

Popular Annual Financial Report

Natural Variation



For the Year Ended
December 31, 2018



Message from the Chief Executive Officer, David Nelsen

Dear ACERA Members,

THIS REPORT GIVES you a brief picture of the performance of your pension fund this past year and over time. While we accomplished a lot administratively, our investment performance ended the year on a down note like the rest of the market. ACERA's net position decreased by \$520 million to \$7.59 billion as of December 31, 2018, representing a -4.1% gross return (matching our benchmark, which also underperformed). Like I wrote last year after our extraordinary 19.5% gross rate of return in 2017, it's good to remember that our returns may fluctuate from year to year, but it's our long term average earnings that drive the funding of your pension benefits. For example, on average, we've earned 10.0% per year for the last 10 years. And as of May, the fund was back up to \$8.3 billion*, its highest historical value. We take a prudent and long-term approach toward investments and don't make rash decisions. We establish a long-term investment strategy and track its success so we can make changes as needed. We'd love for you to learn more about our approach on our investments web page, www.acera.org/investments. Administratively, we worked on consistently providing superior member services, while taking steps to be increasingly cost effective. It has been a productive year, and we are excited to continue serving you.

Sincerely,

**David Nelsen,
Chief Executive Officer**

*Preliminary value

Counseled **664**
Ready-to-retire
members

Processed **512**
members into
retirement

Board of Retirement

George Wood
CHAIR

Elected by General Members

Henry C. Levy
1ST VICE CHAIR

Ex-Officio Member, Treasurer-Tax Collector

Elizabeth Rogers
2ND VICE CHAIR

Elected by General Members

Dale E. Amaral
CHAIR

Elected by Safety Members

Ophelia B. Basgal
CHAIR

Appointed by the Board of Supervisors

Keith Carson
CHAIR

Appointed by & Member of Board of Supervisors

Tarrell V. Gamble
CHAIR

Appointed by the Board of Supervisors

Jaime Godfrey
CHAIR

Appointed by the Board of Supervisors

Liz Koppenhaver
CHAIR

Elected by Retired Members

Nancy Reilly
ALTERNATE RETIRED

Elected by Retired Members

Darryl L. Walker, Sr.
ALTERNATE SAFETY

Elected by Safety Members

Enrolled **14,534** so far in Web Member Services at ACERA.ORG/WMS

That's **61%** of all members

Strengthening ACERA

Accomplishment Highlights

2018

OVERHAULED SERVICE CREDIT PURCHASE PROCESS

• We used Lean Six Sigma process improvement methods to reduce service credit purchase request turnaround time from an average of 145 days down to 20 days, and we completed 55% of our backlog. Our new goal is to turn around these requests within 60 days.

LAUNCHED PENSION SOFTWARE REPLACEMENT

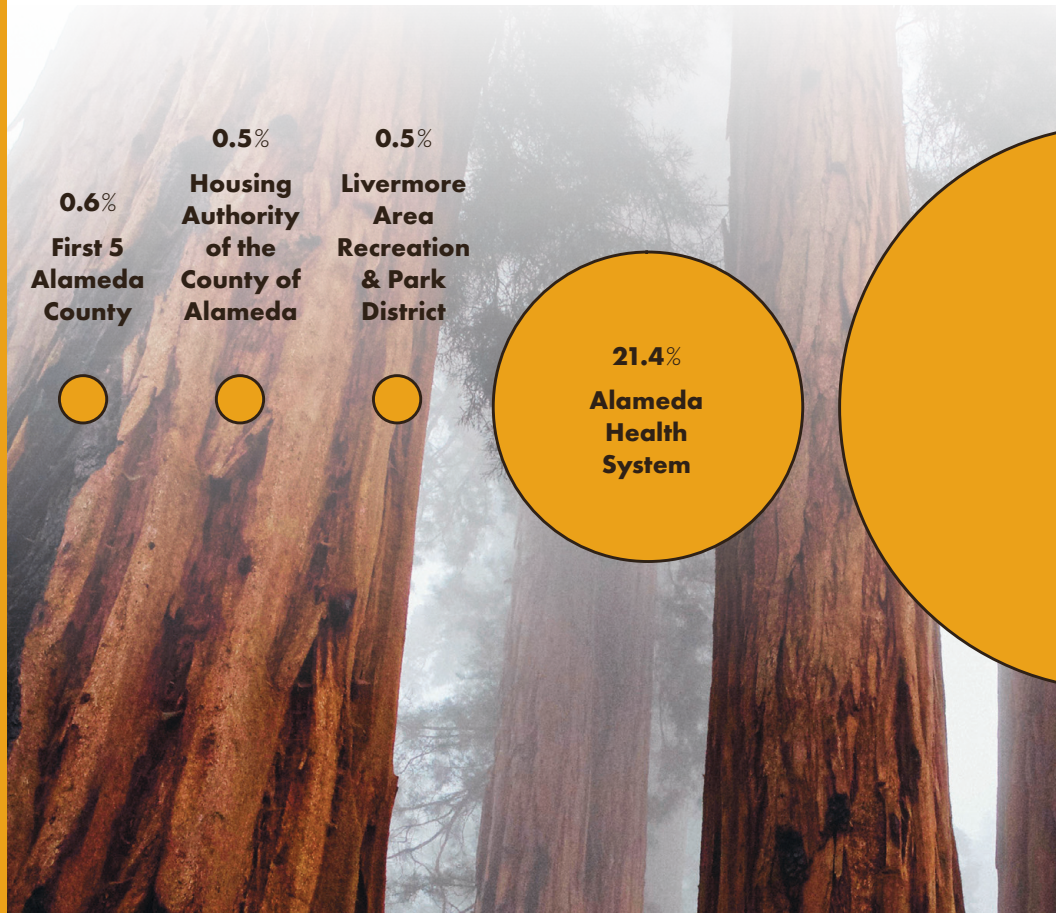
• We launched the project to replace our pension database software. Replacement will go live in 2023 and will deliver huge gains in efficiency through automation.

RESTRUCTURED THE CUSTOMER SERVICE (BENEFITS) DEPARTMENT

• After an in depth analysis of processes, volume, and customer service goals, we restructured our Benefits Department to improve customer experience.

ACERA ALSO... re-engineered the retirement application process; launched instructional web videos; created a new blog-style wellness page; transitioned to a new benefits consultant; launched an organization-wide scorecard to measure performance; created an associate development program; developed trustee and staff cybersecurity training; and adopted new commitments to our Private Equity, Absolute Return, Real Assets, and Real Estate asset classes totaling \$798 million.

Active Membership



ACERA's Membership

ACERA's members are current and former employees of six participating employers who collectively share the risks of supporting a multi-employer, cost-sharing, defined benefit retirement plan. [More at www.acera.org/about](http://www.acera.org/about).

Membership Changes

2018 total members: **23,739**

2017 total members: **23,250**

ACTIVE VESTED



SERVICE RETIREES



ACTIVE NONVESTED



DEFERRED

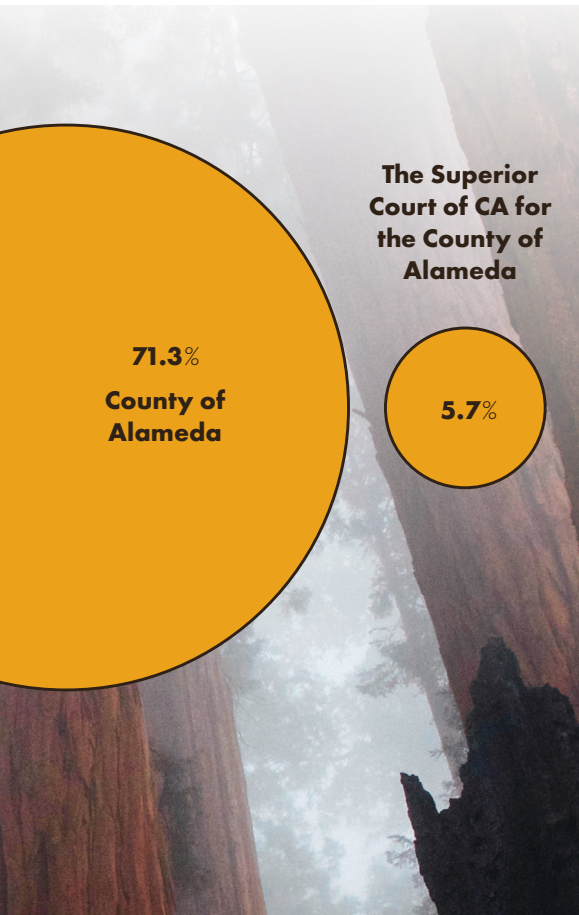


BENEFICIARIES



DISABILITY RETIREES





The Superior Court of CA for the County of Alameda

71.3%
County of Alameda

5.7%

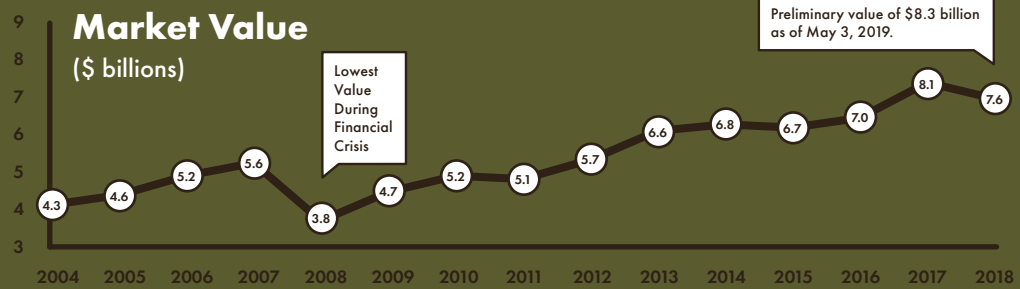
Pension Plan Funding Status

ACERA hires an independent actuary to conduct annual valuations of pension assets and expenses. The actuarial values are compared to determine the annual contribution rates that ACERA's members and employers are required to pay to meet pension obligations. You may notice that the actuarial value of assets and the net position differ; this is because gains and losses are mathematically "smoothed" over a 5 year period. This minimizes the effect of market volatility on contribution rates. Participating employers contributed 100% of the annual required contributions to the pension plan, which include additional contributions so ACERA can re-achieve 100% funding over time.

ACERA Financial Highlights

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

More at www.acera.org/cafr.



Financial Summary (Fiduciary Net Position Condensed)

(Dollars in millions)

	2018	2017	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Net investment income + Misc. income	\$ -354.6	\$ 1,309.1	\$ -1,663.7*	-127%
Employee & Employer contributions	364.4	336.4	28.0	8%
Reserve transfers	50.8	48.3	2.5	5%
<i>Total additions</i>	\$ 60.6	\$ 1,693.8	\$ -1,633.2	-96%
DEDUCTIONS				
Retirement benefit payments & refunds	\$ 471.9	\$ 445.3	\$ 26.6	6%
Postemployment medical benefits	40.9	37.9	3.0	8%
Administration	16.5	15.8	0.7	4%
Reserve transfers	50.8	48.3	2.5	5%
<i>Total deductions</i>	580.1	547.3	32.8	6%
Fiduciary net position at end of year	\$ 7,592.6	\$ 8,112.1	\$ -519.5	-6%

* Represents change in Net Investment Income from 2017 to 2018, not the amount of loss in 2018, which is -\$354.6.

Actuarial Values and Funded Ratio

ACTUARIAL VALUATION AS OF DECEMBER 31	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	UNFUNDED ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO
<i>(Dollars in millions)</i>				
PLAIN ENGLISH:	How Much We Have Now	How Much We Owe, Now & in the Future	How Much More We'll Need	% of How Much We Owe That We Have Now
2017	\$ 6,830.4	\$ 8,987.1	\$ 2,156.7	76.0%*
2016	6,436.1	8,237.7	1,801.6	78.1%
2015	6,083.5	7,875.0	1,791.5	77.3%
2014	5,681.1	7,592.1	1,911.0	74.8%
2013	\$ 5,210.9	\$ 6,861.7	\$ 1,650.7	75.9%

* Reduction in funded ratio was primarily caused by change in assumed annual rate of investment returns from 7.60% to 7.25%.

Check www.acera.org/actuarial for more information on pension plan funding and the Net Pension Liability calculation required by GASB 67.

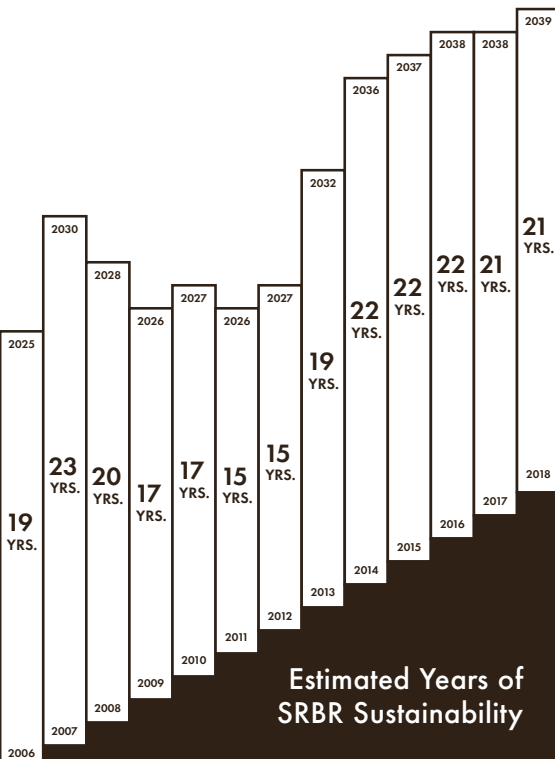
Non-Guaranteed Benefits and the Supplemental Retirees Benefits Reserve (SRBR)

NON-GUARANTEED BENEFITS CURRENTLY OFFERED

- Monthly Medical Allowance (MMA)
- Dental Coverage Subsidy
- Vision Coverage Subsidy
- Medicare Part B Reimbursement Plan
- Supplemental COLA
- Implicit Subsidy (Paid to County)

ACERA's non-guaranteed (non-vested) benefits are subject to available funds in ACERA's Supplemental Retirees Benefits Reserve (SRBR). The SRBR receives regular interest earnings and half of any annual interest income above our 7.25% annual projection. Each year, our actuary projects how many years the SRBR will last at current benefit levels. ACERA aims to keep the SRBR above a projected 15-year sustainability level. The Board of Retirement may change or end non-guaranteed benefits to meet this goal. Below is the projection made for each of the last 13 years.

More at www.acera.org/srbr.



Investment Performance

GROSS RESULTS

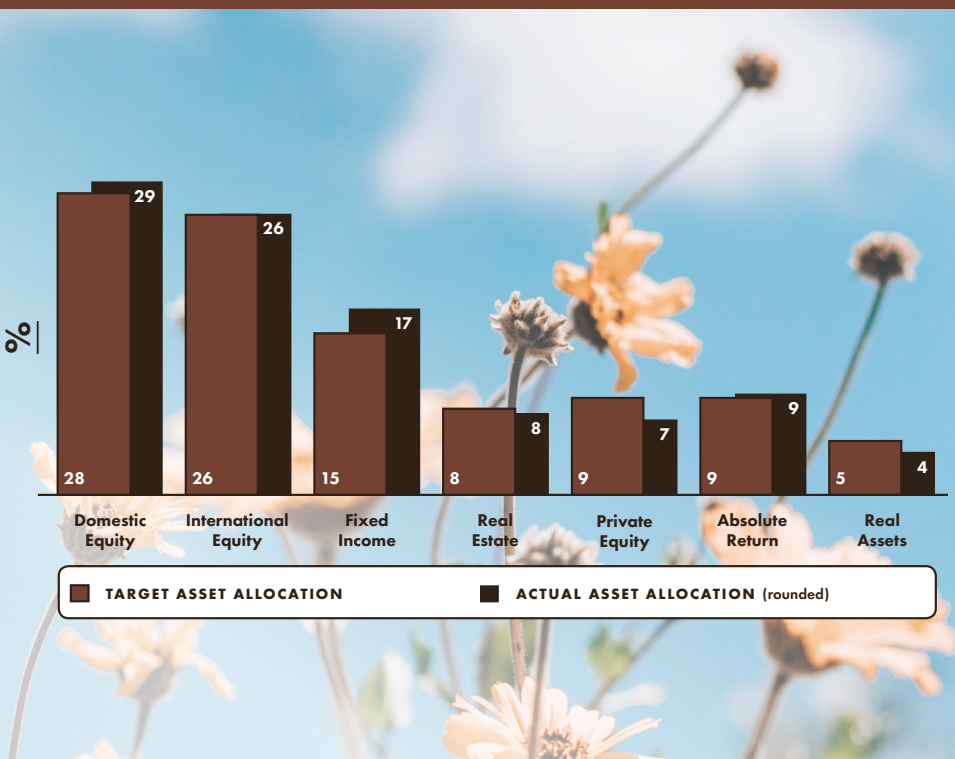
The Board of Retirement has the fiduciary responsibility to prudently invest ACERA's funds to minimize overall risk and maximize returns.

More at www.acera.org/investments.

Investment Fund Performance Highlights (Gross Results)

Description	2018 Return	Ranking in a Universe of Public Funds Over \$1 billion*
TOTAL FUND		
2018 Total fund return	-4.1%	61st percentile
2018 Policy index return	Benchmark	62nd percentile
2018 Median return	Peer group return	50th percentile
Annualized 5 years	Average return over 5 years	31st percentile
Annualized 10 years	Average return over 10 years	5th percentile
Annualized 15 years	Average return over 15 years	10th percentile
INDIVIDUAL ASSET CLASSES		
\$ Value in billions		
Domestic equity	Stocks	-4.6%
International equity	Stocks	-13.3%
Fixed income	Bonds/debt	-1.2%
Real estate	Real, tangible properties	7.9%
Private equity	Non-public companies	17.6%
Absolute return	Stable, positive returns	-1.2%
Real assets	Inflation hedge	-7.7%
Cash	Cash	1.5%
TOTAL		\$ 7.61

*ACERA's investment policy targets a ranking in the top 25th percentile.





**Alameda County Employees'
Retirement Association**

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Serving You

OUR MISSION AT ACERA is to provide members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services. We've been doing this since our establishment in 1947 under the County Employees Retirement Law of 1937 (CERL). ACERA is one of the few county retirement organizations that has adopted Article 5.5 of the CERL. This means that our members also receive non-guaranteed benefits such as healthcare.

Our dedicated and diverse team at ACERA uses its expertise to provide these benefits to you, our members. On the following pages you can see some of the ways we've improved our service in 2018.

Answered
20,726
telephone calls

Fulfilled
757
formal
written
requests

87.5%
of callers
spent less than
60 seconds
on hold

**Scanned
& indexed**
51,501
member
documents

Subscribed
1,446
people to email
news updates at
acera.org/get-news

**Members
generated**
25,781
retirement
estimates through
Web Member
Services
acera.org/wms