Allegheny County
Employees' Retirement System

Financial and Actuarial Report

for the Fiscal Year Ended
December 31, 2013

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Letter from the Board President

To the Members, Survivors and Beneficiaries of the Plan:

Undoubtedly the biggest event of the year for the Retirement System was Act 125 of 2013. This Allegheny County pension reform Bill passed in the Senate 50-0; then passed in the House 194-3 and was signed into law on December 23, 2013 by Governor Corbett. It was an amazing demonstration of bipartisanship in the PA Legislature.

Act 125 of 2013 makes the following benefit changes for County employees hired on or after February 21, 2014.

- ✓ Eliminates overtime compensation in excess of 10% of base pay from the pension calculation;
- ✓ Changes the final pay formula to the highest 48 months of the final 8 years of service;
- ✓ Increases vesting from 8 years to 10 years; and
- ✓ Reduces the annual benefit accrual to 2.0% which increases the length of service required to receive an unreduced retirement allowance.

Combined, these changes are projected to reduce the Plan's unfunded liability $1.113 billion over a 50-year period and help to ensure that every member of the plan can anticipate that the benefit they've earned will be there throughout their retirement.

The signing into law of Act 125 marked the successful completion of years of hard work by the Retirement Board and many others who recognized the importance of sustaining the defined benefit, fought for a solution that considered the needs of all stakeholders and delivered four historic reforms to the Allegheny County Employees' Retirement System.

On behalf of the trustees of this Board, including County Executive Rich Fitzgerald and County Controller Chelsa Wagner, I am proud to affirm, to over 11,000 active and retired members, their families and the taxpayers of Allegheny County, the fiscal soundness of this retirement system.

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, 2013 and 2012, 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 plan net position of the Allegheny County Employees' Retirement System as of December 31, 2013 and 2012, and the changes in its plan net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the schedule of funding progress and schedule of employer contributions on pages 16 through 18 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.

Case Sabatini

Certified Public Accountants
Pittsburgh, PA

Audited Financial Results

STATEMENTS OF PLAN NET POSITION
December 31, 2013

ASSETS

	2013	2012
Cash and Cash Equivalents	$ 20,254,326	$ 12,401,384
Investments (at fair value):		
Equity:		
U.S. Common and Preferred Stock	83,690,355	75,984,594
American Depositary Receipts	1,276,294	2,337,416
S&P 500 Index Fund	74,805,044	48,053,118
Non-U.S. Stocks and Equity Mutual Funds	183,146,405	173,690,717
Bonds and Notes:		
Corporate Certificates of Deposit	5,129,872	5,909,504
U.S. Government and Related Agency Debt	17,552,984	24,440,233
Fannie Mae and Freddie Mac Debt	5,826,611	6,447,073
Fixed Income Mutual Funds	109,571,751	120,583,738
U.S. Corporate Debt Instruments	63,483,545	63,966,054
Non-U.S. Government and Corporate Debt	14,000,532	11,246,988
Other Investments:		
Hedge Funds	453,219	517,101
Real Estate Investment Trusts	61,340,925	44,569,406
Commodities Funds	23,240,489	25,165,429
Venture Capital / Private Equity	159,754,935	140,768,710
Receivables:		
Amounts Due from Brokers for Sold Investments	108,486	1,158,319
Accrued Interest and Dividends	1,309,770	1,380,858
Accrued Employer Contributions	1,345,905	1,470,314
Accrued Employee Contributions	1,345,768	1,231,086
Other Assets	58,288	29,287
Total Assets	$ 827,695,504	$ 761,351,329

LIABILITIES

Liabilities:		
Vouchers Payable	$ 157,821	$ 31,831
Accrued Payroll	9,032	-
Payroll Witholdings	3,972	-
Accrued Liabilities	1,561,547	1,889,338
Amounts Due to Brokers for Purchased Investments	111,683	926,067
Due to Other Funds	-	54,810
Other Liabilities	7,369	2,808
Total Liabilities	$ 1,851,424	$ 2,904,854

PLAN NET POSITION

Plan Net Position:		
Restricted for Pension Benefits	$ 825,844,080	$ 758,446,475

Audited Financial Results

STATEMENTS OF CHANGES IN PLAN NET POSITION
December 31, 2013

	2013	2012
Additions:		
Contributions:		
Employee	$ 27,888,016	$ 27,671,598
Employer	27,587,089	27,224,149
Total Contributions	55,475,105	54,895,747
Investment Income:		
Net Appreciation in Fair Value of Investments	82,681,220	81,930,712
Interest	5,192,732	6,236,687
Dividends	6,625,241	7,326,836
Partnership Income	1,100,138	1,565,118
Stock Loan Income	78,157	101,772
	95,677,488	97,161,125
Less: Investment Management Fees	3,367,296	2,432,870
Total Investment Income - net	92,310,192	94,728,255
Miscellaneous Income	76,876	51,593
Total Additions - Net	147,862,173	149,675,595
Deductions:		
Benefit Payments	74,610,381	70,952,238
Refunds of Employee Contributions	4,716,139	4,151,363
Salaries, Wages and Related Expenses	219,226	137,973
Administrative & Miscellaneous Expenses	918,822	1,087,049
Total Deductions	80,464,568	76,328,623
Net Increase in Plan Net Position	67,397,605	73,346,972
Plan Net Position at Beginning of Year	758,446,475	685,099,503
Plan Net Position at End of Year	$ 825,844,080	$ 758,446,475

Source: Allegheny County Employees' Retirement System December 31, 2013 and 2012 Audit performed by Case Sabatini. Full audit can be viewed at *http://www.alleghenycounty.us/reports/2014/Audit2013.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, 2014 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. — Date: 5/9/2014

Frank Canonico, E.A., M.A.A.A. — Date: 5/9/2014

Paul D. Halliwell, Project Coordinator — Date: 5/9/2014

Summary of Principal Actuarial Results

	December 31, 2013	December 31, 2012
Demographics		
Active Participants		
Number	7,003	7,526
Average Age	47.9	47.3
Average Age at Hire	39.9	34.4
Average Past Service	13.4	12.9
Total Payroll (prior year)	$ 325,531	$ 328,297
Covered Payroll*	337,016	339,905
Average Pay	46,593	43,622
Median Pay	42,346	39,985
Inactive Participants		
Number in Pay Status	4,444	4,420
Average Age in Pay Status	74.1	74.3
Average Monthly Benefit	$ 1,426	$ 1,363
Median Monthly Benefit	1,167	1,109
Police/Fire	2,790	2,757
Sheriffs/Guards/POs	2,570	2,502
Non-uniformed	1,063	1,018
Number of Terminated Vested	227	165
Average Age of Terminated Vested	51.3	50.7
Average Monthly Benefit	$ 1,277	$ 1,162
Median Monthly Benefit	1,101	1,037
Police/Fire	1,982	1,982
Sheriffs/Guards/POs	1,464	2,353
Non-uniformed	1,061	1,019
Total Participants	11,674	12,111
Total Active Member and County Contributions during preceding 12 months		
Dollars	55,475	54,896
Percentage of Payroll	16%	16%

* Projected to next year using salary increase assumption.

Summary of Principal Actuarial Results

	December 31, 2013	December 31, 2012
	($ Amounts in Thousands)	($ Amounts in Thousands)
Interest Rate	7.75%	7.75%
Accrued Benefit Funded Status		
Accrued Benefit Liability	$ 1,168,881	$ 1,108,092
Market Value of Assets	825,844	758,446
Accrued Benefit Funded Ratio	70.7%	68.4%
Actuarial Liability Funded Status		
Actuarial Liability	$ 1,344,361	$ 1,273,872
Actuarial Value of Assets	825,844	758,446
Funded Ratio	61.4%	59.5%
Total Funded Status		
Value of Total Liabilities	$ 1,543,494	$ 1,476,803
Value of Total Assets (Market Value of Existing Assets and Present Value of Future Contributions)	1,255,414	1,148,842
Total Ratio	81.3%	77.8%
Total Normal Cost		
Dollar	$ 26,789	$ 27,089
% of Payroll	7.95%	7.97%

Source: Allegheny County Employees' Retirement System Actuarial Report January 1, 2014 performed by Cowden and Associates. Full Report can be viewed at *http://www.alleghenycounty.us/reports/2014/Actuarial2014.pdf* or by request.

Year in Review

Wilshire Associates The Retirement System of Allegheny County earned an excellent return of 12.34% in 2013. This return resulted in total investment gains for the year of $92,310,192 and an increase in value of $67,397,605 from the beginning of the year, net of all contributions and benefit payments. Over the past three years the Fund increased in value by over $124 million, from a year end value in 2010 of $697.6 million.

The asset allocation of the Fund has been broadly diversified for a number of years. Asset classes include stocks in both the U.S. and outside of the U.S. Markets outside of the U.S. include both developed and emerging countries. The allocation also includes various types of fixed income securities such as investment grade bonds, high yield bonds and inflation-linked bonds. For diversification from traditional stocks and bonds, the Fund also includes allocations to real estate, commodities and private equity. While the strong equity markets of the past several years have allowed many pension plans to enjoy strong investment returns, the Retirement System of Allegheny County has enjoyed those returns as well, but is also well positioned for volatile market performance given its excellent diversification across multiple asset classes.

PFM Advisor As of December 31, 2013, local, emerging and minority manager assets totaled $40.6 million, or 4.94% of total plan assets. During this year, two managers were added to the program: Washington Alliance (real estate) and CIM Investment Management (small cap core equity) and three managers (PMG Advisors, Symons Capital, and ERECT Fund I) were removed from the program.

For calendar year 2013, 31.65% of the total commission dollars were directed to approved brokers, representing $37,867 paid to local or minority-owned firms.

Asset Strategy Consultants The Retirement Board of Allegheny County portfolio has reached the 20 percent allocation to Alternative Investment based on the committed amount. The RBAC Pension Plan is reaping the benefits from these investment based upon distributions we are receiving from the limited partnerships.

In addition, the assets are getting marked up in value before they are sold. Overall, we are pleased with the progress made during 2013.

The Trustees approved several new allocations to new partnerships of some existing managers and a new fund from Blackstone. Now that distributions are picking up, we will need to add new managers to get to our actual target allocation of 20%. We expect to make new allocations to partnerships as we finish 2014.

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 2014 will build on the success of 2013.

Retirement Board of Allegheny County

County Treasurer JOHN WEINSTEIN ..... *President, Treasurer*

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*

Note: On June 27th, 2014 Members of the Plan elected Frank DiCristofaro to the Retirement Board. Frank's term began July 1, 2014 and ends June 30, 2018.

Allegheny County
Employees' Retirement System
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Allegheny County Employees' Retirement System

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