# ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

## DECEMBER 31, 2014 AND 2013

**ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM**
**FINANCIAL STATEMENTS**
**AND SUPPLEMENTAL SCHEDULES**

**YEARS ENDED DECEMBER 31, 2014 AND 2013**

## CONTENTS

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March 20, 2015

President and Members of the Retirement Board
Allegheny County Employees' Retirement System
Pittsburgh, Pennsylvania

# 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 additional, 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.

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Certified Public Accountants
Pittsburgh, PA

## ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

## STATEMENTS OF FIDUCIARY NET POSITION
## DECEMBER 31,

### ASSETS

| | 2014 | 2013 |
|---|---|---|
| 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 Depositary 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 | 7,232 | 58,288 |
| Total Assets | $ 839,448,976 | $ 827,695,504 |

### LIABILITIES

| | 2014 | 2013 |
|---|---|---|
| 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 | 8,722 | 7,369 |
| Total Liabilities | $ 2,365,863 | $ 1,851,424 |

### FIDUCIARY NET POSITION

| | 2014 | 2013 |
|---|---|---|
| Net Position Restricted for Pensions: | $ 837,083,113 | $ 825,844,080 |

The accompanying notes are an integral part of these financial statements.

## ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
## DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employee | $ 30,170,618 | $ 27,888,016 |
| Employer | 29,830,945 | 27,587,089 |
| Total Contributions | 60,001,563 | 55,475,105 |
| 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 | 119,215 | 78,157 |
| | 39,246,746 | 95,677,488 |
| Less: Investment Management Fees | 3,424,119 | 3,367,296 |
| Total Investment Income - net | 35,822,627 | 92,310,192 |
| Miscellaneous Income | 170,782 | 76,876 |
| Total Additions - Net | 95,994,972 | 147,862,173 |
| 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 | 992,334 | 918,822 |
| Total Deductions | 84,755,939 | 80,464,568 |
| Net Increase in Net Position | 11,239,033 | 67,397,605 |
| Net Position Restricted for Pensions at Beginning of Year | 825,844,080 | 758,446,475 |
| Net Position Restricted for Pensions at End of Year | $ 837,083,113 | $ 825,844,080 |

The accompanying notes are an integral part of these financial statements.

## NOTE 1 – Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Allegheny County Employees' Retirement System (Retirement System) have been prepared on the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments

Investments of the Retirement System are presented at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Bonds and notes not regularly on a national exchange are valued based on the last reported sale price or mean of the latest bid and ask price. Other investments consist of ownership interests in various private equity funds. These interests are recorded at the latest available book value of Retirement System's ownership interest, generally being December 31, 2014. The book value for these investments approximates fair value due to the requirement for these funds to follow the guidance of Accounting Standards Codification 820-10, *Fair Value Measurements.*

The Retirement System has adopted investment guidelines that summarize the investment philosophy of the Board and set forth investment targets and performance objectives for the fund. In 2012, the Retirement Board approved changes to the target allocations for investments. The investment guidelines, adopted June 16, 2011, were last amended February 21, 2013. The target allocations are included in the revised investment guidelines and are included in these notes.

Actuarial Cost Method

The Retirement System Plan (Plan) utilizes the entry age normal method. Under this method, normal cost percent is determined separately for each active participant as the level percent of expected career earnings required to fund expected plan benefits. A dollar nominal cost is computed by applying this percent to the participant's expected earnings for the current plan year. The participant's actuarial accrued liability is the difference between the present value of all future plan benefits expected to be paid on his benefit and the present value of his future normal costs.

## NOTE 2 – Plan Description

The Retirement System is sponsored by the County of Allegheny, Pennsylvania (County). The Retirement System is presented as the Pension Trust Fund (Fund) of the County, within the financial statements of the County as a whole.

The Retirement System Board (Board) administers the Retirement System. The Board consists of the following seven members: the County Executive, the County Controller, the County Treasurer, two members elected by the County employees and retirees, one member appointed by the County Executive, and one member appointed by the County Council.

The Retirement System is a single-employer, defined benefit, contributory retirement benefit plan covering substantially all employees of the County. Benefit and contribution provisions for the Retirement System are determined under the statutes enacted by the General Assembly of the Commonwealth of Pennsylvania. The 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 Board's obligation to make monthly benefit payments to retirees.

Monthly benefit payments are determined for each individual according to the retirement option and the age and length of service at retirement. Additionally, the Board, at its discretion, can provide for cost of living allowances to retirees based on meeting certain actuarial funding levels as more fully described in the House Bill 869 of the General Assembly of the Commonwealth of Pennsylvania. Under normal retirement (attainment of age 50 with 20 years of service for police and firefighters; age 55 with 20 years of service for deputy sheriffs, jail guards, and probation officers; age 60 with 20 years of service for non-uniformed employees), the retirement benefit is equal to 50% of the final average salary, plus 1% thereon 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.

Act 125 was passed in December, 2013 and applies to County employees hired or re-hired on or after February 21, 2014. It changed vesting from 8 to 10 years and the service requirement from 20 to 25 years. For the purpose of calculating final average salary, final average salary was changed from the highest 24 months out of the final 4 years to the highest 48 months out of the final 8 years and overtime compensation is limited to 10% of base pay.

## NOTE 2 – Plan Description (Continued)

Employees are required to contribute 8.5% of covered compensation. Employee contributions are matched equally by the County, as prescribed by the Second Class County Code of the Commonwealth of Pennsylvania. 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, approximately 0.14% in 2014. 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.

At January 1, 2014 and 2013, the dates of the most recent available data, participants in the Retirement System were as follows:

| | 2014 | 2013 |
|---|---|---|
| Participants: | | |
| Retirees and beneficiaries | 4,444 | 4,420 |
| Deferred vested | 227 | 165 |
| | 4,671 | 4,585 |
| Current Employees: | | |
| Vested – non-uniform | 3,546 | 3,853 |
| Vested – all others | 480 | 492 |
| Vested – police and fire | 142 | 156 |
| Non-vested – non-uniform | 2,394 | 2,617 |
| Non-vested – all others | 329 | 310 |
| Non-vested – police and fire | 112 | 98 |
| | 7,003 | 7,526 |
| Total | 11,674 | 12,111 |

## NOTE 3 – Contributions Required and Contributions Made

The Retirement System's funding policy requires that the County match all employee contributions on an equal basis and fund those amounts currently. The Board, pursuant to express statutory authority, has the right to increase or decrease the employee's contribution 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 imposed a statutory requirement upon the County to match the employee contributions. Also, the obligation of the Retirement System to pay retirement benefits is further secured by statutory obligation imposed upon the County to utilize its taxing authority to meet the Retirement System's obligation to make monthly benefit payments to retirees.

## NOTE 4 – Cash and Investments

The Retirement System is required to invest no less than 22% of its portfolio in fixed income securities and the remaining portion primarily in stocks or equities; along with hedge funds, venture capital and real estate, which are not to collectively exceed 45% of the total portfolio.

The Retirement System is authorized by the Board to invest in obligations of the U.S. government, agencies and instrumentalities, commercial paper rated at least A-2 by Standard & Poor's or P-2 by Moody's Investors Service, Inc. (Moody's ), bankers' acceptances, and corporate obligations including mutual funds, rated A by Standard & Poor's or A-2 by Moody's. The securities of any one issuer should not exceed 5% of the market value of the fund. This limitation does not apply to securities issued or guaranteed by the U.S. government or its agencies. In the case of U.S. government agency issues, the securities of any one agency should not exceed 10% of the market value of the fund.

As of December 31, 2014, the Retirement Board had the following cash and investments:

| | | Investment Maturities from December 31, 2014 | | | |
|---|---|---|---|---|---|
| Cash or Investment Type | Fair Market Value | Less than 1 year | 1-10 Years | 10-20 Years | More than 20 years |
| Government & related agency debt | $ 16,946,039 | $ 2,143,783 | $ 11,840,360 | $ 1,283,843 | $ 1,678,053 |
| Corporate certificates of deposit | 5,720,089 | - | 5,720,089 | - | - |
| Fannie Mae and Freddie Mac debt | 6,775,673 | - | 474,545 | 1,065,129 | 5,235,999 |
| Corporate debt | 66,445,606 | 1,173,334 | 57,214,631 | 1,551,515 | 6,506,126 |
| Non-U.S. gov't and corp. notes | 14,244,636 | 1,013,149 | 12,948,148 | - | 283,339 |
| Total debt securities | 110,132,043 | $ 4,330,266 | $ 88,197,773 | $ 3,900,487 | $13,703,517 |
| Cash and cash equivalents | 25,904,524 | | | | |
| Bond mutual funds | 111,094,601 | | | | |
| Equity mutual funds | 161,515,591 | | | | |
| Stocks and ADRs | 85,377,620 | | | | |
| Hedge funds | 167,041 | | | | |
| Real estate investment trusts | 85,359,542 | | | | |
| S&P 500 index fund | 79,859,287 | | | | |
| Commodities fund | 19,183,852 | | | | |
| Private equity/venture capital | 155,931,421 | | | | |
| Total cash and other investments | 724,393,479 | | | | |
| Total cash and investments reported on Pension Trust Fund Statement of Net Position | $ 834,525,522 | | | | |

Governmental Accounting Standards Board (GASB) Statement No. 40, "*Deposit and Investment Risk Disclosures,*" requires disclosures related to deposit and investment risks. The following is a description of the deposit and investment risks:

## NOTE 4 – Cash and Investments (Continued)

*Interest Rate Risk* –Limiting investment maturities is a means of managing exposure to fair value losses arising from rising interest rates. The Retirement Board's investment guidelines require the effective duration of each Fixed-Income Investment Manager's portfolio to comply with the schedule below:

| Fixed-Income Class | Index | Duration Limit |
|---|---|---|
| Short-term | Merrill Lynch One-Three-Year Gov't | +/-20% |
| Government/Credit | Lehman Brothers Gov't/Credit | +/-20% |
| Core | Lehman Brothers Aggregate | +/-20% |

*Credit Risk* – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Fund's Fixed-Income Investment Managers are authorized by the Retirement Board to invest in marketable debt issues of the U.S. Treasury, U.S. Agencies, U.S. corporations, U.S. banks or other financial institutions, mortgage or asset backed securities, Yankee bonds, and cash equivalents. Domestic bonds in the core-fixed income portfolios must be rated Baa/BBB or better by either Moody's or Standard & Poor's.

The investment guidelines allow for two different classifications of fixed-income managers – core fixed income or high-yield fixed income. Core-fixed income portfolios should normally maintain an average market-weighted quality of Aa/AA. High-yield fixed income securities are bonds that are typically below investment grade bonds. These high-yield fixed income securities do not carry credit ratings below BBB by definition.

The Pension Trust Fund's December 31, 2014 investments in fixed income investments have received the following ratings:

| Rating Standards & Poors' | Other Government Securities | Corporate Certificates Of Deposit | FNMA & FHLMC | Corporate Bonds | Non-US Gov't & Corporate Debt |
|---|---|---|---|---|---|
| AAA | $ - | $ - | $ - | $ 2,205,039 | $ 166,292 |
| AA | 4,082,155 | - | - | 5,559,620 | 917,322 |
| A | 233,823 | - | - | 12,787,137 | 1,855,476 |
| BBB | - | - | - | 6,977,625 | 1,165,898 |
| BB | - | - | - | 6,703,849 | 648,226 |
| B | - | - | - | 17,742,125 | 2,225,500 |
| CCC | - | - | - | 11,247,920 | 199,875 |
| CC | - | - | - | 978,750 | - |
| C | - | - | - | - | - |
| Not Rated | 12,630,061 | 5,720,089 | 6,775,673 | 2,243,541 | 7,066,047 |
| Totals | $ 16,946,039 | $ 5,720,089 | $ 6,775,673 | $ 66,445,606 | $ 14,244,636 |

## NOTE 4 – Cash and Investments (Continued)

| Rating Moody's | Other Government Securities | Corporate Certificates Of Deposit | FNMA & FHLMC | Corporate Bonds | Non-US Gov't & Corporate Debt |
|---|---|---|---|---|---|
| Aaa | $ 15,243,044 | $ - | $ - | $ 2,831,924 | $ 166,292 |
| Aa | - | - | - | 3,625,731 | 1,375,065 |
| A | - | - | - | 9,199,523 | 1,656,016 |
| Baa | - | - | - | 10,838,259 | 1,103,865 |
| Ba | - | - | - | 5,188,195 | 205,725 |
| B | - | - | - | 18,793,688 | 1,298,088 |
| Caa | - | - | - | 11,637,230 | 1,373,538 |
| Ca | - | - | - | 222,950 | - |
| C | - | - | - | - | - |
| Not Rated | 1,702,995 | 5,720,089 | 6,775,673 | 4,108,106 | 7,066,047 |
| Totals | $ 16,946,039 | $ 5,720,089 | $ 6,775,673 | $ 66,445,606 | $ 14,244,636 |

The Retirement Board has passed a "Statement of Investment Policy" which gives the High Yield Fixed Income asset class a target asset allocation of 12% of total fund assets. Within the High Yield Fixed Income class, the policy allows 60% of this class to be invested in Defensive High Yield investments and 40% to be invested in Opportunistic High Yield investments. The policy further defines the Opportunistic High Yield investments as "may include CCC and below rated securities", and Defensive High Yield investments "only generally excluding CCC and below securities."

The credit ratings for the Pension Fund's mutual fund investments are unknown.

*Custodial Credit Risk – Cash and cash equivalents* – For deposits, custodial credit risk is the risk that in the event of bank failure, the fund's deposits may not be returned to it. As of December 31, 2014, the book value of the Pension Trust Fund's cash and deposits was $1,706,278 and the bank balance was $2,333,565. Of the $2,333,565 bank balance, $500,000 was covered by federal depository insurance. $1,833,565 is uninsured and subject to custodial credit risk and is collateralized in accordance with ACT 72. An additional $24,198,246 in cash or cash equivalents was held by the Fund's investment managers in temporary investment vehicles. The investment guidelines state cash equivalent investments may be U.S. Treasury Bills, U.S. Government repurchase agreements (with a minimum of 102% collateral), money market funds, or commercial paper. If commercial paper is used for short-term investments, it must be rated at least A-1 or A by Moody's or Standard & Poor's.

*Custodial Credit Risk – Investments* – For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside entity. The Pension Trust Fund does not have a formal investment policy to mitigate custodial credit risk. However, to reduce investment risks, the Board's investment guidelines do set target and range asset allocations for all investments.

## NOTE 4 – Cash and Investments (Continued)

The total plan targets are as follows:

| Asset Allocation | Target |
|---|---|
| Cash/Fixed-income | 27.0% |
| Diversified Equity | 35.0% |
| Real Estate | 10.0% |
| Venture Capital / Private | 20.0% |
| Commodities | 8.0% |
| Total | 100.0% |

*Concentration of Credit Risk* – The Retirement Board's investment guidelines do not set total fund diversification guidelines. However, they do attempt to minimize the impact of substantial loss in any specific industry or issue by establishing specific limits for the portfolios of each of the investment managers. For the equity investment managers, no more than 5% of each manager's equity portfolio may be invested in any one company (valued at cost), and no more than 10% of each manager's equity portfolio may be invested in any one company (valued at market). In addition, equity investments may not exceed the benchmark index by 20% of the GICS economic sector allocation.

For the core fixed-income managers, except for U.S. Treasury and Agency obligations, each manager's fixed-income portfolio may not contain more than 10% (valued at market) of a given domestic issuer; no more than 10% of each portfolio's market value may be in Yankee bonds. If an investment manager chooses to invest in SEC Rule 144A securities without registration rights, such securities may not consist of more than 10% of the portfolio.

*Foreign Currency Risk* –For cash and investments, foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At December 31, 2014, the Retirement Board held $18,927 in foreign cash, $30,790,338 in common stock investments, and $14,244,636 in fixed income investments, all in various non-U.S. dollar denominations.

*Rate of Return* – For the year ended December 31, 2014, the annual money-weighted rate of return on the Pension Trust Fund's investments, net of the Pension Trust Fund's expense, was 4.40 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## NOTE 5 – Commitments and Contingencies

The Retirement System is subject to asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management and legal counsel, the resolution of these claims will not have a material adverse effect on the Retirement System's net assets or results of operations.

## NOTE 5 – Commitments and Contingencies – (Continued)

Certain other investments of the Retirement System consist of the Retirement System entering into agreements as limited partners in private equity funds. These agreements generally provide for the Retirement System to make commitments as to the amount of funds the Retirement System will contribute to these funds. The decision as to whether these funds are required to be contributed and the amounts of any particular contribution are determined by the general partners of these funds. As of December 31, 2014, the Retirement System has approximately $78 million in outstanding commitments under these agreements.

## NOTE 6 – Net Pension Liability of the County

The components of the net pension liability of the County at December 31, 2014, were as follows:

| | |
|---|---|
| Total Pension Liability | $ 1,389,200,839 |
| Plan Fiduciary Net Pension | 837,083,113 |
| County's Net Pension Liability | $ 552,117,726 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 60.26% |

*Actuarial Assumptions* - The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Projected salary increases | 5.75% for age <25<br>5.25% for age 25-29<br>4.25% for age 30-34<br>3.75% for age 35-39<br>3.25% for age >40 |
| Investment rate of return | 7.75% |
| General inflation | 2.75% |
| Contribution rate | 9.0% of salary |

## NOTE 6 – Net Pension Liability of the County (Continued)

Mortality rates were based on the RP-2000 Combined Healthy Annuitants Mortality Table (Base Year = 2010), with blue-collar adjustments and adjustments for mortality improvements based on Scale AA and the RP-2000 Disabled Retirees Mortality Table, with no future mortality improvement..

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial valuation as of January 1, 2014 with update procedures used to roll forward the Total Pension Liability to December 31, 2014.

The long-term expected rate of return on the Pension Trust Fund investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 (see Note 4 for the discussion of the Pension Trust Fund's investment policy are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| U.S. Equity | 4.55% |
| Non-U.S. Equity | 4.75% |
| Private Equity/Venture Capital | 7.10% |
| Core Fixed Income | 1.65% |
| High Yield | 3.45% |
| Real Estate | 4.00% |
| TIPS | 1.20% |
| Commodities | 2.00% |

*Discount Rate* - The discount rate used to measure the total pension liability was 7.75 percent. A projection of Plan Net Fiduciary Position was performed in order to determine if a depletion date was reached. Benefit payments were projected from the January 1, 2014 valuation date for the closed group of plan participants on that date. Administrative expenses were assumed to increase at 2.75%. Future employer and employee contribution rates were assumed to remain at the 2015 level of 9% of covered payroll. Future new entrants were included in the projection of future contributions only to the extent that contributions in excess of their service costs are considered. Asset projections include future new entrants to the plan. The demographic composition of the new entrant group is similar to the recent group of new participants to the plan. Projections assume that the active headcount is to remain at the January 1, 2014 level. Based on those assumptions, the Pension Trust Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Trust Fund investments was applied to all periods of projected benefit payments to determine the total pension liability.

## NOTE 6 – Net Pension Liability of the County (Continued)

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* – The following presents the net pension liability of the County using the discount rate of 7.75 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 – percentage-point lower (6.75 percent) or 1 – percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| County's Net Pension Liability | $ 702,733,908 | $ 552,117,726 | $ 423,728,583 |

## NOTE 7 – Tax Status

The Internal Revenue Service has determined and informed the Retirement System by a letter dated December 15, 1997 that the Retirement System is designated in accordance with the applicable sections of the Internal Revenue Code (Code). The plan document has been amended since receiving the determination letter. The Retirement System administrator and the Retirement System's tax counsel believe that the plan remains designated and is currently being operated in compliance with the applicable requirements of the Code.

## ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM
## SCHEDULE OF CHANGES IN NET PENSION LIABILITY

| | 2014 |
|---|---|
| Total Pension Liability | |
| Service Cost | $ 34,628,592 |
| Interest | 98,256,438 |
| Changes in Assumptions | (218,138,548) |
| Benefit Payments, Including Refunds of Member Contributions | (83,481,880) |
| Net Change in Total Pension Liability | (168,735,398) |
| Total Pension Liability - Beginning | 1,557,936,237 |
| Total Pension Liability - Ending (a) | 1,389,200,839 |
| Plan Fiduciary Net Position | |
| Contributions - Employer | 29,830,945 |
| Contributions - Employee | 30,170,618 |
| Net Investment Income | 35,993,409 |
| Benefit Payments, Including Refunds of Member Contributions | (83,481,880) |
| Administrative Expense | (1,274,059) |
| Net Change in Plan Fiduciary Net Position | 11,239,033 |
| Plan Fiduciary Net Position - Beginning | 825,844,080 |
| Plan Fiduciary Net Position - Ending (b) | 837,083,113 |
| County's Net Pension Liability - Ending (a) - (b) | 552,117,726 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 60.26% |
| Covered-Employee Payroll | 337,015,597 |
| County's Net Pension Liability as a Percentage of Covered-Employee Payroll | 163.83% |

See accompanying note to supplemental schedules.

**ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM**
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

| | Statutorily Required Contribution | Contribution in Relation to the Statutorily Required Contribution | Contribution Deficiency (Excess) | Covered-Employee Payroll | Contributions as a Percentage of Covered Employee Payroll |
|---|---|---|---|---|---|
| 2014 | $ 29,830,945 | $ 29,830,945 | $ - | $ 337,015,597 | 8.85% |
| 2013 | 27,587,089 | 27,587,089 | - | 339,905,490 | 8.12% |
| 2012 | 27,224,149 | 27,224,149 | - | 340,880,866 | 7.99% |
| 2011 | 23,406,380 | 23,406,380 | - | 357,290,379 | 6.55% |
| 2010 | 20,115,911 | 20,115,911 | - | 340,878,581 | 5.90% |
| 2009 | 19,256,793 | 19,256,793 | - | 326,803,000 | 5.89% |
| 2008 | 18,577,232 | 18,577,232 | - | 317,380,000 | 5.85% |
| 2007 | 18,415,555 | 18,415,555 | - | 291,731,000 | 6.31% |
| 2006 | 17,610,617 | 17,610,617 | - | 277,004,000 | 6.36% |
| 2005 | 16,549,094 | 16,549,094 | - | 266,043,000 | 6.22% |

See accompanying note to supplemental schedules.

**ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM**
**SCHEDULE OF ANNUAL MONEY-WEIGHTED RATE OF RETURN**

| | Annual Money-Weighted Rate of Return, Net of Investment |
|---|---|
| 2014 | 4.40% |

See accompanying note to supplementatl schedules

## ALLEGHENY COUNTY EMPLOYEES' RETIREMENT SYSTEM

## NOTES TO SUPPLEMENTARY SCHEDULES

## FOR THE PLAN YEAR ENDED DECEMBER 31, 2014

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Actuarial valuation date | 12/31/2014 |
| Amortization | None |
| Actuarial cost method | Entry Age Normal |
| Asset valuation method | Market Value |
| Actuarial assumptions: | |
| Projected salary increases | 5.75% for age <25<br>5.25% for age 25-29<br>4.25% for age 30-34<br>3.75% for age 35-39<br>3.25% for age >40 |
| Investment rate of return | 7.75% |
| General inflation | 2.75% |
| Contribution rate | 9.0% of salary |

*Change in Assumptions* – The beginning period Total Pension Liability based on a discount rate of 6.35%. The underlying assumptions used in its development were:

Long-term expected rate of return on plan assets: 7.75%

Index rate for 20-year, tax-exempt municipal bond index (AA/Aa or higher) – 4.55% per the

S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2013.

The Schedule was of Changes in Net Pension Liability and the Schedule of Annual Money-Weighted Rate of Return only present information for the current year since prior year information is unavailable.