LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

Los Angeles City Employees' Retirement System

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

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013

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Los Angeles City Employees' Retirement System

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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Issued by
Thomas Moutes
General Manager

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

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Introduction

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Letter of Transmittal

December 6, 2013

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

Dear Members of the Board:

The City of Los Angeles established the Los Angeles City Employees' Retirement System (LACERS) as a pension trust fund to provide secure retirements for the civilian employees who provide public services to maintain and enrich our City. LACERS is entrusted with the administration of the trust fund and carries out its duties with the utmost fiduciary care for its Members. As evidence of our stewardship, I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. We invite all stakeholders and interested parties to examine the financial condition of the System.

During the fiscal year, LACERS investments earned a 14.3% return. Despite this robust return, the funded status of our Retirement Benefits decreased slightly from 69.0% to 68.7%. This slight reduction largely was attributable to the continued recognition of the investment losses incurred in fiscal year 2008-09. Our Postemployment Health Care Plan funded status increased from 71.6% to 71.9% and continued to be one of the best funded governmental plans.

The number of our active Members continued to decline to a thirteen-year low of 24,441 or -1.9% compared with the prior fiscal year. The average age of our active Members rose from 47.8 years to 48.3 years due to the lack of hiring by City entities.

During the fiscal year, our staff worked on advancing the Pension Administration System replacement project initiated in 2011 and on a related process reengineering project. Staff also prepared for the implementation of a second tier of LACERS benefits for employees who become LACERS Members on or after July 1, 2013. Other projects such as our tax compliance assurance, the actuarial audit conducted on our behalf, and the establishment of an Internal Audit function focused on ensuring operational integrity. LACERS first Departmental Audit Manager, Rahoof Oyewole, was hired near the end of the fiscal year.

During the fiscal year, there were several changes to our Board of Administration including the departure of long-time Boardmember Ken Spiker, who resigned after having served for 18 years.

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

Accounting System and Reports

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

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

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

It is the responsibility of LACERS management to prepare the System's financial statements, notes, and supplementary disclosures, and to establish and maintain internal control to ensure the System assets are protected. However, there are inherent limitations associated with internal control, such as the risk of circumventions as a result of cost considerations, collusions, or improper management overrides which may exist in any system. Also, because the cost of implementing a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. Management believes that the System's internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.* LACERS management assumes full responsibility for the contents of this report.

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

Additions to Plan Net Position

The additions to plan net position consist of the City contributions, Member contributions, and net investment income. The total amount of additions for the fiscal year ending June 30, 2013 was $2,146,391,000, including the City contributions of $419,266,000, Member contributions of $197,881,000, and various investment income, net of investment expenses, of $1,529,244,000. The net investment income represents a net increase of $1,446,225,000 as compared to the prior fiscal year's net investment income of $83,019,000. The increase is attributed mainly to the net appreciation in the fair value of investments by $1,405,707,000 in comparison with that of the prior fiscal year. The System's investment rate of return for the current fiscal year was 14.3% (gross of fees), which outperformed the 7.75% actuarial assumed rate of return. Details of the components of the additions to plan net position are included in the Statement of Changes in Plan Net Position on page 27.

Deductions from Plan Net Position

Deductions for the fiscal year ended June 30, 2013 totaled $819,554,000, which represented an increase of $36,465,000 (4.7%) over the prior year. This increase was mainly due to the increased benefits payments for the Retirement Plan and the Postemployment Health Care Plan. The components of the total deductions included payments of retirement benefits of $785,308,000 ($687,362,000 for the Retirement Plan and $97,946,000 for the Postemployment Health Care Plan), refunds of contributions to terminated Members of $17,697,000, and administrative expenses of $16,549,000.

Changes in System Membership

LACERS membership changes for the fiscal year ended June 30, 2013 were as follows:

	2013	2012	In(De)-crease	Change
Active Members	24,441	24,917	(476)	(1.9) %
Retired Members	17,362	17,223	139	0.8 %

Major Initiatives

Implementation of New Tier of Benefits

On November 8, 2012, the Los Angeles City Council approved Ordinance No. 182296 for the purpose of establishing a second tier (Tier 2) of retirement benefits for new hires who become LACERS Members on or after July 1, 2013. Leading up to that effective date, Tier 2 implementation included review, update, and/or creation of over 100 forms used by Members under Tier 1 and 2 benefits; review and creation of workbooks that would be used to administer Tier 2 benefits; and, additional amendment of the City of Los Angeles Administrative Code (LAAC) to segregate Tier 1 and 2 provisions for ease of administration. During this process, LACERS staff made significant efforts coordinating and conducting in-depth reviews of all provisions and forms for both the Tier 1 and 2 benefits with the City Attorney's Office. Staff also worked collaboratively with the City Controller's Office and the Information Technology Agency to ensure recognition of Tier status, including accurate contribution rate application and identification of pensionable/earnable salary, of all existing and new Members in the City's payroll system and LACERS' pension administration system.

LACERS *Well* - Retiree Wellness Program

In 2012, LACERS, with the assistance and financial support of LACERS medical plan carriers – Kaiser Permanente, Anthem Blue Cross, SCAN, and UnitedHealthCare – launched a wellness program called LACERS *Well.* The goal of LACERS *Well* is to provide tools and resources to our retired Members so that they can engage in wellness programs and activities offered through their medical plan carriers to improve their overall health and well being. Staff developed a LACERS *Well* website that provided links to medical plan carrier wellness microsites, resources and tools, as well as educational articles. The first LACERS *Well* campaign, *Take Charge of Your Health*, encouraged retired Members to become more aware of their health status and become more physically active through mailings, online programs, and reward incentives. For 2013, a second campaign, *Find Your Balance*, was developed to promote the importance of balancing nutrition and physical activity through mailings, seminars, webinars, exercise classes, online programs, and reward incentives.

Health and Welfare Program - Data Initiative

As part of LACERS Strategic Plan, staff has a goal to maximize value and minimize costs of the health and welfare program. In relation to this goal, staff has been working with its Health and Welfare Consultant, Keenan and Associates, on a data initiative. Through this initiative, web-based interactive dashboards have been developed to help more closely monitor various elements of health plan utilization and costs so that staff and the LACERS Board can be better informed about upcoming premium changes during contract renewals, and staff and Keenan can develop strategies to help improve utilization to stabilize future costs. These dashboards were first presented to the LACERS Board in January 2013. Staff and the consultant continue to work in partnership with the medical plan carriers to enhance the dashboards.

LACERS Vision, Guiding Principles and Strategic Plan

LACERS adopted a new Vision Statement on March 12, 2013: "*LACERS aspires to be valued by our Members for excellence in all we do.*" Clearly, our Members are in the forefront of this Vision Statement. We have also adopted a set of Guiding Principles stating the values we find necessary in every interaction. Lastly, a renewed Strategic Plan for the next three years, and the adoption of a Strategic Plan Policy, states our commitment to setting long-term goals in a thoughtful, systematic way; and having the courage to be transparent in evaluating our progress.

Pension Administration System Replacement Project

LACERS initiated a major, multi-year software replacement project starting in June 2011, with a targeted completion in 2016. The pension administration system tracks Member information for the duration of their City careers then uses the information to calculate and pay Member retirement benefits. In fiscal year 2012, LACERS selected the pension administration system vendor and product. The planning and design phases were well underway in this fiscal year, with staff users of the pension administration system detailing for the system vendor, our business processes, and system needs.

Other Technological Enhancements

LACERS continues to enhance its use of technology and ensure the security and reliability of technological systems. In the later part of 2012, tablet computers were deployed to Boardmembers to enhance accessibility to information and reduce reliance on paper. LACERS has increased its ability to track and monitor Member caseload through use of the Microsoft SharePoint environment. The SharePoint environment has also been used to enhance efficiencies in travel reimbursement processing, and budget monitoring. In addition, LACERS upgraded its electronic document management system software, and its operating environment to Windows 7. Also of significance, is LACERS major upgrade of its own network which will enhance information security and increase independence and integration opportunities with other systems used by LACERS.

Funding Status and Progress

The funded ratio, the ratio of the actuarial value of assets to actuarial accrued liabilities, is a snapshot of the relative status of LACERS assets and liabilities. It is determined annually in the actuarial valuation, reflecting changes that affect the assets and liabilities during the reporting year. Based on the June 30, 2013 actuarial valuation, the combined funded ratio for the Retirement Plan and the

Postemployment Health Care Plan was decreased by 0.3% from a year ago to 69.1%. Individually, the funded ratio for the Retirement Plan decreased from 69.0% to 68.7%; and for the Postemployment Health Care Plan, the funded ratio increased from 71.6% to 71.9%. The decreased funded ratio for the Retirement Plan is primarily attributable to the continued recognition of the large deferred investment loss of fiscal year 2008-09 under the seven-year asset smoothing method, despite the impressive current year investment return of 14.3%. The slightly increased funded ratio for the Postemployment Health Care Plan is primarily attributable to premiums increasing less than expected, offset by the above-mentioned investment loss (refer to Note 2 – Retirement Plan Description and Note 3 – Postemployment Health Care Plan Description on page 30 and 33, respectively, of the financial statements in the Financial Section of this CAFR). As of June 30, 2013, the total unrecognized investment loss amounts to $81,571,000, which is substantially reduced from the deferred loss of $1,024,757,000 as of June 30, 2012. As it stands, the unrecognized/deferred investment loss is at its lowest level since the June 2007 valuation.

Investment Summary

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

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

The System's total portfolio was valued at $11.9 billion as of June 30, 2013, an increase of $1.3 billion (12.4%) compared to the prior fiscal year. The portfolio posted a gross of fees return of 14.3% (or a net of fees return of 14.1%) over a one-year period. The total fund outperformed its policy benchmark by 1.4% gross of fees return (or 1.2% net of fees return), and also outperformed its actuarial assumed rate of investment return of 7.75%. Due to the improvement of global economy and the loose monetary policies in major financial markets despite some continued fiscal uncertainties, the U.S. and non-U.S. equity markets posted strong gains, and outperformed their respective benchmarks, and these contributed to the System's higher investment rate of return for this reporting period.

The annualized investment returns in detail are presented in the Investment Results on page 59 of the Investment Section. The detail of investment income and loss can be found on pages 20 - 21 of the Financial Section. Other investment related information is summarized in the Investment Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LACERS for its CAFR for the fiscal year ended June 30, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this report for the fiscal year ended June 30, 2013, will again meet the requirements of the Certificate of Achievement Program and we are submitting it to the GFOA for consideration of an annual award.

Acknowledgements

It is important to recognize that the financial information contained in this report represents the work of the LACERS Board, a staff of approximately 130 dedicated employees, along with expert consultants, in their service to more than 24,000 active and 17,000 retired Members and beneficiaries. I thank Members of the Board for their dedicated service, strong engagement, and thoughtful consideration and support. I also thank LACERS

staff. Our mission to establish a lifelong, trustworthy relationship with each Member, engages the majority of Retirement Services and Health Benefits Administration and Communications Divisions staff in direct Member services including counseling and educating Members. The Health Benefits Administration and Communications Division also keeps costs down by rigorously advocating for better valued health provider services and fair rates. LACERS Investment Division carries out the Board's Investment mandates, striving to achieve strong investment returns to enable the payment of retirement benefits. Our Fiscal Management personnel ensure proper Members' account maintenance and benefit payments as well as reliable financial accounting and reporting for the department. Executive and Administrative Divisions provide internal direction and support to ensure the infrastructure is in place for the most efficient and effective service delivery.

Lastly, I would like to acknowledge those who assisted with the preparation of this report: May Tran, JoAnn Peralta, Alan Lee, Jin Hy, Rodney June, Bryan Fujita, Andrea Galstian, Tracy Beloin, Aleli Cangco, and Alex Rabrenovich. I would also like to thank our external auditor, Brown Armstrong, and our consulting actuary, The Segal Company, for their professional assistance in the preparation of this report.

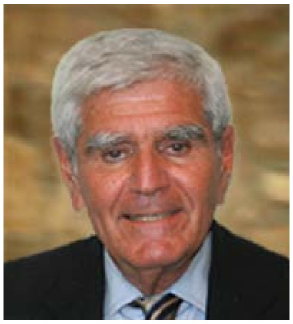
Respectfully Submitted,

Thomas Moutes
General Manager

Mikyong Jang
Chief Accountant

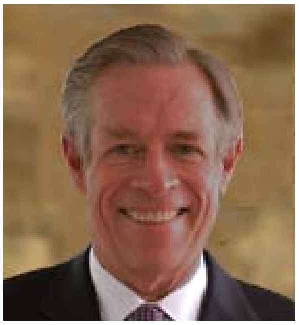
Board of Administration
As of June 30, 2013

Richard M. Rogers
President
Elected by Active Members

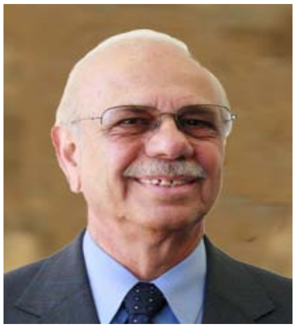


Robert A. Chick
Vice President
Appointed by the Mayor

Elizabeth L. Greenwood
Member
Elected by Active Members

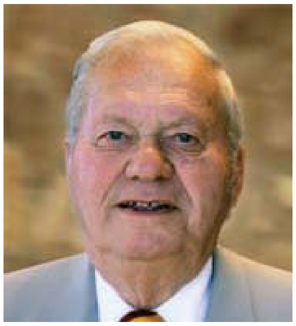


Michael F. Keeley
Member
Appointed by the Mayor



Barker Khorasanee
Member
Appointed by the Mayor

Kenneth M. Simril
Member
Appointed by the Mayor

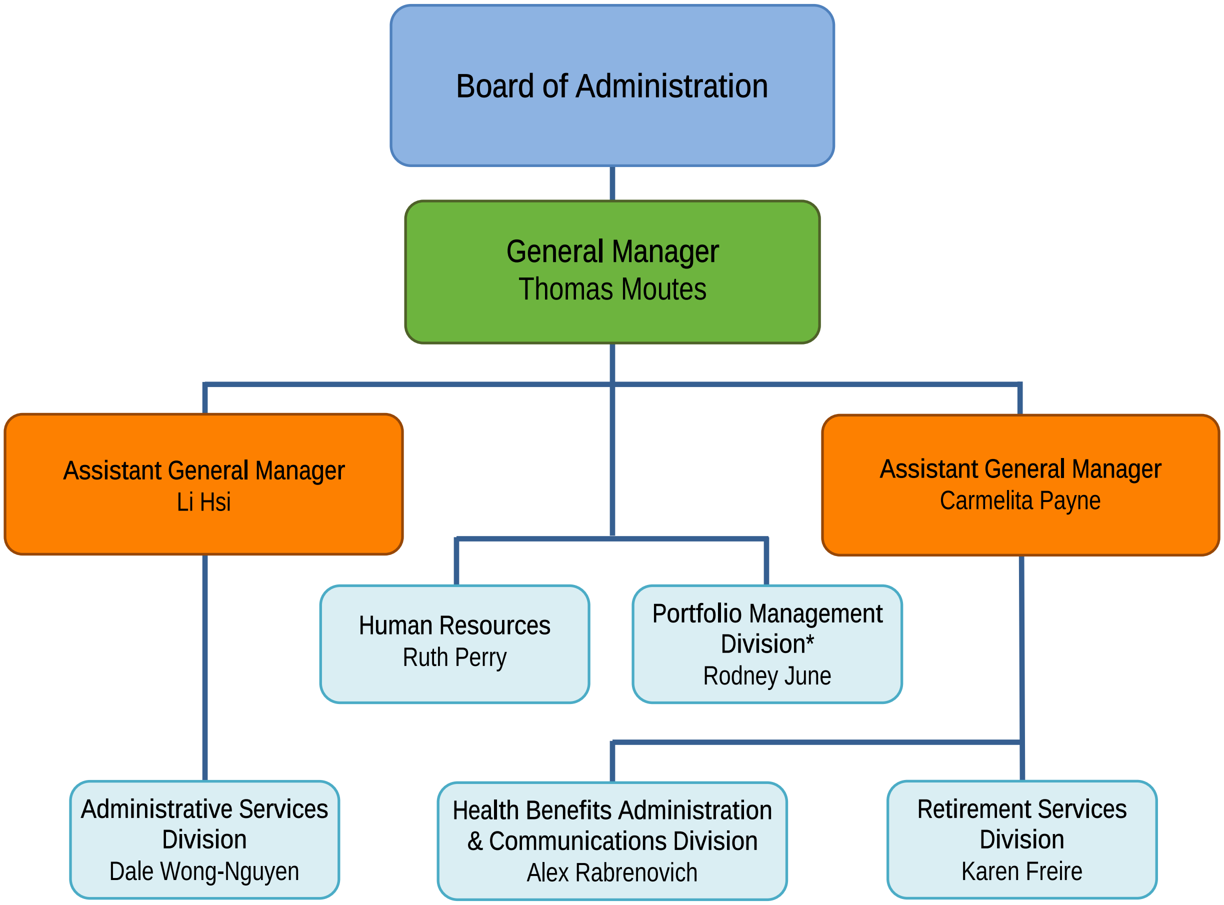


Ken Spiker*
Member
Elected by Retired Members

* Served on the Board until May 21, 2013.

Organizational Chart

As of June 30, 2013



* Schedules of Fees and Commissions can be found in the Investment Section on page 64, and a list of firms managing the investment portfolio can be found in the Investment Section on pages 66 and 67.

Professional Consultants

Actuary
The Segal Company

Independent Auditor
Brown Armstrong

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

Health & Welfare Consultant
Keenan & Associates

Fiduciary Consultant
Hewitt EnnisKnupp, Inc

Legal/Fiduciary Counsel
Ice Miller, LLP
Reed Smith, LLP
Nossaman, LLP
Steptoe & Johnson, LLP

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Los Angeles City
Employees' Retirement System
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

ALSO AWARDED IN 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, & 2011

Financial

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Administration
Los Angeles City Employees' Retirement System
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying Retirement Plan and Postemployment Health Care Plan Statement of Plan Net Position of the Los Angeles City Employees' Retirement System (the System), a department of the Municipality of the City of Los Angeles, California, as of June 30, 2013, and the related Retirement Plan and Postemployment Health Care Plan Statement of Changes in Plan Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Retirement Plan and Postemployment Health Care Plan of the Los Angeles City Employees' Retirement System as of June 30, 2013, and the changes in plan net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2013, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System that collectively comprise the System's basic financial statements. The introductory section, the supplemental schedules, and the investment, actuarial and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the System's June 30, 2012 financial statements, and our report dated December 10, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Pasadena, California
November 19, 2013

Management's Discussion and Analysis

As management of the Los Angeles City Employees' Retirement System (LACERS), we are pleased to provide this overview and analysis of the financial activities of LACERS for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal in the Introductory Section of LACERS Comprehensive Annual Financial Report.

Financial Highlights

- The amount of the plan net position of LACERS as of June 30, 2013 was $11,922,538,000. Compared with the value of the plan net position of LACERS as of June 30, 2012, the value of the plan net position increased by $1,326,837,000, or 12.5% during the reporting period.
- The plan net position under the Retirement Plan and Postemployment Health Care Plan are pooled for investment purposes. Investment income for the year was $1,529,244,000, as compared with an investment income of $83,019,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) to both the Retirement Plan and the Postemployment Health Care Plan were $419,266,000. This amount included an annual contribution of $419,097,000, which was 24.14% of the City's estimated covered payroll of $1,736,113,000, and the City's matching contribution for the Family Death Benefit Plan in the amount of $169,000.
- The employer contributions to the Retirement Plan represented 100% of the Annual Required Contribution (ARC) as defined by the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27. The employer contributions to the Postemployment Health Care Plan represented 100% of the ARC as defined by GASB Statements No. 43 and No. 45.
- Deductions from the plan net position of LACERS included benefits payments, refunds of Member contributions, and administrative expenses. The total deductions from the plan net position were $819,554,000, a 4.7% increase from the prior fiscal year.
- Based on the most recent actuarial valuation as of June 30, 2013, the funded ratio for the Retirement Plan was 68.7% and the funded ratio for the Postemployment Health Care Plan was 71.9%. The total funded ratio for LACERS was 69.1%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting investment performance, demographic changes, actuarial assumption/method changes, benefit structure changes, or a variety of other actuarial gains and losses.

Overview of the Financial Statements

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

Financial Statements

There are two financial statements presented by LACERS. The Statement of Plan Net Position on page 26 gives a snapshot of the account balances at year-end and shows the amount of the plan 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 plan net position may serve as a useful indicator of whether the plan net position of LACERS is improving or deteriorating. The Statement of Changes in Plan Net Position on page 27 provides a view of current year additions to, and deductions from, the plan net position.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 28 – 43 of this report.

Required Supplementary Information

In addition to the Management's Discussion and Analysis, other required supplementary information consists of a Schedule of Funding Progress, a Schedule of Employer Contributions, and the Notes to Required Supplementary Information, for both the Retirement Plan and the Postemployment Health Care Plan. These schedules and notes primarily present the actuarially-determined information in a multi-year format as required by the applicable financial reporting standards. This required supplementary information can be found on pages 46 – 49 of this report.

Supplemental Schedules

The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS' operations for the current year. They can be found on pages 52 and 53 of this report.

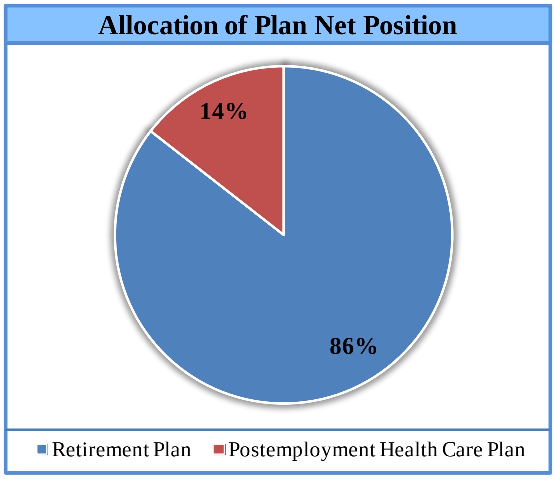
Management's Discussion and Analysis

Financial Analysis

Allocation of Plan Net Position

Plan net position may serve as a useful indicator of a plan's financial position. The total plan 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, 2013 (dollars in thousands):

	Plan Net Position	Percent
Retirement Plan	$10,199,593	85.6%
Postemployment Health Care Plan	1,722,945	14.4
Plan Net Position	$11,922,538	100.0%



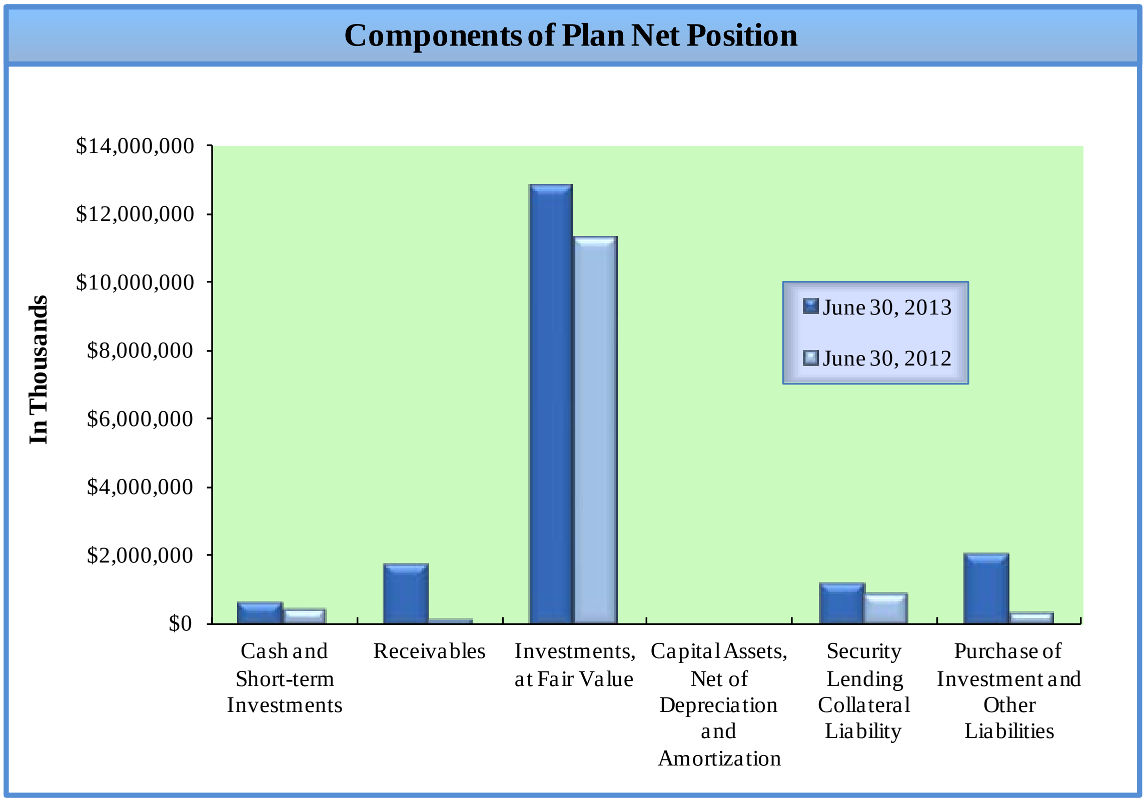
Plan Net Position

The following table and graph represent the detailed information regarding the components of the plan net position of LACERS as of June 30, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change	
Cash and Short-Term Investments	$ 606,604	$ 392,892	$ 213,712	54.4 %
Receivables	1,734,747	99,746	1,635,001	1,639.2
Investments, at Fair Value	12,781,115	11,231,662	1,549,453	13.8
Capital Assets, Net of Depreciation and Amortization	1,318	214	1,104	515.9
Total Assets	15,123,784	11,724,514	3,399,270	29.0
Security Lending Collateral Liability	1,155,982	850,183	305,799	36.0
Purchase of Investments and Other Liabilities	2,045,264	278,630	1,766,634	634.0
Total Liabilities	3,201,246	1,128,813	2,072,433	183.6
Plan Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	$ 11,922,538	$ 10,595,701	$ 1,326,837	12.5 %

Financial Analysis (Continued)

Plan Net Position (Continued)



The majority of LACERS' plan net position is contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, and other asset classes. Plan net position increased by $1,326,837,000, or 12.5%, during this fiscal year. The increase is primarily attributable to the $1,258,819,000 net appreciation in fair value of investments, as compared to $146,888,000 of the prior year's net depreciation, as a result of improved global economic conditions.

Changes in Plan Net Position

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

	June 30, 2013	June 30, 2012	Change	
Additions	$ 2,146,391	$ 685,186	$ 1,461,205	213.3 %
Deductions	819,554	783,089	36,465	4.7
Changes in Plan Net Position	1,326,837	(97,903)	1,424,740	1,455.3
Plan Net Position, Beginning of Year	10,595,701	10,693,604	(97,903)	(0.9)
Plan Net Position, End of Year	$ 11,922,538	$ 10,595,701	$ 1,326,837	12.5 %

Financial Analysis (Continued)

Changes in Plan Net Position – Additions to Plan Net Position

The following table and graph represent the components that make up the additions to plan net position for LACERS for the years ended June 30, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change
City Contributions	$ 419,266	$ 423,921	(1.1) %
Member Contributions	197,881	178,246	11.0
Net Investment Income	1,529,244	83,019	1,742.0
Additions to Plan Net Position	$ 2,146,391	$ 685,186	213.3 %

Financial Analysis (Continued)

Changes in Plan Net Position – Additions to Plan Net Position (Continued)

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

City Contributions to the Retirement Plan, the Postemployment Health Care Plan, and the Family Death Benefit Plan were $419,266,000 during the year or $4,655,000 (-1.1%) less than the prior fiscal year due to the lower contribution rate recommended by the actuary. The City payroll and the recommended contribution rate are the two main factors that determine the City contributions. The total City payroll for fiscal year 2012-13 was $1,736,113,000, which is $20,916,000 greater than the prior fiscal year payroll of $1,715,197,000. Similar to the last fiscal year, the City payroll was broken down into two Member groups in applying the contribution rate; a lower City contribution rate was applied to the payroll for Members who make additional 4% employee contributions in order to obtain a vested right to future increase in the maximum medical subsidy in accordance with the existing and anticipated Memoranda Of Understanding (MOUs) between the City and various Employee Labor Organizations (refer to Note 3 on page 33 – Postemployment Health Care Plan Description). The composite employer contribution rate for this fiscal year was 24.14% (19.94% for the Retirement Plan and 4.20% for the Postemployment Health Care Plan) which is slightly lower than the prior fiscal year's rate of 24.71%. The contribution rate of 24.14% was based on June 30, 2011 actuarial valuation, in which: 1) the substitution effect of the 4% employee contribution; 2) the very favorable 2012 health care renewal rates coupled with the slightly lower initial medical trend rate, as well as; 3) the retiree health subsidy freeze for employees not making the 4% contribution, more than offset the negative impact of investment return assumption change from 8% to 7.75%, resulting in a slight decrease in the City contribution. This decreased City contribution rate lowered the total amount of City's contribution notwithstanding the payroll base actually increased by $20,916,000 for this fiscal year. The actual contribution to the Retirement Plan was equal to 100% of the ARC of $346,181,000 as defined by GASB Statements No. 25 and 27. The actual contribution to the Postemployment Health Care Plan was equal to 100% of the ARC of $72,916,000 as defined by GASB Statements No. 43 and 45.

Factors that may affect the amount of Member Contributions include the change in number and composition of Members, the change in Member salaries, and the change in Member contribution rates. In fiscal year 2012-13, Member contributions were $197,881,000, which was $19,635,000 or 11.0% greater than the prior year. This increase was primarily attributable to the increases in contribution rates for the majority of Members who previously contributed 7% or 9% of their pay, started to contribute 11% effective either July 1, 2012 or January 1, 2013. The remaining Members, which consist of approximately 3% of the total Members are still contributing 7% as of June 30, 2013 (refer to Note 2 – Retirement Plan Description on page 30, Note 3 – Postemployment Health Care Plan Description on page 33, and Note 10 – Subsequent Events on page 42). In addition, the overall increase in Members' average salaries, by approximately 1.2%, also caused the employee contribution to increase in the reporting fiscal year.

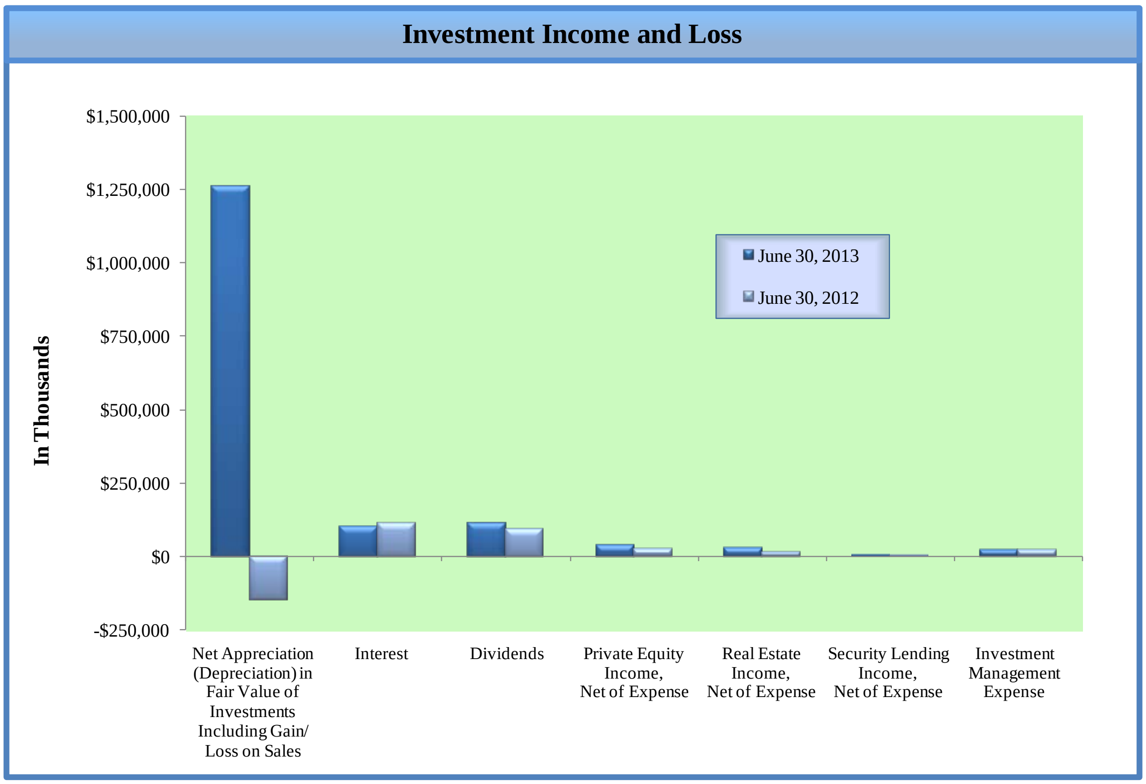
The net investment income of $1,529,244,000, which included $1,258,819,000 of net appreciation in fair value of investments, reflected the continued recovery of the financial and stock market during the fiscal year. This is discussed in more detail in the next section.

Financial Analysis (Continued)

Investment Income and Loss

The following table and graph present the detail of investment income and loss, net of investment management expenses for the years ended June 30, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change
Net Appreciation (Depreciation) in Fair Value of Investments Including Gain/Loss on Sales	$ 1,258,819	$ (146,888)	957.0 %
Interest	102,989	111,809	(7.9)
Dividends	114,950	94,552	21.6
Private Equity Income, Net of Expense	39,420	24,385	61.7
Real Estate Income, Net of Expense	28,307	15,234	85.8
Security Lending Income, Net of Expense	5,795	4,600	26.0
Sub-Total	1,550,280	103,692	1,395.1
Less: Investment Management Expense	(21,036)	(20,673)	1.8
Net Investment Income	$ 1,529,244	$ 83,019	1,742.0 %



Financial Analysis (Continued)

Investment Income and Loss (Continued)

The net investment income for the current fiscal year was $1,529,244,000, as compared with the income of $83,019,000 for the previous fiscal year (1,742.0% increase). This large increased investment income which included $1,258,819,000 of net unrealized and realized gains was primarily due to the increases in the value of LACERS portfolio holdings.

Major stock indices increased significantly during the fiscal year. The Dow Jones Industrial Average was up 15.8% while the S&P 500 Index was up 17.9%. The Morgan Stanley All Country World Index excluding U.S. (MS ACWI ex U.S.) that tracks the non-U.S. equities was also up 13.6%. Several factors that contributed to the favorable equity market are: 1) the Federal Reserve launched a third round of quantitative easing in September 2012 of $40 billion per month. This further increased to $85 billion per month in December 2012; 2) the Federal funds rate continued to be kept at historic low; 3) corporate earnings steadily improved; 4) the Eurozone crisis appeared to have reached peak levels and started slowly improving; and 5) the global economy maintained a slow but steady recovery throughout the reporting period.

Interest income derived from bonds decreased by $8,820,000 (-7.9%), attributable to the lower interest rates compared with the prior reporting year.

Dividend income derived from stocks increased by $20,398,000 (21.6%) due to improvement in corporate earnings as well as increase in the number of stock holdings.

Private equity and real estate income both significantly increased during the fiscal year by $15,035,000 (61.7%) and $13,073,000 (85.8%), respectively. The increase in cash supply and low interest rates made a favorable investment environment in these sectors. As a result, private equity and real estate partnerships were generally experiencing considerable profits and income distributions during the year.

LACERS earns additional investment income by lending securities to borrowers through its custodian bank. The borrowers provide cash or non-cash collateral to System's custodian bank. The custodian bank, in turn, invests the cash collateral on behalf of the borrowers in short and intermediate term fixed income securities. In the reporting year, LACERS security lending income (net of expense) increased by $1,195,000 (26.0%) as more lending activities due to the favorable market conditions.

Investment management expense for the current fiscal year increased modestly by $363,000 (1.8%) from the prior year. This slight increase reflects LACERS effort to implement the low cost strategies in pursuing the optimal risk-adjusted investment returns, which include termination of managers with high fees, moving away from performance-based fees, and shifting some active style investment to passive investment. Without such effort, the investment management fees would have been significantly higher considering the $1.3 billion increase in LACERS plan net position at the end of the reporting year.

Changes in Plan Net Position – Deductions from Plan Net Position

The following table and graphs provide information related to the deductions from plan net position for the years ended June 30, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change
Benefits Payments	$ 785,308	$ 756,063	3.9 %
Refunds of Contributions	17,697	11,100	59.4
Administrative Expenses	16,549	15,926	3.9
Deductions from Plan Net Position	$ 819,554	$ 783,089	4.7 %

Financial Analysis (Continued)

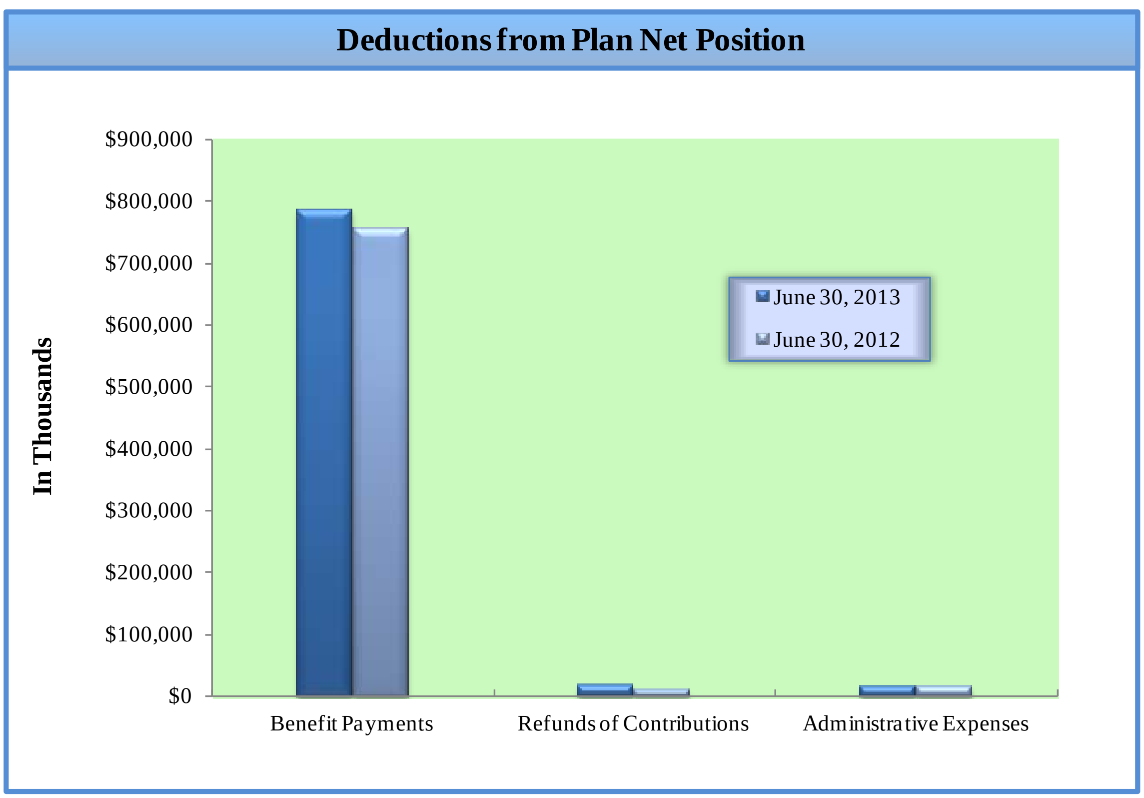
Changes in Plan Net Position – Deductions from Plan Net Position (Continued)

LACERS deductions from plan net position in the reporting period can be summarized as Benefits Payments, Refunds of Contributions, and Administrative Expenses. These deductions represent the types of benefit delivery operations undertaken by LACERS and the costs associated with them. Total deductions increased by $36,465,000 or 4.7%.

Compared to the prior year, benefits payments increased by $29,245,000, or 3.9%. The benefits payments for the Retirement Plan increased by $22,736,000 (3.4%) mainly due to the annual cost of living adjustments (COLA) (approximately 2.7% increase on average up to a maximum 3.0%); and the average retirement allowance of newly retired Members was higher than those of the deceased Members who were removed from the retirement payroll. Payments for Postemployment Health Care Plan benefits increased by $6,509,000 (7.1%) due to the increased maximum health subsidy from $1,190 to $1,367 per month as the renewed medical premium rates for 2013 increased. The health care benefit expense was reduced by the reimbursement from the Federal Early Retiree Reinsurance Program (ERRP), which LACERS obtained to help offset the System's subsidy cost, as well as the subsidy cost of many eligible Members.

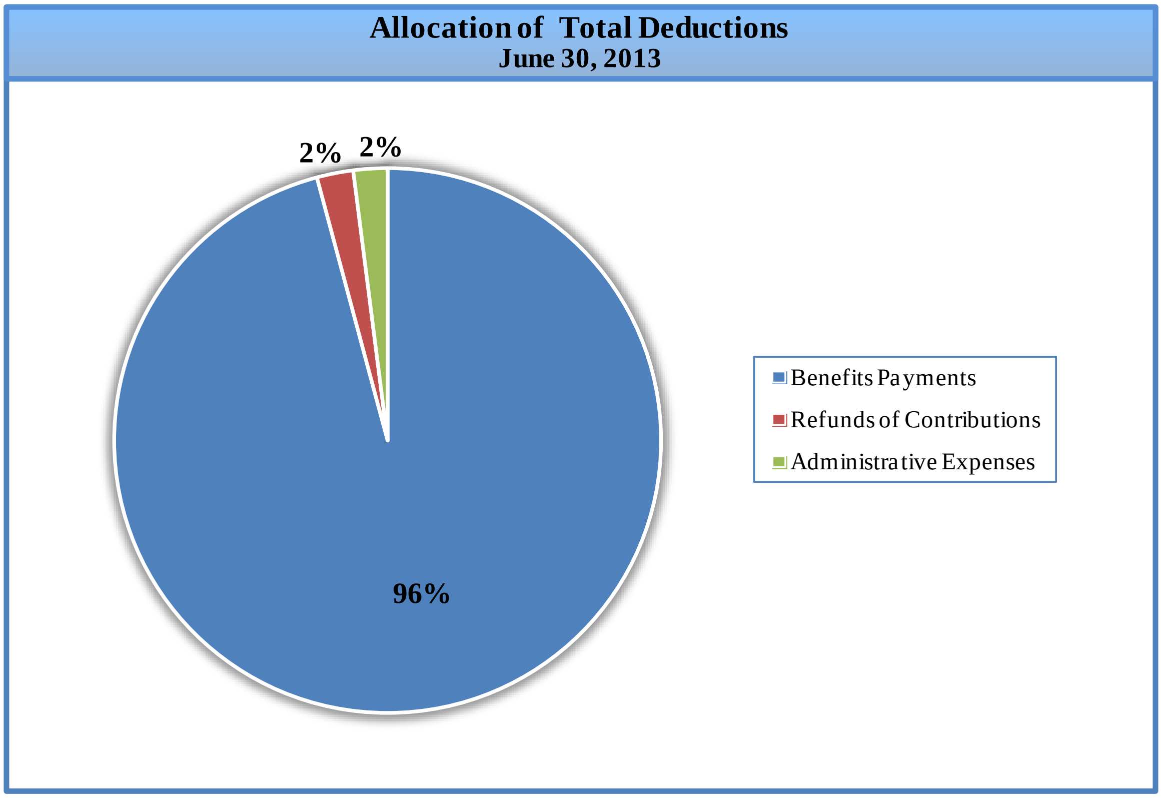
Refunds of contributions increased by $6,597,000 (59.4%) mainly due to an increased number of City employees transferring to the Department of Water and Power (DWP) and transferring of their retirement contributions from LACERS to the Water and Power Employees' Retirement Plan under the reciprocity program.

LACERS administrative expenses during the reporting period increased by $623,000 (3.9%) from the prior year. The increase was primarily attributable to the increased salaries and wages caused by the mandated cost of living adjustment, and the increased employees' health benefit costs. The increase also reflects the lower base of the prior fiscal year which experienced lower salaries and wages because of personnel turnover as compared to the current fiscal year wherein the System returned to the normal level of personnel. There were also some non-recurring expenses during this reporting period such as the costs related to LACERS' office relocation in July 2012, and fees for an actuarial audit, which under LACERS policy should be conducted if the same actuarial firm performs as the System's actuary for five or more years. However, these increases were mitigated by the lower lease costs of the new office space, and the lower legal service costs due to mandatory furlough of City Attorneys.



Financial Analysis (Continued)

Changes in Plan Net Position – Deductions from Plan Net Position (Continued)



Requests for Information

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

LACERS
Fiscal Management Section
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

AUDITED FINANCIAL STATEMENTS

Statement of Plan Net Position
Retirement Plan and Postemployment Health Care Plan
As of June 30, 2013, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2013 Total	2012 Total
Assets				
Cash and Short-Term Investments	$ 518,943	$ 87,661	$ 606,604	$ 392,892
Receivables				
Accrued Investment Income	32,530	5,495	38,025	34,986
Proceeds from Sales of Investments	1,444,407	243,993	1,688,400	57,169
Other	7,119	1,203	8,322	7,591
Total Receivables	1,484,056	250,691	1,734,747	99,746
Investments, at Fair Value				
U.S. Government Obligations	501,084	84,645	585,729	688,122
Municipal Bonds	6,357	1,073	7,430	6,355
Domestic Corporate Bonds	910,581	153,818	1,064,399	1,003,816
International Bonds	289,313	48,872	338,185	300,812
Bank Loans	-	-	-	4,213
Opportunistic Debt	1,041	176	1,217	78,925
Domestic Stocks	3,907,978	660,147	4,568,125	4,069,069
International Stocks	2,147,785	362,810	2,510,595	1,790,832
Mortgages	528,384	89,256	617,640	554,573
Government Agencies	36,421	6,153	42,574	49,331
Derivative Instruments	-	-	-	424
Real Estate	583,737	98,607	682,344	642,442
Private Equity	1,032,484	174,411	1,206,895	1,192,565
Security Lending Collateral	988,930	167,052	1,155,982	850,183
Total Investments	10,934,095	1,847,020	12,781,115	11,231,662
Capital Assets				
Furniture, Computer Hardware and Software (Net of Depreciation and Amortization)	1,128	190	1,318	214
Total Assets	12,938,222	2,185,562	15,123,784	11,724,514
Liabilities				
Accounts Payable and Accrued Expenses	48,083	8,122	56,205	39,899
Derivative Instruments	16	3	19	-
Purchases of Investments	1,701,600	287,440	1,989,040	238,731
Security Lending Collateral	988,930	167,052	1,155,982	850,183
Total Liabilities	2,738,629	462,617	3,201,246	1,128,813
Plan Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	**$ 10,199,593**	**$ 1,722,945**	**$ 11,922,538**	**$ 10,595,701**

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

Statement of Changes in Plan Net Position
Retirement Plan and Postemployment Health Care Plan
For the Year Ended June 30, 2013, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2013 Total	2012 Total
Additions				
Contributions				
City Contributions	$ 346,350	$ 72,916	$ 419,266	$ 423,921
Member Contributions	197,881	-	197,881	178,246
Total Contributions	544,231	72,916	617,147	602,167
Investment Income (Loss)				
Net Appreciation (Depreciation) in Fair Value of Investments Including Gain and Loss on Sales	1,048,344	210,475	1,258,819	(146,888)
Interest	86,432	16,557	102,989	111,809
Dividends	96,471	18,479	114,950	94,552
Private Equity Income, Net of Expense	33,199	6,221	39,420	24,385
Real Estate Income, Net of Expense	23,815	4,492	28,307	15,234
Security Lending Income	5,720	1,096	6,816	5,411
Less: Security Lending Expense	(850)	(171)	(1,021)	(811)
Sub-Total	1,293,131	257,149	1,550,280	103,692
Less: Investment Management Expense	(17,519)	(3,517)	(21,036)	(20,673)
Net Investment Income	1,275,612	253,632	1,529,244	83,019
Total Additions	1,819,843	326,548	2,146,391	685,186
Deductions				
Benefits Payments	687,362	97,946	785,308	756,063
Refunds of Contributions	17,697	-	17,697	11,100
Administrative Expenses	13,352	3,197	16,549	15,926
Total Deductions	718,411	101,143	819,554	783,089
Changes in Plan Net Position	1,101,432	225,405	1,326,837	(97,903)
Plan Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits				
Beginning of Year	9,098,161	1,497,540	10,595,701	10,693,604
End of Year	**$ 10,199,593**	**$ 1,722,945**	**$ 11,922,538**	**$ 10,595,701**

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

Note 1 – Description of the System and Significant Accounting Policies

General Description

The Los Angeles City Employees' Retirement System (the System) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. The System is a Department of the Municipality of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles' Annual Financial Report as a pension trust fund.

The System operates a single-employer defined benefit plan (the Retirement Plan) and a Postemployment Health Care Plan. A description of each plan is located in Note 2 and Note 3 (pages 30 – 35). All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

Basis of Accounting

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

Basis of Presentation

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

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

Fair Value of Investments

Funds of the System are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board as required by Article XI Section 1106(d) of the City Charter. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real estate, private equity, and short-term investments.

Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, bank loans, stocks, and 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 fair values of private equity funds are provided by the individual general partners at liquidating events or other significant events during the reporting period. The fair values of derivative instruments are determined using available market information. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. LACERS' investment strategy, as it relates to the debt portfolio, is mainly to achieve market appreciation and not to hold bonds to their maturities.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the Statement of Plan Net Position under Receivables and labeled as Proceeds from Sales of Investments, and amounts payable for purchases are reported under (Current) Liabilities and labeled as Purchases of Investments. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

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

Capital Assets

Prior to July 1, 2001, purchases of capital assets, consisting primarily of office furniture and computer equipment were recorded and expensed in the year acquired. Effective July 1, 2001, these purchases are capitalized upon acquisition if the cost of purchase is $5,000 or more, and depreciated over five years using straight-line method. During this fiscal year, the System started to incur the costs for developing a new Pension Administration System (PAS), a strategic initiative critical to LACERS future operations. In order to comply with the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, certain costs were capitalized, and amortized over 15 years, which is estimated useful life, using the straight-line method.

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

Administrative Expenses

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

Reserves

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

Reserves for Retirement Plan

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

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

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

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

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

Reserve for Postemployment Health Care Plan

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

Reserve balances as of June 30, 2013, were as follows (in thousands):

Reserve for Retirement Plan		
Member Contributions	$ 1,779,122	
Basic Pensions	7,886,562	
Annuity	488,801	
Larger Annuity	30,749	
FDBP	14,359	$10,199,593
Reserve for Postemployment Health Care Plan		1,722,945
Total Reserves		$ 11,922,538

Use of Estimates in Preparation of the Financial Statements

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

Implementation of New Accounting Pronouncement

In the current fiscal year, the System implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources in regard to hedging derivative instruments, and by renaming the residual measure as net position, rather than net assets. The System has not had any hedging derivative instruments. Yet, the System changed the names of the System's Basic Financial Statements as the *Statement of Plan Net Position* and the *Statement of Changes in Plan Net Position* in compliance with the new accounting pronouncement. The term "plan net position" is used throughout this financial report replacing the "plan net assets".

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying *Statement of Plan Net Position* and *Statement of Changes in Plan Net Position*. Also, certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

Note 2 – Retirement Plan Description

Plan Description

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

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

On June 30, 2013, the components of the System's membership were as follows:

Active:	
Vested	21,901
Non-vested	2,540
	24,441
Inactive:	
Non-vested	4,131
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,668
Retired	17,362
Total	47,602

Funding Policy and Funded Status and Progress

Article XI Sections 1158 and 1160 of the Los Angeles City Charter requires periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2013, the annual required contribution (ARC) to the Retirement Plan by the City was 19.94% of covered payroll, determined by the June 30, 2011 actuarial valuation. The actual contribution made by the City for fiscal year 2012-13 was equal to the rate as adopted by the Board of Administration, which is the recommended contribution rate set equal to the greater of the current funding policy or the minimum ARC as determined under GASB Statements No. 25 and No. 27.

Prior to the Early Retirement Incentive Program (ERIP) in 2009, there were two different types of contributions from Members. Members who entered the System prior to February 1983 (Defrayal Group) contributed from 8.22% to 13.33% of their salaries based upon their ages when they entered the System; however, these contributions were subsidized by the City under various collective bargaining agreements.

Starting November 8, 2009, as the ERIP Ordinance became effective, all Members of the System contributed a flat rate of 6% of pay regardless of their entry date, and the City's Defrayal of employee contributions had been completely phased out after June 30, 2011. The ERIP Ordinance also stipulates a 1% increase in the Member contribution rate for all employees effective July 1, 2011, for a period of 15 years, or until the ERIP Cost Obligation is fully paid, whichever comes first. Further, new ordinances adopted by the City Council in 2011 provide that Members represented by certain bargaining groups are required to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, Member contribution rates were increased to 7%, 9%, or 11% of pay. The majority of those Members who were contributing 7% or 9% were required to contribute 11% effective July 1, 2012, and January 1, 2013, pursuant to the terms and conditions of the specific Memorandum of Understanding (MOU) to which they are subject. The remaining Members, who belong to three bargaining groups, still contribute 7% of pay (also refer to Note 3 – Postemployment Health Care Plan Description on page 33, and Note 10 – Subsequent Events on page 42).

Members of the System have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, Members are eligible for future retirement benefits, which increase with length of service. If a Member 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.

The eligibility requirements and benefit provisions for employees whose membership began after June 30, 2013 (Tier 2 Members) shall differ (refer to Note 10 – Subsequent Events on page 42).

As of June 30, 2013, the most recent actuarial valuation date, the Retirement Plan was 68.7% funded. The actuarial accrued liability for benefits was $14,881,663,000 and the actuarial value of assets was $10,223,961,000, resulting in an unfunded actuarial accrued liability (UAAL) of $4,657,702,000. The covered payroll as of the June 30, 2013 valuation was $1,846,970,000. The ratio of UAAL to the covered payroll was 252.2%.

Note 2 – Retirement Plan Description (Continued)

Funding Policy and Funded Status and Progress (Continued)

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In October 2012, the Board modified the System's funding policy to: 1) change the actuarial cost method for the existing retirement benefits and health benefits from the Projected Unit Credit (PUC) method to the Entry Age Normal (EAN) method beginning with the June 30, 2012 valuation. (The EAN cost method is known to produce more stability in the plan sponsor's year-to-year contribution obligation by spreading contributions in a more level pattern throughout a Member's career); and 2) amortize all UAAL layers as of June 30, 2012, over 30 years, except the layers created in 2004 and 2005 for GASB compliance and the layers created in 2009 as a result of the ERIP, which will maintain their original amortization schedules. The actuarial methods and significant assumptions used in the valuation year of June 30, 2013, are summarized in this note to conform to the disclosure requirements of GASB Statement No. 50.

Note 2 – Retirement Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 30 years. The existing layers on June 30, 2005, except those arising from the 2009 ERIP and the two GASB25/27 layers, were combined and amortized over 30 years. Plan changes, including the liability change due to the 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over five years. Actuarial surplus is 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 result of such smoothing process shall fall between 60% - 140% of fair value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Includes Inflation at	3.50%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increases	Ranges from 11.25% to 6.50% for Members with less than five years of service. Ranges from 6.50% to 4.65% for Members with five or more years of service.
Cost of Living Adjustments	3.00%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward five years for males and set forward six years for females.
Percent Married / Domestic Partner	76% of male participants; 50% of female participants are assumed to be married or have a qualified domestic partner.
Spouse Age Difference	Female spouses are three years younger than their spouses.

Note 3 – Postemployment Health Care Plan Description

Plan Description

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

During the 2011 fiscal year, the City adopted an ordinance to freeze the maximum medical subsidy at $1,190 for those Members who retire on or after July 1, 2011. However, Members who at any time prior to retirement contribute the additional 2% or 4% of pay pursuant to the ordinances mentioned in Note 2 on page 30 are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2013, approximately 97% of non-retired Members were making the additional contributions, and therefore not subject to the medical subsidy freeze (also refer to Note 10 – Subsequent Events on page 42).

Postemployment health care benefits and conditions of entitlement for employees whose membership began after June 30, 2013 (Tier 2 Members) shall differ (refer to Note 10 – Subsequent Events).

Funding Policy and Funded Status and Progress

Article XI Sections 1158 and 1160 of the Los Angeles City Charter requires periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2013, was 4.2% of covered payroll, determined by the June 30, 2011 actuarial valuation. As of June 30, 2013, the most recent actuarial valuation date, the Postemployment Health Care Plan was 71.9% funded. The actuarial accrued liability for benefits was $2,412,484,000 and the actuarial value of assets was $1,734,733,000, resulting in an UAAL of $677,751,000. The covered payroll as of the June 30, 2013 valuation was $1,846,970,000. The ratio of UAAL to the covered payroll was 36.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns, and the health care cost trends. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 48 following the notes to the basic financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Note 3 – Postemployment Health Care Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption or method changes resulting from triennial experience study are amortized over 30 years. Health cost trend and premium assumption changes are amortized over 15 years. The initial unfunded liabilities on June 30, 2012 were combined and amortized over 30 years. The costs associated with the 2009 ERIP have been amortized over 15 years beginning with the June 30, 2009 valuation date. Plan changes, including the liability change due to the 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over five years. Actuarial surplus is 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 result of such smoothing process shall fall between 60% - 140% of fair value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward five years for males and set forward six years for females.
Marital Status	60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.
Surviving Spouse Coverage	With regard to Members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.
Participation	50% of inactive Members are assumed to receive a subsidy for a City approved health carrier. 100% of retirees becoming eligible for Medicare are assumed to be covered by both Parts A and B.

Note 3 – Postemployment Health Care Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Health Care 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 2013-2014 and later years are:

First Fiscal Year (July 1, 2013 through June 30, 2014)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	7.54%	6.69%
Blue Cross HMO	9.75%	N/A
Blue Cross PPO	7.50%	8.48%
UnitedHealth Care (formerly Secure Horizons)	N/A	4.23%

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

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

Medicare Part B Premium Trend to be applied is 5.00% for all years.

Note 4 – Contributions Required and Contributions Made

The System used the Projected Unit Credit cost method in the June 30, 2011 actuarial valuation to determine the fiscal year 2012-13 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 UAAL which is the difference between the System's actuarial liabilities and actuarial assets.

The components of the UAAL are amortized as a level percent of pay. Based on the System's funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 30 years, except that health cost trend and premium assumption changes are amortized over 15 years. Plan changes and experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period for all layers combined. The amortization periods are "closed" as the amounts calculated annually are amortized over either a 15- or 30-year period.

The contributions to the System for the year ended June 30, 2013, in the amount of $617,147,000 ($544,231,000 for the Retirement Plan and $72,916,000 for the Postemployment Health Care Plan), were made in accordance with actuarially-determined requirements computed by the actuarial valuation dated June 30, 2011.

Contributions to the System consisted of the following for the year ended June 30, 2013 (in thousands):

	Retirement Plan	Postemployment Health Care Plan
City Contributions:		
Required Contributions	$ 346,181	$ 72,916
FDBP	169	-
Total City Contributions	346,350	72,916
Member Contributions	197,881	-
Total Contributions	$ 544,231	$ 72,916

The City contributions made for the Retirement Plan under the Required Contribution category in the amount of $346,181,000 were equal to 100% of the ARC of the employer as defined by GASB Statements No. 25 and No. 27. The City contributions made for the Postemployment Health Care Plan, in the amount of $72,916,000, represents 100% of the ARC as defined by GASB Statements No. 43 and No. 45. Member contributions in the amount of $197,881,000 were made toward the Retirement Plan and the voluntary Family Death Benefit Plan.

Note 5 – Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 46 – 47 for the Retirement Plan and pages 48 – 49 for the Postemployment Health Care Plan.

Note 6 – Cash and Short-Term Investments and Investments

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

The System considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2013 on the Retirement Plan and Postemployment Health Care Plan included approximately $2,106,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $604,498,000 for a total of $606,604,000. 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, 2013, short-term investments included collective STIF of $131,124,000, international STIF of $368,292,000, and future contracts initial margin and collaterals of $105,083,000.

Note 6 – Cash and Short-Term Investments and Investments (Continued)

The fair value of derivative instruments, including equity index and interest rate future contracts, currency forward contracts, and rights and warrants, are recorded in the Statement of Plan Net Position with a net value of $19,000 and reported as a (current) Liability. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Plan Net Position as Investment Income (Loss). The System enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of the System's derivatives for the current and previous fiscal years are classified as investment derivatives.

The notional amount and the fair value of derivative instruments as of June 30, 2013, are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Equity Index	$ 15,852	$ 79	$ (131)
Interest Rate	(83,080)	(160)	(349)
Currency Forward			
Contracts	93,527	(22)	(2)
Right / Warrants	N/A	84	39
Total Value		$ (19)	$ (443)

Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2013, are as follows (dollars in thousands):

S & P Ratings	Fair Value	Percentage
AAA	$ 45,607	2.20 %
AA	644,554	31.15
A	413,146	19.96
BBB	617,842	29.85
BB	146,928	7.10
B	116,188	5.61
CCC	16,465	0.80
CC	3,735	0.18
D	4,488	0.22
Not Rated	60,546	2.93
	2,069,499	100.00 %
U.S. Government Guaranteed Securities *	587,675	
Total Fixed Income Securities	$ 2,657,174	

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

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

Note 6 – Cash and Short-Term Investments and Investments (Continued)

Credit Risk – Derivatives (Continued)

As of June 30, 2013, without respect to netting arrangements, the System's maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is as follows (in thousands):

S & P Ratings	Fair Value
AA-	$ 141
A+	145
A-	196
Total Credit Risk	$ 482

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, the System would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2013, the System has exposure to such risk in the amount of $42,011,000, or 1.36% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 11 different investment managers, and held outside of the System's custodial bank. The System's policy requires each individual publicly traded equities investment managers to hold no more than 10% of their portfolios in the form of cash. The System is in compliance with the policy.

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

Concentration of Credit Risk

The investment portfolio as of June 30, 2013, 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 the System manages its exposure to interest rate risk is by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the BC U.S. Universal Bond Index, the BC Intermediate Government Credit Index, or the BC Aggregate Bond Index, depending on the Board's mandates. The effective duration is a measure, in years, of interest-rate sensitivity in debt investments. The longer the effective duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is provided by the following table that shows the weighted average effective duration of the System's fixed income securities by investment type (dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 14,406	3.48
Commercial Mortgage-Backed Securities	97,441	3.48
Corporate Bonds	1,334,609	5.86
Government Agencies	45,545	4.97
Government Bonds	538,193	3.70
Government Mortgage-Backed Securities	520,199	4.99
Index Linked Government Bonds	75,107	6.01
Municipal/Provincial Bonds	7,430	6.18
Non-Government Backed C.M.O.s	23,027	2.56
Opportunistic Debt	1,217	N/A
Total Fixed Income Securities	$ 2,657,174	

Note 6 – Cash and Short-Term Investments and Investments (Continued)

Highly Sensitive Investments

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

Investment Type	Fair Value
Asset-Backed Securities	$ 14,406
Commercial Mortgage-Backed Securities	97,441
Government Agencies	45,545
Government Mortgage-Backed Securities	520,199
Non-Government Backed C.M.O.s	23,027
Total Asset-Backed Investments	$ 700,618

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System's Asset Allocation policy sets a target of 29% 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.

Note 6 – Cash and Short-Term Investments and Investments (Continued)

Foreign Currency Risk (Continued)

The System's non-U.S. currency investment holdings as of June 30, 2013, which represent 20.3% of the fair value of total investments, are as follows (in thousands):

Foreign Currency Type	Cash and Adjustments to Cash	Equity	Fixed Income	Derivative Instruments	Other Investments	Total Fair Value in USD
Argentine peso	$ 49	$ -	$ -	$ -	$ -	$ 49
Australian dollar	6,357	136,722	-	105	-	143,184
Brazilian real	299	15,912	354	34	-	16,599
British pound sterling	8,376	375,095	-	80	12,076	395,627
Canadian dollar	4,581	115,356	9,167	97	-	129,201
Chilean peso	-	315	-	-	-	315
Czech koruna	17	1,003	-	-	-	1,020
Danish krone	(350)	22,800	-	-	-	22,450
Euro	9,830	552,131	-	(49)	109,570	671,482
Hong Kong dollar	3,616	160,148	-	19	-	163,783
Hungarian forint	30	1,831	-	-	-	1,861
Indian rupee	296	32,435	-	-	-	32,731
Indonesian rupiah	72	13,279	-	-	-	13,351
Japanese yen	(17,539)	477,560	-	184	28,218	488,423
Malaysian ringgit	322	3,734	-	-	-	4,056
Mexican peso	25	3,309	18,450	-	-	21,784
New Israeli shekel	1,029	5,783	-	-	-	6,812
New Taiwan dollar	670	36,203	-	-	-	36,873
New Zealand dollar	2	2,162	-	-	-	2,164
Norwegian krone	1,196	16,814	-	-	-	18,010
Philippine peso	230	17,222	-	-	-	17,452
Polish zloty	29	3,095	-	1	-	3,125
Singapore dollar	1,732	52,689	-	-	-	54,421
South African rand	18	14,738	-	(3)	-	14,753
South Korean won	338	72,333	-	-	-	72,671
Swedish krona	4,093	45,334	-	-	-	49,427
Swiss franc	(7,870)	187,370	-	11	-	179,511
Thai baht	97	33,512	-	-	-	33,609
Turkish lira	34	3,955	-	-	-	3,989
United Arab Emirates dirham	110	1,955	-	-	-	2,065
Total Investments Held in Foreign Currency	$ 17,689	$ 2,404,795	$ 27,971	$ 479	$ 149,864	$ 2,600,798

Note 7 – Securities Lending Agreement

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

Minimum collateralization is 102% of the fair value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government and corporate securities, and commercial bank obligations. Cash collateral may be invested separately or pooled in a separate fund for investing in money market or high quality short and intermediate 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 the System.

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

These agreements provide for the return of the securities and revenue determined by the type of collateral received. The cash collateral values of securities on loan to brokers are shown at their fair values on the Statement of Plan Net Position.

As of June 30, 2013, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceed the amounts the borrowers owed the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent. Due to the nature of the securities lending program and the custodian bank's collateralization of loans at amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to the System as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program.

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

The following tables represent the balances of collateral received and loaned securities as of June 30, 2013 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2013:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 409,423	$ 50,961	$ 460,384
Domestic Corporate Fixed Income Securities	148,902	-	148,902
International Fixed Income Securities	4,798	38,325	43,123
Domestic Stocks	456,910	3,565	460,475
International Stocks	135,949	258,318	394,267
	$1,155,982	$ 351,169	$1,507,151

Note 7 – Securities Lending Agreement (Continued)

Fair value of loaned securities as of June 30, 2013:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 401,585	$ 49,999	$ 451,584
Domestic Corporate Fixed Income Securities	145,441	-	145,441
International Fixed Income Securities	4,545	36,555	41,100
Domestic Stocks	445,722	3,472	449,194
International Stocks	128,227	242,859	371,086
	$ 1,125,520	$ 332,885	$ 1,458,405

As of June 30, 2013, the fair value of the lent securities was $1,458,405,000. The fair value of associated collateral was $1,507,151,000. Of this amount, $1,155,982,000 represents the fair value of cash collateral and $351,169,000 represents the fair value of the non-cash collateral. Non-cash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Plan Net Position. The System's income and expenses related to securities lending were $6,816,000 and $1,021,000, respectively, for the year ended June 30, 2013.

Note 8 – Futures and Forward Contracts

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures and forward contracts are marked to market and are recorded in the Statement of Plan Net Position at fair value. Futures contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions (refer to Note 6 – Credit Risk - Derivatives on pages 37 and 38).

As of June 30, 2013, the System had outstanding equity index future contracts with an aggregate notional amount of $15,852,000, and interest rate future contracts with a negative notional amount of $83,080,000 due to its short position. In addition, at June 30, 2013, the System had outstanding forward purchase commitments with a notional amount of $93,527,000 and offsetting forward sales commitments with notional amounts of $93,527,000, which expire through September 2013. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $105,083,000 as of June 30, 2013.

Note 9 – Commitments and Contingencies

As of June 30, 2013, the System was committed to future purchases of real estate and private equity investments at an aggregate cost of approximately $713,716,000.

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

Note 10 – Subsequent Events

Date of Management's Review

Subsequent events were evaluated through November 19, 2013, which is the date the financial statements were available to be issued.

California State Superior Court Ruling on Health Subsidy Freeze

Two bargaining units took legal action against the City regarding the City's ordinance to freeze the maximum medical subsidy at $1,190 for those Members who retire on or after July 1, 2011 without making additional contributions at 2% or 4% of pay at any time prior to retirement (as mentioned in Note 2 on page 30 and Note 3 on page 33). On October 8, 2013, a California Superior Court judge ruled in favor of the labor organizations, and directed the City to provide a retiree health care insurance premium subsidy without regard to the freeze. Therefore, Tier 1 retired Members of two bargaining units represented by the labor organizations will not be subject to the freeze.

Establishment of New Tier (Tier 2) of Members

On October 26, 2012, the Los Angeles City Council approved amending Chapter 10 and 11 of Division 4 of the Los Angeles Administrative Code to establish

Note 10 – Subsequent Events (Continued)

Establishment of New Tier (Tier 2) of Members (Continued)

a second tier (Tier 2) with different retirement and postemployment health care benefits, and conditions of entitlement for new hires who become Members of the LACERS on or after July 1, 2013. The Ordinance for Tier 2 Members became effective on November 12, 2012.

Tier 2 Members' initial contribution rate for the first four years will be 10% of their pensionable salary. The Board of LACERS shall establish the Tier 2 Member contribution rate every three years thereafter, with the first such determination to be effective July 1, 2017, for the following three years. The contribution rate shall be an actuarially determined rate sufficient to fund 75% of normal cost and 50% of any unfunded liability for Tier 2. The Tier 2 Member contribution is paid solely for the purpose of providing benefits for the Member only and does not include a survivor contribution, unlike Tier 1.

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REQUIRED SUPPLEMENTARY INFORMATION

(Dollars in Thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2008	$ 9,438,318	$11,186,404	$ 1,748,086	84.4 %	$ 1,977,645	88.4 %
June 30, 2009*	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
June 30, 2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
June 30, 2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
June 30, 2012	9,934,959	14,393,959	4,459,000	69.0	1,819,270	245.1
June 30, 2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 288,119	100 %
2009	274,555	100
2010	258,643	100
2011	303,561	100
2012	308,540	100
2013	346,181	100

Note 1 – Description

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

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

On October 25, 2011, the Board lowered the investment return assumption used in the June 30, 2012 actuarial valuation, and ongoing, from 8% to 7.75% and approved phasing in over five years the cost impact of the assumption change and other assumption changes adopted by the Board as a result of the triennial Experience Study. The lower investment return assumption causes the actuarial liability and the employer contributions to increase. However, the increase of employer contributions in the near future is mitigated by the five-year phase-in approach.

Most of the Members are required to make additional contributions up to 4% of pay pursuant to various MOUs and City ordinances adopted by the City Council in 2011, as mentioned in Note 2 – Retirement Plan Description on page 30. Actuarially, Member contributions substitute for City contributions with a slight discount to compensate for the refundability of Member contributions.

On October 23, 2012, the Board modified the funding policy to change the actuarial cost method from the projected unit credit (PUC) method to entry age normal (EAN) method beginning with the June 30, 2012 valuation, and to combine and re-amortize all UAAL layers, with some exceptions, over 30 years, to mitigate the immediate impact on the employer contributions.

Due to seven-year asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2013, there is a combined unrecognized investment loss in the amount of $81,571,000, which is substantially reduced from the deferred loss of $1,024,757,000 as of June 30, 2012. As it stands, the market value of assets represents more than 99% of the actuarial/smoothed value of assets – marking the first time that the market value has grown back so closely toward the actuarial value of assets since the June 2007 valuation. The deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next six years, however, in a very uneven pattern: there will be losses recognized in the next two years, followed by two years of gains, then one year of losses, and finally one year of gains. Therefore, absent any new gains or losses in the future, the contribution requirements would increase in the next two years, followed by two years of decreases, then one year of increase, and finally one year of decrease, before the $81,571,000 in net deferred losses are fully recognized, even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

Required Supplementary Information
Postemployment Health Care Plan
(Dollars in Thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2008	$ 1,342,920	$ 1,928,043	$ 585,123	69.7 %	$ 1,977,645	29.6 %
June 30, 2009*	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
June 30, 2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
June 30, 2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
June 30, 2012	1,642,374	2,292,400	650,026	71.6	1,819,270	35.7
June 30, 2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 108,848	100 %
2009	95,122	100
2010	96,511	100
2011	107,396	100
2012	115,209	100
2013	72,916	100

Note 1 – Description

The historical trend information about the System is presented as required supplementary information. The information is intended to help users assess the funding status of the Postemployment Health Care Plan on a going concern basis and to assess progress made in accumulating assets by paying benefits when due. The Board decided to comply with the requirements in GASB Statements No. 43 and No. 45 for the actuarial valuation of the Postemployment Health Care Plan as of June 30, 2005. As the annual required contribution (ARC) for fiscal year ended June 30, 2006, was determined prior to the June 30, 2005 valuation, it was not calculated using all the parameters required by GASB Statements No. 43 and No. 45.

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

On October 11, 2011, the Board adopted annual health benefits-related assumptions for the June 30, 2012 actuarial valuation, which include a retiree health subsidy freeze for non-retired Members not making the 2% or 4% additional contributions as mentioned in Note 2 – Retirement Plan Description on page 30 and Note 3 – Postemployment Health Care Plan Description on page 33. The subsidy freeze reduces the actuarial liability of the postemployment health care benefits as well as the employer contributions. As of June 30, 2013, approximately 97% of non-retired Members were making the additional contributions, and therefore not subject to the subsidy freeze, while about 736 non-retired Members from three bargaining units were subject to freeze. However, a recent court ruling overturned the freeze for the Members of two bargaining units who were not making additional contributions (refer to Note 10 – Subsequent Events on page 42). The effect of ending of subsidy freeze for the Members of the two bargaining units will be included in the June 30, 2014 actuarial valuation and cause a slight increase in future City contribution rates, all other things being equal.

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

On October 23, 2012, the Board modified the funding policy to change the actuarial cost method from the projected unit credit (PUC) method to entry age normal (EAN) method beginning with the June 30, 2012 valuation, and to combine and re-amortize all UAAL layers, with some exceptions, over 30 years, to mitigate the immediate impact on the employer contributions.

Due to seven-year asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2013, there is a combined unrecognized investment loss in the amount of $81,571,000, which is substantially reduced from the deferred loss of $1,024,757,000 as of June 30, 2012. As it stands, the market value of assets represents more than 99% of the actuarial/smoothed value of assets – marking the first time that the market value has grown back so closely toward the actuarial value of assets since the June 2007 valuation. The deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next six years, however, in a very uneven pattern: there will be losses recognized in the next two years, followed by two years of gains, then one year of losses, and finally one year of gains. Therefore, absent any new gains or losses in the future, the contribution requirements would increase in the next two years, followed by two years of decreases, then one year of increase, and finally one year of decrease, before the $81,571,000 in net deferred losses are fully recognized, even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

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SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Year Ended June 30, 2013
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	Total
Personnel Services:			
Salaries	$ 8,617	$ 1,730	$ 10,347
Employee Development and Benefits	1,352	271	1,623
Total Personnel Services	9,969	2,001	11,970
Professional Services:			
Actuarial	259	52	311
Audit	67	13	80
Legal Counsel	697	140	837
Disability Evaluation Services	104	21	125
Retirees' Health Admin Consulting	-	517	517
Benefit Payroll Processing	178	36	214
Other Consulting	194	39	233
Total Professional Services	1,499	818	2,317
Information Technology:			
Computer Hardware and Software	434	87	521
Computer Maintenance and Support	95	19	114
Total Information Technology	529	106	635
Leases:			
Office Space	581	117	698
Office Equipment	21	4	25
Total Leases	602	121	723
Other Expenses:			
Fiduciary Insurance	149	30	179
Educational and Due Diligence Travel	63	12	75
Office Expenses	437	88	525
Depreciation and Amortization	104	21	125
Total Other Expenses	753	151	904
Total Administrative Expenses	$ 13,352	$ 3,197	$ 16,549

Schedule of Investment Expenses
For the Year Ended June 30, 2013
(In Thousands)

	Assets Under Management	Fees
Retirement Plan		
Investment Management Expense:		
Fixed Income Managers	$ 2,273,181	$ 3,723
Equity Managers	6,055,763	12,506
Subtotal Investment Management Expense	8,328,944	16,229
Other Investment Expense:		
Private Equity Consulting Fee	-	770
Real Estate and Other Consulting Fee	-	520
Subtotal Other Investment Expense	-	1,290
Postemployment Health Care Plan		
Investment Management Expense:		
Fixed Income Managers	383,993	747
Equity Managers	1,022,957	2,511
Subtotal Investment Management Expense	1,406,950	3,258
Other Investment Expense:		
Private Equity Consulting Fee	-	155
Real Estate and Other Consulting Fee	-	104
Subtotal Other Investment Expense	-	259
Total Investment Management Expense and Other Investment Expense, Excluding Private Equity, Real Estate, and Securities Lending	$ 9,735,894	$ 21,036
Private Equity Managers' Fees:		
Retirement Plan	$ 1,032,484	$ 15,032
Postemployment Health Care Plan	174,411	3,018
Total Private Equity Managers' Fees	$ 1,206,895	$ 18,050
Real Estate Managers' Fees:		
Retirement Plan	$ 583,737	$ 7,570
Postemployment Health Care Plan	98,607	1,520
Total Real Estate Managers' Fees	$ 682,344	$ 9,090
Security Lending Fees:		
Retirement Plan	$ 988,930	$ 850
Postemployment Health Care Plan	167,052	171
Total Security Lending Fees	$ 1,155,982	$ 1,021

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Investment

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Report on Investment Activity

December 3, 2013

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

Dear Members of the Board:

Presented below is a summary report of the Fund's investment activities for the fiscal year 2012-2013.

Market Overview

The financial markets produced strong positive returns for the fiscal year, regardless of intermittent bouts of market volatility caused by uncertainty over global economic stability and major political events. Investors' fears during the year were allayed by supportive policy actions of central banks and governments. During the first quarter, global equity markets rallied as the U.S. Federal Reserve ("Fed") launched a third round of quantitative easing ("QE") and announced a plan to keep interest rates near zero until unemployment falls below 6.5%. The European Central Bank announced its own bond buying program to support the Eurozone, lending credence to remarks that it will do "whatever it takes" to save the Euro.

Domestic equity markets wavered in the second quarter as investors focused on the U.S. presidential elections. Upon the re-election of President Barack Obama, investors quickly turned their attention to the "fiscal cliff" of pending tax hikes and government spending cuts. Additionally, Superstorm Sandy wreaked havoc on the East Coast creating concerns of hampered economic growth. Outside of the U.S., equity markets remained strong as fears about the Euro crisis calmed and emerging market countries showed steady growth.

The U.S. equity markets rallied again in the third quarter. U.S. politicians compromised on a solution to avert the fiscal cliff. The U.S. showed signs of slow, but steady economic growth due to increased jobs creation and consumer confidence and a robust housing market. Other global developed markets fared less well, but still produced positive returns amid investors' renewed anxiety of global economic challenges. Emerging markets returns pulled back as China's economy slowed down.

During the fourth quarter, the Fed announced a potential tapering of QE, creating worries of another U.S. economic slowdown. Domestic interest rates rose as investors sold bond holdings in anticipation of tapering. Volatility within U.S. equity markets increased, but domestic stocks continued to advance and set a new record high as U.S. economic data continued to trend upward. Non-U.S. market performance, in aggregate, was negative (on a U.S. dollar-basis), but returns by region were mixed. Japanese stocks continued to increase upon hope that fiscal and economic reform can revive economic growth. European stocks faltered on political and economic headwinds. Emerging markets continued a downward trend in performance mainly due to slowing economic growth in China.

Despite the quarter-to-quarter volatility induced by various concerns over the global economy, most financial markets ended the fiscal year in positive territory.

Investment Performance

LACERS total portfolio was valued at $11.9 billion on June 30, 2013, an increase of $1.3 billion or 14.3% (gross of fees) for the fiscal year. Individual asset class gross returns were: U.S. equity, 22.5%; non-U.S. equity, 17.4%; fixed income, 1.8%; private equity, 12.3%; and real estate, 10.0%.

The total portfolio outperformed its policy benchmark by 140 basis points for the fiscal year, benefiting from the robustness of the publicly traded markets. U.S. and non-U.S. publicly traded equity and fixed income investments outperformed their benchmarks by 100, 380, and 160 basis points, respectively. Private equity and real estate produced double-digit absolute returns but did not keep pace with their benchmarks, producing 1220 and 160 basis points of relative underperformance, respectively, for the year.

In comparison to other public funds with a market value greater than $10 billion in the TUCS (Trust Universe Comparison Service), LACERS ranked in the top decile for the one-year period ending June 30, 2013.

The Investment Results table presented on page 59 provides a summary of time-weighted rates of return based on fair value of assets by asset classes and total fund.

Policies, Procedures and Guidelines

During the fiscal year, the Board of Administration revised the Private Equity asset class benchmark from the Russell 3000 + 400 basis points to the Russell 3000 + 300 basis points to better reflect expected asset class returns.

Contract Awards and Renewals

During the fiscal year 2012-2013, contracts with 12 managers of publicly traded securities were awarded or renewed as presented in the table on page 60. Seven were non-U.S. equity managers, two were fund-of-funds emerging managers, and three were fixed income managers.

Private Investments

LACERS approved 12 private equity and venture capital partnerships totaling $281 million of committed capital, and three real estate partnerships totaling $75 million of committed capital, as presented in the table on page 60.

Investment Consulting Services

As summarized in the table on page 60, the Board of Administration approved one-year contract extensions for the private equity and real estate consulting service providers.

Acknowledgements

During this reporting period, Sara Griggs, Investment Officer III and Chief Operating Officer, retired. We thank Sara for her years of dedicated service and for providing leadership to the Investment Program of LACERS.

Respectfully submitted,

Rodney L. June
Chief Investment Officer

Outline of Investment Policies
Fiscal Year 2012-2013

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

- The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.
- The System's investment program shall comply, at all times, with existing and future applicable City, state and federal regulations. Investment performance data is calculated in conformance with Global Investment Performance Standards (GIPS).
- All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.
- The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.
- Investment actions are expected to comply with "prudent person" standards as described: "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

Investment Results

Annualized asset class investment returns compared to policy benchmarks:

Asset Class / Benchmark	Annualized * (gross of fees)		
	1 Yr. (%)	3 Yrs. (%)	5 Yrs. (%)
U.S. Equity	22.5	18.5	7.4
Russell 3000	21.5	18.6	7.2
Non-U.S. Equity	17.4	9.3	0.8
LACERS MS ACWI ex U.S. Index**	13.6	8.0	-0.8
Private Equity***	12.3	14.2	6.9
Russell 3000 plus 300 bps****	24.5	21.6	10.2
Fixed Income	1.8	5.3	7.1
BC US Universal**	0.2	4.1	5.5
Private Real Estate	10.0	10.5	-7.1
NCREIF Property Lagged plus 100 bps*****	11.6	13.7	2.5
LACERS Total Fund	14.3	12.3	5.2
LACERS Policy Benchmark	12.9	12.5	5.3

* Time-weighted rate of return based on fair value of assets for all asset classes.
** Both the LACERS MS ACWI ex U.S. and BC US Universal indices are historically blended with other indices.
*** Previously known as "Alternative Investment."
**** Changed from Russell 3000 plus 400 bps to Russell 3000 plus 300 bps on 7/1/2012.
***** Changed from NCREIF Property Index to NCREIF Property Lagged plus 100 bps on 7/1/2012.

Public, Private Equity & Real Estate Contract Activity

Contracts with managers of publicly traded securities awarded/renewed/extended:

Firms	Mandate
Aegon USA Investment Management LLC	Active U.S. High Yield Fixed Income
Attucks Asset Management LLC	Fund-of-Funds Emerging Managers
Barrow, Hanley, Mewhinney & Strauss LLC	Active Non-U.S. Equity Developed Markets Value
The Boston Company Asset Management LLC	Active Global Emerging Markets Equity
Capital Guardian Trust Company	Active European Equity
Capital Prospects Asset Management LLC	Fund-of-Funds Emerging Managers
Franklin Advisers, Inc	Active U.S. High Yield Fixed Income
Lazard Asset Management LLC	Active Non-U.S. Equity Developed Markets Core
MFS Institutional Advisors, Inc	Active Non-U.S. Equity Developed Markets Growth
Neuberger Berman Fixed Income LLC	Active Core Fixed Income
Templeton Investment Counsel LLC	Active Asia Pacific Equity
TT International	Active International Equity

New private equity and real estate partnerships:

Investment Funds	Mandate
Acon Equity Partners III LP	Private Equity - Buyout
Advent International GPE VII-B LP	Private Equity - Buyout
AION Feeder III Ltd	Private Equity - Special Situations
Almanac Realty VI	Real Estate - Value
Coller International Partners VI, LP	Private Equity - Secondaries
EnCap Energy Capital Fund IX	Private Equity - Buyout
FIMI Opportunity V, LP	Private Equity - Buyout
Insight Venture Partners VIII, LP	Private Equity - Growth Equity
KPS Special Situations Fund IV	Private Equity - Buyout
Levine Leichtman Capital Partners V LP	Private Equity - Mezzanine
Mesa West Income III	Real Estate - Value
Platinum Equity Capital Partners III LP	Private Equity - Buyout
SSG Capital Partners II LP	Private Equity - Distressed Debt
TCV VIII LP	Private Equity - Growth Equity
Torchlight Debt Opportunity Fund IV	Real Estate - Opportunistic

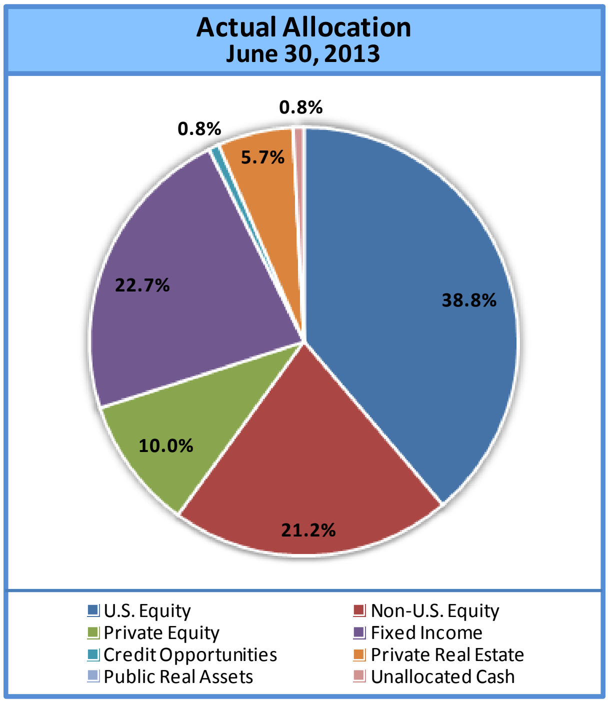
Contracts with investment service provider awarded/renewed/extended:

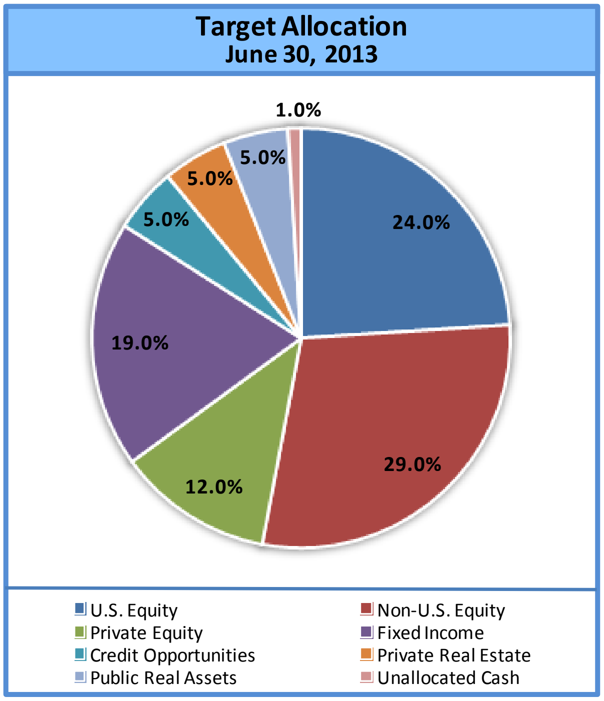
Investment Services	Type of Service
Courtland Partners, Ltd.	Real Estate Consulting Services
Hamilton Lane Advisors LLC	Private Equity Consulting Services

Asset Allocation
As of June 30, 2013

	Actual
U.S. Equity	38.8%
Non-U.S. Equity	21.2
Private Equity	10.0
Fixed Income	22.7
Credit Opportunities	0.8
Private Real Estate	5.7
Public Real Assets	0.0
Unallocated Cash	0.8
Total	100.0%

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





List of Largest Assets Held by Market Value

Displayed below are the ten largest holdings in each asset class along with their market and share/par values as of June 30, 2013. A complete listing of the System's top 100 holdings is available on www.LACERS.org.

Largest U.S. Equity Holdings*

	Shares	Asset Description	Market Value (in US$)
1.	561,630	Exxon Mobil Corp.	$ 50,743,271
2.	570,859	JP Morgan Chase & Co.	30,135,647
3.	334,271	Johnson & Johnson	28,700,508
4.	69,822	Apple Inc.	27,655,098
5.	226,938	Chevron Corp.	26,855,843
6.	603,094	Wells Fargo & Co.	24,889,689
7.	644,611	Microsoft Corp	22,258,418
8.	22,016	Google, Inc.	19,382,226
9.	659,399	Pfizer, Inc.	18,469,766
10.	374,176	Citigroup, Inc.	17,949,223
		Total	$ 267,039,689

Largest Non-U.S. Equity Holdings*

	Shares	Asset Description	Market Value (in US$)
1.	656,345	Toyota Motor Corp.	$ 39,578,261
2.	134,204	Roche Hldgs AG	33,332,918
3.	390,188	Novartis AG	27,671,738
4.	371,204	Nestle SA	24,304,907
5.	2,302,874	HSBC Hldgs	24,050,971
6.	215,323	Bayer AG	22,931,192
7.	6,870,487	Vodafone Group	20,239,193
8.	3,219,970	Mitsubishi	19,838,140
9.	16,184	Samsung Electronic	19,017,493
10.	1,109,971	Prudential	18,097,549
		Total	$ 249,062,362

*The U.S. Equity and Non-U.S. Equity holdings include securities held in LACERS separate accounts only. It does not include the shares and market value represented by LACERS ownership in mutual fund-like accounts.

List of Largest Assets Held by Market Value

Largest U.S. Fixed Income Holdings

	Par Value	Asset Description	Market Value (in US$)
1.	98,300,000	United States Treas Bills Due 08-08-2013	$ 98,297,444
2.	93,375,000	FNMA Single Family Mortgage 3.5% 30 Yrs Settles July	94,790,192
3.	86,200,000	United States Treas Nts 0.375% Due 07-31-2013	86,353,221
4.	75,280,000	FHLMC Gold Single Family 3.5% 30 Yrs Settles July	76,244,563
5.	50,000,000	UTD States Treas CPN 0.25% Due 05-31-2014	50,039,490
6.	37,080,000	United States Treas Nts Dtd 00032 4.25% Due 08-15-2013	37,854,529
7.	35,490,000	FHLMC Gold Single Family 4% 30 Yrs Settles July	36,905,448
8.	26,390,000	United States Treas Nts Dtd 00049 4% Due 02-15-2014	27,413,685
9.	22,900,000	United States Treas Nts 2.375% Due 07-31-2017	24,297,485
10.	21,270,000	United States Treas Nts 0.5% TIPS USD1000 Due 04-15-2015	23,417,282
		Total	$ 555,613,339

Largest Non-U.S. Fixed Income Holdings

	Par Value (in local currency)	Asset Description	Market Value (in US$)
1.	13,200,000	Petrobras Global 4.375% Due 05-20-2023	$ 12,171,477
2.	1,330,000	Mexico (Utd Mex St) 8% MBONOS Due 12-17-2015 MXN100	11,061,100
3.	8,525,000	Pvtpl Credit Agricole SA 1.625% Due 04-17-2016	8,487,575
4.	8,000,000	Pvtpl Deutsche Telekom Intl Fin BV Nt 2.25% Due 03-06-2017	8,095,052
5.	7,350,000	BP Cap Mkts Plc 4.5% Due 10-01-2020	8,054,777
6.	8,630,000	CNOOC Fin 2013 Ltd 3% Due 05-09-2023	7,831,515
7.	7,350,000	Pvtpl Pernod Ricard SA 5.5% Due 01-15-2042	7,697,622
8.	6,180,000	HSBC Hldgs Plc 6.5% Due 05-02-2036	6,914,664
9.	6,630,000	Nomura Hldgs Inc Nt 2% Due 09-13-2016	6,595,059
10.	790,000	Mexico (Utd Mex St) 6.25% MBONOS Due 06-16-2016 MXN100	6,378,584
		Total	$ 83,287,425

Schedules of Fees and Commissions

Schedule of Fees

(In Thousands)

	2013 Assets Under Management	2013 Fees	2012 Assets Under Management	2012 Fees
Investment Manager Fees:				
Fixed Income Managers	$ 2,657,174	$ 4,470	$ 2,686,336	$ 3,652
Equity Managers	7,078,720	15,017	5,860,136	15,451
Real Estate Managers	682,344	9,090	642,442	9,000
Private Equity Managers	1,206,895	18,050	1,192,565	18,758
Total	$ 11,625,133	$ 46,627	$ 10,381,479	$ 46,861
Security Lending Fees	$ 1,155,982	$ 1,021	$ 850,183	$ 811
Private Equity, Real Estate & Other Investment Consulting Fees	N/A	1,549	N/A	1,570
Total	$ 1,155,982	$ 2,570	$ 850,183	$ 2,381

Schedule of Top Ten Brokerage Commissions

	Broker	Shares	Commission	$/Share
1.	Pulse Trading LLC	4,806,640	$ 145,081	$ 0.030
2.	Citigroup Global Markets Inc.	95,376,004	133,816	0.001
3.	Citigroup Global Markets Limited	19,124,097	116,673	0.006
4.	Merrill Lynch International Limited	20,002,060	115,545	0.006
5.	UBS AG London Branch	10,793,432	106,646	0.010
6.	Investment Technology Group Inc	4,154,300	104,696	0.025
7.	Morgan Stanley and Co., LLC	17,750,946	104,678	0.006
8.	Credit Suisse Securities (Europe) Ltd	10,447,025	101,637	0.010
9.	Deutsche Bank Securities Inc	9,322,224	87,175	0.009
10.	Goldman Sachs International	13,354,478	78,624	0.006
	Total	205,131,206	1,094,571	0.005
	Total - Other Brokers	523,124,622	2,945,951	0.006
	Grand Total*	728,255,828	$ 4,040,522	$ 0.006

* OTC Brokers excluded because there is no stated commission.

LACERS has commission recapture arrangements with brokerage firms. For the current fiscal year, LACERS recaptured a total of $12,025 commission credit from ConvergEx and Citigroup, of which none of the amount was directed to pay for any investment expenses.

Investment Summary
As of June 30, 2013

Type of investment	Market Value	% of Total Market Value	Domestic Market Value	Foreign Market Value
Fixed Income				
Government bonds	$ 613,299,947	4.80 %	$ 585,728,860	$ 27,571,087
Government agencies	45,545,067	0.36	42,573,734	2,971,333
Municipal / provincial bonds	7,430,320	0.06	7,430,320	-
Corporate bonds	1,372,041,596	10.73	1,064,398,840	307,642,756
Commercial mortgage bonds	97,440,690	0.76	97,440,690	-
Government mortgage bonds	520,199,337	4.07	520,199,337	-
Opportunistic debt	1,216,628	0.01	1,216,628	-
Total Fixed Income	2,657,173,585	20.79	2,318,988,409	338,185,176
Equities				
Common stock				
Basic industries	597,547,130	4.68	304,295,869	293,251,261
Capital goods industries	307,186,931	2.40	99,594,562	207,592,369
Consumer & services	1,221,159,544	9.56	526,695,587	694,463,957
Energy	545,539,286	4.27	302,458,932	243,080,354
Financial services	1,150,379,765	9.00	484,379,229	666,000,536
Health care	499,460,145	3.91	298,855,961	200,604,184
Information technology	560,741,184	4.39	401,071,820	159,669,364
Miscellaneous (Common Fund Assets)	2,164,050,188	16.93	2,149,884,886	14,165,302
Total Common Stock	7,046,064,173	55.14	4,567,236,846	2,478,827,327
Preferred stock	22,330,119	0.17	888,305	21,441,814
Stapled securities	10,326,094	0.08	-	10,326,094
Total Equities	7,078,720,386	55.39	4,568,125,151	2,510,595,235
Real Estate	682,343,843	5.34	638,499,654	43,844,189
Private Equity				
Acquisitions	735,350,782	5.75	676,942,231	58,408,551
Distressed debt	130,736,803	1.02	102,154,607	28,582,196
International acquisitions	112,270,569	0.88	25,504,183	86,766,386
Mezzanine	13,238,002	0.10	13,238,002	-
Venture capital	215,298,400	1.69	190,626,238	24,672,162
Total Private Equity	1,206,894,556	9.44	1,008,465,261	198,429,295
Security Lending Collateral	1,155,982,440	9.04	1,015,235,018	140,747,422
Total Fund*	$ 12,781,114,810	100.00%	$ 9,549,313,493	$ 3,231,801,317

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

Advisory/Consulting/Custody Services

Investment Advisors

U.S. Equity

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

Non-U.S. Equity

Batterymarch Financial Management
The Boston Company Asset Management
Capital Guardian Trust Company
Daiwa SB Investments
State Street Global Advisors
Templeton Investment Counsel
TT International

Fixed Income

LM Capital Group
Loomis Sayles & Company
Neuberger Berman
Robert W. Baird & Co.

Credit Opportunities

Aegon USA Investment Management
Franklin Advisers

Cash & Short-Term

The Northern Trust Company

Real Estate

Almanac Realty
Apollo Global Real Estate
Bristol Group
Bryanston Realty Partners
Buchanan Street Partners
Canyon-Johnson Urban Funds
CB Richard Ellis
CIM Group
CityView
Colony Investors
Cornerstone Real Estate Advisors
DLJ Real Estate Capital Partners
DRA Advisors
Hancock Timber Resource Group
Heitman Value Partners
Hunt Realty Investments
Integrated Capital
Invesco Real Estate
JP Morgan Fleming
LaSalle Investment Management
Lone Star Funds
Lowe Hospitality
MacFarlane Partners
Mesa West Capital
Pacific Coast Capital Partners
Paladin Realty Partners
Phoenix Realty Group
Prologis
Prudential Real Estate Investors
Realty Associates
RREEF
Stockbridge Real Estate
Torchlight Investors
Urban America
Urdang
Walton Street Real Estate
Westbrook Real Estate Partners

Private Equity

Acon-Bastion Partners
Advent International
Alchemy Partners
American Securities
Angeleno Group
Apollo Management
Ares Management
Austin Ventures
Avenue Capital Group
Blackstone
Cardinal Health Partners (CHP)
Carlyle Group
Carpenter & Company

Advisory/Consulting/Custody Services

Investment Advisors (Continued)

Private Equity (Continued)

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

Consultants

Courtland Partners
Hamilton Lane
Wilshire Associates

Custodian

The Northern Trust Company

Actuarial

Summary of Significant Valuation Results

	June 30, 2013	June 30, 2012	Percent Change
I. Total Membership			
a. Active Members	24,441	24,917	(1.9)%
b. Pensioners and Beneficiaries	17,362	17,223	0.8 %
II. Valuation Salary			
a. Total Annual Payroll	$1,846,970,474	$1,819,269,630	1.5 %
b. Average Monthly Salary	6,297	6,084	3.5 %
III. Benefits to Current Retirees and Beneficiaries(1)			
a. Total Annual Benefits	$699,064,942	$676,874,760	3.3 %
b. Average Monthly Benefit Amount	3,355	3,275	2.4 %
IV. Total System Assets(2)			
a. Actuarial Value	$12,004,110,338	$11,620,457,827	3.3 %
b. Market Value	11,922,538,917	10,595,700,986	12.5 %
V. Unfunded Actuarial Accrued Liability (UAAL)			
a. Retirement Benefits	$4,657,702,276	$4,458,999,264	4.5 %
b. Health Subsidy Benefits	677,750,710	650,026,667	4.3 %

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

	FY 2014-2015(1)		FY 2013-2014(1)		Change	
VI. Budget Items	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2
a. Retirement Benefits						
1. Normal Cost as a Percent of Pay	6.89%	1.16%	6.90%	1.16%	(0.01)%	0.00 %
2. Amortization of UAAL	14.13%	14.13%	12.99%	12.99%	1.14 %	1.14 %
3. Total Retirement Contribution	21.02%	15.29%	19.89%	14.15%	1.13 %	1.14 %
b. Health Subsidy Contribution						
1. Normal Cost as a Percent of Pay	3.49%	2.29%	3.56%	2.29%	(0.07)%	0.00 %
2. Amortization of UAAL	2.05%	2.05%	1.88%	1.88%	0.17 %	0.17 %
3. Total Health Subsidy Contribution	5.54%	4.34%	5.44%	4.17%	0.10 %	0.17 %
c. Total Contribution (a+b)	26.56%	19.63%	25.33%	18.32%	1.23 %	1.31 %

(1) Contributions are assumed to be made on July 15.

	June 30, 2013	June 30, 2012	Change
VII. Funded Ratio			
(Based on Valuation Value of Assets)			
a. Retirement Benefits	68.7%	69.0%	(0.3)%
b. Health Subsidy Benefits	71.9%	71.6%	0.3 %
c. Total	69.1%	69.4%	(0.3)%
(Based on Market Value of Assets)			
d. Retirement Benefits	68.2%	62.9%	5.3 %
e. Health Subsidy Benefits	71.4%	65.3%	6.1 %
f. Total	68.7%	63.3%	5.4 %

Actuarial Certification

November 7, 2013

This is to certify that Segal Consulting has conducted an actuarial valuation of the Los Angeles City Employees' Retirement System retirement program as of June 30, 2013, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this retirement program with the last valuation completed on June 30, 2012. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the historical funding methods used in determination of the liability for retirement benefits.

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

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

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

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

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

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

Andy Yeung

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

Member Valuation Data

Member Population: 2008 – 2013

Year Ended June 30	Active Members	Inactive Members[1]	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
2008	30,236	4,273	14,975	0.64
2009	30,065	4,554	14,991	0.65
2010	26,245	5,344	17,264	0.86[2]
2011	25,449	5,623	17,197	0.90
2012	24,917	5,808	17,223	0.92
2013	24,441	5,799	17,362	0.95

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

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

Year Ended June 30	No. of New Retirees/ Beneficiaries	Annual Allowances Added[2]	No. of Retirees/ Beneficiaries Removed	Annual Allowances Removed	No. of Retirees/ Beneficiaries at 6/30	Annual Allowances at 6/30	Percent Increase in Annual Allowances	Average Annual Allowance
2008	748	$ 40,680,279	609	$ 14,956,623	14,975	$502,357,584	5.4%	$ 33,546
2009	632	36,887,854	616	17,386,042	14,991	521,859,396	3.9%	34,812
2010	2,893	144,594,918	620	17,604,486	17,264	648,849,828	24.3%	37,584
2011	528	24,282,965	595	16,585,589	17,197	656,547,204	1.2%	38,178
2012	620	38,314,256	594	17,986,700	17,223	676,874,760	3.1%	39,301
2013	772	40,966,952	633	18,776,770	17,362	699,064,942	3.3%	40,264

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

Solvency Test for Retirement Benefits

For Years Ended June 30
(Dollars in Thousands)

	Aggregate Actuarial Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Member Contributions	Retirees, Beneficiaries & Inactives	Active Members	Valuation Value of Assets	Member Contributions	Retirees, Beneficiaries & Inactives	Active Members
06/30/2008	$1,408,074	$5,665,130	$4,113,200	$9,438,318	100.0%	100.0%	57.5%
06/30/2009[1]	1,282,663	7,356,302	3,403,019	9,577,747	100.0	100.0	27.6
06/30/2010	1,379,098	7,507,945	3,707,982	9,554,027	100.0	100.0	18.0
06/30/2011	1,474,824	7,765,071	4,151,809	9,691,011	100.0	100.0	10.9
06/30/2012	1,625,207	7,893,684	4,875,068	9,934,959	100.0	100.0	8.5
06/30/2013	1,757,195	8,066,564	5,057,904	10,223,961	100.0	100.0	7.9

(1) Based on revised June 30, 2009 valuation.

Actuarial Analysis of Financial Experience

Development of Unfunded Actuarial Accrued Liability
for Year Ended June 30, 2013

1. Unfunded actuarial accrued liability at beginning of year	$4,458,999,264
2. Normal cost at beginning of year	312,372,769
3. Total contributions	(543,903,017)
4. Interest	336,408,458
5. Expected unfunded actuarial accrued liability	4,563,877,474
6. Changes due to experience loss[1]	93,824,802
7. Unfunded actuarial accrued liability at end of year	$4,657,702,276

(1) Excludes a $22,198,187 loss from contributions less than anticipated due to one-year delay in implementing the higher contribution rate calculated in the June 30, 2012 valuation. That loss is already included in the development of item 5.

The breakdown of the experience loss is as follows:

Investment loss	$327,043,145
(Gain) due to lower than expected salary increases for continuing actives	(51,858,780)
(Gain) due to lower than expected COLA granted to retirees and beneficiaries	(76,122,367)
(Gain) due to change in service component used in benefit calculations in the valuation for active Members	(70,286,160)
Miscellaneous (gain)	(34,951,036)
Total loss	$ 93,824,802

Actuarial Balance Sheet

Assets		
1. Valuation value of assets ($11,922,538,917 at market value and $12,004,110,338 at actuarial value as reported by LACERS[1])		$10,223,960,886
2. Present value of future normal costs		
Employee	$1,622,103,381	
Employer	1,082,753,127	
Total		2,704,856,508
3. Unfunded actuarial accrued liability		4,657,702,276
4. Present value of current and future assets		$17,586,519,670
Liabilities		
5. Present value of future benefits		
Retired Members and beneficiaries		$ 7,899,555,457
Inactive Members		271,800,573
Active Members		9,415,163,640
Total		$17,586,519,670

(1) Market and actuarial values of assets include assets for Retirement, Health, Family Death, and Larger Annuity Benefits.

Summary of Actuarial Assumptions and Actuarial Cost Method

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

Mortality Rates

After Service Retirement

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

After Disability Retirement

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

Termination Rates before Retirement

Pre-Retirement Mortality

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

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

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

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

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

Retirement Rates

	Rate (%)			
	Tier 1		Tier 2	
Age	Non-55/30	55/30	Non-55/30	55/30
50	8.0	0.0	0.0	0.0
51	4.0	0.0	0.0	0.0
52	4.0	0.0	0.0	0.0
53	4.0	0.0	0.0	0.0
54	15.0	0.0	0.0	0.0
55	8.0	20.0	3.5	8.0
56	8.0	15.0	3.5	7.0
57	8.0	15.0	3.5	7.0
58	8.0	15.0	3.5	7.0
59	8.0	15.0	3.5	7.0
60	8.0	15.0	5.5	7.0
61	8.0	16.0	5.5	9.0
62	8.0	17.0	5.5	11.0
63	8.0	18.0	5.5	13.0
64	8.0	19.0	5.5	16.0
65	13.0	20.0	12.0	19.0
66	13.0	20.0	12.0	19.0
67	13.0	20.0	12.0	19.0
68	13.0	20.0	12.0	19.0
69	13.0	20.0	12.0	19.0
70	100.0	100.0	100.0	100.0

Retirement Age and Benefit for Inactive Vested Participants

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

Exclusion of Inactive Members

All inactive participants are included in the valuation.

Definition of Active Members

First day of biweekly payroll following employment for new department employees or immediately following transfer from other City department.

Unknown Data for Members

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

Percent Married/Domestic Partner

76% of male participants; 50% of female participants.

Age of Spouse

Female spouses three years younger than their spouses.

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Service

Employment service is used for eligibility determination purposes. Benefit service is used for benefit calculation purposes.

Future Benefit Accruals

1.0 year of service per year.

Other Reciprocal Service

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

Consumer Price Index (CPI)

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

Employee Contribution and Matching Account Crediting Rate

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

Net Investment Return

7.75%

Salary Increases

Inflation: 3.50%; additional 0.75% "across the board" salary increases (other than inflation); plus the following promotional and merit increases:

For Members with under 5 years of service:

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

For Members with 5 or more years of service:

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

* At central age in age range shown.

Actuarial Cost Method

Entry Age Normal Cost Method.

Actuarial Value of Assets

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

Funding Policy

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

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

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

Summary of Plan Provisions

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

Plan Year

July 1 through June 30

Census Date

June 30

Membership Eligibility

Tier 1

All employees who became Members of the Retirement System before July 1, 2013, and certain non-Tier 2 employees who became Members of the Retirement System on or after July 1, 2013.

Tier 2

All employees who became Members of the Retirement System on or after July 1, 2013, except as provided otherwise in Section 4.1002.1 of the LACERS Administrative Code.

Normal Retirement Benefit

Tier 1

Age & Service Requirement (§ 4.1020)

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

Amount (§ 4.1022)

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

Tier 2

Age & Service Requirement (§ 4.1002.1)

- Age 70; or
- Age 65 with 10 years of continuous service.

Amount (§ 4.1002.1)

2.00% per year of service credit (not greater than 75% of the Final Average Monthly Compensation).

Early Retirement Benefit

Tier 1

Age & Service Requirement (§ 4.1020)

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

Amount (§ 4.1056.2)

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

Age	Factor
45	0.6250
50	0.7750
55	0.9250
60	1.0000

Tier 2

Age & Service Requirement (§ 4.1002.1)

- Age 55 with 10 years of continuous service.

Amount (§ 4.1002.1)

Retirement Factor x years of service credit x Final Average Monthly Compensation (cannot be greater than 75% of Final Average Monthly Compensation). Retirement Factors are as follows:

Age	Factor (%)	Age	Factor (%)
55	0.7700	60	1.2200
56	0.8400	61	1.3400
57	0.9200	62	1.4800
58	1.0100	63	1.6300
59	1.1100	64	1.8100

Service Credit (§ 4.1001)

The time component of the formula used by LACERS for purposes of calculating benefits.

Final Average Monthly Compensation

Tier 1 (§ 4.1010)

Equivalent of monthly average salary of highest continuous 12 months (one year); includes base salary plus regularly assigned bonuses or premium pay.

Tier 2 (§ 4.1002.1)

Equivalent of monthly average salary of highest continuous 36 months (three years); limited to base salary (excludes bonuses or premium pay).

Summary of Plan Provisions (Continued)

Cost of Living Benefit

Tier 1 (§ 4.1040)

Based on changes to Los Angeles area Consumer Price Index, to a maximum of 3% per year; excess banked.

Tier 2 (§ 4.1002.1)

Based on changes to Los Angeles area Consumer Price Index, to a maximum of 2% per year; Member can purchase additional COLA not to exceed 1% per year (paid in full by Member)*; excess not banked.

* It is assumed that such discretionary purchases will only happen at retirement and the cost for such purchases by the Member is therefore not included in this valuation.

Death after Retirement

Tier 1 (§ 4.1044)

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

Tier 2 (§ 4.1002.1)

- If elected at retirement, a modified continuance to an eligible spouse, domestic partner, or designated beneficiary*; and
- $2,500 lump sum death benefit paid to a designated beneficiary; and
- Any unused contributions if the Member has elected the cash refund annuity option.

* The retiree may elect at the time of retirement to take a reduced allowance in order to provide for a continuance pursuant to the provisions of either Section 4.1044.5 or Section 4.1053.

Death before Retirement

Tier 1 (§ 4.1062 and § 4.1054)

Greater of:

Option #1:

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

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

Option #2:

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

Tier 2 (§ 4.1002.1)

Greater of:

Option #1:

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

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

Option #2:

- Eligibility – Eligible for service retirement.
- Benefit – Modified continuance of service retirement benefit under 100% joint and survivor option to eligible spouse or domestic partner.

Summary of Plan Provisions (Continued)

Member Normal Contributions

Tier 1 (§ 4.1031)

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

Beginning January 1, 2013, all non-represented Members and Members in certain bargaining groups are required to pay an additional 4% member contribution rate.

Members with no eligible spouse or domestic partner at retirement can request a refund of the survivor portion of the Member contributions (i.e., generally based on a contribution rate of 0.5% of pay).

* The member normal contribution rate will drop down to 6% afterwards.

Tier 2 (§ 4.1002.1)

Actuarially determined rate to fund 75% of normal costs and 50% of UAAL for Tier 2. The initial rate is 10% for the first four years of Tier 2. The rate is then established every three years thereafter, with the first determination to be effective July 1, 2017.

Disability (§ 4.1055)

Tier 1

Service Requirement

5 years of continuous service

Amount*

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

Tier 2

Service Requirement

10 years of continuous service

Amount*

1/90 (1.11%) of the Final Average Monthly Compensation per year of service.

* The benefit calculated using the service retirement formula will be paid if the Member is eligible and that benefit is greater than that calculated under the disability retirement formula.

Deferred Retirement Benefit (Vested)

Tier 1 (§ 4.1020 and § 4.1059.1)

Age & Service Requirement

- Age 70 with 5 years of continuous service; or
- Age 60 with 5 years of continuous service and at least 10 years elapsed from first date of membership; or
- Age 55 with at least 30 years of service.
- Deferred employee who meets part-time eligibility: age 60 with at least 10 years from the first date of membership.

Amount

Normal Retirement Benefit (or refund of contributions, if greater).

Age & Service Requirement

- Age 55 with 5 years of continuous service and at least 10 years elapsed from first date of membership; or
- Age 55 with 10 years of continuous service.
- Deferred employee who meets part-time eligibility: age 55 with at least 10 years from the first date of membership.

Amount

Early Retirement Benefit (or refund of contributions, if greater).

Tier 2 (§ 4.1002.1)

Age & Service Requirement

- Age 70 with 5 years of continuous service; or
- Age 55 with 5 years of continuous service and at least 10 years elapsed from first date of membership; or
- Deferred employee who meets part-time eligibility: age 55 with at least 10 years from the first date of membership; or
- Deferred employee who meets part-time eligibility: age 70.

Amount

Early or Normal Retirement Benefit (or refund of contributions, if greater).

Withdrawal of Contributions Benefit (Ordinary Withdrawal)

Refund of employee contributions with interest.

Changes in Plan Provisions

Ordinance No. 182296 was approved on November 8, 2012, which established a new Tier 2 for employees hired on or after July 1, 2013 (with the exceptions noted in Section 4.1002.1 of the LACERS Administrative Code).

Actuarial Certification

November 7, 2013

This is to certify that Segal Consulting has conducted an actuarial valuation of certain benefit obligations of Los Angeles City Employees' Retirement System’s other postemployment benefit programs as of June 30, 2013, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements No. 43 and No. 45 for the determination of the liability for postemployment benefits other than pensions.

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

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

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

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

Thomas Bergman
Thomas Bergman, ASA, MAAA, EA
Assistant Actuary

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

Member Valuation Data

Member Population: 2008 – 2013

Year Ended June 30	Active Participants	Inactive Members[1]	Retired Members and Beneficiaries[2]	Ratio of Non-Actives to Actives
2008	30,236	703	12,004	0.42
2009	30,065	674	11,893	0.42
2010	26,245	806	13,442	0.54[3]
2011	25,449	813	13,436	0.56
2012	24,917	858	13,431	0.57
2013	24,441	861	13,592	0.59

(1) Inactive vested participants (excluding those with less than 10 years of service).
(2) Excludes retirees and surviving spouses not yet eligible for retiree health benefits.
(3) Reflects 2009 Early Retirement Incentive Program.

Retirees and Beneficiaries Added to and Removed from Health Benefits

Year Ended June 30	No. of New Retirees/ Beneficiaries	Annual Allowances Added[1]	No. of Retirees/ Beneficiaries Removed	Annual Allowances Removed	No. of Retirees/ Beneficiaries at 6/30	Annual Allowances at 6/30	Percent Increase in Annual Allowances	Average Annual Allowance
2008	1,139	$ 6,472,277	471	$ 2,051,109	12,004	$ 71,023,368	6.6%	$ 5,917
2009	376	5,542,283	487	2,697,150	11,893	73,868,501	4.0	6,211
2010	2,104	23,010,841	555	2,670,987	13,442	94,208,355	27.5	7,009
2011	431	5,670,390	437	2,774,684	13,436	97,104,061	3.1	7,227
2012	433	(540,583)	438	2,516,835	13,431	94,046,643	(3.1)	7,002
2013	635	9,263,844	474	2,463,967	13,592	100,846,520	7.2	7,443

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

Solvency Test for Health Benefits

For Years Ended June 30
(Dollars in Thousands)

	Aggregate Actuarial Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Terminated Members	Retirees, Beneficiaries & Dependents	Active Members	Valuation Value of Assets	Terminated Members	Retirees, Beneficiaries & Dependents	Active Members
06/30/2008	$ 25,933	$ 849,872	$ 1,865,096	$ 1,342,920	100.0%	100.0%	25%
06/30/2009[1]	26,182	1,118,520[2]	1,723,010	1,342,497	100.0	100.0	11
06/30/2010	34,455	1,124,254	1,075,166	1,425,726	100.0	100.0	25
06/30/2011	19,964	1,066,351	882,393	1,546,884	100.0	100.0	52
06/30/2012	24,454	1,083,168	1,184,778	1,642,374	100.0	100.0	45
06/30/2013	26,869	1,104,833	1,280,783	1,734,733	100.0	100.0	47

(1) Based on revised June 30, 2009 valuation.
(2) Includes liabilities for the 2,393 ERIP-electing Members.

Actuarial Analysis of Financial Experience

Development of Unfunded Actuarial Accrued Liability
for the Year Ended June 30, 2013

1.	Unfunded actuarial accrued liability as of June 30, 2012	$650,026,667
2.	Employer normal cost as of June 30, 2012	64,622,420
3.	Total employer contributions during 2012/2013 fiscal year	(72,916,729)
4.	Interest	49,978,236
5.	Expected unfunded actuarial accrued liability as of June 30, 2013	691,710,594
6.	Change due to investment loss offset by premiums increasing less than expected*	(13,959,884)
7.	Unfunded actuarial accrued liability as of June 30, 2013	$677,750,710

* Excludes a $30,166,026 loss from contributions less than anticipated due to one-year delay in implementing the higher contribution rate calculated in the June 30, 2012 valuation

Actuarial Balance Sheet

Assets		
1.	Actuarial value of assets	$1,734,733,258
2.	Present value of future normal costs	573,289,355
3.	Unfunded actuarial accrued liability	677,750,710
4.	Present value of current and future assets	$2,985,773,323
Liabilities		
5.	Actuarial present value of total projected benefits	$2,985,773,323

Summary of Actuarial Assumptions and Actuarial Cost Method

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

Termination Rates before Retirement

Pre-Retirement Mortality

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

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

All deaths are assumed to be non-duty related.

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

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

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

Measurement Date

June 30, 2013

Discount Rate

7.75%, net of investment and administrative expenses

Postemployment Mortality Rates

Healthy

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

Disabled

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

The tables shown above were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.

Retirement Rates

	Rate (%)			
	Tier 1		Tier 2	
Age	Non-55/30	55/30	Non-55/30	55/30
50	8.0	0.0	0.0	0.0
51	4.0	0.0	0.0	0.0
52	4.0	0.0	0.0	0.0
53	4.0	0.0	0.0	0.0
54	15.0	0.0	0.0	0.0
55	8.0	20.0	3.5	8.0
56	8.0	15.0	3.5	7.0
57	8.0	15.0	3.5	7.0
58	8.0	15.0	3.5	7.0
59	8.0	15.0	3.5	7.0
60	8.0	15.0	5.5	7.0
61	8.0	16.0	5.5	9.0
62	8.0	17.0	5.5	11.0
63	8.0	18.0	5.5	13.0
64	8.0	19.0	5.5	16.0
65	13.0	20.0	12.0	19.0
66	13.0	20.0	12.0	19.0
67	13.0	20.0	12.0	19.0
68	13.0	20.0	12.0	19.0
69	13.0	20.0	12.0	19.0
70	100.0	100.0	100.0	100.0

Salary Increases

Inflation: 3.50%; additional 0.75% "across the board" salary increases (other than inflation); plus the following promotional and merit increases:

For Members with under 5 years of service:

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

For Members with 5 or more years of service:

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

* At central age in age range shown.

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Retirement Age and Benefit for Inactive Vested Participants

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

Exclusion of Inactive Vested

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

Per Capita Cost Development

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

Maximum Dental Subsidy (same as premium)

Carrier	Participation Percent	Monthly 2013-2014 Fiscal Year Subsidy
MetLife PPO	77.4	$42.80
SafeGuard	22.6	$13.53

Medical Subsidy
(Tier 1, Not Subject to Medical Subsidy Freeze)
Participant Under Age 65 or Not Eligible for Medicare A & B
2013-2014 Fiscal Year

Carrier	Observed and Assumed Election Percent	Single Party Subsidy	Married/with Domestic Partner Subsidy	Eligible Survivor Subsidy
Kaiser HMO	61.3	$705.78	$1,411.55	$705.78
Anthem BC PPO	21.7	$1,100.85	$1,415.50	$705.78
Anthem BC HMO	17.0	$802.74	$1,415.50	$705.78

Medical Subsidy
(Tier 1, Not Subject to Medical Subsidy Freeze)
Participant Eligible for Medicare A & B
2013-2014 Fiscal Year

Carrier	Observed and Assumed Election Percent	Single Party Subsidy	Married/with Domestic Partner Subsidy	Eligible Survivor Subsidy
Kaiser Senior Adv	57.9	$219.59	$439.18	$219.59
Anthem BC Medicare PPO	30.0	$473.34	$787.99	$473.34
UHC Medicare Adv HMO	12.1	$243.11	$481.40	$243.11

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

Medical Subsidy
(Tier 1, Subject to Medical Subsidy Freeze)

Carrier	Single Party Subsidy	Married/With Domestic Partner Subsidy	Eligible Survivor Subsidy
Under Age 65 – All Plans	$1,190.00	$1,190.00	$595.60
Age 65 and Over			
Kaiser Senior Adv	$203.27	$406.54	$203.27
Anthem BC Medicare PPO	$480.40	$678.77	$480.41
UHC Medicare Adv HMO	$219.09	$433.93	$219.09

The retiree health subsidy for Tier 2 Members is based on single party coverage. Note that the assumptions used to develop the Tier 2 contribution rates were based on the June 30, 2012 valuation, as described in our Tier 2 study dated April 4, 2013.

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Marital Status

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

Spouse Age Difference

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

Surviving Spouse Coverage

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

Participation

Retiree Medical and Dental Coverage Election:

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

∗ Inactive Members are assumed to elect coverages at 50% of the rates shown above.

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

Health Care Cost Subsidy Trend Rates

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

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

First Fiscal Year (July 1, 2013 through June 30, 2014):

Plan	Trend to be applied to 2013-2014 Fiscal Year premium
Anthem BC PPO, Under Age 65	7.50%
Anthem BC Medicare LPPO, Age 65 and Over	8.48%
Kaiser HMO, Under Age 65	7.54%
Kaiser Senior Adv, Age 65 and Over	6.69%
Anthem BC HMO, Under Age 65	9.75%
UHC Medicare Adv HMO, Age 65 and Over	4.23%

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

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

Dental Premium Trend: 5.00% for all years.

Medicare Part B Premium Trend: 5.00% for all years.

Administrative Expenses

No administrative expenses were valued separately from the premium costs.

Asset Valuation Method

Market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. In addition, the actuarial value of assets is further adjusted, if necessary, to stay within 40% of the market value of assets.

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Actuarial Cost Method

Entry Age Normal Cost Method

Funding Policy

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

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

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

Assumption Changes since Prior Valuation

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

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

Summary of Plan Provisions

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

Membership Eligibility

Tier 1

All employees who became Members of the Retirement System before July 1, 2013, and certain non-Tier 2 employees who became Members of the Retirement System on or after July 1, 2013.

Tier 2

All employees who became Members of the Retirement System on or after July 1, 2013, except as provided otherwise in Section 4.1002.1 of the LACERS Administrative Code.

Benefit Eligibility

Retirees (§4.1103.2)

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

Medical Subsidy for Members Not Subject to Freeze (§4.1103.2)

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

Tier 1

The System will pay 4% of the maximum health subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2013, the maximum health subsidy was $1,367 per month, and will increase to $1,464 on January 1, 2014.

Summary of Plan Provisions (Continued)

Medical Subsidy for Members Not Subject to Freeze (§4.1103.2) (Continued)

Tier 2

The System will pay 40% of the maximum health subsidy (limited to actual premium) for a retiree with 10 years of service credit and an additional 3% for each additional year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2013, the maximum health subsidy was $682 per month and will increase to $730 on January 1, 2014. None of the subsidy can be applied toward coverage for dependents of Tier 2 retirees*.

* Note that the plan provisions used to develop the Tier 2 contribution rates shown in this report were based on the June 30, 2012 valuation, as described in our Tier 2 study, dated April 4, 2013.

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

Tier 1 and Tier 2

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

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

Dependents

Tier 1

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

Tier 2

None of the subsidy may be applied toward coverage for dependents of Tier 2 retirees.

Dental Subsidy for Members (§4.1105.2)

Tier 1

The System will pay 4% of the maximum dental subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum dental subsidy. As of July 1, 2013, the maximum dental subsidy was $42.80 per month and will remain at $42.80 beginning January 1, 2014.

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

Tier 2

The System will pay 40% of the maximum dental subsidy (limited to actual premium) for a retiree with 10 years of service credit and an additional 3% for each additional year of Service Credit, up to 100% of the maximum dental subsidy. As of July 1, 2013, the maximum dental subsidy was $42.80 per month and will remain at $42.80 beginning January1, 2014.

Medicare Part B Subsidy for Members (§4.1104)

Tier 1 and Tier 2

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

Surviving Spouse Subsidy (§4.1107 & §4.1107.1)

Tier 1

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

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

The maximum health subsidy available for survivors is the Kaiser single-party premium ($681.72 per month as of July 1, 2013, increasing to $729.83 on January 1, 2014) or the single-party premium of the plan in which the survivor is enrolled, whichever is less.

Summary of Plan Provisions (Continued)

Surviving Spouse Subsidy (§4.1107 & §4.1107.1) (Continued)

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

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

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

Tier 2

No medical plan premium subsidy shall be provided to the survivors of Tier 2 Members or retirees.

Subsidy Freeze

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

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

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

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

Statistical

Statistical Section

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

The financial and operating trend information is as follows:

Schedule of Additions by Source - Retirement Plan

(Dollars in Thousands)

		Employer Contributions			
Fiscal Year	Member Contributions	Dollars	% of Annual Covered Payroll	Net Investment Income (Loss) *	Total
2004	$ 93,418	$ 120,057	6.9%**	$ 1,097,366	$ 1,310,841
2005	94,268	175,947	10.7**	673,389	943,604
2006	98,262	244,283	14.2**	925,399	1,267,944
2007	106,234	293,160	16.9**	1,591,647	1,991,041
2008	114,678	302,810	16.5**	(550,386)	(132,898)
2009	118,592	288,516	15.0***	(1,800,906)	(1,393,798)
2010	126,961	266,240	14.2***	911,088	1,304,289
2011	114,731	306,737	18.1***	1,654,824	2,076,292
2012	178,246	308,712	18.0***	72,705	559,663
2013	197,881	346,350	19.9***	1,275,612	1,819,843

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

Schedule of Deductions by Type - Retirement Plan

(In Thousands)

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Miscellaneous Expenses	Total
2004	$ 380,276	$ 11,338	$ 9,066	$ -	$ 400,680
2005	405,456	10,679	9,303	-	425,438
2006	431,232	13,021	10,284	-	454,537
2007	457,847	17,452	9,501	-	484,800
2008	484,549	15,149	11,987	5,366*	517,051
2009	510,634	21,325	12,829	-	544,788
2010	569,938	27,971	14,204	-	612,113
2011	654,384	18,215	13,232	-	685,831
2012	664,626	11,100	12,995	-	688,721
2013	687,362	17,697	13,352	-	718,411

* Transfer to Fire and Police Pension.

Schedule of Additions by Source - Postemployment Health Care Plan

(Dollars in Thousands)

	Employer Contributions				
Fiscal Year	Dollars	% of Annual Covered Payroll	Miscellaneous Income	Net Investment Income (Loss) *	Total
2004	$ 20,144	1.4 %**	$ -	$ 155,151	$ 175,295
2005	53,190	3.6 **	-	91,412	144,602
2006	76,116	4.8 **	-	128,473	204,589
2007	115,233	7.0 **	-	231,613	346,846
2008	108,848	6.3 **	11,000***	(96,007)	23,841
2009	95,122	5.2 ****	-	(309,334)	(214,212)
2010	96,511	5.3 ****	-	155,745	252,256
2011	107,396	6.4 ****	-	295,324	402,720
2012	115,209	6.7 ****	-	10,314	125,523
2013	72,916	4.2 ****	-	253,632	326,548

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

Schedule of Deductions by Type - Postemployment Health Care Plan

(In Thousands)

Fiscal Year	Benefit Payments	Administrative Expenses	Miscellaneous Expenses	Total
2004	$ 58,254	$ 1,805	$ -	$ 60,059
2005	63,756	1,693	-	65,449
2006	62,351	1,924	-	64,275
2007	65,090	1,856	-	66,946
2008	70,096	2,367	854*	73,317
2009	73,839	2,569	-	76,408
2010	83,196	2,859	-	86,055
2011	98,156	2,786	-	100,942
2012	91,437	2,931	-	94,368
2013	97,946	3,197	-	101,143

* Transfer to Fire and Police Pension.

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

(In Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
City Contributions	$ 120,057	$ 175,947	$ 244,283	$ 293,160	$ 302,810	$ 288,516	$ 266,240	$ 306,737	$ 308,712	$ 346,350
Member Contributions	93,418	94,268	98,262	106,234	114,678	118,592	126,961	114,731	178,246	197,881
Net Investment Income (Loss)	1,097,366	673,389	925,399	1,591,647	(550,386)	(1,800,906)	911,088	1,654,824	72,705	1,275,612
Total Additions	1,310,841	943,604	1,267,944	1,991,041	(132,898)	(1,393,798)	1,304,289	2,076,292	559,663	1,819,843
Deductions										
Benefit Payments	380,276	405,456	431,232	457,847	484,549	510,634	569,938	654,384	664,626	687,362
Refunds of Contributions	11,338	10,679	13,021	17,452	15,149	21,325	27,971	18,215	11,100	17,697
Administrative Expenses	9,066	9,303	10,284	9,501	11,987	12,829	14,204	13,232	12,995	13,352
Miscellaneous Expenses	-	-	-	-	5,366*	-	-	-	-	-
Total Deductions	400,680	425,438	454,537	484,800	517,051	544,788	612,113	685,831	688,721	718,411
Changes in Plan Net Position	$ 910,161	$ 518,166	$ 813,407	$1,506,241	$(649,949)	$(1,938,586)	$ 692,176	$1,390,461	$ (129,058)	$ 1,101,432

* Transfer to Fire and Police Pension.

Changes in Plan Net Position - Postemployment Health Care Plan
Last Ten Fiscal Years

(In Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
City Contributions	$ 20,144	$ 53,190	$ 76,116	$ 115,233	$ 108,848	$ 95,122	$ 96,511	$ 107,396	$ 115,209	$ 72,916
Miscellaneous Income	-	-	-	-	11,000*	-	-	-	-	-
Net Investment Income (Loss)	155,151	91,412	128,473	231,613	(96,007)	(309,334)	155,745	295,324	10,314	253,632
Total Additions	175,295	144,602	204,589	346,846	23,841	(214,212)	252,256	402,720	125,523	326,548
Deductions										
Benefit Payments	58,254	63,756	62,351	65,090	70,096	73,839	83,196	98,156	91,437	97,946
Administrative Expenses	1,805	1,693	1,924	1,856	2,367	2,569	2,859	2,786	2,931	3,197
Miscellaneous Expenses	-	-	-	-	854**	-	-	-	-	-
Total Deductions	60,059	65,449	64,275	66,946	73,317	76,408	86,055	100,942	94,368	101,143
Changes in Plan Net Position	$ 115,236	$ 79,153	$ 140,314	$ 279,900	$ (49,476)	$ (290,620)	$ 166,201	$ 301,778	$ 31,155	$ 225,405

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

Schedule of Benefit Expenses by Type - Retirement Plan

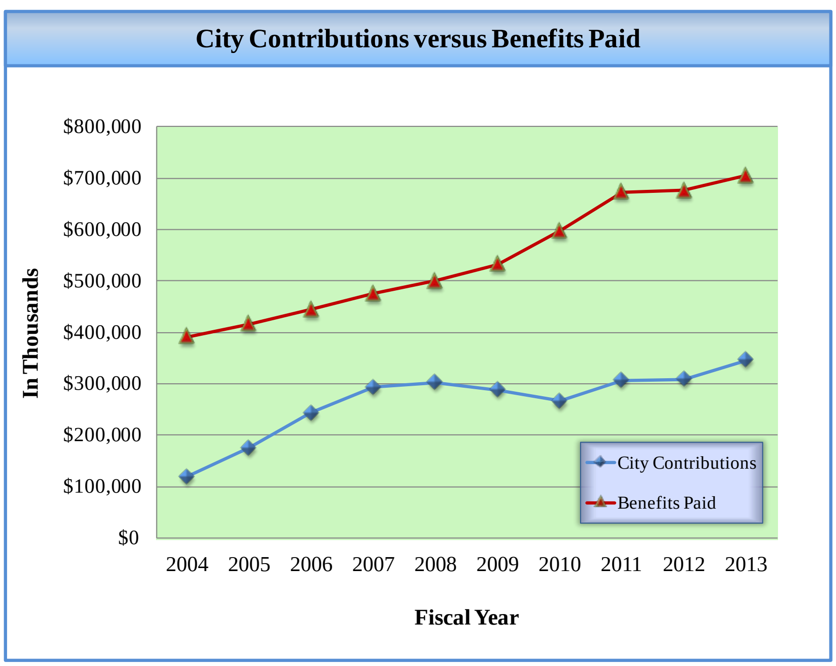
(In Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Type of Benefit										
Age & Service Benefits:										
Retirants	$ 318,135	$ 338,907	$ 360,515	$ 383,558	$ 406,891	$ 428,819	$ 483,295	$ 563,254	$ 570,633	$ 588,035
Survivors	42,017	44,558	47,509	50,497	53,064	56,716	60,299	64,160	66,735	70,298
Death in Service Benefits	2,814	2,960	3,053	2,746	2,600	2,735	2,699	2,674	2,477	2,776
Disability Benefits:										
Retirants	12,003	13,355	14,173	14,856	15,390	15,462	16,268	16,544	16,720	17,810
Survivors	5,307	5,677	5,982	6,190	6,604	6,902	7,377	7,752	8,061	8,443
Sub-total	380,276	405,457	431,232	457,847	484,549	510,634	569,938	654,384	664,626	687,362
Refunds of Contributions:										
Separation	8,792	7,833	9,616	14,393	10,973	17,081	21,814	13,951	6,765	13,103
Death in Service	1,531	1,294	1,473	1,216	1,279	1,312	1,269	1,640	2,416	2,515
Unused Contributions	339	680	851	570	1,048	1,390	1,094	1,281	965	1,006
Miscellaneous	676	872	1,081	1,273	1,849	1,542	3,794	1,343	954	1,073
Sub-total	11,338	10,679	13,021	17,452	15,149	21,325	27,971	18,215	11,100	17,697
Total Benefits Paid	$ 391,614	$ 416,136	$ 444,253	$ 475,299	$ 499,698	$ 531,959	$ 597,909	$ 672,599	$ 675,726	$ 705,059

City Contributions versus Benefits Paid - Retirement Plan

(In Thousands)

Fiscal Year	City Contributions	Benefits Paid
2004	$ 120,057	$ 391,614
2005	175,947	416,136
2006	244,283	444,253
2007	293,160	475,299
2008	302,810	499,698
2009	288,516	531,959
2010	266,240	597,909
2011	306,737	672,599
2012	308,712	675,726
2013	346,350	705,059



Schedule of Benefit Expenses by Type - Postemployment Health Care Plan

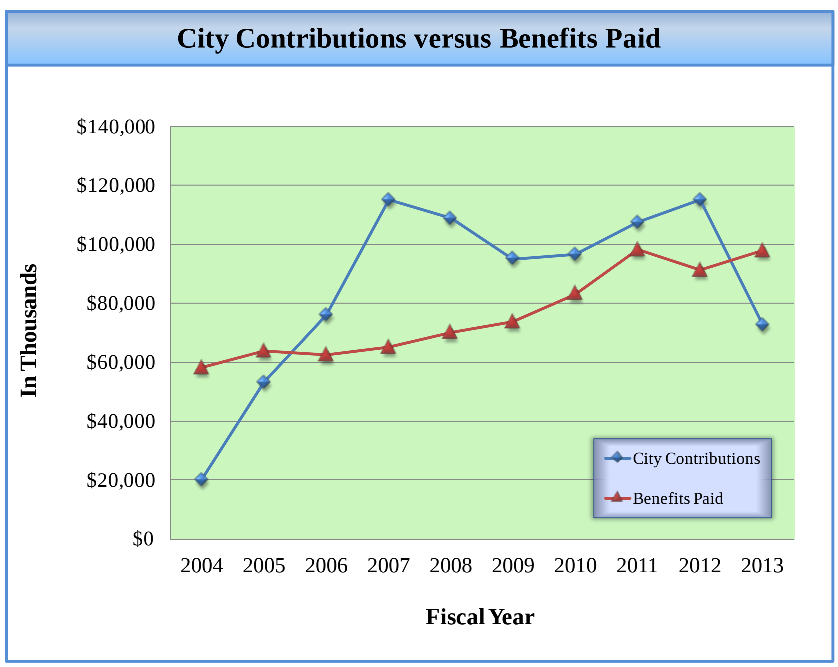
(In Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Type of Benefit										
Age & Service Benefits:										
Retirants	$ 48,735	$ 53,291	$ 52,127	$ 54,529	$ 58,863	$ 62,009	$ 70,548	$ 84,487	$ 78,506	$ 83,792
Survivors	6,436	7,006	6,869	7,179	7,676	8,201	8,802	9,624	9,181	10,017
Death in Service Benefits	431	465	441	390	376	396	394	401	341	396
Disability Benefits:										
Retirants	1,839	2,100	2,049	2,112	2,226	2,236	2,375	2,481	2,300	2,538
Survivors	813	893	865	880	955	997	1,077	1,163	1,109	1,203
Total Benefits Paid	$ 58,254	$ 63,755	$ 62,351	$ 65,090	$ 70,096	$ 73,839	$ 83,196	$ 98,156	$ 91,437	$ 97,946

City Contributions versus Benefits Paid - Postemployment Health Care Plan

(In Thousands)

Fiscal Year	City Contributions	Benefits Paid
2004	$ 20,144	$ 58,254
2005	53,190	63,755
2006	76,116	62,351
2007	115,233	65,090
2008	108,848	70,096
2009	95,122	73,839
2010	96,511	83,196
2011	107,396	98,156
2012	115,209	91,437
2013	72,916	97,946



Schedule of Retired Members by Type of Benefits - Retirement Plan

Amount of Monthly Benefits	Number of Retirants *	Type of Benefits ** 1	2	3	4	5	6	7	8	9	10	11
$ 1 to $ 500	541	165	108	1	147	4	34	6	75	1	200	9
501 to 1,000	1,446	289	407	11	269	79	153	109	128	1	87	-
1,001 to 1,500	1,981	506	539	41	256	394	44	120	81	-	29	1
1,501 to 2,000	1,841	798	425	48	153	292	15	70	40	-	10	-
2,001 to 2,500	1,590	1,021	273	42	90	103	12	28	21	-	9	-
2,501 to 3,000	1,566	1,228	173	43	78	15	4	11	14	-	3	-
3,001 to 3,500	1,560	1,324	124	47	42	8	1	7	7	-	-	-
3,501 to 4,000	1,413	1,268	93	23	22	2	-	2	3	-	1	-
4,001 to 4,500	1,259	1,142	83	12	15	2	-	1	4	-	-	-
4,501 to 5,000	986	920	50	5	8	1	-	-	2	-	-	-
Over $5,000	3,172	2,977	135	25	32	-	-	-	3	-	-	-
Total	17,355	11,638	2,410	298	1,112	900	263	354	378	2	339	10

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

** Type of Benefits

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

Schedule of Retired Members by Type of Benefits - Postemployment Health Care Plan

Amount of Monthly Benefits	Number of Retirants	Type of Benefits *** 1	2	3	4	5	6	7
Medical								
$ 0 to $ 200	903	540	129	25	59	97	28	25
201 to 400	3,342	2,313	769	64	95	51	20	30
401 to 600	3,839	3,187	403	49	103	60	13	24
601 to 800	2,134	1,761	116	29	150	67	4	7
801 to 1,000	865	827	-	-	31	7	-	-
1,001 to 1,190	814	725	-	-	71	18	-	-
1,201 to 1,367*	1,139	1,117	-	-	17	5	-	-
Total	13,036	10,470	1,417	167	526	305	65	86
Dental								
$ 0 to $ 10	2,149	422	1,175	143	88	172	60	89
11 to 20	2,387	2,208	-	-	114	65	-	-
21 to 30	772	589	-	-	104	79	-	-
31 to 42.8**	7,733	7,461	-	-	222	50	-	-
Total	13,041	10,680	1,175	143	528	366	60	89

* Maximum medical subsidy for plan year 2013.
** Maximum dental subsidy for plan year 2013.
*** Type of Benefits

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

Schedule of Average Benefit Payments - Retirement Plan

Retirement Effective Dates July 1, 2003 to June 30, 2013	Years Credited Service 0-10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 724	$ 1,525	$ 1,763	$ 2,629	$ 3,027	$ 4,348
Average Final Monthly Salary *	$ 4,224	$ 4,999	$ 4,800	$ 4,915	$ 5,263	$ 6,051
Number of Active Retirants	33	47	82	66	51	288
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 1,335	$ 1,639	$ 1,881	$ 2,673	$ 3,537	$ 4,734
Average Final Monthly Salary *	$ 5,790	$ 4,824	$ 5,116	$ 5,074	$ 6,082	$ 6,450
Number of Active Retirants	36	37	77	72	86	316
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 1,200	$ 1,338	$ 2,122	$ 2,468	$ 3,492	$ 4,828
Average Final Monthly Salary *	$ 3,798	$ 4,664	$ 5,422	$ 5,262	$ 5,937	$ 6,380
Number of Active Retirants	40	33	59	88	93	271
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	$ 1,023	$ 1,301	$ 1,991	$ 2,633	$ 3,227	$ 4,997
Average Final Monthly Salary *	$ 3,702	$ 5,170	$ 5,223	$ 5,514	$ 5,515	$ 6,543
Number of Active Retirants	41	33	62	85	74	230
Period 7/1/07 to 6/30/08						
Average Monthly Benefit	$ 883	$ 1,191	$ 2,105	$ 3,246	$ 3,818	$ 5,127
Average Final Monthly Salary *	$ 3,846	$ 4,336	$ 5,139	$ 5,922	$ 6,482	$ 6,754
Number of Active Retirants	22	36	50	91	69	229
Period 7/1/08 to 6/30/09						
Average Monthly Benefit	$ 759	$ 1,626	$ 2,348	$ 3,109	$ 4,150	$ 5,513
Average Final Monthly Salary *	$ 4,561	$ 5,739	$ 5,820	$ 6,078	$ 6,241	$ 6,954
Number of Active Retirants	25	21	51	63	55	121
Period 7/1/09 to 6/30/10						
Average Monthly Benefit	$ 907	$ 1,964	$ 2,810	$ 3,911	$ 4,674	$ 5,818
Average Final Monthly Salary *	$ 3,755	$ 5,525	$ 6,030	$ 6,316	$ 6,514	$ 6,708
Number of Active Retirants**	94	140	137	365	559	1,238
Period 7/1/10 to 6/30/11						
Average Monthly Benefit	$ 768	$ 1,414	$ 2,369	$ 3,146	$ 3,721	$ 5,920
Average Final Monthly Salary *	$ 5,266	$ 5,175	$ 6,141	$ 6,424	$ 6,409	$ 7,882
Number of Active Retirants	51	42	27	55	42	37
Period 7/1/11 to 6/30/12						
Average Monthly Benefit	$ 784	$ 1,379	$ 2,362	$ 3,453	$ 4,008	$ 6,003
Average Final Monthly Salary *	$ 4,995	$ 5,052	$ 6,338	$ 7,165	$ 6,804	$ 8,238
Number of Active Retirants	46	37	30	70	43	48
Period 7/1/12 to 6/30/13						
Average Monthly Benefit	$ 976	$ 1,888	$ 2,253	$ 3,355	$ 4,101	$ 5,487
Average Final Monthly Salary *	$ 6,025	$ 6,713	$ 6,055	$ 6,819	$ 7,007	$ 7,573
Number of Active Retirants	63	57	34	94	87	107

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

** Large increase primarily due to accelerated retirements stimulated by the City's Early Retirement Incentive Program (ERIP).

Schedule of Average Benefit Payments - Postemployment Health Care Plan

Retirement Effective Dates July 1, 2003 to June 30, 2013	Years Credited Service: Under 10 yrs *	10-15 yrs	16-20 yrs	21-25 yrs	Over 25 yrs
Period 7/1/03 to 6/30/04					
Health Insurance					
Average Monthly Benefit	$ -	$ 317	$ 413	$ 558	$ 600
Number of Active Retirants	3	50	86	76	340
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 19	$ 21	$ 28
Number of Active Retirants	3	48	81	71	337
Period 7/1/04 to 6/30/05					
Health Insurance					
Average Monthly Benefit	$ -	$ 333	$ 419	$ 490	$ 675
Number of Active Retirants	5	58	88	100	391
Dental Insurance					
Average Monthly Benefit	$ -	$ 14	$ 19	$ 22	$ 29
Number of Active Retirants	3	56	75	89	380
Period 7/1/05 to 6/30/06					
Health Insurance					
Average Monthly Benefit	$ -	$ 310	$ 471	$ 530	$ 656
Number of Active Retirants	-	51	84	90	372
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 18	$ 28	$ 28
Number of Active Retirants	4	46	76	82	363
Period 7/1/06 to 6/30/07					
Health Insurance					
Average Monthly Benefit	$ -	$ 297	$ 469	$ 562	$ 664
Number of Active Retirants	2	33	94	100	357
Dental Insurance					
Average Monthly Benefit	$ -	$ 13	$ 17	$ 25	$ 27
Number of Active Retirants	4	34	91	93	352
Period 7/1/07 to 6/30/08					
Health Insurance					
Average Monthly Benefit	$ -	$ 348	$ 425	$ 580	$ 646
Number of Active Retirants	3	33	60	86	327
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 20	$ 25	$ 28
Number of Active Retirants	2	32	50	85	315
Period 7/1/08 to 6/30/09					
Health Insurance					
Average Monthly Benefit	$ -	$ 354	$ 508	$ 613	$ 661
Number of Active Retirants	-	20	56	50	251
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 16	$ 20	$ 23
Number of Active Retirants	2	20	51	48	251

Schedule of Average Benefit Payments - Postemployment Health Care Plan (Continued)

Retirement Effective Dates July 1, 2003 to June 30, 2013	Years Credited Service: Under 10 yrs *	10-15 yrs	16-20 yrs	21-25 yrs	Over 25 yrs
Period 7/1/09 to 6/30/10					
Health Insurance					
Average Monthly Benefit	$ -	$ 385	$ 562	$ 634	$ 786
Number of Active Retirants **	8	116	110	267	1,978
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 21	$ 26	$ 28
Number of Active Retirants **	11	120	102	261	1,987
Period 7/1/10 to 6/30/11					
Health Insurance					
Average Monthly Benefit	$ -	$ 465	$ 440	$ 688	$ 648
Number of Active Retirants	1	31	31	69	145
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 17	$ 22	$ 17
Number of Active Retirants	2	26	26	68	130
Period 7/1/11 to 6/30/12					
Health Insurance					
Average Monthly Benefit	$ -	$ 372	$ 581	$ 660	$ 642
Number of Active Retirants	-	34	27	84	136
Dental Insurance					
Average Monthly Benefit	$ -	$ 10	$ 17	$ 28	$ 25
Number of Active Retirants	4	25	24	75	131
Period 7/1/12 to 6/30/13					
Health Insurance					
Average Monthly Benefit	$ -	$ 428	$ 596	$ 790	$ 840
Number of Active Retirants	1	64	33	102	243
Dental Insurance					
Average Monthly Benefit	$ -	$ 14	$ 21	$ 28	$ 26
Number of Active Retirants	2	55	27	95	235

* Health care benefits are not provided to retirants with services less than 10 years.

** Large increase primarily due to accelerated retirements stimulated by the City's Early Retirement Incentive Program (ERIP).

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

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