

Our Place

ACERA



Alameda County Employees' Retirement Association

A Pension Trust Fund of the County of Alameda (State of California) and Participating Employers

POPULAR ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

LETTER FROM THE CHIEF EXECUTIVE OFFICER



Charles F. Conrad

Dear Members,
I am pleased to submit this Popular Annual Financial Report (PAFR) of the Alameda County Employees' Retirement Association for the years ended December 31, 2006 and 2005.

Our Place

Business, like life, is cyclical and the pension business is no exception. The past several years have witnessed ACERA's evolution from one large County employee entity, predominately, to a multi-employer structure.

The political pressure on benefit plans like ACERA's has also shifted to include an understandable concern with the cost and sustainability of retiree health care. In the context of this evolution, a number of significant policy issues were resolved this year by the active participation of ACERA's Participating Employers and employee organizations; some are highlighted in this PAFR.

PAFR Purpose

This ACERA 2006/2005 Popular Annual Financial Report summarizes the ACERA

Comprehensive Annual Financial Report (CAFR) for the same years. Although not meant to replace the CAFR, the PAFR provides a general understanding of ACERA's overall financial condition and enhanced services. This selected financial data is in conformity with generally accepted accounting principles and consistent with information contained in the CAFR.

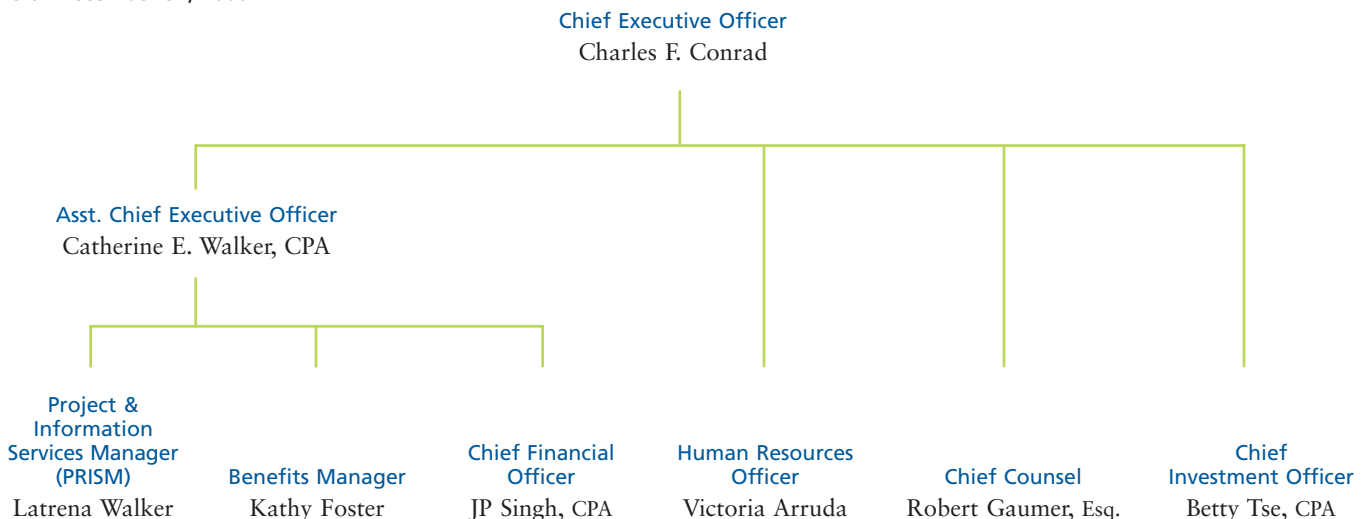
Complete financial information on the retirement fund administered by ACERA, including our Governmental Accounting Standards Board (GASB) reporting requirement, can be found in the 2006/2005 CAFR. Please access the CAFR at acera.org or call our office at 1.800.838.1932 for a hard copy.

Sincerely,

Charles F. Conrad
Chief Executive Officer

Administrative Organization Chart

As of December 31, 2006



ACCOMPLISHMENTS FOR FISCAL YEAR 2006

Administration

Completed our annual actuarial valuation. Employer and employee contributions to ACERA have been reduced and the funded ratio continues to improve.

Board of Retirement

Elections were held for the Second seat representing General Members. Alameda County District Attorney Elizabeth Rogers was elected.

Directed Brokerage Policy and Program

Implemented new policy to recapture a portion of trade commissions paid to brokers. Includes a comprehensive policy, trade and execution monitoring, and a third-party administrator.

Business Continuity Plan (BCP)

Completed phase one of our BCP, which includes a disaster recovery and relocation plan.

Disability Procedures

Completely revised the disability application, application processing, and adjudication processes.

Five-Year Business Plan

Developed our current Five-Year Business Plan that includes three levels of prioritization: (1) critical to the mission, (2) directly supports the mission, and (3) important to ACERA.

Investments

Increased fund assets to over \$5 billion.

Participating Employers

Completed individual inter-agency contracts with Participating Employers and established ACERA Participating Employer 401(h) accounts.

Retired Member Survey

Completed a comprehensive membership survey. Most respondents (98%) rate the quality of ACERA's services as good or excellent and 70% rank Medical Plan Coverage as the most important benefit. Most have internet access and two thirds of these do so through faster connections, such as cable or DSL.

Retirement Seminars

Established two types of retirement seminars: (1) Pre-Retirement Planning Seminar for members retiring within three years and (2) Mid-Career Planning Seminar for those ready to start thinking ahead.

Award for Outstanding Achievement in Popular Annual Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given ACERA an Award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report (PAFR) for the year ended December 31, 2005.

This prestigious national award recognizes conformance with the highest standard for preparation of state and local government popular reports. To earn the award, ACERA's premiere PAFR publication conformed to GFOA standards for creativity, presentation, understandability, and reader appeal. Receiving this award is particularly outstanding because it is difficult to achieve at the first attempt.

The PAFR Award stands alone and is in no way related to the receipt of the CAFR award, which also stands alone. We believe our current report continues to conform to the PAFR reporting requirement, and we are submitting it to GFOA for consideration.

FINANCIAL REVIEW

Additions to and Deductions from Plan Net Assets for the Year Ended December 31, 2006 and 2005

ACERA's primary funding sources for member benefits are employer contributions, member contributions, and net investment income. For 2006, total additions to plan net assets from these sources amounted to \$860.8 million.

The four main categories of deductions from ACERA's plan net assets are retirement benefits, post employment medical benefits (retiree health care program), member refunds, and the expense of administering the system. Overall, deductions from plan net assets in these categories for 2006 totaled \$269.9 million.

As a result of these additions and deductions, ACERA's plan net assets reached \$5.210 billion by December 31, 2006, a \$590.9 million increase for the year. ACERA's retirement fund is the largest ever.

Reason for Increase in Plan Net Assets

A significant reason for the portfolio's continued success is the Board's outstanding leadership as demonstrated by sound and stable strategies designed to meet ACERA's long term investment goals. The Board's newly adopted target asset allocation sought to increase the portfolio's total return by taking on a small increment of total risk by increasing the allocation to 7% for U.S. small cap and by decreasing the allocation to U.S. large cap by 1% to fixed income by 2%.

Additionally, the Board completed a manager structure review and adopted new U.S. equity, international, and fixed income manager structures aimed towards enhancing the investment return while controlling risk. Investment staff remains committed to rigorously monitoring compliance of these elements to safeguard ACERA's assets.

Changes in Plan Net Assets (Condensed)

For the Years Ended December 31, 2006 and 2005 (Dollars in Millions)

	2006	2005	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	\$ 70.2	\$ 64.2	\$ 6.0	9%
Employer Contributions	127.1	100.8	26.3	26%
Net Investment Income	637.8	358.0	279.8	78%
Other Income	0.4	-	0.4	-
Post-Employment Medical Benefits Transfers on Behalf of Employers	19.0	-	19.0	-
Employer Implicit Subsidy from Post-Employment Medical Benefits	6.3	-	6.3	-
Total Additions	860.8	523.0	337.8	65%
DEDUCTIONS				
Retirement Benefit Payments	205.8	187.8	18.0	10%
Post-Employment Medical Benefits	22.2	22.0	0.2	1%
Post-Employment Medical Benefits Transfers to Pension Plan on Behalf of Employers	19.0	-	19.0	-
Member Refunds	5.8	6.1	(0.3)	-5%
Employer Implicit Subsidy to Pension Plan	6.3	-	6.3	-
Administration	10.8	10.3	0.5	5%
Total Deductions	269.9	226.2	43.7	19%
Beginning Plan Net Assets	4,619.2	4,322.4	296.8	7%
Increase in Plan Net Assets	590.9	296.8	294.1	99%
Ending Plan Net Assets	\$ 5,210.1	\$ 4,619.2	\$ 590.9	13%

Total ACERA Net Assets

(Dollars in Billions)

	2006	2005	Increase (Decrease) Amount	Percent Change
Pension Plan	\$ 4.648	\$ 4.107	\$ 0.541	13%
Post Employment Medical Benefits	0.496	0.449	.047	10%
Non-OPEB Benefits	0.066	0.063	0.003	5%
Total ACERA	\$ 5.210	\$ 4.619	\$ 0.591	13%

GASB Requirements

The Governmental Accounting Standards Board (GASB) is an independent, private-sector, not-for-profit organization that—through an open and thorough due process—establishes and improves standards of financial accounting and reporting for U.S. state and local governments. Governments and the accounting industry recognize GASB as the official source of generally accepted accounting principles for state and local governments.

In 2006, ACERA implemented GASB requirements for Other Post Employment Medical Benefits (OPEB). This is reflected in the above table combining the assessment of the financial status of the Pension Plan, Post Employment Medical Benefits, and Non-OPEB Benefits.

Funded Status

The Segal Company, an independent actuarial firm, performed the December 31, 2005 actuarial valuation. This was the latest valuation performed for ACERA at the date the PAFR was issued.

ACERA's funded status of 83.2%, as of December 31, 2005 improved from the prior year funded status of 82.1%. The improved funding status resulted from the relatively higher increase in the actuarial value of assets compared to an increase in the actuarial value of liabilities, along with the assumed interest rate being increased from 7.8% to 7.9%.

Supplemental COLA and New SRBR Allocations

The funding of the Annual Supplemental Cost of Living Allowance (COLA) is considered annually for adoption by ACERA's Board of Retirement (Board). Supplemental COLA is paid out of the Supplemental Retiree Benefit Reserve (SRBR), an account administered by the Board for additional benefits, such as health care premiums Supplemental COLAs, and supplemental death benefits. Supplemental benefits are non-vested benefits subject to available SRBR assets; consequently, they may be reduced or eliminated at the Board's discretion.

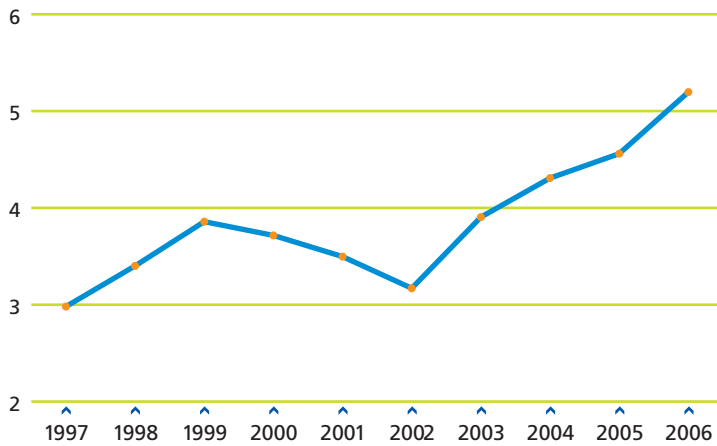
The Supplemental COLA program was restructured in 1998 to provide a benefit that maintains retiree purchasing power at no less than 85% of the original benefit, as authorized by the County Employees Retirement Law of 1937. Plainly speaking, if it now takes a \$1.00 to purchase what 85 cents used to purchase, then you've lost 15% of your purchasing power. When this occurs, the retiree may qualify for Supplemental COLA to make up the difference. Supplemental COLA benefit payments for calendar year 2006 was \$4.6 million.

In 2006, the Board of Retirement approved the allocation of SRBR funds to Post Employment Medical Benefits and Non-OPEB Benefits. These two programs provide the above supplemental benefits.

INVESTMENTS

Growth of Investments

(Ten Years Ending December 31, 2006)
Dollars in Billions



ACERA's primary investment goal is to operate at a level of performance in the upper quartile of comparable pension funds on a risk-adjusted basis and to be as fully funded as possible so that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers.

While recognizing the importance of the "preservation of capital," ACERA also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long run. ACERA's assets are exclusively managed by external, professional investment management firms. It is through prudent management and oversight by the ACERA Board and staff that ACERA has become the \$5.2 billion strong retirement association it is today.

For the fourth consecutive year, the Fund's return exceeded ACERA's actuarial investment return assumption. In 2006, the Fund returned 14.4%, nearly doubling the actuarial figure of 7.9%. As of December 31, 2006 the five-year annualized return of 10.6% outperformed both the Policy Index

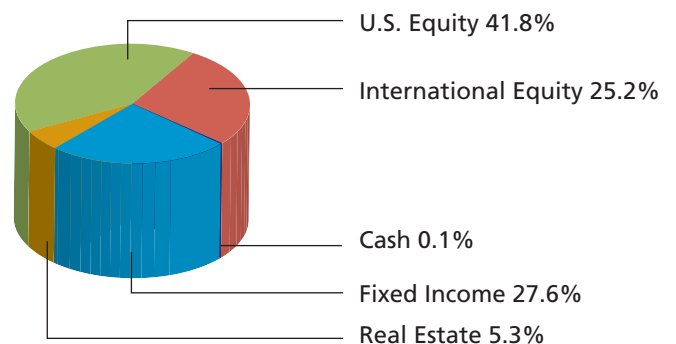
and Public Median Fund, and ranked in the upper 8th percentile among public funds greater than \$100 million.

The assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully-funded status for the pension fund. Prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner that serves the best interests of ACERA's members and their beneficiaries.

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

Actual Asset Allocation

As of December 31, 2006

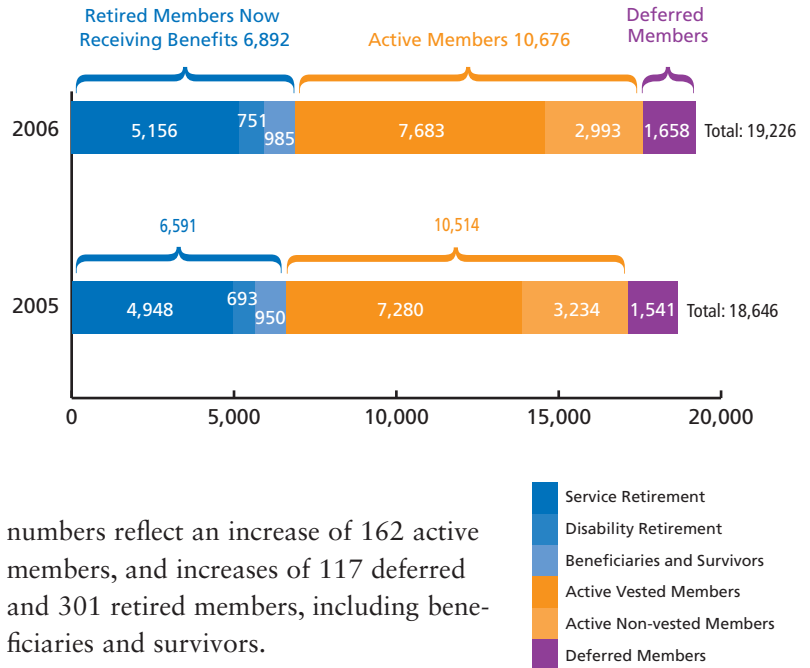


ACERA'S MEMBERSHIP

ACERA's members include active employees of the County of Alameda, the Superior Court of California for the County of Alameda, and special districts located in the County, but not under the control of the Alameda County Board of Supervisors. They are as follows: Alameda County Medical Center, Alameda County Office of Education, First 5 Alameda County, Housing Authority of the County, and Livermore Area Recreation and Park District. Collectively, these Participating Employers share risks and costs, including benefit costs, supporting ACERA's operation as a multi-employer defined benefit plan.

As of December 31, 2006, ACERA had 10,676 active members, 1,658 deferred members, and 6,892 retired members, beneficiaries, and survivors. The

ACERA Membership As of December 31, 2006 and 2005



numbers reflect an increase of 162 active members, and increases of 117 deferred and 301 retired members, including beneficiaries and survivors.

MEMBERS OF THE 2007 BOARD OF RETIREMENT



BACK ROW, LEFT TO RIGHT: Mr. Keith Carson APPOINTED BY AND MEMBER OF THE BOARD OF SUPERVISORS, Mr. Darryl Walker, ALTERNATE ELECTED BY SAFETY MEMBERS, Mr. Dale E. Amaral VICE CHAIR ELECTED BY SAFETY MEMBERS, Mr. Trevor S. White SECOND VICE CHAIR ELECTED BY GENERAL MEMBERS, L. Kenneth Brooks APPOINTED BY THE BOARD OF SUPERVISORS, Ms. Liz Kopenhagen, ALTERNATE ELECTED BY RETIRED MEMBERS

FRONT ROW, LEFT TO RIGHT: Ms. Annette Cain-Darnes APPOINTED BY THE BOARD OF SUPERVISORS, Mr. David M. Safer ELECTED BY RETIRED MEMBERS Ms. Elizabeth Rogers ELECTED BY GENERAL MEMBERS, Ms. Ophelia B. Basgal CHAIR APPOINTED BY THE BOARD OF SUPERVISORS Mr. Donald R. White ALAMEDA COUNTY TREASURER-TAX COLLECTOR EX-OFFICIO MEMBER

Our Place



Denise Eaton May
HR Director, City of Alameda



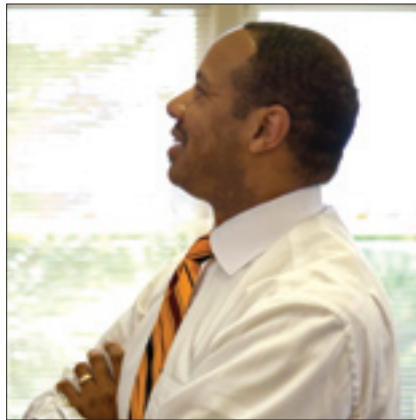
Greg Ahern
Sheriff of Alameda County



TOM ORLOFF
ALAMEDA COUNTY DISTRICT ATTORNEY



DIANE BELLAS
ALAMEDA COUNTY PUBLIC DEFENDER



Wright L. Lawler, III
CEO - Alameda County Medical Center



PAT O'CONNELL
AUDITOR-CONTROLLER



Susan Murasaki
County Administrator

MISSION STATEMENT

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

COMMITMENT STATEMENT

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



Alameda County Employees'
Retirement Association
A Pension Trust Fund of the County
of Alameda (State of California)
and Participating Employers
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