



ALLEGHENY COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial and Actuarial Report

for the Fiscal Year Ended
December 31, 2014

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Letter from the Board President

To the Members, Survivors and Beneficiaries of the Plan:

At this time last year I told you about the significant benefit reforms that will save the Plan more than one billion dollars over the years to come. This year I want you to know that; although limiting liabilities is important, contributions also serve a vital role in financing pension benefits. Where pension problems are substantial, the cause is often the failure to consistently fund the plan.

Unlike in the private sector, nearly all state and local governments are required to share the cost of retirement benefits with employees. Contributions are typically a percentage of salary. In the case of our County, that percentage is specified by the Retirement Board. While some governments have often failed to faithfully contribute, Allegheny County has consistently done so.

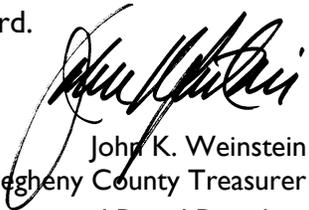
That is why I formed the Contribution Rate Working Group and charged it with analyzing specific plan information developed by the RBAC Actuary (Cowden Associates, Inc.) working in conjunction with the County's Department of Budget and Finance, the County Controller's Office, the County Treasurer's Office, County Council and investment advisor/consultant Wilshire Associates.

Based on the report and recommendation from the Contribution Rate Working Group, the RBAC has taken two actions to raise contribution rates since benefit reform legislation was approved. Today, Allegheny County and Airport Authority employees contribute 9% of pensionable wages to the retirement fund and their employers provide the remaining 9% contribution. At the end of 2014, the Board has ensured more than \$60 million in annual contributions to the Plan.

This would not be possible without first, the support of County Executive Rich Fitzgerald and County Council working diligently to ensure that County employees earn a viable wage and second, our active and retired members who are also stakeholders in the Plan and its fiscal soundness.



It is my honor to serve you as President/Treasurer and on behalf of the trustees of the Retirement Board.


John K. Weinstein
Allegheny County Treasurer
and Board President

Report of Independent Auditors

We have audited the accompanying financial statements of the Allegheny County Employees' Retirement System (Retirement System) as of December 31, 2014 and 2013, and for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Allegheny County Employees' Retirement System's management is responsible for the preparation and fair presentation of these financial statements, in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion of these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Allegheny County Employees' Retirement System as of December 31, 2014 and 2013, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

During the current year, the Retirement System adopted Governmental Accounting Standards Board (GASB) Statement Number 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. The effect of this statement was to add various disclosures in the notes to the financial statements, including disclosures on the net pension liability of Allegheny County as of December 31, 2014 (See Note 6). In addition, this statement changed the format and content of the schedules required to supplement the financial statements (See Other Matters below). Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability, the schedule of employer contributions, and the schedule of annual money-weighted rate of return on pages 17 through 19 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Audited Financial Results

STATEMENTS OF FIDUCIARY NET POSITION DECEMBER 31,

ASSETS

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 25,904,524	\$ 20,254,326
Investments (at fair value):		
Equity:		
U.S. Common and Preferred Stock	84,130,836	83,690,355
American Depository Receipts	1,246,784	1,276,294
S&P 500 Index Fund	79,859,287	74,805,044
Non-U.S. Stocks and Equity Mutual Funds	161,515,591	183,146,405
Bonds and Notes:		
Corporate Certificates of Deposit	5,720,089	5,129,872
U.S. Government and Related Agency Debt	16,946,039	17,552,984
Fannie Mae and Freddie Mac Debt	6,775,673	5,826,611
Fixed Income Mutual Funds	111,094,601	109,571,751
U.S. Corporate Debt Instruments	66,445,606	63,483,545
Non-U.S. Government and Corporate Debt	14,244,636	14,000,532
Other Investments:		
Hedge Funds	167,041	453,219
Real Estate Investment Trusts	85,359,542	61,340,925
Commodities Funds	19,183,852	23,240,489
Venture Capital / Private Equity	155,931,421	159,754,935
Receivables:		
Amounts Due from Brokers for Sold Investments	431,869	108,486
Accrued Interest and Dividends	1,382,718	1,309,770
Accrued Employer Contributions	1,593,533	1,345,905
Accrued Employee Contributions	1,508,102	1,345,768
Other Assets	<u>7,232</u>	<u>58,288</u>
Total Assets	<u>\$ 839,448,976</u>	<u>\$ 827,695,504</u>

LIABILITIES

Liabilities:		
Vouchers Payable	\$ 18,755	\$ 157,821
Accrued Payroll	10,881	9,032
Payroll Withholdings	4,713	3,972
Accrued Liabilities	1,593,820	1,561,547
Amounts Due to Brokers for Purchased Investments	728,972	111,683
Other Liabilities	<u>8,722</u>	<u>7,369</u>
Total Liabilities	<u>\$ 2,365,863</u>	<u>\$ 1,851,424</u>

FIDUCIARY NET POSITION

Net Position Restricted for Pensions:	\$ <u>837,083,113</u>	\$ <u>825,844,080</u>
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Audited Financial Results

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION DECEMBER 31,

	<u>2014</u>	<u>2013</u>
Additions:		
Contributions:		
Employee	\$ 30,170,618	\$ 27,888,016
Employer	<u>29,830,945</u>	<u>27,587,089</u>
Total Contributions	<u>60,001,563</u>	<u>55,475,105</u>
Investment Income:		
Net Appreciation in Fair Value of Investments	23,119,259	82,681,220
Interest	5,641,503	5,192,732
Dividends	7,365,304	6,625,241
Partnership Income	3,001,465	1,100,138
Stock Loan Income	<u>119,215</u>	<u>78,157</u>
	39,246,746	95,677,488
Less: Investment Management Fees	<u>3,424,119</u>	<u>3,367,296</u>
Total Investment Income - net	35,822,627	92,310,192
Miscellaneous Income	<u>170,782</u>	<u>76,876</u>
Total Additions - Net	<u>95,994,972</u>	<u>147,862,173</u>
Deductions:		
Benefit Payments	78,832,991	74,610,381
Refunds of Employee Contributions	4,648,889	4,716,139
Salaries, Wages and Related Expenses	281,725	219,226
Administrative & Miscellaneous Expenses	<u>992,334</u>	<u>918,822</u>
Total Deductions	<u>84,755,939</u>	<u>80,464,568</u>
Net Increase in Net Position	11,239,033	67,397,605
Net Position Restricted for Pensions at Beginning of Year	<u>825,844,080</u>	<u>758,446,475</u>
Net Position Restricted for Pensions at End of Year	<u>\$ 837,083,113</u>	<u>\$ 825,844,080</u>

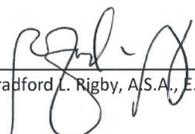
Source: Allegheny County Employees' Retirement System December 31, 2014 Audit performed by Case Sabatini. Full Audit can be viewed at http://www.alleghenycounty.us/uploadedFiles/Allegheny_Home/Dept-Content/Retirement/Reports/2013-2014%20Audit%20Report.pdf or by request.

Actuarial Certification

To the best of our knowledge, this report is complete and accurate and fairly reflects the actuarial condition of the Allegheny County Employees' Retirement System as of January 1, 2015 and has been prepared in accordance with generally accepted actuarial principles and practices relating to pension plans.

In our opinion, the assumptions used in preparing this actuarial report are individually and in the aggregate reasonably related to the experience under the plan and to reasonable expectations, and represent our best estimate as of the valuation date of anticipated experience under the plan.

Finally, this valuation was based upon the membership data submitted by the Retirement Board and the asset information supplied by the Board.


Bradford L. Rigby, A.S.A., E.A., M.A.A.A.

9/9/2015
Date: _____


Frank Canonico, E.A., M.A.A.A.

9/9/2015
Date: _____


Paul D. Halliwell, Project Coordinator

9/9/2015
Date: _____

Summary of Principal Actuarial Results

	January 1, 2015	January 1, 2014
Demographics		
Active Participants		
Number	7,016	7,003
Average Age	47.9	47.9
Average Age at Hire	34.7	39.9
Average Past Service	13.2	13.4
Total Payroll (prior year)	\$338,739	\$325,531
Covered Payroll*	350,744	337,016
Average Pay	48,281	46,593
Median Pay	43,664	42,346
Inactive Participants		
Number in Pay Status	4,555	4,444
Average Age in Pay Status	74	74.1
Average Monthly Benefit	\$1,497	\$1,426
Median Monthly Benefit	1,234	1,167
Police/Fire	2,549	
Sheriffs/Guards/POs	2,230	
Non-uniformed	1,047	
Number of Terminated Vested	199	227
Average Age of Terminated Vested	51	51.3
Average Monthly Benefit	\$1,421	\$1,277
Median Monthly Benefit	1,138	1,101
Police/Fire	1,982	
Sheriffs/Guards/POs	2,146	
Non-uniformed	973	
Total Participants	11,770	11,674
Total Active Member and Employer Contributions		
Dollars (actual)		\$60,002
Dollars (expected)	\$63,134	
Percentage of Payroll	18%	17%

*Projected to next year using salary increase assumption.

Summary of Principal Actuarial Results

	January 1, 2015	January 1, 2014
	(\$ Amounts in 000s)	(\$ Amounts in 000s)
Interest Rate	<u>7.75%</u>	<u>7.75%</u>
Accrued Benefit Funded Status		
Accrued Benefit Liability	<u>\$1,209,440</u>	<u>\$1,168,881</u>
Market Value of Assets	<u>837,083</u>	<u>825,844</u>
Accrued Benefit Funded Ratio	<u>69.2%</u>	<u>70.7%</u>
Accrued Liability Funded Status		
Actuarial Liability	<u>\$1,404,493</u>	<u>\$1,344,361</u>
Actuarial Value of Assets	<u>837,083</u>	<u>825,844</u>
Funded Ratio	<u>59.6%</u>	<u>61.4%</u>
Total Funded Status		
Value of Total Liabilities	<u>\$1,633,431</u>	<u>\$1,543,494</u>
Value of Total Assets		
(Market Value of Existing Assets and Present		
Value of Future Contributions)	<u>1,259,579</u>	<u>1,255,414</u>
Total Ratio	<u>77.1%</u>	<u>81.3%</u>
Total Normal Cost		
Dollar	<u>\$31,907</u>	<u>\$26,789</u>
% of Payroll	<u>9.10%</u>	<u>7.95%</u>

Source: Allegheny County Employees' Retirement System Actuarial Report January 1, 2015 performed by Cowden. Full Report can be viewed at http://www.alleghenycounty.us/uploadedFiles/Allegheny_Home/Dept-Content/Retirement/Reports/2015%20Executive%20Summary%20RBAC.pdf or by request.

Consultant Reports

Wilshire Associates Incorporated

MARKETS: Overall 2014 was a strong year for the U.S. Economy, which shrank during the first quarter (-2.1%) but rebounded strongly during the next three quarters, up 4.6% for Q2, 5.0% for Q3, and 2.6% for Q4. One of the more intriguing events of 2014 was the slide in oil prices during the second half of the year, sinking to their lowest point in a decade in part due to concerns about a global economic slowdown. The yield curve fell significantly in 2014 while inflation expectations began to drop during the fourth quarter, spurred by low reported inflation and an end to quantitative easing.

Developed equity markets continued their strong performance in 2014, with U.S. markets up 12.71% to post a third straight year of double-digit gains. However, U.S.-based investors saw erosion to the solid gains in foreign shares as a result of a strengthening U.S. Dollar; MSCI EAFE Index up 5.92% in local currency terms versus a loss of -4.90% in USD. Emerging markets stocks, which faced the same currency headwinds, lagged for a second consecutive year with the MSCI Emerging Markets Index up a respectable 5.17% in local terms but down -2.19% to USD-based investors.

High quality fixed income enjoyed the backwind of falling rates, leading to strong returns, especially in longer duration segments. The Barclays U.S. Aggregate Index was up 5.97%, and the Barclays U.S. TIPS Index, despite being negatively impacted by falling inflation expectations, managed a 3.64% return. Despite the generally falling rate environment, high yield bonds were hurt by widening credit spreads, as the Barclays U.S. Corporate High Yield Index eked out a 2.45% return.

RBAC TOTAL FUND: In absolute return terms the Total Fund for the Retirement Board of Allegheny County (RBAC) returned 4.3%. Although it trailed the benchmark for the year, there was a solid recovery in the 4th quarter of 2014, returning 1.02% above the benchmark. The Total Fund ended the year at a Market Value of \$837,083,113.

At the asset class level, all of the active managers in the U.S. Equity Composite significantly outperformed their respective benchmarks in 2014, the largest contributors being Mellon Equity and Earnest Small Cap Value. Small cap stocks as a whole however, underperformed large cap stocks and due to the overweight in small cap stocks at the composite level, the U.S. Equity Composite slightly underperformed the benchmark. During 2014 both Cleveland Capital and Philadelphia Trust Company were terminated, and no new managers were hired.

In the Non-U.S. Composite, Pyramis Select, Philadelphia and Thornburg all underperformed their benchmarks in 2014, but Baillie Gifford was a bright spot, returning 2.10% above its benchmark. At the composite level, an overweight in the portfolio to South Africa and an underweight to Japan, whose economy has continued its slide, helped to boost the overall performance. For the year, the composite finished slightly behind the benchmark.

The core fixed income managers were all slightly behind the benchmark for the year, leading to underperformance at the composite level as well, but the Fixed Income Composite still finished in the top half of its peer universe. High yield and TIPS managers continued to struggle vs their benchmarks but the TIPS managers continue to do well vs peers. This shows that it was a difficult time for active management in the TIPS space.

Real asset returns in 2014 were mixed. Gresham was just slightly behind the benchmark but it was a very challenging year for commodities in general, as the decline in oil prices led to largely negative returns. The Real Estate Composite however, continued to show strong returns as the composite had an absolute return of 12.61% for the year and outperformed the benchmark by 1.15%. This outperformance was largely driven by the Morgan Stanley Fund which outperformed its benchmark by 2.69%.

Consultant Reports (Cont.)

Asset Strategy Consultants

The Retirement Board of Allegheny County (RBAC) portfolio continues to expand the amount invested in Alternative Investment partnerships. We are pleased with the reports and updates we receive from the General Partners of these investments.

As the overall US economy is doing well, this is having a positive impact on the performance of the partnerships in which the companies have invested.

The Trustees approved several new allocations to General Partners. Now that distributions are picking up, we will continue to add new funds opportunistically to get to our target allocation. We expect to make allocations to new partnerships as we move into 2015.

The existing investments are continually monitored for liquidity, potential risks, and the stability of the investment team. Throughout the roster of Alternative Investments, the assets of the Plan are diversified, with thousands of investments. We hope 2015 will build on the success of 2014.

PFM Asset Management

EMERGING PROGRAM: As of December 31, 2014, local, emerging and minority manager assets totaled \$39.7 million, or 4.76% of total plan assets. The County has approximately \$22.8 million of capital left to allocate to local/emerging/minority managers in order to reach the program's goal of representing 7.5% of total plan assets. During this year, Philadelphia Trust Company (Large Cap Core) was removed from the program and we added Fusion Investment Group (Global Core Equity) to the program.

BROKERAGE PROGRAM: The Retirement Board of Allegheny County requires that investment managers direct 25% of their trades to Local, Minority, and Women-owned brokerage firms. For the calendar year 2014, 27.3% of the total commission dollars were directed to approved brokers, representing \$29,231 paid to local or minority-owned firms.

Allegheny County Employees' Retirement System

<i>Executive Director:</i>	TIMOTHY H. JOHNSON
<i>Retirement Office:</i>	106 County Office Building 542 Forbes Avenue Pittsburgh, PA 15219
<i>Telephone:</i>	(412) 350-4674
<i>E-mail:</i>	pension@alleghenycounty.us
<i>Solicitor:</i>	CAMPBELL DURRANT BEATTY PALOMBO & MILLER, P.C.
<i>Actuary:</i>	COWDEN
<i>Financial Consultants:</i>	WILSHIRE ASSOCIATES INCORPORATED ASSET STRATEGY CONSULTANTS PFM ASSET MANAGEMENT
<i>Auditor:</i>	CASE SABATINI

Allegheny County
Employees' Retirement System
106 County Office Building
542 Forbes Avenue
Pittsburgh, PA 15219

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Retirement Board of Allegheny County



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TED PUZAK.....*Vice President, Elected Member*
County Controller **CHELSA WAGNER**.....*Secretary*
County Executive **RICH FITZGERALD**.....*Member*
FRANK DiCRISTOFARO.....*Elected Member*
County Chief of Staff **JENNIFER LIPTAK**.....*Executive Appointee*
Council Budget Director **WALT SZYMANSKI**.....*Council Appointee*