LACERS

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

A Department of the Municipality of the City of Los Angeles, CA

Los Angeles City Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012

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Los Angeles City Employees' Retirement System

(A Department of the Municipality of the City of Los Angeles, CA)

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

Issued by
Thomas Moutes
General Manager

202 W. First Street, Suite 500
Los Angeles, CA 90012-4401
www.LACERS.org

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Introduction

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

202 W. First Street, Suite 500
Los Angeles, CA 90012-4401
(800) 779-8328
TDD (888) 349-3996
www.lacers.org

Letter of Transmittal

December 19, 2012

Board of Administration
Los Angeles City Employees' Retirement System
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

Dear Members of the Board:

Seventy five years ago, the City of Los Angeles established the Los Angeles City Employees' Retirement System (LACERS) as a pension trust fund to provide secure retirements for the civilian employees who provide public services to maintain and enrich our City. LACERS, entrusted with the administration of the trust fund, carries out its duties with the utmost fiduciary care for its members. As evidence of our stewardship, I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. We invite all stakeholders and interested parties to examine the financial condition of the System.

Although the fiscal year was challenging from economic and investment perspectives, it was year of great accomplishments at LACERS as detailed in the Major Initiatives section below. In the midst of many discussions regarding pension "reform", most of our active members were contributing at an 11% rate during this year compared with the 6% rate at which most had been contributing for many years. The number of our active members continued to decline to a twelve-year low of 24,917 while the average age of our active members rose significantly by 0.8 years due to the lack of hiring by City entities. At the end of the fiscal year, LACERS Postemployment Healthcare Plan was funded at 71.6%. While this was a decrease from the prior fiscal year as detailed in the Funding Status and Progress section below, it still is a significantly ahead of most pension funds.

During the fiscal year, there were several changes among key LACERS leadership positions including a change in the Board President in October 2011 with the installation of Rick Rogers as the new President replacing Roberta Conroy after her departure from our Board; a new Board member, Mike Keeley, who was appointed by the Mayor in January 2012; and a new Chief Investment Officer, Rodney L. June who rejoined our staff in July 2012. We also selected Keenan & Associates as our new Health and Welfare Consultant.

This CAFR presents a broad view of our financial condition including the System's financial statements, investment performance results, and actuarial valuations for retirement and health benefits.

Accounting System and Reports

This CAFR was prepared in conformance with accounting principles generally accepted in the United States, the reporting guidelines set forth by the Government Accounting Standards Board (GASB), and the Los Angeles City Charter.

The accompanying financial statements were prepared using the accrual basis of accounting. Contributions from the employer and Members were recognized when due pursuant to formal commitments and contractual requirements. Investment income was recognized as revenue when earned. Expenses were recorded when corresponding liabilities were incurred, regardless of when payment was due.

The Management's Discussion and Analysis, located in the Financial Section starting on page 15, contains financial highlights and an overview of the financial statements and financial analysis in a narrative format. Readers of this CAFR are encouraged to review this supplementary information to gain insight to LACERS financial status and activities.

It is the responsibility of LACERS management to prepare the System's financial statements, notes, and supplementary disclosures, and to establish and maintain internal control to ensure the System assets are protected. However, there are inherent limitations associated with internal control, such as the risk of circumventions as a result of cost considerations, collusion, or improper management overrides which may exist in any system. Management believes that the System's internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.* LACERS management assumes full responsibility for the contents of this report.

* Brown Armstrong, the independent auditor, has audited and expressed an unqualified opinion regarding LACERS basic financial statements.

Additions to Plan Net Assets

The additions to plan net assets consist of the City contributions, Member contributions, and net investment income. The total amount of additions for the fiscal year ending June 30, 2012 was $685,186,000, including the City contributions of $423,921,000, Member contributions of $178,246,000 and various investment income, net of investment expenses, of $83,019,000. The net investment income represents a net decrease of $1,867,129,000 as compared to the prior fiscal year's net investment income of $1,950,148,000. The decrease is attributed mainly to the net depreciation in the fair value of investments by $1,869,333,000 in comparison with that of the prior fiscal year. The System's investment rate of return for the current fiscal year was 1.1% (gross of fees), which underperformed the 7.75% actuarial assumed rate of return. 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 of this CAFR.

Deductions from Plan Net Assets

Deductions for the fiscal year ended June 30, 2012 totaled $783,089,000, which represented a decrease of $3,684,000 (-0.5%) over the prior year. This decrease was mainly due to less transfer of funds to the Department of Water and Power (DWP) Employees' Retirement Plan under the reciprocity program with LACERS. The components of the total deductions included payments of retirement benefits of $756,063,000 ($664,626,000 for the Retirement Plan and $91,437,000 for the Postemployment Healthcare Plan), refunds of contributions to terminated members of $11,100,000, and administrative expenses of $15,926,000 which also decreased slightly.

Changes in System Membership

LACERS membership changes for the fiscal year ended June 30, 2012 were as follows:

	2012	2011	In(De)crease	Change
Active Members	24,917	25,449	(532)	(2.1)%
Retired Members	17,223	17,197	26	0.2 %

Major Initiatives

LACERS accomplished many strategic initiatives during the year ended June 30, 2012 including:

Early Retiree Reinsurance Program

LACERS helped minimize the cost of administering the System by participating in the Federal Early Retiree Reinsurance Program (ERRP) for reimbursement of claim costs associated with early retiree medical plans. From this effort, LACERS received $2.3 million in reimbursements in 2012 and $3.8 million in 2011. The City of Los Angeles acknowledged this effort by awarding LACERS the Quality and Productivity Award in October 2011.

Asset-Liability Study

To ensure the development of an optimal asset allocation policy solution, LACERS undertook the use of a sophisticated asset-liability analysis model to evaluate its investment portfolio. In addition to the usual factors included in asset-liability studies – the retirement plan's unfunded liability, changes in the capital market assumptions, investment return expectations, and the retirement and health benefits costs – this model explicitly took the future stream of projected City contributions to LACERS into consideration. This optimization process resulted in an asset allocation policy structure that is fine-tuned to the dynamic structuring of the LACERS balance sheet and the long-term capital market assumptions, thus leading to more reasonable achievement of the plan's funding goals. In addition, implementation of the asset allocation policy structure should achieve present-value dollar savings of approximately $30 million each year for the next five years thereby helping to reduce the City's contribution to the fund.

Benefit Statutes & Compliance Projects

The City Council adopted technical revisions to the Administrative Code sections applicable to LACERS. This marks the completion of a multi-year effort to clarify the retirement statutes through a detailed review of each applicable code section, its intent, its evolution, and its practice.

LACERS also continued our initiative to audit and enhance the System's compliance with Internal Revenue Code provisions to ensure continued tax exempt status to public pension plan participants and the plan sponsor.

LACERS *Well* - Retiree Wellness Program

LACERS *Well* is a retiree wellness program launched in May 2012 as an educational campaign to encourage retirees to have their medical and health plan information on hand; to take a health risk assessments; to take necessary actions to address health risks; and to participate in physical activity. The program, developed in consort with our health carriers, includes incentives for participation in the physical fitness campaign.

Office Relocation

After 24 years in the same leased space, LACERS evaluated the costs/benefits of buying, building, or leasing its office space. The market conditions were favorable for leasing. Office space was identified in a more centralized civic center location, a floor plate to accommodate all staff on one floor, and lease rates and terms estimated to save LACERS $1.5 million in leasing costs over the next 10 years.

Additionally, LACERS initiated the following major technology initiative:

Pension Administration System Replacement Project

In June 2011, LACERS initiated a multi-year software replacement project. The pension administration system tracks all member information and is used to calculate member retirement benefits. The technical, functional, and business requirements were documented through various meetings with subject matter experts and a request for proposal with 1,500 functional requirements for the software vendor was issued. After a rigorous selection and evaluation process, the Board approved selection of a PAS vendor in September 2012. The complete replacement of the customized system is targeted for January 2016.

Accomplishments on these strategic initiatives moved us toward realizing our goals of enhanced customer service, enhanced investment risk management, minimizing employer contributions, and maximizing organizational efficiencies.

Funding Status and Progress

The funded ratio, the ratio of the actuarial value of assets to actuarial accrued liabilities, is a snapshot of the relative status of LACERS assets and liabilities. It is determined annually in the actuarial valuation under a specific cost method, reflecting changes in liabilities, investment returns, demographics, actuarial assumptions, and other factors during the reporting year. Based on the June 30, 2012 actuarial valuation, the combined funded ratio for the Retirement Plan and the Postemployment Healthcare Plan was decreased by 3.8% from a year ago to 69.4%. Individually, the funded ratio for the Retirement Plan decreased from 72.4% to 69.0%; and for the Postemployment Healthcare Plan, the funded ratio decreased from 78.6% to 71.6%. The decreased funded ratio for the Retirement Plan is primarily attributable to the change of actuarial cost method from the Projected Unit Credit (PUC) method to Entry Age Normal (EAN) method, and the current year investment loss in addition to the continued recognition of the large deferred investment loss of fiscal year 2008-09. The decreased funded ratio for the Postemployment Healthcare Plan is primarily attributable to additional bargaining units making contributions to avoid the retiree health subsidy freeze, the change of actuarial cost method from the PUC to EAN, and investment and demographic losses (refer to Note 2 – Retirement Plan Description and Note 3 – Postemployment Healthcare Plan Description on pages 29 and 33, respectively, of the financial statements in the Financial Section of this CAFR). As of June 30, 2012, there is a combined unrecognized investment loss in the amount of $1,024,757,000 resulting from the asset smoothing method used in the actuarial valuation process. This deferred investment loss will cause the City contribution rates to rise and the funded ratio to decrease in the next few years even if the investment returns match the 7.75% assumption and all other assumptions are met.

Investment Summary

The System established the investment policies in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of LACERS. The investment policies are designed to maximize the investment return while minimizing investment risk. The System's assets are managed on a total return basis in compliance with the investment policies to produce a total portfolio, long-term, real (above inflation) return of 5.0%. Consequently, prudent risk-taking is warranted within the context of the overall portfolio diversification. The Board implements its risk management policy by monitoring the portfolio's compliance through the adoption of investment policies, guidelines, and procedures for determining the strategic management of investment risk, while allowing sufficient flexibility in capturing investment opportunities, as they may occur, and establishing reasonable risk parameters to ensure prudence and care in the management of the System's assets.

The portfolio consists of investments in U.S. and non-U.S. stocks and bonds, bank loans, real estate and private equity, and short-term investments. In addition to maximizing the investment return, this asset mix also serves to diversify the portfolio in order to minimize portfolio volatility to the extent possible.

The System's total portfolio was valued at $10.6 billion as of June 30, 2012, a decrease of $0.2 billion (-1.9%) compared to the prior fiscal year. The portfolio posted a gross of fees return of 1.1% (or a net of fees return of 0.9%) over a one-year period. The total fund underperformed its policy benchmark by 1.1% gross of fees return (or 1.3% net of fees return), and also underperformed its actuarial assumed rate of investment return of 7.75%. Due to the volatility of global stock markets, non-U.S. stock markets were broadly lower, and it contributed to the System's lower investment rate of return for this fiscal year.

The annualized investment returns in detail are presented in the Investment Results on page 57 of the Investment Section. The detail of investment income and loss can be found on pages 20 - 21 of the Financial Section. Other investment related information is summarized in the Investment Section of this report.

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 CAFR for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. 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 report for the current fiscal year continues to meet the requirements of the Certificate of Achievement Program and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

It is important to recognize that the financial information contained in this report represents the work of the LACERS Board, a staff of approximately 130 dedicated employees, along with expert consultants, in their service to nearly 25,000 active and 17,000 retired members and beneficiaries. I thank members of the Board for their dedicated service, strong engagement, and thoughtful consideration and support. I also thank LACERS staff. Our mission to establish a lifelong, trustworthy relationship with each member engages the majority of Retirement Services and Health Benefits Administration and Communications Divisions staff in direct member services including counseling and educating members. LACERS' Investment Division carries out the Board's Investment mandates, striving to achieve strong investment returns to enable the payment of retirement benefits. Our Fiscal Management personnel ensure proper members'

account maintenance and benefit payments as well as reliable financial accounting and reporting for the department. The Health Benefits Administration and Communications Division keeps costs down by rigorously advocating for better valued health provider services and fair rates. Executive and Administrative Divisions provide internal direction and support to ensure the infrastructure is in place for the most efficient and effective service delivery.

Lastly, I would like to acknowledge those who assisted with the preparation of this report: May Tran, JoAnn Peralta, Alan Lee, Jin Hy, Rodney June, Inge Setiabudi, Tracy Beloin, Mimi Lin, Linda Aparicio, and Wai Jung. Their past work has resulted in a series of annual awards from the GFOA for Achievement for Excellence in Financial Reporting. I would also like to thank our external auditor, Brown Armstrong, and our consulting actuary, The Segal Company, for their professional assistance in the preparation of this report.

Respectfully Submitted,

Thomas Moutes
General Manager

Mikyong Jang
Chief Accountant

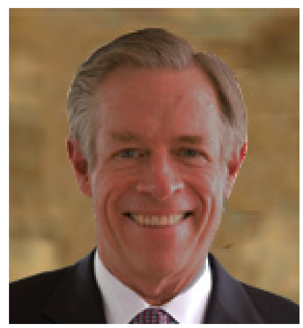
Board of Administration
As of June 30, 2012

Richard M. Rogers
President
Elected by Active Members

Jerry Bardwell
Vice President
Appointed by the Mayor

Robert A. Chick
Member
Appointed by the Mayor

Elizabeth L. Greenwood
Member
Elected by Active Members

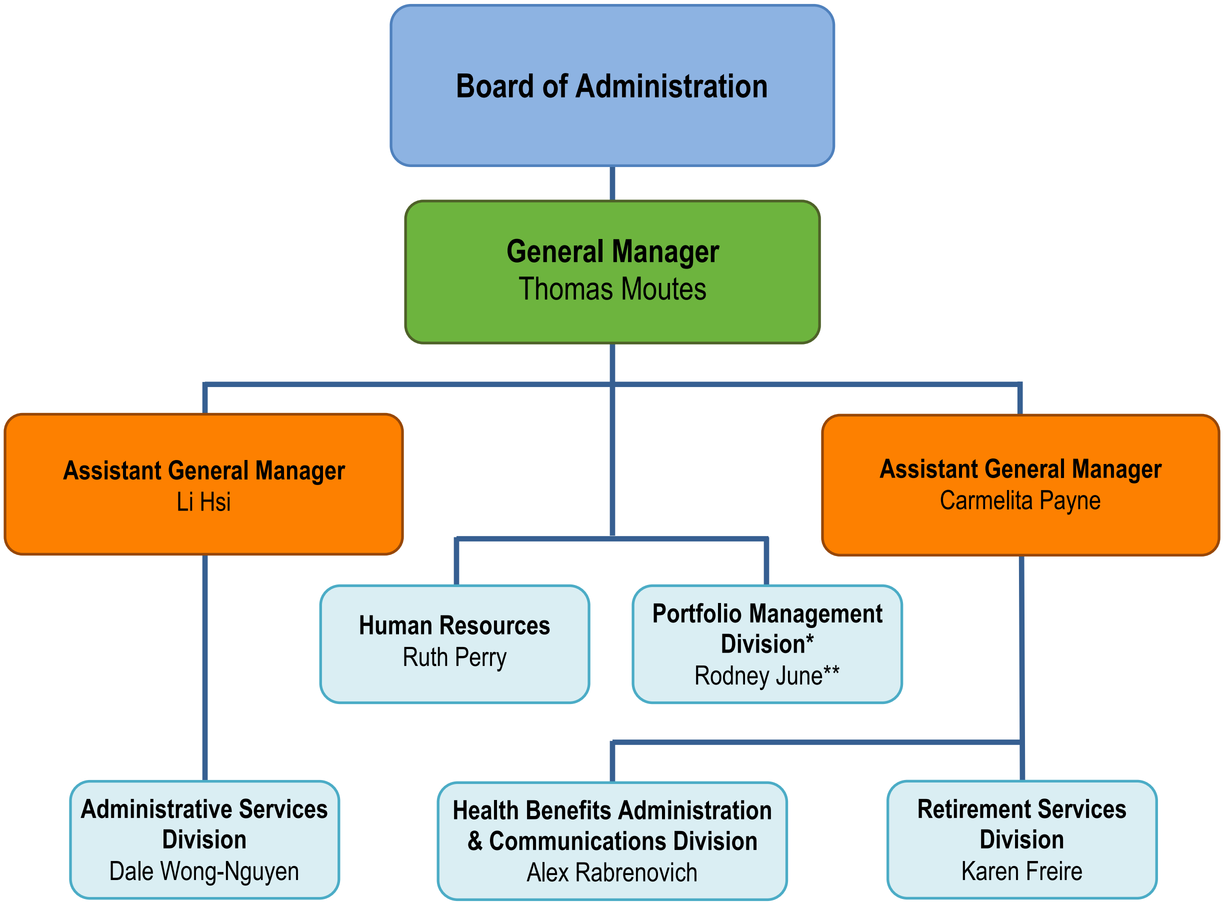


Michael F. Keeley
Member
Appointed by the Mayor

Jeffrey Penichet
Member
Appointed by the Mayor

Ken Spiker
Member
Elected by Retired Members

Organizational Chart
As of June 30, 2012



* A list of firms managing the investment portfolio can be found in the Investment Section, pages 64 and 65.
** Effective on July 10, 2012.

Professional Consultants

Actuary
The Segal Company

Independent Auditor
Brown Armstrong

Investment Consultants
Courtland Partners, Ltd.
Hamilton Lane
Wilshire Associates Incorporated

Health & Welfare Consultant
Keenan & Associates

Fiduciary Consultant
Hewitt EnnisKnupp, Inc

Legal/Fiduciary Counsel
Ice Miller, LLP
Reed Smith, LLP

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, 2011

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

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

Christopher P Morrill
President

Jeffrey R. Emer
Executive Director

ALSO AWARDED IN 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 & 2010

Financial

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com
560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218
8050 N. PALM AVENUE
SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593
790 E. COLORADO BLVD.
SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922
5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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 Municipality of the City of Los Angeles, California, as of June 30, 2012, 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 2011 financial statements and, in our report dated December 29, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2012 and 2011, and the Changes in Net Assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The schedules of administrative expenses and investment expenses, as shown in the financial section, and the introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of administrative expenses and investment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Pasadena, California
December 10, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal in the Introductory Section of LACERS Comprehensive Annual Financial Report.

Financial Highlights

- The amount of plan net assets of LACERS as of June 30, 2012 was $10,595,701,000. Compared with the value of the plan net assets of LACERS as of June 30, 2011, the value of the net assets decreased by $97,903,000, or 0.9% during the reporting period.
- The plan assets under the Retirement Plan and Postemployment Healthcare Plan are pooled for investment purposes. Investment income for the year was $83,019,000, as compared with an investment income of $1,950,148,000 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 $423,921,000. This amount included an annual contribution of $423,749,000, which was 24.71% of the City's estimated covered payroll of $1,715,197,000, and the City's matching contribution for the Family Death Benefit Plan in the amount of $172,000.
- The employer contributions to the Retirement Plan represented 100% of the Annual Required Contribution (ARC) as defined by the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27. The employer contributions to the Postemployment Healthcare Plan represented 100% of the ARC as defined by GASB Statements No. 43 and No. 45.
- Deductions from net assets of LACERS included benefits payments, refunds of Member contributions, and administrative expenses. The total deductions from net assets were $783,089,000, a 0.5% decrease from the prior fiscal year.
- Based on the most recent actuarial valuation as of June 30, 2012, the funded ratio for the Retirement Plan was 69.0% and the funded ratio for the Postemployment Healthcare Plan was 71.6%. The total funded ratio for LACERS was 69.4%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting investment performance, demographic changes, actuarial assumption/method changes, benefit structure changes, or a variety of other actuarial gains and losses.

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.

Financial Statements

There are two financial statements presented by LACERS. The Statement of Plan Net Assets on page 26 gives a snapshot of the account balances at year-end and shows the amount of the net assets (the difference between the assets and liabilities) available to pay future benefits. Over time, increases or decreases in net assets may serve as a useful indicator of whether the net assets of LACERS are improving or deteriorating. The Statement of Changes in Plan Net Assets on page 27 provides a view of current year additions to, and deductions from, the plan net assets.

Notes to the Basic 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 basic financial statements can be found on pages 28 - 42 of this report.

Required Supplementary Information

In addition to this Management's Discussion and Analysis, other required supplementary information consists of a Schedule of Funding Progress, a Schedule of Employer Contributions, and the Notes to Required Supplementary Information for both the Retirement Plan and the Postemployment Healthcare Plan. These schedules and notes primarily present the 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 44 - 47 of this report.

Supplemental Schedules

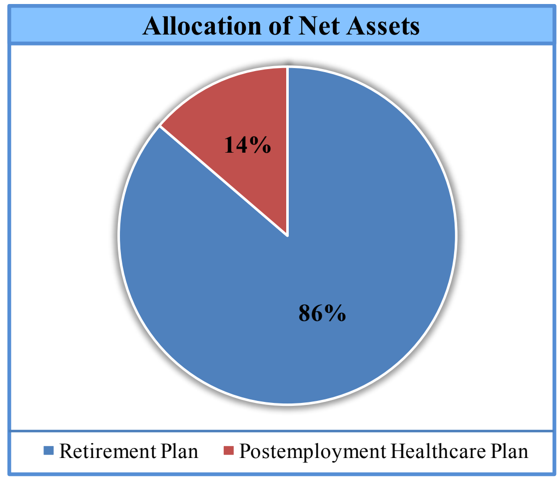
The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS operations for the current year. They can be found on pages 50 and 51 of this report.

Financial Analysis

Allocation of Net Assets

Net assets may serve as a useful indicator of a plan's financial position. The total plan net assets are allocated between the Retirement Plan and Postemployment Healthcare Plan, as required by the existing reporting standards. The following information provides a brief description of the asset allocation between the Retirement Plan and the Postemployment Healthcare Plan as of June 30, 2012 (dollars in thousands):

	Net Assets	Percent
Retirement Plan	$ 9,098,161	85.9%
Postemployment Healthcare Plan	1,497,540	14.1%
Net Assets	$10,595,701	100.0%



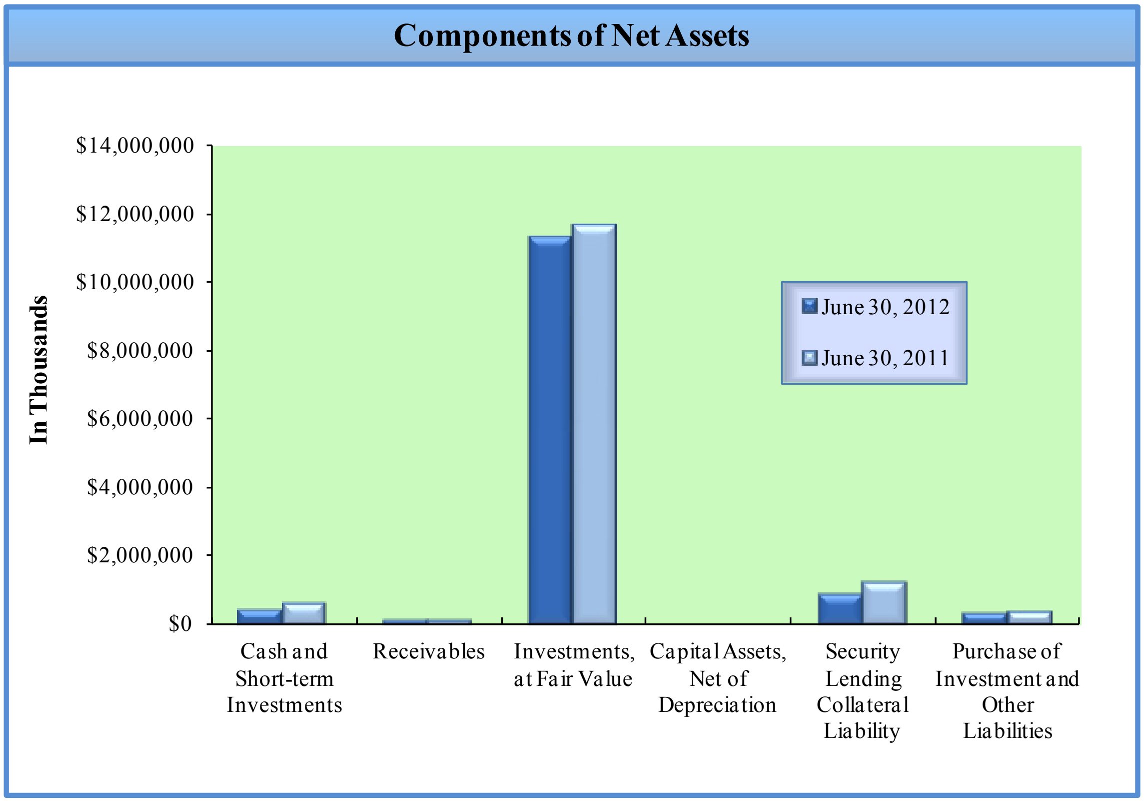
Net Assets

The following table and graph represent the detailed information regarding the components of the net assets of LACERS as of June 30, 2012 and 2011 (dollars in thousands):

	June 30, 2012	June 30, 2011	Change	
Cash and Short-Term Investments	$ 392,892	$ 609,897	$ (217,005)	(35.6) %
Receivables	99,746	74,353	25,393	34.2
Investments, at Fair Value	11,231,662	11,593,552	(361,890)	(3.1)
Capital Assets, Net of Depreciation	214	250	(36)	(14.4)
Total Assets	11,724,514	12,278,052	(553,538)	(4.5)
Security Lending Collateral Liability	850,183	1,229,579	(379,396)	(30.9)
Purchase of Investments and Other Liabilities	278,630	354,869	(76,239)	(21.5)
Total Liabilities	1,128,813	1,584,448	(455,635)	(28.8)
Net Assets	$ 10,595,701	$ 10,693,604	$ (97,903)	(0.9) %

Financial Analysis (Continued)

Net Assets (Continued)



The majority of LACERS net assets are contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, and other asset classes. Net assets decreased by $97,903,000, or 0.9%, during this fiscal year. The decrease is primarily attributable to the $146,888,000 net depreciation in fair value of investments, as a result of global economic woes.

Change in Net Assets

The decrease in net assets during the reporting period was the net effect of a combination of factors that either added to or deducted from the plan assets. The following table summarizes the change in net assets during the report year, as compared with the prior year (dollars in thousands):

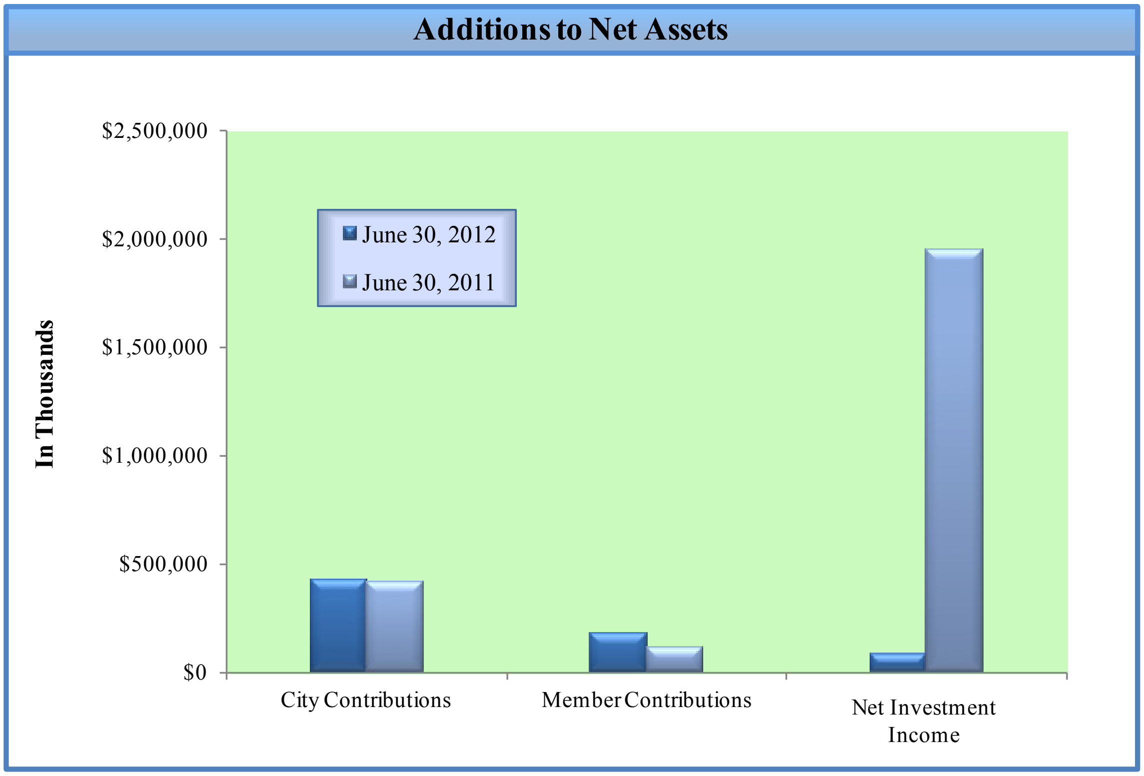
	June 30, 2012	June 30, 2011	Change	
Additions	$ 685,186	$ 2,479,012	$ (1,793,826)	(72.4) %
Deductions	783,089	786,773	(3,684)	(0.5)
Net Increase (Decrease)	(97,903)	1,692,239	(1,790,142)	(105.8)
Net Assets, Beginning of Year	10,693,604	9,001,365	1,692,239	18.8
Net Assets, End of Year	$ 10,595,701	$ 10,693,604	$ (97,903)	(0.9) %

Financial Analysis (Continued)

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, 2012 and 2011 (dollars in thousands):

	June 30, 2012	June 30, 2011	Change
City Contributions	$ 423,921	$ 414,133	2.4 %
Member Contributions	178,246	114,731	55.4
Net Investment Income	83,019	1,950,148	(95.7)
Additions to Net Assets	$ 685,186	$ 2,479,012	(72.4) %



Financial Analysis (Continued)

Change in Net Assets – Additions to Net Assets (Continued)

The additions to LACERS net assets include three main items that constitute the funding sources of LACERS benefits: City Contributions, Member Contributions, and Net Investment Income.

City Contributions to the Retirement Plan, the Postemployment Healthcare Plan and the Family Death Benefit Plan were $423,921,000 during the year or $9,788,000 (2.4%) more than the prior fiscal year due to the increased payroll base and a slightly higher contribution rate recommended by the actuary. The City payroll and the recommended contribution rate are the two main factors that determine the City contributions. The total City payroll for fiscal year 2011-12 was $1,715,197,000, which is $37,138,000 greater than the prior fiscal year payroll of $1,678,059,000. In the beginning of fiscal year 2011-12, the City payroll was broken down into two different Member groups in applying the contribution rate; a lower City contribution rate was applied to the payroll for Members who make additional employee contributions in order to obtain a vested right to future increase in the maximum medical subsidy in accordance with the existing and anticipated Memoranda Of Understanding (MOUs) between the City and various Employee Labor Organizations (refer to Note 3 on page 33 – Postemployment Healthcare Plan Description). Toward the end of the fiscal year, LACERS actuary recalculated the contribution rate to take into consideration additional employee contributions made by various groups in accordance with actual MOUs settled at the time. The composite employer contribution rate so determined was 24.71%; 17.99% for the Retirement Plan and 6.72% for the Postemployment Healthcare Plan, respectively. The contribution rate was a little higher than the fiscal year 2010-11 rate of 24.49%. On the other hand, City defrayal of employee contribution for the age-rated members was completely phased out effective July 1, 2011, pursuant to the Early Retirement Incentive Plan (ERIP) Ordinance of 2009. The phase out caused a slight decrease in City contributions, when compared with the prior year contribution. The actual contribution to the Retirement Plan was equal to 100% of the ARC of $308,540,000 as defined by GASB Statements No. 25 and 27. The actual contribution to the Postemployment Healthcare Plan was equal to 100% of the ARC of $115,209,000 as defined by GASB Statements No. 43 and 45.

Factors that may affect the amount of Member Contributions include the change in number and composition of Members, the change in Member salaries, and the change in Member contribution rates. In fiscal year 2011-12, Member contributions were $178,246,000, which was $63,515,000 or 55.4% greater than the prior year. This significant increase was primarily attributable to the higher Member contribution rates. Effective July 1, 2011, Member contribution rates were increased to either 7%, 9% or 11% of pay depending upon the specific MOU to which a member is subject. As a comparison, Member contribution rates at the end of prior fiscal year were either 6% or 8%. The increase is due to: 1) all Members were required to contribute an additional 1% as a requirement of the ERIP Ordinance of 2009 to recover the cost of the ERIP; 2) Members who previously contributed at 8% are required to contribute another 2% in addition to the 1% for ERIP. This group of Members, which consists of approximately 66% of the total City payroll, contributed 11% of their pay; and 3) Members who previously contributed 6%, started to contribute additional 2%, in addition to the 1% for ERIP. This group of Members, which consists approximately 4% of the total City payroll, contributed 9% of pay, and they are further required to contribute 11% of pay effective January 1, 2013. The majority of the remainder who contributed 7% during the fiscal year ended June 30, 2012 are required to contribute 11% of pay effective July 1, 2012 (refer to Note 2 – Retirement Plan Description and Note 3 – Postemployment Healthcare Plan Description on pages 29 and 33, respectively).

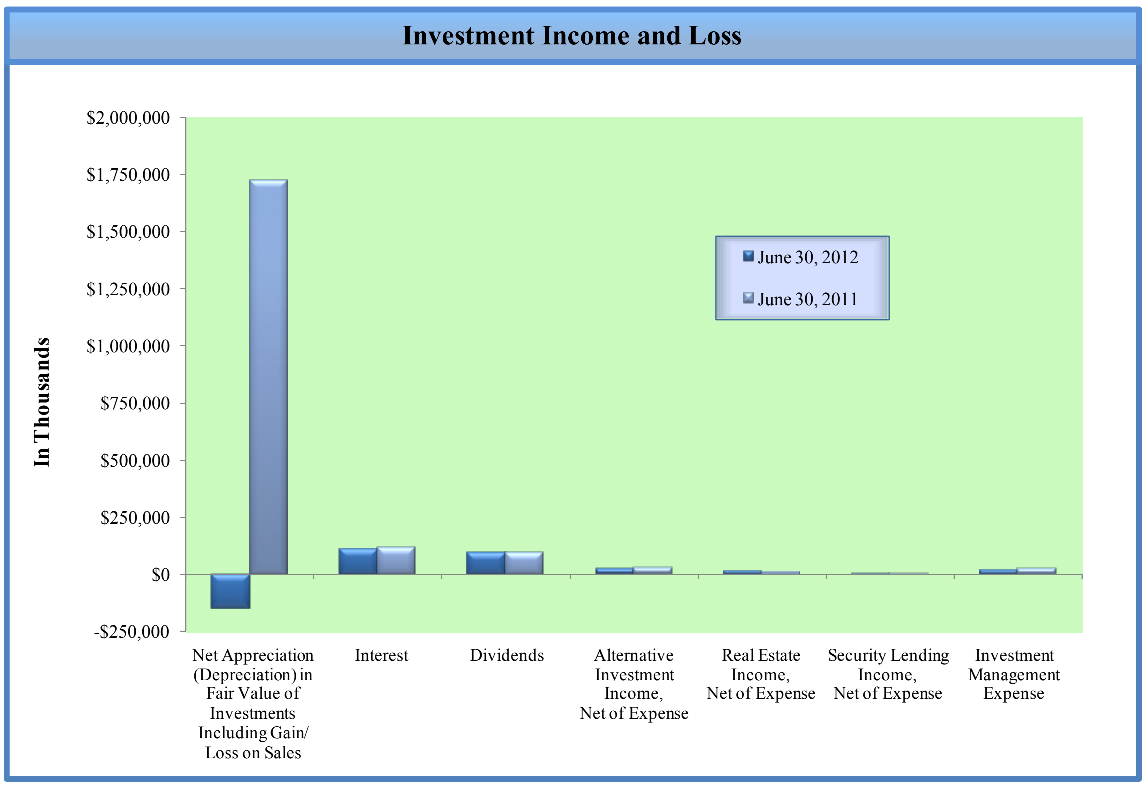
The net investment income of $83,019,000, which included $146,888,000 of net depreciation in fair value of investments, reflected the economic volatility worldwide, especially in the Euro zone that cooled the global equity market. This is discussed in more detail in the next section.

Financial Analysis (Continued)

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, 2012 and 2011 (dollars in thousands):

	June 30, 2012	June 30, 2011	Change
Net Appreciation (Depreciation) in Fair Value of Investments including Gain/Loss on Sales	$ (146,888)	$ 1,722,445	(108.5) %
Interest	111,809	117,112	(4.5)
Dividends	94,552	94,544	0.0
Alternative Investment Income, Net of Expense	24,385	27,527	(11.4)
Real Estate Income, Net of Expense	15,234	10,484	45.3
Security Lending Income, Net of Expense	4,600	4,103	12.1
Sub-Total	103,692	1,976,215	(94.8)
Less: Investment Management Expense	(20,673)	(26,067)	(20.7)
Net Investment Income	$ 83,019	$ 1,950,148	(95.7) %



Financial Analysis (Continued)

Investment Income and Loss (Continued)

The net investment income for the current fiscal year was $83,019,000, as compared with the income of $1,950,148,000 for the previous fiscal year (a 95.7% decrease). This large decrease was primarily due to the decreases in the fair value of non-U.S. equity holdings. The ongoing European debt crisis, and the growth slowdown in China and other emerging markets, was a drag on the performance outside the U.S. LACERS non-U.S. equities were down 14.1% during the reporting period, which closely tracked the Morgan Stanley All Country World Index excluding U.S. (MS ACWI ex U.S.). The depreciation of the Euro and the British Pound, the two largest foreign currencies used by LACERS to invest in foreign securities, also contributed to the drop of international portfolio market value when converted into U.S. dollars. LACERS domestic equities, however, managed to earn a modest gain of 1.7% during the fiscal year due to more favorable market conditions brought about by the U.S. Federal Reserve's "Operation Twist" program of late 2011 and 2012, which helped to stimulate the economy by keeping interest rates at historic lows. In addition, the U.S. economic data continued to yield positive expectations, thus raising hopes of domestic sustainable growth. As a result, the Dow Jones Industrial Average and the S&P 500 Index were up 3.8% and 3.1%, respectively, during the reporting period.

Interest income derived from bonds decreased by $5,303,000 (-4.5%), attributable to the Federal Reserve's policy to suppress interest rates to historic lows, which weakened the interest income.

Dividend income derived from stocks in the amount of $94,552,000 was similar to that of the prior fiscal year.

Alternative investment income in the current fiscal year decreased by $3,142,000 (-11.4%) due to slowdown in venture and buyout activities in a sluggish economy and uncertain global financial markets. Real estate income increased by $4,750,000 (45.3%) due to increasing housing market activity, appreciation of real estate market value, and a historic low interest rate environment.

LACERS earns additional investment income by lending securities to borrowers through its custodian bank. The borrowers provide cash or non-cash collateral to the System's custodian bank. The custodian bank, in turn, invests the cash collateral on behalf of the borrowers in short and intermediate term fixed income securities. LACERS security lending income (net of expense) increased by 12.1%, or $497,000 higher than it received a year ago as the security lending markets improved as compared to the prior year.

Investment management expense for the current fiscal year decreased by $5,394,000 (-20.7%) from the prior year. This decrease corresponds with the lower fair value of the investment portfolio, especially with respect to international equities, and the lower fee rates that LACERS was able to negotiate with several investment managers at the contract renewal process.

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, 2012 and 2011 (dollars in thousands):

	June 30, 2012	June 30, 2011	Change
Benefits Payments	$ 756,063	$ 752,540	0.5 %
Refunds of Contributions	11,100	18,215	(39.1)
Administrative Expenses	15,926	16,018	(0.6)
Deductions from Net Assets	$ 783,089	$ 786,773	(0.5) %

Financial Analysis (Continued)

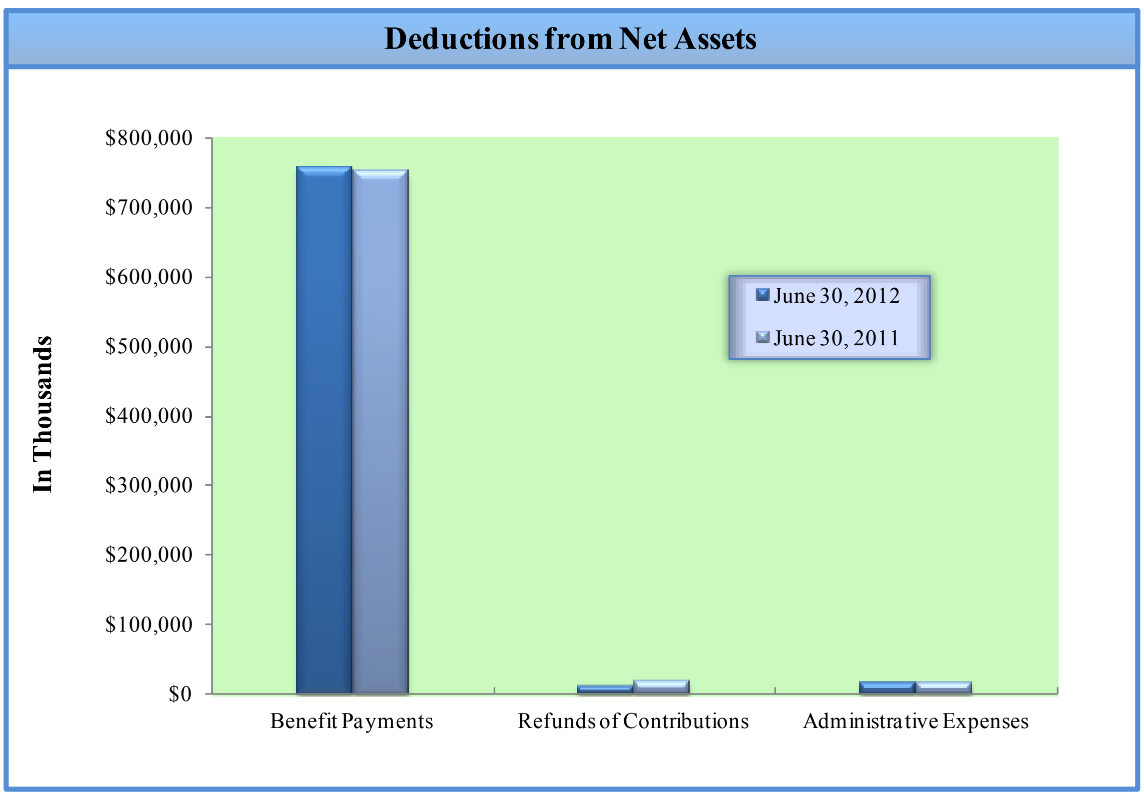
Change in Net Assets – Deductions from Net Assets (Continued)

LACERS deductions from net assets in the reporting period can be summarized as Benefits Payments, Refunds of Contributions, and Administrative Expenses. These deductions represent the types of benefit delivery operations undertaken by LACERS and the costs associated with them. Total deductions decreased by $3,684,000 or 0.5%.

Compared to the prior year, benefits payments increased by $3,523,000, or 0.5%. The benefits payments for the Retirement Plan increased by $10,242,000 (1.6%) mainly due to the annual cost of living adjustments (COLA) (approximately 1.4% increase on average up to a maximum 3%); and the average retirement allowance of newly retired members was higher than those of the deceased members who were removed from the retirement payroll. Conversely, the Postemployment Healthcare Plan benefits decreased by $6,719,000 (-6.8%) due to the defrayal received from the Federal Early Retiree Reinsurance Program (ERRP), which enabled the System to reduce the subsidy cost, and an one-time defrayal received for the return of excess premium stabilization reserve from a Postemployment Healthcare provider.

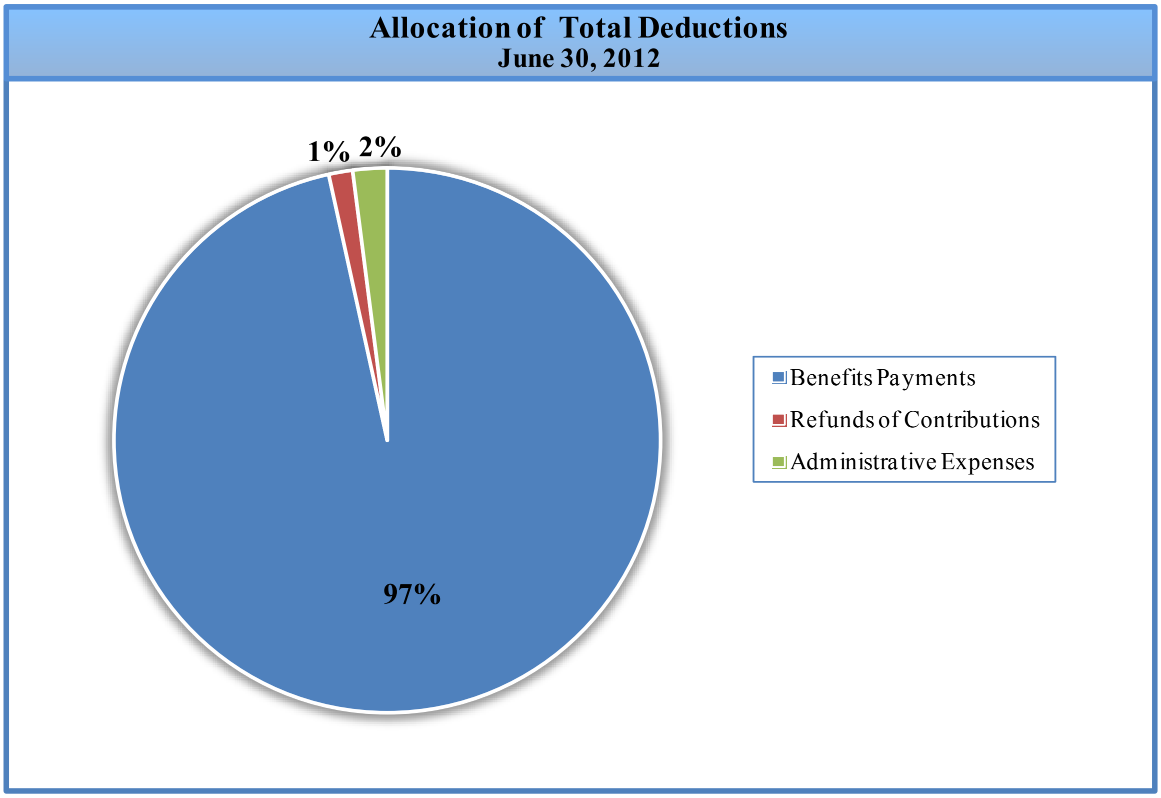
The decrease in refunds of contributions by $7,115,000 (-39.1%) was mainly due to fewer employees transferring to the Department of Water and Power (DWP), and therefore decreased transfer of funds to the DWP Employees' Retirement Plan under the reciprocity program with LACERS.

LACERS administrative expenses decreased slightly by $92,000 (-0.6%) from the prior year. During the reporting period, there was a decrease in salaries and wages because of personnel turnover and fewer temporary workers being hired during the current fiscal year. There was also a decrease in lease payments for the System's offices due to an overcharge credit from the landlord as a result of an audit of common area maintenance charges. However, the System invested more in information technology to avail itself of technological improvements. The professional consulting fees such as legal and actuarial consulting services also increased as the System continues its tax compliance audit, and conducts various actuarial studies.



Financial Analysis (Continued)

Change in Net Assets – Deductions from Net Assets (Continued)



Requests 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 Section
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

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AUDITED FINANCIAL STATEMENTS

Statement of Plan Net Assets
Retirement Plan and Postemployment Healthcare Plan
As of June 30, 2012, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	2012 Total	2011 Total
Assets				
Cash and Short-Term Investments	$ 337,363	$ 55,529	$ 392,892	$ 609,897
Receivables				
Accrued Investment Income	30,041	4,945	34,986	34,382
Proceeds from Sales of Investments	49,089	8,080	57,169	32,912
Other	6,518	1,073	7,591	7,059
Total Receivables	85,648	14,098	99,746	74,353
Investments, at Fair Value				
U.S. Government Obligations	590,867	97,255	688,122	584,173
Municipal Bonds	5,457	898	6,355	5,844
Domestic Corporate Bonds	861,942	141,874	1,003,816	929,070
International Bonds	258,297	42,515	300,812	238,912
Bank Loans	3,617	596	4,213	-
Opportunistic Debt	67,770	11,155	78,925	146,982
Domestic Stocks	3,493,969	575,100	4,069,069	4,112,515
International Stocks	1,537,725	253,107	1,790,832	2,113,072
Mortgages	476,192	78,381	554,573	526,067
Government Agencies	42,359	6,972	49,331	47,303
Derivative Instruments	365	59	424	501
Real Estate	551,643	90,799	642,442	579,200
Venture Capital and Alternative Investments	1,024,014	168,551	1,192,565	1,080,334
Security Lending Collateral	730,023	120,160	850,183	1,229,579
Total Investments	9,644,240	1,587,422	11,231,662	11,593,552
Capital Assets				
Furniture, Fixtures and Equipment (Net of Depreciation)	184	30	214	250
Total Assets	10,067,435	1,657,079	11,724,514	12,278,052
Liabilities				
Accounts Payable and Accrued Expenses	34,260	5,639	39,899	132,447
Purchases of Investments	204,991	33,740	238,731	222,422
Security Lending Collateral	730,023	120,160	850,183	1,229,579
Total Liabilities	969,274	159,539	1,128,813	1,584,448
Net Assets Held in Trust for Pension Benefits and Post-employment Healthcare Benefits	**$ 9,098,161**	**$ 1,497,540**	**$ 10,595,701**	**$ 10,693,604**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Plan Net Assets
Retirement Plan and Postemployment Healthcare Plan
For the Year Ended June 30, 2012, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	2012 Total	2011 Total
Additions				
Contributions				
City Contributions	$ 308,712	$ 115,209	$ 423,921	$ 414,133
Member Contributions	178,246	-	178,246	114,731
Total Contributions	486,958	115,209	602,167	528,864
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments Including Gain and Loss on Sales	(123,474)	(23,414)	(146,888)	1,722,445
Interest	95,156	16,653	111,809	117,112
Dividends	80,469	14,083	94,552	94,544
Alternative Investment Income, Net of Expense	20,949	3,436	24,385	27,527
Real Estate Operating Income, Net of Expense	13,059	2,175	15,234	10,484
Security Lending Income	4,605	806	5,411	4,737
Less: Security Lending Expense	(681)	(130)	(811)	(634)
Sub-Total	90,083	13,609	103,692	1,976,215
Less: Investment Management Expense	(17,378)	(3,295)	(20,673)	(26,067)
Net Investment Income	72,705	10,314	83,019	1,950,148
Total Additions	559,663	125,523	685,186	2,479,012
Deductions				
Benefits Payments	664,626	91,437	756,063	752,540
Refunds of Contributions	11,100	-	11,100	18,215
Administrative Expenses	12,995	2,931	15,926	16,018
Total Deductions	688,721	94,368	783,089	786,773
Net Increase (Decrease)	(129,058)	31,155	(97,903)	1,692,239
Net Assets Held in Trust for Pension Benefits and Postemployment Healthcare Benefits				
Beginning of Year	9,227,219	1,466,385	10,693,604	9,001,365
End of Year	**$ 9,098,161**	**$ 1,497,540**	**$ 10,595,701**	**$ 10,693,604**

The accompanying notes are an integral part of these financial statements.

Notes to the Basic Financial Statements

Note 1 – Description of the System and Significant Accounting Policies

General Description

The Los Angeles City Employees' Retirement System (the System) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by the Los Angeles City Charter (Article XI). The System is a Department of the Municipality 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 operates a single-employer defined benefit plan (the Retirement Plan) and a Postemployment Healthcare Plan. A description of each plan is located in Note 2 and Note 3 (pages 29 - 35). All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

Basis of Accounting

The financial statements are maintained on the accrual basis of accounting. Contributions from the employer and Members were recognized when due pursuant to formal commitments and contractual requirements. Benefits, refunds, and other expenses are recognized when due and payable.

Basis of Presentation

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

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 of the System 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 portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real estate and alternative investments, and short-term investments.

Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, bank loans, stocks, and alternative investments are reported at fair value. The fair values of real estate investment funds are provided by the individual real estate fund managers based on periodic appraisals, in the form of either annual in-house appraisals or longer-term appraisals by outside professionals, in accordance with industry practice. The fair value determined as such is also reviewed and evaluated by the Board's real estate consultant. The fair value of alternative investment funds is provided by the individual General Partners at liquidating events or other significant events during the reporting period. The fair values of derivative instruments are determined using available market information. 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 mainly to achieve market appreciation and not to hold bonds to their maturities.

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 under Receivables and labeled as Proceeds from Sales of Investments, and amounts payable for purchases are reported under (Current) Liabilities and labeled as Purchases of Investments. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

For the equity index futures, an initial margin is required to open a position and maintain the collateral requirement until the position is closed. The System reports the collateral for the equity index futures in the short-term investments.

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 if the cost of purchase is $5,000 or more. Prior to July 1, 2001, these purchases were recorded and expensed in the year acquired. Depreciation is calculated using the straight-line method.

Note 1 – Description of the System and Significant Accounting Policies (Continued)

Administrative Expenses

All administrative expenses are funded from the System's plan net assets, which include the investment earnings and the contributions from the City and the Members.

Reserves

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

Reserves for Retirement Plan

Member Contributions – Active Member contributions to the Retirement Plan and interest credited to Members' accounts, less refunds of Member contributions and transfers to the annuity reserve.

Basic Pensions – City contributions and investment earnings (losses) including net appreciation (depreciation) in fair value of investments, accumulated to provide for the City's guaranteed portion of retirement benefits, less payments to retired Members.

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 – Members' larger annuity account balances at retirement including IRS Section 457 deferred compensation and other rollovers, investment earnings (losses) including net appreciation (depreciation) in fair value of investments, less payments to retired participating Members.

Family Death Benefit Plan (FDBP) – Member contributions, matching City contributions, and investment earnings (losses) including net appreciation (depreciation) in fair value of investments, reserved to pay benefits under the Family Death Benefit Plan established by the System, less payments to beneficiaries.

Reserve for Postemployment Healthcare Plan

City contributions and investment earnings (losses) including net appreciation (depreciation) in fair value of investments, accumulated to provide healthcare benefits for retirees, less payments to insurance providers and/or reimbursements to retired Members.

Reserve balances as of June 30, 2012, were as follows (in thousands):

Reserve for Retirement Plan		
Member Contributions	$ 1,640,820	
Basic Pensions	6,900,567	
Annuity	517,452	
Larger Annuity	26,106	
FDBP	13,216	$ 9,098,161
Reserve for Postemployment Healthcare Plan		1,497,540
Total Reserves		$10,595,701

Use of Estimates in Preparation of the Financial Statements

The preparation of the financial statements in conformity with GAAP in the United States of America 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.

Note 2 – Retirement Plan Description

Plan Description

The Retirement Plan covers all full-time personnel and department-certified part-time employees of the City of Los Angeles, except for sworn employees of the Fire and Police departments, Department of Water and Power employees, elected officials who elected to participate in an alternative Defined Contribution Plan, and certain Port Police officers of the Harbor Department including those who elected to opt out of LACERS Defined Benefit Plan.

The Retirement Plan provides for service and disability retirement benefits, as well as death benefits. Changes to the benefits require approval by the City Council.

Note 2 – Retirement Plan Description (Continued)

Plan Description (Continued)

At June 30, 2012, the components of the System's membership were as follows:

Active:	
Vested	21,410
Non-vested	3,507
	24,917
Inactive:	
Non-vested	4,174
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,634
Retired	17,223
Total	47,948

Funding Policies and Funded Status and Progress

The Plan's funding policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter 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, 2012, the annual required contribution (ARC) to the Retirement Plan by the City was 17.99% of covered payroll, determined by the June 30, 2010 actuarial valuation. The actual contribution made by the City for fiscal year 2011-12 was equal to the rate as adopted by the Board of Administration, which is the recommended contribution rate set equal to the greater of the current funding policy or the minimum ARC as determined under GASB Statements No. 25 and No. 27.

Prior to the Early Retirement Incentive Program (ERIP) in 2009, there were two different types of contributions from Members. Members who entered the System prior to February 1983 (Defrayal Group) contributed from 8.22% to 13.33% of their salaries based upon their ages when they entered the System; however, these contributions were subsidized by the City until June 30, 2011, under various collective bargaining agreements (refer to Note 6 on page 36 – Defrayal Portion of Member Contributions-Retirement Plan). Starting November 8, 2009, as the ERIP Ordinance became effective, all Members of the System contributed a flat rate of 6% of pay regardless of their entry date. The ERIP Ordinance also stipulates a 1% increase the Member contribution rate for all employees effective July 1, 2011 for a period of 15 years, or until the ERIP Cost Obligation is fully paid, whichever comes first. Further, new Ordinances adopted by the City Council in 2011 provide that Members represented by certain bargaining groups are required to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, effective July 1, 2011, Members contribution rates were increased to 7%, 9% or 11% of pay. The majority of Members currently contribute 9% or 11% depending upon the terms and conditions of the specific MOU to which a member is subject. Most of the Members who currently contribute 7% or 9% will be required to contribute 11% effective July 1, 2012 and January 1, 2013, respectively. Negotiations continue for a little less than one half of the remaining members (refer to Note 3 on page 33 – Postemployment Healthcare Plan Description).

Members of the System have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, Members are eligible for future retirement benefits, which increase with length of service. If a Member who is at least age 70 or has five or more years of service terminates employment, the Member has the option of receiving retirement benefits when eligible or withdrawing from the System, or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

As of June 30, 2012, the most recent actuarial valuation date, the Plan was 69.0% funded. The actuarial accrued liability for benefits was $14,393,959,000 and the actuarial value of assets was $9,934,959,000, resulting in an unfunded actuarial accrued liability (UAAL) of $4,459,000,000. The covered payroll as of June 30, 2012 valuation was $1,819,270,000. The ratio of UAAL to the covered payroll was 245.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation, and investment returns. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 44 following the notes to financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 2 – Retirement Plan Description (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In October 2012, the Board modified the LACERS funding policy to: 1) change the actuarial cost method for the existing retirement benefits and health benefits from the Projected Unit Credit (PUC) method to the Entry Age Normal (EAN) method beginning with the June 30, 2012 valuation. (The EAN cost method is known to produce more stability in the plan sponsor's year-to-year contribution obligation by spreading contributions in a more level pattern throughout a Member's career); and 2) amortize all UAAL layers as of June 30, 2012 over 30 years, except the layers created in 2004 and 2005 for GASB compliance and the layers created in 2009 as a result of the ERIP, which will maintain their original amortization schedules. The actuarial methods and significant assumptions used in the valuation year of June 30, 2012 are summarized in this note to conform to the disclosure requirements of GASB Statement No. 50.

Note 2 – Retirement Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. All UAAL layers as of June 30, 2012 are combined and amortized over 30 years, except the layers created in 2004 and 2005 for GASB compliance and the layers created in 2009 as a result of the ERIP, which will maintain their original amortization schedules. Prospectively, actuarial gains/losses are amortized over 15 years. Assumption or method changes resulting from triennial experience study are amortized over 30 years. The existing layers on June 30, 2005, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years. Plan changes, including the liability change due to the 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over 5 years. Actuarial surplus is amortized over 30 years. The amortization period may be adjusted to comply with GASB requirements on maximum amortization period for all layers combined.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last 7 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 7-year period. The result of such smoothing process shall fall between 60% - 140% of Market Value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Includes Inflation at	3.50%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increases	Ranges from 11.25% to 6.50% for Members with less than 5 years of service. Ranges from 6.50% to 4.65% for Members with 5 or more years of service.
Cost of Living Adjustments	3.00%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward 5 years for males and set forward 6 years for females.
Percent Married / Domestic Partner	76% of male participants; 50% of female participants are assumed to be married or have a qualified domestic partner.
Spouse Age Difference	Female spouses are 3 years younger than their spouses.

Note 3 – Postemployment Healthcare Plan Description

Plan Description

The System provides Postemployment Healthcare benefits to eligible retirees of the Retirement Plan and their spouses/domestic partners. Prior to the retirement effective date of July 1, 2011, the benefits of this single employer Postemployment Healthcare Plan were available to all employees who 1) participate in the Retirement Plan; 2) have at least 10 years of service with the System; and 3) enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). The retiree or surviving spouse/domestic partner can choose from the health plans that are available, which include medical, vision, and dental benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. The retiree or surviving spouse/domestic partner receives medical or dental subsidies based on years of service. The maximum subsidies are set annually by the Board.

During the 2011 fiscal year, the City adopted an Ordinance to freeze the maximum medical subsidy at $1,190 for those members who retire on or after July 1, 2011. However, Members who at any time prior to retirement contribute the additional 2% or 4% of pay pursuant to the Ordinances mentioned in Note 2 on page 30 are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party Non-Medicare Part A and Part B premium. As of June 30, 2012, approximately 76% of non-retired members were making the additional contributions, and therefore not subject to the medical subsidy freeze.

Funding Policies and Funded Status and Progress

The Plan's funding policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter 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. The required contribution rate for the Postemployment Healthcare Plan for the fiscal year ended June 30, 2012, was 6.72% of covered payroll, determined by the June 30, 2010 actuarial valuation. As of June 30, 2012, the most recent actuarial valuation date, the Plan was 71.6% funded. The actuarial accrued liability for benefits was $2,292,400,000 and the actuarial value of assets was $1,642,374,000, resulting in an UAAL of $650,026,000. The covered payroll as of the June 30, 2012 valuation was $1,819,270,000. The ratio of UAAL to the covered payroll was 35.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns, and the healthcare cost trends. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 46 following the notes to financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques such as 7-year smoothing of assets and amortization of UAAL over 15 or 30 years, that are designed to reduce the effects of short-term volatility in funding, consistent with the long-term perspective of the calculations.

Note 3 – Postemployment Healthcare Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. All UAAL layers as of June 30, 2012 are combined and amortized over 30 years, except the layers created in 2004 and 2005 for GASB compliance and the layers created in 2009 as a result of the ERIP, which will maintain their original amortization schedules. Prospectively, actuarial gains/losses are amortized over 15 years. Assumption or method changes resulting from triennial experience study are amortized over 30 years, except that health cost trend and premium assumption changes are amortized over 15 years. The unfunded layers on June 30, 2005 were combined and amortized over 30 years. Plan changes, including the liability change due to the 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over 5 years. Actuarial surplus is amortized over 30 years. The amortization period may be adjusted to comply with GASB requirements on maximum amortization period for all layers combined.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last 7 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 7-year period. The result of such smoothing process shall fall between 60% - 140% of Market Value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward 5 years for males and set forward 6 years for females.
Marital Status	60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.
Surviving Spouse Coverage	With regard to Members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.
Participation	50% of inactive Members are assumed to receive a subsidy for a City approved health carrier. 100% of retirees becoming eligible for Medicare are assumed to be covered by both Parts A and B.

Note 3 – Postemployment Healthcare Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Healthcare Cost Trend Rates

Medical Premium Trend Rates to be applied in the following fiscal years, to all health plans. Trend Rate is to be applied to the premium for shown fiscal year to calculate next fiscal year's projected premium.

Medical Premium Trend Rates to be applied to Fiscal Year 2012-2013 and later years are:

First Fiscal Year (July 1, 2012 through June 30, 2013)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	11.45%	5.52%
Blue Cross HMO	5.77%	N/A
Blue Cross PPO	7.99%	7.76%
UnitedHealthcare (formerly Secure Horizons)	N/A	4.25%

Fiscal Year 2013 - 2014 and later	
Fiscal Year	Trend (Approx)
2013 - 2014	8.25%
2014 - 2015	7.75%
2015 - 2016	7.25%
2016 - 2017	6.75%
2017 - 2018	6.25%
2018 - 2019	5.75%
2019 - 2020	5.25%
2020 and later	5.00%

Dental Premium Trend to be applied is 5.00% for all years.

Medicare Part B Premium Trend for 2012-13 fiscal year will be calculated based on the actual increase in Medicare Part B premium from 2012 to 2013 when it becomes available, and a 5.00% assumed for all following years.

Note 4 – Contributions Required and Contributions Made

The System used the projected unit credit cost method in the June 30, 2010 actuarial valuation to determine the fiscal year 2011-12 required annual contribution amount for the Retirement Plan and the Postemployment Healthcare Plan. 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 allocated to a given year, and (2) the payment to amortize the UAAL which is the difference between LACERS actuarial liabilities and actuarial assets.

The components of the UAAL are amortized as a level percent of pay. Based on the System's funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 30 years, except that health cost trend and premium assumption changes are amortized over 15 years. Plan changes and experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period for all layers combined. The amortization periods are "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, 2012, in the amount of $602,167,000 ($486,958,000 for the Retirement Plan and $115,209,000 for the Postemployment Healthcare Plan), were made in accordance with actuarially-determined requirements computed by the actuarial valuation dated June 30, 2010.

Contributions to the System consisted of the following for the year ended June 30, 2012 (in thousands):

	Retirement Plan	Postemployment Healthcare Plan
City Contributions:		
Required Contributions	$ 308,540	$ 115,209
FDBP	172	-
Total City Contributions	308,712	115,209
Member Contributions	178,246	-
Total Contributions	$ 486,958	$ 115,209

The City contributions made for the Retirement Plan under the Required Contribution category in the amount of $308,540,000 were equal to 100% of the ARC of the employer as defined by GASB Statements No. 25 and No. 27. The City contributions made for the Postemployment Healthcare Plan, in the amount of $115,209,000, represents 100% of the ARC as defined by GASB Statements No. 43 and No. 45. Member contributions in the amount of $178,246,000 were made toward the Retirement Plan and the voluntary Family Death Benefit Plan.

Note 5 – 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 44 - 45 for the Retirement Plan and pages 46 - 47 for the Postemployment Healthcare Plan.

Note 6 – Defrayal Portion of Member Contributions-Retirement Plan

For Members who entered the System prior to February 1983 (Defrayal Group), the City subsidized a portion of Member contributions. Payments made by the City based on the subsidy are not refundable to Members upon their withdrawal from the System prior to retirement. Effective July 1, 2011, the City's subsidy was discontinued.

Note 7 – Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of the System's funds, and should discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert 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 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, 2012, on the Retirement Plan and

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Postemployment Healthcare Plan, included approximately $546,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $392,346,000 for a total of $392,892,000. 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, 2012, short-term investments included collective STIF of $111,274,000, international STIF of $166,243,000 and future initial margin of $114,829,000.

The fair value of derivative instruments, including equity index and interest rate future contracts, currency forward contracts, and rights and warrants, are recorded in the Statement of Plan Net Assets with a net value of $424,000 and reported as a (current) Asset. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Plan Net Assets as Investment Income (Loss). The System enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of the System's derivatives for the current and previous fiscal years are classified as investment derivatives.

The notional amount and the fair value of derivative instruments as of June 30, 2012 are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Equity Index	$ 11,749	$ 210	$ 66
Interest Rate	(111,076)	189	40
Currency Forward			
Contracts	40,540	(20)	(79)
Right / Warrants	N/A	45	(104)
Total Value		$ 424	$ (77)

Credit Risk - Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2012 are as follows (dollars in thousands):

S & P Ratings	Fair Value	Percentage
AAA	$ 34,415	1.73 %
AA*	535,664	26.89
A	420,420	21.11
BBB	587,353	29.49
BB	145,032	7.28
B	72,426	3.64
CCC	27,337	1.37
CC	5,367	0.27
D	8,675	0.44
Not Rated	154,998	7.78
	1,991,687	100.00 %
U.S. Government Guaranteed Securities **	694,649	
Total Fixed Income Securities	$ 2,686,336	

* FNMA and FHLMC were downgraded from AAA to AA+ by S&P in August 2011. The System had $486,268 of these securities at June 30, 2012.

**U.S. Government Bonds and Notes and GNMA Mortgage-Backed Securities were downgraded from AAA to AA+ by S&P in August 2011.

Credit Risk - Derivatives

Derivatives are subject to credit risk that the counterparty to a contract will default. The System is exposed to credit risk on reported assets of the investment derivatives that are traded over the counter. The credit risk of exchange traded derivatives for future contracts is considered minimal because the exchange clearing house is the counterparty and guarantees the performance.

The System permits investment managers, under the terms of individual guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. It is the responsibility of these investment managers to actively monitor counterparties on their financial safety and ensure compliance with the investment restrictions. The System has no general investment policy with respect to netting arrangements or collateral requirements. However, these individual

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Credit Risk – Derivatives (Continued)

investment managers have set up the arrangements with the counterparties to net off the positive and negative contracts with the same counterparty in case of the counterparty's default.

As of June 30, 2012, without respect to netting arrangements, the System's maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is as follows (in thousands):

S & P Ratings	Fair Value
AA-	$ 32
A+	141
Total Credit Risk	$ 173

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, the System would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2012, the System has exposure to such risk in the amount of $41,853,000, or 1.81% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 12 different investment managers, and held outside of the System's custodial bank. The System's policy requires each individual publicly traded equities investment managers to hold no more than 10% of their portfolios in the form of cash. The System is in compliance with the policy.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not insured, or are not registered in the System's name, and held by the counterparty. The System's investments are not exposed to custodial credit risk if they are insured or registered in the System's name. The System's investments were not exposed to custodial credit risk because all securities were held by the System's custodial bank in the System's name.

Concentration of Credit Risk

The investment portfolio as of June 30, 2012 contained no concentration of investments in any one entity that represented 5 percent or more of the total investment portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways the System manages its exposure to interest rate risk is by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the BC U.S. Universal Bond Index, the BC Intermediate Government Credit Index, or the BC Aggregate Bond Index, depending on the Board's mandates. The effective duration is a measure, in years, of interest-rate sensitivity in debt investments. The longer the effective duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is provided by the following table that shows the weighted average effective duration of the System's fixed income securities by investment type (dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 15,026	4.50
Bank Loans	4,213	0.25
Commercial Mortgage-Backed Securities	106,276	3.83
Corporate Bonds	1,213,870	6.56
Government Agencies	56,655	5.11
Government Bonds	651,317	3.29
Government Mortgage-Backed Securities	448,297	1.23
Index Linked Government Bonds	79,463	6.61
Municipal/Provincial Bonds	6,954	7.53
Non-Government Backed C.M.O.s	25,151	3.29
Opportunistic Debt *	78,925	3.62
Derivative Instruments	189	(4.33)
Total Fixed Income Securities	$ 2,686,336	

* Due to the lack of sufficient data for a security in this category to report Weighted Average Effective Duration, the Modified Duration was reported instead for the security.

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Highly Sensitive Investments

Highly sensitive investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. Terms include embedded options, coupon multipliers, benchmark indexes, and reset dates. The System's asset-backed investments have embedded prepayment options that will typically cause prepayments by the obligees of the underlying investments when interest rates fall. Prepayments eliminate the stream of future interest payments and, therefore, diminish the fair value of the asset-backed investment. The following table shows the fair value of the System's asset-backed investments by investment type (in thousands):

Investment Type	Fair Value
Asset-Backed Securities	$ 15,026
Commercial Mortgage-Backed Securities	106,276
Government Agencies	56,655
Government Mortgage-Backed Securities	448,297
Non-Government Backed C.M.O.s	25,151
Total Asset-Backed Investments	$ 651,405

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System's Asset Allocation policy sets a target of 20% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and alternative investment managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts are permitted primarily to reduce the foreign currency risk.

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Foreign Currency Risk (Continued)

The System's non-U.S. currency investment holdings as of June 30, 2012, which represent 17.1% of the fair value of total investments, are as follows (in thousands):

Foreign Currency Type	Cash and Adjustments to Cash	Equity	Fixed Income	Derivative Instruments	Other Investments	Total Fair Value in USD
Argentine peso	$ 59	$ -	$ -	$ -	$ -	$ 59
Australian dollar	3,319	106,358	-	(56)	-	109,621
Brazilian real	(366)	12,497	335	-	-	12,466
British pound sterling	2,236	247,907	-	52	19,990	270,185
Canadian dollar	7,035	72,511	9,788	39	-	89,373
Columbian peso	-	572	-	-	-	572
Czech koruna	37	696	-	-	-	733
Danish krone	(1,784)	17,469	-	-	-	15,685
Egyptian pound	73	1,204	-	-	-	1,277
Euro	14,924	375,025	-	2	104,024	493,975
Hong Kong dollar	474	136,172	-	26	-	136,672
Hungarian forint	7	366	-	-	-	373
Indian rupee	202	28,070	-	-	-	28,272
Indonesian rupiah	208	10,580	-	-	-	10,788
Japanese yen	(4,798)	275,658	-	170	36,865	307,895
Malaysian ringgit	95	966	-	-	-	1,061
Mexican peso	293	3,694	22,556	-	-	26,543
New Israeli shekel	730	3,375	-	-	-	4,105
New Taiwan dollar	761	35,937	-	-	-	36,698
New Zealand dollar	54	1,024	-	-	-	1,078
Norwegian krone	1,255	11,531	-	-	-	12,786
Philippine peso	235	15,945	-	-	-	16,180
Polish zloty	27	3,620	-	-	-	3,647
Singapore dollar	2,069	47,951	-	-	-	50,020
South African rand	323	17,899	-	(2)	-	18,220
South Korean won	369	75,434	-	-	-	75,803
Swedish krona	3,163	43,019	-	-	-	46,182
Swiss franc	37	112,034	-	-	-	112,071
Thai baht	63	28,419	-	-	-	28,482
Turkish lira	80	6,250	-	-	-	6,330
United Arab Emirates dirham	87	1,211	-	-	-	1,298
Total Investments Held in Foreign Currency	$ 31,267	$ 1,693,394	$ 32,679	$ 231	$ 160,879	$ 1,918,450

Note 8 – 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 the 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. To reduce reinvestment risk exposure, the System has approved a securities lending policy and strengthened existing securities lending guidelines to incorporate the use of only the highest quality securities. Cash collateral may be invested separately or pooled in a separate fund for investing in money market or cash equivalent investments. It is the responsibility of the custodian to monitor the collateralization on a daily basis. If the collateral is below the minimum collateralization level, additional collateral will be requested from the borrower to meet the requirement. Collateral requested each morning is required to be received on the same day. If the borrower fails to deliver additional collateral, the custodian would notify the borrower that they are in default under the securities lending agreement. If the borrower does not provide the necessary collateral after receiving notification, the legal agreement allows the custodian to close the contract with the borrower and buy-in the securities on behalf of the System.

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.

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 values on the Statement of Plan Net Assets.

As of June 30, 2012, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceed the amounts the borrowers owed the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent. Due to the nature of the securities lending program and the custodian bank's collateralization of loans at 102% and 105% plus accrued interest for fixed income securities, it is deemed that there were no material credit risks to the System as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in a collateral account consisting of short and intermediate term investments. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

The following tables represent the balances of collateral received and loaned securities as of June 30, 2012 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2012:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 104,050	$ -	$ 104,050
Domestic Corporate Fixed Income Securities	202,780	-	202,780
International Fixed Income Securities	7,552	20,455	28,007
Domestic Stocks	430,824	2,709	433,533
International Stocks	104,977	90,461	195,438
	$ 850,183	$ 113,625	$ 963,808

Note 8 – Securities Lending Agreement (Continued)

Fair value of loaned securities as of June 30, 2012:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 102,148	$ -	$ 102,148
Domestic Corporate Fixed Income Securities	200,404	-	200,404
International Fixed Income Securities	7,316	19,174	26,490
Domestic Stocks	428,357	2,707	431,064
International Stocks	101,856	87,326	189,182
	$ 840,081	$ 109,207	$ 949,288

As of June 30, 2012, the fair value of the lent securities was $949,288,000. The fair value of associated collateral was $963,808,000. Of this amount, $850,183,000 represents the fair value of cash collateral and $113,625,000 represents the fair value of the non-cash collateral. Due to the domestic and foreign securities markets being up strongly at the report date, the minimum collateralization requirements were not met as of June 30, 2012. On the next business day, the custodian requested borrowers to deliver additional collateral by the end of the same day to maintain the collateral requirements. Non-cash 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 $5,411,000 and $811,000, respectively, for the year ended June 30, 2012.

Note 9 – Futures and Forward Contracts

The System uses derivative financial instruments, primarily to manage portfolio risk. 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 (refer to Note 7 – Credit Risk-Derivatives on pages 37 and 38).

As of June 30, 2012, the System had outstanding equity index future contracts with an aggregate notional amount of $11,749,000, and interest rate future contracts with a negative notional amount of $111,076,000 due to its short position. In addition, at June 30, 2012, the System had outstanding forward purchase commitments with a notional amount of $40,540,000 and offsetting forward sales commitments with notional amounts of $40,540,000, which expire through September 2012. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $114,829,000 as of June 30, 2012.

Note 10 – Commitments and Contingencies

At June 30, 2012, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $742,807,000.

The Patient Protection and Affordable Care Act (PPACA) of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018. If there is no change in the law or LACERS plan provisions between now and 2018, and if the current medical cost trend stays substantially the same during the same period, some of LACERS postemployment healthcare benefits will be subject to the excise tax in 2018. GASB has not yet issued any guidance on accounting or financial reporting of this potential future liability.

Note 11 – Subsequent Events

Establishment of New Tier (Tier 2)

On October 26, 2012, the Los Angeles City Council approved amending Chapter 10 and 11 of Division 4 of the Los Angeles Administrative Code to establish a second tier (Tier 2) with different retirement and postemployment healthcare benefits, and conditions of entitlement for new hires who become Members of the LACERS on or after July 1, 2013.

Date of Management's Review

Subsequent events were evaluated through December 10, 2012, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Retirement Plan
(Dollars in Thousands)

Schedule of Funding Progress

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, 2007	$ 8,599,700	$10,526,874	$ 1,927,174	81.7%	$ 1,896,609	101.6%
June 30, 2008	9,438,318	11,186,404	1,748,086	84.4	1,977,645	88.4
June 30, 2009*	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
June 30, 2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
June 30, 2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
June 30, 2012	9,934,959	14,393,959	4,459,000	69.0	1,819,270	245.1

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$ 277,517	100 %
2008	288,119	100
2009	274,555	100
2010	258,643	100
2011	303,561	100
2012	308,540	100

Note 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.

Note 2 – Significant Factors Affecting Trend in Actuarial Information and Employer Contributions

On October 25, 2011, the Board lowered the investment return assumption used in the June 30, 2011 actuarial valuation, and ongoing, from 8% to 7.75% and approved phasing in over five years the cost impact of the assumption change and other assumption changes adopted by the Board as a result of the triennial Experience Study. The lower investment return assumption causes the actuarial liability and the employer contributions to increase. However, the increase of employer contributions in the near future is mitigated by the five-year phase-in approach.

Most of the Members are required to make additional contributions up to 4% of pay pursuant to various MOUs and City Ordinances adopted by the City Council in 2011, as mentioned in Note 2 – Retirement Plan Description on page 29. Actuarially, Member contributions substitute for City contributions with a slight discount to compensate for the refundability of Member contributions.

On October 23, 2012, the Board modified the funding policy to change the actuarial cost method from the projected unit credit (PUC) method to entry age normal (EAN) method beginning with the June 30, 2012 valuation, and to combine and re-amortize all UAAL layers, with some exceptions, over 30 years, to mitigate the immediate impact on the employer contributions. The cost method change increased the UAAL by $538.4 million, which reflects the difference in funding patterns under the two methods and does not affect the total cost of the System. The funded ratio also declined as a result. The newly adopted EAN method will provide more stabilized employer contributions in the future, especially helpful when the System's new Tier 2 is created and the current Tier will be closed for new members (refer to Note 11 – Subsequent Events on page 42).

Due to seven-year asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2012, there is a combined unrecognized actuarial investment loss in the amount of $1,024,757,000. The amount is greater than that of the previous year, which was $587,038,000, due to the current-year investment loss. The deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. This implies that earning the assumed rate of investment return of 7.75% per year (net of expenses) on a market value basis will result in investment losses in the next few years in terms of the actuarial value of assets. Therefore, the contribution requirements would increase in the next few years even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

Required Supplementary Information
Postemployment Healthcare Plan
(Dollars in Thousands)

Schedule of Funding Progress

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, 2007	$ 1,185,544	$ 1,730,400	$ 544,856	68.5 %	$ 1,896,609	28.7 %
June 30, 2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
June 30, 2009*	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
June 30, 2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
June 30, 2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
June 30, 2012	1,642,374	2,292,400	650,026	71.6	1,819,270	35.7

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$ 115,233	100 %
2008	108,848	100
2009	95,122	100
2010	96,511	100
2011	107,396	100
2012	115,209	100

Note 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. The Board decided to comply with the requirements in GASB Statements No. 43 and No. 45 for the actuarial valuation of the Postemployment Healthcare Plan as of June 30, 2005. As the annual required contribution (ARC) for fiscal year ended June 30, 2006 was determined prior to the June 30, 2005 valuation, it was not calculated using all the parameters required by GASB Statements No. 43 and No. 45.

Note 2 – Significant Factors Affecting Trend in Actuarial Information and Employer Contributions

On October 11, 2011, the Board adopted annual health benefits-related assumptions for the June 30, 2011 actuarial valuation, which include a retiree health subsidy freeze for non-retired members not making the 2% or 4% additional contributions as mentioned in Note 2 – Retirement Plan Description on page 29 and Note 3 – Postemployment Healthcare Plan Description on page 33. The subsidy freeze reduces the actuarial liability of the Postemployment Healthcare benefits as well as the employer contributions. As of June 30, 2012, 24% of non-retired members are subject to the subsidy freeze, however, most of these members will be making the 4% additional contributions effective July 1, 2012.

On October 25, 2011, the Board lowered the investment return assumption used in the June 30, 2011 actuarial valuation, and ongoing, from 8% to 7.75% and approved phasing in over five years the cost impact of the assumption change and other assumption changes adopted by the Board as a result of the triennial Experience Study. The lower investment return assumption causes the actuarial liability and the employer contributions to increase. However, the increase of employer contributions in the near future is mitigated by the five-year phase-in approach.

On October 23, 2012, the Board modified the funding policy to change the actuarial cost method from the projected unit credit (PUC) method to entry age normal (EAN) method beginning with the June 30, 2012 valuation, and to combine and re-amortize all UAAL layers, with some exceptions, over 30 years, to mitigate the immediate impact on the employer contributions. The cost method change increased the UAAL by $101.3 million, which reflects the difference in funding patterns under the two methods and does not affect the total cost of the System. The funded ratio also declined as a result. The newly adopted EAN method will provide more stabilized employer contributions in the future, especially helpful when the System's new Tier 2 is created and the current Tier will be closed for new members (refer to Note 11 – Subsequent Events on page 42).

Due to the seven-year asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2012, there is a combined unrecognized actuarial investment loss in the amount of $1,024,757,000. The amount is greater than that of the previous year, which was $587,038,000, due to the current-year investment loss. The deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. This implies that earning the assumed rate of investment return of 7.75% per year (net of expenses) on a market value basis will result in net investment losses in the next few years in terms of the actuarial value of assets. Therefore, the contribution requirements would increase in the next few years even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

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SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Year Ended June 30, 2012
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Total
Personnel Services:			
Salaries	$ 8,312	$ 1,576	$ 9,888
Employee Development and Benefits	1,271	241	1,512
Total Personnel Services	9,583	1,817	11,400
Professional Services:			
Actuarial	186	35	221
Audit	68	13	81
Legal Counsel	789	150	939
Disability Evaluation Services	145	27	172
Retirees' Health Admin Consulting	-	467	467
Benefit Payroll Processing	184	35	219
Other Consulting	116	22	138
Total Professional Services	1,488	749	2,237
Information Technology:			
Computer Hardware and Software	412	78	490
Computer Maintenance and Support	224	43	267
Total Information Technology	636	121	757
Leases:			
Office Space	773	147	920
Office Equipment	41	8	49
Total Leases	814	155	969
Other Expenses:			
Fiduciary Insurance	161	30	191
Educational and Due Diligence Travel	54	10	64
Office Expenses	165	31	196
Depreciation	94	18	112
Total Other Expenses	474	89	563
Total Administrative Expenses	$ 12,995	$ 2,931	$ 15,926

Schedule of Investment Expenses
For the Year Ended June 30, 2012
(In Thousands)

	Assets Under Management	Fees
Retirement Plan		
Investment Management Expense:		
Fixed Income Managers	$ 2,306,664	$ 3,070
Equity Managers	5,031,896	12,988
Subtotal Investment Management Expense	7,338,560	16,058
Other Investment Expense:		
Alternative Investments Consulting Fee	-	759
Real Estate and Other Consulting Fee	-	561
Subtotal Other Investment Expense	-	1,320
Postemployment Healthcare Plan		
Investment Management Expense:		
Fixed Income Managers	379,672	582
Equity Managers	828,240	2,463
Subtotal Investment Management Expense	1,207,912	3,045
Other Investment Expense:		
Alternative Investments Consulting Fee	-	144
Real Estate and Other Consulting Fee	-	106
Subtotal Other Investment Expense	-	250
Total Investment Management Expense and Other Investment Expense, Excluding Alternative Investments, Real Estate and Securities Lending	$ 8,546,472	$ 20,673
Alternative Investments Managers' Fees:		
Retirement Plan	$ 1,024,014	$ 15,768
Postemployment Healthcare Plan	168,551	2,990
Total Alternative Investments Managers' Fees	$ 1,192,565	$ 18,758
Real Estate Managers' Fees:		
Retirement Plan	$ 551,643	$ 7,565
Postemployment Healthcare Plan	90,799	1,435
Total Real Estate Managers' Fees	$ 642,442	$ 9,000
Security Lending Fees:		
Retirement Plan	$ 730,023	$ 681
Postemployment Healthcare Plan	120,160	130
Total Security Lending Fees	$ 850,183	$ 811

Investment

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

202 W. First Street, Suite 500
Los Angeles, CA 90012-4401
(800) 779-8328
TDD (888) 349-3996
www.lacers.org

Report on Investment Activity

December 14, 2012

Board of Administration
Los Angeles City Employees' Retirement System
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

Dear Members of the Board:

Presented below is a summary report of the Fund's investment activities for the fiscal year 2011-2012.

Market Overview

The financial markets continued to present a pattern of volatility as a consequence of a "risk-on, risk-off" investment approach. To further stimulate the domestic economy, the Federal Funds Rate was contained between 0.0% and 0.25%, amid tight credit availability. Investor optimism eventually swelled in reaction to declines in the domestic unemployment rate and increases in gross domestic product. Through much of the fiscal year, the U.S. dollar strengthened against the Euro but lost some ground against the Japanese yen. Inflation began the year above 3% but continued to decline to less than 2% at the end of the fiscal year.

On a quarter-by-quarter basis, the fiscal year began with "risk-off" in both the U.S. and non-U.S. equity markets due to mounting debt problems in Europe and a fear of global recession. Flight-to-quality investments, such as investment-grade fixed income instruments, were attractive to many investors. However, "risk on" returned in the second quarter in reaction to positive signs of global economy improvement; even the bond markets were modestly strong due to investor enthusiasm. The third quarter continued with strong conviction for non-U.S. equities, particularly Japanese equities. Unfavorable economic news, including flat employment figures and worry over the debt problems in Europe, led to a "risk-off" fourth quarter as investors began to fortify their fixed income positions. In conclusion, the fiscal year lacked convincing market direction due to continued heightened sensitivity to dismal economic news.

Investment Performance

Traditional Programs

LACERS total portfolio was valued at $10.6 billion on June 30, 2012, realizing a positive 1.1% in performance (gross of fees) for the fiscal year, but a net decrease of $200 million in overall portfolio value due to liquidity requirements. Individual asset class returns (net of fees) for fiscal year period were: U.S. equity, 1.5%; non-U.S. equity, -14.4%; fixed income, 6.6%; alternative investments, 9.4%; and real estate, 8.8%.

LACERS continued to support a philosophy of long-term investing within a thoughtful strategic framework that is designed to achieve investment program objectives prescribed by Investment Policy.

Despite several periods of robust investment performance, the total portfolio underperformed its policy benchmark by 130 basis points (net of fees). U.S. publicly traded equity and fixed income investments underperformed their benchmarks by 230 and 80 basis points, respectively. Real estate continued to struggle in a challenging market environment that produced 460 basis points of relative underperformance. Positive performance was to be found: Non-U.S. publicly traded equity and alternative investment returns provided performance upside to their benchmarks of 20 and 160 basis points, respectively.

In comparison to other public funds with a market value greater than $1 billion in the TUCS (Trust Universe Comparison Service), LACERS ranked in the 51st percentile for the one-year period ending June 30, 2012.

Special Programs

All three investment managers that constitute the corporate governance investment strategy underperformed their respective benchmarks. These managers build concentrated portfolios, whose returns are largely event-driven. As such, wide tracking error is expected from these particular investment managers.

All three equity fund-of-funds emerging managers underperformed their respective benchmarks. Two of three opportunistic fixed income investment managers underperformed their respective benchmarks.

The Investment Results table shown on page 57 displays a summary of time-weighted rates of return (gross of fees) based on fair value of assets by asset classes and total fund.

Policies, Procedures and Guidelines

During the fiscal year, the Board of Administration adopted revised asset allocation policy target weights and ranges as a result of an asset-liability study. The asset-liability study included an actuarial assumed rate of return of 7.75%, a lower inflation rate, as well as updated asset class return, risk, and correlation assumptions.

To enhance the Board governance process, and to increase the likelihood of meeting long-term investment goals and objectives, several investment policies were approved, including the *Manager Search and Selection Policy*, *Emerging Investment Manager Policy*, *Manager Monitoring Policy*, and *Investment Risk Management Policy*.

Contract Renewals

During the fiscal year 2011-2012, contracts with nine managers of publicly traded securities were renewed, as shown in the table on page 58. Of these nine contract renewals, three were domestic equity managers, three were non-U.S. equity managers, two were fund-of-funds emerging managers, and one was a fixed income manager.

Private Investments

LACERS approved six private equity partnerships totaling $150 million of committed capital, four real estate partnerships totaling $90 million of committed capital, and one opportunistic debt partnership totaling $30 million of committed capital, as shown in the table on page 58.

Investment Support Services

As summarized in the table on page 58, the Board approved a two-year contract for proxy voting services.

Acknowledgements

During the fiscal year, Sara Griggs assumed the responsibilities of Acting Chief Investment Officer of LACERS. We thank Sara for her assistance in providing leadership and managing the Investment Division of LACERS during the interim, and wish her much success in her new role as Chief Operating Officer.

Respectfully submitted,

Rodney L. June

Rodney L. June
Chief Investment Officer

Outline of Investment Policies
Fiscal Year 2011-2012

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

- 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.
- The System's investment program shall comply, at all times, with existing and future applicable city, state and federal regulations. Investment performance data is calculated in conformance with Global Investment Performance Standards (GIPS).
- 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.
- The System has a long-term investment horizon, and utilizes an asset allocation that 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.
- The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system 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.

Investment Results

Annualized asset class investment returns compared to policy benchmarks:

Asset Class / Benchmark	Annualized * (gross of fees)		
	1 Yr. (%)	3 Yrs. (%)	5 Yrs. (%)
U.S. Equity	**1.7**	**16.5**	**0.0**
Russell 3000	3.8	16.7	0.4
Non-U.S. Equity	**-14.1**	**7.6**	**-4.3**
LACERS MS ACWI ex U.S. Index**	-14.6	7.0	-4.6
Private Equity	**9.4**	**16.7**	**6.9**
Russell 3000 plus 400 bps	7.7	21.0	4.3
Fixed Income	**6.8**	**9.9**	**7.7**
BC US Universal**	7.4	7.6	6.8
Private Real Estate	**8.9**	**-2.8**	**-7.2**
NCREIF Property Index	13.4	6.0	2.9
LACERS Total Fund	**1.1**	**11.9**	**1.2**
LACERS Policy Benchmark	2.2	12.4	1.6

* Time-weighted rate of return based on fair value of assets by asset classes and total fund.

** Both the LACERS MS ACWI ex U.S. and BC US Universal indices are historically blended with other indices.

Public, Private Equity & Real Estate Contract Activity

Contracts with managers of publicly traded securities renewed:

Firms	Mandate
Attucks Asset Management, LLC	Fund of funds - U.S. Small Cap Equity
Blackrock Institutional Trust Co. N.A.	S&P 500 Index Plus
The Boston Company	Active Non-U.S. Emerging Markets Equity
Capital Guardian Trust Company	Active European Equity
Capital Prospects, LLC	Fund of funds - U.S. Large Cap Equity
Donald Smith & Co., Inc.	Active U.S. Small Cap Equity
Loomis, Sayles & Company, L.P.	Active U.S. Core - Plus Fixed Income
PanAgora Asset Management, Inc.	Active U.S. Small Cap Equity

New alternative investment and real estate partnerships:

Investment Funds	Mandate
Blackstone Capital Partners VI	Alternative Investment - Buyout
Blackstone Energy Partners LP	Alternative Investment - Buyout
Green Equity Investors VI, L.P.	Alternative Investment - Buyout
Hony Capital Fund V	Alternative Investment - Buyout
TPG Growth II	Alternative Investment - Buyout
Vista Equity Partners IV	Alternative Investment - Buyout
Avenue Europe Special Situations Fund II	Alternative Investment - Opportunistic Debt
CIM VI	Real Estate - Core
Cornerstone Enhanced Mortgage Fund I	Real Estate - Core
Hancock Timberland XI	Real Estate - Core
Paladin Realty Latin American IV	Real Estate - Opportunistic

Contract with investment service provider awarded/renewed:

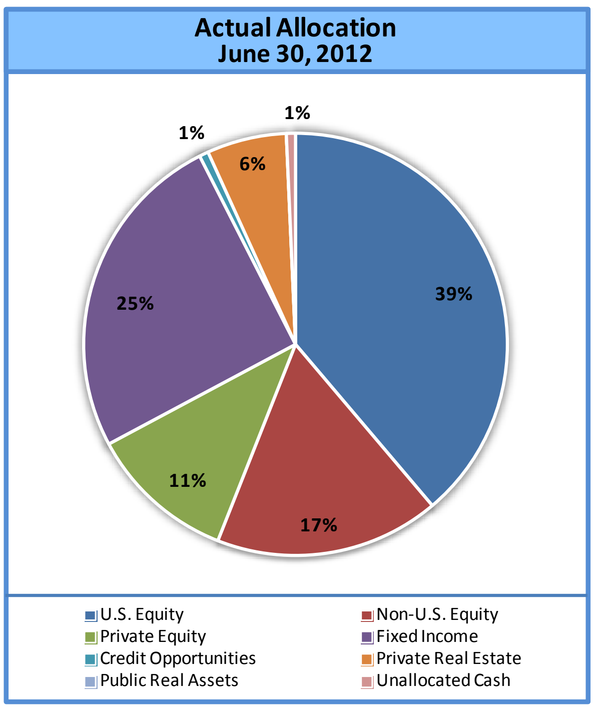
Investment Services	Type of Service
BlackRock Institutional Trust Co. N.A.	Transition Management
The Bank of New York Mellon	Transition Management
Northern Trust Investment, N.A.	Transition Management
Institutional Shareholder Service	Proxy Voting

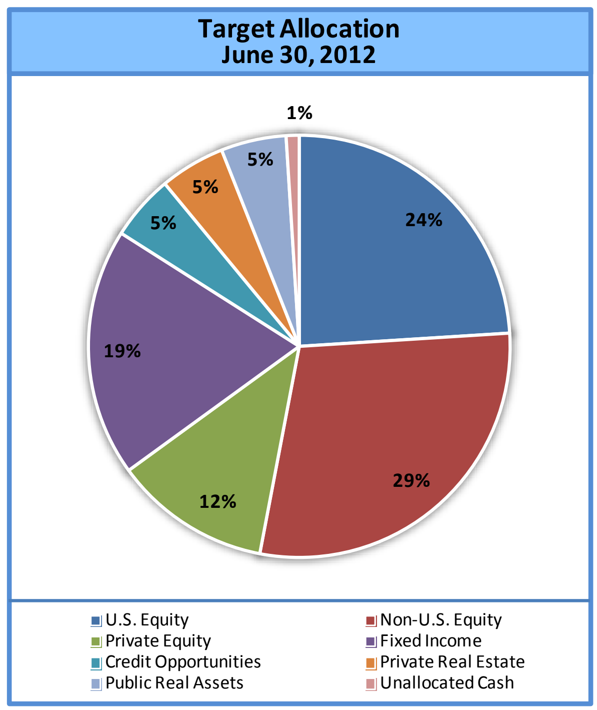
Asset Allocation
As of June 30, 2012

	Actual
U.S. Equity	38.8%
Non-U.S. Equity	17.2
Private Equity	11.2
Fixed Income	25.3
Credit Opportunities*	0.7
Private Real Estate	6.1
Public Real Assets	0.0
Unallocated Cash	0.7
Total	100.0%

	Target
U.S. Equity	24.0%
Non-U.S. Equity	29.0
Private Equity	12.0
Fixed Income	19.0
Credit Opportunities*	5.0
Private Real Estate	5.0
Public Real Assets	5.0
Unallocated Cash	1.0
Total	100.0%

*Previously known as Opportunistic Debt.





List of Largest Assets Held by Market Value

Displayed below are the ten largest holdings in each asset class along with their market and share/par values as of June 30, 2012. A complete listing of the System's top 100 holdings is available on www.LACERS.org.

Largest U.S. Equity Holdings

	Shares	Asset Description	Market Value (in US$)
1.	572,152	Exxon Mobil Corp	$ 48,959,047
2.	61,678	Apple Inc.	36,019,952
3.	287,196	Chevron Corp.	30,299,178
4.	798,853	Wells Fargo & Co.	26,713,644
5.	658,777	AT&T Inc.	23,491,988
6.	974,120	Pfizer, Inc.	22,404,760
7.	615,922	JP Morgan Chase & Co.	22,006,893
8.	1,009,939	General Electric Co.	21,047,129
9.	569,299	Microsoft Corp.	17,414,856
10.	569,342	Intel Corp.	15,172,964
		Total	$ 263,530,411

Largest Non-U.S. Equity Holdings

	Shares	Asset Description	Market Value (in US$)
1.	308,282	Nestle SA	$ 18,418,750
2.	105,883	Roche Hldgs AG	18,301,594
3.	457,345	Toyota Motor Corp.	18,284,629
4.	15,697	Samsung Electronic	16,459,682
5.	497,849	BHP Billiton Ltd.	16,049,567
6.	209,813	Bayer AG	15,118,424
7.	5,148,239	Vodafone Group	14,474,000
8.	370,768	Imperial Tobacco	14,276,588
9.	1,573,343	HSBC Hldgs	13,846,320
10.	240,853	Novartis AG	13,461,303
		Total	$ 158,690,857

List of Largest Assets Held by Market Value

Largest U.S. Fixed Income Holdings

	Par Value	Asset Description	Market Value (in US$)
1.	102,325,000	United States Treas Nts 0.625% Due 04-30-2013	$ 102,656,738
2.	86,200,000	United States Treas Nts 0.375% Due 07-31-2013	86,304,388
3.	57,305,000	FHLMC Gold Single Family 3.5% 30 Yrs Settles July	60,116,555
4.	55,915,000	FHLMC Gold Single Family 4% 30 Yrs Settles July	59,331,071
5.	46,030,000	United States Treas Nts Nt 3.625% Due 08-15-2019	53,988,173
6.	34,670,000	United States Treas Nts Index Linked 2.375% Due 01-15-2017	45,640,924
7.	38,430,000	FNMA Single Family Mortgage 4% 30 Yrs Settles July	40,897,936
8.	40,000,000	United States Treas Nts 4.625% Due 07-31-2012	40,143,760
9.	37,080,000	United States Treas Nts Dtd 00032 4.25% Due 08-15-2013	38,731,209
10.	31,000,000	United States of America Treas Nts Nt 1.375% Due 10-15-2012	31,108,996
		Total	$ 558,919,750

Largest Non-U.S. Fixed Income Holdings

	Par Value (in local currency)	Asset Description	Market Value (in US$)
1.	1,480,000	Mexico (Utd Mex St) 6.25% Bd 06-16-2016	$ 11,643,264
2.	1,330,000	Mexico (Utd Mex St) 8% Bds 12-17-2015	10,912,699
3.	7,350,000	BP Cap Mkts Plc 4.5% Due 10-01-2020	8,274,895
4.	8,070,000	Pvtpl Pernod Ricard SA 5.5% Due 01-15-2042	8,264,269
5.	8,000,000	Pvtpl Deutsche Telekom Intl Fin BV Nt 2.25% Due 03-06-2017	7,904,936
6.	7,120,000	Encana Corp. 6.5% Due 08-15-2034	7,852,264
7.	6,795,000	Ericsson 4.125% Due 05-15-2022	6,813,788
8.	5,750,000	Amer Movil Sab De 5% Due 03-30-2020	6,529,953
9.	5,860,000	Pvtpl BG Energy Cap Plc Gtd Nt 144A 5.125% Due 10-15-2041 BEO	6,465,543
10.	6,290,000	Transalta Corp 6.5% Due 03-15-2040	6,204,204
		Total	$ 80,865,815

Schedules of Fees and Commissions

Schedule of Fees

(In Thousands)

	2012 Assets Under Management	Fees	2011 Assets Under Management	Fees
Investment Manager Fees:				
Fixed Income Managers	$ 2,686,336	$ 3,652	$ 2,478,500	$ 7,127
Equity Managers	5,860,136	15,451	6,225,939	17,310
Real Estate Managers	642,442	9,000	579,200	9,392
Alternative Investment Managers	1,192,565	18,758	1,080,334	20,020
Total	$ 10,381,479	$ 46,861	$ 10,363,973	$ 53,849
Security Lending Fees	$ 850,183	$ 811	$ 1,229,579	$ 634
Alternative, Real Estate & Other Investment Consulting Fees	N/A	1,570	N/A	1,629
Total	$ 850,183	$ 2,381	$ 1,229,579	$ 2,263

Schedule of Top Ten Brokerage Commissions

	Broker	Shares	Commission	$/Share
1.	Pulse Trading LLC	7,227,902	$ 230,527	$ 0.032
2.	Citigroup Global Markets Limited	19,722,098	155,034	0.008
3.	Northern Trust Co	16,243,186	136,488	0.008
4.	Montrose Securities Equities	4,150,536	135,331	0.033
5.	Credit Suisse Securities (Europe) Ltd	11,174,496	124,813	0.011
6.	Investment Technology Group Inc	5,545,872	119,590	0.022
7.	UBS AG London Branch	14,249,752	118,070	0.008
8.	Citigroup Global Markets Inc.	35,411,126	114,206	0.003
9.	Merrill Lynch Pierce Fenner & Smith	13,777,918	106,457	0.008
10.	Bley Investment Group	3,291,309	99,221	0.030
	Total	130,794,195	1,339,737	0.010
	Total - Other Brokers	577,390,145	4,113,306	0.007
	Grand Total*	708,184,340	$ 5,453,043	$ 0.008

* OTC Brokers excluded because there is no stated commission.

LACERS has commission recapture arrangements with brokerage firms. For the current fiscal year, LACERS recaptured a total of $9,711 commission credit from Fidelity and Citigroup, of which none of the amount was directed to pay for any investment expenses.

Investment Summary
As of June 30, 2012

Type of investment	Market Value	% of Total Market Value	Domestic Market Value	Foreign Market Value
Fixed Income				
Government bonds	$ 730,779,443	6.51%	$ 688,122,331	$ 42,657,112
Government agencies	56,655,359	0.50	49,331,237	7,324,122
Municipal / provincial bonds	6,954,058	0.06	6,354,938	599,120
Corporate bonds	1,254,047,985	11.17	1,003,816,151	250,231,834
Commercial mortgage bonds	106,275,920	0.95	106,275,920	-
Government mortgage bonds	448,296,823	3.99	448,296,823	-
Bank Loans	4,212,798	0.04	4,212,798	-
Opportunistic debt	78,925,303	0.70	78,925,303	-
Derivative instruments	189,000	0.00	189,000	-
Total Fixed Income	**2,686,336,689**	**23.92**	**2,385,524,501**	**300,812,188**
Equities				
Common stock				
Basic industries	461,849,539	4.11	259,270,579	202,578,960
Capital goods industries	241,056,288	2.15	76,109,221	164,947,067
Consumer & services	931,419,532	8.29	469,168,851	462,250,681
Energy	526,122,025	4.68	309,747,704	216,374,321
Financial services	813,476,073	7.24	380,248,329	433,227,744
Health care	373,414,009	3.33	258,012,566	115,401,443
Information technology	483,437,738	4.30	358,507,835	124,929,903
Miscellaneous (Common Fund Assets)	2,004,289,133	17.85	1,958,004,266	46,284,867
Total Common Stock	**5,835,064,337**	**51.95**	**4,069,069,351**	**1,765,994,986**
Preferred stock	19,003,277	0.17	-	19,003,227
Stapled securities	5,817,203	0.05	-	5,817,203
Derivative instruments	235,451	0.00	-	235,451
Unit trust equity	16,151	0.00	-	16,151
Total Equities	**5,860,136,419**	**52.17**	**4,069,069,351**	**1,791,067,068**
Real Estate	**642,441,709**	**5.72**	**590,777,429**	**51,664,280**
Alternative Investments				
Acquisitions	704,907,034	6.28	661,935,680	42,971,354
Distressed debt	69,702,617	0.62	58,913,480	10,789,137
International acquisitions	100,286,978	0.89	26,643,585	73,643,393
Mezzanine	14,485,052	0.13	14,485,052	-
Venture capital	303,183,305	2.70	266,373,086	36,810,219
Total Alternative Investments	**1,192,564,986**	**10.62**	**1,028,350,883**	**164,214,103**
Security Lending Collateral	**850,183,665**	**7.57**	**737,653,992**	**112,529,673**
Total Fund*	**$ 11,231,663,468**	**100.00%**	**$ 8,811,376,156**	**$ 2,420,287,312**

* Total Fund includes securities lending, but excludes cash and cash equivalents and adjustments to cash.

Advisory/Consulting/Custody Services

Investment Advisors

U.S. Equity

AllianceBernstein
Aronson Johnson Ortiz
Attucks Asset Management
BlackRock Institutional Trust Company
Blum Capital Partners
Capital Prospects
Donald Smith & Co.
Franklin Advisers
New Mountain Vantage
PanAgora Asset Management
Progress Investment Management
Relational Investors
Rhumbline Advisers
Sit Investment Associates
Thomson Horstmann & Bryant

Non-U.S. Equity

Batterymarch Financial Management
The Boston Company
Capital Guardian Trust Company
Daiwa SB Investments
Knight Vinke Institutional Partners
Marvin & Palmer Associates
State Street Global Advisors
Templeton Investment Counsel
TT International

Fixed Income

Highbridge Principal Strategies
LM Capital Group
Loomis Sayles & Company
Neuberger Berman
Oaktree Capital Management
Quadrant Real Estate Advisors
Robert W. Baird & Co.
Torchlight Investors
Whippoorwill Associates

Cash & Short-Term

The Northern Trust Company

Real Estate

Apollo Global Real Estate
Bristol Group
Bryanston Realty Partners
Buchanan Street Partners
Canyon-Johnson Urban Funds
CB Richard Ellis
CIM Group
CityView
Colony Investors
DLJ Real Estate Capital Partners
DRA Advisors
Hancock Timber Resource Group
Heitman Value Partners
Hunt Realty Investments
ING Realty
Integrated Capital
Invesco Real Estate
JP Morgan Fleming
Koll-Bren (K/B) Realty Advisors
LaSalle Investment Management
Lone Star Funds
Lowe Hospitality
MacFarlane Partners
Mesa West Capital
Miller Global Properties
Pacific Coast Capital Partners
Paladin Realty Partners
Phoenix Realty Group
Prologis
Prudential Real Estate Investors
Realty Associates
RREEF
Stockbridge Real Estate
Tuckerman Group
UrbanAmerica
Urdang
Walton Street Real Estate
Westbrook Real Estate Partners

Investment Advisors (Continued)

Alternative Investments

Acon-Bastion Partners
Advent International
Alchemy Partners
American Securities
Angeleno Group
Apollo Management
Ares Management
Austin Ventures
Avenue Capital Group
Blackstone
Cardinal Partners
Carlyle Group
Carpenter & Company
CGW Southeast Partners
Charterhouse Capital Partners
CHS Capital
Chisholm Partners
CIE Management IX Ltd
Coller International Partners
Craton Equity Investors
CVC Capital Partners
DFJ Frontier
Element Partners
Energy Capital Partners
Encap Energy Capital
Enhanced Equity
Essex Woodland Health Ventures
First Reserve Corporation
GTCR
Halifax Capital
Hellman & Friedman Investors
HM Capital Partners
Hony Capital
InterWest Partners
The Jordan Company
JH Whitney & Co.
Kelso & Company
Khosla Ventures
KKR
Leonard Green & Partners
Levine Leichtman Capital Partners
Lindsay Goldberg & Bessemer
Madison Dearborn Partners
Menlo Ventures
Nautic Partners
New Enterprises Associates
New Mountain Partners
Newbridge Asia
NGEN Partners
Nogales Investors
Nordic Capital
Oak Investment Partners
Oaktree Capital Management
Olympus Partners
Onex Partners
Palladium Equity Partners
Parish Capital
Permira
Pharos Capital Partners
Polaris Venture Partners
Providence Equity Partners
Reliant Equity Partners
Richland Ventures
Rustic Canyon/Fontis Partners
Saybrook Capital
Spark Capital
Spire Capital
St. Cloud Capital
StarVest Partners
Sterling Partners
TA Associates
Technology Crossover Ventures
TCW/Crescent Mezzanine
Texas Pacific Group
Thoma Cressey Bravo
Thomas H. Lee Partners
Trident Capital
VantagePoint Venture Partners
Vestar Capital Partners
Vicente Capital Partners
Vista Equity Partners
Welsh, Carson, Anderson & Stowe
Weston Presidio
Yucaipa American Alliance

Consultants

Courtland Partners
Hamilton Lane
Pension Consulting Alliance
Wilshire Associates

Custodian

The Northern Trust Company

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Actuarial

Summary of Significant Valuation Results

	June 30, 2012	June 30, 2011	Percent Change
I. Total Membership			
a. Active Members	24,917	25,449	(2.1) %
b. Pensioners and Beneficiaries	17,223	17,197	0.2 %
II. Valuation Salary			
a. Total Annual Payroll	$1,819,269,630	$1,833,392,381	(0.8) %
b. Average Monthly Salary	6,084	6,003	1.3 %
III. Benefits to Current Retirees and Beneficiaries(1)			
a. Total Annual Benefits	$676,874,760	$656,547,204	3.1 %
b. Average Monthly Benefit Amount	3,275	3,182	2.9 %
IV. Total System Assets(2)			
a. Actuarial Value	$11,620,457,827	$11,280,641,736	3.0 %
b. Market Value	10,595,700,986	10,693,603,976	(0.9) %
V. Unfunded Actuarial Accrued Liability (UAAL)			
a. Retirement Benefits	$4,458,999,264	$3,700,692,504	20.5 %
b. Health Subsidy Benefits	650,026,667	421,823,917	54.1 %

(1) Includes July COLA.
(2) Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits.

	FY 2013-2014(2)		FY 2012-2013(2)		Change	
VI. Budget Items	Beginning of Year(1)	July 15	Beginning of Year	July 15	Beginning of Year	July 15
After Reflecting Additional Employee Contributions for Unfrozen Health Subsidies (Composite Rates)						
a. Retirement Benefits						
1. Normal Cost as a Percent of Pay	6.88%	6.90%	7.47%	7.49%	(0.59)%	(0.59)%
2. Amortization of UAAL	13.67%	13.72%	13.37%	13.42%	0.30%	0.30%
3. Total Retirement Contribution	20.55%	20.62%	20.84%	20.91%	(0.29)%	(0.29)%
b. Health Subsidy Contribution						
1. Normal Cost as a Percent of Pay	3.55%	3.56%	3.11%	3.12%	0.44%	0.44%
2. Amortization of UAAL	1.98%	1.99%	1.22%	1.22%	0.76%	0.77%
3. Total Health Subsidy Contribution	5.53%	5.55%	4.33%	4.34%	1.20%	1.21%
c. Total Contribution (a+b)	26.08%	26.17%	25.17%	25.25%	0.91%	0.92%

	June 30, 2012	June 30, 2011	Change
VII. Funded Ratio			
(Based on Valuation Value of Assets)			
a. Retirement Benefits	69.0%	72.4%	(3.4)%
b. Health Subsidy Benefits	71.6%	78.6%	(7.0)%
c. Total	69.4%	73.2%	(3.8)%
(Based on Market Value of Assets)			
d. Retirement Benefits	62.9%	68.6%	(5.7)%
e. Health Subsidy Benefits	65.3%	74.5%	(9.2)%
f. Total	63.3%	69.4%	(6.1)%

(1) Alternative contribution payment date for FY 2013-2014:

	Retirement	Health	Total
End of Pay Periods (after reflecting additional employee contributions)	21.34%	5.74%	27.08%

(2) Before adjustments to phase in over five years the impact of new actuarial assumptions (as a result of the June 30, 2011 triennial Experience Study) on the City's contributions.

Actuarial Certification

November 21, 2012

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, 2012, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this retirement program with the last valuation completed on June 30, 2011. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the 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 LACERS.

One of the general goals of an actuarial valuation is to establish contributions that fully fund the Retirement System's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Both the Normal Cost and the Actuarial Accrued Liability are determined under the Entry Age Normal cost method. In no event will the recommended contribution be less than the minimum Annual Required Contribution (ARC) as determined under GASB Statements No. 25 and No. 27.

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

In addition to all schedules that are shown in the actuarial section of the CAFR, a listing of supporting schedules included in the statistical and financial sections of the System's CAFR prepared by Segal is provided below:

1) Schedule of funding progress
2) Schedule of employer contributions
3) Supplementary Information Required by GASB

To the best of our knowledge, this report is complete and accurate and in our opinion presents the plan's current funding information. The undersigned is a Member of the American Academy of Actuaries and is qualified to render the actuarial opinion contained herein.

Andy Yeung

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

Member Valuation Data

Member Population: 2007 – 2012

Year Ended June 30	Active Members	Inactive Members[1]	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
2007	30,175	3,303	14,836	0.60
2008	30,236	4,273	14,975	0.64
2009	30,065	4,554	14,991	0.65
2010	26,245	5,344	17,264	0.86[2]
2011	25,449	5,623	17,197	0.90
2012	24,917	5,808	17,223	0.92

(1) Includes terminated members due a refund of employee contributions.
(2) Reflects 2009 Early Retirement Incentive Program.

Retirees and Beneficiaries Added to and Removed from Retiree Payroll[1]

Year Ended June 30	No. of New Retirees/ Beneficiaries	Annual Allowances Added[2]	No. of Retirees/ Beneficiaries Removed	Annual Allowances Removed	No. of Retirees/ Beneficiaries at 6/30	Annual Allowances at 6/30	Percent Increase in Annual Allowances	Average Annual Allowance
2007	821	$ 34,131,744	555	$ 13,210,740	14,836	$476,633,928	4.6%	$ 32,127
2008	748	40,680,279	609	14,956,623	14,975	502,357,584	5.4%	33,546
2009	632	36,887,854	616	17,386,042	14,991	521,859,396	3.9%	34,812
2010	2,893	144,594,918	620	17,604,486	17,264	648,849,828	24.3%	37,584
2011	528	24,282,965	595	16,585,589	17,197	656,547,204	1.2%	38,178
2012	620	38,314,256	594	17,986,700	17,223	676,874,760	3.1%	39,301

(1) Does not include Family Death Benefit Insurance Plan members. Table is based on valuation data.
(2) Includes the COLA granted in July.

Solvency Test for Retirement Benefits

For Years Ended June 30
(Dollars in Thousands)

	Aggregate Actuarial Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Member Contributions	Retirees, Beneficiaries & Inactives	Active Members	Valuation Value of Assets	Member Contributions	Retirees, Beneficiaries & Inactives	Active Members
06/30/2007	$1,307,008	$5,365,437	$3,854,429	$8,599,700[1]	100.0%	100.0%	50.0%
06/30/2008	1,408,074	5,665,130	4,113,200	9,438,318	100.0	100.0	57.5
06/30/2009[2]	1,282,663	7,356,302	3,403,019	9,577,747	100.0	100.0	27.6
06/30/2010	1,379,098	7,507,945	3,707,982	9,554,027	100.0	100.0	18.0
06/30/2011	1,474,824	7,765,071	4,151,809	9,691,011	100.0	100.0	10.9
06/30/2012	1,625,207	7,893,684	4,875,068	9,934,959	100.0	100.0	8.5

(1) Excludes assets transferred for Port Police.
(2) Based on revised June 30, 2009 valuation.

Actuarial Analysis of Financial Experience

Development of Unfunded Actuarial Accrued Liability
for Year Ended June 30, 2012

1. Unfunded actuarial accrued liability at beginning of year	$3,700,692,504
2. Normal cost at beginning of year	309,476,634
3. Total contributions	(486,619,660)
4. Interest	280,972,002
5. Expected unfunded actuarial accrued liability	3,804,521,480
6. Changes due to experience loss[1]	116,048,219
7. Changes due to change in actuarial cost method	538,429,565
8. Unfunded actuarial accrued liability at end of year	$4,458,999,264

(1) Excludes $76,272,925 loss from contributions less than anticipated due to one-year delay in implementing the higher contribution rate calculated in the June 30, 2011 valuation. That loss is already included in the development of item 5.

The breakdown of the experience loss is as follows:

Investment loss	$323,452,856
(Gain) due to lower than expected salary increases for continuing actives	(187,935,617)
(Gain) due to lower than expected COLA granted to retirees and beneficiaries	(21,935,583)
Miscellaneous loss	2,466,563
Total loss	$116,048,219

Actuarial Balance Sheet

Assets		
1. Valuation value of assets ($10,595,700,986 at market value[1] and $11,620,457,827 at actuarial value[1] as reported by LACERS)		$ 9,934,959,310
2. Present value of future normal costs		
Employee[2]	$1,642,301,844	
Employer[2]	1,094,904,925	
Total		2,737,206,769
3. Unfunded actuarial accrued liability		4,458,999,264
4. Present value of current and future assets		$17,131,165,343
Liabilities		
5. Present value of future benefits		
Retired members and beneficiaries		$ 7,729,618,966
Inactive members		267,239,405
Active members		9,134,306,972
Total		$17,131,165,343

(1) Market and actuarial values of assets include assets for Retirement, Health, Family Death, and Larger Annuity Benefits.
(2) After adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees.

Summary of Actuarial Assumptions and Actuarial Cost Method

The following assumptions were adopted by the Board on October 11, 2011 and October 25, 2011:

Mortality Rates

After Service Retirement

RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.

After Disability Retirement

RP-2000 Combined Healthy Mortality Table, set forward five years for males and set forward six years for females.

Termination Rates before Retirement

Pre-Retirement Mortality

RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.

	Rate (%)	
Age	Disability	Termination*
25	0.01	5.50
30	0.03	5.35
35	0.05	4.35
40	0.09	3.15
45	0.15	2.30
50	0.19	1.85
55	0.20	1.75
60	0.20	1.75

* Rates for members with five or more years of service. Termination rates are zero for members eligible to retire.

Termination rates for members with less than five years of service are as follows:

Years of Service	Rate (%) Termination (Based on Service)
0	11.25
1	8.00
2	7.25
3	6.25
4	5.50

Retirement Rates

	Rate (%)	
Age	Non-55/30	55/30
50	8	0
51	4	0
52	4	0
53	4	0
54	15	0
55	8	20
56	8	15
57	8	15
58	8	15
59	8	15
60	8	15
61	8	16
62	8	17
63	8	18
64	8	19
65	13	20
66	13	20
67	13	20
68	13	20
69	13	20
70	100	100

Retirement Age and Benefit for Inactive Vested Participants

Pension benefit will be paid at the later of age 57 or the current attained age. For reciprocals, compensation increases of 4.65% per annum are assumed.

Exclusion of Inactive Members

All inactive participants are included in the valuation.

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.

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Age of Spouse

Female spouses three years younger than their spouses.

Future Benefit Accruals

1.0 year of service per year.

Other Reciprocal Service

10% of future inactive vested members will work at a reciprocal system.

Consumer Price Index (CPI)

Increase of 3.50% per year; benefit increases due to CPI subject to 3.0% maximum.

Employee Contribution and Matching Account Crediting Rate

Based on average of 5-year Treasury note rate. An assumption of 3.50% is used to approximate that crediting rate in this valuation.

Net Investment Return

7.75%

Salary Increases

According to the following schedule:

For members with under 5 years of service:

Years of Service	Percentage Increase*
0	7.00%
1	6.25%
2	4.75%
3	3.50%
4	2.25%

For members with 5 or more years of service:

Age	Percentage Increase*
20 – 24	2.25%
25 – 29	2.00%
30 – 34	1.25%
35 – 39	1.00%
40 – 44	0.75%
45 – 49	0.50%
50 – 54	0.40%
55 – 69	0.40%

* Before including a 3.50% inflation increase and a 0.75% across the board salary increase.

Actuarial Cost Method

Entry Age Normal Cost Method.

Actuarial Value of Assets

The market value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual and expected returns on a market value basis and is recognized over a seven year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets.

Funding Policy

The plan sponsor of the City of Los Angeles Employees' Retirement System makes contributions equal to the normal cost adjusted by an amount to amortize any surplus or unfunded actuarial accrued liability. Both the normal cost and the actuarial accrued liability are determined under the Entry Age Normal cost method and are calculated on an individual basis. Entry age is calculated as age on the valuation date minus years of service.

Under the current funding policy, changes in the UAAL due to actuarial gains/losses are amortized over separate 15-year periods. Any changes in the UAAL due to assumption or method changes are amortized over separate 30-year periods. Plan changes, including the 2009 ERIP, are amortized over separate 15-year periods. Future ERIPs will be amortized over 5 years. Any actuarial surplus is amortized over 30 years. All the bases on or before June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years effective June 30, 2012.

In no event will the recommended contribution be less than the minimum Annual Required Contribution (ARC) as determined under GASB Statements No. 25 and No. 27.

Summary of Plan Provisions

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

Plan Year

July 1 through June 30

Census Date

June 30

Normal Retirement Benefit

Age & Service Requirement (§ 4.1020)

- Age 70; or
- Age 60 with 10 years of continuous service; or
- Age 55 with at least 30 years of service.

Amount (§ 4.1056.2)

2.16% per year of service (not greater than 100%) of the Final Average Monthly Compensation.

Early Retirement Benefit

Age & Service Requirement (§ 4.1020)

- Age 55 with 10 years of continuous service; or
- Any age with 30 years of service.

Amount (§ 4.1056.2)

2.16% per year of service (not greater than 100%) of the Final Average Monthly Compensation, reduced for retirement ages below age 60 using the following sample Early Retirement benefit adjustment factors:

Age	Factor
45	0.6250
50	0.7750
55	0.9250
60	1.0000

Final Average Monthly Compensation (§ 4.1010)

Equivalent of monthly average salary of highest continuous 12 months (one year).

Cost of Living Benefit (§ 4.1040)

Based on changes to Los Angeles area CPI to a maximum of 3% per year, excess banked.

Death after Retirement (§ 4.1044)

- 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); and
- $2,500 lump sum death benefit paid to a designated beneficiary; and
- Any unused contributions if the member has elected the cash refund annuity option.

Death before Retirement (§ 4.1062 and § 4.1054)

Option #1:

- Eligibility – None.
- Benefit – Refund of employee contributions plus a limited pension benefit equal to 50% of monthly salary paid, according to the following schedule:

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

Option #2:

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

Member Normal Contributions (§ 4.1031)

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

If an employee became a plan member before January 1, 1983, the rate was based on age at entry; sample rates by entry age (before reflecting applicable pick ups by the employers or "defrayals"*) were as follows:

Summary of Plan Provisions (Continued)

Member Normal Contributions (§ 4.1031) (Continued)

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%

Effective July 1, 2011 the member normal contribution rate became 7% for all employees. The 7% member rate shall be paid until June 30, 2026 or until the ERIP Cost Obligation (defined in ERIP Ordinance 180926) is fully paid, whichever comes first.

In addition, members in certain bargaining groups are required to pay an additional 4% member contribution rate, beginning July 1, 2011. All non-represented members and members of one particular bargaining group are required to pay an additional 2% member contribution rate retroactive to July 1, 2011. For these members, the additional member contribution rate will increase to 4% beginning January 1, 2013.

* The net member rate after defrayals was adjusted to 6% upon the effective date of ERIP Ordinance 180926.

Disability (§ 4.1055)

Service Requirement
5 years of continuous service

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

Deferred Withdrawal Retirement Benefit (Vested) (§ 4.1020 and § 4.1059.1)

Age & Service Requirement

- Age 70 with 5 years of continuous service; or
- Age 60 with 5 years of continuous service and at least 10 years 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.

Amount
See Normal Retirement Benefit.

Age & Service Requirement

- Age 55 with 5 years of continuous service and at least 10 years 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.

Amount
See Early Retirement Benefit.

Withdrawal of Contributions Benefit (Ordinary Withdrawal)

Refund of employee contributions with interest.

Changes in Plan Provisions

There have been no changes in plan provisions since the last valuation.

Actuarial Certification

November 21, 2012

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of Los Angeles City Employees' Retirement System's other postemployment benefit programs as of June 30, 2012, 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 GASB Statements No. 43 and No. 45 for the determination of the liability for postemployment benefits other than pensions.

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

One of the general goals of an actuarial valuation is to establish contributions that fully fund the Retirement System's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Both the Normal Cost and the Actuarial Accrued Liability are determined under the Entry Age Normal cost method. In no event will the recommended contribution be less than the minimum Annual Required Contribution (ARC) as determined under GASB Statements No. 43 and No. 45.

The actuarial computations made are for purposes of fulfilling plan accounting and funding requirements. Determinations for purposes other than meeting financial accounting and funding requirements may be significantly different from the results reported here. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination of the plan, or determining short-term cash flow requirements.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements No. 43 and No. 45 with respect to the benefit obligations addressed. The signing actuaries are Members of the Society of Actuaries, and/or the American Academy of Actuaries, as well as other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

Thomas Bergman, ASA, MAAA, EA
Assistant Actuary

Patrick Twomey, ASA, MAAA, EA
Assistant Actuary

Member Valuation Data

Member Population: 2007 – 2012

Year Ended June 30	Active Participants	Inactive Members[1]	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
2007	30,175	607	11,336	0.40
2008	30,236	703	12,004	0.42
2009	30,065	674	11,893	0.42
2010	26,245	806	13,442	0.54[2]
2011	25,449	813	13,436	0.56
2012	24,917	858	13,431	0.57

(1) Inactive vested participants (excluding those with less than 10 years of service).
(2) Reflects 2009 Early Retirement Incentive Program.

Retirees and Beneficiaries Added to and Removed from Health Benefits

Year Ended June 30	No. of New Retirees/ Beneficiaries	Annual Allowances Added[1]	No. of Retirees/ Beneficiaries Removed	Annual Allowances Removed	No. of Retirees/ Beneficiaries at 6/30	Annual Allowances at 6/30	Percent Increase in Annual Allowances	Average Annual Allowance
2007	696	$ 8,660,848	497	$ 1,923,000	11,336	$ 66,602,200	11.3%	$ 5,875
2008	1,139	6,472,277	471	2,051,109	12,004	71,023,368	6.6	5,917
2009	376	5,542,283	487	2,697,150	11,893	73,868,501	4.0	6,211
2010	2,104	23,010,841	555	2,670,987	13,442	94,208,355	27.5	7,009
2011	431	5,670,390	437	2,774,684	13,436	97,104,061	3.1	7,227
2012	433	(540,583)	438	2,516,835	13,431	94,046,643	(3.1)	7,002

(1) Also reflects changes in subsidies for continuing retirees and beneficiaries.

Solvency Test for Health Benefits

For Years Ended June 30
(Dollars in Thousands)

	Aggregate Actuarial Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Terminated Members	Retirees, Beneficiaries & Dependents	Active Members	Valuation Value of Assets	Terminated Members	Retirees, Beneficiaries & Dependents	Active Members
06/30/2007	$ 22,064	$ 792,200	$ 916,136	$ 1,185,544[1]	100.0%	100.0%	41%
06/30/2008	25,933	849,872	1,865,096	1,342,920	100.0	100.0	25
06/30/2009[2]	26,182	1,118,520[3]	1,723,010	1,342,497	100.0	100.0	11
06/30/2010	34,455	1,124,254	1,075,166	1,425,726	100.0	100.0	25
06/30/2011	19,964	1,066,351	882,393	1,546,884	100.0	100.0	52
06/30/2012	24,454	1,083,168	1,184,778	1,642,374	100.0	100.0	45

(1) Excludes assets transferred for Port Police.
(2) Based on revised June 30, 2009 valuation.
(3) Includes liabilities for the 2,393 ERIP-electing members.

Actuarial Analysis of Financial Experience

Development of Unfunded Actuarial Accrued Liability
for the Year Ended June 30, 2012

1. Unfunded actuarial accrued liability as of June 30, 2011	$421,823,917
2. Employer normal cost as of June 30, 2011	57,105,892
3. Total employer contributions during 2011/2012 fiscal year	(115,208,835)
4. Interest	28,573,863
5. Expected unfunded actuarial accrued liability as of June 30, 2012	392,294,837
6. Change due to investment and demographic losses	52,862,790
7. Change due to average premiums less than projected	(7,627,620)
8. Change due to additional bargaining groups making contributions to avoid retiree medical subsidy freeze (relative to the membership data provided and used in the June 30, 2011 valuation)	111,242,018
9. Change due to actuarial cost method change	101,254,642
10. Unfunded actuarial accrued liability as of June 30, 2012	$650,026,667

Actuarial Balance Sheet

Assets	
1. Actuarial value of assets	$1,642,373,560
2. Present value of future normal costs	593,789,074
3. Unfunded actuarial accrued liability	650,026,667
4. Present value of current and future assets	$2,886,189,301
Liabilities	
5. Actuarial present value of total projected benefits	$2,886,189,301

Summary of Actuarial Assumptions and Actuarial Cost Method

The following assumptions were adopted by the Board on October 11, 2011 and October 25, 2011:

Termination Rates before Retirement

Pre-Retirement Mortality
RP-2000 Combined Healthy Mortality Table, set back two years for males, one year for females.

	Rate (%)	
Age	Disability	Termination
25	0.01	5.50
30	0.03	5.35
35	0.05	4.35
40	0.09	3.15
45	0.15	2.30
50	0.19	1.85
55	0.20	1.75
60	0.20	1.75

All deaths are assumed to be non-duty related.

No termination is assumed after a member is eligible for retirement.

Termination rates for members with less than 5 years of service are as follows:

Years of Service	Rate (%)
0	11.25
1	8.00
2	7.25
3	6.25
4	5.50

Measurement Date

June 30, 2012

Discount Rate

7.75%, net of investment and administrative expenses

Postemployment Mortality Rates

Healthy
RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.

Disabled
RP-2000 Combined Healthy Mortality Table, set forward five years for males and set forward six years for females.

These tables reasonably reflect the projected mortality experience of the Plan as of the measurement date. The RP-2000 Healthy Combined Table (separate tables for males and females) with ages set back and the tables used for Disabled Retirement were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.

Active Retirement Rates

	Rate (%)	
Age	Non-55/30	55/30
50	8	0
51	4	0
52	4	0
53	4	0
54	15	0
55	8	20
56	8	15
57	8	15
58	8	15
59	8	15
60	8	15
61	8	16
62	8	17
63	8	18
64	8	19
65	13	20
66	13	20
67	13	20
68	13	20
69	13	20
70	100	100

Retirement Age and Benefit for Inactive Vested Participants

Assume pension benefit will be paid at the later of age 57 or the current attained age.

Exclusion of Inactive Vested

Inactive vested with less than 10 years of service are excluded.

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Per Capita Cost Development

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

Maximum Dental Subsidy (same as premium)

Carrier	Participation Percent	Monthly 2012-2013 Fiscal Year Subsidy
MetLife PPO	77.3	$43.47
SafeGuard	22.7	$13.53

Medical Subsidy
(Not Subject to Medical Subsidy Freeze)
Participant Under Age 65 or Not Eligible for Medicare A & B
2012-2013 Fiscal Year

Carrier	Observed and Assumed Election Percent	Single Party Subsidy	Married/with Domestic Partner Subsidy	Eligible Survivor Subsidy
Kaiser HMO	61.0	$637.67	$1,275.34	$637.67
Anthem BC PPO	21.9	$1,026.97	$1,278.50	$637.67
Anthem BC HMO	17.1	$747.40	$1,278.50	$637.67

Medical Subsidy
(Not Subject to Medical Subsidy Freeze)
Participant Eligible for Medicare A & B
2012-2013 Fiscal Year

Carrier	Observed and Assumed Election Percent	Single Party Subsidy	Married/with Domestic Partner Subsidy	Eligible Survivor Subsidy
Kaiser Senior Adv	58.2	$211.33	$422.65	$211.33
Anthem BC Medicare PPO	29.6	$438.19	$689.72	$438.19
UHC Medicare Adv HMO	12.2	$242.57	$480.62	$242.57

Members who are subject to the retiree medical subsidy freeze will have monthly health insurance subsidy maximums fixed at the levels in effect at July 1, 2011, as shown in the table below:

Medical Subsidy
(Subject to Medical Subsidy Freeze)

Carrier	Single Party Subsidy	Married/With Domestic Partner Subsidy	Eligible Survivor Subsidy
Under Age 65 – All Plans	$1,190.00	$1,190.00	$595.60
Age 65 and Over			
Kaiser Senior Adv	$205.25	$408.52	$205.25
Anthem BC Medicare PPO	$480.40	$678.77	$480.41
UHC Medicare Adv HMO	$219.09	$433.93	$219.09

Marital Status

60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.

Spouse Age Difference

Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.

Surviving Spouse Coverage

With regard to members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.

Participation

Retiree Medical and Dental Coverage Election:

Years of Service Range	Percent Covered*
10 – 14	65%
15 – 19	80%
20 – 24	90%
25 and Over	95%

* Inactive members are assumed to elect coverages at 50% of the rates shown above.

100% of retirees becoming eligible for Medicare are assumed to be covered by both Parts A and B.

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Health Care Cost Subsidy Trend Rates

Trends to be applied in following fiscal years, to all health plans.

Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium.

First Fiscal Year (July 1, 2012 through June 30, 2013)

Plan	Trend to be applied to 2012-2013 Fiscal Year premium
Anthem BC PPO, Under Age 65	7.99%
Anthem BC Medicare PPO, Age 65 and Over	7.76%
Kaiser HMO, Under Age 65	11.45%
Kaiser Senior Adv, Age 65 and Over	5.52%
Anthem BC HMO, Under Age 65	5.77%
UHC Medicare Adv HMO, Age 65 and Over	4.25%

The fiscal year trend rates are based on the following calendar year trend rates:

Fiscal Year	Trend (Approx.)	Calendar Year	Trend (applied to calculate following year premium)
2013-2014	8.25%	2013	8.50%
2014-2015	7.75%	2014	8.00%
2015-2016	7.25%	2015	7.50%
2016-2017	6.75%	2016	7.00%
2017-2018	6.25%	2017	6.50%
2018-2019	5.75%	2018	6.00%
2019-2020	5.25%	2019	5.50%
2020 & later	5.00%	2020 & later	5.00%

Dental Premium Trend: 5.00% for all years.

Medicare Part B Premium Trend: Trend for the 2012-13 fiscal year will be calculated based on the actual increase in Medicare B premium from 2012 to 2013, when it becomes available. 5.00% for years following the 2013 calendar year.

Administrative Expenses

No administrative expenses were valued separately from the claim costs.

Actuarial Value of Assets

Market value of assets less unrecognized returns. 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 seven-year period. In addition, the actuarial value of assets is further adjusted, if necessary, to stay within 40% of the market value of assets.

Actuarial Cost Method

Entry Age Normal Cost Method

Funding Policy

The plan sponsor of the City of Los Angeles Employees' Retirement System makes contributions equal to the normal cost adjusted by an amount to amortize any surplus or unfunded actuarial accrued liability. Both the normal cost and the actuarial accrued liability are determined under the Entry Age Normal cost method and are calculated on an individual basis. Entry age is calculated as age on the valuation date minus years of service.

Under the current funding policy, changes in the UAAL due to actuarial gains/losses are amortized over separate 15-year periods. Any changes in the UAAL due to assumption or method changes are amortized over separate 30-year periods. Plan changes, including the 2009 ERIP, are amortized over separate 15-year periods. Future ERIPs will be amortized over 5 years. Any actuarial surplus is amortized over 30 years. All the bases on or before June 30, 2012, except those arising from the 2009 ERIP, were combined and amortized over 30 years effective June 30, 2012.

In no event will the recommended contribution be less than the minimum Annual Required Contribution (ARC) as determined under GASB Statements No. 43 and No. 45.

Assumption Changes since Prior Valuation

The assumptions that changed from the previous valuation are as follows:

- Health care cost trend rates have been updated.
- Starting premium costs were revised to reflect updated data.
- Medical and dental carrier election assumptions were updated.

Summary of Plan Provisions

The following summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plans 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. The health subsidy is not payable to a disabled retiree before the member reaches age 55.

Medical Subsidy for Members Not Subject to Freeze

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, 2012, the maximum health subsidy was $1,190 per month, and will increase to $1,278.50 on January 1, 2013.

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

For retirees, a maximum health subsidy limited to the single-party monthly premium of the plan in which the member is enrolled, is provided subject to the following vesting schedule:

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

An additional amount is added for coverage of dependents which shall not exceed the amount provided a retiree not enrolled in Parts A and B and covered by the same medical plan and with the same years of service.

The combined member and dependent subsidy shall not exceed the actual premium.

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 dental subsidy. As of July 1, 2012, the maximum dental subsidy was $44.14 per month and will decrease to $43.47 on January 1, 2013.

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.

Surviving Spouse Subsidy (§4.1107 & §4.1107.1)

The surviving spouse or domestic partner will be entitled to a health subsidy (limited to the actual single-party premium) based on member’s years of service and the surviving dependent’s eligibility for Medicare.

Under Age 65 or Over Age 65 and Only Enrolled in Medicare Part B:

The maximum health subsidy available for survivors is the Kaiser single-party premium ($593.62 per month as of July 1, 2012, increasing to $637.67 on January 1, 2013) or the single-party premium of the plan in which the survivor is enrolled, whichever is less.

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

For survivors, a maximum health subsidy limited to the single-party monthly premium of the plan in which the survivor is enrolled, is provided subject to the following vesting schedule:

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

Summary of Plan Provisions (Continued)

Subsidy Freeze

As of the June 30, 2011 valuation, the retiree health benefits program was changed to freeze the medical subsidy for non-retired members who did not begin to contribute an additional 2% or 4% of employee contributions to the Pension Plan.

The frozen subsidy is different for Medicare and non-Medicare retirees.

The freeze applies to the medical subsidy limits at the 2011 calendar year level.

The freeze does not apply to the dental subsidy or the Medicare Part B premium reimbursement.

Statistical

Statistical Section

The Statistical Section of the System's Comprehensive Annual Financial Report provides additional historical trend information to assist the reader a more comprehensive understanding of current fiscal year's financial statements, note disclosures, and required supplementary information, which cover the System's Retirement Plan and the Postemployment Healthcare Plan. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how the System's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the System's revenues (additions), expenses (deductions), changes in plan net assets, benefit expenses by type, number of retirees by different types of benefits, and average monthly benefit payments.

The financial and operating trend information is as follows:

Schedule of Additions by Source - Retirement Plan

(Dollars in Thousands)

Fiscal Year	Member Contribution	Employer Contribution Dollars	Employer Contribution % of Annual Covered Payroll	Net Investment Income (Loss) *	Total
2003	$ 83,068	$ 70,923	3.8%	$ 220,326	$ 374,317
2004	93,418	120,057	6.9**	1,097,366	1,310,841
2005	94,268	175,947	10.7**	673,389	943,604
2006	98,262	244,283	14.2**	925,399	1,267,944
2007	106,234	293,160	16.9**	1,591,647	1,991,041
2008	114,678	302,810	16.5**	(550,386)	(132,898)
2009	118,592	288,516	15.0***	(1,800,906)	(1,393,798)
2010	126,961	266,240	14.2***	911,088	1,304,289
2011	114,731	306,737	18.1***	1,654,824	2,076,292
2012	178,246	308,712	18.0***	72,705	559,663

* Includes change in unrealized gain and loss of investment.
** Contributions received at the beginning of the fiscal year with discounted rate.
*** Contributions received on July 15th of the fiscal year with discounted rate.

Schedule of Deductions by Type - Retirement Plan

(In Thousands)

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Miscellaneous Expenses	Total
2003	$ 358,196	$ 14,679	$ 7,706	$ -	$ 380,581
2004	380,276	11,338	9,066	-	400,680
2005	405,456	10,679	9,303	-	425,438
2006	431,232	13,021	10,284	-	454,537
2007	457,847	17,452	9,501	-	484,800
2008	484,549	15,149	11,987	5,366*	517,051
2009	510,634	21,325	12,829	-	544,788
2010	569,938	27,971	14,204	-	612,113
2011	654,384	18,215	13,232	-	685,831
2012	664,626	11,100	12,995	-	688,721

* Transfer to Fire and Police Pension.

Schedule of Additions by Source - Postemployment Healthcare Plan

(Dollars in Thousands)

Fiscal Year	Employer Contribution Dollars	Employer Contribution % of Annual Covered Payroll	Miscellaneous Income	Net Investment Income (Loss) *	Total
2003	$ 26,608	2.0 %	$ -	$ 26,999	$ 53,607
2004	20,144	1.4 **	-	155,151	175,295
2005	53,190	3.6 **	-	91,412	144,602
2006	76,116	4.8 **	-	128,473	204,589
2007	115,233	7.0 **	-	231,613	346,846
2008	108,848	6.3 **	11,000***	(96,007)	23,841
2009	95,122	5.2 ****	-	(309,334)	(214,212)
2010	96,511	5.3 ****	-	155,745	252,256
2011	107,396	6.4 ****	-	295,324	402,720
2012	115,209	6.7 ****	-	10,314	125,523

* Includes change in unrealized gain and loss of investment.
** Contributions received at the beginning of the fiscal year with discounted rate.
*** Return of Excess Reserve.
**** Contributions received on July 15th of the fiscal year with discounted rate.

Schedule of Deductions by Type - Postemployment Healthcare Plan

(In Thousands)

Fiscal Year	Benefit Payments	Administrative Expenses	Miscellaneous Expenses	Total
2003	$ 50,784	$ 1,459	$ -	$ 52,243
2004	58,254	1,805	-	60,059
2005	63,756	1,693	-	65,449
2006	62,351	1,924	-	64,275
2007	65,090	1,856	-	66,946
2008	70,096	2,367	854*	73,317
2009	73,839	2,569	-	76,408
2010	83,196	2,859	-	86,055
2011	98,156	2,786	-	100,942
2012	91,437	2,931	-	94,368

* Transfer to Fire and Police Pension.

Changes in Plan Net Assets - Retirement Plan
Last Ten Fiscal Years

(In Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
City Contributions	$ 70,923	$ 120,057	$ 175,947	$ 244,283	$ 293,160	$ 302,810	$ 288,516	$ 266,240	$ 306,737	$ 308,712
Member Contributions	83,068	93,418	94,268	98,262	106,234	114,678	118,592	126,961	114,731	178,246
Net Investment Income (Loss)	220,326	1,097,366	673,389	925,399	1,591,647	(550,386)	(1,800,906)	911,088	1,654,824	72,705
Total Additions	374,317	1,310,841	943,604	1,267,944	1,991,041	(132,898)	(1,393,798)	1,304,289	2,076,292	559,663
Deductions										
Benefit Payments	358,196	380,276	405,456	431,232	457,847	484,549	510,634	569,938	654,384	664,626
Refunds of Contributions	14,679	11,338	10,679	13,021	17,452	15,149	21,325	27,971	18,215	11,100
Administrative Expenses	7,706	9,066	9,303	10,284	9,501	11,987	12,829	14,204	13,232	12,995
Miscellaneous Expenses	-	-	-	-	-	5,366*	-	-	-	-
Total Deductions	380,581	400,680	425,438	454,537	484,800	517,051	544,788	612,113	685,831	688,721
Changes in Plan Net Assets	$ (6,264)	$ 910,161	$ 518,166	$ 813,407	$1,506,241	$(649,949)	$(1,938,586)	$ 692,176	$1,390,461	$ (129,058)

* Transfer to Fire and Police Pension.

Changes in Plan Net Assets - Postemployment Healthcare Plan
Last Ten Fiscal Years

(In Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
City Contributions	$ 26,608	$ 20,144	$ 53,190	$ 76,116	$ 115,233	$ 108,848	$ 95,122	$ 96,511	$ 107,396	$ 115,209
Miscellaneous Income	-	-	-	-	-	11,000*	-	-	-	-
Net Investment Income (Loss)	26,999	155,151	91,412	128,473	231,613	(96,007)	(309,334)	155,745	295,324	10,314
Total Additions	53,607	175,295	144,602	204,589	346,846	23,841	(214,212)	252,256	402,720	125,523
Deductions										
Benefit Payments	50,784	58,254	63,756	62,351	65,090	70,096	73,839	83,196	98,156	91,437
Administrative Expenses	1,459	1,805	1,693	1,924	1,856	2,367	2,569	2,859	2,786	2,931
Miscellaneous Expenses	-	-	-	-	-	854**	-	-	-	-
Total Deductions	52,243	60,059	65,449	64,275	66,946	73,317	76,408	86,055	100,942	94,368
Changes in Plan Net Assets	$ 1,364	$ 115,236	$ 79,153	$ 140,314	$ 279,900	$ (49,476)	$ (290,620)	$ 166,201	$ 301,778	$ 31,155

* Return of Excess Reserve.
** Transfer to Fire and Police Pension.

Schedule of Benefit Expenses by Type - Retirement Plan

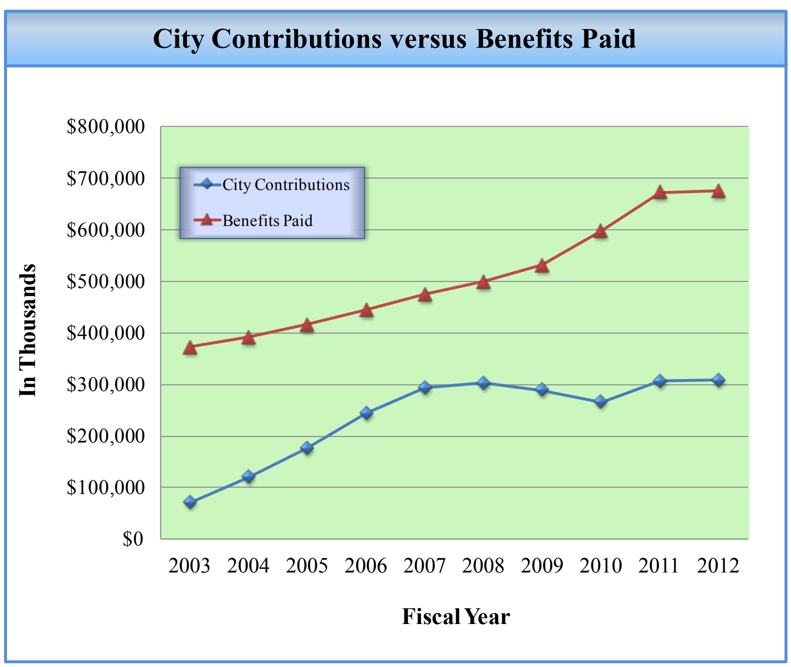
(In Thousands)

Type of Benefit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Age & Service Benefits:										
Retirants	$ 298,599	$ 318,135	$ 338,907	$ 360,515	$ 383,558	$ 406,891	$ 428,819	$ 483,295	$ 563,254	$ 570,633
Survivors	39,915	42,017	44,558	47,509	50,497	53,064	56,716	60,299	64,160	66,735
Death in Service Benefits	2,667	2,814	2,960	3,053	2,746	2,600	2,735	2,699	2,674	2,477
Disability Benefits:										
Retirants	11,999	12,003	13,355	14,173	14,856	15,390	15,462	16,268	16,544	16,720
Survivors	5,016	5,307	5,677	5,982	6,190	6,604	6,902	7,377	7,752	8,061
Sub-total	358,196	380,276	405,457	431,232	457,847	484,549	510,634	569,938	654,384	664,626
Refunds of Contributions:										
Separation	12,497	8,792	7,833	9,616	14,393	10,973	17,081	21,814	13,951	6,765
Death in Service	810	1,531	1,294	1,473	1,216	1,279	1,312	1,269	1,640	2,416
Unused Contributions	777	339	680	851	570	1,048	1,390	1,094	1,281	965
Miscellaneous	595	676	872	1,081	1,273	1,849	1,542	3,794	1,343	954
Sub-total	14,679	11,338	10,679	13,021	17,452	15,149	21,325	27,971	18,215	11,100
Total Benefits Paid	$ 372,875	$ 391,614	$ 416,136	$ 444,253	$ 475,299	$ 499,698	$ 531,959	$ 597,909	$ 672,599	$ 675,726

City Contributions versus Benefits Paid - Retirement Plan

(In Thousands)

Fiscal Year	City Contributions	Benefits Paid
2003	$ 70,923	$ 372,875
2004	120,057	391,614
2005	175,947	416,136
2006	244,283	444,253
2007	293,160	475,299
2008	302,810	499,698
2009	288,516	531,959
2010	266,240	597,909
2011	306,737	672,599
2012	308,712	675,726



Schedule of Benefit Expenses by Type - Postemployment Healthcare Plan

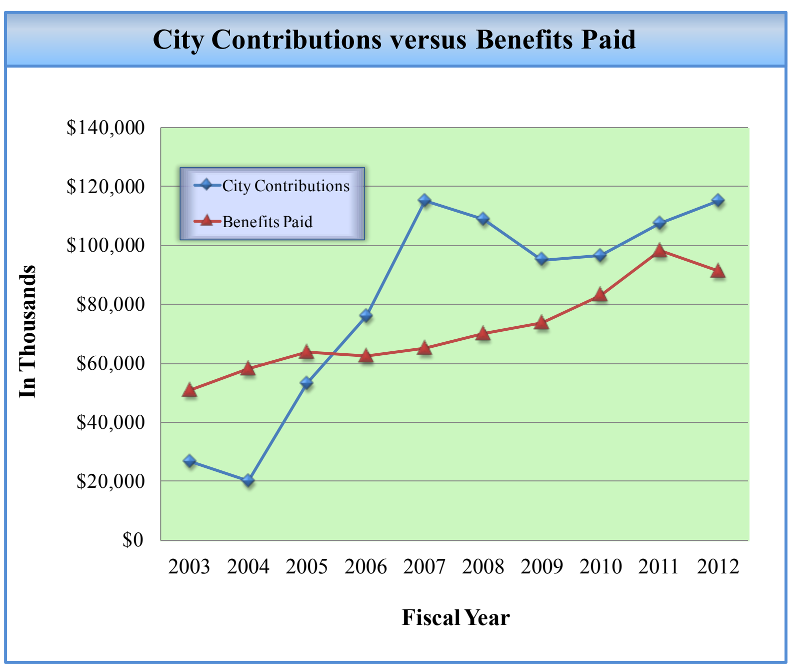
(In Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Type of Benefit										
Age & Service Benefits:										
Retirants	$ 42,335	$ 48,735	$ 53,291	$ 52,127	$ 54,529	$ 58,863	$ 62,009	$ 70,548	$ 84,487	$ 78,506
Survivors	5,659	6,436	7,006	6,869	7,179	7,676	8,201	8,802	9,624	9,181
Death in Service Benefits	379	378	431	465	441	390	376	396	394	341
Disability Benefits:										
Retirants	1,701	1,839	2,100	2,049	2,112	2,226	2,236	2,376	2,481	2,300
Survivors	711	813	893	865	880	955	997	1,077	1,163	1,109
Total Benefits Paid	$ 50,784	$ 58,254	$ 63,755	$ 62,351	$ 65,090	$ 70,096	$ 73,839	$ 83,196	$ 98,156	$ 91,437

City Contributions versus Benefits Paid - Postemployment Healthcare Plan

(In Thousands)

Fiscal Year	City Contributions	Benefits Paid
2003	$ 26,608	$ 50,784
2004	20,144	58,254
2005	53,190	63,755
2006	76,116	62,351
2007	115,233	65,090
2008	108,848	70,096
2009	95,122	73,839
2010	96,511	83,196
2011	107,396	98,156
2012	115,209	91,437



Schedule of Retired Members by Type of Benefits - Retirement Plan

Amount of Monthly Benefits	Number of Retirants *	Type of Benefits ** 1	2	3	4	5	6	7	8	9	10	11
$ 1 to $ 500	552	169	118	1	142	5	38	6	72	1	186	8
501 to 1,000	1,548	304	461	13	271	91	161	121	125	1	78	-
1,001 to 1,500	2,029	540	555	47	240	420	38	117	72	-	27	1
1,501 to 2,000	1,873	873	421	49	152	268	11	60	39	-	10	-
2,001 to 2,500	1,608	1,065	266	46	81	90	13	23	24	-	8	-
2,501 to 3,000	1,589	1,272	164	42	71	15	3	11	11	-	2	-
3,001 to 3,500	1,577	1,378	110	39	37	3	-	5	5	-	-	-
3,501 to 4,000	1,397	1,253	94	25	17	3	-	1	4	-	1	-
4,001 to 4,500	1,207	1,112	67	8	15	1	-	1	3	-	-	-
4,501 to 5,000	917	855	48	3	7	1	-	-	3	-	-	-
Over $5,000	2,927	2,757	121	23	25	-	-	-	1	-	-	-
Total	17,224	11,578	2,425	296	1,058	897	264	345	359	2	312	9

* Larger Annuity and Larger Annuity Continuance type of benefits are not included in counting the total number of retirants since both benefits are voluntary supplementary benefits to the retirants.

** Type of Benefits

1 - Service Retirement
2 - Service Continuance
3 - Service Survivorship
4 - Vested Right Retirement
5 - Disability Retirement
6 - Disability Continuance
7 - Disability Survivorship
8 - DRO Life Time Annuity
9 - DRO Term Annuity
10 - Larger Annuity
11 - Larger Annuity Continuance

Schedule of Retired Members by Type of Benefits - Postemployment Healthcare Plan

Amount of Monthly Benefits	Number of Retirants	Type of Benefits *** 1	2	3	4	5	6	7
Medical								
$ 0 to $ 200	880	534	125	26	56	86	27	26
201 to 400	3,611	2,480	814	68	120	71	26	32
401 to 600	4,536	3,711	469	69	163	84	13	27
601 to 800	1,000	932	-	-	45	23	-	-
801 to 1,000	1,575	1,463	-	-	95	17	-	-
1,001 to 1,190*	1,240	1,217	-	-	18	5	-	-
Total	12,842	10,337	1,408	163	497	286	66	85
Dental								
$ 0 to $ 10	2,121	418	1,159	139	91	168	60	86
11 to 20	2,247	2,110	-	-	90	47	-	-
21 to 30	732	550	-	-	102	80	-	-
31 to 44.14**	7,789	7,513	-	-	224	52	-	-
Total	12,889	10,591	1,159	139	507	347	60	86

* Maximum medical subsidy for plan year 2012.
** Maximum dental subsidy for plan year 2012.
*** Type of Benefits

1 - Service Retirement
2 - Service Continuance
3 - Service Survivorship
4 - Vested Right Retirement
5 - Disability Retirement
6 - Disability Continuance
7 - Disability Survivorship

Schedule of Average Benefit Payments - Retirement Plan

Retirement Effective Dates July 1, 2002 to June 30, 2012	Years Credited Service 0-10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 785	$ 1,206	$ 1,716	$ 2,461	$ 3,034	$ 4,179
Average Final Monthly Salary *	$ 3,245	$ 4,250	$ 4,608	$ 5,134	$ 5,120	$ 5,632
Number of Active Retirants	31	65	73	70	61	322
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 724	$ 1,525	$ 1,763	$ 2,629	$ 3,027	$ 4,348
Average Final Monthly Salary *	$ 4,224	$ 4,999	$ 4,800	$ 4,915	$ 5,263	$ 6,051
Number of Active Retirants	33	47	82	66	51	288
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 1,335	$ 1,639	$ 1,881	$ 2,673	$ 3,537	$ 4,734
Average Final Monthly Salary *	$ 5,790	$ 4,824	$ 5,116	$ 5,074	$ 6,082	$ 6,450
Number of Active Retirants	36	37	77	72	86	316
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 1,200	$ 1,338	$ 2,122	$ 2,468	$ 3,492	$ 4,828
Average Final Monthly Salary *	$ 3,798	$ 4,664	$ 5,422	$ 5,262	$ 5,937	$ 6,380
Number of Active Retirants	40	33	59	88	93	271
Period 7/1/05 to 6/30/07						
Average Monthly Benefit	$ 1,023	$ 1,301	$ 1,991	$ 2,633	$ 3,227	$ 4,997
Average Final Monthly Salary *	$ 3,702	$ 5,170	$ 5,223	$ 5,514	$ 5,515	$ 6,543
Number of Active Retirants	41	33	62	85	74	230
Period 7/1/07 to 6/30/08						
Average Monthly Benefit	$ 883	$ 1,191	$ 2,105	$ 3,246	$ 3,818	$ 5,127
Average Final Monthly Salary *	$ 3,846	$ 4,336	$ 5,139	$ 5,922	$ 6,482	$ 6,754
Number of Active Retirants	22	36	50	91	69	229
Period 7/1/08 to 6/30/09						
Average Monthly Benefit	$ 759	$ 1,626	$ 2,348	$ 3,109	$ 4,150	$ 5,513
Average Final Monthly Salary *	$ 4,561	$ 5,739	$ 5,820	$ 6,078	$ 6,241	$ 6,954
Number of Active Retirants	25	21	51	63	55	121
Period 7/1/09 to 6/30/10						
Average Monthly Benefit	$ 907	$ 1,964	$ 2,810	$ 3,911	$ 4,674	$ 5,818
Average Final Monthly Salary *	$ 3,755	$ 5,525	$ 6,030	$ 6,316	$ 6,514	$ 6,708
Number of Active Retirants	94	140	137	365	559	1,238
Period 7/1/10 to 6/30/11						
Average Monthly Benefit	$ 768	$ 1,414	$ 2,369	$ 3,146	$ 3,721	$ 5,920
Average Final Monthly Salary *	$ 5,266	$ 5,175	$ 6,141	$ 6,424	$ 6,409	$ 7,882
Number of Active Retirants **	51	42	27	55	42	37
Period 7/1/11 to 6/30/12						
Average Monthly Benefit	$ 784	$ 1,379	$ 2,362	$ 3,453	$ 4,008	$ 6,003
Average Final Monthly Salary *	$ 4,995	$ 5,052	$ 6,338	$ 7,165	$ 6,804	$ 8,238
Number of Active Retirants	46	37	30	70	43	48

* Average Final Monthly Salary = Average of last or highest 12 consecutive months' salary.
** Large increase primarily due to accelerated retirements stimulated by the City's Early Retirement Incentive Program (ERIP).

Schedule of Average Benefit Payments - Postemployment Healthcare Plan

Retirement Effective Dates July 1, 2002 to June 30, 2012	Years Credited Service				
	Under 10 yrs *	10-15 yrs	16-20 yrs	21-25 yrs	Over 25 yrs
Period 7/1/02 to 6/30/03					
Health Insurance					
Average Monthly Benefit	$ -	$ 279	$ 449	$ 498	$ 628
Number of Active Retirants	1	61	65	67	393
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 18	$ 23	$ 27
Number of Active Retirants	4	57	64	64	382
Period 7/1/03 to 6/30/04					
Health Insurance					
Average Monthly Benefit	$ -	$ 317	$ 413	$ 558	$ 600
Number of Active Retirants	3	50	86	76	340
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 19	$ 21	$ 28
Number of Active Retirants	3	48	81	71	337
Period 7/1/04 to 6/30/05					
Health Insurance					
Average Monthly Benefit	$ -	$ 333	$ 419	$ 490	$ 675
Number of Active Retirants	5	58	88	100	391
Dental Insurance					
Average Monthly Benefit	$ -	$ 14	$ 19	$ 22	$ 29
Number of Active Retirants	3	56	75	89	380
Period 7/1/05 to 6/30/06					
Health Insurance					
Average Monthly Benefit	$ -	$ 310	$ 471	$ 530	$ 656
Number of Active Retirants	-	51	84	90	372
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 18	$ 28	$ 28
Number of Active Retirants	4	46	76	82	363
Period 7/1/06 to 6/30/07					
Health Insurance					
Average Monthly Benefit	$ -	$ 297	$ 469	$ 562	$ 664
Number of Active Retirants	2	33	94	100	357
Dental Insurance					
Average Monthly Benefit	$ -	$ 13	$ 17	$ 25	$ 27
Number of Active Retirants	4	34	91	93	352
Period 7/1/06 to 6/30/08					
Health Insurance					
Average Monthly Benefit	$ -	$ 348	$ 425	$ 580	$ 646
Number of Active Retirants	3	33	60	86	327
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 20	$ 25	$ 28
Number of Active Retirants	2	32	50	85	315

Schedule of Average Benefit Payments - Postemployment Healthcare Plan (Continued)

Retirement Effective Dates July 1, 2002 to June 30, 2012	Years Credited Service				
	Under 10 yrs *	10-15 yrs	16-20 yrs	21-25 yrs	Over 25 yrs
Period 7/1/08 to 6/30/09					
Health Insurance					
Average Monthly Benefit	$ -	$ 354	$ 508	$ 613	$ 661
Number of Active Retirants	-	20	56	50	251
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 16	$ 20	$ 23
Number of Active Retirants	2	20	51	48	251
Period 7/1/09 to 6/30/10					
Health Insurance					
Average Monthly Benefit	$ -	$ 385	$ 562	$ 634	$ 786
Number of Active Retirants **	8	116	110	267	1,978
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 21	$ 26	$ 28
Number of Active Retirants **	11	120	102	261	1,987
Period 7/1/10 to 6/30/11					
Health Insurance					
Average Monthly Benefit	$ -	$ 465	$ 440	$ 688	$ 648
Number of Active Retirants	1	31	31	69	145
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 17	$ 22	$ 17
Number of Active Retirants	2	26	26	68	130
Period 7/1/11 to 6/30/12					
Health Insurance					
Average Monthly Benefit	$ -	$ 372	$ 581	$ 660	$ 642
Number of Active Retirants	-	34	27	84	136
Dental Insurance					
Average Monthly Benefit	$ -	$ 10	$ 17	$ 28	$ 25
Number of Active Retirants	4	25	24	75	131

* Healthcare benefits are not provided to retirants with services less than 10 years.
** Large increase primarily due to accelerated retirements stimulated by the City's Early Retirement Incentive Program (ERIP).