



ALLEGHENY COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial and Actuarial Report

for the Fiscal Years Ended
December 31, 2020 & 2019

Table of Contents

Letter from the Board President.....Page 3

Report of Independent AuditorsPage 4

Audited Financial Results.....Page 5

Actuarial CertificationPage 7

Summary of Actuarial Results..... Page 8

Consultant Reports.....Page 10

Retirement Board of Allegheny County.....Back Page

Letter from the Board President

To the Members, Survivors and Beneficiaries of the Plan:

I would like to offer you a recap of some of the exciting news that the Retirement Board has been working on over the last year:

As 2020 proved to be a year that no one anticipated, staff remained fully functioning during the Coronavirus Pandemic. Although we had to close our doors to members during the Allegheny County RED Phase, staff worked diligently to answer retirement questions, process new Retirements, payroll and refunds amongst other administrative duties. During that time, our offices were thoroughly cleaned and plexiglass partitions were installed in our reception area.

The Retirement Board issued an RFP in late 2019 for lead consulting services for the fund. At the September 17, 2020 meeting, The Board voted unanimously to hire AndCo as the new lead consultant for the fund. With AndCo on board, I am extremely pleased to announce that as of December 31, 2020, the Allegheny County Employees Retirement System has surpassed the one-billion-dollar mark. This is a tremendous achievement that has never been reached before.

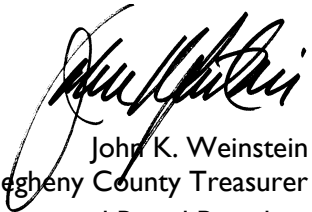
Although the fund balance increased, benefit payments have steadily increased as well. The Contribution sub rate committee recommend an increase in contribution on both the employer and employee side by 1/2 % each for a total of 1% at the December 17, 2020 Board Meeting. The combined contribution rate is now at 21%.

Duncan Financial, our contracted Financial Wellness provider, offered to provide us with virtual meetings during the pandemic and we hosted our first online seminar in July 2020. We hope to come back to face to face meetings soon, but plan to continue the virtual meetings as alternatives.

I would like to express my appreciation to the staff of the Retirement, County Executive, Treasurer and Controller's Offices. Their continued support and the relationships that have been forged are crucial to the Plan and its fiscal soundness.



On behalf of the trustees of this Board, it is my honor to serve you as President/Treasurer.


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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed more fully in the disclosure about the discount rate in Note 6 to the financial statements, the Allegheny County Employees' Retirement System is projected to reach a depletion date of 2044. 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 18 through 21 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>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 21,683,123	\$ 15,093,687
Investments (at fair value):		
Equity:		
U.S. Common and Preferred Stock	104,518,750	112,604,383
American Depositary Receipts	314,518	1,316,876
S&P 500 Index Fund	100,388,251	93,250,540
Non-U.S. Stocks and Equity Mutual Funds	156,102,866	141,726,984
Bonds and Notes:		
Corporate Certificates of Deposit	1,099,103	2,591,803
U.S. Government and Related Agency Debt	27,492,567	28,483,569
Fannie Mae and Freddie Mac Debt	12,637,533	13,335,730
Fixed Income Mutual Funds	203,143,266	204,069,310
U.S. Corporate Debt Instruments	34,294,712	27,797,978
Non-U.S. Government and Corporate Debt	12,268,579	10,928,890
Other Investments:		
Hedge Funds	693,213	798,011
Real Estate Investment Trusts	103,565,303	101,781,586
Venture Capital / Private Equity	222,422,048	209,925,495
Receivables:		
Amounts Due from Brokers for Sold Investments	212,669	3,463,546
Accrued Interest and Dividends	898,323	994,960
Accrued Employer Contributions	1,582,441	1,313,634
Accrued Employee Contributions	1,569,235	1,313,634
Other Assets	<u>20,458</u>	<u>59,061</u>
Total Assets	<u>\$ 1,004,906,958</u>	<u>\$ 970,849,677</u>

LIABILITIES

Liabilities:		
Vouchers Payable	\$ 355,247	\$ 17,244
Accrued Payroll	7,338	5,177
Payroll Withholdings	1,736	1,358
Accrued Liabilities	1,484,660	1,692,417
Amounts Due to Brokers for Purchased Investments	104,315	503,072
Other Liabilities	<u>15,251</u>	<u>21,615</u>
Total Liabilities	<u>\$ 1,968,547</u>	<u>\$ 2,240,883</u>

FIDUCIARY NET POSITION

Net Position Restricted for Pensions:	\$ <u>1,002,938,411</u>	\$ <u>968,608,794</u>
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Audited Financial Results

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Additions:		
Contributions:		
Employee	\$ 41,239,884	\$ 40,950,512
Employer	<u>41,015,082</u>	<u>40,755,809</u>
Total Contributions	<u>82,254,966</u>	<u>81,706,321</u>
Investment Income:		
Net Appreciation in Fair Value of Investments	69,466,453	108,868,087
Interest	2,422,586	5,316,961
Dividends	9,985,233	14,715,253
Partnership Income	1,373,817	4,969,058
Stock Loan Income	<u>25,620</u>	<u>34,491</u>
	83,273,710	133,903,850
Less: Investment Management Fees	<u>7,082,390</u>	<u>6,055,589</u>
Total Investment Income - net	76,191,320	127,848,261
Miscellaneous Income	<u>50,086</u>	<u>58,244</u>
Total Additions - Net	<u>158,496,372</u>	<u>209,612,826</u>
Deductions:		
Benefit Payments	116,659,726	109,370,751
Refunds of Employee Contributions	5,758,936	5,574,141
Salaries, Wages and Related Expenses	269,375	277,553
Administrative & Miscellaneous Expenses	<u>1,478,718</u>	<u>1,295,449</u>
Total Deductions	<u>124,166,755</u>	<u>116,517,894</u>
Net Increase in Net Position	34,329,617	93,094,932
Net Position Restricted for Pensions at Beginning of Year	<u>968,608,794</u>	<u>875,513,862</u>
Net Position Restricted for Pensions at End of Year	<u>\$ 1,002,938,411</u>	<u>\$ 968,608,794</u>

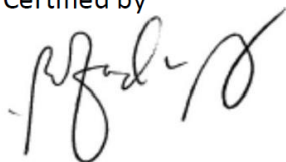
Source: Allegheny County Employees' Retirement System December 31, 2020 Audit performed by Case Sabatini. Full Audit can be viewed at www.alleghenycounty.us/retirement/reports/reports.aspx or pdf by request

Actuarial Certification

I certify that I have performed an actuarial valuation of the above plan as of January 1, 2020 in accordance with generally accepted actuarial principle applied consistently with the preceding valuation. I meet the Qualification Standards of the American Academy of Actuaries to render this actuarial opinion.

I certify that the information in this Executive summary is consistent with the formal report of the valuation.

Certified by



Bradford L. Rigby, ASA, EA, MAAA

11/11/2020

Date



Frank Canonico, EA, MAAA

11/11/2020

Date



Todd M. Kordecki.

11/11/2020

Date

Summary of Principal Actuarial Results

	January 1, 2020	January 1, 2019
Demographics		
Active Participants		
Number	7,269	7,181
Average Age	46.6	46.8
Average Age at Hire	34.8	34.5
Average Past Service	11.9	12.3
Total Payroll (prior year)	\$397,328	\$389,569
Covered Payroll*	411,655	403,588
Average Pay	54,661	54,250
Median Pay	49,636	49,030
Inactive Participants		
Number in Pay Status	5,061	4,955
Average Age in Pay Status	73.5	73.7
Average Monthly Benefit	\$1,846	\$1,761
Median Monthly Benefit	1,529	1,459
Police/Fire	3,730	3,548
Sheriffs/Guards/POs	3,127	2,992
Non-uniformed	1,343	1,298
Number of Terminated Vested	260	237
Average Age of Terminated Vested	49.5	50.0
Average Monthly Benefit	\$1,262	\$1,226
Median Monthly Benefit	994	952
Police/Fire	4,697	2,875
Sheriffs/Guards/POs	1,376	957
Non-uniformed	990	948
Total Participants	12,590	12,373
Total Active Member and Employer Contributions		
Dollars (actual)		\$81,706
Dollars (expected)	\$82,331	
Percentage of Payroll	20%	20%

*Projected to next year using salary increase assumption.

Summary of Principal Actuarial Results

	January 1, 2020	January 1, 2019
	(\$ Amounts in 000s)	(\$ Amounts in 000s)
Interest Rate	<u>7.75%</u>	<u>7.75%</u>
Accrued Benefit Funded Status		
Accrued Benefit Liability	<u>\$1,548,154</u>	<u>\$1,476,736</u>
Market Value of Assets	<u>968,609</u>	<u>875,514</u>
Accrued Benefit Funded Ratio	<u>62.6%</u>	<u>59.3%</u>
Accrued Liability Funded Status		
Actuarial Liability	<u>\$1,755,572</u>	<u>\$1,689,190</u>
Actuarial Value of Assets	<u>968,609</u>	<u>875,514</u>
Funded Ratio	<u>55.2%</u>	<u>51.8%</u>
Total Funded Status		
Value of Total Liabilities	<u>\$2,016,636</u>	<u>\$1,944,823</u>
Value of Total Assets		
(Market Value of Existing Assets and Present		
Value of Future Contributions)	<u>1,530,363</u>	<u>1,423,788</u>
Total Ratio	<u>75.9%</u>	<u>73.2%</u>
Total Normal Cost		
Dollar	<u>\$35,448</u>	<u>\$34,890</u>
% of Payroll	<u>8.61%</u>	<u>8.64%</u>

Source: Allegheny County Employees' Retirement System Actuarial Report January 1, 2020 performed by Cowden. Full Report can be viewed at <http://www.alleghenycounty.us/retirement/reports/reports.aspx> or pdf by request.

Consultant Reports

AndCo Consulting

Economy & Markets

The year can be viewed in three distinct uneven time periods. The first being, the leadup to the onset of the pandemic in late-March, followed by a dramatic drawdown during the second quarter, and finally an unprecedented market recovery during the remainder of the year. The shock and subsequent recovery experienced by the economy was unlike anything observed in recent history. While most markets closed the year at, or near, new highs, many economic indicators continue to rebound.

From an economic perspective, there are signs of weakness in several key data points. However, the broader recovery appears to remain in place. The health of the US labor market is a key indicator for the direction of the economy going forward. The dramatic deterioration of the labor market in the first quarter of 2020 was followed by an equally impressive recovery. Even in the throes of the Great Financial Crisis, the unemployment rate never exceeded 10.0%. In April this year, the unemployment rate measured 14.8%. Following the initial shock, the labor market steadily improved with the unemployment rate ending the year at 6.7%. With the rollout of vaccines and therapeutics, jobless claims and the unemployment rate could continue to trend lower in the future. While the labor market will take time to recover, other segments of the US economy have seen significant growth. The ISM Manufacturing Index registered 60.7 in December, the highest level since late-2018. While 5.3 million existing homes were sold in 2019, more than 6.6 million homes were sold in 2020.

For the full year, performance for domestic equities was strong across the capitalization spectrum with large cap stocks (S&P 500) returning +18.4%, mid-caps (Russell Mid-Cap) returning +17.1%, and small caps (Russell 2000) +20.0%. The year was capped off with the strongest quarterly performance of small cap stocks in the history of the Russell 2000 index which returned +31.4% in the fourth quarter alone. Technology orientated stocks led the US market causing growth indices to outperform their value counterparts by 30% or more. International stocks participated in the equity market recovery and Emerging Markets outperformed Developed Markets with Asian based markets leading the way.

RBAC Total Fund

The Retirement Board of Allegheny County (RBAC) Pension Fund ended 2020 with a total asset value of \$1,004,906,958, up \$34.3 million for the year. Additionally, RBAC paid out over \$116 million in benefit payments during 2020.

The RBAC Total Fund returned +8.9% in 2020. The plan experienced significantly less volatility during the year than the average plan due to its relatively lower exposure to public equities (40% compared to 56% for the peer median plan).

The U.S. Equity Composite returned +19.7% in 2020. Small capitalization growth stocks performed the best, with the Fund's small cap manager earning +38.5% for the calendar year. The largest equity allocation in the portfolio is invested in the S&P 500 index fund which earned +18.5% for the year.

The Non-US Equity composite earned +15.5% in 2020. The largest allocation in the composite, Baillie Gifford International Equity, was also the best performing Non-US Equity manager, returning +26.6% in 2020.

The Core Fixed Income Composite earned +8.2% in 2020. Falling interest rates boosted returns for all of the fixed income managers in the portfolio. Higher rated bonds outperformed in the first quarter of the year. Lower rated bonds outperformed in the latter part of the year. The High Yield Fixed Income Composite earned +6.6% for the full year after experiencing declines in the first quarter. The TIPS Fixed composite was the best performing fixed income segment of the portfolio, earning +11.0% for the year on declining interest rates and higher inflation expectations going forward.

Real assets produced mixed returns. Real Estate returned +1.9% for the calendar year 2020. The income generated by the portfolios offset some of the portfolio repricing. MLPs experienced a decline of -26.2% in response to lower oil prices.

Consultant Reports (Cont.)

Asset Strategy Consultants

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

The Alternative portfolio is approaching the asset allocation target. As a result, the number of new investments have paused until we get better visibility on the partnership companies to be sold this year. These Investments are having a positive impact on the total portfolio performance. The Partnerships own a small interest in many companies and economic sectors.

The RBAC approved no new allocations to General Partners in 2020. If distributions pick up, we will add new funds opportunistically to get to our target allocation. We expect to make few allocations to new partnerships as we move into late 2021 and we receive distributions or as some partnerships wind down or close.

The existing investments are continually monitored for liquidity, potential risks, and the stability of the investment team. The roster of Alternative Investments creates a well-diversified pool for the Pension Plan. We hope 2021 will build on the success of 2020.

PFM Asset Management

EMERGING PROGRAM

As of December 31, 2020, local, emerging and minority manager assets totaled \$58.0 million, or 5.8% of total plan assets. The County has approximately \$17.1 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, we removed Maplewood Global (hedge fund) and we added Washington Alliance Fund II (real estate).

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 2020, 16.22% of the total commission dollars were directed to approved brokers, representing \$10,681 paid to local or minority-owned firms.

For more information and reports, please see the Retirement Office website.

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Retirement System
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**Solicitor:
CAMPBELL DURRANT BEATTY
PALOMBO & MILLER, P.C.**

**Actuary:
COWDEN**

**Financial Consultants:
ANDCO CONSULTING
ASSET STRATEGY CONSULTANTS
PFM ASSET MANAGEMENT**

**Auditor:
CASE SABATINI**

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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 Manager **SARAH ROKA**.....*Council Appointee*