# LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
# A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

## ANNUAL FINANCIAL REPORT

## FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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# Report of Independent Auditors

Board of Administration
Los Angeles City Employees' Retirement System

## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the accompanying total columns of the retirement plan and the postemployment health care plan in the statements of fiduciary net position of Los Angeles City Employees' Retirement System (LACERS), a department of the Municipality of the City of Los Angeles, California, as of June 30, 2022, and the related total columns of the retirement plan and the postemployment health care plan in the statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective total columns of the fiduciary net position of the retirement plan and the postemployment health care plan of Los Angeles City Employees' Retirement System as of June 30, 2022, and the related total columns of the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinions*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LACERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Emphasis of Matters*

As discussed in Note 1, the financial statements of LACERS present the fiduciary net position and changes in fiduciary net position of the Municipality of the City of Los Angeles, California, that are attributable to the transactions of LACERS. The financial statements do not present fairly the financial position of the entire Municipality of the City of Los Angeles, California, as of June 30, 2022 and 2021, the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, LACERS adopted Government Accounting Standards Board Statement No. 87 *Leases* during the year ended June 30, 2022. Our opinions are not modified with respect to this matter.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LACERS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

### *Prior-Year Comparative Information*

We have previously audited LACER's 2021 financial statements, and we expressed unmodified opinions on the respective total columns of the retirement plan and the postemployment health care plan in our report dated December 1, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis; the retirement plan's schedule of net pension liability, schedule of changes in net pension liability and related ratios, schedule of contribution history, and schedule of investment returns; and the postemployment health care plan's schedule of net OPEB liability, schedule of changes in net OPEB liability and related ratios, schedule of contribution history, and schedule of investment returns (collectively, the required supplementary information) be presented to supplement the basic financial statements.

Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

### *Supplemental Schedules*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Los Angeles City Employees' Retirement System's basic financial statements. The schedule of administrative expenses and schedule of investment fees and expenses (collectively, the supplemental schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2022, on our consideration of Los Angeles City Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Los Angeles City Employees' Retirement System 's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Los Angeles City Employees' Retirement System's internal control over financial reporting and compliance.

Moss Adams LLP

El Segundo, California
December 5, 2022

# MANAGEMENT’S DISCUSSION AND ANALYSIS

# Management's Discussion and Analysis

## Financial Highlights

- The Los Angeles City Employees' Retirement System (LACERS or the System) fiduciary net position as of June 30, 2022 was $20,454,104,000, a decrease of $2,351,216,000 or 10.3% year-over-year.

- The total additions to the fiduciary net position of LACERS are from employer contributions made by the City of Los Angeles (the City), Member contributions, self-funded insurance premium, Members' portion of premium reserve, building lease and other income, and net investment income (loss). This fiscal year, net investment loss of $1,916,529,000 was incurred, representing a 136.2% decrease from prior fiscal year's investment income of $5,288,787,000. This resulted in a net decrease of $973,225,000 in fiduciary net position, a 115.6% decrease from the prior fiscal year's total additions of $6,218,960,000.

- The employer contributions to the Retirement Plan represented 100% of the Actuarially Determined Contribution of the employer as defined by the Governmental Accounting Standards Board (GASB) Statements No. 67*, Financial Reporting for Pension Plans,* and No. 68, *Accounting and Financial Reporting for Pensions.*

- The employer contributions to the Postemployment Health Care Plan represented 100% of the Actuarially Determined Contribution of the employer as defined by GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

- The total deductions from the fiduciary net position were $1,377,991,000, a 7.9% increase year-over-year, for the payment of retirement and postemployment health care benefits, refunds of Member contributions, and administrative expenses.

- The System's Net Pension Liability (NPL) for the Retirement Plan was $7,065,660,000 as of June 30, 2022. NPL, a measure required by GASB Statement No. 67 to disclose in the financial notes of a pension plan, is the difference between the Total Pension Liability (TPL) and the plan fiduciary net position. As the plan fiduciary net position is equal to the fair value of the plan's assets, NPL is determined on a fair value basis. Compared with the previous fiscal year, the NPL increased by $2,701,903,000.

- The System's Net Other Postemployment Benefits (OPEB) Plan Liability for the postemployment health care benefits was $232,925,000 as of June 30, 2022. Net OPEB Liability is a measure required by GASB Statement No. 74. Net OPEB Liability is determined on a fair value basis and is the difference between the Total OPEB Liability (TOL) and the plan fiduciary net position. As compared with the previous fiscal year, the Net OPEB Liability increased by $494,499,000.

- The plan fiduciary net position as a percentage of TPL for the Retirement Plan, another required disclosure of GASB Statement No. 67, was 70.7%, which is the same as the funded ratio on a fair value basis reported in the actuarial valuation for the retirement benefits.

- The plan fiduciary net position as a percentage of TOL for the Postemployment Health Care Plan, another required disclosure of GASB Statement No. 74, was 93.5%, which is the same as the funded ratio on a fair value basis reported in the actuarial valuation for the postemployment health care benefits.

# Management's Discussion and Analysis

## 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 on LACERS operations.

### Financial Statements

There are two financial statements presented by LACERS. The Statement of Fiduciary Net Position on page 14 gives a snapshot of the account balances at year-end and shows the amount of the fiduciary net position (the difference between the assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources) available to pay future benefits. Over time, increases or decreases in fiduciary net position may serve as a useful indicator of whether the fiduciary net position of LACERS is improving or deteriorating. The Statement of Changes in Fiduciary Net Position on page 15 provides a view of current year additions to, and deductions from, the fiduciary net position.

### Notes to the Basic Financial Statements

The notes to the basic financial statements (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 16 – 41 of this report.

### Required Supplementary Information

In addition to the Management's Discussion and Analysis, other required supplementary information consists of the Schedule of Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns (Losses) for the Retirement Plan, and the Schedule of Net OPEB (Asset) Liability, Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns (Losses) for the Postemployment Health Care Plan. These schedules and notes primarily present multi-year information as required by the applicable financial reporting standards of GASB Statements No. 67 and No. 74. This required supplementary information can be found on pages 42 - 53 of this report.

### Supplemental Schedules

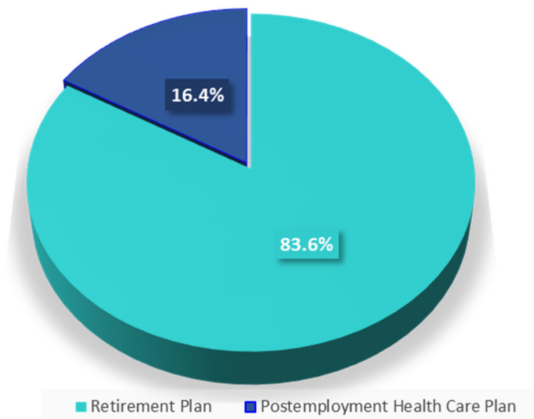
The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Fees and Expenses, are presented to provide additional financial information on LACERS operations for the current year. These can be found on pages 54 and 55 of this report.

## Financial Analysis

### Allocation of Fiduciary Net Position

Fiduciary net position may serve as a useful indicator of a plan's financial position. The total fiduciary net position is allocated between the Retirement Plan and Postemployment Health Care 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 Health Care Plan as of June 30, 2022 (dollars in thousands):

| | Fiduciary Net Position | Percent |
|---|---|---|
| Retirement Plan | $ 17,106,333 | 83.6% |
| Postemployment Health Care Plan | 3,347,771 | 16.4 |
| Fiduciary Net Position | $ 20,454,104 | 100.0% |




### Fiduciary Net Position

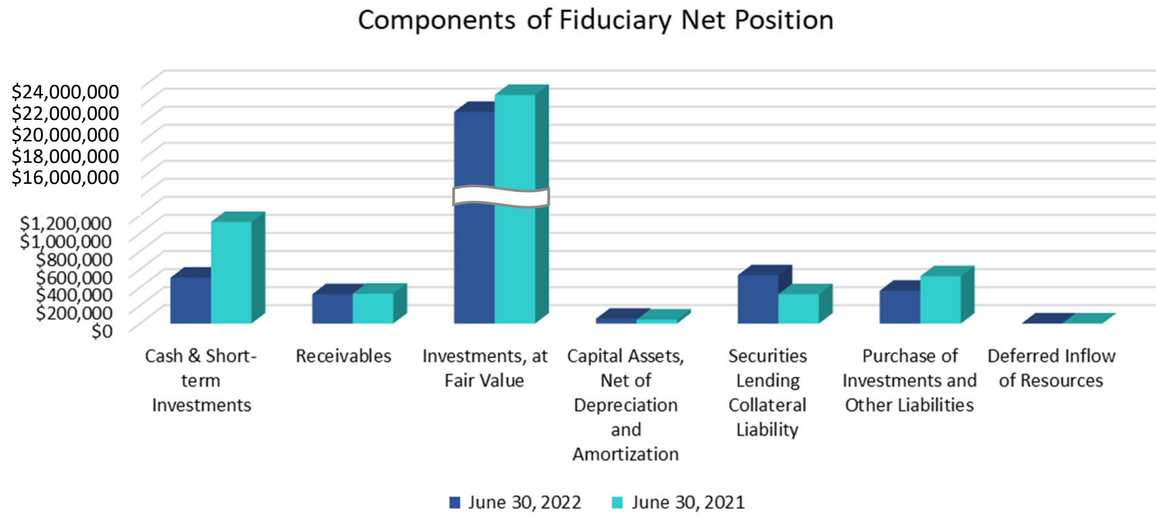
The following table and graph detail the components of the fiduciary net position of LACERS as of June 30, 2022 and 2021 (dollars in thousands):

| | June 30, 2022 | June 30, 2021[1] | Change | |
|---|---|---|---|---|
| Cash and Short-Term Investments | $ 428,387 | $ 1,075,484 | $ (647,097) | (60.2) % |
| Receivables | 225,716 | 231,340 | (5,624) | (2.4) |
| Investments, at Fair Value | 20,576,788 | 22,235,243 | (1,658,455) | (7.5) |
| Capital Assets, Net of Depreciation and Amortization | 53,305 | 44,475 | 8,830 | 19.9 |
| Total Assets | 21,284,196 | 23,586,542 | (2,302,346) | (9.8) |
| Securities Lending Collateral Liability | 515,988 | 275,940 | 240,048 | 87.0 |
| Purchase of Investments and Other Liabilities | 313,533 | 504,684 | (191,151) | (37.9) |
| Total Liabilities | 829,521 | 780,624 | 48,897 | 6.3 |
| Deferred Inflow of Resources | 571 | 598 | (27) | (4.5) |
| Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits | $ 20,454,104 | $ 22,805,320 | $ (2,351,216) | (10.3) % |

[1]Some amounts were restated due to the implementation of GASB Statement 87 *Leases,* effective in fiscal year ending June 30, 2022 (see Notes on page 19).

## Financial Analysis (Continued)

### Fiduciary Net Position (Continued)




The majority of LACERS fiduciary net position is contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, real estate, private equity and other asset classes. Fiduciary net position decreased by $2,351,216,000 or 10.3%, during this fiscal year.

### Net Increase (Decrease) in Fiduciary Net Position

The increase (decrease) in fiduciary net position during the reporting period was the net effect of factors that either added to or deducted from the fiduciary net position. The following table summarizes the changes in fiduciary net position during the report year, as compared with the prior year (dollars in thousands):

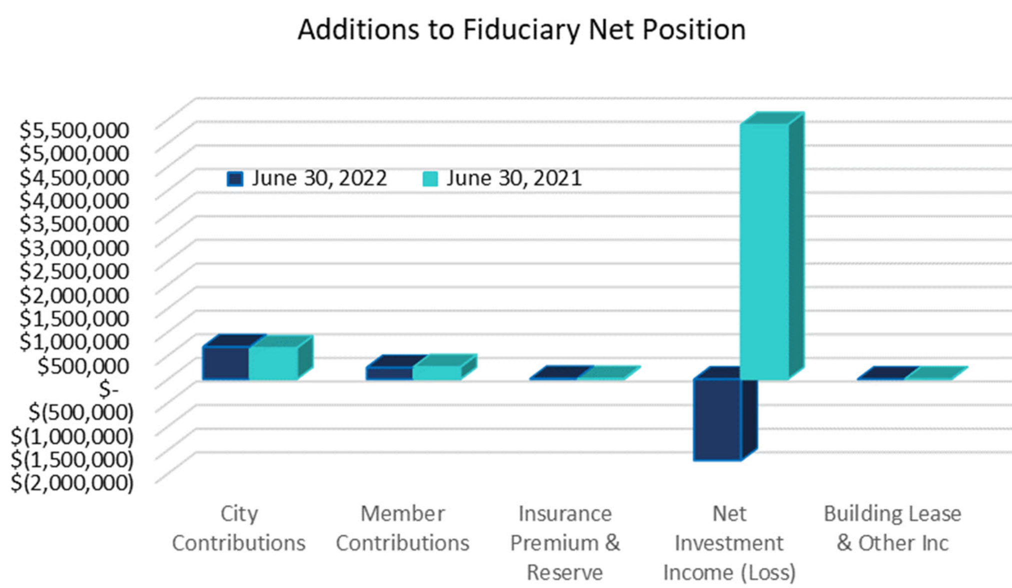
| | June 30, 2022 | June 30, 2021 | Change | |
|---|---|---|---|---|
| Additions | $ (973,225) | $ 6,218,960 | $ (7,192,185) | (115.6) % |
| Deductions | 1,377,991 | 1,276,944 | 101,047 | 7.9 |
| Net Increase (Decrease) in Fiduciary Net Position | (2,351,216) | 4,942,016 | (7,293,232) | (147.6) |
| Prior Period Adjustment | - | (20) | 20 | 100.0 |
| Fiduciary Net Position Beginning of Year | 22,805,320 | 17,863,324 | 4,941,996 | 27.7 |
| End of Year | $ 20,454,104 | $ 22,805,320 | $ (2,351,216) | (10.3) % |

## Financial Analysis (Continued)

### Net Increase (Decrease) in Fiduciary Net Position – Additions to Fiduciary Net Position

The following table and graph represent the components that make up the additions to fiduciary net position for LACERS for the fiscal years ended June 30, 2022 and 2021 (dollars in thousands):

| | June 30, 2022 | June 30, 2021 | Change |
|---|---|---|---|
| City Contributions | $ 682,928 | $ 658,408 | 3.7 % |
| Member Contributions | 245,879 | 259,285 | (5.2) |
| Health Insurance Premium and Reserve | 14,460 | 11,843 | 22.1 |
| Net Investment Income (Loss) | (1,916,529) | 5,288,787 | (136.2) |
| Building Lease & Other Income | 37 | 637 | (94.2) |
| Additions to Fiduciary Net Position | $ (973,225) | $ 6,218,960 | (115.6) % |




The additions to LACERS fiduciary net position that primarily constitute the funding sources of LACERS benefits are City Contributions, Member Contributions, Health Insurance Premium and Reserve, and Net Investment Income (Loss). This fiscal year, total additions resulted in a decrease or reduction of $973,225,000 in Fiduciary Net Position, primarily due to the net investment loss of $1,916,529,000, a 136.2% decrease from the prior year net investment income of $5,288,787,000. This will be discussed in more detail in the next section.

City contributions to the Retirement Plan, the Postemployment Health Care Plan, and the Family Death Benefit Plan were $682,928,000 during the fiscal year. The total contributions increased by $24,520,000 or 3.7% higher than the prior fiscal year, mainly due to the higher contribution rates, notwithstanding, a slightly lower payroll base (approximately 5.35% decrease in payroll) for the reporting year. The total City contributions include a $75,194,000 true-up credit adjustment, a reduction from the City's contribution payment, to reconcile the difference of the City's contributions based on projected payroll against actual payroll. This true-up amount, which includes accrued interest at 7.00%, was recognized as liability as of the end of the reporting period. After reflecting the true-up adjustment, the aggregate employer contribution rate for this fiscal year was 31.69% (27.44% for the Retirement Plan and 4.25% for the Postemployment Health Care Plan), which is 2.78% higher than the prior fiscal year at 28.91%. Actual contribution of $591,234,000 to the Retirement Plan was equal to 100% of the Actuarially Determined Contribution (ADC) of the employer, as defined by GASB Statement No. 67. Actual contribution of $91,623,000 to the Postemployment Health Care Plan was equal to 100% of the ADC, as defined by GASB Statement No. 74.

### Financial Analysis (Continued)

#### Net Increase (Decrease) in Fiduciary Net Position – Additions to Fiduciary Net Position (Continued)

In fiscal year 2021-22, Member contributions were $245,879,000, which was $13,406,000 or 5.2% lower than the prior fiscal year. The decrease in Member contributions was due primarily to the decrease in the number of Members (and corresponding salaries), fully realizing the result of the Separation Incentive Programs (SIP) implemented by the City and the Los Angeles World Airports (LAWA) completed in the prior fiscal year as well as SIP implemented by the Harbor department completed during the current fiscal year.

LACERS Postemployment Health Care 115 Trust fund recognized revenue of $13,280,000 representing monthly dental insurance premium under the Delta Dental PPO and Anthem Vision self-funded plan and $1,180,000 of Member's portion from health insurance premium reserve.

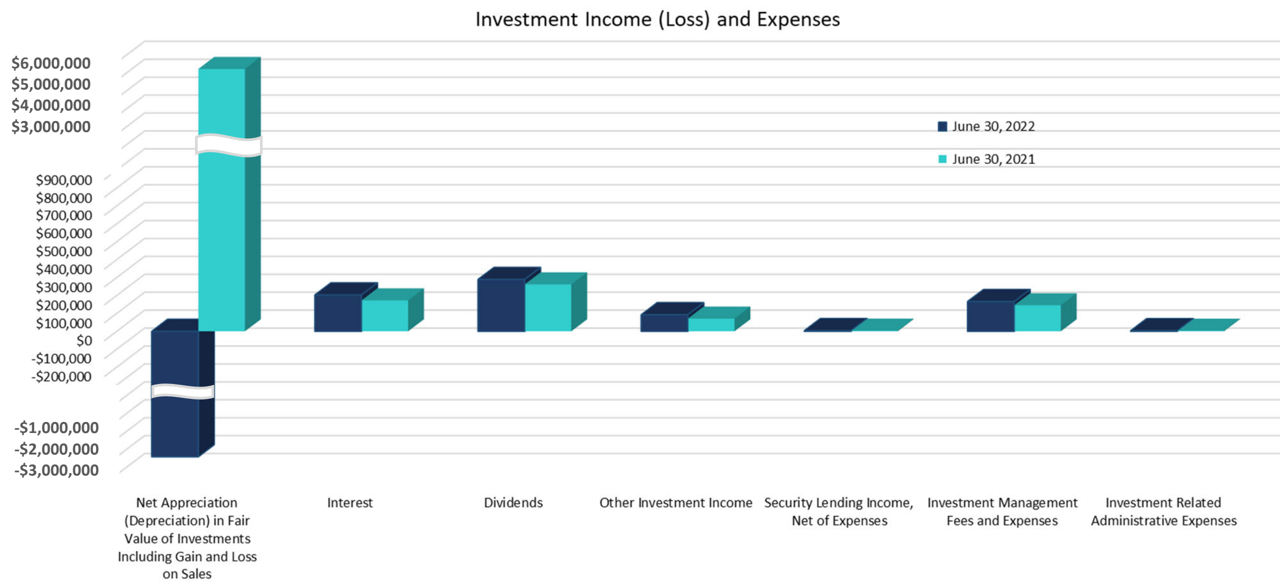
The net investment loss of $1,916,529,000 was mainly due to the $2,245,698,000 net depreciation in the fair value of investments, which will be discussed in the next section.

#### Investment Income (Loss)

The following table and graph present the detail of investment income (loss), net of investment management fees and expenses for the fiscal years ended June 30, 2022 and 2021 (dollars in thousands)

| | June 30, 2022 | June 30, 2021 | Change |
|---|---|---|---|
| Net Appreciation (Depreciation) in Fair Value of Investments, Including Gain and Loss on Sales | $ (2,245,698) | $ 5,013,637 | (144.8) % |
| Interest | 152,971 | 122,453 | 24.9 |
| Dividends | 229,455 | 201,809 | 13.7 |
| Other Investment Income | 72,597 | 50,802 | 42.9 |
| Securities Lending Income, Net of Expense | 3,891 | 3,566 | 9.1 |
| Sub-Total | (1,786,784) | 5,392,267 | (133.1) |
| Less: Investment Management Fees and Expenses | (126,174) | (100,225) | 25.9 |
| Investment Related Administrative Expenses | (3,571) | (3,255) | 9.7 |
| Net Investment Income (Loss) | $ (1,916,529) | $ 5,288,787 | (136.2) % |

### Investment Income (Loss) (Continued)




The net investment loss for the current fiscal year was $1,916,529,000, as compared with the income of $5,288,787,000 for the previous fiscal year. This decrease was due primarily to a net depreciation in the fair value of investments of $2,245,698,000, compared with the previous fiscal year's increase of $5,013,637,000. This decrease in the fair value of investments is attributed to a decline in the public equity markets following robust returns in the previous fiscal year and increasing interest rates due to mounting inflationary pressures. The Russell 3000 Index, which tracks U.S. broad market equities, returned -13.9% compared with 44.2% for the previous year. The MSCI All Country World ex-U.S. Index, which tracks non-U.S. equities in developed and emerging markets, returned -19.4% compared with 35.7% for the previous year. Fixed income markets, as represented by the Bloomberg U.S. Aggregate Bond Index, experienced a drop in performance during the current fiscal year, returning -10.3% compared with -0.3% for the previous year.

Interest income derived from fixed income securities increased by 24.9%, or $30,518,000. The average coupon rate of LACERS' fixed income portfolio increased as the Federal Reserve took action to address inflation by increasing the fed funds rate. Dividend income derived from public equities increased by 13.7% or $27,646,000 as some public companies resumed dividends that had been suspended during the COVID-19 pandemic.

Other investment income, primarily derived from private equity and private real estate partnership investments, increased by 42.9%, or $21,795,000 as private equity managers made distributions in the process of winding down mature funds.

LACERS earns additional investment income by lending its securities to borrowers through its custodian bank. To earn income for LACERS, the custodian bank invests cash collateral pledged by borrowers on behalf of LACERS in short-term fixed income securities. LACERS also generates income from fees paid by borrowers that pledge non-cash collateral. In the current fiscal year, securities lending income (net of expense) increased by 9.1%, or $325,000 from a year ago.

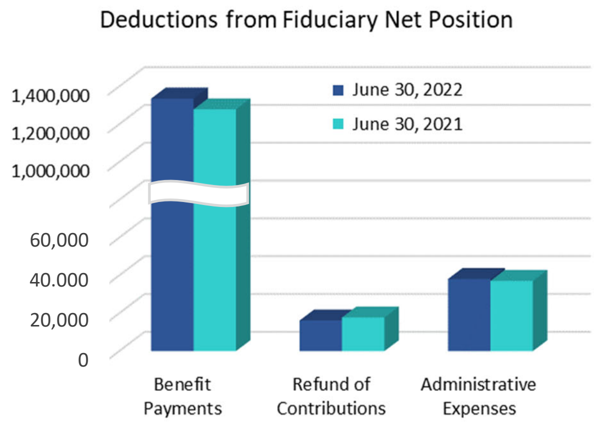
Total investment management fees, expenses, and investment related administrative expenses increased by 25.4% or $26,265,000, from the prior year. This increase corresponded with an increase in LACERS' exposure to private equity and private real estate, which is consistent with LACERS' current target asset allocation and strategic plan to increase returns.

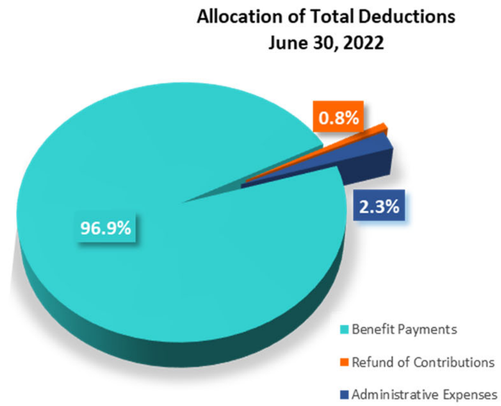
### Financial Analysis (Continued)

#### Net Increase (Decrease) in Fiduciary Net Position – Deductions from Fiduciary Net Position

The following table and graphs provide information related to the deductions from fiduciary net position for the fiscal years ended June 30, 2022 and 2021 (dollars in thousands):

| | June 30, 2022 | June 30, 2021 | Change |
|---|---|---|---|
| Benefit Payments | $ 1,335,124 | $ 1,228,276 | 8.7% |
| Refunds of Contributions | 11,630 | 17,584 | (33.9) |
| Administrative Expenses | 31,237 | 31,084 | 0.5 |
| Deductions from Fiduciary Net Position | $ 1,377,991 | $ 1,276,944 | 7.9% |




LACERS' deductions from fiduciary net position in this reporting period can be summarized as Benefit 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 increased by $101,047,000 or 7.9% from the prior fiscal year.

Compared to the prior fiscal year, benefit payments increased by $106,848,000 or 8.7%. The benefit payments for the Retirement Plan increased by $96,089,000 or 9.0% mainly due to the annual cost of living adjustments (COLA) (approximately 3.0% increase on average); full year impact of the City and LAWA SIP completed during the prior year fiscal year and Harbor SIP that was completed in the current fiscal year which significantly increased the number of retirees and beneficiaries; and higher average retirement allowance of newly retired Members as compared to those of the deceased Members who were removed from the retirement payroll. Payments for Postemployment Health Care Plan benefits increased by $10,759,000 or 6.7%. This increase was mainly due to the increase in healthcare cost due to the significant increase in number of retirees and their dependents eligible for medical subsidy, mainly due to SIP; higher medical subsidy rates effective January 1, 2022; increased reimbursement of Medicare Part B premium mainly due to medical premium reimbursement rates increased; as well as significant increase in dental benefit claims paid for the Self-Funded Plan.

The Refunds of Member contributions decreased by $5,954,000 or 33.9% from the prior fiscal year's $17,584,000, mainly due to higher survivor contributions refunds resulted from SIP retirements in the prior fiscal year as compared to the current fiscal year and decrease in contribution refunds upon Members leaving the City service in the reporting year.

## Financial Analysis (Continued)

### Net Increase (Decrease) in Fiduciary Net Position – Deductions from Fiduciary Net Position (Continued)

LACERS' administrative expenses slightly increased by $153,000 or 0.5% from the prior fiscal year. Decreases in salary and overtime cost were offset to some degree by the increased employee benefit resulted from the increase in retirement contributions; IT related expenses were lower this year compared to last year when telecommuting and SIP related equipment purchases were made. While professional services and contractual fees slightly increased this fiscal year for legal, audit, actuarial, retired health consulting services as well the self-funded insurance administrative fee and fiduciary insurance expense.

### Requests for Information

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

LACERS
Fiscal Management Division
PO Box 512218
Los Angeles, CA 90051-0218

# BASIC FINANCIAL STATEMENTS

# Statement of Fiduciary Net Position
## Retirement Plan and Postemployment Health Care Plan
## As of June 30, 2022, with Comparative Totals
### (In Thousands)

| | Retirement Plan | | | Postemployment Health Care Plan | | | TOTAL FUND | |
|---|---|---|---|---|---|---|---|---|
| | Pension | FDBP & LA | Total | 401(h) | 115 Trust | Total | 2022 | 2021 |
| **Assets** | | | | | | | | |
| Cash and Short-Term Investments | $ 356,319 | $ 1,953 | $ 358,272 | $ 62,352 | $ 7,763 | $ 70,115 | $ 428,387 | $ 1,075,484 |
| Receivables | | | | | | | | |
| Accrued Investment Income | 66,279 | 363 | 66,642 | 11,598 | 1,444 | 13,042 | 79,684 | 70,733 |
| Proceeds from Sales of Investments | 112,430 | 616 | 113,046 | 19,673 | 2,450 | 22,123 | 135,169 | 150,900 |
| Other | 9,035 | 50 | 9,085 | 519 | 1,259 | 1,778 | 10,863 | 9,707 |
| Total Receivables | 187,744 | 1,029 | 188,773 | 31,790 | 5,153 | 36,943 | 225,716 | 231,340 |
| Investments, at Fair Value | | | | | | | | |
| US Government Obligations | 1,554,894 | 8,522 | 1,563,416 | 272,088 | 33,878 | 305,966 | 1,869,382 | 2,155,811 |
| Municipal Bonds | 12,397 | 68 | 12,465 | 2,169 | 270 | 2,439 | 14,904 | 12,075 |
| Domestic Corporate Bonds | 762,921 | 4,181 | 767,102 | 133,502 | 16,623 | 150,125 | 917,227 | 1,026,969 |
| International Bonds | 801,218 | 4,391 | 805,609 | 140,204 | 17,457 | 157,661 | 963,270 | 1,165,195 |
| Other Fixed Income | 663,933 | 3,639 | 667,572 | 116,180 | 14,466 | 130,646 | 798,218 | 1,104,497 |
| Bank Loans | 73,170 | 401 | 73,571 | 12,804 | 1,594 | 14,398 | 87,969 | 87,541 |
| Opportunistic Debts | 296,821 | 1,627 | 298,448 | 51,941 | 6,467 | 58,408 | 356,856 | 254,091 |
| Domestic Stocks | 4,336,885 | 23,769 | 4,360,654 | 758,903 | 94,493 | 853,396 | 5,214,050 | 6,077,976 |
| International Stocks | 3,566,718 | 19,548 | 3,586,266 | 624,133 | 77,712 | 701,845 | 4,288,111 | 5,423,627 |
| Mortgages | 480,410 | 2,633 | 483,043 | 84,066 | 10,467 | 94,533 | 577,576 | 451,539 |
| Government Agencies | 9,410 | 51 | 9,461 | 1,647 | 205 | 1,852 | 11,313 | 902 |
| Derivative Instruments | (1,041) | (6) | (1,047) | (182) | (23) | (205) | (1,252) | 2,942 |
| Real Estate | 965,833 | 5,293 | 971,126 | 169,009 | 21,044 | 190,053 | 1,161,179 | 899,656 |
| Private Equity | 3,162,384 | 17,332 | 3,179,716 | 553,379 | 68,902 | 622,281 | 3,801,997 | 3,296,482 |
| Security Lending Collateral | 429,183 | 2,352 | 431,535 | 75,102 | 9,351 | 84,453 | 515,988 | 275,940 |
| Total Investments | 17,115,136 | 93,801 | 17,208,937 | 2,994,945 | 372,906 | 3,367,851 | 20,576,788 | 22,235,243 |
| Capital Assets | | | | | | | | |
| Land | 3,346 | 18 | 3,364 | 586 | 73 | 659 | 4,023 | 4,023 |
| Building | 33,746 | 185 | 33,931 | 5,905 | 735 | 6,640 | 40,571 | 30,741 |
| Furniture, Computer Hardware & Software (Net of Depreciation and Amortization) | 7,246 | 40 | 7,286 | 1,267 | 158 | 1,425 | 8,711 | 9,711 |
| Total Capital Assets | 44,338 | 243 | 44,581 | 7,758 | 966 | 8,724 | 53,305 | 44,475 |
| **Total Assets** | **17,703,537** | **97,026** | **17,800,563** | **3,096,845** | **386,788** | **3,483,633** | **21,284,196** | **23,586,542** |
| **Liabilities** | | | | | | | | |
| Accounts Payable and Accrued Expenses | (73,893) | (405) | (74,298) | (2,061) | (12,479) | (14,540) | (88,838) | (59,315) |
| Accrued Investment Expense | (16,621) | (91) | (16,712) | (2,908) | (362) | (3,270) | (19,982) | (13,765) |
| Purchases of Investments | (170,274) | (933) | (171,207) | (29,796) | (3,710) | (33,506) | (204,713) | (431,604) |
| Security Lending Collateral | (429,183) | (2,352) | (431,535) | (75,102) | (9,351) | (84,453) | (515,988) | (275,940) |
| **Total Liabilities** | **(689,971)** | **(3,781)** | **(693,752)** | **(109,867)** | **(25,902)** | **(135,769)** | **(829,521)** | **(780,624)** |
| **Deferred Inflow of Resources** | **(475)** | **(3)** | **(478)** | **(83)** | **(10)** | **(93)** | **(571)** | **(598)** |
| **Net Position Restricted For Pensions** | 17,013,091 | 93,242 | 17,106,333 | | | | **17,106,333** | 19,023,672 |
| **Net Position Restricted For Postemployment Health Care Benefits** | | | | 2,986,895 | 360,876 | 3,347,771 | **3,347,771** | 3,781,648 |
| **Total Fiduciary Net Position** | **$ 17,013,091** | **$ 93,242** | **$ 17,106,333** | **$ 2,986,895** | **$360,876** | **$ 3,347,771** | **$ 20,454,104** | **$ 22,805,320** |

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

# Statement of Changes in Fiduciary Net Position
# Retirement Plan and Postemployment Health Care Plan
# For the Fiscal Year Ended June 30, 2022, with Comparative Totals
# (In Thousands)

| | Retirement Plan | | | Postemployment Health Care Plan | | | TOTAL FUND | |
|---|---|---|---|---|---|---|---|---|
| | Pension | FDB & LA | Total | 401(h) | 115 Trust | Total | 2022 | 2021 |
| **Additions** | | | | | | | | |
| Contributions | | | | | | | | |
| City Contributions | $ 591,234 | $ 71 | $ 591,305 | $ - | $ 91,623 | $ 91,623 | $ 682,928 | $ 658,408 |
| Member Contributions | 241,876 | 4,003 | 245,879 | - | - | - | 245,879 | 259,285 |
| Total Contributions | 833,110 | 4,074 | 837,184 | - | 91,623 | 91,623 | 928,807 | 917,693 |
| Self Funded Insurance Premium | - | - | - | - | 13,280 | 13,280 | 13,280 | 10,924 |
| Health Insurance Premium Reserve | - | - | - | - | 1,180 | 1,180 | 1,180 | 919 |
| Investment Income (Loss) | | | | | | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments, Including Gain and Loss on Sales | (1,817,911) | (10,528) | (1,828,439) | (372,922) | (44,337) | (417,259) | (2,245,698) | 5,013,637 |
| Interest | 125,845 | 437 | 126,282 | 23,853 | 2,836 | 26,689 | 152,971 | 122,453 |
| Dividends | 188,767 | 655 | 189,422 | 35,779 | 4,254 | 40,033 | 229,455 | 201,809 |
| Other Investment Income | 59,724 | 207 | 59,931 | 11,320 | 1,346 | 12,666 | 72,597 | 50,802 |
| Security Lending Income | 3,766 | 13 | 3,779 | 713 | 85 | 798 | 4,577 | 4,194 |
| Less: Security Lending Expense | (555) | (3) | (558) | (114) | (14) | (128) | (686) | (628) |
| Sub-total | (1,440,364) | (9,219) | (1,449,583) | (301,371) | (35,830) | (337,201) | (1,786,784) | 5,392,267 |
| Less: Investment Management Fees and Expenses | (102,139) | (592) | (102,731) | (20,952) | (2,491) | (23,443) | (126,174) | (100,225) |
| Investment Related Administrative Expenses | (2,891) | (17) | (2,908) | (593) | (70) | (663) | (3,571) | (3,255) |
| Net Investment Income (Loss) | (1,545,394) | (9,828) | (1,555,222) | (322,916) | (38,391) | (361,307) | (1,916,529) | 5,288,787 |
| Building Lease and Other Income | 30 | - | 30 | 6 | 1 | 7 | 37 | 637 |
| **Total Additions** | **(712,254)** | **(5,754)** | **(718,008)** | **(322,910)** | **67,693** | **(255,217)** | **(973,225)** | **6,218,960** |
| **Deductions** | | | | | | | | |
| Benefit Payments | (1,157,297) | (6,122) | (1,163,419) | (161,628) | (10,077) | (171,705) | (1,335,124) | (1,228,276) |
| Refunds of Contributions | (11,336) | (294) | (11,630) | - | - | - | (11,630) | (17,584) |
| Administrative Expenses | (24,142) | (140) | (24,282) | (5,434) | (1,521) | (6,955) | (31,237) | (31,084) |
| **Total Deductions** | **(1,192,775)** | **(6,556)** | **(1,199,331)** | **(167,062)** | **(11,598)** | **(178,660)** | **(1,377,991)** | **(1,276,944)** |
| **Net Increase (Decrease) in Fiduciary Net Position** | (1,905,029) | (12,310) | (1,917,339) | (489,972) | 56,095 | (433,877) | (2,351,216) | 4,942,016 |
| Prior Period Adjustments | (16) | | (16) | (3) | (1) | (4) | - | (20) |
| **Fiduciary Net Position Restricted for Pension and Postemployment Health Care Benefits** | | | | | | | | |
| **Beginning of year** | 18,918,136 | 105,552 | 19,023,688 | 3,476,870 | 304,782 | 3,781,652 | 22,805,320 | 17,863,324 |
| **End of year** | **$17,013,091** | **$ 93,242** | **$17,106,333** | **$2,986,895** | **$360,876** | **$3,347,771** | **$20,454,104** | **$22,805,320** |

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

## 1. Description of LACERS and Significant Accounting Policies

### General Description

The Los Angeles City Employees' Retirement System (LACERS or the System) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. The Board has seven members. Four members, one of whom shall be a retired Member of the System, shall be appointed by the Mayor subject to the approval of the City Council. Two members shall be active employee Members of the System elected by active employee Members. One shall be a retired Member of the System elected by retired Members of the System. Elected Board members serve five-year terms in office, with no term limits. The System is a component unit of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles Annual Comprehensive Financial Report as a pension trust fund.

The System operates a single-employer defined benefit plan (the Retirement Plan) and a single-employer Postemployment Health Care Plan. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor. A description of each plan is located in Note 2 and Note 3 on pages 21 - 31 of this report. All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

### Basis of Accounting and Presentation

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP) as outlined by the Governmental Accounting Standards Board (GASB). 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. The accompanying financial statements include information from the prior year summarized for comparative purpose only. Such information does not include sufficient detail to constitute a presentation in accordance with US GAAP.

### Investments

#### Investment policies

Funds of the System are invested pursuant to the System's investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private credit, private equity, and short-term investments. During the reporting period, there were no significant investment policy changes.

As of June 30, 2022, the Board's target asset allocation policy was as follows:

| Asset Class | Target Allocation |
|---|---|
| Domestic and International Equities | 47.00% |
| Domestic and International Bonds | 11.25 |
| Private Equity | 16.00 |
| Real Assets | 12.00 |
| Short-Term Investments | 1.00 |
| Credit Opportunities | 12.75 |
| Total | 100.00% |

#### Fair Value of 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 private equities 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 private equity funds ("partnership investment"), which are managed by third party investment managers, are valued on a quarterly and/or annual basis at their net asset value as reported by the investment managers under US GAAP. US GAAP requires that assets be reported at fair value in accordance with GASB Statement No. 72 – *Fair Value Measurement and Application.* The fair values of derivative instruments are determined using available market information.

## 1. Description of LACERS and Significant Accounting Policies (Continued)

### Investments (Continued)

#### Fair Value of Investments (Continued)

Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. LACERS investment strategy, as it relates to the debt portfolio, is mainly to achieve market appreciation and not to hold bonds to their maturities.

The provisions of the GASB Statement No. 72, *Fair Value Measurement and Application*, require investments to be measured at fair value as well as to classify the inputs used to determine fair value based on a three-level fair value hierarchy.

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 Fiduciary Net Position under Receivables and labeled as Proceeds from Sales of Investments and amounts payable for purchases are reported under Liabilities and labeled as Purchases of Investments. Dividend income is recorded on the ex-dividend date. Interest income is reported at the stated interest rate as earned, and any premiums or discounts on debt securities are not amortized. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of LACERS pension plan investment. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

For the future contracts, an initial margin is required to open a position and maintain the collateral requirement until the position is closed. LACERS reports the collateral for the future contracts in the short-term investments.

#### Concentrations

The investment portfolio as of June 30, 2022, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

#### Rate of Return on Investments

For the fiscal year ended June 30, 2022, the aggregate annual money-weighted rate of return for the Retirement Plan and the Postemployment Health Care Plan on LACERS investments, net of investment expenses, was -8.34%. The money-weighted rate of return is a measure of the performance of an investment calculated by finding the rate of return that will set the present values of all cash flows equal to the value of the initial investment. It expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. Separate schedules for the money-weighted rate of return for Retirement Plan and Postemployment Health Care Plan are presented in the Required Supplementary Information (RSI).

### Receivables

As of June 30, 2022, LACERS held no long-term contracts for contributions receivable from the City.

### Capital Assets

Purchases of capital assets are capitalized upon acquisition if the cost of purchase was $5,000 or more and depreciated over five years using the straight-line method.

Certain costs to develop LACERS Pension Administration System (PAS), a customized software solution critical to LACERS core operations was capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The total capitalized cost of $9,413,000 is being amortized starting March 1, 2018, over 15 years using the straight-line method.

On October 9, 2019, LACERS Board approved the purchase of a commercial office building and underground parking structure located at 977 N. Broadway in Los Angeles, California to serve as LACERS future headquarters building. The purchase was settled at $33,750,000 on October 23, 2019. The purchase price was allocated to Land valued at $4,023,000 and Building valued at $29,727,000, based on the assessment performed on the fair value of acquired assets. Acquisition costs of $236,000 were also capitalized as part of the building cost.

## 1. Description of LACERS and Significant Accounting Policies (Continued)

### Capital Assets (Continued)

In addition, as of June 30, 2022, LACERS has capitalized $10,608,000 of subsequent building improvements, of which $9,830,000 were incurred during the fiscal year. Major capital improvements are still in progress to prepare the building for occupancy. The project has been impacted by the ongoing supply-chain delays for construction materials and supplies. Once the building is put into use, the System will begin to record depreciation expense of the headquarter.

LACERS recognizes intangible right-to-use lease assets in accordance with GASB 87, using the rates implicit in the lease agreements to calculate the present value of lease payments. The System includes lease extensions in the lease term if, after considering relevant economic factors, it is reasonably certain to be exercised. LACERS has not recognized lease assets for lease with terms of 12 months or less.

### Administrative Expenses

All administrative expenses are funded from LACERS fiduciary net position, which represents accumulated investment earnings and contributions from the City and the Members net of payments.

### Reserves

As provided in the Los Angeles City Charter, LACERS 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 the Retirement Plan

Member Contributions (Mandatory) – To provide for individual accounts of Members consisting of Active Member mandatory contributions to the Retirement Plan and interest credited to Members accounts, less refunds of Members contributions and transfers to the Annuity reserve.

Member Contributions (Voluntary) – To provide for individual accounts of Members participating in the larger annuity program of Active Member voluntary contributions and interest/investment return credited to Members' accounts, less refunds of Member contributions (voluntary) and transfers to the Larger Annuity reserve.

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

Annuity – To provide for the Members' share of retirement benefits consisting of Members' mandatory contribution balances transferred at retirement; investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments; less payments to retired Members and beneficiaries.

Larger Annuity – To provide for the Larger Annuity benefit consisting of Members' voluntary contribution balances transferred at retirement including Internal Revenue Service (IRS) Section 457 deferred compensation and other rollovers; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to participating retired Members and beneficiaries, and allocated investment and administrative expenses.

Family Death Benefit Plan (FDBP) – To pay benefits under the Family Death Benefit Plan administered by LACERS consisting of Active Member voluntary contributions; matching City of Los Angeles contributions; and investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to beneficiaries and allocated investment and administrative expenses.

Reserves for the Postemployment Health Care Plan

401(h) Account- To provide health care benefits for retirees consisting of City contributions received until fiscal year 2019; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to insurance providers, including payment to the 115 Trust fund for the self-funded insurance premium and Members' portion of insurance premium reserve.

## 1. Description of LACERS and Significant Accounting Policies (Continued)

### Reserves (Continued)

115 Trust Account – This Health Care fund is currently limited to pay the benefit claims from LACERS self-funded insurance plans, but ultimately will fund all health care benefits for retirees upon depletion of the existing 401(h) account reserve. The 115 Trust account currently consists of City Contributions received starting fiscal year 2020, self-funded insurance plan premiums and prepayments; certain retired Members' health insurance premium deductions; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments of the self-funded insurance plan claims and related third party administration fees; and certain direct and allocated administrative expenses.

Reserve balances as of June 30, 2022, were as follows (in thousands):

| | | |
|---|---|---|
| Reserve for the Retirement Plan | | |
| Member Contributions | | |
| Mandatory | 2,597,602 | |
| Voluntary | 8,289 | |
| Basic Pensions | 13,603,010 | |
| Annuity | 812,479 | |
| Larger Annuity | 67,030 | |
| FDBP | 17,923 | 17,106,333 |
| Reserve for the Postemployment Health Care Plan | | |
| 401(h) Account | 2,986,895 | |
| 115 Trust Account | 360,876 | 3,347,771 |
| **Total** | | **$ 20,454,104** |

### Estimates

The preparation of the financial statements in conformity with US GAAP 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. Changes in economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ from those estimates materially.

### Comparative Totals

The basic financial statements include certain prior year summarized comparative data in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with LACERS' financial statements for the year ended June 30, 2021, from which the summarized data were derived.

### Restatement of financial statements for Fiscal Year ended June 30, 2021

LACERS implemented GASB Statement No. 87 related to lease accounting (for leases previously recorded as operating leases) effective for fiscal year ended June 30, 2022. However, since the System presents two-year comparative financial statements, LACERS restated fiscal year ended June 30, 2021 financial statements. Lease transactions for two affected leases previously recorded during fiscal year ending June 30, 2021 were reversed and restated as they would have been recorded under GASB 87. The restatements resulted in a total of $20,000 decrease in the balance of LACERS Fiduciary Net Position, as of June 30, 2021.

### Risk and Uncertainty That May Impact Financial Operations and Performance

The global economic activity and financial markets continue to be impacted by global supply-chain disruptions and a surge in inflation. These issues have resulted in increased financial market volatility and performance. It is currently unclear how measures being taken to address inflation and supply-chain issues both globally and in the United States would impact future market performance.

Additionally, the total pension liabilities, net pension liabilities, total OPEB and Net OPEB (asset) liability disclosed in Notes 2 and 3 to the Basic Financial Statements are measured based on certain assumptions, including the long-term rate of return on investments, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions described in this section, it is at least reasonably possible that changes in these estimates and assumptions in the near term may have material impact on the financial statements.

LACERS Board and management continue to closely monitor the financial market. LACERS' investment strategy is to maintain a well-diversified portfolio to mitigate the risk of market uncertainty.

## 1. Description of LACERS and Significant Accounting Policies (Continued)

### Adoption of New Accounting Pronouncements

GASB Statement No. 87, *Leases*. This requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement takes effect starting with fiscal year ending June 30, 2022. LACERS implemented this statement during fiscal year ended June 30, 2022.

Implementation Guide No. 2019-3, *Leases*. The requirements of this Implementation Guide provide further clarification on Statement 87 implementation issues and takes effect for financial statements starting with the fiscal year ending June 30, 2022. LACERS implemented this guide during fiscal year ended June 30, 2022.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this Statement takes effect starting with the fiscal year that ends December 31, 2021. This Statement has no material impact on LACERS financial statements.

GASB Statement No. 92, *Omnibus 2020*. The requirements of this Statement takes effect for financial statements starting with the fiscal year ending June 30, 2022. This Statement has no material impact on LACERS financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The requirement in paragraph 11b will take effect for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 takes effect for financial statements starting with the fiscal year ending June 30, 2022. This Statement has no material impact on LACERS financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The requirements of this Statement takes effect for financial statements starting with the fiscal year that ends June 30, 2022. This Statement has no material impact on LACERS' financial statements.

GASB Statement No. 98*, The Annual Comprehensive Financial Report.* The requirement in paragraph 11b takes effect for reporting periods ending after December 31, 2021. LACERS implemented this Statement during fiscal year ended June 30, 2021.

### Recent GASB Pronouncements for Future Adoption

LACERS is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following recent GASB Statements:

1. Statement No. 91, *Conduit Debt Obligations*. The requirements of this Statement provides a single method of reporting conduit debt obligation, and will take effect for financial statements starting with the fiscal year ending June 30, 2023.
2. Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this Statement will take effect starting with the fiscal year ending June 30, 2023.
3. Statement No. 96, *Subscription-Based Information Technology Arrangements*. The requirements of this Statement will take effect starting with the fiscal year that ends June 30, 2023.
4. Statement No. 99, *Omnibus 2022.* The requirement related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The remaining requirements are effective for fiscal years beginning after June 15, 2023.
5. Statement No. 100, *Accounting Changes and Errors Correction- an amendment of GASB Statement No. 62*. The requirements of this Statement will take effect for fiscal years starting after June 15, 2023.
6. Statement No. 101, *Compensated Absences*. The requirements of this Statement will take effect for fiscal years starting after December 15, 2023.

## 2. Retirement Plan Description

### Plan Administration and Membership

LACERS administers a defined benefit pension plan that provides for service and disability retirement benefits, as well as death benefits.

The Retirement Plan covers all full-time personnel and department-certified part-time employees of the City, 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, certain Port Police officers of the Harbor, and certain Airport Peace Officers of the Airports who elected to opt out of LACERS. Upon transferring all active Tier 2 Members to Tier 1 as of February 21, 2016, Membership to Tier 1 is now closed to new entrants unless a Member meets one of the exceptions allowed in the Ordinance (No. 184134). Eligible employees hired on or after February 21, 2016, become Members of Tier 3.

Plan Members 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 has five or more years of continuous City service terminates employment, the Member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

As of June 30, 2022, the components of LACERS membership in both tiers (Tier 1 and Tier 3) were as follows:

| | |
|---|---|
| Active: | |
| Vested | 17,312 |
| Non-vested | 7,605 |
| | 24,917 |
| Inactive: | |
| Non-vested | 7,790 |
| Terminated Entitled to Benefits, Not Yet Receiving Benefits | 2,589 |
| Retired | 22,399 |
| Total | 57,695 |

### Eligibility Requirement and Benefits Provided

#### Tier 1

Plan Members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Plan Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the Member's average monthly pensionable salary during the Member's last 12 months of service, or during any other 12 consecutive months of service designated by the Member, multiplied by the Member's years of service credit.

Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a $2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

#### Tier 1 – Enhanced Benefits

On March 28, 2017, the City Council adopted an ordinance (No. 184853) to amend the Los Angeles Administrative Code (LAAC) authorizing certain sworn Airport Peace Officers (APO) at LACERS to elect to transfer into Tier 6 of LAFPP Plan or to remain in LACERS Plan with enhanced benefits. All new APO hired after that date would be enrolled in LAFPP Tier 6. Under the ordinance, APO Members who elect to remain in LACERS would be Tier 1 Members and be eligible for enhanced benefits including more favorable disability benefits, death benefits, and a higher retirement factor of 2.30% (versus 2.16% for all other Tier 1 Members), contingent upon a mandatory additional contribution payment of $5,700 required by LAAC Section 4.1002(e)(2) to LACERS before January 8, 2019, or prior to the Member's retirement date, whichever is earlier. Among 503 APO Members who elected to remain Members of LACERS on January 7, 2018, 469 APO Members, inclusive of 43 APO Members who retired with the enhanced benefits, paid their mandatory additional contribution.

## 2. Retirement Plan Description (Continued)

### Eligibility Requirement and Benefits Provided (Continued)

#### Tier 3

Plan Members are eligible to retire with unreduced benefits if they have at least 10 or more years of City service at age 60 or at least 30 years of City service at age 55, provided that five years of service must be continuous. Full unreduced retirement benefits at age 60 with 10 years of City service are determined with a 1.5% retirement factor. Plan Members also are eligible to retire with an age-based reduced benefit before reaching age 60 with 30 or more years of City service with a retirement factor of 2.0%. If the Member is age 55 or older with 30 years of service at the time of retirement, his or her retirement allowance will not be subject to reduction on account of age. However, if the Member is younger than age 55 with 30 years of service at the time of retirement, his or her retirement allowance will be reduced by the applicable early retirement reduction factor. In addition, the System also provides Tier 3 Members enhanced retirement benefits with a 2.0% retirement factor if the Member retires at age 63 with at least 10 years of service, or a retirement factor of 2.1% if the Member retires at age 63 with 30 years of service.

Tier 3 retirement benefits are determined by multiplying the Member's retirement factor (1.5% - 2.1%), with the Member's Final Average Compensation (FAC) based on the Member's pensionable salary for the last 36 months or any other 36 consecutive months designated by the Member, and by the Member's years of service credit (SC) as follows:

| Age at Retirement | Required Years of Service | Retirement Benefit(1) |
|---|---|---|
| Under 55 | 30 Years | 2.0% x FAC x Yrs. of SC(2) |
| 55 and Over | 30 Years | 2.0% x FAC x Yrs. of SC |
| 60 and Over | 10 Years | 1.5% x FAC x Yrs. of SC |
| 63 and Over | 10 Years | 2.0% x FAC x Yrs. of SC |
| 63 and Over | 30 Years | 2.1% x FAC x Yrs. of SC |

(1) Retirement allowance may not exceed 80% of final compensation except when benefit is based solely on the annuity component funded by the Member's contributions.

(2) A reduction factor will be applied based on age at retirement.

Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a $2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

#### Cost of Living Adjustment

Retirement allowances are indexed annually for inflation. The Board has authority to determine, no later than May 1st of each year, the average annual percentage change in the Consumer Price Index (CPI) for the purpose of providing a Cost of Living Adjustment (COLA) to the benefits of eligible Members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 Members or 2.0% for Tier 3 Members. For Tier 1 Members, the COLA percentage greater than 3.0% is banked for future use.

### Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 provide for periodic actuarially-determined employer contribution rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. For the fiscal year ended June 30, 2022, the actuarially-determined aggregate employer contribution rate to the Retirement Plan by the City was 27.96% (28.64% for Tier 1 and 25.43% for Tier 3) of projected payroll, based on the June 30, 2020 actuarial valuation.

Upon closing the fiscal year 2021-22, LACERS re-calculated the employer contribution rate using actual payroll incurred during the fiscal year, which was smaller than projected covered payroll used by the City to make the advance payment on July 15, 2021. As a result, employer contributions received for the Retirement Plan were $65,370,000 more than required, and this amount was credited towards employer contributions for fiscal year 2022-23. Based on actual payroll, the effective rate of employer contribution for Retirement Plan was 27.44% for fiscal year 2021-22.

## 2. Retirement Plan Description (Continued)

### Member Contributions

#### Tier 1 and Tier 1 Enhanced

The current contribution rate for Tier 1 and Tier 1 Enhanced Members is 11% of their pensionable salary including a 1% increase in the Member contribution rate pursuant to 2009 Early Retirement Incentive Program (ERIP) ordinance for all employees for a period of 15 years (or until the ERIP Cost obligation is fully recovered, whichever comes first). Contribution rates for Tier 1 and Tier 1 Enhanced Members is expected to decrease by 1% once ERIP obligation is met.

#### Tier 3

The contribution rate for Tier 3 Members is 11% of their pensionable salary. Unlike Tier 1, Tier 3 Members do not pay ERIP contribution, therefore, Tier 3 Members' contribution rate will not drop down when Tier 1 Members cease to pay the 1% ERIP contribution.

## 2. Retirement Plan Description (Continued)

### Net Pension Liability

As of June 30, 2022, the components of the net pension liability were as follows (in thousands):

| | |
|---|---|
| Total Pension Liability | $ 24,078,751 |
| *Less* Plan Fiduciary Net Position | (17,013,091) |
| Plan's Net Pension Liability | $ 7,065,660 |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 70.7% |

### Significant Assumptions

Projections of benefits for financial reporting purposes are based on the types of benefits provided to active, inactive, and retired Members at the time of each valuation, including expected future COLAs. The attribution method and significant assumptions used in the valuation year of June 30, 2022, are summarized below:

| | |
|---|---|
| Valuation Date | June 30, 2022 |
| Actuarial Cost Method | Entry Age Cost Method (individual basis). |
| Amortization Method | Level Percent of Payroll |
| Actuarial Assumptions: | |
| Date of Experience Study | June 30, 2019 (July 1, 2016 through June 30, 2019) |
| Long-Term Expected Rate of Return | 7.00% |
| Inflation | 2.75% |
| Real Across-the-Board Salary Increase | 0.50% |
| Projected Salary Increases | Ranges from 4.25% to 9.95% based on years of service, including inflation assumption at 2.75%, real across-the-board salary increase assumption of 0.50% plus merit and promotion increases. |
| Annual COLAs | 2.75% maximum for Tier 1 and 2.00% maximum for Tier 3. |
| Mortality Table for Healthy Retirees | Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019. |
| Mortality Table for Disabled Retirees | Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019. |
| Mortality Table for Beneficiaries | Pub-2010 Contingent Survivor Amount-Weighted Above Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019. |
| Percent Married / Domestic Partner | 76% of male participants and 52% of female participants are assumed to be married or have a qualified domestic partner. |
| Spouse Age Difference | Male retirees are assumed to be three years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses. |

## 2. Retirement Plan Description (Continued)

### Net Pension Liability (Continued)

### Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2022 and June 30, 2021.

The projection of cash flows used to determine the discount rate assumed Plan Member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current Plan Members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future Plan Members and their beneficiaries, as well as projected contributions from future Plan Members, are not included.

Based on those assumptions, the retirement plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability as of both June 30, 2022 and June 30, 2021.

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption that was used in the actuarial valuation as of June 30, 2022. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in fiscal year 2022-23.

| Asset Class | Target Allocation | Arithmetic Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. Large Cap Equity | 15.01% | 5.54% |
| U.S. Small Cap Equity | 3.99 | 6.25 |
| Developed Int'l Large Cap Equity | 17.01 | 6.61 |
| Developed Int'l Small Cap Equity | 2.97 | 6.90 |
| Emerging Int'l Large Cap Equity | 5.67 | 8.74 |
| Emerging Int'l Small Cap Equity | 1.35 | 10.63 |
| Core Bonds | 13.75 | 1.19 |
| High Yield Bonds | 2.00 | 3.14 |
| Bank Loans | 2.00 | 3.70 |
| Emerging Market Debt (External) | 2.25 | 3.55 |
| Emerging Market Debt (Local) | 2.25 | 4.75 |
| Private Credit/Debt | 3.75 | 6.00 |
| Core Real Estate | 4.20 | 4.60 |
| Real Estate Investment Trust (REIT) | 1.00 | 5.98 |
| Treasury Inflation Protected Securities (TIPS) | 4.00 | 0.86 |
| Commodities | 1.00 | 3.33 |
| Non-Core Real Assets | 2.80 | 5.76 |
| Private Equity | 14.00 | 8.97 |
| Cash | 1.00 | 0.03 |
| **Total** | **100.00%** | **5.50%** |

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of LACERS as of June 30, 2022, calculated using the discount rate of 7.00%, as well as what LACERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (dollar in thousands):

| 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|
| $10,242,711 | $7,065,660 | $4,436,332 |

## 3. Postemployment Health Care Plan Description

### Plan Administration and Membership

LACERS administers and provides single-employer postemployment healthcare benefits to eligible retirees and their eligible spouses/domestic partners who participate in the Retirement Plan regardless of their membership tiers. These benefits consist of subsidies which may also apply to the coverage of other eligible dependent(s).

As of June 30, 2022, the components of Membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows:

| | |
|---|---|
| Retired Members/Surviving Spouses (1) | 17,753 |
| Vested terminated Members entitled to, but not yet receiving benefits (2) | 1,537 |
| Retired Members and surviving spouses not yet eligible for health benefits | 139 |
| Active Members | 24,917 |
| Total | 44,346 |

(1) Total participants including married dependents and dependent children currently receiving benefits are 23,798.
(2) Includes terminated Members due a refund of employee contributions.

On November 9, 2018, the City Council approved Ordinance No. 185829 to amend Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code to establish the LACERS Health Care Fund (115 Trust Account) for the sole purpose of funding the retiree healthcare benefits for eligible LACERS retirees and beneficiaries as well as to help stabilize premium rates over time.

The City and the Board of LACERS entered into a written trust agreement for the LACERS Health Care Fund which shall provide an alternative funding mechanism, in addition to or in lieu of the existing 401(h) account described in LAAC Section 4.1102 for funding benefits under the health and welfare programs. The LACERS Health Care Fund is intended to qualify for federal tax exemption under Section 115 of the Internal Revenue Code. Because health benefits paid out of the LACERS Health Care Fund are not required to be subordinate to the Plan retirement benefits, the LACERS Health Care Fund would not become taxable if the Plan health benefits surpass the 25% threshold. Second, the LACERS Health Care Fund gives LACERS more flexibility to invest premium surpluses to provide for smoothing should healthcare premiums increased considerably in the future. Currently, the Health Care Coverage Account (401(h) account) cannot receive full refunds of excess premiums from insurance providers. However, the LACERS Health Care Fund can receive full premium surplus refunds from insurance providers; therefore, the System can invest these funds at a higher rate of return than the insurance providers' reserve account interest rate.

### Eligibility Requirement and Benefits Provided

To be eligible for LACERS postemployment healthcare benefits, Member must: 1) be at least age 55; 2) have at least 10 whole years of service with LACERS; and 3) be enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). Retirees and surviving spouses/domestic partners can choose from the health plans that are available, which include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. Retirees and surviving spouses/domestic partners receive medical subsidies based on service years and service credit. The dental subsidies are provided to the retirees only, based on service years and service credit.

The maximum subsidies are set annually by the Board. Effective February 21, 2016, healthcare benefit eligibility requirements have changed for the Members who have periods of part-time service. Such Members are now eligible to participate in the LACERS retiree medical programs with 10 whole years of service, even if some or all that service was part-time, provided that the Member meets the eligibility requirements. Both Tier 1 and Tier 3 Members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and eligible Members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service. Eligible spouses/domestic partners of Plan Members are entitled to the System's postemployment healthcare benefits after the retired Member's death.

During the 2011 fiscal year, the City adopted an ordinance ("Subsidy Cap Ordinance") to limit 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 made additional contributions are exempted from the subsidy cap 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, 2022, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

### 3. Postemployment Health Care Plan Description (Continued)

#### Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 require periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. The actuarially determined aggregate contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2022, was 4.29% (4.17% for Tier 1 and 4.73% for Tier 3) of projected payroll, based on the June 30, 2020 actuarial valuation.

Upon closing the fiscal year 2021-22, LACERS re-calculated employer contribution rate using actual payroll incurred during the fiscal year which was smaller than projected covered payroll used by the City to make the advance payment on July 15, 2021. As a result, employer contributions for Postemployment Health Care Plan were $9,824,000 more than required, and this amount was credited towards employer contribution for fiscal year 2022-23. Based on actual payroll, the effective rate of employer contribution for Postemployment Health Care Plan was 4.25% for fiscal year 2021-22.

## 3. Postemployment Health Care Plan Description (Continued)

### Net OPEB Liability

As of June 30, 2022, the components of the net OPEB liability were as follows (in thousands):

| | |
|---|---|
| Total OPEB Liability | $ 3,580,696 |
| *Less:* Plan Fiduciary Net Position | (3,347,771) |
| Plan's Net OPEB Liability | $ 232,925 |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 93.5% |

### Significant Assumptions

The total OPEB liability as of June 30, 2022 was determined by actuarial valuation as of June 30, 2022. The attribution method and significant assumptions used to measure the total OPEB liability, including assumptions about inflation, and healthcare cost trend rates in the valuation year of June 30, 2022, are summarized below:

| | |
|---|---|
| Valuation Date | June 30, 2022 |
| Actuarial Cost Method | Entry Age Cost Method – level percent of salary. |
| Amortization Method: | Level Percent of Payroll – assuming a 3.25% increase in total covered payroll. |
| Actuarial Assumptions: | |
| Date of Experience Study | June 30, 2019 (July 1, 2016 through June 30, 2019) |
| Long-Term Expected Rate of Return | 7.00% |
| Inflation | 2.75% |
| Salary Increase | Range from 4.25% to 9.95% based on years of service, including inflation assumption at 2.75%, real across-the-board salary increase assumption of 0.50% plus merit and promotion increases. |
| Mortality Table for Retirees | Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019. |
| Mortality Table for Disabled Retirees | Pub-2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019. |
| Mortality Table for Beneficiaries | Pub-2010 Contingent Survivor Headcount-Weighted Above Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019. |
| Marital Status | 60% of male and 35% 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. |

### 3. Postemployment Health Care Plan Description (Continued)

**Net OPEB Liability (Continued)**

**Significant 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 2022-2023 and later years are:

| First Fiscal Year (July 1, 2022 through June 30, 2023) | | |
|---|---|---|
| Carrier | Under Age 65 | Age 65 & Over |
| Kaiser HMO | 5.81% | 3.25% |
| Anthem Blue Cross HMO | 8.29% | N/A |
| Anthem Blue Cross PPO | 8.29% | 3.25% |
| UHC Medicare HMO | N/A | 3.98% |

| Approximate Trend Rate (%) Fiscal Year 2022 - 2023 and later | | |
|---|---|---|
| Fiscal Year | Non-Medicare | Medicare |
| 2023 - 2024 | 7.12% | 6.37% |
| 2024 - 2025 | 6.87% | 6.12% |
| 2025 - 2026 | 6.62% | 5.87% |
| 2026 - 2027 | 6.37% | 5.62% |
| 2027 - 2028 | 6.12% | 5.37% |
| 2028 - 2029 | 5.87% | 5.12% |
| 2029 - 2030 | 5.62% | 4.87% |
| 2030 - 2031 | 5.37% | 4.62% |
| 2031 - 2032 | 5.12% | 4.50% |
| 2032 - 2033 | 4.87% | 4.50% |
| 2033 - 2034 | 4.62% | 4.50% |
| 2034 and later | 4.50% | 4.50% |

Dental Premium Trend to be applied is 3.00% for all years.

Medicare Part B Premium Trend is 4.50% for all years.

## 3. Postemployment Health Care Plan Description (Continued)

### Net OPEB Liability (Continued)

### Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2022 and June 30, 2021.

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, employer contributions that are intended to fund benefits only for current Plan Members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future Plan Members and their beneficiaries, as well as projected contributions from future Plan Members, are not included.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan Members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability as of June 30, 2022 and June 30, 2021.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption for the actuarial valuation as of June 30, 2022. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in fiscal year 2022-23.

| Asset Class | Target Allocation | Arithmetic Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. Large Cap Equity | 15.01% | 5.54% |
| U.S. Small Cap Equity | 3.99 | 6.25 |
| Developed Int'l Large Cap Equity | 17.01 | 6.61 |
| Developed Int'l Small Cap Equity | 2.97 | 6.90 |
| Emerging Int'l Large Cap Equity | 5.67 | 8.74 |
| Emerging Int'l Small Cap Equity | 1.35 | 10.63 |
| Core Bonds | 13.75 | 1.19 |
| High Yield Bonds | 2.00 | 3.14 |
| Bank Loans | 2.00 | 3.70 |
| Emerging Market Debt (External) | 2.25 | 3.55 |
| Emerging Market Debt (Local) | 2.25 | 4.75 |
| Private Credit/Debt | 3.75 | 6.00 |
| Core Real Estate | 4.20 | 4.60 |
| Real Estate Investment Trust (REIT) | 1.00 | 5.98 |
| Treasury Inflation Protected Securities (TIPS) | 4.00 | 0.86 |
| Commodities | 1.00 | 3.33 |
| Non-Core Real Assets | 2.80 | 5.76 |
| Private Equity | 14.00 | 8.97 |
| Cash | 1.00 | 0.03 |
| **Total** | **100.00%** | **5.50%** |

### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of LACERS as of June 30, 2022, calculated using the discount rate of 7.00%, as well as what LACERS net OPEB (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (dollar in thousands):

| 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|
| $ 733,798 | $ 232,925 | $ (177,730) |

### 3. Postemployment Health Care Plan Description (Continued)

#### Net OPEB Liability (Continued)

#### Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of LACERS as of June 30, 2022, calculated using the healthcare cost trend rates as well as what LACERS net OPEB (asset) liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current rates (dollar in thousands):

| 1% Decrease | Current Healthcare Cost Trend Rates[1] | 1% Increase |
|---|---|---|
| ($ 215,968) | $ 232,925 | $ 792,250 |

[1] Current healthcare cost trend rates: 7.12% graded down to 4.50% over 11 years for Non-Medicare medical plan costs, and 6.37% graded down to 4.50% over 8 years for Medicare medical plan costs. 3.00% for all years for Dental and 4.50% for all years for Medicare Part B subsidy cost.

### 4. Contributions Required and Contributions Made

LACERS uses the Entry Age cost method to determine the required annual contribution amount for the Retirement Plan and the Postemployment Health Care Plan. The required annual contribution amount is composed of two components: normal cost, which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the Unfunded Actuarial Accrued Liability (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 LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 years, except that healthcare 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 of 30 years for all layers combined. The amortization periods are “closed” as each layer of the UAAL is systematically amortized over a “fixed” period.

The total contributions to LACERS for the fiscal year ended June 30, 2022, in the amount of $928,807,000 ($837,184,000 for the Retirement Plan and $91,623,000 for the Postemployment Health Care Plan), consisted of the following (in thousands):

| | Retirement Plan | Postemployment Health Care Plan |
|---|---|---|
| City Contributions: | | |
| Initial Contributions [1] | $ 656,604 | $ 101,447 |
| True-up Adjustments [2] | (65,370) | (9,824) |
| Required Contributions | 591,234 | 91,623 |
| FDBP | 71 | - |
| Total City Contributions | 591,305 | 91,623 |
| Member Contributions | 245,879 | - |
| **Total Contributions** | **$ 837,184** | **$ 91,623** |

(1) The initial City contributions made on July 15, 2021 were based on applying actuarially-determined contributions rates to projected payroll for the fiscal year.
(2) At the end of the fiscal year, LACERS recalculated required contributions based on actual payroll, resulting in these true-up adjustments.

The City contributions made for the Retirement Plan under the Required Contributions category in the amount of $591,234,000 were equal to 100% of the actuarially determined contribution of the employer as defined by GASB Statement No. 67. The City contributions made for the Postemployment Health Care Plan, in the amount of $91,623,000, represents 100% of the actuarially determined contribution of the employer as defined by GASB Statement No. 74. Member contributions in the amount of $245,879,000 were made toward the Retirement Plan, the voluntary Larger Annuity Plan and Family Death Benefit Plan.

### 5. Historical Trend Information

Historical trend information, designed to provide information about LACERS progress made in accumulating sufficient assets to pay benefits when due, is presented on pages 42 - 47 for the Retirement Plan and pages 48 - 53 for the Postemployment Health Care Plan.

### 6. Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of LACERS funds, and should discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims, as prescribed by Article XI Section 1106(c) of the City Charter.

LACERS 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, 2022, for the Retirement Plan and Postemployment Health Care Plan included approximately $4,191,000 held in LACERS general operating accounts with the City Treasurer and short-term investments funds (STIF) of $424,196,000 for a total of $428,387,000. 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, 2022, short-term investments included collective STIF of $140,193,000, international STIF of $194,115,000, and future contracts initial margin and collaterals of $89,888,000.

The fair value of derivative instruments, including equity index, commodity, currency, and interest rate future contracts, currency forward contracts and options, rights and warrants and swaps, are recorded in the Statement of Fiduciary Net Position with a net negative value of $1,252,000. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Fiduciary Net Position as Investment Income (Loss). LACERS enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of LACERS 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, 2022, are as follows (in thousands):

| Derivative Type | Notional Amount | Fair Value | Change in Fair Value |
|---|---|---|---|
| Future Contracts - | | | |
| Commodities | $ - | $ - | $ - |
| Equity Index | 17,077 | (237) | (150) |
| Foreign Exchange | - | - | - |
| Interest Rate | (14,668) | (36) | 301 |
| Currency Forward Contracts | 665,164 | (858) | (4,002) |
| Currency Options | N/A | (19) | 119 |
| Right / Warrants | N/A | 46 | (23) |
| Swaps–Interest Rate | N/A | (2,615) | (1,865) |
| Swaps–Credit Contracts | N/A | 2,467 | 1,427 |
| Total Value | | $ (1,252) | $ (4,193) |

### 6. Cash and Short-Term Investments and Investments (Continued)

#### Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LACERS seeks to maintain a diversified portfolio of fixed income instruments 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 Standard and Poor's (S&P), a nationally-recognized statistical rating organization, as of June 30, 2022, are as follows (dollars in thousands):

| S & P Ratings | Fair Value | Percentage |
|---|---|---|
| AAA | $ 48,364 | 1.50 % |
| AA+ | 3,747 | 0.12 |
| AA | 817,732 | 25.33 |
| AA- | 32,764 | 1.01 |
| A+ | 38,285 | 1.19 |
| A | 51,504 | 1.60 |
| A- | 176,409 | 5.47 |
| BBB+ | 234,557 | 7.27 |
| BBB | 213,410 | 6.61 |
| BBB- | 161,562 | 5.01 |
| BB+ | 76,921 | 2.38 |
| BB | 77,844 | 2.41 |
| BB- | 150,785 | 4.67 |
| B+ | 52,807 | 1.64 |
| B | 285,612 | 8.85 |
| B- | 75,205 | 2.33 |
| CCC+ | 88,473 | 2.74 |
| CCC | 73,745 | 2.28 |
| CCC- | 41 | 0.00 |
| CC | 1,903 | 0.06 |
| C | 30 | 0.00 |
| D | 4,566 | 0.14 |
| Not Rated | 561,381 | 17.39 |
| | $ 3,227,647 | 100.00% |
| U.S. Government Guaranteed Securities[1] | $ 2,369,070 | |
| **Total Fixed Income Securities** | $ **5,596,717** | |

(1) Consists of U.S. Government Bonds and GNMA Mortgage-Backed Securities which had the AA+ rating.

#### Credit Risk – Derivatives

Derivatives are subject to credit risk that the counterparty to a contract will default. LACERS 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.

LACERS 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. LACERS has no general investment policy with respect to netting arrangements or collateral requirements. However, these individual 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, 2022, without respect to netting arrangements, LACERS maximum income on derivative instruments subject to credit risk, namely currency forward contracts, is $6,299,000. All counterparties of these investment derivatives had the credit rating of "A" or "AA" assigned by S&P.

#### 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, LACERS 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, 2022, LACERS has exposure to such risk in the amount of $30,311,000 or 0.5% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 17 different investment managers, and held outside of LACERS custodial bank. LACERS policy requires each individual publicly traded equities investment manager to hold no more than 10% of their portfolios in the form of cash. LACERS is in compliance with the policy.

## 6. Cash and Short-Term Investments and Investments (Continued)

### Custodial Credit Risk (Continued)

Investment securities are exposed to custodial credit risk if the securities are not insured, are not registered in LACERS name, and are held by the counterparty, or the counterparty's trust department or agent but not in LACERS name. As of June 30, 2022, LACERS investments were not exposed to custodial credit risk because all securities were registered in the name of the System.

### Concentration of Credit Risk

The investment portfolio as of June 30, 2022, contained no concentration of investments in any one entity that represented 5% 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 LACERS 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. High Yield 2% Capped Index, the BC Intermediate Government Credit Index, the BC Aggregate Bond Index, or the J.P. Morgan EMBI Global Diversified 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 LACERS investments to market interest rate fluctuations as of June 30, 2022 is provided by the following table that shows the weighted average effective duration of LACERS fixed income securities by investment type (dollars in thousands):

| Investment Type | Fair Value | Weighted Average Duration (in Years) |
|---|---|---|
| Asset-Backed Securities | $ 74,558 | 3.09 |
| Bank Loans | 87,969 | -0.04 |
| Commercial Mortgage-Backed Securities | 93,878 | 3.31 |
| Corporate Bonds | 1,164,983 | 5.92 |
| Government Agencies | 55,642 | 7.48 |
| Government Bonds | 1,366,280 | 7.52 |
| Government Mortgage-Backed Securities | 483,698 | 6.98 |
| Index Linked Government Bonds | 1,070,101 | 4.63 |
| Municipal/Provincial Bonds | 16,078 | 5.91 |
| Non-Government Backed Collateralized Mortgage Obligations (C.M.O.s) | 28,455 | 4.94 |
| Opportunistic Debts | 356,858 | 0.30 |
| Other Fixed Income (Funds) | 798,218 | 6.43 |
| Derivative Instruments | (36) | 0.00 |
| **Total Fixed Income Securities** | **$ 5,596,682** | |

### 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. LACERS 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 LACERS asset-backed investments by investment type (in thousands):

| Investment Type | Fair Value |
|---|---|
| Asset-Backed Securities | $ 74,558 |
| Commercial Mortgage-Backed Securities | 93,878 |
| Government Agencies | 55,642 |
| Government Mortgage-Backed Securities | 483,698 |
| Non-Government Backed C.M.O.s | 28,455 |
| **Total Asset-Backed Investments** | **$ 736,231** |

## 6. Cash and Short-Term Investments and Investments (Continued)

### 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. LACERS Asset Allocation policy sets a target of 23% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and private equity managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts are permitted primarily to reduce the foreign currency risk.

LACERS non-U.S. currency investment holdings as of June 30, 2022, which represent 22.95% of the fair value of total investments, are as follows (in thousands):

| Foreign Currency Type | Cash and Adjustments to Cash | Equity | Fixed Income | Derivatives Instruments | Other Investments | Total Fair Value in USD |
|---|---|---|---|---|---|---|
| Australian dollar | (2,763) | 152,106 | - | 240 | - | 149,583 |
| Brazilian real | 28,716 | 44,491 | 29,934 | (2,730) | (2,846) | 97,565 |
| British pound sterling | 518 | 514,210 | - | (47) | - | 514,681 |
| Canadian dollar | (1,976) | 312,616 | - | 13 | - | 310,653 |
| Chilean peso | 864 | 1,714 | 8,001 | 158 | - | 10,737 |
| Chinese yuan renminbi | (20,255) | 82,910 | 25,780 | (322) | 84 | 88,197 |
| Colombian peso | 4,521 | 479 | 17,724 | 300 | 157 | 23,181 |
| Czech koruna | 8,281 | 492 | 17,816 | (547) | (525) | 25,517 |
| Danish krone | 2 | 72,246 | - | - | - | 72,248 |
| Egyptian pound | 1,512 | 2,571 | 919 | - | - | 5,002 |
| Euro | (25,396) | 993,620 | 46,146 | 1,332 | 263,651 | 1,279,353 |
| Hong Kong dollar | 590 | 291,394 | - | (4) | - | 291,980 |
| Hungarian forint | (1,092) | 709 | 13,274 | 676 | 351 | 13,918 |
| Indian rupee | (3,335) | 163,362 | - | 41 | - | 160,068 |
| Indonesian rupiah | (1,667) | 29,479 | 37,216 | 169 | - | 65,197 |
| Israeli new shekel | (25,879) | 33,255 | - | 870 | - | 8,246 |
| Japanese yen | 1,143 | 565,548 | - | (15) | - | 566,676 |
| Malaysian ringgit | 10,235 | 14,072 | 29,931 | (96) | (98) | 54,044 |
| Mexican peso | 14,846 | 50,064 | 36,212 | (1,028) | (1,014) | 99,080 |
| New Romanian Leu | 8,572 | - | 3,943 | 2 | - | 12,517 |
| New Taiwan dollar | (31,116) | 155,857 | - | 275 | - | 125,016 |
| New Zealand dollar | (2,150) | 4,841 | - | 81 | - | 2,772 |
| Norwegian krone | 20 | 29,653 | - | - | - | 29,673 |
| Peruvian nuevo sol | 5,891 | - | 13,175 | 12 | - | 19,078 |
| Philippine peso | 15,297 | 5,806 | 0 | 0 | - | 21,103 |
| Polish zloty | 21,561 | 3,928 | 19,441 | 1,772 | 1,680 | 48,382 |
| Qatari riyal | 2 | 3,553 | - | - | - | 3,555 |
| Russian ruble | 1,063 | - | 4,529 | - | - | 5,592 |
| Singapore dollar | 4,494 | 57,641 | 0 | - | - | 62,135 |
| South African rand | (14,252) | 35,357 | 49,747 | 525 | (300) | 71,077 |
| South Korean won | (13,053) | 94,002 | - | 180 | (13) | 81,116 |
| Swedish krona | 42 | 108,050 | - | - | - | 108,092 |
| Swiss franc | 34 | 246,065 | - | - | - | 246,099 |
| Thai baht | (7,279) | 28,383 | 13,180 | 331 | (91) | 34,524 |
| Turkish lira | 450 | 2,263 | 804 | 3 | - | 3,520 |
| United Arab Emirates dirham | 9 | 11,207 | - | - | - | 11,216 |
| **Total Investments Held in Foreign Currency** | **$ (21,550)** | **$ 4,111,944** | **$ 367,772** | **$ 2,191** | **$ 261,036** | **$ 4,721,393** |

## 6. Cash and Short-Term Investments and Investments (Continued)

### Fair Value Measurements

LACERS follows GASB Statement No. 72 (GASB 72), *Fair Value Measurements and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements and disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in either a government's principal or the most advantageous market at the measurement date.

The System's investments are measured and reported within the fair value hierarchy established by US GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

### Schedule of Investments by Fair Value Hierarchy

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 or 3 of the fair value hierarchy are valued using a matrix pricing technique based on the availability of the market price, the pricing source and type, and the country of incorporation of the securities. The hierarchy levels are determined based on the level of corroborative information obtained from other market sources to assert that the prices provided represent observable data.

The exchange traded Future Contracts classified in Level 1 of the fair value hierarchy are valued using a daily settlement when available or as a daily mark to market. The Foreign Exchange Contracts (liabilities) classified in Level 2 of the fair value hierarchy are valued using independent pricing services including London Close Mid-evaluation, WM/Reuters Company, Bloomberg, and Thomson Reuters.

Real estate funds classified in Level 3 of the fair value hierarchy are valued based on periodic appraisals in accordance with industry practice, or other valuation methods and techniques including models.

The System's remaining investments not categorized under the fair value hierarchy, such as private equity partnerships, real estate comingled funds and other investments which do not have a readily determinable fair value have been valued at the Net Asset Value (NAV). NAV is calculated and used as a practical expedient to estimate fair value of LACERS' interest, unless it is probable that all or a portion of the investments will be sold for an amount different from the NAV. As of June 30, 2022, LACERS had no specific plans to sell investments at amounts different from NAV. These investments are disclosed in the Investments Measured at the NAV on page 38.

## 6. Cash and Short-Term Investments and Investments (Continued)

### Fair Value Measurements (Continued)

### Schedule of Investments by Fair Value Hierarchy (Continued)

The System has the following recurring fair value measurements as of June 30, 2022 (in thousands):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Investments by Fair Value Level:** | | | | |
| Debt securities: | | | | |
| Government Bonds | $ 2,436,382 | $ - | $ 2,436,167 | $ 215 |
| Government Agencies | 55,642 | - | 55,642 | - |
| Municipal/Provincial Bonds | 16,078 | - | 16,078 | - |
| Corporate Bonds | 1,267,995 | - | 1,261,678 | 6,317 |
| Bank Loans | 87,969 | - | 87,969 | - |
| Government Mortgage Bonds | 483,698 | - | 483,698 | - |
| Commercial Mortgage Bonds | 93,878 | - | 93,878 | - |
| Opportunistic Debts | 62,264 | - | - | 62,264 |
| Funds – Fixed Income ETF | 1,858 | 1,858 | - | - |
| Total Debt Securities | 4,505,764 | 1,858 | 4,435,110 | 68,796 |
| Equity Securities: | | | | |
| Common Stock: | | | | |
| Basic Industries | 1,178,770 | 1,178,725 | 29 | 16 |
| Capital Goods Industries | 451,754 | 451,483 | 4 | 267 |
| Consumer & Services | 2,093,401 | 2,092,008 | 112 | 1,281 |
| Energy | 674,879 | 674,604 | - | 275 |
| Financial Services | 1,348,108 | 1,347,891 | 39 | 178 |
| Health Care | 984,124 | 984,124 | - | - |
| Information Technology | 1,435,686 | 1,435,436 | - | 250 |
| Real Estate | 717,838 | 717,490 | - | 348 |
| Other Funds - Common Stock | 562,541 | - | 562,541 | - |
| Miscellaneous | 18,186 | 15,463 | 68 | 2,655 |
| Total Common Stock | 9,465,287 | 8,897,224 | 562,793 | 5,270 |
| Preferred Stock | 27,031 | 24,254 | 2,777 | - |
| Stapled Securities | 9,503 | 9,503 | - | - |
| Convertible Equity | 339 | 339 | - | - |
| Total Equity Securities | 9,502,160 | 8,931,320 | 565,570 | 5,270 |
| Real Estate Funds | 228,900 | - | - | 228,900 |
| Total Investments by Fair Value Level | $ 14,236,824 | $ 8,933,178 | $ 5,000,680 | $ 302,966 |
| **Investments Measured at the NAV:** | | | | |
| Common Fund Assets | $ 796,360 | | | |
| Private Equity Funds | 3,801,996 | | | |
| Real Estate Funds | 932,279 | | | |
| Opportunistic Debts | 294,593 | | | |
| Total Investments Measured at the NAV | 5,825,228 | | | |
| Total Investments Measured at Fair Value(1) | $ 20,062,052 | | | |
| **Investment Derivative Instruments:** | | | | |
| Future Contracts (liabilities) | $ (273) | $ (273) | $ - | $ - |
| Foreign Exchange Contracts (liabilities) | (858) | - | (858) | - |
| Rights/Warrants/Options/Swaps | (121) | (110) | (19) | 8 |
| Total Investment Derivative Instruments | $ (1,252) | $ (383) | $ (877) | $ 8 |

(1) Excluded $(1,252,000) of investment derivative instruments (shown separately) and $515,988,000 of securities lending collateral.

## 6. Cash and Short-Term Investments and Investments (Continued)

### Fair Value Measurements (Continued)

**Investments Measured at the NAV:**
(in thousands)

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Common Fund Assets [1] | $ 796,360 | $ - | Daily | 2 days |
| Private Equity Funds [2] | 3,801,996 | 1,765,448 | N/A | N/A |
| Real Estate Funds [3] | 932,279 | 50,837 | Daily, Quarterly | 1-90 days |
| Opportunistic Debts [4] | 294,593 | - | Monthly | 30 days |
| Total Investments Measured at the NAV | $ 5,825,228 | $ 1,816,285 | | |

(1) Common fund assets - This investment type includes one fund that primarily invests in U.S. bonds. The fair value of the investment has been determined using a practical expedient based on the investments' NAV per share (or its equivalent). This investment can be redeemed daily, with a two-day advance redemption notice period.

(2) Private equity funds - This investment type includes 314 closed-end commingled private equity funds that invest primarily in securities of privately held U.S. and non-U.S. companies. The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). These investments are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as the underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 13 years, depending on the vintage year of each fund.

(3) Real estate funds - This investment type includes 22 commingled real estate funds that invest primarily in U.S. commercial real estate. The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). Seven investments, representing approximately 83.6% of the value of this investment type, are in open-end funds, which may be redeemed according to terms specific to each fund. Redemptions generally are subject to the funds' available cash and redemption queues. Fifteen investments, representing approximately 16.4% of the value of this investment type, are in closed-end funds and are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 12 years, depending on the vintage year of each fund.

(4) Opportunistic debts - This investment type includes two commingled funds: one that invests primarily in senior loans of non-investment grade companies (senior loan fund) and another one invests primarily in the securities and obligations of companies experiencing operational or financial distress (distressed investment fund). The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). The senior loan fund, representing approximately 94% of the value of this investment type, can be redeemed monthly. The distressed investment fund, representing approximately 6% of the value of this investment type, is being dissolved and is no longer making new underlying investments. Distributions from this fund will be received as underlying investments are liquidated by the fund manager. The fund is still being liquidated.

### 7. Securities Lending Agreement

Under authority granted by the City Charter, LACERS has entered into various short-term arrangements with its custodian to lend securities to various brokers. There are no restrictions on the number of securities that may be lent, and 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 107% for international securities. Collateral consists of cash, government and corporate securities, and commercial bank obligations. Cash collateral is invested in a separate account comprised of money market or high-quality short-term 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 LACERS.

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. LACERS 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 LACERS 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. As of June 30, 2022, the fair value of the securities on loan was $1,144,872,000. The fair value of associated collateral was $1,206,064,000 ($515,988,000 of cash collateral and $690,076,000 of non-cash collateral). These agreements provide for the return of the securities and revenue determined by the type of collateral received.

During the reporting period, LACERS 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 amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to LACERS as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program. However, similar to any other investment portfolio, there is risk associated with investing cash collateral in securities. The value of the invested collateral may fall below the value of the cash collateral pledged by the borrowers and may impair LACERS ability to return cash collateral to the borrowers upon the redemption of loans. If this scenario were to occur, LACERS would be required to make up the deficiency in collateral and would incur a loss.

All securities loans can be terminated on demand by either LACERS or the borrower. Because of this nature, their duration did not generally match the duration of the investment made with the cash collateral. LACERS cannot pledge or sell non-cash collateral unless the borrower defaults.

For loaned securities for which LACERS received cash collateral, the following table represents the fair value of securities on loan, corresponding cash collateral received and cash reinvestment value, as of June 30, 2022 (in thousands):

| Securities on Loan | Fair Value of Underlying Securities on Loan | Cash Collateral Received | Collateral Reinvestment Value |
|---|---|---|---|
| U.S. Government & Agency Securities | $ 91,082 | $ 92,954 | $ 92,954 |
| Domestic Corporate Fixed Income Securities | 197,477 | 203,288 | 203,288 |
| International Fixed Income Securities | 24,024 | 25,719 | 25,719 |
| Domestic Stocks | 166,547 | 172,516 | 172,516 |
| International Stocks | 19,135 | 21,511 | 21,511 |
| Total | $ 498,265 | $ 515,988 | $ 515,988 |

### 7. Securities Lending Agreement (Continued)

The fair value of cash collateral is reported in the Statement of Fiduciary Net Position. However, the non-cash collateral, which LACERS does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position.

On April 28, 2020, the Board adopted several temporary Security Lending Program risk-reducing strategies to minimize potential losses due to unusual and more volatile market conditions as a result of COVID pandemic. These strategies include (1) temporarily reducing the volume of loans in order to reduce LACERS overall exposure; (2) shorten the duration and maturity of individual investments to 60 days; and (3) require a non-U.S. country to hold a sovereign credit rating of AA- or higher (or the equivalent) by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) in order for non-U.S. government or corporate debt to be eligible for investment. These strategies remained in place through the fiscal year ended June 30, 2022.

During fiscal year ended June 30, 2022, LACERS income and expenses related to securities lending were $4,577,000 and $686,000 respectively, an increase of 9.1%, or $325,000 from prior fiscal year's net security lending income (income net of expenses).

### 8. Future and Forward Contracts

LACERS uses derivative financial instruments, primarily to manage portfolio risk. Future and forward contracts are marked to market and are recorded in the Statement of Fiduciary Net Position at fair value. Future 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 6 – Credit Risk - Derivatives).

As of June 30, 2022, LACERS had outstanding commodities, equity index, and interest rate future contracts with an aggregate notional amount of $31,745,000. In addition, on June 30, 2022, LACERS had outstanding forward purchase commitments with a notional amount of $665,164,000 and offsetting forward sales commitments with notional amounts of $665,164,000, which expire in November 2022. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $89,887,000 as of June 30, 2022.

### 9. Capital Assets

The System's capital assets include land, building, furniture, office and technology equipment, computer software as well as the intangible right-to-use lease asset. The cost and related accumulated depreciation/amortization as of the fiscal year ended June 30, 2022 and 2021 (dollars in thousands) are presented below:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Capital Assets Not Depreciated/Amortized | | |
| Land | $ 4,023 | $ 4,023 |
| Building (in progress) | 40,571 | 30,741 |
| Total Capital Assets Not Depreciated/Amortized | 44,594 | 34,764 |
| Capital Assets Not Depreciated/Amortized | | |
| Furniture, Office & Technology Equipment | 3,690 | 2,947 |
| Computer Software | 9,413 | 9,413 |
| Intangible Right-to-use leased asset | 2,524 | 2,524 |
| Total Capital Assets Depreciated/Amortized | 15,627 | 14,884 |
| Less: Accumulated Depreciation/Amortization | | |
| Furniture, Office & Technology Equipment | 2,374 | 2,178 |
| Computer Software | 2,706 | 2,077 |
| Intangible Right-to- use leased asset | 1,836 | 918 |
| Total Accumulated Depreciation/Amortization | 6,916 | 5,173 |
| **Total Capital Assets, Net of Depreciation/Amortization** | **$ 53,305** | **$ 44,475** |

## 10. Leases

### LACERS as a Lessee

The System leases building facilities under a non-cancelable operating lease that expires in March 2023. The System made $75,000 of variable payments related to this lease during the fiscal year ended June 30, 2022. Those payments were excluded from the System's lease liability. A lease asset was recorded at a cost of $2,524,000, less accumulated amortization of $1,836,000. The future lease payment under the lease agreement is as follows:

| | Lease | | | |
|---|---|---|---|---|
| Year | Variable | Principal | Interest | Total |
| 2023 | $ 87,000 | $ 714,000 | $ 12,000 | $ 813,000 |

### LACERS as a Lessor

The System entered into a cell tower/antenna placement agreement. The total amount of inflow of resources, including lease revenue, interest revenue and other lease related inflows, recognized during the fiscal year was $39,000. This total includes $1,800 of variable and other payments not previously included in the measurement of the lease receivable.

## 11. Commitments and Contingencies

As of June 30, 2022, LACERS was committed to future purchases of real estate and private equity investments at an aggregate cost of approximately $1,991,292,000, including agreements for acquisition not yet initiated.

# REQUIRED SUPPLEMENTARY INFORMATION

## Required Supplementary Information
## Retirement Plan

The following schedules included in the Required Supplementary Information for the Retirement Plan shows information for 10 years.

1) Schedule of Net Pension Liability
2) Schedule of Changes in Net Pension Liability and Related Ratios
3) Schedule of Investment Returns (Losses)

### Schedule of Net Pension Liability [1]
### As of June 30
### (Dollars in Thousands)

| Fiscal Year | Total Pension Liability | Plan Fiduciary Net Position | Plan's Net Pension Liability | Plan Fiduciary Net Position as a percentage of the Total Pension Liability |
|---|---|---|---|---|
| 2013 | 14,881,663 | 10,154,486 | 4,727,177 | 68.2% |
| 2014 | 16,248,853 | 11,791,079 | 4,457,774 | 72.6% |
| 2015 | 16,909,996 | 11,920,570 | 4,989,426 | 70.5% |
| 2016 | 17,424,996 | 11,809,329 | 5,615,667 | 67.8% |
| 2017 | 18,458,188 | 13,180,516 | 5,277,672 | 71.4% |
| 2018 | 19,944,578 | 14,235,230 | 5,709,348 | 71.4% |
| 2019 | 20,793,421 | 14,815,593 | 5,977,828 | 71.3% |
| 2020 | 22,527,195 | 14,932,404 | 7,594,791 | 66.3% |
| 2021 | 23,281,893 | 18,918,136 | 4,363,757 | 81.3% |
| 2022 | 24,078,751 | 17,013,091 | 7,065,660 | 70.7% |

[1] In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position, amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits) were excluded.

**Note to Schedule:**

Refer to the notes to the Schedule of Changes in Net Pension Liability and Related Ratios.

## Required Supplementary Information
## Retirement Plan

### Schedule of Changes in Net Pension Liability and Related Ratios [1]
### For the Fiscal Years Ended June 30
### (Dollars in Thousands)

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service cost [2] | $ 413,863 | $ 451,426 | $ 374,967 | $ 370,409 | $ 352,283 |
| Interest | 1,617,800 | 1,570,785 | 1,499,208 | 1,439,661 | 1,332,878 |
| Changes of benefit terms | - | - | - | - | 25,173 |
| Differences of expected and actual experience | (66,172) | (189,822) | 308,184 | (46,035) | 144,224 |
| Changes of assumptions | - | - | 530,720 | - | 483,717 |
| Benefit payments, including refunds of Member contributions | (1,168,633) | (1,077,691) | (979,305) | (915,192) | (851,885) |
| **Net change in total pension liability** | 796,858 | 754,698 | 1,733,774 | 848,843 | 1,486,390 |
| **Total pension liability-beginning** | 23,281,893 | 22,527,195 | 20,793,421 | 19,944,578 | 18,458,188 |
| **Total pension liability-ending (a)** | $ 24,078,751 | $ 23,281,893 | $ 22,527,195 | $ 20,793,421 | $ 19,944,578 |
| | | | | | |
| **Plan fiduciary net position** | | | | | |
| Contributions-employer | $ 591,234 | $ 554,856 | $ 553,118 | $ 478,717 | $ 450,195 |
| Contributions-Member | 241,876 | 252,123 | 259,817 | 237,087 | 230,757 |
| Net investment income (loss)[4] | (1,542,473) | 4,283,202 | 306,712 | 799,351 | 1,243,817 |
| Benefit payments, including refunds of Member contributions | (1,168,633) | (1,077,691) | (979,305) | (915,192) | (851,885) |
| Administrative expenses | (27,033) | (26,758) | (23,531) | (19,600) | (17,699) |
| Others [3] | (16) | - | - | - | (471) |
| **Net change in Plan fiduciary net position** | (1,905,045) | 3,985,732 | 116,811 | 580,363 | 1,054,714 |
| **Plan fiduciary net position-beginning** | 18,918,136 | 14,932,404 | 14,815,593 | 14,235,230 | 13,180,516 |
| **Plan fiduciary net position-ending (b)** | $ 17,013,091 | $ 18,918,136 | $ 14,932,404 | $ 14,815,593 | $ 14,235,230 |
| | | | | | |
| **Plan's net pension liability-ending (a)-(b)** | **$ 7,065,660** | **$ 4,363,757** | **$ 7,594,791** | **$ 5,977,828** | **$ 5,709,348** |
| | | | | | |
| **Plan fiduciary net position as a percentage of the total pension liability (b)/(a)** | 70.7% | 81.3% | 66.3% | 71.3% | 71.4% |
| | | | | | |
| **Covered payroll** | $ 2,155,005 | $ 2,276,768 | $ 2,271,039 | $ 2,108,171 | $ 2,057,565 |
| | | | | | |
| **Plan's net pension liability as a percentage of covered payroll** | 327.9% | 191.7% | 334.4% | 283.6% | 277.5% |

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position, amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits) were excluded.

(2) The service cost is based on the previous year's valuation.

(3) On July 1, 2017, the System reallocated $471,000 of interest from the Reserve for Mandatory Member Contributions into the Reserve for Voluntary Member Contributions. In fiscal year 2022, a prior period adjustment was made related to the implementation of GASB 87 – Lease, to restate fiscal year 2021 information presented in fiscal year 2022 financial report as comparative report.

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

### Schedule of Changes in Net Pension Liability and Related Ratios [1] (Continued)
### For the Fiscal Years Ended June 30
### (Dollars in Thousands)

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service cost [2] | $ 340,759 | $ 322,574 | $ 322,380 | $ 317,185 | $ 312,372 |
| Interest | 1,302,278 | 1,263,556 | 1,215,151 | 1,149,966 | 1,112,561 |
| Changes of benefit terms | - | - | - | - | - |
| Differences of expected and actual experience | (146,474) | (300,813) | (135,821) | (164,247) | (235,829) |
| Changes of assumptions | 340,718 | - | - | 785,439 | - |
| Benefit payments, including refunds of Member contributions | (804,089) | (770,317) | (740,567) | (721,153) | (701,400) |
| **Net change in total pension liability** | 1,033,192 | 515,000 | 661,143 | 1,367,190 | 487,704 |
| **Total pension liability-beginning** | 17,424,996 | 16,909,996 | 16,248,853 | 14,881,663 | 14,393,959 |
| **Total pension liability-ending (a)** | $ 18,458,188 | $ 17,424,996 | $ 16,909,996 | $ 16,248,853 | $ 14,881,663 |
| **Plan fiduciary net position** | | | | | |
| Contributions-employer | $ 453,356 | $ 440,546 | $ 381,141 | $ 357,649 | $ 346,181 |
| Contributions-Member | 221,829 | 206,377 | 202,463 | 203,975 | 197,722 |
| Net investment income (loss)[4] | 1,517,545 | 29,358 | 306,980 | 1,810,782 | 1,268,939 |
| Benefit payments, including refunds of Member contributions | (804,089) | (770,318) | (740,567) | (721,153) | (701,400) |
| Administrative expenses | (17,454) | (17,204) | (15,860) | (12,372) | (13,281) |
| Others [3] | - | - | (4,666) | (2,288) | (2,514) |
| **Net change in Plan fiduciary net position** | 1,371,187 | (111,241) | 129,491 | 1,636,593 | 1,095,647 |
| **Plan fiduciary net position-beginning** | 11,809,329 | 11,920,570 | 11,791,079 | 10,154,486 | 9,058,839 |
| **Plan fiduciary net position-ending (b)** | $ 13,180,516 | $ 11,809,329 | $ 11,920,570 | $ 11,791,079 | $ 10,154,486 |
| **Plan's net pension liability-ending (a)-(b)** | **$ 5,277,672** | **$ 5,615,667** | **$ 4,989,426** | **$ 4,457,774** | **$ 4,727,177** |
| **Plan fiduciary net position as a percentage of the total pension liability (b)/(a)** | 71.4% | 67.8% | 70.5% | 72.6% | 68.2% |
| **Covered payroll** | $ 1,973,049 | $ 1,876,946 | $ 1,835,637 | $ 1,802,931 | $ 1,736,113 |
| **Plan's net pension liability as a percentage of covered payroll** | 267.5% | 299.2% | 271.8% | 247.3% | 272.3% |

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits).

(2) The service cost is based on the previous year's valuation.

(3) On July 1, 2015, the System segregated Members' voluntary larger annuity contributions into the (non-pension related) Reserve for Larger Annuity Contributions pursuant to a suggestion made by the System's actuarial consultant. The Reserve balance for Larger Annuity Contributions as of June 30, 2015 was $5,200,000

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment-related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

### Schedule of Changes in Net Pension Liability and Related Ratios (Continued)

**Notes to Schedule:**

**Changes of Benefit Terms:** The June 30, 2018 calculation reflected the newly adopted enhanced benefits for Airport Peace Officers (APO) who elected to stay at LACERS Plan (refer to Note 2 – Retirement Plan Description, Tier 1 – Enhanced Benefits on page 21). Enhanced benefits became effective as of January 7, 2018.

**Change of Assumptions:** The June 30, 2014 calculations reflected various assumption changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of total pension liability for fiscal years ended on June 30, 2014 is primarily due to the lowered assumed investment rate of return from 7.75% to 7.50%, and longer assumed life expectancies for Members and beneficiaries while the June 30, 2017 increase is primarily due to the lowered assumed investment rate of return from 7.50% to 7.25%.

The June 30, 2018 calculations reflected changes in the actuarial assumptions adopted by the Board on August 14, 2018 based on the triennial experience study for the period from July 1, 2014 through June 30, 2017, including revising the mortality tables from static to generational to reflect future mortality improvement, contributing to increased total pension liability.

The June 30, 2020 calculations reflected changes in the actuarial assumptions based on the actuarial experience study covering the period from July 1, 2016 to June 30, 2019 and adopted by the Board on June 23, 2020. The changes included lowered assumed investment rate of return from 7.25% to 7.00% along with an Inflation Rate reduction from 3.00% to 2.75%, changes in various demographic assumptions such as adjustments on retirement, termination, disability and mortality rates.

### Schedule of Contribution History
### (Dollars in Thousands)

| Fiscal Year | Actuarially Determined Contributions (ADC) | Contributions in Relation to ADC[1] | Contribution Deficiency | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2013 | $ 346,181 | $ 346,181 | $ - | $ 1,736,113 | 19.9% |
| 2014 | 357,649 | 357,649 | - | 1,802,931 | 19.8 |
| 2015 | 381,141 | 381,141 | - | 1,835,637 | 20.8 |
| 2016 | 440,546 | 440,546 | - | 1,876,946 | 23.5 |
| 2017 | 453,356 | 453,356 | - | 1,973,049 | 23.0 |
| 2018 | 450,195 | 450,195 | - | 2,057,565 | 21.9 |
| 2019 | 478,717 | 478,717 | - | 2,108,171 | 22.7 |
| 2020 | 553,118 | 553,118 | - | 2,271,039 | 24.4 |
| 2021 | 554,856 | 554,856 | - | 2,276,768 | 24.4 |
| 2022 | 591,234 | 591,234 | - | 2,155,005 | 27.4 |

**Notes to Schedule:**

| | |
|---|---|
| **Valuation Date** | Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. |

**Methods and Assumptions Used to Determine Contribution Rates:**

| | |
|---|---|
| Actuarial Cost Method | Entry Age Actuarial Cost Method (individual basis). |
| Amortization Method | Level Percent of Payroll. |

## Schedule of Contribution History (Continued)

### Notes to Schedule (Continued)

**Methods and Assumptions Used to Determine Contribution Rates (Continued)**

| | |
|---|---|
| Amortization Period | Multiple layers – closed amortization periods. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 Early Retirement Incentive Program (ERIP), are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two Governmental Accounting Standards Board (GASB) Statements No. 25/27 layers, were combined and amortized over 30 years. |
| Asset Valuation Method | Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the fair value and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the fair value of assets. |

**Actuarial Assumptions:**

| | |
|---|---|
| Investment Rate of Return | 7.00% |
| Inflation | 2.75% |
| Real Across-the-Board Salary Increase | 0.50% |
| Projected Salary Increases[1] | Ranges from 4.25% to 9.95% based on years of service. |
| Cost of Living Adjustment | 2.75% for Tier 1; 2.00% for Tier 3. Actual increases are contingent upon Consumer Price Index (CPI) increases with a 2.75% maximum for Tier 1 and a 2.00% maximum for Tier 3. For Tier 1 members with sufficient COLA bank, withdrawals from the bank can be made to increase retiree COLA up to 3% per year. |
| Mortality | Healthy: Pub-2010 General Health Retiree Amount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.<br><br>Disabled: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.<br><br>Beneficiaries: Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019. |

(1) Includes inflation at 2.75% plus across-the-board salary increase of 0.50% plus merit and promotional increases.

### Schedule of Investment Returns (Losses)
### For the Fiscal Years Ended June 30

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| Annual money-weighted rate of return, net of investment expenses | (8.0%) | 27.5% | 2.0% | 5.5% | 9.3% | 12.6% | 0.2% | 2.6% | 18.2% |

**Note to Schedule:**

In fiscal years 2020, 2021 and 2022, the impact of highly divergent and volatile global market in LACERS' investments continued resulting from the economic distress caused by the COVID-19 pandemic that started in 2020, the subsequent strong market recovery in 2021 and the sharp decline in 2022 brought by the inflation concerns.

# Required Supplementary Information
# Postemployment Health Care Plan

The schedules included in the Required Supplementary Information for the Postemployment Health Care Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, Los Angeles City Employees' Retirement System (LACERS or the System) presented information only for those years for which information is available:

1) Schedule of Net OPEB (Asset) Liability
2) Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios
3) Schedule of Investment Returns (Losses)

Additional years will be displayed in the future as they become available.

### Schedule of Net OPEB (Asset) Liability
### As of June 30
### (Dollars in Thousands)

| Fiscal Year | Total OPEB Liability | Plan Fiduciary Net Position | Plan's Net OPEB (Asset) Liability | Plan Fiduciary Net Position as a percentage of the Total OPEB Liability |
|---|---|---|---|---|
| 2016 | 2,793,689 | 2,134,877 | 658,812 | 76.4% |
| 2017 | 3,005,806 | 2,438,862 | 566,944 | 81.1% |
| 2018 | 3,256,827 | 2,676,371 | 580,456 | 82.2% |
| 2019 | 3,334,299 | 2,812,098 | 522,201 | 84.3% |
| 2020 | 3,486,530 | 2,851,204 | 635,326 | 81.8% |
| 2021 | 3,520,078 | 3,781,652 | (261,574) | 107.4% |
| 2022 | 3,580,696 | 3,347,771 | 232,925 | 93.5% |

**Note to Schedule:**

Refer to the notes to the Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios.

## Required Supplementary Information
## Postemployment Health Care Plan

### Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios
### For the Fiscal Years Ended June 30
### (Dollars in Thousands)

| | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| **Total OPEB Liability** | | | | |
| Service cost[1] | $ 81,415 | $ 84,817 | $ 76,423 | $ 74,478 |
| Interest | 246,694 | 244,776 | 242,666 | 236,678 |
| Changes of benefit terms | - | - | - | - |
| Differences between expected and actual experience | (369) | 10,672 | (135,720) | (134,053) |
| Changes of assumptions | (109,877) | (157,614) | 96,076 | 33,940 |
| Benefit payments[2] | (157,245) | (149,103) | (127,214) | (133,571) |
| **Net change in total OPEB liability** | 60,618 | 33,548 | 152,231 | 77,472 |
| **Total OPEB liability-beginning** | 3,520,078 | 3,486,530 | 3,334,299 | 3,256,827 |
| **Total OPEB liability-ending (a)** | $ 3,580,696 | $ 3,520,078 | $ 3,486,530 | $3,334,299 |
| **Plan fiduciary net position** | | | | |
| Contributions-employer | $ 91,623 | $ 103,454 | $ 112,136 | $ 107,927 |
| Net investment income (loss)[3] | (360,636) | 983,522 | 60,899 | 166,470 |
| Benefit payments[2] | (157,245) | (149,103) | (127,214) | (133,571) |
| Administrative expense | (7,619) | (7,425) | (6,715) | (5,099) |
| Others [4] | (4) | - | - | - |
| **Net change in Plan fiduciary net position** | (433,881) | 930,448 | 39,106 | 135,727 |
| **Plan fiduciary net position-beginning** | 3,781,652 | 2,851,204 | 2,812,098 | 2,676,371 |
| **Plan fiduciary net position-ending (b)** | $ 3,347,771 | $ 3,781,652 | $ 2,851,204 | $2,812,098 |
| **Plan's net OPEB (asset) liability-ending (a)-(b)** | **$ 232,925** | **$ (261,574)** | **$ 635,326** | **$ 522,201** |
| **Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)** | 93.5% | 107.4% | 81.8% | 84.3% |
| **Covered payroll** | $ 2,155,005 | $ 2,276,768 | $ 2,271,039 | $2,108,171 |
| **Plan's net OPEB (asset) liability as a percentage of covered payroll** | 10.8% | (11.5%) | 28.0% | 24.8% |

(1) The service cost is based on the previous year's valuation.

(2) Benefit payments associated with the self-funded insurance premium and Member's health insurance premium reserve that were reported as both additions and deductions in fiduciary net position beginning fiscal year 2019 were excluded from the above schedule.

(3) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

(4) In fiscal year 2022, a prior period adjustment was made related to the implementation of GASB 87 – Lease, to restate fiscal year 2021 information presented in fiscal year 2022 financial report as comparative report.

### Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios (Continued)
### For the Fiscal Years Ended June 30
### (Dollars in Thousands)

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Total OPEB Liability** | | | |
| Service cost[1] | $ 74,611 | $ 68,385 | $ 62,360 |
| Interest | 218,686 | 210,170 | 199,078 |
| Changes of benefit terms | 948 | - | 17,215 |
| Differences between expected and actual experience[2] | (7,321) | 19,666 | (22,013) |
| Changes of assumptions | 92,178 | 33,512 | - |
| Benefit payments[3] | (128,081) | (119,616) | (109,940) |
| **Net change in total OPEB liability** | 251,021 | 212,117 | 146,700 |
| **Total OPEB liability-beginning** | 3,005,806 | 2,793,689 | 2,646,989 |
| **Total OPEB liability-ending (a)** | $ 3,256,827 | $ 3,005,806 | $ 2,793,689 |
| **Plan fiduciary net position** | | | |
| Contributions-employer | 100,909 | 97,457 | 105,983 |
| Net investment income (loss)[4] | 269,380 | 330,708 | (344) |
| Benefit payments[3] | (128,081) | (119,616) | (109,940) |
| Administrative expense | (4,699) | (4,564) | (4,528) |
| **Net change in Plan fiduciary net position** | 237,509 | 303,985 | (8,829) |
| **Plan fiduciary net position-beginning** | 2,438,862 | 2,134,877 | 2,143,706 |
| **Plan fiduciary net position-ending (b)** | $ 2,676,371 | $ 2,438,862 | $ 2,134,877 |
| **Plan's net OPEB (asset) liability-ending (a)-(b)** | **$ 580,456** | **$ 566,944** | **$ 658,812** |
| **Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)** | 82.2% | 81.1% | 76.4% |
| **Covered payroll** | $ 2,057,565 | $ 1,973,049 | $ 1,876,946 |
| **Plan's net OPEB (asset) liability as a percentage of covered payroll** | 28.2% | 28.7% | 35.1% |

(1) The service cost is based on the previous year's valuation.

(2) After the GASB Statement No. 74 valuation report was issued for the fiscal year June 30, 2017, the System's consulting actuary reclassified $12,450,000 of OPEB liability from the *Changes of Assumption* (revised from $45,962,000 to $33,512,000) to the *Differences Between Expected and Actual Experience* (revised from $7,216,000 to $19,666,000). However, this reclassification did not affect the recommended employer contribution rates or results of the OPEB valuation in total.

(3) Benefit payments associated with the self-funded insurance premium and Member's health insurance premium reserve that were reported as both additions and deductions in fiduciary net position beginning fiscal year 2019 were excluded from the above schedule.

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

### Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios (Continued)

**Notes to Schedule:**

**Changes of Benefit Terms:** The OPEB liability from the changes of benefit terms for the fiscal year ended June 30, 2016 is primarily due to providing retiree healthcare benefits to part-time employees who retired with 10 years of service but less than 10 years of service credit (refer to Note 3 – Postemployment Health Care Plan Description, Eligibility Requirement and Benefits Provided on pages 26 - 27) while the June 30, 2018 increase is primarily as a result of the newly adopted enhanced benefits for Airport Peace Officers (APO) who elected to stay at LACERS Plan (refer to Note 2 – Retirement Plan Description, Tier 1 – Enhanced Benefits on page 21) as some APO Members may retire earlier than expected. Enhanced benefits became effective as of January 7, 2018.

**Changes of Assumptions:** The OPEB liability from the changes of assumptions for the fiscal year ended June 30, 2017 is primarily due to the lowered assumed investment rate of return, from 7.50% to 7.25%, and the June 30, 2018 increase is primarily due to the new actuarial assumptions adopted in the triennial experience study (July 1, 2014 through June 30, 2017), including revising the mortality tables from static to generational. The June 30, 2019 increase is mainly due to the increased Medicare Part B Premium Trend Rate from 4.0% to 4.5% while the June 30, 2020 is due to the new actuarial assumptions adopted as a result of actuarial experience study covering the period July 1, 2016 to June 30, 2019 which included a lowered investment rate of returns from 7.25% to 7.00% as well as using revised mortality tables. The June 30, 2021 and June 30, 2022 decreases are primarily due to the updated trend assumption for projecting medical premiums after fiscal year 2021/22 and after 2022/23, respectively.

### Schedule of Contribution History
### (Dollars in Thousands)

| Fiscal Year | Actuarially Determined Contributions (ADC) | Contributions in Relation to ADC | Contributions Deficiency | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2013 | $ 72,916 | $ 72,916 | $ - | $1,736,113 | 4.2% |
| 2014 | 97,841 | 97,841 | - | 1,802,931 | 5.4 |
| 2015 | 100,467 | 100,467 | - | 1,835,637 | 5.5 |
| 2016 | 105,983 | 105,983 | - | 1,876,946 | 5.7 |
| 2017 | 97,457 | 97,457 | - | 1,973,049 | 4.9 |
| 2018 | 100,909 | 100,909 | - | 2,057,565 | 4.9 |
| 2019 | 107,927 | 107,927 | - | 2,108,171 | 5.1 |
| 2020 | 112,136 | 112,136 | - | 2,271,039 | 4.9 |
| 2021 | 103,454 | 103,454 | - | 2,276,768 | 4.5 |
| 2022 | 91,623 | 91,623 | - | 2,155,005 | 4.3 |

**Notes to Schedule:**

| | |
|---|---|
| **Valuation Date** | Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. |

**Methods and Assumptions Used to Determine Contribution Rates:**

| | |
|---|---|
| Actuarial Cost Method | Entry Age Actuarial Cost Method (level percent of payroll). |
| Amortization Method | Level Percent of Payroll. |
| Amortization Period | Multiple layers – closed amortization periods.<br>The unfunded actuarial accrued liability as of June 30, 2020 is amortized over a fixed period of 21 years beginning June 30, 2021. Actuarial gains/losses are amortized over 15 years. Non-health related assumptions or method changes are amortized over 20 years. Health related assumptions or method changes are amortized over 15 years. Plan changes, including the 2009 Early Retirement Incentive Program (ERIP), are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two Governmental Accounting Standards Board (GASB) Statements No. 25/27 layers, were combined and amortized over 30 years. |
| Asset Valuation Method | Fair 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 fair 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. |

**Actuarial Assumptions:**

| | |
|---|---|
| Investment Rate of Return | 7.00% |
| Inflation | 2.75% |
| Real Across-the-Board Salary Increase | 0.50% |

## Schedule of Contribution History (Continued)

### Notes to Schedule (Continued)

### Methods and Assumptions Used to Determine Contribution Rates (Continued)

| | |
|---|---|
| Projected Salary Increases[1] | Ranges from 4.25% to 9.95% based on years of service. |
| Mortality | Healthy: Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019 |
| | Disabled: Pub-2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019. |
| | Beneficiaries: Pub-2010 Contingent Survivor Headcount-Weighted Above-Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019. |

[1] Includes inflation at 2.75%, plus across-the-board salary increase of 0.50% plus merit and promotional increases.

## Schedule of Investment Returns (Losses)
## For the Fiscal Years Ended June 30

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| Annual money-weighted rate of return, net of investment expenses | (10.5%) | 39.9% | 2.1% | 6.1% | 10.8% | 15.2% |

### Note to Schedule:

The required disclosure about factors that significantly affect trends in the money-weighted rate of return is not provided as only six years' rates are available. As additional years' money-weighted rate of return become available, the System will disclose factors that significantly affect trends in the rate of return.

For fiscal year 2020, investment return was impacted by the recent spread of COVID-19 which adversely impacted global commercial activity and volatility in the global financial markets The substantial increase of investment return in fiscal year 2021, is primarily attributed to a strong recovery of the global financial market following the initial shock caused by the COVID-19 pandemic in the previous fiscal year. In fiscal year 2022, global economy and financial market sharply declined due to economic distress brought by the rapidly increasing inflation.

# SUPPLEMENTAL SCHEDULES

## Schedule of Administrative Expenses
## For the Fiscal Year Ended June 30, 2022
## (In Thousands)

| | Retirement Plan | Postemployment Health Care Plan | Total |
|---|---|---|---|
| Personnel Services: | | | |
| Salaries | $ 13,100 | $ 2,989 | $ 16,089 |
| Employee Benefits and Development | 5,728 | 1,307 | 7,035 |
| Total Personnel Services | 18,828 | 4,296 | 23,124 |
| Professional Services: | | | |
| Actuarial | 261 | 60 | 321 |
| Audit | 142 | 32 | 174 |
| Legal Counsel | 657 | 150 | 807 |
| Disability Evaluation | 64 | 15 | 79 |
| Retirees' Health Admin Consulting | - | 539 | 539 |
| Benefit Payroll Processing | 200 | 45 | 245 |
| Self Funded Plan Administrative Fee | - | 875 | 875 |
| Other Consulting | 51 | 12 | 63 |
| Total Professional Services | 1,375 | 1,728 | 3,103 |
| Information Technology: | | | |
| Computer Hardware & Software | 544 | 124 | 668 |
| Computer Maintenance & Support | 209 | 47 | 256 |
| Total Information Technology | 753 | 171 | 924 |
| Other Expenses: | | | |
| Fiduciary Insurance | 72 | 17 | 89 |
| Educational and Due Diligence Travel | 27 | 6 | 33 |
| Office Expenses | 974 | 223 | 1,197 |
| Depreciation | 1,419 | 324 | 1,743 |
| Building Operating Exp | 834 | 190 | 1,024 |
| Total Other Expenses | 3,326 | 760 | 4,086 |
| Total Administrative Expenses | $ 24,282 | $ 6,955 | $ 31,237 |

## Schedule of Investment Fees and Expenses
## For the Fiscal Year Ended June 30, 2022
### (In Thousands)

| | Assets Under Management | Fees and Expenses |
|---|---|---|
| Retirement Plan | | |
| Investment Management Fees: | | |
| Fixed Income Managers | $ 4,680,657 | $ 8,320 |
| Equity Managers | 7,945,903 | 23,368 |
| Subtotal | 12,626,560 | 31,688 |
| Other Investment Fees and Expenses: | | |
| Private Equity Consulting Fees | N/A | 620 |
| Real Estate Consulting Fees | N/A | 175 |
| Other Consulting Fees | N/A | 379 |
| Investment Related Administrative Expenses | N/A | 2,907 |
| Subtotal | N/A | 4,081 |
| Postemployment Health Care Plan | | |
| Investment Management Fees: | | |
| Fixed Income Managers | 916,022 | 1,899 |
| Equity Managers | 1,555,042 | 5,333 |
| Subtotal | 2,471,064 | 7,232 |
| Other Investment Fees and Expenses: | | |
| Private Equity Consulting Fees | N/A | 142 |
| Real Estate Consulting Fees | N/A | 40 |
| Other Consulting Fees | N/A | 86 |
| Investment Related Administrative Expenses | N/A | 664 |
| Subtotal | N/A | 932 |
| Total Investment Fees and Expenses excluding Private Equity and Real Estate | $ 15,097,624 | $ 43,933 |
| Private Equity Managers' Fees and Expenses: | | |
| Retirement Plan | $ 3,179,715 | $ 56,705 |
| Postemployment Health Care Plan | 622,282 | 12,940 |
| Total Private Equity Managers' Fees and Expenses | $ 3,801,997 | $ 69,645 |
| Real Estate Managers' Fees and Expenses: | | |
| Retirement Plan | $ 971,126 | $ 13,163 |
| Postemployment Health Care Plan | 190,053 | 3,004 |
| Total Real Estate Managers' Fees and Expenses | $ 1,161,179 | $ 16,167 |
| Total Assets Under Management and Fees and Expenses | $ 20,060,800[1] | $ 129,745[2] |

(1) Excludes Security Lending Collateral assets of $515,988,000.
(2) Includes Investment Management Fees and Expenses of $126,174,000 and Investment-Related Administrative Expenses of $3,571,000.