



ALLEGHENY COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial and Actuarial Report

for the Fiscal Years Ended
December 31, 2022 & 2021

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Letter from the Board President

To the Members, Survivors and Beneficiaries of the Plan:

The economy continued to slow in 2022 due to COVID-19 and the Omicron variant. Economic impacts such as the War in Ukraine, snarled supply chains and the fight against inflation added volatility to global markets.

Although our investment returns dropped with market performance, the Fund out-performed our peers finishing in the top 10% of a group of over 500 similar pension plans. I commend our Consultants AndCo Consulting, Asset Strategy and PFM. Through their efforts of progressive plan recommendations and diversified investment strategies, the Fund held the line without significant impact. The RBAC's number one priority is to ensure that your pension is safe guarded and here for perpetuity.

Financial Wellness and Member education remained a very important focus for the RBAC. During 2022, we saw the highest member registration numbers for our online seminars. The RBAC, our staff and our contracted Financial Wellness provider, Duncan Financial, believe that when our members have the most information available to plan their retirement, they will be better prepared to make the transition to retired life.

The Board continued to hold monthly meetings virtually through Microsoft Teams in 2022 to ensure the safety of the Board Members and the staff. In December of 2022, The Retirement Office held its first open house since the pandemic began. The turnout from Plan members was tremendous. Thank you for your patience during the last few years as we wanted make sure everyone was safe during the pandemic.



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, 2022 and 2021, 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 for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors report that includes our opinions. Reasonable Assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Retirement System's internal control. Accordingly no such opinion is expressed.
- Evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Retirement System's ability to continue as going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, amount other matters, the planned scoped and timing of the audit, significant audit findings, and certain internal control-related matters that identified during the audit.

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, 2022 and 2021, 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 2038. 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>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 49,818,501	\$ 19,100,943
Investments (at fair value):		
Equity:		
U.S. Common and Preferred Stock	74,429,387	92,978,488
American Depositary Receipts	350,227	256,149
S&P 500 Index Fund	68,771,098	95,546,244
Non-U.S. Stocks and Equity Mutual Funds	120,567,257	189,247,529
Bonds and Notes:		
Corporate Certificates of Deposit	656,596	889,815
U.S. Government and Related Agency Debt	40,047,699	43,618,195
Fannie Mae and Freddie Mac Debt	16,170,135	18,753,826
Fixed Income Mutual Funds	150,805,240	217,118,897
U.S. Corporate Debt Instruments	28,231,711	41,968,446
Non-U.S. Government and Corporate Debt	11,667,861	13,913,026
Other Investments:		
Hedge Funds	24,216,372	590,524
Real Estate Investment Trusts	127,165,694	119,441,035
Venture Capital / Private Equity	223,820,417	242,928,385
Receivables:		
Amounts Due from Brokers for Sold Investments	244,482	247,818
Accrued Interest and Dividends	1,622,127	1,036,148
Accrued Employer Contributions	1,814,140	1,629,539
Accrued Employee Contributions	1,811,480	1,625,993
Other Assets	<u>6,916</u>	<u>6,566</u>
Total Assets	<u>\$ 942,217,340</u>	<u>\$ 1,100,897,566</u>

LIABILITIES

Liabilities:		
Vouchers Payable	\$ 200,354	\$ 117,489
Accrued Payroll	9,769	9,405
Payroll Withholdings	2,335	2,267
Accrued Liabilities	1,456,457	1,561,379
Amounts Due to Brokers for Purchased Investments	4,277,590	530,554
Other Liabilities	<u>1,926</u>	<u>91,594</u>
Total Liabilities	<u>\$ 5,948,431</u>	<u>\$ 2,312,688</u>

FIDUCIARY NET POSITION

Net Position Restricted for Pensions:	<u>\$ 936,268,909</u>	<u>\$ 1,098,584,878</u>
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Audited Financial Results

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION DECEMBER 31,

	<u>2022</u>	<u>2021</u>
Additions:		
Contributions:		
Employee	\$ 42,673,844	\$ 42,959,431
Employer	<u>42,522,522</u>	<u>42,678,968</u>
Total Contributions	<u>85,196,366</u>	<u>85,638,399</u>
Investment Income:		
Net (Depreciation)/Appreciation in Fair Value of Investments	(114,027,033)	128,464,707
Interest	3,299,195	2,413,904
Dividends	10,818,871	11,750,878
Partnership Income	3,800,280	6,180,287
Stock Loan Income	<u>41,032</u>	<u>34,386</u>
	(96,067,655)	148,844,162
Less: Investment Management Fees	<u>3,297,432</u>	<u>5,638,366</u>
Total Investment Income - net	(99,365,087)	143,205,796
Miscellaneous Income	<u>46,384</u>	<u>121,189</u>
Total Additions - Net	<u>(14,122,337)</u>	<u>228,965,384</u>
Deductions:		
Benefit Payments	132,764,392	122,825,867
Refunds of Employee Contributions	13,756,044	8,894,031
Salaries, Wages and Related Expenses	325,138	288,802
Administrative & Miscellaneous Expenses	<u>1,348,058</u>	<u>1,310,217</u>
Total Deductions	<u>148,193,632</u>	<u>133,318,917</u>
Net change in Position	(162,315,969)	95,646,467
Net Position Restricted for Pensions at Beginning of Year	<u>1,098,584,878</u>	<u>1,002,938,411</u>
Net Position Restricted for Pensions at End of Year	<u>\$ 936,268,909</u>	<u>\$ 1,098,584,878</u>

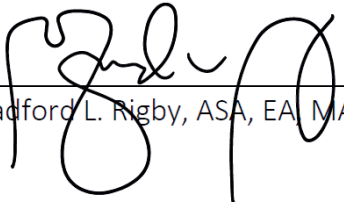
Source: Allegheny County Employees' Retirement System December 31, 2022 Audit performed by Case Sabatini. Full Audit can be viewed at www.alleghenycounty.us/retirement/reports/reports.aspx or pdf by request

Actuarial Certification

I certify that I have performed an actuarial valuation of the above plan as of January 1, 2022 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

11/9/2022


Date



Frank Canonico, EA, MAAA

11/9/2022

Date



Todd M. Kordecki, EA, MAAA

11/9/2022

Date

Summary of Principal Actuarial Results

	January 1, 2022	January 1, 2021
Demographics		
Active Participants		
Number	6,610	6,974
Average Age	47.0	46.6
Average Age at Hire	34.8	34.6
Average Past Service	12.2	12.0
Total Payroll (prior year)	\$403,893	\$398,070
Covered Payroll*	418,433	412,421
Average Pay	61,103	57,079
Median Pay	54,672	51,539
Inactive Participants		
Number in Pay Status	5,225	5,166
Average Age in Pay Status	73.4	73.4
Average Monthly Benefit	\$2,029	\$1,926
Median Monthly Benefit	1,708	1,611
Police/Fire	3,891	3,783
Sheriffs/Guards/POs	3,450	3,283
Non-uniformed	1,491	1,409
Number of Terminated Vested	318	241
Average Age of Terminated Vested	49.3	49.7
Average Monthly Benefit	\$1,484	\$1,271
Median Monthly Benefit	1,128	994
Police/Fire	3,834	-
Sheriffs/Guards/POs	1,490	2,500
Non-uniformed	1,109	986
Total Participants	12,153	12,381
Total Active Member and Employer Contributions		
Dollars (actual)		\$85,638
Dollars (expected)	\$87,871	
Percentage of Payroll	21%	21%

*Projected to next year using salary increase assumption.

Summary of Principal Actuarial Results

	January 1, 2022	January 1, 2021
	(\$ Amounts in 000s)	(\$ Amounts in 000s)
Interest Rate	<u>7.75%</u>	<u>7.75%</u>
Accrued Benefit Funded Status		
Accrued Benefit Liability	<u>\$1,846,550</u>	<u>\$1,755,031</u>
Market Value of Assets	<u>1,098,585</u>	<u>1,002,938</u>
Accrued Benefit Funded Ratio	<u>59.5%</u>	<u>57.1%</u>
Accrued Liability Funded Status		
Actuarial Liability	<u>\$2,082,449</u>	<u>\$1,988,161</u>
Actuarial Value of Assets	<u>1,098,585</u>	<u>1,002,938</u>
Funded Ratio	<u>52.8%</u>	<u>50.4%</u>
Total Funded Status		
Value of Total Liabilities	<u>\$2,367,773</u>	<u>\$2,270,637</u>
Value of Total Assets		
(Market Value of Existing Assets and Present		
Value of Future Contributions)	<u>1,709,971</u>	<u>1,603,298</u>
Total Ratio	<u>72.2%</u>	<u>70.6%</u>
Total Normal Cost		
Dollar	<u>\$38,606</u>	<u>\$38,356</u>
% of Payroll	<u>9.23%</u>	<u>9.30%</u>

Source: Allegheny County Employees' Retirement System Actuarial Report January 1, 2022 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 economy faced a number of headwinds in 2022. COVID and the virulent Omicron variant continued to slow the economy, supply chain issues disrupted the distribution of goods, and inflation was proving to be persistent. The impact of global efforts to lift the economy waned over the past year. The war in Ukraine contributed additional volatility to global markets and stoked inflation to even higher levels. Low unemployment rates were a bright spot and workers' wages increased throughout the year.

Inflation and the fight against it were the two largest factors driving the economy and markets in 2022. Inflation began the year at 7.1% and peaked in June at 9.1%, finally ending the year at 6.5%. The fight against inflation began in earnest this year. The Federal Reserve raised rates 7 times during the year. The interest rate rose from 0.25% to 4.25% and led to higher borrowing rates for governments, consumers, and businesses. Interest rates may be nearing their peak and the impact of rising rates lessening. Inflation expectations are easing as well, which could lead to further improvements for consumers and borrowers. Real GDP grew 2.1% in 2022, slowing from the 5.7% growth in 2021.

Performance across all public equity markets was negatively impacted over the trailing year period by the higher interest rates and slowing economy. Both stocks and bonds posted negative returns for the year. Large cap equity represented by the S&P 500 returned -18.1% for the year. Mid cap and small cap equity experienced similar returns, with the Russell Mid-Cap equity index returning -17.3% and the Russell 2000 small cap equity index returning -20.4%. Equity returns for the various economic sectors, measured within the Russell 1000, were mostly negative over the trailing year. Energy (+65%) was the only positively performing sector. Growth-oriented sectors were the worst performing for the year. Communication Service (-40%), Consumer Discretionary (-36%), and Information Technology (-30.0%) were the lagging sectors. Developed international equity markets declined as well, with the developed markets MSCI EAFE returning -14.5% for the year. The MSCI Emerging Markets returned a negative -20.1% 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 Barclay's Aggregate returned a negative -13.0%, 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 \$132 million in benefit payments in 2022. It ended the calendar year 2022 with a total asset value of \$936,268,909.

The RBAC Total Fund returned -9.3% in 2022. The plan experienced mixed returns across its diversified portfolio of investments. The Fund emphasizes diversification and doesn't put all its eggs in one basket and benefitted from having broad exposure to many different investments. It outperformed its peers, finishing in the top 10% of a group of over 500 similar public pension plans. Fortunately, the fund's prior years returns of 14.5% in 2021, 8.9% in 2020, and 15.2% in 2019 average out over the past 4 years to a +6.8% annual return each year.

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.

Consultant Reports (Cont.)

Asset Strategy Consultants (Cont.)

The Alternative portfolio is fully invested and we believe this may change in 2023 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 2023.

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, 2022, local, emerging and minority manager assets totaled \$67.6 million of total plan assets. The County has approximately \$14.5 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 2022, 11.42% of the total commission dollars were directed to approved brokers, representing \$7,652 paid to local or minority-owned firms.

For more information and reports, please see the Retirement Office 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*
County Controller **COREY O'CONNOR**.....*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*