



Allegheny County
Employees' Retirement System

Financial and Actuarial Report

for the Fiscal Years Ended
December 31, 2012 and 2011

December 2013

Introduction

Established by the County Commissioners in 1915, this Board administers the provisions of the retirement statutes under State Law, 2nd Class County Code. This Board invests retirement funds and looks for any benefits to grant fund members, reviews retirement applications and keeps a register of all names, addresses, ages and all information as Board deems necessary. The Board consists of seven (7) members including: Chief Executive, County Controller, County Treasurer and two (2) members elected by the County employees and retirees to each serve a four (4) year term, one (1) appointed by the Chief Executive and one (1) appointed by County Council.

The Retirement System operates under the Governing Statute P.L. 723, No. 230 - Second Class County Code (Effective Date: July 28, 1953, Last Amended: Act No. 2002-185) and is under the sole direction of its Board.

This report is an annual compilation of information of interest to various stakeholders. Every effort has been made to verify the accuracy of the information, which is intended for general use only.

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Secretary of the Board



TO THE MEMBERS OF THE
ALLEGHENY COUNTY EMPLOYEES'
RETIREMENT SYSTEM:

I hereby certify that the financial statements on pages 5 and 6 of
this report are true and correct.



A handwritten signature in black ink that reads "Chelsa Wagner".

Chelsa Wagner
Allegheny County Controller
and Board Secretary

Summary of Principal Financial Results

COUNTY OF ALLEGHENY, PENNSYLVANIA
Statement of Net Position
Pension Trust Fund
December 31, 2012
With Comparative Totals for December 31, 2011

	2012	2011
<u>Assets</u>		
Cash and short-term investments	\$ 12,401,384	11,728,042
Investments (at fair value):		
Equity:		
U.S. common and preferred stock	75,984,594	79,197,627
American Depositary Receipts (ADRs)	2,337,416	3,376,663
S&P 500 index fund	48,053,118	46,825,973
Non-U.S. stocks and equity mutual fund	173,690,717	150,334,916
Bonds and Notes:		
Corporate certificates of deposit	5,909,504	-
U.S. government and related agency debt	24,440,233	28,433,391
Fannie Mae and Freddie Mac debt	6,447,073	10,449,340
Fixed income mutual funds	120,583,738	103,359,286
U.S. corporate debt instruments	63,966,054	61,179,391
Non-U.S. government and corporate debt	11,246,988	11,413,419
Other Investments:		
Hedge funds	517,101	549,359
Real estate	44,569,406	39,511,818
Commodities fund	25,165,429	25,277,572
Venture capital / private equity	140,768,710	111,314,260
Amount due from brokers	1,158,319	378,237
Accrued interest and dividends receivable	1,380,858	1,447,332
Accrued employer contributions receivable	1,470,314	1,151,980
Accrued employee contributions receivable	1,231,086	1,082,542
Other assets	29,287	374,319
Total assets	761,351,329	687,385,467
<u>Liabilities</u>		
Vouchers payable	31,831	8,775
Due to other funds	54,810	62,503
Accrued liabilities	1,889,338	1,767,230
Amount due to brokers	926,067	446,387
Other liabilities	2,808	1,069
Total liabilities	2,904,854	2,285,964
<u>Net Position</u>		
Assets held in trust for pension benefits and other purposes	\$ 758,446,475	685,099,503

Source: Allegheny County 2012 Comprehensive Annual Financial Review

Summary of Principal Financial Results

COUNTY OF ALLEGHENY, PENNSYLVANIA
Statement of Changes in Net Position
Pension Trust Fund
Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Additions:		
Contributions:		
Employee	\$ 27,671,598	23,546,922
Employer	27,224,149	23,406,380
Total contributions	<u>54,895,747</u>	<u>46,953,302</u>
Investment income:		
Net appreciation in fair value of investments	81,930,712	1,331,980
Interest	6,236,687	5,792,559
Dividends	7,326,836	6,539,642
Stock loan income	101,772	96,218
Partnership Income	1,565,118	-
	<u>97,161,125</u>	<u>13,760,399</u>
Less: Investment management fees	<u>2,432,870</u>	<u>1,733,672</u>
Total investment gain - net	<u>94,728,255</u>	<u>12,026,727</u>
Miscellaneous income	<u>51,593</u>	<u>105,118</u>
Total additions - net	<u>149,675,595</u>	<u>59,085,147</u>
Deductions:		
Benefit payments	70,952,238	68,120,680
Refunds of employee contributions	4,151,363	4,051,359
Salaries, wages and related expenses	137,973	279,124
Administrative and miscellaneous expenses	1,087,049	835,981
Total deductions	<u>76,328,623</u>	<u>73,287,144</u>
Change in net position	73,346,972	(14,201,997)
Net position - beginning of year	<u>685,099,503</u>	<u>699,301,500</u>
Net position - end of year	<u>\$ 758,446,475</u>	<u>685,099,503</u>

Source: Allegheny County 2012 Comprehensive Annual Financial Review

Summary of Principal Financial Results

COUNTY OF ALLEGHENY, PENNSYLVANIA
Notes to Financial Results
Pension Trust Fund

Plan Description

The County sponsors the Allegheny County Retirement System (Retirement System), a single-employer, defined benefit, contributory retirement plan covering substantially all employees. Employees contribute to the Retirement System through payroll withholdings based on a contracted rate.

Benefit and contribution provisions for the Retirement System are determined under statutes enacted by the General Assembly of the Commonwealth of Pennsylvania. The Retirement Board, pursuant to express statutory authority, has the right to increase the employee contributions in the event it is actuarially determined that a contribution increase is required in order for the Board to meet its funding requirements. Any increase in employee contributions imposes a statutory requirement upon the County to match the employee contributions. Also, the obligation of the fund to pay retirement benefits is further secured by statutory obligation imposed upon the County to utilize its taxing authority to meet the Retirement Board's obligation to make monthly benefit payments to retirees.

Monthly benefit payments are determined for each individual according to the retirement option selected and the age and length of service at retirement. Under normal retirement (attainment of age 50 with 20 years of service for police and firefighters, age 55 with 20 years of service for jail guards, deputy sheriffs and probation officers and age 60 with 20 years of service for non-uniformed employees), the retirement benefit is equal to 50% of final average salary plus 1% of final average salary for each full year of service between 20 and 40 years. Final average salary is the monthly average of the 24 highest months of compensation in the last 48 months of employment preceding retirement.

Funding Policy, Annual Pension Cost and Net Pension Obligation, Annual Required Contribution and Schedule of Funding

Effective January 1, 2012 employees were required to contribute 8.0% percent of covered compensation. The 2011 rate was 7.0% and for the period January 1, 2003 through December 31, 2010, employees were required to contribute 6.0% percent of covered compensation. For the period January 1, 2002 through December 31, 2002, employees were required to contribute 5.0% percent of covered compensation. For the period January 1, 2000 through December 31, 2001, employees were required to contribute 3.8% percent of covered compensation. For the period February 1, 1998 through December 31, 1999, employees were required to contribute 6.0% of covered compensation. Prior to February 1, 1998, employees were required to contribute 7.5%. Employee contributions are matched equally by the County, as prescribed by the Second Class County Code, and deposited in the Pension Trust Fund. Employees with at least 24 months of service who terminate prior to satisfying the minimum service requirements for a retirement benefit are entitled to refunds of their contributions plus interest thereon. Interest earned for 2012 was at .026% per annum on contributions. Employees with less than 24 months of service who terminate prior to satisfying the minimum service requirements for a retirement benefit are entitled to refunds of their contributions only.

Summary of Principal Actuarial Results

	January 1, 2012	January 1, 2013
Demographics		
Active Participants Number	7,410	7,526
Average Age	47.4	47.3
Average Age at Hire	34.5	34.4
Average Past Service	12.9	12.9
Total Payroll (prior year)	\$ 329,178	\$ 328,297
Covered Payroll*	340,881	339,905
Average Pay	44,435	43,622
Median Pay	40,890	39,985
Inactive Participants	4,399	4,420
Number in Pay Status	74.3	74.3
Average Age in Pay Status Average	\$ 1,306	\$ 1,363
Monthly Benefit Median Monthly Benefit	1,075	1,109
Police/Fire	2,730	2,757
Sheriffs/Guards/POs	2,416	2,502
Non-uniformed	989	1,018
Number of Terminated Vested	177	165
Average Age of Terminated Vested	50.9	50.7
Average Monthly Benefit	\$ 1,202	\$ 1,162
Median Monthly Benefit	1,067	1,037
Police/Fire	1,982	1,982
Sheriffs/Guards/POs	2,353	2,353
Non-uniformed	1,111	1,019
Total Participants	11,986	12,111
Total Active Member and County Contributions during preceding 12 months		
Dollars	\$ 46,953	\$ 54,896
Percentage of Payroll	14%	16%

*Projected to next year using salary increase assumption.

Source: 2012 Cowden Actuarial Report

Summary of Principal Actuarial Results

	<i>January 1, 2012</i>	<i>January 1, 2013</i>
	(\$ Amounts in 000s)	(\$ Amounts in 000s)
Interest Rate	7.75%	7.75%
Accrued Benefit Funded Status		
Accrued Benefit Liability	\$ 1,072,583	\$ 1,108,092
Market Value of Assets	685,100	758,446
Accrued Benefit Funded Ratio	63.9%	68.4%
Accrued Liability Funded Status		
Actuarial Liability	\$ 1,235,830	\$ 1,273,872
Actuarial Value of Assets	685,100	758,446
Funded Ratio	55.4%	59.5%
Total Funded Status		
Value of Total Liabilities	\$ 1,437,358	\$ 1,476,803
Value of Total Assets		
(Market Value of Existing Assets and Present		
Value of Future Contributions)	1,078,660	1,148,842
Total Ratio	75.0%	77.8%
Total Normal Cost		
Dollar	\$ 26,798	\$ 27,089
% of Payroll	7.86%	7.97%

Consultant Reports

Investment Policy*

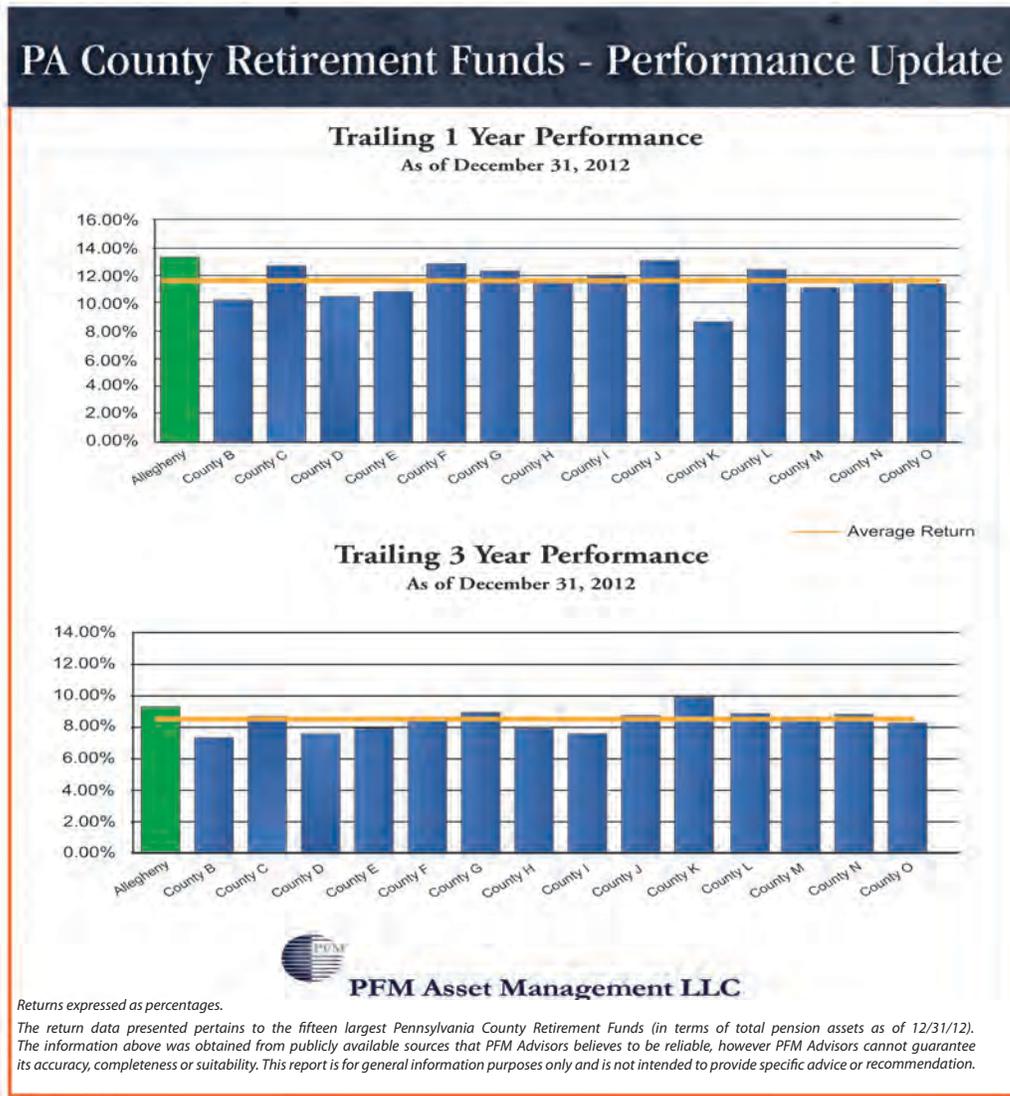
The Statement of Investment Policy was adopted by the Retirement Board of Allegheny County on June 16, 2011 and amended April 19, 2012. The policy guides the Board in its responsibilities over the assets of the Allegheny County Employees' Retirement System. The appropriate benchmarks and asset class weightings used to calculate the Fund's investment policy benchmark are as follows:

<u>Asset Class</u>	<u>Benchmark</u>	<u>% Cont. to Benchmark</u>
Domestic Equity	DJ Wilshire 5000 Index	17%
International Equity	MSCI AC World Index Ex-US	23%
Core Fixed Income	Barclays U.S. Aggregate Bond Index	7%
High Yield Fixed Income	CSFB High Yield Index	15%
Inflation Protected FI	Barclays US TIPS Index	5%
Real Estate	NCREIF Property Index	10%
Private Equity	DJ Wilshire 5000 Index + 3%	15%
<u>Commodities</u>	<u>Dow Jones/AIG Commodities Index</u>	<u>8%</u>
Total		100%

Investment Policy * - Subsequent to the end of this reporting period, the Investment Policy was amended on 2/21/13 to reflect the following asset allocation: 16% Domestic Equity, 19% International Equity, 10% Core Fixed Income, 12% High Yield Fixed Income, 5% Inflation Protected Fixed Income, 10% Real Estate, 20% Private Equity, 8% Commodities.

Consultant Reports (Cont.)

Below is the 2012 PA County Retirement Funds Performance Update. This analysis compares Allegheny's performance relative to other large PA Counties.



Consultant Reports (Cont.)

Alternative Investments

The Retirement Board of Allegheny County has increased the asset allocation for Alternative Investments from 10% to 20% over the last 2 years. These changes were approved after reviewing several asset allocation studies presented by Wilshire Associates. The goal of investing in Alternative Investments is to enhance portfolio returns and to have assets that are not correlated to the stock market volatility.

The Trustees approved 10 new partnerships after interviewing nearly 20 organizations. Some of the investment strategies include: Venture Capital, Private Equity, Distressed Debt, and Life Insurance Settlements. These investments are performing above expectations as a group. Over the life of these partnerships, we expect that these Alternative Investments will perform better than the broad stock market indices. History suggests that Alternative Investments may perform 3% to 5% better than traditional long only equity managers.

We still have additional room for some new Alternative Investments that will be examined on a very selective basis. It is important that these investments continue to be evaluated based upon their investment objectives, potential risks, liquidity, and the quality of people at these firms making investment decisions.

As the U.S. economy continues to recover slowly, the opportunities may change within the various investment strategies. We expect all managers to exercise their Fiduciary duties for the benefit of all beneficiaries in this Plan. At this time, the early results are supporting the decision to increase the Alternative Investment allocations.

Consultant Reports (Cont.)

Emerging Manager Program

The Retirement Board of Allegheny County maintained an allocation of \$27.5 million to their Emerging, Local and Minority Manager Program as of January 2011. This allocation represented approx. 3.95% of the overall County Retirement Fund. By the end of 2011, assets had risen to \$32.4 million which equated to 4.7% of total plan assets. During this year, 3 domestic equity managers were added to the program: Philadelphia Trust, Symons Capital Management and Apex Capital Management. In early 2012, two additional managers were hired: Charlestown Capital (private equity) and the Swarthmore Group (fixed income). Later that same year, an additional manager was approved – Fragasso Financial Advisors (domestic equity), increasing the number of managers in the program to nine. As of December 31, 2012, local, emerging and minority manager assets totaled \$39.6 million, or 5.25% of total plan assets. The County has approximately \$17 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.

Directed Brokerage Program

In July 2011, PFM worked with RBAC to review and adopt a new brokerage policy, and helped established a list of 10 approved brokerage firms. The updated brokerage policy expanded opportunities to minority-owned and woman-owned brokerage firms, as well as local firms. The brokerage policy was sent to all applicable domestic equity and international equity managers. For the calendar year 2012, 30.75% of the total commission dollars were directed to approved brokers, representing \$33,320 paid to local or minority-owned firms.

Acknowledgements

TO ALL WHO HAVE OFFERED ADVICE AND SUPPORT:

I wish to express an acknowledgement of appreciation to those who have assisted in the preparation of this report. It represents many hours of work and is the ultimate story of dollars and cents associated with the board's policies and the system's operations.

Performance is due, in large part, to the men and women that serve on the RBAC. The Board works tirelessly to assure all members that the system remains financially solvent and sound. This includes past board members Dan Onorato and Mark Patrick Flaherty who contributed to the results of this report.

A number of consultants and professional service providers are relied upon to effectively manage the system and we especially want to recognize Asset Strategy Consultants, PFM, Wilshire, Cowden, CDBLaw, Schneider-Downs and Case Sabatini. These firms have consistently and professionally guided the system.

This retirement system has forged special relationships with the County Executive's, Treasurer's and Controller's offices. Their staffs are crucial to the complete, clear and accurate processing of transactions. We sincerely express our appreciation to them and all that they do.



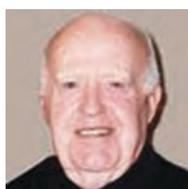
A handwritten signature in black ink, appearing to read "John K. Weinstein".

John K. Weinstein
Allegheny County Treasurer
and Board President

Retirement Board of Allegheny County



- County Treasurer JOHN WEINSTEIN**..... *President/Treasurer*
- TED PUZAK**..... *Vice President/Elected Member*
- County Controller CHELSA WAGNER**..... *Secretary*
- BILL GALLAGHER**..... *Elected Member*
- County Executive RICH FITZGERALD**..... *Board Member*
- County Chief of Staff JENNIFER LIPTAK**..... *Executive Appointee*
- Council Budget Director WALT SZYMANSKI**..... *Council Appointee*



WILLIAM (Bill) GALLAGHER
February 19, 1928—December 8, 2013

“When someone you respect becomes a memory, the memory becomes a treasure.”

Bill Gallagher was born and raised in the Strip District of Pittsburgh, graduated from Central Catholic High School in 1945 and served 3½ years in the Navy during WWII - stationed in Hawaii.

Bill last worked as the Grants Manager for Allegheny County’s Plumbing Division and retired in 1990 after 40 years.

In addition to his service in Public Health, Bill taught mathematics for 25 years at Connelly Trade and Technical Institute. He was former Chairman of the Cross Connection Control Certification School and Instructor for the Accreditation Committee of the American Society of Sanitary Engineers.

Bill was a member of the Allegheny County Retirees Association for over 12 years and Vice President of the ACRA Board.

Elected to the Retirement Board of Allegheny County in April 2005, Bill won by a landslide with nearly 65% of the ballots cast. Bill went on to be re-elected to serve two additional four year terms in June 2006 and June 2010. County Treasurer and RBAC President John K. Weinstein said of his friend and colleague, “Bill’s only agenda was to protect the pension plan for the benefit of our members. He will be fondly remembered.”

**106 County Office Building
542 Forbes Avenue
Pittsburgh, PA 15219**

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Allegheny County Employees' Retirement System

Retirement Office:

**106 County Office Building
542 Forbes Avenue
Pittsburgh, PA 15219**

Telephone:

(412) 350-4674

E-mail:

pension@alleghenycounty.us

Executive Director:

Timothy H. Johnson

Solicitor:

Richard Miller, ESQ

Plan Administrator:

Carol Uminski

Benefits Specialist:

Kelly Deasy

Data and Investment Administrator:

Josh Zorich