



# LACERS

LOS ANGELES CITY  
EMPLOYEES' RETIREMENT SYSTEM  
(A Department of the City of Los Angeles)

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**Securing Your Tomorrows**



### **Mission Statement:**

Securing your tomorrows – LACERS is dedicated to providing superior service and protecting retirement benefits for the financial future of its members.

### **Core Values:**

The LACERS Board and Staff are committed to reflecting these core values in all we say and do:

- Fulfilling fiduciary responsibilities with the utmost integrity and accountability
- Thinking independently, respecting individuality, and working as a team
- Encouraging open communication and collaboration
- Continuously expanding our knowledge



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# **Comprehensive Annual Financial Report**

**For The Fiscal Year Ended June 30, 2004**

**Robert Aguallo, Jr., General Manager-Secretary**

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# TABLE OF CONTENTS

	Page
<b>I. INTRODUCTORY SECTION</b>	
A. LETTER OF TRANSMITTAL .....	3
B. CERTIFICATE OF ACHIEVEMENT .....	8
C. BOARD OF ADMINISTRATION .....	9
D. ORGANIZATIONAL CHART .....	10
E. PROFESSIONAL CONSULTANTS .....	11
<b>II. FINANCIAL SECTION</b>	
A. REPORT OF INDEPENDENT AUDITORS .....	15
B. MANAGEMENT'S DISCUSSION AND ANALYSIS .....	17
C. FINANCIAL STATEMENTS	
• Statement of Plan Net Assets .....	26
• Statement of Changes in Plan Net Assets .....	27
• Notes to Financial Statements .....	28
D. REQUIRED SUPPLEMENTARY INFORMATION	
• Schedule of Funding Progress .....	43
• Schedule of Employer Contributions .....	44
• Notes to Required Supplementary Information .....	45
E. SUPPLEMENTAL SCHEDULES	
• Schedule of Administrative Expenses .....	49
• Schedule of Investment Expenses .....	50
<b>III. INVESTMENT SECTION</b>	
A. REPORT ON INVESTMENT ACTIVITY .....	53
B. OUTLINE OF INVESTMENT POLICIES .....	56
C. INVESTMENT RESULTS .....	57
D. PUBLIC & PRIVATE EQUITY INVESTMENT CONTRACT .....	
ACTIVITY .....	57
E. ASSET ALLOCATION .....	58
F. LIST OF LARGEST ASSETS HELD .....	59
G. SCHEDULES OF FEES AND COMMISSIONS .....	61
H. CAPTURED COMMISSION EXPENDITURES .....	62
I. INVESTMENT SUMMARY .....	64
J. ADVISORY/CONSULTING/CUSTODY SERVICES .....	65
<b>IV. ACTUARIAL SECTION</b>	
A. SUMMARY OF SIGNIFICANT VALUATION RESULTS .....	69
B. COMPUTED CONTRIBUTION RATE – HISTORICAL DATA .....	70

## TABLE OF CONTENTS – Continued

<b>C. VALUATION AND REVIEW OF RETIREMENT PROGRAM</b>	
• Valuation Summary	
◆ Significant Issues in Valuation Year .....	74
◆ Summary of Key Valuation Results .....	76
◆ Actuarial Certification .....	77
• Valuation Results	
◆ Member Data .....	78
◆ Financial Information .....	81
◆ Recommended Contribution .....	89
• Supplemental Information	
◆ Development of the Fund .....	97
◆ Development of UAAL .....	98
◆ Definitions of Pension Terms .....	101
• Reporting Information	
◆ Summary of Valuation Results .....	103
◆ GASB 25 – Schedule of Employer Contribution .....	105
◆ GASB 25 – Schedule of Funding Progress .....	106
◆ GASB 27 – Net Pension Obligation .....	108
◆ Valuation Method and Assumptions .....	109
◆ Summary of Plan Provisions .....	114
◆ Solvency Test .....	118
◆ Retirants and Beneficiaries Added To and Removed From the Rolls .....	119
 <b>D. VALUATION AND REVIEW OF HEALTH PROGRAM</b>	
• Introduction .....	124
• Valuation Results	
◆ Highlights of the Valuation .....	126
◆ Summary of Valuation Results .....	127
◆ Actuarial Certification .....	128
• Valuation Details	
◆ Development of UAAL .....	137
◆ GASB 25 – Schedule of Funding Progress .....	139
• Supporting Information	
◆ Valuation Method and Assumptions .....	141
◆ Summary of Plan Provisions .....	147
 <b>V. STATISTICAL SECTION</b>	
A. SCHEDULE OF ADDITIONS BY SOURCE .....	153
B. SCHEDULE OF DEDUCTIONS BY TYPE .....	153
C. SCHEDULE OF BENEFIT EXPENSES BY TYPE .....	154
D. GRAPH OF CITY CONTRIBUTIONS VERSUS BENEFITS PAID .....	154
E. SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS .....	155
F. SCHEDULE OF AVERAGE BENEFIT PAYMENTS .....	156



# INTRODUCTORY SECTION



Los Angeles City Hall and Surrounding Area, circa 1929  
SECURITY PACIFIC COLLECTION / Los Angeles Public Library



**Securing Your Tomorrows  
Building On Our Past**

# CITY OF LOS ANGELES

CALIFORNIA

## BOARD OF ADMINISTRATION

THOMAS J. MIZO  
PRESIDENT

SHELLEY I. SMITH  
VICE PRESIDENT

MARVIN ADAMS, JR.  
ERIC L. HOLOMAN  
RICK ROGERS  
VICKY L. SCHIFF  
KEN SPIKER



JAMES K. HAHN  
MAYOR

## LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

360 EAST SECOND STREET  
2<sup>ND</sup> FLOOR  
LOS ANGELES, CA 90012-4207

(213) 473-7200  
(800) 779-8328  
TTY (888) 349-3996

## ADMINISTRATION

ROBERT AGUALLO, JR.  
GENERAL MANAGER

SALLY CHOI  
ASSISTANT GENERAL MANAGER

## LETTER OF TRANSMITTAL

December 17, 2004

Board of Administration  
Los Angeles City Employees' Retirement System  
360 East Second Street, 2nd Floor  
Los Angeles, California 90012

Dear Members of the Board:



It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ended June 30, 2004, the System's 68th year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operation and is the responsibility of LACERS management. Established in 1937, LACERS is a public employee retirement system. All regular full-time and eligible part-time Los Angeles City employees accrue retirement benefits from LACERS except employees of the Department of Water and Power and sworn personnel of the Los Angeles Police and Fire Departments. LACERS provides service retirements and disability retirements for employees of the City of Los Angeles (City) to facilitate separation from City service, allowing a new generation of City workers to assume the responsibilities of effective government service. LACERS also provides a health insurance subsidy for retired members and their beneficiaries, active and retired death benefits, and administers a term life insurance benefit program for active members. Members of LACERS can participate in a Government Services Buyback Program, which allows members to purchase retirement service credit for service with other government employers, including the military. LACERS is a reciprocal agency with the California Public Employees' Retirement System (CalPERS) and 38 other California public pension funds. This allows members who transfer between California public retirement plans to receive an accumulated retirement benefit for continuous public service within the State of California.

## STRUCTURE OF THE REPORT

This report is presented in five sections:

- The Introductory Section describes the System's management and organizational structure, a summary of the plan provisions, and a listing of the professional services used.
- The Financial Section contains the opinion of the independent auditors, Ernst & Young LLP, the Management's Discussion and Analysis, and the general-purpose financial statements of the System.
- The Investment Section contains the Chief Investment Officer's transmittal letter covering significant events in management of the Los Angeles City Employees' Retirement Fund along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the consulting actuary, the Segal Company, along with supporting schedules and information.
- The Statistical Section contains a graph and schedules related to active and retired membership, revenues, expenses, benefit expenses, City contribution, retired membership, and average benefit payments.

### **1. Accounting System and Reports**

This CAFR was prepared in conformity with accounting principles generally accepted in the United States and reporting guidelines set forth by the Government Accounting Standards Board (GASB) in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and the Los Angeles City Charter.

The Management's Discussion and Analysis is located in the Financial Section at page 17, which contains financial highlights, overview of the financial statements and financial analysis in the narrative format. Readers of this CAFR are encouraged to review this supplementary information to gain an insight of LACERS' financial activities.

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from the City and members are recognized in the period in which members provide services. Investment income is recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due.

It is the responsibility of LACERS management to prepare retirement system financial statements, notes, supplementary disclosures and establish and maintain internal control to ensure retirement system assets are protected.

Ernst & Young LLP, independent auditors, have audited the general-purpose financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.



## 2. Additions to Plan Net Assets

The total additions to plan net assets for the fiscal year ended June 30, 2004, consisting of contributions, net appreciation in fair value of investments and investment income net of investment management fees, was \$1,486,136,000. This amount includes member and employer contributions of \$233,619,000 and net investment income of \$1,252,517,000. Net investment income increased \$1,005,192,000 as compared with the prior fiscal year. The increase was attributed mainly to the appreciation in fair value of investments. Details of the components of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 27 of the financial statements in the financial section.

## 3. Deductions to Plan Net Assets

Deductions for the fiscal year ended June 30, 2004, excluding investment management and security-lending fees were \$460,739,000, which represented an increase of \$27,916,000 over the prior year. This increase was mainly the result of more retirement benefits payments due to higher average monthly pay and an increase in the number of retirees. The components of the total deductions include payments of retirement benefits of \$438,530,000; refunds of contributions and interest to terminated members of \$11,338,000; and administrative expenses of \$10,871,000.

## 4. Changes in System Membership

LACERS membership increases for the fiscal year ended June 30, 2004 were as follows:

	<u>2004</u>	<u>2003</u>	<u>Increase</u>	<u>Change</u>
Active Members	27,092	26,358	734	2.8 %
Retired Members	14,137	13,805	332	2.4 %

## 5. Major Initiatives

From November 2003 through the end of the fiscal year, LACERS senior management and the Board of Administration have dedicated much of their time and effort in developing the LACERS Strategic Plan for 2004-2006. The Commissioners of the Board and senior staff began the process by jointly identifying the “mission” and “core values” of LACERS, as outlined in the Mission Statement and the Core Values on the front inner page of this report. We then further identified six goals and seventeen specific objectives which we believe, when implemented, will enhance LACERS’ overall performance and carry out its mission as stated. The six goals are: 1) to provide superior benefits administration for members, retirees, and their beneficiaries; 2) to provide quality and cost-effective retiree healthcare benefits; 3) to establish an optimal portfolio to meet our investment and actuarial objectives; 4) to adopt the best governance practices for the Board; 5) to establish the optimal work environment, organizational design, and staffing resources; and 6) to establish a strategic comprehensive communication plan. Each of the seventeen objectives has an action plan that contains tasks and timelines from July 2004 through 2006. The Board approved the LACERS Strategic Plan on June 22, 2004, as recommended by the Audit and Strategic Planning Committee. The ultimate purpose of the LACERS Strategic Plan is to transform LACERS into a premier retirement trust fund that provides superior service and protects retirement benefits for the financial futures of its members.

## **6. Funding Status**

LACERS' actuarial funding status fell below 100% again with four consecutive years of investment returns on actuarial value of assets that were below the assumed rate of 8%. The actuarial value of assets is determined by an actuarial smoothing method that spreads the investment gains and losses over a five-year period. As a result, the unrecognized investment losses from previous years continued to depress the funded ratio even though the current year investment performance was greatly improved. This was compounded by a change in medical trend rate assumption, higher than expected salary increase due to late settlement of MOUs, the contribution shortfall due to a phase-in of actuarial assumption changes and GASB 40-year amortization rule, and other experience losses. During the fiscal year, the total funded ratio of the System based on actuarial value of assets fell from 88.6% to 79.4%.

## **7. Financial and Economic Summary**

A fairly strong recovery of the US economy has taken hold since mid-2003. The interest rates were historically low throughout the year until June 30, 2004 when the Federal Reserve raised short-term interest rates for the first time in four years from 1% to 1½ %. The financial markets rebounded from the downturn caused by the technology bust of 2000 and the September 11, 2001 terror attacks. All major stock indices showed large gains from the past three years which benefited LACERS significantly in terms of the investment return on market value.

## **8. Investment Summary**

LACERS' investments, based on market value, provided much improved returns than the year before as the strong market rebound took place during the fiscal year. For the current fiscal year, the portfolio earned a total return of 18.6%. The portfolio has annualized returns of 5.7% over the past three years, and 4.6% over the past five years. On a fair value basis, the total plan net assets increased by 15.3% from \$6,709,041,000 to \$7,734,438,000 during the current fiscal year.

## **9. 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 LACERS for its comprehensive annual financial report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## 10. Acknowledgements

I would like to express my appreciation to the entire Board for effectively working together to set investment policies which will enable the Fund to meet its long-term goals. We'd like to thank staff for continually providing quality customer service to the members and various City departments while conducting related business.

In addition, we would like to acknowledge the Investments, Systems, and Accounting Sections for their efficient and dedicated efforts in preparing this report. We would also like to thank our auditors, Ernst & Young LLP, for their professional assistance in the preparation of this report.

Respectfully submitted,



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Robert Aguallo, Jr.  
General Manager



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Li Hsi  
Chief Accounting Employee

# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Los Angeles City  
Employees' Retirement System,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

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.



*Nancy L. Zielle*

President

*Jeffrey R. Emer*

Executive Director

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**BOARD OF ADMINISTRATION**

**FISCAL YEAR 2003 - 2004**



President, Elected by Active Members  
Shelley I. Smith



Vice President, Appointed by the Mayor  
Thomas J. Mizo



Appointed by the Mayor  
Marvin Adams, Jr.



Appointed by the Mayor  
Eric L. Holoman



Elected by Active Members  
Rick Rogers



Appointed by the Mayor  
Vicky L. Schiff



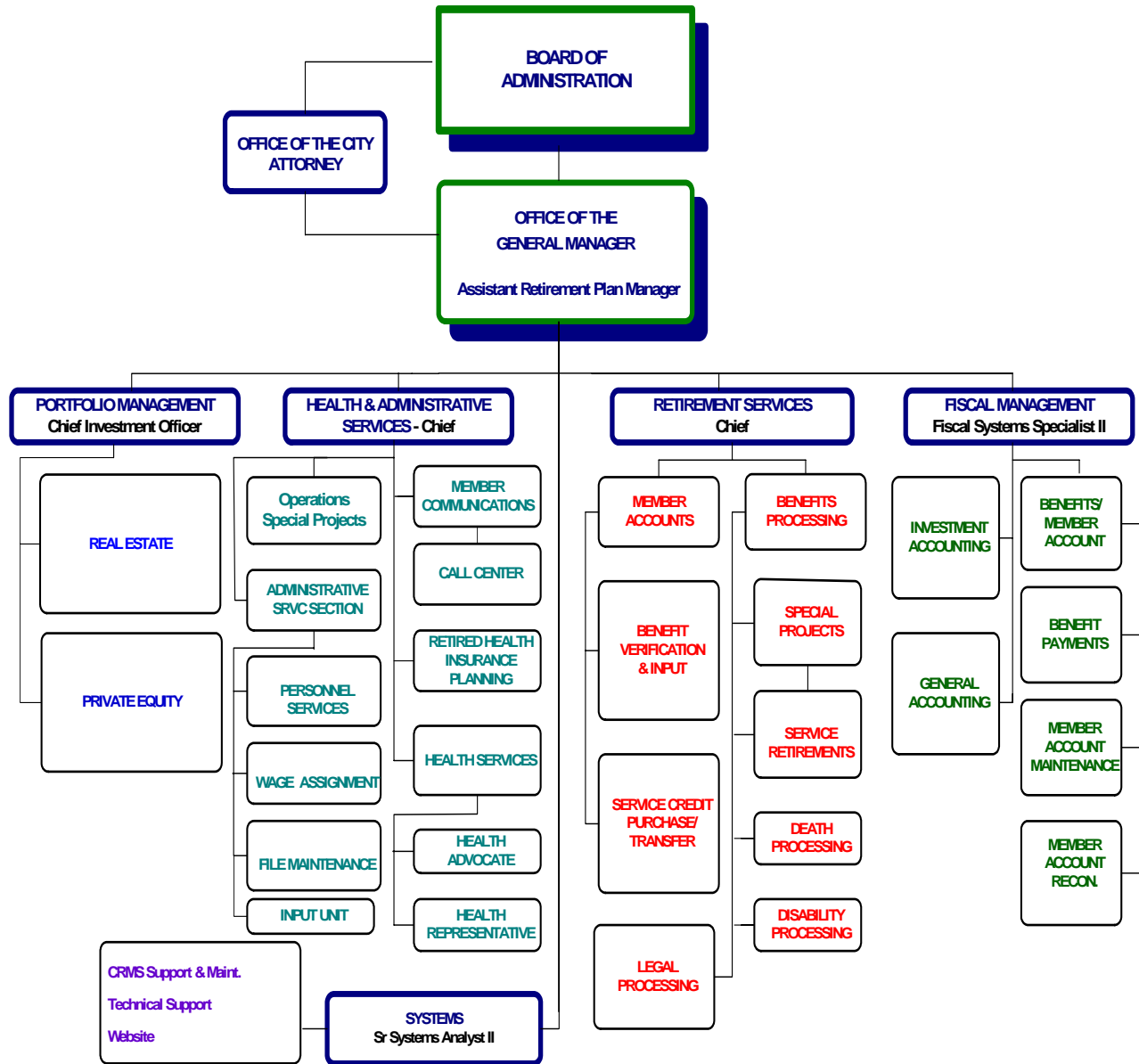
Elected by Retired Members  
Ken Spiker



Manager – Secretary  
Robert Aguallo, Jr.



# LACERS ORGANIZATIONAL CHART



## **PROFESSIONAL CONSULTANTS**

### **ACTUARY**

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**The Segal Company**  
San Francisco, CA

### **INDEPENDENT AUDITORS**

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**Ernst & Young LLP**  
Los Angeles, CA

### **BENEFICIARY VERIFICATION**

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**Pension Benefit Information**  
Tiburon, CA

### **HEALTH & WELFARE CONSULTANTS**

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**Deloitte & Touche**  
Costa Mesa, CA

### **INVESTMENT CONSULTANTS**

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**The Townsend Group**  
Cleveland, OH

**Pathway Capital Management**  
Irvine, CA

**Pension Consulting Alliance Inc.**  
Portland, OR

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# FINANCIAL SECTION



Los Angeles City Hall, circa early 1930s  
SECURITY PACIFIC COLLECTION / Los Angeles Public Library

**Securing Your Tomorrows  
Building On Our Past**

## Report of Independent Auditors

Honorable Members of the City Council of  
the City of Los Angeles, California,  
and  
Board of Administration  
Los Angeles City Employees' Retirement System  
Los Angeles, California

We have audited the accompanying retirement plan and postemployment healthcare plan statement of plan net assets of the Los Angeles City Employees' Retirement System (the System), a department of the City of Los Angeles, California, as of June 30, 2004, and the related retirement plan and postemployment healthcare plan statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2003 financial statements and, in our report dated October 3, 2003, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the retirement plan and postemployment healthcare plan of the Los Angeles City Employees' Retirement System as of June 30, 2004, and the changes in its net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

The accompanying required supplementary information including Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information on pages 17 through 25 and 43 through 46 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of administrative expenses and investment expenses are presented for purposes of additional analysis and are not a required part of the financial statements of the System. The supplemental schedules have been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, are fairly stated, in all material respects in relation to the financial statements taken as a whole.

*Ernst + Young LLP*

October 21, 2004

## Management's Discussion and Analysis

As management of the Los Angeles City Employees' Retirement System (LACERS), we are pleased to provide this overview and analysis of the financial activities of LACERS for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal in the Introduction Section of LACERS' Comprehensive Annual Financial Report.

### **FINANCIAL HIGHLIGHTS**

- The plan net assets of LACERS as of June 30, 2004 are \$7,734,438,000.
- Compared with the plan net assets of LACERS as of June 30, 2003, the value of the net assets increased \$1,025,397,000 or 15.3% during the reporting period.
- The plan assets under the retirement plan and postemployment healthcare plan are pooled for investment purposes. Investment gain for the year was \$1,252,517,000, as compared with an investment gain of \$247,325,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) to both the retirement plan and the postemployment healthcare plan were \$140,201,000, which includes the defrayal of a portion of member contributions.
- The employer contributions to the retirement plan represented 63% of the Annual Required Contribution as defined by GASB Statements No. 25 and No. 27, and resulted in a contribution shortfall of \$58,674,000. The shortfall will be reflected in future higher contribution rates.
- Deductions from net assets of LACERS include benefit payments, refunds of member contributions and administrative expenses. The total deductions from net assets were \$460,739,000, a 6.4% increase from the prior fiscal year.
- As of June 30, 2004, the date of our last actuarial valuation, the funded ratio for LACERS was 79.4%. The funded ratio for the retirement plan was 82.5% and the funded ratio for the postemployment healthcare plan was 60.5%. The funded ratio (actuarial value of assets divided by actuarial accrued liability) is an indicator of LACERS' ability to pay accrued benefits when due. In general, this ratio indicates that for every dollar of benefit due \$0.79 of assets are available for payment.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The following discussion and analysis are intended to serve as an introduction to LACERS' financial statements and the accompanying notes thereto. The required supplementary information and supplemental schedules provide additional financial data of LACERS' operations.

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

*Financial statements.* There are two financial statements presented for LACERS. The Statement of Plan Net Assets indicates the net assets, being the difference between the assets and liabilities, available to pay future benefits and gives a snapshot of the account balances at year-end. Over time, increases or decreases in net assets may serve as a useful indicator of whether the net assets of LACERS is improving or deteriorating. The Statement of Changes in Plan Net Assets provides a view of current year additions to and deductions from the plan net assets during the most recent fiscal year. The two statements can be found on pages 26 and 27 of this report.

*Notes to financial statements.* The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 28 – 39 of this report.

*Required supplementary information.* In addition to this Management’s Discussion and Analysis, the other required supplementary information pertains solely to the retirement plan and consists of a Schedule of Funding Progress, a Schedule of Employer Contributions, and the Notes to Required Supplementary Information. They primarily present actuarially determined information in a multi-year format as required by the applicable financial reporting standards. This required supplementary information can be found on pages 43 – 46 of this report.

*Supplemental schedules.* The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS’ operations for the current year. They can be found on pages 49 and 50 of this report.

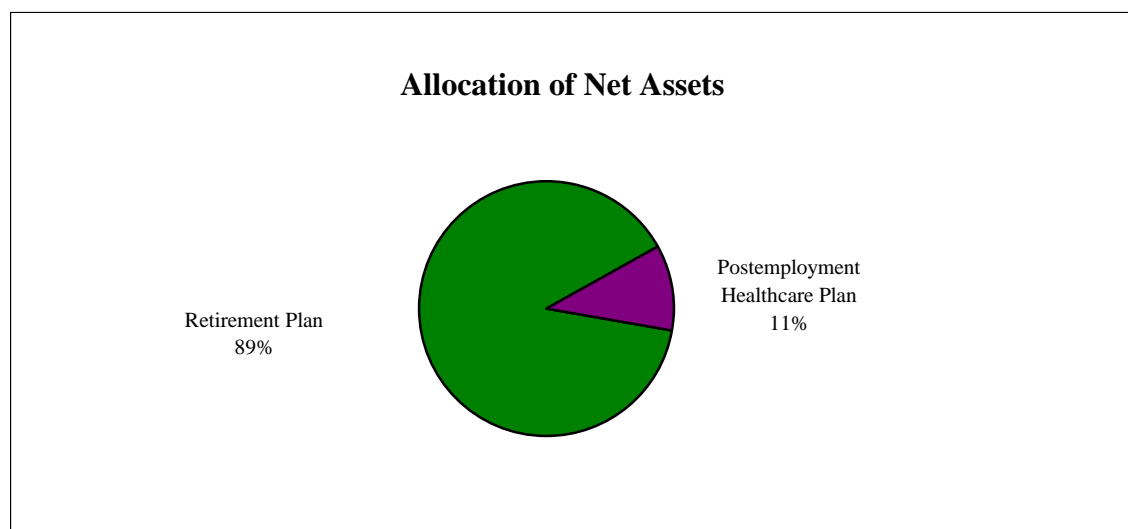
## FINANCIAL ANALYSIS

### Allocation of Net Assets

The following information provides a brief description of the asset allocation between the retirement plan and the postemployment healthcare plan as of June 30, 2004 (in thousands):

Retirement Plan	\$ 6,895,303
Postemployment Healthcare Plan	<u>839,135</u>
<b>Net Assets</b>	<b><u><u>\$ 7,734,438</u></u></b>

## Allocation of Net Assets (continued)



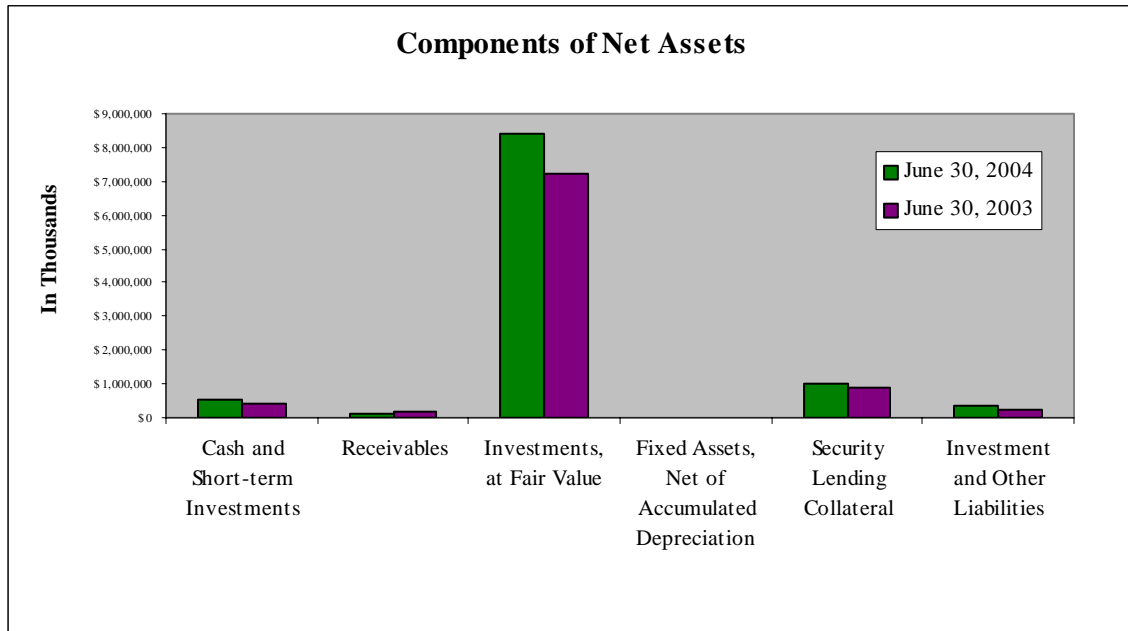
Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were \$7,734,438,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the retirement plan and postemployment healthcare plan, as required by the existing reporting standards. Net assets for the retirement plan and postemployment healthcare plan are \$6,895,303,000 and \$839,135,000, respectively.

## Net Assets

The following table and graph represent the detailed information regarding the components of the net assets of LACERS as of June 30, 2004 and 2003 (in thousands):

	June 30, 2004	June 30, 2003	Change	
Cash and Short-term Investments	\$ 539,354	\$ 410,784	\$ 128,570	31.3%
Receivables	147,273	204,239	(56,966)	(27.9)
Investments, at Fair Value	8,406,872	7,239,780	1,167,092	16.1
Capital Assets, Net of Depreciation	113	56	57	101.8
<b>Total Assets</b>	<b>9,093,612</b>	<b>7,854,859</b>	<b>1,238,753</b>	<b>15.8</b>
Security Lending Collateral Liability	996,067	899,561	96,506	10.7
Investment and Other Liabilities	363,107	246,257	116,850	47.5
<b>Total Liabilities</b>	<b>1,359,174</b>	<b>1,145,818</b>	<b>213,356</b>	<b>18.6</b>
<b>Net Assets</b>	<b>\$ 7,734,438</b>	<b>\$ 6,709,041</b>	<b>\$ 1,025,397</b>	<b>15.3%</b>

## Net Assets (continued)



The largest portion of LACERS' net assets is its investment portfolio which includes cash and short-term investments, receivables, plus fixed income, equities, and other asset classes. Net assets increased by \$1,025,397,000 during the report year. The significant increase is attributable mainly to the strong market recovery throughout the entire fiscal year.

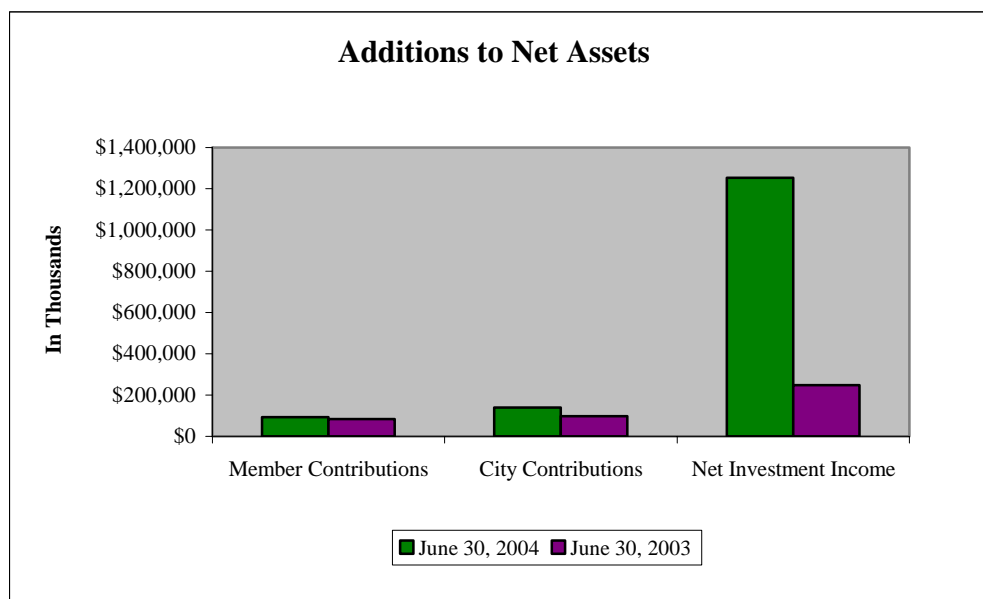
### Change in Net Assets – Additions to Net Assets

The following table and graph represent the components that make up the additions to net assets for LACERS for the years ended June 30, 2004 and 2003 (in thousands):

	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>Change</b>
Member Contributions	\$ 93,418	\$ 83,068	12.5%
City Contributions	140,201	97,531	43.8
Net Investment Income	1,252,517	247,325	406.4
<b>Additions to Net Assets</b>	<b>\$ 1,486,136</b>	<b>\$ 427,924</b>	<b>247.3%</b>



## Change in Net Assets – Additions to Net Assets (continued)



The additions to LACERS' net assets consist of Member Contributions, City Contributions, and Net Investment Income. These additions are the main funding source to support LACERS' benefits.

City Contributions to both the retirement plan and the postemployment healthcare plan were \$140,201,000 during the year, or \$42,670,000 more than the prior fiscal year due to a larger contribution percentage recommended by the actuary. However, the actual contributions to the retirement plan fell short of the Annual Required Contribution (ARC) as defined by GASB Statements No. 25 and No. 27 by \$58,674,000. The shortfall was due to 1) the Board approved a reduction to the City contribution rate as the first-year phase-in of actuarial assumption changes for the June 30, 2002, actuarial valuation which determined the contribution rate for fiscal year 2003-04, and 2) the original ARC amount and the corresponding adjusted contribution rate which was used by the City for its fiscal year 2003-04 contributions was lower than the final adjusted ARC amount calculated using the required 40-year minimum amortization period of the Unfunded Actuarial Accrued Liability (UAAL). The shortfall creates a Net Pension Obligation of the City. It is included in the gains and losses of the LACERS' UAAL as of June 30, 2004 and will cause an incrementally higher contribution rate beginning in fiscal year 2005-06 and continuing during the 15-year amortization period of such gains and losses of the UAAL.

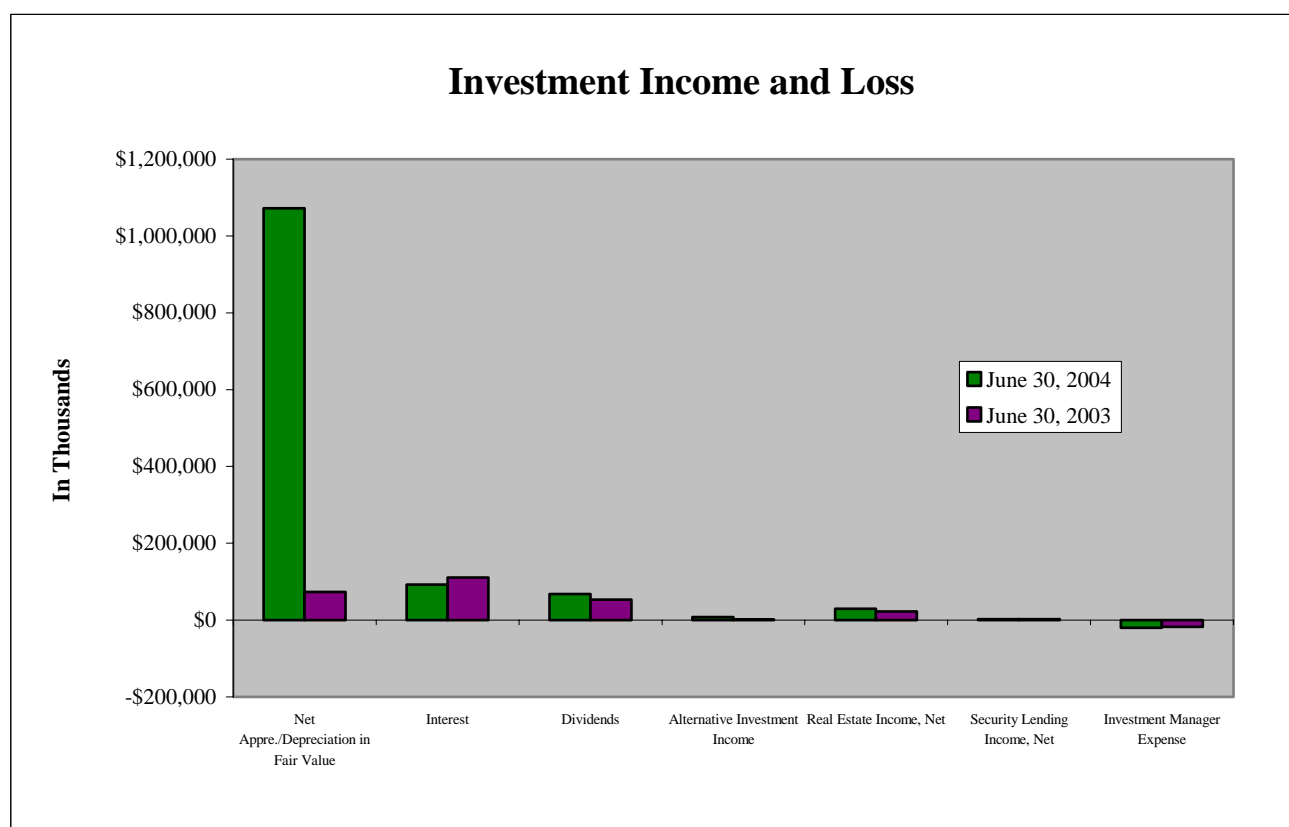
Factors that affect the amount of Member Contributions are the number and composition of members and their salaries. During the year, members contributed \$93,418,000, or \$10,350,000 (12.5%) more than the prior year due to salary increases and a 2.8% net increase in the number of members.

The net investment income increased significantly from the \$247,325,000 reported in the prior fiscal year to the \$1,252,517,000 in the current fiscal year due to the continued improved market conditions.

## Investment Income and Loss

The following table and graph present the detail of investment income and loss, net of investment management expenses for the years ended June 30, 2004 and 2003 (in thousands):

	June 30, 2004	June 30, 2003	Change
Net Appreciation in Fair Value of Investments	\$ 1,072,478	\$ 73,247	1,364.2%
Interest	92,172	110,373	(16.5)
Dividends	67,629	53,491	26.4
Alternative Investment Income	7,615	2,004	280.0
Real Estate Income, Net	30,133	23,117	30.3
Security Lending Income, Net	2,799	2,570	8.9
Investment Management Expense	(20,309)	(17,477)	(16.2)
<b>Total Investment Gain, Net</b>	<b>\$ 1,252,517</b>	<b>\$ 247,325</b>	<b>406.4%</b>



The amount of net investment gain was \$1,252,517,000 during the year, or 406.4% more than the prior fiscal year. The stock markets began a very strong recovery near the end of the prior fiscal year, resulting in an extraordinary net appreciation in fair value of LACERS' investments of \$1,072,478,000.

## Investment Income and Loss (continued)

The net appreciation includes realized and unrealized capital gain/loss and compares much more favorably with the net appreciation of \$73,247,000 of the year before.

Adding to the investment income was the increase in stock dividends earned during the fiscal year that was 26.4% higher than the previous year. The interest income was lower, however, compared with the previous year by 16.5%. This was due to the depressed bond yields during the year. The real estate and alternative investments portfolio, the two other components of LACERS' asset allocation, contributed 2.4% and 0.6%, respectively, of the total investment income. Both types of income showed increases in dollar amounts from the previous year. The net security lending income also posted an increase from a year ago due to the appreciated value of securities available for lending despite the continued low yields. One other reason for the increase in the net security lending income is the lower security lending expense, which is a direct result of the renegotiated contract with the custodian bank who receives a portion of the security lending income in return for providing services under the security lending agreement. Investment management expense for the current year was 16.2% higher than that of the previous year. The increase corresponds to the higher value of LACERS' investment portfolio, as the investment management fees are tied to the value of investment assets.

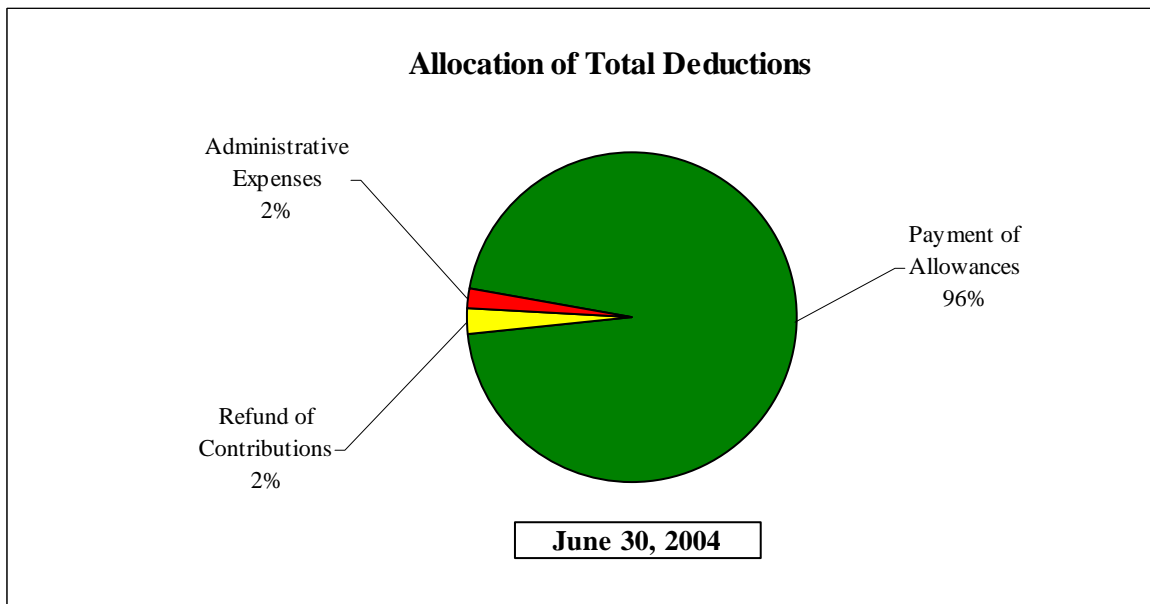
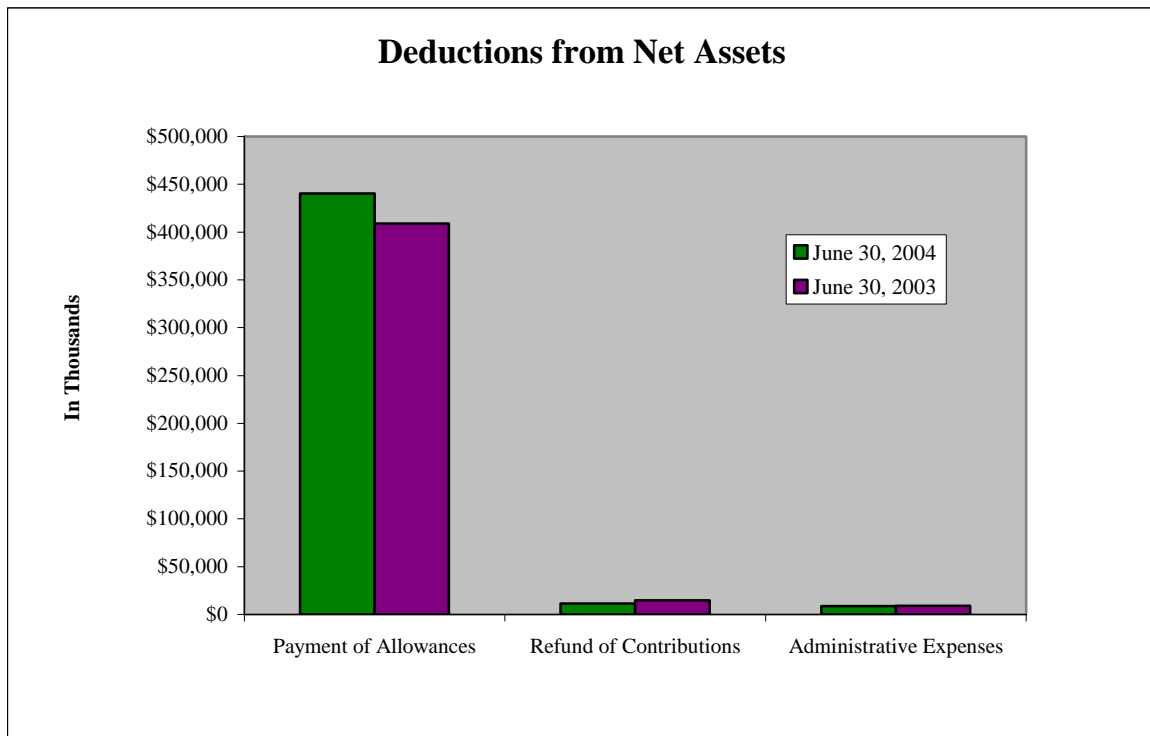
## Change in Net Assets – Deductions from Net Assets

The following table and graphs provide information related to the deductions from net assets for the years ended June 30, 2004 and 2003 (in thousands):

	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>Change</b>
Benefit Payments	\$ 438,530	\$ 408,979	7.2%
Refund of Contributions	11,338	14,679	(22.8)
Administrative Expenses	10,871	9,165	18.6
<b>Deductions from Net Assets</b>	<b>\$ 460,739</b>	<b>\$ 432,823</b>	<b>6.4%</b>

LACERS' deductions from net assets can be summarized as Benefit Payments, Refunds of Contributions, and Administrative Expenses. They represent the types of benefit delivery operations undertaken by LACERS and the cost associated with it. Total deductions increased by 6.4%. The increase was due to a greater amount of benefit payments, which increased by 7.2%. The reasons for this increase are primarily the annual cost of living adjustment of approximately 3.0%, the increase in number of retirees by 2.4%, the average monthly benefit amount that was 6.0% higher than the prior year, and the higher expenditure on health and dental subsidies. The refund of contributions decreased by \$3,341,000 and the administrative expenses increased by \$1,706,000 when compared to the prior reporting period. The two items accounted for approximately 2.5% and 2.4% of total deductions from net assets, respectively.

## Change in Net Assets – Deductions from Net Assets (continued)



## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of LACERS' finances for all those with an interest in LACERS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

LACERS  
Fiscal Management Division  
360 East Second Street, Eighth Floor  
Los Angeles, CA 90012

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Retirement Plan and Postemployment Healthcare Plan  
Statement of Plan Net Assets

As of June 30, 2004, with Comparative Totals

*(In Thousands)*

	Retirement Plan	Postemployment Healthcare Plan	Totals 2004	2003
<b>Assets</b>				
Cash and short-term investments <i>(Note 5)</i>	\$ 480,838	\$ 58,516	\$ 539,354	\$ 410,784
Receivables:				
Accrued investment income	25,047	3,048	28,095	27,001
Proceeds from sales of investments	100,914	12,281	113,195	172,646
Other	5,333	650	5,983	4,592
Total receivables	131,294	15,979	147,273	204,239
Investments, at fair value <i>(Notes 5 and 6)</i> :				
U.S. government obligations	365,896	44,528	410,424	414,583
Municipal bonds	1,753	214	1,967	55,991
Domestic corporate bonds	648,597	78,932	727,529	667,910
International bonds	139,140	16,933	156,073	173,468
Domestic stocks	3,184,631	387,559	3,572,190	2,872,086
International stocks	1,324,705	161,212	1,485,917	1,250,845
Mortgages	337,939	41,126	379,065	223,288
Government agencies	70,994	8,640	79,634	80,458
Real estate	273,076	33,232	306,308	346,059
Venture capital and alternative investments	260,051	31,647	291,698	255,532
Security lending collateral	888,000	108,067	996,067	899,560
Total investments	7,494,782	912,090	8,406,872	7,239,780
Capital assets:				
Furniture, fixtures and equipment (net of depreciation)	101	12	113	56
Total assets	8,107,015	986,597	9,093,612	7,854,859
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	(17,192)	(2,092)	(19,284)	(18,496)
Purchases of investments	(306,520)	(37,303)	(343,823)	(227,761)
Security lending collateral	(888,000)	(108,067)	(996,067)	(899,561)
Total current liabilities	(1,211,712)	(147,462)	(1,359,174)	(1,145,818)
Net assets held in trust for pension benefits and postemployment healthcare benefits (a schedule of funding progress is presented on page 43)	\$ 6,895,303	\$ 839,135	\$ 7,734,438	\$ 6,709,041

*See accompanying notes.*

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Retirement Plan and Postemployment Healthcare Plan  
Statement of Changes in Plan Net Assets

Year ended June 30, 2004, with Comparative Totals

(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Totals 2004	Totals 2003
Additions:				
Contributions:				
Plan member	\$ 93,418	\$ -	\$ 93,418	\$ 83,068
Employer	120,057	20,144	140,201	97,531
Total contributions (Note 2)	213,475	20,144	233,619	180,599
Investment income:				
Net appreciation in fair value of investments, including gain and loss on sales	936,381	136,097	1,072,478	73,247
Interest	82,182	9,990	92,172	110,373
Dividends	60,299	7,330	67,629	53,491
Alternative investment income	6,789	826	7,615	2,004
Real estate operating income, net of expense	26,934	3,199	30,133	23,117
Security lending income (Note 6)	3,349	407	3,756	3,671
Security lending expense	(836)	(121)	(957)	(1,101)
	1,115,098	157,728	1,272,826	264,802
Investment management expense	(17,732)	(2,577)	(20,309)	(17,477)
Total investment income, net	1,097,366	155,151	1,252,517	247,325
Total additions	1,310,841	175,295	1,486,136	427,924
Deductions:				
Benefits	(380,276)	(58,254)	(438,530)	(408,979)
Refunds of contributions	(11,338)	-	(11,338)	(14,679)
Administrative expenses	(9,066)	(1,805)	(10,871)	(9,165)
Total deductions	(400,680)	(60,059)	(460,739)	(432,823)
Net increase (decrease)	910,161	115,236	1,025,397	(4,899)
Net assets held in trust for pension benefits and postemployment healthcare benefits:				
Beginning of year	5,985,142	723,899	6,709,041	6,713,940
End of year	\$ 6,895,303	\$ 839,135	\$ 7,734,438	\$ 6,709,041

See accompanying notes.



Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements

June 30, 2004

**1. Description of the Plan and Significant Accounting Policies**

**General**

The Los Angeles City Employees' Retirement System (the System) is under the exclusive management and control of the City of Los Angeles Board of Administration (the Board), whose authority is granted by the Los Angeles City Charter (Article XI). The System is a department of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles Annual Financial Report as a pension trust fund. The System covers all personnel of City departments included in the City's regular operating budget, except for sworn employees of the Fire and Police departments, Department of Water and Power employees, and certain elected officials. The System also covers the employees of the departments of Airports and Harbor.

The System operates a single-employer defined benefit plan (the retirement plan) and postemployment healthcare plan. The City and eligible employees contribute to the System based upon rates recommended by an independent actuary and adopted by the Board. Contributions are invested and applied to benefit payments with accumulated investment earnings. The retirement plan provides for death, normal and disability retirement benefits. Changes to the types of benefits provided require approval by the City Council.

The primary eligibility requirement for the postemployment healthcare subsidy is that the person is a retired employee, and/or an eligible spouse, who is receiving a monthly allowance from the Los Angeles City Employees' Retirement System. The required contribution rate for the postemployment healthcare benefits for the fiscal year ended June 30, 2004, was 1.85% of covered payroll.

The System's funding policy under Article XI Sections 1158 and 1160 provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2004, the annual required contribution to the retirement plan by the City was determined at 9.22%, and subsequently revised, by the actuary to be 10.9% of the covered payroll. The actual contribution made by the City for fiscal year 2003-04 was less than the recommended rate (see Note 2). Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (see Note 4). Members entering subsequent

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**1. Description of the Plan and Significant Accounting Policies (continued)**

**General (continued)**

to January 1983 contribute a flat rate of 6%. Members of the System have a vested right to their own contributions and accumulated investment earnings. After five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member with five or more years of service terminates employment, the member has the option of receiving retirement benefits when eligible or withdrawing from the System, and having his or her contributions and accumulated investment earnings refunded. Benefits are based upon age, length of service and compensation.

The components of the System's membership were as follows at June 30, 2004:

Active:	
Vested	17,591
Nonvested	9,501
	<u>27,092</u>
Inactive:	
Nonvested	1,296
Terminated entitled to benefits, not yet receiving benefits	936
Retired	14,137
Total	<u><u>43,461</u></u>

**Basis of Accounting**

The financial statements are maintained on the accrual basis of accounting. Member contributions are recognized as revenues in the period in which compensation is paid to the member by the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable.

**Basis of Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States, as outlined by the Governmental Accounting Standards Board (GASB).

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**1. Description of the Plan and Significant Accounting Policies (continued)**

**Basis of Presentation (continued)**

The accompanying financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States.

**Fair Value of Investments**

Funds are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board under Article XI Section 1106(d) of the City Charter. The System's investment portfolios are primarily composed of domestic and international equities, domestic and international bonds, real estate and alternative investment funds, and short-term investments that include obligations of the U.S. Treasury, agencies, commercial paper rated A-1, bankers acceptances, repurchase agreements and the short-term investment fund managed by the System's custodian bank.

Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, stocks, and alternative investments are reported at fair value. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Management's investment strategy, as it relates to the debt portfolio, is to achieve market appreciation and not hold bonds to their maturities. The fair values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the Board's real estate consultant. The fair value of futures and forward contracts has been determined using available market information.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the statement of plan net assets as receivables and labeled proceeds from sales of investments, and amounts payable for purchases are reported as current liabilities and labeled purchases of investments. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**1. Description of the Plan and Significant Accounting Policies (continued)**

**Concentrations of Market and Credit Risk**

The System's exposure to credit loss in the event of nonperformance of its investments is limited to the carrying value of such instruments. The System's concentrations of credit risk and market risk are dictated by the System's investment guidelines. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statement of plan net assets and the statement of changes in plan net assets.

**Capital Assets**

Effective July 1, 2001, purchases of capital assets, consisting primarily of office furniture and computer equipment are capitalized upon acquisition and depreciated over five years. Prior to July 1, 2001, these purchases were recorded and expensed in the year acquired.

**Administrative Expenses**

All administrative expenses are funded from the System's plan net assets which include both the investment earnings and the contributions from employers and members.

**Reserves**

As provided in the Los Angeles City Charter, the System is maintained on a reserve basis, determined in accordance with accepted actuarial methods. The Los Angeles City Charter establishes reserves for the following:

Member Contributions – Active member contributions to the retirement plan and interest credited to members' accounts, less refunds of members' contributions and transfers to the annuity reserve.

Employer Contributions – Consists of the following components:

Basic Pensions – City contributions and investment earnings (losses), accumulated to provide for the City's guaranteed portion of retirement benefits, less payments to members.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**1. Description of the Plan and Significant Accounting Policies (continued)**

**Reserves (continued)**

Annuity – Member contributions transferred to the City and used to provide for the members' share of retirement benefits and investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments, less payments to retired members.

Larger Annuity – Member contributions at retirement or IRS Section 457 deferred compensation rollovers, investment earnings (losses) including net appreciation (depreciation) in fair value of investments, less payments to beneficiaries.

Family Death Benefits – Member contributions, matching City contributions, and investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments reserved to pay benefits under the family death benefits insurance plan established by the System, less payments to beneficiaries.

Health Insurance Benefits – City contributions and investment earnings (losses) accumulated to provide health subsidies for retirees, less payments to retired members.

Reserve balances as of June 30, 2004, are as follows (in thousands):

Member contributions	\$ 1,076,155
Basic pensions	5,354,103
Retired member annuity	447,132
Larger annuity	1,888
Family death benefit	16,025
Postemployment health benefit	839,135
Total reserves	<u>\$ 7,734,438</u>

**Use of Estimates in Preparation of the Financial Statements**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**1. Description of the Plan and Significant Accounting Policies (continued)**

**Recently Issued Accounting Standard**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB 43). Other postemployment benefits include healthcare and other nonpension benefits provided to employees as part of their compensation for services. LACERS's postemployment healthcare plan is required to implement the rules of GASB 43 in the financial statements for fiscal year 2006-07.

LACERS pre-funds the healthcare plan based on an annual actuarial valuation, as opposed to being on the pay-as-you-go basis. However, the actuarial valuation as of June 30, 2004 did not apply fully the rules of GASB 43. The effect on the unfunded actuarial accrued liabilities, funded ratios, funding progress, and employer contribution of LACERS's postemployment healthcare plan upon adoption of GASB 43 has not been determined at this time.

**2. Contributions Required and Contributions Made**

The System currently uses the projected unit credit cost method to determine the required annual contribution amount. The required annual contribution amount is composed of two components, (1) normal cost, which is the cost of the portion of the benefit that is earned each year, and (2) the payment to amortize the unfunded actuarial accrued liability (UAAL).

The components of the UAAL are amortized as a level percent of pay. Increases in the UAAL due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years. Plan amendments are amortized over 30 years, unless the characteristics of the amendment dictate a shorter amortization period. The amortization periods are considered closed as the amounts calculated annually are amortized over either a 15- or 30-year period.

The contributions to the System for the year ended June 30, 2004, of approximately \$233,619,000 (\$213,475,000 for the retirement plan and \$20,144,000 for the postemployment healthcare plan), were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 2002.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**2. Contributions Required and Contributions Made (continued)**

Contributions to the System consisted of the following for the year ended June 30, 2004 (in thousands):

	<b>Retirement Plan</b>	<b>Postemployment Healthcare Plan</b>
City contributions:		
Required contribution	\$ 100,409	\$ 20,144
Defrayal of portion of member contributions	19,437	-
Family death benefits insurance plan	211	-
Total City contributions	<b>120,057</b>	<b>20,144</b>
Member contributions	<b>93,418</b>	-
Total contributions	<b>\$ 213,475</b>	<b>\$ 20,144</b>

The amount of the contributions made for the Retirement Plan under the Required Contribution category (\$100,409,000) were less than the Annual Required Contributions (ARC) of the employer, as defined by GASB Statement No. 25 and 27. The shortfall was due to: 1) the Board approved a reduction to the City contribution rate as the first-year phase-in of actuarial assumption changes for the June 30, 2002 actuarial valuation which determined the contribution rate for fiscal year 2003-2004, and 2) the original ARC amount and the corresponding adjusted contribution rate which was used by the City for its fiscal year 2003-2004 contributions was lower than the final adjusted ARC amount calculated using the required 40-year minimum amortization period of the UAAL. The total contribution shortfall was computed by the Board's new consulting actuary to be \$58,674,000 which creates a Net Pension Obligation (NPO) of the City. The shortfall is included in the gains and losses of the UAAL as of June 30, 2004 and will cause an incrementally higher contribution rate beginning in fiscal year 2005-06, and continuing during the 15-year amortization period of such gains and losses of the UAAL.

**3. Historical Trend Information**

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 43 through 46.



Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**4. Defrayal of Portion of Member Contributions**

For members who entered the System prior to February 1983, the City subsidizes a portion of member contributions under a collective bargaining agreement. Payments made by the City in this manner are not refundable to members upon their withdrawal from the System prior to retirement. Currently, the City contributes 99% of the total amount of member contributions that it subsidizes.

The subsidized amount paid by the City was approximately 16% of total City contributions paid for the Retirement Plan for the year ended June 30, 2004. The City contributed \$19,437,000 in this manner for the year ended June 30, 2004.

**5. Cash and Short-Term Investments and Investments**

The Board has the responsibility for the investment of the System's funds 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, as prescribed by Article XI Section 1106(c) of the City Charter.

The System considers investments purchased with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2004, on the retirement plan and postemployment healthcare plan statement of plan net assets includes approximately \$639,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of \$538,715,000 for a total of \$539,354,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable. At June 30, 2004, short-term investments included collective STIF of \$224,775,000, international STIF of \$312,046,000, and future initial margin of \$1,894,000.

Investments held on behalf of the System by the City and the custodian are categorized to give an indication of the level of custodial credit risk assumed by the System at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent, but not in the System's name.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**5. Cash and Short-Term Investments and Investments (continued)**

At June 30, 2004, the fair value of investments was as follows (in thousands).

Investments – Category 1 (held by System's agent in the System's name):

Investments held by broker-dealers not under securities loans:	
Futures initial margin	\$ 1,894
U.S. government obligations	405,520
Domestic corporate fixed income securities	575,556
International fixed income securities	142,393
Domestic stocks	3,247,412
International stocks	1,053,570
Subtotal	5,426,345
Investments held by broker-dealers under securities loans with noncash collateral:	
U.S. government and agency securities	121,446
Domestic corporate fixed income securities	6,233
International fixed income securities	2,105
Domestic stocks	15,875
International stocks	271,036
Subtotal	416,695
Total Category 1	5,843,040

Investments – not categorized:

Investments held by broker-dealers under securities loans with cash collateral:	
U.S. government and agency securities	344,124
Domestic corporate fixed income securities	145,740
International fixed income securities	11,575
Domestic stocks	308,903
International stocks	161,311
Subtotal	971,653

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**5. Cash and Short-Term Investments and Investments (continued)**

Collective STIF	\$ 224,775
International STIF	312,046
Securities lending short-term investment pool ( <i>Note 6</i> )	996,067
Real estate investment funds	306,308
Alternative investments	291,698
Equity in City treasury	639
Subtotal	<u>2,131,533</u>
Total investments – not categorized	3,103,186
Less equity in City treasury	<u>(639)</u>
Total investments, net of equity in City treasury	<u><u>\$ 8,945,587</u></u>

**6. Securities Lending Agreement**

The System has entered into various short-term arrangements with its custodian under Article XXXIV Section 504 of the City Charter, whereby securities are lent to various brokers. The custodian determines which lenders' accounts to lend securities from by using an impartial sequential system that matches loan requests with various lenders' accounts. All lenders are deemed to have relatively equal opportunity to profit from the lending of securities. Therefore, should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency is allocated pro rata among all lenders.

Minimum collateralization is 102% of fair value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government securities, and irrevocable bank letters of credit. Cash collateral may be invested separately or pooled in a separate fund for investing in money market or cash equivalent investments.

The borrower has all incidents of ownership with respect to borrowed securities and collateral, including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify the System as a result of the custodian's failure to: (1) make a reasoned determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action; (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examination Council Supervisory Policy on Securities Lending.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**6. Securities Lending Agreement (continued)**

These agreements provide for the return of the securities and revenue determined by the type of collateral received. The cash collateral values of securities on loan to brokers are shown at their fair value on the statement of plan net assets.

As of June 30, 2004, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in a custom collateral account designed specifically for the System and consists of a combination of short-term investments. Cash collateral may be invested separately in term loans, in which case the investments match the loan term. These loans may be terminated on demand by either the lender or the borrower. The System cannot pledge or sell noncash collateral unless the borrower defaults.

The following represents the balances relating to the security lending transactions as of June 30, 2004 (in thousands):

<b>Securities Lent</b>	<b>Fair Value of Underlying Securities</b>
U.S. government and agency securities	\$ 465,570
Domestic corporate fixed income securities	151,972
International fixed income securities	13,680
Domestic stocks	324,777
International stocks	432,347
	<b>\$ 1,388,346</b>

As of June 30, 2004, the fair value of the lent securities was \$1,388,346,000. The fair value of associated collateral was \$1,433,525,000. Of this amount, \$996,067,000 represents the fair value of cash collateral and \$437,458,000 represents the fair value of the noncash collateral. Noncash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were \$3,756,000 and \$957,000, respectively, for the year ended June 30, 2004.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

**7. Futures and Forward Contracts**

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures contracts are used to provide equity exposure for uninvested cash, and forward contracts are used to hedge against fluctuation in foreign currency-denominated assets primarily in trade settlements. Futures and forward contracts are marked to market and are recorded in the statement of plan net assets at fair value. Futures contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

At June 30, 2004, the System had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of \$52,313,000. In addition, at June 30, 2004, the System had outstanding forward purchase commitments with a notional amount of \$58,894,000 and offsetting forward sales commitments with notional amounts of \$58,894,000 which expire through September 2004. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was \$1,894,000 as of June 30, 2004.

The realized gain on foreign currency translation was \$56,278,000 for the year ended June 30, 2004.

**8. Commitments and Contingencies**

At June 30, 2004, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately \$349,808,000.

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## Required Supplementary Information



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Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Required Supplementary Information  
Retirement Plan  
Schedule of Funding Progress

*(Dollars in Thousands)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded or (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 1999	\$ 5,910,948	\$ 5,684,586	\$ (226,362)	104.0%	\$ 1,068,124	(21.2)%
June 30, 2000	6,561,365	6,012,931	(548,434)	109.1	1,182,203	(46.4)
June 30, 2001	6,988,782	6,468,066	(520,716)	108.1	1,293,350	(40.3)
June 30, 2002	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4
June 30, 2003	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0
June 30, 2004	7,042,108	8,533,864	1,491,756	82.5	1,575,285	94.7

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Required Supplementary Information  
Retirement Plan  
Schedule of Employer Contributions

*(Dollars in Thousands)*

	<b>Employer Contributions Total</b>	
	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
Year ended June 30:		
1999	\$ 69,249	100%
2000	72,146	100
2001	59,153	100
2002	32,296	100
2003	51,604	100
2004	159,083	63*

\*See Note 4 – Significant Factors Affecting Employer Contributions.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Required Supplementary Information  
Retirement Plan  
Notes to Required Supplementary Information

**1. Description**

The historical trend information about the System is presented as required supplementary information. The information is intended to help users assess the funding status of the Plan on a going-concern basis and to assess progress made in accumulating assets by paying benefits when due.

**2. Actuarial Methods and Assumptions for Retirement Plan**

Valuation date	June 30, 2004
Actuarial-cost method	Projected unit credit
Amortization method	Level percent supplemental cost
Remaining amortization period	Varies 15-30 years, closed
Actuarial valuation-of-assets method	Market value adjusted for unamortized actuarial investment gains/losses (amortized over a five-year period); actuarial value of assets must be between 80% and 120% of actual market value of plan assets.
Actuarial assumptions:	
Investment rate of return	8%
Includes inflation at	4%
Projected salary increases	5% per year, higher for members with less than five years of service.
Cost of living adjustments	3%
Mortality table for retirees and beneficiaries	1994 Uninsured Pensioner Mortality Table for Males, set back three years for females.
Mortality table for disabled retirees	1981 Disability Table, set back five years for females.

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Required Supplementary Information  
Retirement Plan

Notes to Required Supplementary Information (continued)

**3. Significant Factors Affecting Trend in Actuarial Information**

The actuarial value of assets (a) is determined by an asset smoothing method which spreads the investment gains or losses over a period of five years, and does not reflect the entire change of fair value of assets of any given year. The actuarial accrued liability (b) as of June 30, 2004, in the amount of \$8,533,864,000, showed a relatively large increase when compared to prior years. The large increase was due to 1) the effect of assumption changes approved by the Board such as mortality, withdrawal and salary increases for the June 30, 2002 valuation, 2) the accumulated net loss from investments when compared with the assumed rate of return on the actuarial value of assets, 3) higher than expected salary increases caused by a two-year delay in settlement of salary negotiations for a large group of members, 4) high medical trend rates, and 5) loss as a result of demographic experiences deviating from the adopted assumptions. The large increase in the actuarial accrued liability continued to cause the funded ratio (a/b) to decrease to 82.5%. Lacking a significant increase in the fair value of investments over the next few years, the unrecognized investment loss accumulated under the asset smoothing method will continue to depress the funded ratio.

**4. Significant Factors Affecting Employer Contributions**

The amount of the contributions made for the Retirement Plan under the Required Contribution category (\$100,409,000) were less than the Annual Required Contribution (ARC) of the employer, as defined by GASB Statements No. 25 and No. 27. The shortfall was due to: 1) the Board approved a reduction to the City contribution rate as the first-year phase-in of actuarial assumption changes for the June 30, 2002, actuarial valuation which determined the contribution rate for fiscal year 2003-04, and 2) the original ARC amount and the corresponding adjusted contribution rate which was used by the City for its fiscal year 2003-04 contributions was lower than the final adjusted ARC amount calculated using the required 40-year minimum amortization period of the UAAL. The total contribution shortfall was computed by the Board's new consulting actuary to be \$58,674,000 which creates a Net Pension Obligation (NPO) of the City. The shortfall is included in the gains and losses of the UAAL as of June 30, 2004, and will cause an incrementally higher contribution rate beginning in fiscal year 2005-06 and continuing during the 15-year amortization period of such gains and losses of the UAAL.

## Supplemental Schedules

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Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Schedule of Administrative Expenses

Year ended June 30, 2004

(In Thousands)

	<b>Retirement Plan</b>	<b>Postemployment Healthcare Plan</b>	<b>Total</b>
Personnel services:			
Staff salaries	\$ 5,550	\$ 807	\$ 6,357
Staff benefits	790	115	905
Total personnel services	6,340	922	7,262
Professional services:			
Actuarial	79	12	91
Data processing	682	99	781
Audit	84	12	96
Retirees' health consulting	-	488	488
Legal counsel	464	67	531
Medical for temporary disability	116	17	133
Total professional services	1,425	695	2,120
Communication:			
Printing	128	18	146
Telephone	3	-	3
Postage	157	23	180
Travel	59	9	68
Total communication	347	50	397
Rentals:			
Office space	722	105	827
Equipment leasing	18	2	20
Total rentals	740	107	847
Miscellaneous:			
Office	191	28	219
Depreciation	23	3	26
Total miscellaneous	214	31	245
	<u>\$ 9,066</u>	<u>\$ 1,805</u>	<u>\$ 10,871</u>

Los Angeles City Employees' Retirement System  
(A Department of the City of Los Angeles, California)

Schedule of Investment Expenses

Year ended June 30, 2004

Investment expenses of the System for the year ended June 30, 2004, were as follows (in thousands):

	<b>Assets Under Management</b>	<b>Fees</b>
<b>Retirement Plan</b>		
Investment management expense:		
Fixed income managers	\$ 1,564,320	\$ 2,514
Equity managers	4,509,336	13,281
Alternative investment consulting fees	260,051	357
Other investment fees	—	1,580
Subtotal investment management expenses, excluding real estate and securities lending	6,333,707	17,732
<b>Postemployment Healthcare Plan</b>		
Investment management expense:		
Fixed income managers	190,372	365
Equity managers	548,771	1,930
Alternative investment consulting fees	31,647	52
Other investment fees	—	230
Subtotal	770,790	2,577
Total investment management expenses, excluding real estate and securities lending	\$ 7,104,497	\$ 20,309
<b>Real estate managers' fees:</b>		
Retirement plan	\$ 273,076	\$ 3,192
Postemployment Healthcare Plan	33,232	464
Total real estate managers' fees	\$ 306,308	\$ 3,656
<b>Security lending fees:</b>		
Retirement plan	\$ 888,000	\$ 836
Postemployment Healthcare Plan	108,067	121
Total security lending fees	\$ 996,067	\$ 957

# INVESTMENT SECTION



View of Los Angeles City Hall, circa early 1930s  
SECURITY PACIFIC COLLECTION / Los Angeles Public Library



# CITY OF LOS ANGELES

CALIFORNIA

## BOARD OF ADMINISTRATION

THOMAS J. MIZO  
PRESIDENT

SHELLEY I. SMITH  
VICE PRESIDENT

MARVIN ADAMS, JR.  
ERIC L. HOLOMAN  
RICK ROGERS  
VICKY L. SCHIFF  
KEN SPIKER



JAMES K. HAHN  
MAYOR

## LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

360 EAST SECOND STREET  
2<sup>ND</sup> FLOOR  
LOS ANGELES, CA 90012-4207

ROBERT AGUALLO, JR.  
GENERAL MANAGER  
(213) 473-7280

DANIEL P. GALLAGHER  
CHIEF INVESTMENT OFFICER  
(213) 473-7124

TTY (888) 349-3996

## REPORT ON INVESTMENT ACTIVITY

December 15, 2004

Board of Administration  
Los Angeles City Employees' Retirement System  
360 East Second Street, 2<sup>nd</sup> Floor  
Los Angeles, CA 90012

Dear Commissioners,



Presented below is a summary report of the Fund's investment activities for the fiscal year 2003-2004.

### Market Overview

The fiscal year 2003-2004 began with investor optimism over expectations of stronger earnings prospects due to global economic growth and indications of increased business spending. Bullish sentiment overrode bearish concerns relating to the weakening dollar, rising oil prices, and the sustainability of the economic recovery. Global equity and bond markets ended the September 2003 quarter with positive single digit returns.

Investor optimism continued to grow in the last quarter of 2003, with global equity markets recording double-digit returns. During the first quarter of 2004, investors became more cautious on fears of tightening interest rates and uncertainties raised from the reemergence of terrorism following the bombings in Spain. However, the markets rebounded mildly on renewed optimism

of corporate profits, finishing the quarter with single digit returns. Global markets ended the second quarter 2004 substantially flat on fears of rising interest rates and energy prices, economic slowdown in China, and concerns in Iraq, tempered by a positive outlook on global economic growth, employment, and rising corporate profits.

### **Investment Performance**

The portfolio closed the fiscal year 2003/2004 at \$7.7 billion, an increase of \$1 billion over the prior fiscal year. The total portfolio earned 18.6% for the twelve-months ended June 30, 2004, outperforming the policy benchmark by 2.2%.

For the year, all asset classes within the portfolio ended in positive territory, with equities delivering especially strong returns. Domestic equities returned 24.0%, outperforming its policy benchmark by 3.5%. Fixed income returned 2.1%, beating its benchmark by 1.1%. Non-US equities posted a return of 33.0% leading its benchmark by 0.5%. With a 12.2% return, real estate was above the benchmark by 2.5% while alternative investments returned 17.5%, outperforming the benchmark by 5.1%. Due to the “J” curve effect, alternative investment’s returns for periods for less than three years are not meaningful. Table 1 displays a summary of AIMR compliant investment returns.

### **Manager Search, Contract Renewals, and New Hires**

#### *Public Markets*

Contracts with seven managers of publicly traded securities and the real estate consultant were renewed (Table 2).

Marvin & Palmer, an active manager of core non-US equities, was placed on probation for investment underperformance. Fixed income managers Loomis Sayles and Lincoln Capital were removed from probation.

#### *Private Investments*

During the fiscal year 2003/2004, the Board funded private investments in both alternative and real estate asset classes. Over the past fiscal year, alternative investment partnerships made capital calls of approximately \$72 million and real estate drawdowns of approximately \$27 million. Eight alternative investment partnerships and four real estate partnerships were added to the portfolio (Table 3).

#### *Other Contract Renewals*

Both Pension Consulting Alliance and The Townsend Group received approval for expansions of their contracts to assist with the new specialized investment program mandates.

### **Policies, Procedures, and Guidelines**

The Board approved replacing the passively managed core bonds mandate with strategic allocations to actively managed intermediate duration bonds and global Treasury Inflation-Protection Securities (TIPS). The Board has also continued to pursue additional non-traditional strategies to enhance the portfolio. Investments were made in both Specialized Real Estate and Specialized Alternative Investment Programs.

## **Additional Information**

Additional information relating to the portfolio as of June 30, 2004 is provided in Tables 1 to 13 as follows:

<b><u>Tables</u></b>	<b><u>Description</u></b>
1	Investment results for 1, 3, and 5 year periods.
2	Renewed contracts.
3	New partnerships.
4	Actual investment allocation versus target percentages.
5 - 8	LACERS' largest holdings in U.S. and non-U.S. fixed income and equity instruments.
9	Schedule of fees paid to investment managers and consultants.
10 - 11	Brokerage commissions and expenditures.
12	Accounting summary of fair and market values.
13	Names of all investment management and consulting firms under contract.

Respectfully submitted,



Daniel P. Gallagher  
Chief Investment Officer

## INVESTMENTS

### FISCAL YEAR 2003-2004

#### OUTLINE OF INVESTMENT POLICIES

The Los Angeles City Employees' Retirement System (LACERS, or the System) general investment goals are consistent with the City Charter citations and State Constitution and are stated below:

1. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.
2. The System's investment program shall at all times comply with existing and future applicable city, state, and federal regulations.
3. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.
4. The System has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.
5. Investment actions are expected to comply with "prudent person" standards as described:

"...with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".

## INVESTMENT RESULTS

TABLE 1 – Annualized investment returns compared to policy benchmark:

<b>RETURN SUMMARY</b>	<b>Annualized **</b>		
<b>(gross of fees)</b>	<b>1 Year (%)</b>	<b>3 Years (%)</b>	<b>5 Years (%)</b>
<b>US Equity</b>	<b>24.0</b>	<b>2.3</b>	<b>2.1</b>
<i>Russell 3000</i>	<i>20.5</i>	<i>0.2</i>	<i>-1.1</i>
<b>Fixed Income</b>	<b>2.1</b>	<b>7.8</b>	<b>7.8</b>
<i>LB Universal *</i>	<i>1.0</i>	<i>6.7</i>	<i>7.0</i>
<b>International Equity</b>	<b>33.0</b>	<b>5.5</b>	<b>0.4</b>
<i>MS ACWI Free ex US Index *</i>	<i>32.5</i>	<i>5.2</i>	<i>1.2</i>
<b>Real Estate</b>	<b>12.2</b>	<b>10.8</b>	<b>10.8</b>
<i>NCREIF Property Index</i>	<i>9.7</i>	<i>7.7</i>	<i>9.3</i>
<b>Alternative</b>	<b>17.5</b>	<b>0.8</b>	<b>4.9</b>
<i>Alternative IRR Index</i>	<i>12.4</i>	<i>0.8</i>	<i>-0.4</i>
<b>LACERS Total Fund</b>	<b>18.6</b>	<b>5.7</b>	<b>4.6</b>
<b>LACERS Policy Benchmark</b>	<b>16.4</b>	<b>4.7</b>	<b>3.5</b>

\* Both the MS ACWI Free ex US and Lehman Universal indices are historically blended with other indices

\*\* Time-weighted rate of return for all asset classes; Dollar-weighted return for total fund

## PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

TABLE 2 – Contracts were renewed with the following managers of publicly traded securities and consultant:

<b>Name of Firms</b>	<b>Discipline</b>
Alliance Capital Management, L.P.	Large Cap Growth Domestic Equities
Marvin & Palmer Associates, Inc.	Non-US Active EAFE Core Investment
Oak Associates, Ltd.	Large Cap Growth Domestic Equities
SIT Investments Associates, Inc.	Small-Cap Growth Domestic Equities
Templeton Investment Counsel, Inc.	Pacific Basin Equities
Thomson Horstmann & Bryant, Inc.	Active Small Cap Investment
Townsend Group	Consultant
TT International Advisors, Inc.	Non-US Active EAFE Core Investment



TABLE 3 – **The following alternative investment partnerships were added:**

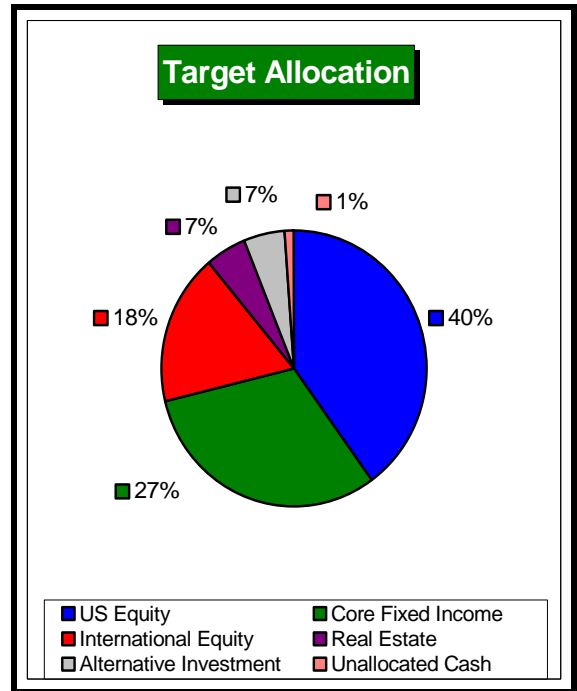
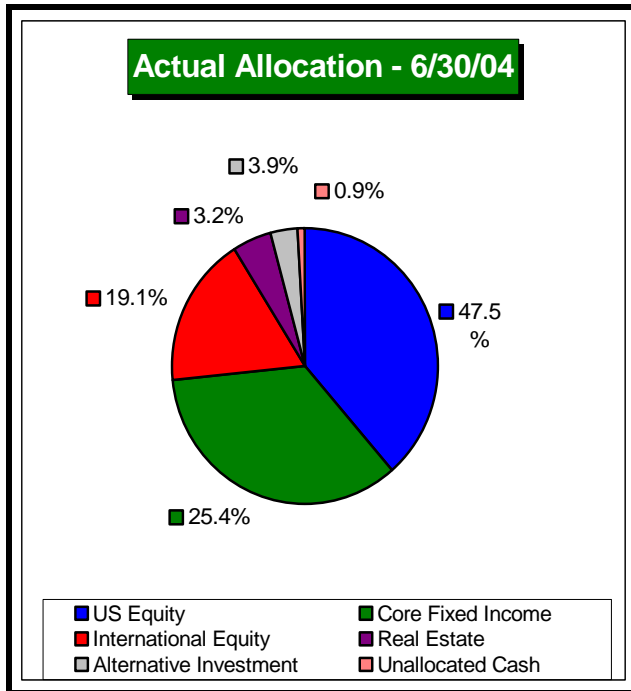
<b>Investment Partnership</b>	<b>Discipline</b>
TPG Partners IV	Alternative Investments - Special Situations
CB Richard Ellis Strategic Partners III, L.P.	Real Estate – Enhanced Closed End
Kelso VII, L.P.	Alternative Investments – Acquisitions
Onex Partners, L.P.	Alternative Investments – Acquisitions
TCV Fund V	Alternative Investments – Venture Capital
Buchanan Fund III, LLC	Real Estate – Specialized
Lowes Hospitality Investment Partners, LLC	Real Estate – High Return Closed End
Essex Woodlands Health Venture VI, L.P.	Alternative Investments – Acquisitions
First Reserve Fund X, L.P.	Alternative Investments – Acquisitions
Reliant Equity Partners, L.P.	Alternative Investments – Specialized
Hellman & Friedman Capital Partners V, L.P.	Alternative Investments – Acquisitions
PRISA II	Real Estate – Enhanced Open End

#### ASSET ALLOCATION

TABLE 4 – **Asset Allocation as of June 30, 2004**  
**Actual and Target**

<b>Actual</b>		<b>Target</b>	
US Equity	47.5 %	US Equity	40.0 %
Core Fixed Income	25.4 %	Core Fixed Income	27.0 %
International Equity	19.1 %	International Equity	18.0 %
Real Estate	3.2 %	Real Estate	7.0 %
Alternative Investment	3.9 %	Alternative Investment	7.0 %
Unallocated Cash	0.9 %	Unallocated Cash	1.0 %

**Asset Allocation (continued)**



**LIST OF LARGEST ASSETS HELD**

Displayed below are the ten largest holdings in each asset class along with their market and share/par values, as of June 30, 2004. A complete listing of the System’s holdings may be obtained upon request.

**TABLE 5 -- DOMESTIC FIXED HOLDINGS**

No.	Par Value	Asset Description	Market Value US \$
1.	17,790,000	FNMA 30 Yr Pass-Through 5.5 30 Yrs Settles Jul	17,701,050
2.	9,445,000	FNMA Single Family Mtg 5 15 Yrs Settles Jul	9,453,859
3.	8,440,000	FHLMC Gold Single Family 5.5 30 Years Settles Jul	8,400,433
4.	6,405,000	US Treas Bds 8.125% due 08-15-2019	8,388,551
5.	7,740,000	FNMA 30 Years Single Family 6 30 Years Settles Jul	7,899,637
6.	8,040,000	US Treas Nts 3.125 due 09-15-2008	7,889,563
7.	6,875,000	US Treas Bds 12.75 Due 11-15-2010	7,823,805
8.	7,135,000	US Treas Bds 11.75 Due 02-15-2001/01-15-2005	7,564,213
9.	6,800,036	FNMA Pool #725532 5 03-01-2034	6,590,289
10.	6,070,000	FHLMC 30 Yr Gold Partn 6 30 Years Settles Jul	6,197,094
<b>Total</b>			<b>87,908,494</b>

**TABLE 6 -- DOMESTIC EQUITY HOLDINGS**

<b>No.</b>	<b>Shares</b>	<b>Asset Description</b>	<b>Market Value US \$</b>
1.	2,023,157	Microsoft Corp	57,781,364
2.	1,225,170	CITIGroup Inc	56,970,405
3.	1,624,485	Pfizer Inc	55,687,346
4.	1,576,022	Gen Elec Co	51,063,113
5.	904,584	Exxon Mobil Corp	40,172,575
6.	533,232	Amern Intl Group	38,008,777
7.	1,601,736	Cisco Sys Inc	37,961,143
8.	624,746	Wal-Mart Stores Inc	32,961,599
9.	343,247	EBAY INC	31,561,562
10.	609,651	Altria Group Inc	30,513,033
<b>Total</b>			<b>432,680,917</b>

**TABLE 7 – NON-US FIXED INCOME HOLDINGS**

<b>No.</b>	<b>Par Value</b>	<b>Asset Description</b>	<b>Market Value US \$</b>
1.	15,980,000	Deutsche Telekom Intl 8.75 due 06-15-2030	19,449,833
2.	19,183,000	Mexican Medium Term Nts Book 5.875 due 01-15-2014	18,434,863
3.	7,400,000	Empresa Nacional de Electricidad Chile 8.5 due 04-01-2009	8,085,314
4.	5,500,000	Petroleos Mexicanos Global Bd 9.5 due 09-15-2027	6,160,000
5.	5,500,000	Mexican Medium Term Nts Book 8.3 due 08-15-20031	5,761,250
6.	5,080,000	Telecom Italia 6.375 due 11-15-2033/10-29-2003	4,903,973
7.	3,950,000	Mexican Medium Term Nts #TR 00006 8.375 due 01-14-2011	4,463,500
8.	4,671,000	Brazil 11% Bds 17/08/2040 USD1000	4,345,431
9.	3,170,000	BRIT Telecommunications NT 8.875 due 12-15-2023	3,910,788
10.	3,000,000	Rohm &Haas Denmar 6% BDS 9/3/2007	3,885,868
<b>Total</b>			<b>79,400,820</b>

TABLE 8 -- NON-US EQUITY HOLDINGS

No.	Shares	Asset Description	Market Value US \$
1.	10,155,195	Vodafone Group	22,237,859
2.	391,784	Royal Dutch Petrol	20,105,687
3.	418,800	Nokia	16,964,634
4.	1,685,574	British Petroleum	14,886,560
5.	214,205	Sanofi-Synthelabo Eur	13,577,911
6.	217,892	NESTLE SA	12,935,670
7.	992,338	Samsung Electronic	12,902,324
8.	276,072	Novartis	12,178,999
9.	162,635	UBS	11,460,028
10.	750,817	HSBC Hldgs (UK )	11,165,175
<b>Total</b>			<b>148,414,847</b>

**SCHEDULE OF FEES**

TABLE 9 -- SCHEDULE OF FEES (Dollars in Thousands)

Fiscal Year	2004		2003	
	Assets Under Management	Fees	Assets Under Management	Fees
<b>Investment Manager Fees:</b>				
Fixed Income Managers	\$ 1,754,692	\$ 2,879	\$ 1,615,698	\$ 1,930
Equity Managers	5,058,107	15,211	4,122,932	13,781
Real Estate Managers	306,308	3,656	346,059	3,862
<b>Total</b>	<b>\$ 7,119,107</b>	<b>\$ 21,746</b>	<b>\$ 6,084,689</b>	<b>\$ 19,573</b>
Security Lending Fees	\$ 996,067	\$ 957	\$ 899,560	\$ 1,101
Alt Investment Consultant Fees	291,698	409	255,531	275
Other Invest Consultant Fees	N/A	1,810	N/A	1,491
<b>Total</b>	<b>\$ 1,287,765</b>	<b>\$ 3,176</b>	<b>\$ 1,155,091</b>	<b>\$ 2,867</b>

TABLE 10 -- SCHEDULE OF TOP TEN BROKERS COMMISSIONS

Broker Name	Shares	Commission	\$/Share
Instinet	5,613,652	\$ 185,178	\$ 0.033
Wachovia Capital Markets	2,768,800	126,528	0.046
Credit Suisse First Boston Corporation	2,543,292	123,013	0.048
Deutsche Bank Securities Inc.,	5,576,400	111,727	0.020
UBS Securities LLC	1,869,244	89,056	0.048
Friedman Billing and Ramsey	1,602,300	79,990	0.050
Smith Barney Inc	1,984,562	74,932	0.038
Merrill Lynch Pierce Fenner & Smith	1,522,437	68,543	0.045
Jefferies & Company	1,478,132	67,864	0.046
Bear Stearns, Securities Corp	1,287,258	62,678	0.049
Total	26,246,077	989,509	0.038
Total - Other Brokers	50,897,975	1,981,316	0.039
<b>Grand Total *</b>	<b>77,144,052</b>	<b>\$ 2,970,825</b>	<b>\$ 0.039</b>

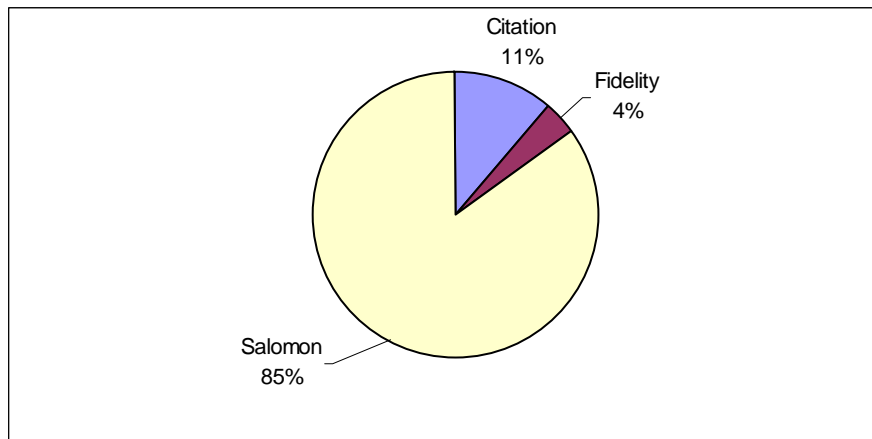
- OTC Brokers excluded because there is no stated commission.

TABLE 11 -- TOTAL CAPTURED COMMISSION EXPENDITURES 2003-2004

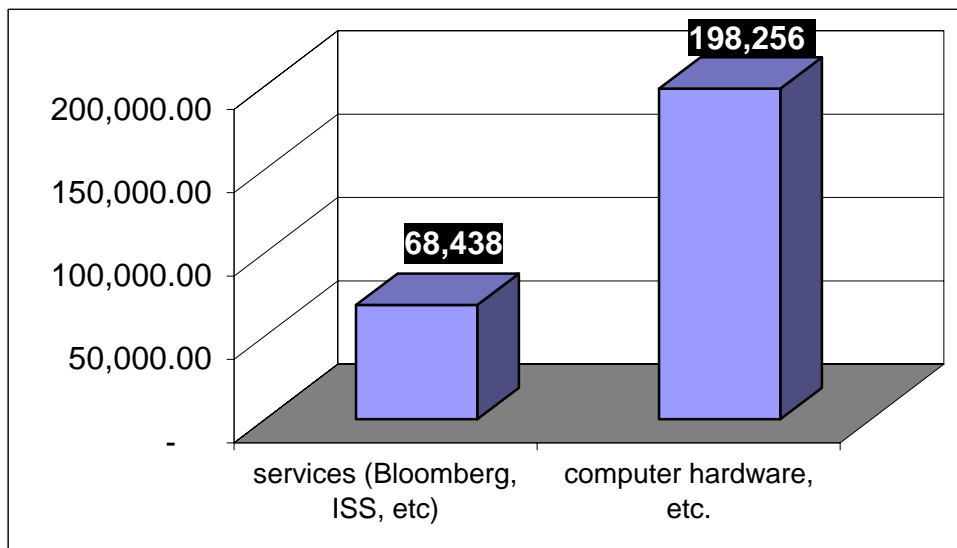
Citation	\$	30,293
Fidelity		10,800
Salomon		225,601
<b>Total</b>	<b>\$</b>	<b>266,694</b>
Services (Bloomberg, Proxy Monitor, etc)	\$	68,438
Computer Hardware, etc.		198,256
<b>Total</b>	<b>\$</b>	<b>266,694</b>

## TOTAL CAPTURED COMMISSION EXPENDITURES (continued)

### Expenditure by broker



### Expenditure type



## INVESTMENT SUMMARY

TABLE 12 -- INVESTMENT SUMMARY AS OF JUNE 30, 2004

Type of Investment	Market Value	% of Total M. V.	Domestic Fair Value	Foreign Fair Value
<b>Fixed Income:</b>				
Government bonds/Municipal/Gov't Agencies	\$ 566,448,471	6.74 %	\$ 492,024,683	\$ 74,423,788
Corporate bonds	809,178,137	9.63 %	727,529,506	81,648,631
Government mortgage bonds	379,065,600	4.51 %	379,065,600	-
<b>Total fixed income</b>	<b>1,754,692,208</b>	<b>20.87%</b>	<b>1,598,619,789</b>	<b>156,072,419</b>
<b>Equities:</b>				
Common stock:				
Basic industries	112,720,869	1.34 %	87,830,767	24,890,101
Capital goods industries	746,470,245	8.88 %	463,468,426	283,001,819
Consumer & services	1,973,101,691	23.47 %	1,364,747,601	608,354,090
Energy	337,831,524	4.02 %	185,795,805	152,035,719
Financial services	952,804,870	11.33 %	570,094,857	382,710,013
Miscellaneous (Common Fund Assets)	915,396,491	10.89 %	895,125,318	20,271,172
<b>Total common stock</b>	<b>5,038,325,690</b>	<b>59.93 %</b>	<b>3,567,062,775</b>	<b>1,471,262,915</b>
Preferred stock	13,642,524	0.16 %	19	13,642,505
Convertible bonds/equities	5,982,818	0.07 %	5,126,898	855,921
Rights/warrants/Unit trust equity	155,899	0.00 %	1	155,898
<b>Total equities</b>	<b>5,058,106,931</b>	<b>60.17 %</b>	<b>3,572,189,693</b>	<b>1,485,917,238</b>
<b>Real Estate:</b>	<b>306,308,286</b>	<b>3.64 %</b>	<b>306,308,286</b>	<b>-</b>
<b>Alternative Investments:</b>				
Acquisitions	101,331,890	1.21 %	101,331,890	-
Venture capital	153,363,801	1.82 %	135,848,798	17,515,003
Subordinated debt	16,141,984	0.19 %	16,141,984	-
International acquisitions	20,860,820	0.25 %	20,169,157	691,663
<b>Total alternative investments</b>	<b>291,698,495</b>	<b>3.47 %</b>	<b>273,491,829</b>	<b>18,206,666</b>
<b>Security Lending Collateral:</b>	<b>996,066,443</b>	<b>11.85 %</b>	<b>813,447,598</b>	<b>182,618,845</b>
<b>Total Fund</b>	<b>\$ 8,406,872,363</b>	<b>100.00 %</b>	<b>\$ 6,564,057,195</b>	<b>\$ 1,842,815,168</b>

TABLE 13 -- **ADVISORY / CONSULTING / CUSTODY SERVICES**

<b>INVESTMENT ADVISORS</b>		
<b>Equity - Domestic</b>	<b>Real Estate</b>	<b>Real Estate</b>
<p><b>Alliance Capital</b> Minneapolis, MN</p> <p><b>Aronson &amp; Partners</b> Philadelphia, PA</p> <p><b>BZW Barclays Global</b> San Francisco, CA</p> <p><b>Dimensional Fund Advisors</b> Santa Monica, CA</p> <p><b>Fiduciary Trust International</b> New York, NY</p> <p><b>Oak Associates</b> Akron, OH</p> <p><b>Pacific Financial Research</b> Beverly Hills, CA</p> <p><b>Rhumblin Advisers</b> Boston, MA</p> <p><b>SIT Investment Associates, Inc.</b> Minneapolis, MN</p> <p><b>Thomson, Horstmann &amp; Bryant</b> Saddle Brook, NJ</p>	<p><b>Aldrich, Eastman &amp; Waltch</b> Boston, MA</p> <p><b>Allegis</b> Hartford, CT</p> <p><b>Aslan Realty Partners</b> Chicago, IL</p> <p><b>Buchanan Fund</b> Newport Beach, CA</p> <p><b>CB Richard Ellis Strategic Partners</b> Los Angeles, CA</p> <p><b>DLJ Real Estate Capital, Partners</b> Los Angeles, CA</p> <p><b>Hancock Timber Resource Group</b> Boston, MA</p> <p><b>ING Realty Partners</b> Chicago, IL</p> <p><b>Invesco Realty Advisors</b> Dallas, TX</p> <p><b>Koll/Bren Realty Advisors</b> Newport Beach, CA</p> <p><b>La Salle Advisors</b> Chicago, IL</p>	<p><b>L&amp;B Real Estate Counsel</b> Dallas, TX</p> <p><b>Lowe Hospitality</b> Los Angeles, CA</p> <p><b>Miller Global Advisors</b> Denver, CO</p> <p><b>Prudential</b> San Francisco, CA</p> <p><b>Realty Associates</b> Boston, MA</p> <p><b>RREEF Funds</b> San Francisco, CA</p> <p><b>TA Realty Associates</b> Boston, MA</p> <p><b>TCW Realty Advisors</b> Los Angeles, CA</p> <p><b>Tuckerman Group</b> Boston, MA</p> <p><b>Westbrook Partners</b> New York, NY</p>
<b>Equity – International</b>	<b>Alternative</b>	<b>Alternative</b>
<p><b>Boston Company</b> Los Angeles, CA</p> <p><b>Capital Guardian Trust</b> Los Angeles, CA</p> <p><b>Daiwa International Capital</b> New York, NY</p> <p><b>Marvin &amp; Palmer</b> Wilmington, DE</p> <p><b>State Street Global</b> Boston, MA</p> <p><b>Templeton International</b> Fort Lauderdale, FL</p> <p><b>TT International</b> London, UK</p>	<p><b>Alchemy Partners</b> London, UK</p> <p><b>Apollo Advisors</b> Purchase, NY</p> <p><b>Austin Ventures</b> Austin, TX</p> <p><b>CGW Southeast Partners</b> Atlanta, GA</p> <p><b>Chisholm Partners</b> Providence, RI</p> <p><b>CVC Capital Partners</b> London, UK</p> <p><b>Essex Woodlands</b> Chicago, IL</p> <p><b>First Reserve X</b> Greenwich, CT</p> <p><b>Golder, Thoma, Cressey &amp; Renner</b> Chicago, IL</p> <p><b>Interwest Partners</b> Menlo Park, CA</p> <p><b>Hellman &amp; Friedman</b> San Francisco, CA</p> <p><b>JH Whitney</b> Stamford, CT</p>	<p><b>Kelso</b> New York, NY</p> <p><b>KKR</b> New York, NY</p> <p><b>Madison Dearborn</b> Chicago, IL</p> <p><b>Menlo Ventures</b> Menlo Park, CA</p> <p><b>Nautic Partners</b> Providence, RI</p> <p><b>Nordic Capital V</b> Stockholm, Sweden</p> <p><b>Oaktree Capital Management</b> Los Angeles, CA</p> <p><b>Olympus Growth Fund IV</b> Stamford, CT</p> <p><b>Onex</b> New York, NY</p> <p><b>Permira Europe III</b> St. Peter Port, Guernsey</p> <p><b>Reliant Equity Partners</b> Chicago, IL</p> <p><b>Resolute Fund</b> New York, NY</p>
<b>Fixed Income - Domestic</b>		
<p><b>Lincoln Capital Mgmt. Co.</b> Chicago, IL</p> <p><b>Loomis Sayles &amp; Co., Inc.</b> San Francisco, CA</p> <p><b>GMAC</b> Alpharetta, GA</p>		



<b>INVESTMENT ADVISORS</b>		
<b>Cash &amp; Short-Term</b>	<b>Alternative</b>	<b>Alternative</b>

**Managed In-House**

**Consultants**

**Pension Consulting Alliance, Inc.**

Portland, OR

**The Townsend Group**

Cleveland, OH

**Pathway Capital Management**

Irvine, CA

**Custodian**

**The Northern Trust Company**

Chicago, IL

**Richland Ventures**

Nashville, TN

**Technology Crossover Ventures**

Palo Alto, CA

**Texas Pacific Group**

San Francisco, CA

**Thomas Cressey**

Chicago, IL

**Thomas H. Lee Company**

Boston, MA

**Trident**

Los Angeles, CA

**Vantage Point Venture Partners**

San Bruno, CA

**Vestar Capital Partners**

New York, NY

**Welsh, Carson, Anderson, & Stowe**

New York, NY

**Weston Presidio Capital**

Boston, MA

# ACTUARIAL SECTION



View of Downtown Los Angeles, circa early 1960s  
SECURITY PACIFIC COLLECTION / Los Angeles Public Library



**Securing Your Tomorrows  
Building On Our Past**

## Los Angeles City Employees' Retirement System

### Summary of Significant Valuation Results

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Percent Change</u>
<b>I. Total Membership</b>			
A. Active Members	27,092	26,358	2.8%
B. Pensioner	14,137	13,805	2.4%
<b>II. Salaries at June 30</b>			
A. Total Annual Payroll	\$1,575,284,734	\$1,405,057,848	12.1%
B. Average Monthly Salary	4,846	4,442	9.1%
<b>III. Benefits to Current Pensioners and Beneficiaries</b>			
A. Total Annual Benefits	\$399,268,032*	\$359,036,215	11.2%
B. Average Monthly Benefit Amount	2,354*	2,167	8.6%
<b>IV. Total System Assets**</b>			
A. Actuarial Value	\$7,917,509,037	\$7,868,307,895	0.6%
B. Market Value	7,734,438,028	6,709,041,681	15.3%
<b>V. Unfunded Actuarial Accrued</b>			
A. Retirement Benefits	\$1,491,755,937	\$660,199,346	126.0%
B. Health Subsidy Benefits	560,815,516	356,827,890	57.2%
<b>VI. Budget Items</b>	<b><u>FY 2005-2006</u></b>	<b><u>FY 2004-2005</u></b>	
A. Retirement Benefits			
1. Normal Cost as a Percent of Pay	8.77%	10.54%	-1.77%
2. Amortization of Unfunded Actuarial Accrued Liability	<u>5.99%</u>	<u>1.41%</u>	4.58%
3. Total Retirement Contribution	14.76%	11.95%	2.81%
B. Health Subsidy Contribution, as a Percent	<u>4.94%</u>	<u>4.02%</u>	0.92%
C. Total Contribution (A+B)	19.70%	15.97%	3.73%
<b>VII. Funded Ratio</b>			
(Based on Valuation Value of Assets)			
A. Retirement Benefits	82.5%	91.4%	-8.9%
B. Healthy Subsidy Benefits	60.5%	70.4%	-9.9%
C. Total	79.4%	88.6%	-9.2%
(Based on Market Value of Assets)			
D. Retirement Benefits	80.6%	77.9%	2.7%
E. Health Subsidy Benefits	59.1%	60.0%	-0.9%
F. Total	77.5%	75.5%	2.0%

\* Includes July COLA.

\*\* Includes assets for Retirement, Health and Family Death Benefits.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**Computed Contribution Rates – Historical Comparison**

<b><u>Valuation Date</u></b>	<b><u>Retirement</u></b>	<b><u>Health</u></b>	<b><u>Total</u></b>	<b><u>Valuation Payroll (thousands)</u></b>
06/30/1994	12.07%	2.99%	15.06%	\$884,951
06/30/1995	7.34%	2.30%	9.64%	\$911,292
06/30/1996	6.51%	3.18%	9.69%	\$957,423
06/30/1997	6.57%	1.85%	8.42%	\$990,616
06/30/1998	6.43%	1.27%	7.70%	\$1,011,857
06/30/1999	4.93%	0.67%	5.60%	\$1,068,124
06/30/2000	2.54%	2.17%	4.71%	\$1,182,203
06/30/2001	3.84%	1.98%	5.82%	\$1,293,350
06/30/2002*	9.22%	1.85%	11.07%	\$1,334,335
06/30/2003**	11.95%	4.02%	15.97%	\$1,405,058
06/30/2004	14.76%	4.94%	19.70%	\$1,575,285

\* Retirement rate revised to 10.90%, total contribution rate revised to 12.75%, based on GASB 25/27.

\*\* Retirement rate revised to 12.40%, total contribution rate revised to 16.42%, based on GASB 25/27.

# **Los Angeles City Employees' Retirement System**

## *Actuarial Valuation and Review of Retirement Program as of June 30, 2004*

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THE PARENT OF THE SEGAL COMPANY  
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T 415.263.8200 F 415.263.8290 www.segalco.com

*January 18, 2005*

*Board of Administration  
Los Angeles City Employees' Retirement System  
360 East Second Street, 8th Floor  
Los Angeles, CA 90012*

*Dear Board Members:*

*We are pleased to submit this Actuarial Valuation and Review as of June 30, 2004. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2005/2006 and analyzes the preceding year's experience.*

*The census information on which our calculations were based and the financial information was provided by the Board of Administration. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary.*

*This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Administration are reasonably related to the experience of and the expectations for the Plan.*

*We look forward to reviewing this report at your next meeting and to answering any questions.*

*Sincerely,*

*THE SEGAL COMPANY*

By:

\_\_\_\_\_  
*Paul Angelo, FSA, MAAA  
Vice President and Actuary*

\_\_\_\_\_  
*Andy Yeung, ASA, MAAA  
Associate Actuary*

## **SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System**

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### **Purpose**

This report has been prepared by The Segal Company to present a valuation of the Los Angeles City Employees' Retirement System as of June 30, 2004. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board of Administration;
- The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of June 30, 2004, provided by the Administration Office;
- The assets of the Plan as of June 30, 2004, provided by the Administration Office;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

### **Significant Issues in Valuation Year**

The following key findings were the result of this actuarial valuation:

- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 91.38% to 82.52%. The unfunded actuarial accrued liability has increased from \$660.2 million to \$1,491.8 million. A complete reconciliation of the System's unfunded actuarial accrued liability is provided in Section 3, Exhibit G.
- The aggregate employer rate calculated in this valuation has increased from 11.95% of payroll to 14.76% of payroll. The contribution rate for the employer increased because of: (i) higher than expected salary increases; (ii) lower than expected return on the valuation value of assets, and (iii) other actuarial losses.
- As indicated in Section 2, Subsection B of this report, the total unrecognized investment loss as of June 30, 2004 is \$183,071,009. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, to the extent it is not offset by recognition of investment gains derived from future experience. This implies that earning the assumed rate of investment return of 8.00% per year (net of expenses) on a market value basis will result in investment losses on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would still increase in each of the next few years.



## SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System

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- As instructed by the Board of Administration, we have set the recommended contribution equal to the greater of the current policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. We have included in the calculation of the recommended contribution an additional contribution due to the application of the 40 year minimum amortization requirement for fiscal year 2003/04. A Net Pension Obligation was created as of June 30, 2004 due to: (1) the phase-in of the higher contribution rate requirement brought by the last experience study and (2) the GASB requirement that the Unfunded Actuarial Accrued Liability (UAAL) of the Plan be amortized over an equivalent period of not greater than 40 years. Since (1) is already included in the development of the Plan's actual UAAL, the ARC calculation requires only an additional contribution to amortize (2) over a period of 15 years.
- The employer and employee contribution rates developed in this report are before any adjustments to reflect the City's pickup of part of the employee contributions for those hired before January 1, 1983. Since all of the employees hired before January 1, 1983 are vested and entitled to collect a pension benefit from the Plan, we recommend that the City take no discount on the pickup of employee contributions as only a minimal amount, if any, of contributions are expected to be refunded to those members.
- The employer contribution rates provided in this report have been developed assuming that they will be made by the City at either: (1) the beginning of the fiscal year (i.e., the City will prepay its contributions) or (2) on average at the middle of the year (i.e., the City will pay contributions at the end of every pay period).
- The current funding method (Projected Unit Credit) produces a pattern of increasing cost as a percent of pay. In addition, under the current approach, we have not included any additional dollar normal cost to fund the benefit for new employees expected to be hired during the next plan year. We recommend that the Board consider reviewing this funding method in conjunction with the next experience study.
- The actuarial valuation report as of June 30, 2004 is based on financial information as of that date. Changes in the value of assets subsequent to that date, to the extent that they exist, are not reflected. Declines in asset values will increase the actuarial cost of the Plan, while increases will decrease the actuarial cost of the Plan. For example, a 10% change in the current year's actuarial value of assets would produce a 3.97% change in the recommended contribution rate. Because the valuation value of assets involves a smoothing method, a 10% change in market value would not be fully reflected immediately in the valuation value of assets. Rather, that effect would be spread over a period of years. We have shown the full impact immediately so as to indicate the long-term sensitivity of costs to market fluctuations.

**SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System**

**Summary of Key Valuation Results**

	<b>2004</b>	<b>2003</b>
<b>Contributions calculated as of June 30:</b>		
Recommended as a percent of pay (note there is a 12 month delay until the rate is effective)	14.76%	11.95%
<b>Funding elements for plan year beginning June 30:</b>		
Normal cost	\$236,238,453	\$227,761,893
Market value of assets*	7,734,438,028	6,709,041,681
Actuarial value of assets*	7,917,509,037	7,868,307,895
Valuation value of retirement assets	7,042,107,591	6,999,647,350
Actuarial accrued liability	8,533,863,528	7,659,846,696
Unfunded actuarial accrued liability	1,491,755,937	660,199,346
<b>GASB 25/27 for plan year beginning July 1:</b>		
Annual required contributions	Not Available	\$159,083,407
Actual contributions	Not Available	100,408,689
Percentage contributed	Not Available	63.12%
Funded ratio	82.52%	91.38%
Covered payroll	\$1,575,284,734	\$1,405,057,848
<b>Demographic data for plan year beginning June 30:</b>		
Number of retired members and beneficiaries	14,137	13,805
Number of vested former members	2,232	2,593
Number of active members	27,092	26,358
Total payroll	\$1,575,284,734	\$1,405,057,848
Average payroll	58,146	53,307

\* Includes assets for Retirement, Health and Family Death Benefits

**SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System**

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**ACTUARIAL CERTIFICATION**

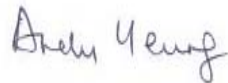
January 18, 2005

This is to certify that The Segal Company has conducted an actuarial valuation of the Los Angeles City Employees' Retirement System retirement program as of June 30, 2004, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the current historical funding methods used in determination of the liability for retirement benefits.

The actuarial valuation is based on the plan of benefits verified by LACERS and on participant and financial data provided by the administration office.

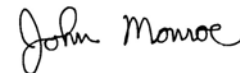
The actuarial computations made are for funding plan benefits and for satisfying the financial accounting requirements under GASB Statements No. 25 and 27. Accordingly, additional determinations will be needed for other purposes, such as judging benefit security at termination.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the plan's current funding information.



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Andy Yeung, ASA, MAAA, EA  
Associate Actuary



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John Monroe, EA, MAAA  
Associate Actuary

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

**A. MEMBER DATA**

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, non-vested (entitled to a refund of member contributions) and vested terminated members, retired members and beneficiaries.

This section presents a summary of significant statistical data on these member groups.

More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A, B, and C.

*A historical perspective of how the member population has changed over the past nine valuations can be seen in this chart.*

**CHART 1**  
**Member Population: 1996 – 2004**

<b>Year Ended June 30</b>	<b>Active Members</b>	<b>Vested Terminated Members*</b>	<b>Retired Members and Beneficiaries</b>	<b>Ratio of Non-Actives to Actives</b>
1996	22,319	N/A	12,242	0.55
1997	22,219	N/A	12,698	0.57
1998	22,091	N/A	12,591	0.57
1999	22,504	N/A	12,843	0.57
2000	24,234	N/A	13,058	0.54
2001	25,654	N/A	13,365	0.52
2002	25,930	2,327	13,589	0.61
2003	26,358	2,593	13,805	0.62
2004	27,092	2,232	14,137	0.60

*\*Includes terminated members due a refund of member contributions*

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

**Active Members**

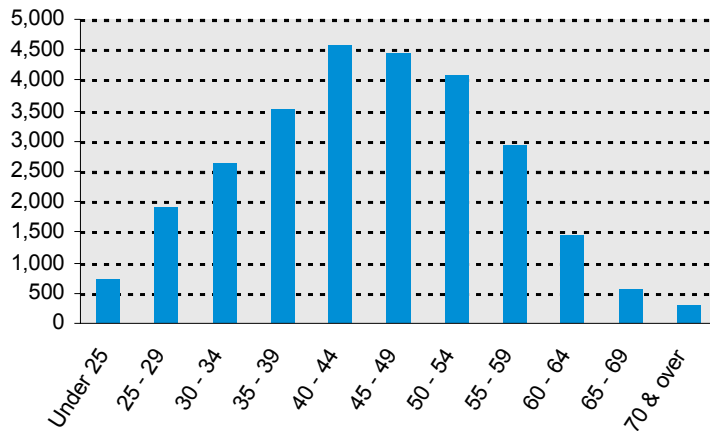
Plan costs are affected by the age, years of service and payroll of active members. In this year's valuation, there were 27,092 active members with an average age of 45.2, average years of service of 11.9 years and average payroll of \$58,146. The 26,358 active members in the prior valuation had an average age of 44.9, average service of 11.8 years and average payroll of \$53,307.

**Inactive Members**

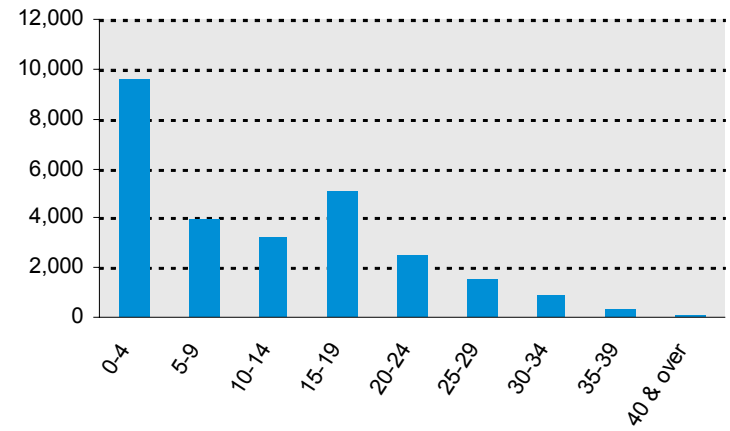
In this year's valuation, there were 2,232 members non-vested (entitled to a refund of member contributions) and vested members with a vested right to a deferred or immediate vested benefit.

*These graphs show a distribution of active members by age and by years of service.*

**CHART 2**  
**Distribution of Active Members by Age as of June 30, 2004**



**CHART 3**  
**Distribution of Active Members by Years of Service as of June 30, 2004**



**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

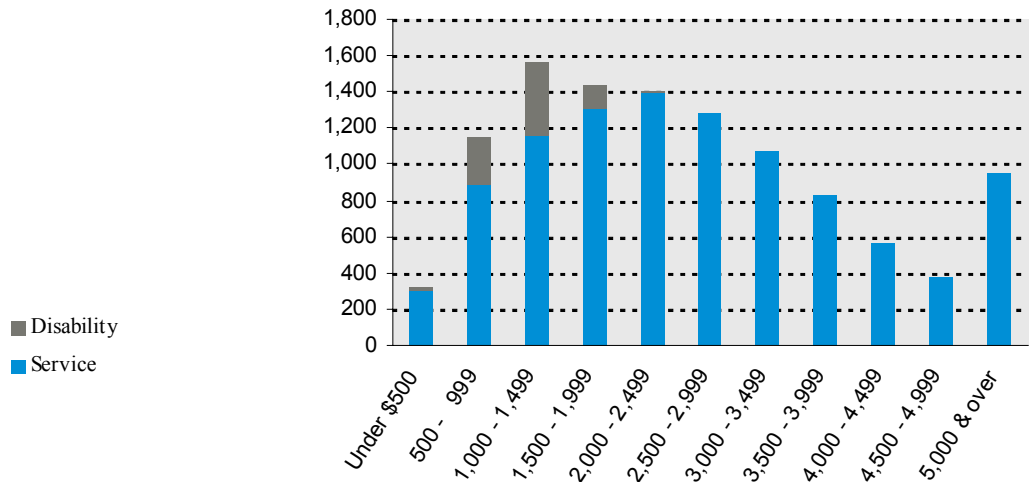
**Retired Members and Beneficiaries**

As of June 30, 2004, 10,940 retired members and 3,197 beneficiaries were receiving total monthly benefits of \$33,270,878. For comparison, in the previous valuation, there were 10,642 retired members and 3,163 beneficiaries receiving monthly benefits of \$30,817,275.

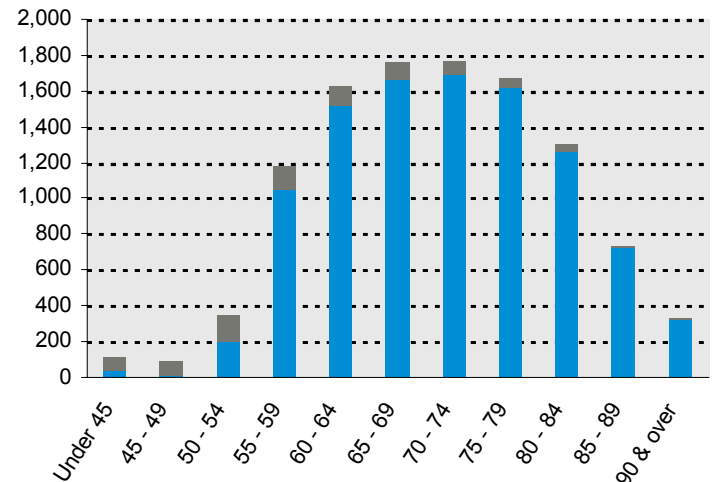
Please note that the monthly benefits provided have been adjusted for the COLA granted effective for the month of July.

*These graphs show a distribution of the current retired members based on their monthly amount and age, by type of pension.*

**CHART 4**  
**Distribution of Retired Members by Type and by Monthly Amount as of June 30, 2004**



**CHART 5**  
**Distribution of Retired Members by Type and by Age as of June 30, 2004**



**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

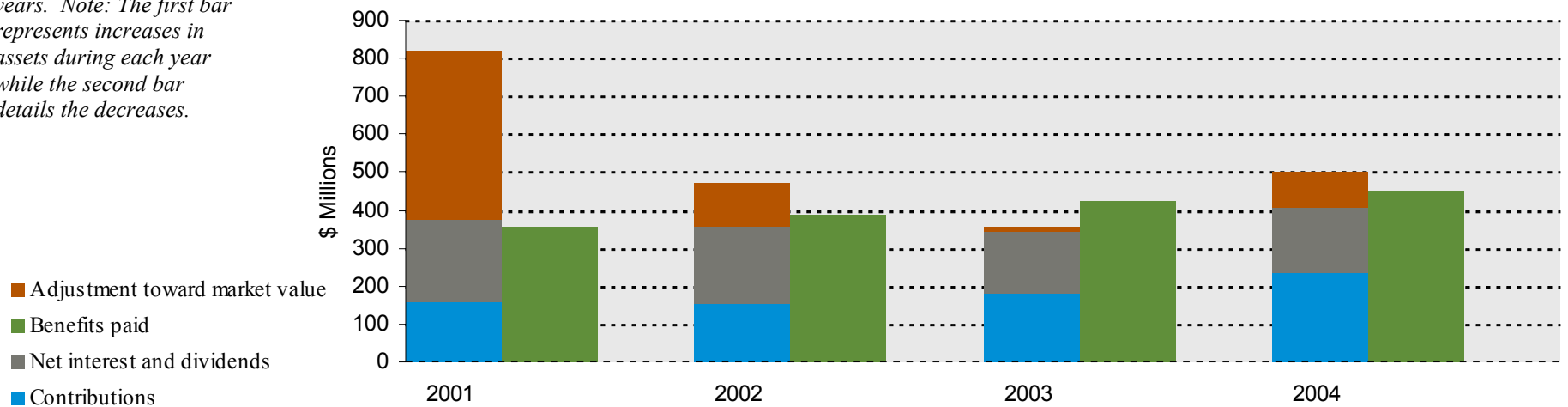
**B. FINANCIAL INFORMATION**

Retirement plan funding anticipates that, over the long term, both contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

Retirement plan assets change as a result of the net impact of these income and expense components. Additional financial information, including a summary of these transactions for the valuation year, is presented in Section 3, Exhibits D, E and F.

*The chart depicts the components of changes in the actuarial value of assets over the last four years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.*

**CHART 6**  
**Comparison of Increases and Decreases in the Actuarial Value of Assets**  
**for Years Ended June 30, 2001 – 2004**



**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Administration has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

*The chart shows the determination of the actuarial and valuation value of assets as of the valuation date.*

**CHART 7**

**Determination of Actuarial Value and Valuation Value of Assets for Year Ended June 30, 2004**

1. Market value of assets		\$7,734,438,028
2. Calculation of unrecognized return*	<u>Original Amount</u>	<u>Unrecognized Return</u>
(a) Year ended June 30, 2004	\$710,820,763	\$568,656,610
(b) Year ended June 30, 2003	-289,230,950	-173,538,570
(c) Year ended June 30, 2002	-955,341,286	-382,136,514
(d) Year ended June 30, 2001	-980,262,675	<u>-196,052,535</u>
(e) Total unrecognized return		-183,071,009
3. Preliminary actuarial value: (1) - (2e)		7,917,509,037
4. Adjustment to be within 20% corridor		0
5. Final actuarial value of assets: (3) + (4)		<u>\$7,917,509,037</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)		102.4%
7. Market value of retirement assets		6,879,277,876
8. Valuation value of retirement assets (5) ÷ (1) x (7)		<u>\$7,042,107,591</u>

*\*Total return minus expected return on a market value basis*

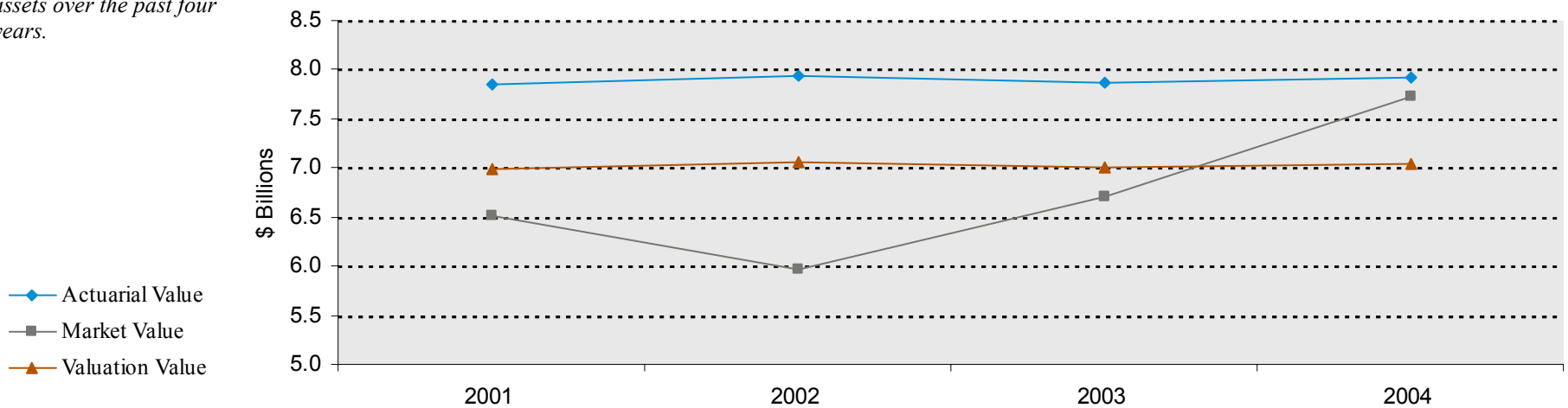


**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

The actuarial value, valuation value and market value of assets are representations of LACERS' financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The portion of the total actuarial value of assets allocated for retirement benefits based on a prorated share on a market value basis is shown as the valuation value of assets. The valuation value of assets is significant because LACERS' liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

*This chart shows the change in the actuarial value, the valuation value and the market value of assets over the past four years.*

**CHART 8**  
**Actuarial Value, Valuation Value and Market Value of Assets as of June 30, 2001 – 2004**



**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

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**C. ACTUARIAL EXPERIENCE**

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that over the long term, experience will

return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss is \$799,324,434, \$336,383,508 from investments, \$40,416,421 from contribution experience and \$422,524,505 from other sources. The net experience variation from individual sources other than investments was 5.4% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

*This chart provides a summary of the actuarial experience during the past year.*

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**CHART 9  
Actuarial Experience for Year Ended June 30, 2004**

1. Net loss from investments*	-\$336,383,508
2. Net loss from other experience**	-422,524,505
3. Net loss from contributions less than anticipated due to phase-in and one-year time lag for new rates	<u>-40,416,421</u>
4. Net experience loss: (1) + (2) + (3)	-\$799,324,434

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\* Details in Chart 10.

\*\* Details in Chart 13.

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

**Investment Rate of Return**

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on LACERS' investment policy. For valuation purposes, the assumed rate of return on the valuation value of assets is 8.00%. The actual rate of return on the valuation value of assets basis for the 2004 plan year was 3.17%.

Since the actual return for the year was less than the assumed return, LACERS experienced an actuarial loss during the year ended June 30, 2004 with regard to its investments.

*This chart shows the gain/(loss) due to investment experience.*

**CHART 10  
Actuarial Value Investment Experience for Year Ended June 30, 2004**

	<b>Actuarial Value (Includes assets for Retirement, Health and Family Death Benefits)</b>	<b>Valuation Value (Includes assets for Retirement Only)</b>
1. Actual return	\$267,449,522	\$220,599,219
2. Average value of assets	7,819,565,763	6,962,284,097
3. Actual rate of return: (1) ÷ (2)	3.42%	3.17%
4. Assumed rate of return	8.00%	8.00%
5. Expected return: (2) x (4)	\$625,565,261	\$556,982,728
6. Actuarial gain/(loss): (1) – (5)	<u>-\$358,115,739</u>	<u>-\$336,383,508</u>

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the market value investment return for the Retirement, Health and Family Death Benefits assets for the last four years.

Based upon this experience and future expectations, we have maintained the assumed rate of return of 8.00%.

**CHART 11**

**Investment Return – Actuarial Value vs. Market Value: 2001 - 2004**

Year Ended June 30	Net Interest and Dividend Income		Recognition of Capital Appreciation		Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2001	218,918,771	2.83	443,656,601	5.73	662,575,372	9.09	218,918,771	-4.60
2002	201,393,778	2.58	112,813,481	1.44	314,207,259	4.06	201,393,778	-5.25
2003	164,915,100	2.11	11,691,257	0.15	176,606,357	2.26	238,161,856	3.61
2004	<u>171,166,339</u>	2.21	<u>96,283,183</u>	1.24	<u>267,449,522</u>	3.42	<u>1,243,644,727</u>	18.84
Total	\$756,393,988		\$664,444,522		\$1,420,838,510		\$1,902,119,132	
					Four-year average return	4.68		2.71

*Note: Each year's yield is weighted by the average asset value in that year.*

## SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

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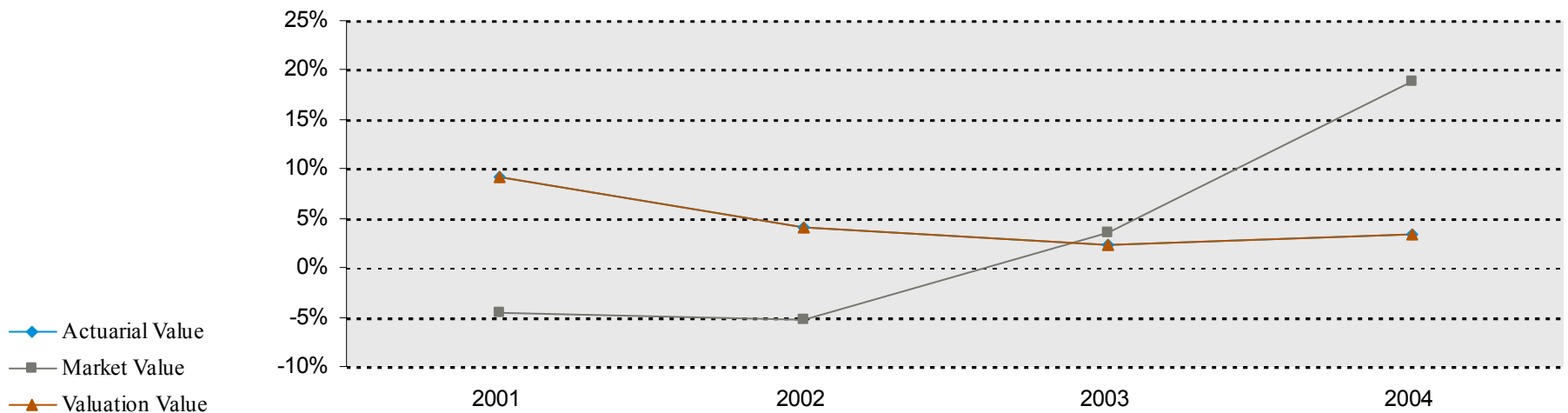
Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

*This chart illustrates how this leveling effect has actually worked over the years 2001 – 2004.*

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**CHART 12**  
**Market, Actuarial and Valuation Rates of Return for Years Ended June 30, 2001 - 2004**

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**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

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**Other Experience**

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),

- the number of disability retirements,
- salary increases different than assumed, and
- change in valuation software that changes allocation of the present value of benefits between normal cost and actuarial accrued liability.

The net loss from this other experience for the year ended June 30, 2004 amounted to (\$422,524,505) which is 5.0% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the LACERS for the year ended June 30, 2004 is shown in the chart below.

*The chart shows elements of the experience gain/(loss) for the most recent year.*

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**CHART 13**

**Experience Due to Changes in Other Experience for Year Ended June 30, 2004**

1. Salary increase for continuing actives greater than expected	-\$225,109,234
2. Change in valuation software that changes allocation of present value of benefits between normal cost and actuarial accrued liability	-71,017,767
3. Miscellaneous	<u>-126,397,504</u>
4. Total	<u>-\$422,524,505</u>

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**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

**D. RECOMMENDED CONTRIBUTION**

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. This total amount is then divided by the projected payroll for active members to determine the funding rate of 14.76% of payroll.

minimum is \$211.9 million and no additional adjustment has been made.

The recommended contribution policy has been updated to adjust the contribution requirement if the GASB ARC minimum contribution is greater than the amount prescribed below. For 2004, the GASB ARC

*The chart compares this valuation's recommended contribution with the prior valuation.*

**CHART 14**  
**Recommended Contribution**

	Year Beginning June 30			
	2004		2003	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	\$236,238,453	14.99%	\$227,761,893	16.33%
2. Expected employee contributions	<u>-103,231,144</u>	<u>-6.55%</u>	<u>-86,350,999</u>	<u>-6.19%</u>
3. Employer normal cost: (1) + (2)	\$133,007,309	8.44%	\$141,410,894	10.14%
4. Actuarial accrued liability	8,533,863,528		7,659,846,696	
5. Actuarial value of assets	<u>7,042,107,591</u>		<u>6,999,647,350</u>	
6. Unfunded actuarial accrued liability	\$1,491,755,937		\$660,199,346	
7. Amortization of unfunded accrued liability	90,809,198	5.77%	19,059,065	1.37%
8. Total recommended contribution, not adjusted for timing	<u>\$223,816,507</u>	<u>14.21%</u>	<u>\$160,469,959</u>	<u>11.51%</u>
9. Total recommended contribution, adjusted for timing*	<u>\$232,539,943</u>	<u>14.76%</u>	<u>\$166,724,122</u>	<u>11.95%</u>
10. Projected payroll used for developing normal cost rate	\$1,575,284,734		\$1,395,008,058	

\*Recommended contributions are assumed to be paid at the end of every month.

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

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If paid by the City at the beginning of the year, the calculated normal cost (including expenses) is 8.44% of payroll. The remaining 5.77% of payroll will amortize the unfunded actuarial accrued liability.

The contribution rates as of June 30, 2004 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

**Reconciliation of Recommended Contribution**

The chart below details the changes in the recommended contribution from the prior valuation to the current year's valuation.

*The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.*

**CHART 15**

**Reconciliation of Recommended Contribution from July 1, 2003 to July 1, 2004**

<b>Recommended Contribution as of July 1, 2003</b>	\$166,724,122
Effect of contributions less than recommended contribution	3,597,882
Effect of investment loss	29,944,964
Effect of other losses on accrued liability	37,613,262
Effect of net other changes	<u>(5,340,287)</u>
<b>Total change</b>	<u>\$65,815,821</u>
<b>Recommended Contribution as of July 1, 2004</b>	\$232,539,943



**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

**E. INFORMATION REQUIRED BY THE GASB**

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded on an actuarially sound basis and in accordance with the GASB funding requirements. Chart 16 below presents a graphical representation of this information for the Plan.

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the

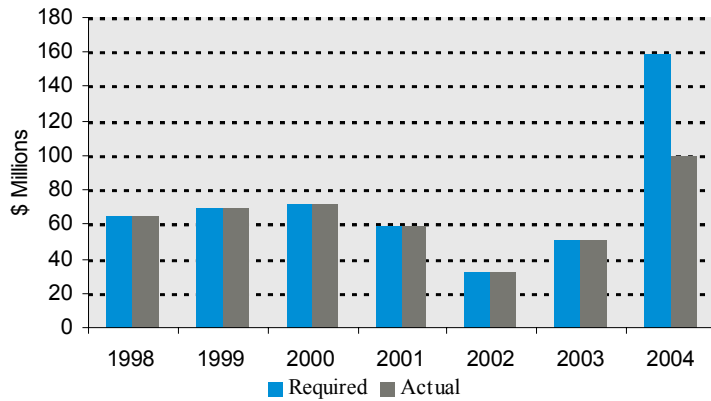
actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

Although GASB requires that the valuation value of assets be used to determine the funded ratio, Chart 17 shows the funded ratio calculated using both the valuation value of assets and the market value of assets.

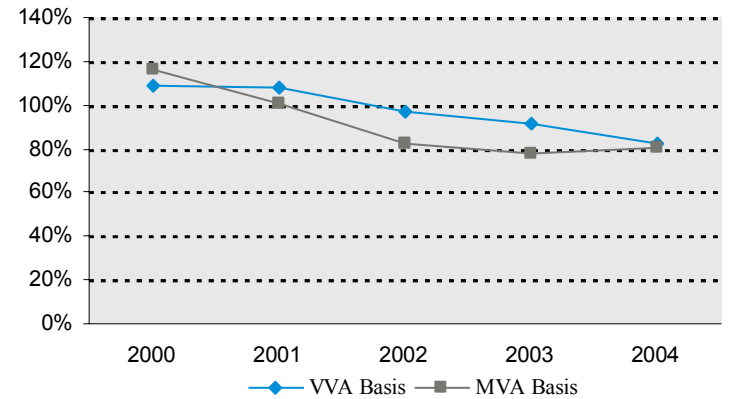
The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits II, III, and IV.

*These graphs show key GASB factors.*

**CHART 16**  
**Required Versus Actual Contributions**



**CHART 17**  
**Funded Ratio**



**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

**EXHIBIT A**

**Table of Plan Coverage**

<b>Category</b>	<b>Year Ended June 30</b>		<b>Change From Prior Year</b>
	<b>2004</b>	<b>2003</b>	
<b>Active members in valuation:</b>			
Number	27,092	26,358	2.8%
Average age	45.2	44.9	N/A
Average service	11.9	11.8	N/A
Total payroll	\$1,575,284,734	\$1,405,057,848	12.1%
Average payroll	58,146	53,307	9.1%
Account balances	1,019,487,318	944,193,600	8.0%
Total active vested members	17,591	16,772	4.9%
<b>Vested terminated members:</b>			
Number	2,232	2,593	-13.9%
Average age	42.7	42.7	N/A
Average contribution balance for those with under 5 years of service	\$2,958	N/A	N/A
Average monthly benefit for those members with 5 or more years of service	\$1,183	N/A	N/A
<b>Retired members:</b>			
Number in pay status	10,093	9,803	2.9%
Average age at retirement	60.1	N/A	N/A
Average service	26.1	N/A	N/A
Average age	71.4	71.4	N/A
Average monthly benefit (includes July COLA)	\$2,778	\$2,637	5.3%
<b>Disabled members:</b>			
Number in pay status	847	839	1.1%
Average age at retirement	44.3	N/A	N/A
Average service	12.1	N/A	N/A
Average age	60.2	59.7	N/A
Average monthly benefit (includes July COLA)	\$1,182	\$1,131	4.5%
<b>Beneficiaries:</b>			
Number in pay status	3,197	3,163	1.1%
Average age	75.0	74.9	N/A
Average monthly benefit (includes July COLA)	\$1,324	\$1,269	4.3%

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

**EXHIBIT B**

**Members in Active Service as of June 30, 2004  
By Age, Years of Service, and Average Payroll**

Age	Years of Service									
	Total	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	724	720	4	--	--	--	--	--	--	--
	\$30,227	\$30,128	\$47,874	--	--	--	--	--	--	--
25 - 29	1,898	1,681	214	3	--	--	--	--	--	--
	44,801	43,647	53,887	\$43,288	--	--	--	--	--	--
30 - 34	2,627	1,698	750	154	25	--	--	--	--	--
	52,307	48,137	59,038	64,633	\$57,651	--	--	--	--	--
35 - 39	3,524	1,372	784	740	609	19	--	--	--	--
	57,294	48,295	59,109	68,508	61,594	\$57,576	--	--	--	--
40 - 44	4,576	1,247	730	743	1,360	482	14	--	--	--
	61,062	48,978	58,069	67,109	69,104	64,581	\$70,220	--	--	--
45 - 49	4,436	1,026	482	626	1,186	787	290	39	--	--
	61,951	46,039	57,527	66,279	69,425	69,845	63,906	\$64,616	--	--
50 - 54	4,081	838	435	428	872	577	625	293	13	--
	62,771	46,624	58,849	63,706	66,738	69,051	72,171	68,784	\$71,916	--
55 - 59	2,934	531	287	285	553	356	381	387	149	5
	64,567	43,645	54,182	63,121	65,797	66,265	76,842	80,752	79,582	72,331
60 - 64	1,439	289	148	149	275	179	128	134	115	22
	59,417	38,741	48,966	60,083	60,500	67,186	64,345	75,110	81,358	81,117
65 - 69	572	108	56	56	114	85	51	45	35	22
	54,824	27,709	37,275	53,070	63,396	67,495	60,490	63,216	83,552	67,684
70 & over	281	74	41	24	50	29	24	15	13	11
	43,959	19,236	22,225	46,056	59,836	61,558	58,122	70,291	68,446	72,389
Total	27,092	9,584	3,931	3,208	5,044	2,514	1,513	913	325	60
	\$58,146	\$44,786	\$56,946	\$65,591	\$66,754	\$67,689	\$70,466	\$74,358	\$79,886	\$73,860

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

**EXHIBIT C**

**Reconciliation of Member Data**

	<b>Active Members</b>	<b>Vested Former Members</b>	<b>Disableds</b>	<b>Retired Members</b>	<b>Beneficiaries</b>	<b>Total</b>
Number as of July 1, 2003	26,358	2,593	839	9,803	3,163	42,756
New members	1,613	N/A	N/A	N/A	N/A	1,613
Terminations – with vested rights	-331	331	0	0	0	0
Terminations – without vested rights	-411	-388	N/A	N/A	N/A	-799
Retirements	-464	-55	N/A	519	N/A	0
New disabilities	-17	-15	32	N/A	N/A	0
Died with beneficiary	0	0	-2	-10	12	0
Died without beneficiary	0	0	-17	-401	-221	-639
Rehired	344	-341	-3	0	N/A	0
Data adjustments	0	107	-2	182	243	530
Number as of June 30, 2004	27,092	2,232	847	10,093	3,197	43,461

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

**EXHIBIT D**

**Summary Statement of Income and Expenses on an Actuarial Value Basis for Retirement, Health and Family Death Benefits**

	Year Ended June 30, 2004	Year Ended June 30, 2003
<b>Contribution income:</b>		
Employer contributions	\$140,201,349	\$97,531,127
Employee contributions	<u>93,417,803</u>	<u>83,067,509</u>
Contribution income	\$233,619,152	\$180,598,636
<b>Investment income:</b>		
Interest, dividends and other income	\$200,347,430	\$191,556,709
Recognition of capital appreciation	96,283,183	11,691,257
Less investment and administrative fees	<u>-29,181,091</u>	<u>-26,641,609</u>
Net investment income	<u>267,449,522</u>	<u>176,606,357</u>
<b>Total income available for benefits</b>	<b>\$501,068,674</b>	<b>\$357,204,993</b>
<b>Less benefit payments:</b>		
Payment of benefits	-\$440,529,521	-\$408,979,796
Refunds of contributions	<u>-11,338,011</u>	<u>-14,679,302</u>
Net benefit payments	-\$451,867,532	-\$423,659,098
<b>Change in reserve for future benefits</b>	<b>\$49,201,142</b>	<b>-\$66,454,105</b>

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

**EXHIBIT E**

**Summary of Statement of Assets for Retirement, Health and Family Death Benefits**

	<b>Year Ended June 30, 2004</b>	<b>Year Ended June 30, 2003</b>
<b>Cash equivalents</b>	\$539,354,004	\$410,784,149
<b>Accounts receivable:</b>		
Investment income	\$28,095,038	\$27,001,516
Proceeds from sales	113,194,813	172,646,370
Other	<u>5,982,494</u>	<u>4,591,406</u>
Total accounts receivable	147,272,345	204,239,292
<b>Investments:</b>		
Fixed income	\$1,295,992,620	\$1,311,952,438
Equities	5,058,106,931	4,122,931,262
Real estate and mortgages	685,373,886	569,346,685
Other	1,367,398,926	1,235,550,179
Fixed assets	<u>113,163</u>	<u>55,392</u>
Total investments at market value	<u>8,406,985,526</u>	<u>7,239,835,956</u>
<b>Total assets</b>	<b>\$9,093,611,875</b>	<b>\$7,854,859,397</b>
<b>Less accounts payable:</b>		
Accounts payable and accrued expenses	-\$19,284,527	-\$18,496,212
Purchases of investments	-343,822,877	-227,761,307
Security lending collateral	<u>-996,066,443</u>	<u>-899,560,197</u>
Total accounts payable	-\$1,359,173,847	-\$1,145,817,716
<b>Net assets at market value</b>	<u><b>\$7,734,438,028</b></u>	<u><b>\$6,709,041,681</b></u>
<b>Net assets at actuarial value</b>	<u><b>\$7,917,509,037</b></u>	<u><b>\$7,868,307,895</b></u>
<b>Net assets at valuation value</b>	<u><b>\$7,042,107,591</b></u>	<u><b>\$6,999,647,350</b></u>

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

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**EXHIBIT F**

**Development of the Fund Through June 30, 2004 for Retirement, Health and Family Death Benefits**

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<b>Year Ended June 30</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>	<b>Net Investment Return*</b>	<b>Benefit Payments</b>	<b>Actuarial Value of Assets at End of Year</b>
2001	\$87,896,674	\$69,460,111	\$662,575,372	\$355,862,157	\$7,853,297,000
2002	79,467,671	75,654,360	314,207,259	387,864,290	7,934,762,000
2003	97,531,127	83,067,509	176,606,357	423,659,098	7,868,307,895
2004	140,201,349	93,417,803	267,449,522	451,867,532	7,917,509,037

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*\* Net of investment fees and administrative expenses*

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

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**EXHIBIT G**

**Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2004**

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1. Unfunded actuarial accrued liability at beginning of year	\$660,199,346
2. Normal cost at beginning of year	227,761,893
3. Total contributions	-213,474,726
4. Interest	<u>58,361,411</u>
5. Expected unfunded actuarial accrued liability	\$732,847,924
6. Increase due to experience loss*:	<u>758,908,013</u>
7. Unfunded actuarial accrued liability at end of year	<u>\$1,491,755,937</u>

\* Excludes \$40,416,421 loss from contributions less than anticipated due to phase-in and one-year time lag for new rates. That loss is already included in the development of item 5.



**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

**EXHIBIT H**

**Table of Amortization Bases**

<b>Type*</b>	<b>Date Established</b>	<b>Initial Years</b>	<b>Initial Amount</b>	<b>Annual Payment*</b>	<b>Years Remaining</b>	<b>Outstanding Balance</b>
Combined Bases	06/30/1997	15	\$72,430,216	\$8,166,516	8	\$57,462,284
Gain	06/30/1998	15	-358,304,524	-38,845,076	9	-302,048,549
Change in assumption	06/30/1998	30	224,524,794	15,526,588	24	249,756,855
Gain	06/30/1999	15	-186,776,099	-19,470,256	10	-165,258,334
Plan Change	06/30/1999	30	21,748,503	1,446,132	25	23,846,687
Change in assumption	06/30/2000	30	-9,507,144	-632,161	25	-10,424,328
Gain	06/30/2000	15	-333,772,990	-33,455,551	11	-306,900,241
Loss	06/30/2001	15	12,134,999	1,169,563	12	11,501,032
Loss	06/30/2002	15	190,569,002	17,660,483	13	184,894,842
Plan Change	06/30/2002	30	37,649,323	2,225,541	28	39,203,004
Change in assumption	06/30/2002	30	462,657,994	27,348,811	28	481,750,578
Loss	06/30/2003	15	434,089,109	38,680,839	14	428,647,673
Loss	06/30/2004	15	799,324,434	<u>68,486,779</u>	15	<u>799,324,434</u>
Sub-total before GASB amount				\$88,308,208		\$1,491,755,937
40 Year Minimum GASB 25/27	06/30/2004	15	29,189,615	<u>2,500,990</u>	15	<u>29,189,615</u>
Total				\$90,809,198		\$1,520,945,552

\* Level percentage of payroll

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

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**EXHIBIT I**

**Section 415 Limitations**

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Section 415 of the Internal Revenue Code (IRC) specifies the maximum benefits that may be paid to an individual from a defined benefit plan and the maximum amounts that may be allocated each year to an individual's account in a defined contribution plan.

A qualified pension plan may not pay benefits in excess of the Section 415 limits. The ultimate penalty for non-compliance is disqualification: active participants could be taxed on their vested benefits and the IRS may seek to tax the income earned on the plan's assets.

In particular, Section 415(b) of the IRC limits the maximum annual benefit payable at the Normal Retirement Age to a dollar limit of \$160,000 indexed for inflation. That limit is \$165,000 for 2004 and \$170,000 for 2005. Normal Retirement Age for these purposes is age 62. These are the limits in simplified terms. They must be adjusted based on each participant's circumstances, for such things as age at retirement, form of benefits chosen and after tax contributions.

Benefits in excess of the limits may be paid through a qualified governmental excess plan that meets the requirements of Section 415(m).

Legal Counsel's review and interpretation of the law and regulations should be sought on any questions in this regard.

### SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

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#### EXHIBIT J

#### Definitions of Pension Terms

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The following list defines certain technical terms for the convenience of the reader:

#### **Assumptions or Actuarial**

##### **Assumptions:**

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

##### **Normal Cost:**

The amount of contributions required to fund the benefit allocated to the current year of service.

##### **Actuarial Accrued Liability**

##### **For Actives:**

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

##### **Actuarial Accrued Liability**

##### **For Pensioners:**

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

##### **Unfunded Actuarial Accrued**

##### **Liability:**

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

**SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System**

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**Amortization of the Unfunded**

**Actuarial Accrued Liability**

Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

**Investment Return:**

The rate of earnings of the Plan from its investments, including interest, dividends and market gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the market gains and losses to avoid significant swings in the value of assets from one year to the next.

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

**EXHIBIT I**

**Summary of Actuarial Valuation Results**

The valuation was made with respect to the following data supplied to us:

1. Retired members as of the valuation date (including 3,197 beneficiaries in pay status)		14,137
2. Members inactive during year ended June 30, 2004 with vested rights (including 1,296 members with under 5 years of service eligible for a refund of contributions)		2,232
3. Members active during the year ended June 30, 2004		27,092
Fully vested	17,591	
Not vested	9,501	

The actuarial balance sheet as of the valuation date is as follows:

**Assets**

1. Valuation value of assets (\$7,734,438,028 at market value* and \$7,917,509,037 at actuarial value* as reported by Administration Office)		\$7,042,107,591
2. Present value of future normal costs		
Employee	\$908,344,143	
Employer	<u>1,805,292,639</u>	
Total		\$2,713,636,782
3. Unfunded actuarial accrued liability		<u>1,491,755,937</u>
4. Present value of current and future assets		\$11,247,500,310

**Liabilities**

5. Present value of future benefits		
Retired members and beneficiaries	\$4,310,204,942	
Inactive members with vested rights	80,561,748	
Active members	<u>6,856,733,620</u>	
Total		\$11,247,500,310

\* Includes assets for Retirement, Health and Family Death Benefits.

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**EXHIBIT I (continued)**

**Summary of Actuarial Valuation Results**

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The determination of the recommended contribution is as follows:

1. Total normal cost	\$236,238,453
2. Expected employee contributions	<u>-103,231,144</u>
3. Employer normal cost: (1) + (2)	\$133,007,309
4. Payment on unfunded actuarial accrued liability	90,809,198
5. Total recommended contribution: (3) + (4), not adjusted for timing	<u>\$223,816,507</u>
6. Total recommended contribution: (3) + (4), adjusted for timing	<u>\$232,539,943</u>
7. Projected payroll	\$1,575,284,734
8. Total recommended contribution as a percentage of projected payroll, not adjusted for timing: (5) ÷ (7)	14.21%
9. Total recommended contribution as a percentage of projected payroll, adjusted for timing: (6) ÷ (7)	14.76%

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**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**EXHIBIT II**

**Supplementary Information Required by the GASB – Schedule of Employer Contributions**

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<b>Plan Year Ended June 30</b>	<b>Annual Required Contributions</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
1998	\$64,459,744	\$64,459,744	100.00%
1999	69,248,626	69,248,626	100.00%
2000	72,146,277	72,146,277	100.00%
2001	59,153,313	59,153,313	100.00%
2002	32,296,002	32,296,002	100.00%
2003	51,604,669	51,604,669	100.00%
2004	159,083,407	100,408,689	63.12%

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**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

**EXHIBIT III**

**Supplementary Information Required by the GASB – Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Valuation Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll* [(b) - (a) / (c)]</b>
06/30/1999	\$5,910,948,000	\$5,684,586,000	-\$226,362,000	103.98%	\$1,068,124,000	-21.19%
06/30/2000	6,561,365,000	6,012,931,000	-548,434,000	109.12%	1,182,203,000	-46.39%
06/30/2001	6,988,782,000	6,468,066,000	-520,716,000	108.05%	1,293,350,000	-40.26%
06/30/2002	7,060,188,000	7,252,118,000	191,930,000	97.35%	1,334,335,000	14.38%
06/30/2003	6,999,647,000	7,659,846,000	660,199,000	91.38%	1,405,058,000	46.99%
06/30/2004	7,042,107,591	8,533,863,528	1,491,755,937	82.52%	1,575,284,734	94.70%

\* *Not less than zero*



## SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

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### EXHIBIT IV

#### Supplementary Information Required by the GASB

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<b>Valuation date</b>	June 30, 2004
<b>Actuarial cost method</b>	Projected Unit Credit Cost Method – assuming a closed group.
<b>Amortization method</b>	Level percent of payroll – assuming a 4% increase in total covered payroll.
<b>Remaining amortization period</b>	Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years.
<b>Asset valuation method</b>	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five - year period.
<b>Actuarial assumptions:</b>	
Investment rate of return	8.00%
Inflation rate	4.00%
Projected salary increases	Ranges from 8.0% to 5.5% for members with less than 5 years of service. For members with 5 or more years of service, the increase is 5.00% per year.
Cost of living adjustments	3.00%
<b>Plan membership:</b>	
Retired members and beneficiaries receiving benefits	14,137
Terminated members entitled to, but not yet receiving benefits	2,232
Active members	<u>27,092</u>
Total	43,461

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**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

**EXHIBIT V**

**Development of the Net Pension Obligation and the Annual Pension Cost Pursuant to GASB 27**

<b>Plan Year Ended June 30</b>	<b>Employer Annual Required Contribution (a)</b>	<b>Employer Amount Contributed (b)</b>	<b>Interest on NPO (h)* 8.00% (c)</b>	<b>ARC Adjustment (h) / (e) (d)</b>	<b>Amortization Factor (e)</b>	<b>Pension Cost (a) + (c) - (d) (f)</b>	<b>Change in NPO (f) - (b) (g)</b>	<b>NPO Balance NPO + (g) (h)</b>
2003	\$51,604,669	\$51,604,669	\$0	\$0	N/A	\$51,604,669	\$0	\$0
2004	159,083,407	100,408,689	0	0	N/A	159,083,407	58,674,718	58,674,718

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**EXHIBIT VI**  
**Actuarial Assumptions and Actuarial Cost Method**

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**Mortality Rates:**

*After Service Retirement:* 1994 Uninsured Pensioner Mortality Table for Males, setback 3 years for females.  
*After Disability Retirement* 1981 Disabled Mortality Table (General), setback 5 years for females.

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**Termination Rates before Retirement:**

<b>Age</b>	<b>Mortality</b>	
	<b>Male</b>	<b>Female</b>
25	0.04	0.03
30	0.06	0.05
35	0.08	0.07
40	0.12	0.10
45	0.17	0.14
50	0.23	0.18
55	0.32	0.26
60	0.44	0.42

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**Termination Rates before Retirement (continued):**

<b>Age</b>	<b>Rate (%)</b>	
	<b>Disability</b>	<b>Withdrawal*</b>
25	0.01	5.75
30	0.02	5.25
35	0.07	3.75
40	0.12	2.75
45	0.17	2.25
50	0.20	1.70
55	0.20	1.45
60	0.00	1.20
65	0.00	0.00

*\* Withdrawal rates are zero for members expected to retire.*

Rates of Withdrawal for members with less than 5 years of service are as follows:

<b>Service</b>	<b>Rate (%)</b>
	<b>Withdrawal (Based on Service)</b>
0	8.25
1	7.25
2	6.75
3	6.50
4	6.25

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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<b>Retirement Rates:</b>	<u><b>Age</b></u>	<u><b>Retirement Probability</b></u>
	50	1.00%
	51	1.00
	52	1.00
	53	1.00
	54	2.00
	55	9.00
	56	10.00
	57	10.00
	58	12.00
	59	12.00
	60	20.00
	61	15.00
	62	25.00
	63	10.00
	64	15.00
	65	26.00
	66	23.00
	67	23.00
	68	23.00
	69	23.00
	70	100.00

**Retirement Age and Benefit for Inactive**

**Vested Participants:** Assume pension benefit will be paid at the later of age 60 or the current attained age.

**Exclusion of Inactive Vested:** All inactive participants are included in the valuation.

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**Definition of Active Members:** First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.

**Unknown Data for Members:** Same as those exhibited by Members with similar known characteristics. If not specified, Members are assumed to be male.

**Percent Married/Domestic Partner:** 76% of male participants; 50% of female participants.

**Age of Spouse:** Female spouses 4 years younger than their spouses.

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**Future Benefit Accruals:** 1.0 year of service per year.

**Other Government Service:** Currently, it is assumed that no deferred vested members will leave the City of Los Angeles to work at a reciprocal system.

**Consumer Price Index:** Increase of 4.0% per year; benefit increases due to CPI subject to 3.0% maximum.

**Employee Contribution and Matching Account Crediting Rate:** 6.50%

**Net Investment Return:** 8.00%

**Salary Increases:** According to the following schedule:

Service	Percentage Increase*
0	4.0%
1	3.5%
2	3.0%
3	2.0%
4	1.5%
5+	1.0%

\* Before including 4% general CPI increase.

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**Actuarial Value of Assets:** The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and expected returns on a market value basis and is recognized over a five year period. The actuarial value of assets can not be less than 80% or greater than 120% of the market value of assets.

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**Actuarial Cost Method:** Projected Unit Credit Cost Method.

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**Funding Policy:** The Los Angeles City Employees' Retirement System makes contributions equal to the Normal Cost adjusted by amount to amortize any Surplus or Unfunded Actuarial Accrued Liability. Both the Normal Cost and the Actuarial Accrued Liability are determined under the Projected Unit Credit cost method. All the bases on or before June 30, 1997 were combined and amortized over 15 years effective June 30, 1997. Any subsequent change in Surplus or Unfunded Actuarial Accrued Liability due to actuarial gains or losses are amortized over separate fifteen year periods. Any change in Surplus or Unfunded Actuarial Accrued Liability from plan amendments or plan assumption changes are amortized over separate thirty year periods. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.

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**Changes in Assumptions:** There have been no changes in actuarial assumptions since the last valuation.

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**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

**EXHIBIT VII**  
**Summary of Plan Provisions**

This exhibit summarizes the major provisions of the LACERS included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

<b>Plan Year:</b>	July 1 through June 30			
<b>Census Date:</b>	June 30			
<b>Normal Retirement Benefit:</b>				
<i>Age &amp; Service Requirement</i> (§ 4.1020)	Age 70; Age 60 with 10 years of continuous service; or Age 55 with at least 30 years of service.			
<i>Amount</i> (§ 4.1056.2)	2.16% of the Final Average Monthly Compensation per year of service			
<b>Early Retirement Benefit:</b>				
<i>Age &amp; Service Requirement</i> (§ 4.1020)	Age 55 with 10 years of continuous service; or Any age with 30 year of service.			
<i>Amount</i> (§ 4.1056.2)	2.16% of the Final Average Monthly Compensation per year of service reduced for retirement ages below age 60 using the following sample Early Retirement benefit adjustment factors:			
	<u>Age</u>	<u>Factor</u>	<u>Age</u>	<u>Factor</u>
	45	0.6250	50	0.7750
	55	0.9250	60	1.0000
<b>Final Average Monthly Compensation:</b> (§ 4.1010)	Equivalent of monthly average salary of highest continuous 12 months (one year).			



**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**Cost of Living benefit**  
(§ 4.1040) Based on changes to Los Angeles area consumer price index to a maximum of 3% per year, excess banked.

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**Death after retirement**  
(§ 4.1044)

- (i) 50% of retiree's unmodified allowance continued to an eligible spouse or a domestic partner; or a modified continuance to an eligible spouse or a domestic partner at the time of member's death (or a designated beneficiary selected by member at the time of retirement);
- (ii) \$2,500 lump sum death benefit paid to a designated beneficiary; and
- (iii) Any unused contributions if the member has elected the cash refund annuity option.

---

**Death before retirement**  
(§ 4.1062 and § 4.1054)

Option #1:

- (i) Eligibility – None.
- (ii) Benefit – Refund of contributions plus a limited pension benefit according to the following schedule:

<u>Service Credit</u>	<u>Number of Monthly Payments</u>
1 year	2
2 years	4
3 years	6
4 years	8
5 years	10
6+ years	12

Option #2:

- (i) Eligibility – Duty-related death or after 5 years of service.
- (ii) Benefit – Continuance of service or disability benefit payable under 100% joint and survivor option to an eligible spouse or qualified domestic partner.

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**Member Normal Contributions:**

*(§ 4.1031)*

If an employee became a plan member on or after January 1, 1983, the member normal contribution rate is 6%.

If an employee became a plan member before January 1, 1983, the rate is based on age at entry, sample rates by entry age (before reflecting applicable pick ups by the employers or “defrayals”) are as follows:

Entry Age	Normal Rate	Survivor Rate
20	8.20%	0.44%
30	9.06%	0.75%
40	10.19%	0.91%
50	11.34%	1.03%

---

**Disability:**

*(§ 4.1055)*

*Service Requirement*

5 years of continuous service

*Amount*

1/70 (about 1.43%) of the Final Average Monthly Compensation per year of service or 1/3 of the Final Average Monthly Compensation, if greater.

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

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**Deferred Withdrawal Retirement Benefit (Vested):**

(§ 4.1020 and § 4.1059.1)

<i>Age &amp; Service Requirement</i>	Age 70 with 5 years of continuous service; Age 60 with 5 years of continuous service and at least 10 years have elapsed from first date of membership; or Age 55 with at least 30 years of service. Deferred employee who meets part-time eligibility: age 60 with at least 10 years from the first date of membership.
<i>Amount</i>	See Normal retirement benefit
<i>Age &amp; Service Requirement</i>	Age 55 with 5 years of continuous service and at least 10 years have elapsed from first date of membership; or Age 55 with 10 years of continuous service. Deferred employee who meets part-time eligibility: age 55 with at least 10 years from the first date of membership.
<i>Amount</i>	See Early retirement benefit

---

**Withdrawal of Contributions Benefit (Ordinary Withdrawal):**

Refund of employee contributions with interest.

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**Changes in Plan Provisions:**

There have been no changes in plan provisions, benefit amounts and eligibility requirements since the last valuation.

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

**EXHIBIT VIII**

**Solvency Test for Retirement Benefits For Years Ended June 30 (\$ In Thousands)**

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Member Contributions	(2) Retirants, Beneficiaries, & Deferred Vesteds	(3) Active Members	Valuation Value of Assets	(1)	(2)	(3)
06/30/1996	\$637,737	\$2,357,798	\$1,480,489	\$4,468,433	100.0%	100.0%	99.5%
06/30/1997	683,048	2,598,432	1,604,857	4,802,509	100.0	100.0	94.8
06/30/1998	733,680	2,772,712	1,806,526	5,362,923	100.0	100.0	100.0
06/30/1999	776,617	2,989,218	1,918,751	5,910,948	100.0	100.0	100.0
06/30/2000	827,729	3,149,392	2,035,810	6,561,365	100.0	100.0	100.0
06/30/2001	889,658	3,444,240	2,134,168	6,988,782	100.0	100.0	100.0
06/30/2002	950,002	3,756,935	2,545,181	7,060,188	100.0	100.0	92.5
06/30/2003	1,005,888	4,021,213	2,632,745	6,999,647	100.0	100.0	74.9
06/30/2004	1,062,002	4,348,252	3,123,610	7,042,108	100.0	100.0	52.2

**SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System**

**EXHIBIT IX**

**Retirants and Beneficiaries Added To and Removed From the Rolls\* For Years Ended June 30**

<u>Year Ended</u>	<u>No. of New Retirants/ Beneficiaries</u>	<u>Annual Allowances Added**</u>	<u>No. of Retirants/ Beneficiaries Removed</u>	<u>Annual Allowances Removed</u>	<u>No. of Retirants/ Beneficiaries at 6/30</u>	<u>Annual Allowances at 6/30</u>	<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowances</u>
06/30/2001	773	\$22,866,958	466	\$6,436,730	13,365	\$316,057,216	8.6%	\$23,648
06/30/2002	844	23,740,829	620	11,316,344	13,589	336,437,038	6.4%	24,758
06/30/2003	827	24,729,535	611	12,008,132	13,805	359,036,215	6.7%	26,008
06/30/2004	986	53,452,133	654	13,220,316	14,137	399,268,032	11.2%	28,243

\* Does not include Family Death Benefit Insurance Plan members. Table based on valuation data.

\*\* For 06/30/2004, also includes the COLA granted in July 2003 and July 2004.

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# **Los Angeles City Employees' Retirement System**

## *Actuarial Valuation and Review of Health Program as of June 30, 2004*

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THE PARENT OF THE SEGAL COMPANY  
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*December 3, 2004*

*Board of Administration  
Los Angeles City Employees' Retirement System  
360 East Second Street, 8<sup>th</sup> Floor  
Los Angeles, CA 90012*

*Dear Board Members:*

*We are pleased to submit this report on our actuarial valuation of postemployment health benefits as of June 30, 2004. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal year 2005/2006 and analyses the preceding year's experience.*

*The census information on which our calculations were based and the financial information was provided by the Board of Administration. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Dave Bergerson, ASA, MAAA, Enrolled Actuary. The actuarial projections were based on the assumptions and methods described in Exhibit II and on the plan of benefits as summarized in Exhibit III. This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Administration are reasonably related to the experience of and the expectations for the Plan.*

*We look forward to discussing this material with you at your next meeting.*

*Sincerely,*

*THE SEGAL COMPANY*

*By:*

\_\_\_\_\_  
*Paul Angelo, FSA, MAAA  
Vice President and Actuary*

\_\_\_\_\_  
*Andy Yeung, ASA, MAAA  
Associate Actuary*

**PURPOSE**

This report presents the results of our actuarial valuation of the Los Angeles City Employees' Retirement System (LACERS) post retirement medical and dental benefits as of June 30, 2004. The results are in accordance with generally accepted actuarial principles and practices. **The accounting standards of GASB 43 and 45 that supplement the current cash accounting have not been applied.** The results under the guidelines prescribed by GASB would produce significantly different results than shown in this report.

The calculations shown in this report are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. **In addition, all employees with under 10 years of service have been excluded from our calculation consistent with the Board's current funding policy.**

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets.

The calculation of an accounting obligation does not, in and of itself, imply that LACERS is required to implement an accelerated funding policy to satisfy the projected expense.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**ACCOUNTING REQUIREMENTS**

As previously noted, the Governmental Accounting Standards Board (GASB) rules are **not** being applied in our calculation of liabilities shown in this report. For instance, the GASB liability calculation should include all active employees, which requires adding those who are currently excluded from the valuation because they have less than 10 years of service. The application of the GASB accounting parameters may potentially require the plan to use different assumptions and methodologies and hence will produce a different liability for accounting purposes.

For reference purposes, we have provided a general description of the new GASB Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Under this statement, all plans of state and local government entities that provide other post employment are required to report the cost of these benefits on their financial statements. **GASB requires that plans whose employers have total annual revenues of \$100 million or more, such as LACERS, comply with the new Standard for plan years beginning after December 15, 2005. (i.e., Plan year 2006/2007). The City is required to include the results in its financial statements effective with the following fiscal year (i.e. Fiscal year 2007/2008).**

The statement includes postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. The new standard introduces an accrual-basis accounting requirement; thereby, recognizing the employer cost of postemployment benefits over an employee's career. The standards also

introduce a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnovers, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is then discounted to determine the actuarial present value of the projected cost of these benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the net OPEB obligation (NOO). In addition, supplementary information (RSI) is required. This information includes historical information about the UAAL and the progress in funding the Plan.

## SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

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### HIGHLIGHTS OF THE VALUATION

- The recommended contribution has increased from 4.02% of payroll to 4.94% of payroll. The contribution rate for the employer increased because of: (i) lower than expected return on the valuation value of assets, (ii) change in actuarial assumptions, and (iii) other actuarial losses.
- The employer contribution rates provided in this report have been developed assuming that they will be made by the City at either (1) the beginning of the fiscal year (i.e. the City will prepay its contributions) or (2) on average at the middle of the year (i.e. the City will pay contributions at the end of every pay period).
- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 70.4% to 60.5%. The unfunded actuarial accrued liability has increased from \$356.8 million to \$560.8 million. A complete summary of the actuarial experience during the past year is provided in Exhibit H.
- The assumption for the discount rate is 8.0%, and is based on the long term return assumption for trust assets.
- In this valuation, we have increased the health care trend assumptions used in the last valuation and this change has resulted in an increase in the contribution requirement. However, this contribution increase is offset partially by the less than anticipated premium increase for calendar year 2005.
- The funding method used to develop the recommended contribution is Projected Unit Credit, a method that will produce an increasing normal cost as a percent of payroll. In addition, under the current approach, we have not included any additional dollar normal cost to fund the benefits for new employees expected to be included in future valuations (i.e. have just attained 10 years of service). We recommend that the Board consider review of this funding method in conjunction with the next experience study.
- Contributions will generally increase with payroll growth. Other factors such as gains or losses, or changes in trend assumptions will also alter the contribution rate.
- The market value of assets is slightly less than the valuation value of assets due to prior year losses being smoothed over a 5-year period.

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System**

**SUMMARY OF VALUATION RESULTS**

	<b>June 30, 2004</b>	<b>June 30, 2003</b>
<b>Actuarial Accrued Liability by Participant Category</b>		
Current retirees, beneficiaries and dependents	\$703,482,695	\$645,242,000
Other participants fully eligible for benefits	17,561,325	Not Available
Other participants not yet fully eligible for benefits	<u>698,768,806</u>	<u>Not Available</u>
Total	\$1,419,812,826	\$1,205,811,000
<b>Valuation Value of Assets</b>	\$858,997,310	\$848,983,407
<b>Funded Ratio</b>	60.5%	70.4%
<b>Market Value of Assets</b>	\$839,135,318	\$723,899,616
<b>Unfunded Actuarial Accrued Liability</b>	\$560,815,516	\$356,827,890
<b>Recommended Contribution not adjusted for timing</b>		
Normal cost	\$32,035,500	\$27,256,373
Amortization of the unfunded actuarial accrued liability	<u>42,851,349</u>	<u>26,860,717</u>
Total recommended contribution	\$74,886,849	\$54,117,090
Recommended as a percent of pay (payable on the average at the middle of the year)*	4.94%	4.02%

\* These rates are based on estimated payroll of \$1,575,284,734 for 2004 and \$1,395,008,058 for 2003. Neither rate is adjusted for the 12-month delay until the rate is effective for the increase due to interest nor the decrease due to the assumed increase in total payroll.

December 3, 2004

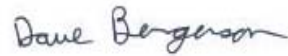
**ACTUARIAL CERTIFICATION**

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of the Los Angeles City Employees' Retirement System health program as of June 30, 2004, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the current historical funding methods used in determination of the liability for medical and dental benefits.

The actuarial valuation is based on the plan of benefits verified by LACERS and on participant, claims and financial data provided by the administration office.

The actuarial computations made are for funding plan benefits. Determinations for purposes of financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations will be needed for that purposes and other purposes, such as judging benefit security at termination or adequacy of funding an ongoing plan.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the plan's current funding information.



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Dave T. Bergerson, ASA, MAAA, EA  
Vice President and Actuary



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Chuck Fuhrer, FSA, MAAA  
Vice President and Senior Health Actuary

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

**Exhibit A**

**Summary Statement of Income and Expense on an Actuarial Value Basis for Retirement, Health and Family Death Benefits**

	Year Ended June 30, 2004	Year Ended June 30, 2003
<b>Contribution income:</b>		
Employer contributions	\$140,201,349	\$97,531,127
Employee contributions	<u>93,417,803</u>	<u>83,067,509</u>
Contribution income	\$233,619,152	\$180,598,636
<b>Investment income:</b>		
Interest, dividends and other income	\$200,347,430	\$191,556,709
Recognition of capital appreciation	96,283,183	11,691,257
Less investment and administrative fees	<u>-29,181,091</u>	<u>-26,641,609</u>
Net investment income	<u>267,449,522</u>	<u>176,606,357</u>
<b>Total income available for benefits</b>	<b>\$501,068,674</b>	<b>\$357,204,993</b>
<b>Less benefit payments:</b>		
Payment of benefits	-\$440,529,521	-\$408,979,796
Refunds of contributions	<u>-11,338,011</u>	<u>-14,679,302</u>
Net benefit payments	-\$451,867,532	-\$423,659,098
<b>Change in reserve for future benefits</b>	<b>\$49,201,142</b>	<b>-\$66,454,105</b>

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

**Exhibit B**

**Summary of Statement of Assets for Retirement, Health and Family Death Benefits**

	Year Ended June 30, 2004	Year Ended June 30, 2003
<b>Cash equivalents</b>	\$539,354,004	\$410,784,149
<b>Accounts receivable:</b>		
Investment income	\$28,095,038	\$27,001,516
Proceeds from sales	113,194,813	172,646,370
Other	<u>5,982,494</u>	<u>4,591,406</u>
Total accounts receivable	147,272,345	204,239,292
<b>Investments:</b>		
Fixed Income	\$1,295,992,620	\$1,311,952,438
Equities	5,058,106,931	4,122,931,262
Real Estate and Mortgages	685,373,886	569,346,685
Other	1,367,398,926	1,235,550,179
Fixed Assets	<u>113,163</u>	<u>55,392</u>
Total investments at market value	<u>8,406,985,526</u>	<u>7,239,835,956</u>
<b>Total assets</b>	<b>\$9,093,611,875</b>	<b>\$7,854,859,397</b>
<b>Less accounts payable:</b>		
Accounts payable and accrued expenses	-\$19,284,527	-\$18,496,212
Purchases of investments	-343,822,877	-227,761,307
Security lending collateral	<u>-996,066,443</u>	<u>-899,560,197</u>
Total accounts payable	-\$1,359,173,847	-\$1,145,817,716
<b>Net assets at market value</b>	<b><u>\$7,734,438,028</u></b>	<b><u>\$6,709,041,681</u></b>
<b>Net assets at actuarial value</b>	<b><u>\$7,917,509,037</u></b>	<b><u>\$7,868,307,895</u></b>
<b>Net assets at valuation value (retiree health)</b>	<b><u>\$858,997,310</u></b>	<b><u>\$848,983,407</u></b>



**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

**Exhibit C**

**Determination of Actuarial Value of Assets as of June 30, 2004**

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Administration has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

*The chart shows the determination of the actuarial and valuation value of assets as of the valuation date.*

1. Market value of assets			\$7,734,438,028
2. Calculation of unrecognized return*	<u>Original</u>	<u>Unrecognized</u>	
	<u>Amount</u>	<u>Return</u>	
(a) Year ended June 30, 2004	\$710,820,763	\$568,656,610	
(b) Year ended June 30, 2003	-289,230,950	-173,538,570	
(c) Year ended June 30, 2002	-955,341,286	-382,136,514	
(d) Year ended June 30, 2001	-980,262,675	-196,052,535	
(e) Total unrecognized return			-183,071,009
3. Preliminary actuarial value: (1) - (2e)			7,917,509,037
4. Adjustment to be within 20% corridor			0
5. Final actuarial value of assets: (3) + (4)			<u>\$7,917,509,037</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)			102.4%
7. Market value of retiree health assets			839,135,318
8. Valuation value of retiree health assets (5) ÷ (1) x (7)			<u>\$858,997,310</u>

\*Total return minus expected return on a market value basis

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

**Exhibit D**

**Cash Flow Projection**

Year Ending June 30,	Projected Number of Retirees electing coverage under the Health Program*			Projected Benefit Payments		
	Current	Future	Total	Current	Future	Total
2005	19,349	1,056	20,405	\$56,272,732	\$4,276,005	\$60,548,737
2006	18,638	1,861	20,499	58,001,873	8,163,446	66,165,319
2007	17,908	2,638	20,546	61,184,975	13,089,208	74,274,183
2008	17,173	3,401	20,574	63,701,725	18,757,638	82,459,363
2009	16,429	4,156	20,585	65,635,143	25,251,243	90,886,386
2010	15,683	4,866	20,549	66,812,731	32,239,913	99,052,644
2011	14,946	5,562	20,508	67,313,297	39,840,126	107,153,423
2012	14,214	6,229	20,443	66,999,043	47,746,863	114,745,906
2013	13,464	6,877	20,341	66,082,564	55,779,779	121,862,343
2014	12,758	7,499	20,257	64,695,350	63,866,128	128,561,478

\* Includes spouses of retirees.

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

**Exhibit E**

**Table of Amortization Bases**

<b>Type*</b>	<b>Date Established</b>	<b>Initial Years</b>	<b>Initial Amount</b>	<b>Annual Payment*</b>	<b>Years Remaining</b>	<b>Outstanding Balance</b>
Combined Bases	06/30/1997	15	54,322,308	6,124,847	8	43,096,429
Gain	06/30/1998	15	(110,171,401)	(11,944,076)	9	(92,873,819)
Change in assumption	06/30/1998	30	44,832,551	3,100,310	24	49,870,819
Gain	06/30/1999	15	(104,153,669)	(10,857,377)	10	(92,154,520)
Plan Change	06/30/1999	30	3,167,219	210,599	25	3,472,763
Change in assumption	06/30/2000	30	46,098,996	2,947,383	26	49,749,581
Loss	06/30/2000	15	106,000,201	10,624,872	11	97,465,905
Gain	06/30/2001	15	(84,154,024)	(8,110,721)	12	(79,757,731)
Loss	06/30/2002	15	50,482,550	4,678,338	13	48,979,443
Change in assumption	06/30/2002	30	60,026,393	3,548,302	28	62,503,517
Loss	06/30/2003	15	375,085,691	33,423,158	14	370,383,878
Change in assumption	06/30/2003	30	(102,227,493)	(5,810,490)	29	(104,371,720)
Loss	06/30/2004	15	120,613,283	10,334,246	15	120,613,283
Change in assumption	06/30/2004	30	83,837,688	<u>4,581,957</u>	30	<u>83,837,688</u>
Total				42,851,349		560,815,516

\* Level percentage of Pay

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

**Exhibit F**

**Determination of Recommended Contribution**

	Year Beginning June 30			
	2004		2003	
	Amount	% of Payroll	Amount	% of Payroll
1. Employer normal cost	\$ 32,035,500	2.03	\$27,256,373	1.95
2. Actuarial accrued liability	1,419,812,826		1,205,811,297	
3. Valuation value of assets	<u>858,997,310</u>		<u>848,983,407</u>	
4. Unfunded actuarial accrued liability	\$560,815,516		\$356,827,890	
5. Amortization of unfunded accrued liability	42,851,349	2.72	26,860,717	1.93
6. Total recommended contribution, not adjusted for timing	<u>\$ 74,886,849</u>	<u>4.75</u>	<u>\$54,117,090</u>	<u>3.88</u>
7. Total recommended contribution, adjusted for timing*	<u>\$ 77,805,492</u>	<u>4.94</u>	<u>\$56,226,252</u>	<u>4.02</u>
8. Projected payroll used for developing normal cost rate	\$1,575,284,734		\$1,395,008,058	

*\*Recommended contributions are assumed to be paid at the end of every month.*

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

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**Exhibit G**

**Reconciliation of Recommended Contribution**

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<b>Recommended Contributions as of July 1, 2003</b>	\$54,117,090
Effect of contributions less than recommended contribution	\$3,212,710
Effect of investment losses	1,446,726
Effect of other losses on accrued liability	7,313,095
Effect of change in actuarial assumptions	<u>8,797,228</u>
<b>Total change</b>	\$20,769,759
<b>Recommended Contributions as of July 1, 2004</b>	\$74,886,849

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**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

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**Exhibit H**

**Actuarial Experience for Year Ended June 30, 2004**

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1. Net loss from investments	\$16,885,057
2. Net loss from other experience	42,073,717
3. Effect of change in valuation system	24,158,253
4. Contributions less than anticipated due one-year time lag for new rates	<u>37,496,256</u>
5. Net experience loss: (1) + (2) + (3) + (4)	\$120,613,283

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To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

The differences between the expected and the actual experience are provided in the table above. These include:

- Actual rate of return from investment,
- Demographic experience (e.g., turnover, retirement, mortality, disability, etc.),
- Change in valuation software that changes allocation of the present value of benefits between normal cost and actuarial accrued liability, and

- Loss from less than expected contributions due to the phase-in and the one-year lag for implementing the new rates calculated in the June 30, 2003 valuation.

The net loss from actuarial experience for the year ended June 30, 2004 amounted to (\$120,613,283) which is 8.5% of the actuarial accrued liability.

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

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**Exhibit I**

**Development of Unfunded Actuarial Accrued Liability for the Year Ended June 30, 2004**

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1. Unfunded actuarial accrued liability at beginning of year	\$356,827,890
2. Normal cost at beginning of year	27,256,373
3. Total contributions	20,144,426
4. Interest	<u>29,920,964</u>
5. Expected unfunded actuarial accrued liability	\$393,860,801
6. Increase due to experience loss*:	\$83,117,027
7. Change in actuarial assumptions	<u>\$83,837,688</u>
8. Unfunded actuarial accrued liability at end of year	\$560,815,516

---

\* Excludes \$37,496,256 loss from contributions less than anticipated due to phase-in and one-year time lag for new rates. That loss is already included in the development of item 5.

**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

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**Exhibit J**

**Actuarial Balance Sheet for Year Ended June 30, 2004**

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The actuarial balance sheet as of the valuation date is as follows:

<b>Assets</b>			
1.	Valuation value of assets (\$7,734,438,028 at market value* and \$7,917,509,037 at actuarial value* as reported by Administration Office)		\$858,997,310
2.	Present value of future normal costs		\$279,448,740
3.	Unfunded actuarial accrued liability		<u>560,815,516</u>
4.	Present value of current and future assets		\$1,699,261,566
<b>Liabilities</b>			
5.	Present value of future benefits		
	Retired members and beneficiaries	\$703,482,695	
	Inactive members with vested rights	17,015,401	
	Active members	<u>978,763,470</u>	
	Total		\$1,699,261,566

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\* Includes assets for Retirement, Health and Family Death Benefits.



**SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System**

**Exhibit K**

**Schedule of Funding Progress for Health Program**

<b>Actuarial Valuation Date</b>	<b>Valuation Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]</b>
06/30/1999	\$724,429,000	\$614,093,000	\$-110,336,000	117.97%	\$1,068,124,000	-10.33%
06/30/2000	810,303,000	854,066,000	43,763,000	94.88%	1,182,203,000	3.70%
06/30/2001	844,984,000	807,905,000	-37,079,000	104.59%	1,293,350,000	-2.87%
06/30/2002	853,916,000	931,964,000	78,048,000	91.63%	1,334,335,000	5.85%
06/30/2003	848,983,000	1,205,811,000	356,828,000	70.41%	1,405,058,000	25.40%
06/30/2004	858,997,310	1,419,812,826	560,815,516	60.50%	1,575,284,734	35.60%

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

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**EXHIBIT I**

**Summary of Participant Data**

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*This exhibit summarizes the participant data used for the current valuation.*

	<b>June 30, 2004</b>
<b>Retirees</b>	
Non-disabled	10,093
Disabled	<u>847</u>
Total	10,940
Average age	69.8
<b>Surviving Spouses</b>	
Number	3,197
Average age	75.0
<b>Inactive Vested Participants (excluding those with less than 10 years of service)</b>	
Number	552
Average age	47.3
<b>Active Participants (excluding those with less than 10 years of service)</b>	
Number	13,577
Average age	49.5
Average years of service	20.0

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**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

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**EXHIBIT II  
Actuarial Assumptions and Actuarial Cost Method**

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**Data:** Detailed census data and financial data for postemployment benefits were provided by LACERS.

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**Actuarial Cost Method:** Projected unit credit.

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**Termination Rates before Retirement:**

Age	Mortality		Disability	Withdrawal
	Male	Female		
20	0.04%	0.02%	0.00%	6.25%
25	0.04	0.03	0.01	5.75
30	0.06	0.05	0.02	5.25
35	0.08	0.07	0.07	3.75
40	0.12	0.10	0.12	2.75
45	0.17	0.14	0.17	2.25
50	0.23	0.18	0.20	1.70
55	0.32	0.26	0.20	1.45

All deaths are assumed to be non-duty related.

Note: Withdrawal rates for actives with less than 5 years of service are as follows and supersede the above probabilities:

Service	Rate
0	8.25%
1	7.25
2	6.75
3	6.50
4	6.25

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

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**Postretirement Mortality Rates:**

*Healthy*

UP 1994 Male Mortality Table for males, set back three years for females

*Disabled*

1981 Disability Mortality Table (General) for males, set back five years for females

**Active Retirement Rates:**

<b>Age</b>	<b>Rate (%)</b>
50-53	1.00
54	2.00
55	9.00
56-57	10.00
58-59	12.00
60	20.00
61	15.00
62	25.00
63	10.00
64	15.00
65	26.00
66-69	23.00
70	100.00

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

**Per Capita Cost Development:**

The assumed costs on a composite basis are the future costs of providing postretirement health care benefits at each age. To determine the assumed costs on a composite basis, historical claims costs are renewed, and adjusted for increases in the cost of health care services.

**Plan**

<u>Pre-65 and Over 65 with Medicare Part B only</u>	Participation Ratio*	Maximum Monthly Subsidy			Observed Utilization**
		Single	Married	Surviving Spouse	
PPO	0.161	\$702.85	\$883.00	\$452.86	0.84
Kaiser	0.643	452.86	813.87	452.56	0.84
Pacificare/SH	0.196	490.81	882.09	452.56	0.84
Dental	1.000	39.86	39.86	0.00	0.78
<u>Post-65 with Medicare Parts A and B</u>					
PPO	0.311	\$340.29	\$520.44	\$340.29	0.84
Kaiser	0.568	277.22	552.45	277.22	0.84
Pacificare/SH	0.121	204.74	407.31	204.13	0.84
Dental	1.000	39.86	39.86	0.00	0.84
Medicare Part B	1.000	66.60	66.60	0.00	0.77

\* Participation ratio is the proportion of retirees electing to receive a subsidy that select that specific plan.

\*\* Utilization ratio is the proportion of all retirees that elect to receive a subsidy, note the observed rates are based on the combined medical rates.

#### SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

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<i>Administrative Expenses</i>	No administrative expenses were valued separately from the claim costs.
<i>Participants Excluded from Valuation</i>	All participants with under 10 years of service are excluded from the valuation
<i>Marital Status</i>	91% of male and 66% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
<i>Spouse Age Difference</i>	Males are assumed to be 4 years older than their female spouses.
<i>Surviving Spouse Coverage</i>	With regard to members who are currently alive, 75% of eligible spouse or domestic partners are assumed to elect continued health coverage after the Member's death. With regard to deceased Members, 70% of the current eligible survivors are assumed to elect health
<i>Participation</i>	80% of all retirees are assumed to receive a subsidy for a City approved health carrier. 85% of retirees are expected to elect Medicare Parts A and B. 65% of retirees are assumed to elect dental coverage.

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

**Health Care Cost Subsidy Trend Rates:** Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. Trend rates are used to increase the stated subsidies into the future. For example, the proposed medical subsidy for a Kaiser male retiree age pre-65 in the calendar year 2006 would be determined with the following formula:  $[\$436.08 \times (1 + 12\%)] = \$488.41$ .

Premium Year Ending December 31	Pre-65 PPO	Pre-65 HMO	Post-65 PPO	Post-65 HMO	Dental	Medicare Part B
2006	13.00%	12.00%	12.00%	12.00%	5.00%	6.00%
2007	12.00%	11.00%	11.00%	11.00%	5.00%	5.00%
2008	11.00%	10.00%	10.00%	10.00%	5.00%	5.00%
2009	10.00%	9.00%	9.00%	9.00%	5.00%	5.00%
2010	9.00%	8.00%	8.00%	8.00%	5.00%	5.00%
2011	8.00%	7.00%	7.00%	7.00%	5.00%	5.00%
2012	7.00%	6.00%	6.00%	6.00%	5.00%	5.00%
2013	6.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2014 & later	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

**Plan Design:** Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.

**Administrative Expenses:** No administrative expenses were valued separately from the claim costs.

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

**Demographic Assumption  
Changes Since Prior Valuation**

Except for the trend rates, the assumptions used in this valuation are the same as those used in the prior valuation. The trend rates used in last year's valuation are shown below. The trend rates are no longer divided by carrier.

Year	Medical Trend				Dental Trend	Medicare Part B
	Pre-65		Post-65			
	PPO	HMO	PPO	HMO		
2003-2004	7.75%	10.75%	10.75%	15.00%	7.25%	6.00%
2004-2005	7.50%	10.50%	10.50%	14.00%	7.00%	6.00%
2005-2006	7.25%	8.75%	9.25%	11.50%	6.75%	6.00%
2006-2007	7.00%	7.00%	8.00%	9.00%	6.50%	6.00%
2007-2008	6.50%	6.50%	7.50%	8.50%	6.25%	6.00%
2008-2009	6.00%	6.00%	7.00%	8.00%	6.00%	6.00%
2009-2010	5.50%	5.50%	6.50%	7.50%	5.50%	5.75%
2010-2011	5.00%	5.00%	6.00%	7.00%	5.00%	5.50%
2011-2012	4.75%	4.75%	5.50%	6.50%	4.75%	5.25%
2012-2013	4.50%	4.50%	5.00%	6.00%	4.50%	5.00%
2013-2014	4.25%	4.25%	4.75%	5.50%	4.25%	4.75%
2014-2015	4.00%	4.00%	4.50%	5.00%	4.00%	4.50%
2015-2016	4.00%	4.00%	4.25%	4.50%	4.00%	4.25%
2016+	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%



**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

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**EXHIBIT III**

**Summary of Plan**

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This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plan provisions as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

**Eligibility:**

*Retirees*

§4.1103.2

Retired age 55 or older with at least 10 years of service (including deferred vested members who terminate employment and receive a retirement benefit from LACERS), or if retirement date is between October 2, 1996, and September 30, 1999 at age 50 or older with at least 30 years of service. Benefits are also payable to spouses, domestic partners, or other qualified dependents while the retiree is alive. Please note that the health subsidy is not payable to a disabled retiree before the member reaches age 55.

**Health Subsidy for Members:**

*Under Age 65 or*

*Over Age 65 And Only*

*Enrolled in Medicare Part B:*

§4.1103.2

The System will pay 4% of the maximum health subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2004, the maximum health subsidy was \$883.00 per month\*.

\*Premium subsidy amount is subject to review by the Board on a calendar year basis. The Board, at its discretion, by resolution, may change the maximum monthly amount of the medical plan subsidy provided to retired employees as long as any increase:

- (1) Does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium and
- (2) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

The maximum medical subsidy will remain unchanged at \$883.00 per month for calendar year 2005. The maximum survivor medical subsidy will be lowered to \$436.08 per month for calendar year 2005, the maximum dental subsidy will be lowered to \$34.84 per month for calendar year 2005.

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System**

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*Over Age 65 and Enrolled in  
Both Medicare Parts A and B:*  
§4.1103.2

For retirees, a maximum health subsidy (limited to actual premium) of \$883.00\* per month, is provided (as of July 1, 2004) subject to the following vesting schedule:

<u>Completed Years of Service</u>	<u>Vested Percentage</u>
10-14	75%
15-19	90%
20+	100%

**Dental Subsidy for Members:**  
§4.1105.2

The System will pay 4% of the maximum dental subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2004, the maximum dental subsidy was \$39.86\* per month.

There is no subsidy available to spouses or domestic partners. There is also no reimbursement for dental plans not sponsored by the System.

**Medicare Part B Subsidy for  
Members:**  
§4.1104

If a City Retiree is covered by both Medicare Parts A and B, and enrolled in a LACERS medical plan or participates in the LACERS Retiree Medical Premium Reimbursement Program, LACERS will reimburse the retiree the basic Part B Medicare premium.

\*Premium subsidy amount is subject to review by the Board on a calendar year basis. The Board, at its discretion, by resolution, may change the maximum monthly amount of the medical plan subsidy provided to retired employees as long as any increase:

- (3) Does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium and
- (4) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

The maximum medical subsidy will remain unchanged at \$883.00 per month for calendar year 2005. The maximum survivor medical subsidy will be lowered to \$436.08 per month for calendar year 2005, the maximum dental subsidy will be lowered to \$34.84 per month for calendar year 2005.

**Surviving Spouse Subsidy:**  
§4.1107 & §4.1107.1

The surviving spouse or domestic partner will be entitled a to a health subsidy (limited to actual premium) based on member's year of service (see Health Subsidy schedules above for members) and the surviving dependent's eligibility for Medicare.

The maximum health subsidy available for survivors is the Kaiser single party premium (\$452.86\* per month as of July 1, 2004).

There is no dental subsidy for a surviving spouse or domestic partner.

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# STATISTICAL SECTION



View of Downtown Los Angeles, circa 1984  
SECURITY PACIFIC COLLECTION / Los Angeles Public Library



**Securing Your Tomorrows  
Building On Our Past**



**SCHEDULE OF ADDITIONS BY SOURCE (Dollars in Millions)**

Year Ended	Member Contribution	Employer Contribution		Net Investment Income (Loss) *	Total
		Dollars	% of Annual Covered Payroll		
1999	62.56	109.36	10%	812.92	984.84
2000	64.58	106.61	9%	771.17	942.36
2001	69.46	87.90	7%	(349.32)	(191.96)
2002	75.66	79.47	6%	(370.50)	(215.37)
2003	83.07	97.53	7%	247.33	427.92
2004	93.42	140.20	9%	1,252.52	1,486.14

\* Includes change in unrealized gain and loss of investment

**SCHEDULE OF DEDUCTIONS BY TYPE (Dollars in Millions)**

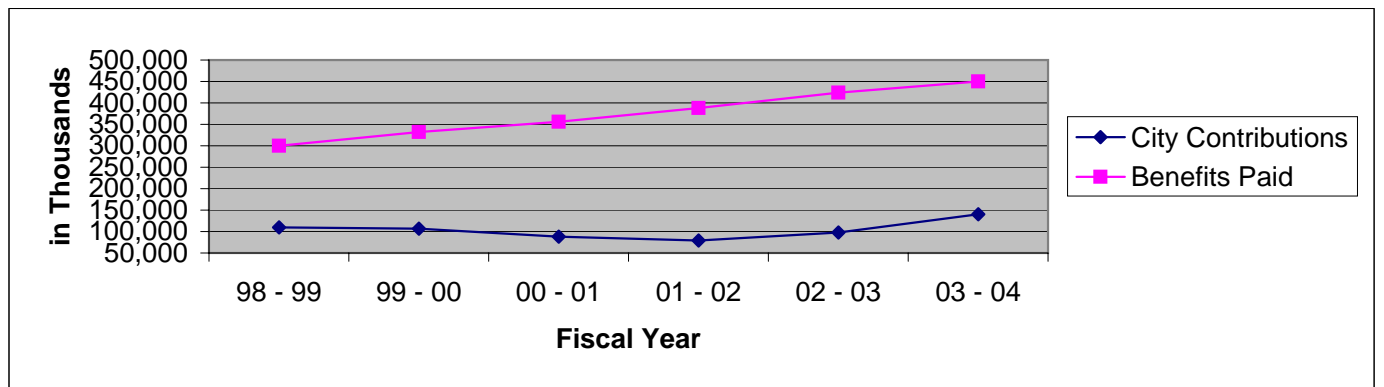
Year Ended	Benefits Payments	Refunds	Administrative Expense	Misc. Expense	Total
1999	290.62	9.63	6.23	-	306.48
2000	319.38	12.99	7.55	-	339.92
2001	343.11	12.92	8.20	-	364.23
2002	374.82	13.05	8.13	-	396.00
2003	408.98	14.68	9.17	-	432.82
2004	438.53	11.34	10.87	-	460.74

**SCHEDULE OF BENEFIT EXPENSE BY TYPE \* ( Dollars in Thousands)**

Year Ended	Age & Service Benefit		Death in Service Benefits	Disability Benefits		Sub Total	Refunds	Benefits Total
	Retirants	Survivors		Retirants	Survivors			
1999	248,986	27,521	3,113	9,301	1,703	290,624	9,628	300,252
2000	265,334	35,801	2,850	10,996	4,402	319,383	12,993	332,376
2001	285,030	38,523	2,919	11,882	4,751	343,105	12,923	356,028
2002	312,292	41,784	3,375	12,169	5,196	374,816	13,049	387,865
2003	340,934	45,574	3,045	13,700	5,727	408,980	14,679	423,659
2004	366,870	48,453	3,245	13,842	6,120	438,530	11,338	449,868

\* Allocated from year-end retirement roll

**CITY CONTRIBUTIONS versus BENEFITS PAID (Dollars in Thousands)**



Fiscal Year	98 - 99	99 - 00	00 - 01	01 - 02	02 - 03	03 - 04
<b>City Contributions</b>	\$ 109,362	\$ 106,610	\$ 87,897	\$ 79,468	\$ 97,531	\$ 140,201
<b>Benefits Paid</b>	\$ 300,252	\$ 332,376	\$ 356,028	\$ 387,865	\$ 423,659	\$ 449,868

## SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 2004)

Amount of Monthly Benefits	Number of Retirants	Type of Retirement **									
		1	2	3	4	5	6	7	8	9	10
\$ 1-250	222	65	58	48	21	12	2	1	6	-	9
251-500	673	104	241	114	50	99	1	35	22	-	7
501-750	1,218	249	380	110	263	90	12	91	20	1	2
751-1,000	1,216	366	361	113	227	23	29	73	22	-	2
1,001-1,250	1,216	513	336	80	168	14	41	56	8	-	-
1,251-1,500	1,035	586	233	51	80	9	37	26	12	-	1
1,501-1,750	885	614	161	42	18	5	28	12	4	-	1
1,751-2,000	885	698	109	28	18	5	17	4	6	-	-
Over 2,000	6,641	6,034	391	86	-	4	114	5	7	-	-
<b>Total</b>	<b>13,991 *</b>	<b>9,229</b>	<b>2,270</b>	<b>672</b>	<b>845</b>	<b>261</b>	<b>281</b>	<b>303</b>	<b>107</b>	<b>1</b>	<b>22</b>

\* The Limited Pension, Temporary Disability, and Family Death Benefit payments are not included.

** Type of Retirement	
1 - Service Member	6 - Service Survivorship
2 - Service Continuance	7 - Disability Survivorship
3 - Vested Right Member	8 - QDRO Life Time
4 - Disability Member	9 - QDRO Term Annuity
5 - Disability Continuance	10 - Additional Annuity



## SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates July 1, 1998 to June 30, 2004	Years Credited Service					
	Under 10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
<b>Period 7/1/98 to 6/30/99</b>						
Average Monthly Benefit	\$ 1,963.91	\$ 1,179.29	\$ 1,583.55	\$ 1,936.87	\$ 2,565.45	\$ 3,890.43
Average Final Monthly Salary *	\$ 3,385.49	\$ 3,831.08	\$ 3,837.49	\$ 3,800.85	\$ 4,084.20	\$ 4,908.22
Number of Active Retirants	52	55	44	38	70	303
<b>Period 7/1/99 to 6/30/00</b>						
Average Monthly Benefit	\$ 716.24	\$ 1,100.86	\$ 1,601.02	\$ 2,011.86	\$ 2,672.72	\$ 3,999.49
Average Final Monthly Salary *	\$ 2,693.28	\$ 3,773.84	\$ 4,158.56	\$ 4,085.41	\$ 4,368.14	\$ 5,235.76
Number of Active Retirants	20	93	47	58	63	352
<b>Period 7/1/00 to 6/30/01</b>						
Average Monthly Benefit	\$ 849.19	\$ 1,173.31	\$ 1,556.15	\$ 2,101.01	\$ 2,914.59	\$ 4,066.77
Average Final Monthly Salary *	\$ 3,500.51	\$ 3,999.07	\$ 4,115.43	\$ 4,336.88	\$ 4,843.92	\$ 5,380.32
Number of Active Retirants	22	73	53	46	73	315
<b>Period 7/1/01 to 6/30/02</b>						
Average Monthly Benefit	\$ 642.07	\$ 1,105.24	\$ 1,658.07	\$ 2,079.01	\$ 2,960.72	\$ 3,938.95
Average Final Monthly Salary *	\$ 3,527.07	\$ 4,067.47	\$ 4,553.00	\$ 4,386.13	\$ 4,905.41	\$ 5,359.44
Number of Active Retirants	22	64	78	48	78	306
<b>Period 7/1/02 to 6/30/03</b>						
Average Monthly Benefit	\$ 1,433.12	\$ 1,753.82	\$ 2,063.55	\$ 2,419.26	\$ 2,957.25	\$ 4,084.93
Average Final Monthly Salary *	\$ 3,118.74	\$ 4,134.40	\$ 4,657.89	\$ 5,164.51	\$ 5,120.17	\$ 5,638.15
Number of Active Retirants	27	61	72	69	61	325
<b>Period 7/1/03 to 6/30/04</b>						
Average Monthly Benefit	\$ 1,112.17	\$ 1,610.43	\$ 1,829.13	\$ 2,600.87	\$ 3,087.84	\$ 4,424.79
Average Final Monthly Salary *	\$ 4,690.45	\$ 5,323.58	\$ 4,922.72	\$ 4,924.23	\$ 5,318.14	\$ 6,067.02
Number of Active Retirants	23	35	67	59	45	267

\* Average Final Monthly Salary = Average of last or highest 12 consecutive months' salary

## REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

### LACERS

Fiscal Management Division  
360 E. 2nd Street, Eighth Floor  
Los Angeles, CA 90012

# LACERS

Los Angeles City Employees' Retirement System  
360 E. 2nd Street, Second Floor  
Los Angeles, CA 90012

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