



ALLEGHENY COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial and Actuarial Report

for the Fiscal Years Ended
December 31, 2021 & 2020

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Letter from the Board President

To the Members, Survivors and Beneficiaries of the Plan:

2021 continued to prove challenging as we emerged from the COVID-19 Pandemic to return to normal practices. The Retirement Office enforced safe protocols to guarantee that our doors stay open to our members, so all employees and retirees received their requested services. Due to ongoing variants, the Board continued to hold monthly meetings virtually through Microsoft Teams to ensure the safety of the Board Members and the staff. Our investment consultant AndCo made progressive Plan recommendations to safeguard the fund to grow for years to come.

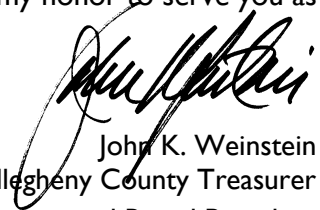
The RBAC regards our responsibility to protect your contributions and the Plan investments with the utmost seriousness. Every decision is approached with a critical eye toward maintaining the pension fund's health. It is a delicate balance for deciding to increase an active member's contributions or to approve a retiree's cost of living adjustment (COLA). After careful consideration of four key factors: frequency, affordability, solvency, and discretion, on November 18, 2021, the Retirement Board voted unanimously to give the retirees who had been retired at least one year (as of December 2020) an additional \$30 per month in their benefit payment. Future COLA decisions will be the result of the updated policy, which contains provisions for evaluating future COLAs and their effects on the fund. We believe this to be in the best interest of beneficiaries while maintaining the fund's long-term stability.

Financial Wellness seminar interest from our members have increased dramatically during the past year. The RBAC staff along with Duncan Financial, our contracted Financial Wellness provider, continued to provide monthly virtual meetings throughout 2021. Although we want to get back to in person seminars, the virtual meetings offer much more flexibility for employees to attend.



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 has 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, 2021 and 2020, 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, 2021 and 2020, 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 2041. 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>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 19,100,943	\$ 21,683,123
Investments (at fair value):		
Equity:		
U.S. Common and Preferred Stock	92,978,488	104,518,750
American Depositary Receipts	256,149	314,518
S&P 500 Index Fund	95,546,244	100,388,251
Non-U.S. Stocks and Equity Mutual Funds	189,247,529	156,102,866
Bonds and Notes:		
Corporate Certificates of Deposit	889,815	1,099,103
U.S. Government and Related Agency Debt	43,618,195	27,492,567
Fannie Mae and Freddie Mac Debt	18,753,826	12,637,533
Fixed Income Mutual Funds	217,118,897	203,143,266
U.S. Corporate Debt Instruments	41,968,446	34,294,712
Non-U.S. Government and Corporate Debt	13,913,026	12,268,579
Other Investments:		
Hedge Funds	590,524	693,213
Real Estate Investment Trusts	119,441,035	103,565,303
Venture Capital / Private Equity	242,928,385	222,422,048
Receivables:		
Amounts Due from Brokers for Sold Investments	247,818	212,669
Accrued Interest and Dividends	1,036,148	898,323
Accrued Employer Contributions	1,629,539	1,582,441
Accrued Employee Contributions	1,625,993	1,569,235
Other Assets	<u>6,566</u>	<u>20,458</u>
Total Assets	<u>\$ 1,100,897,566</u>	<u>\$ 1,004,906,958</u>

LIABILITIES

Liabilities:		
Vouchers Payable	\$ 117,489	\$ 355,247
Accrued Payroll	9,405	7,338
Payroll Withholdings	2,267	1,736
Accrued Liabilities	1,561,379	1,484,660
Amounts Due to Brokers for Purchased Investments	530,554	104,315
Other Liabilities	<u>91,594</u>	<u>15,251</u>
Total Liabilities	<u>\$ 2,312,688</u>	<u>\$ 1,968,547</u>

FIDUCIARY NET POSITION

Net Position Restricted for Pensions:	\$ <u>1,098,584,878</u>	\$ <u>1,002,938,411</u>
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Audited Financial Results

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION DECEMBER 31,

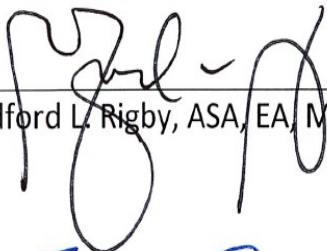
	<u>2021</u>	<u>2020</u>
Additions:		
Contributions:		
Employee	\$ 42,959,431	\$ 41,239,884
Employer	<u>42,678,968</u>	<u>41,015,082</u>
Total Contributions	<u>85,638,399</u>	<u>82,254,966</u>
Investment Income:		
Net Appreciation in Fair Value of Investments	128,464,707	69,466,453
Interest	2,413,904	2,422,586
Dividends	11,750,878	9,985,234
Partnership Income	6,180,287	1,373,817
Stock Loan Income	<u>34,386</u>	<u>25,620</u>
	148,844,162	83,273,710
Less: Investment Management Fees	<u>5,638,366</u>	<u>7,082,390</u>
Total Investment Income - net	143,205,796	76,191,320
Miscellaneous Income	<u>121,189</u>	<u>50,086</u>
Total Additions - Net	<u>228,965,384</u>	<u>158,496,372</u>
Deductions:		
Benefit Payments	122,825,867	116,659,726
Refunds of Employee Contributions	8,894,031	5,758,936
Salaries, Wages and Related Expenses	288,802	269,375
Administrative & Miscellaneous Expenses	<u>1,310,217</u>	<u>1,478,718</u>
Total Deductions	<u>133,318,917</u>	<u>124,166,755</u>
Net Increase in Net Position	95,646,467	34,329,617
Net Position Restricted for Pensions at Beginning of Year	<u>1,002,938,411</u>	<u>968,608,794</u>
Net Position Restricted for Pensions at End of Year	<u>\$ 1,098,584,878</u>	<u>\$ 1,002,938,411</u>

Source: Allegheny County Employees' Retirement System December 31, 2021 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, 2021 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.



Bradford L. Rigby, ASA, EA, MAAA

12/7/2021

Date



Frank Canonico, EA, MAAA

12/7/2021

Date



Todd M. Kordecki

12/7/2021

Date

Summary of Principal Actuarial Results

	January 1, 2021	January 1, 2020
Demographics		
Active Participants		
Number	6,974	7,269
Average Age	46.6	46.6
Average Age at Hire	34.6	34.8
Average Past Service	12.0	11.9
Total Payroll (prior year)	\$398,070	\$397,328
Covered Payroll*	412,421	411,655
Average Pay	57,079	54,661
Median Pay	51,539	49,636
Inactive Participants		
Number in Pay Status	5,166	5,061
Average Age in Pay Status	73.4	73.5
Average Monthly Benefit	\$1,926	\$1,846
Median Monthly Benefit	1,611	1,529
Police/Fire	3,783	3,730
Sheriffs/Guards/POs	3,283	3,127
Non-uniformed	1,409	1,343
Number of Terminated Vested	241	260
Average Age of Terminated Vested	49.7	49.5
Average Monthly Benefit	\$1,271	\$1,262
Median Monthly Benefit	994	994
Police/Fire	-	4,697
Sheriffs/Guards/POs	2,500	1,376
Non-uniformed	986	990
Total Participants	12,381	12,590
Total Active Member and Employer Contributions		
Dollars (actual)		\$82,555
Dollars (expected)	\$86,608	
Percentage of Payroll	21%	20%

*Projected to next year using salary increase assumption.

Summary of Principal Actuarial Results

	January 1, 2021	January 1, 2020
	(\$ Amounts in 000s)	(\$ Amounts in 000s)
Interest Rate	<u>7.75%</u>	<u>7.75%</u>
Accrued Benefit Funded Status		
Accrued Benefit Liability	<u>\$1,755,031</u>	<u>\$1,548,154</u>
Market Value of Assets	<u>1,002,938</u>	<u>968,609</u>
Accrued Benefit Funded Ratio	<u>57.1%</u>	<u>62.6%</u>
Accrued Liability Funded Status		
Actuarial Liability	<u>\$1,988,161</u>	<u>\$1,755,572</u>
Actuarial Value of Assets	<u>1,002,938</u>	<u>968,609</u>
Funded Ratio	<u>50.4%</u>	<u>55.2%</u>
Total Funded Status		
Value of Total Liabilities	<u>\$2,270,637</u>	<u>\$2,016,636</u>
Value of Total Assets		
(Market Value of Existing Assets and Present		
Value of Future Contributions)	<u>1,603,298</u>	<u>1,530,363</u>
Total Ratio	<u>70.6%</u>	<u>75.9%</u>
Total Normal Cost		
Dollar	<u>\$38,356</u>	<u>\$35,448</u>
% of Payroll	<u>9.30%</u>	<u>8.61%</u>

Source: Allegheny County Employees' Retirement System Actuarial Report January 1, 2021 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

While challenging for a myriad of reasons, 2021 was a good year from both an economic and overall financial market perspective. Despite concerns about rising inflation, supply chain disruptions, and the uncertainty related to the pandemic resulting from new COVID variants, the economy continued to recover. Fortunately, ongoing vaccinations and improved medical treatments, lessened the potential negative impacts to the economy.

The most noteworthy economic story of the year was undoubtedly the rapid rise in US inflation and the resulting pivot by the Federal Reserve Bank (the Fed). Prices of goods and services increased rapidly during the second half of the year with the December US Consumer Price Index (CPI) posting a rate of +7.0% annualized. Snarled supply chains and continued consumer demand boosted prices of retail goods and commodities. The current and expected future inflation has led to higher current and expected interest rates. The negative news of higher inflation and interest rates has been offset by the continuing growth of the economy. Real GDP increased +5.7% in 2021 in contrast with the -3.4% decrease of 2020. Furthermore, the unemployment rate has steadily declined since the peak of 14.8% in April of 2020 and registered a rate of 3.9% in December. Employment continues to grow as the economy continues to open from pandemic related restrictions.

Performance across all equity market capitalizations and styles was broadly robust over the trailing 1-year period. Large cap equity represented by the Russell 1000 returned +26.5% for the year. Mid cap (Russell Mid-Cap) and small cap (Russell 2000) equity experienced strong double digit returns, but trailed the large cap markets with mid cap equity returning +22.6% and small cap equity returning +14.8%. Equity returns for the various economic sectors, measured within the Russell 1000, were positive for all of the sectors over the trailing year. Value oriented sectors like energy (+56%), real estate (+41%), and financials (+36%) led the way for the year, while the growth-oriented information technology sector (+31%) continued to produce robust returns. Developed international equity markets contributed to positive performance with the developed markets MSCI EAFE returning +11.3% for the year. The MSCI Emerging Markets returned a negative -2.5% as the emerging markets have not recovered from COVID related economic slowdowns as quickly as the developed markets. Broad fixed income markets represented by the Bloomberg Barclays Aggregate returned a negative -1.5%, as rising interest rates throughout the year created losses that were only partially offset by the income that was generated.

RBAC Total Fund

The Allegheny County Employees Retirement Pension Fund paid out over \$122 million in benefit payments. It ended the calendar year 2021 with a total asset value of \$1,098,584,878, an increase of \$95.6 million over 2020.

The RBAC Total Fund returned +14.4% in 2020. The plan experienced positive returns across all the broad asset classes except for core fixed income.

The U.S. Equity Composite returned +23.7% in 2021. Large capitalization stocks performed the best, with the S&P 500 Index Fund earning +28.7% for the calendar year.

The Non-US Equity Composite earned +5.5% in 2021. The small cap equity manager, Segall, Bryant, Hamill, was the best performing international equity manager in the portfolio returning +14.6% for the calendar year.

The Core Fixed Income Composite earned -0.8% in 2021. Rising interest rates negatively impacted returns for all the fixed income managers in the portfolio. All investment grade bond indices declined for the year except for TIPS (Treasury Inflation Protected Securities). The TIPS Fixed composite was the best performing fixed income segment of the portfolio, earning +5.9% for the year due higher inflation expectations going forward. The High Yield Fixed Income Composite earned +5.2% for the full year.

The Real Estate Composite returned +17.4% for the calendar year 2021. The largest investment in this asset class, the Morgan Stanley Prime Property Fund returned +21.5% for the year.

Consultant Reports (Cont.)

Asset Strategy Consultants

We continue to monitor the Retirement Board of Allegheny County (RBAC) portfolio and all of the Alternative Investment partnerships. These investments have generally performed in line with expectations. We study the reports and updates each year and believe there is added value coming from these partnerships.

The Alternative portfolio is fully invested and we only made one new allocation in 2021. We believe this may change in 2022 and will selectively add new Partnerships as liquidity develops. The Partnerships own a small interest in many companies and economic sectors. This is having a positive impact on the total portfolio performance.

While the portfolio did receive some distributions throughout the year, this was not enough to create space for many Alternative Investments. We do expect to make new allocations as the portfolio receives more distributions in 2022.

The existing investments are continually monitored for developing liquidity and the cohesion of the investment team. The Alternative Investments remain well diversified and should add value in the years to come.

Thank you for your confidence.

PFM Asset Management

EMERGING PROGRAM

As of December 31, 2021, local, emerging and minority manager assets totaled \$62.5 million of total plan assets. The County has approximately \$19.4 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.

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 2021, 11.45% of the total commission dollars were directed to approved brokers, representing \$7,667 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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Pittsburgh, PA 15219**

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**Website:
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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*
Acting County Controller **TRACY ROYSTON**.....*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*