



# What's Up?

News For ACERA Members

## ACERA Has a Responsibility to Prudently Manage Your Future

**"Buy 8,000 shares of Boeing!"** is a sentence you won't hear inside the walls of ACERA's nine-person investments department. Not that Chief Investment Officer Betty Tse and her team (made up of County employees) have anything for or against Boeing. But since Ms. Tse and her team have a fiduciary responsibility to ACERA's fund and ACERA's members, they take a much longer-term, lower risk investment strategy. This highly regulated responsibility is vested in ACERA by state laws and ACERA's participating employers. To understand this prudent strategy, you'll first need to understand why and how ACERA invests:

### ACERA Works For You

If you're currently working as a public employee, you're probably not planning to work until you die and you're going to need money to pay for your life after retirement. This is why the county started the pension fund (ACERA) in 1948. You pay part of your wages into ACERA's fund every time you get paid, and your employer also makes a contribution on your behalf.

ACERA could simply save this money in a bank account for you until you retire, but then it would be difficult to pay the level of retirement benefits you earned with just the interest earned from these two contributions. This is where investing comes in.

### Why Invest?

People and organizations all over the world want to borrow money to take their business to the next level. For instance, a high-tech company in Silicon Valley needs money to develop a new medical device, while a municipality somewhere in the country may need money to improve the roads and build a new library. The high-tech company might sell shares in the company in the form of stock, and the city might issue and sell bonds to investors to be paid back at a future date. If you invest in or loan these entities your money, you'll get investment return or interest (more money) for the use of your money if the endeavor goes well.

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## Keeping Risk Low

In order to keep investment risks as low as possible, ACERA invests in a diverse group of investments called “asset classes.” ACERA’s investment team, investment consultants, and Investment Committee of the Board of Retirement together strategically determine the portions of the fund to allocate to the classes of assets in order to minimize risk while maximizing return. (See table below.)

## Hiring the Experts

Once ACERA decides what percent of the fund to invest in each asset class, ACERA doesn’t just go out and start buying. We hire investment managers who are experts in particular types of asset classes to make the investments for us.

These investment managers are selected through a rigorous and well-thought-out due diligence process: our investment consulting firm and ACERA staff conduct thorough research to identify the best managers—including comprehensive in-person interviews and site visits—before recommending these investment managers to the Investment Committee, which reviews and has the final authority on whether to hire an investment manager or not.

## A Prudent Process

ACERA’s investment team continually monitors the performance of these investment managers. Many

of these managers are subject to ACERA’s periodic review process, which requires the managers to review not only their investment performance, but also their strategy, philosophy, and outlook on the markets, and present to the Investment Committee. Managers that do well are retained. Managers that don’t do so well are put on a watch list where they’re put on notice, and can ultimately be terminated by the Board, all in accordance with ACERA’s pre-established Investment Policy.

ACERA’s ultimate investment goals are to maximize its investment returns to pay benefits and defray expenses of administration, while at the same time minimizing risk by investing in diverse assets (not keeping all our eggs in one basket) and by diligently monitoring the performance of the assets we are invested in. Because the investment market has its ups and downs, ACERA takes a prudent and long-term approach toward investments. This means we don’t make rash decisions. We establish long-term investment strategy and implement it methodically, monitor the success of the strategy prudently, and modify our approach as needed. This approach earned ACERA 15.0% before fees on our investments in 2012, and 8.3% before fees per year on average over the past 10 years. If you want to see this process in action, come to the Investment Committee meeting at ACERA at 9 a.m. on the second Wednesday of each month.

ACERA Asset Classes		
Asset Class	Target % of Fund	What it is
Domestic Equity (Stocks)	32%	Stock in U.S. companies. When you buy shares in a company in the form of stocks, you are part owner of the company, and can be paid part of the company’s profits. If you sell your shares for more than you bought them for, you keep the gain.
International Equity (Stocks)	27%	The same as domestic equity, except the companies are headquartered outside of the U.S.
Fixed Income (Bonds/Debt)	15%	Primarily bonds. A bond is where a company or government entity borrows your money for a defined period of time at a fixed or floating interest rate.
Private Equity and Alternatives (Non-Public Companies)	15%	An investment that is not one of the three traditional asset types (stocks, bonds, and cash). Alternative investments include companies that invest in startup and non-public companies or in fixing companies whose business is lagging.
Real Estate (Real, Tangible Properties)	6%	Land plus any fixed structures on the land. Profit from real estate investments can come from rent or selling property for more than you paid for it.
Real Return Pool (Inflation Hedge)	5%	Real assets, i.e. tangible assets that have value due to their substance and properties. They can include precious metals, agricultural commodities like wheat and coffee, and oil. Profit from real assets comes from increases in price of the assets.

# Investment Performance

## 2nd Quarter 2013

**D**uring the second quarter of 2013, the Retirement Board adopted the amended ACERA General Investment Guidelines, Policies, and Procedures, which incorporated the asset allocation targets adopted by the Board in September 2012. The Board also terminated a PEARLS (private equity and alternatives) currency manager in accordance with the ACERA General Investment Guidelines, Policies, and Procedures, and PEARLS Policy, and replaced this manager with another PEARLS Currency-Alpha manager. An additional commitment was adopted of \$25 million to a PEARLS Buyout/Venture Capital manager.

ACERA is a long-term investor with a well-diversified, conservative portfolio. For the quarter ending June 30, 2013, ACERA's Total Fund returned 0.7%, exceeding its benchmark Policy Index, and ranking it in the upper 23rd percentile among public funds. At the end of the second quarter, the Total Fund's market value was \$6.0 billion. Domestic Equities returned 4.1%, International Equities returned -1.2%, and Fixed Income returned -2.7% during the second quarter. ACERA's Real Estate managers composite and Private Equity and Alternatives Return Leading Strategies (PEARLS) composite returned 2.8% and 2.3%, respectively, during the same period. Additionally, the Real Return Pool composite (a portfolio hedge) returned -7.9% during the second quarter.

### Investment Returns for 2nd Quarter, 2013\*

	2nd Qtr	1-year	3-year	5-year
Total Fund	0.7%	15.7%	13.2%	6.0%
Policy Index**	0.4%	14.5%	12.8%	6.0%

\* Returns for periods greater than one year are annualized. Results of all publicly traded investments are presented in a format consistent with the CFA Institute's Global Investment Performance Standards®.

\*\* As of December 2012, the Policy Index is 32% Russell 3000/ 11.25% Barclays Aggregate/ 2.25% Citigroup WGBI - ex US/ 1.5% Barclays High Yield/ 27% MSCI ACWI - ex US IMI/ 6% ODCE/ 15% Russell 3000 + 100 bps (net)/ 5% Core CPI + 300 bps.



## Message From the CEO

**ACERA is redesigning ACERA.org. Our primary goal is to ensure ACERA members have a clear and easy way to understand how the retirement system works and know what benefits they can expect. We want our members to be confident that they can find what they're looking for. Essentially, we want to take the high level of telephone and in-person customer service you've come to expect from ACERA and translate that to the web.**

**We've contracted with a professional design firm and we're working closely with them to ensure the new site is user-friendly. The new website will use a distributed content management system where we spread out ownership of the content over the whole organization so it's easier to keep information up to date. The website is targeted to launch by the end of the year, so expect an announcement in early 2014.**

**—Vincent P. Brown**

## Medical Allowance Changes for Retirees in *Extend Health* Who Return to Work

If you're an ACERA retiree enrolled in a medical insurance plan through *Extend Health* and you have at least 10 years of ACERA service credit or a service-connected disability benefit, you receive a Monthly Medical Allowance to reimburse you for medical and prescription drug plan premiums, deductibles, and copays. Those reimbursements are made through a Health Reimbursement Account that has been established for you because ACERA can't reimburse you directly.

The parts of the Affordable Care Act that take effect in 2014 require that ACERA plans be "retiree only plans" in order to provide reimbursement through Health Reimbursement Account. In order to comply with this federal law, retirees who return to work for the County of Alameda or a Participating Employer (Alameda Health System, Superior Courts of Alameda County, First 5 of Alameda County, Housing Authority of Alameda County, Livermore Area Recreation and Park District, Alameda County Office of Education) for any amount of time on or after January 1, 2014, will not be eligible for medical plan and prescription drug plan reimbursements

through a Health Reimbursement Account during time period they are working. This is because retirees who return to work (including retired annuitants) are considered "active employees" as defined by the Affordable Care Act, and therefore cause ACERA's plans to not meet the "retiree only" plan qualifications for benefits.

Although you won't be eligible for the Monthly Medical Allowance if you're enrolled in a plan through *Extend Health* while working for one of ACERA's participating employers, you may remain enrolled in your healthcare plan—you'll just be responsible for paying the costs. Once your employment is terminated, Health Reimbursement Account benefits will again be available.

Retirees enrolled in an *Extend Health* plan who receive a Monthly Medical Allowance and are considering employment with an ACERA Participating Employer for 2014 should contact ACERA regarding the process for communicating employment periods. For more information, contact ACERA Member Services at (510) 628-3000.

## IRS Makes Service Credit Purchases Post-Tax

Currently, ACERA allows members to purchase service credit through pre-tax payroll deductions for certain ineligible employment with our participating employers, as well as redeposit their contributions from prior memberships. For years, the IRS approved pre-tax service credit purchases through payroll deductions based upon the pre-tax provisions in Internal Revenue Code (section 414(h)(2)).

Recently, the IRS provided new guidance on using pre-tax payroll deductions for employee contributions which provides that pre-tax payroll deductions can only be used for mandatory contributions, not for voluntary contributions, like service credit purchases and redeposits. Therefore going forward, you can make pre-tax service credit purchases and redeposits by rolling over funds from an eligible pre-

tax retirement account such as a 457 plan, a 401K, or an IRA, and you can make purchases with a lump sum payment or through monthly payroll deductions on a post-tax basis.

If ACERA doesn't implement the revenue ruling guidance, it could result in large economic risks to ACERA's participating employers and/or to ACERA's tax exempt status.

This change will apply to all service credit purchase contracts received by ACERA on or after January 1, 2014. Please note that this means signed contracts, not purchase request forms; purchase request forms would have to be **submitted prior to December 1, 2013**, in order to have a contract in place by January 1. Pre-tax payroll deduction contracts currently in effect will not be affected.

# A Little Bit About Covered California and Health Insurance Exchanges

If you are a non-Medicare eligible retiree enrolled in an ACERA-sponsored medical plan, you will notice that premiums for 2014 have increased from about 3% to 6% for the HMO plans. You may ask yourself if it would be wise to explore the plans offered by Covered California or another state health insurance exchange if you live elsewhere. ACERA has come up with a list of situations where retirees may find taking this step useful in an effort to obtain affordable health care:



### Situations Where ACERA Retirees Might Seek Health Insurance Exchange Coverage

- **If you are a retiree who does not receive a Monthly Medical Allowance or you're finding that your allowance is not enough make ACERA-sponsored medical plan coverage affordable.**
- **If you want to provide affordable coverage to your dependents.**
- **If you live outside the ACERA-sponsored medical plan service areas.**
- **If your income is low enough to qualify you for a federal subsidy.**

ACERA does not provide a Monthly Medical Allowance towards medical plan coverage through the health insurance exchange. However, if you are in one of the situations above, it may be advantageous to consider coverage through one of the Exchange plans. Coverage costs are set according to coverage levels. All levels must provide a sufficient level of care. They are also based on age bands and location. For information on California plans, go to [www.CoveredCA.com](http://www.CoveredCA.com).

While ACERA is not providing coverage through the Health Exchange in 2014, we are exploring the option for 2015. We believe that the wide range of coverage options and premiums would be beneficial for retirees. However, we are proceeding cautiously monitoring the state's current enrollment process and learning all we can about how the public exchanges work and how the Monthly Medical Allowance can be provided to those eligible. If a decision is made to change retiree coverage to the health insurance exchange, an announcement will be made in mid-2014.

S	M	T	W	T	F	S
December			27	28	29	30
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				
January			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	
February						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	

**November 27** Check & Direct Deposit Payable Date

**December 5** Pre-Retirement Seminar | 9:00 AM–Noon

**December 19** Retirement Board Meeting | 2:00 PM

**December 31** Check & Direct Deposit Payable Date

**January 9** Pre-Retirement Seminar | 9:00 AM–Noon

**January 16** Retirement Board Meeting | 2:00 PM

**January 31** Check & Direct Deposit Payable Date

**February 6** Pre-Retirement Seminar | 9:00 AM–Noon

**February 20** Retirement Board Meeting | 2:00 PM

**February 28** Check & Direct Deposit Payable Date

*All seminars are held at ACERA, 475 14th Street, 11th Floor, Oakland.  
To register, contact ACERA at 510-628-3000 or 800-838-1932 and specify the seminar  
you wish to attend. Guests welcome.*

*Retirement Board Meetings are on the third Thursday of each month C.G. "Bud" Quist  
Board Room 10th Floor, 2:00 PM.*

**Website: [www.acera.org](http://www.acera.org) | Telephone: 510-628-3000 | 1-800-838-1932**

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**BOARD OF RETIREMENT**

**CHIEF EXECUTIVE OFFICER**  
Vincent P. Brown

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**ALAMEDA COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**



PRE-SORTED FIRST CLASS  
U.S. POSTAGE  
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Oakland, CA  
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