants allow the holder the option to buy securities for a given price within a specified time period.

The Investment Derivatives schedule below reports the fair value balances, changes in fair value, and notional amounts of derivatives outstanding as of and for the year ended December 31, 2012, classified by type. For financial reporting purposes, all ACERA derivatives are classified as investment derivative

Derivative Investments

For Year Ended December 31, 2012 (Dollars in Thousands)

Derivative Type	Classification	Notional Value	Fair Value	Changes in Fair Value[2]
Futures Contracts - Equity Index	Receivable/Liability	$ 1,011	$ -	$ 7,094
Equity Index Swaps	Receivable/Liability	-	-	1,291
Rights	International Equity	174,028 shares	105	99
Warrants	International Equity	119,308 shares	101	32
Currency Forward Contracts	Receivable/Liability[1]	$ 397,746	1,922	8,666
Total			**$ 2,128**	**$ 17,182**

1 Currency forward contracts are reported as Foreign Exchange Contracts. Spot contracts are not considered as derivatives.

2 Change in fair value includes realized and unrealized gains and losses on derivatives and is included in Net Appreciation (Depreciation) in Fair Value of Investments on the Statement of Changes in ACERA's Net Position.

Securities Lending Activity

The Board of Retirement policies authorize ACERA to participate in a securities lending program. Securities lending transactions are short-term collateralized loans of ACERA's securities for the purpose of generating additional investment income. ACERA has a securities lending agreement in place that authorizes the securities lending agent to lend ACERA's securities to broker-dealers and banks pursuant to a loan agreement. For securities on loan, ACERA receives either cash or non-cash collateral. ACERA invests the cash collateral in a pooled short-term investment fund maintained by the securities lending agent and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In the case of non-cash collateral, the borrower pays ACERA a loan premium.

For the year ended December 31, 2012, on behalf of ACERA, the securities lending agent lent ACERA's securities (government bonds, corporate stocks, corporate bonds, international equities, and international fixed income) to borrowers under the securities lending agreement and ACERA received cash (U.S. and foreign currency), securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters-of-credit as collateral.

ACERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default (therefore, such non-cash collateral is not reported on the Statement of ACERA's Net Position).

Borrowers were required to deliver collateral for each loan equal to:

- Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and
- Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a margin of at least 105% of the market value of the loaned securities.

Moreover, borrowers were required to maintain the designated margin percentage of collateral on a daily basis.

ACERA did not impose any restrictions for the year ended December 31, 2012 on the amount of the loans that the securities lending agent made on its behalf. In the event the borrower failed to return the loaned securities, the securities lending agent indemnified ACERA by agreeing to purchase replacement securities. If the collateral was inadequate to replace the securities lent, the securities lending agent will supplement the amount of cash collateral. If the borrower failed to pay ACERA for any income distributions on loaned securities, the securities lending agent will also supplement the income amount due to ACERA. There were no losses during the year ended December 31, 2012 resulting from a default of the borrowers or the securities lending agent.

For the year ended December 31, 2012, ACERA and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a short term investment pool managed by the securities lending agent. For the fiscal year 2012, the short term investment fund is separated into two investment pools: 1) a liquidity pool and 2) a duration pool. As of December 31, 2012, the liquidity pool had an average duration of 33 days and an average weighted final maturity of 71 days for U.S. dollars collateral. The duration pool had an average duration of 41 days and an average weighted final maturity of 1,924 days for U.S. dollars collateral. For the year ended December 31, 2012, ACERA had no credit risk exposure to borrowers because, for each borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of December 31, 2012, ACERA had securities on loan with a total fair value of $256.3 million; however, the cash collateral held against the loaned securities was $257.4 million and exceeded the total fair value of loaned securities by $1.1 million.

Deposit, Investment, and Derivative Risks

GASB Statements No. 40 and 53 require the disclosure of specific risks that apply to ACERA's deposits, investments, and derivatives. They identify the following risks:

- Custodial Credit Risk—Deposits and Investments
- Concentration of Credit Risk
- Credit Risk—Investments and Derivatives
- Interest Rate Risk
- Fair Value Highly Sensitive to Changes in Interest Rates
- Foreign Currency Risk

Investment Policies

GASB Statement No. 40 requires the disclosure of deposit or investment policies (or the lack thereof) that relate to investment and custodial risks.

ACERA has chosen to manage the investment risks described by GASB Statements No. 40 and 53 by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that individual manager rather than adopting across the board investment policies with respect to these investment risks. The guidelines stipulate the investment style, performance objective, performance benchmarks, and portfolio characteristics.

For example, in the case of foreign currency risk, the policy guidelines for the U.S. dollars equity portfolios differ from those for the non-U.S. dollars equity portfolios. Likewise, in the case of credit risk, the guidelines for one fixed income manager stipulate a minimum acceptable credit rating for each debt instrument while the guidelines for a different fixed income portfolio merely require that the average of credit ratings for a certain fair value percentage of the portfolio meet a minimum requirement.

Each manager is likewise subject to a "manager standard of care" that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of ACERA.

Separately, ACERA's guidelines also require each manager's investment return performance to compare favorably with the performance of the relevant passive market index such as the Barclays Capital Aggregate Bond Index.

ACERA's investment staff continually monitors all investment managers for compliance with the respective guidelines.

Custodial Credit Risk—Deposits

Custodial Credit Risk for Deposits is the risk that, in the event of the failure of a depository financial institution, ACERA will not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party. ACERA has no general policy on custodial credit risk for deposits.

By necessity, ACERA maintains operational cash deposits to support day-to-day cash management requirements. As of December 31, 2012, cash held with a financial institution in a pooled money market fund amounted to $613.8 thousand, of which $120.0 thousand is insured and $493.8 thousand is uninsured and uncollateralized subject to custodial credit risk.

Custodial Credit Risk—Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of a counterparty to a transaction, ACERA will not be able to recover the value of investment securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held and maintained with the master custodian in the name of ACERA. The master custodian may rely on sub-custodians. The custodial requirement does not apply to real estate investments, investments in commingled pools, and private equity and alternative investments. As of December 31, 2012, ACERA had no investments that were exposed to custodial credit risk.

Custodial Credit Risk—Derivatives

ACERA's investments include collateral associated with derivatives activity. As of December 31, 2012, collateral for derivatives were $2.1 million. The collateral margins are maintained in margin accounts at financial services firms that provide brokerage services. Each account is uninsured and uncollateralized, and subject to custodial credit risk.

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of ACERA's investment in a single issuer of securities. The individual investment guidelines for each fixed income manager restrict concentrations greater than 5% in the securities of any one issuer (excluding direct obligations of the U.S. and/or eligible foreign governments, and those explicitly guaranteed by the U.S. and/or eligible foreign governments). As of December 31, 2012, ACERA had no investments in a single issuer that equaled or exceeded 5% of ACERA's Net Position.

Credit Risk—Investments

Credit Risk is the risk that the issuer of a debt security or other counterparty to an investment will not fulfill its obligations. The individual investment guidelines for each fixed income investment manager describe applicable restrictions on credit risk. The credit risk restrictions by investment portfolio are as follows:

- Medium-Grade Fixed Income: A minimum of 51% of the market value of the portfolio must be rated BBB- or higher by Standard & Poor's (S&P) or Baa3 or higher by Moody's Investor Services (Moody's).
- Enhanced Index Fixed Income: Investments must be rated Baa/BBB or better by Moody's/S&P at time of purchase.
- Global Fixed Income: The average credit quality of the portfolio shall be grade "A" or better based on Moody's and/or S&P. Individual securities shall be of investment-grade quality, i.e., Baa3/BBB- and above.

The credit quality ratings of a security, (e.g., from Moody's or S&P) give an indication of the degree of credit risk for that security.

The Credit Risk Analysis schedule on page 40 discloses credit ratings of ACERA's debt investments by type and for each external investment pool as of December 31, 2012.

Credit Risk Analysis

As of December 31, 2012 (Dollars in Thousands)

Debt Investments By Type	Total	Aaa	Aa	A	Baa	Ba	B	Caa	Ca and Below	Not Rated
		Adjusted Moody's Credit Rating[1]								
Collateralized Mortgage Obligations	$ 86,101	$ 38,892	$ 1,242	$ 1,324	$ 6,435	$ 2,114	$ 10,608	$ 11,989	$ 5,261	$ 8,236
Convertible Bonds	28,111	-	-	3,276	5,111	4,897	6,095	3,925	-	4,807
Corporate Bonds	322,479	3,805	1,028	54,571	165,222	41,308	38,119	15,929	241	2,256
Federal Home Loan Mortgage Corp.	39,199	-	39,199	-	-	-	-	-	-	-
Federal National Mortgage Assn.	73,583	-	73,583	-	-	-	-	-	-	-
Government National Mortgage Assn. I, II	21,820	-	21,820	-	-	-	-	-	-	-
Government Issues	221,369	31,327	28,790	314	58,184	14,226	-	-	-	88,528
Municipal	9,109	-	-	9,109	-	-	-	-	-	-
Other Asset Backed Securities	28,658	1,350	-	1,385	4,211	1,119	1,933	6,807	11,853	-
Mutal Funds	118,607	-	-	-	-	-	-	-	-	118,607
Subtotal Debt Investments	**$ 949,036**	**$ 75,374**	**$ 165,662**	**$ 69,979**	**$ 239,163**	**$ 63,664**	**$ 56,755**	**$ 38,650**	**$ 17,355**	**$222,434**
EXTERNAL INVESTMENT POOLS OF DEBT SECURITIES										
Securities Lending Cash Collateral Fund										
Liquidation Pool	233,523	-	-	-	-	-	-	-	-	233,523
Duration Pool	23,910	-	-	-	-	-	-	-	-	23,910
Master Custodian Short-Term Investment Fund	149,494	-	-	-	-	-	-	-	-	149,494
Subtotal External Investment Pools	**406,927**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**406,927**
Total	**$ 1,355,963**	**$ 75,374**	**$ 165,662**	**$ 69,979**	**$ 239,163**	**$ 63,664**	**$ 56,755**	**$ 38,650**	**$ 17,355**	**$629,361**

1 Adjusted Moody's Credit Rating: This schedule displays the fair value of investments by credit rating in increasing magnitude of risk. Investments are classified by Moody's credit rating, or by the Moody's rating that corresponds to the Standard & Poor's (S&P) credit rating if the investment has a S&P rating but not a Moody's rating. Also whenever both ratings for an investment exist and the S&P rating for the investment indicates a greater degree of risk than the Moody's rating, then the investment's Moody's credit rating is adjusted, solely for the purpose of this disclosure, to the Moody's rating corresponding to the greater degree of risk.

Credit Risk—Derivatives

ACERA is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to credit risk include currency forward contracts, and synthetic futures (which are included in futures contracts-equity index). To minimize credit risk exposure, ACERA's investment managers continually monitor credit ratings of counterparties. Should there be a counterparty failure, ACERA would be exposed to the loss of the fair value of derivatives that are in asset positions and any collateral provided to the counterparty, net of the effect of applicable netting arrangements. ACERA has no general investment policy with respect to netting arrangements or collateral requirements. Netting arrangements legally provide ACERA with a right of setoff in the events of bankruptcy or default by the counterparty. ACERA's investment managers may have collateral posting provisions associated with currency forward contracts. In the event of counterparty failure, ACERA would be exposed to loss of collateral provided to the counterparty. Collateral provided by the counterparty to ACERA reduces its credit risk exposure. The collateral associated with investments derivatives is disclosed on page 39 under Custodial Credit Risk—Derivatives.

The following Credit Risk—Derivatives schedule discloses the counterparty credit ratings of ACERA's investment derivatives in asset positions by type, as of December 31, 2012. These amounts represent the maximum loss that would be recognized if all counterparties fail to perform as contracted, without respect to any collateral or other security, or netting arrangement.

Credit Risk Analysis – Investment Derivatives Subject to Credit Risk

As of December 31, 2012
(Dollars in Thousands)

Adjusted Moody's Credit Rating[1]	Currency Forward Contracts
A	$ 4,163
Subtotal Derivatives in Asset position	**4,163**
Derivatives in Liability Position	(2,241)
Total Derivatives in Asset/(Liability) Position	**$ 1,922**

1 See footnote 1 on page 40.

As of December 31, 2012 the $4.2 million maximum exposure of derivatives credit risk was reduced by $2.2 million of liabilities included in netting arrangements, resulting in a net exposure to credit risk of $2.0 million (rounded).

ACERA has investment derivative concentration of credit risk. As of December 31, 2012, ACERA has a 39.7% ($0.8 million) net exposure to credit risk with one counterparty with a credit rating of A, and 37.1% ($0.7 million) with another counterparty with a credit rating of A+.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

ACERA has investments in three fixed income portfolios containing individual debt securities as well as investments in external investment pools containing debt securities. All of these investments are subject to interest rate risk. ACERA has no general policy on interest rate risk for the fixed income portfolios or for the investments in external pools. ACERA manages interest rate risk for the three fixed-income portfolios by setting limits on portfolio duration for each portfolio. The duration restrictions by investment portfolio (with portfolio style) are as follows:

- Duration Band: Barclays Baa Credit Capital Index duration +/- 2.5 years (Medium Grade Fixed Income)
- Duration: Match the Barclays Capital Aggregate Bond Index duration (Enhanced Index Fixed Income)
- Duration Band: 1–10 years duration (Global Fixed Income)

The following Interest Rate Risk Analysis—Duration schedule discloses the duration of ACERA's debt investments by type and the duration of each of the external investment pools of debt securities. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present values of cash flows, weighted for those cash flows as a percentage of the investment's full price. The Master Custodian Short-Term Investment Fund had an average weighted maturity of 32 days as of December 31, 2012.

Interest Rate Risk Analysis – Duration

As of December 31, 2012 (Dollars in Thousands)

Debt Investments by Type		Fair Value	Duration in Years
Collateralized Mortgage Obligations	$	86,103	4.1
Convertible Bonds		28,112	6.4
Corporate Bonds		322,479	7.0
Federal Home Loan Mortgage Corp.		39,199	2.4
Federal National Mortgage Assn.		73,583	2.6
Government National Mortgage Assn. I, II		21,819	1.8
Government Issues		221,369	8.7
Municipal		9,109	13.4
Other Asset Backed Securities		28,656	2.3
Mutal Funds		118,607	-
Total of Debt Investments	**$**	**949,036**	

External Investment Pools of Debt Securities		Fair Value	Duration
Securities Lending Cash Collateral Fund			
Liquidity Pool	$	233,523	33 days
Duration Pool		23,910	41 days
Master Custodian Short-Term Investment Fund		149,494	-
Total External Investment Pools	**$**	**406,927**	

Interest Rate Risk Analysis – Highly Sensitive

Investment with Fair Values Highly Sensitive to Changes in Interest Rates

As of December 31, 2012 (Dollars in Thousands)

Investment Type	Investment Description	Interest Rates		Fair Value
Collateralized Mortgage Obligations	Mortgage-related Securities	5.5 to 6.0%	$	4,215

Fair Value Highly Sensitive to Changes in Interest Rates

Debt investment terms may cause its fair value to be highly sensitive to interest rate changes. The Interest Rate Risk Analysis table described on page 42 discloses the degree to which ACERA's investments are sensitive to interest rate changes due simply to the remaining term to maturity. In contrast, ACERA's investments with fair values that are highly sensitive to interest rates due to other factors are disclosed on the Interest Rate Risk Analysis - Highly Sensitive schedule on page 42. ACERA has no general investment policy with respect to investments with fair values that are highly sensitive to changes in interest rates.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit. ACERA has no general investment policy with respect to foreign currency risk.

Foreign Currency Risk—Investments

The Foreign Currency Risk Analysis schedule on page 44 shows the fair value of investments that are exposed to this risk by currency denomination and investment type. This provides an indication of the magnitude of foreign currency risk for each currency.

Foreign Currency Risk—Equity Index Swaps and Futures

Equity Index swaps and futures contracts-equity index are derivatives. An equity index swap represents an agreement between two parties to swap two sets of equity index values. An equity index futures contract represents an agreement to purchase or sell an equity index for a given price at a specified future date.

For those equity index swaps and futures contracts-equity index which are dollar-denominated securities issued by foreign countries, there is an exposure to a foreign currency risk.

Foreign Currency Risk—Foreign Exchange Contracts

Foreign exchange contracts are subject to foreign currency risk. Foreign exchange contracts include currency forward contracts and spot contracts. Currency forward contracts are derivatives and are described in the derivatives section of this note. Spot contracts are generally used when ACERA is required to make or receive payments in a foreign currency. Spot contracts are agreements to buy or sell a certain amount of foreign currency at the current market rate, for settlement in two business days.

The dollar impact that foreign exchange contracts have on foreign currency risk is equal to the foreign currency settlement amounts translated in the same manner as the investments (i.e. spot exchange rate at the end of the year). The impact appears in the column labeled Foreign Currency on the schedule on page 44. The Net Exposure column of the schedule indicates the net foreign currency risk, i.e., the gross risk associated with the investments less the risk hedged by the outstanding foreign exchange contracts.

Foreign Currency Risk Analysis

Fair Value of Investments Exposed to Foreign Currency Risk by Currency

As of December 31, 2012 (Dollars in Thousands)

	Investment Type						
Currency	**Common Stock and Depository Receipts**	**International Equity Mutual Fund/Private Equity**	**Corporate Bonds**	**Foreign Currency**	**Government Issues**	**Currency Swaps**	**Net Exposure**
Australian Dollar	$ 45,067	$ -	$ 6,084	$ 198	$ 26,566	$ (834)	$ 77,081
Brazilian Real	7,071	-	4,238	-	9,289	60	20,658
Canadian Dollar	46,598	-	-	(2,057)	10,208	(6)	54,743
Chilean Peso	-	-	1,149	-	-	-	1,149
Colombian Peso	-	-	731	-	-	-	731
Danish Krone	15,755	-	-	-	-	(20)	15,735
Euro Currency	350,291	-	6,255	29,140	35,134	(505)	420,315
Hong Kong Dollar	107,636	-	-	53	-	1	107,690
Indian Rupee	14,077	-	-	433	-	(90)	14,420
Indonesian Rupiah	2,436	-	-	-	-	-	2,436
Israeli Shekel	3,259	-	-	-	-	28	3,287
Japanese Yen	183,623	-	-	(512)	-	2,157	185,268
Malaysian Ringgit	4,121	-	-	-	3,023	-	7,144
Mexican Peso	1,352	-	1,355	-	23,835	-	26,542
New Taiwan Dollar	8,606	-	-	-	-	-	8,606
New Zealand Dollar	417	-	2,134	5	12,162	160	14,878
Norwegian Krone	2,245	-	-	18	-	487	2,750
Philippine Peso	-	-	1,288	-	3,407	-	4,695
Pound Sterling	197,776	-	-	228	11,495	451	209,950
Singapore Dollar	24,885	-	-	137	-	1	25,023
South Korean Won	19,788	-	-	-	-	-	19,788
Swedish Krona	25,576	-	-	189	-	173	25,938
Swiss Franc	89,390	-	-	4	-	(222)	89,172
Thailand Baht	1,099	-	-	-	-	-	1,099
Uruguayan Peso	-	-	-	-	745	-	745
Various	-	321,482	-	-	-	-	321,482
Grand Total	**$ 1,151,068**	**$ 321,482**	**$ 23,234**	**$ 27,836**	**$ 135,864**	**$ 1,841**	**$ 1,661,325**

Real Estate

Real Estate Investment Income – Separate Properties

For the Year ended December 31, 2012
(Dollars in Thousands)

Real Estate Investment Income	$ 11,712
Real Estate Expenses	
Non-Operating Expenses[1]	228
Operating Expenses	6,490
Total Expenses	**6,718**
Real Estate Net Income	**$ 4,994**

1 Non-Operating Expenses include interest expense resulting from loans on properties.

The remaining balance of real estate related debt outstanding associated with the separate properties as of December 31, 2012 was $12.1 million.

8. CAPITAL ASSETS

ACERA's capital assets include equipment and furniture, Electronic Document Management System, information systems, and leasehold improvements. As of December 31, 2012, there is no balance in construction in progress. See the following table for details.

Capital Assets and Accumulated Depreciation

For the Year ended December 31, 2012 (Dollars in Thousands)

	January 1, 2012	Additions	Deletions / Transfers	December 31, 2012
CAPITAL ASSETS - DEPRECIABLE				
Equipment and Furniture	$ 3,118	$ 332	$ -	$ 3,450
Electronic Document Management System	3,922	245	-	4,167
Information Systems	10,457	-	-	10,457
Leasehold Improvements	2,558	20	-	2,578
Subtotal	**20,055**	**597**	**-**	**20,652**
CAPITAL ASSETS - NON DEPRECIABLE				
Construction-in Progress	180	-	(180)	-
Total Capital Assets (Cost)	**20,235**	**597**	**(180)**	**20,652**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,637)	(220)	-	(2,857)
Electronic Document Management System	(395)	(814)	-	(1,209)
Information Systems	(10,457)	-	-	(10,457)
Leasehold Improvements	(472)	(94)	-	(566)
Total Accumulated Depreciation and Amortization	**(13,961)**	**(1,128)**	**-**	**(15,089)**
Capital Assets - Net of Accumulated Depreciation and Amortization	**$ 6,274**	**$ (531)**	**$ (180)**	**$ 5,563**

9. LEASES

ACERA leases office space from Oakland 14th St. Office, a title holding corporation formed by ACERA. The term of the lease is seven years and seven months, with an option to renew for five additional years. Under the terms of the lease agreement, ACERA's base rent is abated. However, ACERA is required to pay its proportionate share of building operating expenses as defined in the lease. ACERA's share of these operating expenses was approximately $115,000 for the year ended December 31, 2012.

In addition, ACERA leases photocopy machines and water coolers to support operations. All current leases will expire in 2015. Equipment rental expenses were approximately $28,000 for the year ended December 31, 2012. The future estimated minimum rental payments for these leases are as follows:

Future Minimum Rental Payments

As of December 31 (Dollars in Thousands)

Year	Amount
2013	$ 24
2014	16
2015	8
Total	**$ 48**

10. ADMINISTRATION EXPENSE

ACERA's Board of Retirement annually adopts an operating expense budget covering expenses to be incurred in the following fiscal year. The operating budget includes the administration expense budget which is subject to the statutory limit based on exclusions specified in the 1937 Act.

ACERA has adopted the provisions of the 1937Act which allow ACERA to exclude actuarial, investment, legal, business continuity and technology direct costs from administrative expenses. Since investment related expenses were offset against investment income, the remaining exclusions totaled $3.9 million for 2012.

ACERA also conforms to the provision of the 1937 Act that limits the administrative cap to 0.21 percent of the Accrued Actuarial Liability (AAL). ACERA uses the AAL as of December 31 of the year in which the budget is adopted for this purpose.

A schedule of Administration Expense is included in the Supporting Schedules on page 53.

Application of Statutory Limit on Administration Expense

For the Year ended December 31, 2012 (Dollars in Thousands)

Total Accrued Actuarial Liability as of December 31, 2011	$ 7,299,545
Limit: Maximum Allowable fraction of Total Accrued Actuarial Liability (0.21%) times Total Accrued Actuarial Liability	$ 15,329
Portion of Administrative Expenses for the Fiscal Year subject to the Statutory Limit	10,244
Excess of Limit over Portion of Administration Expense Subject to Limit	**$ 5,085**
Portion of Administration Expense Subject to Limit as a Percentage of Accrued Actuarial Liability	**0.14%**

11. RELATED PARTY TRANSACTIONS

By necessity, ACERA is involved in various business transactions with the County of Alameda, the primary plan sponsor. These include reimbursement to the County for the salary and benefits of ACERA staff members paid through the County and reimbursement to the Alameda County Human Resources Department for personnel consulting services and for administering ACERA's retired members' health benefits. Also, under Board of Retirement policy, ACERA reimburses the County for a portion of the salary and benefits of each County employee elected to the Board of Retirement. Lastly, ACERA reimburses the County for the cost of services provided in the following areas: insurance/risk management, information technology, and telecommunications.

Also, ACERA leases office space from Oakland 14th St. Office, a title holding company controlled by ACERA. Note 9—Leases describes this arrangement.

Related Party Transactions

For the Year ended December 31, 2012 (Dollars in Thousands)

Reimbursed Cost of ACERA Staff Members	$ 10,984
Reimbursed Costs of County Services	449
State-Mandated Benefit Replacement Program (415M)	156
County Personnel Services	77
Partial Salary/Benefits Reimbursement for Elected Board Members	227
Total	**$ 11,893**

Required Supplementary Schedules

Schedule of Funding Progress – Pension Plan (Actuary's Exhibit IX)

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1, 3] (a)	Actuarial Accrued Liability (AAL)[2] (b)	Unfunded AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b–a) /c
12/31/06	$ 4,127,841	$ 4,825,157	$ 697,316	85.5	$ 762,139	91.5
12/31/07	4,560,213	5,112,403	552,190	89.2	793,558	69.6
12/31/08	4,644,010	5,537,919	893,909	83.9	864,260	103.4
12/31/09	4,789,000	5,899,331	1,110,331	81.2	882,606	125.8
12/31/10	4,776,128	6,162,740	1,386,612	77.5	898,342	154.4
12/31/11	4,868,689	6,359,483	1,490,794	76.6	892,489	167.0

1 Excludes assets for SRBR and other non-valuation reserves.

2 Excludes liabilities for SRBR and other non-valuation reserves.

3 Includes the following amounts transferred from the SRBR to the employers' advance reserve to compensate the County for the implicit subsidy: 2005 and 2006-$6,303,514; 2007-$3,091,493; 2008-$4,149,463; 2009-$5,287,767; 2010 (estimate provided by ACERA) $4,500,000; 2011 (estimate provided by ACERA) $4,411,206.

Schedule of Employer Contributions – Pension Plan

(Dollar Amounts in Millions)

Year Ended December 31	Annual Required Contribution [1]	Percentage (%) Contributed [2]
2006	$ 127	100
2007	130	100
2008	130	100
2009	132	100
2010	148	100
2011	163	100

1 This schedule is prepared by ACERA's management and includes SRBR assets treated as Participating Employer contributions for pension benefits to the extent that Participating Employers make contributions to the 401(h) account.

2 With the implementation of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, some Participating Employers have allocated total contributions paid to ACERA between the Pension and OPEB based on the assumption that the annual required contribution to the Pension Plan would have been lower if SRBR had not transferred an equal amount as employer contributions to fulfill part of the annual required contribution.

Schedule of Funding Progress – Postemployment Medical Benefits Without Limit [1, 3]

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[2] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (%) (a / b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b - a) / c
12/31/09	$ 591,289	$ 763,501	$ 172,212	77.4	$ 882,606	19.5
12/31/10	561,356	732,905	171,549	76.6	898,342	19.1
12/31/11	542,936	754,216	211,280	72.0	892,489	23.7

Schedule of Funding Progress – Postemployment Medical Benefits With Limit [1, 4] (Actuary's SRBR Exhibit I)

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[2] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (%) (a / b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b - a) / c
12/31/09	$ 591,289	$ 591,289	$ 0	100.0	$ 882,606	0
12/31/10	561,356	561,356	0	100.0	898,342	0
12/31/11	542,936	542,936	0	100.0	892,489	0

Schedule of Employer Contributions – Postemployment Medical Benefits

(Dollar Amounts in Thousands)

	Annual Required Contribution		
Year Ended December 31	Without Limit[3]	With Limit[4]	Percentage (%) Contributed[5]
2009	$ 38,658	$ 0	0
2010	35,305	0	0
2011	38,020	0	0

1 Postemployment Medical Benefits are paid from the 401(h) account.

2 Postemployment SRBR assets that may be treated as employer contributions to the extent that Participating Employers make contribution to the 401(h) account. ACERA has no authority to require future funding from Participating Employers to the 401(h) account.

3 In accordance with the GASB 43 "substantive plan" definition, this information is presented using the assumptions that: Participating Employers continue the same benefits offered and pay contributions to the 401(h) account as of December 31, 2011; and that the Board of Retirement continues to treat available SRBR assets as pension contributions without the limits described under note 4. This information discloses the "without limit" UAAL and "funded ratio" using the actuarial values of assets as described in footnote 2 and benefits provided as of December 31, 2011. Based on the amount of SRBR assets available for this purpose as of December 31, 2011, there are sufficient SRBR assets to continue substituting for the employer pension contributions until the year 2027.

4 The "funded ratio" is 100% using the assumption that the Participating Employers will cease contribution to the 401(h) account when there are no SRBR assets available to subsidize Participating Employer pension contributions. Article 5.5 of the County Employees Retirement Law of 1937 provides that assets added to the SRBR reserve are limited to the Regular Earning on the current SRBR reserve plus the investment earnings that are above the target investments return. Participating Employers decide on an annual basis whether to continue these benefits and what amount to contribute to the 401(h) account.

5 Some Participating Employers consider a portion of the transfer of investment earnings that are above the target investments return to the SRBR to be an employer contribution under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

Schedule of Funding Progress – Non-OPEB Without Limit[1]

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[2] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (%) (a / b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b - a) / c
12/31/09	$ 73,481	$ 171,178	$ 97,697	42.9	$ 882,606	11.1
12/31/10	69,256	176,501	107,245	39.2	898,342	11.9
12/31/11	67,020	185,846	118,826	36.1	892,489	13.3

Schedule of Funding Progress – Non-OPEB With Limit[3] (Actuary's SRBR Exhibit I)

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[2] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (%) (a / b)	Annual Covered Payroll (c)	UAAL as a % of Annual Covered Payroll (%) (b - a) / c
12/31/09	$ 73,481	$ 73,481	$ 0	100.0	$ 882,606	0
12/31/10	69,256	69,256	0	100.0	898,342	0
12/31/11	67,020	67,020	0	100.0	892,489	0

Schedule of Employer Contributions – Non-OPEB

(Dollar Amounts in Thousands)

	Annual Required Contribution		
Year Ended December 31	Without Limit[1]	With Limit[3]	Percentage (%) Contributed[4]
2009	$ 15,975	$ 0	0
2010	16,619	0	0
2011	16,779	0	0

1 In accordance with the GASB 43 "substantive Plan" definition, this information is presented using the assumption that the Board of Retirement continues the same benefits offered as of December 31, 2011 without the limits described under note 3. This information discloses the "without limit" UAAL and "funded ratio" using the actuarial values of assets and benefits as of December 31, 2011. Based on the amount of SRBR and Death (Burial) Benefit Reserve assets allocated for this purpose as of December 31, 2011, there are sufficient assets to provide these benefits until the year 2031.

2 Death (Burial) Benefit Reserve and portion of SRBR assets allocated to Non-OPEB for non-vested supplemental COLA and death benefits.

3 The funding for these benefits is limited to the portion of reserves allocated to Non-OPEB. As a result, there is no UAAL and the "funded ratio" is 100%. The Board of Retirement has the authority to change or discontinue these benefits. Article 5.5 of the County Employees Retirement Law 1937 provides that assets added to the SRBR reserve are limited to the Regular Earnings on the current SRBR reserve plus the investment earnings that are above the target investments return. If SRBR reserves are depleted, no funds will be available to pay these benefits and they will cease. The Board of Retirement decides on an annual basis whether to continue these benefits and in what amount.

4 Some Participating Employers consider a portion of the transfer of investment earnings that are above the target investments return from the Pension Plan to the SRBR to be an employer contribution under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

Notes to Required Supplementary Schedules

PENSION PLAN

The information presented in the supplemental schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information, as of the actuarial valuation date, December 31, 2011, is as follows:

Actuarial Cost Method: Entry Age Normal Cost Method

Asset Valuation Method: The Actuarial Value of Assets is determined by phasing in any difference between actual and expected market return over 10 six-month interest crediting periods. For valuation purposes the Actuarial Value of Assets has to be between 60%/140% of the Market Value of Assets. Furthermore, the Actuarial Value of Assets is reduced by the value of the non-valuation reserves such as the SRBR for valuation purposes.

Amortization of UAAL: The annual contribution rate, which if paid annually over the UAAL amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the actuarial assumed interest rate. The employer contribution is designed to remain as a level percentage of future active member payroll (including payroll of new members as they enter ACERA) assuming a constant number of active members. To remain as a level percentage of payroll, amortization payments are scheduled to increase by the assumed annual inflation rate plus the assumed across-the-board salary increase percent (the total of these two is 4.00% per annum).

The UAAL of ACERA's Pension Plan is being funded over a declining 21-year period following December 31, 2011.

Amortization Approach: Closed

Amortization of Actuarial Gains and Losses: Any new actuarial gains and losses will be combined with all prior unamortized gains and losses and amortized over the amortization period of 21 years following December 31, 2011.

Cost-of-Living Adjustments: The maximum statutory annual increase in retirement allowance is 3% per year for Tier 1 and Tier 3; and 2% for Tier 2 members. The increases are based on the change in the Bay Area Consumer Price Index for the calendar year prior to the April 1, effective date.

Actuarial Assumed Interest Rate: 7.80% per annum

Assumed Salary Increases:

General: 4.6%–7.2% per annum

Safety: **4.7**%–10.2% per annum

These total assumed salary increases include:

Inflation: 3.50% per annum

Across-the-Board: 0.50% per annum

POSTEMPLOYMENT MEDICAL BENEFITS

The actuarial assumptions used for the Postemployment Medical Benefits valuation were consistent with those applied to the Pension Plan with the exception of remaining amortization period, which is 24 years. All other assumptions noted for the Pension Plan were applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of UAAL, Amortization Approach, Actuarial Assumed Interest Rate, Assumed Salary Increases, Assumed Inflation Rate, and Assumed Across-the-Board Salary Increase. The Health Care Cost Trend Rate assumptions described below were specific to the Postemployment Medical Benefits.

Health Care Cost Trend Rates

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The trend rate for a particular plan year must be applied to that year's cost to yield the next year's projected cost.

All Non-Medicare plans: 9% for 2012 to 2013, reduced by 0.5% per annum until ultimate rate of 5%.

Medicare Advantage plans: 9% for 2012 to 2013, reduced by 0.5% per annum until ultimate rate of 5%.

Medicare Supplement plans: 7% for 2012 to 2013, reduced by 0.5% per annum until ultimate rate of 5%.

Dental and Vision: 5%

Medicare Part B: 5%

NON-OPEB

The actuarial assumptions used for the Non-OPEB valuation were consistent with those applied to the Pension Plan with the exception of remaining amortization period, which is 24 years. All other assumptions noted for the Pension Plan were applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of UAAL, Amortization Approach, Actuarial Assumed Interest Rate, Assumed Salary Increases, Assumed Inflation Rate, and Assumed Across the Board Salary Increase.

Supplemental COLA benefits, payable when the current allowance from the Pension Plan drops below 85% of the original Pension Plan benefit indexed with CPI, are assumed to increase by the difference between inflation and the cost-of-living benefit guaranteed in the Pension Plan (3.00% for Tier 1 and Tier 3; and 2.00% for Tier 2, Tier 2C and Tier 2D), subject to other limitations.

Supporting Schedules

Investment Expenses

For the Year Ended December 31, 2012
(Dollars in Thousands)

Investment Manager Fees[1]	$	24,993
Brokerage Commissions		2,176
Investment Allocated Costs		2,452
Investment Consultants		1,156
Other Investment Expenses		406
Investment Custodians		562
Total Investment Expenses	**$**	**31,745**

1 The Investment Section of this report provides details of Investment Manager Fees by type of investment manager.

Payments to Other Consultants[2]

For the Year Ended December 31, 2012
(Dollars in Thousands)

Actuarial & Audit Services	$	428
Human Resources Consulting		77
Legal Services		294
Other Specialized Services		174
Total Payments to Consultants	**$**	**973**

2 These are payments to outside consultants other than investment advisors. See the table to the left for fees paid to investment professionals.

Administration Expense

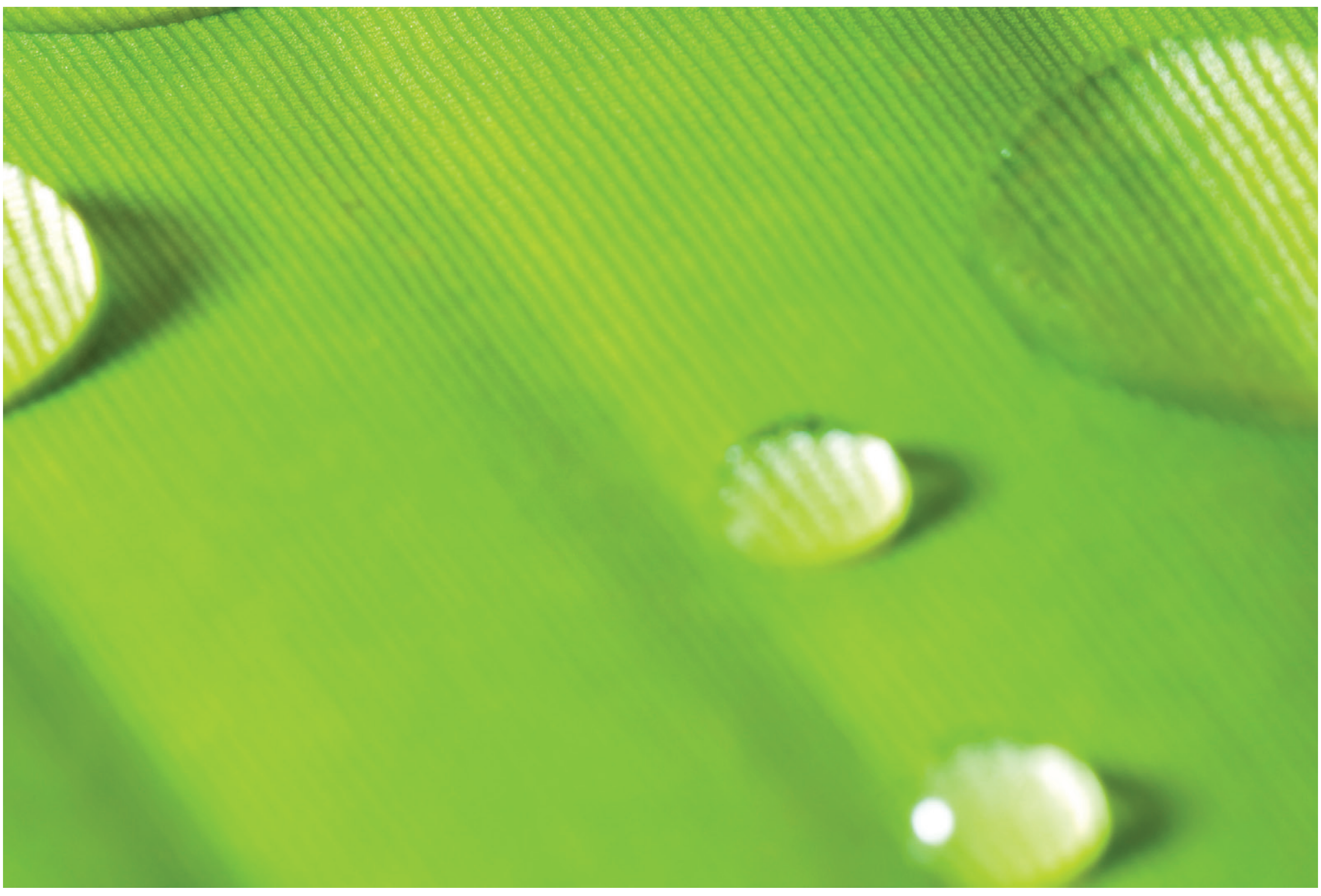
For the Year Ended December 31, 2012
(Dollars in Thousands)

PERSONNEL SERVICES		
Staff Wages	$	5,248
Fringe Benefits		2,764
Temporary Services		565
Total Personnel Services		**8,577**
PROFESSIONAL SERVICES		
Computer Services		237
Audit		76
Total Professional Services		**313**
COMMUNICATIONS		
Printing		70
Postage		77
Communication		78
Total Communications		**225**
RENTAL/UTILITIES		
Office Space		82
Equipment Leasing		20
Total Rental/Utilities		**102**
OTHER		
Software Maintenance and Support		
Depreciation and Amortization		120
Board Operating Expenses		248
Insurance		316
Miscellaneous		174
Training		87
Maintenance-Equipment		59
Supplies		23
Total Other		**1,027**
Subtotal: Administrative Expense Subject to Statutory Limit		**10,244**
Legal Expenses		1,517
Technology Expenses		1,220
Business Continuity		790
Actuarial Expenses		327
Subtotal: Administration Expense Excluded from Statutory Limit[1]		**3,854**
Total Administration Expense	**$**	**14,098**

1 Legal expenses, business continuity, technology, and investment expenses include an allocation of administration overhead expenses.

This page is intentionally left blank.

Investment



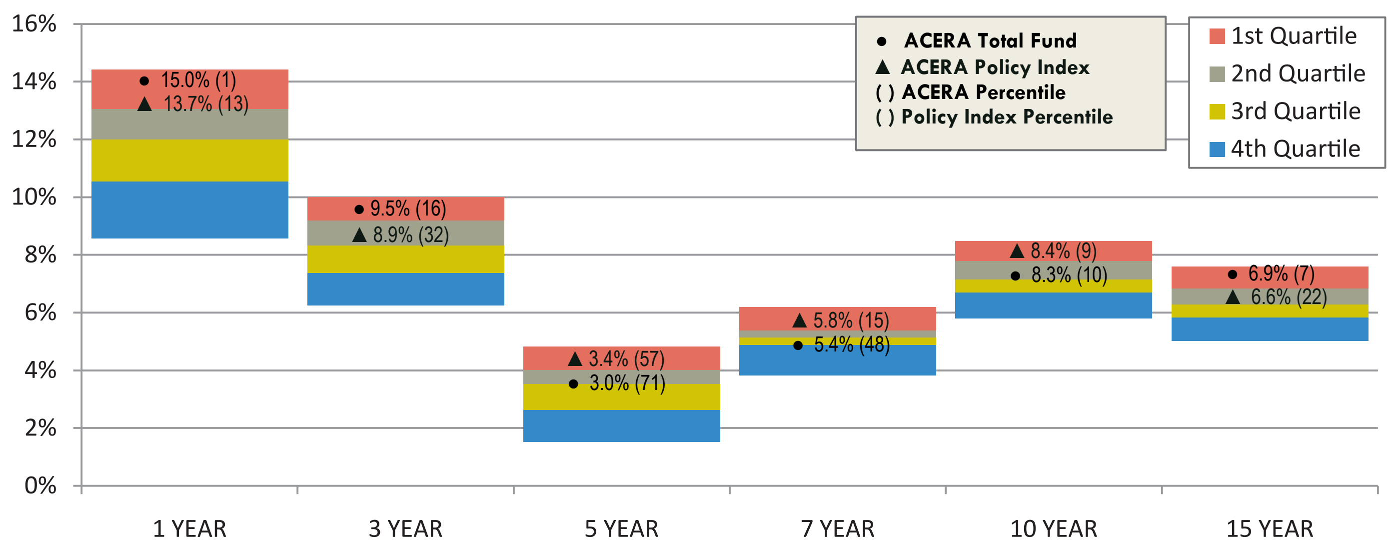
ACERA
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

Chief Investment Officer's Report

Performance Highlights of ACERA's 2012 Investment Fund (Fund)	
(Gross Results)	2012
Total Fund Return	**15.0%**
Policy Index Return	13.7%
Median Return	11.9%
Domestic Equity Return	15.9%
International Equity Return	18.7%
Fixed Income Return	13.2%
Real Estate Return	9.6%
PEARLS Return	9.9%
Real Return Pool	0.4%
Year-end Fund Value (billions)	**$5.66**

Source for Table: Strategic Investment Solutions, Inc. (SIS) and the Townsend Group (Townsend)[1]

ACERA Total Fund Returns vs. Total Public Funds Annualized Returns[2] (Above $100 Million)



1 SIS and Townsend are ACERA's General Consultant and Real Estate Consultant, respectively.

2 Total Fund and asset class composites are ranked against the InvestorForce universe. A ranking of 1 is a top percentile ranking and a ranking of 100 is a bottom percentile ranking.

The primary goals of the ACERA Board of Retirement (the Board) in managing the Fund are the following:

1. To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;
2. To comply with all applicable fiduciary standards; and
3. To add marginal value that will help reduce the costs of the plan and/or to increase benefits for the beneficiaries.

These are the primary goals as stated in the ACERA General Investment Guidelines, Policies and Procedures ("General Policy"). ACERA believes that prudent management of risk is a central element of the investment function and that diversification among asset classes will reduce risk and enhance returns of the overall investment portfolio over the long term. ACERA has strong controls in place to monitor and manage portfolio risks and to ensure compliance with all relevant fiduciary standards. It is important to remember that pension plan investments should be viewed over the long-term and that past performance is not indicative of future results.

Similar to global financial markets, ACERA's Fund performed exceptionally well in 2012. The Fund ranked first in State Association of California Retirement Systems (SACRS) peer group for the fiscal year ending June 30, 2012. Reviewing the performance of ACERA's Total Fund in 2012 by end of year numbers reveals a strong 1-year performance of 15.0% exceeding the Policy Index[3] of 13.7% and the median return of 11.9%. The excellent yearly performance garnered ACERA a ranking in the top one percentile amongst other peer funds. However, annual results alone do not tell the story of another volatile year in the investment world.

The first and third quarter of the year provided the Fund with the majority of its gains. After a very strong first quarter, the Fund declined in the second quarter with the broad market and then recovered sharply in the third quarter. The correction in the second quarter was part of a broad market decline and risk assets were marked down considerably, as volatility returned resulting in negative performance across all indices. Once again, financial concerns arose across the globe as Europe entered into a recession and China started to see a slowdown in growth. ACERA's Total Fund modestly underperformed the Policy Index over the quarter, but remained positive year-to-date during this market downturn. ACERA's Total Fund increased 6.2% in the first half of 2012 and ranked in the upper 25th percentile, ahead of its peer group which returned 5.9%.

As we moved into the second half of 2012, the market surged and so did ACERA's performance. ACERA's Total Fund increased 8.3% over the third and fourth quarters, while outperforming the Policy Index and Median Fund return which increased by 7.2% and 6.4%, respectively. The fourth quarter was a time of great uncertainty and volatility due to the U.S. presidential election and political rhetoric regarding the debt ceiling. Even though 2012 was another year of global uncertainty and plagued with periods of high volatility, ACERA stayed the course and was rewarded accordingly. For the calendar year of 2012, ACERA's portfolio increased roughly $600 million after income and expenses, ending the year with $5.66 billion in assets.

The Fund's performance through the last two quarters of the year placed ACERA first among other peer funds for that period and provided the catalyst that led to ACERA's finishing the year ranked within the top one percent of its peer universe. The peer universe contains over 750 funds, so a performance in the top one percent is a source of great pride for ACERA.

Referring to the annual Performance Highlights table above, International Equity earned the highest return on a percentage basis in 2012 with 18.7% and represented 29.4% of the overall portfolio at year-end 2012. Domestic Equity had the second highest return with 15.9% and represented 35.8% of the Fund at year-end. Fixed Income returned 13.2% for the year and made up 17.9% of the portfolio. Private Equity and Alternatives Return Leading Strategies (PEARLS) achieved 9.9% and Real Estate returned 10.0% for the year while comprising 6.4%

[3] As of October 1, 2011, the Policy Index is 34% Russell 3000/ 15% Barclays Aggregate/ 3% Citigroup WGBI – ex US/ 2% Barclays High Yield/ 25% MSCI AC World – ex US IMI/ 6% NCREIF ODCE Index/ 10% Russell 3000 + 1%/ 5% CPI + 3%.

and 5.3% of the Total Fund, respectively. The Real Return Pool increased 0.4% in 2012, representing 5.0% of ACERA's assets.

Compared with ACERA's actuarial assumed rate of 7.8% and Policy Index return of 13.7%, 2012 proved to be a year of outperformance for ACERA's overall investment program. ACERA's Total Fund has also performed well over the long-term. For the trailing three-, five-, ten- and fifteen-year periods, ACERA's Fund returned 9.5%, 3.0%, 8.3% and 6.9%, respectively. The Fund was in the top 25th percentile (stated as a goal in the General Investment Guidelines, Policies and Procedures policy) for all time periods shown, except the 5-year time period, which included the 2008 and 2009 recession, as shown in the table below.

	1 Year		3 Years		5 Years		10 Years		15 Years	
	Return %	Rank	Return %	Rank	Return %	Rank	Return %	Rank	Return %	Rank
ACERA	15.0	1	9.5	16	3.0	71	8.3	10	6.9	7
Policy Index	13.7	13	8.9	32	3.4	57	8.4	9	6.6	9
Median	11.9	50	8.4	50	3.5	50	7.4	50	6.1	50

ANALYSIS OF FACTORS AFFECTING ACERA'S PORTFOLIO IN 2012

The Board's Actions

In 2012, ACERA's Board continued to diversify and enhance ACERA's portfolio with several decisions designed to meet the portfolio's investment goals over the long term.

The Board approved three new commitments to the PEARLS platform. Also, under authority delegated by the Board, Investment Staff also made three additional PEARLS commitments. The Board approved the redemption from two real estate commingled funds and approved four new investments in core-commingled real estate funds. Lastly, the Board approved an additional investment in the Real Return Pool asset class.

Asset Allocation was the dominant contributor to the success of the Total Fund's performance. At the end of the third quarter of 2012, subsequent to a comprehensive Asset Liability Study, the Board adopted new asset allocation targets to reflect updated market conditions. This was an incremental change and Staff implemented it at the end of the fourth quarter. U.S. Equity and Fixed Income asset classes were reduced to 32% and 15% from 34% and 20%, respectively. The International Equity asset class was increased to 27% from 25% and PEARLS was increased from 10% to 15%. The Real Estate and the Real Return Pool asset class allocations remained unchanged at 6% and 5%, respectively.

Accordingly, ACERA adjusted the Total Fund Policy Index weightings to reflect the changes to the Fund's asset allocation targets. The previous asset allocation and the new asset allocation targets starting in 2013 are reflected in the table below:

Asset Class Allocation

Asset Class	Previous	Starting in 2013
U.S. Domestic Equity	34%	32%
International Equity	25%	27%
Fixed Income	20%	15%
PEARLS	10%	15%
Real Estate	6%	6%
Real Return Pool	5%	5%

The Board approved amendments to the PEARLS Policy, which included an increase in the asset class allocation from 10% to 15%. While the time line of fulfilling this new allocation target remains between 3 to 5 years, the target of each sub-asset class, such as venture capital, has been proportionately increased. The Board also amended the Real Estate Strategic Plan: Objectives, Policies and Procedures. The primary change was to enhance the Watchlist criteria for Real Estate managers to match the Watchlist criteria for Equities and Fixed Income managers. ACERA's Placement Agent Disclosure Policy and ACERA's Proxy Voting Guidelines and Procedures Policy were also amended, although without material changes.

ACERA's Portfolio – Detail

ACERA's portfolio is diversified among six major asset classes: namely, domestic equities, international equities, fixed income, real estate, private equity and alternatives investments (PEARLS), and the real return pool. The purpose of diversification is to minimize risk and maximize potential return. ACERA's Fund is positioned to weather various market conditions and provide steady growth over the long-term. In short, the overall volatility of the Fund is expected to be less than the volatility of a traditional equity only portfolio with returns that are expected to be greater.

Asset Class Review - 2012

U.S. Equity	
Asset Class Allocation – Target	34.0%
Asset Class Allocation – Actual	35.8%
Return	15.9%
Benchmark (Russell 3000 Index)	16.4%
Over/(Under) Performance - relative to Benchmark	(0.5)%
U.S. Equity Median	16.2%

ACERA's U.S. equity investments returned 15.9%, slightly less than the S&P 500, and accounted for 35.8% of the total Fund at the end of 2012. U.S. equity managers of the Fund posted positive returns, with one small cap manager's portfolio, representing about 3.3% of the portfolio, returning 20.1% for the year. The large cap active equity composite accounted for 12.6% of the Fund's total assets at year-end and returned 16.3%, slightly underperforming its benchmark the Russell 1000, by 0.1%. Accounting for 6.6% of the Fund, the U.S. small cap equity composite returned 13.2%, underperforming its benchmark Russell 2000 by 3.2%. Stock selection, specifically in the Consumer Discretionary and Information Technology, plus portfolio turnover, impacted performance. The Fund's passive S&P 500 Index portfolio returned 16.1%, which outperformed its benchmark, the S&P 500 Index, by 10 basis points. The S&P 500 Index fund represented 15.5% of the Fund, the single largest component at year-end..

International Equity	
Asset Class Allocation – Target	25.0%
Asset Class Allocation – Actual	29.4%
Return	18.7%
Benchmark (MSCI AC World – ex US IMI Index)	17.6%
Over/(Under) Performance – relative to Benchmark	1.1%
Int'l Equity All Country ex U.S. Median	18.7%

ACERA's international equity composite portfolio returned 18.7%, outperforming its benchmark the Morgan Stanley Capital International ("MSCI") All Country World Investable ("ACWI") Market Index – ex U.S. by 1.1% in 2012. The Fund's international small-cap manager representing 3.1% of the Fund was the best performing international manager returning 22.9%, outperforming its benchmark the MSCI ACWI Ex U.S. Small Cap Index by 3.9% in 2012. Accounting for 8.1% of the Fund, the value-oriented international equity manager returned 12.2% underperforming its benchmark (MSCI Ex-U.S. or MSCI ACWI Ex U.S. Index) by 5.2%, hurt by its sector positioning. ACERA's core/growth and quantitative-oriented international equity manager's outperformed the same benchmark by 3.7% and 4.4%, respectively. These two international managers accounted for 18.1% of the Fund at year end. Both the developed markets index (MSCI Europe, Australasia, and Far East Index or MSCI EAFE Index) and the emerging markets index (MSCI Emerging Markets Index) experienced returns of 17.9% and 18.6%, respectively. Despite continued weakness throughout the European Union, Brazil, and China, overall returns for international markets were excellent.

Fixed Income	
Asset Class Allocation – Target	20.0%
Asset Class Allocation – Actual	17.9%
Return	13.2%
Benchmark (75% BC Agg/15% Citi WGBI-ex US/10% BC HY)	4.9%
Over/(Under) Performance – relative to Benchmark	8.3%

No combined U.S. and Global Fixed Income Median available

ACERA's fixed income portfolio returned 13.2% in 2012, and significantly outperformed its blended benchmark (75% Barclays Aggregate Bond Index, 15% Citigroup World Government Bond Index ex-U.S., and 10% Barclays Corporate High Yield Index) by 8.3%. The strong outperformance can be attributed to all of ACERA's fixed income managers, but the Fund's core plus fixed income manager returned 21.8%, which outperformed the Barclays Baa Credit Index by 10.5%. The two remaining fixed income managers returned 8.3% and 13.7% and outperformed their benchmarks by 4.1% and 12.0%, respectively. The result of our latest asset liability study suggested that the bond market will likely start to underperform other asset classes in the future. The Board adopted the new asset class allocation targets with that consideration in mind, reducing the target for the Fixed Income asset class allocation from 20.0% to 15.0%.

Real Estate	
Asset Class Allocation – Target	6.0%
Asset Class Allocation – Actual	5.3%
Return	9.6%
Benchmark (NCREIF ODCE Property Index)*	10.9%
Over/(Under) Performance – relative to Benchmark	(1.3)%
Real Estate Median	10.7%

*Source: The Townsend Group
Subsequent Real Estate Performance Measurement Report showed a slightly better return of 10.0% after reflecting the revised appreciation figure for the CIM Urban REIT. As a result, underperformance from benchmark (NCREIF ODCE) decreased from 1.3% to 0.9% for the calendar year ended 12/31/2012.

The stabilization of the U.S. real estate markets translated into solid performance for ACERA's real estate portfolio investments. ACERA's real estate portfolio returned 9.6% in 2012, underperforming the benchmark, National Council of Real Estate Investment Fiduciaries Open-End Diversified Core ("NCREIF ODCE") Property Index, by 1.3%. ACERA's real estate portfolio return did not exceed the median return, which was 10.7%, but it is worth noting that ACERA's real estate portfolio posted its third consecutive year of positive returns. ACERA separates its real estate investments in to two categories, Core And Value Added, and the returns for each category were 7.2% and 14.2%, respectively. During 2012, the Board gave approval to withdraw from two real estate commingled funds, as a result of their underperformance, and then reinvested some of the proceeds into two new real estate funds. The Board also approved two other real estate funds in October of 2012 and we expect to start funding them in 2013 and 2014.

PEARLS	
Asset Class Allocation – Target	10.0%
Asset Class Allocation – Actual Funded	6.4%
Asset Class Allocation – Actual Commitment	10.6%
Return	9.9%
Benchmark (Russell 3000 Index + 100 bps)	17.4%
Over/(Under) Performance – relative to Benchmark	(7.5)%

No PEARLS Median

ACERA's PEARLS portfolio returned 9.9% for the year, underperforming the benchmark Russell 3000 + 100 bps by 7.5%. The PEARLS portfolio is currently invested across 26 funds and is segregated into five sub-asset classes; buyouts, venture capital, debt-related/special situations, absolute return and other/alternative investments. PEARLS continues to be an important asset class to the Fund, providing additional non-correlated diversification and cash-flow in the form of distributions. In September, 2012, the Board adopted the new asset class allocation targets, increasing the target for the PEARLS asset class allocation from 10.0% to 15.0%.

Due to the partial maturity of the program, the PEARLS portfolio is below its target allocation and target diversification ranges. The PEARLS portfolio is expected to be diversified over a period of three to five years in accordance with the 2012-2013 Investment Plan. As of December 31, 2012, ACERA's PEARLS portfolio had a market value of approximately $360.0 million. Total commitments to ACERA's PEARLS portfolio through the end of 2012 reached $596.0 million (10.6%); these capital commitments will be drawn down by the general partners of the Fund's various investment partnerships as the managers identify investment opportunities.

Real Return Pool (RRP)	
Asset Class Allocation – Target	5.0%
Asset Class Allocation – Actual	5.0%
Return	0.4%
Benchmark (CPI + 300 bps)	4.7%
Over/(Under) Performance – relative to Benchmark	(4.3)%

No RRP Median

The Real Return Pool asset class was established in October of 2011 and completed its first full year in 2012 with a 1-year return of 0.4% underperforming its benchmark (Consumer Price Index +300 bps) by 4.3%. The Real Return Pool investments are principally intended to hedge against inflation, provide significant real returns during periods of unexpected or rising U.S. inflation, and provide long-term protection of purchasing power. Real Return Pool Assets are expected to exhibit low correlations to equity and fixed income assets and thus provide an additional diversifying benefit to the overall ACERA portfolio. At the end of 2012, the RRP was rebalanced to our asset allocation target of 5.0%.

General Economy and Investment Markets in 2012

The 2012 economic and market performance highlights are as follows:

In 2012, broad United States macro-economic indicators ranging from housing to unemployment showed signs of improvement despite continued sovereign debt concerns and the back and forth political posturing between the Administration and Congress.

- Estimated annual Real GDP increased 2.2% in 2012 versus an increase of 1.8% in 2011. The increase in real GDP in 2012 primarily reflected positive contributions from housing, exports and personal consumption.
- The Consumer Price Index ("CPI") increased 1.7% compared to 3.1% in 2011.
- The Federal Reserve interest rate target range remained unchanged for a second straight year at 0% to 0.25%.
- The annual U.S. budget deficit was $1.1 trillion in Fiscal Year ("FY") 2012, less than the 2011 budget deficit of $1.3 trillion. The U.S. Office of Management and Budget forecasts the 2013 deficit to be $0.9 trillion, a sign of continued economic improvement.
- From the fourth quarter of 2011 to the end of 2012, the unemployment rate fell from 8.9% to 7.8%. The State of California ended the year with a 9.8% unemployment rate, compared to an unemployment rate of 10.9% at the end of 2011.
- Personal income growth was relatively flat, increasing 1.0% in 2012.
- Activity in residential real estate markets increased in 2012 with new and existing home sales increasing sharply. The pace of new and existing single-family home sales hit five year highs.
- The yield curve (U.S. Treasury interest rates over the range of maturities) can be considered a simple indicator of future economic growth. Normally, the steeper the yield curve the less likely the possibility of a recession. After bottoming in late July, long term interest rates increased throughout the remainder of year steepening the yield curve, therefore, reflecting stronger than expected future economic growth.
- In 2012, the U.S. equity markets returned, as measured by the DJIA, S&P 500, and the NASDAQ, 10.2%, 16.0%, and 15.9% respectively. The DJIA was up for its fourth consecutive year.
- Returns for the MSCI Emerging Markets Index and the MSCI EAFE were 18.6% and 17.9% in 2012, respectively.

The year of 2012 will be remembered favorably by investors, but it will also be remembered for other reasons: another year of extraordinary monetary stimulus by central banks, Hurricane Sandy, the Syrian Civil War, the ongoing European Debt Crisis, the re-election of President Obama and the 11th hour Fiscal Cliff deal which averted a potentially significant shock to the U.S. economy.

Markets around the world posted double digit returns in 2012 as central banks continued to pursue unprecedented monetary stimulus measures to help offset high unemployment and sluggish economic growth. Although, the deficit of the United States' and European sovereign debt crisis continued to weigh on investor sentiment corporate earnings growth and record profit margins led to equity multiple expansion and provided evidence of continued economic recovery. But, the July announcement by Mario Draghi, European Central Bank ("ECB") President, that the ECB was prepared to do "whatever it takes" to support the Euro was the main catalyst that propelled markets higher in the third quarter of 2012.

When analyzing 2012, the current macroeconomic indicators would be signaling "all clear" and investors would be aggressively positioning assets to capitalize on an extended period of stable economic growth. Unfortunately, this cycle is anything but "normal" and has even been called "the new normal" due to investor expectations of lower long term trend growth owing to aging demographics in developed nations, persistent high unemployment and ongoing deleveraging related to the financial crisis. As a result, investors remain cautious and have concentrated capital in high quality assets in liquid and perceived safe regions with active central bank support, such as North America and Northern Europe. The Federal Reserve, ECB and Bank of Japan ("BOJ") have all pledged to continue aggressive stimulus until organic economic growth is sustainable. For instance, in September the Federal Reserve announced that it would keep short-term rates near zero through mid-2015 and that it would purchase $40 billion of mortgage securities on a monthly basis. At its next meeting, December 2012, the Fed announced that it would replace "Operation Twist" with the purchase of $45 billion of Treasury securities on a monthly basis bringing the total monthly bond purchase program to $85 billion. As stated by the Federal Reserve, these bond buying programs, known as QE3 (Quantitative Easing: 3rd Round), are expected to continue until unemployment falls below 6.5% or inflation rises above 2.5%, the Federal Reserve's longer range comfort zone.

The above information supports modest future portfolio performance and reinforces the Board's decision to increase the Fund's allocation to international equity and the PEARLS portfolio and decrease the Fund's allocation to domestic equity and fixed income strategies.

Equity Markets - Domestic and International

All three major U.S. equity market indices posted strong double digit percentage gains in 2012, while the Fed continued its aggressive economic stimulus in concert with most central banks of the developed countries. The Dow Jones Industrial Average ("DJIA"), Standard & Poor's 500 ("S&P 500") and NASDAQ returned 10.2%, 16.0% and 15.9%, respectively. The Russell 3000 increased 16.4%. ACERA's U.S. Equity asset class benefited from the strong equity market environment, although a few managed accounts detracted from this trend due to poor stock selection.

Collectively, global equity markets experienced strong gains in 2012 evidenced by the MSCI EAFE Index return of 17.9%. The announcement by the ECB to support bank lending on December 8, 2011 by conducting two Long Term Refinancing Operations ("LTRO") played a significant role in 2012's first quarter performance.

After experiencing steep losses in 2011, European stocks posted strong gains in 2012 led by unprecedented political action to save the 17-member Eurozone from a currency collapse. The MSCI Europe Index returned 19.1% with Germany, Denmark, Belgium and Italy all posting strong gains. Even Spain and Greece, two of the weakest European nations, managed to post respectable returns.

Asian equity markets also advanced in 2012 with the MSCI Japan Index returning 8.4%, although their currency declined 11% against the U.S. dollar after voters elected Shinzo Abe of the Liberal Democratic Party to power. He proposed additional stimulus to help lift the nation out of a multi-decade disinflationary spiral.

With strong developed market returns, emerging markets followed suit. The MSCI Emerging Markets Investable Market Index (IMI) rose 19.1% with MSCI China, India and Mexico advancing 23.1%, 26.0% and 29.1%, respectively

Fixed Income Markets - Domestic and Global

Much like 2011, the year of 2012 in the fixed income markets was filled with macro drama relating to ongoing speculation that the Euro currency and the Eurozone would cease to exist in its current form. Bond yields in Spain and Italy were at the center of investors' attention as Spanish yields exceeded 7% and Italy was not far behind with yields exceeding 6% in the summer prior to the ECB's pledge to support the Euro at all cost. After the ECB indicated that it was willing to do "whatever it takes" to support the Euro, interest rates decreased significantly in the weakest sovereign Euro-nations throughout the remainder of the year. With rates tightening significantly and the ECB being cheered by investors as saviors, the year ended with the belief that the worst of the crisis was behind Europe.

In 2012, Treasuries returned a modest 2.0% owing to already extremely low yields and suppressed investor demand. Municipal bonds, also with low yields, faired slightly better returning 6.8% as demand exceeded limited supply and potential tax increases caused wealthy investors in high tax brackets to purchase tax-exempt securities. High Yield bonds outperformed the entire fixed income market in 2012 as investors stretched for yield and high yield rates fell below six percent by November. These extremely low yields caused some concerns in the investment community sparking debates that central banks are creating a bond bubble of grand proportions. Currently, only time will tell as this cycle plays out, but high yield bonds returned 15.8% for the year almost in line with the S&P 500. U.S. Corporate Investment grade credit was close behind high yield bonds returning 9.8% for many of the same reasons listed above. Even CMBS, once regarded as a toxic asset, returned 9.6% in 2012 as yield-starved investors searched for return.

Real Estate Markets

The U.S. real estate recovery of 2011 significantly picked up steam in 2012. The performance of ACERA's real estate portfolio continued to improve gradually, albeit recovering slower than the overall real estate market, partially because of lackluster U.S. unemployment figures. The U.S. became the primary beneficiary of investor uncertainty regarding global markets in 2012. Global capital flows that were looking for "safe harbor" dollar-denominated assets found their way into the U.S. property market. Along with good capital flows and a light tailwind from positive U.S. economic growth, property markets continued to improve causing vacancy rates to decrease, cash flows to stabilize and prices to rise. As investors searched for assets with stable cash flow and inflation protection, capital flowed into all classes of real estate. First, high quality, well located property was viewed particularly attractive and bid aggressively by the majority of investors. Secondly, with Europe and the majority of the Middle East in complete disarray, money flowed into U.S. property markets. The availability of financing improved in 2012 as banks and non-traditional sources of lending started to get aggressive with loan terms and compete for business.

Residential real estate based on price and volume had one of it best years on record, albeit from a low base, with prices and transaction volume increasing in almost every major market tracked by the Case-Shiller Index. By midyear, it became evident that residential housing prices had bottomed and that housing starts were setting multi-year highs, again from a very low base, but an improvement nonetheless. Record low mortgage rates, sub 3.50% conventional 30 year loans, pent up demand, and institutional investor interest were cited as the catalysts that helped propel the market.

Private Equity Markets

2012 was another year of significant private equity (PE) deal-flow, exit, and fund raising activities. The year was characterized by low interest rates and a recovering economy, but the European sovereign debt crises carried over from 2011 and impacted bank financing which remained limited as lenders were careful when making loans.

There were approximately 1,807 completed PE investments totaling $313 billion of invested capital. As for deal size, small and middle-market deals (under $500 million) continued to dominate deal flows with 71% of all activity. Deal sizes of at least $1 billion accounted for a smaller share of activity at 21%. Even with the tough financing environment and rising company valuations, debt as a percentage of deal size increased from 46% in 2011 to 51%. In light of the challenging financing environment, PE exit activity for 2012 was the highest since 2006. There were 587 completed transactions (i.e. completed sales or Initial Public Offerings) during 2012 totaling $128 billion. Business, Products and Services remained the most active industry for PE investments with a 34% share of activity. Next most active was Consumer Products and Services with 20% of deal flows, followed by Information Technology at 18% and Energy with 10%. ACERA remained cautious in selecting venture capital funds with six new PEARLS capital commitments, of which, three were made to existing fund managers. With a partially maturing PEARLS portfolio that is still experiencing the "J curve" (initial investment startup costs) effect, ACERA expects that returns from this portfolio will continue to increase in the coming years.

ECONOMIC OUTLOOK FOR 2013

The financial markets completed their fourth consecutive year of positive gains since the recovery commenced in March of 2009. Most recently, investors' focus has turned to international markets, especially Europe and China, as areas of recovery. The damage inflicted upon household and corporate balance sheets in the U.S. by the Financial Crisis and collapse in prices of U.S. residential real estate has started to abate. We are cautious in our approach and have made prudent asset allocation changes, but as any astute investor, we must position the ACERA Total Fund for any challenges in the global economy and financial markets, whether we expect them in the near future or not so near future.

According to J.P. Morgan, U.S., Europe, Japan and UK governments account for 75% of all the borrowing that is taking place. In addition to Europe, since early 2011, disruptions in the Middle East have made headlines and geopolitical risks still run high in many Arab countries, mainly Syria, which is currently involved in what can only be described as a Civil War.

The U.S. continues to face trillion dollar budget deficits and lingering effects from the financial crisis as an aging population and rapidly rising healthcare costs hinder growth. Almost everyone is aware of the risks large deficits can create, but feel that the short term benefits outweigh the long term risk. For the first time in history, the total United States national debt of $16.4 trillion exceeded total U.S. gross domestic product (GDP) of $15.8 trillion in 2012 (Source: U.S. Federal Reserve); and that the national debt is expected to continue to grow in 2013-14.

On a more positive note, corporate balance sheets are strong, operating earnings are setting records, unemployment is improving, loan delinquencies continue to decline and most importantly, housing is once again contributing to growth and economic recovery. With the assistance of the Federal Reserve, interest rates are expected to remain depressed reducing debt servicing cost for households as they continue to deleverage. Long term rates did increase in the fourth quarter of 2012 and the yield curve steepened, but investors viewed this development as a signal of more optimistic growth projections in 2013 which is beginning to appear possible at this time.

As telegraphed by the Federal Reserve, inflation trends over the near term are expected to remain subdued allowing room for continued monetary stimulus. The Consumer Price Index (CPI) increased at a modest 1.7% rate in 2012 and is expected to remain below 2.5% throughout 2013. Against that backdrop, the Federal Open Market Committee (FOMC) decided to link its policy stance for the first time in history to an unemployment and inflation target. The FOMC plans to remain active with QE3, bond purchases, until unemployment falls below 6.5% or longer term inflation expectations exceed 2.5%, all while holding the Fed Funds rate at 0.00-0.25%.

Consumer spending, which represents two-thirds of the U.S. GDP has started to accelerate with rising home prices and financial markets. The majority of markets have recovered sharply from the oversold levels of mid 2011. Housing starts are increasing and the U.S. Homebuilder Sentiment Index continues to approach five year highs. Following residential real estate, commercial real estate prices are recovering, which initially started in multi-family, but is now moving into office space and other sectors like retail. The U.S. has resumed its leadership position as the engine of global growth, picking up the slack caused by the European Crisis and the China slowdown, although at a modest below long term trend growth rate. The U.S. consumer has started to become more confident with rising wealth and years of pent up demand finally translating into better than expected retail and durable good sales.

It is quite possible that global markets will continue to advance in 2013 as the European debt crisis continues to subside and Chinese growth recovers to around 8%. The rest of the emerging markets in Asia and Brazil also look favorable in 2013, owing to expected interest rate cuts and an improving world economy.

Once again, the expectation in 2013 is for modest global and U.S. economic growth, based on unprecedented central bank support. It is still likely that unemployment will take longer to improve compared to other recoveries relating to large structural imbalances resulting from the Great Recession. ACERA's Total Fund however is well-positioned, through its asset allocation, and fully capable of weathering the economic storms or crises that our future may bring.

GENERAL INFORMATION

External investment management firms manage ACERA's assets. Professional investment consultants, along with ACERA's investment staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term strategies. ACERA's goal remains to achieve a level of performance that will rank the Fund in the upper quartile of comparable pension funds on a risk-adjusted basis. ACERA also seeks to be as fully funded as possible so that its benefit costs do not become a burden upon future generations of members and taxpayers.

Summary of ACERA's General Investment Guidelines, Policies and Procedures

The Board, having sole and exclusive authority and fiduciary responsibility for the investment and administration of the Fund, has adopted the General Policy for the management of ACERA's investments. The General Policy and other related policies are subject to the Board's review to ascertain that the goals, guidelines, and expectations set forth in the policies are consistent with the Board's expectations. The Board reserves the right to amend, supplement, or rescind the General Policy at any time. The General Policy establishes investment program goals and policies, asset allocation policies, performance objectives, investment management policies, and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian, and consultants.

ACERA's primary investment objective is to take prudent risk, as necessary, to maximize the return on the portfolio and to minimize the cost of meeting the obligations of the Fund. The strategic asset allocation policy is an integral part of the overall investment policy. The allocation policy is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. The end result is a well-diversified portfolio that helps protect the Fund from declines that a particular asset class may experience in a given period. Both traditional assets (cash, domestic equities, and domestic fixed income) and non-traditional assets (real estate, international equities, global fixed income, private equity and alternatives and real return pool) are included in the mix.

SUMMARY OF ACERA'S OTHER INVESTMENT-RELATED POLICIES

Private Equity And Alternatives Return Leading Strategy Policy

The ACERA Private Equity and Alternatives Return Leading Strategies (PEARLS) Policy governs all ACERA investments in the Private Equity and Alternatives asset class.

The purpose of the PEARLS Policy includes the following: 1) to set forth the private equity and alternatives investment policies and guidelines which are deemed to be appropriate and prudent; 2) to establish criteria against which private markets and alternatives investment opportunities are to be measured; and 3) to serve as a review document to guide the ongoing oversight of ACERA's PEARLS Portfolio (PEARLS Portfolio) on a consistent basis.

The objectives of ACERA's PEARLS include the following: 1) to generate returns superior to those available in the public equity market to compensate the Fund for the long term and for its illiquid commitments associated with Private Equity and Alternatives investments; 2) to enhance ACERA's long-term risk adjusted return and provide additional diversification to ACERA's overall investment Fund; 3) to generate returns above the median of comparative universe returns; and 4) to generate total PEARLS Portfolio returns approximately 100 basis points over U.S. public market equity investments, as measured by the Russell 3000 Index, net of all fees and expenses.

The target allocation to the Private Equity and the Alternatives asset class was increased from 10% to 15% of the total Fund this past year. The strategic allocation to the PEARLS Portfolio is measured by actual dollars invested and not by dollars committed to underlying Investment Managers or funds.

Real Estate Strategic Plan

ACERA has determined that, over the long term, inclusion of equity real estate investments should provide the following benefits:

- Generate a stable, predictable income stream to assist in providing cash flow needs
- Provide growth through appreciation
- Lower total portfolio risk due to low correlation with other portfolio asset classes
- Serve as a hedge against unanticipated inflation
- Provide an opportunity to enhance portfolio return through higher total return investments

In order to achieve the above benefits, ACERA's Real Estate Strategic Plan establishes the specific objectives, policies and procedures involved in the implementation and oversight of ACERA's real estate program. The objectives define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

The implementation of the real estate program is also subject to ACERA's General Policy as established by the ACERA Board.

Emerging Investment Manager Policy

The Emerging Investment Manager Policy governs the Emerging Manager Program, the strategic objective of which is to add incremental value to the Fund through the hiring of the most talented Emerging Investment Managers (EMs) to manage ACERA's assets. The primary goals of the EM Program are as follows: 1) to identify and gain early access to the most talented investment managers in their early business stages; 2) to generate superior Fund return performance through the EM Program; 3) to identify superior EMs and/or investment opportunities in California and Alameda County that are equal to or superior to comparable available investments; and 4) to further diversify the Fund's overall investment program so as to enhance risk-adjusted returns of the Fund.

Directed Brokerage Policy

The Directed Brokerage Policy governs the Directed Brokerage (DB) Program, the strategic objective of which is to recapture a portion of trade commissions paid to brokers. The primary goals of the DB Program are to: 1) recapture 50% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis; 2) identify a target percentage range of trades that may be subject to recapture to allow Investment Managers to have access to the research they need; 3) seek "Best Execution" through third-party administration oversight and outside consultant monitoring; and 4) encourage local broker and/or emerging broker participation through the use of an open correspondent network program.

Real Return Pool Policy

ACERA adopted a Real Return Pool Asset Class in April 2011 with a 5% allocation target of the ACERA total Fund. In September of the same year, the Real Return Pool Policy was adopted by the Board. Real Return Pool investments consist of Real Assets that are expected to produce positive returns with a bias toward periods of unexpected U.S. inflation and increasing U.S. inflation expectations. The strategy is implemented using a diverse set of exposures to inflation sensitive instruments, hedges intended to reduce various risk exposures, and active strategies intended to provide additional sources of absolute returns by under- and over-weighting the strategic risk target of the various inflation sensitive instruments and securities. All Real Return Pool investments/strategies are Alternative Investments.

Proxy Voting Guidelines and Procedures (Proxy Guidelines)

In recognition of its duty to manage retirement plan assets in the best interest of plan participants, the Board has established the Proxy Guidelines.

They are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of the plan participants. The Board incorporated the International Proxy Voting Guidelines into the Proxy Guidelines in 2005.

The Proxy Guidelines consist of preferences regarding specific, recurring proxy-voting issues followed by a general statement of voting policies. ACERA will, at all times, strive to cast proxy votes in accordance with the Proxy Guidelines towards advancing the overall good of the plan participants.

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

As of December 31, 2012, ACERA's Fund was over-weighted in total equities, with 65.2% in total equities versus the target of 59.0%. Domestic equities were over-weighted at 35.8% versus the target of 34.0%. International equities were 29.4% versus the target of 25.0%. Total fixed income was underweighted at 17.9% versus the target of 20.0%. Real estate was slightly below its 6.0% target at 5.3%. PEARLS was 6.4% funded, which is below its target despite an over 10% commitment. It should be noted that the traditional asset classes will be overweighted until full maturity of the PEARLS portfolio. The Real Return Pool represented 5.0% of the Fund in line with the target of 5.0%.

During 2012, ACERA's U.S. equity composite returned 15.9%, underperforming its benchmark (Russell 3000 Index) by 0.5% and underperforming the median equity manager by 0.3%. ACERA's international equity composite returned 18.7%, outperforming its benchmark (MSCI ACWI ex-U.S. IMI) by 1.1% and even with the median of international equity managers. ACERA's total fixed income composite returned 13.2%, significantly outperforming its benchmark (75% Barclays Aggregate/15% Citigroup WGBI ex-U.S./10% Barclays High Yield) by 8.3%. ACERA's real estate composite returned 9.6%, underperforming its benchmark (NCREIF ODCE) by 1.3%. The PEARLS composite returned 9.9%, underperforming its benchmark (Russell 3000 + 100 bps) by 7.5%. The Real Return Pool composite returned 0.4% for the year underperforming its benchmark (Core CPI + 300 bps) by 4.3%.

Results of all publicly traded investments are presented in a format consistent with the CFA Institute's Global Investment Performance Standards.

Respectfully Submitted,

Betty Tse

Betty Tse, CPA, MBA
Chief Investment Officer, ACERA
April 15, 2013

Investment Consultant's Report

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104
TEL 415/362-3484 FAX 415/362-2752

Alameda County Employees' Retirement Association
2012 INVESTMENT CONSULTANT'S REPORT

SUMMARY

The year 2012 will be remembered for its deep political uncertainties in the form of the ongoing sovereign debt crisis in Europe, the US presidential election and concurrent fiscal cliff crisis, and the potentially momentous changes in leadership in China and Japan. As anxious investors reacted to this largely political news, markets continues their "risk on" versus "risk off" pattern of highly volatile returns dominated the markets. Despite the nerve-wracking affect this pattern had on the psyche of long term investors, taken as a whole 2012 provided strong results for strategic portfolios.

Though US Equity market experienced a highly volatile year, the gradually improving mood drove highly positive returns for US equities. International Developed country equities similarly experienced strongly positive performance in 2012, as many concluded that perhaps there was too much pessimism built into the pricing of global stocks. Emerging Market country equities, after faltering in 2011, rebounded to perform the best of all the world's equity regions in 2012. With regard to the style segments of the global markets, growth companies again led the developed markets in 2012, and smaller cap companies performed quite close to large cap companies across the broad developed and emerging markets.

In the bond markets, the Federal Reserve, along with virtually all developed market central banks, continued their all-out effort to remain as accommodative as possible. Importantly, towards the end of the year Japan seemed to sign on to dramatic central bank action with the election of Prime Minister Abe, who had promised if elected to end inflation and target 2% inflation. The Fed followed up its "Operation Twist" program of quantitative easing with a new program to buy mortgages and yet more Treasury securities in a program now known as "QE3." Though the Fed's dramatic easy money policies raised concerns about long term inflation risk, actual levels of recorded inflation remained fairly steady throughout the year, though early signs of higher expected inflation began to appear late in the year.

Against this nervous and unsettled macro backdrop, market returns were surprisingly good for most risk assets. For the year 2012, the broad US large cap equity market returned 16.4%, while small cap US stocks gained 16.3%. International Equity, due partially to early signs of hope in continental Europe, fared slightly better for US-based investors, posting a total return of 17.4% for the year, with Developed Markets returning 17.3% and Emerging Markets 18.2%. Low risk Investment Grade US Bonds provided largely coupon-like returns, as the Barclays Aggregate returned 4.2% for the year, while the riskier high yield bonds behaved almost as well as equity, returning a stellar 15.8%.

For the year, the ACERA total portfolio returned 15.0%, which was well above its Policy Benchmark return of 13.7%, and also far above its actuarial return expectation. For the tenth time in the last twelve years, the total plan outperformed its median large public plan peer's 11.9% return in 2012.

The macro generated instability of the markets continued to deliver a difficult environment for active management, and results were again mixed for ACERA's active equity managers in 2012. In aggregate, the US equity managers came in just below the Russell 3000 Index benchmark. The Fund's Large Cap Growth, Large Core and Small Cap Value managers all contributed returns above their benchmarks, while the Small Cap Growth manager suffered a very difficult performance year. The International Equity manager composite handily outperform the benchmark, as three of the four active International Equity managers posted returns above their respective benchmarks.

ACERA's Fixed Income managers each had spectacular years and in aggregate outperformed the total bond benchmark by an astounding 830 basis points for the year. All three bond mandates: Core, Global Opportunistic, and Opportunistic Credit, bested their benchmarks indexes by wide margins. This stellar performance by the bond managers accounted for most of the total plan's excess return above its policy index. The Real Estate managers' 9.6% return performed just below the NCREIF ODCE Index benchmark and the median institutional Real Estate composite portfolio. Finally, in the continuing low inflation environment of 2012, the new Real Return pool lagged its benchmark in the first full year of its existence.

Investment Guidelines, Policies and Practices

In 2012 ACERA continued funding its plan initiative known as the Private Equity and Returns Leading Strategies (PEARLS) program. The program is designed to enhance portfolio performance through the addition of return-enhancing and diversifying private equity and other non-traditional investments. PEARLS was initially targeted at an allocation of 10% of total plan assets, and is being funded opportunistically over an expected three to five year period (with the implementation of ACERA's Asset-Liability Study, the target allocation to PEARLS will increase to 15% of the total portfolio). The PEARLS portfolio is anchored in a diverse array of Private Equity investments, with Currency, Absolute Return, and other return-enhancing and uncorrelated investments also included in the portfolio.

During 2012, the Association conducted a full Asset-Liability study that suggested in the following changes to the portfolio:

- An increase in the PEARLS allocation from 10% to 15%
- A decrease in the US Equity allocation from 34% to 32%
- An increase in the International Equity allocation from 25% to 27%
- A decrease in the Total Bond allocation from 20% to 15%

These changes were implemented on the first day of 2013.

Investment Objectives

In 2012 the ACERA portfolio performed well, and by year end had finally completely overcome the damaging effects of the market crisis of 2008. In 2012 the Association met its goals of adding value over its policy index, of complying with applicable fiduciary standards, and of continuously enhancing its investment portfolio. Most importantly, the Association ensured the availability of sufficient funds to pay vested benefits and maintain supplemental benefits for its participants.

Investment Results *

		ANNUALIZED	
	2012	THREE YEARS	FIVE YEARS
DOMESTIC EQUITY			
Total Domestic Equity	15.9%	11.5%	2.3%
Median	16.2%	11.3%	2.2%
Benchmark: Russell 3000	16.4%	11.2%	2.0%
INTERNATIONAL EQUITY			
Total International Equity	18.7%	4.5%	-1.7%
Median	18.7%	4.6%	-2.7%
Benchmark: MSCI ACWI ex US	17.6%	4.2%	-2.5%
FIXED INCOME			
Total Fixed Income	13.2%	10.6%	8.6%
Median	9.0%	8.4%	7.7%
Benchmark: Hybrid Index	4.9%	6.5%	6.4%
REAL ESTATE			
Total Real Estate	9.6%	12.5%	-1.4%
Benchmark: NCREIF	10.9%	14.4%	-1.1%
PEARLS			
Total PEARLS	9.9%	9.0%	-
Benchmark: R3000 + 100 bps	17.4%	12.4%	-
REAL RETURN			
Total Real Return	0.4	-	-
Benchmark: CPI+300 bps	4.7	-	-
TOTAL FUND			
ACERA Total Fund	15.0%	9.5%	3.0%
Median	11.9%	8.4%	3.5%
Benchmark: Policy Index	13.7%	8.9%	3.4%

* NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. Results of all publicly traded investments are presented in a format consistent with the CFAI Global Investment Performance Standards®.

Asset Allocation

	PERCENTAGE TARGET	12/31/12 ACTUAL
U.S. Equity	34%	35.8%
Non-U.S. Equity	25%	29.4%
Fixed Income	20%	17.9%
Real Estate	6%	5.3%
Private Equity and Alternatives	10%	6.4%
Real Return	5%	5.0%
Cash	0%	0.3%

The fortitude demonstrated by ACERA's decision-makers in 2008 and early 2009 in adhering to their strategic plan, and in funding strategic initiatives since that time, has been rewarded with superior returns. In the four -year period since December 31, 2008 (near the deepest point of the crisis) the ACERA fund has returned 13.5%, well above the return on both its policy index and the median public plan. At the same time, the Association has aggressively funded the important PEARLS portfolio, an initiative designed to improve fund returns in the future, and its Real Return portfolio, an initiative designed to hedge the risk of future inflation. SIS firmly believes that ACERA's resolve in holding to its strategic plan has benefited, and will continue to benefit, the Association's participants and beneficiaries for many years to come.

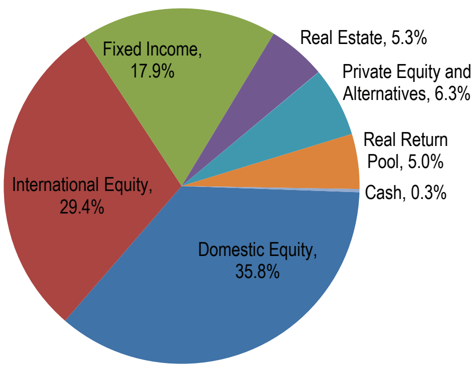
Patrick Thomas, CFA
Vice President
March 15, 2013

Asset Allocation

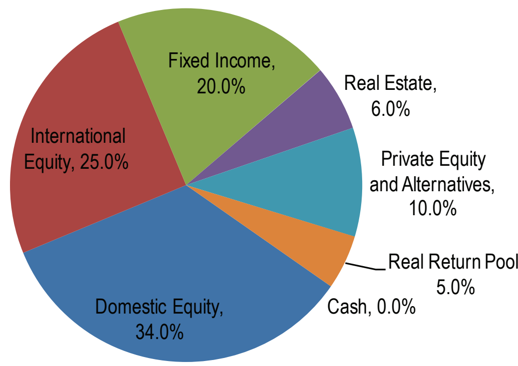
As of December 31, 2012

Investment Asset Class	Actual Asset Allocation	Target Asset Allocation	Actual Allocation Over/-Under Target Allocation
Domestic Equity	35.8%	34.0%	1.8%
International Equity	29.4%	25.0%	4.4%
Fixed Income	17.9%	20.0%	-2.1%
Real Estate	5.3%	6.0%	-0.7%
Private Equity and Alternatives	6.3%	10.0%	-3.7%
Real Return Pool	5.0%	5.0%	0.0%
Cash	0.3%	0.0%	0.3%
Total	**100.0%**	**100.0%**	**0%**

Actual Asset Allocation



Target Asset Allocation



Investment Professionals

For the Year Ended December 31, 2012

INVESTMENT MANAGERS

Domestic Equities

- Bivium Capital Partners, LLC
- Kennedy Capital Management
- Mellon Capital Management
- Next Century Growth Investors
- Pzena Investment Management
- Trust Company of the West

International Equities

- AQR Capital Management, LLC
- Capital Guardian Trust Company
- Franklin Templeton Investment
- Mondrian Investment Partners Ltd.

Fixed Income

- Baird Advisors
- Brandywine Global Investment Management
- Loomis, Sayles & Company

Real Estate

- AEW Capital Management
- CIM Urban REIT
- Heitman Capital Management
- J.P.Morgan Asset Management

Real Estate (Continued)

- Jamestown Premier Property
- Lion Industrial Trust
- Prudential Real Estate Investors
- RREEF Real Estate

Private Equity and Alternatives

- ABRY Partners, LLC
- Avista Capital Partners
- Centerbridge Strategic Credit Partners
- Cerberus Capital Management, L.P.
- FX Concepts, LLC
- General Catalyst Group
- Great Hill Partners
- Insight Equity
- Khosla Ventures
- Lindsay Goldberg
- New Enterprise Associates
- Oak Hill Advisors
- Partners Group
- Permal Group Inc.
- Sheridan Production Partners
- Sycamore Partners
- Third Rock Ventures
- Warburg Pincus

Real Return Pool

- Gresham Investment Management
- AQR Capital Management, LLC

INVESTMENT CONSULTANTS

- Capital Institutional Services - Third-Party Directed Brokerage Administrator
- Doug McCalla - Optimized Portfolio Rebalancing
- Zeno Consulting Group - Trading Cost & Directed Brokerage
- Institutional Shareholder Services - Proxy Voting
- Strategic Investment Solutions - General Investment and Private Equity and Alternatives
- The Townsend Group - Real Estate Investment

MASTER INVESTMENT CUSTODIAN AND SECURITIES LENDING AGENT

- State Street Bank and Trust Company

Investment Summary

As of December 31, 2012 (Dollars in Thousands)

Investment Asset Class	Fair Value	Percentage of Total Fair Value
Short-Term Investments	$ 180,854	3.2%
Domestic Securities	1,147,608	20.3%
International Securities	1,290,786	22.8%
Domestic & Int'l Equity Commingled Funds	1,155,337	20.4%
Fixed Income Securities	949,034	16.8%
Real Estate - Separate Properties	78,503	1.4%
Real Estate - Commingled Funds	216,126	3.8%
Private Equity and Alternatives	357,878	6.3%
Real Return Pool	279,421	5.0%
Total Investments at Fair Value	**$ 5,655,547**	**100.0%**

This schedule excludes Investment receivable and payable balances as of December 31, 2012.

Brokerage Commissions

For the Year Ended December 31, 2012

Brokerage Firm	Rank	Commissions (in Thousands)	Shares/Par Value Traded (in Thousands)	Commission Per Share
Capital Institutional Services, Inc. Equities	1	$149	$4,497	$0.033
Instinet	2	103	4,531	0.023
Knight Equity Markets, L.P.	3	89	6,102	0.015
Liquid Net, Inc.	4	77	3,707	0.021
Weeden & Co.	5	72	2,660	0.027
Cantor Fitzgerald & Co.	6	71	2,255	0.031
Morgan Stanley & Co. Inc.	7	69	23,069	0.003
Credit Suisse Securities (USA) LLC	8	51	1,436	0.036
Merrill Lynch International	9	50	10,447	0.005
Bny Brokerage	10	47	1,350	0.035
Barclays Capital Inc.	11	46	27	1.709
Barclays Capital	12	45	4,986	0.009
Deutsche Bank Securities Inc	13	32	13,738	0.002
Goldman Sachs & Co	14	32	10,099	0.003
Stifel Nicolaus & Co Inc	15	29	722	0.041
UBS AGg	16	29	4,034	0.007
J.P. Morgan Securities Inc.	17	29	690	0.042
Jones Trading Institutional Services, LLC	18	28	938	0.030
Barclays Capital LE	19	27	922	0.030
Robert W. Baird Co.Inc.	20	26	677	0.039
Top 20 Firms by Commission Dollars		**1,104**	**96,887**	**0.011**
All Other Brokerage Firms		1,073	112,454	0.010
Total Brokerage Commissions		**2,177**	**209,341**	**0.010**
Brokerage Commission Recapture		(143)	-	-
Net Brokerage Commission		**$2,034**	**209,341**	**$0.010**

Investment Manager Fees

For the Years Ended December 31, 2012 (Dollars in Thousands)

Investment Asset Class	2012
Domestic Equity	$4,524
International Equity	7,348
Fixed Income	2,671
Real Estate	2,804
Private Equity and Alternatives	6,483
Real Return Pool	1,163
Total Investment Manager Fees	**$24,993**

Investment Assets Under Management (Fair Value)

For the Years Ended December 31, 2012 (Dollars in Thousands)

Investment Asset Class		2012
Domestic Equity	$	2,026,079
International Equity		1,664,486
Fixed Income		1,015,372
Real Estate		294,629
Private Equity and Alternatives		357,878
Real Return Pool		279,421
Cash		16,426
Total Investment Assets Under Management	**$**	**5,654,290**

This schedule includes Investment receivable and payable balances as of December 31, 2012.

Largest Stock Holdings[1]

As of December 31, 2012 (Dollars in Thousands)

Rank	Shares	Issuer	Fair Value	Percentage of Holdings
1	52,569.00	Apple Inc	$28,021	1.15%
2	32,525.00	Google Inc CIA	23,072	0.95
3	332,256.00	Qualcomm Inc	20,607	0.85
4	231,321.00	American Tower Corp	17,874	0.73
5	1,259,100.00	Prudential PLC	17,714	0.73
6	1,228,940.00	Hewlett Packard Co	17,512	0.72
7	84,826.00	Roche Holding Ag Genusschein	17,051	0.70
8	1,554,564.00	HSBC Holdings PLC	16,335	0.67
9	230,324.95	Royal Dutch Shell PLC ADR	15,881	0.65
10	381,203.00	Bp PLC Spons ADR	15,873	0.65
Total of Largest Stock Holdings			**189,940**	**7.79%**
Total Stock Holdings			**$2,438,394**	**100.00%**

Largest Bond Holdings[1]

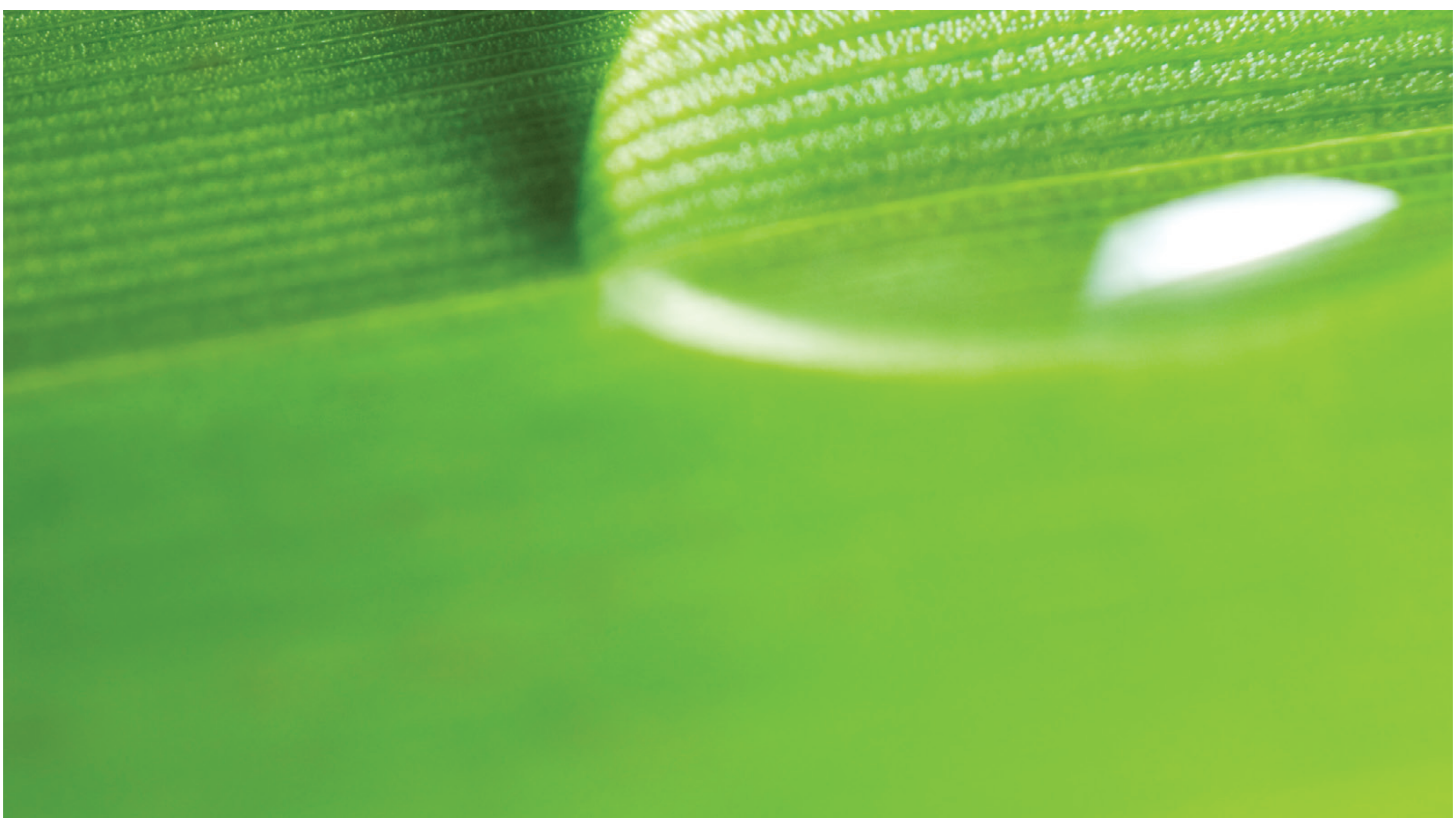
As of December 31, 2012 (Dollars in Thousands)

Rank	Par Value	Issuer	Securities	Description	Fair Value	Percentage of Holdings
1	17,325,000	US Treasury	4.38%	15-Feb-38	$22,479	2.37%
2	19,600,000	US Treasury	1.25	30-Apr-19	19,896	2.10
3	14,925,000	Buoni Poliennali Del Tes	5.00	1-Aug-39	19,646	2.07
4	12,325,000	US Treasury	5.25	15-Nov-28	17,028	1.79
5	13,455,000	US Treasury	2.75	15-Aug-42	12,993	1.37
6	11,125,000	New South Wales Treasury Corp	6.00	1-Apr-16	12,519	1.32
7	155,600,000	Mex Bonos Desarr Fix Rt	7.00	19-Jun-14	12,365	1.30
8	6,915,000	United Kingdom Treasury	2.25	7-Mar-14	11,495	1.21
9	9,430,000	Queensland Treasury Corp	6.25	21-Feb-20	11,125	1.17
10	9,351,781	FNMA Pool	4.00	1-Feb-41	10,035	1.06
Total of Largest Bond Holdings					**149,581**	**15.76%**
Total Bond Holdings					**$949,036**	**100.00%**

1 The Holdings Schedules pertain to holdings of individual securities; they do not reflect ACERA's investments in commingled funds. A complete list of portfolio holdings is available upon request.

This page is intentionally left blank.

Actuarial



Actuary's Certification Letter—Pension Plan

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

May 10, 2013

Board of Retirement
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, California 94612-1900

Re: Alameda County Employees' Retirement Association
Statutory Retirement Plan Benefits

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2011 actuarial valuation of the statutory Retirement Plan benefits of the Alameda County Employees' Retirement Association (ACERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No 25.

As part of the December 31, 2011 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements. For actuarial valuation purposes, Retirement Plan assets are valued at actuarial value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over 10 six-month periods.

One funding objective of the Plan is to establish rates, which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

The UAAL is amortized as a level percentage of payroll over a 21-year period. The progress being made towards meeting the funding objective through December 31, 2011 is illustrated in the Schedule of Funding Progress.

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the Association's CAFR is provided below:

Exhibit I	Schedule of Active Member Valuation Data[1];
Exhibit II	Retirees and Beneficiaries Added To and Removed From Retiree Payroll[1];
Exhibit III	Solvency Test;
Exhibit IV	Actuarial Analysis of Financial Experience;
Exhibit V	Schedule of Average Benefit Payments for Retirees and Beneficiaries;
Exhibit VI	Schedule of Participating Employers and Active Members Statistics[1];
Exhibit VII	Schedule of Benefit Expenses by Type[1];
Exhibit VIII	Schedule of Retiree Members by Type of Benefit and Option Selected;
Exhibit IX	Schedule of Funding Progress[2]; and
Exhibit X	Employer Contribution Rates.

[1] *As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligations), Segal has utilized participant data provided by ACERA as of November 30, 2011 adjusted to December 31, 2011 (to reflect estimated increase in salary and service for active members) in calculating the liabilities for the December 31, 2011 valuation.*

[2] *The schedule of funding progress is the only schedule that Segal has prepared for the Financial Section of the CAFR. In particular, the Schedule of Employer Contributions has been prepared by ACERA.*

The non-economic valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the November 30, 2010 Experience Analysis. The economic valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the December 31, 2011 Review of Economic Actuarial Assumptions. Note that the investment return assumption was developed without taking into consideration the impact of the 50/50 excess earnings allocation between the statutory retirement and Supplemental Retirees Benefit Reserve asset pools. It is our opinion that the assumptions used in the December 31, 2011 valuation produce results, which, in aggregate, reflect the future experience of the statutory Retirement Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years and the actuarial assumptions adopted by the Board resulting from the experience analysis performed as of November 30, 2010 first became effective in the valuation as of December 31, 2011. The next experience analysis is due to be performed as of November 30, 2013. Any assumptions adopted from that study will first become effective in the valuation as of December 31, 2014.

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

In the December 31, 2011 valuation, the ratio of the valuation assets to actuarial accrued liabilities (funded percentage) decreased from 77.5% to 76.6%. The employer's rate has increased from 20.72% of payroll to 21.52% of payroll, while the employee's rate has decreased from 8.63% of payroll to 8.33% of payroll.

Under the actuarial value of assets method, the total unrecognized investment losses are $481.8 million as of December 31, 2011. These investment losses will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will offset any investment gains that may occur after December 31, 2011. This implies that if the Association earns the assumed net rate of investment return of 7.80% per year on a market value basis, it will result in investment losses on the actuarial value of assets in the next few years. So, if the actual market return is equal to the assumed 7.80% rate and all other actuarial assumptions are met, the contribution requirements would increase in each of the next few years.

The deferred losses of $481.8 million represent 9.5% of the market value of assets as of December 31, 2011. Unless offset by future investment gains or other favorable experience, the recognition of the $481.8 million market losses is expected to have a significant impact on the Association's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the deferred losses were recognized immediately and entirely in the valuation value of assets, the funded percentage would decrease from 76.6% to 69.0%.
- If the deferred losses were recognized immediately and entirely in the valuation value of assets, the aggregate employer rate would increase from 21.52% to about 25.3% of payroll.

We are Members of the American Academy of Actuaries and we are qualified to render the actuarial opinion contained herein.

Sincerely,

Andy Yeung, ASA, EA, MAAA, FCA	Paul Angelo, FSA, EA, MAAA, FCA
Vice President and Associate Actuary	Senior Vice President and Actuary

DNA/kek
Enclosures

Actuary's Certification Letter—SRBR

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

May 10, 2013

Board of Retirement
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, California 94612-1900

Re: Alameda County Employees' Retirement Association
Discretionary SRBR Benefits

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2011 actuarial valuation of the discretionary benefits provided through the Supplemental Retirees Benefit Reserve (SRBR) of the Alameda County Employees' Retirement Association (ACERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for accounting disclosure purposes, including the calculation of the Actuarial Accrued Liability, meet the parameters of the Governmental Accounting Standards Board (GASB) Statements No. 25 and No 43.

As part of the December 31, 2011 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. A summary of the average health or Other Postemployment Benefits (OPEB) for new retired members, by years of service, is enclosed as Exhibit II. We did not audit the Association's financial statements. For actuarial valuation purposes, SRBR assets are valued at Actuarial Value. Under this method, the assets used to determine the liabilities of the SRBR and the number of years the SRBR can continue to pay its current level of benefits take into account market value by recognizing the differences between the total return at market value and the expected investment return over 10 six-month periods.

The discretionary benefits provided through the SRBR include OPEB and non-OPEB. Benefits classified under OPEB and reportable under GASB No. 43 include: post retirement medical, dental, and vision benefits. Benefits classified under non-OPEB and reportable under GASB No. 25 include: supplemental COLAs, burial allowance, and the Active Death Equity Benefit.

For valuation purposes, the total cost of providing future postemployment benefits is projected, using actuarial assumptions that are common for both the statutory retirement and the discretion-

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

ary SRBR benefits (e.g., turnover, mortality, disability, retirement, etc.) and assumptions that are unique to the discretionary SRBR OPEB (e.g., health care trend assumptions, etc.). The future cost is then discounted to determine an actuarial present value of projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan allocated to these benefits.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. The UAAL is amortized as a level percentage of payroll over a 24-year period as of December 31, 2011.

Based on directions provided by the Association, we limited the AAL of the OPEB and non-OPEB paid from the SRBR to the Actuarial Value of Assets (AVA) allocated to the SRBR as of December 31, 2011. This leads to an ARC of 0% because there is no unfunded AAL to amortize and no normal cost to accrue. In addition, the GASB No. 43 funded ratio is 100% for OPEB and the GASB No. 25 funded ratio is 100% for non-OPEB, with this limitation. The funded status of the OPEB and non-OPEB is provided in the enclosed Exhibit I (Schedule of Funding Progress).

Based on the AVA available as of December 31, 2011, the SRBR would only be able to pay benefits until 2027 for OPEB and 2031 for non-OPEB. As we indicated in our certification letter for the statutory retirement plan benefits, the Association had deferred investment losses of $481.8 million that were not yet recognized in determining the combined actuarial value of assets for the Pension Plan and the SRBR Plan as of December 31, 2011. The deferred losses of $481.8 million represent 9.5% of the market value of assets as of December 31, 2011, and will substantially reduce the rate of return on the actuarial value of assets over the next few years.

Even though the actuarial value of assets in the SRBR would not be reduced to reflect the recognition of the above losses over the next several years, we would still anticipate the terminal years of the SRBR to shorten and the funding ratios to deteriorate over the next several years. This is because the liabilities associated with future SRBR benefit payments have been discounted at the assumed rate of 7.8% and it would take investment income of at least 7.8% on the actuarial value of assets to maintain the terminal years and the funding ratios.

Our calculations were based upon the benefits provided under the terms of the substantive plan in effect at the time of the December 31, 2011 valuation.

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the Association's CAFR is provided below:

Exhibit I	Schedule of Funding Progress – OPEB and non-OPEB[(1)];
Exhibit II	Schedule of Average Other Postemployment Benefits (OPEB); and
Exhibit III	Solvency Test - OPEB and non-OPEB.

[(1)] *The schedule of funding progress is the only schedule that Segal has prepared for the Financial Section of the CAFR. In particular, the Schedule of Employer Contributions has been prepared by ACERA.*

The non-economic valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the November 30, 2010 Experience Analysis and specific health care related assumptions recommended for the December 31, 2011 SRBR valuation. In addition, the economic valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the December 31, 2011 Review of Economic Actuarial Assumptions. Note that the investment return assumption was developed without taking into consideration the impact of the 50/50 excess earnings allocation between the retirement and SRBR asset pools.

The actuarial assumptions common to both the statutory retirement and discretionary SRBR benefits are provided in the Actuarial Section. Additional assumptions specific to the OPEB are included as an attachment to this letter (Schedule of Actuarial Assumptions). It is our opinion that the assumptions used in the December 31, 2011 valuation produce results, which, in aggregate, reflect the future experience of the SRBR. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years, and the actuarial assumptions adopted by the Board resulting from the next experience analysis to be performed as of November 30, 2013 will first become effective in the valuation as of December 30, 2014.

We are Members of the American Academy of Actuaries and we are qualified to render the actuarial opinion contained herein.

Sincerely,

Andy Yeung, ASA, EA, MAAA, FCA
Vice President and Associate Actuary

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President and Actuary

Patrick Twomey, ASA, EA, MAAA
Assistant Actuary

DNA/gxk
Enclosures

Summary of Actuarial Assumptions and Methods

Assumptions for Pension Plan

The following assumptions have been adopted by the Board for the December 31, 2011 valuation.

Summary of Assumptions

Actuarial Assumed Interest Rate	7.80%
Inflation Rate	3.50%
Real Across-the-Board Salary Increase	0.50%
Projected Salary Increases	
General:	4.6% to 7.2%
Safety:	4.7% to 10.2%
These rates include inflation and real across-the-board salary increases.	
Retiree Cost-of-Living Adjustment (Basic)	
for Tier 1 and 3 members:	3.00%
for Tier 2 members:	2.00%
Employee Contribution Crediting Rate	7.80%

Retirement Age and Benefit for Deferred Vested Members

For current and future deferred vested members, retirement age assumptions are as follows:

General Age 59

Safety Age 56

It is assumed that 35% of future General and 55% of future Safety deferred vested members will continue to work for a reciprocal employer. For reciprocals, 4.6% and 4.7% compensation increases per annum are assumed for General and Safety, respectively.

Future Benefit Accruals

One year of service per year of employment plus 0.006 year of additional service to anticipate conversion of unused sick leave for each year of employment.

The following post-retirement and pre-retirement demographic assumptions are based on the plan's actuarial experience through the last triennial experience study as of November 30, 2010.

Post-Retirement Mortality

The actuarial valuation uses the RP-2000 Combined Healthy Mortality table adjusted as follows:

(A) HEALTHY*	
General Members and All Beneficiaries	set back two years for males and one year for females
Safety Members	set back two years for males and one year for females
(B) DISABILITY*	
General Members	set forward four years
Safety Members	set forward two years
(C) FOR EMPLOYEE CONTRIBUTION RATE PURPOSES	
General Members	set back two years for males and one year for females, weighted 30% male and 70% female.
Safety Members	set back two years for males and one year for females, weighted 75% male and 25% female.

*The mortality tables shown above were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement based on a review of the mortality experience in the December 1, 2007 - November 30, 2010 Actuarial Experience Study.

Inclusion of Deferred Vested Members

All deferred vested members are included in this valuation.

Percent of Members Married

70% of male members and 50% of female members.

Age of Spouse

Wives are 3 years younger than their husbands.

Employee Contribution Crediting Rate

7.8%, compounded semi-annually, subject to the availability of net earnings. ACERA operates under the Alternate Financial Provisions of Article 5.5 of the 1937 Act. The employee contribution crediting rate is the assumed actuarial investment rate to the extent that "net earnings" as defined in Article 5.5 are available. In addition, whenever there is a remaining balance of "net earnings", after all other required crediting, a portion of that remaining balance is also credited, as described in Article 5.5.

Salary Increases

The annual rate of compensation increase has three components: inflation, across-the-board salary increases (other than inflation), and merit/promotional increases based on service.

Inflation: 3.50%
Across-the-Board Salary Increase: 0.50%

Merit/Promotional increases based on service:

Service	General	Safety
0-1	3.20%	6.20%
1-2	3.20%	6.20%
2-3	2.90%	5.40%
3-4	2.10%	3.60%
4-5	2.00%	3.00%
5-6	1.70%	2.70%
6-7	1.50%	1.60%
7-8	1.40%	1.10%
8-9	1.00%	1.00%
9-10	1.00%	1.00%
10-11	0.90%	1.00%
11+	0.60%	0.70%

Consumer Price Index (San Francisco Bay Area)

Inflation assumption is 3.50% per year. Retiree COLA increases due to CPI are subject to 3% maximum change per year for General Tier 1, General Tier 3 and Safety Tier 1; and 2% maximum change per year for General Tier 2, Safety Tier 2, Safety Tier 2C, and Safety Tier 2D.

Net Investment Return

For valuation purposes, the assumed rate of return on the valuation value of assets was 7.8%, net of administration and investment expenses (approximately 1% of assets).

Actuarial Value of Assets

The Actuarial Value of Assets is determined by smoothing in any difference between actual and expected market return over ten six-month interest crediting periods.

Actuarial Cost Method

Entry Age Normal Actuarial Cost Method. Entry Age is the age at the member's date of entry into ACERA. Actuarial Accrued Liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The Normal Cost is calculated on an aggregate basis by taking the Present Value of Future Normal Costs divided by the Present Value of Future Salaries to obtain a normal cost rate. This normal cost rate is then multiplied by the total of current salaries.

Terminal Pay Assumptions

Additional pay elements are expected to be received during a member's final average earnings period. The percentages, added to the final year salary, used in this valuation are:

Membership Category	Service Retirement	Disability Retirement
General Tier 1	8.00%	6.50%
General Tier 2	3.00%	1.40%
General Tier 3	8.00%	6.50%
Safety Tier 1	8.50%	6.40%
Safety Tier 2	4.00%	2.10%
Safety Tier 2C	4.00%	2.10%
Safety Tier 2D	4.00%	2.10%

Changes in Actuarial Assumptions

Based on the December 1, 2007 – November 30, 2010 actuarial experience study, the following actuarial assumptions were changed:

- Post-retirement mortality rates
- Termination rates before retirement
- Retirement rates
- Retirement age and benefit for deferred vested members
- Future benefit accruals
- Percentage married
- Net investment return
- Employee contribution crediting rate
- Merit and promotional salary increases
- Terminal pay assumptions.

Assumptions for Other Postemployment Benefits (OPEB) Plan

Per Capita Health Costs

The combined monthly per capita dental and vision claims cost for plan year 2012 was assumed to be $47.46. The Medicare Part B premium is $99.90. For calendar year 2012, medical costs for a retiree were assumed to be as follows:

Medical Plan	Election Assumption	Monthly Premium	Maximum Monthly Medical Allowance[1]
Under Age 65			
Kaiser HMO	80%	$593.86	$522.16
United Healthcare HMO	20%	827.84	522.16
Over Age 65			
Kaiser Senior Advantage	70%	$298.74	$298.74
United Healthcare Senior Supplement[2]	25%	493.18	493.18
United Healthcare Medicare Advantage[2]	5%	424.83	424.83

1 The Maximum Monthly Medical Allowance of $552.16 ($400 for retirees purchasing individual insurance from the Medicare Exchange) is subject to the following subsidy schedule:

Completed Years of Service	Percentage Subsidized
10-14	50%
15-19	75%
20+	100%

2 United Healthcare Medicare group plans will not be available after 2012. Former enrollees will have the option of purchasing individual plans through a Medicare Exchange (with $400 Maximum Monthly Medical Allowance) or enrolling in Kaiser Senior Advantage.

Implicit Subsidy

The estimated average per capita premium for retirees under age 65 is $7,688 per year. Because premiums for retirees under age 65 include active participants for purposes of underwriting, the retirees receive an implicit subsidy from the actives. Had the retirees under age 65 been underwritten as a separate group, their age-based premiums would be higher for most individuals. The excess of the age-based premium over the per capita premium charged makes up the subsidy. Below is a sample of the age-based costs for the retirees under age 65.

Age-Based Average Medical Costs
for Retirees Under Age 65

	Retiree		Spouse	
Age	Male	Female	Male	Female
50	$ 8,589	$ 9,783	$ 6,000	$ 7,856
55	10,201	10,532	8,028	9,093
60	12,114	11,352	10,747	10,546
64	13,898	12,042	13,567	11,870

Health Care Cost Trend Rates

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are "net" and are applied to the net per capital costs shown above. The trend shown for a particular plan year is the rate that is to be applied to the premium for the shown calendar year to calculate the next calendar year's projected premium. For example, the projected 2013 calendar year premium for

Kaiser (under age 65) is $639.26 per month ($593.86 increased by 7.6449%).

	Rate (%)			
Calendar Year	All Non-Medicare Plans	Medicare Advantage Plans[1]	Medicare Supplement Plans[1]	Dental, Vision and Medicare Part B
2012	9.0	9.0	N/A	5.0
2013	8.5	8.5	N/A	5.0
2014	8.0	8.0	N/A	5.0
2015	7.5	7.5	N/A	5.0
2016	7.0	7.0	N/A	5.0
2017	6.5	6.5	N/A	5.0
2018	6.0	6.0	N/A	5.0
2019	5.5	5.5	N/A	5.0
2020 & Later	5.0	5.0	N/A	5.0

1 The actual trends are shown below, based on actual premium renewals for 2013 as reported by ACERA. Note that no trend rates are shown for United Healthcare Medicare group plans since they will not be available after 2012.

Kaiser HMO Early Retiree	United Healthcare HMO Early Retiree	Kaiser Senior Advantage	Dental and Vision
7.6449%	10.5020%	5.9918%	-3.0763%

Participation and Coverage Election

Based on proportion of current retirees receiving a medical benefit subsidy, actuary estimates that 85% of employees eligible to retire and receive subsidized postretirement medical coverage will elect to participate in the plan.

Dependents

Demographic data was available for spouses of current retirees. For future retirees, husbands were assumed to be three years older than their wives. Of the future retirees who elect to continue their medical coverage at retirement, 40% of males and 20% of females were assumed to have an eligible spouse who also opts for health coverage at that time.

Please note that these assumptions are only used to determine the cost of the implicit subsidy.

Plan Design

Development of plan liabilities was based on the plan of benefits in effect as described in Exhibit II of the December 31, 2011 valuation report.

Administrative Expenses

An administrative expense load was not added to projected incurred claim costs in developing per capita health costs.

Assumed Increase in Annual Maximum Benefits

For the "substantive plan design" shown in this report, actuary has assumed:

a) Maximum medical allowances will increase with 50% of trend for Medicare Supplement plans, or 3.5% graded down to 2.5% ultimate rate over 4 years.
b) Dental and vision premium reimbursement will increase with full trend.
c) Medicare B premium reimbursement will increase with full trend.

Note that Medicare Supplement plans are not offered by ACERA after 2012.

Missing Participant Data

Any missing census items for a given participant was set to equal to the average value of that item over all other participants of the same membership status for whom the item is known.

Active Member Valuation Data (Actuary's Exhibit I)

As of December 31[1]

Year	Plan Type	Number	Annual Payroll[2]	Annual Average Pay	% Increase in Average Pay[3]
2007	General	9,415	$ 662,309,000	$ 70,346	2.01%
	Safety	1,497	131,249,000	87,675	-0.82%
	Total	**10,912**	**793,558,000**	**72,723**	**1.74%**
2008	General	9,599	716,012,000	74,592	6.04%
	Safety	1,574	147,526,000	93,727	6.90%
	Total	**11,173**	**863,538,000**	**77,288**	**6.28%**
2009	General	9,407	730,681,649	77,674	4.13%
	Safety	1,520	151,923,235	99,949	6.64%
	Total	**10,927**	**882,604,884**	**80,773**	**4.51%**
2010	General	9,391	747,336,146	79,580	2.45%
	Safety	1,488	151,005,579	101,482	1.53%
	Total	**10,879**	**898,341,725**	**82,576**	**2.23%**
2011	General	9,283	745,444,475	80,302	0.91%
	Safety	1,441	147,044,625	102,043	0.55%
	Total	**10,724**	**892,489,100**	**83,224**	**0.78%**
2012	General	9,392	762,983,211	81,238	1.17%
	Safety	1,408	143,518,009	101,930	-0.11%
	Total	**10,800**	**906,501,220**	**83,935**	**0.85%**

1 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

2 Salary projected from 11/30 to 12/31 for each year. Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by the salary increase assumption.

3 The Percent Increase in Average Pay reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average salary increases received by members who worked the full year.

Retirees and Beneficiaries Added To and Removed From Retiree Payroll (Actuary's Exhibit II)

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Plan Year[1]	Number	Annual Allowance[2] in $000's	Number	Annual Allowance in $000's	Number	Annual Allowance in $000's	% Increase in Retiree Allowance	Average Annual Allowance
2007	494	$ 25,051	(247)	$ (4,971)	7,183	$ 223,172	9.89%	$ 31,069
2008	403	23,056	(340)[3]	(5,743)	7,246	240,485	7.76%	33,189
2009	378	21,731	(291)	(5,780)	7,333	256,436	6.63%	34,970
2010	489	27,700	(264)	(5,956)	7,558	278,180	8.48%	36,806
2011	577	30,660	(229)	(6,177)	7,906	302,663	8.80%	38,283
2012	511	30,485	(242)	(6,269)	8,175	326,879	8.00%	39,985

1 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.
2 Includes data adjustments and automatic cost of living adjustments granted on April 1.
3 Includes data adjustments made by ACERA on beneficiary file.

Solvency Test[1] (Actuary's Exhibit III)

(Dollars in Thousands)

	Aggregate Accrued Liabilities For:					Portion of Aggregate Accrued Liabilities Covered by Reported Assets For:		
Valuation Date	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/06	$ 842,479	$ 2,550,170	$ 1,432,508	$ 4,825,157	$ 4,127,841	100%	100%	51%
12/31/07	898,321	2,794,861	1,419,221	5,112,403	4,560,213	100%	100%	61%
12/31/08	970,152	3,036,649	1,531,118	5,537,919	4,644,010	100%	100%	42%
12/31/09	962,821	3,244,535	1,691,975	5,899,331	4,789,000	100%	100%	34%
12/31/10	953,663	3,487,411	1,721,666	6,162,740	4,776,128	100%	100%	19%
12/31/11	943,618	3,748,179	1,667,686	6,359,483	4,868,689	100%	100%	11%

1 This schedule includes actuarially funded liabilities and assets. The non-valuation reserves such as Supplemental Retirees Benefit Reserve, Death Benefit Reserve, and Market Stabilization Reserve, etc., are not included.
Events affecting year-to-year comparability:
12/31/2006 - Investment return assumption increased from 7.90% to 8.00%.
12/31/2008 - Change in non-economic assumptions. Terminal pay assumption for Service Retirement decreased from 8.8% to 8.0% for General Tier 1 and General Tier 3, and increased from 3.0% to 4.0% for Safety Tier 2. Benefit improvement (2.5% @ 55 formula) for electing LARPD members (new General Tier 3), effective October 1, 2008.
12/31/2009 - Investment return assumption decreased from 8.00% to 7.90%; inflation assumption decreased from 3.75% to 3.50%; across-the-board salary increase assumption increased from 0.25% to 0.50%.
12/31/2010 - Investment return assumption remained at 7.90%.
12/31/2011 - Change in non-economic assumptions. Investment return assumption decreased from 7.90% to 7.80%. Effective February 6, 2011 for ACMEA Probation Mgrs. and effective March 6, 2011 for Teamsters Local Union 856, members in these groups can elect to enroll in either Safety Tier 2C (2% @ 50 formula) or Safety Tier 2D (3% @ 55 formula), with payment of additional member cost sharing contributions for Safety Tier 2D. Effective September 30, 2011, all new members hired by the Housing Authority enter General Tier 2.

Solvency Test - OPEB With Limit (Actuary's SRBR Exhibit III)

Actuarial Accrued Liability Limited to Actuarial Value of Assets

(Dollars in Thousands)

Valuation Date	Aggregate Accrued Liabilities For:					Portion of Aggregate Accrued Liabilities Covered by Reported Assets For:		
	Active Member Contributions	Retired/ Vested Members[1]	Active Members (Employer Financed Portion)[1]	Total[1]	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/2006	N/A	$ 290,000	$ 206,200	$ 496,200	$ 496,200	N/A	100%	100%
12/31/2007	N/A	334,615	279,829	614,444	614,444	N/A	100%	100%
12/31/2008	N/A	342,568	265,746	608,314	608,314	N/A	100%	100%
12/31/2009	N/A	346,718	244,571	591,289	591,289	N/A	100%	100%
12/31/2010	N/A	338,672	222,684	561,356	561,356	N/A	100%	100%
12/31/2011	N/A	337,536	205,400	542,936	542,936	N/A	100%	100%

Solvency Test - OPEB Without Limit (Actuary's SRBR Exhibit III)

Actuarial Accrued Liability Not Limited to Actuarial Value of Assets

(Dollars in Thousands)

Valuation Date	Aggregate Accrued Liabilities For:					Portion of Aggregate Accrued Liabilities Covered by Reported Assets For:		
	Active Member Contributions	Retired/ Vested Members[2]	Active Members (Employer Financed Portion)[2]	Total[2]	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members[3]	Active Members (Employer Financed Portion)[3]
12/31/2006	N/A	$ 341,000	$ 250,500	$ 591,500	$ 496,200	N/A	100%	62%
12/31/2007	N/A	367,096	272,725	639,821	614,444	N/A	100%	91%
12/31/2008	N/A	397,550	305,770	703,320	608,314	N/A	100%	69%
12/31/2009	N/A	428,232	335,269	763,501	591,289	N/A	100%	49%
12/31/2010	N/A	417,456	315,449	732,905	561,356	N/A	100%	46%
12/31/2011	N/A	429,316	324,900	754,216	542,936	N/A	100%	35%

1 Accrued liabilities have been limited to benefits expected to be paid before the exhaustion of actuarial value of assets.

2 Accrued liabilities have not been limited to benefits expected to be paid before the exhaustion of actuarial value of assets.

3 Assuming actuarial value of assets is first used to entirely fund the liabilities for retired/vested members before it is used to fund the liabilities for active members.

Events affecting year-to-year comparability:

12/31/06 - Investment return assumption increased from 7.90% to 8.00%.

12/31/08 - Change in non-economic assumptions. Terminal pay assumption for Service Retirement decreased from 8.8% to 8.0% for General Tier 1 and General Tier 3, and increased from 3.0% to 4.0% for Safety Tier 2.

12/31/09 - Investment return assumption decreased from 8.00% to 7.90%; inflation assumption decreased from 3.75% to 3.50%; across-the-board salary increase assumption increased from 0.25% to 0.50%.

12/31/10 - Investment return assumption remained at 7.90%.

12/31/11 - Change in non-economic assumptions. Investment return assumption decreased from 7.90% to 7.80%. The Board acted on July 19, 2012 to maintain the 2013 MMA at the 2012 level and to provide retirees currently enrolled in a United Healthcare Medicare group insurance plan with the option to purchase individual Medicare insurance from plans through a Medicare exchange, beginning in 2013. The maximum monthly medical allowance is reduced for the individual plans.

Note: At each valuation date, health care cost trend rates have been updated and starting premium costs have been revised to reflect updated data.

Solvency Test - Non-OPEB With Limit (Actuary's SRBR Exhibit III)

Actuarial Accrued Liability Limited to Actuarial Value of Assets
(Dollars in Thousands)

	Aggregate Accrued Liabilities For:					Portion of Aggregate Accrued Liabilities Covered by Reported Assets For:		
Valuation Date	Active Member Contributions	Retired/ Vested Members[1]	Active Members (Employer Financed Portion)[1]	Total[1]	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/2006	N/A	$ 46,000	$ 20,300	$ 66,300	$ 66,300	N/A	100%	100%
12/31/2007	N/A	52,032	26,394	78,426	78,426	N/A	100%	100%
12/31/2008	N/A	46,095	29,910	76,005	76,005	N/A	100%	100%
12/31/2009	N/A	40,777	32,704	73,481	73,481	N/A	100%	100%
12/31/2010	N/A	41,675	27,581	69,256	69,256	N/A	100%	100%
12/31/2011	N/A	43,178	23,842	67,020	67,020	N/A	100%	100%

Solvency Test - Non-OPEB Without Limit (Actuary's SRBR Exhibit III)

Actuarial Accrued Liability Not Limited to Actuarial Value of Assets

(Dollars in Thousands)

	Aggregate Accrued Liabilities For:					Portion of Aggregate Accrued Liabilities Covered by Reported Assets For:		
Valuation Date	Active Member Contributions	Retired/ Vested Members[2]	Active Members (Employer Financed Portion)[2]	Total[2]	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members[3]	Active Members (Employer Financed Portion)[3]
12/31/2006	N/A	$ 80,900	$ 105,400	$ 186,300	$ 66,300	N/A	82%	0%
12/31/2007	N/A	91,441	112,427	203,868	78,426	N/A	86%	0%
12/31/2008	N/A	80,182	122,352	202,534	76,005	N/A	95%	0%
12/31/2009	N/A	63,808	107,370	171,178	73,481	N/A	100%	9%
12/31/2010	N/A	68,955	107,546	176,501	69,256	N/A	100%	0%
12/31/2011	N/A	77,477	108,369	185,846	67,020	N/A	87%	0%

1 Accrued liabilities have been limited to benefits expected to be paid before the exhaustion of actuarial value of assets.

2 Accrued liabilities have not been limited to benefits expected to be paid before the exhaustion of actuarial value of assets.

3 Assuming actuarial value of assets is first used to entirely fund the liabilities for retired/vested members before it is used to fund the liabilities for active members.

Events affecting year-to-year comparability:

12/31/06 - Investment return assumption increased from 7.90% to 8.00%.

12/31/08 - Change in non-economic assumptions. Terminal pay assumption for Service Retirement decreased from 8.8% to 8.0% for General Tier 1 and General Tier 3, and increased from 3.0% to 4.0% for Safety Tier 2.

12/31/09 - Investment return assumption decreased from 8.00% to 7.90%; inflation assumption decreased from 3.75% to 3.50%; across-the-board salary increase assumption increased from 0.25% to 0.50%

12/31/10 - Investment return assumption remained at 7.90%.

12/31/11 - Change in non-economic assumptions. Investment return assumption decreased from 7.90% to 7.80%.

Actuarial Analysis of Financial Experience (Actuary's Exhibit IV)

(Dollars in Millions)	Plan Years					
	2011	2010	2009	2008	2007	2006
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued Liability	$ 1,387	$ 1,110	$ 894	$ -	$ 697	$ 766
a) Before Benefit Improvement	-	-	-	552	-	-
b) After Benefit Improvement[1]	-	-	-	553	-	-
Salary Increase Greater (Less) than Expected	(106)	(80)	(25)	38	(42)	2
COLA Increase Greater (Less) than Expected	(11)	(7)	(31)	-	-	-
Asset Return Less (Greater) than Expected	225	339	179	245[2]	(125)	(57)
Other Experience (Including Scheduled UAAL Payment)	31	25	29	40	22	42
Economic Assumption Changes	-	-	64	-	-	(56)
Non-economic Assumption Changes	7[3]	-	-	9	-	-
Data Corrections	(42)[4]	-	-	9	-	-
Ending Unfunded/(Prefunded) Actuarial Accrued Liability	$ 1,491	$ 1,387	$ 1,110	$ 894	$ 552	$ 697

1 Improved General Tier 3 benefit in Plan Year 2008.

2 Includes effect of change in the market value corridor for the calculation of the actuarial value of assets, from 80%-120% to 60%-140%.

3 Combined effect of changes in non-economic and economic assumptions.

4 Following direction provided by ACERA, some retirees who were previously assumed to be married are now classified as single with no beneficiary eligible for an automatic continuance benefit.

Summary of Plan Provisions

BENEFITS SECTIONS 31676.1, 31676.12, 31676.18, 31664, 31664.1, and 31664.2 OF THE COUNTY EMPLOYEES RETIREMENT LAW OF 1937 (“1937 Act”)

Briefly summarized below are major provisions of the 1937 Act as amended through December 31, 2011, and as adopted by Alameda County or other Participating Employers.

Membership Eligibility

Each person appointed to a full-time, permanent position with the County of Alameda or Participating Employer is eligible and required to become a member of ACERA. Membership with ACERA usually begins with the second pay period following appointment to a full-time County or Participating Employer position. ACERA members who change from full-time to part-time are required to continue membership at ACERA (with future contributions and benefits adjusted accordingly).

Tiers (Benefit Levels)

General and Safety Tier 1 include all General and Safety members hired on or before June 30, 1983. General and Safety Tier 2 include, depending on the employer, General and Safety members hired after June 30, 1983. General Tier 3 was effective October 1, 2008 for electing General active members of the Livermore Area Recreation and Park District (LARPD). LARPD adopted a benefit improvement for all service under the 2.5% @ 55 formula as an option to their employees. The County has adopted new Safety Tier 2 formulas, 2% @ 50 (Safety Tier 2C) and 3% @ 55 (Safety Tier 2D), for new hires starting October 17, 2010. See pages 110 and 111 for employer and employee contribution rates.

Final Compensation for Benefit Determination (“Final Average Salary”)

Final Average Salary (FAS) is defined as the highest 12 consecutive months of compensation earnable for Tier 1 and Tier 3; and the highest 36 consecutive months for Tier 2.

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus interest will be refunded upon request. In lieu of receiving a return of contributions, a vested member or member terminated after January 1, 2003 may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

Eligibility for Service Retirement

General members are eligible to retire: at age 50 with 10 years of service; at age 70 regardless of years of service, or at any age with 30 years of service. Safety members are eligible to retire: at age 50 with 10 years of service; at age 70 regardless of years of service; or at any age with 20 years of service.

Eligibility for Deferred Service Retirement

Vested deferred members are terminated members who have completed five years of service and leave accumulated contributions in the retirement fund. Vested deferred members are entitled to receive retirement benefits upon meeting the eligibility requirements.

Service Retirement Benefit

The monthly service retirement benefit depends on age at retirement and is based on a percentage of the Final Average Salary (divided by 12 or 36 depending on Tier to get a monthly amount) multiplied by years of service. It is illustrated below for selected age-at-retirement figures.

For members integrated with Social Security, the benefit is reduced by one-third of the percentage shown below times the first $350 of monthly Final Average Salary per year of service credited after January 1, 1956.

Percentage of Final Average Salary for Selected Age-at-Retirement

	General			Safety			
Age-at-Retirement	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 2C	Tier 2D
50	1.34%	1.18%	2.00%	3.00%	3.00%	2.00%	2.29%
55	1.77%	1.49%	2.50%	3.00%	3.00%	2.62%	3.00%
60	2.34%	1.92%	2.50%	3.00%	3.00%	2.62%	3.00%
62	2.62%	2.09%	2.50%	3.00%	3.00%	2.62%	3.00%
65 and over	2.62%	2.43%	2.50%	3.00%	3.00%	2.62%	3.00%

Maximum Benefit

The maximum basic benefit payable to a member or beneficiary is 100% of Final Average Salary.

Disability Benefit

Members with five years of service, regardless of age, are eligible to apply for non-service connected disability benefits. As with the service retirement benefit, the disability benefit is based on a percentage of Final Average Salary (FAS).

The disability benefit is 1.8% per year of service for General Tier 1 and Tier 3 members; and 1.5% per year of service for General Tier 2 members. If this benefit does not exceed one-third of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 62 for General Tier 1 and Tier 3 members; and age 65 for General Tier 2 members.

The disability benefit is 1.8% per year of service for Safety members. If this benefit does not exceed one-third of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 55.

In each case where the disability benefit has been increased as described above, the total benefit cannot exceed one-third of the FAS, unless the benefit calculated from the member's age, years of service, and salary is greater.

If the disability is service connected ("job-related"), then there is no age or service requirement. This benefit is the greater of 50% of FAS, or the benefit amount derived from the member's age, years of service, and salary.

Members who apply for disability retirement benefits must be able to prove they are permanently unable to perform the usual duties of their current job. In addition, those who apply for a service connected disability must prove their incapacity to perform their duties was job-related.

Active Member Death Benefit

In addition to the return of contributions with credited interest, a lump sum death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on the final year's average salary, but not to exceed six months' salary.

If a member dies while eligible for service retirement or non-service connected disability, the eligible surviving spouse/domestic partner may elect to receive 60% of the allowance that the member would have received for retirement on the day of his or her death in lieu of the above mentioned lump sum.

Active Death Equity Benefit (ADEB)

In 2000, the Board of Retirement authorized the ADEB option which provides a continuance to the surviving spouse/domestic partner of a member who died because of non-service connected disability equal to 100% of the member's reduced allowance under the option 2 provision.

The funding of the ADEB benefit (the difference in the benefit between the 60% continuance under the unmodified option and 100% continuance provided under option 2) is provided from assets held in the SRBR. The ADEB is a non-vested benefit and may be discontinued at any time and for any reason. The Board of Retirement reserves the right to terminate the ADEB for future recipients and in 2012, the Board has eliminated this benefit effective January 1, 2013.

Service Connected Death Benefit

If a member dies in the performance of duty, the eligible surviving spouse/domestic partner may elect to receive 50% of the member's FAS (or 100% of the service retirement benefit, if greater).

Retired Member Death Benefit

If a member dies after retirement, a lump sum amount up to $5,000 is paid to the beneficiary or estate. ($4,250 of this death benefit is not vested and is funded through the SRBR, subject to Board approval and available funding). In 2012, the Board has eliminated the $4,250 death benefit effective January 1, 2013.

In addition, if the retirement was for service connected disability, 100% of the member's allowance as it was at death is continued to the qualified surviving spouse/domestic partner for life.

If the retirement was for other than service connected disability, 60% of the member's unmodified allowance is continued to the qualified surviving spouse/domestic partner for life.

Basic Cost-of-Living Adjustments (COLA)

The basic Cost-of-Living Adjustments are based on the change in the San Francisco Bay Area Consumer Price Index (CPI) for the calendar year prior to the April 1 effective date. The basic COLA increase in retirement allowance is up to 3% per year for Tier 1 and Tier 3; and up to 2% for Tier 2 members. For any year in which the CPI exceeds the COLA percentage cap for a member, the excess percentage is accumulated ("banked") for that member and subsequently applied as an increase to the allowance in a later year when the CPI figure falls short of the relevant cap.

Supplemental Benefits Excluded from Actuarial Valuation

Non-vested supplemental COLA and retiree healthcare program benefits are paid to eligible retirees and survivors. These supplemental benefits have been excluded from the Pension Plan valuation, but are included in the SRBR, OPEB and Non-OPEB valuation.

Contribution Rates

Basic member contribution rates are based on a formula reflecting the age at entry into the Association. The rates are such as to provide, for each year of service, an average annuity at age 60 of 1/100 of FAS for General members under Tier 1; at age 60 of 1/120 of FAS for General members under Tier 2; at age 55 of 1/100 of FAS for General members under Tier 3; and at age 50 of 1/100 of FAS for Safety members. Note that in estimating FAS, we have included an assumption to anticipate how much unused vacation would be available for conversion at retirement. Member cost of living contribution rates are actuarially determined to pay for one-half of future cost of living liabilities.

For members whose benefits are integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first $161 of biweekly salary. Member contributions are refundable upon termination from employment.

Employer contribution rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the Pension Plan.

Exemption from Contributions After Thirty Years of Service

Safety members with 30 or more years of service and General members hired on or before March 7, 1973 with 30 or more years of service are exempt from paying member contributions.

Assumed Termination and Retirement Rates

The following schedules indicate the assumed rates before retirement for disability, termination, and mortality, as well as retirement rates.

The rates shown for each cause represent the likelihood that a given member will terminate at a particular age or with the particular service for the indicated reason. For example, if the rate of retirement for a General Tier 1 member age 50 is 3.00, then we are assuming that 3.00 percent of the General members in this age bracket will receive service retirement during the year.

Assumed Retirement Rates

Rates (%)

Age	General Tier 1	General Tier 2	General Tier 3	Safety Tier 1[1]	Safety Tier 2,2D[1]	Safety Tier 2C[1]
50	3.00	2.00	6.00	35.00	10.00	4.00
51	3.00	2.00	3.00	25.00	10.00	2.00
52	3.00	2.00	5.00	25.00	10.00	2.00
53	3.00	2.00	6.00	35.00	10.00	3.00
54	3.00	2.00	6.00	40.00	10.00	6.00
55	6.00	3.00	12.00	40.00	10.00	10.00
56	8.00	3.00	13.00	40.00	15.00	12.00
57	10.00	4.00	13.00	40.00	20.00	20.00
58	10.00	5.00	14.00	40.00	20.00	10.00
59	13.00	5.00	16.00	40.00	20.00	15.00
60	20.00	5.00	21.00	100.00	40.00	60.00
61	20.00	8.00	20.00	100.00	40.00	60.00
62	35.00	20.00	30.00	100.00	40.00	60.00
63	30.00	16.00	25.00	100.00	40.00	60.00
64	30.00	18.00	25.00	100.00	100.00	100.00
65	35.00	22.00	30.00	100.00	100.00	100.00
66	30.00	20.00	25.00	100.00	100.00	100.00
67	25.00	20.00	25.00	100.00	100.00	100.00
68	20.00	30.00	25.00	100.00	100.00	100.00
69	40.00	35.00	50.00	100.00	100.00	100.00
70	100.00	100.00	100.00	100.00	100.00	100.00

1 Retirement rate is 100% after a member accrues a benefit of 100% of FAS.

Assumed Termination Rates Before Retirement

DISABILITY

Age	Rate (%) General[1]	Rate (%) Safety[2]
20	0.00	0.00
25	0.01	0.00
30	0.03	0.24
35	0.08	0.46
40	0.16	0.50
45	0.23	0.50
50	0.34	1.10
55	0.46	1.92
60	0.59	2.20

TERMINATION (RATE %)

Less than 5 Years of Service [3]

Years of Service	General	Safety
0	13.00	5.00
1	9.00	3.00
2	8.00	3.00
3	6.00	2.00
4	5.00	2.00

5 Years of Service or More [4]

Age	General	Safety
20	5.00	2.00
25	5.00	2.00
30	5.00	2.00
35	4.70	1.40
40	3.72	1.00
45	2.54	1.00
50	2.04	1.00
55	2.00	1.00
60	2.00	0.40

MORTALITY[5]

	Rate (%)			
	General		Safety	
Age	Male	Female	Male	Female
25	0.04	0.02	0.04	0.02
30	0.04	0.02	0.04	0.02
35	0.06	0.04	0.06	0.04
40	0.10	0.06	0.10	0.06
45	0.13	0.10	0.13	0.10
50	0.19	0.16	0.19	0.16
55	0.29	0.24	0.29	0.24
60	0.53	0.44	0.53	0.44
65	1.00	0.86	1.00	0.86

1 70% of General disabilities are assumed to be service connected disabilities. The other 30% are assumed to be non-service connected disabilities.

2 100% of Safety disabilities are assumed to be service connected disabilities.

3 70% of all terminating members are assumed to choose a refund of contributions and 30% are assumed to choose a deferred vested benefit.

4 40% of all terminating members are assumed to choose a refund of contributions and 60% are assumed to choose a deferred vested benefit. No termination is assumed after a member is eligible for retirement.

5 100% of pre-retirement deaths are assumed to be non-service connected.

This page is intentionally left blank.

This page is intentionally left blank.

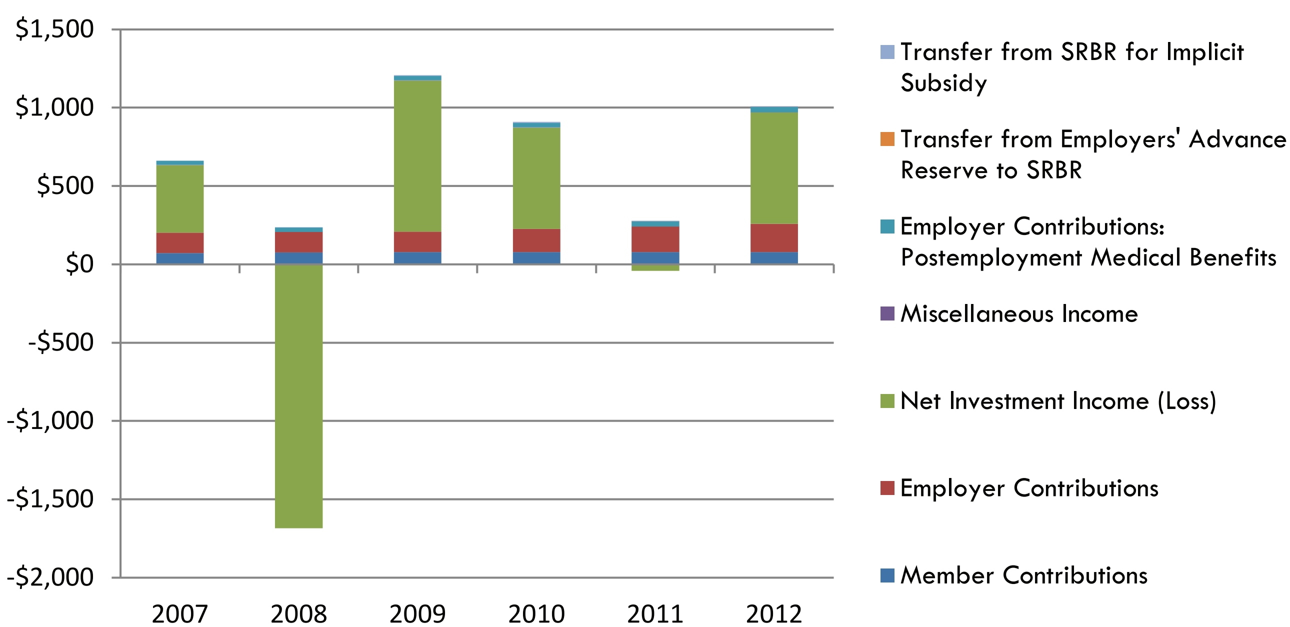
Statistical

Statistical

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information, covering Pension Plan Benefits, Postemployment Medical Benefits and Non-OPEB. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for ACERA's Net Position, benefits, refunds, contribution rates and different types of retirement benefits. This information was produced by either ACERA's actuary or from ACERA's member database. Some historical comparative information is not available for periods prior to ACERA's implementation of GASB 44 for the year ended December 31, 2006.

Additions to ACERA's Net Position by Source

(Dollars in Millions)



Additions to ACERA's Net Position by Source

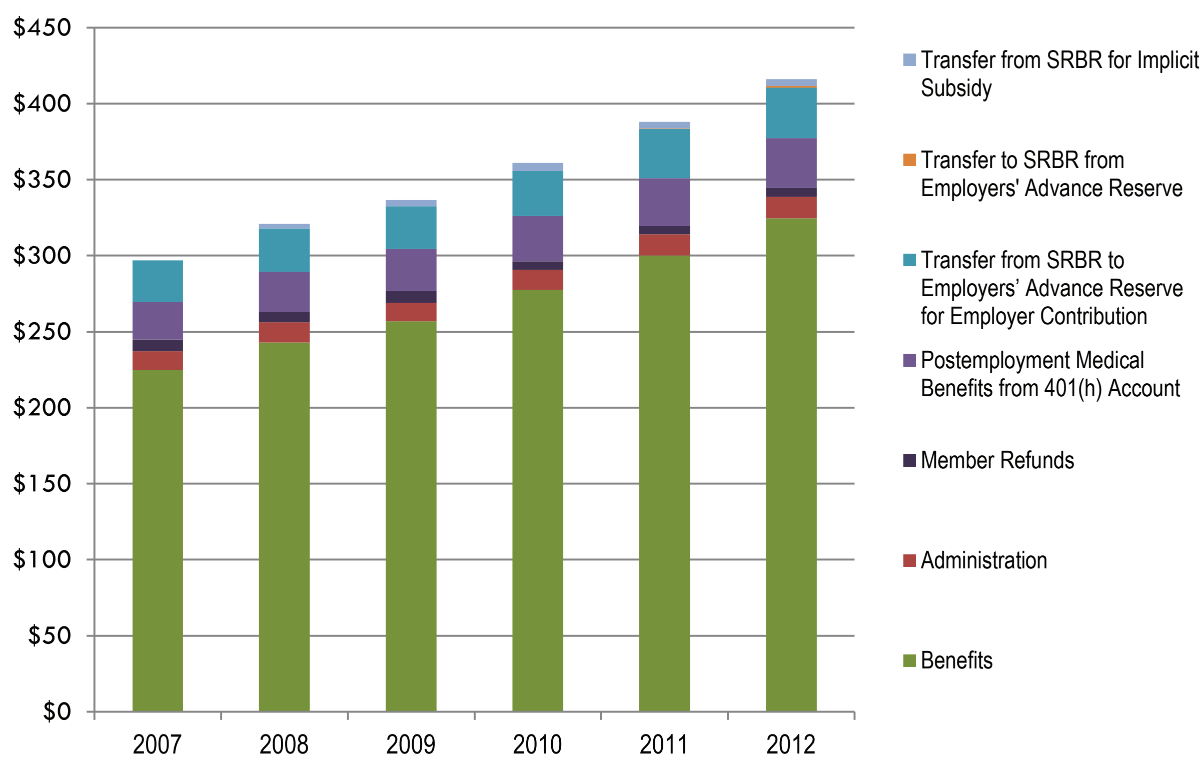
(Dollars in Millions)

Year Ended December 31	Member Contributions: Pension Plan	Employer Contributions:	Net Investment Income (Loss)	Misc. Income	Employer Contributions: Postemployment Medical Benefits	Transfer from Employers' Advance Reserve[1] to SRBR	Transfer from SRBR for Implicit Subsidy	Total Additions
2007	$ 72.3	$ 130.0	$ 430.9	$ 1.0	$ 27.3	$ -	$ -	$ 661.5
2008	75.6	129.7	(1,685.2)	0.5	28.5	-	3.1	(1,447.8)
2009	77.3	132.2	963.6	2.3	27.9	-	4.1	1,207.4
2010	77.6	147.5	648.1	0.5	29.5	-	5.3	908.5
2011	78.0	162.9	(40.7)	0.7	32.3	0.4	4.4	238.0
2012	78.6	179.6	711.9	0.9	33.4	1.0	4.4	1,009.8

1 Effective July 1, 2011, ACERA adopted Section 31618.5 of the 1937 Act. In compliance with this law, employers allocate a portion of their contribution to the 401(h) account for estimated administrative cost of these benefits, in addition to contributions for the Postemployment Medical Benefits.

Deductions from ACERA's Net Position by Type

(Dollars in Millions)



Deductions from ACERA's Net Position by Type

(Dollars in Millions)

Year Ended December 31	Benefits	Administration	Member Refunds	Postemployment Medical Benefits from 401(h) Account	Transfer from SRBR to Employers' Advance Reserve for Employer Contribution	Transfer to SRBR from Employers' Advance Reserve[1]	Transfer from SRBR for Implicit Subsidy	Total Deductions
2007	$ 224.8	$ 12.2	$ 7.8	$ 24.7	$ 27.3	$ -	$ -	$ 296.8
2008	242.9	13.3	6.5	26.7	28.5	-	3.1	321.0
2009	256.7	12.3	7.7	27.8	27.9	-	4.1	336.5
2010	277.7	13.0	5.6	29.8	29.5	-	5.3	360.9
2011	300.2	13.8	5.4	31.6	32.3	0.4	4.4	388.1
2012	324.5	14.1	5.9	32.7	33.4	1.0	4.4	416.0

1 Effective July 1, 2011, ACERA adopted Section 31618.5 of the 1937 Act. In compliance with this law, employers allocate a portion of their contribution to the 401(h) account for estimated administrative cost of these benefits, in addition to contributions for the Postemployment Medical Benefits.

Changes in Pension Plan Net Position Last Ten Fiscal Years[1]

For the Years Ended December 31 (Dollars in Thousands)

	2012	2011	2010	2009	2008	2007	2006
Additions							
Member Contributions	$ 78,608	$ 77,991	$ 77,605	$ 77,271	$ 75,608	$ 72,342	$ 70,174
Employer Contributions	146,296	130,559	118,083	104,263	101,113	102,749	108,088
Total Contributions	**224,904**	**208,550**	**195,688**	**181,534**	**176,721**	**175,091**	**178,262**
Investment and Miscellaneous Income (Net of Expenses)	712,780	(40,042)	648,618	965,921	(1,684,744)	431,789	638,305
Transfer from Postemployment Medical Benefits on Behalf of Employers	33,353	32,320	29,460	27,935	28,547	27,291	19,008
Transfer from Postemployment Medical Benefits for Employers Implicit Subsidy	4,411	4,403	5,288	4,149	3,091	-	6,304
Earnings Allocated to Postemployment Medical Benefits Reserve	(8,443)	(17,449)	(4,370)	(16,102)	(24,701)	(145,957)	(75,636)
Earnings Allocated to Non-OPEB Reserve	(1,040)	(2,134)	(541)	(1,997)	(3,137)	(18,307)	(9,962)
Total Additions	**965,965**	**185,648**	**874,143**	**1,161,440**	**(1,504,223)**	**469,907**	**756,281**
Deductions							
Benefit Payments	320,844	295,826	272,937	252,126	237,273	218,618	199,423
Refunds	5,893	5,406	5,645	7,718	6,527	7,778	5,817
Administration Expenses	13,097	13,306	13,001	12,255	13,315	12,211	10,778
Transfer to SRBR from Employers' Advance Reserve[2]	1,001	462	-	-	-	-	-
Total Deductions	**340,835**	**315,000**	**291,583**	**272,099**	**257,115**	**238,607**	**216,018**
Changes in Pension Plan Net Position	**$625,130**	**$(129,352)**	**$582,560**	**$889,341**	**$(1,761,338)**	**$231,300**	**$540,263**

1 ACERA implemented GASB 44 for year ended December 31, 2006. Prior to GASB 44 implementation, changes in Net Position data for Pension Plan, Postemployment Medical Benefits, and Non-OPEB were aggregated in one fund. Therefore, no separate data for each plan is available prior to 2006.

2 Effective July 1, 2011, ACERA adopted Section 31618.5 of the 1937 Act. In compliance with this law, employers allocate a portion of their contribution to the 401(h) account for estimated administrative cost of these benefits, in addition to contributions for the Postemployment Medical Benefits.

Changes in Postemployment Medical Benefits Net Position Last Ten Fiscal Years[1]

For the Years Ended December 31 (Dollars in Thousands)

	2012	2011	2010	2009	2008	2007	2006
Additions							
Employer Contributions	$ 33,353	$ 32,320	$ 29,460	$ 27,935	$ 28,547	$ 27,291	$ 19,008
Earnings Allocated to Postemployment Medical Benefits	8,443	17,449	4,370	16,102	24,701	145,957	75,636
Transfer from Employers' Advance Reserve to SRBR[2]	1,001	462	-	-	-	-	-
Total Additions	**42,797**	**50,231**	**33,830**	**44,037**	**53,248**	**173,248**	**94,644**
Deductions							
Administrative Expenses[2]	1,001	462	-	-	-	-	-
Postemployment Medical Benefits payments[3]	32,692	31,555	29,802	27,839	26,681	24,668	22,205
Transfer to Employers' Advance Reserve for SRBR Employer Contributions	33,353	32,320	29,460	27,935	28,547	27,291	19,008
Transfer to Employers' Advance Reserve for Implicit Subsidy	4,411	4,403	5,288	4,149	3,091	-	6,304
Total Deductions	**71,457**	**68,740**	**64,550**	**59,923**	**58,319**	**51,959**	**47,517**
Changes in Postemployment Medical Benefits Net Position	**$(28,660)**	**$(18,509)**	**$(30,720)**	**$(15,886)**	**$(5,071)**	**$121,289**	**$ 47,127**

1 ACERA implemented GASB 44 for year ended December 31, 2006. Prior to GASB 44 implementation, changes in Net Position data for Pension Plan, Postemployment Medical Benefits, and Non-OPEB were aggregated in one fund. Therefore, no separate data for each plan is available prior to 2006.

2 Effective July 1, 2011, ACERA adopted Section 31618.5 of the 1937 Act. In compliance with this law, employers allocate a portion of their contribution to the 401(h) account for estimated administrative cost of these benefits, in addition to contributions for the Postemployment Medical Benefits.

3 Postemployment Medical Benefits are paid from the 401(h) account.

Changes in Non-OPEB Net Position Last Ten Fiscal Years[1]

For the Years Ended December 31 (Dollars in Thousands)

	2012	2011	2010	2009	2008	2007	2006
Addition							
Earnings Allocated to Non-OPEB	$ 1,040	$ 2,134	$ 541	$ 1,997	$ 3,137	$ 18,307	$ 9,962
Total Addition	**1,040**	**2,134**	**541**	**1,997**	**3,137**	**18,307**	**9,962**
Deduction							
Non-OPEB Payments	$3,704	4,370	4,766	4,522	5,558	6,217	6,422
Total Deduction	**3,704**	**4,370**	**4,766**	**4,522**	**5,558**	**6,217**	**6,422**
Changes in Non-OPEB Net Position	**$(2,664)**	**$(2,236)**	**$(4,225)**	**$(2,525)**	**$(2,421)**	**$ 12,090**	**$ 3,540**

1 ACERA implemented GASB 44 for year ended December 31, 2006. Prior to GASB 44 implementation, changes in Net Position data for Pension Plan, Postemployment Medical Benefits, and Non-OPEB were aggregated in one fund. Therefore, no separate data for each plan is available prior to 2006.

Benefit Expenses by Type (Actuary's Exhibit VII)

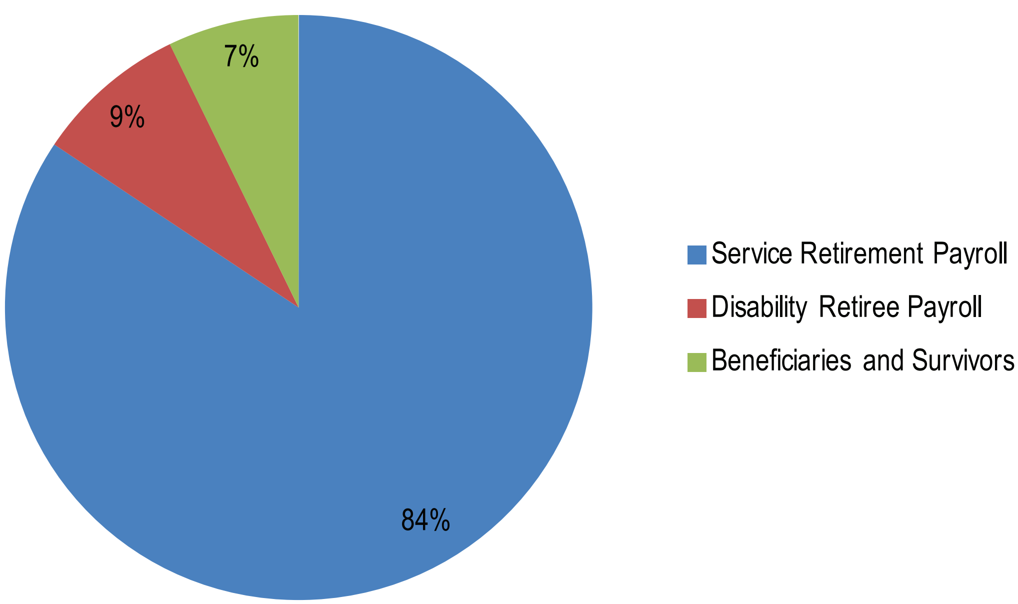
For the Years Ended December 31[1]

	2012	2011	2010	2009	2008	2007
Service Retirement Payroll						
Basic	$220,298,333	$204,448,010	$184,844,536	$168,693,544	$156,159,546	$144,273,097
COLA	55,449,542	50,113,311	48,000,607	44,596,368	43,190,182	39,321,355
Total	**275,747,875**	**254,561,321**	**232,845,143**	**213,289,912**	**199,349,728**	**183,594,452**
Disability Retiree Payroll						
Basic	21,396,081	20,674,628	19,859,910	19,140,681	18,548,535	17,741,212
COLA	6,054,044	5,534,001	5,211,156	4,793,397	4,466,521	3,978,243
Total	**27,450,125**	**26,208,629**	**25,071,066**	**23,934,078**	**23,015,056**	**21,719,455**
Beneficiaries and Survivors						
Basic	14,559,281	13,557,820	12,484,348	11,886,758	11,212,504	11,090,773
COLA	9,121,405	8,334,829	7,778,954	7,325,211	6,907,819	6,767,815
Total	**23,680,686**	**21,892,649**	**20,263,302**	**19,211,969**	**18,120,323**	**17,858,588**
Total	**$326,878,686**	**$302,662,599**	**$278,179,511**	**$256,435,959**	**$240,485,107**	**$223,172,495**

1 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Benefit Expenses by Type

For the Year Ended December 31, 2012



Benefit and Refund Deductions Combined from Pension Plan, Post-employment Medical Benefits, and Non-OPEB Net Position by Type Last Ten Fiscal Years[1,2]

For the Years ended December 31 (Dollars in Thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$ 302,105	$ 279,581	$ 259,279	$ 237,590	$ 221,532	$ 205,010	$ 187,376	$ 171,924	$ 153,763	$ 137,338
Survivors	18,555	17,059	15,183	14,787	15,033	14,150	13,340	12,538	11,812	11,429
Death in Service Benefits:										
Survivors	2,714	2,641	2,362	2,161	4,030	2,017	1,882	1,680	1,505	1,301
Disability Benefits:										
Retirees - Duty	27,914	26,836	25,586	25,094	23,981	23,461	20,955	19,591	17,746	14,231
Retirees - Non-Duty	3,847	3,796	3,473	3,332	3,539	3,450	3,210	3,020	2,949	2,414
Supplemental disability	105	64	59	138	80	192	109	75	51	97
Survivors	2,000	1,774	1,563	1,385	1,317	1,223	1,178	1,036	906	808
Total Benefits	**357,240**	**331,751**	**307,505**	**284,487**	**269,512**	**249,503**	**228,050**	**209,864**	**188,732**	**167,618**
Type of Refund										
Death	529	890	2,097	1,608	1,093	2,219	1,831	2,481	1,411	1,294
Miscellaneous	9	39	28	81	74	89	136	123	147	97
Separation	5,355	4,477	3,520	6,029	5,360	5,470	3,850	3,476	3,632	5,194
Total Refunds	**$ 5,893**	**$ 5,406**	**$ 5,645**	**$ 7,718**	**$ 6,527**	**$ 7,778**	**$ 5,817**	**$ 6,080**	**$ 5,190**	**$ 6,585**

1 ACERA implemented GASB 44 for year ended December 31, 2006.
2 Postemployment Medical Benefits are paid from the 401(h) account.

Benefit and Refund Deductions from Pension Plan Net Position by Type Last Ten Fiscal Years[1]

For the Years ended December 31 (Dollars in Thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$ 271,692	$ 248,890	$ 229,982	$ 210,938	$ 196,469	$ 180,410	$ 164,638	$ 149,934	$ 133,355	$ 118,415
Survivors	17,177	16,032	14,086	13,570	12,760	12,252	11,419	11,042	10,238	9,568
Death in Service Benefits:										
Survivors	2,611	2,539	2,258	2,051	3,384	1,840	1,702	1,528	1,342	1,124
Disability Benefits:										
Retirees - Duty	24,061	23,300	22,047	21,344	20,304	19,963	17,889	16,775	15,285	12,226
Retirees - Non-duty	3,266	3,291	2,997	2,755	2,960	2,826	2,569	2,417	2,364	1,878
Supplemental disability	104	63	58	137	79	104	28	27	16	49
Survivors	1,933	1,711	1,509	1,331	1,317	1,223	1,178	1,036	906	808
Total Benefits	**320,844**	**295,826**	**272,937**	**252,126**	**237,273**	**218,618**	**199,423**	**182,759**	**163,506**	**144,068**
Type of Refund										
Death	529	890	2,097	1,608	1,093	2,219	1,831	2,481	1,411	1,294
Miscellaneous	9	39	28	81	74	89	136	123	147	97
Separation	5,355	4,477	3,520	6,029	5,360	5,470	3,850	3,476	3,632	5,194
Total Refunds	**$ 5,893**	**$ 5,406**	**$ 5,645**	**$ 7,718**	**$ 6,527**	**$ 7,778**	**$ 5,817**	**$ 6,080**	**$ 5,190**	**$ 6,585**

1 ACERA implemented GASB 44 for year ended December 31, 2006.

Benefit and Refund Deductions from Postemployment Medical Benefits Net Position by Type - Last Ten Fiscal Years[1,2]

For the Years ended December 31 (Dollars in Thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$28,482	$27,743	$26,039	$23,801	$22,743	$21,030	$19,011	$18,944	$16,968	$14,908
Survivors	-	-	-	-	-	2	2	2	1	1
Disability benefits:										
Retirees - Duty	3,693	3,371	3,355	3,555	3,473	3,207	2,787	2,595	2,222	1,752
Retirees - Non-duty	516	440	407	482	465	429	405	426	398	342
Supplemental disability	1	1	1	1	1	-	-	-	-	-
Survivors	-	-	-	-	-	-	-	-	-	-
Total Benefits	**$32,692**	**$31,555**	**$29,802**	**$27,839**	**$26,682**	**$24,668**	**$22,205**	**$21,967**	**$19,589**	**$17,003**

1 ACERA implemented GASB 44 for year ended December 31, 2006.

2 Postemployment Medical Benefits are paid from the 401(h) account.

Benefit and Refund Deductions from Non-OPEB Net Position by Type - Last Ten Fiscal Years[1]

For the Years ended December 31 (Dollars in Thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$1,931	$ 2,948	$ 3,258	$ 2,851	$ 2,320	$ 3,570	$ 3,737	$ 3,055	$ 3,448	$ 4,022
Survivors	1,378	1,027	1,097	1,217	2,273	1,896	1,919	1,494	1,573	1,860
Death in Service Benefits:										
Survivors	103	102	104	110	646	177	170	143	155	170
Disability Benefits:										
Retirees - Duty	160	165	184	195	204	291	279	221	239	253
Retirees - Non-duty	65	65	69	95	114	195	236	177	187	194
Supplemental disability	-	-	-	-	-	88	81	48	35	48
Survivors	67	63	54	54	-	-	-	-	-	-
Total Benefits	**$3,704**	**$4,370**	**$4,766**	**$4,522**	**$5,557**	**$6,217**	**$6,422**	**$5,138**	**$5,637**	**$6,547**

1 ACERA implemented GASB 44 for year ended December 31, 2006.

Employer Contribution Rates (Percent of Payroll) (Actuary's Exhibit X) - Last Ten Years

Fiscal Year Beginning July 1 - Effective month of September

	County[1]								
	General Member			Safety Member					
Year	Tier 1	Tier 2	Tier 4[9]	Tier 1	Tier 2	Tier 2C[2]	Tier 2D[2]	Tier 4[9]	Aggregate[3]
2003	12.78	10.53	-	17.40	18.76	-	-	-	12.16
2004	14.63	12.10	-	21.51	20.91	-	-	-	13.95
2005	17.91	14.96	-	36.81	29.09	-	-	-	18.07
2006	16.46	14.30	-	37.05	29.84	-	-	-	17.26
2007	14.36	13.19	-	35.95	28.98	-	-	-	17.03
2008	13.81	11.89	-	34.90	27.46	-	-	-	15.85
2009	14.60	13.05	-	43.51	33.51	-	-	-	18.23
2010	15.78	14.47	-	48.72	37.14	36.37	34.36	-	20.10[4]
2011	17.61	16.35	-	53.65	41.32	41.14	40.50	-	22.42
2012	17.76	16.84	16.18	56.09	43.58	44.45	42.02	41.89	23.16[5]

	ACMC, Superior Court and First 5[6]			Other Participating Employers	Housing Authority[7]	LARPD[8]	Housing Authority / Office of Education	LARPD Only
	General Member							
Year	Tier 1	Tier 2	Tier 4[9]	Tier 1	Tier 2	Tier 3	Tier 4[9]	Tier 4[9]
2003	12.78	10.53	-	17.37	-	-	-	-
2004	14.63	12.10	-	19.21	-	-	-	-
2005	17.91	14.96	-	22.74	-	-	-	-
2006	16.46	14.30	-	21.53	-	-	-	-
2007	14.43	13.26	-	19.38	-	-	-	-
2008	13.92	12.00	-	18.89	-	22.11	-	-
2009	14.74	13.19	-	19.50	-	22.65	-	-
2010	15.98	14.67	-	20.79	-	24.12	-	-
2011	17.86	16.60	-	22.74	21.48	24.66	-	-
2012	18.07	17.15	16.49	23.11	22.19	29.15	21.53	23.08

1 County employer rates net of credits for implicit health benefit subsidies. In 2006, a credit was applied for $6.3 million amortized over 26 years. In 2008, an additional credit was applied for $3.1 million amortized over 25 years. In 2009, an additional credit was applied for $4.1 million amortized over 24 years. In 2010, an additional credit was applied for $5.3 million amortized over 23 years. In 2011, $4.4 million credit was applied and amortized over 22 years. In 2012, $4.4 million additional credit was applied and amortized over 21 years.

2 Rate for new Sheriff's Department employees (excluding Probation Officers) hired on or after October 17, 2010.

3 The aggregate rate is based on payroll as of the prior December 31.

4 Aggregate rate is calculated based on December 31, 2009 valuation projected payroll. It is determined prior to the establishment of Safety Tiers 2C and 2D.

5 Aggregate rate is calculated based on December 31, 2011 valuation projected payroll. It is determined prior to the establishment of Tier 4.

6 Rate combined with the County before December 31, 2006 valuation.

7 Rate combined with the Other Participating Employers before December 31, 2011 valuation.

8 Rate combined with the Other Participating Employers before December 31, 2007 valuation.

9 Resulting from CalPEPRA legislation. Tier 4 became effective January 1, 2013.

Employee Contribution Rates (Percent of Payroll) – Last Ten Years

Fiscal Year Beginning July 1 - Effective month of September

	County and Other Participating Employers							
	General Member			Safety Member				
Year	Tier 1	Tier 2	Tier 3[1]	Tier 1	Tier 2	Tier 2C[2]	Tier 2D[2]	Aggregate
2003	8.96	7.88	-	9.84	10.61	-	-	8.47
2004	9.05	7.58	-	9.66	10.53	-	-	8.27
2005	9.93	7.91	-	15.51	14.32	-	-	9.24
2006	9.31	7.52	-	15.32	13.78	-	-	8.81
2007	10.09	7.35	-	14.98	13.54	-	-	8.71
2008	9.57	7.36	12.53	14.70	13.53	-	-	8.64
2009	9.42	7.22	12.44	14.37	14.29	-	-	8.66
2010	9.64	7.31	12.59	13.56	14.46	11.23	16.65[3]	8.74
2011	9.79	7.29	12.74	13.33	14.41	11.51	17.41[3]	8.68
2012	9.13	7.04	12.48	11.99	14.04	11.91	16.72[3]	8.33

1 Tier 3 rate only applies to LARPD effective from October 1, 2008.

2 New Tiers starting as early as October 17, 2010. Estimated assuming new members would have the same demographic profile as current active members hired during the last three years prior to the December 31, 2009 valuation date, as actual data is not available.

3 Rate includes the 5% cost-sharing contribution.

Retired Members by Type of Benefit and Option Selected (Actuary's Exhibit VIII)

Summary of Monthly Allowances Being Paid for the Month of December 31, 2012[1]

		Monthly Allowance		
	Number	Basic	Cost of Living	Total
GENERAL MEMBERS				
Service Retirement				
Unmodified	4,665	$11,970,557	$3,221,691	$15,192,247
Option 1	254	579,687	107,635	687,323
Option 2	290	596,764	148,453	745,217
Option 3	19	38,945	11,196	50,142
Option 4	16	48,414	3,704	52,118
Total	**5,244**	**13,234,368**	**3,492,679**	**16,727,047**
Disability				
Unmodified	571	1,028,534	296,325	1,324,859
Option 1	23	25,250	8,470	33,720
Option 2	0	-	-	-
Option 3	2	4,699	625	5,324
Option 4	1	3,498	1,608	5,106
Total	**597**	**1,061,981**	**307,027**	**1,369,008**
Beneficiaries	915	881,223	581,339	1,462,562
Total General	**6,756**	**$15,177,572**	**$4,381,045**	**$19,558,617**

		Monthly Allowance		
	Number	Basic	Cost of Living	Total
SAFETY MEMBERS				
Service Retirement				
Unmodified	902	$4,781,138	$1,073,500	$5,854,637
Option 1	24	115,391	12,132	127,522
Option 2	62	220,865	41,988	262,854
Option 3	1	703	43	746
Option 4	1	5,730	454	6,184
Total	**990**	**5,123,826**	**1,128,116**	**6,251,943**
Disability				
Unmodified	214	702,067	190,047	892,114
Option 1	6	15,724	4,384	20,107
Option 2	0	-	-	-
Option 3	2	3,235	3,045	6,280
Option 4	0	-	-	-
Total	**222**	**721,026**	**197,476**	**918,502**
Beneficiaries	207	332,051	178,778	510,829
Total Safety	**1,419**	**$6,176,903**	**$1,504,371**	**$7,681,274**
Total General and Safety	**8,175**	**$21,354,475**	**$5,885,416**	**$27,239,890**

1 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation) the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Note: Results may not add due to rounding.

Retired Members by Type of Benefit – Pension Plan

As of December 31, 2012

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit: Duty Disability Retirement	Non-Duty Disability Retirement	DRO Lifetime Annuity	Service Retirement	Survivorship	Continuance	Supplemental Disability	Option Selected: Unmodified - 60% Contingent Joint & Survivor	Option 1 - Single Life	Option 2 - 100% Contingent Joint & Survivor	Option 3 - 50% Contingent Joint & Survivor	Option 4 - 33% Contingent Joint & Survivor
$ 1 to $ 300	298	3	2	13	210	2	68	-	166	97	34	1	-
301 to 600	451	-	6	37	309	14	85	-	271	143	35	2	-
601 to 900	543	1	17	25	363	23	113	1	330	178	34	1	-
901 to 1,200	573	4	26	18	424	14	86	1	398	135	36	4	-
1,201 to 1,500	625	17	40	14	445	16	92	1	433	139	52	1	-
1,501 to 1,800	584	71	32	10	392	12	65	2	389	114	80	1	-
1,801 to 2,100	574	103	15	12	375	9	60	-	360	93	119	2	-
2,101 to 2,400	485	97	10	10	328	4	36	-	311	63	109	1	1
2,401 to 2,700	431	69	7	9	304	3	39	-	279	66	84	2	-
2,701 to 3,000	356	49	6	5	259	7	30	-	240	51	64	1	-
Over $3,000	3,480	236	6	15	3,052	17	154	-	2,809	301	360	9	1
Total	**8,400**	**650**	**167**	**168**	**6,461**	**121**	**828**	**5**	**5,986**	**1,380**	**1,007**	**25**	**2**

Retired Members by Type of Benefit – Postemployment Medical Benefits

As of December 31, 2012

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit: Duty Disability Retirement	Non-Duty Disability Retirement	DRO Lifetime Annuity	Service Retirement	Survivorship	Continuance	Supplemental Disability	Option Selected: Unmodified - 60% Contingent Joint & Survivor	Option 1 - Single life	Option 2 - 100% Contingent Joint & Survivor	Option 3 - 50% Contingent Joint & Survivor	Option 4 - 33% Contingent Joint & Survivor
$ 1 to $ 300	1,738	89	81	-	1,567	-	-	1	1,366	91	271	9	1
301 to 600	4,649	461	77	-	4,111	-	-	-	3,826	203	606	13	1
601 to 900	650	100	8	-	542	-	-	-	508	16	124	2	-
901 to 1,200	3	-	-	-	3	-	-	-	3	-	-	-	-
1,201 to 1,500	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**7,040**	**650**	**166**		**6,223**	**-**	**-**	**1**	**5,703**	**310**	**1,001**	**24**	**2**

Retired Members by Type of Benefit – Non-OPEB

As of December 31, 2012

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit: Duty Disability Retirement	Non-Duty Disability Retirement	DRO Lifetime Annuity	Service Retirement	Survivorship	Continuance	Supplemental Disability	Option Selected: Unmodified - 60% Contingent Joint & Survivor	Option 1 - Single life	Option 2 - 100% Contingent Joint & Survivor	Option 3 - 50% Contingent Joint & Survivor	Option 4 - 33% Contingent Joint & Survivor
$ 1 to $ 300	327	4	9	2	165	10	137	-	165	154	8	-	-
301 to 600	126	3	9	-	54	7	53	-	62	61	3	-	-
601 to 900	68	9	-	-	21	4	34	-	20	39	9	-	-
901 to 1,200	24	2	-	-	6	1	15	-	6	16	2	-	-
1,201 to 1,500	9	2	-	-	6	-	1	-	6	1	2	-	-
1,501 to 1,800	-	-	-	-	-	-	-	-	-	-	-	-	-
1,801 to 2,100	2	-	-	-	2	-	-	-	2	-	-	-	-
2,101 to 3,000	-	-	-	-	-	-	-	-		-	-	-	-
Total	**556**	**20**	**18**	**2**	**254**	**22**	**240**	**-**	**261**	**271**	**24**	**-**	**-**

Average Pension Benefit Payments (Actuary's Exhibit V) Last Ten Fiscal Years[2]

	Years of Service						
Retirement Effective Dates[1]	0–5	5–10	10–15	15–20	20–25	25–30	30+
PERIOD 1/1/03–12/31/03							
Average Monthly Pension Benefit	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,316	$4,794	$4,798	$5,036	$6,093	$7,922	$7,759
Number of Retired Members Added	36	26	47	46	58	51	70
PERIOD 1/1/04–12/31/04							
Average Monthly Pension Benefit	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$6,517	$5,962	$5,069	$5,422	$6,161	$7,026	$7,685
Number of Retired Members Added	31	34	76	75	78	64	89
PERIOD 1/1/05–12/31/05							
Average Monthly Pension Benefit	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$7,155	$5,433	$5,154	$5,289	$6,095	$7,413	$7,991
Number of Retired Members Added	34	33	53	71	89	65	80
PERIOD 1/1/06–12/31/06[3]							
Average Monthly Pension Benefit	$1,095	$1,229	$1,426	$2,230	$3,193	$5,397	$6,750
Average Final Average Salary	$5,702	$6,004	$4,702	$5,847	$6,367	$7,861	$8,400
Number of Retired Members Added	22	23	44	66	66	59	75
PERIOD 1/1/07–12/31/07[3]							
Average Monthly Pension Benefit	$936	$1,535	$1,635	$2,206	$3,287	$5,791	$6,762
Average Final Average Salary	$6,216	$6,963	$5,940	$6,000	$6,619	$8,326	$8,111
Number of Retired Members Added	20	22	52	66	76	53	85
PERIOD 1/1/08–12/31/08[3]							
Average Monthly Pension Benefit	$805	$1,471	$1,825	$2,257	$3,445	$5,772	$7,014
Average Final Average Salary	$7,749	$6,730	$6,270	$5,983	$6,667	$7,863	$8,449
Number of Retired Members Added	21	30	43	38	70	45	76
PERIOD 1/1/09–12/31/09[3]							
Average Monthly Pension Benefit	$956	$1,163	$1,681	$2,295	$3,653	$6,730	$6,913
Average Final Average Salary	$6,507	$5,698	$6,041	$6,700	$6,922	$9,144	$8,080
Number of Retired Members Added	17	19	26	27	70	58	70
PERIOD 1/1/10–12/31/10[3]							
Average Monthly Pension Benefit	$558	$1,417	$1,816	$2,512	$3,397	$5,336	$7,220
Average Final Average Salary	$8,930	$5,863	$6,998	$6,623	$6,831	$7,944	$8,790
Number of Retired Members Added	13	47	57	49	117	65	91
PERIOD 1/1/11–12/31/11[3]							
Average Monthly Pension Benefit	$638	$1,180	$1,735	$2,598	$3,852	$5,704	$6,799
Average Final Average Salary	$7,660	$6,031	$6,461	$6,426	$7,357	$8,320	$8,325
Number of Retired Members Added	21	59	84	63	124	83	90
PERIOD 1/1/12–12/31/12[3]							
Average Monthly Pension Benefit	$1,133	$1,343	$1,791	$2,852	$3,956	$5,560	$6,840
Average Final Average Salary	$6,971	$6,728	$6,445	$7,147	$7,722	$8,461	$8,302
Number of Retired Members Added	19	39	91	45	99	79	80

1 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30. All data prior to 2006 is based on calendar year ending December 31.

2 ACERA implemented GASB 44 for year ended December 31, 2006. No historical average pension benefit data are available prior to 2006 due to system constraints.

3 Excludes new retirees and beneficiaries with incomplete data: 12/31/06 – 89; 12/31/07 – 120; 12/31/08 – 80; 12/31/09 – 91; 12/31/10 – 50; 12/31/11 – 53; 12/31/12 – 59.

Average Monthly Other Postemployment Benefits (OPEB)[3] (Actuary's SRBR Exhibit II) – Last Ten Fiscal Years[2]

Retirement Effective Dates[1]	Years of Service 0–5	5–10	10–15	15–20	20–25	25–30	30+
PERIOD 1/1/03–12/31/03							
Average OPEB	$37	$37	$165	$237	$299	$313	$326
Number of Retired Members Added	15	13	46	39	59	49	112
PERIOD 1/1/04–12/31/04							
Average OPEB	$37	$37	$169	$285	$354	$373	$372
Number of Retired Members Added	15	23	74	70	85	67	156
PERIOD 1/1/05–12/31/05							
Average OPEB	$36	$36	$168	$298	$375	$374	$394
Number of Retired Members Added	19	26	38	58	81	57	107
PERIOD 1/1/06–12/31/06							
Average OPEB	$36	$36	$166	$296	$396	$385	$394
Number of Retired Members Added	14	21	35	59	71	60	103
PERIOD 1/1/07–12/31/07							
Average OPEB	$37	$37	$138	$312	$425	$449	$461
Number of Retired Members Added	14	20	50	58	77	49	119
PERIOD 1/1/08–12/31/08							
Average OPEB	$37	$37	$148	$257	$363	$402	$434
Number of Retired Members Added	19	28	42	37	72	46	90
PERIOD 1/1/09–12/31/09							
Average OPEB	$43	$43	$211	$296	$497	$489	$508
Number of Retired Members Added	24	21	26	33	76	59	70
PERIOD 1/1/10–12/31/10							
Average OPEB	$43	$43	$242	$313	$496	$534	$523
Number of Retired Members Added	13	45	54	44	116	63	90
PERIOD 1/1/11–12/31/11							
Average OPEB	$46	$46	$184	$301	$535	$561	$535
Number of Retired Members Added	15	55	82	50	119	75	98
PERIOD 1/1/12–12/31/12							
Average OPEB	$47	$47	$244	$360	$466	$485	$510
Number of Retired Members Added	16	35	81	40	94	75	85

1 As permitted by the Actuarial Standard of Practice Statement No. 6 (Measuring Retiree Group Benefit Obligations), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

2 ACERA implemented GASB 44 for the year ended December 31, 2006.

3 These benefits include the Monthly Medical Allowance, Dental, Vision and Medicare Part B. All retired members are qualified for the monthly Vision and Dental Allowances. Retired members with 10 or more service years are qualified for the Monthly Medical Allowance.

Note: The "Average Final Average Salary" is not provided since OPEB are not dependent on salary.
Non-OPEB include supplemental COLA, retired member death benefit, and active death equity benefit. Non-OPEB are not based upon years of service. Only members retired for 20 years or more are eligible for supplemental COLA, thus are not included herein.

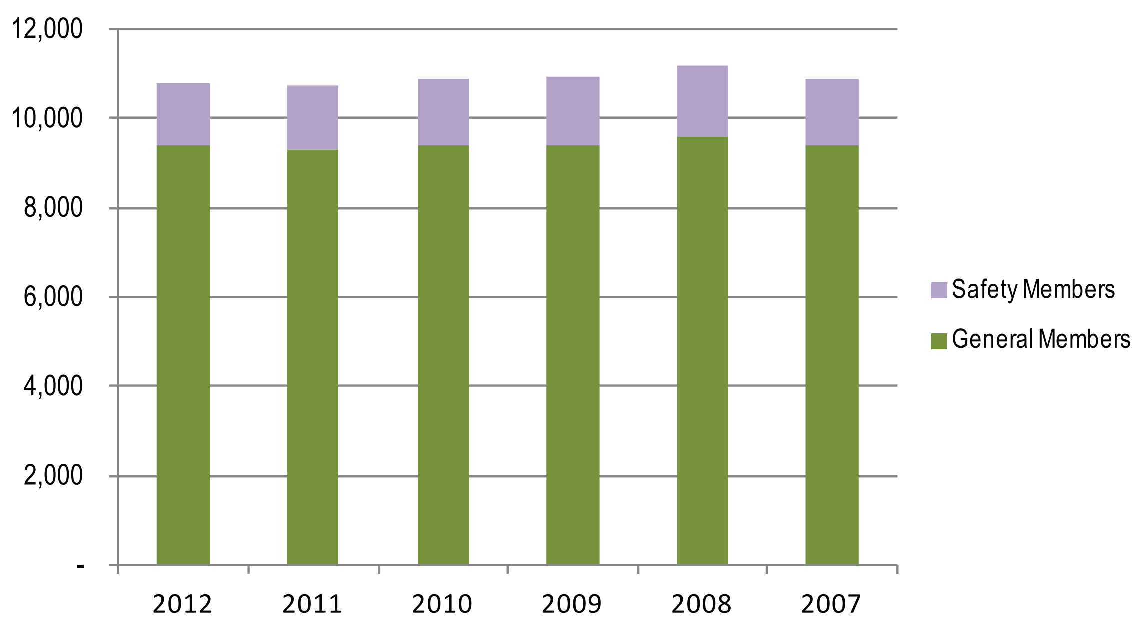
Participating Employers and Active Members (Actuary's Exhibit VI)

As of November 30[1]

	2012	2011	2010	2009	2008	2007
County of Alameda						
General Members	6,334	6,361	6,417	6,415	6,446	6,322
Safety Members	1,408	1,441	1,488	1,520	1,574	1,497
Total	**7,742**	**7,802**	**7,905**	**7,935**	**8,020**	**7,819**
Other Participating Employers (General Members)						
Alameda County Medical Center	2,187	2,028	2,030	2,030	2,097	2,044
Alameda County Office of Education	1	1	1	1	1	1
First 5 Alameda County	62	62	62	61	63	59
Housing Authority of the County of Alameda	66	65	73	71	72	74
Livermore Area Recreation & Park District	63	61	64	69	72	70
The Superior Court of California for the County of Alameda	679	705	744	760	848	845
Total	**3,058**	**2,922**	**2,974**	**2,992**	**3,153**	**3,093**
Total Active Membership						
General Members	9,392	9,283	9,391	9,407	9,599	9,415
Safety Members	1,408	1,441	1,488	1,520	1,574	1,497
Total	**10,800**	**10,724**	**10,879**	**10,927**	**11,173**	**10,912**

1 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Total Active Membership



Principal Participating Employers for Pension Plan, Postemployment Medical Benefits and Non-OPEB Current Year and Nine Years Ago

As of December 31

Participating Employers	2012 Covered Employees	2012 Rank	2012 Percentage of Total System	2003 Covered Employees	2003 Rank	2003 Percentage of Total System
County of Alameda	7,607	1	71 %	8,862	1	79 %
Alameda County Medical Center	2,138	2	20	2,201	2	19
The Superior Court of California for the County of Alameda[1]	651	3	6	-	-	-
Housing Authority of the County of Alameda	64	4	1	74	4	1
Livermore Area Recreation & Park District	62	5	1	78	3	1
First 5 Alameda County[2]	61	6	1	-	-	-
Alameda County Office of Education	1	7	-	5	5	-
Total	**10,584**		**100 %**	**11,220**		**100 %**

1 The data for the Superior Court was included with County of Alameda before 2005.
2 First 5 Alameda County joined ACERA in 2004.

This page is intentionally left blank.

This page is intentionally left blank.

Compliance

WILLIAMS
ADLEY

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Retirement
Alameda County Employees' Retirement Association
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Alameda County Employees' Retirement Association (ACERA), as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2013. Our report also includes an *emphasis of matter* paragraph indicating that ACERA adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ACERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACERA's internal control. Accordingly, we do not express an opinion on the effectiveness of ACERA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

WILLIAMS, ADLEY & COMPANY-CA, LLP
Certified Public Accountants / Management Consultants
1330 Broadway, Ste. 1825 • Oakland, CA 94612 • (510) 893-8114 • Fax: (510) 893-2603
5 Thomas Mellon Circle, Ste. 104 • San Francisco, CA 94134 • (415) 656-1330 • Fax: (415) 467-6106
www.williamsadley.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACERA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communications is not suitable for any other purpose.

Williams, Adley & Company-CA, LLP

Oakland, California
May 23, 2013