

# Regrowth, Renewal

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

## Message from the Chief Executive Officer

Dear ACERA Members,



This Popular Annual Financial Report (PAFR) is an easy-to-read summary of the Comprehensive Annual Financial Report (CAFR) for the year ending December 31, 2012. The financial data presented here derive from the more detailed CAFR and are consistent with generally accepted accounting principles and guidelines established by the Governmental Accounting Standards Board.

Both the CAFR and the PAFR are posted online at [www.acera.org](http://www.acera.org) for ease of access and reference.

For 65 years, ACERA has prudently managed investments and provided cost effective benefits to our members. As ACERA's CEO, I am honored to share the significant operational accomplishments framed in this PAFR, including expanded healthcare plan offerings, enhanced web tools, and efficient implementation of pension system changes with short notice, in furtherance of our mission to provide superior member services.

Additionally, I'm pleased to report that ACERA's investments made significant strides in 2012, returning 15.0% in a year when the Dow Jones Industrial Average returned 10.2%. Our return ranked us in the 1st percentile in our universe of funds, and our 10 and 15-year annualized returns are in the upper 10th percentile, bearing out my statement last year that lean years are balanced out by stout ones.

Finally, look for our redesigned website early next year which will greatly improve our ability to keep you, our members, informed.

Sincerely,

Vincent P. Brown  
Chief Executive Officer

## Serving You

Essentially, our mission is to invest the Fund and administer the retirement, disability, and death benefits to our members. We've

been doing this since our establishment in 1947 under the County Employees Retirement Law of 1937 (CERL). We also currently offer a variety of non-vested benefits under more recent legislation.

Providing these benefits requires the dedication and expertise of a diverse team of ACERA specialists. The side bar on the following page illustrates how we served you, our members, in 2012.

## Strengthening ACERA

**Pension Reform Changes** | With only a few months' notice from the state, ACERA completed preparations for the January 1 implementation of the California Public Employees' Pension Reform Act, conducting a communications campaign, holding stakeholder meetings, reprogramming the pension software, and adopting a new tier and a single contribution rate for new members.

**Administrative Enhancements** | ACERA reorganized the Accounting Department into a new Fiscal Services Department, hired a Fiscal Services Officer to lead the department, and revamped the annual budget document to improve readability. ACERA completed internal audits of prepaid expense, wire transfer, and cash management transactions.

**Financial Achievements** | ACERA's Fund returned 15.0%. ACERA conducted an asset liability study to optimize our target asset allocation to 32.0% US Equity, 27.0% International Equity, 15.0% Fixed Income, 6.0% Real Estate, 15.0% Private Equity/Alternatives, and 5.0% Real Return Pool, effective 1/1/13. ACERA continued to focus on reaching the target allocation, investing \$180.7 million in Real Return Pool assets and committing \$228.5 million to Private Equity/Alternatives investments.

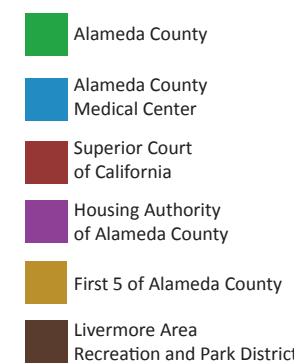
**Medicare Exchange Healthcare Plans** | ACERA conducted our first open enrollment for individual healthcare plans in the Extend Health Medicare Exchange to replace two group plans. Annual cost savings are estimated between \$2-3 million. Staff conducted a broad member outreach campaign, ensuring 99.6% of members losing coverage enrolled in a new plan and garnering a 98% surveyed satisfaction rating with the process.

**New Account Web App** | ACERA developed and launched Web Member Services, a 24/7, secure web app where members may review personal retirement data, submit automated requests for changes, and produce accurate retirement allowance estimates. Go to [www.acera.org](http://www.acera.org) and click "Member Login" to try it.

## ACERA's Membership

ACERA's seven participating employers collectively share the risks and costs, including benefit costs, of supporting ACERA's cost sharing, multi-employer defined benefit retirement plan.\*

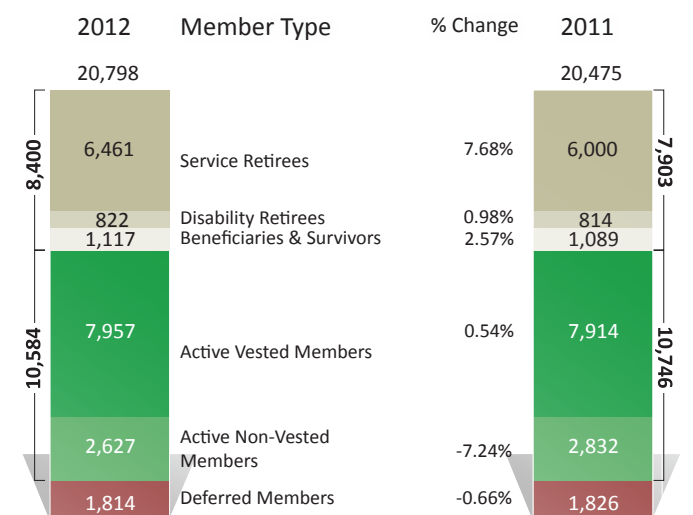
### Active Membership



\*Office of Education not depicted due to only one active member.

ACERA's members include active, retired, and certain former employees of ACERA's participating employers.

### Total Membership



## ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda, CA and Participating Employers



**Answered**

**23,000**  
Telephone calls

**91%**  
of calls in 30 seconds or less

**Counseled**

**1030**  
Ready-to-retire Members

**Fulfilled**

**1,600**  
Formal written requests

**Processed**

**687**  
Members into retirement

**Administered**

**5,770**  
Members in ACERA medical plans

**Delivered seminars to**

**1,400**  
Members

**Enrolled**

**2,590**  
Members in Web Member Services

That's **12%**  
of all members

**Member's generated**

**9,350**  
Retirement Estimates through Web Member Services

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

**Board of Retirement**

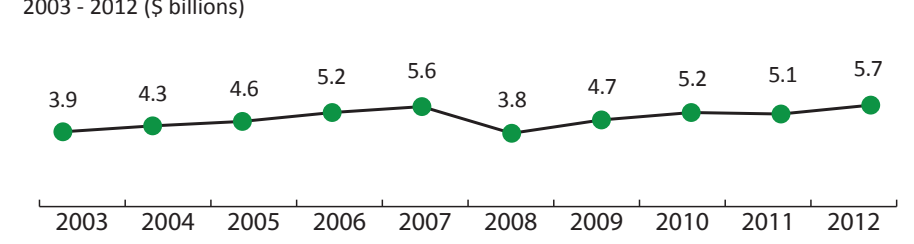
The ACERA Board of Retirement oversees the Chief Executive Officer and staff in the performance of their duties. ACERA's Board Members as of January 1, 2013 are:

<b>Dale E. Amaral</b>	Chair	Elected by Safety Members
<b>Ophelia B. Basgal</b>		Appointed by the Board of Supervisors
<b>Annette Cain-Darnes</b>		Appointed by the Board of Supervisors
<b>Keith Carson</b>	1st Vice Chair	Appointed by the Board of Supervisors
<b>George Dewey</b>		Appointed by the Board of Supervisors
<b>Liz Koppenhaver</b>		Elected by Retired Members
<b>Elizabeth Rogers</b>	2st Vice Chair	Elected by General Members
<b>David M. Safer</b>	Alternate Retired	Elected by Retired Members
<b>Darryl L. Walker, Sr.</b>	Alternate Safety	Elected by Safety Members
<b>Donald R. White</b>		Ex-Officio Member, Treasurer-Tax Collector
<b>George Wood</b>		Elected by General Members

**ACERA Financial Highlights**

The primary funding sources that finance the retirement benefits are member contributions, employer contributions, and investment income. The primary uses of ACERA's assets include the payment of benefits to members and their beneficiaries, the refund of contributions to terminated employees, and the cost of administering the retirement system.

**Nets Position at Fair Value**  
2003 - 2012 (\$ billions)



**Table 1: ACERA's Net Position (Condensed)**

For the Years Ended	2012	2011	Increase (Decrease) Amount	Percent Change
<b>December 31, 2012 and 2011</b>				
<i>(Dollars in millions)</i>				
Net Investment Income (Loss)	711.9	(40.7)	752.6	1849%
Contributions, Miscellaneous Income	259.1	241.6	17.5	7%
Reserve Transfers	38.8	37.1	1.7	5%
<b>Total Additions</b>	<b>1,009.8</b>	<b>238.0</b>	<b>771.8</b>	<b>324%</b>
Retirement Benefit Payments and Refunds	330.4	305.6	24.8	8%
Postemployment Medical Benefits	32.7	31.6	1.1	3%
Administration	14.1	13.8	0.3	2%
Reserve Transfers	38.8	37.1	1.7	5%
<b>Total Deductions</b>	<b>416.0</b>	<b>388.1</b>	<b>27.9</b>	<b>7%</b>
<b>Net Position at End of Year</b>	<b>\$ 5,668.2</b>	<b>\$ 5,074.4</b>	<b>\$ 593.8</b>	<b>12%</b>

**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.

**Non-Vested Benefits and the Supplemental Retirees Benefits Reserve (SRBR)**

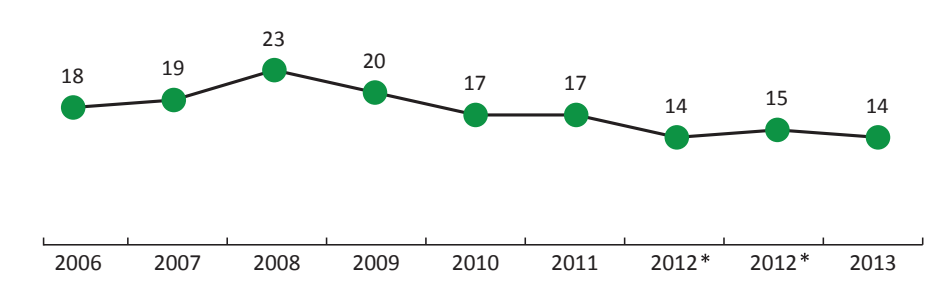
Non-vested (non-guaranteed) benefits are subject to annual authorization by the Board of Retirement. During 2012, ACERA offered retirees the following non-vested benefits:

<b>Financial Benefits</b>	• Supplemental COLA
<b>Death Benefits</b>	• Lump Sum Death Benefit • Active Death Equity Benefit
<b>Healthcare Benefits</b>	• Monthly Medical Allowance (MMA) • Dental Coverage Subsidy • Implicit Subsidy (Paid to County) • Vision Coverage Subsidy • Medicare Part B Reimbursement Plan

Non-vested benefits are subject to available funds in ACERA's Supplemental Retirees Benefits Reserve (SRBR), which receives half of any annual interest income above our 7.8% annual projection.

ACERA policy aims to keep the SRBR above a projected 15-year sustainability level, and the Board may modify or eliminate non-vested benefits to attain this goal. On December 31, 2012 the SRBR balance was \$571 million, which is projected to fund benefits until 2027, which is 14+ years. SRBR sustainability factored into the Board of Retirement's decision in December to eliminate the two non-vested death benefits as of 1/1/13. The following chart depicts the change in years of SRBR sustainability as projected by ACERA's actuary.

**Years of SRBR Sustainability**  
Projected years until SRBR fund exhausted (assuming no further excess earnings)



\* ACERA's actuary made two projections during 2012, in May and September.

**Pension Plan Funding Status**

ACERA hires an independent consultant to conduct annual actuarial valuations of the pension assets and expenses. The actuarial values are compared to determine the annual contribution rates that ACERA's participating employers are required to pay to meet pension obligations. The actuarial value of assets differs from the market value of assets because we "smooth" gains and losses over 5 years in the future to avoid sharp fluctuations in value. Some of the losses from the 2008 worldwide financial meltdown are still working their way through the smoothing process, and may continue to affect the funded ratio for a few years.

Participating employers contributed 100% of the annual required contributions to the pension plan.

Actuarial Valuation as of December 31	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
(Plain English)	(How much we have now)	(How much we owe, now and in the future)	(How much more we'll need)	(How much we have, divided by how much we owe)
2011	\$4,868.7	\$6,359.5	\$1,490.8	76.6%
2010	\$4,776.1	\$6,162.7	\$1,386.6	77.5%
2009	\$4,789.0	\$5,899.3	\$1,110.3	81.2%
2008	\$4,644.0	\$5,537.9	\$893.9	83.9%
2007	\$4,560.2	\$5,112.4	\$552.2	89.2%

Dollars in millions

**Investments**

The CERL and the California Constitution give the Board of Retirement the authority and fiduciary responsibility to invest ACERA's funds prudently to reduce overall risk and increase returns.

For the year ending December 31, 2012, ACERA's total Fund realized a 15.0% rate of return and increased in value by \$602.3 million after income and expenses, ranking the fund in the 1st percentile among public funds in a universe of 766 funds. ACERA's annual rates of return over 1, 5, 10, and 15 years are shown in the table below.

**ACERA Rates of Return & Rankings**

	ACERA Fund Rate of Return	Ranking among all U.S. public funds larger than \$100 million
2012	15.0%	1st percentile
Annualized 5 years	3.0%	71st percentile
Annualized 10 years	8.3%	10th percentile
Annualized 15 years	6.9%	7th percentile

The table below shows a breakdown of ACERA's investments by the various classes of assets we invest in, and the performance of each of those classes during 2012.

**Performance Highlights of ACERA's 2012 Investment Fund**

(Gross Results)	2012
<b>Total Fund Return</b>	<b>15.0%</b>
Policy 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%
Private Equity & Alternatives Return	9.9%
Real Return Pool	0.4%
<b>Year-end Fund Value (billions)</b>	<b>\$ 5.66</b>

ACERA's Actual Asset Allocation shows our investments ratios by the classes of assets that we've invested in. In comparison, the Target Asset Allocation shows ACERA's long-term strategic allocation goals as established by the Board of Retirement.

