Solid Performance

A Comprehensive Annual Financial Report for the
Year Ended December 31, 2013

Fund Market Value

2013 2012 2011 2010 2009 2008

ACERA

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

Alameda County Employees' Retirement Association

Solid Performance

A Comprehensive Annual Financial Report for the Year Ended December 31, 2013

Issued By:

Vincent P. Brown

Chief Executive Officer

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

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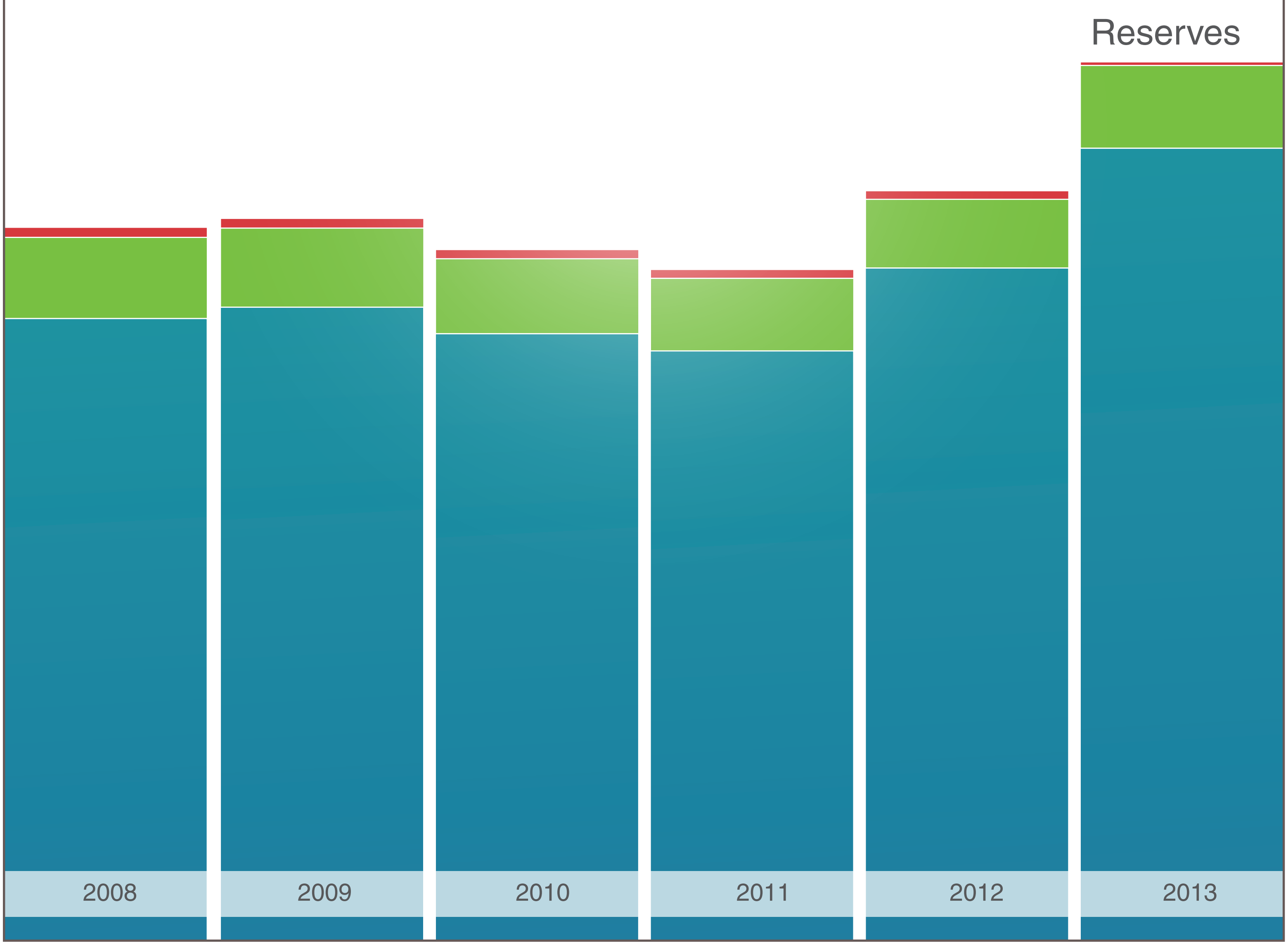
Introduction



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 of Retirement 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, 2013.*

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, 2013. It also includes the current actuarial valuation as of December 31, 2012. All data and information presented is accurate and reliable, conforms to generally accepted accounting principles, and is free of material misstatements.

ACERA 2013 – 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 Health System (Formerly 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).

Legislative Developments

Assembly Bill No. 197[1], a companion bill to the California Public Employees' Pension Reform Act (PEPRA) was signed into law in September of 2012 and amended the definition of compensation earnable. The amendment means ACERA is required to review the elements of pay to determine what may be included in calculations of retirement benefits for all members retiring on or after January 1, 2013. Employee union groups filed legal action to prevent implementation of AB 197 and PEPRA. ACERA's participating employers also became parties to the legal action. ACERA participated in the court review process throughout 2013 and early 2014. The court issued a final judgment in May 2014.

Investment Performance

In the midst of the Federal Reserve's continued easy monetary policy (low interest rates) , the improving economy (GDP, employment), and the expansion of price earnings ratios (investor confidence), the market value of ACERA's investments increased by $1.0 billion, representing a 20.2% rate of return and ranking ACERA's fund in the 8th percentile for the year ending December 31, 2013. ACERA's annualized rate of return over the last five and ten years was 14.8% and 7.8%, ranking ACERA's fund in the 4th and 7th 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.

Internal Controls

Management employs an annual risk assessment to design, implement, and maintain effective internal controls. Recognizing that even sound internal controls have inherent limitations, ACERA's internal controls are designed to provide reasonable, but not absolute assurance that all risks have been addressed. Common risk considerations include safeguarding pension assets, maintaining accurate and reliable accounting records, protecting member privacy, fraud prevention, and ensuring compliance with laws and regulations. The Board of Retirement oversees management's performance, and is ultimately responsible for confirming that management fulfills its duty in this regard. In addition, the Office of Internal Audit independently assesses whether the organization's risk management, control, and governance processes are adequate.

Actuarial Funding Status

ACERA engages an independent firm to conduct annual actuarial valuations. The pension plan's actuarial accrued liability increased from $6.36 billion in 2011 to $6.61 billion in 2012 as of December 31. The plan's actuarial value of assets increased from $4.87 billion in 2011 to $4.88 billion in 2012 as of December 31. The Unfunded Actuarial Accrued Liability increased from $1.49 billion in 2011 to $1.73 billion in 2012 as of December 31 with the funded ratio decreasing from 76.6% to 73.9%. 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 rate of 7.80%. As of December 31, 2012 the SRBR held $570.9 million in actuarial value of assets which will fund the current benefit structure until the year 2028 for Postemployment Medical Benefits and Non-OPEBs, even if no new earnings above the target investment returns are available.

1 *Assembly Bill 197 (AB 197) is a companion legislation for the California Public Employees' Pension Reform Act (Cal PEPRA or PEPRA) of 2012 (AB 340) which became law effective on January 1, 2013. The general impact to pension reform included new benefit formulas, a limit on pensionable income, three-year final average salary, and new cost sharing by members.*

Membership

In 2013, ACERA's active membership increased from 10,584 to 10,867, as the number of retired members receiving pension benefits increased from 8,400 to 8,576. Deferred membership increased from 1,814 to 1,911. Total membership increased from 20,798 to 21,354.

2013 ACCOMPLISHMENTS

Administration

Administrative efficiency efforts have continued and accomplishments include assessing management staff capacity to engage in strategic planning; expanding the electronic document management system with an accounts payable workflow; assessing critical operations databases for potential technology upgrades; upgrading three operations to other platforms; and performing preliminary work on employer audits.

ACERA also conducted a Board election for three trustee positions: Third Member to Represent the General Members, Seventh Member to Represent the Safety Members and Alternate Seventh Member to Represent the Safety Members. Candidates in the races for both the Eighth Member and Alternate Eighth member to Represent Retired Members ran unopposed, so an election was not necessary for either seat.

Furthermore, in response to Alameda County grand jury report containing comments (but no findings), ACERA reviewed organizational changes, departmental budgets, and staffing positions to address comments on administrative costs.

Investments

During 2013, ACERA made $75 million in new commitments to the PEARLS asset class, increasing the total PEARLS commitment to 10.1% of the portfolio, as well as new commitments of $90 million to the Real Estate asset class. ACERA amended its General Investment Guidelines, Policies, and Procedures; the Emerging Investment Manager Policy; and the benchmark for the active investment managed accounts. ACERA adopted the 2013-2014 Investment Plan for the Real Estate Portfolio and conducted a study on Capital Market Conditions and ACERA's Portfolio Allocation, as well as an education study on Risk Management.

Benefits

ACERA enhanced member education tools through a complete redesign of the look and feel, navigation, content management, and technology of the organization's website. Eligibility requirements for retirees who receive dental and vision subsidies were amended in an effort to increase reserve fund sustainability. ACERA processed an additional 250 retirements in the spring due to late 2012 PEPRA retirements and developed/updated a host of processes due to changes initiated by PEPRA.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to ACERA for its Comprehensive Annual Financial Report for the year ended December 31, 2012 (see page 5). This has been the sixteenth year ACERA has received this prestigious award.

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 12, 2014

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alameda County

Employees' Retirement Association

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2012

Executive Director/CEO

Also awarded each year from 1996-2010

MEMBERS OF THE BOARD OF RETIREMENT AS OF JANUARY 1, 2014

Annette Cain-Darnes
Chair
Appointed by the
Board of Supervisors

Elizabeth Rogers
First Vice Chair
Elected by General
Members

George Dewey
Second Vice Chair
Appointed by the
Board of Supervisors

Dale E. Amaral
Elected by Safety
Members

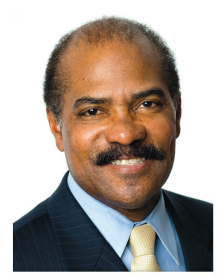
Ophelia B. Basgal
Appointed by the
Board of Supervisors

Keith Carson
Appointed by and
Member of 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

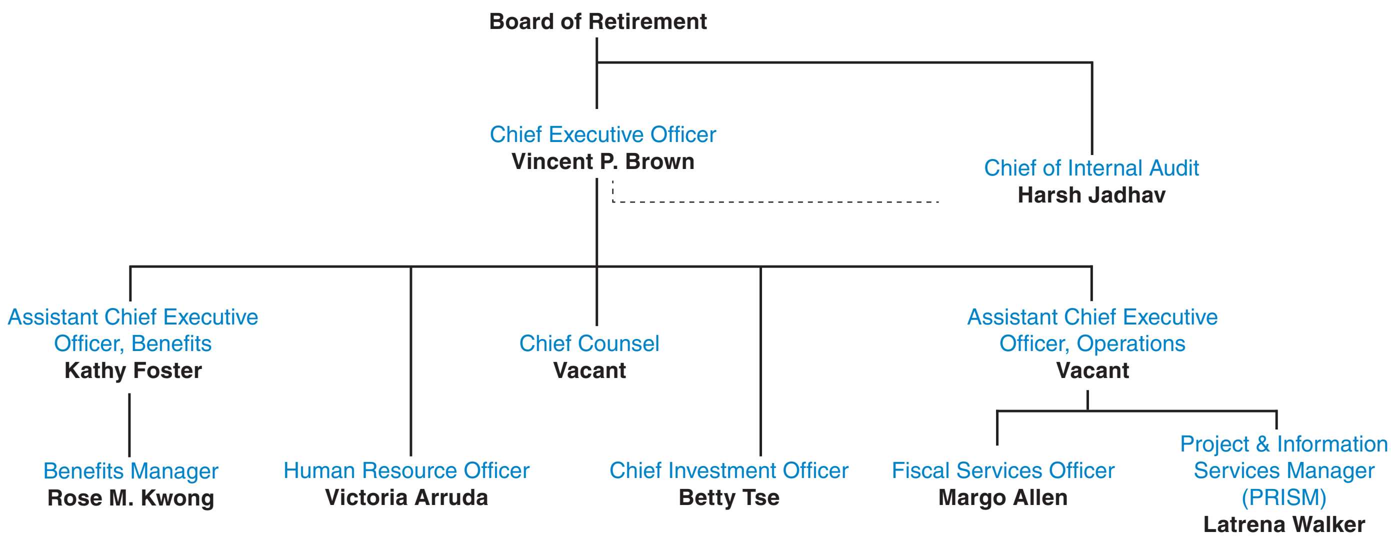
George Wood
Elected by General
Members

2013 Board of Retirement

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

Administrative Organizational Chart

As of December 31, 2013



Professional Consultants[1]

Actuary
The Segal Company[2]

Administration
CPS Human Resources Services

The Results Group

Benefits
Keenan & Associates

Human Resources
Lakeside Group

Independent Auditors
Williams, Adley & Company-CA, LLP

Information Technology
CTG Inc. of Illinois dba Novanis

Digital Development, Inc.

Levi, Ray & Shoup Consulting

Quinlan Consulting

Legal
Byers/Richardson

Corporate Executive Board

Employment Law Counsel

Hanson, Bridgett, Marcus, Vlahos, LLP

Ice Miller, LLP

John L. Williams

Law Offices of Terry Roemer

Manatt, Phelps & Phillips, LLP

Nolan, Armstrong & Barton, LLP

Nossaman, LLP

One Legal, LLC

Reed Smith, LLP

Renne, Sloan, Holtzman, Sakai, LLP

Swanson & McNamara, LLP

West Coast Workplace Investigations

Other Specialized Services
American Arbitration Association

Center for Occupational Pyschiatry

Tobico, LLC dba Tobi Designs

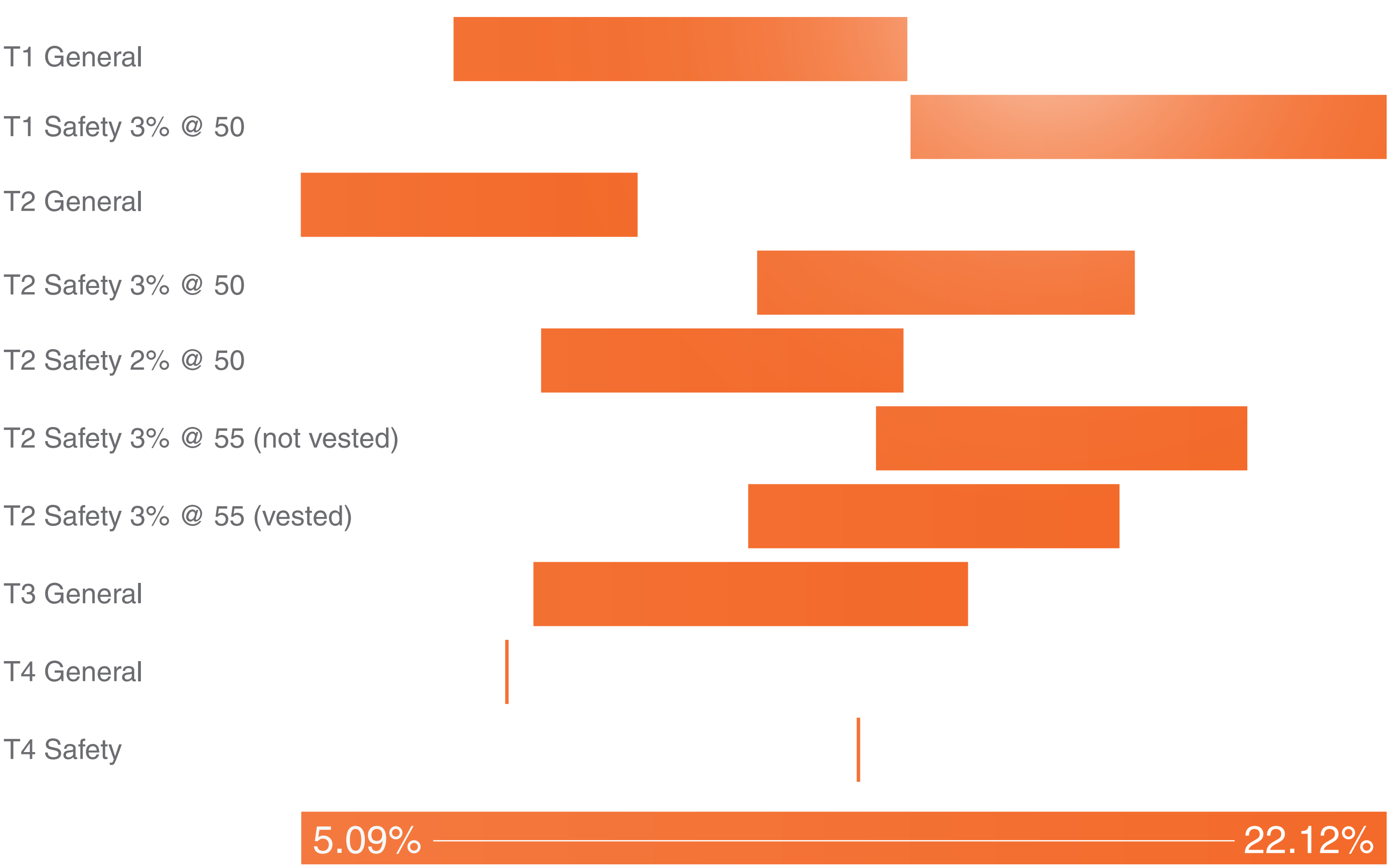
U.S. Healthworks Group

1 Investment Professionals are listed on page 76 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.

Financial

Member Contribution Rate Ranges



WILLIAMS ADLEY

Independent Auditor's 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), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise ACERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's 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 auditor's 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, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the

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5 Thomas Mellon Circle, Ste. 104 • San Francisco, CA 94134 • (415) 656-1330 • Fax: (415) 467-6106
www.williamsadley.com

basic financial statements. Such information, although not a part of the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 that collectively comprise ACERA's basic financial statements. The schedules of investment expenses, payments to other consultants, and administration expense, and the introduction, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 2012 financial statements, and our report dated May 23, 2013, 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, 2012, 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 June 10, 2014, 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

June 10, 2014

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, 2013. The information presented here, in conjunction with the Financial Statements on page 19 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 starting on page 2 of this Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

- ACERA's Net Position at the close of 2013 was $6.6 billion. This Net Position is held in trust to meet ACERA's long-term pension benefit obligations, Postemployment Medical Benefits, and Non-OPEB to plan members and their beneficiaries.
- 2013 ended the year with a $972.1 million increase in ACERA's Net Position over the prior year. This 17% increase was primarily attributable to an increase in investment performance in 2013.
- As of the December 31, 2012, actuarial valuation, the funded ratio for ACERA's Pension Plan compared to the December 31, 2011, valuation declined slightly from 76.6% to 73.9%. This 2.7% decline is primarily the result of an increase in actuarial accrued liabilities.
- As of December 31, 2012, the funded ratios for ACERA's Postemployment Medical Benefits and non-OPEB provided by the Supplemental Retirees Benefit Reserve (SRBR) were 72.3% and 15.7%, respectively. The OPEB funded ratio remained level due to interest crediting of investment returns to the SRBR. Furthermore, Monthly Medical Allowance (MMA) increase freezes have helped stabilize the OPEB plan funding ratio. Note: The funding ratio for the non-OPEB is lower than for OPEB because the Actuarial Value of Assets (AVA) was reallocated based on the benefit outflows for OPEB and the non-OPEB so that both benefits could be paid until 2028.

- As of December 31, 2012, the date of the actuarial valuation used in the 2013 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 $124.9 million of unrecognized investment gains, representing 2.2% of the market value of assets as of the December 31, 2012, actuarial valuation date. These gains will be recognized in determining the actuarial value of assets for funding purposes over the next five years. Unless offset by future investment losses or other unfavorable experience, the recognition of the $124.9 million market gain is expected to have a significant impact on the Association's future funded percentage and contribution rate requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to ACERA's Basic Financial Statements, which comprise 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 and GASB 65. As a result, those line items are not displayed on the 2013 Statement of ACERA's Net Position.

The *Statement of Changes in ACERA's Net Position* starting at page 20 provides a summary view of the additions to and deductions from ACERA's Net Position that occurred over the course of 2013.

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 the useful life.

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

Required Supplementary Schedules and *Notes to Required Supplementary Schedules* on page 48 to page 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 page 55.

Table 1 and Table 2 on page 14 present condensed information about ACERA's financial position and results of operations for the current year in comparison to the preceding year, and form the basis for the following discussion.

Table 1: ACERA's Net Position (Condensed)

As of December 31, 2013 and 2012 (Dollars in Millions)

	2013	2012	Increase (Decrease) Amount	Percent Change
ASSETS				
Current Assets	$ 384.5	$ 321.6	$ 62.9	20%
Investments at Fair Value	6,612.0	5,655.5	956.5	17%
Capital Assets, net	4.5	5.6	(1.1)	(20%)
Total Assets	**7,001.0**	**5,982.7**	**1,018.3**	**17%**
LIABILITIES				
Current Liabilities	360.7	314.5	46.2	15%
Total Liabilities	**360.7**	**314.5**	**46.2**	**15%**
NET POSITION				
Restricted - Held in Trust for Benefits	**$ 6,640.3**	**$ 5,668.2**	**$ 972.1**	**17%**

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

For the Years Ended December 31, 2013 and 2012 (Dollars in Millions)

	2013	2012	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	$ 76.2	$ 78.6	$ (2.4)	(3%)
Employer Contributions	191.2	179.6	11.6	6%
Net Investment Income (Loss)	1,109.7	711.9	397.8	56%
Miscellaneous Income	0.2	0.9	(0.7)	(78%)
Transfer to Employers' Advance Reserve from SRBR for Employer Contributions to 401(h) Account	32.2	33.4	(1.2)	(4%)
Transfer to Employers' Advance Reserve from SRBR for Implicit Subsidy	7.4	4.4	3.0	68%
Transfer from Employers' Advance Reserve to SRBR for OPEB Related Administrative Expenses	1.1	1.0	0.1	10%
Total Additions	**1,418.0**	**1,009.8**	**408.2**	**40%**
DEDUCTIONS				
Retirement Benefit Payments	353.6	324.5	29.1	9%
Postemployment Medical Benefits	30.6	32.7	(2.1)	(6%)
Member Refunds	6.3	5.9	0.4	7%
Administration	14.7	14.1	0.6	4%
Transfer from SRBR to Employers' Advance Reserve for Employer Contributions to 401(h) Account	32.2	33.4	(1.2)	(4%)
Transfer from SRBR to Employers' Advance Reserve for Implicit Subsidy	7.4	4.4	3.0	68%
Transfer to SRBR from Employers' Advance Reserve for OPEB Related Administrative Expenses	1.1	1.0	0.1	10%
Total Deductions	**445.9**	**416.0**	**29.9**	**7%**
CHANGE IN NET POSITION	**972.1**	**593.8**	**378.3**	**64%**
NET POSITION - JANUARY 1	**5,668.2**	**5,074.4**	**593.8**	**12%**
NET POSITION - DECEMBER 31	**$ 6,640.3**	**$ 5,668.2**	**$ 972.1**	**17%**

ANALYSIS OF FINANCIAL POSITION

ACERA's Net Position Held in Trust for Benefits consists of assets less liabilities. Table 1 on page 14 shows condensed information on ACERA's Net Position, which as of December 31, 2013 totaled approximately $6.6 billion. This is $972.1 million or a 17% increase in net position from the prior year, primarily a result of an increase in the fair value of ACERA's investments. The Investment Section, starting on page 59, 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 increased by $62.9 million from $321.6 million in 2012 to $384.5 million in 2013. This increase was mostly due to an $80.1 million increase in securities lending cash collateral. The cash collateral increase was the result of higher 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 (receivables) decreased by a net of $18 million, primarily due to the $20 million decrease of the unsettled trades receivable.

Investments at Fair Value

The fair value of ACERA's investments increased 17% from $5.7 billion in 2012 to $6.6 billion in 2013. The principal source of this $956.5 million increase is attributable to increases in Domestic and International Equity, International Equity Commingled, Real Estate – Commingled, and Private Equity and Alternative investment funds. Collectively, these funds composed 88% of the portfolio's increase in fair value. Offsetting the increase in fair value were Domestic Equity Commingled, International Fixed Income, Real Return Pool, and Short-term investment funds, which combined decreased in net value by $145.7 million.

Capital Assets, Net

Capital assets include equipment, furniture, information systems, and leasehold improvements. In 2013, capital assets had a net decrease of $1.1 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 increased from $314.5 million in 2012 to $360.7 million in 2013. This $46.2 million increase is primarily due to the $80.1 million increase in securities lending cash collateral; however, that increase is slightly offset by a $33.9 million decrease 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 $972.1 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, 2013 and 2012 were $1.4 billion and $1.0 billion, respectively. For 2013, total additions increased $408.2 million primarily due to net investment gains. In 2013, ACERA had $397.8 million more in Net Investment Income compared to 2012. See the Net Investment Income (Loss) section on page 16 for a more comprehensive discussion of this increase.

The December 31, 2012 actuarial valuation report recommended contribution rates, which were approved by the Board of Retirement and became effective September 2013. Average member contribution rates increased slightly 0.3%, while the aggregate employer rate experienced an overall increase of 2.8% of total payroll. Refer to the following Member and Employer Contributions sections on page 16 for a discussion of these respective increases.

Member Contributions

Total member contributions for 2013 were $76.2 million, down $2.4 million from 2012. The aggregate member contribution rate has increased slightly from 8.27% to 8.60% of payroll. The inverse relationship is due to the fact that the 2013 contribution rate of 8.6% did not go into effect until September, 2013. Consequently, for the first 8 months of 2013, the aggregate contribution rate was 8.27% of payroll, leaving only 4 months of 2013 to collect at the higher contribution rate.

Employer Contributions

Total employer contributions for 2013 were $191.2 million, which was $11.6 million higher than 2012. This was primarily attributable to the 2012 increase in employer contribution rates. Effective September 2013, the aggregate employer rate increased from 21.32% to 24.16% of payroll, an increase of 2.84%. 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 $397.8 million higher than the prior year, up from a $711.9 million gain in 2012 to a $1.1 billion gain in 2013. The increase in net investment income was primarily due to the net appreciation in fair value of investments. The net appreciation of investments in 2013 was $1.0 billion compared to a net appreciation in 2012 of $614.7 million, giving rise to an increase in fair value of $414.9 million. The 2013 Net Investment Income gain represents ACERA's gross investment return of 20.2% compared to a 15.0% gross investment return in 2012. The Investment Section of this report describes investment results and comparatives in greater detail.

Miscellaneous Income

Miscellaneous income for 2013 totaled $0.2 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 2013 and 2012, the employers funded $32.2 million and $33.4 million, respectively, to the 401(h) account. See 401(h) Postemployment Medical Benefits account on page 31.

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 2013 and 2012, $1.1 million and $1.0 million, respectively, were transferred from the Employers' Advance Reserve to SRBR.

A transfer of $7.4 million for the year 2013 was made to the Employers' Advance Reserve from the SRBR to compensate for the 2012 Alameda County implicit subsidy. The implicit subsidy transfer increased by $3 million from the prior year. The increase in part was due to changes in health plan management, and in part to increases 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 2013 were $445.9 million, compared to $416.0 million in 2012, an increase of $29.9 million or 7% over 2012. Most of this increase was a result of a $29.1 million or 9% increase in retirement benefit payments.

Retirement Benefits Payments

Retirement benefit payments in 2013 were $353.6 million, a $29.1 million or 9% increase over 2012. Retirement benefits include service retirement and disability allowances, death payments, and supplemental cost-of-living adjustments. The increase in retirement benefit payments is the result of 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 2013 were $30.6 million, a decrease of $2.1 million or (6%) under 2012. This decrease was largely due to the transfer of approximately 1,100 retirees, 65 years and older, onto the Medicare exchange, which reduced the maximum Monthly Medical Allowance (MMA) for that segment of ACERA's retiree population from $522 to $400 per member. ACERA utilizes Health Reimbursement Accounts (HRAs) for retirees enrolled in the Medicare exchange individual plans. For the remaining retiree population, 64 years and younger, the maximum monthly medical benefits remained at $522 per member for 2013.

Member Refunds

Member refunds originate from either a member separation from service (termination) or active member death. Member refunds were $6.3 million in 2013, $0.4 million or 7% more than in 2012. The increase was primarily due to a rise in termination refunds.

Administration Expense

For 2013, the total administration expense was $14.7 million, a modest $0.6 million or 4% increase over the prior year. The $0.6 million net increase was primarily due to slight increases in technology and legal expenses.

Administration expense covers the basic costs of operating the retirement system. Operating costs include staffing, professional service expenses, communications, software maintenance, depreciation, insurance, and other expenses. Approximately 59% of operating expenses is for staffing (wages, fringe benefits, and temporary labor). Other expenses, like professional services, include the cost of member communications, audit fees, and legal fees due to pension reform.

Each year, in accordance with legal spending restrictions outlined in the County Employee Retirement Law of 1937 (1937 Act), ACERA's Board of Retirement adopts an operating expense and administrative budget, effective for the following year. The annual amount of administrative budget is subject to legal and budgetary restrictions. Note 10 to the Basic Financial Statements, page 46, further describes the legal limitations. Consequently, the administrative budget for 2013 was kept in compliance with the "37 Act" legal spending restrictions.

CURRENTLY KNOWN FACTS AND EVENTS

Actuarial: In September 2011, ACERA's Board of Retirement 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 2013. Consequently, an actuarial valuation was performed as of December 31, 2013, for the Pension Plan using the economic assumptions adopted by ACERA's Board of Retirement in September 2011. The funded ratio as of December 31, 2013, was 75.9%.

Legislative: In 2012, AB 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 the determination of compensation earnable, which will affect the way ACERA calculates the Final Average Salary (FAS) for legacy members. A stipulation in a lawsuit filed by various represented County employees who claimed they had a right to have ACERA include cashouts of accrued leave in excess of that which was earned and payable in the FAS period was a vested right.

The lawsuit was ended on May 12, 2014 with the entry of a final judgment which ruled there is no vested right to include amounts of cashout of accrued leave in excess of that which is earned and payable in the FAS, and ACERA should not exclude the inclusion of on-call pay and stand-by pay without an individual assessment that such leave was not regularly worked, required by all, and paid to those in the same grade or class, and not paid to enhance the member's retirement benefit.

The final judgment included a 60 day Stay of ACERA's non implementation of PEPRA. This means that for all members who retire effective on or after July 12, 2014, ACERA shall implement PEPRA and change its prior practice of including cashouts of accrued leave in excess of that which can be earned and paid in the FAS.

Supplemental Retirees Benefits Reserve (SRBR): The Board of Retirement took action effective January 1, 2013, to reduce the retiree death benefit payment to $1,000. This decision was an effort by the Board of Retirement to extend the life expectancy of the SRBR OPEB Reserve. Consequently, a transfer of $34.1 million to the SRBR OPEB Reserve from the non-OPEB Reserves was completed to equalize the Plan's 15-year life expectancy and pay projected benefits until year ending 2028.

Government Accounting Standards Board: In June 2012, the Government Accounting Standards Board (GASB) issued Statements No. 67 and No. 68, which provide pension plans (the plan) and participating employers (employers), respectively, with guidance on how to account for and report pension liabilities. The new financial reporting standards significantly enhance the transparency of the pension liability and require ACERA to report a measure of its over or under funded long-term pension obligation, i.e., the Net Pension Liability (NPL). The NPL is the Total Pension Liability (TPL) minus the plan's fiduciary net position or market value of plan assets. As a defined benefit, cost-sharing multiple-employer pension plan, ACERA is required to adopt GASB 67 for its 2014 CAFR. ACERA's employers will need to implement GASB 68 for their 2014-2015 CAFR. Employers will also be required to report their respective portion of the NPL on their statements of net position.

FIDUCIARY RESPONSIBILITIES

ACERA's Board of Retirement 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, the 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, 2014

Statement of ACERA's Net Position

As of December 31, 2013, with Comparative Totals as of December 31, 2012 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB	Total 2013	Total 2012
ASSETS					
Cash	$ 839	$ -	$ -	$ 839	$ 399
Securities Lending Cash Collateral	337,579	-	-	337,579	257,433
Receivables					
Contributions	18,250	-	-	18,250	16,926
Investment Receivables	13,455	-	-	13,455	12,763
Unsettled Trades - Investments Sold	9,045	-	-	9,045	29,233
Future Contracts - Equity Index	2,594	-	-	2,594	842
Foreign Exchange Contracts	1,857	-	-	1,857	3,148
Other Receivables	271	-	-	271	290
Total Receivables	**45,472**	**-**	**-**	**45,472**	**63,202**
Prepaid Expenses	607	-	-	607	567
Total Current Assets	**384,497**	**-**	**-**	**384,497**	**321,601**
Investments at Fair Value					
Short-Term Investments	132,890	-	-	132,890	180,854
Domestic Equity	1,572,562	-	-	1,572,562	1,147,608
Domestic Equity Commingled Funds	832,051	-	-	832,051	878,943
International Equity	1,575,853	-	-	1,575,853	1,290,786
International Equity Commingled Funds	417,974	-	-	417,974	276,394
Domestic Fixed Income	704,814	-	-	704,814	666,109
International Fixed Income	148,571	-	-	148,571	282,927
International Fixed Income Commingled Funds	107,725	-	-	107,725	-
Real Estate - Separate Properties	82,492	-	-	82,492	78,503
Real Estate - Commingled Funds	339,035	-	-	339,035	216,126
Real Return Pool	255,245	-	-	255,245	279,421
Private Equity and Alternatives	442,782	-	-	442,782	357,878
Total Investments	**6,611,994**	**-**	**-**	**6,611,994**	**5,655,549**
Due from Pension Plan	(651,490)	624,620	26,870	-	-
Capital Assets at Cost (Net of Accumulated Depreciation and Amortization)	4,524	-	-	4,524	5,563
Total Assets	**6,349,525**	**624,620**	**26,870**	**7,001,015**	**5,982,713**
LIABILITIES					
Securities Lending Liability	337,579	-	-	337,579	257,433
Unsettled Trades - Investments Purchased	7,518	-	-	7,518	45,216
Future Contracts - Equity Index	1,884	-	-	1,884	571
Foreign Exchange Contracts	542	-	-	542	1,307
Investment-Related Payables	8,516	-	-	8,516	5,599
Accrued Administration Expenses	1,987	-	-	1,987	1,948
Members Benefits & Refunds Payable	2,342	-	-	2,342	2,425
Retirement Payroll Deductions Payable	352	-	-	352	10
Total Liabilities	**360,720**	**-**	**-**	**360,720**	**314,509**
NET POSITION					
RESTRICTED - HELD IN TRUST FOR BENEFITS	**$ 5,988,805**	**$ 624,620**	**$ 26,870**	**$ 6,640,295**	**$ 5,668,204**

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, 2013, with Comparative Totals for the Year Ended December 31, 2012 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB	Total 2013	Total 2012
ADDITIONS					
Contributions					
Member	$ 76,230	$ -	$ -	$ 76,230	$ 78,608
Employer	158,940	32,240	-	191,180	179,649
Total Contributions	**235,170**	**32,240**	**-**	**267,410**	**258,257**
Investment Income					
From Investment Activities:					
Net Appreciation (Depreciation) in Fair Value of Investments	1,029,642	-	-	1,029,642	614,698
Dividends, Interest, & Other Investment Income	115,720	-	-	115,720	126,674
Total Income from Investment Activities	**1,145,362**	**-**	**-**	**1,145,362**	**741,372**
Total Investment Expenses	(37,499)	-	-	(37,499)	(31,745)
Net Income from Investment Activities	**1,107,863**	**-**	**-**	**1,107,863**	**709,627**
From Securities Lending Activities:					
Securities Lending Income	2,461	-	-	2,461	3,016
Securities Lending Expenses					
Borrower Rebates	(96)	-	-	(96)	(215)
Management Fees	(473)	-	-	(473)	(560)
Total Securities Lending Activity Expenses	(569)	-	-	(569)	(775)
Net Income from Securities Lending Activities	**1,892**	**-**	**-**	**1,892**	**2,241**
Dispersal of Death Benefit-Burial Non-OPEB Reserve to All Other Reserves	6,122	-	(6,122)	-	-
Earnings Allocated	(114,705)	109,760	4,945	-	-
Total Net Investment Income (Loss)	**1,001,172**	**109,760**	**(1,177)**	**1,109,755**	**711,868**
Miscellaneous Income	161	-	-	161	912
Transfer Between SRBR OPEB Reserve and SRBR Non-OPEB Reserve	-	34,112	(34,112)	-	-
Transfer to Employers' Advance Reserve from SRBR for Employer Contributions to 401(h) Account	32,240	-	-	32,240	33,353
Transfer to Employers' Advance Reserve from SRBR for Implicit Subsidy	7,370	-	-	7,370	4,411
Transfer from Employers' Advance Reserve to SRBR for OPEB Related Administrative Expense	-	1,094	-	1,094	1,001
TOTAL ADDITIONS	**$ 1,276,113**	**$ 177,206**	**$ (35,289)**	**$ 1,418,030**	**$ 1,009,802**

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

For the Year Ended December 31, 2013, with Comparative Totals for the Year Ended December 31, 2012 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB	Total 2013	Total 2012
DEDUCTIONS					
Benefits					
Service Retirement and Disability Benefits	$ 349,019	$ -	$ -	$ 349,019	$ 318,993
Death Benefits	2,403	-	124	2,527	2,278
Burial Benefits	-	-	6	6	931
Supplemental Cost of Living Allowance	-	-	2,067	2,067	2,346
Post Employment Medical Benefits	-	30,569	-	30,569	32,692
Total Benefit Payments	**351,422**	**30,569**	**2,197**	**384,188**	**357,240**
Member Refunds	6,319	-	-	6,319	5,893
Administration					
Administrative Expenses	9,468	1,094	-	10,562	10,244
Legal Expenses	1,674	-	-	1,674	1,517
Technology Expenses	1,466	-	-	1,466	1,220
Actuarial Expenses	236	-	-	236	327
Business Continuity Expenses	790	-	-	790	790
Total Administration	**13,634**	**1,094**	**-**	**14,728**	**14,098**
Transfer from SRBR to Employers' Advance Reserve for Employer Contributions to 401(h) Account	-	32,240	-	32,240	33,353
Transfer from SRBR to Employers' Advance Reserve for Implicit Subsidy	-	7,370	-	7,370	4,411
Transfer to SRBR from Employers' Advance Reserve for OPEB Related Administrative Expense	1,094	-	-	1,094	1,001
TOTAL DEDUCTIONS	372,469	71,273	2,197	445,939	415,996
Change in Net Position	**903,644**	**105,933**	**(37,486)**	**972,091**	**593,806**
Net Position - January 1	**5,085,161**	**518,687**	**64,356**	**5,668,204**	**5,074,398**
Net Position - December 31	**$ 5,988,805**	**$ 624,620**	**$ 26,870**	**$ 6,640,295**	**$ 5,668,204**

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's 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. 65 *Items Previously Reported as Assets and Liabilities*, for fiscal year ended December 31, 2013. GASB 65 reclassifies certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources on the Statement of Net Position. Statement No. 65 also requires the recognition of certain items that were previously reported as assets and liabilities as outflows of resources (expense) or inflows of resources (income). The implementation of GASB 65 had no impact on the Statement of ACERA's Net Position and the Statement Changes in ACERA's Net Position.

The GASB issued Statement No. 66 *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62* in March 2012. The provisions of this statement are effective for financial statement periods beginning after December 15, 2012. The amendment to Statement No. 10 pertains to the use of special revenue funds to report risk financing activities and the amendments to Statement No. 62 cover operating leases, purchase of loan or group of loans and loan servicing fees. GASB Statement No. 66 has no impact on ACERA's financial statements.

GASB Statement No. 67 *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* was issued in June 2012, effective for financial statement periods beginning after June 15, 2013. This Statement replaces the requirements of GASB 25, *Financial Reporting for Defined Benefit Pension Plans* and GASB 50 *Pension Disclosures* for plans that are administered through trusts. The statement specifies the approach to measuring the net pension liability, requires additional note disclosures on investments, and expands the required supplementary information disclosures. ACERA will implement GASB 67 beginning with the 2014 financial reporting period.

GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* was also issued in June 2012. GASB 68 replaces the requirements of Statement No. 27, *Accounting for Pension by State and Local Government Employers* and Statement No. 50, *Pension Disclosures* for governments that provide pension benefits through pension plans administered through trusts. This statement requires plan sponsors to recognize a proportionate share of the net pension liability on the statement of net position, prescribes a new method of computing the annual pension expense, and expands the note disclosures as well as the required supplementary information. This standard is effective for fiscal periods beginning after June 15, 2014. ACERA's participating employers will implement the provisions of GASB 68 for their fiscal year ended June 30, 2015.

Cash

Cash includes 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 the 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 the 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 by an 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 contract 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. Effective January 2013, ACERA changed the capitalization threshold from $3,000 to $5,000 initial cost, and from one year to two years of useful life following the recommendation from Government Finance Officers Association (GFOA) Best Practice of Establishing Capitalization Thresholds for Capital Assets. 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 the California Constitution, and state and federal laws, including but not limited to the County Employees Retirement Law of 1937 (1937 Act), beginning at California Government Code at Section 31450 et. seq., PEPRA and the bylaws and policies adopted by the Board of Retirement.

These laws and policies govern ACERA's plan structure and operation. The provisions of state and federal laws 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 are written 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 retiree postemployment medical, dental care, vision care, and cost of living adjustments 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 Board of Retirement has sole and exclusive responsibility over the assets and the administration of the system to assure prompt delivery of benefits and related services as provided in Article XVI of the California Constitution.

The Board of Retirement 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.

The Board of Retirement is currently composed of the following members:

Type of Member	Elected / Appointed By	# Of Members
County Treasurer	Ex-Officio Member	1
County Resident	Appointed by Board of Supervisors	4
General Member	Elected by General Members	2
Safety Member	Elected by Safety Members	1
Retired Member	Elected by Retired Members	1
Alternate Retired Member	Elected by Retired Members	1
Alternate Safety Member	Elected by Safety Members	1

Board members, with the exception of the County Treasurer, serve three-year terms in office, with no term limits.

The Board of Retirement oversees the Chief Executive Officer in the performance of his or her duties in accordance with the law, ACERA's regulations, 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 and retiree death 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). Employer contributions fund the 401(h) benefits. 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, the 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 Health System (formerly known as 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

With the exception of Alameda Health System, all full-time employees of participating employers who are appointed to permanent positions are statutorily required to become members of ACERA. With the passage of AB1008 in 2013, employees of newly acquired hospitals by Alameda Health System are not eligible for membership unless they are subject to an existing Memorandum of Understanding. Effective October 31, 2013, all newly hired unrepresented employees of any Alameda Health System facility are prohibited from membership.

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, 2013

MEMBERS, SURVIVORS, AND BENEFICIARIES NOW RECEIVING BENEFITS	
Service Retirement	6,609
Disability Retirement	823
Beneficiaries and Survivors	1,144
Subtotal	**8,576**
ACTIVE MEMBERS	
Active Vested Members	8,186
Active Non-vested Members	2,681
Subtotal	**10,867**
DEFERRED MEMBERS	1,911
TOTAL MEMBERSHIP	**21,354**

MEMBERSHIP STATUS AND VESTING

Members are considered to be active members, as 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.

Non-Tier 4 vested General members may retire at age 50, with 5 years of service and a total of 10 years of qualifying membership, or at any age with 30 years of service, or at age 70, regardless of service credit.

Non-Tier 4 vested Safety members may retire at age 50, with 5 years of service and a total of 10 years of qualifying membership, or at any age, with 20 years of qualifying membership, or age 70, regardless of service credit.

Tier 4 General members may retire at age 52, with 5 years of service.

Tier 4 Safety members may retire at age 50, with 5 years of service.

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, TIER 3, AND TIER 4 BENEFIT LEVELS

The structure of the plan provides for four benefit levels or tiers within General membership and three 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, and before January 1, 2013, belong to Tier 2, and members with entry date on or after January 1, 2013, belong to Tier 4.

Most active ACERA members belong to Tier 2. Alameda County Housing Authority members are mostly in Tier 1, but those hired between September 30, 2011, and January 1, 2013, belong to 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, and before January 1, 2013, there are three benefit formula options for Safety membership Tier 2. Two 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.

In accordance with PEPRA, General and Safety members hired on or after January 1, 2013, belong to a new Tier 4. Tier 4 members are required to contribute at least 50% of the Normal Cost rate. Under the Tier 4 formulas, General members will receive a benefit of 2.5% at age 67 and Safety members will receive a benefit of 2.7% at age 57. 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 non-Tier 4 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 and Tier 4 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 2013, there was a maximum of 3.0% COLA increase granted for Tier 1 and Tier 3 members who retired on or before April 1, 1985 due to carry-over banked from prior years. Tier 1 and Tier 3 members who retired after April 1, 1985 were granted COLA increases of 2%. A maximum COLA increase of 2.0% was granted 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. Through December 31, 2013, all retirees were eligible to enroll in dental and vision coverage. These benefits are paid through a 401(h) account, in accordance with federal tax laws. The maximum levels of the monthly medical allowance are reviewed annually by the Board of Retirement.

PROGRAM MEMBERSHIP

Retired members with a minimum of ten years of service or those who retire due to service connected disability are eligible to receive a monthly medical allowance benefit if they enroll in one of the ACERA-sponsored medical plans or Medicare exchange. 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 were eligible to receive dental and vision benefits until December 31, 2013. Eligibility requirements changed effective February 1, 2014. Under the new requirements, those members receiving service retirement or non-service connected disability, with ten or more years of ACERA service credit will be eligible to receive dental and vision allowances. The following are exempted from these new eligibility requirements: (a) non-service connected disability recipients with less than ten years of ACERA service credit and with a retirement date effective prior to February 1, 2014; and (b) all service connected disability recipients, regardless of years of service.

Non-OPEB

ACERA also provides other non-health postemployment benefits, such as supplemental COLA and a lump sum death benefit.

Separately from the basic COLA, 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.

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. A retired member lump sum death benefit of $1,000 is also provided to beneficiaries.

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 32 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 (Tiers 1, 2, 3, and 4).

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 non-Tier 4 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. Note 4, Reserves, on page 30 explains semi-annual interest crediting.

Pursuant to PEPRA Section 7522.30, Tier 4 members are required to contribute 50% of the Normal Cost rate. The code also prohibits participating employers from paying any portion of the 50% share of members contributions on the employee's behalf.

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 non-Tier 4 member contribution rates based on age-at-date-of-entry are shown as follows (effective September 2013). Generally, each pair of percentages ranges from youngest to oldest within each category.

In November 2012, the Board of Retirement approved the use of a single, flat contribution rate, regardless of the age at entry, for Tier 4 members.

Current Member Contribution Rates

Effective September, 2013

TIER 1: (ENTRY DATE PRIOR TO JULY 1, 1983)	
General	7.48% – 14.62%
Safety 3% @ 50	14.63% – 22.12%
TIER 2: (ENTRY DATE JULY 1, 1983, AND BEFORE JANUARY 1, 2013)	
General	5.09% – 10.40%
Safety 3% @ 50	12.23% – 18.18%
TIER 2: (ENTRY DATE OCTOBER 17, 2010, AND BEFORE JANUARY 1, 2013)	
Safety 2% @ 50	8.85% – 14.56%
Safety 3% @ 55 (with less than 5 years of vesting service)	14.09% – 19.94%
Safety 3% @ 55 (with 5 or more years of vesting service)	12.09% – 17.94%
TIER 3: (LARPD ONLY - ENTRY DATE PRIOR TO JANUARY 1, 2013)	
General	8.73% – 15.57%
TIER 4: (ENTRY DATE JANUARY 1, 2013 OR LATER)	
General	8.25%
Safety	13.75%

For non-Tier 4 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). The one third reduction in the rates for the first $161 of bi-weekly salary does not apply to Tier 4 member contributions.

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 Health System (formerly known as 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 $45.8 million in the year ended December 31, 2013.

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 earlier. To the extent that net earnings are available, interest is credited to specified components of reserves in a prescribed sequence after funding 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 above the target investments return rate, 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 a member's retirement, ACERA makes a one-time transfer of the associated contributions plus credited interest from these two reserve components into 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 or upon the death of an active member. Employer contribution rates are actuarially determined taking into account other events such as a member electing a 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, 2013, the transferred amount was $1.1 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 a 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 above the target investments return to provide supplemental benefits to retirees. The reserves table on page 32 shows the amounts of the SRBR currently available to pay for non-vested benefits. 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.

During the year ended December 31, 2013, a transfer of $34.1 million was made from the Non-OPEB to the OPEB reserve in accordance with the information provided in the SRBR valuation as of December 31, 2012. The Board of Retirement also approved the dispersal of the Basic Death (Burial) Benefits Reserve and allocation of the funds as additional earnings above the target investment return effective December 31, 2013.

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, 2013, the employers funded $33.3 million of 401(h) contributions including $32.2 million of estimated cost of Postemployment Medical Benefits and $1.1 million of 401(h) administrative cost contributions.

The Non-OPEB Reserve is used to pay for the Supplemental COLA. For the year ended December 31, 2013, $2.1 million of Supplemental COLA benefits were paid. Effective January 1, 2013, the Board of Retirement eliminated the active death equity benefit and reduced the death burial benefit. 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 of Retirement. 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 of Retirement 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 30 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 2013

ACERA had earnings of $1,095.2 million for the year ended December 31, 2013. For the year ended December 31, 2013, $14.3 million of earnings were allocated to the Contingency Reserve. The Market Stabilization Reserve increased by $561.9 million for 2013 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 $519.0 million.

Reserves

As of December 31, 2013 (Dollars in Thousands)

	Pension	Postemployment Medical Benefits	Non-OPEB	Total
Member Reserve	$ 1,133,177	$ -	$ -	$ 1,133,177
Employers' Advance Reserve	486,564	-	-	486,564
Retired Member Reserve	3,584,209	-	-	3,584,209
SRBR	-	616,187	26,870	643,057
401(h) Account	-	8,433	-	8,433
Contingency Reserve	98,014	-	-	98,014
Market Stabilization Reserve Account	686,841	-	-	686,841
Total Reserves	**$ 5,988,805**	**$ 624,620**	**$ 26,870**	**$ 6,640,295**

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 are 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 presently to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Contribution requirements are determined under the entry age 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 30 under Actuarial Asset Smoothing. The December 31, 2012, actuarial valuation determined that the Pension Plan was 73.9% 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 35. 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 72.3% funded assuming that the current benefit continues in perpetuity. This is the GASB 43 "funded ratio." The December 31, 2012, actuarial valuation determined that the Non-OPEB are 15.7% 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 35.

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 and the Supplemental COLA and death benefits program through year 2028.

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	12/31/12		
Actuarial Cost Method	Entry Age		
Amortization Method	Level percent of payroll		
Amortization of UAAL (Prior to January 1, 2012)	Closed 30 years decreasing period		
Remaining Amortization Period (Prior to January 1, 2012)	20 years	23 years	23 years
Amortization of New UAAL (After January 1, 2012)	Plan amendments are amortized over separate decreasing 15-year periods Early retirement incentive programs are amortized over separate decreasing 5-year periods Assumption and method changes are amortized over separate decreasing 20-year periods Experience gains/losses are amortized over separate decreasing 20-year periods		
Assets Valuation Method	Difference between actual and expected market return smoothed over 10 six-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 88		
Health Care Cost Trend Rates:			
Medical	Graded down from 8.5% 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 and 4 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, Tier 2D, and Tier 4), subject to other limitations.

The required supplementary schedules of funding progress beginning on page 48 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, 2012, the actuarial valuation date on page 35, 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
$ 4,883,872	$ 6,612,929	$ 1,729,057	73.9	$ 906,500	190.7

1 Excludes assets for SRBR and other non-valuation reserves. Includes estimated $7,370,466 transferred from the SRBR to the employers' advance reserve to compensate the County for 2012 implicit subsidy.

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

Funded Status and Funding Progress – Postemployment Medical Benefits Without Limit[1]

(Dollar Amounts in Thousands)

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
$ 545,429	$ 754,838	$ 209,409	72.3	$ 906,500	23.1

1 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.

2 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.

Funded Status and Funding Progress – Non-OPEB Without Limit[1]

(Dollar Amounts in Thousands)

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
$ 26,018	$ 165,917	$ 139,899	15.7	$ 906,500	15.4

1 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.

2 Portion of SRBR assets allocated to Non-OPEB for non-vested Supplemental COLA and death benefits.

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 (under 65 years of age) 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 2012 was $7.4 million. SRBR assets in this amount were treated as a pension contribution in 2013 upon the Board of Retirement's approval to compensate the County for the implicit subsidy. The implicit subsidy amount for 2013 has not yet been determined. Approximately 75.2% of ACERA's retirees purchased medical coverage as of December 31, 2013. Approximately 99.8% of retirees were enrolled in vision and dental through this program as of December 31, 2013.

ACERA's retirees are eligible to receive a subsidy for medical premiums funded by the participating employers' 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, 2013 (Dollars in Thousands)

Medical Premium Account Balance	$	8,433
Health Insurance Subsidies Paid		30,569
Number of Subsidized Retirees		
Medical		4,500
Medicare Exchange		1,092
Medicare Part B		3,982
Dental and Vision		7,416

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 of Retirement 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 of Retirement, 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, 2013, thirteen external investment managers managed securities portfolios, nine investment managers were used for real estate investments, twenty 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, Comptroller of the Currency, 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 swaps/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, 2013, classified by type. For financial reporting purposes, all ACERA derivatives are classified as investment derivatives.

Derivative Investments

For Year Ended December 31, 2013 (Dollars in Thousands)

Derivative Type	Classification	Notional Value	Fair Value	Changes in Fair Value[2]
Futures Contracts - Long	Receivable/Liability	$ 2,187	$ -	$ 15,305
Futures Contracts - Short	Receivable/Liability	$ (963)	-	(6,195)
Currency Forward Contracts	Receivable/Liability[1]	$ 344,740	1,141	4,240
Rights	International Equity	-	-	(39)
Warrants	International Equity	107,003 shares	36	(65)
TOTAL			**$ 1,177**	**$ 13,246**

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, 2013, 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; or
- 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, 2013, 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, 2013, resulting from a default of the borrowers or the securities lending agent.

For the year ended December 31, 2013, 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 2013, the short-term investment fund is separated into two investment pools: (a) a liquidity pool, and (b) a duration pool. As of December 31, 2013, the liquidity pool had an average duration of 41 days and an average weighted final maturity of 91 days for U.S. dollars collateral. The duration pool had an average duration of 41 days and an average weighted final maturity of 1,976 days for U.S. dollars collateral. For the year ended December 31, 2013, 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, 2013, ACERA had securities on loan with a total fair value of $334.5 million; however, the cash collateral held against the loaned securities was $337.6 million and exceeded the total fair value of loaned securities by $3.1 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 separate account 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 overtime 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, 2013, cash held with a financial institution in a pooled money market fund amounted to $654.8 thousand, of which $160.8 thousand is insured and $494.0 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 subcustodians. The custodial requirement does not apply to real estate investments, investments in commingled pools, and private equity and alternative investments. As of December 31, 2013, 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, 2013, collateral for derivatives was $540.2 thousand. 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, 2013, 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 below discloses credit ratings of ACERA's debt investments by type and for each external investment pool as of December 31, 2013.

Credit Risk Analysis

As of December 31, 2013 (Dollars in Thousands)

		Adjusted Moody's Credit Rating[1]								
Debt Investments By Type	**Total**	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**	**Ca and Below**	**Not Rated**
Collateralized Mortgage Obligations	$ 78,597	$ 41,954	$ -	$ 323	$ 5,465	$ 2,084	$ 4,093	$ 13,382	$ 3,396	$ 7,900
Convertible Bonds	30,921	-	-	3,570	7,030	8,856	4,072	4,496	-	2,897
Corporate Bonds	339,521	7,236	8,950	59,023	154,100	58,724	24,868	8,198	344	18,078
Federal Home Loan Mortgage Corp.[2]	28,482	-	-	-	-	-	-	-	-	28,482
Federal National Mortgage Assn.[2]	60,976	-	-	-	-	-	-	-	-	60,976
Government National Mortgage Assn. I, II[2]	19,957	-	-	-	-	-	-	-	-	19,957
Government Issues[2]	240,923	106,063	28,155	300	45,616	5,845	-	-	-	54,944
Municipal	3,327	-	-	3,327	-	-	-	-	-	-
Other Asset Backed Securities	50,681	20,876	-	749	2,175	955	1,479	5,942	13,361	5,144
Subtotal Debt Investments	**853,385**	**176,129**	**37,105**	**67,292**	**214,386**	**76,464**	**34,512**	**32,018**	**17,101**	**198,378**
External Investment Pools of Debt Securities										
Securities Lending Cash Collateral Fund										
Liquidation Pool	318,622	-	-	-	-	-	-	-	-	-
Duration Pool	18,956	-	-	-	-	-	-	-	-	-
Master Custodian Short-Term Investment Fund	102,896	-	-	-	-	-	-	-	-	-
Subtotal External Investment Pools	**440,474**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**$1,293,859**	**$ 176,129**	**$ 37,105**	**$ 67,292**	**$ 214,386**	**$ 76,464**	**$ 34,512**	**$ 32,018**	**$ 17,101**	**$ 198,378**

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.

2 The investments in the following debt instruments --i.e., Federal Home Loan Mortgage Corp., Federal National Mortgage Assn., Government National Mortgage Assn. and Government Issues, that are Not Rated are implicity guaranteed by the U.S. Government.

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, 2013. 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, 2013 (Dollars in Thousands)

Adjusted Moody's Credit Rating[1]	Currency Forward Contracts
A	$ 2,045
Baa	1,270
Subtotal Derivatives in Asset position	3,315
Derivatives in Liability Position	(2,174)
Total Derivatives in Asset/(Liability) Position	**$ 1,141**

1 See footnote 1 on page 40.

As of December 31, 2013, the $3.3 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 $1.1 million.

ACERA has investment derivative concentration of credit risk. As of December 31, 2013, ACERA has a 38.3% ($1.3 million) of maximum exposure to credit risk with one counterparty with a credit rating of Baa, and 23.7% ($0.8 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 39 days as of December 31, 2013.

Interest Rate Risk Analysis – Duration

As of December 31, 2013 (Dollars in Thousands)

Debt Investments by Type		Fair Value	Duration in Years
Collateralized Mortgage Obligations	$	78,597	3.2
Convertible Bonds		30,922	5.3
Corporate Bonds		339,521	6.0
Federal Home Loan Mortgage Corp.		28,482	5.3
Federal National Mortgage Assn.		60,976	5.0
Government National Mortgage Assn. I, II		19,957	4.9
Government Issues		240,922	8.5
Municipal		3,327	11.8
Other Asset Backed Securities		50,681	3.3
Total of Debt Investments	**$**	**853,385**	

External Investment Pools of Debt Securities		Fair Value	Duration
Securities Lending Cash Collateral Fund			
Liquidity Pool	$	318,622	41 days
Duration Pool		18,956	41 days
Master Custodian Short-Term Investment Fund		102,896	-
Total External Investment Pools	**$**	**440,474**	

Interest Rate Risk Analysis – Highly Sensitive

Investment with Fair Values Highly Sensitive to Changes in Interest Rates

As of December 31, 2013 (Dollars in Thousands)

Investment Type	Investment Description	Interest Rates		Fair Value
Corporate bonds	Various debt related securities	0.0 to 7.6%	$	8,601
Government Issues	Various debt related securities	2.75% to 8.5%		49,672
Municipals	Municipals	6.70%		2,152

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, 2013 (Dollars in Thousands)

	Investment Type					
Currency	Common Stock and Depository Receipts	Corporate Bonds	Foreign Currency	Government Issues	Currency Swaps	Net Exposure
Australian Dollar	$ 37,264	$ 4,550	$ 564	$ 20,396	$ 2,152	$ 64,926
Brazilian Real	8,799	3,914	-	304	-	13,017
Canadian Dollar	40,884	-	477	6,852	(79)	48,134
Chilean Peso	-	1,048	-	-	(63)	985
Colombian Peso	-	599	-	-	-	599
Danish Krone	16,196	-	27	-	7	16,230
Euro Currency	480,984	5,852	24,529	27,631	(381)	538,615
Hong Kong Dollar	129,992	-	10	-	-	130,002
Indian Rupee	12,253	-	-	-	-	12,253
Indonesian Rupiah	2,669	-	-	-	-	2,669
Israeli Shekel	-	-	-	-	13	13
Japanese Yen	233,852	-	(1,735)	-	(191)	231,926
Malaysian Ringgit	3,739	-	-	2,509	-	6,248
Mexican Peso	-	1,151	53	20,042	175	21,421
New Taiwan Dollar	9,433	-	-	-	-	9,433
New Zealand Dollar	613	2,093	-	10,048	(41)	12,713
Norwegian Krone	2,485	-	18	-	101	2,604
Philippine Peso	-	1,169	-	2,911	-	4,080
Pound Sterling	291,630	-	(224)	15,819	(327)	306,898
Singapore Dollar	32,937	-	383	-	(7)	33,313
South African Rand	896	-	-	-	-	896
South Korean Won	26,900	-	-	-	-	26,900
Swedish Krona	32,860	-	381	-	(148)	33,093
Swiss Franc	139,022	-	144	-	103	139,269
Thailand Baht	2,780	-	-	-	-	2,780
Uruguayan Peso	-	-	-	573	-	573
Grand Total	**$ 1,506,188**	**$ 20,376**	**$ 24,627**	**$ 107,085**	**$ 1,314**	**$ 1,659,590**

Real Estate

Real Estate Investment Income – Separate Properties

For the Year ended December 31, 2013 (Dollars in Thousands)

REAL ESTATE INVESTMENT INCOME	$	9,991
REAL ESTATE EXPENSES		
Non-Operating Expenses[1]		286
Operating Expenses		5,068
Total Expenses		**5,354**
REAL ESTATE NET INCOME	$	4,637

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, 2013, was $11.7 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, 2013, 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, 2013 (Dollars in Thousands)

	January 1, 2013[1]	Additions	Deletions / Transfers	December 31, 2013
CAPITAL ASSETS - DEPRECIABLE				
Equipment and Furniture	$ 3,460	$ 162	$ (10)	$ 3,612
Electronic Document Management System	4,157	6	-	4,163
Information Systems	10,457	-	-	10,457
Leasehold Improvements	2,578	-	-	2,578
Subtotal	**20,652**	**168**	**(10)**	**20,810**
CAPITAL ASSETS - NON DEPRECIABLE				
Construction-in-Progress	-	156	(156)	-
TOTAL CAPITAL ASSETS (COST)	20,652	324	(166)	20,810
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,862)	(278)	8	(3,132)
Electronic Document Management System	(1,204)	(832)	-	(2,036)
Information Systems	(10,457)	-	-	(10,457)
Leasehold Improvements	(566)	(95)	-	(661)
Total Accumulated Depreciation and Amortization	**(15,089)**	**(1,205)**	**8**	**(16,286)**
CAPITAL ASSETS - NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	$ 5,563	$ (881)	$ (158)	$ 4,524

1 Prior year numbers reflect reclassification between electronic document management system and Equipment & Furniture categories.

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 $112,000 for the year ended December 31, 2013.

In addition, ACERA leases photocopy machines and water coolers to support operations. All current leases will expire in 2018. Equipment rental expenses were approximately $28,000 for the year ended December 31, 2013. 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
2014	$	20
2015		12
2016		4
2017		4
2018		4
Total	**$**	**44**

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 1937 Act which allows ACERA to exclude actuarial, investment, legal, business continuity and technology direct costs from administration expenses. Since investment related expenses were offset against investment income, the remaining exclusions totaled $4.2 million for 2013.

ACERA also conforms to the provision of the 1937 Act that limits the administration 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 55.

Application of Statutory Limit on Administration Expense

For the Year Ended December 31, 2013 (Dollars in Thousands)

Total Accrued Actuarial Liability as of December 31, 2012	$	7,533,684
Limit: Maximum Allowable fraction of Total Accrued Actuarial Liability (0.21%) times Total Accrued Actuarial Liability	$	15,821
Portion of Administrative Expenses for the Fiscal Year subject to the Statutory Limit		10,562
Excess of Limit over Portion of Administration Expense Subject to Limit	**$**	**5,259**
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, 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, 2013 (Dollars in Thousands)

Reimbursed Cost of ACERA		
Staff Members	$	11,068
Reimbursed Costs of County Services		494
State-Mandated Benefit Replacement Program (415M)		286
County Personnel Services		77
Partial Salary/Benefits Reimbursement for Elected Board of Retirement Members		237
Total	**$**	**12,162**

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 10, 2014, the date the financial statements are available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements and no subsequent events have occurred, the nature of which would require disclosure.

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] (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
12/31/2007	$ 4,560,213	$ 5,112,403	$ 552,190	89.2	$ 793,558	69.6
12/31/2008	4,644,010	5,537,919	893,909	83.9	864,260	103.4
12/31/2009	4,789,000	5,899,331	1,110,331	81.2	882,606	125.8
12/31/2010	4,776,128	6,162,740	1,386,612	77.5	898,342	154.4
12/31/2011	4,868,689	6,359,483	1,490,794	76.6	892,489	167.0
12/31/2012	4,883,872	6,612,929	1,729,057	73.9	906,500	190.7

1 Excludes assets for SRBR and other non-valuation reserves. Includes the following amounts transferred from the SRBR to the employers' advance reserve to compensate the County for the implicit subsidy: 2007-$3,091; 2008-$4,149; 2009-$5,288; 2010 (estimate provided by ACERA) $4,500; 2011 (estimate provided by ACERA) $4,411, and 2012 (estimate provided by ACERA) $7,370.

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

Schedule of Employer Contributions – Pension Plan

(Dollar Amounts in Millions)

Year Ended December 31	Annual Required Contribution[1]	Percentage (%) Contributed[2]
2007	$ 130	100
2008	130	100
2009	132	100
2010	148	100
2011	163	100
2012	180	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 [1,2]

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[3] (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
12/31/10	$ 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
12/31/12[4]						
Scenario A	545,429	754,838	209,409	72.3	906,500	23.1
Scenario B	549,655	754,838	205,183	72.8	906,500	22.6

Schedule of Funding Progress – Postemployment Medical Benefits With Limit [1,5] (Actuary's SRBR Exhibit I)

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[3] (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
12/31/10	$ 561,356	$ 561,356	$ 0	100.0	$ 898,342	0
12/31/11	542,936	542,936	0	100.0	892,489	0
12/31/12[4]						
Scenario A	545,429	545,429	0	100.0	906,500	0
Scenario B	549,655	549,655	0	100.0	906,500	0

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

2 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, 2012; and that the Board of Retirement continues to treat available SRBR assets as pension contributions without the limits described under footnote 5. This information discloses the "without limit" UAAL and "funded ratio" using the actuarial values of assets as described in footnote 3 and benefits provided as of December 31, 2012. Based on the amount of SRBR assets available for this purpose as of December 31, 2012, there are sufficient SRBR assets to continue substituting for the employer pension contributions until the year 2028.

3 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.

4 Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve.

5 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 Earnings on the current SRBR reserve plus the investment earnings 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.

Schedule of Employer Contributions – Postemployment Medical Benefits

(Dollar Amounts in Thousands)

	Annual Required Contribution		
Year Ended December 31	**Without Limit[1]**	**With Limit[2]**	**Percentage (%) Contributed[3]**
2010	$ 35,305	$ 0	0
2011	38,020	0	0
2012[4]			
Scenario A	38,345	0	0
Scenario B	38,073	0	0

1 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, 2012; and that the Board of Retirement continues to treat available SRBR assets as pension contributions without the limits described under footnote 2. This information discloses the "without limit" UAAL and "funded ratio" using the actuarial values of assets as described in footnote 3 of the schedule of Funding Progress table on the previous page and benefits provided as of December 31, 2012. Based on the amount of SRBR assets available for this purpose as of December 31, 2012, there are sufficient SRBR assets to continue substituting for the employer pension contributions until the year 2028.

2 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 Earnings on the current SRBR reserve plus the investment earnings 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.

3 Some participating employers consider a portion of the transfer of investment earnings 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*.

4 Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve.

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
12/31/10	$ 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
12/31/12[3]						
Scenario A	24,174	163,334	139,160	14.8	906,500	15.4
Scenario B	26,018	165,917	139,899	15.7	906,500	15.4

Schedule of Funding Progress – Non-OPEB With Limit[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
12/31/10	$ 69,256	$ 69,256	$ 0	100.0	$ 898,342	0
12/31/11	67,020	67,020	0	100.0	892,489	0
12/31/12[3]						
Scenario A	24,174	24,174	0	100.0	906,500	0
Scenario B	26,018	28,018	0	100.0	906,500	0

1 In accordance with the GASB 25, this information is presented using the assumption that the Board of Retirement continues the same benefits offered as of December 31, 2012 without the limits described under footnote 4. This information discloses the "without limit" UAAL and "funded ratio" using the actuarial values of assets and benefits as of December 31, 2012. Based on the amount of SRBR and Death (Burial) Benefit Reserve assets allocated for this purpose as of December 31, 2012, there are sufficient assets to provide these benefits until the year 2028.

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

3 Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve.

4 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 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.

Schedule of Employer Contributions – Non-OPEB

(Dollar Amounts in Thousands)

	Annual Required Contribution		
Year Ended December 31	Without Limit[1]	With Limit[2]	Percentage (%) Contributed[3]
2010	$ 16,619	$ 0	0
2011	16,779	0	0
2012[4]			
Scenario A	16,770	0	0
Scenario B	16,861	0	0

1 In accordance with the GASB 25, this information is presented using the assumption that the Board of Retirement continues the same benefits offered as of December 31, 2012 without the limits described under footnote 2. This information discloses the "without limit" UAAL and "funded ratio" using the actuarial values of assets and benefits as of December 31, 2012. Based on the amount of SRBR and Death (Burial) Benefit Reserve assets allocated for this purpose as of December 31, 2012, there are sufficient assets to provide these benefits until the year 2028.

2 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 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.

3 Some participating employers consider a portion of the transfer of investment earnings above the target investments return from the Pension Plan to the SRBR to be an employer contribution under GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

4 Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve.

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, 2012, is as follows:

Actuarial Cost Method: Entry Age Cost Method. For the December 31, 2012 valuation, the Board of Retirement adopted a modification to the normal cost calculation from an aggregate basis to an individual basis.

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 current UAAL balance of ACERA's Pension Plan was being amortized over a declining 30-year period, with 20-years remaining as of December 31, 2012.

On or after January 1, 2012 any new UAAL resulting from plan amendments are amortized over separate decreasing 15-year periods, early retirement incentive programs are amortized over separate decreasing 5-year periods, and assumption and method changes are amortized over separate decreasing 20-year periods.

Amortization Approach: Closed

Amortization of Actuarial Gains and Losses: Any new actuarial gains and losses will be amortized over separate decreasing 20-year periods.

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 and Tier 4 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 23 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: 8.5% for 2013 to 2014, reduced by 0.5% per annum until ultimate rate of 5%.

Medicare Advantage plans: 8.5% for 2013 to 2014, reduced by 0.5% per annum until ultimate rate of 5%.

Medicare Supplement plans: No longer available except through Medicare exchange.

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 23 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, Tier 2D and Tier 4), subject to other limitations.

Supporting Schedules

Investment Expenses

For the Year Ended December 31, 2013 (Dollars in Thousands)

Investment Manager Fees[1]	$	31,030
Brokerage Commissions		2,151
Investment Allocated Costs		2,346
Investment Consultants		1,033
Other Investment Expenses		432
Investment Custodians		507
Total Investment Expenses	**$**	**37,499**

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

Payments to Other Consultants[1]

For the Year Ended December 31, 2013 (Dollars in Thousands)

Actuarial & Audit Services	$	344
Human Resources Consulting		77
Legal Services		492
Other Specialized Services		466
Total Payments to Consultants	**$**	**1,379**

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

Administration Expense

For the Year Ended December 31, 2013 (Dollars in Thousands)

Personnel Services		
Staff Wages	$	5,191
Fringe Benefits		2,846
Temporary Services		620
Total Personnel Services		**8,657**
Professional Services		
Computer Services		332
Audit		81
Total Professional Services		**413**
Communications		
Printing		66
Postage		86
Communication		85
Total Communications		**237**
Rental/Utilities		
Office Space		81
Equipment Leasing		20
Total Rental/Utilities		**101**
Other		
Depreciation and Amortization		129
Board of Retirement Operating Expenses		252
Insurance		351
Miscellaneous		210
Training		125
Maintenance-Equipment		63
Supplies		24
Total Other		**1,154**
Subtotal: Administrative Expense Subject to Statutory Limit		**10,562**
Legal Expenses		1,674
Technology Expenses		1,466
Business Continuity		790
Actuarial Expenses		236
Subtotal: Administration Expense Excluded from Statutory Limit[1]		**4,166**
TOTAL ADMINISTRATION EXPENSE	**$**	**14,728**

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

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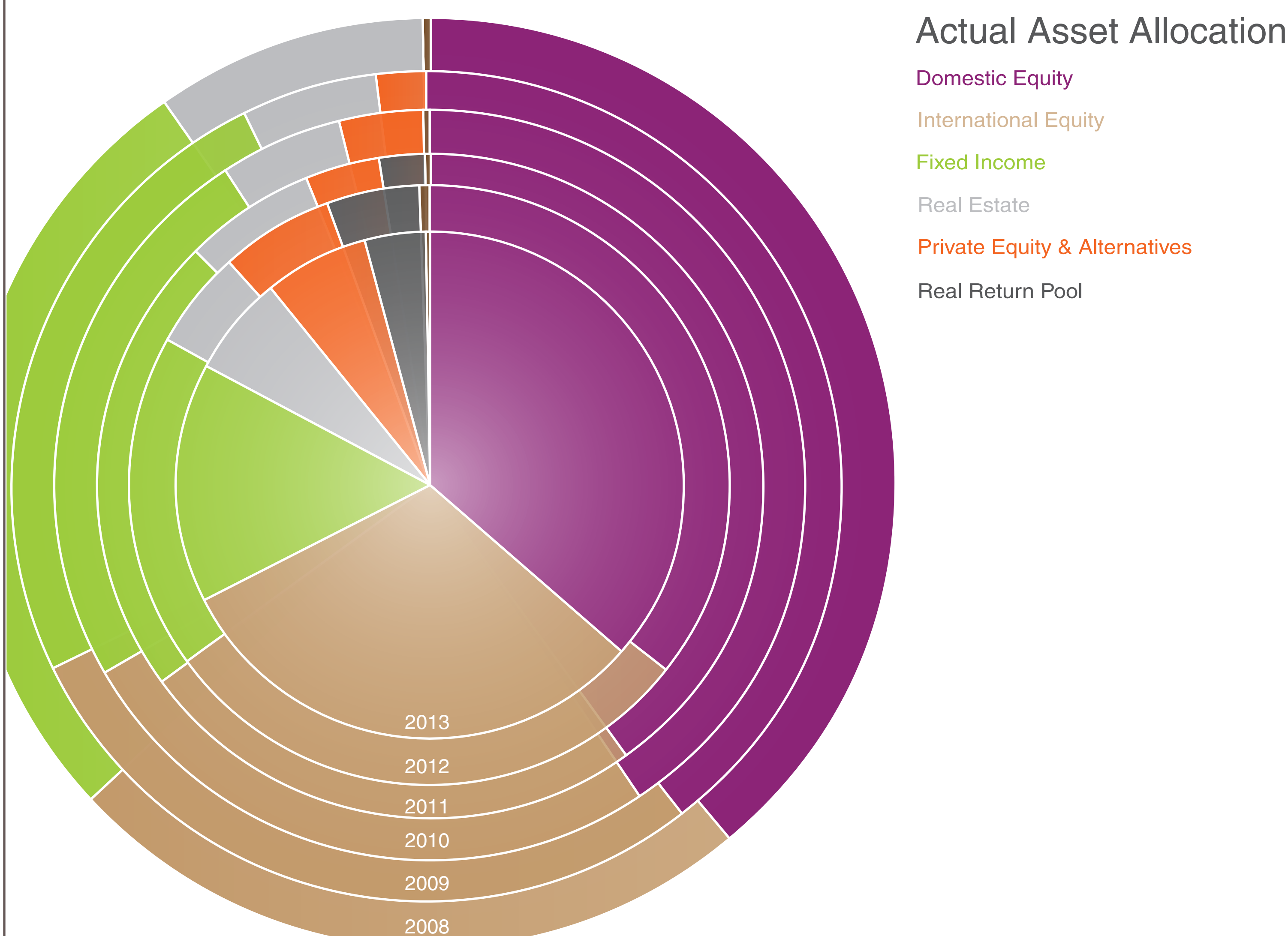
Investment


Actual Asset Allocation
Domestic Equity
International Equity
Fixed Income
Real Estate
Private Equity & Alternatives
Real Return Pool
2013
2012
2011
2010
2009
2008

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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

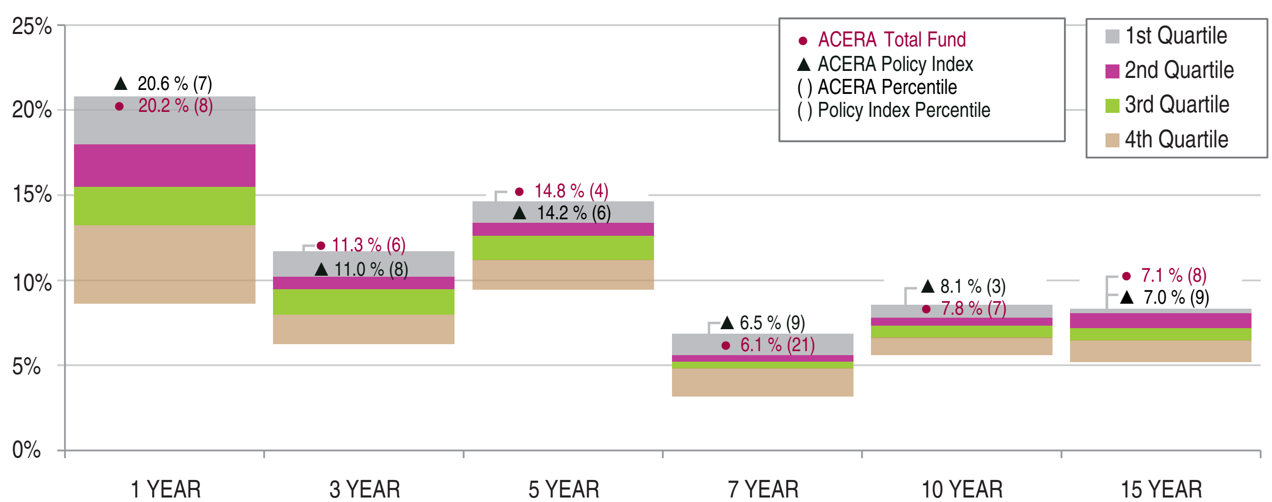
Performance Highlights of ACERA's 2013 Investment Fund (Fund) (Gross Results)

In 2013, ACERA's Total Fund performed extraordinarily well, increasing the Fund's Asset Value by approximately $970[1] million after income and expenses.

($ Values in Billions)	2013 Return	$ Value	Actual %	Target %
Total Fund	**20.2%**			
Policy Index	20.6%			
Median	15.5%			
Domestic Equity	37.3%	2.42	36.5%	32.0%
International Equity	20.1%	2.06	31.1%	27.0%
Fixed Income	0.0%	1.02	15.3%	15.0%
Real Estate	14.3%	0.43	6.4%	6.0%
PEARLS	13.4%	0.44	6.7%	15.0%
Real Return Pool	-8.9%	0.26	3.9%	5.0%
Beginning Fund Value		$ 5.66		
Year-end Fund Value		**$ 6.64**	**100.0%**	**100.0%**

Source for Table: Strategic Investment Solutions, Inc. (SIS) and The Townsend Group (Townsend) [2]

ACERA Total Fund Returns vs. Total Public Funds Annualized Returns[3]



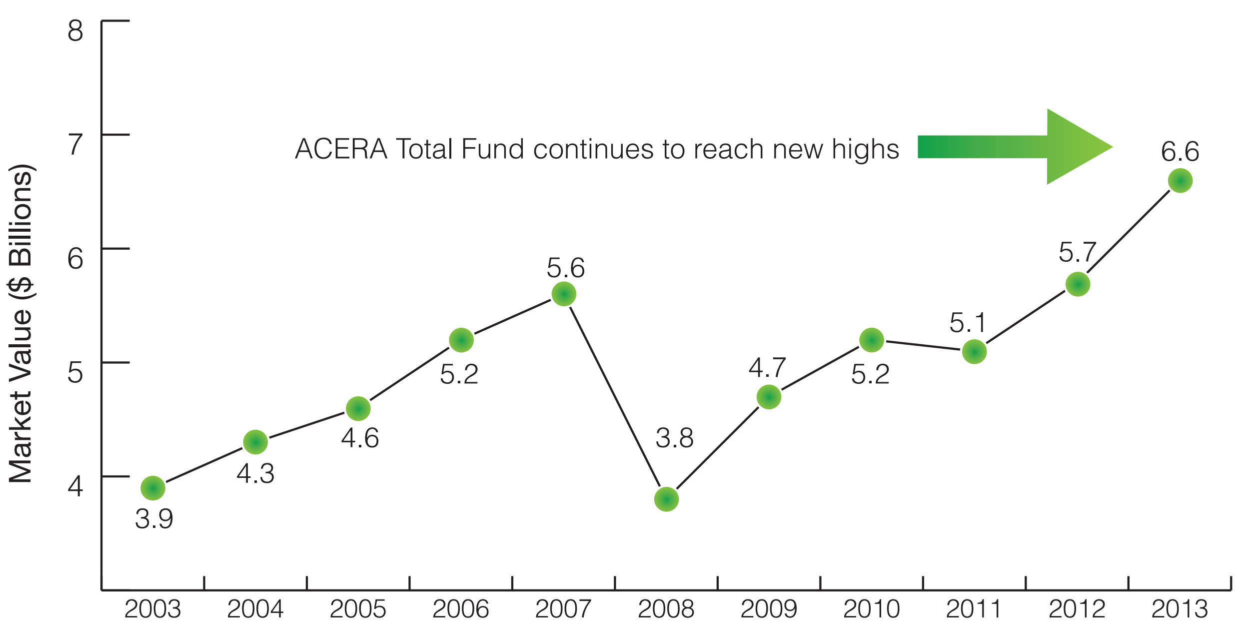
1 The highest dollar returns in ACERA Total Fund history.
2 SIS and Townsend are ACERA's General Consultant and Real Estate Consultant, respectively.
3 Total Fund and asset class composites are ranked against the InvestorForce universe. A ranking of 1 is a top percentile ranking and a ranking of 100 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. (Please refer to ACERA's Total Fund long-term performance below.)

ACERA's Total Fund long-term performance as of 12/31/2013
ACERA Year-end Market Values 2003-2013



After building on a strong 2012, ACERA's Fund continued to perform exceptionally well in 2013. Five years after the trough ($3.3B) of the portfolio, experienced in March of 2009, the portfolio has since doubled its value to $6.6B after expenses. For the year, ACERA's Total Fund returned 20.2%, which slightly underperformed the Policy Index[1] of 20.6% but significantly outperformed the median return of 15.5% for similarly-sized funds. The excellent yearly performance garnered ACERA a ranking in the top ten percentile for the second year in a row when compared among the same group of peer funds. In addition, The Fund ranked second in State Association of Retirement Systems (SACRS) peer group for the fiscal year ending June 30, 2013 with a return of 15.0%.

Throughout 2013 the fund increased its asset base steadily in almost every quarter, as returns for the 1st, 3rd, and 4th quarter were 6.1%, 6.2% and 6.0% respectively. The only outlier came in 2nd quarter, where the fund only returned 0.7%, but still beat the Policy Index which returned 0.4% for the quarter. Despite the slow 2nd quarter returns, ACERA's Total Fund still performed strongly in the first half of 2013 despite many political and monetary influences on the market. The portfolio earned 6.8% over the first six months, matching the Policy index and beating the median fund average of 5.2%. The first two quarters where highlighted by Japan's introducing an unprecedented quantitative easing program (dubbed "Abenomics") that created tremendous volatility in the International stock, bond, and currency markets. While the US equity indexes maintained an upward trend during this time, there was a growing uncertainty surrounding rumors that the Federal Reserve would start "tapering" its quantitative easing program (QE) that had fueled the extended market rally dating back to 2009.

As we moved into the second half of 2013, the market continued to rise, and so did ACERA's fund performance. ACERA's Total Fund increased 12.5% over the third and fourth quarters, barely underperforming the Policy Index, which returned 12.9%, but outperforming the Median Fund which increased by only 10.1%. During this time period, the markets continued to be overshadowed by political infighting and uncertainty, as the United States government shut down for two weeks in October after Congress was unable to agree on terms to keep the Federal government funded. In December, after months of rumors and speculation, the Federal Reserve officially announced plans for tapering its quantitative easing program. Throughout all of the ups and downs in many asset classes in 2013, ACERA stayed the course and was rewarded accordingly for keeping its diversified portfolio. In addition to meeting all pension obligations for current retirees of the county, the Fund was still able to increase its assets for the calendar year of 2013 by about $970 million after income and expenses, ending the year with $6.64 billion in assets.

Referring to the annual Performance Highlights table above, on page 59, Domestic Equity earned the highest return on a percentage basis in 2013 with 37.3% and represented 36.5% of the overall portfolio at year-end 2013. International Equity had the second highest return with 20.1% and represented 31.1% of the Fund at year-end. Private Equity and Alternatives Return Leading Strategies (PEARLS) returned 13.4% for the year and represented an investment of 6.7% and a total commitment of 10.1% of the portfolio. Real Estate achieved 14.3% for the year and represented 6.4% of the ACERA portfolio. Fixed Income ended flat with a return of 0.0% and the Real Return Pool returned -8.9% in 2013, representing 15.3% and 3.9% of ACERA's assets respectively.

Compared with ACERA's actuarial assumed rate of 7.8%, 2013 proved to be a year of outperformance for ACERA's portfolio with respect to the fund's long-term investment goals. In addition to 2013, the Fund has sustained strong performance over the past decade and weathered the troubles during the 2008-2009 financial crisis and reached all time highs in terms of fund size in 2013. For the trailing three-, five-, and ten-year periods, ACERA's Fund returned 11.3%, 14.8%, and 7.8%, respectively. Expanding on the great performance, the Fund was in the top 25th percentile (a stated goal in ACERA's General Investment Guidelines, Policies and Procedures) of peer funds for all time periods shown, as seen in the table below.

1 Effective January 1, 2013, the Policy Index has been 32% Russell 3000/ 27% MSCI ACWI ex US IMI Gross/11.25% Barclays Aggregate/ 2.25% Citi WGBI ex US/ 1.5% Barclays High Yield/ 6% NCREIF- ODCE/ 15% Russell 3000 +1%/ 5% CPI-U Core +3%.

	1 Year		3 Years		5 Years		10 Years		15 Years	
	Return %	Rank	Return %	Rank	Return %	Rank	Return %	Rank	Return %	Rank
ACERA	20.2	8	11.3	6	14.8	4	7.8	7	7.1	8
Policy Index	20.6	7	11.0	8	14.2	6	8.1	3	7.0	9
Median	15.5	50	9.5	50	12.2	50	6.8	50	6.0	50

FACTORS AFFECTING ACERA'S PORTFOLIO IN 2013

The Board's Actions

In 2013, 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.

Effective at the beginning of the year, Staff fully implemented the new asset allocation plan adopted by the Board in the 4th quarter 2012. ACERA lowered its target allocation to fixed income to 15% from 20% in anticipation of Federal Policy changes, and U.S. Equities to 32% from 34%. ACERA increased its allocations to PEARLS to 15% from 10% to further diversify the fund while enhancing returns, and increased International Equities to 27% from 25%. Asset allocation within a portfolio is one of the key drivers of performance. Accordingly, ACERA successful performance can be attributed to an overweighting to U.S. and International Equities and a reduced allocation to Fixed Income. The overweighting is due to the fact that it will take several years before the PEARLS program is fully funded.

The Board approved an additional $25 million commitment to an existing PEARLS manager. Also, under authority delegated by the Board, Investment Staff made three additional PEARLS commitments – two within the Buyout subcategory and one within Venture Capital. The Board approved the termination and replacement of a Currency-Alpha manager. The Board also approved several actions within the real estate allocation of the portfolio including the redemption of a Value Added Real Estate fund and reinvestment into another Value Added Real Estate fund. Additionally, the Board approved a $50 million commitment to a new Core Real Estate fund.

As for policies and procedures, the Board amended the General Investment Guidelines, Policies and Procedures to reflect the addition of the Real Return Pool asset class, to incorporate asset allocation changes the Board previously made, and to improve upon the style and language for consistency and clarity. The Board also reviewed the Real Estate Strategic Plan: Objectives, Policies and Procedures, and the Real Estate Investment Plan without making any material changes. The Board reviewed and amended the Emerging Investment Manager Policy (EM Policy) to reflect current conditions within the emerging manager opportunity set and improve the style of the EM Policy for clarity and consistency. Additionally, the Board approved the revision of two U.S. Equity managers' account benchmarks.

The Board is made up of eleven appointed or elected members. All members sit on the Investment Committee. Both the Board and the Committee meet monthly. A seasoned group of individuals, they work closely with Staff and consultants to carry out their fiduciary responsibilities. Meeting agendas and minutes can be found on the new ACERA website.

ACERA's Portfolio – Detail

ACERA's portfolio is diversified among six major asset classes: 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 while maximizing the potential long-term 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 designed to be less than the volatility of a traditional equity-only portfolio.

Asset Class Review - 2013

U.S. EQUITY	
Asset Class Allocation – Target	32.0%
Asset Class Allocation – Actual	36.5%
Return	37.3%
Benchmark (Russell 3000 Index)	33.6%
Over/(Under) Performance - relative to Benchmark	3.7%
U.S. Equity Median	34.4%

In 2013, ACERA's U.S. equity investments returned 37.3%, which was 4.9% greater than the S&P 500, and accounted for 36.5% of the total Fund by year end. All U.S. equity managers of the Fund posted positive returns in 2013, with small cap managers leading the way, representing about 8.4% of the portfolio, returning a weighted average of 50.5% for the year, 11.7% over the benchmark. One small cap manager, representing 1.3% of the total Fund, was up an incredible 66.9% in 2013.

The large cap active equity composite returned 35.8%, and accounted for 15.8% of the Fund's total assets at year-end, outperforming its relative benchmarks by 2.7%. According to ACERA's portfolio managers, both asset allocation and stock selection incrementally improved performance. In the year 2013, the continued recovery in the financials, consumer discretionary, healthcare, and to a lesser extent, information technology specifically were additive.

The Fund's passive S&P 500 Index portfolio returned 32.4%, which slightly outperformed its benchmark by 3.0 basis points. The S&P 500 Index portfolio represented 33.8% of the U.S. Equities, and 12.3% of the Fund, the single largest component of ACERA's plan

In part, the total Fund has done well because of its allocation to both large and small cap active management to compliment the large allocation to passive management. Of the six actively managed U.S. Equity accounts, four exceeded their benchmarks and contributed to the incremental gains in 2013. This has been true over time as well, with ACERA's U.S. Equity portfolio having annualized returns of 37.3%, 17.0%, and 20.3% over the past 1, 3, and 5 years, respectively.

INTERNATIONAL EQUITY	
Asset Class Allocation – Target	27.0%
Asset Class Allocation – Actual	31.1%
Return	20.1%
Benchmark (MSCI AC WI – ex US IMI Index)	16.3%
Over/(Under) Performance – relative to Benchmark	3.8%
IFx All DB ex-US Equity Gross Median	18.0%

ACERA's international equity composite portfolio, which accounts for 31.1% of the Fund at year-end, returned 20.1%, outperforming its benchmark the Morgan Stanley Capital International All Country World Index Investable Market Index– ex U.S. ("MSCI ACWI IMI – ex U.S.") by 3.8% in 2013. The Fund's international small-cap manager representing 3.2% of the Fund was the best performing international manager returning 23.8%, outperforming its benchmark the MSCI ACWI Ex U.S. Small Cap Index by 3.7% in 2013. Accounting for 12.5% of the Fund, the core/growth international equity manager returned 21.9% outperforming its benchmark (MSCI ACWI Ex U.S. Index) by 6.1%, helped by stock and industry selection, and less by country selection. ACERA's value and quantitative-oriented international equity managers outperformed the same benchmark by 1.0% and 3.9%, respectively. These two international managers accounted for 15.3% of the Fund at year end. Global markets did not universally perform well in 2013 as the emerging markets index (MSCI Emerging Markets Index) experienced returns of -2.3%, in USD. Approximately, 20% of each of the international equity funds managed for ACERA are in emerging markets. Nonetheless, two international equity managers still outperformed the index despite continued weakness throughout the Emerging Markets.

FIXED INCOME	
Asset Class Allocation – Target	15.0%
Asset Class Allocation – Actual	15.3%
Return	0.0%
Benchmark (75% BC Agg/15% Citi WGBI-ex US/10% BC HY)	-1.5%
Over/(Under) Performance – relative to Benchmark	1.5%

ACERA's fixed income portfolio ended the year flat with a 0.0% return for 2013, but still outperforming 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 1.5%. The strong outperformance can be attributed to all of ACERA's fixed income managers, with each beating its assigned benchmark in 2013. The best performing was the Fund's core plus fixed income manager, which returned 4.8%, which outperformed the Barclays Baa Credit Index by 6.9%. The two remaining fixed income managers returned -0.6% and -3.5% and outperformed their benchmarks by 1.4% and 0.5%, respectively. With strategic foresight, the Board implemented a new asset class allocation target for the Fixed Income at the beginning of 2013 (adopted Sept. 2012). This implementation was in anticipation of changes in the Federal Reserve Policy to scale back its asset purchase program (known as tapering). Thus, a reduced target allocation lowered the Fixed Income target to 15.0% from 20.0%. This helped improve the Total Fund's overall results for 2013.

REAL ESTATE	
Asset Class Allocation – Target	6.0%
Asset Class Allocation – Actual	6.4%
Return	14.3%
Benchmark (NCREIF ODCE Property Index)*	13.9%
Over/(Under) Performance – relative to Benchmark	0.4%
Real Estate Median	12.4%

*Source: The Townsend Group.

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 14.3% in 2013, outperforming its benchmark, National Council of Real Estate Investment Fiduciaries Open-End Diversified Core ("NCREIF ODCE") Property Index, by 0.4%. ACERA's real estate portfolio return exceeded the median return, which was 12.4%, posting its fourth consecutive year of positive returns. ACERA separates its real estate investments into two categories, Core and Value Added, and the returns for each category were 14.4% and 14.3%, respectively. During 2013, the Board approved several recommendations within the real estate asset class including the redemption of a Value Added Real Estate fund and reinvestment into another Value Added Real Estate fund. Additionally, the Board approved a $50 million commitment to a new Core Real Estate fund. The Board also reviewed and approved an amended ACERA Real Estate Strategic Plan: Objectives, Policies and Procedures and the Real Estate Investment Plan without making any material changes.

PEARLS	
Asset Class Allocation – Target	15.0%
Asset Class Allocation – Actual Funded	6.7%
Asset Class Allocation – Actual Commitment	10.1%
Return	13.4%
Benchmark (Russell 3000 Index + 100 bps)	34.6%
Over/(Under) Performance – relative to Benchmark	(21.2)%

No PEARLS Median

ACERA's PEARLS portfolio returned 13.4% for the year, underperforming the benchmark Russell 3000 + 100 bps by 21.2%. The PEARLS portfolio is currently invested across 30 funds and is segregated into five sub-asset classes: buyouts, venture capital, debt-related/special situations, absolute return and, other/alternative investments. ACERA committed fewer PEARLS investments in 2013 due to the relatively higher valuation of the investment opportunities in the market place. PEARLS continues to be an important asset class to the Fund, providing additional non-correlated diversification and cash-flow in the form of distributions. At the beginning of the new year, staff implemented the new asset class allocation targets, increasing the target for the PEARLS asset class allocation to 15% from 10.0%. Due to the partial maturity of the program, the PEARLS portfolio continues to be below its target allocation and target diversification ranges. The PEARLS program, which is still experiencing an initial J curve (initial investment start up costs) effect, is expected to be fully implemented over a period of three to five years in accordance with the 2013-2014 Investment Plan. As of December 31, 2013, ACERA's PEARLS portfolio had a market value of $444.6 million based on a funded level of $473.0 million. Total commitments to ACERA's PEARLS portfolio through the end of 2013 reached $671.0 million (10.1% of the overall Fund); these capital commitments will be drawn down by the general partners of the Fund's various investment partnerships/limited liability companies as the managers identify investment opportunities. An important diversification characteristic of the PEARLS asset class, especially in the Alternatives, is that its annual performance is not expected to be perfectly correlated with equities, instead returns are intended to be a moderated blend.

REAL RETURN POOL (RRP)	
Asset Class Allocation – Target	5.0%
Asset Class Allocation – Actual	3.9%
Return	-8.9%
Benchmark (CPI + 300 bps)	4.8%
Over/(Under) Performance – relative to Benchmark	(13.7)%

No RRP Median

The Real Return Pool continued in its role as long-term hedge against inflation surprises. The asset class struggled in terms of performance as commodity prices fell throughout the year and inflation surprises did not materialize. As a group, three Real Return Pool Strategies returned -8.9%, underperforming their benchmark (Consumer Price the +300 bps) by 13.7%. A typical position in the portfolio is a Treasury breakeven, i.e. a long Treasury Inflation Protected Security (TIPS) and a short Treasury Bond of the same size and maturity. The long and short bonds cancel each other, leaving just the inflation protection active in the portfolio. Note that the Real Return Pool is a small 5% hedge on the total portfolio. Real Return Assets are expected to exhibit low correlations to equity and fixed income assets, the preponderant assets of the portfolio. The purpose of the long-term portfolio hedge is to deliver positive returns when the rest of the portfolio is underperforming. The rest of the time, the hedge loses money or is neutral. Since "pure inflation hedges" are expensive, ACERA employs a modified inflation hedge in small size relative to the total portfolio.

General Economy and Investment Markets in 2013

The 2013 economic and market performance highlights are as follows:

In 2013, broad United States macro-economic indicators continued to improve overall, despite continued sovereign debt concerns and political posturing between Washington and Congress that eventually shutdown the government for two weeks from October 1st to October 16th.

- Estimated annual Real GDP increased at 1.9% in 2013 versus an increase of 2.8% in 2012. The increase in real GDP in 2013 primarily reflected positive contributions from personal consumption expenditures, exports, residential and non-residential fixed investment, and private inventory that were partly offset by a negative contribution from federal government spending. GDP was particularly strong in 3Q and 4Q, up 4.1% and 2.4%, respectively.
- The Consumer Price Index ("CPI") increased 1.5% compared to 1.7% in 2012.
- The Federal Reserve interest rate target range remained unchanged for a third straight year at 0% to 0.25%.
- The annual U.S. budget deficit was $0.7 trillion in Fiscal Year 2013, less than the 2012 budget deficit of $1.1 trillion. The U.S. Office of Management and Budget forecasts the 2014 deficit to be $0.7 trillion. Nonetheless, in 2013, Total Public Debt rose to $17.4 trillion from $16.4 trillion at the beginning of the year, a 6.1% increase in total debt.
- In 2013 the unemployment rate fell to 6.7% from 7.9%. The State of California ended the year with a 7.9% unemployment rate, compared to an unemployment rate of 9.8% at the end of 2012.
- Personal income in the U.S. increased by 2.8% in 2013
- Activity in residential real estate markets continued to be strong in 2013 with the number of new housing starts hitting a 5 year high.
- In 2013, the U.S. equity markets, as measured by the DJIA, S&P 500, and the NASDAQ, rose 29.6 %, 32.4%, and 39.8%, respectively. The DJIA was up for its fifth consecutive year.
- International markets did well as returns for the MSCI AC World – ex US Index were 16.3% in 2013, slightly down from 17.4% in 2012.

The year of 2013 will be remembered very favorably by investors as the U.S. stock market continued its extended five year rally and indices reached all time highs. However, the year will also be remembered for other domestic reasons: another year of extraordinary monetary stimulus by the US Treasury followed by the anticipated announced "tapering" of the multiyear program, the two week shutdown of the United States government (October), the announced and pending transition of Federal Reserve Chairman from Ben Bernanke to Janet Yellen (January 31, 2014), the troubled implementation of the Affordable Health Care Act and the ensuing website issues, and major controversies surrounding the IRS and the National Security Agency's encroachment of citizen's right to privacy.

Markets in the U.S. broke through all time highs in 2013 and continued to earn double digit returns as monetary stimulus measures continued to help lower unemployment and stimulate economic growth, albeit moderately. Although, the political fighting over the budget and U.S. deficit continued in 2013, these issues only had minimal effects on the equity markets. Corporate earnings continued to grow with the help of record profit margins and the return of a more confident consumer. Bond yields continued to remain low as demand for stocks once again outpaced the desire for fixed income and other "safe" assets. Still missing from the U.S. economy is corporate capital expenditures (CAPEX), an essential element of all economic recoveries.

When analyzing 2013, the current macroeconomic indicators signal a continued slow recovery of the U.S. and Global markets. Unemployment continues to fall in the U.S., and Europe made steady strides after enduring a major debt crisis in 2012. The question remains whether the recovery can sustain itself without the aid of monetary stimulus. Even with central banks across the globe continuing easy monetary policies, many of the smaller countries started to see their economies stagnate or decline. While the U.S. recovery has remained steady, unemployment declining, and the Fed felt safe enough to begin tapering, the Chinese economy began to slow down, and Bank of Japan was forced to intervene with a massive monetary policy in an attempt to jump start Japan's long dormant domestic economy. Emerging markets, as an asset class, did not perform as strongly as markets in developed nations.

Equity Markets - Domestic and International

With the wind at its back (low interest rate environment, Fed asset purchases), all major U.S. equity market indices posted strong double digit percentage gains in 2013. The Dow Jones industrials gained 29.6%, the biggest annual rally in 18 years. The S&P 500 gained 32.4%, its best year since 1997 while the NASDAQ returned 39.8% for the year. Eight out of the ten economic sectors had an excellent year: Consumer Discretionary was up 43.1%, Healthcare up 41.5%, Industrials up 40.7%, Financials up 35.6%, Technology up 28.4%, Consumer Staples up 26.1%, Materials up 25.6%, Energy up 25.1%, and Utilities and Telecommunications up 13.2% and 11.5%, respectively. Since the market low in March 2009, Consumer Discretionary is up 355.4%; only the Financial sector is still below its October 2007 peak high, off by -30.2%[1]. The drivers of the continued recovery/expansion can be attributed to a number of factors: earnings per share have improved consistently on an operating basis, as well as, profit margins increasing for the S&P 500 companies. Real GDP has expanded since 2Q2009, which is an all-inclusive measure of economic activity. Manufacturing has also recovered within the U.S. as Institute of Supply Management (ISM) Manufacturing Index numbers have consistently been over 50, suggesting economic expansion. As mentioned above, many of ACERA's managed accounts participated in this significant upswing.

Stock prices have risen significantly faster than earnings growth over the past year, and as a result, the price/earnings ratio for the S&P 500 jumped to 15.4 from 12.7 in 2012[2]. That marked the largest expansion in the P/E ratio for stocks in a single year since 2009, when the market bottomed out. Given this extended strength, the markets may see some consolidation in 2014.

Fixed Income Markets - Domestic and Global

The U.S. fixed income markets in 2013 remained volatile throughout the year and ended with mixed returns. The Federal Reserve continued its commitment to keep long term rates low with the use of its bond purchasing program commonly known

1 source: Standard & Poor's, Russell Investment Group, FactSet, J.P. Morgan Asset Management.
2 IBID, FactSet.

as “QE” or Quantitative Easing. However, political inactions in Washington DC assured that rates would be less predictable as the 10-year Treasury yields moved up until March, then down as a result of spending cuts caused by Congress known as the “sequestration”. Yields fell again later in the year surrounding the debt ceiling negotiations and shutdown of the government for 16 days in October. An old dynamic refreshed, interest rates will tend to fall when Congress slows its spending. The most anxiety among investors, however, arose from rumors of the Fed’s exiting its QE program through “tapering” –the paring back on the size of purchases of Treasury and mortgage backed instruments. These rumors became a reality as the Fed announced it would scale back asset purchases by $10 billion monthly at the December 2013 Federal Open Market Committee meeting. With that announcement the interest rates continued to move higher, then peaked year-end. The 10-year Treasury interest rate ended 2013 at its highest point at 3.03%.

As the U.S. equity markets continued their strong rally in 2013, the domestic fixed income markets returned mostly negative returns as investors moved out of low yielding high quality bonds and into lower credits, and dividend yielding equities. U.S. Treasury’s lost 2.75% as a group with the 30-year bond being the worst performer losing 15.03% in 2013. U.S. Municipal bonds did not fare better, returning -2.55% for the one-year period while securitized bonds performed slightly better with MBS and CMBS indices returning -1.41% and 0.23% respectively. U.S. Corporates also took a hit in 2013 with investment grade bonds returning -1.53%, with AAA rated bonds losing the most at -4.69% for the year. The lone bright spot in the U.S. fixed income markets continued to be high yield credit, which returned 7.44% for the year as investors became more comfortable with the recovering U.S. economy. As mentioned above, ACERA’s fixed income managers as a group beat their respective indices by 1.5%.

The International bond markets performed better in 2013 as many of the lingering economic fears from 2012 failed to materialize. The best performing markets were the same countries centered in the Eurozone crisis of last year. Sovereign bonds from Ireland, Italy, and Spain all performed well in 2013 along with other European countries that were seen as “credit risks” in 2012.

Real Estate Markets

Following the global financial crisis, the ACERA Real Estate Portfolio continued to recover in 2013 alongside the institutional core real estate markets, generating a 14.3% return. The economy performed reasonably well during 2013, ending with a 2.4% annualized GDP growth, supported by consumer spending, inventory re-stocking and improvements to the housing market. Capital market volatility increased as monetary policy change (QE3 reversal) was underway once again, however, growth is expected to accelerate and gain momentum in 2014.

Real estate fundamentals ended 2013 on a strong note as vacancies declined in all property sectors. Rent growth gained momentum during the year, especially in the office (job sensitive) and industrial (GDP sensitive) sectors. While supply of apartments increased, strong net absorption helped drive vacancies lower while aggregate rent increases slowed. Capitalization rates (cap rates), the ratio between the net operating income and its capital cost or current market value, exhibited a stable-to-declining bias during the year even though rates increased in Treasury yields (10-year.)

Private Equity Markets

In retrospect, 2013 was characterized by rising valuations for both public and private companies and a record-breaking year of Private Equity distributions. The total number of Private Equity transactions in 2013 was 2,124; down 14% from 2012. Although deal flow was down, capital invested in 2013 rose to $426 billion mostly attributable to multiple deals with price tags in excess of $2.5 billion each.

After exhibiting an increasing appetite for small deals of less than $25 million each in the years since the financial crisis, investors changed their focus in 2013, with deals of less than $25 million dipping below 40% in volume for the first time since 2007. However, many industry professionals have claimed that the buyouts of Dell and Heinz were not necessarily a sign that mega-deals are returning. PE firms completed 13 transactions of $2.5 billion or more in 2013, which matches the third highest total over the last decade, but it is unlikely that the Private Equity market will soon see the 44 deals of $2.5 billion or more that occurred in 2007. This translated into a significant increase in the proportion of capital flowing into mega-deals, transactions of $2.5 billion or more accounted for nearly a quarter (23%) of the capital invested in 2013, more than double their share from 2012 (10%).

With continued concern about the strength of U.S. consumers, the number of private equity retail deals experienced a precipitous 37% decline from 2012 to 2013 – the biggest drop of any sector. Services sectors across the board were hit hard in 2013, too, with commercial services (-15%), healthcare services (-19%), consumer services (-26%), and IT services (-16%) being some of the hardest hit areas. By contrast, the number of investments was up double digits in sectors defined by physical assets; sectors such as metals, minerals & mining (18%), agriculture (17%) and communications & networking (19%) were the top performers.

ACERA remained cautious in selecting new funds in 2013, with the four new PEARLS capital commitments; two were made to existing fund managers. With a partially mature portfolio, PEARLS is still experiencing the "J curve" (initial investment startup costs) effect, but expects that returns from this portfolio will continue to increase in the coming years.

ECONOMIC OUTLOOK FOR 2014

The financial markets completed their 5th consecutive year of positive gains since the bottoming out of the stock markets in March of 2009. Investors' focus will be on the Fed as it continues to take its foot off the liquidity pedal (QE tapering). The omnipresent easing and massive global liquidity created by the central banks will continue to play out in the developed and emerging markets. Nonetheless, volatility in risk assets will continue as financial markets adjust back to the more normal drivers in the economy. While the government's balance sheet is hugely bloated, corporate America and individuals are in pretty good shape. Aging demographics are coming more into play as China, Japan, and the U.S. are getting much older, spending less, costing more. We were cautious in 2012 and 2013; we are more so now as 2013 was an exceptional year and continues to present the possibility of a hyper-extended recovery. Small cap stocks did very well, but are often considered the last group to do well. With the various economic metrics doing well, upside appears limited; the markets might well be subject to some sideways or downward consolidation.

Nonetheless, the U.S. economy is projected to grow between 2.5% and 3% in 2014; we think long-term interest rates could rise to as high as 3.5% or even 3.75%. Slowing trade with emerging markets, currency swings in the FX markets, and higher interest rates present a headwind.

Still, for the past four years, the economy has underperformed compared to the elevated expectations (expanded P/E ratios, investor confidence) at the start of the year. We point to major economic indicators (GDP, ISM Manufacturing Index, interest rates) that can offer a good sense of the economy's momentum and the potential path of inflation, but we remain cautious.

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 (General Policy)

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 undertake 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.

ACERA updated asset allocation and managers' structure targets, which were adopted in September 2012, and were incorporated into the General Policy by the Board in May 2013; ACERA also incorporated the Real Return Pool Policy as an appendix to the same General Policy.

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 (Russell 3000 + 100 bps).

There were no changes made to the PEARLS Policy in 2013.

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

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.

The Real Estate Strategic Plan Objectives, Policies and Procedures exhibits were updated by the Board in September 2013; however, no changes or revisions were made to the text of the Strategic Plan. (The Real Estate Investment Plan was updated at the same time.)

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 the risk-adjusted returns of the Fund. The EM Policy was amended in January 2013. There were no material changes made.

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. No changes were made to the Real Return Pool Policy in 2013. However, the Real Return Policy became an Appendix to the General Policy in May, 2013.

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 Institutional Shareholder Services 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.

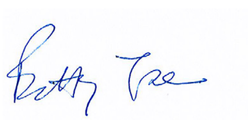
No changes were made to ACERA's Proxy Voting Guidelines and Procedures in 2013.

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

In summary, ACERA's Total Fund was up 20.2% and finished 2013 with a market value of $6.6 billion. The U.S. equity composite ($2.4 billion) returned 37.3%, in 2013 outperforming its benchmark (Russell 3000 Index) by 3.7% and outperforming the median equity manager by 2.9%. ACERA's international equity composite ($2.1 billion) returned 20.1%, outperforming its benchmark (MSCI ACWI ex-U.S. IMI) by 3.8% as well the median of international equity managers by 2.1%. ACERA's total fixed income composite ($1.0 billion) was flat in 2013 and returned 0.0% which outperformed its blended benchmark (75% Barclays Aggregate/15% Citigroup WGBI ex-U.S./10% Barclays High Yield) by 1.5%. ACERA's real estate composite ($0.4 billion) returned 14.2%, outperforming its benchmark (NCREIF ODCE) by 0.2%. The PEARLS composite ($0.4 billion) returned 13.4%, significantly underperforming its benchmark (Russell 3000 + 100 bps) by 21.2%. The Real Return Pool composite ($0.3 billion) lost 4.4% for the year underperforming its benchmark (Core CPI + 300 bps) by 9.2%.

As of December 31, 2013, ACERA's Fund was over-weighted in total equities, with 67.6% in total equities versus the target of 59.0%. Domestic equities were over-weighted at 36.5% versus the target of 32.0%. International equities were 31.1% versus the target of 27.0%. Total fixed income was over-weighted at 15.3% versus the target of 15.0%. Real estate was slightly above its 6.0% target at 6.4%. PEARLS were 6.7% funded and 10.1% committed to its eventual target of 15%. It should be noted that the traditional equity and fixed income asset classes will be over weighted until the PEARLS portfolio is fully funded. At the close of 2013, The Real Return Pool represented 3.9% of the Fund, which is underweight with respect to the target of 5.0%.

Respectfully Submitted,



Betty Tse, CPA, MBA
Chief Investment Officer, ACERA
March 31, 2014

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
2013 INVESTMENT CONSULTANT'S REPORT

Summary

The activities of the world's central banks, and the signals that the monetary authorities sent to investors regarding the future course of their monetary policies, were the dominant themes for investors in 2013. Ongoing political uncertainties emanating from the aftermath of the sovereign debt crisis in Europe, and worries about growth in the emerging markets economies, especially China's, were also important factors during the year. On the whole, during the year investors largely overcame their worries and bid up global equity prices enough to produce another strong year in 2013 for strategic portfolios.

The continuation of a gradually improving investor mood drove impressive returns for U.S. equities. International Developed country equities, though more muted, also experienced positive performance, as the pessimism built into the pricing of global stocks continued to ease. In contrast, Emerging Market country equities, after providing the highest regional equity returns in 2012, surprisingly actually lost value in 2013. With regard to the style segments of the global markets, growth companies again led value companies in 2013, and smaller cap companies outperformed large cap companies across the broad developed and emerging markets.

Bond markets reacted to the prospect, and then late in the year the reality, of attenuation in the Fed's asset purchase program (the "Taper") with marginally higher interest rates on Treasury and other high quality bonds. However, lower quality corporate and High Yield bonds, under the influence of the ebullient equity markets, overcame the Taper headwind through narrower credit spreads, and posted solidly positive performance. A strong dollar, especially against the Japanese Yen and Emerging Markets currencies, contributed to a negative year for International bonds for U.S. investors.

As global investors finally began to get over the trauma of 2008, overall capital market returns were surprisingly good for most risk assets. For the year 2013, the broad U.S. large cap equity market returned 33.1%, while small cap US stocks gained 38.8%. International Equity, though muted by ongoing difficulties in continental Europe and certain Emerging Markets, also provided good results for U.S.-based investors, posting a total return of 15.8% for the year, with Developed Markets returning 23.3%, and Emerging Markets -2.3%. Low risk Investment Grade US Bonds, suffered from the prospect of a less accommodative Fed, and the Barclays Aggregate returned -2.0% for the year, while the riskier high yield bonds rallied with equity, returning a 7.4%.

The ACERA total portfolio had a stellar year in 2013, returning 20.2%, and ranking it in the top 8% of its large public fund peer plans. This marked the eleventh time in the last thirteen years that the total plan outperformed its median large public plan peer's return, which was a 15.5% return in 2013.

The macro-generated instability of the markets abated somewhat in 2013, providing a better environment for active management, and ACERA's active equity managers responded strongly in 2013. In aggregate, the US equity managers beat the Russell 3000 Index benchmark by the very wide margin of 3.7% during the year. The Fund's Large Cap Value, Small Cap Growth, and Small Cap Value all contributed outstanding performance, all far in excess of their benchmarks. The International Equity composite also strongly outperformed the asset class benchmark, as all four active International Equity managers posted returns above their respective individual benchmarks.

ACERA's Fixed Income managers as a group held up well, and in aggregate outperformed the total bond benchmark by 150 basis points for the year. All three bond mandates: Core, Global Opportunistic, and Opportunistic Credit, again bested their benchmarks in 2013. The Real Estate managers' 14.2% return performed just above the NCREIF ODCE Index benchmark and the median institutional Real Estate composite portfolio.

Both of the smallest allocations in the ACERA portfolio struggled in 2013. The PEARLS portfolio, still in the ramp up phase of the implementation of the Private Equity program, trailed its benchmark. In the continuing low inflation environment of 2013, the new Real Return pool also lagged its benchmark significantly in 2013. SIS expects both of these portfolios to be strong components of the portfolio in the years to come.

Investment Guidelines, Policies and Practices

In 2013 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. The PEARLS program is being funded opportunistically over an expected three- to five-year period. 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 2013, the Association implemented the new asset allocation targets derived from the Asset-Liability study. The most significant changes were an increase the PEARLS allocation from 10% to 15% and to decrease the Bond allocation from 20% to 15%.

Investment Objectives

In 2013 the ACERA portfolio performed extraordinarily well on both an absolute and relative basis. During the year, the Association once again met its goals 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	
	2013	THREE YEARS	FIVE YEARS
DOMESTIC EQUITY			
Total Domestic Equity	37.3%	17.0%	20.3%
Median	34.4%	16.2%	19.1%
Benchmark: Russell 3000	33.6%	16.2%	18.7%
INTERNATIONAL EQUITY			
Total International Equity	20.1%	7.6%	13.6%
Median	18.0%	6.8%	13.0%
Benchmark: MSCI ACWI ex US	16.3%	5.6%	13.3%
FIXED INCOME			
Total Fixed Income	0.0%	6.6%	10.9%
Median	-1.3%	4.9%	7.0%
Benchmark: Hybrid Index	-1.5%	3.5%	5.5%
REAL ESTATE			
Total Real Estate	14.2%	13.5%	3.2%
Benchmark: NCREIF ODCE	14.0%	13.6%	3.7%
PEARLS			
Total PEARLS	13.4%	7.0%	4.7%
Benchmark: R3000 + 100 bps	34.6%	17.3%	20.0%
REAL RETURN			
Total Real Return	-8.9%	-	-
Benchmark: CPI Core + 300 bps	4.7%	-	-
TOTAL FUND			
ACERA Total Fund	20.2%	11.3%	14.8%
Median	15.5%	9.5%	12.2%
Benchmark: Policy Index	20.6%	11.0%	14.2%

* 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	12/31/13 ACTUAL
US Equity	32%	36.5%
Non-US Equity	27%	31.1%
Fixed Income	15%	15.3%
Real Estate	6%	6.4%
PEARLS	15%	6.6%
Real Return	5%	3.9%
Cash	0%	0.1%

In the five-year period since December 31, 2008 (near the deepest point of the crisis) the ACERA fund has returned 14.8%, well above the return on both its policy index (14.2%) and the median public plan (12.2%). 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.

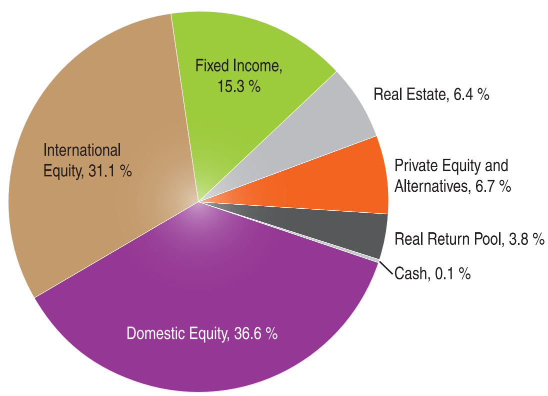
Patrick Thomas, CFA
Senior Vice President
March 14, 2014

Asset Allocation

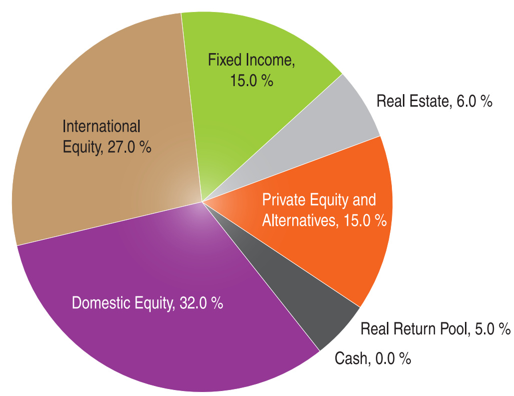
As of December 31, 2013

Investment Asset Class	Actual Asset Allocation	Target Asset Allocation	Actual Allocation Over/-Under Target Allocation
Domestic Equity	36.60%	32.00%	4.60%
International Equity	31.10%	27.00%	4.10%
Fixed Income	15.30%	15.00%	0.30%
Real Estate	6.40%	6.00%	0.40%
Private Equity and Alternatives	6.70%	15.00%	-8.30%
Real Return Pool	3.80%	5.00%	-1.20%
Cash	0.10%	0.00%	0.10%
Total	**100.00%**	**100.00%**	**0.00%**

Actual Asset Allocation



Target Asset Allocation



Investment Professionals

For the Year Ended December 31, 2013

INVESTMENT MANAGERS

Domestic Equities
- Bivium Capital Partners, LLC
- Kennedy Capital Management, Inc.
- Loomis, Sayles & Company, L.P.
- Mellon Capital Management Corporation
- Next Century Growth Investors, LLC
- Pzena Investment Management, LLC
- TCW Asset Management Company

International Equities
- AQR Capital Management, LLC
- Capital Guardian Trust Company
- Mondrian Investment Partners Ltd.
- Templeton Investment Counsel

Fixed Income
- Baird Advisors
- Brandywine Global Investment Management, LLC
- Loomis, Sayles & Company, L.P.

REAL ESTATE (SEPARATE & COMMINGLED FUNDS)
- AEW Capital Management
- CIM Group
- Clarion Partners
- Heitman Capital Management

REAL ESTATE (CONTINUED)
- Jamestown Premier Property
- J.P. Morgan Asset Management
- MetLife Core Property Fund, L.P.
- Prudential Real Estate Investors
- RREEF America, LLC

PRIVATE EQUITY AND ALTERNATIVES
- ABRY Partners, LLC
- Angelo Gordon & Company
- Avista Capital Partners
- Centerbridge Partners, L.P.
- Cerberus Capital Management, L.P.
- General Catalyst Partners
- Great Hill Partners
- Insight Equity
- Khosla Ventures
- KPS Capital Partners
- Lindsay Goldberg
- New Enterprise Associates
- Oak Hill Advisors, L.P.
- Partners Group
- P/E Investments
- Permal Group Inc.
- Sheridan Production Partners
- Sycamore Partners

PRIVATE EQUITY AND ALTERNATIVES (CONTINUED)
- Third Rock Ventures
- Warburg Pincus, LLC

REAL RETURN POOL
- Gresham Investment Management
- AQR Capital Management, LLC

INVESTMENT CONSULTANTS
- Capital Institutional Services - (Third-Party Directed Brokerage Administrator)
- Doug McCalla dba 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)

CUSTODIAL AND SECURITIES LENDING BANK
- State Street Bank and Trust Company

Investment Summary

As of December 31, 2013 (Dollars in Thousands)

Investment Asset Class		Fair Value	Percentage of Total Fair Value
Short-Term Investments	$	132,890	2.00%
Domestic Securities		1,572,562	23.80%
International Securities		1,575,853	23.80%
Domestic & Int'l Equity Commingled Funds		1,250,025	18.90%
Fixed Income Securities		961,110	14.50%
Real Estate - Separate Properties		82,492	1.20%
Real Estate - Commingled Funds		339,035	5.10%
Private Equity and Alternatives		442,782	6.70%
Real Return Pool		255,245	4.00%
Total Investments at Fair Value	**$**	**6,611,994**	**100.00%**

This schedule excludes investment receivable and payable balances as of December 31, 2013.

Brokerage Commissions

For the Year Ended December 31, 2013

Brokerage Firm	Rank		Commissions (in Thousands)		Shares/Par Value Traded (in Thousands)		Commission Per Share
Capital Institutional Services, Inc.	1	$	132	$	4,446	$	0.030
Merrill Lynch	2		108		26,306		0.004
Barclays Capital, Inc.	3		104		4,847		0.021
Credit Suisse Group AG	4		100		15,022		0.007
Goldman Sachs Group, Inc.	5		98		19,444		0.005
Knight Direct LLC	6		98		8,183		0.012
Morgan Stanley and Co.	7		95		16,966		0.006
Liquidnet, Inc.	8		85		7,904		0.011
Instinet	9		84		9,567		0.009
UBS AG	10		73		14,076		0.005
Deutsche Bank AG	11		71		17,983		0.004
JPMorgan Securities, Inc.	12		70		8,420		0.008
Citigroup Global Markets, Inc.	13		59		6,422		0.009
Cantor Fitzgerald & Co.	14		45		1,509		0.030
Sanford C. Bernstein Ltd.	15		44		6,355		0.007
Weeden + Co.	16		37		1,148		0.032
Jonestrading Institutional Services, LLC	17		30		1,060		0.028
Craig - Hallum	18		30		932		0.032
India Infoline Ltd.	19		27		1,487		0.018
Needham + Company	20		27		737		0.037
Top 20 Firms by Commission Dollars			**1,417**		**172,814**		**0.008**
All Other Brokerage Firms			734		43,119		0.017
TOTAL BROKERAGE COMMISSIONS			**2,151**		**215,933**		**0.010**
Brokerage Commission Recapture			(147)		-		-
NET BROKERAGE COMMISSIONS		**$**	**2,004**	**$**	**215,933**	**$**	**0.009**

Investment Manager Fees

For the Year Ended December 31, 2013 (Dollars in Thousands)

Investment Asset Class		2013
Domestic Equity	$	5,798
International Equity		10,082
Fixed Income		2,171
Real Estate		3,651
Private Equity and Alternatives		7,382
Real Return Pool		1,946
Total Investment Manager Fees	**$**	**31,030**

Investment Assets Under Management (Fair Value)

For the Year Ended December 31, 2013 (Dollars in Thousands)

Investment Asset Class		2013
Domestic Equity	$	2,424,863
International Equity		2,062,593
Fixed Income		1,014,440
Real Estate		421,527
Private Equity and Alternatives		442,782
Real Return Pool		255,245
Cash		7,331
Total Investment Assets Under Management	**$**	**6,628,781**

This schedule includes investment receivable and payable balances as of December 31, 2013.

Largest Stock Holdings[1]

As of December 31, 2013 (Dollars in Thousands)

Rank	Shares	Issuer		Fair Value	Percentage of Holdings
1	23,986.00	Google Inc CL A	$	26,881	0.85%
2	308,074.00	Daimler AG Registered Shares		26,702	0.85
3	66,695.00	Amazon.com Inc		26,597	0.84
4	84,929.00	Roche Holding AG		23,798	0.76
5	845,100.00	Hewlett Packard Co		23,646	0.75
6	294,881.00	Novartis AG Reg		23,608	0.75
7	320,546.00	Nestle SA Reg		23,536	0.75
8	410,999.00	Salesforce.com Inc		22,683	0.72
9	316,013.00	Royal Dutch Shell PLC ADR		22,522	0.72
10	985,500.00	Prudential PLC		21,872	0.69
Total of Largest Stock Holdings				**241,845**	**7.68%**
TOTAL STOCK HOLDINGS			**$**	**3,148,415**	**100.00%**

Largest Bond Holdings[1]

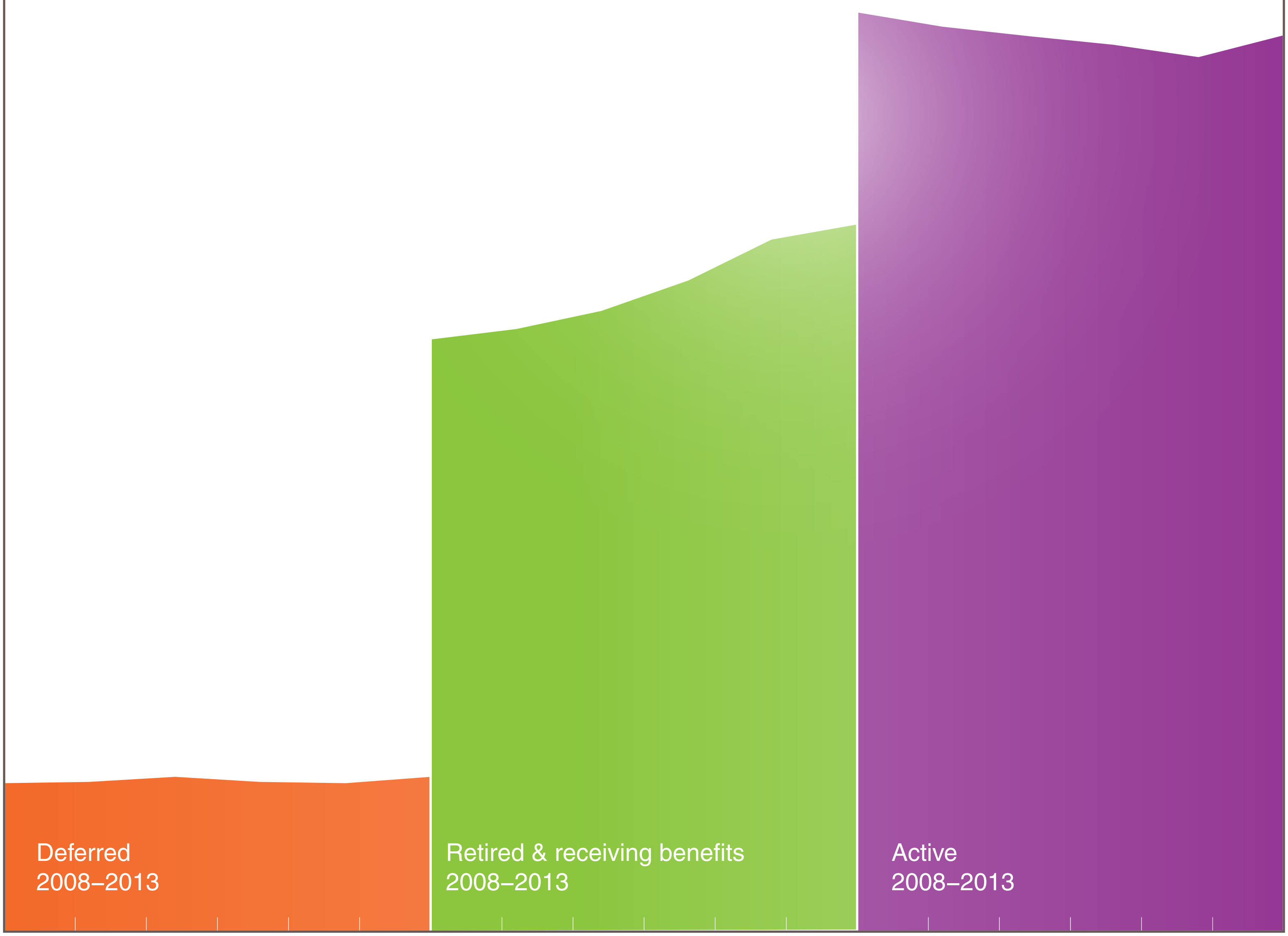
As of December 31, 2013 (Dollars in Thousands)

Rank	Par Value	Issuer	Interest Rate	Maturity Date		Fair Value	Percentage of Holdings
1	47,550,000	US Treasury N/B	1.25%	30-Apr-19	$	46,068	5.40%
2	17,725,000	US Treasury N/B	5.25	15-Nov-28		21,339	2.50
3	18,525,000	US Treasury N/B	4.38	15-Feb-38		20,163	2.36
4	13,510,000	Buoni Poliennali Del Tes	5.00	1-Aug-39		19,278	2.26
5	9,330,000	UK TSY 2 3/4 2015	2.75	22-Jan-15		15,819	1.85
6	15,140,000	US Treasury N/B	2.88	15-May-43		12,271	1.44
7	11,225,000	New S Wales Treasury CRP	6.00	1-Apr-16		10,708	1.26
8	9,900,000	US Treasury N/B	3.50	15-Feb-39		9,323	1.09
9	7,565,442	FNMA Pool AH1107	4.00	1-Dec-40		7,812	0.92
10	7,730,000	Queensland Treasury Corp	6.25	21-Feb-20		7,687	0.90
Total of Largest Bond Holdings						**170,468**	**19.98%**
TOTAL BOND HOLDINGS					**$**	**853,385**	**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.

Actuarial

ACERA’s Membership



Actuary's Certification Letter—Pension Plan

Segal Consulting

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

May 22, 2014

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:

Segal Consulting (Segal) prepared the December 31, 2012 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, 2012 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 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).

The UAAL is amortized as a level percentage of payroll using a layered approach. Prior to January 1, 2012, the total UAAL was amortized on a 30-year decreasing period, with 21 years remaining

Segal Consulting

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as of December 31, 2011 (and 20 years remaining as of December 31, 2012). On or after January 1, 2012, any new UAAL resulting from plan amendments are amortized over separate decreasing 15-year periods; early retirement incentive programs (ERIPs) are amortized over separate decreasing 5-year periods; assumption and method changes are amortized over separate decreasing 20-year periods; and experience gains/losses are also amortized over separate decreasing 20-year periods. The progress being made towards meeting the funding objective through December 31, 2012 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, 2012 adjusted to December 31, 2012 (to reflect estimated increase in salary and service for active members) in calculating the liabilities for the December 31, 2012 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, 2012 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

Segal Consulting

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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.

In the December 31, 2012 valuation, the ratio of the valuation assets to actuarial accrued liabilities (funded percentage) decreased from 76.6% to 73.9%. The employer's rate has increased from 21.32% of payroll to 24.16% of payroll, while the employee's rate has increased from 8.27% of payroll to 8.60% of payroll.

Under the actuarial value of assets method, the total unrecognized investment gains are $124.9 million as of December 31, 2012. These investment gains 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 losses that may occur after December 31, 2012. 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 gains 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 decrease in each of the next few years.

The deferred gains of $124.9 million represent 2.2% of the market value of assets as of December 31, 2012. Unless offset by future investment losses or other unfavorable experience, the recognition of the $124.9 million market gains is expected to have an impact on the Association's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the deferred gains were recognized immediately and entirely in the valuation value of assets, the funded percentage would increase from 73.9% to 75.7%.
- If the deferred gains were recognized immediately and entirely in the valuation value of assets, the aggregate employer rate would decrease from 24.16% to about 23.2% 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	Paul Angelo
Andy Yeung, ASA, EA, MAAA, FCA	Paul Angelo, FSA, EA, MAAA, FCA
Vice President and Associate Actuary	Senior Vice President and Actuary

DNA/hy
Enclosures

Actuary's Certification Letter—SRBR

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May 22, 2014

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:

Segal Consulting (Segal) prepared the December 31, 2012 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, 2012 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 postretirement medical, dental, and vision benefits. Benefits classified under non-OPEB and reportable under GASB No. 25 include supplemental COLAs and burial allowance. Note that the Board acted on December 20, 2012 to make two changes to the non-OPEB benefits payable from the SRBR, effective January 1, 2013. The first non-OPEB benefit change was the discontinuance of the Active Death Equity Benefit (ADEB) payable to eligible beneficiaries of vested active members who become deceased on or after January 1, 2013. The second non-OPEB benefit change was the elimination of the $4,250 Retired Member Lump Sum Death Benefit payable to beneficiaries of retirees whose deaths occur

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on or after January 1, 2013. The remaining $750 Retired Member Lump Sum Death Benefit will continue to be paid. Both the $750 and the $4,250 death benefits have historically been excluded from the pension valuation report and included in the SRBR valuation report. In the SRBR report, we presented non-OPEB results as of December 31, 2012 under the following two scenarios:

- Scenario A: Excludes benefits and assets associated with the $750 Lump Sum Death (Burial) Benefit.
- Scenario B: Includes benefits and assets associated with the $750 Lump Sum Death (Burial) 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 discretionary 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 23-year period as of December 31, 2012.

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, 2012. 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, 2012, the SRBR would only be able to pay benefits until 2028 for both OPEB and non-OPEB. As we indicated in our certification letter for the statutory retirement plan benefits, the Association had deferred investment gains of $124.9 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, 2012. The deferred gains of $124.9 million represent 2.2% of the market value of assets as of December 31, 2012, and will increase the rate of return on the actuarial value of assets over the next few years.

Our calculations were based upon the benefits provided under the terms of the substantive plan in effect at the time of the December 31, 2012 valuation.

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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, 2012 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 statutory 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, 2012 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 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.

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

Sincerely,

Andy Yeung

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

Paul Angelo

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

Thomas Bergman

Thomas Bergman, ASA, EA, MAAA
Assistant Actuary

DNA/bqb
Enclosures

Summary of Actuarial Assumptions and Methods

Assumptions for Pension Plan

The following assumptions have been adopted by the Board of Retirement for the December 31, 2012 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 and 4 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

Female (or male) spouses are 3 years younger (or older) than their spouses.

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, General Tier 4, Safety Tier 2, Safety Tier 2C, Safety Tier 2D, and Safety Tier 4.

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 10 six-month interest crediting periods.

Actuarial Cost Method

Entry Age Actuarial Cost Method. Entry Age is the age at the member's hire date. 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 also calculated on an individual basis where the Entry Age Normal Cost is calculated as the sum of the individual Normal Costs.

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%
General Tier 4	N/A	N/A
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%
Safety Tier 4	N/A	N/A

Changes in Actuarial Assumptions

There were no changes in assumptions from the December 31, 2011 valuation. However, there was a change in Actuarial Cost Method for the December 31, 2012 valuation.

The calculation of Normal Cost was changed from an aggregate basis to an individual basis and the Entry Age Normal Cost is calculated as the sum of the individual Normal Costs.

Assumptions for Other Postemployment Benefits (OPEB) Plan

Per Capita Health Costs

The combined monthly per capita dental and vision claims cost for plan year 2013 was assumed to be $46.00. The Medicare Part B premium is $104.90. For calendar year 2013, 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%	$ 639.26	$ 522.16
United Healthcare HMO	20%	914.78	522.16
Age 65 and Older			
Kaiser Senior Advantage	70%	$ 316.64	$ 316.64
Extend Health Individual Insurance Exchange	30%	(2)	400.00

1 The Maximum Monthly Medical Allowance of $522.16 ($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 Individual plans will have individual cost based on age, location and plan design. In addition, any MMA left over can be used to pay medical deductible and medical and prescription co-pays. Until actual data is available, we will assume the costs are equal to the maximum subsidy.

Implicit Subsidy

The estimated average per capita premium for retirees under age 65 is $8,660 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	$ 8,984	$ 10,233	$ 6,276	$ 8,217
55	10,670	11,016	8,397	9,511
60	12,671	11,874	11,242	11,031
64	14,538	12,596	14,191	12,416

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 on the following table 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 2014 calendar year premium for Kaiser (under age 65) is $658.96 per month ($639.26 increased by 3.0817%).

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

1 The actual trends are shown below, based on actual premium renewals for 2014 as reported by ACERA.

Kaiser HMO Early Retiree	United Healthcare HMO Early Retiree	Kaiser Senior Advantage	Dental and Vision
3.0817%	6.2922%	4.5137%	-7.1739%

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 III of the December 31, 2012 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 for 2014 will remain at 2013 levels, then increase with 50% of trend for medical plans, or 4.0% graded down to the ultimate rate of 2.5% over 6 years.
b) Dental and vision premium reimbursement will increase with full trend.
c) Medicare B premium reimbursement will increase with full trend.

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]
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%
2013	General	9,485	772,431,136	81,437	0.24%
	Safety	1,392	144,373,236	103,716	1.75%
	Total	10,877	916,804,372	84,288	0.42%

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 calendar 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)

As of December 31[1]

Plan Year	Added to Rolls: Number	Added to Rolls: Annual Allowance[2] in $000's	Removed from Rolls: Number	Removed from Rolls: Annual Allowance in $000's	Rolls at End of Year: Number	Rolls at End of Year: Annual Allowance in $000's	% Increase in Retiree Allowance	Average Annual Allowance
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
2013	625	33,150	(234)	(6,182)	8,566	353,847	8.25%	41,308

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)

Valuation Date	Aggregate Accrued Liabilities for: Active Member Contributions	Aggregate Accrued Liabilities for: Retired/ Vested Members	Aggregate Accrued Liabilities for: Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets: Active Member Contributions	Portion of Accrued Liabilities Covered by Reported Assets: Retired/ Vested Members	Portion of Accrued Liabilities Covered by Reported Assets: Active Members (Employer Financed Portion)
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%
12/31/12	930,649	4,006,969	1,675,311	6,612,929	4,883,872	100%	99%	0%

1 This schedule includes actuarially funded liabilities and assets. The non-valuation reserves such as Supplemental Retirees Benefit Reserve, Death Benefit, and Reserve for Interest Fluctuation, etc., are not included.

Events affecting year-to-year comparability:

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%.

12/31/2011 - 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.

12/31/2012 - Modification to Entry Age cost method from aggregate basis to individual basis for normal cost calculation.

Solvency Test - 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 Accrued Liabilities Covered by Reported Assets		
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)
12/31/2007	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%
12/31/2012								
Scenario A	N/A	340,199	205,230	545,429	545,429	N/A	100%	100%
Scenario B	N/A	341,789	207,866	549,655	549,655	N/A	100%	100%

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

Events affecting year-to-year comparability:

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%.

12/31/11 - 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.

12/31/12 - Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve. The Board acted on July 18, 2013 to maintain the 2014 MMA at the 2013 level.

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 - 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 Accrued Liabilities Covered by Reported Assets		
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[2]	Active Members (Employer Financed Portion)[2]
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%
12/31/2012								
Scenario A	N/A	432,005	322,833	754,838	545,429	N/A	100%	35%
Scenario B	N/A	432,005	322,833	754,838	549,655	N/A	100%	36%

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

2 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:

12/31/08 - 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%.

12/31/11 - 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.

12/31/12 - Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve. The Board acted on July 18, 2013 to maintain the 2014 MMA at the 2013 level.

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 Accrued Liabilities Covered by Reported Assets		
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)
12/31/2007	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%
12/31/2012								
Scenario A	N/A	21,965	2,209	24,174	24,174	N/A	100%	100%
Scenario B	N/A	23,572	2,446	26,018	26,018	N/A	100%	100%

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

Events affecting year-to-year comparability:

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%

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

12/31/12 - Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve.

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 Accrued Liabilities Covered by Reported Assets		
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[2]	Active Members (Employer Financed Portion)[2]
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%
12/31/2012								
Scenario A	N/A	69,698	93,636	163,334	24,174	N/A	35%	0%
Scenario B	N/A	71,785	94,132	165,917	26,018	N/A	36%	0%

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

2 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:

12/31/08 - 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%

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

12/31/12 - Scenario A excludes benefits and assets associated with the $750 lump sum death benefit, whereas Scenario B includes benefits and assets associated with the $750 lump sum death benefit. Both of these scenarios reflect the discontinuance of the Active Death Equity Benefit and the $4,250 Lump Sum Death Benefit. These two scenarios were provided per the request of ACERA's management to explore different options of consolidating or reclassifying the Death Benefit Reserve.

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

(Dollars in Millions)	Plan Years					
	2012	2011	2010	2009	2008	2007
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued Liability	$ 1,491	$ 1,387	$ 1,110	$ 894	$ -	$ 697
a) Before Benefit Improvement	-	-	-	-	552	-
b) After Benefit Improvement[1]	-	-	-	-	553	-
Salary Increase Greater (Less) than Expected	(92)	(106)	(80)	(25)	38	(42)
COLA Increase Greater (Less) than Expected	-	(11)	(7)	(31)	-	-
Asset Return Less (Greater) than Expected	300	225	339	179	245[2]	(125)
Other Experience (Including Scheduled UAAL Payment)	30	31	25	29	40	22
Economic Assumption Changes	-	-	-	64	-	-
Non-economic Assumption Changes	-	7[3]	-	-	9	-
Data Corrections	-	(42)[4]	-	-	9	-
Ending Unfunded/(Prefunded) Actuarial Accrued Liability	$ 1,729	$ 1,491	$ 1,387	$ 1,110	$ 894	$ 552

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”) and Government Code Sections 7522.20(a) for General Tier 4 and 7522.25(d) for Safety Tier 4

Briefly summarized below are major provisions of the 1937 Act and the California Government Code as amended through December 31, 2012, and as adopted by Alameda County or other participating employers.

Membership Eligibility

With the exception of Alameda Health System, all full-time employees of participating employers who are appointed to permanent positions are statutorily required to become members of ACERA. With the passage of AB1008 in 2013, employees of newly acquired hospitals by Alameda Health System are not eligible for membership unless they are subject to an existing Memorandum of Understanding. Effective October 31, 2013, all newly hired unrepresented employees of any Alameda Health System facility are prohibited from membership.

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, depending on the employer, 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 adopted new Safety Tier 2 formulas, 2% @ 50 (Safety Tier 2C) and 3% @ 55 (Safety Tier 2D), for new hires starting October 17, 2010. General and Safety Tier 4 include all General and Safety members hired on or after January 1, 2013. See page 116 and page 117 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. For Tier 4 members, FAS is defined as the highest 36 consecutive months of pensionable compensation.

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 non-Tier 4 members are eligible to retire: at age 50 with 5 years of service and a total of 10 years of qualifying membership; at age 70 regardless of years of service, or at any age with 30 years of service. General Tier 4 members are eligible to retire at age 52 with 5 years of service or at age 70 regardless of service. Safety non-Tier 4 members are eligible to retire: at age 50 with 5 years of service and a total of 10 years of qualifying membership; at age 70 regardless of years of service; or at any age with 20 years of service. Safety Tier 4 members are eligible to retire at age 50 with 5 years of service or at age 70 regardless 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 4	Tier 1	Tier 2	Tier 2C	Tier 2D	Tier 4
50	1.34%	1.18%	2.00%	n/a	3.00%	3.00%	2.00%	2.29%	2.00%
52	1.49%	1.30%	2.20%	1.00%	3.00%	3.00%	2.22%	2.54%	2.20%
55	1.77%	1.49%	2.50%	1.30%	3.00%	3.00%	2.62%	3.00%	2.50%
57	2.00%	1.64%	2.50%	1.50%	3.00%	3.00%	2.62%	3.00%	2.70%
60	2.34%	1.92%	2.50%	1.80%	3.00%	3.00%	2.62%	3.00%	2.70%
62	2.62%	2.09%	2.50%	2.00%	3.00%	3.00%	2.62%	3.00%	2.70%
65	2.62%	2.43%	2.50%	2.30%	3.00%	3.00%	2.62%	3.00%	2.70%
67 and over	2.62%	2.43%	2.50%	2.50%	3.00%	3.00%	2.62%	3.00%	2.70%

Maximum Benefit

The maximum basic benefit payable to a non-Tier 4 member or beneficiary is 100% of Final Average Salary. There is no maximum basic benefit payable to Tier 4 members.

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 and Tier 4 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 and Tier 4 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.

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 of $750[1] is paid to the beneficiary or estate.

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 and Tier 4 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; 50% of the total Normal Cost rate for General Tier 4 members; at age 50 of 1/100 of FAS for non-Tier 4 Safety members; and 50% of the total Normal Cost rate for Safety Tier 4 members. Note that in estimating FAS, an assumption to anticipate how much unused vacation would be available for conversion at retirement is included for non-Tier 4 members. 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

Non-Tier 4 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. However, Safety members in Tier 2D are required to continue paying the 3% cost-sharing contribution after 30 years of service.

1 *This has since been reviewed and clarified by the Board of Retirement and a $1,000 death benefit would be paid instead.*

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	General Tier 4	Safety Tier 1[1]	Safety Tier 2,2D[1]	Safety Tier 2C[1]	Safety Tier 4
50	3.00	2.00	6.00	0.00	35.00	10.00	4.00	4.00
51	3.00	2.00	3.00	0.00	25.00	10.00	2.00	2.00
52	3.00	2.00	5.00	4.00	25.00	10.00	2.00	2.00
53	3.00	2.00	6.00	1.50	35.00	10.00	3.00	3.00
54	3.00	2.00	6.00	1.50	40.00	10.00	6.00	6.00
55	6.00	3.00	12.00	2.50	40.00	10.00	10.00	10.00
56	8.00	3.00	13.00	2.50	40.00	15.00	12.00	12.00
57	10.00	4.00	13.00	3.50	40.00	20.00	20.00	20.00
58	10.00	5.00	14.00	4.50	40.00	20.00	10.00	10.00
59	13.00	5.00	16.00	4.50	40.00	20.00	15.00	15.00
60	20.00	5.00	21.00	4.50	100.00	40.00	60.00	60.00
61	20.00	8.00	20.00	7.50	100.00	40.00	60.00	60.00
62	35.00	20.00	30.00	19.00	100.00	40.00	60.00	60.00
63	30.00	16.00	25.00	15.00	100.00	40.00	60.00	60.00
64	30.00	18.00	25.00	17.00	100.00	100.00	100.00	100.00
65	35.00	22.00	30.00	21.00	100.00	100.00	100.00	100.00
66	30.00	20.00	25.00	20.00	100.00	100.00	100.00	100.00
67	25.00	20.00	25.00	20.00	100.00	100.00	100.00	100.00
68	20.00	30.00	25.00	30.00	100.00	100.00	100.00	100.00
69	40.00	35.00	50.00	35.00	100.00	100.00	100.00	100.00
70	100.00	100.00	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

Less than 5 Years of Service [3]

Years of Service	Rate (%) General	Rate (%) 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	Rate (%) General	Rate (%) 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 terminated members will choose a refund of contributions and 30% will choose a deferred vested benefit.
4 40% of all terminated members will choose a refund of contributions and 60% will choose a deferred vested benefit. No termination is assumed after a member is eligible for retirement.
5 All pre-retirement deaths are assumed to be non-service connected.

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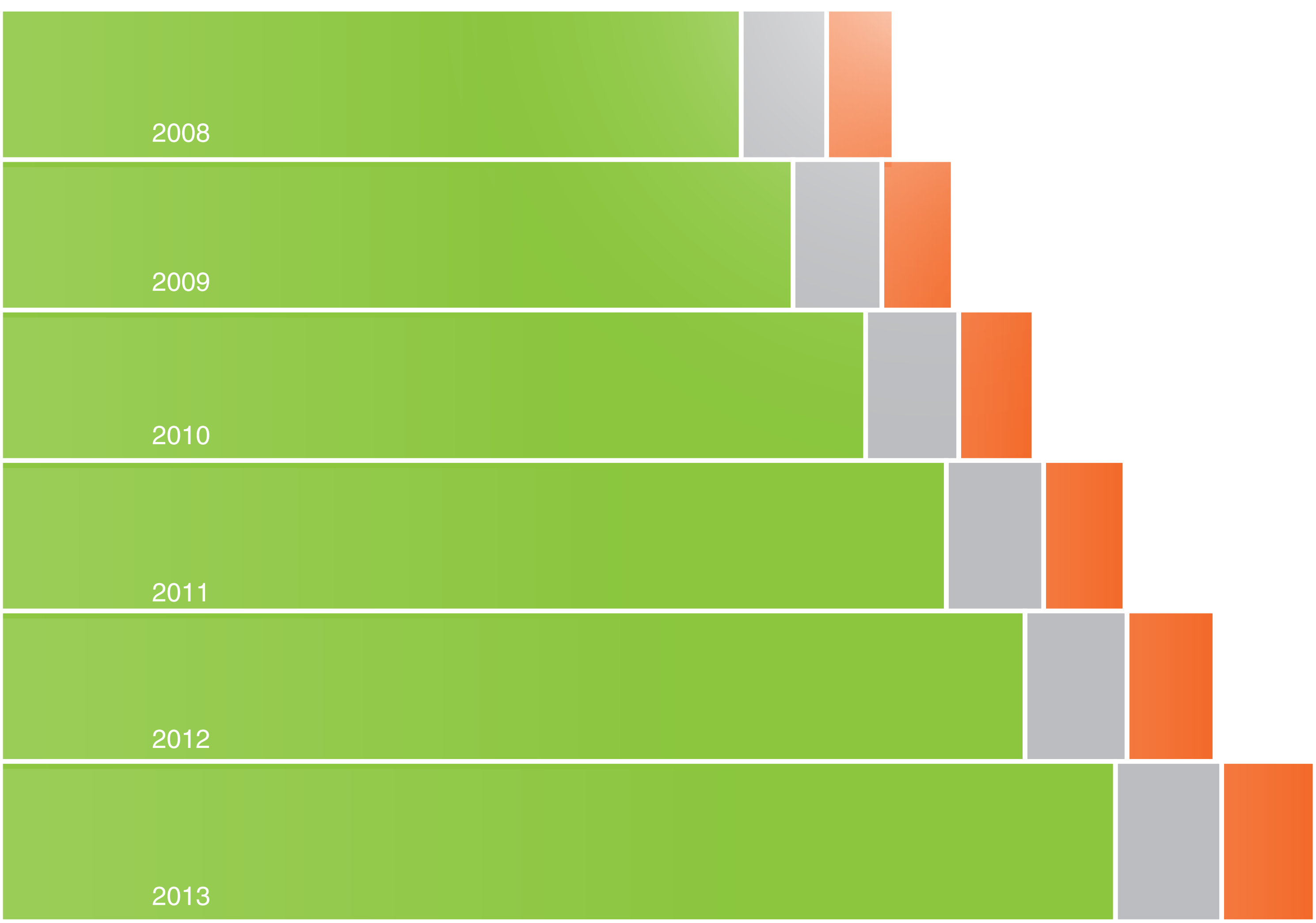
Statistical

Pension Benefits

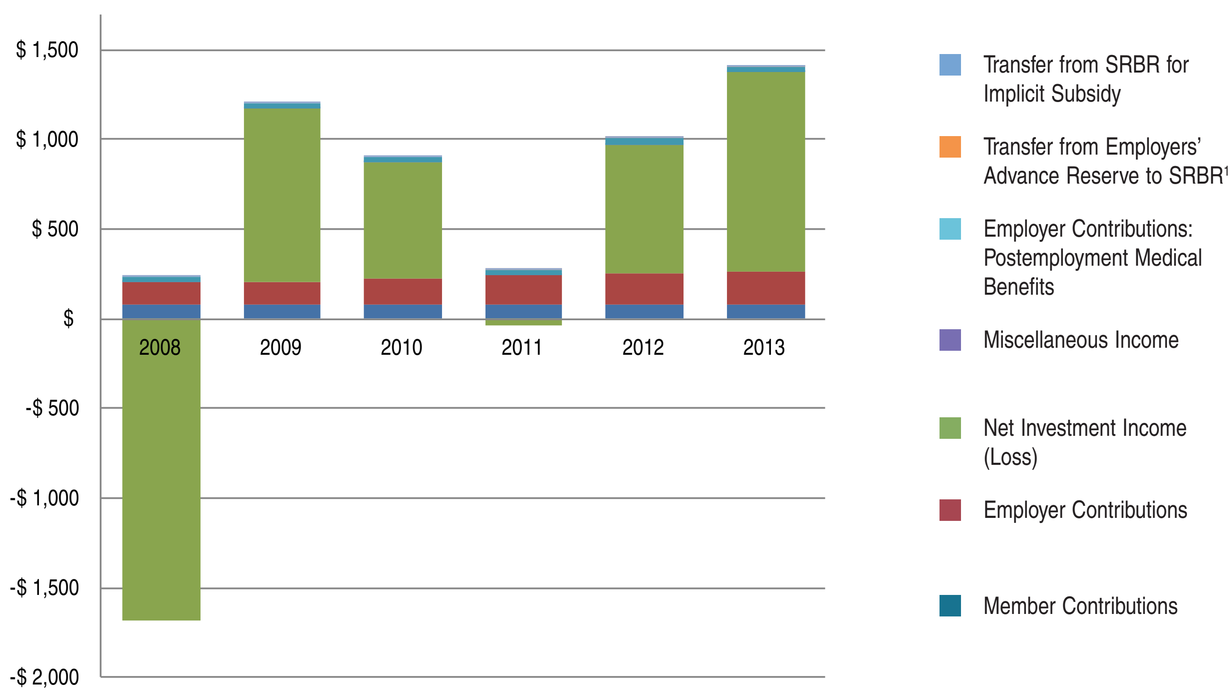


Statistical

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

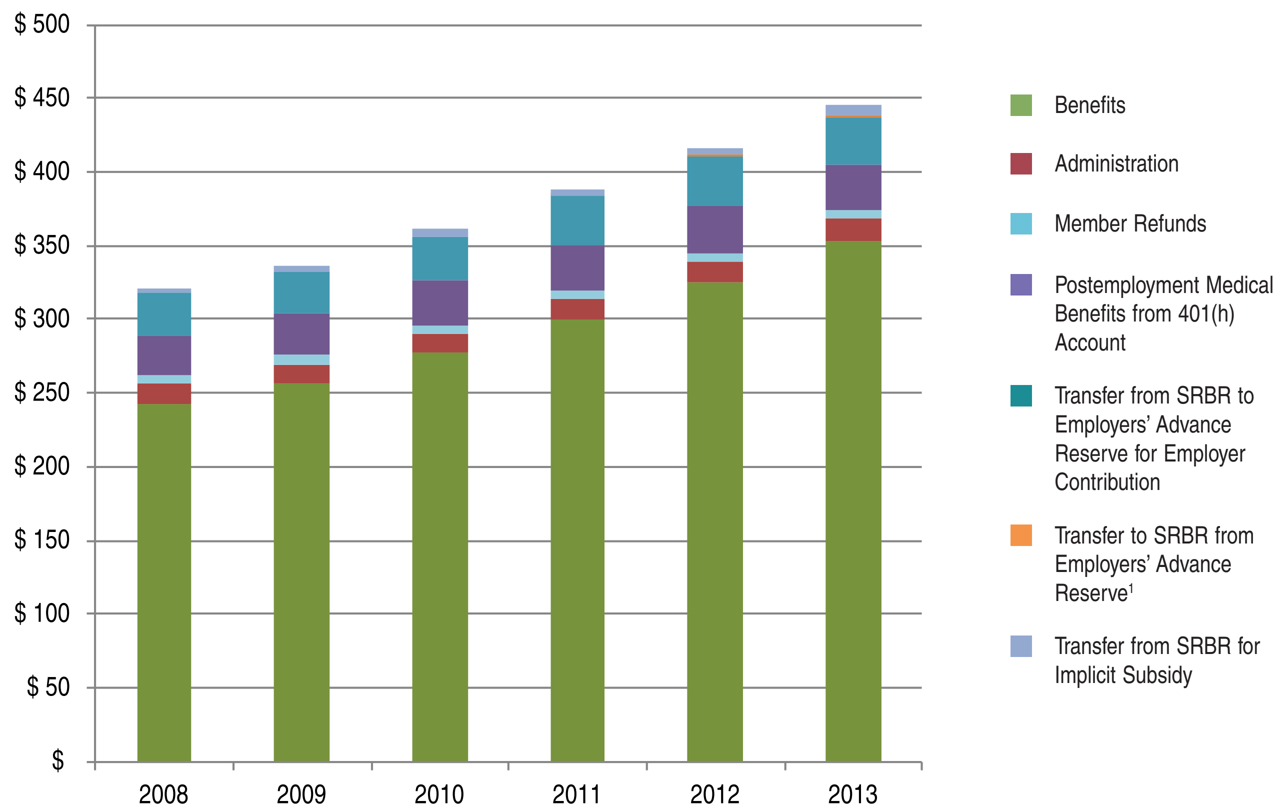
(Dollars in Millions)

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
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
2013	76.2	191.2	1,109.7	0.2	32.2	1.1	7.4	1,418.0

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.

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
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
2013	353.6	14.7	6.3	30.6	32.2	1.1	7.4	445.9

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)

	2013	2012	2011	2010	2009	2008	2007	2006
ADDITIONS								
Member Contributions	$ 76,230	$ 78,608	$ 77,991	$ 77,605	$ 77,271	$ 75,608	$ 72,342	$ 70,174
Employer Contributions	158,940	146,296	130,559	118,083	104,263	101,113	102,749	108,088
Total Contributions	**235,170**	**224,904**	**208,550**	**195,688**	**181,534**	**176,721**	**175,091**	**178,262**
Investment and Miscellaneous Income (Net of Expenses)	1,116,038	712,780	(40,042)	648,618	965,921	(1,684,744)	431,789	638,305
Transfer from Postemployment Medical Benefits on Behalf of Employers	32,240	33,353	32,320	29,460	27,935	28,547	27,291	19,008
Transfer from Postemployment Medical Benefits for Employers Implicit Subsidy	7,370	4,411	4,403	5,288	4,149	3,091	-	6,304
Earnings Allocated to Postemployment Medical Benefits Reserve	(109,760)	(8,443)	(17,449)	(4,370)	(16,102)	(24,701)	(145,957)	(75,636)
Earnings Allocated to Non-OPEB Reserve	(4,945)	(1,040)	(2,134)	(541)	(1,997)	(3,137)	(18,307)	(9,962)
Total Additions	**1,276,113**	**965,965**	**185,648**	**874,143**	**1,161,440**	**(1,504,223)**	**469,907**	**756,281**
DEDUCTIONS								
Benefit Payments	351,422	320,844	295,826	272,937	252,126	237,273	218,618	199,423
Refunds	6,319	5,893	5,406	5,645	7,718	6,527	7,778	5,817
Administration Expenses	13,634	13,097	13,306	13,001	12,255	13,315	12,211	10,778
Transfer to SRBR from Employers' Advance Reserve[2]	1,094	1,001	462	-	-	-	-	-
Total Deductions	**372,469**	**340,835**	**315,000**	**291,583**	**272,099**	**257,115**	**238,607**	**216,018**
CHANGES IN PENSION PLAN NET POSITION	**$ 903,644**	**$ 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)

	2013	2012	2011	2010	2009	2008	2007	2006
ADDITIONS								
Employer Contributions	$ 32,240	$ 33,353	$ 32,320	$ 29,460	$ 27,935	$ 28,547	$ 27,291	$ 19,008
Earnings Allocated to Postemployment Medical Benefits	109,760	8,443	17,449	4,370	16,102	24,701	145,957	75,636
Transfer from Employers' Advance Reserve to SRBR[2]	1,094	1,001	462	-	-	-	-	-
Transfer from SRBR Non-OPEB Reserve	34,112	-	-	-	-	-	-	-
Total Additions	**177,206**	**42,797**	**50,231**	**33,830**	**44,037**	**53,248**	**173,248**	**94,644**
DEDUCTIONS								
Administrative Expenses[2]	1,094	1,001	462	-	-	-	-	-
Postemployment Medical Benefits Payments[3]	30,569	32,692	31,555	29,802	27,839	26,681	24,668	22,205
Transfer to Employers' Advance Reserve for SRBR Employer Contributions	32,240	33,353	32,320	29,460	27,935	28,547	27,291	19,008
Transfer to Employers' Advance Reserve for Implicit Subsidy	7,370	4,411	4,403	5,288	4,149	3,091	-	6,304
Total Deductions	**71,273**	**71,457**	**68,740**	**64,550**	**59,923**	**58,319**	**51,959**	**47,517**
CHANGES IN POSTEMPLOYMENT MEDICAL BENEFITS NET POSITION	**$ 105,933**	**$ (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)

	2013	2012	2011	2010	2009	2008	2007	2006
ADDITION								
Earnings Allocated to Non-OPEB	$ 4,945	$ 1,040	$ 2,134	$ 541	$ 1,997	$ 3,137	$ 18,307	$ 9,962
Dispersal of the Death Benefit-Burial Reserve	(6,122)	-	-	-	-	-	-	-
Transfer to SRBR OPEB Reserve	(34,112)	-	-	-	-	-	-	-
Total Addition	**(35,289)**	**1,040**	**2,134**	**541**	**1,997**	**3,137**	**18,307**	**9,962**
DEDUCTION								
Non-OPEB Payments	2,197	3,704	4,370	4,766	4,522	5,558	6,217	6,422
Total Deduction	**2,197**	**3,704**	**4,370**	**4,766**	**4,522**	**5,558**	**6,217**	**6,422**
CHANGES IN NON-OPEB NET POSITION	**$(37,486)**	**$ (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)

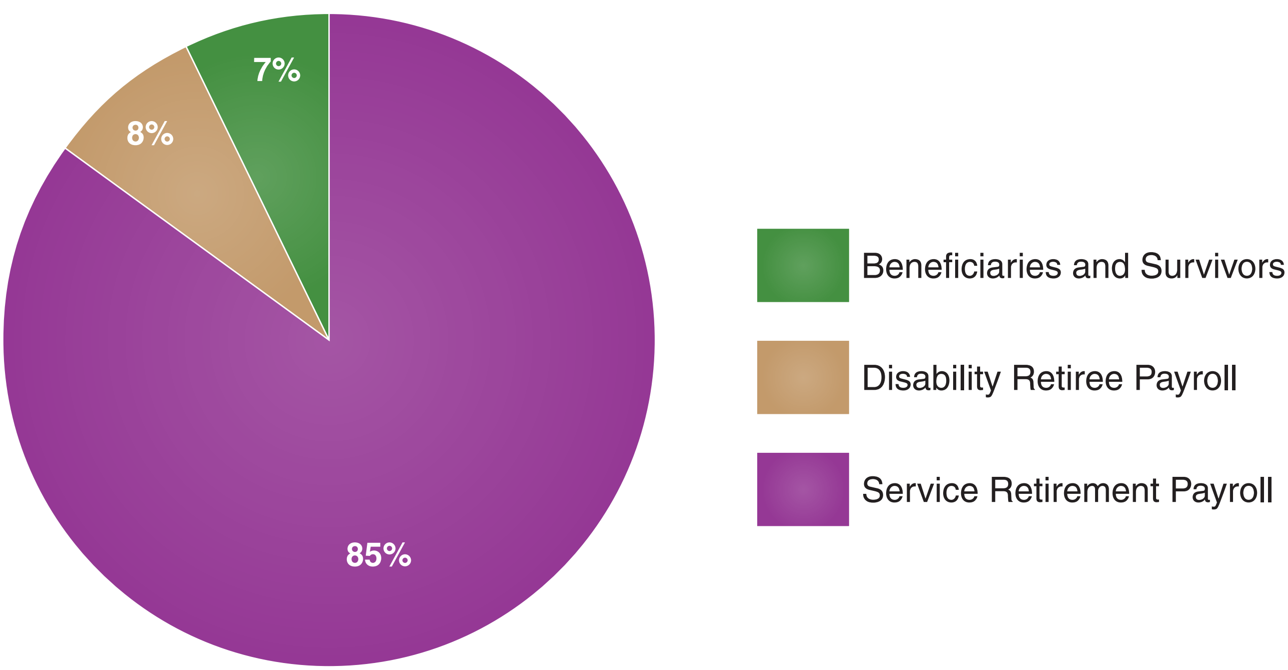
For the Years Ended December 31[1]

	2013	2012	2011	2010	2009	2008
SERVICE RETIREMENT PAYROLL						
Basic	$ 240,581,806	$ 220,298,333	$ 204,448,010	$ 184,844,536	$ 168,693,544	$ 156,159,546
COLA	59,502,367	55,449,542	50,113,311	48,000,607	44,596,368	43,190,182
Total	**300,084,173**	**275,747,875**	**254,561,321**	**232,845,143**	**213,289,912**	**199,349,728**
DISABILITY RETIREE PAYROLL						
Basic	22,187,229	21,396,081	20,674,628	19,859,910	19,140,681	18,548,535
COLA	6,424,086	6,054,044	5,534,001	5,211,156	4,793,397	4,466,521
Total	**28,611,315**	**27,450,125**	**26,208,629**	**25,071,066**	**23,934,078**	**23,015,056**
BENEFICIARIES AND SURVIVORS						
Basic	15,549,554	14,559,281	13,557,820	12,484,348	11,886,758	11,212,504
COLA	9,602,303	9,121,405	8,334,829	7,778,954	7,325,211	6,907,819
Total	**25,151,857**	**23,680,686**	**21,892,649**	**20,263,302**	**19,211,969**	**18,120,323**
TOTAL	**$ 353,847,345**	**$ 326,878,686**	**$ 302,662,599**	**$ 278,179,511**	**$ 256,435,959**	**$ 240,485,107**

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, 2013



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)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$ 329,273	$ 302,105	$ 279,581	$ 259,279	$ 237,590	$ 221,532	$ 205,010	$ 187,376	$ 171,924	$ 153,763
Survivors	17,357	18,555	17,059	15,183	14,787	15,033	14,150	13,340	12,538	11,812
Death in Service Benefits:										
Survivors	2,786	2,714	2,641	2,362	2,161	4,030	2,017	1,882	1,680	1,505
Disability Benefits:										
Retirees—Duty	28,678	27,914	26,836	25,586	25,094	23,981	23,461	20,955	19,591	17,746
Retirees—Non-Duty	3,728	3,847	3,796	3,473	3,332	3,539	3,450	3,210	3,020	2,949
Supplemental disability	70	105	64	59	138	80	192	109	75	51
Survivors	2,296	2,000	1,774	1,563	1,385	1,317	1,223	1,178	1,036	906
TOTAL BENEFITS	**384,188**	**357,240**	**331,751**	**307,505**	**284,487**	**269,512**	**249,503**	**228,050**	**209,864**	**188,732**
TYPE OF REFUND										
Death	1,825	529	890	2,097	1,608	1,093	2,219	1,831	2,481	1,411
Miscellaneous	130	9	39	28	81	74	89	136	123	147
Separation	4,364	5,355	4,477	3,520	6,029	5,360	5,470	3,850	3,476	3,632
TOTAL REFUNDS	**$ 6,319**	**$ 5,893**	**$ 5,406**	**$ 5,645**	**$ 7,718**	**$ 6,527**	**$ 7,778**	**$ 5,817**	**$ 6,080**	**$ 5,190**

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)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$ 301,372	$ 271,692	$ 248,890	$ 229,982	$ 210,938	$ 196,469	$ 180,410	$ 164,638	$ 149,934	$ 133,355
Survivors	16,370	17,177	16,032	14,086	13,570	12,760	12,252	11,419	11,042	10,238
Death in Service Benefits:										
Survivors	2,698	2,611	2,539	2,258	2,051	3,384	1,840	1,702	1,528	1,342
Disability Benefits:										
Retirees - Duty	25,461	24,061	23,300	22,047	21,344	20,304	19,963	17,889	16,775	15,285
Retirees - Non-duty	3,218	3,266	3,291	2,997	2,755	2,960	2,826	2,569	2,417	2,364
Supplemental Disability	69	104	63	58	137	79	104	28	27	16
Survivors	2,234	1,933	1,711	1,509	1,331	1,317	1,223	1,178	1,036	906
TOTAL BENEFITS	**351,422**	**320,844**	**295,826**	**272,937**	**252,126**	**237,273**	**218,618**	**199,423**	**182,759**	**163,506**
TYPE OF REFUND										
Death	1,825	529	890	2,097	1,608	1,093	2,219	1,831	2,481	1,411
Miscellaneous	130	9	39	28	81	74	89	136	123	147
Separation	4,364	5,355	4,477	3,520	6,029	5,360	5,470	3,850	3,476	3,632
TOTAL REFUNDS	**$ 6,319**	**$ 5,893**	**$ 5,406**	**$ 5,645**	**$ 7,718**	**$ 6,527**	**$ 7,778**	**$ 5,817**	**$ 6,080**	**$ 5,190**

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)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$ 27,051	$ 28,482	$ 27,743	$ 26,039	$ 23,801	$ 22,743	$ 21,030	$ 19,011	$ 18,944	$ 16,968
Survivors	-	-	-	-	-	-	2	2	2	1
Disability benefits:										
Retirees - Duty	3,068	3,693	3,371	3,355	3,555	3,473	3,207	2,787	2,595	2,222
Retirees - Non-duty	449	516	440	407	482	465	429	405	426	398
Supplemental Disability	1	1	1	1	1	1	-	-	-	-
Survivors	-	-	-	-	-	-	-	-	-	-
TOTAL BENEFITS	**$ 30,569**	**$ 32,692**	**$ 31,555**	**$ 29,802**	**$ 27,839**	**$ 26,682**	**$ 24,668**	**$ 22,205**	**$ 21,967**	**$ 19,589**

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)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
TYPE OF BENEFIT										
Age and Service Benefits:										
Retirees	$ 850	$ 1,931	$ 2,948	$ 3,258	$ 2,851	$ 2,320	$ 3,570	$ 3,737	$ 3,055	$ 3,448
Survivors	987	1,378	1,027	1,097	1,217	2,273	1,896	1,919	1,494	1,573
Death in Service Benefits:										
Survivors	88	103	102	104	110	646	177	170	143	155
Disability Benefits:										
Retirees—Duty	149	160	165	184	195	204	291	279	221	239
Retirees—Non-duty	61	65	65	69	95	114	195	236	177	187
Supplemental Disability	-	-	-	-	-	-	88	81	48	35
Survivors	62	67	63	54	54	-	-	-	-	-
TOTAL BENEFITS	**$ 2,197**	**$ 3,704**	**$ 4,370**	**$ 4,766**	**$ 4,522**	**$ 5,557**	**$ 6,217**	**$ 6,422**	**$ 5,138**	**$ 5,637**

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								
	General Member			Safety Member					
Year	Tier 1	Tier 2	Tier 4[1]	Tier 1	Tier 2	Tier 2C[2]	Tier 2D[2]	Tier 4[1]	Aggregate[3]
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]
2013	19.86	19.19	17.77	62.25	48.91	51.05	46.61	47.27	26.04

	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[1]	Tier 1	Tier 2	Tier 3	Tier 4[1]	Tier 4[1]
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
2013	20.27	19.60	18.18	25.38	24.71	30.94	23.29	24.06

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

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 4**	**Tier 1**	**Tier 2**	**Tier 2C**[2]	**Tier 2D**[2]	**Tier 4**	**Aggregate**
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	8.25	11.99	14.04	11.91	16.72[3]	13.75	8.33
2013	9.02	7.32	12.78	8.25	11.53	14.77	12.50	16.43[3]	13.75	8.60

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, 2013[1]

		Monthly Allowance		
	Number	Basic	Cost of Living	Total
GENERAL MEMBERS				
Service Retirement				
Unmodified	4,918	$ 13,096,752	$ 3,430,620	$ 16,527,372
Option 1	282	686,784	119,422	806,207
Option 2	308	652,463	160,184	812,646
Option 3	22	45,118	12,311	57,428
Option 4	21	60,603	4,988	65,591
Total	**5,551**	**14,541,719**	**3,727,525**	**18,269,243**
Disability				
Unmodified	564	1,038,639	315,981	1,354,620
Option 1	21	24,577	7,814	32,391
Option 2	3	3,922	257	4,179
Option 3	2	4,699	729	5,428
Option 4	1	3,498	1,700	5,199
Total	**591**	**1,075,335**	**326,482**	**1,401,817**
Beneficiaries	935	928,367	610,151	1,538,518
TOTAL GENERAL	**7,077**	**$ 16,545,420**	**$ 4,664,158**	**$ 21,209,579**

		Monthly Allowance		
	Number	Basic	Cost of Living	Total
SAFETY MEMBERS				
Service Retirement				
Unmodified	936	$ 5,042,487	$ 1,167,971	$ 6,210,459
Option 1	28	133,115	15,041	148,156
Option 2	73	291,823	48,526	340,349
Option 3	4	31,847	681	32,528
Option 4	1	5,730	550	6,280
Total	**1,042**	**5,505,002**	**1,232,768**	**6,737,771**
Disability				
Unmodified	218	753,525	201,936	955,462
Option 1	5	13,470	3,509	16,979
Option 2	2	3,371	242	3,613
Option 3	2	3,235	3,171	6,406
Option 4	-	-	-	-
Total	**227**	**773,601**	**208,858**	**982,460**
Beneficiaries	220	367,429	190,041	557,470
TOTAL SAFETY	**1,489**	**$ 6,646,033**	**$ 1,631,667**	**$ 8,277,700**
TOTAL GENERAL AND SAFETY	**8,566**	**$ 23,191,453**	**$ 6,295,826**	**$ 29,487,279**

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, 2013

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	299	3	2	15	211	1	67	-	168	95	34	2	-
301 to 600	435	1	4	35	301	13	81	-	258	138	37	2	-
601 to 900	535	1	17	28	357	25	106	1	325	172	37	1	-
901 to 1,200	587	2	27	12	439	14	92	1	411	137	35	4	-
1,201 to 1,500	628	15	35	14	460	16	87	1	438	136	54	-	-
1,501 to 1,800	591	63	31	18	392	11	75	1	384	128	77	2	-
1,801 to 2,100	573	98	18	7	380	10	60	-	356	98	116	3	-
2,101 to 2,400	479	95	10	9	326	5	34	-	313	60	105	1	-
2,401 to 2,700	458	72	6	11	327	4	38	-	299	68	88	2	1
2,701 to 3,000	384	51	6	8	279	6	34	-	251	60	72	1	-
Over $ 3,000	3,607	254	8	23	3,137	17	168	-	2,879	330	386	11	1
Total	**8,576**	**655**	**164**	**180**	**6,609**	**122**	**842**	**4**	**6,082**	**1,422**	**1,041**	**29**	**2**

Retired Members by Type of Benefit – Postemployment Medical Benefits

As of December 31, 2013

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	2,929	205	93	-	2,631	-	-	-	2,345	118	452	13	1
301 to 600	4,456	445	68	-	3,943	-	-	-	3,641	218	580	16	1
601 to 900	29	5	2	-	22	-	-	-	24	-	5	-	-
901 to 1,200	2	-	-	-	2	-	-	-	2	-	-	-	-
Total	**7,416**	**655**	**163**	**-**	**6,598**	**-**	**-**	**-**	**6,012**	**336**	**1,037**	**29**	**2**

Retired Members by Type of Benefit – Non-OPEB

As of December 31, 2013

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	293	4	8	2	143	10	126	-	144	141	8	-	-
301 to 600	115	3	8	-	50	7	47	-	58	54	3	-	-
601 to 900	55	7	-	-	17	2	29	-	16	32	7	-	-
901 to 1,200	19	2	-	-	3	1	13	-	3	14	2	-	-
1,201 to 1,500	8	2	-	-	5	-	1	-	5	1	2	-	-
1,501 to 1,800	-	-	-	-	-	-	-	-	-	-	-	-	-
1,801 to 2,100	2	-	-	-	2	-	-	-	2	-	-	-	-
Total	**492**	**18**	**16**	**2**	**220**	**20**	**216**	**-**	**228**	**242**	**22**	**-**	**-**

Average Pension Benefit Payments (Actuary's Exhibit V) Last Ten Fiscal Years[1]

	Years of Service						
Retirement Effective Dates[2]	0–4	5–9	10–14	15–19	20–24	25–29	30+
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
Period 1/1/13–12/31/13[3]							
Average Monthly Pension Benefit	$ 1,214	$ 1,133	$ 1,755	$ 2,412	$ 3,933	$ 5,029	$ 6,764
Average Final Average Salary	$ 9,387	$ 5,454	$ 6,766	$ 6,470	$ 7,592	$ 8,074	$ 8,211
Number of Retired Members Added	20	48	113	53	150	88	103

1 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.

2 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.

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, 12/31/13 – 50.

Average Monthly Other Postemployment Benefits (OPEB)[1] (Actuary's SRBR Exhibit II) – Last Ten Fiscal Years[2]

Retirement Effective Dates[3]	Years of Service 0–4	5–9	10–14	15–19	20–24	25–29	30+
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
Period 1/1/13–12/31/13							
Average OPEB	$ 46	$ 46	$ 221	$ 349	$ 463	$ 491	$ 489
Number of Retired Members Added	15	39	100	43	137	88	115

1 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.

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

3 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.

Note: The "Average Final Average Salary" is not provided since OPEB are not dependent on salary.

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

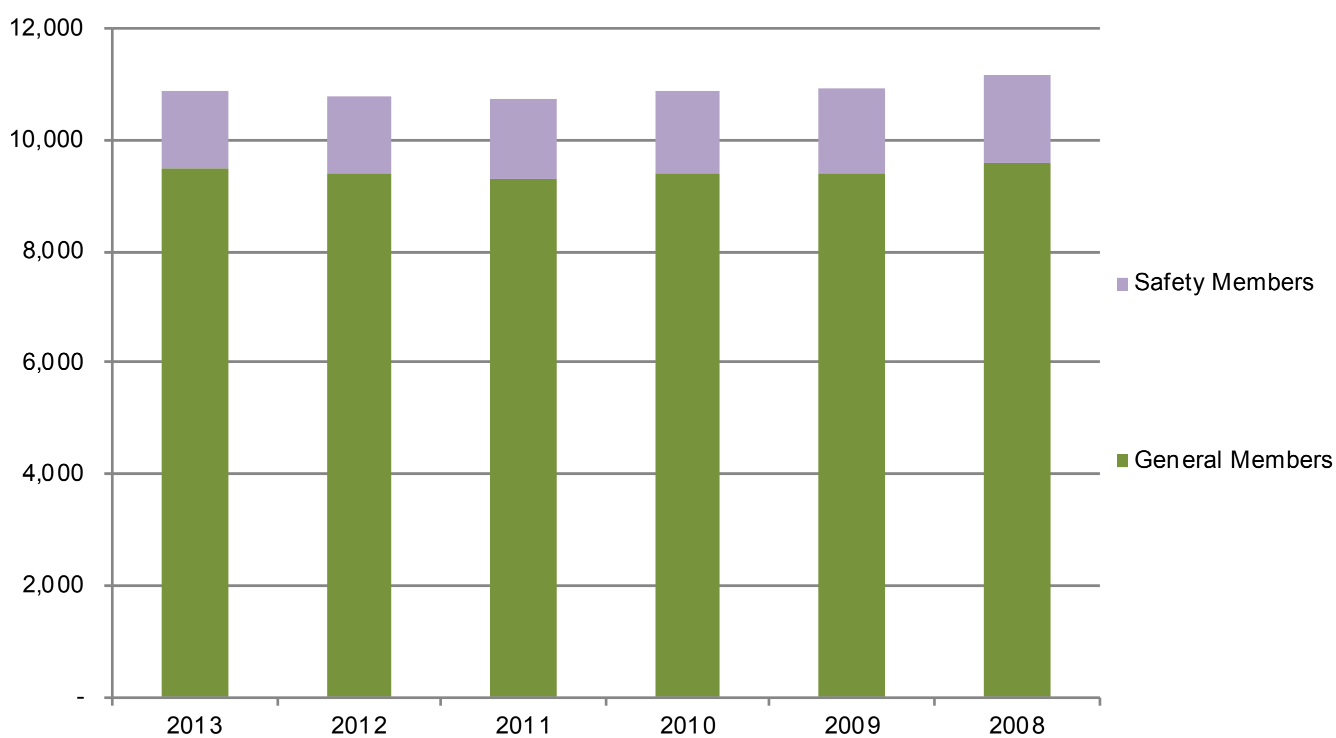
As of November 30[1]

	2013	2012	2011	2010	2009	2008
County of Alameda						
General Members	6,448	6,334	6,361	6,417	6,415	6,446
Safety Members	1,392	1,408	1,441	1,488	1,520	1,574
Total	**7,840**	**7,742**	**7,802**	**7,905**	**7,935**	**8,020**
Other Participating Employers (General Members)						
Alameda Health System[2]	2,203	2,187	2,028	2,030	2,030	2,097
Alameda County Office of Education	1	1	1	1	1	1
First 5 Alameda County	60	62	62	62	61	63
Housing Authority of the County of Alameda	63	66	65	73	71	72
Livermore Area Recreation & Park District	62	63	61	64	69	72
The Superior Court of California for the County of Alameda	648	679	705	744	760	848
Total	**3,037**	**3,058**	**2,922**	**2,974**	**2,992**	**3,153**
Total Active Membership						
General Members	9,485	9,392	9,283	9,391	9,407	9,599
Safety Members	1,392	1,408	1,441	1,488	1,520	1,574
TOTAL	**10,877**	**10,800**	**10,724**	**10,879**	**10,927**	**11,173**

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 Formerly named Alameda County Medical Center.

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	2013 Covered Employees	2013 Rank	2013 Percentage of Total System	2004 Covered Employees	2004 Rank	2004 Percentage of Total System
County of Alameda	7,852	1	72 %	8,438	1	80 %
Alameda Health System[1]	2,197	2	20	1,926	2	18
The Superior Court of California for the County of Alameda[2]	632	3	5	-	-	-
Housing Authority of the County of Alameda	63	4	1	74	3	1
Livermore Area Recreation & Park District	62	5	1	69	4	1
First 5 Alameda County	60	6	1	47	5	-
Alameda County Office of Education	1	7	-	2	6	-
TOTAL	**10,867**		**100 %**	**10,556**		**100 %**

1 Formerly named Alameda County Medical Center.

2 The data for the Superior Court was included with County of Alameda before 2005.

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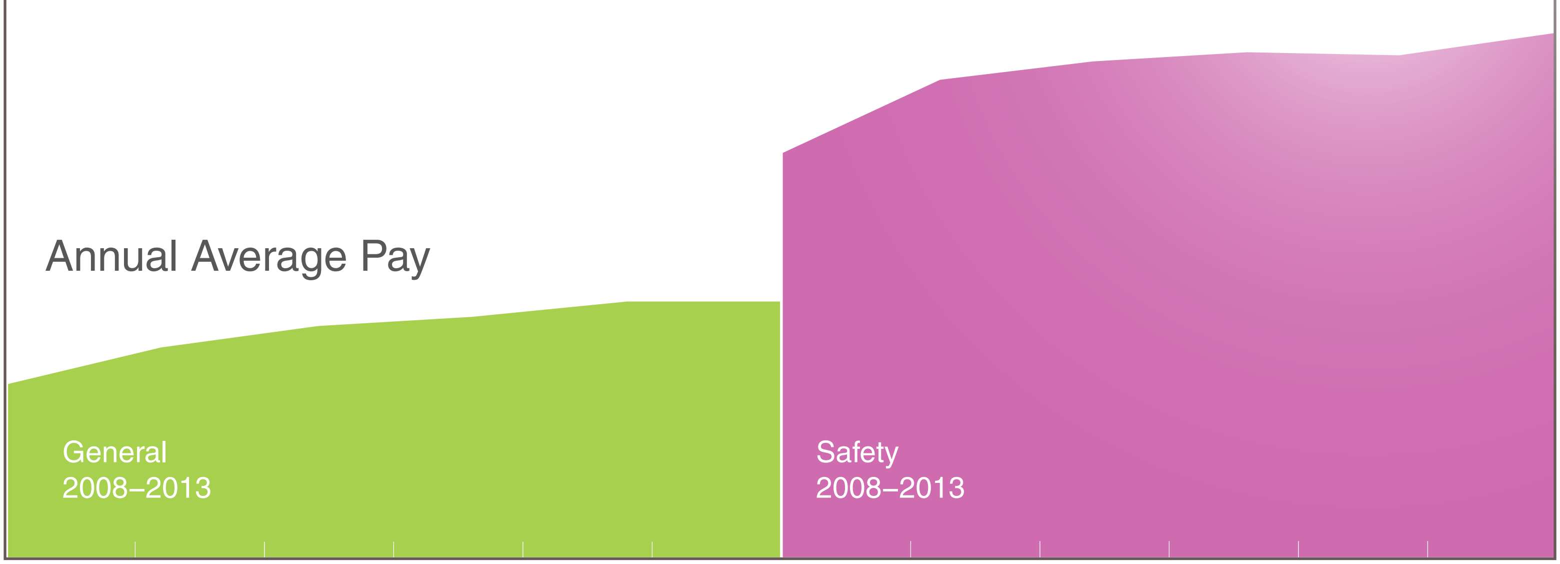
Compliance

Annual Average Pay



WILLIAMS ADLEY

Independent Auditor's 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, 2013, and the related notes to the financial statements, which collectively comprise ACERA's basic financial statements, and have issued our report thereon dated June 10, 2014.

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.

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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 preformed 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
June 10, 2014