



ALAMEDA COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda and  
Five Special Districts | Oakland, California

## FORGING AHEAD

Comprehensive Annual Financial Report  
for the Years Ended December 31, 2003 and 2002



## FORGING AHEAD

### Comprehensive Annual Financial Report for the Years Ended December 31, 2003 and 2002

Pelicans trained to fly in a V-formation for the film "Winged Migration" were able to glide for a greater proportion of their total flight time—saving energy by 11.4 to 14%.

Source: *Nature*, Oct 18, 2001

When geese fly in a V-formation, each 'follower' goose experiences lower drag and needs less energy to maintain its speed.

Source: *Energy Conservation News*, Nov 2001

Like birds, planes traveling in a V-formation encounter less resistance. Based on that principle, NASA and UCLA researchers have developed a computerized device that enables aircraft to fly more safely in tight formation.

Source: *Business Week*, Sept 10, 2001



#### ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda and Five Special Districts

475-14TH STREET, OAKLAND, CA 94612

For pelicans flying in formation rather than traveling solo lowers their heart rates and enables them to cover greater distances in search of food and nesting sites.

Source: *Nature*, Oct 18, 2001

Inspired by migrating geese flying in close formation, researchers at NASA, the Boeing Co., and UCLA are studying how aircraft can fly in a smaller airspace and thus save money on fuel. Tests of two Boeing FA-18s have demonstrated that flying wingtip-to-wingtip can produce fuel savings of over 15%.

Source: *Flight International*, Nov 6, 2001

Issued By

**Charles F. Conrad**

*General Manager*

**Catherine E. Walker, CPA**

*Accounting and Operations Manager*



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“After 23 and a half years with the County, I appreciate having ACERA’s benefits, especially as I get older and closer to retirement. I got some job offers during the dot-com boom, but my son reminded me of my great retirement plan. When it all went bust, I felt pretty good.”

**> CORNELIA RENSI**

**Deputy Director  
Information Technology Department**

top, from left, Thomas Casteen, Cornelia Rensi, Archana Gupta, and Dong Ri Pan





**1 > 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



General Manager  
*Charles F. Conrad*

Dear Board Members:

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the Alameda County Employees' Retirement Association (ACERA) for the years ended December 31, 2003 and 2002.

The year 2003 was a memorable one for ACERA's staff. Looking back, it was the year that ACERA budget resources got uncomfortably lean, the actuarial funding process became uncomfortably complicated as investment losses forced Alameda County employer contribution rates up 89%, and the financial markets roared back to net a +26.7% return.

Such conflicting results only make sense when you realize that ACERA phases in all investment gains and losses over a five-year period. Thus, the market losses of 2001 and 2002 will remain with us until 2006 and 2007, and the gains of 2003 will not be fully realized until 2008.

Defined benefit pension plans in both the public and private sector are dealing with a dramatic turnaround in pension funding. Over the last decade, pension funds were great beneficiaries of the stock market boom. The extraordinary earnings were used to offset pension contributions.

But with the downturn in the U.S. stock market, pension plans have been transformed from profit centers for plan sponsors to cost centers requiring enormous infusions of cash to maintain benefits. During the good years, ACERA credited our excess earnings to member and employer accounts and to the Supplemental Retiree Benefits Reserve (SRBR). As a result, Alameda County's employer contribution rate was reduced. But now the County's contribution has been raised to meet the real cost of benefits. This is a major challenge to policy makers already dealing with budget deficits.

Demographic changes are posing a different but critical issue for pension funding. As a result of the post-World War II baby boom, one American will turn 50 every eight seconds for the next 20 years. As the baby boomers retire, the ratio of workers to retirees will drop from the current 3 to 1 to just 1.5 to 1.



Increased earnings on pension fund investments will not solve the fundamental problem: not enough people will be working to support the people who will not only be retiring earlier at higher benefit levels but also living longer.

Many ACERA members will rely on Social Security to supplement their retirement benefits. But Social Security benefits are woefully underfunded. And according to the 2002 Retirement Confidence survey, workers of all ages have an unrealistic idea of the real costs of living in retirement.

We ACERA members are fortunate to have defined retirement benefits that are protected by the California courts under the contract clause of the state's constitution. Moreover, our Fund is structured and administered to ride out upheavals in the economy. Many other Americans will need to work longer and save more as employers cut back on their pension promises.

ACERA's plan incorporates the provisions of the 1937 County Employees' Retirement Law ('37 Act). While many of the provisions regarding benefit levels are optional for participating counties, the overall design of ACERA's plan and its financial protections for both employer and employee conform to the general provisions of the '37 Act. They cannot be altered unilaterally by participating employers or employees.

The Act requires ACERA to have an independent Board of Retirement composed of both appointed and elected representatives. It also stipulates that ACERA's Fund must be dedicated solely and exclusively to its

members and beneficiaries, and to the purposes of the Fund.

In California, public pension benefits are enforceable contract rights. By contrast, most states as well as the Federal Government regard retirement benefits as gratuities that can be changed at any time.

ACERA's Board of Retirement and the Alameda County Board of Supervisors are committed to maintaining the financial integrity of ACERA's Fund. We will continue to provide retirement benefits, disability and survivor benefits, and cost-of-living increases. Dental and vision benefits, and financial contributions to health benefits are non-vested and provided through the Supplemental Retirement Benefit Reserve (SRBR). Thanks to the Fund, our members will receive much more than a gold watch when they retire.

*I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 16.*

## **THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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The CAFR of ACERA for the years ended December 31, 2003 and December 31, 2002 is submitted for your review. Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with ACERA's management. It is our intent to ensure that the presentation of financial information is accurate and fair and that all material disclosures have been made.



The CAFR is divided into six sections:

**Introductory Section:** Contains a Letter of Transmittal, ACERA's Mission, Commitment and Goals, a list of Board of Retirement members, ACERA's administrative Organizational Chart, a list of Professional Consultants, and the Certificate of Achievement.

**Financial Section:** Presents the Independent Auditors' Report, Management's Discussion and Analysis, the financial statements of the system including notes, and required supplementary information.

**Investment Section:** Contains reports on investment activity, investment policies, investment results, and various investment schedules.

**Actuarial Section:** Contains the Actuary's Certification Letter and the results of the annual actuarial valuation. Also, provides an overview of the funding status of the Association and other actuarial related information.

**Statistical Section:** Contains significant detailed demographic and other statistical data pertaining to ACERA.

**Compliance Section:** Contains the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

I trust that you and the members of ACERA will find this CAFR helpful in understanding the Association and our commitment to maintaining financial integrity and improving member service.

## ACERA'S MISSION, COMMITMENT AND GOALS

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

**COMMITMENT AND GOALS:** 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.

## ACERA AND ITS SERVICES

Established by the Alameda County Board of Supervisors by Ordinance No. 446, dated October 21, 1947, operative January 1, 1948, and governed by the provisions of the County Employees Retirement Law of 1937, ACERA provides retirement allowances and other benefits to the safety and general members employed by the County of Alameda (including the Superior Court of California, County of Alameda) and members employed by the following special districts:

- Livermore Area Recreation & Park District
- Housing Authority of Alameda County
- Alameda County Superintendent of Schools
- Alameda County Medical Center
- Alameda County Fire Department

ACERA provides lifetime retirement, disability, and death benefits to its General and Safety members. In addition, ACERA administers retiree health care, dental care, vision care, and cost-of-living programs. The Association is also responsible for the prudent investment of both member and employer contributions and for defraying reasonable expenses of administration.

The ACERA Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, benefit determinations and managing the investment of the System's assets. The Board operates

under authority granted by Article XVI of the Constitution of the State of California.

Article XVI, Section 17(b) of the Constitution of the State of California provides that “the members of the retirement board of a public pension or retirement system shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board’s duty to its participants and their beneficiaries shall take precedence over any other duty.” Section 17(a) further provides that the Board has “...the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries.”

The ACERA Board of Retirement is a nine-member Board. The Alameda County Board of Supervisors appoints four members, and four are elected by ACERA’s membership. The County Treasurer is an ex-officio member. Board members, with the exception of the County Treasurer, serve three-year terms in office, with no term limits. The four elected Board members are selected as follows:

- Two Board members are elected by General members of ACERA.
- One Board member is elected by Safety members of ACERA.
- One Board member is elected by Retired members of ACERA.

The Board of Retirement oversees the General Manager and staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937, ACERA’s by-laws, and Board policies.

## MEMBER SERVICES

ACERA’s organizational structure remained unchanged in 2003. Our ongoing mission to improve our responsiveness to member issues also remained unchanged. Last year we continued our practice of reviewing workflow and team structure to achieve more timely delivery of member services. We made progress in reducing the process response time to various member requests despite the fact that the volume of service requests we received continued to rise.

Although no new staff positions were added, we made great strides on two key fronts: in counseling we provide for members who are about to retire and in ensuring the accuracy of beneficiary information in our databases.

### Retirement Counseling

In 2003, ACERA designed and implemented new retirement counseling sessions that are not only an improved approach to meeting the need for both comprehensive as well as specific information about retiring, but also a better use of limited staff resources.

Small group sessions for 10 to 12 members now provide general information about the retirement process that all attendees need. The group sessions are followed by individual counseling sessions with one of our retirement specialists. In these one-on-one meetings, our retirement specialist guides the member through the application process, addressing his or her unique situation, issues, and questions. The specialist also helps the member enroll in health, dental and vision plans.

### Beneficiary Update

ACERA has worked hard in recent years to enhance and upgrade the technology upon which we depend and to ensure the accuracy and completeness of member information in our databases.

Information on beneficiaries is a crucial part of our database. Beneficiaries can change, especially when some of ACERA's retirees have been retired for 50 years. One of our goals in 2003 was to address the challenge of keeping our members' beneficiary information up-to-date.

Staff implemented a letter campaign to retirees requesting that they update their beneficiary information. Although we did not get a 100% response, our database now contains updated information on those retirees who responded.

By the end of 2003, we had sent letters to all retirees with one exception: the most recently retired. We will complete this project in 2004 and now plan to send a beneficiary update letter to retirees every year.

Retirees are not the only members we remind to check their beneficiary information. Each year we send out member statements containing beneficiary information to ACERA's active and deferred members. They then have the opportunity to change the information in our database by submitting an update form to us.

### Enhanced Benefits for Safety Members

In 2003, Alameda County and the Safety Labor Organizations negotiated enhancements to the benefit formula for employees in the retirement Safety membership category. Two benefit formulas resulted, and ACERA and County representatives collaborated on developing a form, which Safety members could use to elect benefits from the two formulas.

ACERA also developed counseling for Safety members regarding the benefit enhancements and any benefit limitations under Internal Revenue Code 415b. Although negotiated, the enhanced benefit formulas were not implemented in 2003 because all Safety labor organizations had not yet resolved their contracts, which was a requirement for implementation.

## ACCOUNTING SYSTEM AND REPORTS

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Management of ACERA is responsible for establishing and maintaining an internal control structure designed to ensure that ACERA's assets are protected from loss, theft or misuse. Responsibility for the accuracy, completeness, fair presentation of information and all disclosures rests with ACERA's management. The accounting firm of Williams, Adley & Co., LLP provides audit services. The financial audit ensures that ACERA's financial statements are presented in conformity with generally accepted accounting principles and are free from material misstatement. Internal controls are reviewed to ensure that ACERA's operating policies and procedures are being adhered to and are sufficient to safeguard ACERA's assets.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and its predecessor, the National Council on Governmental Accounting.

The accompanying basic financial statements and transactions of the organization are prepared using the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when the payment is made.

## ACTUARIAL FUNDING STATUS

ACERA's funding objective is to meet long-term benefit commitments by implementing an actuarially prudent funding plan, by obtaining superior investment returns consistent with our risk controls and by minimizing employer contributions to the Fund.

ACERA engages an independent actuarial consulting firm to conduct annual actuarial valuations and to make recommendations to the Board of Retirement.

ACERA's funded ratio is 86.9% from 92.5% as of December 31, 2003 and 2002, respectively. The Actuarial Section of this report contains a more detailed discussion of funding.

The actuarial accrued liability of ACERA on December 31, 2003 and 2002 amounts to \$3,890,043,000 and \$3,559,613,000, respectively. The actuarial value of assets at December 31, 2003 and 2002 amounts to \$3,381,757,000 and \$3,294,053,000, respectively.

## INVESTMENTS

### General Authority

Article XVI, Section 17 of the Constitution of the State of California provides that "Notwithstanding any other provisions of law or this Constitution, to the contrary the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system..."

Article XVI, Section 17(a) of the Constitution of the State of California provides that "The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets..."

### Prudent Expert Duty

Article XVI, Section 17(c) of the Constitution of the State of California, provides that "The members of the retirement board of a public pension or retirement system 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 aim." By permitting further diversification of investments within a fund, the prudent expert standard may enable a fund to reduce overall risk and increase returns. A summary of ACERA's asset allocation can be found in the Investment Section of this report.

The prudent expert rule permits the Board to establish an investment policy based upon professional advice and counsel and allows for delegation of investment authority to professional investment advisors. ACERA's Investment Policy outlines the responsibility for the investments of the Fund and the degree of risk that is deemed appropriate for the Fund. Investment advisors are to carry out their responsibilities in accordance with the Board of Retirement's policies and guidelines.

For the years ended December 31, 2003 and December 31, 2002, ACERA investments provided a 26.7% and -6.8% rate of return, respectively. ACERA's annualized rate of return over the last three years was 4.7% and over the last five years, it was 5.9%.

## PROFESSIONAL SERVICES

Professional consultants and investment managers are retained by the Board of Retirement to provide professional services essential to the effective and efficient operation of ACERA.

An opinion from ACERA's certified public accountant, a letter from its investment con-



sultant, and a letter of certification from ACERA's actuary are included in this report. The consultants and investment professionals retained by the Board are listed on pages 10 and 48 of this report.

## **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 (see page 11) to ACERA for its CAFR for the year ended December 31, 2002. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. ACERA has received a Certificate of Achievement for the last seven years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting this CAFR to the GFOA.

## **ACKNOWLEDGEMENTS**

The compilation of this report reflects the combined effort of ACERA's staff under the leadership of the Board of Retirement. It is intended to provide complete and reliable information with respect to the Board's stewardship of ACERA.

This report is being mailed to all employers and to employee and retiree organizations. Their cooperation contributes significantly to the success of ACERA. The Annual Report

to Members is being mailed to all members. The complete CAFR is available upon request. We hope our employers and our members find this report informative.

On behalf of the Board of Retirement, I would like to take this opportunity to express my gratitude to the staff, to the advisors, and to the many people who have worked so diligently to ensure the successful operation of ACERA.

Respectfully submitted,



Charles F. Conrad  
General Manager  
May 4, 2004

MEMBERS OF THE BOARD OF RETIREMENT

As of January 1, 2004



Darryl Gray\*

*Elected by  
General Members*

Ophelia B. Basgal\*\*

*Appointed by the  
Board of Supervisors*

Liz Koppenhaver

*Elected by Safety  
Members*

Sandre Swanson

*Appointed by the  
Board of Supervisors*

Charles L. Harrington  
**1st Vice-Chair**

*Elected by  
Retired Members*

Robert Chambers  
**Chair**

*Elected by  
General Members*

Donald R. White

*Ex-Officio Member  
Treasurer-Tax Collector  
County of Alameda*

Annette Cain-Darnes

*Appointed by the  
Board of Supervisors*

Keith Carson

*Appointed by and  
Member of the Board  
of Supervisors*

2003 Members of the Board of Retirement

Annette Cain-Darnes, **Chair**

Keith Carson

Robert Chambers, **1st Vice-Chair**

Charles L. Harrington

Liz Koppenhaver

Dave Safer

Sandre Swanson

William Schaff

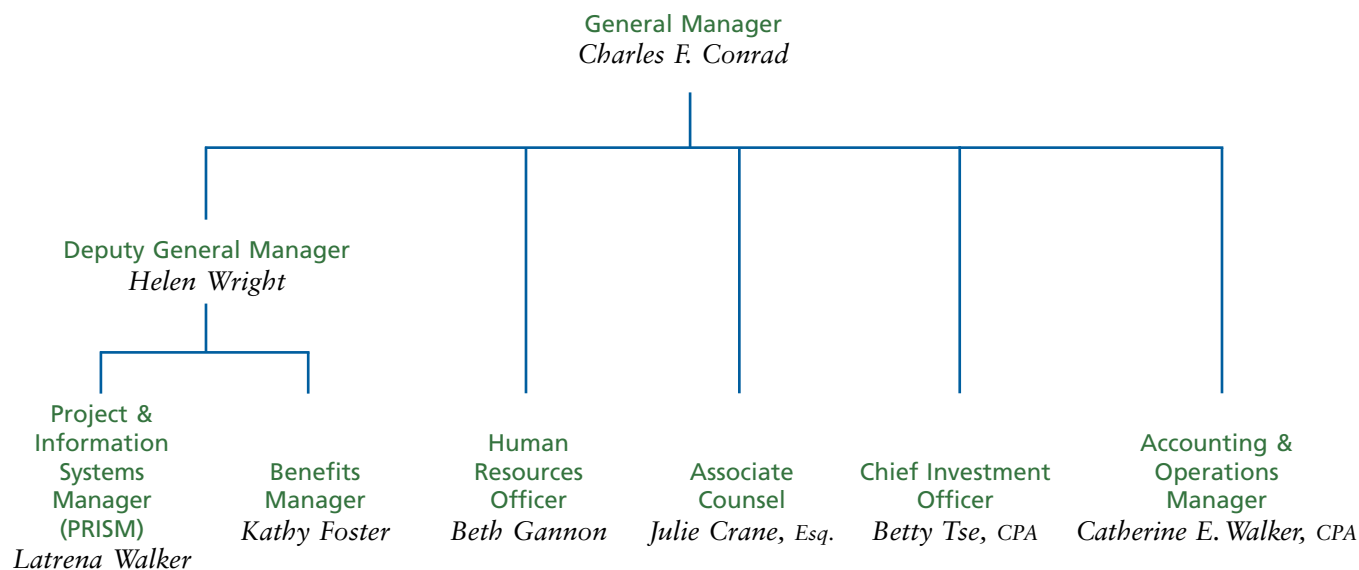
Donald R. White

\* replaced 2003 Board Member Dave Safer on January 1, 2004

\*\* replaced 2003 Board Member William Schaff on January 1, 2004

## ADMINISTRATIVE ORGANIZATION CHART†

As of December 31, 2003



## LIST OF PROFESSIONAL CONSULTANTS

### Actuary

Mercer Human Resource Consulting  
Segal Company

### Auditor

Williams, Adley & Co., LLP

### Custodian

State Street Bank

### Legal

Bob Pickus, Esq.  
Hanson, Bridgett, Marcus, Vlahos, Rudy, LLP  
Morrison & Foerster, LLP

### Personnel Coordination

Lakeside Group

### Publications, Layout & Design

Laura Meyers Design  
Tobi Designs

### Technical Support & Other Specialized Services

Accounting Systems & Solutions  
Allegiance Internet  
Information Resources  
Levi, Ray & Shoup, Inc.  
Linea Solutions  
MI8 Corporation  
Xapnet

† List of Investment Professionals is located on page 48 of the Investment Section of this report.

# 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, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Edward Haney*

President

*Jeffrey R. Enos*

Executive Director

ALSO AWARDED 1996, 1997, 1998, 1999, 2000, 2001



“Having worked in government for more than 30 years, I’m hoping to take an early retirement within the next three years. My retirement benefits will be lower than if I stayed until I was 60 or 65 but with the cushion ACERA benefits provide, I will have the freedom and flexibility to go do something in the private sector or to embark on another career.”

➤ **BRAD CLARK**

**Registrar of Voters  
Alameda County**



top from left, Lonnie Cruthird,  
Kathleen Pelayo, Brad Clark, and  
Willette Lee

# COUNTY OF ALAMA



## 2 > FINANCIAL

## INDEPENDENT AUDITORS' REPORT



Board of Retirement  
Alameda County Employees' Retirement Association  
Oakland, CA

We have audited the accompanying statements of plan net assets of the Alameda County Employees' Retirement Association (ACERA), as of December 31, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of ACERA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of December 31, 2003 and 2002, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2004 on our consideration of ACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



**WILLIAMS, ADLEY & COMPANY, LLP**  
Certified Public Accountants  
Management Consultants

The Management's Discussion and Analysis on pages 16–22, and the schedules of funding progress and employer contributions on page 36 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants on pages 38 and 39, and introduction, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in the introduction, investment, actuarial, and statistical sections has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

*Williams, Adley & Company, LLP*

May 4, 2004





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 the financial activities of ACERA for the years ended December 31, 2003 and 2002. The information presented here, in conjunction with the General Manager's Letter of Transmittal beginning on page 2, provides a clear picture of ACERA's overall financial status.

### Financial Highlights for the current year ended December 31, 2003

- The net assets of ACERA at the close of the year 2003 are \$3,920,004,126 (net assets held in trust for pension benefits). All of the net assets are available to meet ACERA's ongoing obligations to plan participants and their beneficiaries.
- ACERA's total net assets held in trust for pension benefits increased by \$737,063,954, or 23.2%, primarily as a result of market returns.
- ACERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2003, the date of our last actuarial valuation, the funded ratio for ACERA was approximately 86.9%. In general, this indicates that for every dollar of benefits due, we have approximately \$0.87 of assets to cover it.
- Revenues (Additions to Plan Net Assets) for the year are \$917,901,925, which includes member and employer contributions of \$109,250,284, an investment gain of \$807,717,211, net securities lending income of \$681,552, and miscellaneous income of \$252,878.
- Expenses (Deductions in Plan Net Assets) increased from \$168,813,358 to \$180,837,971 over the prior year, or approximately 7.1%, primarily due to the costs associated with additional retirees, cost-of-living adjustments, and an increase in benefits due to the *Ventura* settlement.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to ACERA's financial statements, which are comprised of these components:

1. Statements of Plan Net Assets
2. Statements of Changes in Plan Net Assets
3. Notes to the Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.

*The Statements of Plan Net Assets* are snapshots of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

*The Statements of Changes in Plan Net Assets*, on the other hand, provide a view of current year additions to and deductions from the plan net assets.

The Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets report information about ACERA's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments, and all property and equipment (capital assets) are depreciated over their useful lives.

These two statements report ACERA's net assets held in trust for pension benefits (net assets)—the difference between assets and

liabilities—as one way to measure the system's financial position. Over time, increases and decreases in ACERA's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring ACERA's overall health. (See ACERA's financial statements on pages 23–24.)

*Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 25–35 of this report.)

*Other Information.* In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning ACERA's progress in funding its obligations to provide pension benefits to members (see Required Supplementary Information on page 36 of this report).

The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information on pensions.

### Financial Analysis

Tables 1, 2, and 3 summarize and compare ACERA's financial results for current and prior periods.

Net assets held in trust for pension benefits as of December 31, 2003 totaled \$3,920,004,126, which represents an increase of \$737,063,954 or 23.2%, over the prior year. After three years of net asset decreases and negative returns, results turned positive in 2003. The increase in net assets is a direct result of strict adherence to ACERA's Investment Policy guidelines, which, with the asset allocation and rebalancing program as adopted by ACERA's Board of Retirement, have enabled

ACERA to maximize the upturn in the market. As of December 31, 2002, the net assets held in trust for pension benefits were \$3,182,940,172, a decrease of \$334,142,190, or -9.5%, over 2001 due to losses in the fair value of investments.

Current and Other Assets increased by \$29,759,823, or 89.7%, over 2002. This increase is largely a result of an increase from unsettled investment sales of \$28,482,279 as of December 31, 2003.

As of December 31, 2002, Current and Other Assets decreased by \$3,770,589, or 10.2%, over 2001 as a result of a decrease in contributions received.

Current Liabilities increased by \$64,919,660, or 28.0%, over 2002 due to an increase in the Securities Lending Liability of \$29,016,985 and an increase in the payable for unsettled

Purchase of Securities of \$33,043,526 at year-end. As of December 31, 2002, Current Liabilities increased by \$30,723,915, or 15.3% over 2001 primarily due to an increase of \$20,650,289 in the Securities Lending Liability and an increase in the payable for unsettled Purchase of Securities of \$9,045,659 (See Table 1 below).

### Capital Assets

ACERA's investment in capital assets increased from \$9,420,705 to \$9,778,981 (net of accumulated depreciation and amortization). This investment in capital assets includes information systems, equipment, furniture, leasehold improvements, and construction-in-progress. The total increase in ACERA's investment in capital assets was \$1,243,992 and \$358,276 as of December 31, 2002 and 2003, respectively. The major

## ACERA's Net Assets (Table 1)

For the Years Ended December 31, 2003 and 2002

	2003	2002	Increase/(Decrease) Amount	Increase/(Decrease) Change
Current and Other Assets	\$ 62,929,634	\$ 33,169,811	\$ 29,759,823	89.7%
Investments at Fair Value	4,144,016,145	3,372,150,630	771,865,515	22.9%
Capital Assets	9,778,981	9,420,705	358,276	3.8%
<b>Total Assets</b>	<b>4,216,724,760</b>	<b>3,414,741,146</b>	<b>801,983,614</b>	<b>23.5%</b>
Current Liabilities	296,720,634	231,800,974	64,919,660	28.0%
<b>Total Liabilities</b>	<b>296,720,634</b>	<b>231,800,974</b>	<b>64,919,660</b>	<b>28.0%</b>
<b>Net Assets</b>	<b>\$ 3,920,004,126</b>	<b>\$ 3,182,940,172</b>	<b>\$ 737,063,954</b>	<b>23.2%</b>

For the Years Ended December 31, 2002 and 2001

	2002	2001	Increase/(Decrease) Amount	Increase/(Decrease) Change
Current and Other Assets	\$ 33,169,811	\$ 36,940,400	\$ (3,770,589)	-10.2%
Investments at Fair Value	3,372,150,630	3,673,042,308	(300,891,678)	-8.2%
Capital Assets	9,420,705	8,176,713	1,243,992	15.2%
<b>Total Assets</b>	<b>3,414,741,146</b>	<b>3,718,159,421</b>	<b>(303,418,275)</b>	<b>-8.2%</b>
Current Liabilities	231,800,974	201,077,059	30,723,915	15.3%
<b>Total Liabilities</b>	<b>231,800,974</b>	<b>201,077,059</b>	<b>30,723,915</b>	<b>15.3%</b>
<b>Net Assets</b>	<b>\$ 3,182,940,172</b>	<b>\$ 3,517,082,362</b>	<b>\$ (334,142,190)</b>	<b>-9.5%</b>

## ACERA's Reserves (Table 2)

For Years Ended 2003, 2002, and 2001

	2003	2002	2001
Member Reserves	\$ 892,612,337	\$ 900,395,168	\$ 863,954,729
Employers' Advance Reserve	546,644,663	618,278,246	634,211,957
Retired Member Reserves	1,949,501,667	1,890,690,935	1,831,989,629
Supplemental Retiree Benefit Reserve	497,083,389	518,460,112	520,349,815
Contingency Reserve	42,167,248	(108,296,255)	100,265,797
Market Stabilization Reserve	(8,005,178)	(636,588,034)	(433,689,565)
<b>Total Reserves</b>	<b>\$ 3,920,004,126</b>	<b>\$ 3,182,940,172</b>	<b>\$ 3,517,082,362</b>

capital investment during 2002 and 2003 was the enhancement of ACERA's technology infrastructure. This enhancement includes additional customization and improvements to ACERA's Retirement Information System.

### Reserves

ACERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses (see Table 2 above). During the past seven years, the following have been implemented and have impacted the reserve accounts and the amount of interest credited to reserve accounts:

- In 1996, the adoption of GASB 25
- In 1998, the implementation of a five-year smoothing methodology of investment gain and losses
- In 2002, the implementation of an 80%–120% market value corridor to prevent actuarial valuation assets from deviating too significantly from actual market value
- In 2003, the implementation of an Investment Earnings and Loss Policy

Under GASB 25, investments are stated at fair market value instead of at cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in the Market

Stabilization Reserve, an account established in 1996. Initially, these gains and losses were only allocated to the Market Stabilization Reserve until the actual gains and losses were realized by the sale of the investment asset. However, with the implementation in 1998 of the five-year smoothing methodology, a portion of these unrealized gains and losses is recognized and allocated to all other reserves.

To prevent the smoothed value from deviating significantly from the actual market value, the Board of Retirement adopted a policy in 2002 that the smoothed value cannot be less than 80% nor greater than 120% of the market value. If the smoothed value is greater than 120%, then the market losses (or market gain if less than 80%) have to be recognized immediately.

The Investment Earnings and Loss Policy required the Contingency Reserve Account to accumulate losses when the net result of the actuarial asset valuation process is a negative number (net earnings are less than zero). Such losses are then made up by future earnings (less only administrative expenses). The regular Article 5.5 crediting process only resumes when future earnings have made up losses and the Contingency Reserve Account has a positive balance equal to 1% of system assets. This means that all accounts other



than the Contingency Reserve Account suffer a delay in the crediting of future earnings until losses are made up and the Contingency Reserve Account restored.

At year-end 2003, with the upturn in the market, ACERA's distributions to reserves at December 31 were \$802,017,260. Consequently, we were able to allocate \$150,463,503 to the Contingency Reserve resulting in a balance of \$42,167,248, or 1.0% of total assets. An amount of \$628,582,856 was also allocated to the Market Stabilization Reserve (the result of actuarial smoothing), resulting in a year-end balance of -\$8,005,178. After the allocation to these reserves, \$22,970,901 in interest was posted to all other reserves at 0.00% and 0.59% at June 30, 2003 and December 31, 2003, respectively.

## ACERA'S ACTIVITIES

Net assets increased by \$737,063,954 for the year ended December 31, 2003, largely due to market returns, which accounted for a 23.2% increase over 2002. The Changes in Plan Net Assets consist of Total Revenues reduced by Total Expenses (see Table 3 on page 21).

### Revenues—Additions to Plan Net Assets

The primary sources of financing for the benefits ACERA provides to its members are accumulated through income on investments and the collection of employer and employee contributions. Additions for the years ended December 31, 2003 and 2002 totaled \$917,901,925 and \$(165,328,832), respectively (see Table 3 on page 21).

Employer Contributions increased by 81.9% or \$22,105,645, as a result of a substantial increase in the Employer Contribution Rates and the reduction of the actuarial interest rate from 8.25% to 8.00% in 2003. An increase of 15.7%, or \$3,670,327, resulted from an increase in the Employer Contribution Rates in 2002.

Members Contributions increased by 12.9%, or \$6,873,291, in 2003 and 12.0%, or \$5,697,101, in 2002, due to salary increases, retroactive salary adjustments, and an increase in the Member Contribution rates.

The market recovery boosted Investment Income by \$1,054,357,639, or 427.5%, in 2003. In 2002, Investment Losses were -\$246,640,428 as the market contracted.

Securities Lending Income decreased by \$240,425, or 26.1%, in 2003 and increased by \$322,914, or 53.9%, in 2002 largely due to decreased demand for Securities Lending transactions and low interest rates.

Miscellaneous Income for 2003 increased by \$134,607, or 113.8%, over 2002. For 2002, Miscellaneous Income decreased by \$745,741, or 86.3%, over 2001. Fluctuations over the three years were as a result of settlements from securities litigations.

For 2003, overall revenues increased by \$1,083,230,757, or 655.2%, over 2002 due primarily to investment gains. For 2002, overall revenues decreased by \$114,494,304, or -225.2%, over 2001 due primarily to investment losses.

### Expenses—Deductions from Plan Net Assets

ACERA was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refunds of contributions to terminated employees, and the cost of administering the system.

The Retiree Payroll increased by \$9,153,180, or 6.5%, in 2003 and \$1,824,444, or 1.3%, in 2002. The Retiree Payroll consists of payments to Service Retirees, Death Payments, and Cost-of-Living Adjustments. The increases in the Retiree Payroll were due to new retirees, Cost-of-Living Adjustments

### Changes in Plan Net Assets (Table 3)

For the Years Ended December 31, 2003 and 2002

	2003	2002	Increase/(Decrease) Amount	Percent Change
<b>REVENUES – ADDITIONS</b>				
Employer Contributions	\$ 49,091,005	\$ 26,985,360	\$ 22,105,645	81.9%
Members Contributions	60,159,279	53,285,988	6,873,291	12.9%
Net Investment Income (Loss)	807,717,211	(246,640,428)	1,054,357,639	427.5%
Securities Lending Income	681,552	921,977	(240,425)	-26.1%
Miscellaneous Income	252,878	118,271	134,607	113.8%
<b>Total Revenues</b>	<b>917,901,925</b>	<b>(165,328,832)</b>	<b>1,083,230,757</b>	<b>655.2%</b>
<b>EXPENSES – DEDUCTIONS</b>				
Retiree Payroll	150,615,442	141,462,262	9,153,180	6.5%
Administrative	6,460,667	6,639,361	(178,694)	-2.7%
Health Insurance	17,002,962	14,082,662	2,920,300	20.7%
Actuarial	173,714	181,063	(7,349)	-4.1%
Members' Refunds	6,585,186	6,448,010	137,176	2.1%
<b>Total Expenses</b>	<b>180,837,971</b>	<b>168,813,358</b>	<b>12,024,613</b>	<b>7.1%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 737,063,954</b>	<b>\$ (334,142,190)</b>	<b>\$ 1,071,206,144</b>	<b>320.6%</b>

For the Years Ended December 31, 2002 and 2001

	2002	2001	Increase/(Decrease) Amount	Percent Change
<b>REVENUES – ADDITIONS</b>				
Employer Contributions	\$ 26,985,360	\$ 23,315,033	\$ 3,670,327	15.7%
Members Contributions	53,285,988	47,588,887	5,697,101	12.0%
Net Investment Income (Loss)	(246,640,428)	(123,201,253)	(123,439,175)	-100.2%
Securities Lending Income	921,977	599,063	322,914	53.9%
Miscellaneous Income	118,271	863,742	(745,471)	-86.3%
<b>Total Revenues</b>	<b>(165,328,832)</b>	<b>(50,834,528)</b>	<b>(114,494,304)</b>	<b>-225.2%</b>
<b>EXPENSES – DEDUCTIONS</b>				
Retiree Payroll	141,462,262	139,637,818	1,824,444	1.3%
Administrative	6,639,361	7,033,504	(394,143)	-5.6%
Health Insurance	14,082,662	11,724,117	2,358,545	20.1%
Actuarial	181,063	168,895	12,168	7.2%
Members' Refunds	6,448,010	8,312,460	(1,864,450)	-22.4%
<b>Total Expenses</b>	<b>168,813,358</b>	<b>166,876,794</b>	<b>1,936,564</b>	<b>1.2%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (334,142,190)</b>	<b>\$ (217,711,322)</b>	<b>\$ (116,430,868)</b>	<b>-53.5%</b>

and increases in benefits as a result of the *Ventura* settlement, effective September 1999. Under the *Ventura* settlement, certain items of compensation that were not previously considered to be part of a member's salary are now required to be included in a member's final average salary when determining the member's retirement allowance.

The Administrative Expenses are charged against investment earnings and limited to 0.18% of the total assets of the retirement system. ACERA's Board of Retirement adopts the Administrative Expense budget annually.

Administrative Expenses were \$6,460,667 and \$6,639,361, for the years ended December 31, 2003 and 2002, respectively, and were in compliance with the budget limitation. In 2003, Administrative Expenses were reduced by 2.7% over 2002. In 2002, there was a reduction of 5.6% over 2001. The reductions were due to several factors: the hiring of permanent staff to replace consultants and temporary staff, a reduction in overall expenditures, and a freeze by ACERA management on staff wages.

Health insurance subsidies for 2003 increased by \$2,920,300, or 20.7%, and for 2002 increased by \$2,358,545, or 20.1%. These increases are due to the high costs and availability of health insurance to retirees. Alameda County subsidizes health care premiums and ACERA manages the payment process to health care providers for the health care benefits for retirees and their dependents.

Member refunds in 2003 increased by \$137,176, or 2.1%, and in 2002 decreased by \$1,864,450, or 22.4%. Member refunds are a return of a member's contributions plus interest, as a result of termination.

Overall, deductions for the year ended 2003 increased by \$12,024,613, or 7.1%, and for 2002 increased by \$1,936,564, or 1.2%, respectively (see Table 3 on page 21).

### **ACERA's Fiduciary Responsibilities**

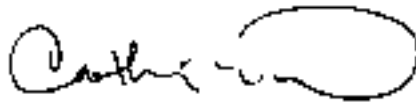
ACERA's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution the plan assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

### **Requests for Information**

This financial report is designed to provide the Board of Retirement, our membership, taxpayers, investment managers, and creditors with a general overview of ACERA's finances and to account for the money ACERA receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

ACERA  
Office of Accounting and Operations  
475 14th Street, Suite 1000  
Oakland, California 94612-1900

Respectfully submitted,



Catherine E. Walker, CPA  
Accounting & Operations Manager  
May 4, 2004

## Statements of Plan Net Assets

As of December 31, 2003 and 2002

	2003	2002
<b>ASSETS</b>		
Cash	\$ 1,778,143	\$ 3,157,043
Receivables		
Contributions	10,746,915	5,301,787
Accrued Interest	14,554,105	17,468,803
Dividends	1,480,633	1,041,888
Real Estate	246,866	390,936
Securities Lending	48,727	81,803
Sale of Securities	33,655,614	5,173,335
Other	249,628	131,663
<b>Total Receivables</b>	<b>60,982,488</b>	<b>29,590,215</b>
Prepaid Expenses	169,003	422,553
Investments, at Fair Value		
Short-Term Investments	192,972,851	113,015,280
Government Bonds	308,338,556	268,347,608
Corporate Bonds	518,965,503	562,447,657
International Bonds	133,130,283	178,960,971
Corporate Stocks	696,134,166	381,995,462
Domestic Equity Index Fund	804,176,891	624,488,410
Stock Index Futures	10,622,166	3,188,975
International Equity Funds	921,599,923	684,575,271
Real Estate Investment Trusts		9,651,016
Real Estate Properties	246,797,597	262,925,839
Real Estate Trusts	5,114,430	7,732,951
Real Estate Mortgage Loans	36,415	78,562
AFL-CIO Housing Trust	65,148,310	62,780,559
<b>Total Investments</b>	<b>3,903,037,091</b>	<b>3,160,188,561</b>
Securities Lending Collateral	240,979,054	211,962,069
<b>Total Investments Including Securities Lending Collateral</b>	<b>4,144,016,145</b>	<b>3,372,150,630</b>
Capital Assets (Net of Accumulated Depreciation and Amortization of \$3,164,898 and \$2,164,570)		
Equipment and Furniture	8,018,469	8,593,781
Construction in Progress	941,033	826,924
Leasehold Improvements	819,479	
<b>Total Capital Assets</b>	<b>9,778,981</b>	<b>9,420,705</b>
<b>Total Assets</b>	<b>4,216,724,760</b>	<b>3,414,741,146</b>
<b>LIABILITIES</b>		
Purchase of Securities	47,301,902	13,786,580
Accrued Investment and Actuary Expenses	4,764,367	2,621,970
Accrued Administration Expenses	1,065,799	1,220,378
Members Benefits & Refunds Payable	2,452,587	2,078,759
Securities Lending Liability	240,979,054	211,962,069
Stock Dividends Payable	84,940	59,680
Retirement Payroll Deductions Payable	71,985	71,538
<b>Total Liabilities</b>	<b>296,720,634</b>	<b>231,800,974</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b> (see Schedule of Funding Progress presented on page 36)	<b>\$ 3,920,004,126</b>	<b>\$ 3,182,940,172</b>

(See accompanying Notes to Financial Statements beginning on page 25.)

## Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2003 and 2002

	2003	2002
<b>ADDITIONS</b>		
Contributions		
Members	\$ 60,159,279	\$ 53,285,988
Employers	49,091,005	26,985,360
<b>Total Contributions</b>	<b>109,250,284</b>	<b>80,271,348</b>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	732,725,012	(341,465,348)
Interest	60,005,696	76,620,216
Dividends	13,348,147	10,990,018
Real Estate, Net	19,373,752	22,486,065
<b>Total Investment Income (Loss)</b>	<b>825,452,607</b>	<b>(231,369,049)</b>
Less: Investment Expenses	(17,735,396)	(15,271,379)
<b>Net Investment Income (Loss)</b>	<b>807,717,211</b>	<b>(246,640,428)</b>
Securities Lending Income		
Securities Lending	2,808,232	4,320,793
Less: Securities Lending Expenses	(2,126,680)	(3,398,816)
<b>Net Securities Lending Income</b>	<b>681,552</b>	<b>921,977</b>
Miscellaneous Income	252,878	118,271
<b>Total Additions</b>	<b>917,901,925</b>	<b>(165,328,832)</b>
<b>DEDUCTIONS</b>		
Benefit Payments		
Service Retirement	142,270,330	132,563,991
Death Payments	2,020,305	2,055,948
Supplemental Cost-of-Living	6,324,807	6,842,323
Health Insurance Subsidies	17,002,962	14,082,662
<b>Total Benefit Payments</b>	<b>167,618,404</b>	<b>155,544,924</b>
Members Refunds	6,585,186	6,448,010
Administration		
Administrative Expenses	6,460,667	6,639,361
Actuarial Expenses	173,714	181,063
<b>Total Administration</b>	<b>6,634,381</b>	<b>6,820,424</b>
<b>Total Deductions</b>	<b>180,837,971</b>	<b>168,813,358</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of Year	3,182,940,172	3,517,082,362
Excess (Deficiency) of Additions over Deductions	737,063,954	(334,142,190)
<b>End of Year</b>	<b>\$ 3,920,004,126</b>	<b>\$ 3,182,940,172</b>

(See accompanying Notes to Financial Statements beginning on page 25.)



## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACERA is an independent governmental entity with its own governing board. ACERA's annual financial statements are included in the County of Alameda's Annual Financial Report as a pension trust fund.

#### Basis of Accounting

ACERA's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by ACERA is recorded as an increase (decrease) to investment income based on the valuation of investments.

#### Cash

Cash includes deposits with a financial institution and a pooled account with the Alameda County Treasurer. Deposits in the pooled accounts approximate fair value. All participants in the pool proportionately share earnings and losses.

#### Method Used to Value Investments

Short-term investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are reported based on the remaining principal balances, which approximate the value of future principal and interest payments discounted at prevailing rates for similar instruments. The fair value of real estate investments is based on prices in a competitive market as determined by specialists.

#### Capital Assets

Capital assets are carried at cost, net of accumulated depreciation and amortization. Capital assets with an initial cost of more than \$3,000 and an estimated useful life in excess of one year are capitalized and depreciated. 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. Computers, equipment, and the accounting information systems are depreciated over five years, furniture is depreciated over seven years and the retirement information system is depreciated over fifteen years.

### Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

### Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net plan assets.

## 2. PLAN DESCRIPTION

ACERA began operations on January 1, 1948. It is governed by the California Constitution, the County Employees Retirement Law of 1937 and the bylaws, procedures and policies adopted by the Board of Retirement. ACERA operates as a cost-sharing multi-employer defined benefit plan for Alameda County (the County) and five participating Special Districts located in the County but not under the control of the County Board of Supervisors. ACERA administers retirement, disability and death benefits to its safety and general members, and provides retiree health, dental, and vision benefit programs. All risks and costs, including benefit costs, are shared by the participating entities. One actuarial valuation is performed annually for the system as a whole.

### Plan Membership

All full-time employees of participating entities appointed to permanent positions are required by statute to become members of ACERA. Safety membership includes employees who are in active law enforcement, probation officers, and juvenile hall counselors. General membership includes all other eligible classifications.

### ACERA's Membership

As of December 31, 2003 and 2002

	2003	2002
Retirees and Beneficiaries		
Currently Receiving Benefits	6,287	5,996
Active Employees:		
Vested	6,796	6,609
Nonvested	4,424	4,729
Inactive Vested Members	1,224	1,141
<b>Total Membership</b>	<b>18,731</b>	<b>18,475</b>

### Benefit Provisions

Members become vested after five years of credited service. Vested general members may retire at age fifty or older with ten or more years of qualifying service, at any age with thirty or more years of qualifying service, or at age seventy or older regardless of service credit. Vested safety members may retire at age fifty or older with ten or more years of qualifying service, or at any age with twenty or more years of qualifying service. Members who qualify are entitled to monthly retirement benefits for life. Service retirement benefits are based on final average salary, age at retirement, and length of service as of the retirement date, according to applicable statutory formulae.

The service retirement benefits within the plan are tiered based on membership entry date. 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 belong to Tier 2. Tier 1 members contribute at a higher rate and, therefore, receive higher retirement benefits.

ACERA is integrated with Social Security for all employees except most safety members. For members covered by Social Security, the retirement benefit is adjusted by a reduction factor.

#### Cost-of-Living Adjustment

Retirement benefits are subject to post-retirement cost-of-living adjustments (COLA) based upon the Consumer Price Index for the San Francisco Bay Area. Annual COLA increases are capped at 3% for Tier 1 and 2% for Tier 2 members under the County Employees Retirement Law.

The actual COLA increase granted for 2003 for Tier 1 members ranged from 1.5% to 3.0% and for Tier 2 members ranged from 1.5% to 2.0%.

#### Supplemental Cost-of-Living

In addition to basic cost-of-living increases, the Board of Retirement implemented a non-vested Supplemental Cost-of-Living adjustment (Supplemental COLA) program, effective January 1, 1998. The Supplemental COLA is structured to maintain purchasing power at no less than 85% of the original benefit. The Supplemental COLA is applicable to members who have an accumulated loss of purchasing power of more than 15% due to inflation.

Funding for the Supplemental COLA is provided solely through the Supplemental Retiree Benefit Reserve (SRBR) which derives its funding from interest posting and

investment earnings in excess of the actuarial interest assumption rate.

Supplemental COLA increases are subject to approval by the Board of Retirement on an annual basis. The benefit is non-vested and based on available funding.

### 3. CONTRIBUTIONS

Employer and member contributions are based on statute and rates recommended by an independent actuary and adopted by the Board of Retirement. Covered employees are required by statute to contribute toward their pensions. Member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. ACERA members are required to contribute between 4.72% and 16.23% of their annual covered salary. Member contributions are refundable upon termination of employment.

The County and Special Districts are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to ACERA members not funded by employee contributions or investment earnings.

### 4. RESERVES

ACERA reserves are established from member and employer contributions and the accumulation of investment income, after satisfying investment and administrative expenses. ACERA's reserves are as follows:

**Member Reserves** represent the total accumulated member contributions of current active and deferred members. Additions include member contributions and credited interest; deductions include refunds of member contributions and transfers to Retired Member Reserves.

## ACERA's Reserves

As of December 31, 2003 and 2002

	2003	2002
<b>RESERVES</b>		
Member Reserves	\$ 892,612,337	\$ 900,395,168
Employers' Advance Reserve	546,644,663	618,278,246
Retired Member Reserves	1,949,501,667	1,890,690,935
Supplemental Retiree Benefit Reserve	497,083,389	518,460,112
Contingency Reserve	42,167,248	
<b>Total Reserves at Fair Value</b>	<b>3,928,009,304</b>	<b>3,927,824,461</b>
<b>UNDER-FUNDED RESERVE ACCOUNTS</b>		
Contingency Account		(108,296,255)
Market Stabilization Account	(8,005,178)	(636,588,034)
<b>Total Reserves and Under-Funded Accounts</b>	<b>\$ 3,920,004,126</b>	<b>\$ 3,182,940,172</b>

**Employers' Advance Reserve** represents the total accumulated employer contributions for future retirement payments to current active members. Additions include contributions from the employer and credited interest; deductions include transfers to Retired Member Reserves.

**Retired Member Reserves** represent the total accumulated transfers from Member Reserves, the Employers' Advance Reserve and credited interest, less payments to retired members, beneficiaries and survivors.

**Contingency Reserve** represents reserves accumulated for future earnings deficiencies. The Contingency Reserve is used to satisfy the statutory requirement to reserve at least 1% of total assets against the above deficiencies. The balance of the Contingency Reserve, which is funded entirely from investment earnings, cannot exceed 1% of the total assets of the retirement system. The balance of the Contingency Reserve was \$42,167,248 and \$(108,296,255) for the years ended December 31, 2003 and 2002, respectively.

**Supplemental Retiree Benefit Reserve (SRBR)** represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees. Health Insurance Subsidies, Supplemental COLA, Medicare Part B Reimbursement, Health Equity Location Program, vision, dental, and increased death benefits to retirees are currently being funded by this reserve. The SRBR was established on January 1, 1985, upon adoption of Article 5.5 of the Government Code by the Board of Supervisors for Alameda County.

**Market Stabilization Reserve** represents unrealized gains or losses recognized as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 25, which requires reporting investments at fair value instead of cost. The account was established to help offset the impact of market fluctuation. Semiannually, income and losses from investments stated at fair value are credited in this account as realized and available earnings are credited to other reserves over a five-year period. The Market Stabilization

Reserve was under-funded by \$8,005,178 and \$636,588,034 for the years ended December 31, 2003 and 2002. (See the table of ACERA's Reserves on page 28.)

Under Article 5.5 of the 1937 Act, earnings (interest) are first allocated to all reserves except for the Contingency and Market Stabilization Reserves. Interest is equivalent to the actuarial interest assumption rate, which is approved by the Board of Retirement. The Contingency Reserve is then adjusted up to an amount not to exceed 1% of total assets at fair value as established by the Board and permitted by Section 31616 of the California Government Code. The remaining net earnings are allocated 50% to the SRBR and 50% proportionally to all other reserves with the exception of the Contingency and Market Stabilization Reserves as required by the Government Code.

## 5. ACTUARIAL VALUATION

ACERA retains an independent actuarial firm to conduct an actuarial valuation to monitor ACERA's funding status and funding integrity. This valuation is updated annually for economic and non-economic assumptions. The last valuation was performed as of December 31, 2003, and determined the plan's funded status to be 86.9%.

## 6. POSTEMPLOYMENT HEALTHCARE BENEFITS

ACERA administers a healthcare benefits program for retired members and their eligible dependents. The County negotiates the healthcare contracts with the providers covering both active and retired members.

All subsidies for retirees' healthcare premiums are paid by the County, based on the lowest average cost plan available. The amount of the subsidy is dependent upon

## Postemployment Healthcare Benefits

For the Years Ended December 31, 2003 and 2002

	2003	2002
County's Healthcare Premium Account Balance	\$ 2,161,072	\$ 2,096,611
Health Insurance Subsidies Paid	\$ 17,002,962	\$ 14,082,662
Number of Subsidized Retirees:		
Medical	4,235	3,960
Dental	5,499	5,179
Vision	5,498	5,172

the retirees' 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. The cost of the healthcare premiums, after the subsidy, is deducted from the retirees' monthly benefit payments. The program may be amended, revised or discontinued at any time.

No plan net assets are held in trust for post-employment healthcare benefits. Each year, the County pays an amount to cover the estimated healthcare premium subsidies.

## 7. INDUSTRY CONCENTRATION OF PORTFOLIO ASSETS

The Board of Retirement's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the non-correlated economic behavior of diverse asset classes. The result is a well-diversified portfolio. The investment portfolio contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio. The limitation is not applicable to the passive index funds and high alpha managers.



## 8. DEPOSITS AND INVESTMENTS

ACERA's investment guidelines reflect the duties imposed by an investment standard known as the Prudent Expert Rule. The Prudent Expert Rule, as set forth in the State Constitution, establishes a standard for all fiduciaries, which includes anyone who has discretionary authority with respect to ACERA's investments.

### Deposits

Operational cash accounts held with a financial institution are swept on a daily basis into a pooled money-market fund, which invests in repurchase agreements and U.S. treasury bills and notes. The cash amounted to \$1,531,647 and \$2,323,319 as of December 31, 2003 and 2002, respectively. ACERA also participates in the Alameda County Treasurer's investment pool. The pool invests in Local Agency Investment Funds (LAIF), banker's acceptances, collateralized time deposits, negotiable certificates of deposits, commercial paper, corporate notes and bonds, money market funds, federal agency notes and bonds, federal agency discount notes, and U.S. treasury notes. The cash held in the investment pool was \$246,496 and \$833,724 at December 31, 2003 and 2002, respectively. The above deposits are both uninsured, uncollateralized and are not categorized. The book value of deposits does not differ materially from the bank balance of deposits.

GASB Statement No. 3 requires that deposits be categorized by type to give an indication of the level of custodial credit risk assumed at year end, as follows:

**Category 1** includes deposits that are insured or collateralized with securities held by ACERA or by its agent in ACERA's name. ACERA had no Category 1 Deposits.

**Category 2** includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in ACERA's name. ACERA had no Category 2 Deposits.

**Category 3** includes deposits that are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in ACERA's name). ACERA had no Category 3 Deposits.

### Investments

ACERA's asset classes include U.S. equity, international equity, U.S. fixed income, international fixed income, real estate, and cash. Any class may be held in direct form, pooled form, or both. As of December 31, 2003, twelve external investment managers managed securities portfolios and two investment managers were used for real estate investments.

Available cash held by investment managers is swept on a daily basis into a pooled short term investment fund with our custodian bank which consists of 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.

GASB Statement No. 3 requires that investments are categorized by type to give an indication of the level of custodial credit risk assumed at year end, as follows:

**Category 1** includes investments that are insured or registered, or for which the securities are held by ACERA or its agent in ACERA's name.

**Category 2** includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in ACERA's name. ACERA had no Category 2 investments at December 31, 2003 and 2002.

**Category 3** includes investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in ACERA's name.

## ACERA Investments

As of December 31, 2003 and 2002

	Risk Category	2003		2002	
		Basis/Cost	Fair Value	Basis/Cost	Fair Value
<b>INVESTMENTS—CATEGORIZED</b>					
Government Bonds	1	\$ 307,155,175	\$ 181,317,301	\$ 260,646,281	\$ 183,541,874
Corporate Bonds	1	473,162,128	489,895,320	550,957,311	524,306,777
Corporate Stocks	1	565,086,882	620,614,358	438,851,345	330,203,340
International Bonds	1	105,559,502	133,130,283	154,114,233	178,960,971
International Equity	1	755,881,685	912,232,115	723,681,509	647,351,938
Real Estate Investment Trusts (REIT)	1			9,482,512	9,651,016
<b>Total</b>		<b>2,206,845,372</b>	<b>2,337,189,377</b>	<b>2,137,733,191</b>	<b>1,874,015,916</b>
Investments made with Securities Lending Cash Collateral					
Government Bonds	3		127,021,255		84,805,734
Corporate Bonds	3		29,070,183		38,140,880
Corporate Stocks	3		75,519,808		51,792,122
International Equity	3		9,367,808		37,223,333
<b>Total</b>			<b>240,979,054</b>		<b>211,962,069</b>
<b>Total Categorized Investments</b>		<b>2,206,845,372</b>	<b>2,578,168,431</b>	<b>2,137,733,191</b>	<b>2,085,977,985</b>
<b>INVESTMENTS – NOT CATEGORIZED</b>					
Short-Term Investment Fund		192,982,139	192,972,851	113,015,280	113,015,280
Domestic Equity Index Fund		592,736,532	804,176,891	590,911,278	624,488,410
Stock Index Futures		7,818,203	10,622,166	3,824,425	3,188,975
AFL-CIO Housing Trust		63,283,193	65,148,310	59,385,864	62,780,559
Real Estate Properties		246,797,597	246,797,597	262,925,839	262,925,839
Real Estate Trusts		5,114,430	5,114,430	7,732,951	7,732,951
Real Estate Mortgage Loans		36,415	36,415	78,562	78,562
<b>Total</b>		<b>1,108,768,509</b>	<b>1,324,868,660</b>	<b>1,037,874,199</b>	<b>1,074,210,576</b>
Investments Held by Broker-Dealer under Securities Loans with Cash Collateral					
Government Bonds		122,293,303	124,319,793	77,984,982	83,052,249
Corporate Stocks		55,637,545	72,929,082	52,021,611	49,381,490
Corporate Bonds		26,777,679	28,502,662	39,205,991	37,330,614
International Equity		8,331,047	8,979,978	39,476,010	35,629,142
<b>Total</b>		<b>213,039,574</b>	<b>234,731,515</b>	<b>208,688,594</b>	<b>205,393,495</b>
Securities Lending Collateral Margin			6,247,539		6,568,574
<b>Total Non-Categorized Investments</b>		<b>1,321,808,083</b>	<b>1,565,847,714</b>	<b>1,246,562,793</b>	<b>1,286,172,645</b>
<b>Total Investments</b>		<b>\$ 3,528,653,455</b>	<b>\$ 4,144,016,145</b>	<b>\$ 3,384,295,984</b>	<b>\$ 3,372,150,630</b>

## Schedule of Real Estate Investment Income

For the Years Ended December 31, 2003 and 2002

	2003	2002
Real Estate Investment Income	\$ 41,310,402	\$ 44,246,032
Real Estate, Non-Operating Expense*	(5,973,487)	(6,537,742)
Real Estate, Operating Expenses	(15,963,163)	(15,222,225)
<b>Real Estate, Net Income</b>	<b>\$ 19,373,752</b>	<b>\$ 22,486,065</b>

## ACERA's Securities Lending Income

For the Years Ended December 31, 2003 and 2002

	2003	2002
Gross Income	\$ 2,808,232	\$ 4,320,793
Expenses:		
Borrower Rebates	1,834,480	3,003,618
Bank Fees	292,200	395,198
<b>Total Expenses</b>	<b>2,126,680</b>	<b>3,398,816</b>
<b>Net Income from Securities Lending</b>	<b>\$ 681,552</b>	<b>\$ 921,977</b>

### Real Estate

ACERA seeks to achieve total gross returns equivalent to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index ("NPI") as a minimum return for the total portfolio over rolling five-year periods. In addition, income, which is to be defined as cash distributed to ACERA, should comprise at least two-third of the expected total return over rolling five-year periods.

### Securities Lending

The Board of Retirement policies authorize ACERA to participate in a securities lending program. Securities lending transactions are short-term collateralized loans of ACERA securities to brokers that allow ACERA to invest and receive earnings on the loan collateral for a loan rebate fee.

For the years ended December 31, 2003 and 2002, ACERA's custodian bank lent securities and received cash (United States and foreign currency), securities issued guaranteed by the United States government, sovereign debt and irrevocable bank letters of credit as collateral. The custodian did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 102% of the market value of the loaned securities

ACERA did not impose any restrictions for the years ended December 31, 2003 and 2002 on the amount of the loans that the custodian made on its behalf and the custodian indemnified ACERA by agreeing to purchase replacement securities or return cash

\* Non-operating expense includes interest expense which resulted from loans on properties.

## Schedule of Derivatives

As of December 31, 2003 and 2002

	2003		2002	
	Cost	Market	Cost	Market
Collateralized Mortgage Obligations	\$ 77,371,847	\$ 77,875,525	\$ 53,399,653	\$ 55,045,566
Futures Contracts				
Indexed Securities	79,380,438	82,184,400	44,476,513	43,823,938
Government Debt Issues	1,340	1,344	7,679,719	8,155,563
<b>Total Derivatives</b>	<b>\$ 156,753,625</b>	<b>\$ 160,061,269</b>	<b>\$ 105,555,885</b>	<b>\$ 107,025,067</b>

collateral in the event borrower failed to return the loaned securities and the collateral was inadequate to replace the securities lent or failed to pay ACERA for income distributions by the securities issuers where the securities are on loan. Moreover, there were no losses during the year resulting from a default of the borrowers or the custodian.

For the years ended December 31, 2003 and 2002, ACERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a collective investment pool. As of December 31, 2003 and 2002, such investment pool had an average duration of 71 days and 75 days, and an average weighted maturity of 540 days and 456 days, respectively. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. For the years ended December 31, 2003 and 2002, ACERA had no credit risk exposure to borrowers.

As of December 31, 2003 and 2002, ACERA had securities on loan with a carrying value of \$234,731,515 and \$205,393,495, respectively for cash collateral of \$240,979,054 and \$211,962,069, respectively. The difference between the carrying value and the cash

collateral is referred to as the securities lending collateral margin. As the securities on loan for the years ending December 31, 2003 and 2002 were collateralized by cash, the investments are presented as unclassified in the preceding schedule of custodial credit risk. Investments made with the cash collateral are classified by risk category.

### Derivative Financial Investments

ACERA does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are utilized by ACERA to improve or defend against currency fluctuations of the investment earnings and reduce interest rate risks. None of these securities were leveraged as of December 31, 2003 and 2002.

Derivatives are generally described as a contract whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. Futures contracts and collateralized mortgage obligations are specific types of derivative instruments.

The investments in futures contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. Also, the investments may be subject to market risk due to a change in the price of the underlying securities.

The investments in collateralized mortgage obligations may be subject to credit risks such

as the credit quality rating of the underlying security may be downgraded by rating organizations and the mortgages can be prepaid. Collateralized mortgage obligations also bear market risk, as the market may be sensitive to interest rate fluctuations.

## 9. CAPITAL ASSETS

Depreciation expense was \$1,000,328 and \$661,024 for the years ended December 31, 2003 and 2002, respectively. (See Schedule of Capital Assets below.)

### Schedule of Capital Assets

For the Years Ended December 31, 2003 and 2002

	January 1, 2003	Additions	Deletions/ Transfers	December 31, 2003
<b>CAPITAL ASSETS</b>				
Equipment and Furniture	\$ 2,272,847	409,893		\$ 2,682,740
Construction in Progress	826,924	1,358,604	(1,244,495)	941,033
Information Systems	8,485,504			8,485,504
Leasehold Improvements		834,602		834,602
<b>Total Capital Assets (Cost)</b>	<b>11,585,275</b>	<b>2,603,099</b>	<b>(1,244,495)</b>	<b>12,943,879</b>
<b>ACCUMULATED DEPRECIATION</b>				
Equipment and Furniture	(1,792,973)	(239,968)		(2,032,941)
Information Systems	(371,597)	(745,237)		(1,116,834)
Leasehold Improvements		(15,123)		(15,123)
<b>Less: Accumulated Depreciation</b>	<b>(2,164,570)</b>	<b>(1,000,328)</b>		<b>(3,164,898)</b>
<b>Total Capital Assets— Net of Depreciation</b>	<b>\$ 9,420,705</b>	<b>1,602,771</b>	<b>(1,244,495)</b>	<b>\$ 9,778,981</b>
	January 1, 2002	Additions	Deletions/ Transfers	December 31, 2002
<b>CAPITAL ASSETS</b>				
Equipment and Furniture	\$ 2,228,168	57,679	(13,000)	\$ 2,272,847
Construction in Progress	7,457,473	1,872,590	(8,503,139)	826,924
Information Systems		8,485,504		8,485,504
<b>Total Capital Assets (Cost)</b>	<b>9,685,641</b>	<b>10,415,773</b>	<b>(8,516,139)</b>	<b>11,585,275</b>
<b>ACCUMULATED DEPRECIATION</b>				
Equipment and Furniture	(1,508,928)	(289,427)	5,382	(1,792,973)
Information Systems		(371,597)		(371,597)
<b>Less: Accumulated Depreciation</b>	<b>(1,508,928)</b>	<b>(661,024)</b>	<b>5,382</b>	<b>(2,164,570)</b>
<b>Total Capital Assets— Net of Depreciation</b>	<b>\$ 8,176,713</b>	<b>9,754,749</b>	<b>(8,510,757)</b>	<b>\$ 9,420,705</b>



## ACERA Administrative Expenses

For the Years Ended December 31, 2003 and 2002

	2003	2002
Total Asset Base, at Fair Value (June 30, 2002 and 2001)	\$ 3,596,741,142	\$ 3,696,256,667
Maximum Allowable for Administrative Expense (0.18% x \$ 3,596,741,142 and \$ 3,696,256,667)	\$ 6,474,134	\$ 6,653,262
Actual Administrative Expenses for the Fiscal Year	6,460,667	6,639,361
<b>Excess of Allowance over Actual Administrative Expenses</b>	<b>\$ 13,467</b>	<b>\$ 13,901</b>
<b>Actual Administrative Expenses as a Percentage of Total Assets Base</b>	<b>0.18%</b>	<b>0.18%</b>

### 10. ADMINISTRATIVE EXPENSES

ACERA's Board of Retirement annually adopts an administrative expense budget based on the total asset base at fair value on June 30 of the preceding year. By statute, the administrative expenses are charged against ACERA's investment earnings and are limited to eighteen hundredths of one percent of the total assets of the retirement system as set forth under Government Code Section 31580.2.

### 11. RELATED PARTY TRANSACTIONS

ACERA has a contract with Alameda County, Human Resources Department, The Lakeside Group, for personnel consulting services. For the years ended December 31, 2003 and 2002 ACERA paid \$77,000 annually as per the contracted amount, plus other reimbursable expenses incurred by The Lakeside Group.

ACERA received the following services from Alameda County departments:

	2003	2002
Allocated Costs	\$ 142,273	\$ 102,881
Salary Reimbursements for Elected Board Members	127,726	116,114
Personnel Services, Other	1,936	2,332
<b>Total</b>	<b>\$ 271,935</b>	<b>\$ 221,327</b>

## REQUIRED SUPPLEMENTAL SCHEDULES

### Schedule of Funding Progress

Actuarial Valuation Date December 31	Valuation Value (\$) of Assets (a)*	Accrued Actuarial Liability ("AAL") (\$) ** (b)	Unfunded/ (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (%) (a)/(b)	Covered Payroll (\$) (c)	UAAL as a Percentage (%) of Covered Payroll [(b-a)/c]
1998	\$ 2,830,438,000	\$ 2,613,012,000	\$ (217,426,000)	108.3	\$ 462,465,000	-47.0
1999	2,997,932,000	2,762,524,000	(235,408,000)	108.5	487,986,000	-48.2
2000	3,169,178,000	2,936,631,000	(232,547,000)	107.9	532,305,000	-43.7
2001	3,321,794,000	3,140,216,000	(181,579,000)	105.8	590,392,000	-30.8
2002	3,294,053,000	3,559,613,000	265,560,000	92.5	640,777,000	41.4
2003	3,381,757,000	3,890,043,000	508,286,000	86.9	714,344,000	71.2

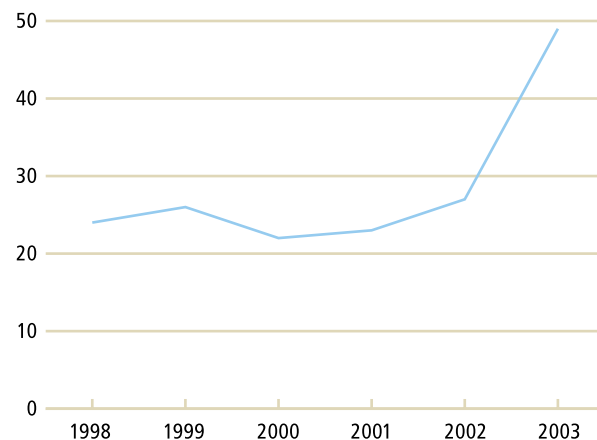
### Schedule of Employer Contributions

(In Millions of Dollars)

Year Ended December 31	Annual Required Contribution (\$)	Percentage (%) Contributed
1998	24	100
1999	26	100
2000	22	100
2001	23	100
2002	27	100
2003	49	100

### Employer Contributions

(Dollars in Millions)



\* Excludes assets for SRBR and other non-valuation reserves

\*\* Excludes liabilities for SRBR and other non-valuation reserves

## NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

The information presented in the supplemental schedules was determined as part of the actuarial valuations as of the date indicated. Additional information as of the latest actuarial valuation date, December 31, 2003 is as follows:

### **Actuarial Cost Method:**

Entry Age Normal

### **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. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves.

### **Amortization of Unfunded Liability:**

The annual contribution rate which, if paid annually over the Unfunded Actuarial Accrued Liability (UAAL) amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the assumed investment earnings 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 the Association) assuming a constant number of active members. In order to remain as a level percentage of payroll, amortization payments are scheduled to increase at the total assumed annual inflation rate plus across-the-board salary increase of 4.25%.

The entire UAAL of the Association is being funded over a declining 29-year period following December 31, 2003.

### **Amortization Approach:**

Open

### **Amortization of Actuarial Gains and Losses:**

Any new actuarial gains and losses will be combined with all prior unamortized gains and losses and amortized over the amortization period of 29 years following December 31, 2003.

### **Cost-of-Living Adjustments:**

The maximum statutory annual increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 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.

### **Assumed Investment Rate of Return:**

8.00% per annum

### **Assumed Salary Increases:**

5.65% per annum

### **Assumed Inflation Rate:**

4.00% per annum

### **Assumed Across-the-Board Salary Increase:**

0.25% per annum

## SUPPLEMENTAL SCHEDULES

## Schedule of Administrative Expenses

For the Years Ended December 31, 2003 and 2002

	2003	2002
Personnel Services		
Staff Wages	\$ 2,568,374	\$ 2,580,225
Fringe Benefits	983,426	861,835
Temporary Services	566,203	865,655
<b>Total Personnel Services</b>	<b>4,118,003</b>	<b>4,307,715</b>
Professional Services		
Computer Services	48,725	14,073
Audit	84,000	84,426
Legal Counsel	81,872	160,058
Specialized Services	83,699	174,660
<b>Total Professional Services</b>	<b>298,296</b>	<b>433,217</b>
Communications		
Printing	211,648	167,439
Communication	50,346	56,706
Postage	58,504	56,318
<b>Total Communications</b>	<b>320,498</b>	<b>280,463</b>
Rental / Utilities		
Office Space	15,323	79,054
Equipment Leasing	8,372	8,840
<b>Total Rentals / Utilities</b>	<b>23,695</b>	<b>87,894</b>
Other		
Training	55,573	74,873
Supplies	43,163	68,544
Maintenance-Equipment	95,191	81,788
Insurance	144,561	137,037
Software Maintenance and Support	226,317	223,256
Depreciation and Amortization	750,246	531,503
Office	374,716	371,592
Miscellaneous	10,408	41,479
<b>Total Other</b>	<b>1,700,175</b>	<b>1,530,072</b>
<b>Total Administrative Expenses</b>	<b>\$ 6,460,667</b>	<b>\$ 6,639,361</b>

## Investment Manager Fees and Other Investment Expenses Summary

For the Years Ended December 31, 2003 and 2002

	2003	2002
<b>INVESTMENT MANAGER FEES</b>		
Equity		
Domestic	\$ 3,688,021	\$ 2,819,961
International	2,895,895	2,705,288
Fixed Income		
Domestic	1,736,423	1,912,142
International	488,248	584,610
Real Estate		
Investment Trusts	61,290	126,919
Individual Properties	3,673,073	2,686,927
Mortgage Loan Services	148	414
Securities (REITs)	35,880	33,145
<b>Total Investment Managers Fees</b>	<b>12,578,978</b>	<b>10,869,406</b>
<b>OTHER INVESTMENT EXPENSE</b>		
Investment Allocated Costs	1,795,188	1,569,661
Investment Custodians	338,541	323,818
Investment Consultants	508,608	523,775
Security Lending Fees	2,126,680	3,398,816
Commissions	2,514,081	1,984,719
<b>Total Other Investment Expense</b>	<b>7,283,098</b>	<b>7,800,789</b>
<b>Total Fees &amp; Other Investment Expenses</b>	<b>\$ 19,862,076</b>	<b>\$ 18,670,195</b>

## Schedule of Payments to Consultants

For the Years Ended December 31, 2003 and 2002

	2003	2002
Actuarial and Audit Services	\$ 305,044	\$ 290,090
Legal Services	123,548	258,059
Personnel Coordination	77,375	78,750
Technical Services	31,128	31,128
Other Specialized Services	912,580	1,441,844
<b>Total Payments to Consultants</b>	<b>\$ 1,449,675</b>	<b>\$ 2,099,871</b>





“I have been with the County almost four years. ACERA’s retirement benefits give me a sense of security for my future. It’s better than social security: you know where the money is, you know what it’s being used for, and you know that you’re going to get it.”

**> LISA LOPEZ**

**Alameda County  
Deputy Probation Officer  
Juvenile Investigations Unit**

top, Lisa Lopez with Ed Valencia  
center, with Kit Cho  
bottom, with Thomas Jackson



**3 > INVESTMENT**



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

### Introduction

The performance of ACERA's retirement Fund for the year ended December 31, 2003 was outstanding. The Fund ended the year with a return of 26.7%, 220 basis points (bps) above the Fund's policy index (which is the projected theoretical return of our portfolio at the market or benchmark level). The three-year and five-year returns of our portfolio beat the theoretical policy index by 130 basis points and 120 basis points respectively, ranking the Fund in the upper 10th and 14th percentile among all public plans greater than \$100 million. At year-end, the total fund's market value was \$3.9 billion.

In 2003, ACERA's Fund and the general market experienced a strong recovery. It was a year in which almost all asset classes exceeded their respective median returns. Both the Dow Jones Industrial Average and the Standard & Poors 500 posted double-digit gains for the year, and the Nasdaq Composite advanced more than 50%.

Capital markets grew in large part in 2003 because of the favorable macro-economic environment. But other key factors also helped propel the performance of stocks and bonds higher:

- the U.S. victory in the Iraq war and Saddam Hussein's capture (tempered by the slow pace of democratization and escalating military costs)
- the tax stimulus package passed by Congress and record low interest rates, which reinvigorated consumer spending
- the depreciation of the U.S. dollar
- a favorable global investment environment

In 2004, unresolved issues remain that will affect where we go from here. The challenge of terrorism and the protection of personal as well as national security are foremost among these, as this year's train tragedy in Madrid demonstrated.

And despite the positive developments in 2003, the future of domestic job growth in an era of overseas outsourcing of manufacturing operations and the impact of the ballooning federal budget deficit remains unknown. The outcome of November's presidential election adds yet another variable.

### Overview

In looking at the road ahead in 2004, it may be useful to reflect on the factors that shaped our success in 2003. In 2001 and 2002, the economy was sluggish. The year 2003, however, saw noticeable economic growth. Gross domestic product (GDP) rose to 8.2% on an annualized rate in the third quarter, the fastest pace of growth since the first quarter of 1984.

Of particular significance is the fact that 2003's growth was achieved with inflation in check. Measured by the core component of the Consumer Price Index, inflation fell to 1.1% on a year-over-year basis in December, the lowest number since the middle 1960s. Although job growth remained relatively weak throughout 2003, sustained economic growth combined with the Federal Reserve's monetary policy signaled improvement for the job market. From August 2003 forward, a stream of improved corporate earnings reports boosted investor confidence.

From mid-March to June of 2003, the market experienced a rally that coincided with the U.S. war with Iraq. In the second half of the year, investors began to bet on economic recovery. Military victory in Iraq buoyed market psychology, and industry sectors such as defense and construction experienced growth.

An early wave of consumer spending in the summer of 2003, bolstered by President Bush's tax cut, provided the momentum needed to pull the country out of recession. The federal lending rate's 40-year record low fueled a fairly robust housing and construction market, which further strengthened growth. Additional liquidity became available through mortgage refinancing and fueled investments and consumer spending.

The dollar hit a record low versus the euro, giving dollar-based investors a 24.0% return just for holding the European currency. The dollar also fell versus the yen, for a 13.2%

return. The dollar's weakness accelerated the growth in exports, helping to sustain the U.S. economic recovery.

Last, but not least, markets around the world advanced in 2003, encouraged by signs of economic growth and improvements in corporate earnings. Led by Sweden and Germany, European equity markets surged during the final half of the year and finished with impressive double-digit gains for 2003. Even Japan, whose economy has been sluggish for more than a decade, finally turned the corner. Aided by a rise in exports and production, its economy expanded for the seventh straight quarter ending 2003. China, the world's fastest growing country, had an estimated 9.9% GDP. Its equity market returns, as represented by the MSCI China Index, rose 80.3% for the year.

The restoration of investor trust and confidence in corporate America took a few steps forward and a few steps back. The Sarbanes-Oxley law requiring corporations to certify their financial reports seems to have resulted in an attitude adjustment giving priority to the public. On the other hand, the mutual fund industry was embroiled in many scandals. Some funds were accused of the unethical practice of market timing of trades and of engaging in other practices that contributed to firm profits at the expense of shareholders. However troublesome, the mutual fund scandals did not derail the overall positive momentum of investor confidence, primarily because federal regulatory bodies were highly active in protecting the interests of investors and in taking steps to curb abuses.

Continued strength in the economy, consumer demand, and the sharp decline of the dollar seem to suggest that an increase in interest rates is inevitable. However, we expect any rate increase to be modest, as inflation concerns still exist. Given the weak dollar position and the still low valuation of many emerging markets, global markets may play an increasingly important role in investment.



Despite the volatility of the economy and the capital markets, the ACERA Board of Retirement remains committed to a long-term investment strategy that emphasizes prudent diversification, active rebalancing to maintain appropriate asset allocation, and vigorously supervised professional asset management.

For the year 2003, market results were as follows:

- The U.S. stock market, as represented by the S&P 500, was up 28.7%, the first positive calendar-year return since 1999.
- The Nasdaq posted a gain of 50.8%, the first positive calendar-year return since 1999.
- The U.S. Bond market, as represented by the Lehman Aggregate, posted a gain of 4.1%; this is the fourth straight year of positive performance.
- International equities, as represented by the MSCI ACWI ex US Index, posted a gain of 41.4% for the year.
- International bonds, represented by the Citigroup World Government Bond Index, returned a gain of 14.9%.

For the year ended December 31, 2003, the total ACERA Fund returned 26.7% for the year and ranked in the upper 11th percentile among public funds greater than \$100 million. The Fund beat its theoretical policy index return of 24.5% by 220 bps. Over longer terms, the Fund beat its theoretical policy index and the portfolio ranked in the top quartile compared to its peers.

In February 2003, the Board adopted a new asset allocation that moved 4% of the assets from fixed income to domestic equities. ACERA investment staff completed the implementation of this decision in March 2003, right before the major rally of the domestic equities at the beginning of the second quarter. In June 2003, the Board voted

to increase ACERA's active domestic equity investments and to reduce the passive domestic equity investments in the same asset class. This key decision resulted in a total fund performance that continued to be strong in the second half of the year.

In late 2003, the Board terminated Putnam Investment Management after learning of allegations that Putnam personnel had engaged in improper market-timing activities. This swift and decisive action demonstrates that ACERA's Board demands high standards and ethical business practices from the investment community, and fair treatment for ACERA's members.

### General Information

External investment management firms manage ACERA's assets. Professional investment consultants, along with investment staff, closely monitor the activities of these managers and assist the Board with the implementation of ACERA's investment policies and long-term strategies.

ACERA's goal is to operate at a level of performance in the upper quartile of comparable pension funds, 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.

### Summary of Investment Guidelines, Policies and Procedures

The Board of Retirement, having sole and exclusive authority and fiduciary responsibility for the investment and administration of the Trust, has adopted ACERA Investment Guidelines, Policies and Procedures (Policy) for the management of ACERA's investments.

The Board reserves the right to amend, supplement or rescind this Policy at any time. The 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 take prudent risk, as necessary, to maximize the return on the portfolio and to minimize the cost of meeting the obligations of the Trust. An integral part of the overall investment policy is the strategic asset allocation policy.

This 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, domestic fixed income, and mortgages) and nontraditional assets (real estate and international equities and fixed income) are included in the mix.

Total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for ACERA. Prudent risk taking is warranted within the context of overall portfolio diversification to meet this objective. All activities will be conducted so as to serve the best interests of ACERA's members and beneficiaries.

#### Summary of Proxy Voting Guidelines and Procedures

In recognition of its duty to manage retirement plan assets in the best interest of the plan participants, the Board has established Proxy voting guidelines and procedures, which are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of the plan participants.

The guidelines consist of preferences with respect to specific, recurring proxy-voting issues followed by a general statement of voting policies. ACERA will at all times strive to cast proxy votes so as to advance the overall good of the plan participants.

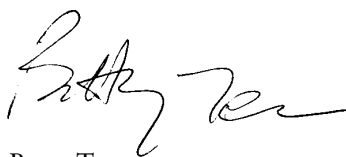
#### Summary of Investment Results

ACERA's Fund is slightly overweighted in total equities, with 64.9% of assets in equities versus the target of 61.0% as of December 31, 2003. Domestic equities are slightly overweighted at 40.8% of assets versus the target of 39.0%, while international equities are at 24.1% versus the target of 22.0%. Cash at 0.1% is slightly over its target of 0.0% of assets. Fixed income is at 28.6% of assets, slightly below the target of 30.0%. Real estate is under its 9.0% target at 6.4% of assets.

For the year 2003, ACERA's U.S. equity composite returned 33.6%, exceeding its benchmark Russell 3000 by 250 bps and the median equity manager by 130 bps. ACERA's international equity composite returned 35.5%, underperforming its benchmark MSCI-ACWI ex-U.S. Free by 590 bps but outperforming the median international equity manager by 10 bps. ACERA's all fixed income composite returned 14.3%, single-handedly beating its benchmark 75% Lehman Aggregate/15% Citigroup WGBI ex-U.S./10% Lehman High Yield by 580 bps. ACERA's real estate composite returned 6.0%; its benchmark NCREIF Property Index returned 9.0%.

This investment information is presented in conformance with the presentation standards of the Association of Investment Management and Research (AIMR).

Respectfully submitted,



Betty Tse  
Chief Investment Officer  
May 4, 2004



## INVESTMENT CONSULTANT'S REPORT

Investment Consultant, Inc.

10000 Wilshire Blvd, Suite 2000  
Beverly Hills, CA 90212

Phone: 310.277.1000  
Fax: 310.277.1001

## ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Summary and Investment Activities

After three consecutive years of declining prices, equity investors enjoyed strong and broadly-based gains in year 2003, despite significant market uncertainty. During the year, US and foreign stocks rose strongly, while bonds and real estate also provided positive returns. The ACERA total portfolio performed well in 2003, and posted a return of 26.7% for the year. The 26.7% return exceeded the plan's policy index by 220 basis points.

Significant deflationary headwinds gave way to efforts to stimulate the US economy as monetary, fiscal, and tax policy finally gained traction in year 2003 to produce impressive economic growth late in the year. Equity instruments and riskier investments of all types thrived in an environment of low interest rates, stimulative government spending, and lower income tax rates. During 2003, the Russell 3000 US stock index returned investors 31.0% while the MSCI All Country World Ex. US Index of foreign stocks posted a positive return of 41.4%. In the relatively flat interest rate environment, investment grade bonds, as measured by the Lehman Aggregate Index, provided a positive return of 4.1%. High yield bonds appreciated dramatically in 2003, returning 28.2%.

ACERA's outstanding Total Plan return during the year resulted from generally excellent performance from its active managers, whose investment mandates were increased during the year. The Association's bond managers achieved especially noteworthy performance, and provided most of the plan's margin of outperformance over its policy index. A robust allocation to foreign equities and the decision made early in the year to increase the plan's total equity allocation both contributed strongly to the plan's high absolute return during the year.

### Investment Guidelines, Policies and Procedures

In 2003, ACERA completed a comprehensive Asset Allocation Study that guided the plan to decrease its bond allocation, increase its total equity allocation, and to reaffirm its allocation to foreign equity. The plan increased the proportion of its US equity assets allocated to active investment mandates through a reduction in indexation strategies.

ACERA also replaced one of its International Equity managers and refined its bond and real estate manager structures during the year. Finally, ACERA further refined its methodology for monitoring the performance of its active managers.

### Investment Objectives

In 2003, ACERA met its three management goals of ensuring sufficient funds available to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards, and adding marginal value.

The plan's return for the year exceeded its policy benchmark return by 220 basis points. If the plan continues to exceed its benchmark, we believe it will eventually earn returns in excess of those required to meet its benefit promises. In that light, 2003 was a very successful year for ACERA.

### Investment Results\*

	Year 2003	Annualized	
		3 Years	5 Years
<b>DOMESTIC EQUITY</b>			
Total Domestic Equities	33.6%	-0.5%	2.8%
Median Equity	32.3	-1.7	3.9
Benchmark: Russell 3000	31.1	-3.1	0.4
<b>INTERNATIONAL EQUITY</b>			
Total International Equities	35.5	-1.6	3.0
Median International Equity	35.4	0.1	5.8
Benchmark: MSCI ACWI ex US	41.4	-1.0	1.5
<b>FIXED INCOME</b>			
Total Fixed Income	14.3	10.6	8.2
Median Fixed Income	5.1	7.8	6.8
Benchmark: Hybrid Index	8.5	8.9	7.4
<b>REAL ESTATE</b>			
Total Real Estate	6.0	6.0	8.2
Median Real Estate	9.5	7.0	8.1
Benchmark: NCREIF	9.0	7.7	6.0
<b>TOTAL FUND</b>			
ACERA Total Fund	26.7	4.7	5.9
Median Total Fund	22.1	2.7	4.5
Benchmark: Policy Index	24.5	3.4	4.7

NOTE: Returns for periods greater than one year are annualized. Results of all publicly traded investments are presented in conformance with AIMR performance presentation standards.

\* Calculated using the time-weighted rate of return based on the market rate of return.

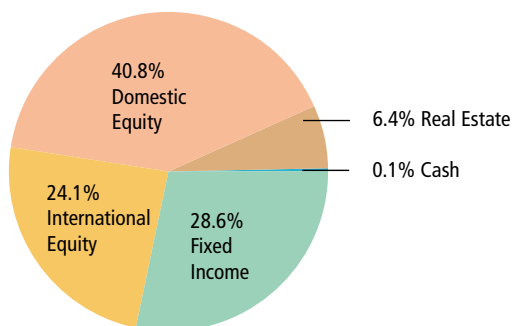


Barry W. Dennis  
 Managing Director  
 Strategic Investment Solutions, Inc.  
 May 4, 2004

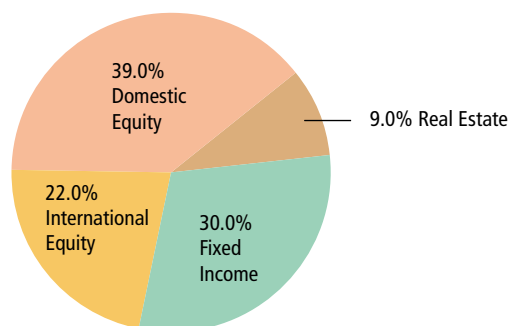
## 2003 ACERA Asset Allocation

	2003 ACERA Asset Allocation	Target Asset Allocation
Cash	0.1%	0.0%
Domestic Equity	40.8%	39.0%
International Equity	24.1%	22.0%
Fixed Income	28.6%	30.0%
Real Estate	6.4%	9.0%

### 2003 ACERA Asset Allocation



### Target Asset Allocation



## List of Investment Professionals

For the Year Ended December 31, 2003

### INVESTMENT MANAGERS

#### Equity – Domestic

Bank of New York – Index Fund  
 Brandywine Asset Management, Inc.  
 Next Century Growth  
 Pacific Financial Research  
 Salus Capital Management Co.  
 Trust Company of the West

#### Equity – International

Capital Guardian Trust Company  
 Delaware International Advisers  
 Putnam International

#### Fixed Income – Domestic

AFL-CIO Housing Investment Trust  
 Baird Advisors  
 Loomis Sayles & Company, LP

#### Fixed Income – International

Brandywine Asset Management, Inc.

#### Real Estate

Morgan Stanley Funds  
 RREEF America

### INVESTMENT CONSULTANTS

The Townsend Group – Real Estate  
 Doug McCalla – Rebalancing  
 Strategic Investments Solutions,  
 (SIS) – General

## Investment Summary

		Fair Value, Dec. 31, 2003	Percentage of Total Fair Value
<b>EQUITIES</b>			
<b>Domestic</b>	Baird Advisors (Equity)	\$ 821,381	0.0%
	Brandywine Asset Management	79,631,332	2.0%
	Loomis Sayles (Equity)	8,445,590	0.2%
	Next Century Growth Investors	73,247,487	1.9%
	Pacific Financial Research	279,889,095	7.2%
	Salus Capital (Equity)	1,019,253	0.0%
	Trust Company of the West	253,080,028	6.5%
	<b>Total Corporate Stocks</b>	<b>696,134,166</b>	<b>17.8%</b>
	Bank of New York - S & P 500 Index	804,176,891	20.6%
	<b>Total Domestic Equity Index Funds</b>	<b>804,176,891</b>	<b>20.6%</b>
	Salus Capital (Stock Index Futures)	10,622,166	0.3%
	<b>Total Stock Index Futures</b>	<b>10,622,166</b>	<b>0.3%</b>
	<b>International</b>	Capital Guardian	614,424,530
Delaware International Advisers		306,336,481	7.9%
Putnam International		838,912	0.0%
<b>Total International Equity Funds</b>		<b>921,599,923</b>	<b>23.6%</b>
<b>Total Equities</b>	<b>2,432,533,146</b>	<b>62.3%</b>	
<b>FIXED INCOME</b>			
<b>Domestic</b>	AFL-CIO Housing Investment Trust	65,148,310	1.7%
	Baird Advisors (Government and Corporate Bonds)	522,203,177	13.4%
	Loomis Sayles (Government and Corporate Bonds)	305,100,882	7.8%
	<b>Total Domestic Fixed Income</b>	<b>892,452,369</b>	<b>22.9%</b>
<b>International</b>	Brandywine Fixed Income	133,130,283	3.4%
	<b>Total International Fixed Income</b>	<b>133,130,283</b>	<b>3.4%</b>
<b>Total Fixed Income</b>	<b>1,025,582,652</b>	<b>26.3%</b>	
<b>REAL ESTATE</b>			
<b>Real Estate Investment</b>	RREEF (Separate Properties)	246,797,597	6.3%
	Morgan Stanley Funds (Real Estate Trusts)	5,114,430	0.1%
	Home Mortgage Loans (Real Estate Mortgage Loans)	36,415	0.0%
<b>Total Real Estate Investments</b>	<b>251,948,442</b>	<b>6.4%</b>	
<b>SHORT-TERM INVESTMENTS</b>			
	Salus Capital*	71,066,674	1.8%
	State Street Bank**	121,906,177	3.1%
<b>Total Short-Term Investments</b>	<b>192,972,851</b>	<b>4.9%</b>	
<b>Total Investments</b>	<b>3,903,037,091</b>	<b>99.9%</b>	
<b>CASH</b>			
	Cash and Cash Equivalents	1,778,143	0.1%
	<b>Total Cash</b>	<b>1,778,143</b>	<b>0.1%</b>
<b>TOTAL INVESTMENTS AND CASH</b>	<b>\$ 3,904,815,234</b>	<b>100.0%</b>	

\* The short term investment in Salus Capital is included in the Asset Allocation for Domestic Equities

\*\* The short-term investment with State Street Bank is considered cash equivalent and is included in the Asset allocation for Equities & Fixed Income

## Largest Stock and Bond Holdings (By Market Value)<sup>†</sup>

As of December 31, 2003

### STOCK HOLDINGS

	Shares	Stock	Market Value
1	443,100	Federal Home Loan Mortgage Corp.	\$ 25,841,592
2	298,980	Progressive Corp Ohio	24,991,738
3	308,500	Federal National Mortgage Assn.	23,156,010
4	868,500	Tyco International Ltd.	23,015,250
5	454,900	American Express Co.	21,939,827
6	371,200	Amazon Com Inc.	19,539,968
7	358,800	Altria Group Inc.	19,525,896
8	746,800	Electronic Data Systems Corp.	18,326,472
9	1,048,700	Tenet Healthcare Corp.	16,831,635
10	164,700	Genentech Inc.	15,410,979
<b>Total Largest Stock Holdings</b>			<b>\$ 208,579,367</b>

### BOND HOLDINGS

	Par	Bond	Percentage	Due Date	Market Value
1	61,625,000	Federal Home Loan Mortgage Corp.	6.63%	09/15/09	\$ 70,374,967
2	37,625,000	United States Treasury Bonds	6.25%	08/15/23	42,910,139
3	19,100,000	United States Treasury Bonds	9.25%	02/15/16	27,426,406
4	106,500,000	Sweden Kingdom Of	5.00%	01/28/09	15,371,180
5	75,500,000	Norway (Kingdom Of)	5.75%	11/30/04	11,690,720
6	9,640,000	Georgia Pacific Corp.	7.75%	11/15/29	9,688,200
7	14,775,000	Ontario (Province Of)	6.25%	12/03/08	9,631,169
8	6,550,000	Italy Republic Of	5.50%	11/01/10	8,999,670
9	6,750,000	Germany Federal Republic	4.50%	07/04/09	8,861,067
10	13,120,000	New Zealand Government	6.00%	11/15/11	8,657,007
<b>Total of Largest Bond Holdings</b>					<b>\$ 213,610,525</b>

<sup>†</sup> The above schedules do not reflect holdings in passive index Funds. A complete list of portfolio holdings is available upon request.

## SCHEDULE OF MANAGEMENT FEES AND COMMISSIONS

### Investment Managers' Fees

	Assets Under Management		Managers' Fees	
	2003	2002	2003	2002
Fixed Income Managers	\$ 1,147,488,829	\$ 1,145,439,709	\$ 2,224,671	\$ 2,496,752
Equity Managers	2,503,599,820	1,734,360,484	6,583,916	5,525,249
Real Estate Managers	251,948,442	280,388,368	3,770,391	2,847,405
<b>Total</b>	<b>\$ 3,903,037,091</b>	<b>\$ 3,160,188,561</b>	<b>12,578,978</b>	<b>10,869,406</b>

### OTHER INVESTMENT SERVICE FEES

Custodian Fees	338,541	323,818
Security Lending Fees	2,126,680	3,398,816
Investment Consultant Fees	508,608	523,775
<b>Total</b>	<b>\$ 2,973,829</b>	<b>\$ 4,246,409</b>

### Commissions

Brokerage Firm	Total Commissions	Total Number of Shares Traded	Commissions per Share
ABN AMRO Bank	\$ 177,917	4,410,606	\$ 0.040
Merrill Lynch Pierce Fenner & Smith	155,647	24,014,226	0.006
Credit Lyonnais Securities Asia / Guernsey	125,335	12,141,232	0.010
Wells Fargo Investments LLC	115,689	3,348,425	0.035
Pershing Securities Ltd.	109,707	16,652,151	0.007
Goldman Sachs & Co	89,151	2,971,144	0.030
Morgan Stanley Co. Incorporated	74,002	3,266,160	0.023
Lehman Brothers Inc.	71,838	13,059,920	0.006
State Street Brokerage Services	70,822	2,727,040	0.026
Fidelity Capital Markets	69,917	2,266,970	0.031
UBS Financial Services Inc	60,216	2,837,558	0.021
Credit Suisse First Boston Corporation	58,241	1,538,893	0.038
Investment Technology Group Inc.	54,555	2,838,478	0.019
J P Morgan Securities Inc	50,611	2,175,237	0.023
CITI Group Global Markets Inc	45,698	3,137,756	0.015
Instinet	42,362	2,023,950	0.021
UBS AG	39,767	914,903	0.043
Merrill Lynch International	39,559	3,022,302	0.013
Jefferies Company Inc	39,469	827,331	0.048
UBS AG London	37,690	1,598,264	0.024
<b>Top 20 Total</b>	<b>1,528,193</b>	<b>105,772,546</b>	<b>0.014</b>
All Other Brokerage Firms	985,888	93,754,856	0.011
<b>Total</b>	<b>\$ 2,514,081</b>	<b>199,527,402</b>	<b>\$ 0.013</b>





“When I signed up with the County in 1977, I didn’t think that much about retirement as a benefit. Who knew what the future held? But before you know it, 27 years go by and you realize that the guaranteed retirement benefit ACERA provides is pretty substantial.”

► **THOMAS MAKIN**

**Deputy Director of Operations  
Housing Authority of  
Alameda County**

top, Thomas Makin with senior residents Albert Navarro (left) and Teang Net

bottom, from left, Purita Jabidando, Thomas Makin, Teang Net and Jose Costañeda

A photograph of a middle-aged man with a goatee and glasses, wearing a light blue button-down shirt and a patterned tie. He is standing outdoors in a well-maintained area with trees, a lamp post, and a building in the background. The scene is brightly lit, suggesting daytime.

**4 > ACTUARIAL**

ACTUARY'S CERTIFICATION LETTER



The Segal Company  
120 Montgomery Street, Suite 500 San Francisco, CA 94104  
T 415.263.8200 F 415.263.8290 www.segalco.com

*May 27, 2004*

*Board of Retirement  
Alameda County Employees' Retirement Association  
475 – 14th Street, Suite 1000  
Oakland, CA 94612*

*Dear Board Members:*

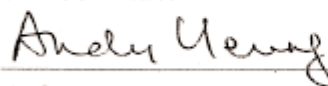
*We are pleased to submit this Actuarial Valuation and Review as of December 31, 2003. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2004-2005 and analyzes the preceding year's experience.*


*The census and financial information were prepared by the Alameda County Employees' Retirement Association. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Andy Yeung, MAAA, Enrolled Actuary.*

*This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. In our opinion, the combined operation of the assumptions and methods applied in this valuation, fairly represent past and anticipated future experience of the Association and meet the parameters required by GASB Statement 25. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Retirement are reasonably related to the experience of and the expectations for the Plan.*

*Sincerely,*

THE SEGAL COMPANY

By:   
Andy Yeung, ASA, MAAA  
Associate Actuary

  
Drew James, FSA, MAAA  
Actuary

## **SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association**

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### **Purpose**

This report has been prepared by The Segal Company to present a valuation of the Alameda County Employees' Retirement Association as of December 31, 2003. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Retirement Association, as administered by the Board of Retirement. In particular, we assume in this report that all Safety members will continue to receive a benefit pursuant to Section 31664 (2% at 50).
- The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of November 30, 2003, provided by the Retirement Office;
- The assets of the Plan as of December 31, 2003, provided by the Retirement Office;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

We understand that the County has agreed to improve the benefit for Safety members pursuant to Section 31664.1 (3% at 50) effective January 1, 2005 (or the date when all the Safety employee organizations have settled their MOU's, if later). The rates associated with providing Safety benefits under Section 31664.1 is included in a separate special study report. Those rates would go into effect when the new benefits become effective.

Alameda County Employees' Retirement Association's basic financial goal is to establish contributions which fully fund the Association's liabilities, and which, as a percentage of payroll, remain as level as possible for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to evaluate the Association's assets, liabilities and future contribution requirements. Our calculations are based upon member data and financial information provided to us by the Association's staff. This information has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior year's information.

The contribution requirements are determined as a percentage of payroll. The Association's employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. In this valuation, we have continued with the Board's funding policy to amortize the Association's entire unfunded actuarial accrued liability as of December 31, 2003 over a declining 29-year period. Also, we have continued the current 8% investment return assumption. The aggregate employer contribution rate calculated using the declining 29-year amortization period is 14.00% of payroll.

The rates calculated in this report may be adopted by the Board for the fiscal year that extends from July 1, 2004 through June 30, 2005, subject to increase when the new Safety member benefits are adopted.



**SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association**

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**Significant Issues in This Valuation**

The following key findings were the result of this actuarial valuation:

- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 92.5% to 86.9%. The Association's unfunded actuarial accrued liability has changed from \$265.6 million as of December 31, 2002 to \$508.3 million as of December 31, 2003. The increase is mainly due to a combination of actual investment return less than the 8% assumed in the current valuation and higher than expected salary increases. A reconciliation of the Association's unfunded actuarial accrued liability is provided in Section 3, Exhibit H.
- The aggregate employer rate calculated in this valuation has increased from 12.23% of payroll to 14.00% of payroll. The reasons for the changes are: (i) lower than expected return on investment, (ii) higher than expected salary increases, (iii) other actuarial losses, (iv) change in membership demographics, and (v) change in actuarial methods and actuarial assumptions. A reconciliation of the Association's aggregate employer rate is provided in Section 2, Subsection D (see Chart 15).
- The aggregate member rate calculated in this valuation has decreased from 8.47% of payroll to 8.26% of payroll. The change in member rate is primarily due to the adoption of new terminal pay assumptions, changes in actuarial assumptions, and other actuarial experience. A reconciliation of the Association's aggregate member rate is provided in Section 2, Subsection D (see Chart 16).
- The results of this valuation reflect the following changes in economic assumptions: (i) reduction in the annual inflation assumption from 4.5% to 4.0%, (ii) the introduction of a 0.25% real across-the-board salary increase assumption and (iii) increase in terminal pay assumption. As of the date of this report, the Board had not yet adopted these assumption changes nor had the Board adopted the 7.75% investment return assumption that was recommended. The impact of the assumption changes is provided in Section 2, Subsection D (see Charts 15 and 16). The specific assumption changes can be found in Section 4, Exhibit IV.
- In determining the contribution rate to the Unfunded Actuarial Accrued Liability, we increased the annualized 2003 calendar year compensation (assuming every employee will work full time) by one year of inflation. The assumption that every employee will work full time should be reviewed as part of the triennial experience study as of December 31, 2004. If the current part time employees do not increase their hours worked during their future working career, the UAAL rate calculated in this report may be understated by about 0.15% of payroll.
- As indicated in Section 2, Subsection B (see Chart 7) of this report, the total unrecognized investment loss as of December 31, 2003 is \$8,005,178. This investment loss 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 gains that may be achieved after December 31, 2003. This implies that if the Association earns the assumed rate of investment return of 8.00% per year (net of expenses) on a market value basis, it will result in investment losses on the actuarial value of assets in the next few years. So, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would still increase in each of the next few years.

## **SECTION 1: Valuation Summary for the Alameda County Employees' Retirement Association**

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### Impact of Future Experience on Contribution Rates

Future contribution requirements may differ from those determined in the valuation because of:

- 1) difference between actual experience and anticipated experience;
- 2) changes in actuarial assumptions or methods;
- 3) changes in statutory provisions; and
- 4) difference between the contribution rates determined by the valuation and those adopted by the Board.

### Association's CAFR Report

A listing of supporting schedules we prepared for inclusion in the actuarial, statistical and financial sections of the Association's CAFR report is provided below:

1. Schedules of active member valuation data;
2. Retirees and beneficiaries added to and removed from retiree payroll;
3. Solvency test;
4. Actuarial analysis of financial experience;
5. Schedules of average benefit payments for retirees and beneficiaries;
6. Schedule of participating employers and active members statistics;
7. Schedule of benefit expenses by type;
8. Schedule of retiree members by type of benefit; and
9. Schedule of funding progress.



## SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The following assumptions have been adopted by the Board as of December 31, 2003.

### Assumptions

Investment Rate of Return	8.00%
Inflation Rate	4.00%
Real Across-the-Board Salary Increase	0.25%
Projected Salary Increases *	5.65%
Retiree Cost-of-Living Adjustment	
for Tier 1 members:	3.00%
for Tier 2 members:	2.00%
Employee Contribution	
Crediting Rate	8.00%

### Post-Retirement Mortality

The following post-retirement and pre-retirement demographic experiences and salary increase assumptions are based on the plan's actuarial experience through December 31, 2003. These were adopted by the Retirement Board and effective as of January 1, 2004.

#### (A) HEALTHY

##### General Member

Males	1994 Male Uninsured Pensioner Table set back two years
Females	1994 Female Uninsured Pensioner Mortality Table set back one year

##### Safety Member

Safety Member	1994 Male Uninsured Pensioner Table set back two years
Safety Beneficiary	1994 Female Uninsured Pensioner Table set back one year
Beneficiaries	1994 Female Uninsured Pensioner Mortality Table set back one year

#### (B) DISABILITY

General	1981 General Disability Mortality Table set back three years
Safety	1981 Safety Disability Mortality Table

#### (C) FOR EMPLOYEE CONTRIBUTION RATE PURPOSES

General	1994 Male Uninsured Pensioner Table set back four years
Safety	1994 Male Uninsured Pensioner Table set back two years

<b>Pre-Retirement Mortality</b>	Based upon the Experience Analysis from 12/1/1998–11/30/2001
<b>Withdrawal Rates</b>	Based upon the Experience Analysis as of 12/1/1998–11/30/2001
<b>Disability Rates</b>	Based upon the Experience Analysis as of 12/1/1998–11/30/2001
<b>Service Retirement Rates</b>	Based upon the Experience Analysis as of 12/1/1998–11/30/2001

\* Includes inflation at 4.00%, plus across-the-board salary increase of 0.25% plus merit and longevity increases

**Percent of Active and Inactive Members Married**

Males	80%
Females	55%

**Beneficiary Age Difference**

Males	3 years older
Females	3 years younger

**Actuarial Value of Assets**

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. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves.

**Terminal Pay Assumptions**

Additional pay elements are expected to be received during a member’s final average earnings period. The percentages used in this valuation are as follows:

Membership Category	Service Retirement	Disability Retirement
General Tier 1	8.8%	7.0%
General Tier 2	3.0%	2.8%
Safety Tier 1	11.7%	8.5%
Safety Tier 2	3.0%	2.8%

**Future Benefit Accruals**

One year of service per year of employment plus 0.008 year of additional service to anticipate conversion of unused sick leave for each year of employment.

**Funding Method and Amortization of Actuarial Gains and Losses**

Entry Age Normal Actuarial Cost Method. Entry Age is the age at the member’s hire date. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of aggregate salary, as if the current benefit accrual rate had always been in effect. The total unfunded Actuarial Accrued Liability is amortized over a declining 29-year period (i.e., outstanding UAAL from last year, in addition to actuarial gains and losses from this year).

## Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll (\$)	Annual Average Pay (\$)	% Increase in Average Pay*
12/31/1998	General	8,173	387,930,299	47,465	9.85%
	Safety	1,326	74,534,770	56,210	4.56%
	<b>Total</b>	<b>9,499</b>	<b>462,465,069</b>	<b>48,686</b>	<b>8.99%</b>
12/31/1999	General	8,445	407,628,000	48,269	1.69%
	Safety	1,414	80,358,000	56,830	1.10%
	<b>Total</b>	<b>9,859</b>	<b>487,986,000</b>	<b>49,497</b>	<b>1.67%</b>
12/31/2000	General	9,027	446,911,072	49,508	2.57%
	Safety	1,429	85,394,052	59,758	5.15%
	<b>Total</b>	<b>10,456</b>	<b>532,305,124</b>	<b>50,909</b>	<b>2.85%</b>
12/31/2001**	General	9,502	498,299,521	52,442	5.93%
	Safety	1,472	92,092,614	62,563	4.69%
	<b>Total</b>	<b>10,974</b>	<b>590,392,135</b>	<b>53,799</b>	<b>5.68%</b>
12/31/2002**	General	9,839	537,245,555	54,604	4.12%
	Safety	1,499	103,531,751	69,067	10.40%
	<b>Total</b>	<b>11,388</b>	<b>640,777,306</b>	<b>56,516</b>	<b>5.05%</b>
12/31/2003***	General	9,725	599,062,000	61,600	12.81%
	Safety	1,495	115,282,000	77,111	11.64%
	<b>Total</b>	<b>11,220</b>	<b>714,344,000</b>	<b>63,667</b>	<b>12.65%</b>

## Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll

Plan Year	Added to Rolls		Removed from Rolls		Rolls at End of Year			
	Number	Annual Allowance (\$ 000) <sup>†</sup>	Number	Annual Allowance (\$ 000) <sup>†</sup>	Number	Annual Allowance (\$ 000)	% Increase in Retiree Allowance	Average Annual Allowance
1998	324		(146)		5,380	\$ 89,724	9.60%	\$ 16,677
1999	364		(139)		5,605	\$ 101,158	12.74%	\$ 18,048
2000	381		(287)		5,699	\$ 115,261	13.94%	\$ 20,225
2001	303	\$ 10,548	(135)	\$ (1,723)	5,867	\$ 124,086	7.66%	\$ 21,150
2002	335	\$ 12,671 <sup>††</sup>	(206)	\$ (3,060)	5,996	\$ 133,697	7.75%	\$ 22,298
2003	447	\$ 17,558 <sup>†††</sup>	(156)	\$ (2,732)	6,287	\$ 148,523	11.09%	\$ 23,624

\* 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.

\*\* Salary projected from 11/30 to 12/31.

\*\*\* Salary projected from 11/30 to 12/31. Projected compensation was calculated by increasing the prior calendar year's compensation (assuming every employee will work fulltime) by one year of inflation.

<sup>†</sup> Annual allowance data not available prior to 2001.

<sup>††</sup> Includes data adjustment

<sup>†††</sup> Includes data adjustments and automatic cost-of-living adjustments granted on April 1.

## Solvency Test\*

(Amounts in Thousands)

Valuation Date	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets			
	Active Member Contributions \$	Retired/Vested Members \$	Active Members (Employer Financed Portion) \$	Total \$	Valuation Value of Assets \$	Active Member Contributions %	Retired/Vested Members %	Active Members (Employer Financed Portion) %
12/31/1998	537,895	1,316,570	758,546	2,613,011	2,830,437	100	100	100
12/31/1999	640,623	1,326,463	795,438	2,762,524	2,997,932	100	100	100
12/31/2000	735,101	1,435,302	766,228	2,936,631	3,169,178	100	100	100
12/31/2001	802,356	1,503,393	834,467	3,140,216	3,321,794	100	100	100
12/31/2002	821,702	1,664,465	1,073,446	3,559,613	3,294,053	100	100	75
12/31/2003	802,442	1,833,917	1,253,684	3,890,043	3,381,757	100	100	59

## Actuarial Analysis of Financial Experience

(Amounts in Millions)

	2003	2002	2001	2000	1999	1998
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued Liability	\$266	\$(182)	\$(233)	\$(235)	\$(217)	\$(95)
Expected Increase from Prior Valuation						
Salary Increase Greater (Less) than Expected	93	17	10	(5)	5	36
Asset Return Less (Greater) than Expected	133	207	34	(5)	26	(110)
Other Experience (Including Scheduled UAAL Payment)	26	20	13	12	12	6
Ventura Litigation					(69)	259
Conversion of Sick Leave Service					8	
Actuarial Value of Assets Method Change						(259)
Economic Assumption Changes		190				(54) <sup>†</sup>
Non-economic Assumption Changes	(10)	14	35			<sup>†</sup>
Data Corrections			(41)			
Dilution of Rate Credit from Surplus Assets						
Ending Unfunded/Prefunded Actuarial Accrued Liability	\$508	\$266	\$(182)	\$(233)	\$(235)	\$(217)

\* This exhibit 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:

12/31/01 Change in non-economic assumptions.

12/31/02 Investment return assumption reduced from 8.25% to 8.00%; salary increase assumption increased from 5.6% to 5.9%; increase in terminal pay assumption; and implementation of 80% - 120% market value corridor.

12/31/03 Inflation assumption decreased from 4.5% to 4.0%; across-the-board salary increase increased from 0.00% to 0.25%; and increase in terminal pay assumption.

<sup>†</sup> \$30 million is the combined impact of changes in economic and non-economic assumptions in 1998.

## SUMMARY OF PLAN PROVISIONS

### BENEFITS SECTIONS 31676.1, 31676.12, AND 31664 OF THE 1937 COUNTY ACT

Briefly summarized below are major provisions of the California Government Code as amended through December 31, 2003, and as adopted by Alameda County.

#### Membership

Persons hired to full-time eligible, permanent position with the County of Alameda and Alameda County Medical Center (ACMC) after June 30, 1983 become members under Tier 2. All other members are covered by Tier 1 provisions.

#### Final Average Salary

Final average salary (FAS) is defined as the highest 12 consecutive months of compensation earnable for Tier 1 and highest 36 consecutive months for Tier 2.

#### Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus interest will be refunded. In lieu of receiving a return of contributions, a member may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

#### Service Retirement Benefit

Members with 10 years of service who have attained the age of 50 are eligible to retire. Members with 30 years of service (20 years for Safety), regardless of age, are eligible to retire.

The benefit is a percentage of monthly FAS per year of service, depending on age at retirement and is illustrated below for typical ages. For members integrated with Social Security, the benefit is reduced by  $\frac{1}{3}$  of the

percentage shown below times the first \$350 of monthly FAS per year of service credited after January 1, 1956.

#### Percentage Of Final Average Salary

Age	General		Safety
	Tier 1	Tier 2	
50	1.34%	1.18%	2.00%
55	1.77%	1.49%	2.62%
60	2.34%	1.92%	2.62%
62	2.62%	2.09%	2.62%
65 and over	2.62%	2.43%	2.62%

#### Disability Benefit

Members with 5 years of service, regardless of age, are eligible for nonservice connected disability. The benefit is 1.8% (1.5% for Tier 2 General members) of FAS for each year of service. If this benefit does not equal  $\frac{1}{3}$  of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 62 for Tier 1 General members, age 65 for Tier 2 General members and age 55 for Safety members. The total benefit in this case cannot exceed  $\frac{1}{3}$  of FAS unless the benefit calculated from the member's age, years of service, and salary is greater.

If the disability is service-connected, the member may retire regardless of length of service with a benefit which is the higher of 50% of FAS or the benefit derived from the member's age, years of service, and salary.

#### Death Benefit (Before Retirement)

In addition to the return of contributions, 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 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.

If a member dies in the performance of duty, the eligible surviving spouse may elect to receive 50% of the member's FAS.

#### **Death Benefit (After Retirement)**

If a member dies after retirement, a lump sum amount of \$5,000 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 for life.

If the retirement was for other than service connected disability, 60% of the member's allowance is continued to the qualified surviving spouse for life.

#### **Active Death Equity Benefit (ADEB)**

In 2000, the Retirement Board authorized the ADEB option which provides a continuance to the surviving spouse of a member who died because of non-service connected disability equal to 100% of the member's reduced allowance.

The funding of the ADEB benefit is provided from assets held in the Supplemental Retirement Benefits Reserve. The ADEB is a non-vested benefit and may be discontinued at any time and for any reason. The Retirement Board reserves the right to terminate the ADEB for future recipients.

#### **Maximum Benefit**

The maximum basic benefit payable to a member or beneficiary is 100% of FAS.

#### **Cost-of-Living**

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. The maximum increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members. COLA Banks are set up for retirees and accumulated when the Bay Area CPI is greater than the maximum allowance. If banks are sufficient, they are depleted when the CPI is smaller than the maximum allowance.

#### **Contribution Rates**

Member basic rates are based on a formula reflecting the age at entry into the System. The rates are such as to provide, for each year of service, an average annuity at age 60 of  $\frac{1}{100}$  of FAS for General members under Tier 1, at age 60 of  $\frac{1}{120}$  of FAS for General members under Tier 2, and at age 50 of  $\frac{1}{100}$  of FAS for Safety members. Please note that in estimating FAS, we have included an assumption to anticipate how much unused vacation would be available for conversion at retirement. Member cost-of-living rates are actuarially determined to pay for one-half of future cost-of-living liabilities.

For members integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first \$350 of monthly salary. Member contributions are refundable upon termination from the System.

Employer contribution rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the Retirement System.



## RATES OF SEPARATION PRIOR TO RETIREMENT

The following pages indicate the rates of separation from active service for each of the following circumstances:

**Withdrawal:** member terminates and elects refund of member contributions.

**Vested termination:** member terminates and contributions are left on deposit.

**Ordinary death:** member dies prior to eligibility for retirement; death not employment-related.

**Ordinary disability:** member receives disability retirement; disability not employment-related.

**Service retirement:** member retires after satisfaction of requirements of age and/or service for reasons other than disability.

**Duty disability:** member receives disability retirement; disability is employment-related.

**Duty death:** member dies prior to retirement; death is employment-related.

The rates shown for each cause of termination represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the rate of withdrawal for a General Tier 1 male member at age 25 and with less than 3 years of service is 0.1275, then we are assuming that 12.75% of all General Tier 1 male members with less than 3 years of service will terminate without vested rights during the year.

### Rates of Separation Prior to Retirement

#### GENERAL TIER 1 MEMBERS—MALE

Age	Ordinary Withdrawal				Vested Termination	Ordinary Disability	Duty Disability	Ordinary Death	Duty Death	Service Retirement
	0<X<3	3<=X<4	4<=X<5	5<=X						
25	12.75%	11.73%	5.25%	5.25%	0.10%	0.02%	0.01%	0.06%	0.01%	0.00%
30	12.75%	11.73%	5.25%	5.25%	0.46%	0.02%	0.01%	0.08%	0.01%	0.00%
35	12.75%	11.73%	5.25%	5.25%	0.84%	0.04%	0.01%	0.09%	0.01%	0.00%
40	12.75%	11.73%	5.25%	2.85%	0.87%	0.07%	0.04%	0.10%	0.01%	0.00%
45	7.28%	6.70%	3.00%	0.37%	0.72%	0.11%	0.07%	0.15%	0.01%	0.00%
50	7.28%	6.70%	3.00%	0.25%	0.66%	0.14%	0.14%	0.23%	0.01%	3.00%
55	7.28%	6.70%	3.00%	0.16%	0.20%	0.18%	0.34%	0.39%	0.01%	9.07%
60	7.28%	6.70%	3.00%	0.00%	0.08%	0.26%	0.34%	0.68%	0.01%	18.09%
65	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.23%	0.01%	27.67%

#### GENERAL TIER 1 MEMBERS - FEMALE

25	16.31%	10.50%	5.25%	5.25%	0.09%	0.03%	0.01%	0.03%	0.00%	0.00%
30	16.31%	10.50%	5.25%	5.15%	0.64%	0.04%	0.02%	0.04%	0.00%	0.00%
35	16.31%	10.50%	5.25%	4.64%	1.50%	0.07%	0.05%	0.05%	0.01%	0.00%
40	16.31%	10.50%	5.25%	1.22%	2.00%	0.10%	0.08%	0.08%	0.01%	0.00%
45	10.87%	7.00%	3.00%	0.33%	0.91%	0.12%	0.11%	0.10%	0.01%	0.00%
50	10.87%	7.00%	3.00%	0.24%	0.67%	0.20%	0.29%	0.15%	0.01%	3.45%
55	10.87%	7.00%	3.00%	0.12%	0.32%	0.20%	0.49%	0.25%	0.01%	7.15%
60	10.87%	7.00%	3.00%	0.00%	0.21%	0.20%	0.89%	0.48%	0.01%	19.64%
65	0.00%	0.00%	0.00%	0.00%	0.06%	0.00%	0.00%	0.93%	0.01%	25.41%





“I’m glad that I joined the County 27 years ago. Even back then I didn’t mind contributing because with the ACERA retirement plan, I’m looking forward to a very secure retirement financially.”

**> MELANI MUNOZ**  
Chief, Fiscal Services  
Treasurer-Tax Collector’s Office

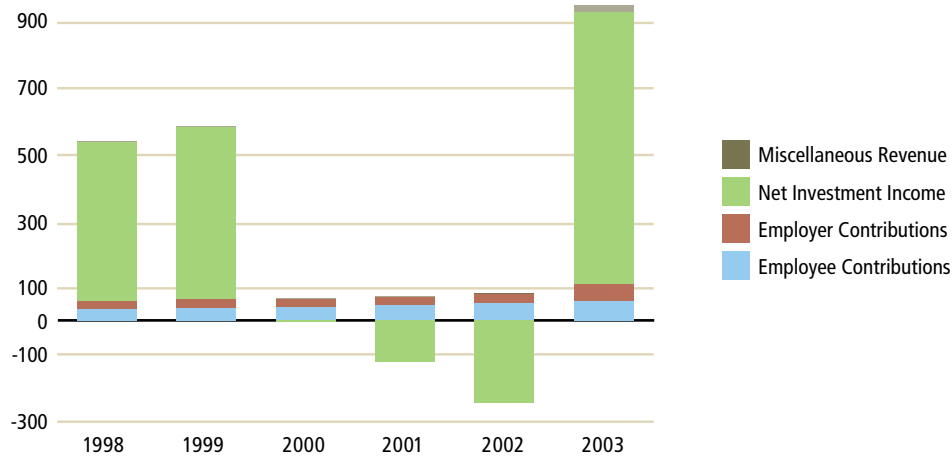
top, Thuan Nguyen and Melani Munoz  
center, from left, Theody Virrey,  
Sofia Andong-Sampang, Melani Munoz,  
Gerry Escalona, Griff Nelson, and  
Leonardo Cumia



**5 > STATISTICAL**

## Revenue by Source

(Dollars in Millions)

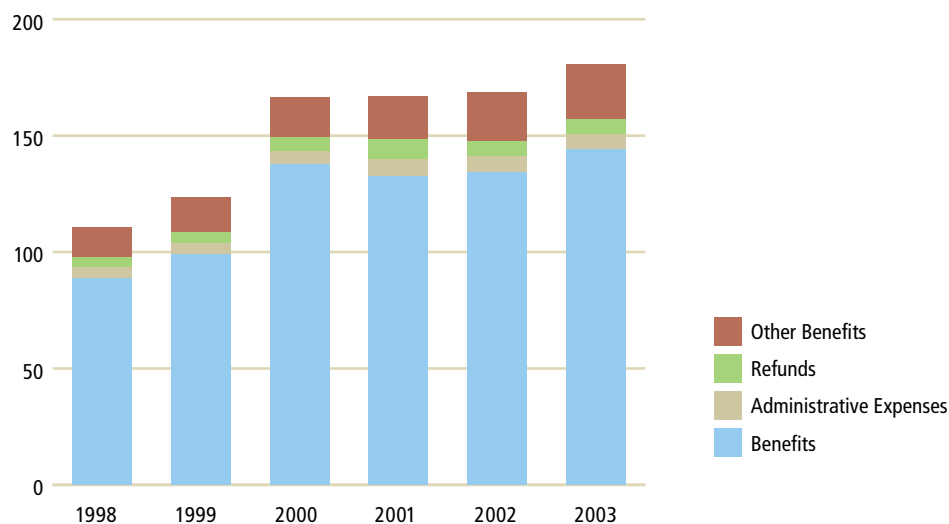


## Revenue by Source

Year ended December 31	Employee Contributions (\$)	Employer Contributions (\$)	Net Investment Income/Loss (\$)	Miscellaneous Revenue (\$)	TOTAL
1998	35,748,407	24,389,376	471,624,158	64,755	531,826,696
1999	39,265,219	26,134,479	510,797,541	52,642	576,249,881
2000	42,829,708	22,042,914	(4,192,196)	1,394,247	62,074,673
2001	47,588,887	23,315,033	(122,602,190)	863,742	(50,834,528)
2002	53,285,988	26,985,360	(245,718,451)	118,271	(165,328,832)
2003	60,159,279	49,091,005	808,398,763	252,878	917,901,925

## Expenses by Type

(Dollars in Millions)



## Expenses by Type

Year ended December 31	Benefits (\$)	Administrative Expenses (\$)	Refunds (\$)	Other Benefits (\$)*	TOTAL (\$)
1998	88,794,029	4,890,004	4,095,621	12,693,075	110,472,729
1999	99,225,190	4,614,199	4,963,159	14,789,296	123,591,844
2000†	138,153,224	5,190,590	6,266,842	17,130,345	166,741,001
2001†	132,918,657	7,202,399	8,312,460	18,443,278	166,876,794
2002†	134,619,939	6,820,424	6,448,010	20,924,985	168,813,358
2003	144,290,635	6,634,381	6,585,186	23,327,769	180,837,971

\* Other benefits consists of Supplemental Cost-of-Living and Health Insurance Subsidies.

† The increase in benefit payments from 2000 through 2002 reflects increased benefits due to the *Ventura* Settlement.

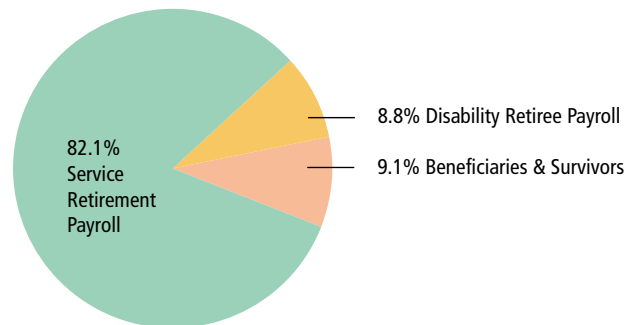


Schedule of Benefit Expenses by Type<sup>1</sup>

	2003	2002	2001	2000	1999	1998
<b>Service Retirement Payroll</b>						
Basic	\$ 92,689,067	\$ 82,721,678	\$ 77,819,944	\$ 74,128,258	\$ 65,248,080	\$ 57,750,840
COLA	29,245,633	27,025,690	24,838,053	22,486,337	19,781,227	17,761,164
<b>Total</b>	<b>121,934,700</b>	<b>109,747,368</b>	<b>102,657,997</b>	<b>96,614,595</b>	<b>85,029,307</b>	<b>75,512,004</b>
<b>Disability Retiree Payroll</b>						
Basic	10,540,547	9,540,646	8,800,266	7,733,362	6,095,553	5,106,996
COLA	2,523,517	2,241,082	2,013,020	1,750,675	1,461,187	1,263,576
<b>Total</b>	<b>13,064,064</b>	<b>11,781,728</b>	<b>10,813,286</b>	<b>9,484,037</b>	<b>7,556,740</b>	<b>6,370,572</b>
<b>Beneficiaries and Survivors</b>						
Basic	8,289,339	7,550,165	6,576,312	5,651,133	5,273,837	4,904,460
COLA	5,234,278	4,617,487	4,038,493	3,510,459	3,298,252	2,937,072
<b>Total</b>	<b>13,523,617</b>	<b>12,167,652</b>	<b>10,614,805</b>	<b>9,161,592</b>	<b>8,572,089</b>	<b>7,841,532</b>
<b>Total</b>	<b>\$ 148,522,381</b>	<b>\$ 133,696,748</b>	<b>\$ 124,086,088</b>	<b>\$ 115,260,224</b>	<b>\$ 101,158,136</b>	<b>\$ 89,724,108</b>

## Benefit Expenses by Percent

(Year Ended December 31, 2003)



\* The benefit amounts were provided by the actuary and do not reflect retroactive adjustments to year end amounts, as compared to *Expenses by Type* on page 69.



## Schedule of Average Benefit Payment Amounts

Retirement Effective Dates	Years Since Retirement						
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over
<b>PERIOD 1/1/98-12/31/98</b>							
Average Monthly Benefit	\$ 1,918	\$ 1,978	\$ 1,373	\$ 1,052	\$ 815	\$ 684	\$ 451
Number of Active Retirees	1,047	1,173	817	995	790	363	195
<b>PERIOD 1/1/99-12/31/99</b>							
Average Monthly Benefit	\$ 2,226	\$ 1,971	\$ 1,635	\$ 1,136	\$ 897	\$ 692	\$ 475
Number of Active Retirees	1,195	950	1,028	933	823	446	230
<b>PERIOD 1/1/00-12/31/00</b>							
Average Monthly Benefit	\$ 2,394	\$ 2,439	\$ 1,810	\$ 1,342	\$ 1,000	\$ 770	\$ 512
Number of Active Retirees	1,304	1,023	964	872	862	441	233
<b>PERIOD 1/1/01-12/31/01</b>							
Average Monthly Benefit	\$ 2,261	\$ 2,047	\$ 1,951	\$ 1,455	\$ 1,092	\$ 861	\$ 597
Number of Active Retirees	1,569	1,203	991	774	751	403	176
<b>PERIOD 1/1/02-12/31/02</b>							
Average Monthly Benefit	\$ 2,365	\$ 2,166	\$ 2,014	\$ 1,544	\$ 1,210	\$ 911	\$ 649
Number of Active Retirees	1,571	1,304	1,004	755	744	430	188
<b>PERIOD 1/1/03-12/31/03</b>							
Average Monthly Benefit	\$ 2,692	\$ 2,223	\$ 2,237	\$ 1,582	\$ 1,267	\$ 943	\$ 705
Number of Active Retirees	1,487	1,210	1,248	778	779	512	273

## Schedule of Retiree Members by Type of Benefit

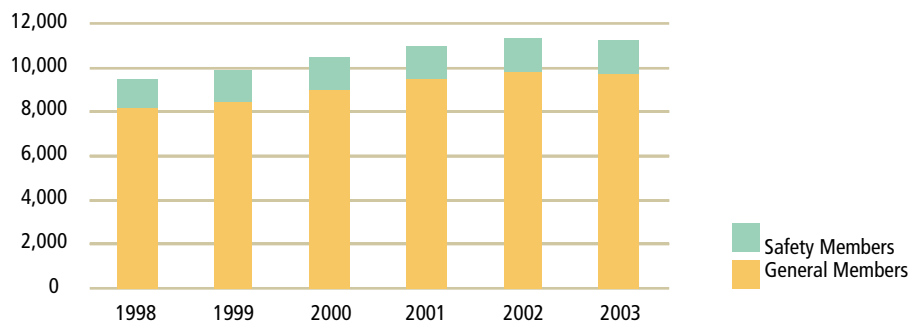
Summary of Monthly Allowances Being Paid for the Month of November 30, 2003

	Number	Monthly Allowance		Total
		Basic	Cost-of-Living	
<b>GENERAL MEMBERS</b>				
Service Retirement				
Unmodified	3,827	\$ 5,699,470	\$ 1,903,625	\$ 7,603,095
Option 1	100	119,437	48,613	168,050
Option 2, 3, & 4	181	225,223	70,520	295,743
<b>Total</b>	<b>4,108</b>	<b>6,044,130</b>	<b>2,022,758</b>	<b>8,066,888</b>
Ordinary Disability				
Unmodified	137	106,937	38,790	145,727
Option 1	9	4,778	3,136	7,914
Option 2, 3, & 4				
<b>Total</b>	<b>146</b>	<b>111,715</b>	<b>41,926</b>	<b>153,641</b>
Duty Disability				
Unmodified	277	451,674	86,466	538,140
Option 1	8	8,579	2,203	10,782
Option 2, 3, & 4	1	2,220	90	2,310
<b>Total</b>	<b>286</b>	<b>462,473</b>	<b>88,759</b>	<b>551,232</b>
Beneficiaries				
Ex-Spouse	67	43,177	13,048	56,225
Death	878	518,658	350,719	869,377
<b>Total</b>	<b>945</b>	<b>561,835</b>	<b>363,767</b>	<b>925,602</b>
<b>Total General</b>	<b>5,485</b>	<b>\$ 7,180,153</b>	<b>\$ 2,517,210</b>	<b>\$ 9,697,363</b>
<b>SAFETY MEMBERS</b>				
Service Retirement				
Unmodified	447	\$ 1,316,636	\$ 398,730	\$ 1,715,366
Option 1	2	4,267	1,911	6,178
Option 2, 3, & 4	87	359,055	13,738	372,793
<b>Total</b>	<b>536</b>	<b>1,679,958</b>	<b>414,379</b>	<b>2,094,337</b>
Ordinary Disability				
Unmodified	4	3,995	643	4,638
Option 1				
Option 2, 3, & 4				
<b>Total</b>	<b>4</b>	<b>3,995</b>	<b>643</b>	<b>4,638</b>
Duty Disability				
Unmodified	125	275,074	74,597	349,671
Option 1	4	8,329	1,250	9,579
Option 2, 3, & 4	8	16,793	3,120	19,913
<b>Total</b>	<b>137</b>	<b>300,196</b>	<b>78,967</b>	<b>379,163</b>
Beneficiaries				
Ex-Spouse	26	33,904	5,744	39,648
Death	99	95,039	66,679	161,718
<b>Total</b>	<b>125</b>	<b>128,943</b>	<b>72,423</b>	<b>201,366</b>
<b>Total Safety</b>	<b>802</b>	<b>\$ 2,113,092</b>	<b>\$ 566,412</b>	<b>\$ 2,679,504</b>
<b>Total Retiree Members</b>	<b>6,287</b>	<b>\$ 9,293,245</b>	<b>\$ 3,083,622</b>	<b>\$ 12,376,867</b>

## Participating Employers and Active Members<sup>†</sup>

	2003	2002	2001	2000	1999	1998
<b>County of Alameda</b>						
General Members	7,367	7,550	7,266	7,077	6,787	8,043
Safety Members	1,495	1,499	1,472	1,429	1,414	1,326
<b>Total</b>	<b>8,862</b>	<b>9,049</b>	<b>8,738</b>	<b>8,506</b>	<b>8,201</b>	<b>9,369</b>
<b>Participating Agencies (General Membership)</b>						
Livermore Area Recreation & Park District	78	76	76	65	61	61
Housing Authority of Alameda County	74	75	69	66	65	64
Alameda County Schools	5	5	5	5	5	5
Alameda County Medical Center <sup>††</sup>	2,201	2,133	2,086	1,814	1,527	-
<b>Total</b>	<b>2,358</b>	<b>2,289</b>	<b>2,236</b>	<b>1,950</b>	<b>1,658</b>	<b>130</b>
<b>Total Active Membership</b>						
General Members	9,725	9,839	9,502	9,027	8,445	8,173
Safety Members	1,495	1,499	1,472	1,429	1,414	1,326
<b>Total</b>	<b>11,220</b>	<b>11,338</b>	<b>10,974</b>	<b>10,456</b>	<b>9,859</b>	<b>9,499</b>

## Total Active Membership



## Employer Contribution Rates

As of December 31

	County of Alameda & ACMC*					Other participating agencies				
	General		Safety		Aggregate**	General		Safety		Aggregate**
	Tier 1	Tier 2	Tier 1	Tier 2		Tier 1	Tier 2	Tier 1	Tier 2	
1998	5.75	4.46	8.72	8.35	5.44	16.20	N/A	N/A	N/A	16.20
1999	5.75	4.46	8.72	8.35	5.43	16.21	N/A	N/A	N/A	16.21
2000	6.28	2.83	4.78	5.48	4.03	17.30	N/A	N/A	N/A	17.30
2001	6.31	2.86	5.10	5.80	4.00	17.09	N/A	N/A	N/A	17.09
2002	5.90	3.37	5.96	7.16	4.37	16.21	N/A	N/A	N/A	16.21
2003	12.78	10.53	17.40	18.76	12.16	17.37	N/A	N/A	N/A	17.37

<sup>†</sup> This schedule includes inactive vested members.

<sup>††</sup> The ACMC became a participating agency of ACERA in 1999; prior to this year they were included in County of Alameda's General Membership.

\* ACMC was part of the County of Alameda in 1996 when the pension obligation bond proceeds were received by ACERA, hence the contribution rate is the same.

\*\* Based on payroll as of same date.

“When I reluctantly began putting a significant portion of my check into this retirement system 24 years ago, I was much younger and not even thinking about retirement. Now I appreciate that I have been required to save this money. Most employers do not offer the type of retirement system that we have. For the times, we’re very fortunate.”

➤ **WILLIE LOTT, JR.**

**Commissioner  
Superior Court  
State of California  
County of Alameda**



top, from left, Escoe Hunter, Suzanne Johnston, Arthur Rocha and Willie Lott



**6 > COMPLIANCE**

Report on Compliance and on Internal Control over Financial Reporting 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 the financial statements of the Alameda County Employees' Retirement Association (ACERA) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated May 4, 2004. We conducted our audits 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.

#### Compliance

As part of obtaining reasonable assurance about whether ACERA's financial statements are free of 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control over Financial Reporting

In planning and performing our audits, we considered ACERA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have included in a management letter report dated May 4, 2004.

This report is intended solely for the information and use of the audit committee, the Board of Retirement, management, and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

*Williams, Adley & Company, LLP*  
May 4, 2004

## HOW TO REACH ACERA

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510 628-3000  
510 287-5411 FAX

[www.acera.org](http://www.acera.org)



ALAMEDA COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION

475 14th Street  
Oakland, California 94612-1900

