Withstanding Turbulence

A Comprehensive Annual Financial Report for the
Years Ended December 31, 2008 and 2007

ACERA

ALAMEDA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda
and Participating Employers • Oakland, California

Withstanding Turbulence

Comprehensive Annual Financial Report for the Years Ended December 31, 2008 and 2007

Issued By

Charles F. Conrad
Chief Executive Officer

Catherine E. Walker, CPA
Assistant Chief Executive Officer

ACERA

Alameda County Employees' Retirement Association

A Pension Trust Fund of the County of Alameda (State of California) and Participating Employers

475-14th Street • Oakland, CA 94612

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Rising rates of foreclosure
U.S. foreclosure activity in July 2008 rose 55 percent from a year earlier as a slump in once-sizzling housing markets forced yet more borrowers to default on their mortgages.

New home construction in California comes to a halt as the housing market dries up
On January 18, 2008, President George W. Bush called on Congress to give the U.S. economy a "shot in the arm" with an election-year package of temporary tax cuts and other measures worth up to $150 billion.

Section 1
INTRODUCTION

Turning to green energy solutions
Solar panels sit on a roof at Google headquarters in Mountain View, CA, which will help reduce the company's carbon footprint.

Much of northern California is affected by smoke from wildfires
The California wildfires are seen in a NASA satellite image from July 9, 2008. The Butte Lightning Complex, a wildfire that burned from June 21 to July 29 near Paradise, eventually destroyed 106 homes and burned 59,440 acres.

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

Chief Executive Officer
Charles F. Conrad

Letter of Transmittal

Dear Board Members:

I am pleased to submit this *Comprehensive Annual Financial Report* (CAFR) *of the Alameda County Employees' Retirement Association for the Years Ended December 31, 2008 and 2007.*

This report presents the financial condition of the Pension Plan, the Postemployment Medical Benefits (OPEB), and Non-OPEB Benefits, as well as investment results and the actuarial valuation for the period ended December 31, 2007. All data and information presented in this report are accurate and reliable, and conform to the generally accepted accounting principles and are free of material misstatements.

Our Mission is to provide members and participating employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services. Our Management Team is committed to achieving the goals established by the Board. We will utilize a competent, professional, impartial, and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance.

The extraordinary economic circumstances over the past year are unparalleled in my 36 years of experience in California's public pension systems. What began with some price weakness in certain overheated regional housing markets and delinquencies in lower credit quality mortgages in 2007, progressed during 2008 into a systemic crisis that threatened at times to bring on the collapse of the global financial system. All institutional investors suffered significant paper losses from this market downturn and resulting economic recession.

ACERA's total Retirement Fund sustained a 32% drop, down to $3.8 billion from $5.6 billion.

An unfortunate effect of the Retirement Fund's reduced asset base and negative investment income is a reduction in cash flow that must be made up by an increase in funding to the Retirement Fund. Retirement benefits are set by statute and can not be changed. ACERA Member contribution rates can not increase to fund losses. The single remaining factor that is subject to change is the employer contributions to the Fund. Employer contributions will begin to increase in the next one to two years, which is the worst time for the employers who are suffering from the same economic malady as all institutions. The ACERA Board of Retirement will explore every possibility to mitigate the severity of that increase.

ACERA is a long-term investor with a well-diversified, conservative portfolio. ACERA expects financial markets to recover, but it may be several years before that occurs. It is important to note that ACERA has no liquidity problem and has enough assets to pay accrued benefits for members and retirees for many years to come.

Performance Overview

- The Board of Retirement adopted a more aggressive asset allocation by allocating 10% to an alternative investment strategy to ensure the long-term financial integrity of the system.
- The Fund has suffered a $1.74 billion decline in the market value of the investment portfolio from the prior year, due to a severe market downturn.
- Active Membership grew to 11,136, an increase of 1.4% from the prior year.
- Members receiving Pension Benefits rose to 7,193, an increase of 2.2% from the prior year.

ACERA AND ITS SERVICES

ACERA was established by the Alameda County Board of Supervisors by Ordinance No. 446, dated October 21, 1947, operative January 1, 1948. Governed by the provisions of the County Employees Retirement Law of 1937, ACERA provides retirement allowances and other benefits to seven Participating Employers:

- Alameda County
- The Superior Court of California for the County of Alameda
- Alameda County Medical Center
- Alameda County Office of Education
- First 5 Alameda County
- Housing Authority of the County of Alameda
- Livermore Area Recreation and Park District

ACERA provides lifetime retirement, disability, and death benefits to its members. In addition, ACERA also provides other supplemental benefit programs: (1) Postemployment Medical Benefits; (2) a supplemental cost-of-living (COLA), and (3) a death benefit program. The first program provides an insurance subsidy for medical premiums, and also provides coverage under ACERA-sponsored dental and vision care plans. All three programs are non-vested benefits funded by the Supplemental Retiree Benefit Reserve (SRBR), which is separately maintained in accordance with Article 5.5 of the County Employees Retirement Law of 1937.

BOARD OF RETIREMENT

The Board of Retirement consists of eleven members, including a Retiree alternate and a Safety alternate. Six Board seats, which include the alternates, are filled by election and four seats are appointed by the Alameda County Board of Supervisors. The Alameda County Treasurer is an ex-officio member.

In March 2008, Mr. L. Kenneth Brooks resigned and was replaced by Ms. Rosie Rios.

In July 2008, Mr. Trevor White resigned as member on the Board due to his appointment to the Superior Court in Contra Costa County. Board elections were held in December 2008 for this position, and Mr. George Wood was elected to ACERA's Board of Retirement as the Member representing the General Members. Mr. Wood will serve the remainder of Mr. White's term which ends December 31, 2010.

The ACERA Board of Retirement oversees the Chief Executive Officer and staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937, ACERA's regulations, and Board policies.

FINANCIAL REPORTING

ACERA's management is responsible for the accuracy, completeness, and fair presentation of information, and all disclosures in this report, as well as for establishing and maintaining an internal control structure that ensures our financial reporting is accurate and reliable and that ACERA's assets are protected from loss, theft, or misuse.

The accounting firm of Williams, Adley & Co., LLP provides audit services to ACERA. The financial audit ensures that ACERA's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. ACERA recognizes that even sound internal controls have their inherent limitations. Internal controls are reviewed to ensure that ACERA's operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard ACERA's assets.

The Management Discussion and Analysis (MDA) Section provides a thorough analysis of ACERA's operations and financial status.

The Financial Section contains ACERA's basic financial statements, the notes to the basic financial statements, required supplementary schedules, and supporting schedules.

ACERA continues to meet the reporting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 43 (*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*) and Statement No. 50 (*Pension Disclosures*).

ACTUARIAL FUNDING STATUS

ACERA's funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, obtaining superior investment returns consistent with established risk controls, and minimizing employer contributions to the retirement fund.

ACERA engages an independent actuarial consulting firm to conduct annual actuarial valuations of the Pension Plan, the OPEB Benefits, and the Non-OPEB Benefits. The valuation purpose is to reassess the magnitude of the benefit commitments. This is compared to the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly.

The December 31, 2007 actuarial valuation is presented in this CAFR. The December 31, 2008 actuarial valuation will include a triennial experience study, which was conducted in 2007.

The actuarial funding status is determined from a long-term, ongoing plan perspective. The valuation determines the progress made in accumulating sufficient assets to pay benefits when due. The Pension Plan's actuarial accrued liability at December 31, 2007 was $5,112.4 million; the actuarial value of assets was $4,560.2 million; the unfunded actuarial accrued liability was $552.2 million; and the funded ratio was 89.2%. For the year ended December 31, 2008, Participating Employers contributed 100% of the annual required contributions to the Pension Plan. The Pension Plan, the Postemployment Medical Benefits, and the Non-OPEB Benefits' historical trend information regarding funded status is provided on the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 50–52.

The Actuarial Section of this report contains a more detailed discussion of funding.

ADMINISTRATION

Annual Participating Employer Meeting

ACERA hosted its third Annual Participating Employer Meeting and collaborated with Participating Employers on several projects, including GASB (OPEB), Internal Revenue Code 401(h), 401(a)(17), payroll transmittals, and impacts of the market crisis and the Actuarial Valuation process.

Employer Handbook

ACERA completed development of a handbook for its seven Participating Employers that details all pertinent processes and expands on the information in the Inter-Agency Agreement.

Electronic Document Management System

ACERA continued to make progress planning its comprehensive Electronic Document Management System (EDMS) project. All paper documents will undergo electronic conversion to improve information accuracy and efficiency, reduce duplication and costs, and provide a central location to capture and share information generated from paper documents. ACERA began analyzing its current operational processes to develop a comprehensive electronic workflow process. The project, which consists of three phases, is targeted for completion in 2011.

Record Retention Policy

ACERA adopted a Record Retention Policy to facilitate the creation of an Electronic Document Management System. The policy outlines the requisite retention periods for all types of ACERA records, both electronic and paper.

LEGAL

Board Governance

ACERA continually reviews the Board of Retirement's Governance Policies to ensure accuracy and reflect any changes in law, practice, or structure. Individual policies are reviewed at least biannually.

Electronic Contract Management

ACERA completed development and implementation of an electronic contract management system. This fully searchable system tracks service providers, contract expiration, and certain documentation compliance requirements. Implementation of this system is an important component of ACERA's Business Continuity Plan.

INVESTMENTS

The County Employees Retirement Act of 1937 and the California Constitution confer the authority and fiduciary responsibility for investing ACERA's funds on the Board of Retirement. In addition, Board members are legally required to carry out their duties in the manner of a prudent person familiar with such retirement and investment matters acting under similar circumstances. This prudent expert rule permits the Board to make investment allocation decisions and diversify investment holdings to reduce overall risk and increase returns.

The prudent expert rule also permits the Board to establish an investment policy based on professional advice and counsel, and allows for the delegation of investment authority to professional investment managers. ACERA's investment policy outlines the responsibility for the investment of the funds and the degree of risk deemed appropriate for ACERA's investments. Investment managers are contractually bound to carry out their responsibilities in accordance with the Board of Retirement's investment policy and to follow specific contractual guidelines.

For the years ended December 31, 2008 and 2007, ACERA's investments provided a negative 30.3% and positive 8.8% rate of return, respectively. ACERA's annualized rate of return over the last three years was negative 4.6%, and over the last five years was positive 1.2%.

The fund return for the last twenty years was positive 8.4%

The Investment Section of this report presents a summary of ACERA's investment results, asset allocation, investment holdings, and other investment-related information.

2008 Investment Related Accomplishments

- ACERA adopted a new target asset allocation which includes a 10.0% allocation to the Private Equity and Alternatives Investment asset class to augment risk-adjusted investment returns.
- ACERA established the Private Equity and Alternatives Return Leading Strategies (PEARLS) Policy to govern all investments

in the Private Equity and Alternatives Investment asset class.

- In accordance with the PEARLS Policy, ACERA made commitments to two Private Equity managers.
- ACERA completed an asset allocation study and manager structure study which resulted in the liquidation of ACERA's investments in Salus Capital Management and JPMorgan Alternative Property Fund.
- ACERA hired Bivium Capital Partners, our first Emerging Manager of Managers, to manage a U.S. Equity all-cap mandate.

BENEFITS

LARPD Benefit Enhancement

The Livermore Area Recreation and Park District (LARPD) Board approved a benefit enhancement for LARPD employees. The maximum age factor calculated in the benefit formula for age 55 increased from 1.77% to 2.5%, which established a Tier III plan. The Tier III formula was based on current member elections and will include any new employees of LARPD.

Hearing Aid Coverage

The Board approved the addition of hearing aid coverage under the Kaiser Senior Advantage Plan of $1,000 for one device (up to two devices maximum) every 36 months at an additional $9.14 per month.

Supplemental Retiree Benefits Reserve

ACERA is one of three '37 Act counties to administer a Supplemental Retiree Benefits Reserve (SRBR), which is funded from earnings in excess of the assumed actuarial investment rates. The SRBR provides funding for the following non-vested and non-Pension Benefits: Supplemental COLA; health, dental, vision care, and hearing-aid coverage which was added in 2008; Medicare Part B Reimbursement Plan; most of the Retiree Death Benefit and the Monthly Medical Allowance, which is a fixed dollar contribution toward eligible retiree ACERA health plan premium costs. The SRBR program also reimburses Alameda County for the implicit subsidy cost incurred by allowing ACERA early retirees to enroll in County active employee medical plans.

As of December 31, 2008, the SRBR held $688.5 million in net assets. This total will fund the current benefit structure through the year 2030 for Postemployment Medical Benefits and year 2026 for Non-OPEB Benefits, even if no new excess investment earnings are available. The current funded level of the SRBR is at 96.0% for Postemployment Medical Benefits and 38.5% for Non-OPEB Benefits, using a very conservative methodology based on GASB Statement No. 43 OPEB guidelines.

The 2007 SRBR actuarial valuation extended the projected funded period of the Postemployment Medical Benefits from 2025 to 2030, and the Non-OPEB Benefits from 2024 to 2026. Projected cash flows were computed based on the retiree population and assume no future crediting of excess earnings. The Segal Company, ACERA's actuarial firm, anticipated the annual medical inflation assumption rate to be 9%, the same as last year, for the short-term, and a gradual decrease of 0.5% in each subsequent year. This revised inflation assumption is based on long-term trends in medical costs. All SRBR benefits can only be paid from available assets, and pension assets are not available to finance such benefits in the event of a short fall. Liability projections can, therefore, reasonably be based on the assumption that OPEB (other Postemployment benefits) liabilities are limited to the reserves in the SRBR account available for these benefits under Article 5.5 of the County Employees Retirement Law of 1937, yielding a funded ratio of 100%. ACERA's Non-OPEB liabilities are limited to the portion of the SRBR expected to be used to provide supplemental COLA, active death equity benefits, and death benefits. For retirees, a maximum health insurance allowance (MMA) of $478.15 per month was provided, effective February 1, 2008 through January 31, 2009.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to ACERA for its *Comprehensive Annual Financial Report* for the year ended December 31, 2007. The certificate is reproduced on page 11. This was the twelfth consecutive year ACERA has achieved this prestigious award. To be awarded a Certificate of Achievement, a government entity must publish a readable, efficiently organized Comprehensive Annual Financial Report, which must satisfy both generally accepted accounting principles and applicable legal requirements. The award recognizes ACERA's conformance with the highest standard for state and government financial reports. It also reflects the collective effort of ACERA staff to maintain a standard of financial reporting that continues to meet the GFOA award standards.

A Certificate of Achievement is valid for a period of one year only. This *Comprehensive Annual Financial Report for the year ended December 31, 2008* meets the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA for consideration for another Certificate of Achievement for Excellence in Financial Reporting.

ACERA also received the GFOA's Award for Outstanding Achievement in *Popular Annual Financial Reporting* (PAFR) for the year ended December 31, 2007. We will be submitting this year's PAFR for the Year Ended December 31, 2008 to the GFOA for consideration for another achievement award.

ACKNOWLEDGEMENTS

The compilation of this report reflects the combined effort of ACERA's staff under the leadership of the Board of Retirement. It is intended to provide complete and reliable information with respect to the Board's stewardship of ACERA.

This CAFR is mailed to all plan employers as well as to employee and retiree organizations. Their cooperation contributes significantly to the success of ACERA. The complete CAFR, including the PAFR, is also available to members and to the general public, and is posted on our website at www.acera.org. We hope our employers and members find these reports informative.

On behalf of the Board of Retirement, I would like to take this opportunity to express my gratitude to the staff, to the advisors, and to the many people who have worked so diligently to ensure the successful operation of ACERA.

Respectfully submitted,

Charles F. Conrad

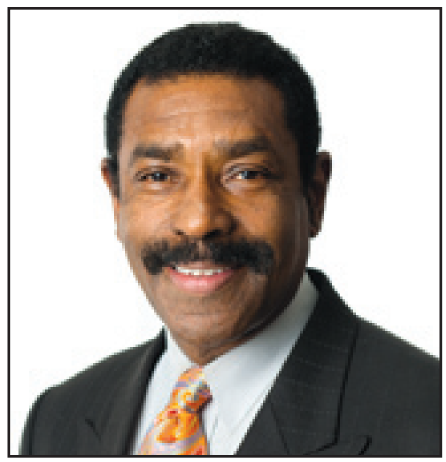
Charles F. Conrad
Chief Executive Officer
May 30, 2009

Members of the Board of Retirement

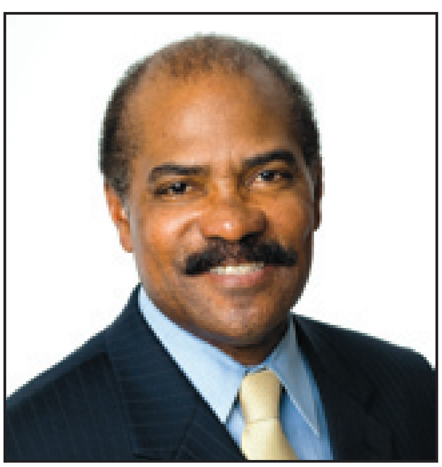
Elizabeth Rogers
CHAIR
Elected by General Members

Annette Cain-Darnes
FIRST VICE CHAIR
Appointed by the Board of Supervisors

Dale E. Amaral
Elected by Safety Members



Keith Carson
Appointed by and Member of the Board of Supervisors



Donald R. White
EX-OFFICIO MEMBER
Treasurer–Tax Collector, County of Alameda

Liz Koppenhaver
Elected by Retired Members

George Wood
SECOND VICE CHAIR
Elected by General Member

Rosie Rios
Appointed by the
Board of Supervisors

Ophelia B. Basgal
Appointed by the
Board of Supervisors

David M. Safer
ALTERNATE
Elected by Retired Members

Darryl L. Walker
ALTERNATE
Elected by Safety Members

2008 BOARD OF RETIREMENT

Dale E. Amaral
Ophelia B. Basgal
L. Kenneth Brooks/Rosie Rios
Annette Cain-Darnes
Keith Carson, *First Vice Chair*
Liz Koppenhaver
Elizabeth Rogers, *Second Vice Chair*
David M. Safer, *Alternate Retiree*
Darryl L. Walker, *Alternate Safety*
Donald R. White
Trevor S. White, *Chair*

Administrative Organization Chart

As of December 31, 2008

- Chief Executive Officer — Charles F. Conrad
  - Assistant Chief Executive Officer — Catherine E. Walker, CPA
    - Project & Information Services Manager (PRISM) — Latrena Walker
    - Chief Financial Officer — JP Singh, CPA
  - Assistant Chief Executive Officer—Benefits — Kathy Foster
  - Human Resources Officer — Victoria Arruda
  - Chief Counsel — Robert Gaumer, Esq.
  - Chief Investment Officer — Betty Tse, CPA

List of Professional Consultants[1]

Actuary
The Segal Company

Disability—Medical
Howard Belfer, MD

U.S. HealthWorks Medical Group

Independent Auditors
Williams, Adley & Co., LLP

Human Resources / Benefits
Mercer Human Resources Consulting
Lakeside Group
Rael & Letson

Legal
American Arbitration Association
County Counsel
Hanson, Bridgett, Marcus, Vlahos
Investor Responsibility Support Services, Inc.

Other Specialized Services
Accounting Systems & Solutions, Inc.
Bickmore Risk Services
Corthex Applied Research, Inc.
Levi, Ray & Shoup, Inc.
Linea Solutions, Inc.
L.R. Wechsler, LTD.
Siemons Mailing Services, Inc.
The Segal Company
Tobico LLC dba Tobi Designs

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[1] Investment Professionals are listed on page 71 of this report.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alameda County

Employees' Retirement Association

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ALSO AWARDED 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006

Price of gas in San Francisco on July 1, 2008
U.S. gasoline demand remained in a slump as high prices at the pump trimmed demand for the fuel.

Commuters turn to casual carpooling
High gas prices are encouraging some San Francisco commuters to try an unorthodox travel strategy called casual carpooling, an efficient but unofficial way to move between home and work.

Global warming melts icebergs
Research has found the world is warming faster than predicted by the United Nations' top climate change body, with harmful emissions exceeding worst-case estimates.

Section 2
FINANCIAL

Phelps wins 8 Olympic gold medals
Michael Phelps broke Mark Spitz's record of seven gold medals in a single Olympics at the 2008 Beijing Games.

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

Independent Auditors' Report

Board of Retirement
Alameda County Employees' Retirement Association
Oakland, California

We have audited the accompanying statements of plan net assets of the Alameda County Employees' Retirement Association (ACERA), as of December 31, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of ACERA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of December 31, 2008 and 2007, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the basic financial statements, ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27* for the year ended December 31, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2009 on our consideration of ACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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www.wacllp.com

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

The management's discussion and analysis on pages 16–22 and the schedules of funding progress and employer contributions on pages 50–52 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The schedules of investment expenses, payments to consultants, and administration expense on pages 54 and 55, and the introduction, investment, actuarial, and statistical sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of investment expenses, payments to consultants, and administration expense have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in the introduction, investment, actuarial, and statistical sections has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

Williams, Adley & Company, LLP

May 27, 2009

ACERA ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Management's Discussion and Analysis

We are pleased to provide this overview and analysis of ACERA's financial position and combined results of its operations for the Pension Plan, the Postemployment Medical Benefits, and the Non-OPEB Benefits for the years ended December 31, 2008 and 2007. The information presented here, in conjunction with the Notes to the Basic Financial Statements beginning on page 26, provides a fair presentation of ACERA's overall financial status and the results of its operation. Immaterial differences may exist due to rounding.

Financial Highlights

- ACERA's net assets at the close of 2008 were $3.8 billion (net assets held in trust for Pension, Postemployment Medical Benefits, and Non-OPEB Benefits). ACERA's net assets are available to meet ACERA's specific ongoing program obligations to plan participants and their beneficiaries.
- ACERA's net assets at the close of the year were $1,768.8 million less than the prior year. The decrease of 32% primarily was a result of market investment losses.
- ACERA's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2007, the date of ACERA's most recent actuarial valuation, the funded ratio for ACERA's Pension Plan was 89.2%. In general, this indicates that for every dollar of benefit obligations, ACERA has about $0.89 of assets to cover that dollar.
- Total additions to ACERA's net assets for the year were a negative $1,447.8 million. These include employer contributions of $129.7 million, member contributions of $75.6 million, net investment loss of $1,685.2 million, miscellaneous income of $0.5 million, and transfers from Postemployment Medical Benefits to Pension Fund of $31.6 million. Total additions to ACERA's net assets were $2,109.3 million lower than those in 2007 primarily because the net investment income in 2008 was negative $1,685.2 million compared to the 2007 positive net investment income of $430.9 million. On a year-to-year comparison of net investment income, there is a change of negative $2,116.1 million from the prior year. This is partially offset by an increase of $3.2 million in member contributions, $3.1 million for 2007 employer implicit subsidy from Postemployment Medical Program and $1.2 million for Postemployment Medical Benefit Transfers.
- Total deductions from plan net assets for the year were $321.0 million. These include $237.3 million for pension benefit payments, $5.6 million for Non-OPEB Benefit payments, $26.7 million for the Postemployment medical benefit payments, $6.5 million for member refunds, and $13.3 million for administration expense. In addition, there were transfers of

$31.6 million from the Postemployment Medical Benefits to the Pension Plan for medical benefits and the 2007 employer implicit subsidy. Total deductions for 2008 were $24.2 million higher than for 2007, primarily due to an increase of $18.1 million in benefit payments. This increase was attributable to a net increase in the number of retirees and beneficiaries and the fact that the higher average retirement allowance of those added to the retirement payroll exceeded the average allowance of those removed. The Postemployment Medical Benefit transfers were higher by $1.2 million, Postemployment medical program expenses were higher by $2.0 million, and administrative expenses were higher by $1.1 million. The 2007 employer implicit subsidy of $3.1 million was transferred in 2008. This was partially offset by the decrease in member refunds by $1.3 million.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to ACERA's basic financial statements. These include the following three components:

- Statements of ACERA's Net Assets
- Statements of Changes in ACERA's Net Assets
- Notes to the Basic Financial Statements

The Basic Financial Statements report ACERA's net assets held in trust for Pension Benefits, Postemployment Medical Benefits and Non-OPEB Benefits (plan net assets) as one way to measure the system's financial position.

In addition to the Basic Financial Statements, this report also contains required supplementary information and supporting schedules.

The *Statements of ACERA's Net Assets* show a snapshot of account balances at year-end. They also indicate the assets available for future benefit payments as well as current liabilities outstanding at year-end.

The *Statements of Changes in ACERA's Net Assets* in contrast, provide a summary view of the additions to and the deductions from the plan net assets that occurred over the course of the year.

The financial statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's asset additions and deductions are taken into account regardless of when the corresponding cash is received or paid. All investment purchases and sales are reported as of the trade date, not the settlement date. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized. Each depreciated component of capital assets is depreciated over its useful life.

The Pension Plan's funded ratio (actuarial valuation assets divided by actuarial liabilities) improved from 85.5% as of December 31, 2006 to 89.2% as of December 31, 2007. According to the Supplemental Retirees Benefits Reserve (SRBR) actuarial valuation completed as of December 31, 2007, the Postemployment Medical Benefits and the Non-OPEB Benefits were 96.0% and 38.5% funded, respectively. The decrease in ACERA's net assets for the year ended December 31, 2008 was 32%. This decrease was predominately due to the reduction of the fair value of investments during the year. Due to the market downturn, ACERA's total gross fund return of negative 30.3% for the year was significantly under ACERA's current 8.0% actuarial assumed interest rate.

Statements of ACERA's Net Assets and Statements of Changes in ACERA's Net Assets appear on pages 23–25.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the financial statements. The Notes to the Basic Financial Statements appear on pages 26–49.

The Notes to the Basic Financial Statements and the Required Supplementary Information show ACERA's funding progress with obligations to provide Pension, Postemployment Medical Benefits, and Non-OPEB Benefits to members, as well as historical trend information reflecting how much employers have contributed in relation to their annual required contributions. Required supplementary information appears on pages 50–52 of this report.

The schedules of administration expense, investment expenses, and payments to consultants are presented immediately following the Required Supplementary Information.

Table 1 and Table 2 present condensed information about ACERA's financial position and results of operations for the current and prior years.

Analysis Of Financial Position

ACERA's Net Assets Held in Trust for Pension and Other Postemployment Benefits as of December 31, 2008 totaled $3.8 billion. This amount was $1,768.8 million or 32% less than the prior year's amount. This was primarily a result of a 31% decrease in the fair value of ACERA's investments from 2007 to 2008.

Plan net assets had a net increase of 7% in 2007 due to a 7% increase in the fair value of investments during the year. The Investment Section provides further details about ACERA's investment performance and management's strict adherence to ACERA's *Investment Guidelines, Policies, and Procedures*.

Current Assets

Current assets contracted from $922.4 million in 2007 to $517.5 million in 2008. The main components of current assets were as follows: (1) securities lending cash collateral of $472.0 million, (2) $20.5 million in other investment receivables, and (3) receivables for unsettled securities sales of $7.1 million. The remaining balance in current assets represents cash of $7.2 million, contributions receivable of $9.8 million, prepaid expenses of $0.6 million, and other receivables of $0.3 million. Regarding the securities lending cash collateral, an equal amount of offsetting securities lending liability was reported as part of ACERA's current liabilities.

Table 1: ACERA's Net Assets (Condensed)

As of December 31, 2008 and 2007 (Dollars in Millions)

	2008	2007	Increase (Decrease) Amount	Percent Change
Current Assets	$ 517.5	$ 922.4	$ (404.9)	–44%
Investments at Fair Value	3,788.6	5,530.8	(1,742.2)	–31%
Capital Assets, net	3.0	2.0	1.0	50%
Total Assets	**4,309.1**	**6,455.2**	**(2,146.1)**	**–33%**
Current Liabilities	503.1	880.4	(377.3)	–43%
Total Liabilities	**503.1**	**880.4**	**(377.3)**	**–43%**
ACERA's Net Assets	**$3,806.0**	**$5,574.8**	**$(1,768.8)**	**–32%**

As of December 31, 2007 and 2006 (Dollars in Millions)

	2007	2006	Increase (Decrease) Amount	Percent Change
Current Assets	$ 922.4	$ 852.2	$ 70.2	8%
Investments at Fair Value	5,530.8	5,184.3	346.5	7%
Capital Assets, net	2.0	3.1	(1.1)	–35%
Total Assets	**6,455.2**	**6,039.6**	**415.6**	**7%**
Current Liabilities	880.4	829.5	50.9	6%
Total Liabilities	**880.4**	**829.5**	**50.9**	**6%**
ACERA's Net Assets	**$5,574.8**	**$5,210.1**	**$ 364.7**	**7%**

Table 2: Changes In ACERA's Net Assets (Condensed)

For the Years Ended December 31, 2008 and 2007 (Dollars in Millions)

	2008	2007	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	$ 75.6	$ 72.4	$ 3.2	4%
Employer Contributions	129.7	130.0	(0.3)	0%
Net Investment Income	(1,685.2)	430.9	(2,116.1)	–491%
Other Income	0.5	0.9	(0.4)	–44%
Postemployment Medical Benefits Transfers on Behalf of Employers	28.5	27.3	1.2	4%
Employer Implicit Subsidy from Postemployment Medical Benefits	3.1	-	3.1	100%
Total Additions	**(1,447.8)**	**661.5**	**(2,109.3)**	–319%
DEDUCTIONS				
Retirement Benefit Payments	242.9	224.8	18.1	8%
Postemployment Medical Benefits	26.7	24.7	2.0	8%
Postemployment Medical Benefits Transfers to Pension Plan on Behalf of Employers	28.5	27.3	1.2	4%
Member Refunds	6.5	7.8	(1.3)	–17%
Employer Implicit Subsidy to Pension Plan	3.1	-	3.1	100%
Administration	13.3	12.2	1.1	9%
Total Deductions	**321.0**	**296.8**	**24.2**	**8%**
Beginning ACERA's Net Assets	**5,574.8**	**5,210.1**	**364.7**	**7%**
Increase / (Decrease) in ACERA's Net Assets	**(1,768.8)**	**364.7**	**(2,133.5)**	**–585%**
Ending ACERA's Net Assets	**$3,806.0**	**$ 5,574.8**	**$(1,768.8)**	**–32%**

For the Years Ended December 31, 2007 and 2006 (Dollars in Millions)

	2007	2006	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	$ 72.4	$ 70.2	$ 2.2	3%
Employer Contributions	130.0	127.1	2.9	2%
Net Investment Income	430.9	637.8	(206.9)	–32%
Other Income	0.9	0.4		125%
Postemployment Medical Benefits Transfers on Behalf of Employers	27.3	19.0	8.3	44%
Employer Implicit Subsidy from Postemployment Medical Benefits	-	6.3	(6.3)	–100%
Total Additions	**661.5**	**860.8**	**(199.3)**	**–23%**
DEDUCTIONS				
Retirement Benefit Payments	224.8	205.8	19.0	9%
Postemployment Medical Benefits	24.7	22.2	2.5	11%
Postemployment Medical Benefits Transfers to Pension Plan on Behalf of Employers	27.3	19.0	8.3	44%
Member Refunds	7.8	5.8	2.0	34%
Employer Implicit Subsidy to Pension Plan	-	6.3	(6.3)	100%
Administration	12.2	10.8	1.4	13%
Total Deductions	**296.8**	**269.9**	**26.9**	**10%**
Beginning ACERA's Net Assets	**5,210.1**	**4,619.2**	**590.9**	**13%**
Increase /(Decrease) in ACERA's Net Assets	**364.7**	**590.9**	**(226.2)**	**–38%**
Ending ACERA's Net Assets	**$5,574.8**	**$5,210.1**	**$ 364.7**	**7%**

The net decrease in current assets was $404.9 million during 2008. The decrease of $282.2 million in securities lending cash collateral was a result of the overall underperformance in the capital markets combined with a general slowdown of securities lending activity. Investment receivables decreased by $117.2 million mainly due to the termination of ACERA's long short equity arbitrage investment program. In 2007, there was cash collateral of $103.8 million included in investment receivables related to ACERA's obligation to replace equity securities sold short. In 2008, there was no receivable balance related to this activity. Current assets increased by $70.2 million in 2007. This was mainly due to the increased securities lending activity.

Investments

The fair value of ACERA's investments decreased from $5,530.8 million in 2007 to $3,788.6 million in 2008, a reduction of $1,742.2 million or 31%. The decline in ACERA's investments was mostly attributed to the unprecedented global credit and capital market crisis which led to a severe recession. The market was negatively impacted by the global financial crisis, decline in consumer confidence to historic lows, record high home foreclosures and a steep rise in the unemployment rate. In 2007, the fair value of investments increased by $346.5 million, or 7% compared to 2006, which was due to higher net investment income.

Capital Assets

ACERA's capital assets (net of accumulated depreciation and amortization) balance increased from $2.0 million in 2007 to $3.0 million in 2008. The $1.0 million 2008 capital assets (net) balance increase was largely due to leasehold improvement additions. Capital assets include information systems, equipment, furniture, leasehold improvements, and construction-in-progress.

The balance of ACERA's capital assets (net of accumulated depreciation and amortization) declined from $3.1 million in 2006 to $2.0 million in 2007. This decline was primarily due to scheduled depreciation and amortization of $1.1 million.

Current Liabilities

Current liabilities decreased from $880.4 million in 2007 to $503.1 million in 2008. The main components of current liabilities were securities lending cash collateral of $472.0 million, payables for unsettled securities purchases of $6.2 million, payables related to future contracts of $9.7 million, payables for currency swaps (currency forward contracts) of $4.1 million, other investment-related payables of $6.5 million, and a combined total of $4.5 million for other payables, including accrued administration expenses, member benefits, refunds, and other.

Current liabilities decreased by $377.3 million from 2007 to 2008. The net decrease in current liabilities was primarily due to a decrease of $282.2 million in securities lending cash collateral, which was partially offset by increases in future contracts payable and currency swaps (currency forward contracts) payable. Current liabilities increased by $50.9 million from 2006 to 2007, mainly due to an increase in securities lending cash collateral of $66.9 million, which was in large part offset by a reduction in member benefits and refund related payables.

Analysis Of Results Of Operations

Changes in ACERA's net assets consist of total additions reduced by total deductions. Table 2 on page 19 shows condensed information about this financial activity. ACERA's net assets decreased by $1,768.8 million for the year ended December 31, 2008. The decrease was primarily due to net investment losses during the year. ACERA's net assets increased by $364.7 million for the year ended December 31, 2007. The increase was largely due to the favorable net investment income earned during 2007.

Additions to Plan Net Assets

The primary funding sources for ACERA member benefits are employer contributions, member contributions, and net investment income.

Additions to ACERA's net assets for the years ended December 31, 2008 and 2007 totaled ($1,447.8) million and $661.5 million, respectively. For 2008 total additions changed by $2,109.3 million compared to the prior year. This was primarily due to a decrease in net investment income of $2,116.1 million. The level of employer and member contributions remained relatively stable. For 2007, overall additions to plan net assets versus prior year additions decreased by $199.3 million, which was mainly due to a decrease of $206.9 million in net investment income.

Employer Contributions

Total employer contributions for 2008 were $129.7 million, a slight decrease of $0.3 million from the prior year, primarily as a result of a decrease in the average employer contribution rate. This decrease was partially offset by an increase in covered payroll. Total employer contributions for 2007 were $2.9 million higher than in 2006 due to a pensionable wage increase of 7.4%. This increase was partially offset by an average employer rate decrease, which became effective as of September 2007 based on the actuarial investment return assumption of 8% for the 2006 valuation.

Member Contributions

Total member contributions for 2008 were $75.6 million. This $3.2 million increase over 2007 was mainly due to an increase in covered payroll and a slight increase in rates. The average member rates were lower for the first nine months of the year. The rates modestly increased effective the month of September due to a change in membership demographics. Total member contributions increased by $2.2 million in 2007 over 2006. This increase resulted from higher compensation.

Net Investment Income

For 2008, the net investment loss of $1,685.2 million was 491% lower compared to 2007. The significant investment loss reflected ACERA's total gross investment return of negative 30.3% in 2008 compared to 8.8% in 2007. The 2008 investment return was 340 basis points below the plan's policy index return of negative 26.9%. This was 440 basis points below the average large public fund return, and it did not meet ACERA's current 8.0% actuarial rate of return expectation. The Investment Section of this report describes investment results in greater detail.

For 2007, net investment income was $430.9 million, or 32% less than the 2006 amount. This investment income reflected the year-on-year decrease in ACERA's total gross investment return from 14.4% in 2006 to 8.8% in 2007.

Other Income

Other income was $0.5 million in 2008 compared to $0.9 million for the prior year. The decrease in the amount of other income resulted primarily from decreased class action litigation settlements during the year 2008. Other income was $0.9 million in 2007, compared to $0.4 million for 2006, which was also due to class action litigation settlements.

Deductions from ACERA's Net Assets

The four main categories of deductions from ACERA's net assets are retirement benefits, the Postemployment Medical Benefits, member refunds, and the expense of administering the system.

Overall, deductions from ACERA's net assets for 2008 totaled $321.0 million, an increase of $24.2 million or 8% over the prior year. Most of this increase was a result of the fact that retirement benefit payments rose 8%. As previously stated, there was a transfer of $28.5 million from the Postemployment Medical Benefits to the Pension Plan for medical benefits. Deductions from plan net assets for 2007 increased $26.9 million, or 10%, over the prior year. This increase was also largely due to increases in retirement benefits and Postemployment Medical transfers to the Pension Plan for health benefits.

Retirement Benefits

Retirement benefits were $242.9 million, an increase of $18.1 million or 8% over the prior year. Retirement benefits include service retirement allowances, disability allowances, death payments, and supplemental cost-of-living adjustments. The growth in benefit payments was due to the combined effect of the following: (1) the net increase in the number of retirees and beneficiaries for the year and (2) the fact that the average retirement allowance of retirees who were added to the retirement payroll was larger than the average retirement allowance of those retirees that were removed from the retirement payroll.

Retirement benefit payments were $224.8 million in 2007, an increase of $19.0 million or 9% over 2006. The growth in retirement benefit payments in 2007 occurred for the exact same reasons as the growth in 2008.

Postemployment Medical Benefits

The Postemployment Medical Benefits expense for 2008 was $26.7 million, up $2.0 million or 8% over the prior year largely due to the higher number of retirees receiving these benefits, and the retiree monthly medical allowance benefits increase from $455 in 2007 to $478 in 2008. See Note 6—Postemployment Medical Benefits on page 37 for more information.

Member Refunds

Member refunds arise from either member separation from service (termination) or active member death. Member refunds were $6.5 million in 2008, a decrease of $1.3 million or 17% from 2007. In 2008, ACERA had fewer active member death cases compared to 2007. The termination refund overall amount was smaller in 2008 compared to 2007. In 2007, it was $7.8 million, an increase of $2.0 million or 34% from 2006.

Administration Expense

Administration expense was $13.3 million for 2008. Administration expense covers the basic costs of operating the retirement system. These include staffing, professional fees, office expenses, IT systems, depreciation, and miscellaneous expenses. Approximately half of the administration expense is for staffing (wages, fringe benefits, and temporary labor). Administration expense grew $1.1 million or 9% over the prior year, mainly due to personnel and professional service expenses. The personnel expense increase resulted primarily from filling vacant positions and the use of temporary staff to address an increased workload in various departments and increased communications to our members. Professional services expense included cost for the EDMS project, member communications, and check printing services.

Administration expense was $12.2 million for 2007. Administration expenses for 2007 increased by 13% over 2006, mainly due to the additional cost of staffing and related costs.

The annual amount of administration expense is subject to legal and budgetary restrictions. Every year the ACERA Board adopts an administration expense budget for the following year in accordance with legal spending restrictions. Note 10 describes these restrictions. ACERA's actual administration expense for 2008 and for 2007 was in compliance with the legal and budgetary restrictions. There were no significant variations between original and final budget amounts or between the final budget amount and the actual expense incurred against the budget in 2008 or in 2007.

Fiduciary Responsibilities

ACERA's Board and management are fiduciaries of the retirement system. Under the California Constitution and the County Employees Retirement Law of 1937, assets of the retirement system can be used only for the exclusive benefit of plan participants and their beneficiaries.

Requests for information

This report is designed to provide the Board of Retirement, our membership, taxpayers, investment managers, and vendors with a general overview of ACERA's financial condition, financial activities, and funding status. Questions concerning any of the information provided in this report or requests for additional information should be addressed to our office:

ACERA
Accounting and Operations Department
475 14th Street, Suite 1000
Oakland, California 94612-1900

Respectfully submitted,

J.P. Singh

JP Singh, CPA, MBA
Chief Financial Officer
May 15, 2009

Statements of ACERA's Net Assets

As of December 31, 2008 and 2007 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits	Total 2008	Total 2007
ASSETS					
Cash	$ 7,222	$ -	$ -	$ 7,222	$ 7,094
Securities Lending Cash Collateral	472,008	-	-	472,008	754,202
Receivables		-	-		
Contributions	9,789	-	-	9,789	15,203
Investment Receivables	20,509	-	-	20,509	137,751
Unsettled Trades—Investments Sold	7,112	-	-	7,112	7,230
Other Receivables	303	-	-	303	344
Total Receivables	**37,713**	-	-	**37,713**	**160,528**
Prepaid Expenses	550	-	-	550	513
Total Current Assets	**517,493**	**-**	**-**	**517,493**	**922,337**
Investments at Fair Value					
Short-Term Investments	141,437	-	-	141,437	164,745
Domestic Equities	860,197	-	-	860,197	1,267,870
Domestic Equity Commingled Funds	598,973	-	-	598,973	851,607
International Equities	830,215	-	-	830,215	1,378,007
International Equity Commingled Funds	33,960	-	-	33,960	61,607
Domestic Fixed Income	789,246	-	-	789,246	1,135,462
International Fixed Income	164,101	-	-	164,101	288,227
Real Estate—Separate Properties	114,887	-	-	114,887	114,985
Real Estate—Commingled Funds	238,069	-	-	238,069	261,976
Futures Contracts—Equity Index	8,030	-	-	8,030	1,447
Equity Index Swaps	134	-	-	134	476
Currency Swaps	6,718	-	-	6,718	4,417
Private Equity and Alternatives	2,660	-	-	2,660	-
Total Investments	**3,788,627**	**-**	**-**	**3,788,627**	**5,530,826**
Due from Pension Plan	(688,469)	612,464	76,005	-	-
Capital Assets at Cost (Net of Accumulated Depreciation and Amortization)	2,952	-	-	2,952	1,988
Total Assets	**3,620,603**	**612,464**	**76,005**	**4,309,072**	**6,455,151**
LIABILITIES					
Securities Lending Liability	472,008	-	-	472,008	754,202
Unsettled Trades—Investments Purchased	6,244	-	-	6,244	9,250
Investment-Related Payables	6,457	-	-	6,457	110,245
Futures Contracts	9,702	-	-	9,702	1,765
Equity Index Swaps	366	-	-	366	528
Currency Swaps	4,079	-	-	4,079	90
Accrued Administration Expenses	2,248	-	-	2,248	1,693
Members Benefits & Refunds Payable	2,015	-	-	2,015	1,781
Retirement Payroll Deductions Payable	3	-	-	3	20
Other Payables	-	-	-	-	797
Total Liabilities	**503,122**	**-**	**-**	**503,122**	**880,371**
Net Assets Held in Trust for Benefits	**$ 3,117,481**	**$ 612,464**	**$ 76,005**	**$ 3,805,950**	**$ 5,574,780**

The accompanying Notes to the Basic Financial Statements are an integral part of these Basic Financial Statements.

Statements of Changes in ACERA's Net Assets

For the Years Ended December 31, 2008 and 2007 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits	Total 2008	Total 2007
ADDITIONS					
Contributions					
Member	$ 75,608	$ -	$ -	$ 75,608	$ 72,342
Employer	101,113	28,547	-	129,660	130,040
Total Contributions	**176,721**	**28,547**	**-**	**205,268**	**202,382**
Investment Income					
From Investment Activities:					
Net Appreciation (Depreciation) in Fair Value of Investments	(1,833,779)	-	-	(1,833,779)	278,308
Dividends, Interest, & Net Real Estate Operating Income	164,373	-	-	164,373	173,174
Total Income (Loss) from Investment Activities	(1,669,406)	-	-	(1,669,406)	451,482
Total Investment Expenses	(23,431)	-	-	(23,431)	(24,355)
Net Income (Loss) from Investment Activities	**(1,692,837)**	**-**	**-**	**(1,692,837)**	**427,127**
From Securities Lending Activities:					
Securities Lending Income	23,313	-	-	23,313	46,498
Securities Lending Expenses					
Borrower Rebates	(13,874)	-	-	(13,874)	(41,778)
Management Fees	(1,888)	-	-	(1,888)	(944)
Total Securities Lending Activity Expenses	**(15,762)**	**-**	**-**	**(15,762)**	**(42,722)**
Net Income from Securities Lending Activities	7,551	-	-	7,551	3,776
Earnings Allocated to OPEB and Non-OPEB Reserves	(27,838)	24,701	3,137	-	-
Total Net Investment Income (Loss)	**(1,713,124)**	**24,701**	**3,137**	**(1,685,286)**	**430,903**
Miscellaneous Income	542	-	-	542	886
Transfer from Postemployment Medical Benefits on Behalf of Employers	28,547	-	-	28,547	27,291
Transfer from Postemployment Medical Benefits for Behalf of Employers	3,091	-	-	3,091	-
Total Additions (Declines)	**$ (1,504,223)**	**$ 53,248**	**$ 3,137**	**$(1,447,838)**	**$ 661,462**

Statements of Changes in ACERA's Net Assets (Continued)

For the Years Ended December 31, 2008 and 2007 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits	Total 2008	Total 2007
DEDUCTIONS					
Benefits					
Service Retirement and Disability Benefits	$ 235,371	$ -	$ 528	$ 235,899	$ 217,647
Death Benefits	1,902	-	-	1,902	1,782
Burial Benefits	-	-	895	895	1,032
Supplemental Cost of Living Allowance	-	-	4,135	4,135	4,374
Postemployment Medical Benefits	-	26,681	-	26,681	24,668
Total Benefit Payments	**237,273**	**26,681**	**5,558**	**269,512**	**249,503**
Member Refunds	6,527	-	-	6,527	7,778
Administration					
Administrative Expenses	10,470	-	-	10,470	9,597
Legal Expenses	2,237	-	-	2,237	2,160
Actuarial Expenses	303	-	-	303	249
Business Continuity Expenses	305	-	-	305	205
Total Administration	**13,315**	**-**	**-**	**13,315**	**12,211**
Transfer to Pension Plan on Behalf of Employers	-	28,547	-	28,547	27,291
Transfer to Pension Plan for Employers Implicit Subsidy	-	3,091	-	3,091	-
Total Deductions	**257,115**	**58,319**	**5,558**	**320,992**	**296,783**
Net Increase (Decrease)	**(1,761,338)**	**(5,071)**	**(2,421)**	**(1,768,830)**	**364,679**
NET ASSETS HELD IN TRUST FOR BENEFITS					
January 1	**4,878,819**	**617,535**	**78,426**	**5,574,780**	**5,210,101**
December 31	**$ 3,117,481**	**$ 612,464**	**$76,005**	**$ 3,805,950**	**$ 5,574,780**

The accompanying Notes to the Basic Financial Statements are an integral part of these Basic Financial Statements.

Notes to the Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACERA is an independent public employee retirement system with its own governing board. ACERA's financial statements are included in the County of Alameda's financial statements as a pension and other employee benefit trust fund.

Basis of Accounting

ACERA follows the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB).

ACERA's financial statements are prepared on the accrual basis of accounting. Employer and employee contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Security purchases and sales are recognized in the financial statements as of the trade date, not the settlement date. Retirement benefits and member refunds are recognized as liabilities when due and payable in accordance with the terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred.

GASB Statement No. 50

ACERA has adopted early implementation of GASB Statement No. 50, Pension Disclosures—an Amendment of GASB Statements No. 25 and No. 27 in 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB). The reporting changes required by this Statement amend applicable note disclosures and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and* No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and* No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Cash

Cash includes cash on hand, deposits with a financial institution, and deposits in a pooled account managed by the Alameda County Treasurer. The reported amounts of deposits in the pooled account are reported at the fair value. All participants in the pooled account share earnings and losses proportionately.

Investments

Investments are reported at fair value.

Fair value for investments of publicly traded stocks and bonds and issues of the U.S. Government and its agencies is based on the last reported sale price as of the fiscal year end. Fair value of securities denominated in a foreign currency reflects exchange rates in effect at fiscal year end. The fair value of ACERA's short-term investments held in external investment pools managed by the master custodian and securities lending agent is provided by the pool manager (based on market quotes). Fair value of investments in commingled funds of debt securities, equity securities, real estate, private equity and alternatives is based on the fund share price provided by the fund manager which is based on net asset value. Fair value of investments in real estate separate properties is based on prices in a competitive market as determined by specialists relying on periodic appraisals and is reported net of the outstanding balance of associated mortgages.

Investment Income

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported together as the net appreciation (depreciation) in the fair value of investments.

Securities Lending Activity

Securities lending transactions are short-term collateralized loans of ACERA securities for the purpose of generating additional investment income. For each lending transaction, ACERA receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on ACERA's statements of plan net assets as if the lending transaction had not occurred.

Cash collateral held (or any security that can be sold or pledged without a default by the borrower) is separately reported on the statements of plan net assets among the current assets. A corresponding liability of an equal amount (the obligation to return the cash collateral) is reported as a liability.

Non-cash collateral held is not reported on the statements of plan net assets nor is there a corresponding liability reported on this statement. Note 7—Deposits and Investments discloses the amount of securities lending non-cash collateral.

Derivatives

ACERA's investments include the following types of derivative investments: stock index futures, forward contracts, equity index swaps and Collateralized Mortgage Obligations (CMOs).

The fair value of derivative contracts having a fair value greater than or equal to zero is reported among investments. The fair value of derivative contracts with a fair value less than zero is reported as a liability.

Collateral and Margin Account

For the stock index futures, an initial margin is required to open a position and then there is a collateral maintenance requirement that must be kept until the position is closed out.

ACERA reports the collateral for the stock index futures in short term investments.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation or amortization. Capital assets with an initial cost of $3,000 or more and an estimated useful life in excess of one year are capitalized and depreciated. Depreciation and amortization are calculated using the straight-line method (for all assets except information systems assets) over the estimated useful lives of the depreciable assets or over the term of the lease on leasehold improvements. The sum-of-the-years digits depreciation method is used for information systems assets.

For each asset, ACERA recognizes one-half year of expense in the year the asset is placed in service and one-half year of expense in the year of retirement. The estimated useful lives for the assets in each category are as follows: office furniture—seven years; information systems assets/retirement information system—seven years, accounting information system—three years; offsite office equipment—five years; business continuity assets—five years; computer hardware—five years; and computer software—three years.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported ACERA'S net assets.

2. PLAN DESCRIPTION

ACERA is an independent public employees' retirement system which operates a cost-sharing multiple-employer defined benefit Pension Plan serving Alameda County and Participating Employers. In addition, ACERA provides Postemployment Medical Benefits and Non-OPEB Benefits.

ACERA is governed by the California Constitution, the County Employees Retirement Law of 1937 (the "1937 Act") found in the California Government Code at Section 31450 et. seq., and the bylaws, procedures and policies adopted by the ACERA Board of Retirement. ACERA began operations in its present form on January 1, 1948.

ACERA is not affiliated with the California Public Employees' Retirement System (CalPERS).

The 1937 Act governs ACERA's plan structure and operation. The provisions of the 1937 Act govern requirements concerning membership, governance, contributions, benefits, service, retirement eligibility, disability, cost of living, financial provisions, optional allowances, reciprocal benefits, etc.

ACERA provides basic lifetime retirement, disability, and death benefits to members who meet the minimum age and length-of-service requirements. In addition, ACERA administers supplemental retiree Postemployment medical, dental care, vision care, and cost of living adjustment programs. (In this report, "basic" benefits refers to vested benefits provided for in the 1937 Act, whereas "supplemental" benefits refers to additional non-vested benefits paid at the discretion of the Board of Retirement and subject to available funding.)

Board of Retirement

The ACERA Board of Retirement has sole and exclusive responsibility over the assets of the system and the responsibility to administer the system to assure prompt delivery of benefits and related services as provided in Article XVI of the California Constitution.

The Board has nine members and two alternates. The Alameda County Board of Supervisors appoints four members, and four are elected by ACERA's membership. The County Treasurer serves as an *ex-officio* Board member. One alternate member is elected by Safety members and one alternate member is elected by retired members.

Board members, with the exception of the County Treasurer, serve three-year terms in office, with no term limits. The four elected Board members are selected as follows:

- Two Board members are elected by General members of ACERA.
- One Board member is elected by Safety members of ACERA.
- One Board member is elected by retired members of ACERA.

The Board of Retirement oversees the Chief Executive Officer and staff in the performance of their duties in accordance with the 1937 Act, ACERA's by-laws, and Board policies.

Authority for Establishing and Amending Benefit Provisions

The 1937 Act provides the authority for the establishment of ACERA benefit provisions. In most cases where the law provides options concerning the allowance of credit for service, the offering of benefits, or the modification of benefit levels, the law generally requires approval of the employers' governing board for the option to take effect.

Separately, in 1984 the Alameda County Board of Supervisors and the Board of Retirement approved the adoption of Article 5.5 of the 1937 Act. This adoption permitted the establishment of a Supplemental Retirees Benefit Reserve ("SRBR") for ACERA.

Article 5.5 provides for the systematic funding of the SRBR and stipulates that it be used only for the benefit of retired members and beneficiaries. The law grants discretionary authority over the use of the SRBR funds to the Board of Retirement. Supplemental benefits currently provided through the SRBR include supplemental COLA, supplemental retired member death benefits, active death equity benefit and the retiree monthly medical allowance, vision, dental, and Medicare Part B coverage (described below). The payment of supplemental benefits from the SRBR is subject to available funding and must be periodically re-authorized by the Board of Retirement. SRBR benefits are not vested.

In 2006 the Board of Retirement approved the allocation of SRBR funds to Postemployment Medical Benefits and Non-OPEB Benefits. These two programs provide the supplemental benefits described above.

ACERA operates as a defined benefit pension plan, qualified under section 401(a) of the Internal Revenue Code and is not subject to tax under present income tax laws. All assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the plan.

County and Participating Employers

ACERA operates as a cost-sharing multiple-employer defined benefit plan for Alameda County (the "County"), the Superior Court of California for the County of Alameda, and five other Participating Employers ("special districts") located in the County but not under the control of the County Board of Supervisors. All risks and costs, including benefit costs, are shared by the Participating Employers. The other Participating Employers are:

- Alameda County Medical Center
- Alameda County Office of Education
- First 5 Alameda County
- Housing Authority of the County of Alameda
- Livermore Area Recreation and Park District

Plan Membership

All full-time employees of Alameda County and of Participating Employers who are appointed to permanent positions are statutorily required to become members of ACERA.

Safety And General Members

ACERA has two membership types, Safety and General, which are based on job classifications:

- Safety members are employees working in active law enforcement, deferred firefighters, or positions that have been designated Safety positions by the Board of Retirement (e.g., Juvenile Hall Group Counselors and Probation Officers).
- General members are all other members.

Defined Benefit Pension Plan

ACERA's Membership

As of December 31, 2008 and 2007

	2008	2007*
Members Now Receiving Benefits		
Service Retirement	5,352	5,229
Disability Retirement	786	769
Beneficiaries and Survivors	1,055	1,040
Subtotal	**7,193**	**7,038**
Active Members		
Active Vested Members	7,955	8,031
Active Non-vested Members	3,181	2,949
Subtotal	**11,136**	**10,980**
Deferred Members	1,819	1,766
Total Membership	**20,148**	**19,784**

* The 2007 numbers for Members Receiving Benefits have been restated to eliminate deceased members from the count.

Membership Status, Vesting, Refunds

Members are considered to be active members, so long as they remain employed full-time by the County or a Participating Employer (or subsequently change to part-time employment and continue to make contributions).

Members become vested in retirement benefits upon completion of five years of credited service.

Service Retirement

ACERA's regular (service) retirement benefits are based on years of credited service, final average salary, and age at retirement, according to the applicable statutory formulae. Members who qualify for service retirement are entitled to receive monthly service retirement benefits for life.

Vested General members may retire at age 50, with 10 years of qualifying service, or at any age with 30 years of qualifying service, or at age 70, regardless of service credit.

Vested Safety members may retire at age 50, with 10 years of qualifying service, or at any age, with

20 years of qualifying service, or age 70, regardless of service credit.

Death Benefits

ACERA provides specified death benefits to beneficiaries and members' survivors. The death benefits provided depend on whether the member is active or retired.

The basic active member death benefit consists of retirement contributions plus interest plus one month's pay for each full year of service (up to a maximum of six month's pay). Other death benefits may be available based on years of service, marital status, and whether the member has minor children.

Tier 1, Tier 2 And Tier 3 Benefit Levels

The structure of the plan provides for two benefit tier levels within each type of membership (General and Safety). The tiers differ mainly in the magnitude of contributions required and benefits received. Generally, members, with an entry date prior to July 1, 1983, belong to Tier 1, while those with an entry date on or after July 1, 1983 belong to Tier 2. Most active ACERA members belong to Tier 2. Relative to the more senior Tier 1 members, active members in Tier 2 contribute somewhat less to the Pension Plan as a percent of compensation and will receive somewhat lower retirement benefits. Effective October 1, 2008 Livermore Area Recreation and Park District (LARPD) implemented a Tier 3 plan for new employees and current employees upon election. Tier 3 members will receive an enhanced benefit of 2.5% at 55 which is higher than the Tier 1 benefit, as a result of higher employer and employee contributions rates. Note 3—Contributions explains retirement plan contribution rates.

Integration with Social Security

The contributions and benefits associated with the federal Social Security program are completely separate from ACERA contributions and benefits. Most General members of ACERA are covered by Social Security, while Safety members are mainly not covered by Social Security.

ACERA contributions and benefits are integrated with Social Security for members who are covered by Social Security. The purpose of integration is to reduce the degree to which ACERA's plan coverage overlaps Social Security coverage.

Basic Cost of Living Adjustment

Retirement allowances are indexed for inflation. Retirees receive automatic basic cost of living adjustments (COLAs) based upon the Consumer Price Index (CPI) for the San Francisco Bay Area. The adjustments go into effect on April 1 each year. Annual COLA increases are capped at 3% for Tier 1 and LARPD Tier 3, and 2% for Tier 2 members under the 1937 Act. The expected impact of future basic cost of living adjustments is a factor in setting the contribution rates for members and employers. In any year that the basic COLA adjustment for a retiree falls short of the CPI increase for that year due to the statutory cap, the shortfall is carried over and applied in a future year to the extent that the CPI falls short of the statutory cap in the future year.

The 2008 COLA increase granted for Tier 1 and Tier 2 members was determined by the members' retirement date:

1. Tier 1 benefit recipients as of April 1, 2008 received a 3.0% COLA adjustment.
2. Tier 2 benefit recipients, as of April 1, 2008, received a 2.0% COLA adjustment.

Postemployment Medical Benefits

ACERA administers a medical benefits program for eligible retired members. Benefits include monthly medical allowances and Medicare Part B premium reimbursements. However, all retirees are entitled to dental and vision coverage. The benefits are paid through a 401(h) account, in accordance with federal tax laws. The maximum levels of the monthly medical allowance are reviewed by the Board of Retirement annually.

Program Membership

Retired members with a minimum of ten years of service or those who retire due to duty disability are eligible to receive a monthly medical allowance benefit if they enroll in one of the ACERA-sponsored medical plans. Retired members eligible for the monthly medical allowance benefit may also be reimbursed for the Medicare Part B premium with proof of enrollment in Medicare Part B. All retired members are eligible to receive Postemployment dental and vision benefits.

Non-OPEB Benefits

ACERA also provides other non-health Postemployment benefits. Benefits include supplemental COLA, retired member death benefit, and active death equity benefit.

Separately from the Basic Cost of Living Adjustment, the Board of Retirement implemented an ad hoc supplemental cost of living adjustment (supplemental COLA) program, effective January 1, 1998 in its present form. The supplemental COLA is structured to maintain each retiree's purchasing power at no less than 85% of the purchasing power of the original benefit. Under this program, each retiree's current allowance is adjusted, as necessary, so that the adjusted allowance becomes at least 85% of the original benefit amount indexed to the CPI.

The retired member death benefit is a one-time $4,250 lump sum death benefit payable to the beneficiary of a retiree. This benefit is only paid upon the death of a retiree; it is not paid upon the death of a beneficiary.

The active death equity benefit is available to active members with five or more years of service credit. ACERA will fund the difference between the member's vested surviving spouse/domestic partner annuity benefit and a 100% surviving spouse/domestic partner annuity benefit.

Program Membership

All retired members are eligible to receive the supplemental COLA once they fall under 85% of the original benefit and their beneficiaries will receive the retired member death benefit.

Actuarial Valuation

An actuarial valuation is normally performed annually for the Pension Plan. In addition, there is a separate actuarial valuation conducted annually for the SRBR, which includes the Postemployment Medical Benefits and the Non-OPEB Benefits. Note 5—Actuarial Valuation provides more information about this.

3. CONTRIBUTIONS

Pension Plan

Authority for Establishing and Amending Obligations to Make Contributions

The 1937 Act establishes the basic obligations for Alameda County and Participating Employers and active members to make contributions to the Pension Plan. Member and employer contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. These rates are based on membership type (General and Safety) and tier (Tier 1 and Tier 2; and Tier 3 only for employer LARPD). The Pension Plan under the 1937 Act, has no legal or contractual maximum contribution rates.

Funding Objective

The funding objective of the Pension Plan is to establish member and Alameda County and Participating Employer contribution rates that will remain level over time as a percentage of payroll, unless plan benefit provisions are changed. The funding for retirement benefits arises from three sources: member contributions, employer contributions, and the earnings on investments held by the plan.

Member Contributions

Active members are required by statute to contribute toward Pension Plan benefits. The member contribution rates are formulated on the basis of age at the date of entry and actuarially calculated benefits. Member contributions and credited interest are refundable upon termination of membership. Note 4—Reserves explains interest crediting.

Employer Contributions

The Pension Plan provides lifetime retirement and disability benefits to its members. Alameda County and Participating Employers are required by statute to contribute the necessary amounts to fund these estimated benefits accruing to ACERA members not otherwise funded by member contributions or expected investment earnings.

Employer contribution rates vary from year to year and depend on the level of benefits established, the rate of return on investments, and the cost of administering benefits.

Member Rates Based on Age-at-Date-of-Entry

The ranges of current member contribution rates based on age-at-date-of-entry are shown below (effective September 2008). Each pair of percentages ranges from youngest to highest age-at-date-of-entry within the category.

For members covered by Social Security the contribution rates shown apply to biweekly salary over $161 (a one-third reduction in the rates applies to the first $161 of biweekly salary).

Current Member Contribution Rates

Effective September 2008

Tier 1: (entry date prior to July 1, 1983)	
General	9.39%–14.16%
Safety	15.54%–20.17%
Tier 2: (entry date July 1, 1983 or later)	
General	6.30%–10.23%
Safety	12.67%–17.30%
Tier 3: (effective from October 1, 2008 for LARPD employees)	
General	11.02%–15.13%

Postemployment Medical Benefits and Non-OPEB Benefits

The funding for SRBR is limited to the interest credited at the actuarial assumed interest rate to the extent that earnings are available, and 50% of any net excess investment earnings. In accordance with Article 5.5 of the 1937 Act, ACERA semi-annually credits 50% of the balance of net excess investment earnings to the SRBR and the other 50% is proportionally credited to all other reserves (except for the Contingency Reserve and the Market Stabilization Reserve). The Postemployment Medical Benefits and Non-OPEB Benefits are part of the SRBR.

In accordance with federal tax law, the Postemployment Medical Benefits are paid through a 401(h) account with contributions from the County and Participating Employers. After these contributions are made, as authorized by the Board of Retirement, ACERA transfers an equal amount from the Postemployment Medical Reserve to supplement employer contributions for pensions. There is no requirement and no guarantee that the employers will continue to contribute to the 401(h) account.

ACERA's Board of Retirement has no authority to demand future funding from employers to fund the SRBR, which provide for the Postemployment Medical Benefits and Non-OPEB Benefits. These Postemployment benefits will continue to be paid as long as assets are available. When assets are fully depleted, no additional supplemental benefits will be paid by ACERA.

Pension Obligation Bonds

In 1995 and 1996 Alameda County, the primary ACERA sponsor, issued pension obligation bonds and contributed the net bond proceeds to the ACERA Pension Plan. ACERA received aggregate net proceeds of $591 million in these transactions. These contributions allow ACERA to provide "pension obligation bond credits" to the County (thus reducing contributions otherwise payable) over the period of time used by ACERA to amortize its unfunded actuarial accrued liability. The County received pension obligation bond credits of approximately $27 million in the year ended December 31, 2008 and $27 million in the year ended December 31, 2007.

4. RESERVES

The reserves represent components of ACERA's net assets. This means that the annual change in ACERA's reserves matches the annual change in ACERA's plan net assets.

Actuarial Smoothing

Net investment income reported on the statements of changes in plan net assets affects the reserves indirectly through an actuarial "smoothing" process approved by the Board of Retirement. This process is conducted semi-annually with calculation periods ending June 30 and December 31. It involves spreading the difference between actual and expected market return over ten successive semi-annual periods.

Semi-annual Interest Crediting

ACERA updates reserve balances on a semi-annual basis as of June 30 and December 31 each year. At these times, ACERA carries out a multi-step process to calculate new reserve balances as specified in Article 5.5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited at the actuarial assumed interest rate to specified components of reserves in a prescribed sequence and to the Contingency Reserve. Of any excess net earnings remaining, 50% is credited to the Supplemental Retiree Benefit Reserve and the remaining 50% is credited proportionally to all other reserves (except for the Contingency Reserve and the Market Stabilization Reserve).

While a member is active, ongoing member and employer contributions associated with that member are accumulated in two separate components of reserves—the Member Reserve and Employers' Advance Reserve. At the time of the member's retirement, ACERA makes a one-time transfer of the associated contributions plus credited interest from these two components of reserves to the Retired Member Reserve.

Components of Reserves

The Member Reserve represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest; deductions include refunds of member contributions along with credited interest and transfers to Retired Member Reserve made when the member retires.

The Employers' Advance Reserve represents the total accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest; and deductions include transfers to Retired Member Reserve made when each member retires. When a terminating member elects to receive a refund of member contributions, this has no corresponding effect on the balance of the Employers' Advance Reserve because the employer contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

The Retired Member Reserve represents funds accumulated to pay retirement benefits to retired members. This reserve represents the total accumulated transfers from the Member Reserve, the Employers' Advance Reserve (both made at the time each member retires) and credited interest, reduced by payments to retired members, beneficiaries, and survivors.

The Supplemental Retiree Benefit Reserve (SRBR) was established on January 1, 1985, under Article 5.5 of the 1937 Act. SRBR represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees. The benefits that ACERA is currently funding from the SRBR include Postemployment insurance subsidies, Medicare Part B reimbursement, vision, dental, supplemental COLA, increased death benefits to retirees, and employers implicit subsidy payments.

Effective as of December 31, 2006, the Board of Retirement approved an allocation from the SRBR and other reserves to the Postemployment Medical Benefits and Non-OPEB Benefits Reserves. The balances in these allocations as of December 31, 2008 were $612.5 million and $76.0 million. For December 31, 2007, the balances were $617.5 million and $78.4 million, respectively.

The Postemployment Medical Benefits Reserve represents funds used to pay for retiree insurance subsidies for medical premiums and coverage for ACERA-sponsored dental and vision care plans. The account is set up as a 401(h) account, in accordance with federal tax laws. The Postemployment Medical Benefits Reserve supplements the employer contributions when they make contributions to the 401(h) account. For the years ended December 31, 2008 and 2007, the employers funded $28.5 million and $27.3million towards the 401(h) contributions, and an equal amount was transferred from the Postemployment Medical Benefits Reserve to supplement the employer contributions. The reserve is increased through excess investment earnings. The transfers are reflected as deductions.

The Non-OPEB Benefit Reserve is used to pay for the supplemental COLA and death benefits. For the years ended December 31, 2008 and 2007, $4.1 million and $4.4 million was paid from the Non-OPEB Benefits Reserve for supplemental COLA. A combined amount of $1.4 million and $1.8 million in burial benefits and active death equity benefits were paid for deceased members for the years ended December 31, 2008 and 2007, respectively. The reserve is increased through net regular and excess investment earnings.

The Contingency Reserve represents reserves accumulated for use in the case of future earnings deficiencies. The purpose of the Contingency Reserve is to satisfy the statutory requirement to reserve at least 1% of total assets against future earnings deficiencies. The Board had adopted a policy in 2002 that stipulates that in the event there is an actuarial loss as a result of applying the five year semi-annual asset smoothing and maximum 120% market value corridor policy, the actuarial loss will be accumulated in the contingency reserve account, and future interest crediting to any reserves will not take place until all the losses are offset and the balance in this account is restored to 1% of total assets.

The Market Stabilization Reserve represents the deferred balance of investment earnings not yet credited to other reserves. This balance arises from the five-year actuarial smoothing process for investment earnings described above. The market stabilization reserve balance thus represents the difference between (1) the aggregate amounts

Reserves

As of December 31, 2008 and 2007 (Dollars in Thousands)

2008	Pension	Postemployment Medical Benefits	Non-OPEB Benefits	Total
Member Reserve	$ 1,119,704	$ -	$ -	$ 1,119,704
Employers' Advance Reserve	432,011	-	-	432,011
Retired Member Reserve	3,152,316	-	-	3,152,316
Supplemental Retiree Benefit Reserve				
Postemployment Medical Benefits Reserve	-	612,464	-	612,464
Non-OPEB Benefits Reserve	-	-	76,005	76,005
Contingency Reserve	-	-	-	-
Market Stabilization Reserve	-	-	-	-
Total Reserves	**$ 4,704,031**	**$ 612,464**	**$ 76,005**	**$ 5,392,500**
UNDERFUNDED RESERVE ACCOUNTS				
Contingency Account	$ (825,360)	-	-	$ (825,360)
Market Stabilization Account	(761,190)	-	-	(761,190)
Total Reserves and Underfunded Accounts	**$ 3,117,481**	**$ 612,464**	**$ 76,005**	**$ 3,805,950**

2007	Pension	Postemployment Medical Benefits	Non-OPEB Benefits	Total
Member Reserve	$ 1,088,497	$ -	$ -	$ 1,088,497
Employers' Advance Reserve	397,398	-	-	397,398
Retired Member Reserve	3,071,228	-	-	3,071,228
Supplemental Retiree Benefit Reserve				
Postemployment Medical Benefits Reserve	-	617,535	-	617,535
Non-OPEB Benefits Reserve	-	-	78,426	78,426
Contingency Reserve	64,552	-	-	64,552
Market Stabilization Reserve	257,144	-	-	257,144
Total Reserves	**$ 4,878,819**	**$ 617,535**	**$ 78,426**	**$ 5,574,780**

initially deferred (smoothed) from the ten most recent semi-annual periods and (2) the amounts subsequently recognized for semi-annual interest crediting from these same ten periods.

Allocation of Earnings to Reserves for 2008 and 2007

For the years ended December 31, 2008 and 2007, ACERA's allocations of earnings and losses to reserves were a total loss of $1,698.1 million and earnings of $419.6 million, respectively; $890.0 million loss and $4.2 million earning were allocated to the Contingency Reserve for the years ended December 31, 2008 and 2007, respectively. The Market Stabilization Reserve decreased by $1,018.3 million for 2008 and decreased by $202.1 million for the year ended December 31, 2007 as a result of applying the actuarial five-year smoothing process and the actuarial value corridor limits.

5. ACTUARIAL VALUATION

ACERA retains an independent actuarial firm to conduct actuarial valuations of the Pension Plan and the Supplemental Retiree Benefit Reserve (SRBR) to monitor ACERA's funding status and funding integrity. SRBR includes the Postemployment Medical Benefits and the Non-OPEB Benefits.

Pension Plan

The purpose of the valuations is to reassess the magnitude of ACERA's benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the Pension Plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actual cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Contribution requirements are determined under the entry age normal actuarial cost method. This method is designed to collect contributions as a level percentage of pay. Any gains or losses that occur under this method are amortized as a level percentage of pay. To minimize any investment gains or losses, the Board of Retirement has adopted a smoothing process that involves spreading the difference between actual and expected market return over ten successive semi-annual periods to determine the actuarial value of assets.

The information for funded status of the Pension Plan, which includes the funded ratio, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial accrued liability, the annual covered payroll, and the ratio of unfunded actuarial accrued liability to annual covered payroll are all presented on Status and Funding Progress—Pension Plan table on page 36. There are no legal or contractual maximum contribution rates under the County Employees Retirement Law of 1937 that would affect the projection of benefits for financial reporting purposes.

SRBR

The Postemployment Medical Benefits Reserve and the Non-OPEB Benefits Reserve available to fund Supplemental COLA and death benefits as of December 31, 2008 are $612.5 million and $76.0 million, respectively.

The December 31, 2007 actuarial valuation determined that the Postemployment Medical Benefits was 96.0% funded using the GASB guidelines which assume a substantive plan that will continue into perpetuity. As of December 31, 2007, the Non-OPEB Benefit was 38.5% funded. The Postemployment Medical Benefits and Non-OPEB Benefits funded status consist of the funded ratio, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial accrued liability, the annual covered payroll, and the ratio of unfunded actuarial accrued liability to annual covered payroll. The funding progress as of the most recent actuarial valuation date for the Postemployment Medical Benefits and Non-OPEB Benefits is presented in two separate tables as shown on page 36.

Under current actuarial assumptions, it is anticipated that the SRBR will be sufficient to fund the following: (1) The Postemployment Medical Benefits through year 2030; and (2) the Supplemental COLA and death benefits program through year 2026.

The funded status of the Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits as of December 31, 2007, the most recent actuarial valuation date, is as follows:

Status and Funding Progress – Pension Plan

(Dollars in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) [2] (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
$4,560,213 [3]	$5,112,403	$ 552,190	89.2	$ 793,558	69.6

[1] Excludes assets for SRBR and other non-valuation reserves.

[2] Excludes liabilities for SRBR and other non-valuation reserves.

[3] Includes $3,091,493 in reimbursement of implicit retiree health benefit subsidy paid to the County for 2007.

Status and Funding Progress – Postemployment Medical Benefits

(Dollars in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b) Without Limit [2]	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
$ 614,444	$ 639,821	$ 25,377	96.0	$ 793,558	3.2

[1] Amount of SRBR assets allocated to the Postemployment Medical Benefits Reserve.

[2] The funded status for the Postemployment Medical Benefits does not explicitly incorporate the potential effect of legal or contractual funding limitations. Please refer to Required Supplementary Information and Supporting Schedules for limitations imposed under Article 5.5 of the County Employees Retirement Law of 1937.

Status and Funding Progress – Non-OPEB Benefits

(Dollars in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b) Without Limit [2]	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
$ 78,426	$ 203,868	$ 125,442	38.5	$ 793,558	15.8

[1] Amount of SRBR assets allocated to the Non-OPEB Benefits Reserve to provide for Supplemental COLA and death benefits, which are Non-OPEB benefits.

[2] The funded status for the Non-OPEB Benefits does not explicitly incorporate the potential effect of legal or contractual funding limitations. Please refer to Required Supplementary Information and Supporting Schedules for limitations imposed under Article 5.5 of the County Employees Retirement Law of 1937.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, clarifies that the benefits provided by the Supplemental COLA and death benefits program be considered as Pension Benefits and should be reported consistent with GASB Statement No. 25.

The benefits provided by the Postemployment Medical Benefits are considered Other Postemployment Benefits and are reported in the financial statements consistent with GASB Statement No. 43.

The projected results for Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits are based on the following actuarial methods and assumptions:

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits
Valuation Date	12/31/07		
Actuarial Cost Method	Entry Age Normal		
Amortization of UAAL	Closed period 30 years (decreasing)		
Remaining Amortization Period	25 years	28 years	28 years
Assets Valuation Method	Difference between actual and expected market return smoothed over ten 6-months periods		
Actuarial Assumptions	Interest Rate: 8.00% Inflation Rate: 3.75% Across-the-Board Salary Increases: 0.25% Salary Increases: General 4.73% – 7.68% Safety 4.26% – 7.61% Demographic: refer to page 78		
Healthcare Cost Trend Rates Monthly Medical Allowance (MMA)		Graded down from 9% by 0.5%per annum until ultimate rate of 5%	
Dental and Vision		5%	
Medicare Part B		5%	
Postemployment Benefit Increases	For Tier 1 Members: 3.00% For Tier 2 Members: 2.00%	Dental & vision and Medicare Part B subsidies are assumed to increase at 100% of the healthcare cost trend rates for these benefits. MMA subsidies are assumed to increase at 50% of the healthcare cost trend rates for the MMA benefit.	Supplemental COLA benefits are assumed to increase by the difference between inflation and the cost-of-living benefit guaranteed in the pension plan (3.00% for Tier 1 and 2.00% for Tier 2), subject to other limitations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedules of funding progress immediately following the notes to the basic financial statements present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits. The calculation of the unfunded actuarial accrued liabilities each year is based on the benefits provided under the terms of the respective plan in effect at the time of each valuation and on the pattern of cost sharing between the employer and plan members up to that date.

6. POSTEMPLOYMENT MEDICAL BENEFITS

ACERA administers a medical benefits program for retired members and their eligible dependents. The County negotiates the medical contracts with the providers covering both active and retired members. This arrangement results in “blended” medical premium rates that allow early retirees not yet medicare-eligible to purchase medical care from one of these providers at rates lower than otherwise (an “implicit subsidy”). ACERA and the County collectively determined that the total amount of implicit subsidy for the blended medical premium rates for the year 2007 was $3.1 million. The transfer of $3.1 million from the Postemployment Medical Benefits to the Pension Plan for the 2007 implicit subsidy was made in 2008 upon the Board’s approval. The implicit subsidy amount for 2008 has not been determined yet. As of December 31, 2008 approximately 77.9% of ACERA retirees purchased medical and 99.9% of retirees enrolled in vision and dental through this program during 2008.

For several years, ACERA retirees have been eligible to receive a subsidy for medical premiums funded by ACERA’s Supplemental Retiree Benefit

Reserve. This subsidy takes the form of a monthly medical allowance. The allowance is subject to annual reauthorization by the Board of Retirement.

The actual amount of the allowance for each retiree depends on the retiree's number of years of service. The subsidy ranges from 50% for retirees with 10+ years of service to 100% for retirees with 20+ years of service. Disability retirees are also eligible for the medical benefits program; the amount of the subsidy depends on the type of disability retirement (service connected or non-service connected).

The program may be amended, revised or discontinued at any time.

Postemployment Medical Benefits

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Medical Premium Account Balance	$ 4,962	$ 2,978
Health Insurance Subsidies Paid	$ 26,682	$ 24,668
Number of Subsidized Retirees		
Medical	4,786	4,689
Medicare Part B	2,823	2,700
Dental	6,132	5,995
Vision	6,132	5,995

7. DEPOSITS AND INVESTMENTS

The 1937 Act gives the Board of Retirement exclusive control over ACERA's investment portfolio. Except as otherwise restricted by the California Constitution or other laws, the 1937 Act allows the Board to prudently invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction.

Moreover, the 1937 Act requires the Board, its officers and employees to discharge their duties with respect to ACERA and the investment portfolio under the following rules:

a. "The members of the retirement board shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

b. The members of the retirement board shall discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

c. The members of the retirement board shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so."

The Board of Retirement investment authority granted under the 1937 Act was also incorporated into the state constitution as the California Pension Protection Act of 1992 (Article 16, Section 17 of the California Constitution).

Deposits

Operational cash accounts held with a financial institution are swept daily into a pooled money market fund, which invests in repurchase agreements and U.S. treasury bills and notes.

ACERA also participates in the Alameda County Treasurer's investment pool. The pool invests in Local Agency Investment Funds (LAIF), banker's acceptances, collateralized time deposits, negotiable certificates of deposits, commercial paper, corporate notes and bonds, money market funds, federal agency notes and bonds, federal agency discount notes, and U.S. treasury notes.

Investments

ACERA's asset classes include U.S. equity, international equity, fixed income (U.S. and international), real estate, and private equity and alternatives. Investments in any asset class may be held in direct form, pooled form, or both.

As of December 31, 2008, eleven external investment managers managed securities portfolios, seven investment managers were used for real estate investments, and two investment managers were used for private equity investments.

Available cash held by investment managers is swept daily into a pooled short-term investment fund managed by the master custodian. This short term investment fund holds short-term obligations and deposits, including U.S. treasury and agency obligations, corporate bonds, commercial paper, repurchase agreements, certificates of deposit, banker's acceptances, time deposits, and floating-rate notes.

Likewise, cash collateral received in connection with the securities lending program in which ACERA participates is held in a different short-term investment pool.

These two investment pools are each held in a trust fund sponsored by the master custodian and are regulated by the Federal Reserve, the Massachusetts Commissioner of Banks, and the U.S. Department of Labor.

The value of the underlying instruments in these investments pools is marked to market at each month's end. The fair value of ACERA's position in these investment pools is not materially different from the value of the pool shares.

Derivatives

As of December 31, 2008 and 2007, ACERA held $179.8 million and $219.1 million in Collateralized Mortgage Obligations respectively. In addition, there was a net exposure of $0.7 million in combined fair value for currency forward contracts, stock index futures and equity index swaps as of December 31, 2008 and a net exposure of $3.1 million as of December 31, 2007.

Securities Lending Activity

Board of Retirement policies authorize ACERA to participate in a securities lending program. Securities lending transactions are short-term collateralized loans of ACERA securities for the purpose of generating additional investment income. ACERA has a securities lending agreement in place that authorizes the securities lending agent to lend ACERA securities to broker-dealers and banks pursuant to a loan agreement. For each securities loan, ACERA receives either cash or non-cash collateral. ACERA invests the cash and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In the case of non-cash collateral, the borrower also pays ACERA a loan premium.

For the years ended December 31, 2008 and 2007, on behalf of ACERA, the securities lending agent lent ACERA securities (government bonds, corporate stocks, corporate bonds, and international equities and fixed income) to borrowers under the securities lending agreement and ACERA received cash (United States and foreign currency), securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters-of-credit as collateral.

ACERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default (therefore, such non-cash collateral is not reported on the statements of plan net assets).

Borrowers were required to deliver collateral for each loan ("margin") equal to:

- Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and
- Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a margin of at least 105% of the market value of the loaned securities.

Moreover, borrowers were required to maintain the designated margin percentage of collateral on a daily basis.

ACERA did not impose any restrictions for the years ended December 31, 2008 and 2007 on the amount of the loans that the securities lending agent made on its behalf. The securities lending agent indemnified ACERA by agreeing to purchase replacement securities or supplement the amount of cash collateral in the event the borrower failed to return the loaned securities and the collateral was inadequate to replace the securities lent or the borrower failed to pay ACERA for any income distributions on loaned securities. There were no losses during the years ended December 31, 2008 and 2007 resulting from a default of the borrowers or the securities lending agent.

For the years ended December 31, 2008 and 2007, ACERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a short term investment pool managed by the securities lending agent. As of December 31, 2008 and 2007, this investment pool had an average duration of 36 and 40 days, and an average weighted maturity of 470 and 476 days, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. For the years ended December 31, 2008 and 2007, ACERA had no credit risk exposure to borrowers because, for each borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of December 31, 2008 and 2007, ACERA had securities on loan with a total fair value of $461.8 million and $745.0 million, respectively and the cash collateral held against the loaned securities of $472.0 million and $754.2 million, respectively.

Deposit and Investment Risks

GASB Statement No. 40 requires the disclosure of specific risks that apply to ACERA's investments. GASB Statement No. 40 identifies the following risks:

- Custodial Credit Risk—Deposits
- Concentration of Credit Risk
- Credit Risk
- Interest Rate Risk
- Fair Value Highly Sensitive to Changes in Interest Rates
- Custodial Credit Risk—Investments
- Foreign Currency Risk

GASB Statement No. 40 also requires the disclosure of deposit or investment policies (or the lack thereof) that relate to the investment and custodial risks that are required to be disclosed.

Investment Policies

ACERA has chosen to manage the investment risks described by GASB Statement No. 40 by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that individual manager rather than adopting across the board investment policies with respect to these investment risks. The guidelines stipulate the investment style, performance objective, performance benchmarks, and portfolio characteristics.

For example, in the case of foreign currency risk, the policy guidelines for the U.S. dollar equity portfolios differ from those for the non-U.S. dollar equity portfolios. Likewise, in the case of credit risk, the guidelines for one fixed income manager stipulate a minimum acceptable credit rating for each debt instrument while the guidelines for a different fixed income portfolio merely require that the average of credit ratings for a certain fair value percentage of the portfolio meet a minimum requirement.

Each manager is likewise subject to a "manager standard of care" that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of ACERA.

Separately, ACERA's guidelines also require each manager's investment return performance to compare favorably with the performance of the relevant passive market index such as the Barclays Capital Aggregate Bond Index.

ACERA's investment staff continually monitors all investment managers for compliance with the respective guidelines.

Custodial Credit Risk—Deposits

Custodial Credit Risk for Deposits is the risk that, in the event of the failure of a depository financial institution, ACERA will not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party. ACERA has no general policy on custodial credit risk for deposits.

By necessity, ACERA maintains operational cash deposits to support day-to-day cash management requirements. As of December 31, 2008, cash held with a financial institution in a pooled money market fund amounted to $1.2 million, of which $1.0 million is uninsured and uncollaterized. As of December 31, 2007, cash held with a financial institution totaled $1.4 million, of which $1.3 million was uninsured and uncollaterized. The cash held in the Alameda County Treasurer's investment pool was $5.9 million and $5.7 million as of December 31, 2008 and 2007, respectively. These deposits are uninsured and uncollateralized and subject to custodial credit risk.

ACERA's investments include collateral associated with derivatives activity. As of December 31, 2008 and 2007, collateral for equity index futures contracts were $15.1 million and $20.4 million, respectively. The futures collateral margins are maintained in margin accounts at a financial services firms that provides brokerage services. As of December 31, 2007, ACERA's investments included $103.8 million cash in a margin account for the long-short equity arbitrage investment program. The program was terminated during 2008. As of December 31, 2008, ACERA had no cash in a margin account related to the equity arbitrage investment program. The margin account for the equity arbitrage program was maintained separately at a financial services firm. Each account is uninsured and uncollateralized and subject to custodial credit risk.

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of ACERA's investment in a single issuer of securities. The individual investment guidelines for each fixed income manager forbid concentrations greater than 5% in the securities of any one issuer (excepting issues issued by or explicitly guaranteed by the U.S. government). As of December 31, 2008 and 2007, ACERA had no investments in a single issuer that equaled or exceeded 5% of ACERA's net assets.

Credit Risk

Credit Risk is the risk that the issuer of a debt security or other counterparty to an investment will not fulfill its obligations. The individual investment guidelines for each fixed income investment manager describe applicable restrictions on credit risk. The credit risk restrictions by investment portfolio (with portfolio style) are as follows:

- A minimum of 51% of the market value of the portfolio must be rated BBB- or higher by Standard & Poor's (S&P) or Baa3 or higher by Moody's Investor Services (Moody's). (Medium-Grade Fixed Income)
- Investments must be rated Baa/BBB or better by Moody's/S&P at time of purchase. (Enhanced Index Fixed Income)
- The average credit quality of the portfolio shall be grade "A" or better based on Moody's and/or S&P. Individual securities shall be of investment-grade quality, i.e., Baa3/BBB- and above. (Global Fixed Income)

The credit quality ratings of a security, (e.g., from Moody's or S&P) give an indication of the degree of credit risk for that security.

The Credit Risk Analysis schedule discloses credit ratings of ACERA's debt investments by type and for each external investment pool, as of December 31, 2008 and 2007.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

ACERA has investments in three fixed income portfolios containing individual debt securities as well as investments in external investment pools containing debt securities. All of these investments are subject to interest rate risk. ACERA has no general policy on interest rate risk for the fixed income portfolios or for the investments in external pools. ACERA manages interest rate risk for the three fixed-income portfolios by setting limits on portfolio duration for each portfolio. The duration restrictions by investment portfolio (with portfolio style) are as follows:

- Duration Band: Barclays Baa Credit Capital Index duration +/- 2.5 years (Medium Grade Fixed Income)

Credit Risk Analysis

As of December 31, 2008 (Dollars in Thousands)

Debt Investments By Type	Total	Adjusted Moody's Credit Rating[1] Aaa	Aa	A	Baa	Ba	B	Caa	Ca and below	Not Rated
Collateralized Mortgage Obligations	$179,809	$97,245	$9,040	$5,542	$8,071	$ -	$ -	$ -	$ -	$59,911
Convertible Bonds	12,511	-	-	-	-	25	145	3,221	-	9,120
Corporate Bonds	424,678	25,205	20,902	100,027	177,840	29,228	34,678	9,859	8,134	18,805
Federal Home Loan Mortgage Corp.	29,333	7,007	-	-	-	-	-	-	-	22,326
Federal National Mortgage Assn.	57,623	21,605	-	-	-	-	-	-	-	36,018
Government Issues	160,261	103,845	-	32,610	2,552	9,554	-	-	-	11,700
Government National Mortgage Assn. I, II	908	-	-	-	-	-	-	-	-	908
Other Asset-Backed Securities	88,224	67,223	2,213	4,328	13,370	1,090	-	-	-	-
Subtotal Debt Investments	**953,347**	**322,130**	**32,155**	**142,507**	**201,833**	**39,897**	**34,823**	**13,080**	**8,134**	**158,788**
External Investment Pools of Debt Securities										
Securities Lending Cash Collateral Fund	472,008	-	-	-	-	-	-	-	-	472,008
Master Custodian Short-term Investment Fund	98,972	-	-	-	-	-	-	-	-	98,972
Subtotal External Investment Pools	**570,980**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**570,980**
Total	**$1,524,327**	**$322,130**	**$32,155**	**$142,507**	**$201,833**	**$39,897**	**$34,823**	**$13,080**	**$8,134**	**$729,768**

As of December 31, 2007 (Dollars in Thousands)

Debt Investments By Type	Total	Adjusted Moody's Credit Rating[1] Aaa	Aa	A	Baa	Ba	B	Caa	Not Rated
Collateralized Mortgage Obligations	$ 219,136	$ 134,826	$ -	$ -	$ -	$ -	$ -	$ -	$ 84,310
Convertible Bonds	14,895	-	-	-	633	199	6,608	4,271	3,184
Corporate Bonds	591,244	41,356	57,228	103,782	209,606	52,542	69,680	27,033	30,017
Federal Home Loan Mortgage Corp.	34,916	34,916	-	-	-	-	-	-	-
Federal National Mortgage Assn.	111,369	111,369	-	-	-	-	-	-	-
Government Issues	322,302	218,646	-	45,529	19,903	19,288	-	-	18,936
Government National Mortgage Assn. I, II	989	989	-	-	-	-	-	-	-
Other Asset-Backed Securities	128,838	116,609	6,258	-	4,274	1,697	-	-	-
Subtotal Debt Investments	**1,423,689**	**658,711**	**63,486**	**149,311**	**234,416**	**73,726**	**76,288**	**31,304**	**136,447**
External Investment Pools of Debt Securities									
Securities Lending Cash Collateral Fund	754,202	-	-	-	-	-	-	-	754,202
Master Custodian Short-term Investment Fund	121,459	-	-	-	-	-	-	-	121,459
Subtotal External Investment Pools	**875,661**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**875,661**
Total	**$2,299,350**	**$658,711**	**$63,486**	**$149,311**	**$234,416**	**$73,726**	**$76,288**	**$31,304**	**$1,012,108**

[1] Adjusted Moody's Credit Rating: This schedule displays the fair value of investments by credit rating in increasing magnitude of risk. Investments are classified by Moody's credit rating. If a Moody's rating is not available, then the S&P rating is used. Also, whenever both ratings for an investment exist, then the lower of the two ratings is used.

- Duration: Match the Barclays Capital Aggregate Bond Index duration (Enhanced Index Fixed Income)
- Duration Band: 1–10 years duration (Global Fixed Income)

The Interest Rate Risk Analysis—Duration schedule discloses the duration of ACERA's debt investments by type and the duration of each of the external investment pools of debt securities. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present values of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Fair Value Highly Sensitive to Changes in Interest Rates

Debt investment terms may cause its fair value to be highly sensitive to interest rate changes. The Interest Rate Risk Analysis table described above discloses the degree to which ACERA's investments are sensitive to interest rate changes due simply to the remaining term to maturity. In contrast, ACERA's investments with fair values that are highly sensitive to interest rates due to other factors are disclosed on the Interest Rate Risk Analysis—Highly Sensitive schedule. ACERA has no general investment policy with respect to investments with fair values that are highly sensitive to changes in interest rates.

Custodial Credit Risk—Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of a counterparty to a transaction, ACERA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held and maintained with the master custodian in the name of ACERA. The master custodian may rely on sub-custodians. The custodial requirement does not apply to real estate investments, investments in commingled pools, and private equity investments. As of December 31, 2008 and 2007, ACERA had no investments that were exposed to custodial credit risk.

Custodial Credit Risk—Investments Analysis

Fair Value of Securities Lending Non-Cash Collateral
As of December 31, 2008 and 2007 (Dollars in Thousands)

Type of Non-Cash Collateral and Custodial Arrangement	2008 Fair Value	2007 Fair Value
US Corporate Bonds, US Equity, and Non-US Equity Collateral—Held with Securities Lending Agent	$ 106	$ 17,186
US Treasury and Agency Securities Collateral—Held with Third-Party Custodians	0	6
Irrevocable Bank Letters of Credit	0	285
Total Securities Lending Non-Cash Collateral	**$ 106**	**$17,477**

Cash collateral held for securities lending transactions is invested in a pooled short-term investment fund maintained by the securities lending agent.

With respect to the custodial credit risk pertaining to the underlying securities where ACERA holds non-cash collateral, the Custodial Credit Risk—Investments Analysis schedule discloses the fair value of the non-cash collateral by type of custodial arrangement.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit. ACERA has no general investment policy with respect to foreign currency risk.

Foreign Currency Risk—Investments

The Foreign Currency Risk Analysis schedules show the fair value of investments that are exposed to this risk by currency denomination and investment type. This provides an indication of the magnitude of foreign currency risk for each currency.

Foreign Currency Risk—Equity Index Swaps

Equity index swaps are derivatives and represent an agreement between two parties to swap two sets of equity index values.

For those equity index swaps which are dollar-denominated securities issued by foreign countries there is an exposure to a foreign currency risk.

Interest Rate Risk Analysis—Duration

As of December 31, 2008 and 2007 (Dollars in Thousands)

	2008		2007	
Debt Investments by Type	**Fair Value**	**Duration in Years**	**Fair Value**	**Duration in Years**
Collateralized Mortgage Obligations	$ 179,809	7.7	$ 219,136	2.7
Government Issues	160,261	7.2	322,302	5.3
Corporate Bonds	421,788	6.3	558,098	7.4
Other Asset Backed Securities	88,223	4.0	115,510	2.9
Convertible Bonds	12,511	2.0	14,895	2.7
Federal National Mortgage Assn.	57,623	2.0	111,369	4.2
Federal Home Loan Mortgage Corp.	29,334	1.8	34,916	3.4
Government National Mortgage Assn. I, II	908	1.6	989	4.7
Subtotal of Investments with Duration	**950,457**		**1,377,215**	
Corporate Bonds	2,890	No Duration	33,146	No Duration
Other Asset-Backed Securities	-	No Duration	13,328	No Duration
Subtotal of Investments without Duration	**2,890**		**46,474**	
Total of Debt Investments	**$ 953,347**		**$ 1,423,689**	

External Investment Pools of Debt Securities	**Fair Value**	**Duration**	**Fair Value**	**Duration**
Securities Lending Cash Collateral Fund	$472,008	36 days	$ 754,202	40 days
Master Custodian Short-Term Investment Fund	98,972	34 days	121,459	15 days
Total External Investment Pools	**$ 570,980**		**$ 875,661**	

Interest Rate Risk Analysis—Highly Sensitive

Fair Value of Investments with Fair Values Highly Sensitive to Changes in Interest Rates
As of December 31, 2008 and 2007 (Dollars in Thousands)

		2008		2007	
Investment Type	**Investment Description**	**Interest Rates**	**Fair Value**	**Interest Rates**	**Fair Value**
Zero Coupon Bond	Privately Placed Securities	Zero-Coupon	$ 5,764	Zero-Coupon	$ 11,867
Collateralized Mortgage Obligation	Mortgage-related Securities	Various	37,326	-	-
Total			**$43,090**		**$11,867**

Foreign Currency Risk—Currency Swaps (Currency forward contracts)

The outstanding currency swaps are also subject to foreign currency risk. The currency swaps generally serve to hedge or offset, the impact that changes in foreign currency exchange rates have on the reported U.S. dollar fair value of investments denominated in foreign currencies.

The dollar impact that currency swaps have on foreign currency risk equals the foreign currency settlement amounts translated in the same manner as the investments (i.e. spot exchange rate at

Foreign Currency Risk Analysis

Fair Value of Investments Exposed to Foreign Currency Risk by Currency
As of December 31, 2008 (Dollars in Thousands)

	Investment Type							
Currency	**Common Stock and Depository Receipts**	**International Equity Mutual Funds**	**Corporate Bonds**	**Foreign Currency**	**Government Issues**	**Currency Swaps**	**Equity Index Swaps**	**Total Exposure Net of Currency Swaps**
Argentine Peso	$ -	$ -	$ -	$ -	$ -	$ 158	$ -	$ 158
Australian Dollar	42,935	-	16,838	11	9,837	299	-	69,920
Brazilian Real	2,224	-	-	-	-	(93)	-	2,131
Canadian Dollar	29,252	-	3,657	98	10,517	(50)	-	43,474
Chilean Peso	-	-	-	-	-	(8)	-	(8)
Colombian Peso	-	-	-	-	845	-	-	845
Czech Koruna	-	-	-	-	-	6	-	6
Danish Krone	2,537	-	-	11	-	(16)	12	2,544
Egyptian Pound	1,090	-	-	-	-	-	-	1,090
Euro Currency	257,592	-	1,048	23,918	-	516	87	283,161
Hong Kong Dollar	23,879	-	-	21	-	-	-	23,900
Hungarian Forint	370	-	-	-	-	74	-	444
Iceland Krona	-	-	1,383	-	-	-	-	1,383
Indian Rupee	9,592	-	-	-	-	(16)	-	9,576
Indonesian Rupiah	258	-	3,769	183	4,155	233	-	8,598
Israeli Shekel	56	-	-	55	-	113	-	224
Japanese Yen	188,807	-	4,414	927	-	275	-	194,423
Malaysian Ringgit	448	-	-	278	10,183	-	-	10,909
Mexican Peso	7,822	-	932	775	18,612	98	(18)	28,221
New Russian Ruble	-	-	-	-	-	100	(348)	(248)
New Taiwan Dollar	2,348	-	-	212	-	10	-	2,570
New Zealand Dollar	2,317	-	5,573	89	-	505	-	8,484
Norwegian Krone	4,296	-	-	253	-	(29)	35	4,555
Philippine Paso	-	-	-	-	-	5	-	5
Polish Zloty	490	-	-	-	9,228	(2)	-	9,716
Pound Sterling	114,232	-	-	10	9,615	1,529	-	125,386
Singapore Dollar	14,400	-	5,326	14	-	(2)	-	19,738
South African Rand	3,012	-	188	-	4,770	190	-	8,160
South Korean Won	3,545	-	6,091	-	-	233	-	9,869
Swedish Krona	14,604	-	-	7	4,499	(58)	-	19,052
Swiss Franc	55,356	-	-	37	-	(448)	-	54,945
Thailand Baht	1,106	-	-	-	-	(8)	-	1,098
Turkish Lira	-	-	-	-	-	(975)	-	(975)
Various Currencies	-	33,960	-	-	-	-	-	33,960
Total	**$ 782,568**	**$ 33,960**	**$ 49,219**	**$ 26,899**	**$ 82,261**	**$ 2,639**	**$ (232)**	**$ 977,314**

Foreign Currency Risk Analysis

Fair Value of Investments Exposed to Foreign Currency Risk by Currency
As of December 31, 2007 (Dollars in Thousands)

	Investment Type							
Currency	Common Stock and Depository Receipts	International Equity Mutual Funds	Corporate Bonds	Foreign Currency	Government Issues	Currency Swaps	Equity Index Swaps	Total Exposure Net of Currency Swaps
Argentine Peso	$ -	$ -	$ -	$ -	$ -	$ 3	$ -	$ 3
Australian Dollar	77,290	-	17,384	162	21,234	(164)	-	115,906
Brazilian Real	8,920	-	-	1	-	120	-	9,041
Canadian Dollar	56,176	-	10,099	45	31,035	-	-	97,355
Chilean Peso	-	-	-	-	-	24	-	24
Colombian Peso	-	-	-	-	962	5	-	967
Czech Koruna	-	-	-	-	-	(23)	-	(23)
Danish Krone	4,270	-	-	15	-	6	-	4,291
Egyptian Pound	2,348	-	-	-	-	-	-	2,348
Euro Currency	431,549	-	-	27,680	-	942	-	460,171
Hong Kong Dollar	44,715	-	-	36	-	-	-	44,751
Hungarian Forint	-	-	-	-	-	2	-	2
Iceland Krona	-	-	2,762	-	-	-	-	2,762
Indian Rupee	10,768	-	-	-	-	12	320	11,100
Indonesian Rupiah	6,897	-	5,241	-	8,203	(2)	-	20,339
Israeli Shekel	812	-	-	-	-	10	-	822
Japanese Yen	244,578	-	14,845	1,997	4,394	(125)	-	265,689
Malaysian Ringgit	6,540	-	4,107	-	14,550	-	-	25,197
Mexican Peso	2,913	-	1,552	1,108	26,416	9	-	31,998
New Russian Ruble	-	-	-	-	-	(12)	92	80
New Taiwan Dollar	10,458	-	-	383	-	(55)	-	10,786
New Turkish Lira	5,532	-	-	-	-	937	-	6,469
New Zealand Dollar	5,551	-	7,655	(6)	1,556	-	-	14,756
Norwegian Krone	4,053	-	-	-	16,262	(55)	-	20,260
Polish Zloty	2,051	-	-	-	23,175	8	-	25,234
Pound Sterling	205,926	-	-	119	21,700	2,605	-	230,350
Singapore Dollar	14,568	-	5,309	3	21,446	(5)	-	41,321
South African Rand	7,404	-	1,505	-	15,378	99	-	24,386
South Korean Won	7,471	-	8,372	-	-	-	-	15,843
Swedish Krona	15,041	-	-	19	27,423	(89)	-	42,394
Swiss Franc	86,031	-	-	138	-	210	-	86,379
Thailand Baht	1,661	-	-	-	-	(134)	-	1,527
Various Currencies	-	61,607	-	-	-	-	-	61,607
Total	**$1,263,523**	**$61,607**	**$78,831**	**$31,700**	**$233,734**	**$4,328**	**$412**	**$1,674,135**

December 31, 2008 and 2007). The impact appears in the column labeled Currency Swaps on the schedule. The total column of the schedule indicates the net foreign currency risk, i.e., the gross risk associated with the investments less the risk hedged by the outstanding currency swaps.

Real Estate

The remaining balances of real estate-related debt outstanding associated with the acquisition of separate properties as of December 31, 2008 and 2007 were $25.8 million and $26.0 million respectively.

Real Estate Investment Income—Separate Properties

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Real Estate Investment Income	$ 14,585	$ 17,413
Real Estate Expenses		
Non-Operating Expenses[1]	1,512	2,237
Operating Expenses	7,138	8,938
Total Expenses	**8,650**	**11,175**
Real Estate Net Income	**$ 5,935**	**$ 6,238**

[1] Non-operating expenses include interest expense resulting from loans on properties.

8. CAPITAL ASSETS

ACERA's investment in capital assets includes information systems, equipment, furniture, leasehold improvements, and construction-in-progress.

Depreciation expense for capital assets was $0.9 million and $1.2 million for the years ended December 31, 2008 and 2007, respectively. The schedule of Capital Assets and Accumulated Depreciation on the next page provides details.

9. LEASES

During the year ended December 31, 2001, ACERA purchased the building where its offices are currently located: 475-14th St., Oakland, CA 94612. ACERA formed a title holding corporation named Oakland 14th St. Office to take ownership of the building. Under a lease agreement with Oakland 14th St. Office effective in 2007, ACERA occupies two and a half floors in the building, totaling approximately 36,000 square feet. The term of the lease is seven years and seven months, with an option to renew for five additional years. Under the terms of the lease agreement, ACERA's base rent is abated. However, ACERA is required to pay its proportionate share of building operating expenses as defined in the lease. In addition, in 2008 ACERA's share of these operating expenses included storage charges that were retroactive to January 1, 2007. ACERA's operating expenses totaled $137,000 and $54,000 for the years ended December 31, 2008 and 2007, respectively.

ACERA leases photocopy machines and mailing equipment to support operations. Equipment rental expenses were $36,000 and $38,000 for the years ended December 31, 2008 and 2007, respectively. The future minimum rental payments for these leases are as follows:

Future Minimum Rental Payments

As of December 31 (Dollars in Thousands)

Year	Amount
2009	$ 33
2010	33
2011	33
2012	33
2013	33
Total	**$ 165**

10. ADMINISTRATION EXPENSE

ACERA's Board of Retirement annually adopts an administration expense budget covering expenses to be incurred in the following fiscal year. The administration expense is normally limited to 0.18% of the assets of the retirement system in accordance with Section 31580.2 of the 1937 Act. Only a portion of the administration expense is actually subject to the statutory limit (based on exclusions specified in the 1937 Act). ACERA's policy is to assess its compliance with the limitation based on an asset valuation date of June 30 of the year in which the budget is adopted.

Capital Assets and Accumulated Depreciation

For the Years Ended December 31, 2008 and 2007 (Dollars in Thousands)

	January 1, 2008	Additions	Deletions/ Transfers/ Additions	December 31, 2008
CAPITAL ASSETS—DEPRECIABLE				
Equipment and Furniture	$ 2,897	$ 279	$ (492)	$ 2,684
Information Systems	10,457	-	-	10,457
Leasehold Improvements	873	1,587	-	2,460
Subtotal	**14,227**	**1,866**	**(492)**	**15,601**
CAPITAL ASSETS—NON DEPRECIABLE				
Construction-in-Progress	48	1,797	(1,845)	-
Total Capital Assets (Cost)	**14,275**	**3,663**	**(2,337)**	**15,601**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,503)	(184)	492	(2,195)
Information Systems	(9,644)	(610)	-	(10,254)
Leasehold Improvements	(140)	(61)	-	(201)
Total Accumulated Depreciation and Amortization	**(12,287)**	**(855)**	**492**	**(12,650)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 1,988**	**$ 2,808**	**$ (1,845)**	**$ 2,951**

	January 1, 2007	Additions	Deletions/ Transfers/ Additions	December 31, 2007
CAPITAL ASSETS—DEPRECIABLE				
Equipment and Furniture	$ 3,143	$ 50	$ (296)	$ 2,897
Information Systems	10,457	-	-	10,457
Leasehold Improvements	852	21	-	873
Subtotal	**14,452**	**71**	**(296)**	**14,227**
CAPITAL ASSETS—NON DEPRECIABLE				
Construction-in-Progress	1	94	(47)	48
Total Capital Assets (Cost)	**14,453**	**165**	**(343)**	**14,275**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,632)	(167)	296	(2,503)
Information Systems	(8,627)	(1,017)	-	(9,644)
Leasehold Improvements	(109)	(31)	-	(140)
Total Accumulated Depreciation and Amortization	**(11,368)**	**(1,215)**	**296**	**(12,287)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 3,085**	**$ (1,050)**	**$ (47)**	**$ 1,988**

Application of Statutory Limit on Administration Expense

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

2008

Total Assets as of June 30, 2007	$	6,603,016
Limit: Maximum Allowable fraction of Total Assets (0.18%) times Total Assets		11,885
Portion of Administration Expenses for the Fiscal Year subject to the Statutory Limit		10,470
Excess of Limit over Portion of Administration Expense Subject to Limit	**$**	**1,415**
Portion of Administration Expense Subject to Limit as a Percentage of Total Assets		**0.16%**

2007

Total Assets as of June 30, 2006	$	6,080,145
Limit: Maximum Allowable fraction of Total Assets (0.18%) times Total Assets		10,944
Portion of Administration Expenses for the Fiscal Year subject to the Statutory Limit		9,597
Excess of Limit over Portion of Administration Expense Subject to Limit	**$**	**1,347**
Portion of Administration Expense Subject to Limit as a Percentage of Total Assets		**0.16%**

During the year ended December 31, 2005 the Board adopted a provision of the 1937 Act (Section 31522.6) that allows ACERA to exclude business continuity-related expense from that portion of administration expense subject to the statutory limit. This exclusion, combined with other existing exclusions of the same nature permitted for legal, which totaled $2.8 million for 2008 and $2.6 million for 2007, and investment-related expenses, were offset against investment income.

Consistent with the past practice, for the year 2008 the total administration expense was charged to the Pension Plan, and was not allocated to the Postemployment Medical benefits and Non-OPEB benefits.

A Schedule of Administration Expense appears in the Supporting Schedules.

11. RELATED PARTY TRANSACTIONS

By necessity, ACERA is involved in various business transactions with the County of Alameda, the primary plan sponsor. These include reimbursement to the County for the salary and benefits of ACERA staff members paid through the County and reimbursement to the Alameda County Human Resources Department for personnel consulting services. Also, under Board of Retirement policy, ACERA reimburses the County for a portion of the salary and benefits of each County employee elected to the Board of Retirement. Lastly, ACERA reimburses the County for the cost of services provided in following areas: insurance/risk management, information technology, and telecommunications.

The balance of such costs at December 31, 2008 not yet reimbursed to the County was approximately $380,951, mainly for the salary and benefits of ACERA staff members.

ACERA leases office space from Oakland 14th St. Office, a title holding company controlled by ACERA. Note 10—Leases describes this arrangement.

Related Party Transactions

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Reimbursed Cost of ACERA Staff Members	$ 8,716	$ 7,700
Reimbursed Costs of County Services	238	265
State-Mandated Benefit Replacement Program (415(m))	55	42
Personnel Services	77	75
Partial Salary/Benefits Reimbursement for Elected Board Members	187	133
Total	**$ 9,273**	**$ 8,215**

Required Supplementary Schedules

Schedule of Funding Progress – Pension Plan

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) [2] (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
12/31/02	$ 3,294,053	$ 3,559,613	$ 265,560	92.5	$ 640,777	41.4
12/31/03	3,381,757	3,890,043	508,286	86.9	714,344	71.2
12/31/04	3,557,918	4,336,123	778,205 [3]	82.1 [3]	694,626	112.0
12/31/05	3,781,843	4,548,213	766,370	83.2	709,783	108.0
12/31/06	4,127,841 [4]	4,825,157	697,316	85.5	762,139	91.5
12/31/07	4,560,213 [5]	5,112,403	552,190	89.2	793,558	69.6

[1] Excludes assets for SRBR and other non-valuation reserves.

[2] Excludes liabilities for SRBR and other non-valuation reserves.

[3] Includes Safety 3% at 50 formula improvement. If the Safety formula improvement is not included, the total UAAL is $682,635,000 and the funded ratio is 83.9%.

[4] Includes $6,303,514 in reimbursement of implicit retiree health benefit subsidy paid to the County for 2005 and 2006.

[5] Includes $3,091,493 in reimbursement of implicit retiree health benefit subsidy paid to the County for 2007.

Schedule of Employer Contributions – Pension Plan[1, 2]

(Dollars in Millions)

Year Ended December 31	Annual Required Contribution	Percentage (%) Contributed
2003	$ 49	100
2004	85	100
2005	101	100
2006	127	100
2007	130	100
2008	130	100

[1] This schedule is prepared by ACERA's management, based on the financial data, including the amount designated for postemployment medical benefits, which was transferred back from the Postemployment Medical Benefits Reserve Plan to the Pension Plan.

[2] With the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, participating employers have allocated total contributions paid to ACERA between the Pension and OPEB and Non-OPEB Plans based on the assumption that the annual required contribution to the Pension Plan would have been lower if "excess earnings" had not been transferred to the SRBR during the year ended December 31, 2007 to fund the OPEB and Non-OPEB Benefits Plans.

Schedule of Funding Progress – Postemployment Medical Benefits

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
				With Limit	Without Limit		
12/31/05	$ 449,100	$ 567,900	$ 118,800	100 [2]	79.1	$ 709,783	16.7
12/31/06	496,200	591,400	95,200	100 [2]	83.9	762,139	12.5
12/31/07	614,444	639,821	25,377	100 [2]	96.0	793,558	3.2

Schedule of Employer Contributions – Postemployment Medical Benefits[3]

(Dollars in Thousands)

Year Ended December 31	Annual Required Contribution		Percentage (%) Contributed
	With Limit	Without Limit	
2005	$ 0 [2]	$ 26,333	0
2006	0 [2]	25,989	0
2007	0 [2]	23,807	0

[1] Amount of SRBR assets allocated to the Postemployment Medical Benefits Reserve.

[2] The funding of these benefits is limited to reserves in the SRBR account allocated to the Postemployment Medical Benefits Reserve under Article 5.5 of the County Employees Retirement Law of 1937. As authorized by Article 5.5 of the County Employees Retirement Law of 1937, assets added to the SRBR account are limited to investment earnings established by the Board of Retirement in accordance with that Article. If the SRBR reserves are depleted, no additional money will be available to reimburse the employer for their contributions to the 401(h) account. Furthermore, even if the SRBR reserves are available, employers may decide on a year by year basis whether to contribute to the 401(h) account, how much to contribute, or not to contribute at all to the 401(h) account. If employers do not contribute to the 401(h) account (or do not contribute the full amount needed to pay for retiree health benefits), the benefits provided by this program will cease. Based on the amount of SRBR assets allocated by the Board of Retirement as of December 31, 2007 for this purpose, there are sufficient Postemployment Medical Benefits Reserve assets to provide retiree health benefits through the year 2030. These benefits are contingent upon continued employer contribution to the 401(h) account.

[3] Participating employers consider a portion of the transfer of "excess earnings" from the Pension Plan to the SRBR, which funds the OPEB and Non-OPEB Benefits Plans, to be an employer contribution under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

Schedule of Funding Progress – Non-OPEB Benefits

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b) With Limit	Funded Ratio (%) (a/b) Without Limit	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
12/31/05	$ 62,800	$ 170,800	$ 108,000	100 [2]	36.8	$ 709,783	15.2
12/31/06	66,300	186,300	120,000	100 [2]	35.6	762,139	15.7
12/31/07	78,426	203,868	125,442	100 [2]	38.5	793,558	15.8

Schedule of Employer Contributions – Non-OPEB Benefits[3]

(Dollars in Thousands)

Year Ended December 31	Annual Required Contribution With Limit	Annual Required Contribution Without Limit	Percentage (%) Contributed
2005	$ 0 [2]	$ 16,041	0
2006	0 [2]	17,224	0
2007	0 [2]	18,331	0

[1] Amount of SRBR assets allocated to the Non-OPEB Benefits Reserve to provide for Supplemental COLA and death benefits, which are Non-OPEB benefits.

[2] The funding for these benefits is limited to reserves in the SRBR account allocated to the Non-OPEB Reserve for this purpose by the Board of Retirement under Article 5.5 of the County Employees Retirement Law of 1937. As authorized by Article 5.5 the assets added to the SRBR account are limited to investment earnings established by the Board of Retirement in accordance with that Article. Furthermore, even if SRBR reserves are available, the Board of Retirement may decide on a year by year basis whether to continue to allocate any SRBR assets for Non-OPEB benefits, and how much to allocate (if any). If the SRBR reserves are depleted or the Board of Retirement decides not to allocate reserves to provide for these benefits, no additional money will be available to pay for these benefits and the benefits provided by this program will cease. Based on the amount of SRBR assets allocated by the Board of Retirement as of December 31, 2007 for this purpose, there are sufficient Non-OPEB Reserve assets to provide Non-OPEB benefits through the year 2026.

[3] Participating employers consider a portion of the transfer of “excess earnings” from the Pension Plan to the SRBR, which funds the OPEB and Non-OPEB Benefits Plans, to be an employer contribution under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

Notes to Required Supplementary Schedules

PENSION PLAN

The information presented in the supplemental schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information, as of the most recent actuarial valuation date, December 31, 2007, is as follows:

Actuarial Cost Method: Entry Age Normal Cost Method

Asset Valuation Method: The Actuarial Value of Assets is determined by phasing in any difference between actual and expected market return over 10 six-month interest crediting periods. For valuation purposes the Actuarial Value of Assets is reduced by the value of the non-valuation reserves such as the Supplemental Retirees Benefit Reserve.

Amortization of Unfunded Actuarial Accrued Liability: The annual contribution rate, which if paid annually over the Unfunded Actuarial Accrued Liability (UAAL) amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the actuarial assumed interest rate. The employer contribution is designed to remain as a level percentage of future active member payroll (including payroll of new members as they enter ACERA) assuming a constant number of active members. To remain as a level percentage of payroll, amortization payments are scheduled to increase by the assumed annual inflation rate plus the assumed across-the-board salary increase percent (the total of these two is 4.00% per annum).

The entire UAAL of ACERA is being funded over a declining 25-year period following December 31, 2007.

Amortization Approach: Closed

Amortization of Actuarial Gains and Losses: Any new actuarial gains and losses will be combined with all prior unamortized gains and losses and amortized over the amortization period of 25 years following December 31, 2007.

Cost-of-Living Adjustments: The maximum statutory annual increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members. The increases are based on the change in the Bay Area Consumer Price Index for the calendar year prior to the April 1, effective date.

Actuarial Assumed Interest Rate: 8.00% per annum

Assumed Salary Increases:
General: 4.73%–7.68% per annum and
Safety: 4.26%–7.61% per annum.

Assumed Inflation Rate: 3.75% per annum

Assumed Across-the-Board Salary Increase: 0.25% per annum

POSTEMPLOYMENT MEDICAL BENEFITS

The actuarial assumptions used for the Postemployment Medical Benefits valuation were consistent with those applied to the Pension Plan with the exception of remaining amortization period which is

28 years. All other assumptions noted for the Pension Plan were applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of Unfunded Actuarial Accrued Liability, Amortization Approach, Actuarial Assumed Interest Rate, Assumed Salary Increases, Assumed Inflation Rate, and Assumed Across the Board Salary Increase. The Health Care Cost Trend Rate assumptions described below were specific to the Postemployment Medical Benefits.

Health Care Cost Trend Rates

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The trend rate for a particular plan year must be applied to that year's cost to yield the next year's projected cost.

Medical: 9%, graded down 0.5% per annum until ultimate rate of 5%

Dental and Vision: 5%

Medicare Part B: 5%

NON-OPEB BENEFITS

The actuarial assumptions used for the Non-OPEB Benefits valuation were consistent with those applied to the Pension Plan with the exception of remaining amortization period which is 28 years. All other assumptions noted for the Pension Plan were applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of Unfunded Actuarial Accrued Liability, Amortization Approach, Actuarial Assumed Interest Rate, Assumed Salary Increases, Assumed Inflation Rate, and Assumed Across the Board Salary Increase.

Supplemental COLA benefits are assumed to increase by the difference between inflation and the cost-of-living benefit guaranteed in the pension plan (3% for Tier 1 and 2% for Tier 2), subject to other limitations.

Supporting Schedules

Investment Expenses

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Investment Manager Fees[1]	$ 16,304	$ 18,126
Investment Custodians	379	330
Investment Consultants	785	851
Net Brokerage Commissions	3,697	3,005
Investment Allocated Costs	2,266	2,043
Total Investment Expenses	**$23,431**	**$24,355**

[1] The Investment Section of this report provides a breakdown of Investment Manager Fees by type of investment manager.

Payments to Consultants

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Actuarial & Audit Services	$ 408	$ 353
Disability Medical	86	72
Human Resources Consulting	115	156
Legal Services	253	170
Other Specialized Services	824	253
Total Payments to Consultants	**$ 1,686**	**$ 1,004**

Administration Expense

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Personnel Services		
Staff Wages	$ 4,198	$ 3,950
Fringe Benefits	1,864	1,705
Temporary Services	912	637
Total Personnel Services	**6,974**	**6,292**
Professional Services		
Computer Services	138	2
Audit	79	78
Specialized Services	569	345
Total Professional Services	**786**	**425**
Communications		
Printing	332	228
Communication	62	52
Postage	101	140
Total Communications	**495**	**420**
Rental / Utilities		
Office Space	95	38
Equipment Leasing	25	27
Total Rentals / Utilities	**120**	**65**
Other		
Training	151	137
Supplies	83	72
Maintenance-Equipment	84	57
Insurance	204	191
Software Maintenance and Support	352	424
Board Operating Expense	232	221
Depreciation and Amortization	595	849
Miscellaneous	394	444
Total Other	**2,095**	**2,395**
Subtotal: Administration Expense (subject to Statutory Limit)	**10,470**	**9,597**
Legal Expenses	2,237	2,160
Actuarial Expenses	303	249
Business Continuity	305	205
Subtotal:	**2,845**	**2,614**
Total Administration Expense	**$ 13,315**	**$ 12,211**

IndyMac Bank is seized by FDIC in July, 2008
A total of 25 banks failed in 2008 and an additional 21 failed in the first quarter of 2009.

Financial industry meltdown
People walk out of the closed Lehman Brothers carrying boxes of their belongings as security guards look on in New York on September 15, 2008. AIG and Citicorp receive federal bailouts.

Section 3
INVESTMENT

First Presidential Debate 9/27/08
Senator John McCain and Senator Barack Obama shake hands at the start of the first U.S. Presidential Debate in Oxford, Mississippi.

Record voter turnout
62% of eligible voters turned out in the November 4, 2008 presidential election, a 40-year record.

ACERA ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

Chief Investment Officer's Report

Performance Highlights of the 2008 ACERA Investment Portfolio

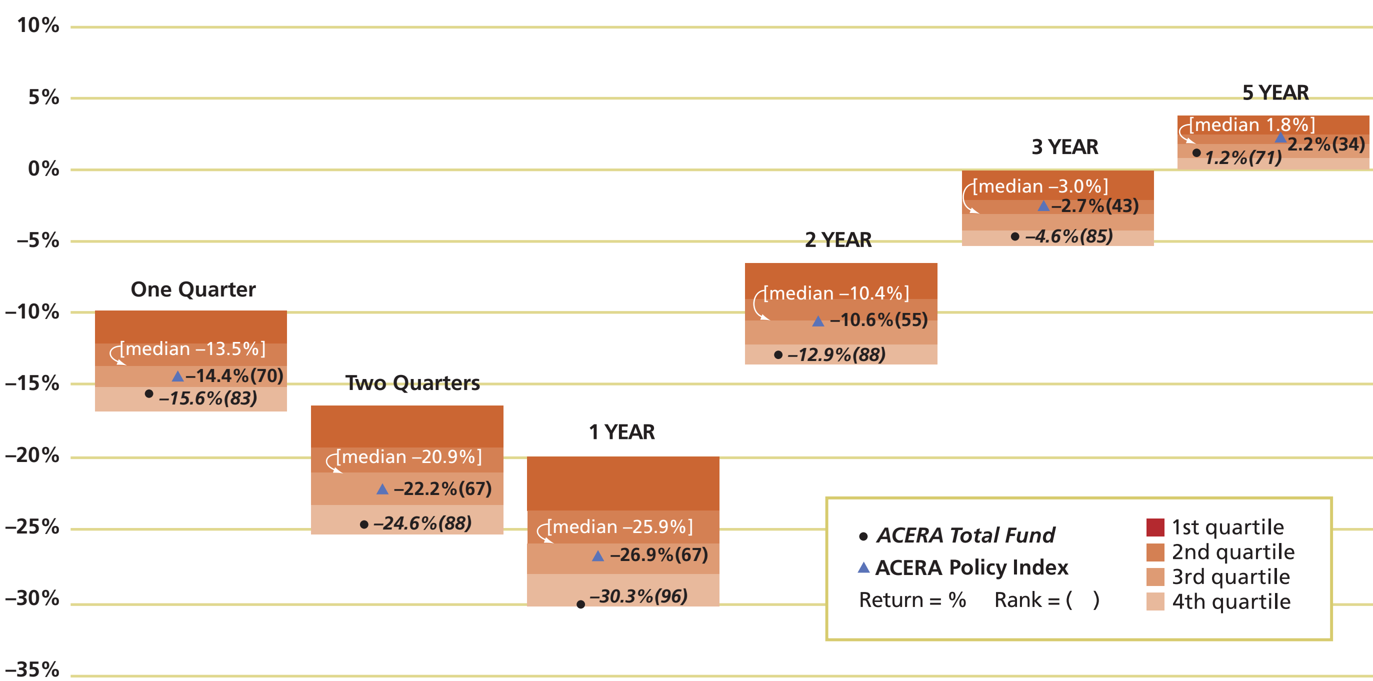
Total Fund Return	–30.3%
Domestic Equity Return	–38.8%
International Equity Return	–41.8%
Fixed Income Return	–10.2%
Real Estate Return	–8.3%
Year-end Fund Value	$3.8 billion

The primary goals of the ACERA Board of Retirement (the Board) in managing the Fund are the following:

1) To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits
2) To comply with all applicable fiduciary standards
3) To add marginal value that will help reduce the costs of the plan and/or increase the benefits for ACERA's beneficiaries

ACERA Total Fund Returns vs. Total Public Funds (Above $100 Million) Returns

Periods Ended December 31, 2008



These are the three primary goals as stated in the ACERA General Investment Guidelines, Policies and Procedures (the Policy). ACERA has strong controls in place to manage risk and to ensure compliance with all relevant fiduciary standards.

Last year was a challenging year for U.S. public pension funds and ACERA was no exception. Due to the unprecedented financial market volatility in 2008, ACERA's total Fund (the Fund) returned negative 30.3% for the year and ranked in the 96th percentile among public pension funds with assets greater than $100 million. The Fund underperformed its Policy Index (a weighted average of the Fund's asset classes and their respective benchmarks) by 3.4%. ACERA's three-year return of negative 4.6% underperformed the benchmark by 1.9% and ranked in the 85th percentile; the five-year return of 1.2% underperformed the benchmark by 1% and ranked in 71st percentile. Over the longer term, however, the Fund fared better. The ten-year return of 3.5% outperformed the benchmark by 0.08% and ranked in the upper 33rd percentile. The fifteen-year return of 7.12% also outperformed the benchmark by 0.07% and ranked in the upper 16th percentile.

ACERA reviewed its portfolio in 2008 and adopted a new target asset allocation including the establishment of a new asset class in Private Equity and Alternatives investments. ACERA revised its target allocation to include 37.0% U.S. Equities down from 41.0%, 23.0% International Equities from 22.0%, 24.0% Fixed Income from 28.0%, 6.0% Real Estate from 9.0%, and 10.0% Private Equity and Alternatives investments. The fundamental valuations of equity and fixed income reached their lowest levels in decades. Many academic studies suggest that about 80–90% of a portfolio's investment results are derived from asset allocation and that a well-diversified investment portfolio is more likely to produce superior performance relative to its indices over the long term. In times of unprecedented market volatility, portfolio diversification takes on even greater significance in controlling risk. ACERA's Board is fully committed to the implementation of the well-thought-out asset allocation strategy, and ACERA's investment staff rigorously monitors asset performance and risk.

ANALYSIS OF FACTORS AFFECTING ACERA'S PORTFOLIO IN 2008

The Board's Actions

In 2008, our Board members continued to guide ACERA's portfolio with sound and stable strategies designed to meet the portfolio's investment goals over the long term. One of the major actions was the adoption of an allocation to Private Equity & Alternatives investments, a new asset class for the ACERA portfolio. In the domestic equities and international equities asset classes, the Board reviewed and approved a revised manager structure. Additionally, the Board approved changes in the real estate asset class to reflect the newly adopted target allocation.

In March 2008, the Board added a new allocation of 10% to Private Equity and Alternatives investments. To implement the new asset class, the Board also adopted a new Private Equity and Alternatives Return Leading Strategy (PEARLS) policy. The PEARLS policy allows a 5% allocation in Private Equity investments such as buyouts and venture capital investments, and another 5% allocation in Alternatives investments such as absolute return and commodity investments. ACERA's Board approved $75 million in private equity investments in 2008.

In July 2008, the Board adopted ACERA's new U.S. Equity manager structure and replaced the Large Cap Enhanced Core Manager (Salus Capital) with an Emerging Manager of Manager (Bivium Capital Partners). The Board hired Bivium Capital Partners to aggregate and blend portfolios of various emerging "long-only" equity investment managers in a Russell 3000 mandate. This implements the Emerging Investment Managers Policy that was adopted by the Board in March 2007. As part of the U.S. Equity manager structure review, the Board also authorized a search for a U.S. Large Cap Growth equity manager. TCW is the existing manager for this mandate but has been placed on Watch list and Probation status due to its underperformance and personnel changes.

With respect to the Real Estate portfolio, the Board adopted ACERA's amended Real Estate Strategic Plan and 2008 Investment Plan to reflect the downward revision in asset target allocation from 9% to 6%. As part of the strategic review, the Board approved the liquidation of the JPMorgan Alternative Property Fund in October 2008.

In addition to making these important decisions, the Board continued to carry out its fiduciary duties in evaluating the effectiveness of all investment policies/programs and investment managers included in the investment portfolio. The Board also voted to continue ACERA's Directed Brokerage program, now in its second year of operation, which recaptures broker commissions that would otherwise be forfeited.

ACERA's Portfolio

ACERA's portfolio is conservative and well-diversified utilizing five major asset classes: domestic equities, international equities, fixed income, real estate, and Private Equity & Alternatives investments. This diversification positions ACERA to weather the ups and downs of the capital markets over the long term. The ACERA portfolio was not, however, immune to the effects of the global financial crisis which started in 2007 and continued through 2008. ACERA's portfolio suffered significant paper losses during 2008. All of its major asset classes suffered double digit declines with the exception of real estate, where the losses were more moderate (please refer to performance highlights on page 58).

The U.S. equity market was ravaged by the battered financial sector, which lost half of its value in 2008. Other sectors fared slightly better but all have experienced significant declines (e.g. energy sector dropped 36.5%, information technology and materials sectors both dropped over 40%). ACERA's U.S. equity investments also declined in concert with the overall market. U.S. equity investments accounted for 38.9% of the Fund at the end of 2008 and its value declined 38.8% during the year, versus the benchmark Russell 3000 Index's decline of 37.3%. Large cap growth was the best performing component of the Fund's overall domestic equity portfolio. Large cap growth's value declined 36.7% in 2008, yet outperformed its benchmark (the Russell 1000 Growth Index) by 1.7%, and was ranked in the top 34% of all managers with a similar investing style. The relative strength in the large cap growth portfolio was offset by the weakness in the Fund's large cap value and small and micro cap growth portfolios. The large cap value portfolio was besieged by the turmoil in the financial sector which carried the most weight in the portfolio, and suffered a 44.3% loss. The large cap value portfolio represented 7.9% of the Fund at year end. While the small and micro cap growth portfolios had no exposure to the financial sectors, they did incur significant losses in the energy sector. The small and micro cap portfolios experienced a 49.1% and a 55.3% loss, respectively. These two portfolios accounted for 3.7% of the Fund at year end. The Fund's S&P 500 Index portfolio recorded a loss of 37.0%. It represented a 15.8% allocation, and is the largest single component of the Fund.

After a very strong year in 2007, the international equity markets reversed the trend and underperformed the U.S. equity markets in 2008. ACERA's international equity portfolio experienced a loss of 41.8% but outperformed its benchmark (the MSCI AC World ex-U.S. Index) by 3.4% in 2008. Performance in international equities was bolstered by the Fund's value manager, who outperformed the above-mentioned benchmark by 6.2% during the year.

ACERA's fixed income portfolio declined 10.2% in value in 2008, and underperformed its blended benchmark (75% Barclays Aggregate Bond Index, 15% Citigroup World Bond Index ex-U.S. and 10% Barclays Corporate High Yield Index) by 12.7%. The fixed income component's underperformance was attributable to a large underweighting to U.S. Treasuries. An overweighting to corporate and high yield bonds, financial sector weakness and exposure to non-U.S. dollar holdings (specifically commodity-related currencies of Mexico, Indonesia and Brazil) also hurt returns.

ACERA's real estate portfolio declined 8.3% in value during 2008. This marked the end of four consecutive years of double-digit gains for the real estate portfolio. The portfolio's Stable component incurred a loss of 6.7%, slightly trailing its NPI benchmark by 0.2%. Its Enhanced component lost 13.2%, underperforming its benchmark (NPI plus

1.5%) by 8.2%. This underperformance was attributable to the downturn in the real estate market and the "J-curve" effect associated with recently funded investments (initial lower/negative investment return caused by start-up costs). The Stable and the Enhanced component accounted for 76.5% and 23.5% of the real estate portfolio, respectively.

The extraordinary distress in the economy and the capital markets has caused a significant contraction of the ACERA portfolio. Nevertheless, the Board remains committed to a long-term investment strategy that emphasizes prudent diversification, active rebalancing to maintain appropriate asset allocation, and rigorous supervision of our professional asset managers. While the investment performance discussed above was disappointing, ACERA's portfolio is structured to achieve an adequate return without assuming undue risk for the long term. By staying the course, we are certain the portfolio will reap the full benefit of an eventual economic and capital market recovery.

General Economy and Investment Markets

The scale and reach of the financial and economic turmoil that besieged the U.S. and the rest of the world in 2008 have not been seen in several generations. The collapse of the housing market in the U.S. caused a chain of disastrous events that rippled through the economic system worldwide. The financial sector nearly capsized in the U.S. and several other advanced economies, with many banking and investment giants failing or disappearing altogether. Credit flows grounded to a halt. Unemployment rates soared. Shrinking global trade and lowered commodity prices sharply slowed the growth of emerging and developing economies. As a result, the world experienced its worst economic recession in almost three decades. The year 2008 also brought the steepest stock market decline since the great depression.

Equity Markets

During 2008, the three major stock indices in the U.S.—the Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite—posted staggering losses of 33.8%, 38.6%, and 40.5% respectively. The Dow's loss was its third-biggest ever and the worst since 1931. Similarly, the S&P 500's loss was its third-biggest ever and the worst since 1937. The Nasdaq's fall was its worst ever. These recession-driven bear market conditions were broad and uniform across asset classes, although value stocks did marginally better than growth stocks. The large-cap Russell 1000 Value Index dropped 36.9%, while the Russell 1000 Growth Index dropped 38.4%. The Russell Midcap Value Index dropped 38.4%, while the Russell Midcap Growth Index dropped 44.3%. For small-cap stocks, the Russell 2000 Value Index returned negative 28.9%, while the Russell 2000 Growth Index returned negative 38.5%. On the sector level, all major industry sectors posted sizable declines for the year with the financial sector performing the worst, losing 56.9% of its value. The Materials, Information Technology, and Industrials sectors each lost more than 40% of their value in 2008 because of shrinking demand and lower profit expectations.

International equity markets fared even worse than the U.S. market, partially due to the global nature of the current economic recession and the rise in the value of the U.S. dollar. The MSCI EAFE Index, a comprehensive international equity benchmark, lost 41.0% of its value in 2008. The international equity markets also declined across the board, which was largely consistent across countries. All major Euro-based markets experienced declines measured between 43.5%–50.0%. The declines in emerging and developing markets were worse than the developed markets. Russia's market posted a yearly loss of 73.9%. India's market dropped 64.6%. Korea declined 55.3%. Brazil fell 56.2%. And China recorded a 50.8% loss.

Fixed Income Markets

The bond market in general also suffered significant losses in 2008 as liquidity concerns and the dismal economic conditions depressed the pricing of fixed income securities. Investors in mortgage-related instruments, corporate bonds, and high yield bonds experienced particularly deep losses due to investors' flight to quality. Many municipal bonds also performed poorly due to the perceived or actual vulnerability of their issuers. U.S. Treasuries (and perhaps very select, high quality corporate bonds) were virtually the only fixed income instruments that generated a positive return for the year. The Barclays Capital U.S. Aggregate Bond Index (formerly Lehman Brothers U.S. Aggregate Bond Index) recorded a gain of 5.24% for the year, while the Barclays Capital Global Aggregate Bond Index (formerly Lehman Brothers Global Aggregate Bond Index) gained 4.79%. By November 30, 2008, the Barclays Capital U.S. Treasury Index had a year-to-date total return of 10.01%.

Commercial Real Estate Markets

The commercial real estate markets suffered in concert with the rest of the economy. The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index posted a 6.5% loss for 2008. The net operating income portion of the index returned 5.1%, whereas the capital appreciation return portion declined 11.2%, highlighting the sharp decline in property value. The performance measured by sub-indexes based on property types (apartment, hotel, industrial, office, and retail) followed a very similar pattern. Hotel properties experienced the deepest decline in valuation at 14.4%, while retail properties had the smallest decline rate at 9.5%.

The 2008 economic and market performance highlights are as follows:

- Real GDP decreased 0.8% during 2008 versus a growth of 2.3% in 2007.
- The price index for gross domestic purchases increased 2.0% during 2008, compared with an increase of 3.3% during 2007.
- The Federal Reserve lowered the federal funds rate seven times in 2008. At the beginning of the year, the rate was 3.50%. In mid December, after the seventh cut, the rate was 0–0.25%.
- The annual U.S. budget deficit declined from $318 billion in 2005 to $162 billion in 2007 but increased to $455 billion in 2008.
- From December 2007 to December 2008, the number of unemployed persons grew by 3.6 million. The unemployment rate at the end of 2008 was 7.2%.
- On a positive note, the rise in real wages in 2008 set a fast pace, measured at an annual rate of 4.6%.
- The U.S. international deficit in goods and services (the trade deficit) decreased to $677.1 billion in 2008 from $700.3 billion in 2007. As a percentage of GDP, the deficit was down from 5.1% in 2007 to 4.7% in 2008.
- The crisis in the housing market, which began in 2007, continued throughout 2008. The Federal Housing Finance Agency's House Price Index showed that in 2008 home prices fell 8.2% or 9.6% when adjusted for inflation. The S&P/Case-Shiller U.S. National Home Price Index reported prices dropping 18.2% for the year. Construction spending also posted a record drop in 2008.
- Oil prices underwent a spiral decline after reaching a record peak in July 2008 at $147.24 a barrel. Towards the end of 2008, oil prices dropped to around $35 a barrel.
- The Consumer Confidence Index dropped almost continuously throughout 2008. In October and December 2008, the index fell to 38, an all-time low figure.
- In 2008, responding to the global economic crisis, governments around the world initiated coordinated efforts to jump start the recovery process through a wide range of fiscal and monetary stimuli. In the U.S., several industries such as banking and automobiles received major financial backing and investments from the government. Such measures marked a new era of strong government intervention and oversight in the market-based economy, warranting closer analysis and monitoring moving forward.

ECONOMIC OUTLOOK FOR 2009

Economic data and forecasts from both government agencies and economists point to a deep and painful recession. The consensus among economists is that the economy will contract by 5% in the first quarter, followed by another 1.7% drop in the second quarter. While the extent to which implementation of the ambitious measures proposed by the Obama administration will jump start the U.S. economy remains uncertain, a modest pickup in economic activities is widely expected in the second half of 2009. This expected gain, however, will not be significant enough to offset the drop in the first half of 2009, resulting in a contracted economy for the full year. The Federal Reserve estimates that the magnitude of the yearly contraction will be between 0.5% and 1.3%. In addition, the full recovery process, which is projected to take hold in 2010, will be "unusually gradual and prolonged" due to various underlying economic conditions, this is according to the Federal Reserve's recent economic outlook.

The slump in the U.S. housing market was one of the main drivers behind the current economic recession. Both new home/apartment construction and building permit applications fell to record lows in early 2009, indicating that the housing market will remain depressed at least for months to come. However, several economic factors and government policies are expected to exert a positive effect on the housing market, leading to a possible recovery towards the end of 2009. Among these positive developments is the reduction of inventories of unsold homes. With the curtailment of new development activities, falling home prices, the $75 billion effort from the government to halt soaring foreclosures nationwide, and the $200 billion package from the Obama administration to shore up Fannie Mae and Freddie Mac—the two key players in mortgage finance—the housing market is hopefully on its way to an eventual recovery.

The crisis in the financial sector, manifested through bankruptcies, significant losses in net worth, and the unavailability of credit to businesses and individuals, was another major contributor to the system-wide recession. The financial system is expected to remain frail in 2009. Signs of positive developments, however, are starting to emerge. A number of banks have reported positive earnings since the beginning of 2009. Although the exact nature and specifics of the government bail-out plan for the financial sector are still evolving, credit market fears are expected to subside throughout 2009. With a thawing of credit from the banking system, all other sectors of the U.S. economy can benefit.

In 2009, consumer spending and business investment are expected to be weak. Consumer spending accounts for more than 70% of the U.S. economy. Even under the most optimistic scenario, where the government's aggressive measures can successfully address many of the problems with the banking industry and the economy, consumer balance sheets still need more time to recover due to heavy personal indebtedness accumulated in the past years. Furthermore, despite falling energy prices and a modest increase in real personal disposable income, the Consumer Confidence Index reached its all-time low in early 2009, partially due to concerns about job security. This indicates an unwillingness on the part of consumers to spend and, perhaps, even the start of a permanent behavioral change toward greater saving. On a yearly basis, consumer spending is projected to shrink 1.3%. Business investment is also expected to suffer due to softening demands, credit constraints, credit risks, and business uncertainties perceived by corporate leaders. On the other hand, multiple factors show some promise of mitigating and possibly reversing this downward trend. These factors include relatively strong forecasts for technology spending as businesses continue to strive for productivity gains, soaring government spending and rebalancing of international trade, among others.

Forecasts from the government and private economists are consistent as to the unemployment rate and projected job losses. About 3 million more jobs are expected to be eliminated throughout 2009, even with the $787 billion stimulus package and the record federal budget, bringing the projected unemployment rate up from the current 7.6% level to close to 9% by the end of the year.

With the economy in recession, and absent any inflation, the Federal Reserve policy makers are expected to keep the benchmark interest rate close to zero throughout 2009. As productivity gains continue along with lower raw material and energy costs, the cost of living is projected to remain flat or decline slightly in 2009.

The heightened uncertainty associated with the underlying economy and government economic plans of unprecedented scale makes market prediction particularly challenging. Nonetheless, many analysts predict that the U.S. stock market will experience a modest recovery in 2009 from its current level. This positive outlook is based on the fact that many stocks are priced attractively at the present time and the expectation that investors' appetite for risk and return will resume as the economy emerges from recession.

The effectiveness of the economic plans of the current administration have been hotly debated. The $787 billion stimulus package, according to projections from some economists, is anticipated to boost the real GDP by close to 1% in 2009. Other ambitious plans from the federal government, such as healthcare reform, will not have a significant short-term effect. However, if successfully implemented, these plans might help rejuvenate several major industry sectors in the long run with potential positive economic results, in addition to the intended social benefits. The long-term impact of any resulting record deficits from the federal government remains to be seen.

Beyond the U.S., an economic slump is also expected globally in 2009. According to the World Economic Outlook released by the International Monetary Fund, world economic growth is projected to fall to 0.5%, the lowest rate since World War II, if measured in purchasing power parity. If measured in market exchange rates, growth will be negative. Around the globe, financial market conditions continue to be under stress, despite policy measures taken by many governments to enable capital flows. Economic output in the advanced economies is expected to contract by 2% in 2009. As coordinated financial policies and fiscal stimulus from the governments of these economies start to improve the general economic conditions, output is expected to start to recover in late 2009. Growth in emerging and developing economies is expected to slow sharply from 6.25% in 2008 to 3.25% in 2009. Inflation pressures are subsiding due to reduced economic activities and lower commodity prices. In advanced economies, consumer price increases are expected to be low or even negative. In emerging and developing economies, inflation is expected to drop from 9.5% in 2008 to 5.8% in 2009. As a direct consequence of global monetary and fiscal policies to combat this recession, the fiscal balance in advanced economies is projected to reach negative 7% of GDP in 2009. Global trade is expected to face challenges in 2009, following the downward trend set in the final months of 2008 but with a reduced magnitude. As to investments, the continuation of the financial crisis has caused asset values to fall sharply in most major economies. When and how quickly sustainable recovery takes hold, in both the economy and the financial markets, will depend on the characteristics of various economies, their underlying market conditions, the degree to which their economy depends on trade and externalities, and the extent and effectiveness of their governments' monetary policies, fiscal policies, and stimulus plans. Many economists predict that among major economies, the U.S., China, and Canada are more likely to emerge from the global recession first, whereas Europe and Japan are more likely to follow.

GENERAL INFORMATION

ACERA's assets are managed by external investment management firms. Professional investment consultants, along with ACERA's investment staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term strategies. ACERA's goal is to achieve a level of performance that will rank the Fund in the upper quartile of comparable pension funds on a risk-adjusted basis. We also seek to be as fully funded as possible so that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers.

SUMMARY OF ACERA'S GENERAL INVESTMENT GUIDELINES, POLICIES, AND PROCEDURES

The Board, having sole and exclusive authority and fiduciary responsibility for the investment and administration of the Fund, has adopted a Policy for the management of ACERA's investments. The Policy is subject to the Board's annual review to ascertain that the goals, guidelines, and expectations set forth in the document are consistent with the Board's expectations. The Board reserves the right to amend, supplement, or rescind this Policy at any time. The Policy establishes investment program goals and policies, asset allocation policies, performance objectives, investment management policies, and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian, and consultants.

ACERA's primary investment objective is to take prudent risk, as necessary, to maximize the return on the portfolio and to minimize the cost of meeting the obligations of the Fund. The strategic asset allocation policy is an integral part of the overall investment policy. The allocation policy is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. The end result is a well-diversified portfolio that helps protect the Fund from declines that a particular asset class may experience in a given period. Both traditional assets (cash, domestic equities, domestic fixed income) and non-traditional assets (real estate, international equities, global fixed income, private equity and alternatives) are included in the mix.

OTHER ACERA INVESTMENT RELATED POLICIES

Private Equity And Alternatives Return Leading Strategy (PEARLS) Policy

The ACERA Private Equity and Alternatives Return Leading Strategies Policy (PEARLS Policy) governs all ACERA investments in the Private Equity and Alternatives asset class.

The purpose of the PEARLS Policy includes the following: 1) to set forth the private equity and alternatives investment policies and guidelines which are deemed to be appropriate and prudent; 2) to establish criteria against which private markets and alternatives investment opportunities are to be measured; and 3) to serve as a review document to guide the ongoing oversight of ACERA's Private Equity and Alternatives Return Leading Strategies Portfolio (PEARLS Portfolio) on a consistent basis.

The objectives of ACERA's Private Equity and Alternatives Return Leading Strategies include the following: 1) to generate returns superior to those available in the public equity market to compensate the Fund for the long term and illiquid commitments associated with Private Equity and Alternatives investments; 2) to enhance ACERA's long-term, risk-adjusted return and provide additional diversification to ACERA's overall investment Fund; 3) to generate returns above the median of comparative universe returns; and 4) to generate total PEARLS Portfolio returns approximately 150 basis points over U.S. public market equity investments, as measured by the Russell 3000 Index, net of all fees and expenses.

The target allocation to the Private Equity and Alternatives asset class is 10% of the total Fund. The target allocation to each Private Equity Portfolio and Alternatives Portfolio is 5% of the total Fund. The strategic allocations to the PEARLS Portfolios, is measured by actual dollars invested and not by dollars committed to underlying Investment Managers or funds.

Real Estate Strategic Plan

ACERA has determined that, over the long term, inclusion of equity real estate investments should provide the following benefits (in order of relative importance):

- Reduce total portfolio risk due to a low correlation of real estate with other portfolio asset classes
- Generate a stable, predictable income stream to assist in meeting cash flow needs
- Provide growth through property appreciation
- Serve as a hedge against unanticipated inflation
- Provide an opportunity to enhance portfolio return through higher total return investments

In order to achieve the above benefits, ACERA's Real Estate Strategic Plan establishes the specific objectives, policies and procedures involved in the implementation and oversight of ACERA's real estate program. The objectives define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

The implementation of the real estate program is also subject to ACERA's General Investment Guidelines, Policies, and Procedures as established by the ACERA Board.

Emerging Investment Manager Policy

The Emerging Investment Manager Policy governs the Emerging Manager Program. The strategic objective is to add incremental value to the Fund through the hiring of the most talented Emerging Investment Managers (EMs) to manage some of ACERA's assets. The primary goals of the EM Program are as follows: 1) to identify and gain early access to the most talented investment managers in their early business stages; 2) to generate superior Fund return performance through the EM Program; 3) to identify superior EMs and/or investment opportunities in California and Alameda County that are equal to or superior to comparable available investments; and 4) to further diversify the Fund's overall investment program so as to enhance risk-adjusted returns of the Fund.

Directed Brokerage Policy

The Directed Brokerage Policy governs the Directed Brokerage (DB) program, the strategic objective is to recapture a portion of the trade commissions paid to brokers. The primary goals of the DB program are: 1) to recapture 50% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis; 2) to construct the percentage of trades subject to recapture so as to allow investment managers to have access to the research they need; 3) to seek "Best Execution" through third-party administration and outside consultant monitoring; and 4) to encourage local and emerging broker participation through the use of an open correspondent network program.

Proxy Voting Guidelines and Procedures (Proxy Guidelines)

In recognition of its duty to manage retirement plan assets in the best interest of plan participants, the Board has established ACERA's Proxy Guidelines. They are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of the plan participants. The Board incorporated International Proxy Voting Guidelines into the Proxy Guidelines in 2005.

The Proxy Guidelines consist of preferences regarding specific, recurring proxy-voting issues followed by a general statement of voting policies. ACERA will, at all times, strive to cast proxy votes in accordance with the Proxy Guidelines.

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

As of December 31, 2008, ACERA's Fund was over-weighted in total equities, with 63.2% in total equities versus the target of 60.0%. Domestic equities were slightly over-weighted at 38.9% versus the target of 37.0%. International equities were also over-weighted at 24.3% versus the target of 23.0%. Fixed income was 27.3%, which was above the target of 24.0%. Real estate was over its 6.0% target at 9.3%.

During 2008, ACERA's U.S. equity composite returned negative 38.8%, trailing its benchmark Russell 3000 by 1.5% and the median equity manager by 1.7%. ACERA's international equity composite returned negative 41.8%, exceeding its benchmark MSCI-ACWI ex-U.S by 3.4% and the median international equity manager by 0.4%. ACERA's all-fixed income composite returned negative 10.2%, underperforming its benchmark, 75% Barclays Aggregate/15% Citigroup WGBI ex-U.S./10% Barclays High Yield, by 12.7%. ACERA's real estate composite returned negative 8.3%, while its benchmark, NCREIF Property Index, returned negative 6.5%.

The investment information presented herein is in conformance with the presentation standards of the CFA Institute.

Respectfully Submitted,

Betty Tse, CPA, MBA
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May 15, 2009

Investment Consultant's Report

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ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION INVESTMENT CONSULTANT'S REPORT

Summary

The year 2008 will be recorded in financial and social history for its disastrous market dislocations and widespread wealth destruction. What began with some price weakness in certain overheated regional housing markets and delinquencies in lower credit quality mortgages in 2007, progressed during the year into a systemic crisis that threatened at times to bring on the collapse of the global financial system.

Extreme market volatility and the downward re-pricing of risk assets across the asset class spectrum predominated in this environment, especially after a September that saw the bankruptcy of Lehman Brothers, the forced conservatorship of Fannie Mae and Freddie Mac, and the government "rescue" of American International Group. Market behavior not witnessed since the 1930's was common in the second half of 2008, and particularly in the fourth quarter. As one example, in one four-day period in October, the U.S. equity market declined more than 20%, a magnitude of decline usually associated with multi-month bear markets.

In response to these events of unprecedented magnitude, government authorities and regulators attempted remedies also of unprecedented scope. The Federal Reserve cut bank borrowing rates to near zero, the Treasury introduced an alphabet soup of financial system capital support programs, and the Congress passed several private sector support measures, including one targeted directly at the auto industry. At this writing in the spring of 2009, the crisis remains ongoing. Although some improvements in credit markets have been observed, most still are not functioning normally and confidence in both financial counterparty relationships and the overall economic future of the country remain near low ebb.

Against this backdrop, market returns were negative for most risk assets. For the year 2008, the broad U.S. large cap equity market declined 37.6%, while small cap U.S. stocks lost 33.8%. International Equity fared even worse during the year, as a strong dollar contributed to a return of –45.2% for the year, with Developed Markets returning –43.4% and Emerging Markets –53.3%. Investment Grade U.S. Bonds provided the only positive return by a major asset class, as the Barclays Aggregate returned 5.2% for the year, with most of the positive return attributed to Treasury and high quality mortgage bonds.

For the year, ACERA returned –30.3%, which was behind its Policy Benchmark return of –26.9%, and far below its actuarial return expectation. After outperforming its median large public plan peer for the last seven consecutive years, the total plan trailed the median peer (–25.9%) in 2008.

Overall, ACERA's individual managers had a difficult year, and in aggregate, they detracted from the year's result. Significant underperformances by the Fund's Large Cap Value and the Small Cap Growth manager led the U.S. equity composite to lag its benchmark, despite the relatively positive year achieved by the plan's Large Cap Growth manager. International Equity was a bright spot for active management in the plan, with the plan's three managers together outperforming the benchmark by 3.4%. The Fixed Income portfolio was the main cause of the plan's shortfall to its policy, as the three bond managers each underperformed their respective indexes by wide margins during the credit market dislocation of 2008.

Investment Results*

		Annualized	
	2008	**3 Years**	**5 Years**
DOMESTIC EQUITY			
Total Domestic Equity	–38.8%	–10.4%	–3.4%
Median	–37.1	–8.4	–1.2
Benchmark: Russell 3000	–37.3	–8.6	–1.9
INTERNATIONAL EQUITY			
Total International Equity	–41.8	–4.9	3.9
Median	–42.2	–5.7	3.7
Benchmark: MSCI ACWI ex US	–45.2	–6.6	3.0
FIXED INCOME			
Total Fixed Income	–10.2	0.6	2.6
Median	1.0	4.2	3.9
Benchmark: Hybrid Index	2.5	5.0	4.4
REAL ESTATE			
Total Real Estate	-8.3	6.5	11.0
Benchmark: NCREIF	-6.5	8.0	11.6
TOTAL FUND			
ACERA Total Fund	–30.3	–4.6	1.2
Median	–25.9	–3.0	1.8
Benchmark: Policy Index	–26.9	–2.7	2.2

* NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. Results of all publicly traded investments are presented in a format consistent with the CFAI Global Investment Performance Standards®.

Investment Guidelines, Policies and Practices

In 2008 ACERA undertook an important new plan initiative called the Private Equity and Returns Leading Strategies (PEARLS) program. The program was conceived early in the year, and after extensive structural and design work, began funding by year end. The program is initially targeted at an allocation of 10% of total plan assets that will be funded opportunistically over the next three to five years. The PEARLS portfolio will be anchored in a diverse array of Private Equity investments, with Commodity, Absolute Return and other return-enhancing and uncorrelated investments included in the mix as well.

Investment Objectives

Although 2008 was a tough year for ACERA and it fell short the goal of adding marginal value over its Policy Index, the Association was successful in ensuring the availability of sufficient funds to pay vested benefits and maintain supplemental benefits, and in meeting its goal of complying with applicable fiduciary standards. For the first time in many years, the Fund did not outperform its peers or beat its Policy Benchmark Index.

Asset Allocation

	Percentage Target	12/31/08 Actual
U.S. Equity	37.0%	38.9%
Non-U.S. Equity	23.0%	24.3%
Fixed Income	24.0%	27.3%
Real Estate	6.0%	9.3%
Private Equity and Alternatives	10.0%	0.1%
Cash	0.0%	0.1%

It is important to note that ACERA weathered 2008 largely unencumbered by the liquidity constraints that have effected many financial institutions and some of its large plan peer investors. As a result, ACERA came through a difficult year well positioned to return to its customary form of excellent performance going forward. The Plan also implemented its important PEARLS initiative that is designed to enhance its overall portfolio performance by allowing for attractive private equity and non-traditional investments in the portfolio. SIS firmly believes that the portfolio will return to its tradition of strong risk-controlled performance as the markets begin to normalize in 2009.

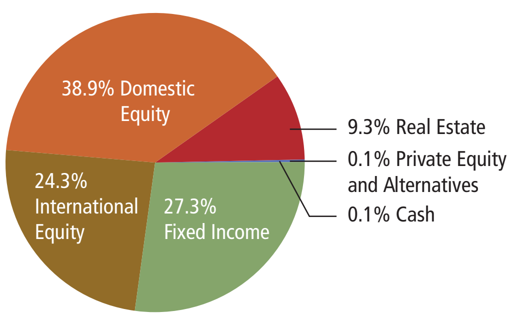
Patrick Thomas, CFA
Vice President
March 21, 2009

Asset Allocation

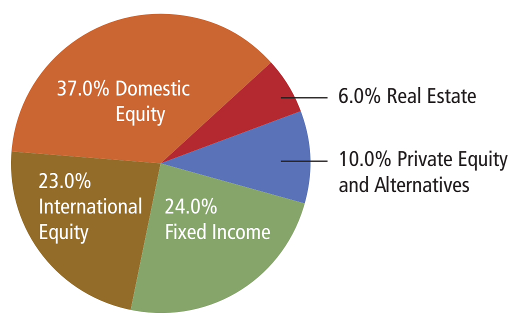
As of December 31, 2008

Investment Manager Type	Actual Asset Allocation	Target Asset Allocation	Actual Allocation Over/–Under Target Allocation
Domestic Equity	38.9%	37.0%	1.9%
International Equity	24.3%	23.0%	1.3%
Fixed Income	27.3%	24.0%	3.3%
Real Estate	9.3%	6.0%	3.3%
Private Equity and Alternatives	0.1%	10.0%	–9.9%
Cash	0.1%	0.0%	0.1%
Total	**100.0%**	**100.0%**	**0.0%**

Actual Asset Allocation



Target Asset Allocation



Investment Professionals

For the Year Ended December 31, 2008

INVESTMENT MANAGERS

Domestic Equity

Mellon Capital Management

Bivium Capital Partners, LLC

Brandywine Global Investment Management

Next Century Growth Investors (Small Cap. Growth and Micro Cap. Growth)

Pzena Investment Management

Salus Capital Management, Inc. (Terminated in July 2008)

Trust Company of the West

International Equity

AQR Capital Management, LLC

Capital Guardian Trust Company

Mondrian Investment Partners Ltd.

Private Equity

Great Hill Partners

Partners Group

Fixed Income

Baird Advisors

Brandywine Global Investment Management

Loomis, Sayles & Company

Real Estate

AEW Capital Management

BlackRock, Inc.

CIM Urban REIT

Heitman Capital Management

JPMorgan Asset Management (APF and SPF) (APF was Terminated in October 2008)

Prudential Real Estate Investors (PRISA and PRISA II)

RREEF America (Core SA and RAR II)

INVESTMENT CONSULTANTS

Doug McCalla—Optimized Portfolio Rebalancing

Risk Metrics Group—Proxy Voting

Plexus Plan Sponsor Group—Trading Cost & Directed Brokerage

Strategic Investment Solutions—General Investment and Private Equity & Alternatives

The Townsend Group—Real Estate Investment

Capital Institutional Services—Third-Party Directed Brokerage Administrator

MASTER INVESTMENT CUSTODIAN AND SECURITIES LENDING AGENT

State Street Bank and Trust Company

Investment Summary

As of December 31, 2008 (Dollars in Thousands)

Investment Type	Fair Value	Percentage of Total Fair Value
Short-Term Investments	$ 147,897	3.9%
Domestic Securities	860,197	22.6
International Securities	830,215	21.9
Equity Commingled Funds	632,933	16.7
Fixed Income Securities	953,348	25.1
Real Estate—Separate Properties	114,887	3.0
Real Estate—Commingled Funds	238,069	6.3
Currency Swaps	6,718	0.2
Future Contracts	8,030	0.2
Equity Index Swaps	134	0.0
Private Equity and Alternatives	2,660	0.1
Total Investments at Fair Value	**$ 3,795,088**	**100.0%**

Largest Stock Holdings[1]

As of December 31, 2008 (Dollars in Thousands)

Rank	Shares	Issuer	Fair Value	Percentage of Holdings
1	252,400	Genzyme Corp	$ 16,752	0.99%
2	325,200	Gilead Sciences Inc	16,631	0.99
3	445,925	Allstate Corp	14,608	0.86
4	175,600	Genentech Inc	14,559	0.86
5	231,400	Procter and Gamble Co	14,305	0.85
6	243,110	C H Robinson Worldwide Inc	13,378	0.79
7	42,500	Google Inc	13,075	0.77
8	364,625	AmerisourceBergen Corp	13,003	0.77
9	275,175	Northrop Grumman Corp	12,394	0.73
10	345,300	Qualcomm Inc	12,372	0.73
Total Of Largest Stock Holdings			**141,077**	**8.34**
Total Stock Holdings			**$ 1,690,412**	**100.00%**

Largest Bond Holdings[1]

As of December 31, 2008 (Dollars in Thousands)

Rank	Par Value	Issuer	Securities	Description	Fair Value	Percentage of Holdings
1	50,825,000	United States Treasury Bonds	6.250%	15-Aug-23	$ 69,376	7.28%
2	19,600,000	Federal National Mortgage Association	6.000%	15-May-11	21,605	2.27
3	14,830,000	New South Wales Treasury	5.500%	01-Mar-17	10,746	1.13
4	123,800,000	Mexico (United Mexican States)	9.000%	20-Dec-12	9,360	0.98
5	27,620,000	Poland (Republic Of)	5.250%	25-Oct-17	9,228	0.97
6	9,000,000	GE Commercial Mortgage Corp	5.189%	10-Jul-39	7,466	0.78
7	5,900,000	AT&T Wireless Services Inc	8.750%	01-Mar-31	7,075	0.74
8	6,760,000	Federal Home Loan Mortgage	3.250%	25-Feb-11	7,007	0.74
9	8,675,000	GMAC Commercial Mortgage Sec Inc	4.079%	10-May-36	6,971	0.73
10	6,050,000	Federal Home Loan Mortgage Corp	5.500%	15-May-21	6,228	0.65
Total Of Largest Bond Holdings					**155,062**	**16.27**
Total Bond Holdings					**$ 953,347**	**100.00%**

[1] The Holdings Schedules pertain to holdings of individual securities; they do not reflect ACERA's investments in commingled funds. A complete list of portfolio holdings is available upon request.

Investment Assets Under Management (Fair Value[1])

For the Years Ended December 31, 2008 and 2007
(Dollars in Thousands)

Investment Manager Type	2008	2007
Domestic Equity	$ 1,476,625	$ 2,151,942
Fixed Income	1,035,928	1,501,127
International Equity	923,470	1,526,305
Real Estate	353,928	376,405
Alternative Investments	2,600	-
Cash	2,525	580
Total Investment Assets Under Management	**$3,795,136**	**$5,556,359**

[1] This schedule includes Investment receivable and payable balances as of December 31, 2008.

Investment Manager Fees

For the Years Ended December 31, 2008 and 2007
(Dollars In Thousands)

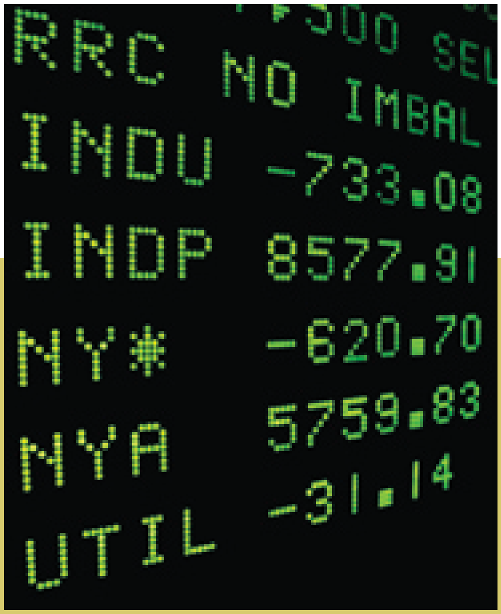
Investment Manager Type	2008	2007
Domestic Equity	$ 5,550	$ 7,128
International Equity	4,816	4,724
Fixed Income	2,544	2,744
Real Estate	2,891	3,529
Private Equity	503	-
Total Investment Manager Fees	**$16,304**	**$18,125**

Brokerage Commissions

For the Year Ended December 31, 2008

Brokerage Firm	Rank	Commissions (in Thousands)	Shares/Par Value Traded (in Thousands)	Commission Per Share
Capital Institutional Services	1	$421	$27,141	$0.016
Merrill Lynch & Co Inc	2	244	16,544	0.015
Morgan Stanley Securities Limited	3	235	41,932	0.006
Credit Suisse First Boston	4	232	16,621	0.014
UBS Financial Services Inc	5	204	12,328	0.017
Instinet	6	177	7,131	0.025
Goldman Sachs & Co	7	140	8,457	0.017
Deutsche Bank Securities Inc	8	139	23,837	0.006
Liquidnet Inc	9	126	4,561	0.028
J P Morgan Securities Inc	10	121	14,737	0.008
BNY Brokerage Inc	11	116	4,180	0.028
Cantor Fitzgerald & Co.	12	116	4,549	0.025
Citigroup Global Markets Inc.	13	100	10,823	0.009
Warburg Dillon Read Securities Ltd	14	94	2,952	0.032
Jones Trading Institutional Services LLC	15	77	3,024	0.025
Jefferies+ Company Inc	16	69	2,119	0.033
Lehman Brothers Inc	17	66	8,720	0.008
B-Trade Services LLC	18	49	2,435	0.020
Pershing LLC	19	43	1,725	0.025
Credit Lyonnais Securities	20	36	4,753	0.008
Top 20 Firms by Commission Dollars		**2,805**	**218,569**	**0.013**
All Other Brokerage Firms		1136	63,150	0.018
Total Brokerage Commissions		**$3,941**	**$281,719**	**0.014**
Brokerage Commission Recapture		(244)	-	-
Net Brokerage Commission		**$3,697**	**$281,719**	**$0.013**

Consumer spending down
Retailers take steep discounts to entice shoppers leading up to the holidays.



October 15, 2008 stock market crash
Wall Street had its worst day since the 1987 stock market crash as bleak economic data fed worries that all the efforts to unlock credit markets may not stave off a severe recession. The week of October 6th is referred to as the black week as the Dow Jones fell 18% in a single week.

U.S. Automakers ask government for help
Automotive industry leaders from Ford, Chrysler and General Motors testify on Capitol Hill in Washington on November 18, 2008.

Section 4
ACTUARIAL

Emergency landing in Hudson River
On January 15, 2009, a U.S. Airways jet with more than 150 people on board came down into the frigid Hudson River off Manhattan after apparently hitting a flock of geese. All crew and passengers survived, and the captain is honored as a hero.

Actuary's Certification Letter

SEGAL

THE SEGAL COMPANY
100 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

April 20, 2009

Board of Retirement
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, California 94612-1900

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2007 actuarial valuation of the Alameda County Employees' Retirement Association (ACERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the December 31, 2007 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over 10 six-month periods.

One funding objective of the Plan is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

The UAAL is amortized as a level percentage of payroll over a 25-year period. The progress being made towards meeting the funding objective through December 31, 2007 is illustrated in the Schedule of Funding Progress.

Board of Retirement
April 20, 2009
Page 2

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the Association's CAFR is provided below:

Exhibit I	Schedules of active member valuation data[1];
Exhibit II	Retirees and beneficiaries added to and removed from retiree payroll[1];
Exhibit III	Solvency test;
Exhibit IV	Actuarial analysis of financial experience;
Exhibit V	Schedule of average benefit payments for retirees and beneficiaries;
Exhibit VI	Schedule of participating employers and active member statistics[1];
Exhibit VII	Schedule of benefit expenses by type[1];
Exhibit VIII	Schedule of retired members by type of benefit;
Exhibit IX	Schedule of funding progress[2];
Exhibit X	Schedule of retiree members and beneficiaries by type of benefit and option selected prepared as of December 31, 2008; and
Exhibit XI	Employer contribution rates (percent of payroll).

[1] *As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligations), Segal has utilized participant data provided by ACERA as of November 30, 2007 adjusted to December 31, 2007 (to reflect estimated increase in Salary and Service for active members) in calculating the liabilities for the December 31, 2007 valuation.*

[2] *The schedule of funding progress is the only schedule that Segal has prepared for the Financial Section of the CAFR. In particular, the Schedule of Employer Contributions has been prepared by ACERA.*

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the December 31, 2004 Experience Analysis. It is our opinion that the assumptions used in the December 31, 2007 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The assumptions adopted by the Retirement Board from the most recent experience analysis as of December 31, 2007 will first be reflected in the December 31, 2008 actuarial valuation. The next experience analysis is due to be performed as of December 31, 2010.

In the December 31, 2007 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 85.5% to 89.2%. The employer's rate has decreased from 16.11% of payroll to 14.88% of payroll, while the employee's rate has increased from 8.63% of payroll to 8.64% of payroll.

We are members of the American Academy of Actuaries and we are qualified to render the actuarial opinion contained herein.

Sincerely,

Andy Yeung, ASA, EA, MAAA
Vice President and Associate Actuary

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President and Actuary

HEM/hy
Enclosures

Summary of Assumptions and Funding Method

The following assumptions have been adopted by the Board as of December 31, 2007.

Assumptions

Actuarial Assumed Interest Rate		8.00%
Inflation Rate		3.75%
Real Across-the-Board Salary Increase		0.25%
Projected Salary Increases		
	General:	4.73% to 7.68%
	Safety:	4.26% to 7.61%
These rates include inflation and real across-the-board salary increases.		
Retiree Cost-of-Living Adjustment (Basic)		
	for Tier 1 members:	3.00%
	for Tier 2 members:	2.00%
Employee Contribution Crediting Rate		8.00%

ACERA operates under the Alternate Financial Provisions of Article 5.5 of the 1937 Act. The employee contribution crediting rate is the assumed actuarial investment rate to the extent that "net earnings" as defined in Article 5.5 are available. In addition, whenever there is a remaining balance of "net earnings", after all other required crediting, a portion of that remaining balance is also credited, as described in Article 5.5.

Retirement Age and Benefit for Deferred Vested Members

For current deferred vested members, retirement assumptions are as follows:

General	Age 58
Safety	Age 55

We assume that 40% of future General and Safety deferred vested members will continue to work for a reciprocal employer. For these members we assume that their salaries will increase by 5.4% per annum.

Future Benefit Accruals

One year of service per year of employment plus 0.008 year of additional service to anticipate conversion of unused sick leave for each year of employment.

Post-Retirement Mortality

The following post-retirement and pre-retirement demographic experience and salary assumptions are based on the plan's actuarial experience through the last triennial experience study as of December 31, 2004.

These were adopted by the Board of Retirement and remain effective as of January 1, 2008.

(A) HEALTHY

General Members and Beneficiaries	1994 Group Annuity Mortality Table
Safety Members and Beneficiaries	1994 Group Annuity Mortality Table

(B) DISABILITY

General Members	1981 General Disability Mortality Table set back seven years
Safety Members	1981 Safety Disability Mortality Table set back two years

(C) FOR EMPLOYEE CONTRIBUTION RATE PURPOSES

General Members	1994 Group Annuity Mortality Table weighted 30% male and 70% female
Safety Members	1994 Group Annuity Mortality Table weighted 75% male and 25% female

Inclusion of Deferred Vested Members
All deferred vested members are included in this valuation.

Percent of Members Married
80% of male members and 55% of female members.

Age of Spouse
Wives are 3 years younger than their husbands.

Net Investment Return
8.0%, net of administration and investment expenses (approximately 1% of assets).

Employee Contribution Crediting Rate
8.0%, compounded semi-annually, subject to the availability of net earnings as described in Article 5.5 of the 1937 Act.

Salary Increases
The annual rate of compensation increase has three components: inflation, across-the-board salary increases (other than inflation), and merit/longevity increases based on age:

Inflation: 3.75%

Across-the-Board Salary Increase: 0.25%

Merit/Longevity Increases based on Age:

Age	General	Safety
25	3.68%	3.61%
30	2.82%	2.70%
35	2.31%	1.57%
40	1.99%	1.15%
45	1.60%	1.13%
50	1.40%	0.95%
55	1.12%	0.73%
60	0.86%	0.26%
65	0.73%	0.00%

Consumer Price Index (San Francisco Bay Area)
Increase of 3.75% per year, retiree COLA increases due to CPI subject to 3% maximum change per year for General and Safety Tier 1 and 2% maximum change per year for General and Safety Tier 2.

Actuarial Value of Assets
The Actuarial Value of Assets is determined by phasing in any difference between actual and expected market return over ten six-month interest crediting periods. For valuation purposes, the Actuarial Value of Assets is reduced by the value of the non-valuation reserves.

Actuarial Cost Method
Entry Age Normal Actuarial Cost Method. Entry Age is the age at the member's date of entry. Actuarial Accrued Liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The Normal Cost is calculated on an aggregate basis by taking the Present Value of Future Normal Costs divided by the Present Value of Future Salaries to obtain a normal cost rate. This normal cost rate is then multiplied by the total of current salaries. The total Unfunded Actuarial Accrued Liability is amortized over a declining 25-year period (i.e., outstanding UAAL from last year, in addition to actuarial gains and losses from this year).

Terminal Pay Assumptions
Additional pay elements are expected to be received during a member's final average earnings period. The percentages, added to the final year salary, used in this valuation are:

Membership Category	Service Retirement	Disability Retirement
General Tier 1	8.8%	7.0%
General Tier 2	3.0%	2.8%
Safety Tier 1	9.5%	8.5%
Safety Tier 2	3.0%	2.8%

Active Member Valuation Data

As of November 30[8]

Year	Plan Type	Number	Annual Payroll	Annual Average Pay	Percent Increase in Average Pay[1]
2003[2]	General	9,725	599,062,000	61,600	12.81%
	Safety	1,495	115,282,000	77,111	11.64%
	Total	**11,220**	**$714,344,000**	**$63,667**	**12.65%**
2004[3]	General	9,138	579,365,000	63,402	2.93%
	Safety	1,418	115,261,000	81,284	5.41%
	Total	**10,556**	**$694,626,000**	**$65,804**	**3.36%**
2005[4]	General	9,135	596,346,000	65,281	2.96%
	Safety	1,368	113,437,000	82,922	2.02%
	Total	**10,503**	**$709,783,000**	**$67,579**	**2.70%**
2006[5]	General	9,279	639,880,000	68,960	5.64%
	Safety	1,383	122,259,000	88,401	6.61%
	Total	**10,662**	**$762,139,000**	**$71,482**	**5.78%**
2007[6]	General	9,415	662,309,000	70,346	2.01%
	Safety	1,497	131,249,000	87,675	-0.82%
	Total	**10,912**	**$793,558,000**	**$72,723**	**1.74%**
2008[7]	General	9,599	716,012,000	74,592	6.04%
	Safety	1,574	147,526,000	93,727	6.90%
	Total	**11,173**	**$863,538,000**	**$77,288**	**6.28%**

1 The Percent Increase in Average Pay represents the change between the average salary of those members employed at the beginning of the year and the average salary of those members employed at the end of the year. Therefore, this figure may differ from the average salary increase received for those members who worked the full year.

2 Salary projected from 11/30 to 12/31 (2003).

3 Salary projected from 11/30 to 12/31 (2004). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) the salary increase assumption.

4 Salary projected from 11/30 to 12/31 (2005). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) the salary increase assumption.

5 Salary projected from 11/30 to 12/31 (2006). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) the salary increase assumption.

6 Salary projected from 11/30 to 12/31 (2007). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by one year of inflation and merit. About 23% of the General members belong to five participating agencies in 2005. The schedule of Participating Employers and Active Members in the Statistical Section shows historical membership information for Participating Employers.

7 Salary projected from 11/30 to 12/31 (2008). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by the salary increase assumption.

8 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Retirees and Beneficiaries Added To and Removed From Retiree Payroll

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Plan Year[1]	Number	Annual Allowance (in 000s)	Number	Annual Allowance (in 000s)	Number	Annual Allowance (in 000s)	% Increase in Retiree Allowance	Average Annual Allowance
2003	447	$ 17,558[2]	(156)	$ (2,732)	6,287	$ 148,523	11.09%	$ 23,624
2004	571	23,349[2]	(383)	(5,355)	6,475	166,517	12.12%	25,717
2005	500	23,171[2]	(257)	(4,362)	6,718	185,326	11.30%	27,586
2006	444	21,784	(226)	(4,018)	6,936	203,092	9.59%	29,281
2007	494	25,051	(247)	(4,971)	7,183	223,172	9.89%	31,069
2008	403	23,056	(340)[3]	(5,743)	7,246	240,485	7.76%	33,189

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

[2] Includes data adjustments and automatic cost of living adjustments granted on April 1.

[3] Includes data adjustments made by ACERA on beneficiary file.

Solvency Test[1]

(Dollars in Thousands)

	Aggregate Accrued Liabilities For:					Portion of Aggregate Accrued Liabilities Covered by Reported Assets For:		
Valuation Date	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Valuation Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/02	$ 821,702	$ 1,664,465	$ 1,073,446	$ 3,559,613	$ 3,294,053	100%	100%	75%
12/31/03	802,442	1,833,917	1,253,684	3,890,043	3,381,757	100%	100%	59%
12/31/04	789,556	2,092,355	1,358,642	4,240,553[2]	3,557,918	100%	100%	50%
12/31/05	802,277	2,353,106	1,392,830	4,548,213	3,781,843	100%	100%	45%
12/31/06	842,479	2,550,170	1,432,508	4,825,157	4,127,841	100%	100%	51%
12/31/07	898,321	2,794,861	1,419,221	5,112,403	4,560,213	100%	100%	61%

[1] This schedule includes actuarial funded liabilities and assets. The non-valuation reserves such as Supplemental Retirees Benefit Reserve, Death Benefit Reserve, and Market Stabilization Reserve, etc., are not included.

[2] Excludes Safety 3% at 50 formula improvement. If the Safety formula improvement is included, the total aggregate liability will increase to $4,336,123

Events affecting year-to-year comparability for each valuation date:

12/31/2002 - Investment return assumption reduced from 8.25% to 8.00%; salary increase assumption increased from 5.6% to 5.9%; increase in terminal pay assumption; and implementation of 80%–120% market value corridor.

12/31/2003 - Inflation assumption decreased from 4.5% to 4.0%; across-the-board salary increase increased from 0.00% to 0.25%; and increase in terminal pay assumption.

12/31/2004 - Change in non-economic assumptions. Investment return assumption reduced from 8% to 7.80%; terminal pay assumption for service retirement for Safety Tier 1 decreased from 11.7% to 9.5%

12/31/2005 - Investment return assumption increased from 7.80% to 7.90%; inflation assumption decreased from 4.0% to 3.75%

12/31/2006 - Investment return assumption increased from 7.90% to 8.00%

Actuarial Analysis of Financial Experience[1]

(Dollars in Millions)

	2007	2006	2005	2004	2003	2002
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued ability	$697	$766	$ -	$508	$266	$(182)
a) Before Safety Improvements	-	-	683	-	-	-
b) After Safety Improvements	-	-	778	-	-	-
Salary Increase Greater (Less) than Expected	(42)	2	(35)	(33)	93	17
Asset Return Less (Greater) than Expected	(125)	(57)	30	74	133	207
Other Experience (Including Scheduled UAAL Payment)	22	42	55	31	26	20
Economic Assumption Changes	-	(56)	(81)	-	-	190
Non-economic Assumption Changes	-	-	-	103	(10)	14
Benefit Change[3]	-	-	19	-	-	-
Ending Unfunded/(Prefunded) Actuarial Accrued Liability	$552	$697	$766	$683[2]	$508	$266

1 This schedule is based on the actuarial valuation of 12/31/2007, ACERA's most recent actuarial valuation.

2 Excludes Safety 3% at 50 formula improvement. If Safety formula improvement is included, the total Unfunded Actuarial Accrued Liability is $778.

3 Additional improved Safety benefit.

Summary of Plan Provisions

BENEFITS SECTIONS 31676.1, 31676.12, AND 31664.1 OF THE COUNTY EMPLOYEES RETIREMENT LAW OF 1937

Briefly summarized below are major provisions of the County Employees Retirement Law of 1937 as amended through December 31, 2007, and as adopted by Alameda County.

Membership Eligibility

Each person appointed to a full-time, permanent position with the County of Alameda or participating employer is eligible and required to become a member of ACERA. Membership with ACERA usually begins with the second pay period following appointment. ACERA members who change from full-time to part-time may elect to continue membership at ACERA (with future contributions and benefits adjusted accordingly).

Tiers (Benefit Levels)

General and Safety Tier 1 include all General and Safety members hired on or before June 30, 1983. General and Safety Tier 2 include, depending on the employer, General and Safety members hired after June 30, 1983.

Final Compensation for Benefit Determination ("Final Average Salary")

Final Average Salary (FAS) is defined as the highest 12 consecutive months of compensation earnable for General and Safety Tier 1 and the highest 36 consecutive months for General and Safety Tier 2.

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus interest will be refunded. In lieu of receiving a return of contributions, a vested member may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

Eligibility for Service Retirement

General members are eligible to retire: At age 50 with 10 years of service; at age 70 regardless of years of service, or at any age with 30 years of service. Safety members are eligible to retire: At age 50 with 10 years of service; at age 70 regardless of years of service; or at any age with 20 years of service.

Eligibility for Deferred Service Retirement

Vested deferred members (i.e., terminated members who have completed five years of service and leave accumulated contributions in the retirement fund) become eligible to retire at any time at which the member could have retired, had the member remained an active member in a full-time position.

Service Retirement Benefit

The monthly service retirement benefit depends on age at retirement and is based on a percentage of the Final Average Salary (divided by 12 or 36 depending on Tier to get a monthly amount) multiplied by years of service. It is illustrated below for selected age-at-retirement figures.

For members integrated with Social Security, the benefit is reduced by one-third of the percentage shown below times the first $350 of monthly Final Average Salary per year of service credited after January 1, 1956.

Percentage of Final Average Salary for Selected Age-at-Retirement Figures

	General		
Age-at-Retirement	Tier 1	Tier 2	Safety*
50	1.34%	1.18%	3.00%
55	1.77%	1.49%	3.00%
60	2.34%	1.92%	3.00%
62	2.62%	2.09%	3.00%
65 and over	2.62%	2.43%	3.00%

* Only available for those members who terminated after the County improved the benefit to Sec. 31664.1

Maximum Benefit

The maximum basic benefit payable to a member or beneficiary is 100% of Final Average Salary.

Disability Benefit

Members with five years of service, regardless of age, are eligible to apply for non-service connected disability benefits. As with the service retirement benefit, the disability benefit is based on a percentage of Final Average Salary.

The disability benefit is 1.8% per year of service for General Tier 1 members and 1.5% per year of service for General Tier 2 members. If this benefit does not exceed one-third of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 62 for Tier 1 General members and age 65 for Tier 2 General members.

The disability benefit is 1.8% per year of service for Safety members. If this benefit does not exceed one-third of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 55.

In each case where the disability benefit has been increased as described above, the total benefit cannot exceed one-third of the FAS, unless the benefit calculated from the member's age, years of service, and salary is greater.

If the disability is service connected ("job-related"), then there is no age or service requirement. This benefit is the greater of 50% of FAS, or the benefit amount derived from the member's age, years of service, and salary.

Active Member

Members who apply for disability retirement benefits must be able to prove they are permanently unable to perform the usual duties of their current job. In addition, those who apply for a service connected disability must prove their incapacity to perform their duties was job-related.

Active Member Death Benefit

In addition to the return of contributions with credited interest, a lump sum death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on the final year's average salary, but not to exceed six months' salary.

If a member dies while eligible for service retirement or non-service connected disability, the eligible surviving spouse/domestic partner may elect to receive 60% of the allowance that the member would have received for retirement on the day of his or her death in lieu of the above mentioned lump sum.

Active Death Equity Benefit (ADEB)

In 2000, the Board of Retirement authorized the ADEB option which provides a continuance to the surviving spouse/domestic partner of a member who died because of non-service connected disability equal to 100% of the member's reduced allowance under the option 2 provision.

The funding of the ADEB benefit (the difference in the benefit between the 60% continuance under the unmodified option and 100% continuance provided under option 2) is provided from assets held in the Supplemental Retiree Benefits Reserve. The ADEB is a non-vested benefit and may be discontinued at any time and for any reason. The Board of Retirement reserves the right to terminate the ADEB for future recipients.

Service Connected Death Benefit

If a member dies in the performance of duty, the eligible surviving spouse/domestic partner may elect to receive 50% of the member's FAS (or 100% of the service retirement benefit, if greater).

Retired Member Death Benefit

If a member dies after retirement, a lump sum amount of $5,000 is paid to the beneficiary or estate. (A portion of this death benefit is not vested and is funded through the Supplemental Retiree Benefit Reserve, subject to Board approval and available funding.)

In addition, if the retirement was for service connected disability, 100% of the member's allowance as it was at death is continued to the qualified surviving spouse/domestic partner for life.

If the retirement was for other than service connected disability, 60% of the member's allowance is continued to the qualified surviving spouse/domestic partner for life.

Basic Cost-of-Living Adjustments (COLA)

The basic Cost of Living adjustments are based on the change in the San Francisco Bay Area Consumer Price Index (CPI) for the calendar year prior to the April 1 effective date. The basic COLA increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members. For any year in which the CPI exceeds the COLA percentage cap for a member, the excess percentage is accumulated ("banked") for that member and subsequently applied as an increase to the allowance in a later year when the CPI figure falls short of the relevant cap.

Supplemental Benefits Excluded from Actuarial Valuation

Non-vested supplemental COLA and the retiree healthcare program benefits are also paid from the Supplemental Retiree Benefit Reserve to eligible retirees and survivors. These supplemental benefits have been excluded from this valuation.

Contribution Rates

Basic member contribution rates are based on a formula reflecting the age at entry into the system. The rates are such as to provide, for each year of service, an average annuity at age 60 of 1/100 of FAS for General members under Tier 1, at age 60 of 1/120 of FAS for General members under Tier 2, and at age 50 of 1/100 of FAS for Safety members. Please note that in estimating FAS, we have included an assumption to anticipate how much unused vacation would be available for conversion at retirement. Member cost of living contribution rates are actuarially determined to pay for one-half of future cost of living liabilities.

For members whose benefits are integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first $161 of biweekly salary. Member contributions are refundable upon termination from employment.

Employer contribution rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the retirement the employer.

Exemption from Contributions After Thirty Years of Service

Safety members with 30 or more years of service are exempt from paying member contributions. General members hired on or before March 7, 1973 with 30 or more years of service are exempt from paying member contributions.

Termination and Retirement Rates

The following schedules indicate the termination rates before retirement for disability, withdrawal, and mortality, as well as retirement rates.

The rates shown for each cause of termination or retirement represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the rate of disability for a General member age 25 is 0.01, then we are assuming that 0.01 percent of the General members in this age bracket will receive disability retirement during the year.

Retirement Rates

Rates (%)

Age	General Tier 1	General Tier 2	Safety Tier 1[1]	Safety Tier 2[1]
50	3.00	2.00	33.00	4.00
51	2.00	2.00	25.00	2.00
52	2.00	2.00	25.00	2.00
53	3.00	2.00	33.00	3.00
54	3.00	2.00	33.00	8.00
55	7.00	3.00	50.00	15.00
56	7.00	4.00	50.00	12.00
57	8.00	5.00	50.00	25.00
58	10.00	6.00	50.00	11.00
59	15.00	6.00	50.00	27.00
60	20.00	8.00	100.00	100.00
61	20.00	10.00	100.00	100.00
62	30.00	20.00	100.00	100.00
63	25.00	16.00	100.00	100.00
64	25.00	20.00	100.00	100.00
65	30.00	25.00	100.00	100.00
66	25.00	20.00	100.00	100.00
67	25.00	35.00	100.00	100.00
68	25.00	45.00	100.00	100.00
69	50.00	55.00	100.00	100.00
70	100.00	100.00	100.00	100.00

[1] Retirement rate is 100% after a member attains 100% of FAS and this 100% retirement assumption is applied to both Safety Tier1 and Tier 2 members.

Termination Rates Before Retirement

DISABILITY

	Rate (%) Disability	
Age	General[1]	Safety[2]
20	0.00	0.00
25	0.01	0.00
30	0.07	0.24
35	0.22	0.46
40	0.36	0.62
45	0.46	0.94
50	0.56	1.16
55	0.78	1.20
60	1.02	0.48

WITHDRAWAL

Rate (%) Withdrawal (< 5 Years of Service)

Years of Service	General	Safety
0	12.00	5.00
1	10.00	5.00
2	9.00	5.00
3	7.00	4.00
4	4.00	4.00

Withdrawal (5+ Years of Service)[3]

Age	General	Safety
20	4.00	3.00
25	4.00	3.00
30	4.00	3.00
35	4.00	2.10
40	3.40	1.20
45	2.40	1.00
50	2.00	1.00
55	2.00	1.00
60	1.40	0.40

MORTALITY[4]

Rate (%)

	General		Safety	
Age	Male	Female	Male	Female
25	0.07	0.03	0.07	0.03
30	0.08	0.04	0.08	0.04
35	0.09	0.05	0.09	0.05
40	0.11	0.07	0.11	0.07
45	0.16	0.10	0.16	0.10
50	0.26	0.14	0.26	0.14
55	0.44	0.23	0.44	0.23
60	0.80	0.44	0.80	0.44
65	1.45	0.86	1.45	0.86

[1] 80% of General disabilities are assumed to be duty disabilities. The other 20% are assumed to be ordinary disabilities.

[2] 100% of Safety disabilities are assumed to be duty disabilities.

[3] 25% of all terminated members will choose a refund of contributions and 75% will choose a deferred vested benefit. No withdrawal is assumed after a member is eligible for retirement.

[4] All pre-retirement deaths are assumed to be non-service connected.

Inauguration of Obama
President Barack Obama is sworn in as the 44th President.

Historical inauguration day
Hundreds of thousands of people fill the National Mall grounds during the inauguration of Barack Obama.

Help for struggling banks
On February 10, 2009, U.S. Treasury Secretary Timothy Geithner announced a plan to take $500 billion in bad assets off the books of struggling banks and expand a Federal Reserve program to support up to $1 trillion in asset-backed securities.

Section 5
STATISTICAL

The first African-American U.S. President and his family take residence in the White House
President Barack Obama visits with his daughters Malia and Sasha and kisses his wife, First Lady Michelle Obama, in a private study off the Oval Office.

Plan to help homeowners avoid foreclosure
The Obama administration launched a $75 billion foreclosure relief plan, as new data showed one in five U.S. homeowners with mortgages owe more than their house is worth.

Statistical

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, Postemployment Medical Benefits and Non-OPEB Benefits. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for ACERA's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.

Additions to ACERA's Net Assets by Source

(Dollars in Millions)

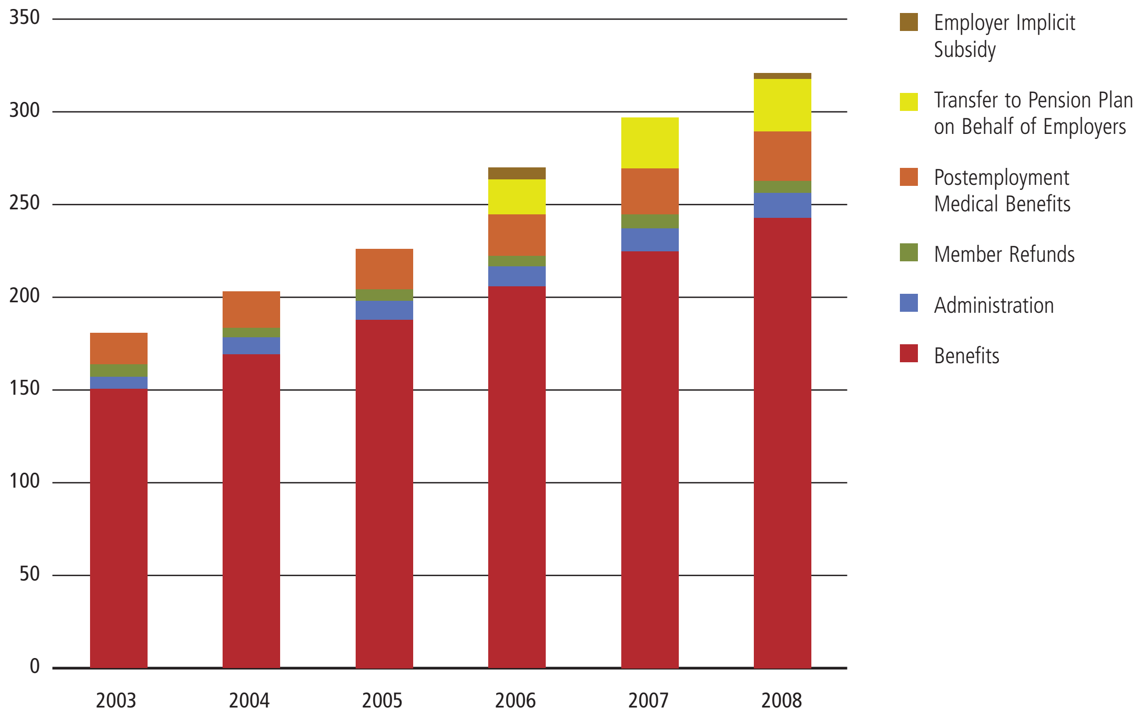
Additions to ACERA's Net Assets by Source

(Dollars in Millions)

Year Ended December 31	Member Contributions	Employer Contributions	Net Investment Income (Loss)	Other Income	Postemployment Medical Benefits	Employer Implicit Subsidy	Total Additions
2003	$ 60.2	$ 49.1	$ 808.4	$ 0.2	$ -	$ -	$ 917.9
2004	63.1	85.5	457.7	1.6	-	-	607.9
2005	64.1	100.8	358.0	0.1	-	-	523.0
2006	70.2	127.1	637.8	0.4	19.0	6.3	860.8
2007	72.3	130.0	430.9	1.0	27.3	-	661.5
2008	75.6	129.7	(1,685.2)	0.5	28.5	3.1	(1,447.8)

Deductions from ACERA's Net Assets by Type

(Dollars in Millions)



Deductions from ACERA's Net Assets by Type

(Dollars in Millions)

Year Ended December 31	Benefits	Administration	Member Refunds	Post-Employment Medical Benefits Payment	Transfer to Pension Plan on Behalf of Employers	Employer Implicit Subsidy	Total Deductions
2003	$ 150.6	$ 6.6	$ 6.6	$ 17.0	$ -	$ -	$ 180.8
2004	169.1	9.2	5.2	19.6	-	-	203.1
2005	187.8	10.3	6.1	22.0	-	-	226.2
2006	205.8	10.8	5.8	22.2	19.0	6.3	269.9
2007	224.8	12.2	7.8	24.7	27.3	-	296.8
2008	242.9	13.3	6.5	26.7	28.5	3.1	321.0

Changes in Pension Plan Net Assets
Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2008	2007	2006
Additions			
Member contributions	$ 75,608	$ 72,342	$ 70,174
Employer contributions	101,113	102,749	108,088
Total Contributions	**176,721**	**175,091**	**178,262**
Investment and Miscellaneous income (net of expenses)	(1,684,744)	431,789	638,305
Postemployment Medical Benefits transfers on behalf of Employers	28,547	27,291	19,008
Employer Implicit Subsidy from Postemployment Medical Benefits	3,091	-	6,304
Earnings allocated to Postemployment Medical Benefits Reserve	(24,701)	(145,957)	(75,636)
Earnings allocated to Non-OPEB Benefits Reserve	(3,137)	(18,307)	(9,962)
Total Additions	**1,504,223**	**469,907**	**756,281**
Deductions			
Benefit payments	237,273	218,618	199,423
Refunds	6,527	7,778	5,817
Administration expenses	13,315	12,211	10,778
Total Deductions	**257,115**	**238,607**	**216,018**
Changes in Pension Plan Net Assets	**$(1,761,338)**	**$ 231,300**	**$ 540,263**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. Prior to GASB 44 implementation, changes in net assets data for Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits were aggregated in one fund. Therefore, no separate data for each plan is available prior to 2006.

Changes in Postemployment Medical Benefits Net Assets Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2008	2007	2006
Additions			
Employer contributions	$ 28,547	$ 27,291	$ 19,008
Earnings allocated to Postemployment Medical Benefits	24,701	145,957	75,636
Total Additions	**53,248**	**173,248**	**94,644**
Deductions			
Postemployment Medical Benefits payments	26,681	24,668	22,205
Postemployment Medical Benefits transfer to Pension Plan	28,547	27,291	19,008
Employer Implicit Subsidy to Pension Plan	3,091	-	6,304
Total Deductions	**58,319**	**51,959**	**47,517**
Changes in Postemployment Medical Benefits Net Assets	**$ (5,071)**	**$ 121,289**	**$ 47,127**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. Prior to GASB 44 implementation, changes in net assets data for Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits were aggregated in one fund. Therefore, no separate data for each plan is available prior to 2006.

Changes in Non-OPEB Benefits Net Assets Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2008	2007	2006
Addition			
Earnings allocated to Non-OPEB Benefits	$ 3,137	$ 18,307	$ 9,962
Total Addition	**3,137**	**18,307**	**9,962**
Deduction			
Non-OPEB Benefits Payments	5,558	6,217	6,422
Total Deduction	**5,558**	**6,217**	**6,422**
Changes in Non-OPEB Benefits Net Assets	**$ (2,421)**	**$ 12,090**	**$ 3,540**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. Prior to GASB 44 implementation, changes in net assets data for Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits were aggregated in one fund. Therefore, no separate data for each plan is available prior to 2006.

Benefit Expenses by Type[1]

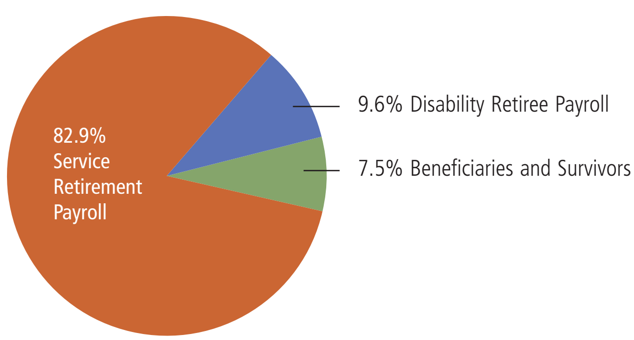
As of November 30

	2008	2007	2006	2005	2004	2003
Service Retirement Payroll						
Basic	$156,159,546	$ 144,273,097	$ 131,381,072	$ 119,237,822	$ 105,648,412	$ 92,689,067
COLA	43,190,182	39,321,355	35,620,880	33,211,334	30,836,451	29,245,633
Total	**199,349,728**	**183,594,452**	**167,001,952**	**152,449,156**	**136,484,863**	**121,934,700**
Disability Retiree Payroll						
Basic	18,548,535	17,741,212	16,180,690	14,576,027	13,118,826	10,540,547
COLA	4,466,521	3,978,243	3,536,042	3,148,063	2,800,341	2,523,517
Total	**23,015,056**	**21,719,455**	**19,716,732**	**17,724,090**	**15,919,167**	**13,064,064**
Beneficiaries and Survivors						
Basic	11,212,504	11,090,773	10,082,760	9,396,077	8,686,288	8,289,339
COLA	6,907,819	6,767,815	6,290,813	5,756,507	5,426,939	5,234,278
Total	**18,120,323**	**17,858,588**	**16,373,573**	**15,152,584**	**14,113,227**	**13,523,617**
Total	**$240,485,107**	**$223,172,495**	**$203,092,257**	**$185,325,830**	**$166,517,257**	**$148,522,381**

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Benefit Expenses by Type

(Based on the period from December 1, 2007 through November 30, 2008)



Benefit and Refund Deductions from Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008
TYPE OF BENEFIT								
Age and service benefits:								
Retirees	$ 122,998	$ 127,706	$ 137,338	$ 153,763	$ 171,924	$ 187,376	$ 205,010	$ 221,532
Survivors	12,541	10,985	11,429	11,812	12,538	13,340	14,150	15,033
Death in service benefits:								
Survivors	1,355	1,292	1,301	1,505	1,680	1,882	2,017	4,030
Disability benefits:								
Retirees—duty	11,563	12,516	14,231	17,746	19,591	20,955	23,461	23,981
Retirees—non-duty	2,239	2,348	2,414	2,949	3,020	3,210	3,450	3,539
Supplemental disability	68	69	97	51	75	109	192	80
Survivors	598	629	808	906	1,036	1,178	1,223	1,317
Total Benefits	**$151,362**	**$155,545**	**$167,618**	**$188,732**	**$209,864**	**$228,050**	**249,503**	**269,512**
Type of Refund								
Death	1,549	1,653	1,294	1,411	2,481	1,831	2,219	1,093
Miscellaneous	850	273	97	147	123	136	89	74
Separation	5,913	4,522	5,194	3,632	3,476	3,850	5,470	5,360
Total Refunds	**$ 8,312**	**$ 6,448**	**$ 6,585**	**$ 5,190**	**$ 6,080**	**$ 5,817**	**$ 7,778**	**$ 6,527**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data is available prior to 2000 due to system constraints.

Benefit and Refund Deductions from Pension Plan Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008
TYPE OF BENEFIT								
Age and service benefits:								
Retirees	$ 108,078	$ 110,793	$ 118,415	$ 133,355	$ 149,934	$ 164,638	$ 180,410	$ 196,469
Survivors	10,955	9,225	9,568	10,238	11,042	11,419	12,252	12,760
Death in service benefits:								
Survivors	1,177	1,107	1,124	1,342	1,528	1,702	1,840	3,384
Disability benefits:								
Retirees—duty	10,244	10,923	12,226	15,285	16,775	17,889	19,963	20,304
Retirees—non-duty	1,782	1,839	1,878	2,364	2,417	2,569	2,826	2,960
Supplemental disability	11	11	49	16	27	28	104	79
Survivors	598	629	808	906	1,036	1,178	1,223	1,317
Total Benefits	**$132,845**	**$134,527**	**$144,068**	**$163,506**	**$182,759**	**$ 199,423**	**218,618**	**237,273**
Type of Refund								
Death	1,549	1,653	1,294	1,411	2,481	1,831	2,219	1,093
Miscellaneous	850	273	97	147	123	136	89	74
Separation	5,913	4,522	5,194	3,632	3,476	3,850	5,470	5,360
Total Refunds	**$ 8,312**	**$ 6,448**	**$ 6,585**	**$ 5,190**	**$ 6,080**	**$ 5,817**	**$ 7,778**	**$ 6,527**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data is available prior to 2000 due to system constraints.

Benefit and Refund Deductions from Postemployment Medical Benefits Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008
TYPE OF BENEFIT								
Age and service benefits:								
Retirees	$ 10,411	$ 12,453	$ 14,908	$ 16,968	$ 18,944	$ 19,011	$ 21,030	$ 22,743
Survivors	2	6	1	1	2	2	2	-
Disability benefits:								
Retirees—duty	1,057	1,323	1,752	2,222	2,595	2,787	3,207	3,473
Retirees—non-duty	254	301	342	398	426	405	429	465
Supplemental disability	-	-	-	-	-	-	-	1
Survivors	-	-	-	-	-	-	-	-
Total Benefits	**$11,724**	**$14,083**	**$17,003**	**$19,589**	**$21,967**	**$22,205**	**$24,668**	**$26,682**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data is available prior to 2000 due to system constraints.

Benefit and Refund Deductions from Non-OPEB Benefits Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008
TYPE OF BENEFIT								
Age and service benefits:								
Retirees	$ 4,514	$ 4,465	$ 4,022	$ 3,448	$ 3,055	$ 3,737	$ 3,570	$ 2,320
Survivors	1,584	1,754	1,860	1,573	1,494	1,919	1,896	2,273
Death in service benefits:								
Survivors	173	180	170	155	143	170	177	646
Disability benefits:								
Retirees—duty	262	270	253	239	221	279	291	204
Retirees—non-duty	203	208	194	187	177	236	195	114
Supplemental disability	57	58	48	35	48	81	88	-
Survivors	-	-	-	-	-	-	-	-
Total Benefits	**$6,793**	**$6,935**	**$6,547**	**$5,637**	**$5,138**	**$6,422**	**$6,217**	**$5,557**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data is available prior to 2000 due to system constraints.

Employer Contribution Rates (Percent)

As of December 31

	County					ACMC, Superior Court and First 5[3]		Other Participating Employers		
	General Member		Safety Member			General Member		General Member		
Year	Tier 1	Tier 2	Tier 1	Tier 2	Aggregate	Tier 1	Tier 2	Tier 1	Tier 2	Tier 3[4]
1999	6.27	3.11	5.39	5.70	4.26	6.27	3.11	16.83	-	-
2000	6.28	2.83	4.78	5.48	4.03	6.28	2.83	17.30	-	-
2001	6.31	2.86	5.10	5.80	4.00	6.31	2.86	17.09	-	-
2002	5.90	3.37	5.96	7.16	4.37	5.90	3.37	16.21	-	-
2003	12.78	10.53	17.40	18.76	12.16	12.78	10.53	17.37	-	-
2004	14.63	12.10	21.51	20.91	13.95	14.63	12.10	19.21	-	-
2005	17.91	14.96	36.81	29.09	18.07[1]	17.91	14.96	22.74	-	-
2006[2]	16.46	14.30	37.05	29.84	17.26	16.46	14.30	21.53	-	-
2007[2]	14.36	13.19	35.95	28.98	17.03	14.43	13.26	19.38	-	-
2008[2]	13.81	11.89	34.90	27.46	15.85	13.92	12.00	18.89	-	22.11

1 The aggregate rate is based on payroll as of the prior December 31.

2 County employer rates include credits for implicit health benefit subsidies. In 2006, a credit was applied for $6.3 million amortized over 26 years. In 2008, an additional credit was applied for $3.1 million amortized over 25 years.

3 Rate combined with the County before December 31, 2007.

4 Tier III rate only applies to LARPD effective from October 1, 2008.

Employee Contribution Rates (Percent)
Last Ten Fiscal Years

As of December 31

	County and Other Participating Employers					
	General Member			Safety Member		
Year	Tier 1	Tier 2	Tier 3[5]	Tier 1	Tier 2	Aggregate
1999	8.56	7.28	-	10.82	10.33	8.12
2000	8.58	7.35	-	10.66	10.37	8.11
2001	8.21	7.03	-	10.41	10.07	7.75
2002	8.00	7.01	-	10.38	10.12	7.70
2003	8.96	7.88	-	9.84	10.61	8.47
2004	9.05	7.58	-	9.66	10.53	8.27
2005	9.93	7.91	-	15.51	14.32	9.24
2006	9.31	7.52	-	15.32	13.78	8.81
2007	10.09	7.35	-	14.98	13.54	8.71
2008	9.57	7.36	12.53	14.70	13.53	8.64

5 Tier III rate only applies to LARPD effective from October 1, 2008.

Retired Members by Type of Benefit and Option Selected

Summary of Monthly Allowances Being Paid for the Month of November 30, 2008[1]

	Number	Monthly Allowance: Basic	Monthly Allowance: Cost of living	Total
GENERAL MEMBERS				
Service Retirement				
Unmodified	4,128	$ 8,625,591	$ 2,587,617	$ 11,213,208
Option 1	239	369,668	125,815	495,483
Option 2	238	427,872	102,586	530,458
Option 3	15	22,095	9,300	31,395
Option 4	2	10,415	738	11,153
Total	4,622	9,455,641	2,826,056	12,281,697
Disability				
Unmodified	557	934,624	219,320	1,153,944
Option 1	36	34,557	12,682	47,239
Option 2	-	-	-	-
Option 3	1	2,220	330	2,550
Option 4	1	3,466	1,237	4,703
Total	595	974,867	233,569	1,208,436
Beneficiaries	890	707,839	462,788	1,170,627
Total General	**6,107**	**11,138,347**	**3,522,413**	**14,660,760**

	Number	Monthly Allowance: Basic	Monthly Allowance: Cost of living	Total
SAFETY MEMBERS				
Service Retirement				
Unmodified	722	3,361,960	731,031	4,092,991
Option 1	14	54,978	13,754	68,732
Option 2	44	131,317	25,712	157,029
Option 3	1	3,671	2,541	6,212
Option 4	1	5,730	87	5,817
Total	782	3,557,656	773,125	4,330,781
Disability				
Unmodified	186	555,918	133,559	689,477
Option 1	5	11,691	2,589	14,280
Option 2	-	-	-	-
Option 3	2	3,235	2,494	5,729
Option 4	-	-	-	-
Total	193	570,844	138,642	709,486
Beneficiaries	164	226,537	112,863	339,400
Total Safety	**1,139**	**4,355,037**	**1,024,630**	**5,379,667**
Total General and Safety	**7,246**	**$ 15,493,384**	**$ 4,547,043**	**$ 20,040,427**

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation) the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Note: Results may not add due to rounding.

Retired Members by Type of Benefit Pension Plan

As of December 31, 2008

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit: Duty disability retirement	Non-duty disability retirement	DRO lifetime annuity	Service retirement	Survivorship	Continuance	Supplemental disability	Option Selected: Unmodified—60% Contingent Joint & Survivor	Option 1—Single life	Option 2—100% Contingent Joint & Survivor	Option 3—50% Contingent Joint & Survivor	Option 4—33% Contingent Joint & Survivor
$ 1 to $ 300	356	1	2	11	248	6	88	-	203	116	36	1	-
301 to 600	548	-	14	29	356	22	127	-	328	187	31	2	-
601 to 900	601	1	22	17	415	27	119	-	386	180	35	-	-
901 to 1,200	630	9	43	19	432	19	108	-	430	158	41	1	-
1,201 to 1,500	598	44	30	12	419	11	80	2	413	126	57	2	-
1,501 to 1,800	554	100	19	5	359	9	62	-	349	93	112	-	-
1,801 to 2,100	487	116	12	10	298	6	45	-	291	74	119	3	-
2,101 to 2,400	417	79	6	10	284	4	33	1	267	55	94	1	-
2,401 to 2,700	335	51	7	5	243	3	26	-	223	45	66	1	-
2,701 to 3,000	287	50	1	1	193	4	38	-	182	49	54	2	-
Over $3,000	2380	173	6	11	2105	10	74	1	1966	156	250	7	1
Total	**7193**	**624**	**162**	**130**	**5352**	**121**	**800**	**4**	**5038**	**1239**	**895**	**20**	**1**

Retired Members by Type of Benefit Postemployment Medical Benefits

As of December 31, 2008

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit: Duty disability retirement	Non-duty disability retirement	DRO lifetime annuity	Service retirement	Survivorship	Continuance	Supplemental disability	Option Selected: Unmodified—60% Contingent Joint & Survivor	Option 1—Single life	Option 2—100% Contingent Joint & Survivor	Option 3—50% Contingent Joint & Survivor	Option 4—33% Contingent Joint & Survivor
$ 1 to $ 300	1542	41	88	-	1412	-	-	1	1283	73	180	6	-
301 to 600	4530	553	72	-	3905	-	-	-	3687	154	674	14	1
601 to 900	58	30	1	-	27	-	-	-	28	-	30	-	-
901 to 1,200	1	-	-	-	1	-	-	-	1	-	-	-	-
1,201 to 1,500	1	-	-	-	1	-	-	-	1	-	-	-	-
Total	**6,132**	**624**	**161**	**-**	**5,346**	**-**	**-**	**1**	**5,000**	**227**	**884**	**20**	**1**

Retired Members by Type of Benefit Non-OPEB Benefits

As of December 31, 2008

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit: Duty disability retirement	Non-duty disability retirement	DRO lifetime annuity	Service retirement	Survivorship	Continuance	Supplemental disability	Option Selected: Unmodified—60% Contingent Joint & Survivor	Option 1—Single life	Option 2—100% Contingent Joint & Survivor	Option 3—50% Contingent Joint & Survivor	Option 4—33% Contingent Joint & Survivor
$ 1 to $ 300	572	7	15	6	321	12	211	-	321	237	14	-	-
301 to 600	239	8	16	-	130	9	76	-	143	87	8	1	-
601 to 900	94	8	1	-	34	4	47	-	33	53	8	-	-
901 to 1,200	46	5	-	-	25	1	15	-	25	16	5	-	-
1,201 to 1,500	16	2	-	-	12	-	2	-	12	2	2	-	-
1,501 to 1,800	3	-	-	-	3	-	-	-	2	1	-	-	-
1,801 to 2,100	6	-	-	-	6	-	-	-	6	-	-	-	-
2,101 to 3,000	1	-	-	-	1	-	-	-	1	-	-	-	-
Total	**977**	**30**	**32**	**6**	**532**	**26**	**351**	**-**	**543**	**396**	**37**	**1**	**-**

Average Benefit Payment Amounts

Retirement Effective Dates 1/1/2003–12/31/2008[2]	Years Since Retirement[1]: 0–4	5–9	10–14	15–19	20–24	25–29	30 & Over
PERIOD 1/1/03–12/31/03							
Average Monthly Benefit	$2,692	$2,223	$2,237	$1,582	$1,267	$943	$705
Number of Active Retirees	1,487	1,210	1,248	778	779	512	273
PERIOD 1/1/04–12/31/04							
Average Monthly Benefit	$2,903	$2,439	$2,241	$1,932	$1,371	$1,068	$709
Number of Active Retirees	1,661	1,302	1,036	945	688	529	314
PERIOD 1/1/05–12/31/05							
Average Monthly Benefit	$2,929	$2,561	$2,420	$2,035	$1,524	$1,180	$773
Number of Active Retirees	1,922	1,475	1,029	850	653	520	269
PERIOD 1/1/06–12/31/06							
Average Monthly Benefit	$3,316	$2,628	$2,495	$2,302	$1,721	$1,276	$926
Number of Active Retirees	1,698	1,574	1,184	870	639	573	398
PERIOD 1/1/07–12/31/07							
Average Monthly Benefit	$3,407	$2,715	$2,568	$2,364	$1,775	$1,309	$975
Number of Active Retirees	2,146	1,545	1,159	844	611	536	342
PERIOD 1/1/08–12/31/08							
Average Monthly Benefit	$3,502	$2,998	$2,603	$2,767	$1,882	$1,441	$1,070
Number of Active Retirees	2,145	1,593	1,083	998	569	498	360

1 Historically, ACERA has organized information by years of service in four-year increments rather than five-year increments.

2 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Average Pension Benefit Payments Last Ten Fiscal Years

Retirement Effective Dates	Years of Service[2] 0–4	5–9	10–14	15–19	20–24	25–29	30 & Over
PERIOD 1/1/99–12/31/99							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,183	$4,271	$4,277	$4,906	$4,915	$6,281	$5,812
Number of Retired Members	18	33	65	32	46	33	60
PERIOD 1/1/00–12/31/00							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,525	$5,284	$4,247	$4,787	$5,090	$5,775	$6,559
Number of Retired Members	8	27	56	31	61	46	58
PERIOD 1/1/01–12/31/01							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,364	$4,543	$4,593	$4,814	$4,781	$5,088	$6,181
Number of Retired Members	23	47	60	49	37	32	48
PERIOD 1/1/02–12/31/02							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$6,059	$5,174	$4,413	$4,903	$5,591	$6,777	$6,276
Number of Retired Members	14	32	38	42	52	25	32
PERIOD 1/1/03–12/31/03							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,316	$4,794	$4,798	$5,036	$6,093	$7,922	$7,759
Number of Retired Members	36	26	47	46	58	51	70
PERIOD 1/1/04–12/31/04							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$6,517	$5,962	$5,069	$5,422	$6,161	$7,026	$7,685
Number of Retired Members	31	34	76	75	78	64	89
PERIOD 1/1/05–12/31/05							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$7,155	$5,433	$5,154	$5,289	$6,095	$7,413	$7,991
Number of Retired Members	34	33	53	71	89	65	80
PERIOD 1/1/06–12/31/06[3]							
Average Monthly Pension Benefits[4]	$1,095	$1,229	$1,426	$2,230	$3,193	$5,397	$6,750
Average Final Average Salary[4]	$5,702	$6,004	$4,702	$5,847	$6,367	$7,861	$8,400
Number of Retired Members[4]	22	23	44	66	66	59	75
PERIOD 1/1/07–12/31/07[3]							
Average Monthly Pension Benefits[5]	$936	$1,535	$1,635	$2,206	$3,287	$5,791	$6,762
Average Final Average Salary[5]	$6,216	$6,963	$5,940	$6,000	$6,619	$8,326	$8,111
Number of Retired Members[5]	20	22	52	66	76	53	85
PERIOD 1/1/08–12/31/08[3]							
Average Monthly Pension Benefits[6]	$805	$1,471	$1,825	$2,257	$3,445	$5,772	$7,014
Average Final Average Salary[6]	$7,749	$6,730	$6,270	$5,983	$6,667	$7,863	$8,449
Number of Retired Members[6]	21	30	43	38	70	45	76

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2005 due to system constraints.

[2] Historically, ACERA has organized information by years of service in four-year increments rather than five-year increments.

[3] As permitted by the Actuarial Standard of practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30. All data prior to 2006 is based on calendar year ending December 31.

[4] Excludes 89 new retirees and beneficiaries with incomplete data.

[5] Excludes 120 new retirees and beneficiaries with incomplete data.

[6] Excludes 80 new retirees and beneficiaries with incomplete data.

Average Monthly Medical Allowance (MMA) Benefits Last Ten Fiscal Years[1]

Retirement Effective Dates	Years of Service[4] 0–4[2]	5–9[2]	10–14[3]	15–19[3]	20–24[3]	25–29[3]	30 & Over[3]
PERIOD 1/1/99–12/31/99							
Average MMA Benefits	NA	NA	NA	NA	NA	NA	NA
Number of New Retired Members Added	18	33	65	32	46	33	60
PERIOD 1/1/00–12/31/00							
Average MMA Benefits	NA	NA	NA	NA	NA	NA	NA
Number of New Retired Members Added	8	27	56	31	61	46	58
PERIOD 1/1/01–12/31/01							
Average MMA Benefits	NA	NA	NA	NA	NA	NA	NA
Number of New Retired Members Added	23	47	60	49	37	32	48
PERIOD 1/1/02–12/31/02							
Average MMA Benefits	NA	NA	NA	NA	NA	NA	NA
Number of New Retired Members Added	14	32	38	42	52	25	32
PERIOD 1/1/03–12/31/03							
Average MMA Benefits	$37	$37	$165	$237	$299	$313	$326
Number of New Retired Members Added	15	13	46	39	59	49	112
PERIOD 1/1/04–12/31/04							
Average MMA Benefits	$37	$37	$169	$285	$354	$373	$372
Number of New Retired Members Added	15	23	74	70	85	67	156
PERIOD 1/1/05–12/31/05							
Average MMA Benefits	$36	$36	$168	$298	$375	$374	$394
Number of New Retired Members Added	19	26	38	58	81	57	107
PERIOD 1/1/06–12/31/06							
Average MMA Benefits	$36	$36	$166	$296	$396	$385	$394
Number of New Retired Members Added	14	21	35	59	71	60	103
PERIOD 1/1/07–12/31/07							
Average MMA Benefits	$37	$37	$138	$312	$425	$449	$461
Number of New Retired Members Added	14	20	50	58	77	49	119
PERIOD 1/1/08–12/31/08							
Average MMA Benefits	$37	$37	$148	$257	$363	$402	$434
Number of New Retired Members Added	19	28	42	37	72	46	90

[1] ACERA implemented GASB 44 for year ended December 31, 2006. This schedule has been revised by using information provided by actuary. No historical data are available from 1999 through 2002 due to system constraints.

[2] Retired members with 0–9 service years are qualified for monthly Vision and Dental Allowances.

[3] Retired members with service years equal to or greater than 10 years are qualified for monthly Vision, Dental and Medical Allowances.

[4] Historically, ACERA has organized information by years of service in four-year increments rather than five-year increments.

Note: Separate schedule on Average Monthly Non-OPEB Benefits not presented. ACERA implemented GASB 44 for year ended December 31, 2006. Historical data are not available.

Participating Employers and Active Members

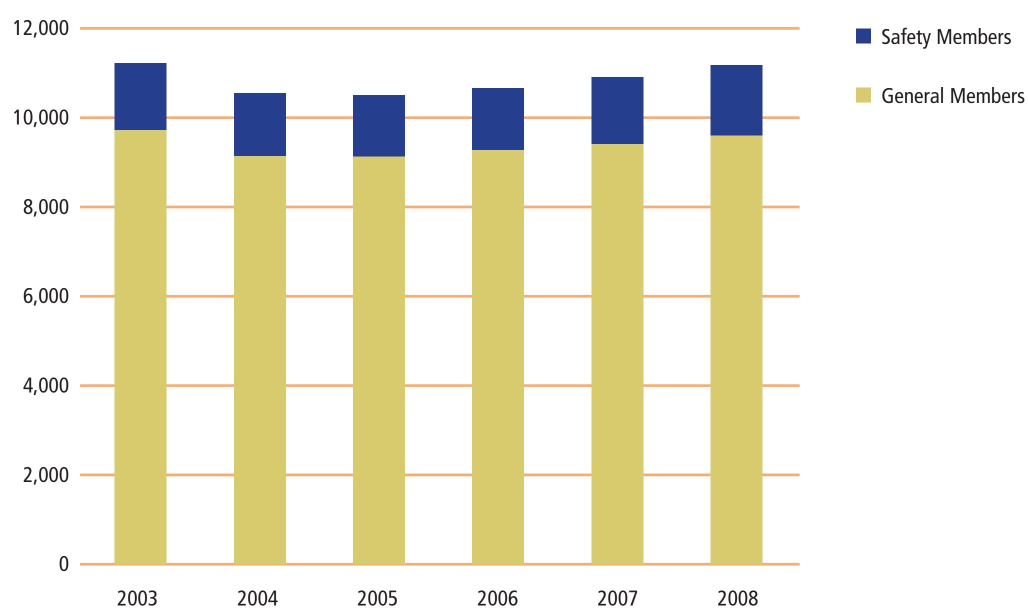
As of November 30[1]

	2008	2007	2006	2005	2004	2003
County of Alameda						
General Members	6,446	6,322	6,261	6,177	7,020	7,367
Safety Members	1,574	1,497	1,383	1,368	1,418	1,495
Total	**8,020**	**7,819**	**7,644**	**7,545**	**8,438**	**8,862**
Participating Employers (General Members)						
Alameda County Medical Center (ACMC) [1]	2,097	2,044	2,007	1,961	1,926	2,201
Alameda County Office of Education	1	1	2	2	2	5
First 5 Alameda County [2]	63	59	57	53	47	–
Housing Authority of the County of Alameda	72	74	75	68	74	74
Livermore Area Recreation & Park District	72	70	67	62	69	78
Superior Court of California for the County of Alameda	848	845	810	812	–	–
Total	**3,153**	**3,093**	**3,018**	**2,958**	**2,118**	**2,358**
Total Active Membership						
General Members	9,599	9,415	9,279	9,135	9,138	9,725
Safety Members	1,574	1,497	1,383	1,368	1,418	1,495
Total	**11,173**	**10,912**	**10,662**	**10,503**	**10,556**	**11,220**

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

[2] Included as County of Alameda General Members before 2004.

Total Active Membership



Principal Participating Employers Pension Plan
Current Year and Nine Years Ago

As of December 31

	2008			1999		
Participating Employers	**Covered Employees**	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
County of Alameda	8,031	1	72.12 %	8,201	1	83.18 %
Alameda County Medical Center (ACMC)	2,051	2	18.42	1,527	2	15.49
Superior Court of California for the County of Alameda	845	3	7.59	-	-	-
Housing Authority of the County of Alameda	73	4	0.65	65	3	0.66
Livermore Area Recreation & Park District	72	5	0.64	61	4	0.62
First 5 Alameda County	63	6	0.57	-	-	-
Alameda County Office of Education	1	7	0.01	5	5	0.05
Total	**11,136**		**100.00 %**	**9,859**		**100.00 %**

Notes: Separate schedule on Principal Participating Employers for ACERA's Postemployment Medical Benefits is not presented. ACERA implemented GASB 44 for year ended December 31, 2006. Historical data on covered employees by participating employers for this plan are not available due to system constraints.

Separate schedule on Principal Participating Employers for ACERA's Non-OPEB Benefits is not presented. ACERA implemented GASB 44 for year ended December 31, 2006. Historical data on covered employees by participating employers for this plan are not available due to system constraints.

President Barack Obama signs stimulus package bill
Obama signed a $787 billion economic stimulus bill into law on February 17, 2009.

Bernard Madoff brought to justice
On March 12, 2009, multimillionaire swindler Madoff, the 70-year-old former Nasdaq chairman, pleaded guilty to fraud in one of the largest Ponzi schemes in history.

War in Iraq continues its toll
President Obama meets with General Odierno, Commanding General, Multi-National Force-Iraq, during the President's visit with U.S. troops at Camp Victory, Baghdad, Iraq on April 7, 2009.

Section 6
COMPLIANCE

Tent cities sprout across the country
Sacramento's tent city has seen an increase in population as unemployment numbers grow in the U.S.

World's leaders meet to strategize
U.S. President Barack Obama arrives on stage for a news conference at the G20 Summit in London on April 2, 2009. World leaders agreed on a trillion-dollar deal to combat the deepest economic downturn since the Great Depression.

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Retirement
Alameda County Employees' Retirement Association
Oakland, California

We have audited the financial statements of the Alameda County Employees' Retirement Association (ACERA), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated May 27, 2009. Our report on the financial statements was modified to indicate that ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27* for the year ended December 31, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered ACERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ACERA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects ACERA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of ACERA's financial statements that is more than inconsequential will not be prevented or detected by ACERA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by ACERA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

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Certified Public Accountants
Management Consultants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Retirement, others within the entity, and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company, LLP

May 27, 2009

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ALAMEDA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

475-14th Street, Oakland, California 94612