



Steadfast Course

Popular Annual Financial Report

for the Year Ended December 31, 2010



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda
and Participating Employers | Oakland, California

Message from the Acting Chief Executive Officer



Dear ACERA Members,

I am pleased to provide you with the Popular Annual Financial Report (PAFR) of the Alameda County Employees' Retirement Association for the Year Ended December 31, 2010.

The PAFR is based on ACERA's Comprehensive Annual Financial Report (CAFR) for 2010, and provides a summary of ACERA's financial condition and status, supported by accomplishments for the past year. The financial data presented in the PAFR conforms to generally accepted accounting principles and is consistent with information contained in the CAFR, which was prepared on an accrual basis of accounting.

Without our members—hard-working public employees, performing critical duties, receiving minimal public recognition—ACERA wouldn't exist. You count on ACERA to provide a financially secure retirement, so we take to heart our mission to prudently manage your investments and provide superior member services. Even though ACERA is governed by statutes, and the retirement system is diligently and prudently administered by highly-trained professionals, we strive to make your experience with us personal and supportive when we talk to you, ACERA's valued members, each and every day. We've prepared this PAFR to provide you with a snapshot of how we've served you in 2010.

Following are a few data points highlighting our commitment to our members over the past year.

Serving You

During 2010, ACERA staff:

- Fulfilled 2694 formal requests from our members including:
 - 482 Retirement Estimate Requests
 - 571 Service Purchase Requests
 - 541 Beneficiary Changes
 - 1100 Other Research Requests
- Processed 423 retirees and 3 survivors into payroll
- Enrolled 165 retirees and family members into ACERA medical plans
- Answered 21,036 questions from members over the phone
- Delivered 25 retirement planning seminars and 10 retiree seminars to 899 participants
- Maintained our Call Center goal to answer over 90% of calls within 30 seconds for the entire year, averaging 95.8%
- Scanned approximately 3.4 million individual pieces of paper from our files into our new Electronic Document Management System. ACERA is doing away with paper records. This new system that's now live, will make it easier for ACERA staff to fulfill member requests. It also gives us a backup of all member records in case of disaster.

Strengthening ACERA

ACERA also completed numerous major projects, of few of which are highlighted here.

Wellness / Disease Management Program | In collaboration with Kaiser, who is providing services free of charge, ACERA embarked on a Wellness/Disease Management Program to improve health of members identified as at-risk and high-risk for diabetes through the promotion of lifestyle changes.

Internet Survey of Membership | ACERA conducted a survey to gauge the levels of member internet access and assess preferred website functions; 25% responded. Respondents with home internet access: Retired 74%; Deferred 92%; Active 93%. Handheld device internet use: Retired 12%; Deferred 33%; Active 36%. Regular email use: Retired 68%; Deferred 94%; Active 96%.

New Safety Tiers | In accordance with the newly passed Assembly Bill 1667, ACERA implemented new tiers for new safety employees. New safety employees have 45 days to choose between a 2% at 50 formula (§ 31664) or 3% at 55 formula (§ 31664.2).

Vision Care Coverage Contract | After a thorough RFP process, ACERA retained its incumbent vision care provider Vision Service Plan (VSP) for 2011. Under the contract, there will be no rate increase for the first two years (2011-2012) with a rate cap of 3% guaranteed through January 31, 2015.

Information Technology Strategic Plan | ACERA developed and implemented a rolling 5-year Information Technology Strategic Plan which will serve as a road map to upgrading ACERA's technical infrastructure and capabilities as technology changes.

Internal Audit | ACERA completed an internal audit of our Actuarial Process to evaluate and validate the accuracy and completeness of the process for providing data to ACERA's Actuary.

Private Equity and Alternatives Return Leading Strategy (PEARLS) Plan | ACERA developed the annual investment plan for the Private Equity and Alternatives Return Leading Strategy (PEARLS) portfolio to guide ACERA in achieving the target allocation and diversification within this asset class. Investments in this asset class include venture capital, buyout funds, commodities, absolute return strategies, and other debt-related special situations. These investments typically have low correlation with traditional investment in equity and bonds.

Participating Employers Training | ACERA conducted its first training for Participating Employers' staff to clarify duties regarding transmitting payroll data. ACERA's goals are to limit exceptions in the transmittals, improve the accuracy of member records, and save staff time and resources.

Read more about 2010 and the progress of ACERA's investments and financial status in the following pages. For ACERA's complete and detailed financial information, please refer to our Comprehensive Annual Financial Report (CAFR), available at www.acera.org/downloads or by calling 1-800-838-1932 for a hard copy.

Sincerely,

Catherine E. Walker, CPA
Acting Chief Executive Officer

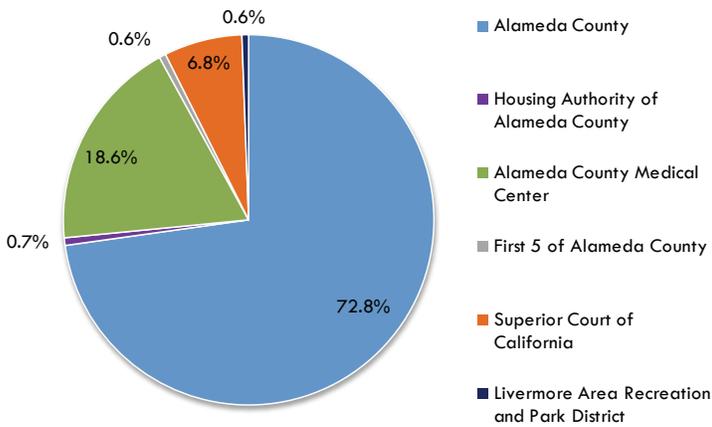
ACERA and its Services

ACERA was established by the Alameda County Board of Supervisors on October 21, 1947, and began operating January 1, 1948. Governed by the provisions of the County Employees Retirement Law of 1937 (1937 Act), ACERA provides lifetime retirement, disability, and death benefits to its members, as well as a variety of non-vested benefits. ACERA meets mem-

ber and beneficiary pension obligations through member contributions, employer contributions, and investment income. Contributions are prudently invested in accordance with the 1937 Act and ACERA's investment policies to generate investment income to fund pension benefits and pay administrative expenses.

ACERA's Membership

ACERA's members include active employees of ACERA's seven Participating Employers. (Alameda County Office of Education is not depicted below due to only one active member.)



Participating Employers collectively share the risks and costs, including benefit costs, of supporting ACERA's cost sharing, multi-employer defined benefit retirement plan. In addition to active members, ACERA's membership also includes deferred members who have left employment but have not yet retired, as well as members that have retired.

ACERA Total Membership

2010	Member Type	% Change	2009
20,244			20,121
5,696	Service Retirees	(4.09%)	5,472
798	Disability Retirees	(0.63%)	793
1,054	Beneficiaries & Survivors	(0.00%)	1,054
7,824	Active Vested Members	(0.19%)	7,809
3,025	Active Non-Vested Members	(-3.75%)	3,143
1,847	Deferred Members	(-0.16%)	1,850
10,849			10,952
7,548			7,319

Board of Retirement

The elected and appointed members of ACERA's Board of Retirement as of January 1, 2011 are:



George Wood
Chair
Elected by
General Members



George Dewey
First Vice Chair
Appointed by the
Board of Supervisors



Dale E. Amaral
Second Vice Chair
Elected by
Safety Members



Ophelia B. Basgal
Appointed by the
Board of Supervisors



Annette Cain-Darnes
Appointed by the
Board of Supervisors



Keith Carson
Appointed by and
Member of the
Board of Supervisors



Liz Koppenhaver
Elected by
Retired Members



Elizabeth Rogers
Elected by
General 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

The ACERA Board of Retirement oversees the Chief Executive Officer and staff in the performance of their duties in accordance with the 1937 Act, ACERA's regulations, and Board policies. During 2010, ACERA's CEO Chuck Conrad, was approved for retirement by the Board after an extended medical leave. The Board appointed Assistant CEO Catherine E. Walker as Acting Chief Executive Officer, effective May 21, 2010. ACERA retained a human resources consulting agency specializing in the public sector, to provide consulting services for the search and selection of a permanent CEO.

ACERA Financial Highlights

The primary funding sources for ACERA member benefits are member contributions, employer contributions, and net investment income.

Net Assets at Fair Value
From 2001 - 2010
(\$ Billions)

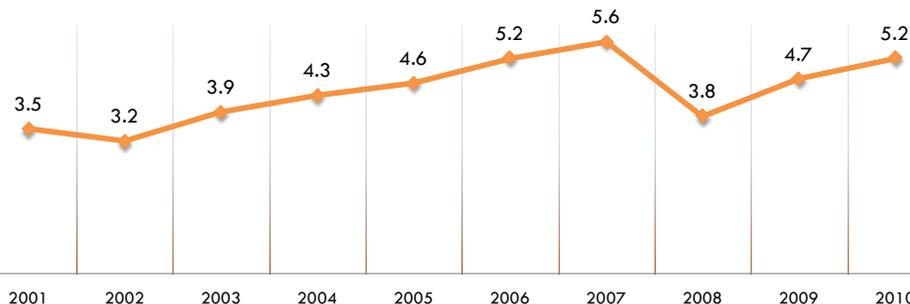


Table 1: ACERA's Net Assets (Condensed)

As of December 31, 2010 and 2009 (Dollars in Millions)	2010	2009	Increase (Decrease) Amount	Percent Change
Current Assets	\$ 574.2	\$ 629.3	\$ (55.1)	-9%
Investments at Fair Value	5,215.5	4,654.8	560.7	12%
Capital Assets, net	4.4	3.2	1.2	38%
Total Assets	5,794.1	5,287.3	506.8	10%
Current Liabilities	569.6	610.4	(40.8)	-7%
Total Liabilities	569.6	610.4	(40.8)	-7%
Net Assets Held in Trust for Benefits	\$ 5,224.5	\$ 4,676.9	\$ 547.6	12%

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

For the Years Ended December 31, 2010 and 2009 (Dollars in Millions)	2010	2009	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	\$ 77.6	\$ 77.3	\$ 0.3	0%
Employer Contributions	147.5	132.2	15.3	12%
Net Investment Income	648.1	963.6	(315.5)	-33%
Miscellaneous Income	0.5	2.3	(1.8)	-78%
Transfer to Employers' Advance Reserve from SRBR for Employer Contributions to 401(h) Account	29.5	27.9	1.6	6%
Transfer to Employers' Advance Reserve from SRBR for Implicit Subsidy	5.3	4.1	1.2	29%
Total Additions	908.5	1,207.4	(298.9)	-25%
DEDUCTIONS				
Retirement Benefit Payments	277.7	256.7	21.0	8%
Postemployment Medical Benefits	29.8	27.8	2.0	7%
Member Refunds	5.6	7.7	(2.1)	-27%
Administration	13.0	12.3	0.7	6%
Transfer from SRBR to Employers' Advance Reserve for Employer Contributions to 401(h) Account	29.5	27.9	1.6	6%
Transfer from SRBR to Employers' Advance Reserve for Implicit Subsidy	5.3	4.1	1.2	29%
Total Deductions	360.9	336.5	24.4	7%
Net Increase	547.6	870.9	(323.3)	-37%
Beginning Net Assets Held in Trust for Benefits	4,676.9	3,806.0	870.9	23%
Ending Net Assets Held in Trust for Benefits	\$ 5,224.5	\$ 4,676.9	\$ 547.6	12%

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

ACERA currently offers retirees a variety of non-vested (non-guaranteed) benefits, based on annual approval by the Board of Retirement. These benefits currently are:

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

ACERA is one of three 1937 Act counties to administer a Supplemental Retirees Benefits Reserve (SRBR), which is funded from earnings in excess of what our actuary assumed the fund would earn. The **Death Benefits** and Supplemental COLA are paid directly from the SRBR. ACERA's participating employers pay the **Healthcare Benefits** (excluding the implicit subsidy) so they can be provided to retirees tax-free; ACERA then uses an equal amount of money from the SRBR as the employers' mandatory retirement contributions, so that the Healthcare Benefits are not an additional cost for the employers.

Non-vested benefits are subject to available reserve assets. Consequently, ACERA's ability to maintain these non-vested benefits relates directly to how much money is in the SRBR, and may be reduced or eliminated at the Board's discretion.

As of December 31, 2009, the SRBR balance was \$658.7 million. This balance will allow the current benefit structure to be funded until 2026 for Postemployment Medical Benefits and 2031 for Non-OPEB Benefits (e.g., Supplemental COLA and Active Death Benefits), even if no new excess investment earnings are available.

All non-vested benefits can only be paid from available assets, as pension assets are not available to fund such benefits in the event of a short fall.

Pension Plan Funding Status

To provide our members with a financially secure retirement, ACERA needs to know how much we owe to our members, now and in the future. To accurately assess the magnitude of our benefit commitments, ACERA engages an independent actuarial consulting firm to conduct annual actuarial valuations of the Pension Plan and other benefits ACERA offers.

The actuary compares their assessment of how much we owe to projections they make about the assets expected to be available in the future to fulfill those commitments. Using this comparison, we can adjust the rates at which the employers contribute to the retirement Fund to ensure ACERA can meet its obligations in the long run.

The actuarial value of assets differs from the market value of assets because it excludes a portion of gains and/or losses that will be included over the next five years. This smoothing out of gains and losses over 5 years helps prevent the value of the Fund from experiencing sharp fluctuations. Even though ACERA's fund has earned excellent returns for the past 2 years (14.6% in 2010 and 26.6% in 2009), some of the losses from the 2008 worldwide financial meltdown are still working their way through the smoothing process, and may continue to affect the funded ratio for a few years.

Participating Employers contributed 100% of the annual required contributions to the Pension Plan.

Pension Plan Funding Status (From December 31, 2009 Actuarial Valuation)

(Dollars in thousands)

Actuarial Valuation as of December 31 (Plain English)	Actuarial Value of Assets (How much we have now)	Actuarial Accrued Liability (How much we owe, now and in the future)	Unfunded Actuarial Accrued Liability (How much more we'll need)	Funded Ratio (How much we have, divided by how much we owe)
2009	\$4,789.0	\$5,899.3	\$1,110.3	81.2%
2008	\$4,644.0	\$5,537.9	\$893.9	83.9%
2007	\$4,560.2	\$5,112.4	\$552.2	89.2%
2006	\$4,127.8	\$4,825.2	\$697.3	85.5%
2005	\$3,781.8	\$4,548.2	\$766.4	83.2%

Investments

The 1937 Act and the California Constitution give the authority and fiduciary responsibility for investing ACERA's funds to the Board of Retirement. Board members are legally required to carry out their duties in the manner of a prudent person familiar with such retirement and investment matters acting under similar circumstances. This prudent expert rule permits the Board to make investment allocation decisions and diversify investment holdings to reduce overall risk and increase returns.

For the year ended December 31, 2010, the market value of ACERA's net assets was \$5.2 billion, and ACERA's investments earned a 14.6% annual rate of return, ranking ACERA in the top 24th percentile among all U.S. public funds larger than \$100 million. ACERA's investment policy targets a ranking in the top 25th percentile. Markets and economies differ every year, so to more accurately assess how ACERA's Fund is performing over time, we look at what we earn on average over longer periods of time, such as 5, 10, and 20 years (see Rates of Return table).

ACERA invests among a variety of asset classes (different categories of investments) in order to diversify investments and minimize risk. The bottom table is a breakdown of what ACERA's investments in each asset class returned in 2010.

ACERA Rates of Return & Rankings

	ACERA Fund Rate of Return	Ranking among all U.S. public funds larger than \$100 million
2010	14.6%	24th percentile
Annualized 5 years	4.7%	42nd percentile
Annualized 10 years	5.8%	13th percentile
Annualized 20 years	9.3%	10th percentile

Performance Highlights of ACERA's 2010 Investment Fund

(Gross Results)	2010
Total Fund Return	14.6%
Domestic Equity Return	18.6%
International Equity Return	10.1%
Fixed Income Return	11.9%
Real Estate Return	11.7%
Private Equity & Alternatives Return	19.8%
Year-end Fund Value (billions)	\$5.2

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.

Mission Statement

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



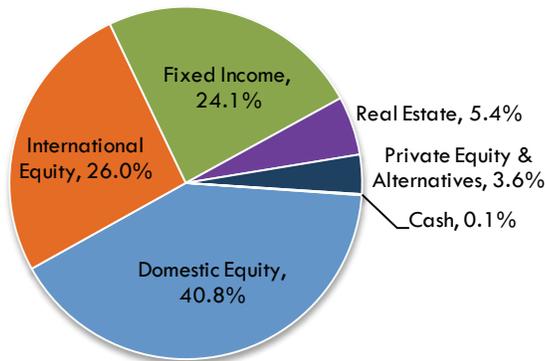
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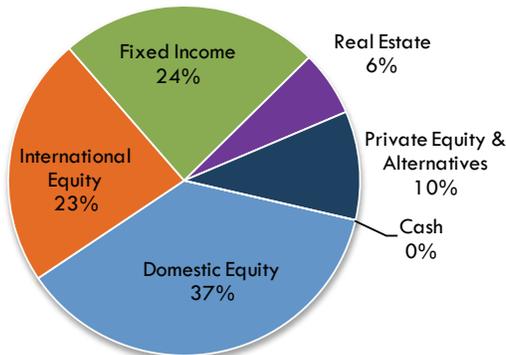
Erich I. Plate | Graphic Designer

Mike Fara | Communications Manager

Actual Asset Allocation



Target Asset Allocation



...Investments Continued

To the left are pie charts depicting ACERA's Actual and Target Asset Allocations as of December 31, 2010. The Actual Asset Allocation shows what portion of our investments are invested in each asset class. The Target Asset Allocation is the policy adopted by ACERA as a long term goal; the Board has identified that the fund will be most strategically invested when ACERA's portfolio is portioned in accordance with the Target Asset Allocation.

Award for Last Year's PAFR

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to ACERA for the year ended December 31, 2009, as well as each of the previous three years. ACERA will submit an application for the 2010 PAFR (the one you are currently reading) to the GFOA for consideration for the 2010 achievement award.

Contacting ACERA (510) 628-3000 [fax] (510) 268-9574 www.acera.org