



ALAMEDA COUNTY
EMPLOYEES'
RETIREMENT
ASSOCIATION

2005

POPULAR ANNUAL
FINANCIAL REPORT



A PENSION TRUST FUND OF THE COUNTY OF ALAMEDA
AND PARTICIPATING EMPLOYERS

475 14TH STREET, SUITE 1000 OAKLAND, CALIFORNIA 94612



June 13, 2006

Dear Members,

This ACERA 2005 Popular Annual Financial Report (PAFR) summarizes the ACERA Comprehensive Annual Financial Report (CAFR) and provides selected financial data contained in the CAFR. The PAFR is published to provide you with a general understanding of ACERA's overall financial condition and enhanced services.

ACERA is an independent public employees' retirement system which operates a cost-sharing multi-employer defined benefit pension plan serving Alameda County and other participating employers.

Complete financial statements and other information on the retirement fund administered by ACERA can be found in ACERA's 2005 CAFR. Please access the CAFR on our web site at www.acera.org or call our office at 510.628.3000 for a paper copy.

Sincerely,

A handwritten signature in cursive script that reads "Charles F. Conrad".

Charles F. Conrad
General Manager

Mission Statement

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Commitment Statement

To carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance. We expect excellence in all activities. We will also be accountable and act in accordance with the law.

ACCOMPLISHMENTS FOR FISCAL YEAR 2005

Business Continuity Plan

Completed the development of our comprehensive Business Continuity Plan that includes a secure alternate facility for relocation of staff and the continuation of business systems in the event ACERA's primary location is inaccessible.

Document Management Project

Initiated the development of an Enterprise Document Management Solution Project that addresses document management and imaging for the entire agency.

New Positions

Supplemental Benefits Unit. Added a Benefits Facilitator to address and resolve health, dental, and vision plan issues and monitor health plan coverage transitions.

Administration. Recruited a Public Information Specialist to manage communications, such as handbooks, pamphlets, booklets, brochures, newsletter, website content, surveys, and related projects.

Newsletter

Added a Retiree Page to the quarterly newsletter, *What's Up?*, to focus on the needs of retired and soon-to-be-retired members.

Active Member Survey

Completed a comprehensive membership survey. Most respondents (79%) rated ACERA staff as knowledgeable or very knowledgeable and 72% have confidence in the accuracy of received information; 47% indicated they do not access our web site.

Board of Retirement

Welcomed Ms. Liz Koppenhaver as the Alternate Retiree Representative. She was appointed by the Board of Retirement in May 2005 from a list of nominees provided by retiree organizations.

Domestic Partnership

Implemented a Domestic Partnership Program. As of January 1, 2005, members can name their domestic partners for the unmodified option survivor continuance and partners have rights to benefits on termination of the partnership or the member's death.

New Health Plan Providers

Added PacifiCare and Blue Cross to the health plans available to retirees.

Enhanced Benefits for Safety Members

Converted the last group of Safety members to the 3%-at-50 formula. All safety members have received enhanced service retirement benefits.

New Financial Reporting Standards for Other Postemployment Benefits

Developed a plan with the senior managers of Alameda County and participating employers to implement the newly required financial reporting standards for Other Postemployment Benefits (e.g. healthcare). These standards were issued by the Governmental Accounting Standards Board (GASB).

New Reporting Standards for Disclosure of Investment Risks

Adopted the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosure, establishing and modifying disclosure requirements for several types of risks that may affect ACERA's deposits and investments.

Triennial Actuarial Experience Study

Performed our triennial actuarial experience study (2001 through 2004), where non-economic actuarial assumptions, such as rates of separation from active service and mortality, are analyzed with the goal of maintaining adequate funding levels.

ADDITIONS TO AND DEDUCTIONS FROM PLAN NET ASSETS

The primary sources of funding for ACERA member benefits are employer contributions, member contributions, and net investment income. For 2005, total additions to plan net assets from these three sources amounted to \$523.0 million.

The four main categories of deductions from ACERA's plan net assets are retirement benefits, the retiree healthcare program, member refunds, and the expense of administering the system. Overall, deductions from plan net assets in these four categories for 2005 totaled \$226.2 million.

As a result of these additions and deductions, ACERA's plan net assets reached \$4.6 billion by 12/31/2005, an increase of almost \$300 million for the year. ACERA's retirement fund has reached its largest size to date.

Changes In Plan Net Assets (Condensed)

For the years ended December 31, 2005 and 2004
(Dollars in Millions)

	2005	2004
Additions		
Employer Contributions	\$ 100.8	\$ 85.5
Member Contributions	64.2	63.1
Net Investment Income	358.0	457.7
Other Income	-	1.6
Total Additions	523.0	607.9
Deductions		
Retirement Benefits	187.8	169.1
Retiree Healthcare Program	22.0	19.6
Member Refunds	6.1	5.2
Administration	10.3	9.2
Total Deductions	226.2	203.1
Beginning Plan Net Assets	4,322.4	3,920.0
Adjustment for Changes in Accounting Principle		(2.4)
Increase in Plan Net Assets	296.8	404.8
Ending Plan Net Assets	\$4,619.2	\$4,322.4

Financial Report Issued by

Catherine E. Walker, CPA, Deputy General Manager

SUPPLEMENTAL COLA AND THE SRBR

Each year the ACERA Board of Retirement considers the renewal of funding for the Supplemental Cost of Living Allowance (COLA). It is paid out of the Supplemental Retiree Benefit Reserve (SRBR), an account administered by the Board of Retirement for additional benefits, such as the retiree health care program and Supplemental COLA. Supplemental benefits are non-vested benefits subject to available SRBR assets; consequently, they may be reduced or eliminated at the discretion of the Board.

The Supplemental COLA program was restructured in 1998 to provide a benefit that maintains each member's purchasing power at no less than 85% of the purchasing power of the original benefit. If a member's accumulated loss of purchasing power exceeds 15%, the member is eligible for the Supplemental COLA. Supplemental COLA payments for calendar year 2005 amounted to \$5.1 million with over 1,300 retirees receiving this benefit.

INVESTMENTS

ACERA's primary investment goal is to operate at a level of performance in the upper quartile of comparable pension funds on a risk-adjusted basis. ACERA's assets are exclusively managed by external professional investment management firms on a total return basis with a long-term objective of achieving and maintaining a fully-funded status for the pension fund. This helps ensure that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers.

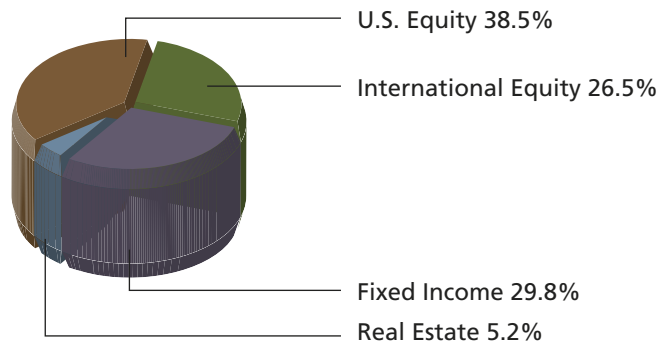
Prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. While recognizing the importance of the "preservation of capital," ACERA adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long run. Therefore, it is through prudent management and oversight by the ACERA Board and staff that ACERA has become the strong \$4.6 billion retirement association it is today.

For the third consecutive year, ACERA achieved positive performance with a Total Fund return of 8.8% for the year 2005. As of December 31, 2005 the five-

year annualized return of 7.0% outperformed the Policy Index, which is based on the index returns of all assets represented by ACERA's asset allocation policy. It also outperformed the Median Public Fund, which is the 50th percentile mark in the Public Fund Universe. Half of the funds in the Public Fund Universe (more than 130) had higher returns than the Median Public Fund and half had lower returns. ACERA ranked in the upper 16th

Actual Asset Allocation

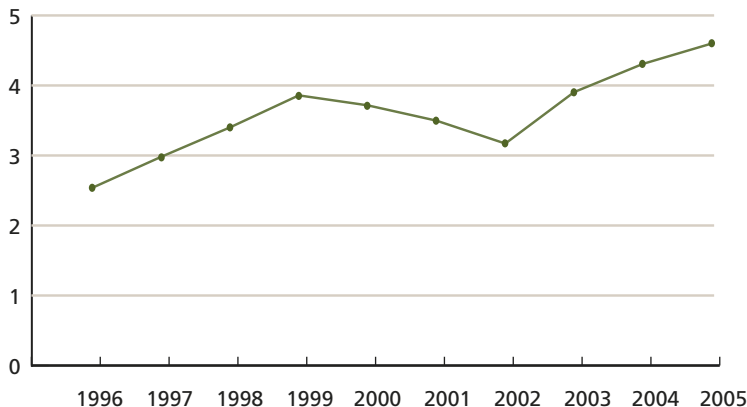
As of December 31, 2005



Growth of Investments

(Ten Years Ending December 31, 2005)

Dollars in Billions



percentile among public funds greater than \$100 million.

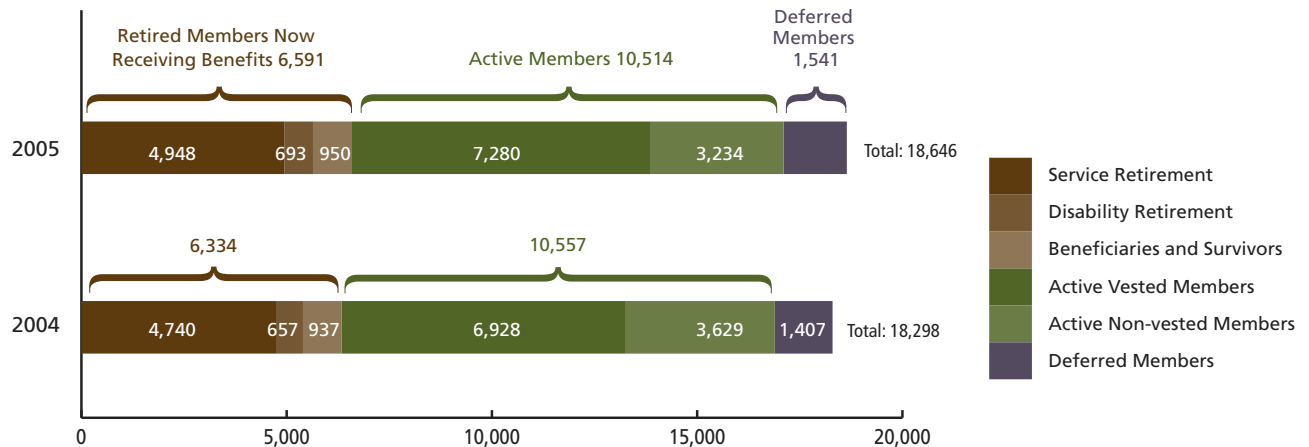
The Board of Retirement issues General Investment Guidelines, Policies and Procedures (Policy) which provide a framework for the management of ACERA's investments. This Policy establishes investment program goals, eligible asset categories and their performance objectives, asset allocation policies, investment management policies and risk controls. The Policy also establishes the investment manager monitoring procedures.

ACERA'S MEMBERSHIP

ACERA's members include employees of the County of Alameda, the Superior Court of California for the County of Alameda, and five other participating employers affiliated with the County. As of December 31, 2005, ACERA had 10,514 active members, 1,541 deferred members, and 6,591 retired members, beneficiaries, and survivors. About 87% of ACERA's members are classified as General and about 13% are Safety members. About 14% belong to Tier 1 and about 86% belong to Tier 2.

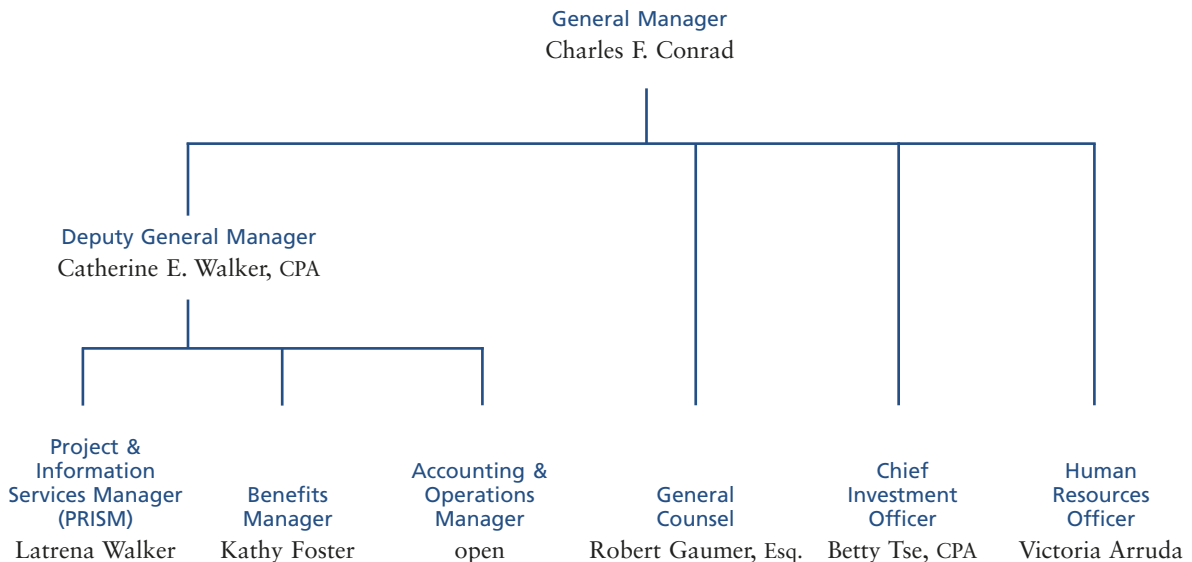
ACERA Membership

As of December 31, 2005 and 2004



ADMINISTRATIVE ORGANIZATION CHART

As of December 31, 2005



MEMBERS OF THE BOARD OF RETIREMENT



Dale E. Amaral
Second Vice-Chair
ELECTED BY SAFETY MEMBERS



Ophelia B. Basgal
First Vice-Chair
APPOINTED BY THE BOARD OF SUPERVISORS



Annette Cain-Darnes
APPOINTED BY THE BOARD OF SUPERVISORS



Keith Carson
APPOINTED BY AND MEMBER OF
THE BOARD OF SUPERVISORS



L. Darryl Gray
Chair
ELECTED BY GENERAL MEMBERS



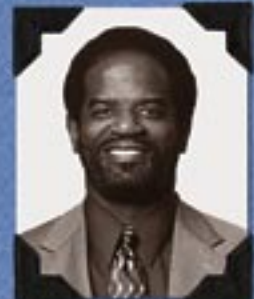
Liz Koppenhaver
Alternate
ELECTED BY RETIRED MEMBERS



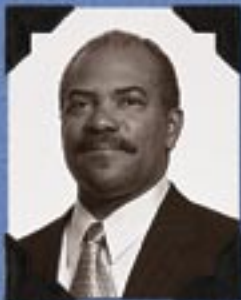
David M. Safer
ELECTED BY RETIRED MEMBERS



Sandre R. Swanson
APPOINTED BY THE BOARD OF SUPERVISORS



Darryl L. Walker
Alternate
ELECTED BY SAFETY MEMBERS



Donald R. White
EX-OFFICIO MEMBER
TREASURER-TAX COLLECTOR, COUNTY OF ALAMEDA



Trevor S. White
ELECTED BY GENERAL MEMBERS



ALAMEDA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

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