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# Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 1999

LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTE  
(A Department of the City of Los Angeles)  
360 East Second Street, 2nd Floor  
Los Angeles, California 90012-4207  
Tel: (213) 473-7200



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

**Comprehensive**  
**Annual Financial Report**  
For The Fiscal Year Ended June 30, 1999

Oscar Peters, General Manager-Secretary

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# INTRODUCTORY SECTION

**LACERS**



**CITY OF LOS ANGELES**  
CALIFORNIA



**RICHARD J. RIORDAN**  
MAYOR

**BOARD OF  
ADMINISTRATION  
CITY EMPLOYEES'  
RETIREMENT SYSTEM**

—  
WILLIAM H. DOHENY, JR.  
PRESIDENT

SHELLEY I. SMITH  
VICE PRESIDENT

—  
ROBERT D. BEYER  
CHARLEY M. MIMS  
BEVERLY RYDER  
KEN SPIKER  
BEVERLY BENEDICT THOMAS

**LACERS**

360 EAST SECOND STREET  
2ND FLOOR  
LOS ANGELES, CA 90012-4207

—  
OSCAR PETERS  
GENERAL MANAGER  
(213) 473-7280

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

**LETTER OF TRANSMITTAL**

December 14, 1999

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

Dear Members of the Board:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ended June 30, 1999, the System's 63rd year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operation and is the responsibility of the LACERS management.

Established in 1937, LACERS is a public employee retirement system. All regular, full time City employees accrue retirement benefits from LACERS except employees of the Department of Water and Power and sworn personnel of the Los Angeles Police and Fire Department. LACERS provides service retirements, and disability retirements for employees of the City of Los Angeles, to facilitate separation from City service, allowing a new generation of City workers to assume the responsibilities of effective government service. LACERS also provides health insurance subsidies for retired members and their beneficiaries, active and retired death benefits, and administers a term life insurance benefit program for active members. Members of LACERS can participate in a Government Services Buyback Program, which allows members to purchase retirement service credit for service with other government employers, including the military. LACERS is a reciprocal agency with the California Public Employees' Retirement System. This allows members who transfer





between California public retirement plans to receive an accumulated retirement benefit for continuous public service within the State.

## **STRUCTURE OF THE REPORT**

This report is presented in five sections:

- The Introductory Section describes the System's management and organizational structure, a summary of the plan provisions, and a listing of the professional services used.
- The Financial Section contains the opinion of the independent auditors, Ernst & Young LLP, and the general-purpose financial statements of the system.
- The Investment Section contains the Chief Investment Officer's transmittal letter of significant events in management of the Fund assets along with graphs and schedules on asset allocation, asset diversification, and performance history.
- The Actuarial Section includes the certification letter produced by the independent actuary, Watson Wyatt Worldwide, along with supporting schedules and information.
- The Statistical Section contains a graph, and schedules related to active and retired membership, revenues, expenses, benefit expenses, city contribution, retired membership, and average benefit payments.

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

This CAFR was prepared in conformity with generally accepted accounting principles and reporting guidelines set forth by the Government Accounting Standards Board (GASB) in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans, and the Los Angeles City Charter.

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

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

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

## **Additions to Plan Net Assets**

The total additions to Plan net assets for 1998/99, including net appreciation in fair value of investments and net of investment management fees, was \$984,846,317. This amount includes member and employer contributions of \$171,927,162 and net investment income of \$812,919,155. Net investment income represented an increase of \$173,523,153 over the prior year; this increase was attributed mainly to net appreciation in fair value of investments. Details of the components of the additions to plan net assets are included in the Statements of Changes in Plan Net Assets on page II-4 of the financial statements in the financial section.

## **2. Deductions to Plan Net Assets**

Deductions for fiscal year 1999, excluding investment management and security lending fees, were \$306,485,586 which represented an increase of \$22,471,626 over the prior year. This increase was the result of higher retirement benefits payments due to an increase in the number of retirees and cost of living adjustments. The components of the total deductions are payments of retirement benefits of \$290,624,470; refunds of contributions and interest to terminated members of \$9,627,685; and administrative expenses of \$6,233,431.

## **3. Changes in System Membership**

LACERS membership increases for the fiscal year 1998/99 were as follows:

	<u>1999</u>	<u>1998</u>	<u>Increase/(Decrease)</u>	<u>% Change</u>
Active Members	22,054	22,091	(37)	(0.17)
Retired Members	12,843	12,591	252	2.00

## **4. Major Initiatives**

LACERS has been responsible for providing retired health benefits since 1975. In 1987 the Board began to recognize this benefit in computing the actuarial liability for the System. Initially this benefit was an extension of the active employee health benefits. Since inception the administration of this benefit has been outsourced to the Employee Benefits Division of the Personnel Department. This year it reviewed this relationship and determined that many of the reasons for assigning administration to the Employee Benefits Division no longer existed. Therefore it decided to bring the administration of this benefit into LACERS. It hired a health benefits consultant and reviewed the benefits. As a result it changed the coverage for the calendar year 2000 to have a program that was more appropriate for a retired population.

The Department continued to work on developing a new retirement management system. This System will consolidate the administration of the benefits from two mainframe City administered systems onto one system managed by Department staff. In addition the Department completed the electronic imaging of all member files so that any file is immediately available on any staff computer to respond to member queries. This also

assures that member records will not be at risk from disaster as the records are frequently backed up and stored off site.

## **5. Funding Status**

LACERS Actuarial funding reach 105% at year-end. As a result, the City's contributions for fiscal year 2001 fell to 5.6% of payroll. With a fully funded system, taxpayers pay for services received during the current year, and are not paying for services provided in prior years or passing the cost of current services on to future generations. During the fiscal year the funding ratio of the System increased from 100.9% to 105.3% and the actuarial value of the assets increased \$715 million.

## **6. Financial and Economic Summary**

The past year has been a prosperous year for LACERS. Los Angeles County's housing demand continued to strengthen during this fiscal year, driven by active job growth, low mortgage rates and healthy consumer confidence. This has been very favorable for the Fund as the City uses its property tax revenue as the primary source for its funding of the required City Contributions.

Tax revenues for the State of California have increased and it is anticipated that additional revenues will be made available to Counties, Cities, and Special Districts. Nationwide the trend of strong economic growth with low unemployment continued during 1998/99. The unemployment rate was only 4.3% in June while the consumer price index rose only 2% during the 12-month period ended June 30, 1999.

## **7. Investment Summary**

Lacer's investments provided a good return for a well-diversified portfolio. For the 1998/99 fiscal year, the portfolio earned a return of 12.8% net of fees, well above the actuarial earnings assumption. The portfolio has annualized returns of 14.1% over the past three years, and 14.8% over the past five years. On a fair value basis, the total plan net asset grew from \$6,600,702,383 to \$7,279,063,114, an increase of 10.3% for the fiscal year.

## **8. Certificate of Achievement**

The Government Finance Officers Association (GFOA) presents a Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of governmental financial reports. To be awarded a certificate of achievement, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conforms to program standards and satisfy generally accepted accounting principles and other legal requirements. We believe this, our first Comprehensive Annual Financial Report, meets the program requirements set forth by the

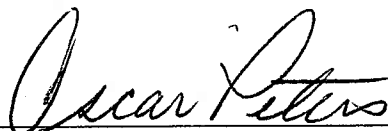
GFOA for receiving the Certificate of Achievement for Excellence in Financial Reporting, and it will be submitted to the GFOA for consideration.

**9. Acknowledgements**

I would like to express my appreciation of the entire Board for effectively working together to set investment policies which allowed the Fund to participate in the exceptional returns of the financial markets. I'd like to thank staff for continually providing quality customer service to the members, and various City departments while conducting related business.

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

Respectfully submitted,



Oscar Peters  
General Manager



Li Hsi  
Chief Accounting Employee



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**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**BOARD OF ADMINISTRATION**

**FISCAL YEAR 1998 - 1999**

**WILLIAM H. DOHENY, JR.**

President

**SHELLEY I. SMITH**

Vice President

**ROBERT D. BEYER**

Commissioner

**CHARLEY M. MIMS**

Commissioner

**BEVERLY RYDER**

Commissioner

**KENNETH SPIKER**

Commissioner

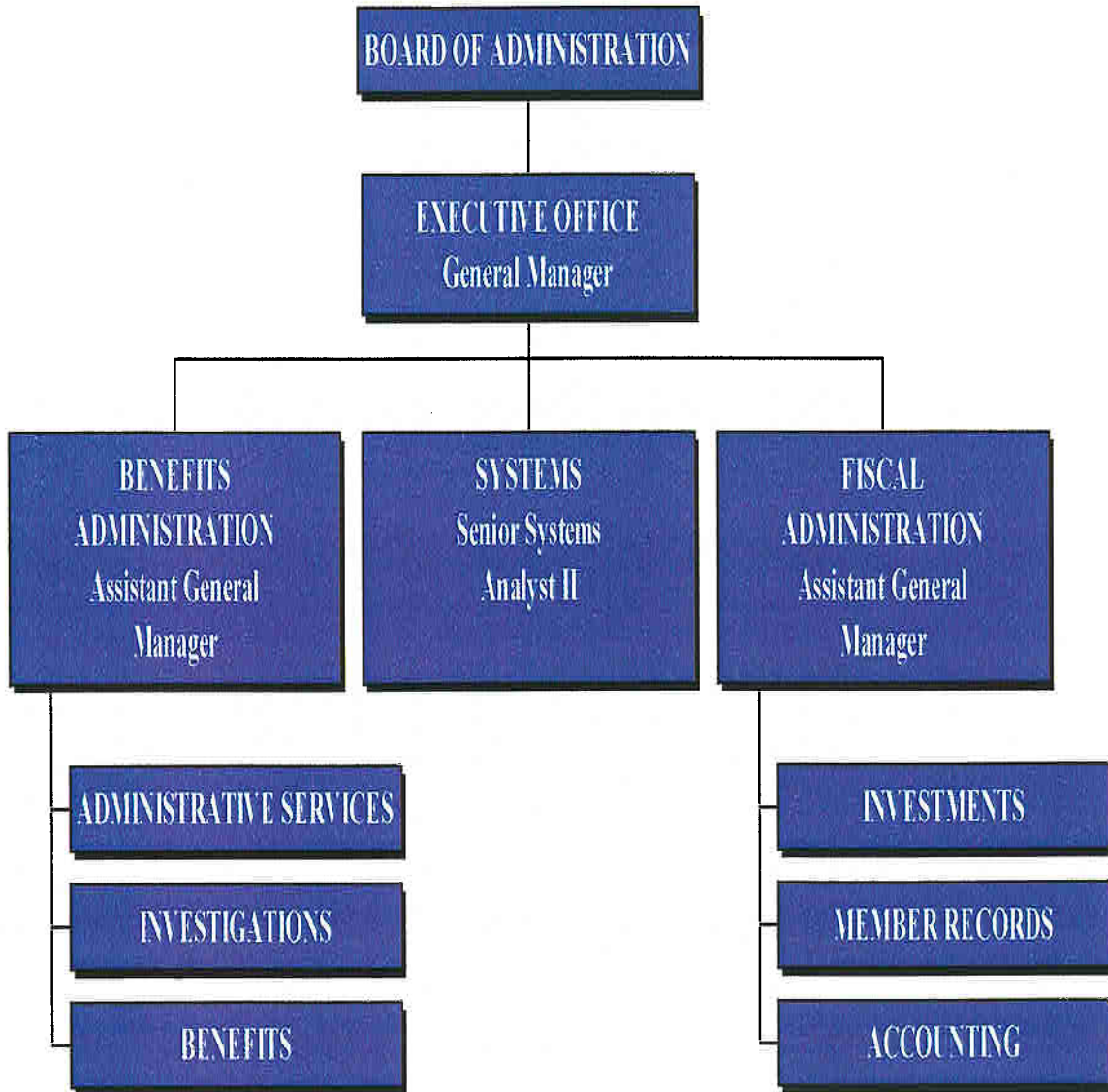
**BEVERLY BENEDICT THOMAS**

Commissioner

**OSCAR PETERS**

General Manager - Secretary

# LACERS ORGANIZATIONAL CHART





## PROFESSIONAL CONSULTANTS

### ACTUARY

**Watson Wyatt Worldwide**  
Sherman Oaks, CA

### AUDITOR

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

### BENEFICIARY VERIFICATION

**Pension Benefit Information**  
Tiburon, CA

### HEALTH & WELFARE CONSULTANTS

**Watson Wyatt Worldwide**  
San Francisco, CA

### INVESTMENT CONSULTANTS

**Asset Strategy Consulting**  
Los Angeles, CA

**The Townsend Group**  
Cleveland, OH

**Pathway Capital Management**  
Irvine, CA

### STRATEGIC PLANNING

**William M. Mercer**  
Denver, CO

### SYSTEMS CONSULTANT

**Myron L. Nack**  
Cypress, CA



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**FINANCIAL  
SECTION**

**LACERS**



## Report of Independent Auditors

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

We have audited the accompanying retirement plan and postemployment healthcare plan statement of plan net assets of the Los Angeles City Employees' Retirement System (the System), a department of the City of Los Angeles, California, as of June 30, 1999, and the related retirement plan and postemployment healthcare plan statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the retirement plan and postemployment healthcare plan of the Los Angeles City Employees' Retirement System as of June 30, 1999, and the changes in its net assets for the year then ended, in conformity with generally accepted accounting principles.

The supplementary information on pages 18 through 21 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We did not audit and do not express an opinion on the information on pages 18 through 21. We have applied limited procedures to the information on pages 19 through 21, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the

supplementary information. However, we were unable to apply to the year 2000 information on page 18 certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that Los Angeles City Employees' Retirement System is or will become year 2000 compliant, that Los Angeles City Employees' Retirement System's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Los Angeles City Employees' Retirement System does business are or will become year 2000 compliant.

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

*Ernst + Young LLP*

September 30, 1999



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

Retirement Plan and Postemployment  
Healthcare Plan Statement of Plan Net Assets

As of June 30, 1999, with Comparative Totals

	Retirement Plan	Postemployment Healthcare Plan	Totals 1999	Totals 1998
<b>Assets</b>				
Cash and short-term investments (fair value) (Note 5)	\$ 629,590,881	\$ 76,929,214	\$ 706,520,095	\$ 671,722,565
Receivables:				
Accrued investment income	30,579,501	3,736,485	34,315,986	34,076,915
Proceeds from sales of investments	133,966,493	16,369,260	150,335,753	29,618,980
Other	5,158,193	630,276	5,788,469	6,368,569
<b>Total receivables</b>	<b>169,704,187</b>	<b>20,736,021</b>	<b>190,440,208</b>	<b>70,064,464</b>
Investments, at fair value (Notes 5 and 6):				
U.S. government obligations	483,606,257	59,091,468	542,697,725	700,381,194
Municipal bonds	4,580,890	559,735	5,140,625	29,163,055
Domestic corporate bonds	607,946,420	74,284,494	682,230,914	626,120,162
International bonds	262,854,513	32,117,986	294,972,499	231,991,493
Domestic stocks	2,789,042,601	340,790,918	3,129,833,519	2,955,103,359
International stocks	1,255,118,374	153,361,925	1,408,480,299	954,366,611
Mortgages	412,831,208	50,443,520	463,274,728	208,316,751
Government agencies	85,010,751	10,387,397	95,398,148	84,097,089
Real estate	151,760,299	18,543,471	170,303,770	147,300,694
Venture capital and alternative investments	93,692,816	11,448,251	105,141,067	64,471,919
Security lending collateral	871,014,393	106,428,562	977,442,955	1,037,862,812
<b>Total investments</b>	<b>7,017,458,522</b>	<b>857,457,727</b>	<b>7,874,916,249</b>	<b>7,039,175,139</b>
<b>Total assets</b>	<b>7,816,753,590</b>	<b>955,122,962</b>	<b>8,771,876,552</b>	<b>7,780,962,168</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	20,976,247	2,563,070	23,539,317	6,226,654
Purchase of investments	438,278,287	53,552,879	491,831,166	136,170,319
Security lending collateral	871,014,393	106,428,562	977,442,955	1,037,862,812
<b>Total current liabilities</b>	<b>1,330,268,927</b>	<b>162,544,511</b>	<b>1,492,813,438</b>	<b>1,180,259,785</b>
Net assets held in trust for pension benefits and postemployment healthcare benefits (a schedule of funding progress is presented on page 19)	\$6,486,484,663	\$ 792,578,451	\$7,279,063,114	\$6,600,702,383

See accompanying notes.

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

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

Year ended June 30, 1999, with Comparative Totals

	Retirement Plan	Postemployment Healthcare Plan	Totals	
			1999	1998
<b>Additions:</b>				
<b>Contributions:</b>				
Employer	\$ 89,863,033	\$ 19,499,233	\$ 109,362,266	\$ 117,208,578
Plan member	62,564,896	-	62,564,896	58,313,955
<b>Total contributions (Note 2)</b>	<b>152,427,929</b>	<b>19,499,233</b>	<b>171,927,162</b>	<b>175,522,533</b>
<b>Investment income:</b>				
Net appreciation in fair value of investments, including gain on sales	490,964,775	112,575,066	603,539,841	415,420,095
Interest	124,799,071	28,615,625	153,414,696	167,758,296
Dividends	45,852,044	10,513,579	56,365,623	60,906,427
Alternative investment income	1,280,644	293,643	1,574,287	-
Real estate operating income, net of expense	18,002,415	3,619,155	21,621,570	10,527,742
	680,898,949	155,617,068	836,516,017	654,612,560
Investment management expense	(21,010,645)	(2,586,217)	(23,596,862)	(15,216,558)
<b>Total investment income, net</b>	<b>659,888,304</b>	<b>153,030,851</b>	<b>812,919,155</b>	<b>639,396,002</b>
<b>Total additions</b>	<b>812,316,233</b>	<b>172,530,084</b>	<b>984,846,317</b>	<b>814,918,535</b>
<b>Deductions:</b>				
Benefits	268,298,036	22,326,434	290,624,470	270,763,500
Refunds of contributions	9,627,685	-	9,627,685	7,490,262
Administrative expenses	5,550,247	683,184	6,233,431	5,760,198
<b>Total deductions</b>	<b>283,475,968</b>	<b>23,009,618</b>	<b>306,485,586</b>	<b>284,013,960</b>
<b>Net increase</b>	<b>528,840,265</b>	<b>149,520,466</b>	<b>678,360,731</b>	<b>530,904,575</b>
<b>Net assets held in trust for pension benefits and postemployment healthcare benefits:</b>				
Beginning of year	5,957,644,398	643,057,985	6,600,702,383	6,069,797,808
End of year	<b>\$6,486,484,663</b>	<b>\$ 792,578,451</b>	<b>\$7,279,063,114</b>	<b>\$6,600,702,383</b>

*See accompanying notes.*

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

Notes to Financial Statements

June 30, 1999

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

**General**

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

The System operates as a single-employer defined benefit plan (the Plan). The City and eligible employees contribute to the System based upon rates recommended by an independent actuary and adopted by the Board. Contributions are invested and applied to benefit payments with accumulated investment earnings.

The primary eligibility requirement for postemployment healthcare subsidy is that the person is a retired employee, and/or an eligible spouse, who is receiving a monthly allowance from the Los Angeles City Employees' Retirement System. The required contribution rate for the postemployment healthcare benefits for the fiscal year ended June 30, 1999, was 1.85% of covered payroll.

The System's funding policy under Article XXXIV Sections 505 and 507 provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 1999, the System's actuary recommended the rate of 6.57% of covered payroll as the City's contribution to the Plan for pension benefits. Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (see Note 4). Members entering subsequent to January 1983 contribute a flat rate of 6%. Members of the System have a vested right to their own contributions and accumulated investment earnings. After five years of

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

Notes to Financial Statements (continued)

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

**General (continued)**

employment, members are eligible for future retirement benefits, which increase with length of service. If a member with five or more years of service terminates employment, the member has the option of receiving retirement benefits when eligible or withdrawing from the System and having his or her contributions and accumulated investment earnings refunded. Benefits are based upon age, length of service and compensation.

The components of the System's membership were as follows at June 30, 1999:

Active:	
Vested	17,675
Nonvested	4,379
	<hr/>
	22,054
Inactive:	
Nonvested	825
Terminated entitled to benefit, not yet receiving benefits	715
Retired	12,843
Total	<hr/> <hr/>
	36,437

**Basis of Accounting**

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

**Basis of Presentation**

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

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

Notes to Financial Statements (continued)

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

**Fair Value of Investments**

Funds are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board under Article XXXIV Section 504 of the City Charter. The System's investment portfolios are primarily composed of domestic and international equities, domestic and international bonds, real estate and alternative investment funds, and short-term investments that include obligations of the U.S. Treasury, agencies, commercial paper rated A-1, bankers acceptances, repurchase agreements and the short-term investment fund managed by the System's custodian bank.

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

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

**Fixed Assets**

Purchases of fixed assets, mainly office furniture and computer equipment, are recorded as expenses in the year acquired.

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

Notes to Financial Statements (continued)

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

**Reserves**

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

Plan Member Contributions – Active member contributions to the Plan and investment earnings distributions credit to members' accounts, less refunds of members' contributions and transfers to the annuity.

Employer Contributions – Consists of the following components:

Basic Pensions – City contributions, investment earnings distributions, and capital gains accumulated to provide for the City's guaranteed portion of retirement benefits.

Annuity – Member contributions transferred to the City and used to provide for the members' share of retirement benefits and investment earnings distributions, less payments to retired members.

Family Death Benefits – Member contributions, matching City contributions, and investment earnings distributions reserved to pay benefits under the family death benefits insurance plan established by the System.

Health Insurance Benefits – City contributions, investment earnings distributions, and capital gains accumulated to provide health subsidies for retirees.

Reserve balances as of June 30, 1999, are as follows:

Member contribution	\$ 776,617,190
Basic pensions	5,274,167,598
Retired member annuity	416,227,855
Family death benefit	19,472,020
Postretirement health benefit	792,578,451
Total reserves	<u>\$7,279,063,114</u>



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

Notes to Financial Statements (continued)

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

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

The preparation of the financial statements in conformity with generally accepted accounting principles 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 general purpose financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications were made to the 1998 financial statements to conform to the 1999 financial statement presentation.

**2. Contributions Required and Contributions Made**

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

Most of the UAAL is amortized as a level percent of pay over the period ending June 30, 2010. Increases in the UAAL due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years, both as a level percent of pay. Plan amendments are amortized over 30 years as a level percent of pay, unless the characteristics of the amendment dictate a shorter amortization period.

The contributions to the System for the year ended June 30, 1999, of \$171.9 million (\$152.4 million for the retirement plan and \$19.5 million for healthcare) were made in accordance with actuarially determined requirements computed through the above-mentioned actuarial valuation.

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

Notes to Financial Statements (continued)

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

Contributions to the System consisted of the following for the year ended June 30, 1999 (in millions):

	<b>Amount</b>	<b>Percentage of Current Covered Payroll</b>
Covered payroll	\$ 1,068.1	100%
<b>Retirement Plan</b>		
Normal cost	\$ 144.2	13.50%
Amortization of the unfunded actuarial accrued liability	8.0	0.75
Family death benefits insurance plan	0.2	0.02
<b>Total</b>	<b>\$ 152.4</b>	<b>14.27%</b>
<b>Total City contribution</b>	<b>\$ 89.8</b>	<b>8.41%</b>
<b>Plan member contribution</b>	<b>62.6</b>	<b>5.86</b>
<b>Total</b>	<b>\$ 152.4</b>	<b>14.27%</b>
<b>Healthcare</b>		
Normal cost	\$ 12.7	1.19%
Amortization of the unfunded actuarial accrued liability	6.8	.64
<b>Total</b>	<b>\$ 19.5</b>	<b>1.83%</b>
<b>Total City contribution</b>	<b>\$ 19.5</b>	<b>1.83%</b>

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

Notes to Financial Statements (continued)

**3. Historical Trend Information**

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 19 through 21.

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

For members prior to February 1983, the City subsidizes a portion of member contributions under a collective bargaining agreement. Payments made by the City in this manner are not refundable to members upon their withdrawal from the plan prior to retirement. Therefore, the City does not have to contribute the total amount of member contributions that it subsidizes.

The amount payable by the City, based upon the actuarial valuations, was approximately 85% of subsidized member contributions for the year ended June 30, 1999. The City contributed \$20.4 million in this manner for the year ended June 30, 1999.

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

The Board has the responsibility for the investment of the System's funds with the following limitations:

- The aggregate monies invested in debt-type securities, such as bonds or debentures below investment grade, cannot exceed 20% of the assets of the Plan.
- Thirty-five percent of the Plan's assets may be invested in short-term money market instruments such as certificates of deposit, commercial paper, bank's acceptances and repurchase agreements. A "short-term" money market instrument is one which matures within one year from the purchase date.
- The aggregate monies invested in equity-type securities, such as common stocks, preferred stocks, convertible preferred stocks and convertible bonds and debentures cannot exceed 70% of the Plan assets. A maximum of 50% of equity-type securities may be invested in corporations that have not paid a dividend on its common stock in each of the five fiscal years next preceding the date of investment.

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

Notes to Financial Statements (continued)

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

- The aggregate amount of Plan assets invested in the common stock of any one corporation cannot exceed 2% of net assets and the Plan cannot acquire more than 5% of the issued and outstanding shares of common stock of such corporation.

No investments (other than those issued or guaranteed by the U.S. government) represent 5% or more of the Plan's net assets.

The System considers investments purchased with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 1999, on the retirement plan and postemployment healthcare statement of plan net assets includes approximately \$924,000 held in the System's general operating accounts with the City Treasurer and short-term investments of \$705,596,000 for a total of \$706,520,000. 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, 1999, short-term investments included commercial paper of \$543,225,000, collective STIF of \$36,861,000, international STIF of \$118,554,000, and future initial margin of \$6,956,000.

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

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

Notes to Financial Statements (continued)

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

At June 30, 1999, the fair value of investments was as follows (in thousands).

Investments – Category 1 (held by Systems' agent in the System's name):	
Futures initial margin	\$ 6,956
U.S. government obligations	586,492
Domestic corporate bonds	622,132
Domestic stocks	2,895,756
International fixed income	207,885
International stocks	1,133,388
Commercial paper	543,225
Subtotal	<u>5,995,834</u>
Investments – not categorized:	
Collective STIF	36,861
International STIF	118,554
Investments held by broker-dealers under securities loans with cash collateral:	
U.S. government and agency securities	361,618
Domestic corporate fixed-income securities	60,098
International fixed-income securities	87,087
Domestic stocks	209,461
Foreign stocks	230,313
Subtotal	<u>948,577</u>
Investments held by broker-dealers under securities loans with non-cash collateral:	
U.S. government and agency securities	158,401
Domestic stocks	24,617
Foreign stocks	44,780
Subtotal	<u>227,798</u>

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

Notes to Financial Statements (continued)

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

Securities lending short-term investment pool ( <i>Note 7</i> )	\$ 977,443
Real estate investment funds	170,304
Alternative investments	105,141
Equity in city treasury	924
Subtotal	<u>1,253,812</u>
Less: equity in city treasury	<u>(924)</u>
Total investments (excluding short-term investments)	<u>\$ 8,580,512</u>

**6. Securities Lending Agreement**

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

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

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



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

Notes to Financial Statements (continued)

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

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

As of June 30, 1999, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent.

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

The following represents the balances relating to the security lending transactions as of June 30, 1999 (in thousands):

<u>Securities Lent</u>	<u>Fair Value of Underlying Securities</u>
U.S. government and agency securities	\$ 520,019
Domestic corporate fixed-income securities	60,098
International fixed-income securities	87,087
Domestic stocks	234,078
Foreign stocks	275,093
	<u>\$ 1,176,375</u>

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

Notes to Financial Statements (continued)

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

As of June 30, 1999, the fair value of the lent securities was \$1,176,375,000. The fair value of associated collateral was \$1,211,017,000. Of this amount, \$977,443,000 represents the fair value of cash collateral and \$233,574,000 represents the fair value of the noncash collateral. Noncash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses from security lending were \$6,072,000 and \$1,827,000, respectively, for the year ended June 30, 1999.

**7. Futures and Forward Contracts**

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures contracts are used to hedge cash for asset allocation purposes, and forward contracts are used to hedge against fluctuation in foreign currency-denominated assets and related income. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions are deferred and recognized as income or as adjustments to carrying amounts when the hedged transaction occurs. Gains and losses on futures contracts that do not qualify as hedges are recognized as gains or losses for the current period.

At June 30, 1999, the System had net outstanding futures and forward commitments with a notional amount of \$700 million, which expire through September 1999. These commitments are not recorded in the general purpose financial statements. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was \$6.9 million as of June 30, 1999. The realized loss on foreign currency translation was \$12.2 million as of June 30, 1999.

Future contracts have little credit risk, as organized exchanges are the counterparties. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

**8. Commitments and Contingencies**

At June 30, 1999, the System was committed to future purchase of investments at an aggregate cost of approximately \$159,315,079.

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

Notes to Financial Statements (continued)

**9. Operating Lease**

The System leases building facilities under a noncancelable operating lease that expires in fiscal 2008, at which time a five-year renewal option is available. This lease also contains provisions for the System to pay its prorated share of subsequent increases in operating costs and taxes over the base rate established during the initial year of the lease.

The future minimum lease commitments are as follows as of June 30, 1999:

Year 2000 – 2003, each year	\$ 501,000
Year 2004 – 2008, each year	\$ 585,000

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

**Required Supplementary Information**

**Year 2000 Issues and Activities**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the System's operations during fiscal year 2000.

Los Angeles City Employees' Retirement System (LACERS) has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting its operations. It has identified such systems as being Retirement And Pension System, Active Members Retirement Information System, City Payroll System, and City Financial Management Information System. LACERS has completed the awareness and assessment stages of its year 2000 project. The states of the remediation and validation/testing stages are as follows:

- The City Payroll System and the City Financial Management Information System have been remediated, tested and validated by the City of Los Angeles.
- The Retirement And Pension System and the Active Members Retirement Information System are currently being remediated, tested and validated by the Information Technology Agency (ITA) and the Controller's Office of the City of Los Angeles. The remediation, testing and validation process is expected to be complete by November 30, 1999. Costs for such work will be charged back by the ITA at approximately \$100,000 based on its estimate.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable under the year 2000 and thereafter. Management cannot assure that LACERS is or will be year 2000 ready, that LACERS' remediation efforts will be successful in whole or in part, or that parties with whom LACERS does business with will be year 2000 ready.

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

Required Supplementary Information  
Retirement Plan  
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded or (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll (b-a)/c
June 30, 1994	\$ 3,629,723,739	\$ 3,817,841,255	\$ 188,117,516	95.1%	\$ 884,950,676	21.3%
June 30, 1995	3,940,057,106	4,080,765,873	140,708,767	96.6	911,292,385	15.4
June 30, 1996	4,468,433,499	4,476,024,351	7,590,852	99.8	957,422,907	0.8
June 30, 1997	4,802,508,841	4,886,336,641	83,827,800	98.3	990,616,145	8.5
June 30, 1998	5,362,923,264	5,312,918,078	(50,005,186)	100.9	1,011,857,180	(4.9)
June 30, 1999	5,910,948,149	5,684,586,071	(226,362,078)	104.0	1,068,124,413	(21.2)

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

Required Supplementary Information  
Retirement Plan  
Schedule of Employer Contributions

	<b>Employer Contributions Total</b>	
	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
<b>Year ended June 30</b>		
1994	\$ 143,548,618	100%
1995	115,129,588	100
1996	120,660,148	100
1997	88,799,922	100
1998	64,459,744	100
1999	69,248,626	100



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

Required Supplementary Information

Notes to Required Pension Supplementary Information

**1. Description**

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

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

Valuation date	June 30, 1999
Actuarial cost method	Projected unit credit
Amortization method	Level percent supplemental cost
Remaining amortization period	Varies 15-30 years

Actuarial assumptions:

Investment rate of return	8%
Projected salary increases	5.5% to 6.0% per year over a full 30-year career
Includes inflation at	3%
Cost of living adjustments	3%

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

Schedule of Administrative Expenses

Year ended June 30, 1999

	Retirement Plan	Postemployment Healthcare	Total
<b>Personnel Services:</b>			
Staff salaries	\$ 2,695,643	\$ 331,809	\$ 3,027,452
Staff benefits	202,116	24,879	226,995
Retiree's health administration	150,713	18,551	169,264
<b>Total personnel services</b>	<b>3,048,472</b>	<b>375,239</b>	<b>3,423,711</b>
<b>Professional Services:</b>			
Actuarial	186,968	23,014	209,982
Data processing	902,679	111,111	1,013,790
Audit	141,717	17,444	159,161
Legal counsel	283,605	34,909	318,514
Medical for temporary disability	57,873	7,124	64,997
<b>Total professional services</b>	<b>1,572,842</b>	<b>193,602</b>	<b>1,766,444</b>
<b>Communication:</b>			
Printing	54,711	6,734	61,445
Telephone	33,004	4,063	37,067
Postage	94,847	11,675	106,522
Travel	35,279	4,342	39,621
<b>Total communication</b>	<b>217,841</b>	<b>26,814</b>	<b>244,655</b>
<b>Rentals:</b>			
Office space	505,313	62,199	567,512
Equipment leasing	2,328	287	2,615
<b>Total rentals</b>	<b>507,641</b>	<b>62,486</b>	<b>570,127</b>
<b>Miscellaneous:</b>			
Office expense	203,451	25,043	228,494
<b>Total miscellaneous</b>	<b>203,451</b>	<b>25,043</b>	<b>228,494</b>
	<b>\$ 5,550,247</b>	<b>\$ 683,184</b>	<b>\$ 6,233,431</b>

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

Schedule of Investment Expenses

Year ended June 30, 1999

Investment expenses of the System for the year ended June 30, 1999, were as follows (in thousands):

	<b>Assets Under Management</b>	<b>Fees</b>
<b>Retirement Plan</b>		
Investment Manager's Fees:		
Fixed Income Managers	\$ 1,856,798	\$ 2,190
Equity Managers	4,044,092	14,687
Real Estate Managers	151,757	1,975
Total Investment Manager's Fees	6,052,647	18,852
Other Investment Service Fees:		
Security Lending Fees	871,000	1,627
Investment Consulting Fees	93,691	532
Total Other Investment Service Fees	964,691	2,159
	7,017,338	21,011
<b>Healthcare</b>		
Investment Manager's Fees:		
Fixed Income Managers	226,917	270
Equity Managers	494,222	1,808
Real Estate Managers	18,546	243
Subtotal	739,685	2,321
Other Investment Service Fees:		
Security Lending Fees	106,443	200
Investment Consulting Fees	11,450	65
Subtotal	117,893	265
	857,578	2,586
	\$ 7,874,916	\$ 23,597

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# INVESTMENT SECTION

LACERS



# CITY OF LOS ANGELES

CALIFORNIA



RICHARD J. RIORDAN  
MAYOR

## LACERS

360 EAST SECOND STREET  
2ND FLOOR  
LOS ANGELES, CA 90012-4207

OSCAR PETERS  
GENERAL MANAGER  
(213) 473-7280

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

## BOARD OF ADMINISTRATION CITY EMPLOYEES' RETIREMENT SYSTEM

WILLIAM H. DOHENY, JR.  
PRESIDENT

SHELLEY I. SMITH  
VICE PRESIDENT

ROBERT D. BEYER  
CHARLEY M. MIMS  
BEVERLY RYDER  
KEN SPIKER  
BEVERLY BENEDICT THOMAS

### LETTER OF TRANSMITTAL

December 14, 1999

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

Dear Commissioners:

Presented below is my summary report of the Fund's investment activities for fiscal year 1998-99.

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

The Board continued its strategic goal of reviewing and updating investment policies, procedures, and guidelines. A Real Estate Committee Charter was adopted; a Contract Renewal Policy was codified and adopted; and the Proxy Policy was updated. In addition, the real estate and alternative investment policies were reviewed and updated.

The Board delegated the voting of domestic and international proxies to the Board's proxy evaluation service, the Proxy Monitor. This transition allows staff more time to effectively monitor the changing proxy issues and bring items of significance to the Board for Policy consideration.

Throughout the year, the Board had continually reviewed the Y2K readiness of its financial advisors, custodian, consultants, and other partners.





## **Asset Allocation**

The Board annually reviews the asset allocation of the Fund. This review models the expected return and volatility of various asset classes and matches their return to the required return to meet the actuarial assumptions. The resulting asset allocation plan may require adding or terminating managers or redistributing the assets among existing managers.

The Board made minor revisions to its asset allocation targets as a result of this year's review. US bonds were reduced ½%; emerging markets equities were reduced 1½%; global bonds were reduced 1%; real estate and alternative investments were each increased 2%; cash was decreased 1%. Portfolio rebalancing thresholds were broadened to reduce transaction costs and trading frequency.

As part of its deliberation, the Board adopted commitment targets in excess of allocation targets for both alternative investments and real estate. This action will increase the likelihood of reaching asset allocation targets by compensating for the cash distributions received while still funding the limited partnerships used in these asset classes.

Historically, the Board had used only commingled funds as the investment vehicle for both real estate and alternative investments. To gain greater investment control and reduce costs, the Board approved a separate allocation to a real estate individually managed account (IMA), and began investigating potential structures and approaches.

## **Manager Review**

The Board monitors managers' performance through regular presentations before the Board and quarterly performance reports. Each manager agrees to the guidelines of the structure of the portfolio and the performance benchmarks by which they will be measured. In the case of managers with performance fee contracts, the performance benchmarks are reference points used to determine their compensation.

The Board reviewed and renewed contracts with eight managers listed in Table 1.

Loomis Sayles & Company was terminated from a large cap value equity mandate. Portfolio assets were distributed to existing actively managed mid- and small capitalization value equity managers, and to the passively managed Russell 1000 Value equity index.

## **Manager Search and New Hires**

The Board issued Request for Proposals for advisors to manage a Europe, Australia, and Far East (EAFE) equity index portfolio, and a Russell 1000 Value equity index portfolio. The Board rehired State Street Global Advisors to manage the EAFE portfolio and selected Barclays Global Investors to manage the Russell 1000 value portfolio. The

Request for Proposal process was begun for a general pension fund consultant, and for real estate counsel during FY1998-99.

The Board continued to fund private investments in real estate and alternative investment asset classes. The Board approved investments in five alternative investment partnerships listed in Table 2. The Board also selected six real estate commingled funds. The six real estate commingled funds are listed in Table 3.

Table 4 displays a summary of investment returns. Table 5 compares investment allocation actual vs. target percentages. Tables 6, 7, 8, and 9 list the largest holdings in US and non-US equity and fixed income instruments. Table 10 provides a schedule of fees. Tables 11, 12, and 13 show brokerage commissions and expenditures. Table 14 contains market values, and tables 15 and 16 contain names of contracted investment management and consulting firms.

Respectfully submitted,



Daniel P. Gallagher  
Chief Investment Officer

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## INVESTMENTS

### PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

TABLE 1 -- During FY1998-99, the Board renewed contracts with the following managers of publicly traded securities:

<b>Investment Manager</b>	<b>Discipline</b>
Thomson Horstmann and Bryant	Active management of small cap value equities
Dimensional Fund Advisors	Active management of small cap value equities
Rhumblin Capital Management	S&P 500 index
Valenzuela Capital Partners	Active management of mid cap value equities
Fiduciary Trust International	Active management of small cap growth equities
Loomis Sayles & Company	Active management of long duration bonds
Capital Guardian Trust Company	Active management of European equities
Schroder Capital Management	Active management of emerging markets equities

TABLE 2 -- The Board approved investments in the following alternative investment partnerships:

<b>Partnership</b>	<b>Discipline</b>
CGW Southeast IV	Equity - leverage buyouts
Madison Dearborn III	Equity - leverage buyouts
Chisholm IV	Special situations
Menlo VIII	Early stage venture capital
Alchemy Investment Plan	Equity - management buyouts, buyins

TABLE 3 -- The Board approved investments in the following real estate commingled funds:

<b>Partnership</b>	<b>Discipline</b>
DLJ Real Estate Partners II, LP	High yield - Opportunistic
Aslan Realty Partners, LP	High yield - Development
CB Richard Ellis Strategic Partners	Value - Diversified
Allegis Multifamily Trust	Core - Multi-family
The Realty Associates Fund V	Value - Diversified
ForesTree V Timberland Investment Fund	Specialized - Timber

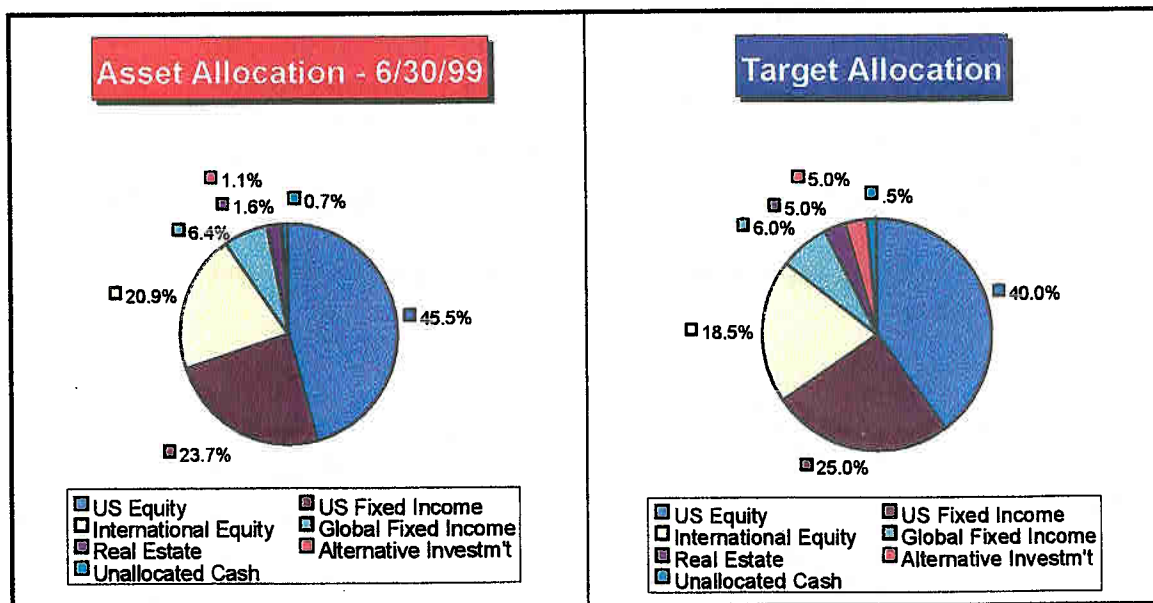
**TABLE 4 -- INVESTMENT RESULTS**

RETURN SUMMARY (net of fees)	Annualized		
	1 Year (%)	3 Years (%)	5 Years (%)
<b>US Equity</b>	<b>15.5</b>	<b>23.6</b>	<b>24.3</b>
<b>Russell 3000</b>	<b>20.1</b>	<b>26.4</b>	<b>26.0</b>
<b>US Fixed Income</b>	<b>3.4</b>	<b>7.2</b>	<b>7.9</b>
<b>LB Gov't / Corp</b>	<b>2.7</b>	<b>7.2</b>	<b>7.8</b>
<b>Int'l Equity</b>	<b>21.6</b>	<b>3.3</b>	<b>5.4</b>
<b>MSCI EAFE</b>	<b>7.6</b>	<b>8.8</b>	<b>8.5</b>
<b>Global Fixed Income</b>	<b>4.5</b>	<b>8.8</b>	<b>-</b>
<b>JPM WGBI (Hedged)</b>	<b>5.8</b>	<b>9.6</b>	<b>-</b>
<b>Real Estate</b>	<b>10.9</b>	<b>13.6</b>	<b>11.0</b>
<b>NCREIF</b>	<b>12.6</b>	<b>13.6</b>	<b>11.3</b>
<b>Total Fund</b>	<b>12.8</b>	<b>14.1</b>	<b>14.8</b>
<b>Benchmark Weighted Index*</b>	<b>13.8</b>	<b>13.8</b>	<b>14.3</b>

\* Broad Asset Class Weighted Benchmark, Weighted by Target Allocations

**TABLE 5 -- ASSET ALLOCATION**

Actual		Target	
<b>US Equity</b>	45.5%	<b>US Equity</b>	40.0%
<b>US Fixed Income</b>	23.7%	<b>US Fixed Income</b>	25.0%
<b>International Equity</b>	20.9%	<b>International Equity</b>	18.5%
<b>Global Fixed Income</b>	6.4%	<b>Global Fixed Income</b>	6.0%
<b>Real Estate</b>	1.6%	<b>Real Estate</b>	5.0%
<b>Alternative Investment</b>	1.1%	<b>Alternative Investment</b>	5.0%
<b>Unallocated Cash</b>	0.7%	<b>Unallocated Cash</b>	0.5%



## LIST OF LARGEST ASSETS HELD

Displayed below are the ten largest holdings in each asset class along with their market and share/par values, as of June 30, 1999.

**TABLE 6 -- DOMESTIC FIXED HOLDINGS**

No.	Par Value	Asset Description	Market Value US \$
1.	29,600,000	US Treas Bds 12 Due 08-15-2013	41,564,320
2.	29,665,000	US Treas Bds 12.75 Due 11-15-2010	39,992,276
3.	35,620,000	US Treas Bd 8.75 Due 11-15-2008	39,358,675
4.	28,850,000	US Treas Nts 6.25 Due 02-28-2002	29,291,693
5.	29,885,000	US Treas 6.00 Bd Due 02-15-2026	29,116,058
6.	25,760,000	US Treas 6.25 Nt Due 8-31-2000	25,992,355
7.	24,600,000	US Treas Nts 5.625 Due 05-15-2001	24,647,724
8.	23,990,000	US Treas Nts 6.00 Due 08-15-2000	24,140,177
9.	24,015,000	US Treas Nts 5.625 Due 11-30-2000	24,074,076
10.	23,040,000	US Treas Nts 6.00 Due 05-15-2001	24,039,014
<b>Total</b>			<b>302,216,368</b>

**TABLE 7 -- DOMESTIC EQUITY HOLDINGS**

No.	Shares	Asset Description	Market Value US \$
1.	975,588	Cisco Sys Inc Com	62,864,451
2.	655,254	Microsoft Corp Com	59,095,720
3.	755,950	Intel Corp Cap	44,979,025
4.	313,382	Intl Business Mach Corp Cap	40,504,623
5.	574,971	Lucent Technologies Inc Com	38,774,633
6.	809,278	Citigroup Inc Com	38,440,705
7.	338,138	Gen Elec Co Com	38,209,594
8.	671,248	Wal-Mart Stores Inc Com	32,387,716
9.	428,449	Bk Amer Corp Com	31,410,667
10.	363,709	MCI Worldcom Inc Com	31,301,705
<b>Total</b>			<b>417,968,839</b>



**TABLE 8 –NON-US FIXED HOLDINGS**

No.	Par Value	Asset Description	Market Value US \$
1.	3,050,000,000	Japan (Gov't of) 0.9% 22/12/2008	22,950,595
2.	21,289,346	Germany (Fed Rep) 5% Bds 20/8/01	19,940,383
3.	17,559,504	Italy (Rep of) 6% Bds 1/11/2007	19,741,540
4.	27,000,000	Australia (CMNWLTH) 7.5% Bds 15/9/2009	19,499,494
5.	120,000,000	Denmark (Kingdom) 8% Bds 15/5/2003	18,961,068
6.	16,000,000	Germany (Fed Rep) 6% Bds 04/01/07	18,125,193
7.	14,405,449	Italy (Rep of) 7.75% Bds 1/11/06	17,808,861
8.	13,974,145	Germany (Fed Rep) 6.25% Bds 4/1/24	16,137,205
9.	4,240,000,000	Greece (Rep of) 8.6% Bds 26/3/08	15,358,758
10.	110,000,000	Sweden (Kingdom) 5% Bds 15/1/04	13,175,935
<b>Total</b>			<b>181,699,032</b>

**TABLE 9 – NON-US EQUITY HOLDINGS**

No.	Shares	Asset Description	Market Value US \$
1.	1,377,350	Dev Bk Singapore	16,827,536
2.	3,583,100	Johnson Elec Hldgs	14,777,860
3.	121,682	Samsung Electronic	13,350,854
4.	148,500	Adr Tele De Mex	12,000,582
5.	647,252	Adr Sk Telecom Ltd	11,003,284
6.	2,280,300	O/Seas Union Bk	10,982,943
7.	1,461,000	City Developments	9,353,833
8.	513,930	BP Amoco	9,210,593
9.	204,900	Korea Elec Power	8,514,635
10.	1,066,000	Fuji Heavy Indust	8,225,744
<b>Total</b>			<b>114,247,864</b>

TABLE 10 -- SCHEDULE OF FEES (Dollars in Thousands)

Fiscal Year	1998		1999	
	Assets Under Management	Fees	Assets Under Management	Fees
<b>Investment Manager Fees:</b>				
Fixed Income Managers	\$ 1,880,069	\$ 2,238	\$ 2,083,715	\$ 2,460
Equity Managers	3,909,470	9,652	4,538,314	16,495
Real Estate Managers	147,301	1,162	170,303	2,218
<b>Total</b>	<b>\$ 5,936,840</b>	<b>\$ 13,052</b>	<b>\$ 6,792,332</b>	<b>\$ 21,173</b>
<b>Other Investment Service Fees:</b>				
Security Lending Fees	\$ 1,037,863	\$ 1,621	\$ 977,443	\$ 1,827
Investment Consultant Fees	64,472	544	105,141	597
<b>Total</b>	<b>\$ 1,102,335</b>	<b>\$ 2,165</b>	<b>\$ 1,082,584</b>	<b>\$ 2,424</b>

TABLE 11 -- SCHEDULE OF BROKERS COMMISSION

Broker Name	Shares	Commission	\$/Share
Abel Noser Corporation	2,115,700	\$ 126,942	\$ 0.06
Interstate/Johnson Lane Corporation	1,253,148	73,438	0.06
Instinet	1,762,671	70,231	0.04
Donaldson Lufkin & Jenrette Securities Corp	1,078,200	64,697	0.06
Jefferies & Company	1,144,320	62,368	0.06
Investment Technology Group Inc	2,127,926	57,286	0.03
Cantor Fitzgerald & Co	913,068	54,325	0.06
First Boston Corporation	861,585	50,671	0.06
Goldman Sachs & Company	932,272	44,581	0.05
Cowen & Company	712,100	43,211	0.06
<b>Total</b>	<b>12,900,990</b>	<b>647,750</b>	<b>0.05</b>
<b>Total - Other Brokers</b>	<b>15,565,854</b>	<b>890,465</b>	<b>0.06</b>
<b>Grand Total *</b>	<b>28,466,844</b>	<b>\$ 1,538,215</b>	<b>\$ 0.05</b>

\* OTC Brokers excluded because there is no stated commission.

**TOTAL SOFT DOLLARS EXPENDITURES 1998-1999**

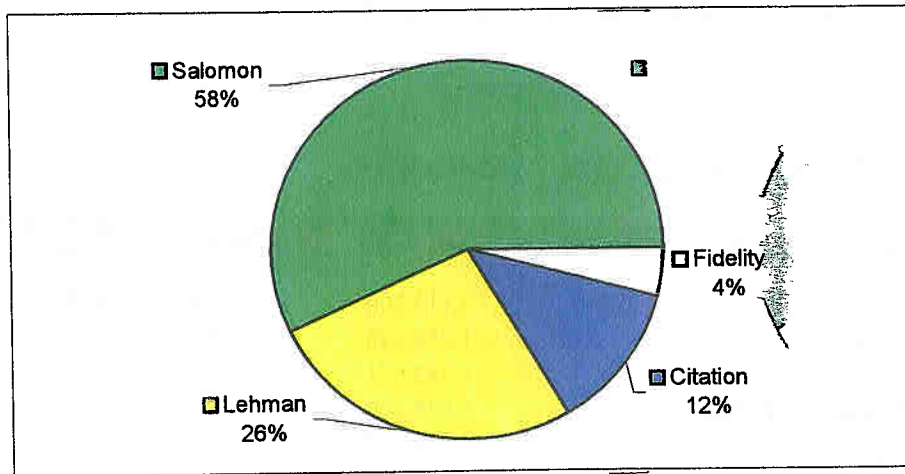
Fidelity	\$	15,500
Citation		45,524
Lehman		96,347
Salomon		208,902

**TOTAL** **\$ 366,273**

Services (Bloomberg, Proxy Monitor, etc)	(Blo	60,922
Computer Hardware, etc.	er Har	305,351

**TOTAL** **\$ 366,273**

**Expenditure by broker**



**Expenditure type**

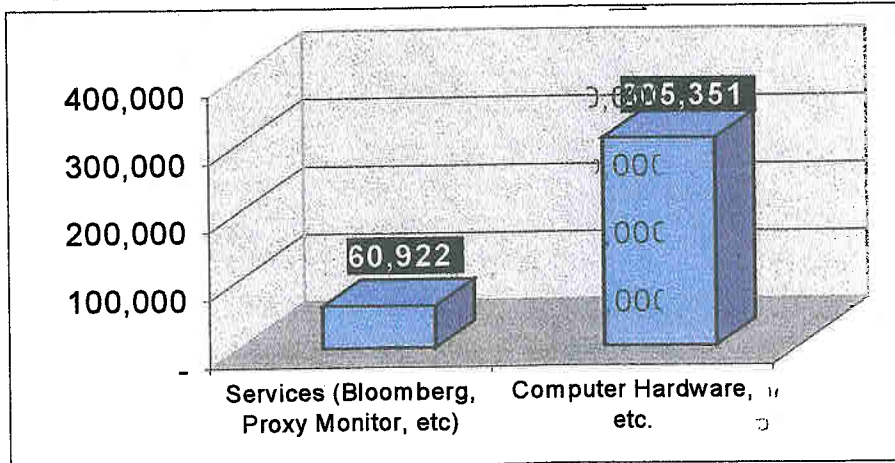


TABLE 13 --

**COMMISSION RECAPTURE 1998-1999**

Broker Name	Amount	Percent
ABEL / NOSER	\$ 65,513	47%
LYNCH, JONES & RYAN	73,649	53%
Total	\$ 139,162	100%

TABLE 14 --

INVESTMENT SUMMARY AS OF JUNE 30, 1999				
Type of Investment	Fair Value	% of Total F. V.	Domestic Fair Value	Foreign Fair Value
<b>Fixed Income:</b>				
Government bonds	\$ 938,208,996	11.91%	\$ 643,236,498	\$ 294,972,498
Corporate bonds	682,230,914	8.66%	649,776,166	32,454,748
Gov't mortgage bonds	463,274,728	5.88%	463,274,728	-
<b>Total fixed income</b>	<b>2,083,714,638</b>	<b>26.46%</b>	<b>1,756,287,392</b>	<b>327,427,246</b>
<b>Equities:</b>				
<b>Common stock:</b>				
Basic industries	197,669,566	2.51%	149,997,821	47,671,744
Capital goods industries	430,600,426	5.47%	134,561,017	296,039,410
Consumer & services	1,417,893,829	18.01%	873,561,261	544,332,568
Energy	284,364,754	3.61%	151,570,700	132,794,054
Financial services	745,463,462	9.47%	474,304,549	271,158,913
Technology	570,067,026	7.24%	556,611,927	13,455,099
Utilities	223,293,487	2.84%	221,924,337	1,369,150
Misc. (Common Fund)	630,998,948	8.01%	567,301,527	63,697,421
<b>Total common stock</b>	<b>4,500,351,498</b>	<b>57.15%</b>	<b>3,129,833,139</b>	<b>1,370,518,359</b>
Preferred stock	33,810,094	0.43%	-	33,810,094
Convertible preferred stock	1,731,592	0.02%	-	1,731,592
Rights/warrants	2,420,635	0.03%	380	2,420,255
<b>Total equities</b>	<b>4,538,313,818</b>	<b>57.63%</b>	<b>3,129,833,519</b>	<b>1,408,480,299</b>
<b>Real Estate:</b>	<b>170,303,770</b>	<b>2.16%</b>	<b>170,303,770</b>	<b>-</b>
<b>Alternative Investments:</b>				
Acquisitions	25,717,768	0.33%	25,717,768	-
Venture capital	24,936,328	0.32%	24,936,328	-
Subordinated debt	44,736,644	0.57%	44,736,644	-
International acquisitions	9,750,327	0.12%	9,750,327	-
<b>Total alternative investments</b>	<b>105,141,067</b>	<b>1.34%</b>	<b>105,141,067</b>	<b>-</b>
<b>Security Lending Collateral:</b>	<b>977,442,955</b>	<b>12.41%</b>	<b>647,788,578</b>	<b>329,654,377</b>
<b>Total Fund</b>	<b>\$ 7,874,916,249</b>	<b>100.0%</b>	<b>\$ 5,809,354,326</b>	<b>\$ 2,065,561,922</b>

TABLE 15 --

## CONSULTING SERVICES

### INVESTMENT ADVISORS

Equity - Domestic	Real Estate	Alternative Investment
<p><b>Alliance Capital</b> Minneapolis, MN</p> <p><b>BZW Barclays Global</b> San Francisco, CA</p> <p><b>Dimensional Fund Advisors</b> Santa Monica, CA</p> <p><b>Fiduciary Trust International</b> New York, NY</p> <p><b>JP Morgan Investment Mgmt.</b> New York, NY</p> <p><b>Loomis Sayles &amp; Co., Inc.</b> Pasadena, CA</p> <p><b>Oak Associates</b> Akron, OH</p> <p><b>Paradigm Asset Mgmt., Co.</b> New York, NY</p> <p><b>Rhumblin Advisers</b> Boston, MA</p> <p><b>Thomson, Horstmann &amp; Bryant</b> Saddle Brook, NJ</p> <p><b>Valenzuela Capital Mgmt., Inc.</b> New York, NY</p>	<p><b>Aldrich, Eastman &amp; Waltch</b> Boston, MA</p> <p><b>Aslan</b> Chicago, IL</p> <p><b>Allegis</b> Hartford, CT</p> <p><b>CBRE Strategic Partners</b> Los Angeles, CA</p> <p><b>DLJ Real Estate Capital, L.P.</b> Los Angeles, CA</p> <p><b>Greystone Realty Corp</b> Greenwich, CT</p> <p><b>Hancock Forestreet</b> Boston, MA</p> <p><b>ING Realty Partners</b> Chicago, IL</p> <p><b>K/B Opportunity Investors</b> New York, NY</p> <p><b>La Salle Advisors</b> Chicago, IL</p> <p><b>Miller Global Advisors</b> Denver, CO</p> <p><b>RREEF Funds</b> San Francisco, CA</p> <p><b>The L&amp;B Group</b> Dallas, TX</p> <p><b>TA Associates Realty</b> Boston, MA</p> <p><b>TCW Realty Advisors</b> Los Angeles, CA</p>	<p><b>Alchemy Investment Plan</b> London, England</p> <p><b>Apollo Investment</b> Purchase, NY</p> <p><b>CGW Southeast Partners, L.P.</b> Atlanta, GA</p> <p><b>CVC Capital Partners</b> London, England</p> <p><b>Chisholm Partners</b> Providence, RI</p> <p><b>Essex Woodlands</b> Chicago, IL</p> <p><b>Golder, Thoma, Cressey &amp; Renner</b> Chicago, IL</p> <p><b>Interwest Partners</b> Menlo Park, CA</p> <p><b>Kelso</b> New York, NY</p> <p><b>KKR 1996 Fund, L.P.</b> New York, NY</p> <p><b>Madison Dearborn</b> Providence, RI</p> <p><b>Menlo Ventures VII, L.P.</b> Menlo Park, CA</p> <p><b>Oaktree Capital Management</b> Los Angeles, CA</p> <p><b>Thoma Cressey</b> Chicago, IL</p> <p><b>Thomas Lee</b> Boston, MA</p> <p><b>Welsh Carson &amp; Stowe</b> New York, NY</p>
Equity - International	Fixed Income - Domestic	Global Fixed Income
<p><b>Capital Guardian Trust</b> Los Angeles, CA</p> <p><b>Daiwa International Capital</b> New York, NY</p> <p><b>Schroder Capital Mgmt.</b> New York, NY</p> <p><b>State Street Global</b> Boston, MA</p> <p><b>Templeton International</b> Fort Lauderdale, FL</p>	<p><b>Lincoln Capital Mgmt. Co.</b> Chicago, IL</p> <p><b>Loomis Sayles &amp; Co., Inc.</b> San Francisco, CA</p> <p><b>CB Richard Ellis</b> Los Angeles, CA</p>	<p><b>Morgan Grenfell Investment</b> New York, NY</p>
		<b>Cash &amp; Short-Term</b>
		<b>Managed In-House</b>



TABLE 16 --

**Consultants**

**Asset Strategy Consulting**  
Los Angeles, CA

**The Townsend Group**  
Cleveland, OH

**Pathway Capital Management**  
Irvine, CA

**Custodian**

**The Northern Trust Company**  
Chicago, IL

# ACTUARIAL SECTION

LACERS





Watson Wyatt & Company

Suite 700  
15 303 Ventura Boulevard  
Sherman Oaks, CA 91403-8197

Telephone 818 906 2631  
Fax 818 906 2097

October 20, 1999

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

Members of the Board:

We are pleased to present this actuarial valuation report as of June 30, 1999 for the City Employees' Retirement System.

This report is divided into three parts:

- A. Valuation Summary: This section contains an overview of significant valuation results.
- B. Valuation Detail: This section contains more detailed results of the valuation. Section I contains details of the retirement valuation. Section II contains details of the health subsidy valuation.
- C. Exhibits: This section contains information on plan demographics, plan provisions, and actuarial assumptions used in the valuation.

We appreciate the opportunity to serve the City of Los Angeles and the Board of Administration as actuary for the City Employees' Retirement System.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Lawrence Di Fiore'.

Lawrence Di Fiore, FSA  
Consulting Actuary

A handwritten signature in blue ink, appearing to read 'Thomas R. Supple'.

Thomas R. Supple, ASA  
Consultant

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# **CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

## **Actuarial Valuation As Of June 30, 1999**

### **Introduction**

Officers and employees of the City of Los Angeles and their beneficiaries are entitled to retirement benefits (including disability and survivors' benefits) and health subsidy benefits under Article XXXIV of the Charter of the City of Los Angeles and by related ordinances. This retirement system is known as the City Employees' Retirement System.

This report contains the results of the June 30, 1999 valuation of both the retirement and health subsidy benefits of the Retirement System. It contains our calculations of the annual budget of the System, as provided in Section 506 of the Charter. It also contains disclosure information required by the Government Accounting Standards Board (GASB).

Plan provisions are summarized in Exhibits IV and V.

This valuation reflects the three-year extension of the early retirement window through September 30, 2002. This window provides unreduced pensions to employees over age 50 who retire with at least 30 years of service.

The valuation results were based on the assumptions as outlined in Exhibits VI through IX. Of note are the following economic assumptions:

- 8.0% annual interest
- 4.0% annual total payroll increases
- Annual individual salary increases, which vary by age, averaging 5.5% to 6% per year over a full 30-year career
- 3.0% annual increases in the Consumer Price Index

We have revised our assumption regarding the expected interest to be earned on employee contributions from 8.00% to 6.50%. This was changed to reflect our long-term expectation for five-year Treasury notes, the basis for crediting interest to employee accounts.

All other actuarial assumptions and methods remain unchanged since the last valuation. We believe the assumptions and methods used are appropriate for the valuation of the liabilities of the Retirement System at June 30, 1999.

**This Valuation Summary contains an overview of our valuation results. More information on these results can be found in the Valuation Detail and Exhibit sections of this report.**

**A schedule containing all of the significant results of our valuation can be found on the next page.**



# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

<b>Summary of Significant Valuation Results</b>			
	June 30, 1999	June 30, 1998	Percent Change
<b>I. Total Membership</b>			
A. Active Members	22,504	22,091	1.9%
B. Pensioners	12,843	12,591	2.0%
<b>II. Salaries at June 30</b>			
A. Total Annual Payroll	\$1,068,124,413	\$1,011,857,180	5.6%
B. Average Monthly Salary	\$3,955	\$3,817	3.6%
<b>III. Benefits to Current Pensioners and Beneficiaries</b>			
A. Total Annual Benefits	\$277,022,689	\$259,378,957	6.8%
B. Average Monthly Benefit Amount	\$1,798	\$1,717	4.7%
<b>IV. Total System Assets (Actuarial Value)</b>	<b>\$6,653,174,660</b>	<b>\$5,938,215,895</b>	<b>12.0%</b>
<b>V. Unfunded Actuarial Accrued Liability / (Surplus)</b>			
A. Retirement Benefits	(\$226,362,078)	(\$50,005,186)	352.7%
B. Health Subsidy Benefits	(\$110,335,620)	(\$5,196,640)	2023.2%
<b>VI. Budget Items</b>			
	FY 2000 - 2001	FY 1999 - 2000	
<b>A. Retirement Benefits</b>			
1. Normal Cost as a Percent of Pay	7.59%	7.54%	0.7%
2. Amortization of Unfunded Actuarial Accrued Liability	(2.66%)	(1.11%)	139.6%
3. Total Retirement Contribution	4.93%	6.43%	(23.33%)
<b>B. Health Subsidy Contribution, as a Percent of Pay</b>			
	0.67%	1.27%	(47.24%)
<b>C. Total Contribution (A+B)</b>			
	5.60%	7.70%	(27.27%)
<b>VII Funded Ratio</b>			
<b>(Based on Actuarial Value of Assets)</b>			
A. Retirement Benefits	104.0%	100.9%	3.1%
B. Health Subsidy Benefits	118.0%	100.9%	16.9%
C. Total	105.3%	100.9%	4.4%
<b>(Based on Market Value of Assets)</b>			
D. Retirement Benefits	113.8%	112.2%	1.4%
E. Health Subsidy Benefits	129.1%	112.2%	15.1%
F. Total	115.3%	112.2%	2.8%

# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### Budget Requirements

The Charter of the City of Los Angeles requires that budget amounts for the City Employees' Retirement System be determined annually. In determining these amounts, the System currently uses the Projected Unit Credit Cost Method. The required annual contribution is made up of two parts:

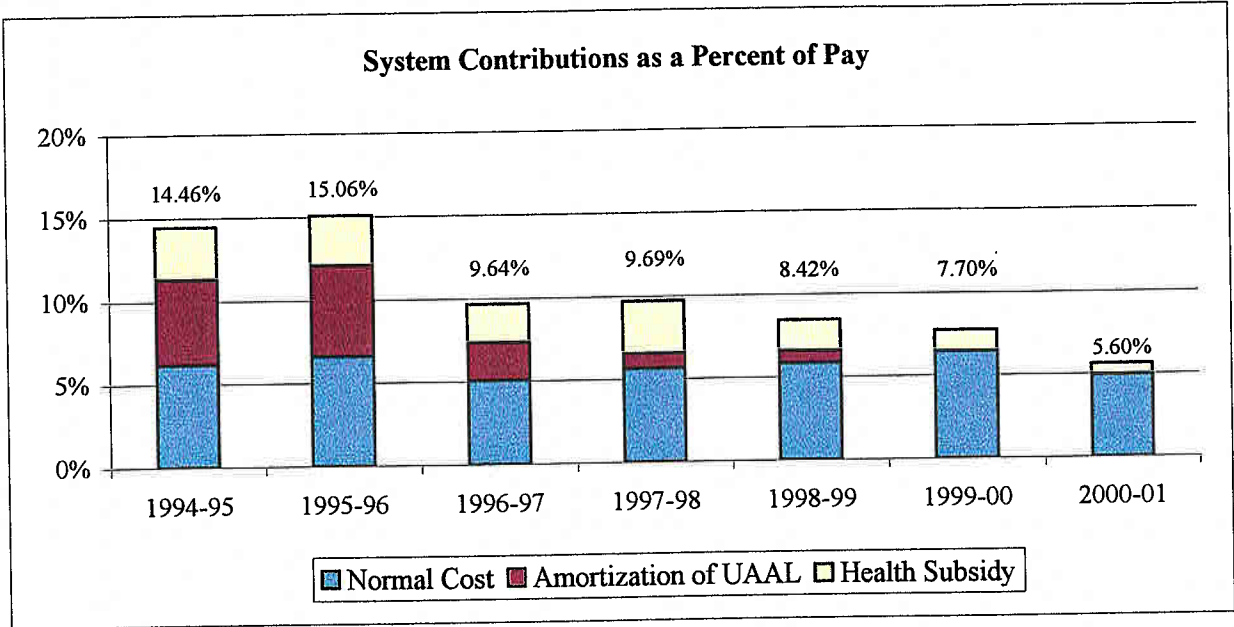
- The Normal Cost, or the cost of the portion of the benefit that is earned each year.
- Amortization of Unfunded Actuarial Accrued Liability (UAAL) or Surplus: The UAAL represents liabilities accrued to date, that have not been funded by prior years' Normal Costs. Changes in the UAAL or surplus due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years, both as a level percent of pay. Plan amendments are amortized over 30 years as a level percent of pay, unless the characteristics of the amendment dictate a shorter amortization period.

Below, we present a summary of budget requirements for the City Employees' Retirement System. In total, the recommended contribution decreased by 2.10% of payroll from last year.

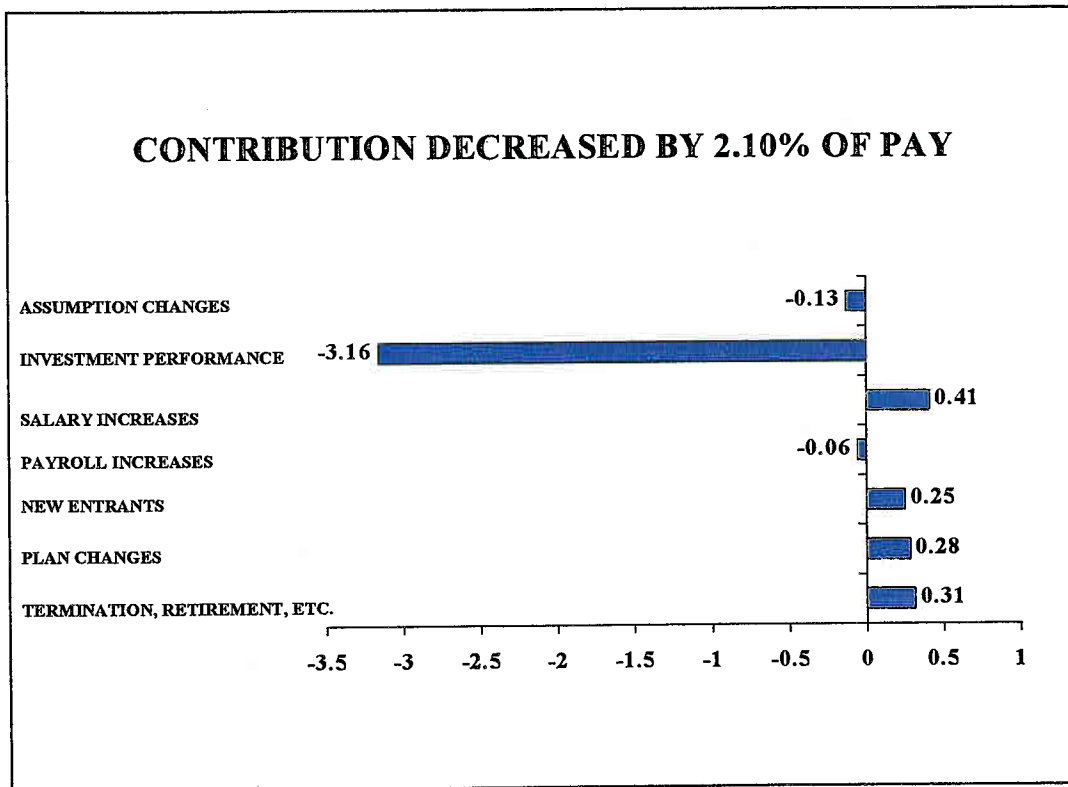
<b>Recommended City Contributions For Fiscal Year 2000 – 2001</b>	
	<b>Percentage of Salary</b>
Contribution for Retirement, Disability, and Death Benefits	4.93%
Contribution for Health Subsidy Benefits	0.67%
<b>Total Contribution</b>	<b>5.60%</b>

A more detailed explanation of these results can be found in the Valuation Detail section of this report.

The following graph illustrates the contribution levels of the past few years for both the retirement benefits and the health subsidy benefits.



The graph below illustrates the effect of changes in plan provisions, changes in valuation method and assumptions, and gains and losses over the past year on the recommended System contribution.



# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### System Assets

The following asset information regarding cash flow and market values were provided to us by the Retirement Office. We have not audited or verified these figures.

	June 30, 1999	June 30, 1998	Percent Change
<b>Total System Assets</b>			
Market Value	\$7,279,063,114	\$6,600,702,384	10.3%
Actuarial Value	6,653,174,660	5,938,215,895	12.0%

<b>Rate of Return</b>	
<b>July 1, 1998 - June 30, 1999</b>	
The rate of return on total plan assets was as follows:	
Market Value	12.34%
Actuarial Value	14.36%
The rate of return was based on the following cash flow information:	
<b>Contributions</b>	
City	\$109,362,265
Members	62,564,896
<b>Pensions Paid</b>	
Retirement Allowances	266,744,804
Family Death Benefits	1,553,231
Health Benefits	22,326,435
<b>Refunds of Member Contributions</b>	9,627,685
<b>Administration Expenses</b>	6,233,431
<b>Investment Earnings</b>	812,919,155

The 14.36% rate of return on the actuarial value is greater than the 8.0% rate assumed for the prior year, which resulted in an actuarial gain. The budgeted contribution for the System would have been greater if not for this gain.

More detail on System assets can be found in the Exhibits section of this report.

# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### Derivation of Actuarial Value of Assets

	Year Ending			
	June 30, 1999	June 30, 1998	June 30, 1997	June 30, 1996
1. Beginning of Year Market Value	\$6,600,702,384	\$6,069,797,808	\$5,192,038,000	\$4,458,509,000
2. Contributions	171,927,161	175,522,533	166,537,208	196,548,903
3. Benefit Payments	300,252,155	278,253,761	257,427,552	241,947,677
4. Expected Return Based on 8% Assumption	522,923,191	481,474,576	411,727,426	354,864,769
5. Expected End of Year Market Value (1)+(2)-(3)+(4)	6,995,300,581	6,448,541,156	5,512,875,083	4,767,974,995
6. Actual End of Year Market Value	7,279,063,114	6,600,702,384	6,069,797,808	5,192,038,000
7. Gain/(Loss)	283,762,533	152,161,228	556,922,725	424,063,005

1. Market Value at June 30, 1999	\$7,279,063,114
1999 (Gain)/Loss x 80%	(227,010,027)
1998 (Gain)/Loss x 60%	(91,296,736)
1997 (Gain)/Loss x 40%	(222,769,090)
1996 (Gain)/Loss x 20%	(84,812,601)
2. Actuarial Value at June 30, 1999	6,653,174,660
3. 80% of Market Value at June 30, 1999	5,823,250,491
4. 120% of Market Value at June 30, 1999	8,734,875,737
5. Actuarial Value at June 30, 1999 (2), but no less than (3) and no more than (4)	<b>\$6,653,174,660</b>

The actuarial value of assets is a market-related value, where gains and losses are recognized over a five-year period. Gains and losses represent the difference between actual and expected market values. Expected market values are based on the actuarial return assumption of 8%.



# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### Summary of System Funding

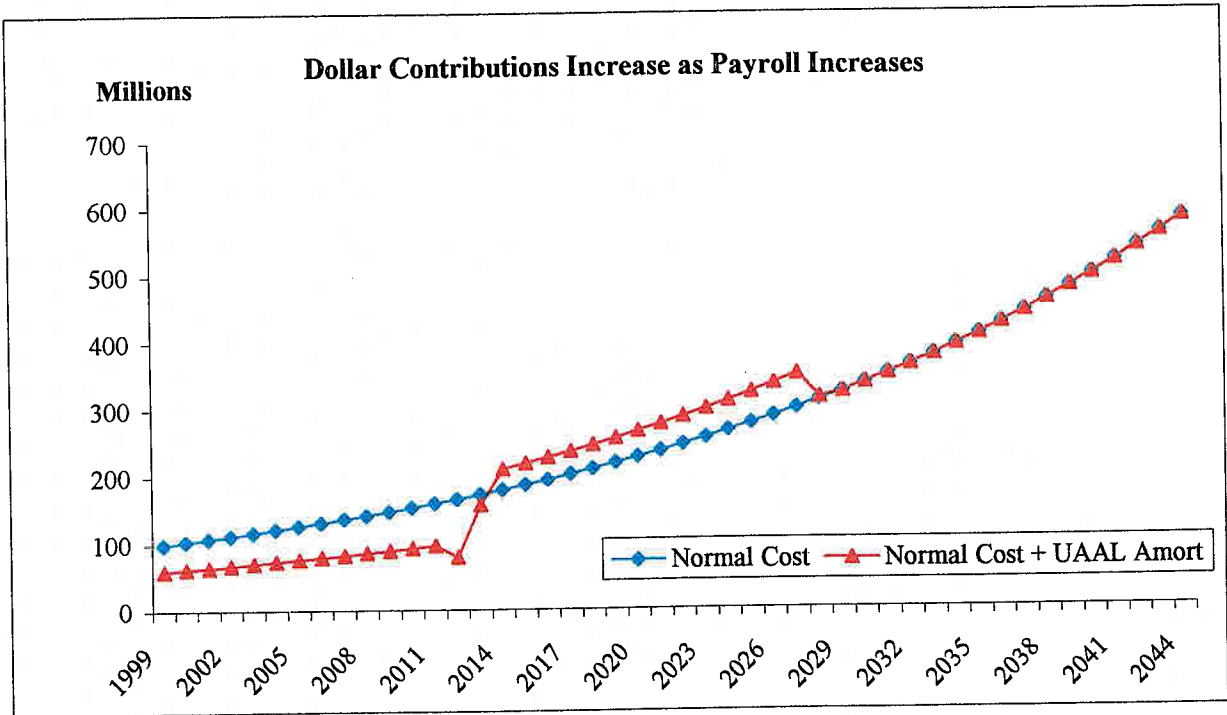
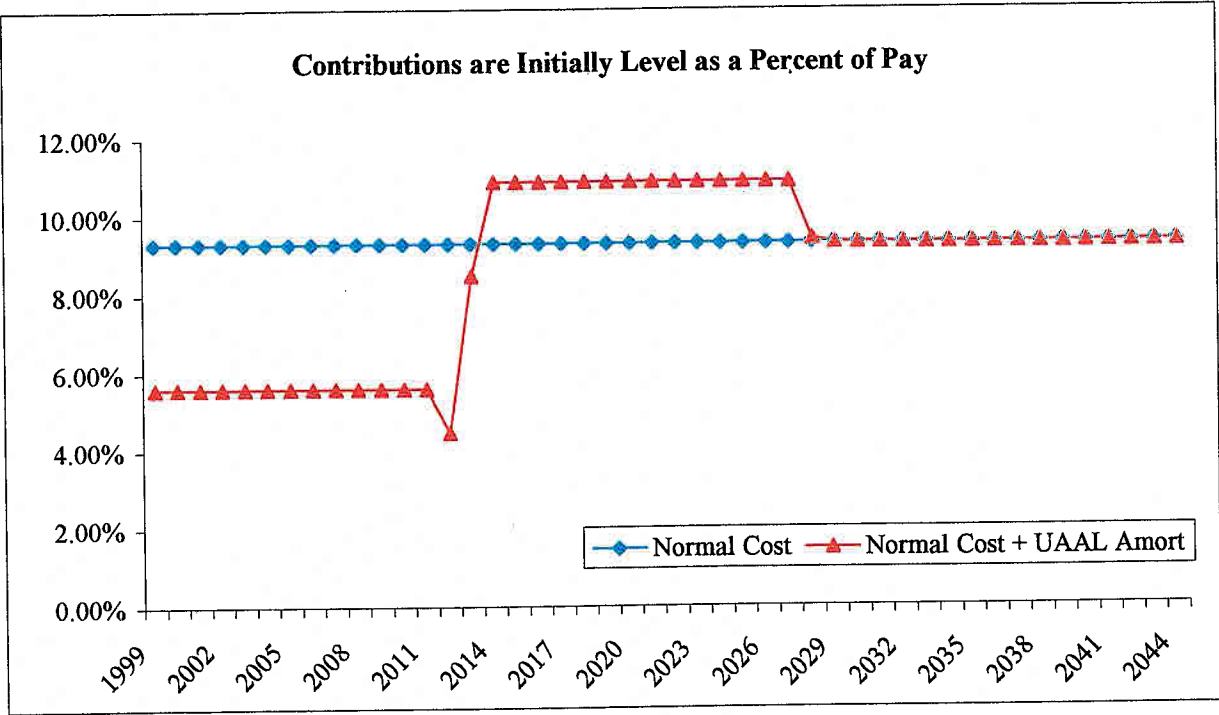
As of June 30, 1999, the System had assets at actuarial value equal to 105.9% of the present value of retirement and health subsidy benefits accrued to that date. When compared to the present value of all benefits expected to be paid by the System (including benefits expected to be earned in the future), assets equal 81.7% of liabilities. This remaining unfunded liability is to be funded by future City and Member contributions to the System.

The City contributions are made up of two parts:

- **Normal Cost Contributions:** These contributions are determined as the cost of the System benefits accruing each year. If all assumptions are realized and there are no gains or losses, this amount will remain unchanged as a percent of pay unless the average age of the population increases. In this case, contributions as a percent of pay will increase. The contributions will also increase as a dollar amount as total covered payroll increases.
- **Amortization of Unfunded Actuarial Accrued Liability (UAAL) or Surplus:** The UAAL represents liabilities accrued to date, that have not been funded by prior years' Normal Costs. If the accumulated Normal Costs exceed the liabilities accrued to date, the net result would be a Surplus. Changes in the UAAL (or Surplus) due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years, both as a level percent of pay. Plan amendments are amortized over 30 years as a level percent of pay, unless the characteristics of the amendment dictate a shorter amortization period. If in the future all assumptions are realized and if there are no future gains or losses, the current contribution percentage will not change until the pieces that make up the UAAL (or Surplus) are fully amortized. However, it will increase as a dollar amount as the total covered payroll increases.

The total contribution will be the sum of the Normal Cost and UAAL contributions.

The following graphs are an illustration of expected future contribution levels. These contribution levels are based on the current Charter provisions and assume no future gains or losses. They are also based on our assumption of 4.0% annual increase in total System payroll, and a population with the same average age and service characteristics as the current population. If actual experience differs from these assumptions, the contribution levels will change.



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# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### System Membership

Computer tapes containing data on System membership as of June 30, 1999 were supplied to us by the Retirement Office. On the following schedule we present a summary of System membership at June 30, 1999 and June 30, 1998. Pension amounts shown are those in effect on June 30, 1999, and do not include the cost-of-living adjustments that were effective on July 1, 1999. However, all July 1 increases were reflected in our valuation calculations.

It was necessary to make assumptions for less than 0.01% of the data records where the information given to us was unreasonable or incomplete. These assumptions did not materially affect the results of our valuation.

The number of total active Members increased by 1.9% since the last valuation. The total number of retired Members and their beneficiaries increased by 2.0%, and the average retirement benefit amount increased by 4.7%.

More detail on System membership, including breakdowns by age and service categories, can be found in Exhibits XI, XII, and XIII of this report.

<b>System Membership</b>			
	June 30, 1999	June 30, 1998	Percent Change
<b>I. Active Members</b>			
a. Number	22,504	22,091	1.9%
b. Average Age	44.6	44.5	0.2%
c. Average Years of Service	13.1	13.2	-0.8%
d. Salary			
i) Total Annual Salary	\$1,068,124,413	\$1,011,857,18	5.6%
ii) Average Monthly Salary	\$3,955	0	3.6%
		\$3,817	
<b>II. Pensioners and Beneficiaries</b>			
a. Number	12,843	12,591	2.0%
b. Average Age	71.5	71.5	0.0%
c. Allowance			
i) Total Annual Allowance	\$277,022,689	\$259,378,957	6.8%
ii) Average Monthly Amount	\$1,798	\$1,717	4.7%

# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

## Applicable Assets At June 30, 1999

Assets available to pay pension benefits are determined by deducting certain reserves from the total actuarial value of assets amount.

	Market Value	Actuarial Value
1. Total Value of Assets at June 30, 1999	\$7,279,063,114	\$6,653,174,660
2. Less Reserves and Liabilities Established for:		
a. Family Death Benefit Insurance	\$19,472,020	\$17,797,723
b. Retiree Health Subsidy	792,578,451	724,428,788
c. Total	812,050,471	742,226,511
3. Net Assets Available for Retirement Benefits at June 30, 1999 (Item 1 less Item 2)	\$6,467,012,643	\$5,910,948,149

# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

## VALUATION OF RETIREMENT BENEFITS

### Actuarial Balance Sheet

The purpose of the Actuarial Balance Sheet is to compare System assets with System liabilities in order to define the portion of the liabilities which need to be funded by the City in the future. The Balance Sheet information in the next two pages represents assets and liabilities for retirement benefits only.

System liabilities equal the present value of all future benefits expected to be paid to current and future retirees and beneficiaries of the System. For the purpose of the Actuarial Balance Sheet, system assets are equal to the sum of:

- the assets currently available to pay benefits,
- the present value of future contributions expected to be made by current System Members, and
- the present value of future contributions expected to be made by the City.

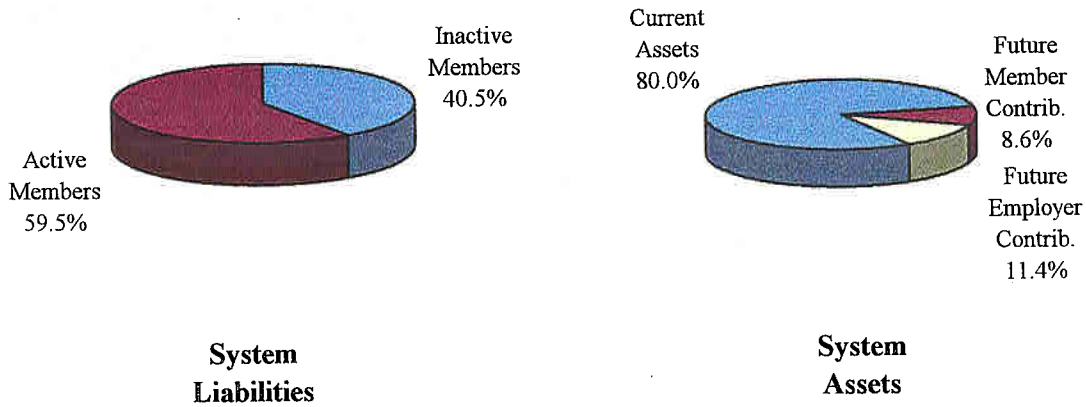
The last item, the present value of future City contributions, is made up of two parts:

1. **The Present Value of Future City Normal Costs:** Using the Projected Unit Credit Cost Method, the City budgets a certain percentage of payroll to fund benefits for System Members. The Normal Cost is the cost of benefits earned in each year. Normal Cost is funded from a Member's date of employment to the average expected retirement date. An adjustment is made for the deductions which will be made from the salaries of System Members. For the 2000 – 2001 fiscal year, the Normal Cost percentage is 7.59% of pay. The present value of these future City Normal Cost contributions represents one piece of the value of future City contributions.
2. **The Unfunded Actuarial Accrued Liability:** The portion of the present value of future City contributions which will not be funded by the future Normal Cost contributions is the Unfunded Actuarial Accrued Liability (UAAL). The UAAL arises from prior contributions that were different than the current Normal Cost percentage. This usually results from benefit or assumption changes and the net effect of prior gains and losses. If the City had always contributed the current Normal Cost, if there were no prior benefit or assumption changes and if actual experience exactly matched the actuarial assumptions, the Normal Cost would be sufficient to fund all benefits and there would be no UAAL. If the accumulated Normal Costs exceed the liabilities accrued to date, then there would be a Surplus. This liability or surplus is funded based on the provisions of the City Charter.

The Actuarial Balance Sheet can be found on the following pages.

The following chart illustrates the breakdown of Balance Sheet assets and liabilities of the retirement benefits of the System. It shows that about 40% of the System's liabilities are for terminated and retired Members and their beneficiaries, and 60% for active Members. About 80% of System assets consist of currently available assets, and 20% consist of future contributions from the City and the Members.

### Actuarial Balance Sheet for Retirement Benefits As Of June 30, 1999





**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
VALUATION OF RETIREMENT BENEFITS**

**Actuarial Balance Sheet As Of June 30, 1999**

<b>Assets</b>		
1.	Applicable Assets	\$5,910,948,149
2.	Present Value of Future Member Contributions	635,087,442
3.	Present Value of Future Contributions by the City For:	
	a. Normal Cost	\$1,068,856,256
	b. Amortization of Certain Liabilities / (Surplus)	(226,362,078)
	c. Total	842,494,178
4.	Total Assets	\$7,388,529,769
<b>Liabilities</b>		
5.	Present Value of Benefits Already Granted (Inactive Members)	\$2,989,217,956
6.	Present Value of Benefits to be Granted (Active Members)	4,399,311,813
7.	Total Liabilities	\$7,388,529,769

**CITY OF LOS ANGELES**  
**CITY EMPLOYEES' RETIREMENT SYSTEM**  
**VALUATION OF RETIREMENT BENEFITS**

**Budget And Recommended Contributions**

Section 506 of the City Charter requires that an annual budget be prepared which sets forth the estimated cost of maintaining the retirement fund on a reserve basis.

The Charter defines the annual budget amount to be the sum of the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and Actuarial Accrued Liability are currently calculated using the Projected Unit Credit Cost Method.

The Normal Cost is the cost of the System benefits earned each year. The Normal Cost consists of two parts: the first part, which is funded by Member contributions, is a specified percentage of the Member's pay; the second part, which is funded by the City, is the balance after deducting the Member paid portion from the total Normal Cost percentage.

The amortization of the UAAL (or Surplus) is the payment stream required to fund the difference between System liabilities and the sum of the System assets, future Member contributions, and future City Normal Cost contributions. (See section on the Actuarial Balance Sheet.) The method of amortization is defined in the Charter.

The recommended retirement contribution decreased primarily due to asset gains.

In our opinion, if the recommended contributions included in this report are adopted, the System will be maintained in compliance with the Charter of the City of Los Angeles and in accordance with the methods and assumptions underlying the calculations.

**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
VALUATION OF RETIREMENT BENEFITS**

<b>Recommended City Contributions For Fiscal Year 2000 - 2001</b>	
	<b>Percentage of Salary</b>
<b>For Retirement Benefits</b>	
Normal Cost	7.59%
Unfunded Actuarial Accrued Liability / (Surplus)	(2.66%)
<b>Total Contributions for Retirement Benefits</b>	<b>4.93%</b>

**CITY OF LOS ANGELES**  
**CITY EMPLOYEES' RETIREMENT SYSTEM**  
**VALUATION OF RETIREMENT BENEFITS**  
**Detail of Amortization of Unfunded Actuarial Accrued Liability**

Item	Remaining Years	Balance to be Amortized 6/30/99	Amortization Amount	Percentage of Salary
1. Combined Bases at 6/30/97	13	69,681,538	6,911,717	0.65%
2. (Gain)/Loss at 6/30/98	14	(351,022,185)	(32,894,281)	(3.08%)
3. Change in Assumptions at 6/30/98	29	228,180,384	13,191,635	1.24%
4. (Gain)/Loss at 6/30/99	15	(185,388,031)	(16,495,131)	(1.54%)
5. Plan Change at 6/30/99	30	21,650,511	1,228,769	0.12%
6. Change in Assumptions at 6/30/99	30	(9,464,294)	(537,144)	(0.05%)
<b>Total</b>		<b>(226,362,078)</b>	<b>(28,594,435)</b>	<b>(2.66%)</b>

The Plan Change indicated above reflects the three-year extension of the early retirement window through September 30, 2002. This window provides unreduced pensions to Members who retire on or after age 50 with at least 30 years of service.

# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### VALUATION OF RETIREMENT BENEFITS

#### **Funded Status and GASB Disclosure**

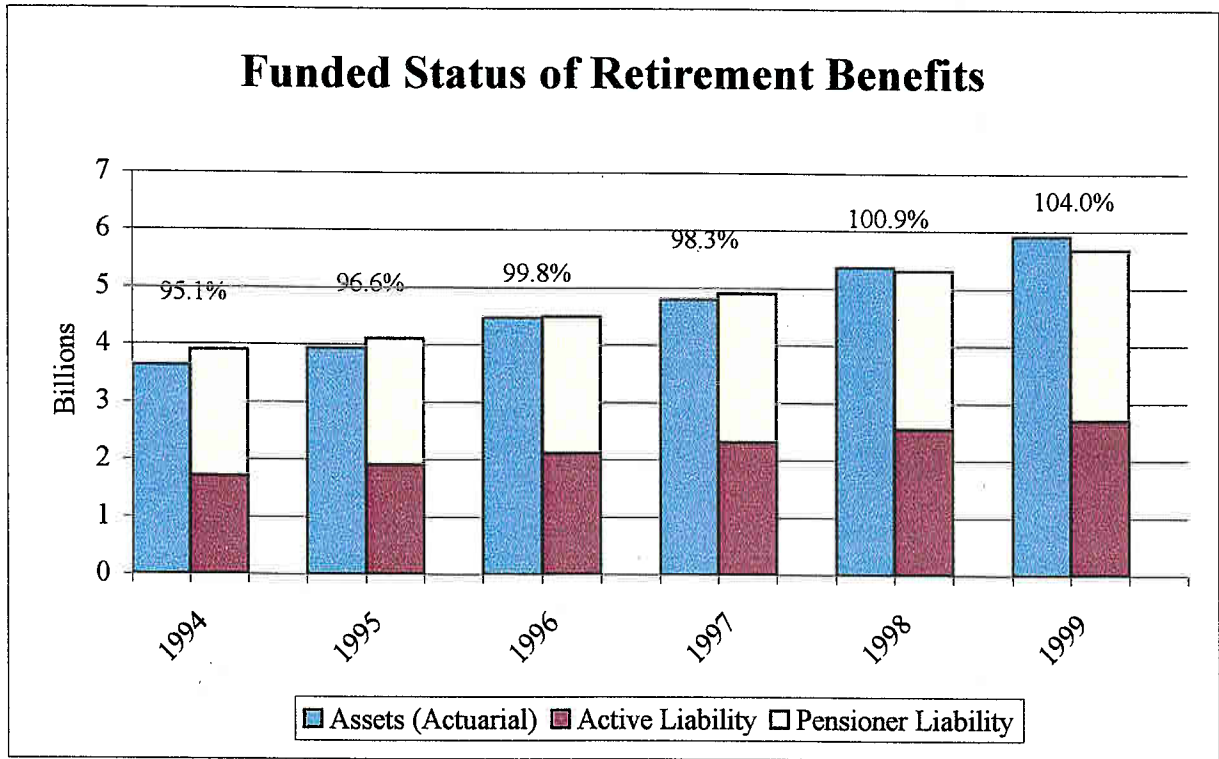
In November 1994, the Governmental Accounting Standards Board (GASB) adopted Statement No. 25, changing the way in which governmental retirement systems must report financial information. This replaced the requirements of GASB No. 5. The statement became effective for plan years beginning after June 15, 1997. This statement applies only to retirement benefits paid by the System.

This report includes two tables showing information required to be reported under GASB No. 25. The first table shows a six-year history of funding progress (a comparison of Actuarial Assets with the Actuarial Accrued Liability, and a comparison of UAAL with covered payroll). This table shows significant funding progress over the last six years.

The second table shows the Annual Required Contribution (ARC) as computed under GASB No. 25, and it shows what percent of this amount was actually received. The current method used for determining CERS contributions satisfies the GASB requirements. As long as actual contributions are made in accordance with the actuarially recommended rates, the "Percentage Contributed" shown on this table will always be 100%. Otherwise, additional financial disclosures will be necessary.

The graph on the next page compares assets to liabilities for retirement benefits for the last six years. Actuarial assets exceed liabilities for pensioners, and are 104.0% of total retirement liabilities at June 30, 1999. Based on the market value of assets, the funded ratio for retirement benefits is 115.3%.

## Funded Status of Retirement Benefits



**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM**

**VALUATION OF RETIREMENT BENEFITS**

**GASB No. 25 Disclosure  
Schedule of Funding Progress  
Retirement Benefits**

Valuation Date (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (3)	Unfunded Actuarial Accrued Liability (UAAAL) (4) = (3)-(2)	Funded Ratio (5) = (2)/(3)	Annual Covered Payroll (6)	UAAAL as % of Payroll (7) = (4)/(6)
June 30, 1994	3,629,723,739	3,817,841,255	188,117,516	95.1%	884,950,676	21.3%
June 30, 1995	3,940,057,106	4,080,765,873	140,708,767	96.6%	911,292,385	15.4%
June 30, 1996	4,468,433,499	4,476,024,351	7,590,852	99.8%	957,422,907	0.8%
June 30, 1997	4,802,508,841	4,886,336,641	83,827,800	98.3%	990,616,145	8.5%
June 30, 1998	5,362,923,264	5,312,918,078	(50,005,186)	100.9%	1,011,857,180	(4.9%)
June 30, 1999	5,910,948,149	5,684,586,071	(226,362,078)	104.0%	1,068,124,413	(21.2%)



**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM**

**VALUATION OF RETIREMENT BENEFITS**

**GASB No. 25 Disclosure  
Schedule of Employer Contributions  
Retirement Benefits**

<b>Fiscal Year Ending</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
1993	138,258,965	100%
1994	143,548,618	100%
1995	115,129,588	100%
1996	120,660,148	100%
1997	88,799,922	100%
1998	64,459,744	100%
1999	69,248,626	100%

# **CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

## **VALUATION OF RETIREMENT BENEFITS**

### **Member Contributions**

Members contribute to the Retirement System based on schedules contained in the City Administrative Code. For Members commencing participation before February 1, 1983, different contribution rate schedules apply to different groups because of various collective bargaining agreements. For purposes of this valuation, we have assumed that the contribution rates for these Members correspond to those effective on July 1, 1981. These contribution rates can be found in Exhibit X.

If certain Members from this group contribute at a lower rate through a collective bargaining agreement, the City should contribute 94% of the amount that would have been contributed by Members without the bargaining agreements. This percentage reflects the fact that certain participants will terminate when only eligible for a return of their contributions. The City does not need to contribute the amounts that are expected to be refunded after the Members' termination.

In the prior valuation report, it was recommended that 88% of the defrayed amount be contributed. This percentage generally increases with the aging of the group affected by the defrayal, and as the probability that these Members will terminate and get a refund of contributions decreases.

For Members commencing participation after February 1, 1983, the contribution rate is 6%.

# **CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

## **VALUATION OF RETIREMENT BENEFITS**

### **Family Death Benefit Insurance Plan**

Section 511.1 of the City Charter establishes the Family Death Benefit Insurance Plan. This Plan provides protection for the families of Members who die before becoming eligible for service retirement. The benefits provided by the Plan are similar to those provided to survivors under Social Security. Members are eligible for dependent benefits after 18 months of participation in the Family Death Benefit Plan. They are eligible for surviving spouse benefits after ten years of participation in the Plan.

These benefits were updated in 1997 to reflect recent increases in Social Security levels.

Currently, the City and Members share the cost of the Plan. Each contributes \$2.90 per month. This contribution rate is reviewed every two years to determine if the level of contributions is appropriate. In our opinion, a contribution of \$3.20 per month from Members and the City would be sufficient to fund benefits under this plan. This rate will be next reviewed on June 30, 2001.

# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### VALUATION OF HEALTH SUBSIDY BENEFITS

#### Introduction

Division 4, Chapter 11 of the Administrative Code provides that a health insurance subsidy be paid to retired Members of the City Employees' Retirement System. This subsidy is a monthly payment which retirees apply to the cost of health insurance. Retirees can select among a variety of plans sponsored by the City. In general, Members are eligible for subsidy at retirement after age 55 with 10 years of service, or retirement at age 70 (if it was compulsory). Exhibit V summarizes the provisions of the Health Insurance Premium Subsidy.

The System is building a reserve through the advance funding of the health insurance subsidy for current retirees and for active Members with sufficient service to receive a health subsidy (ten years). The actuarial value of the reserve available at June 30, 1999 is \$724,428,788.

This section of the report contains the results of the June 30, 1999 valuation of the retiree health insurance premium subsidy. In determining the budget amounts for the fiscal year 2000 – 2001, we have used the same funding method and methods of amortization used in the funding of the retirement benefits. We have also used the same economic and demographic assumptions as those used in the retirement valuation. In addition, special health cost trend assumptions were used. A summary of the economic assumptions follows:

- 8.0% annual interest
- graded medical cost rates of 8.00% in 1999-2000 decreasing gradually to 6.0% in 2007 and beyond for benefits paid before age 65, and benefits paid to Members without Medicare
- medical cost rates of 10.00% for five years and then decreasing gradually to 6.00% in 2013 and beyond for benefits paid after age 65 from System HMO plans and for Medicare Part B premiums
- graded medical cost rates of 8.50%, decreasing gradually to 6.00% in 2009 and beyond for benefits paid after age 65 for Members who join the medical indemnity plan
- graded dental rates of 8.00% in 1999-2000 decreasing to 6.0% in 2007 and beyond.

We believe these are appropriate for use in the valuation of health subsidy liabilities of the City Employees' Retirement System at June 30, 1999. These assumptions are described in more detail in Exhibit VII.

# **CITY OF LOS ANGELES**

## **CITY EMPLOYEES' RETIREMENT SYSTEM**

### **VALUATION OF HEALTH SUBSIDY BENEFITS**

#### **Actuarial Balance Sheet**

The purpose of the Actuarial Balance Sheet is to compare System assets with System liabilities in order to define the portion of the liabilities, which need to be funded by the City in the future. The Balance Sheet information in the next two pages represents assets and liabilities for health subsidy benefits only.

System liabilities equal the present value of all future health subsidy benefits expected to be paid to current and future retirees and beneficiaries of the System.

For the purpose of the Actuarial Balance Sheet for health subsidy benefits, System assets are equal to the sum of (a) the assets currently available to pay benefits; and (b) the present value of future contributions expected to be made by the City.

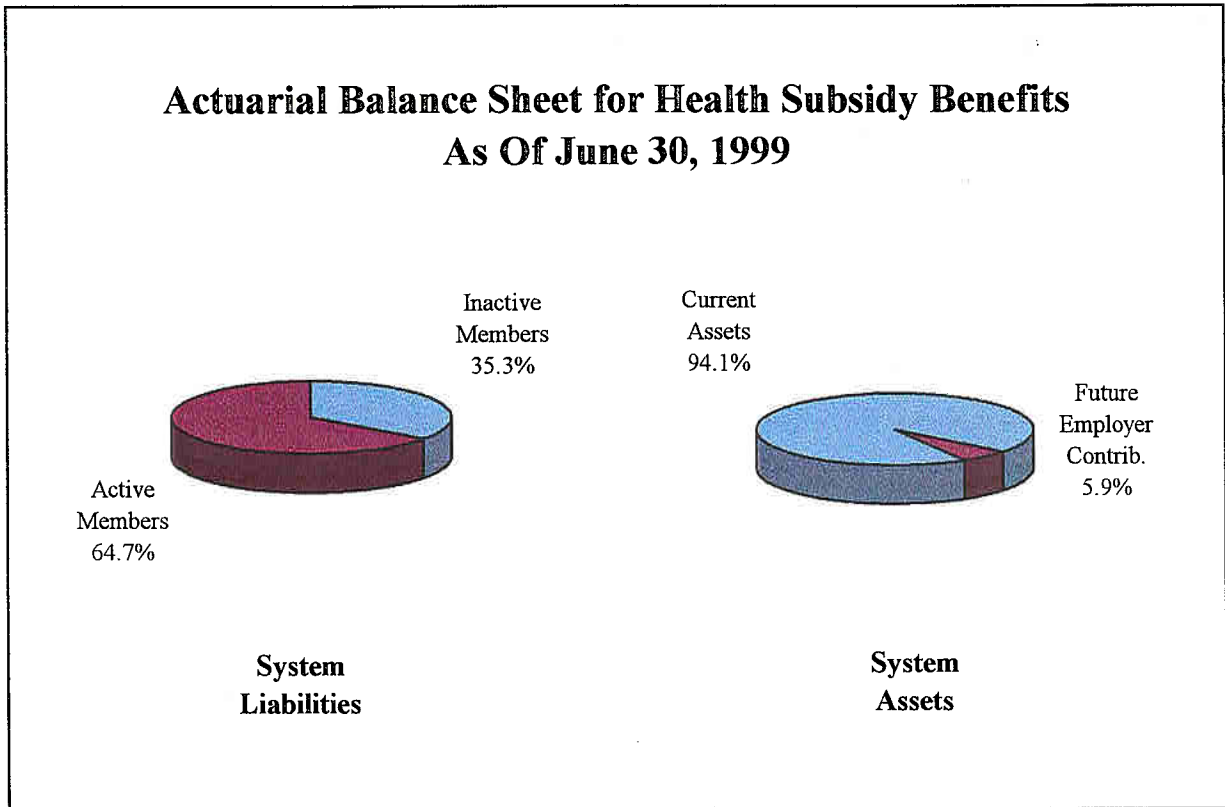
No Member contributions are required for health subsidy benefits.

The last item, the present value of future City contributions, is made up of two parts:

1. **The Present Value of Future City Normal Costs:** Using the Projected Unit Credit Cost Method, the City budgets a certain percentage of payroll to fund benefits for System Members. The Normal Cost is the cost of benefits earned in each year. Normal Cost is funded from a Member's date of employment to the average expected retirement date. For the 2000 – 2001 fiscal year, the Normal Cost percentage for health subsidy benefits is 1.72% of pay. The present value of these future City Normal Cost contributions represents one piece of the value of future City contributions.
2. **The Unfunded Actuarial Accrued Liability:** The portion of the present value of future City contributions which will not be funded by the future Normal Cost contributions is the Unfunded Actuarial Accrued Liability (UAAL). The UAAL arises from prior contributions that were different than the current Normal Cost percentage. This usually results from benefit or assumption changes and the net effect of prior gains and losses. If the City had always contributed the current Normal Cost, if there were no prior benefit or assumption changes and if actual experience exactly matched the actuarial assumptions, the Normal Cost would be sufficient to fund all health subsidy benefits and there would be no UAAL. If the accumulated Normal Costs exceed the liabilities accrued to date, then there would be a Surplus. This liability or surplus is funded based on the provisions of the City Charter.

The Actuarial Balance Sheet can be found on the following pages.

The following chart illustrates the breakdown of Balance Sheet assets and liabilities for health subsidy benefits. It shows that about 35% of the System's liabilities are for retired Members and their beneficiaries, and 65% for active Members. About 95% of System assets consist of currently available assets, and 5% consist of future contributions from the City.



**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
VALUATION OF HEALTH SUBSIDY BENEFITS**

**Actuarial Balance Sheet As Of June 30, 1999**

<b>Assets</b>	
1. Applicable Assets	\$724,428,788
2. Present Value of Future Member Contributions	0
3. Present Value of Future Contributions by the City For:	
a. Normal Cost	\$155,559,947
b. Amortization of Certain Liabilities / (Surplus)	(110,335,620)
c. Total	\$45,224,327
4. Total Assets	\$769,653,115
<b>Liabilities</b>	
5. Present Value of Benefits Already Granted (Inactive Members)	\$271,856,647
6. Present Value of Benefits to be Granted (Active Members With Ten or More Years of Service)	497,796,468
7. Total Liabilities	\$769,653,115



**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
VALUATION OF HEALTH SUBSIDY BENEFITS**

**Budget and Recommended Contributions**

Under Division 4, Chapter 11 of the Administration Code, certain retired employees are eligible for a health insurance premium subsidy. This subsidy is to be funded entirely by the City Employees' Retirement System.

Based on the actuarial value for this reserve, we have calculated the required funding amount for the fiscal year beginning in 2000.

The contribution for health subsidy benefits decreased from 1.27% of payroll for 2000 – 2001 to 0.67% of payroll for 2000 – 2001. This was primarily due to asset gains.

<b>Recommended City Contributions For Fiscal Year 2000 – 2001</b>	
	<b>Percentage of Salary</b>
<b>For Health Subsidy Benefits</b>	
Normal Cost	1.72%
Unfunded Actuarial Accrued Liability/(Surplus)	(1.05%)
<b>Total Contributions for Health Subsidy Benefits</b>	<b>0.67%</b>

**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM  
VALUATION OF HEALTH SUBSIDY BENEFITS**

**Detail of Amortization of Unfunded Actuarial Accrued Liability**

Item	Remaining Years	Balance to be Amortized 6/30/99	Amortization Amount	Percentage of Salary
1. Combined Bases at 6/30/97	13	\$52,260,808	\$5,183,753	0.49%
2. (Gain)/Loss at 6/30/98	14	(107,932,221)	(10,114,326)	(0.95%)
3. Change in Assumptions at 6/30/98	29	45,562,483	2,634,072	0.25%
4. (Gain)/Loss at 6/30/99	15	(103,379,627)	(9,198,331)	(0.86%)
5. Plan Change at 6/30/99	30	3,152,938	178,944	0.02%
<b>Total</b>		<b>(\$110,335,620)</b>	<b>(\$11,315,888)</b>	<b>(1.05%)</b>

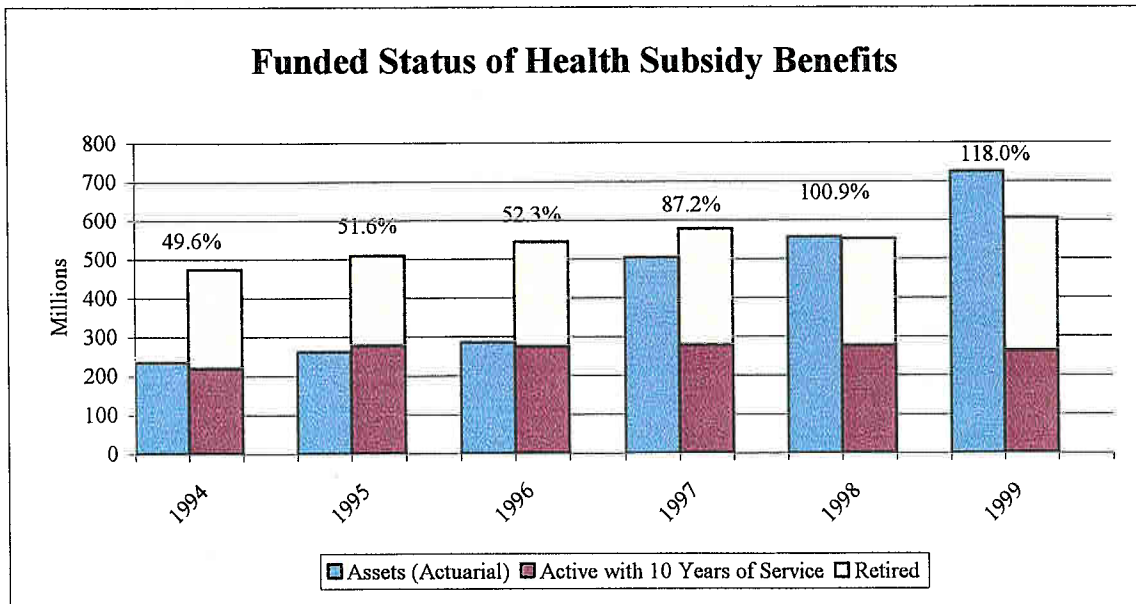
The Plan Change indicated above reflects the three-year extension of the early retirement window through September 30, 2002. This window provides unreduced pensions to Members who retire on or after age 50 with at least 30 years of service. The incidence of early retirement increases the liability for the health subsidy benefits.

# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM VALUATION OF HEALTH SUBSIDY BENEFITS

## Funded Status of Health Subsidy Benefits

This information is prepared using GASB guidelines. These figures do not include assets or liabilities of the retirement benefits of the System.

Present Value of Health Subsidy Benefits Accrued to June 30, 1999 - Retired Members - Active Members with Ten Years of Service - Total	\$271,856,647 342,236,521 <hr style="width: 100%;"/> \$614,093,168
Value of Assets Available for Health Subsidy Benefits - Market - Actuarial	\$792,578,451 \$724,428,788
Funded Ratio - Market - Actuarial	129.1% 118.0%



# CITY OF LOS ANGELES

## CITY EMPLOYEES' RETIREMENT SYSTEM

### VALUATION OF HEALTH SUBSIDY BENEFITS

#### Summary of Funding Process

The City is in the process of advance funding for the Health Insurance Premium Subsidy. A brief summary of this funding process is as follows.

The City began funding for these benefits when the health subsidy plan was first initiated, by commencing funding when a Member retired. However, this funding was limited below the actual cost, since the contributions were determined by recognizing only 3% annual increases in the subsidy due to medical trend.

Beginning in 1987, the assumption for annual increases in the health insurance subsidy benefits was increased to 8% per year. Also, the City began advance funding for active Members who are eligible to retire.

Following the June 30, 1989 Study of Plan Experience, in order to fully reflect the cost of benefits due to expected inflation, the 8% medical trend rate assumption was changed to a series of medical trend rates that graded down from 15% in 1991 to 7% in 2002 and thereafter. The City also began advance funding for active members with sufficient service to receive a health subsidy (10 years).

Effective with the June 30, 1992 Study of Plan Experience, the medical and dental trend rates were updated. Separate rates were used for pre- and post-age 65 benefits to reflect the differences in cost increases after Medicare eligibility. Effective with the June 30, 1993 valuation, the ultimate trend rate was reduced from 7% to 6% to better reflect our expectations of future medical inflation and utilization.

Effective with the June 30, 1995 Study of Plan Experience, the medical and dental trend rates were again updated due to favorable expectations of experience under the Plan. Further reduction in the rates were assumed effective June 30, 1997.

Effective with the June 30, 1998 Study of Plan Experience, the trend rates were updated to reflect how Medicare Reform will affect the System's future health subsidy costs. For details on these trend rates, refer to Exhibit VII.

In valuing the liabilities of the health subsidy, we projected future cash flows by applying medical trend rates to current subsidy amounts. The current average monthly claim rates we used as the starting point for our projections depend on the experience of the plan and plan provisions. These rates are summarized in Exhibit VIII. To determine the present value of future health insurance subsidy benefits, we discounted future cash flows to June 30, 1999 using a valuation rate of 8%.

For the purpose of determining contributions, we have used the Projected Unit Credit Funding Method. Our assumptions and methods are described further in Exhibit VII.

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**CITY OF LOS ANGELES**  
**CITY EMPLOYEES' RETIREMENT SYSTEM**

<b>System Assets (Market Value)</b>		
	<b>June 30, 1999</b>	<b>June 30, 1998</b>
<b>Assets</b>		
Cash	706,520,094	671,722,565
<b>Receivable</b>		
Accrued Interest and Dividend Income	34,315,986	34,076,915
Other Receivable	5,788,469	6,368,569
Proceeds from Investment	<u>150,335,753</u>	<u>29,618,980</u>
<b>Total Receivable</b>	<b>190,440,208</b>	<b>70,064,464</b>
<b>Investments</b>		
Temporary, at Market	0	0
Bonds, at Market	1,620,439,910	1,671,752,993
Common Stocks, at Market	4,538,313,818	3,909,469,970
Real Estate & Mortgages	633,578,498	355,617,445
Alternative Investment, at Market	<u>105,141,067</u>	<u>64,471,919</u>
<b>Total Investments</b>	<b>6,897,473,293</b>	<b>6,001,312,327</b>
<b>Total Assets</b>	<b>7,794,433,595</b>	<b>6,743,099,356</b>
<b>Liabilities</b>		
Accounts Payable and Accrued Expenses	(23,539,315)	(6,226,654)
Purchases of Investments	<u>(491,831,166)</u>	<u>(136,170,319)</u>
<b>Total Liabilities</b>	<b>(515,370,481)</b>	<b>(142,396,973)</b>
<b>Net Assets Available for Plan Benefits</b>	<b>7,279,063,114</b>	<b>6,600,702,383</b>



**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM**

<b>Statement of Reserve and Fund Balances</b>		
	June 30, 1999	June 30, 1998
<b>Actuarial</b>		
Member Contributions	\$776,617,190	\$733,679,752
Annuities	416,227,855	397,598,555
Pensions	5,274,167,598	4,829,949,948
Family Death Benefit Insurance	19,472,020	19,976,400
Health Benefits	792,578,451	619,495,729
<b>Total Actuarial</b>	<b>\$7,279,063,114</b>	<b>\$6,600,700,384</b>
<b>Other</b>		
Undistributed Earnings	0	0
Fund Balance	0	0
<b>Total Other</b>	<b>0</b>	<b>0</b>
<b>Total Reserve and Fund Balance</b>	<b>\$7,279,063,114</b>	<b>\$6,600,700,384</b>

## CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

<b>Statement of Changes in Net Assets Available for Plan Benefits</b>		
	Year Ended June 30, 1999	Year Ended June 30, 1998
<b>Revenues</b>		
City Contributions	\$109,362,265	\$117,208,578
Members' Contributions	62,564,896	58,313,955
Income from Investments	812,919,155	639,396,001
<b>Total Revenues</b>	<b>\$984,846,316</b>	<b>\$814,918,534</b>
<b>Expenditures</b>		
<b>Pensions</b>		
Retirement Allowances	\$266,744,804	\$247,875,866
Family Death Benefit Insurance	1,553,231	1,499,177
Health Benefits	<u>22,326,435</u>	<u>21,388,457</u>
<b>Total</b>	<b>290,624,470</b>	<b>270,763,500</b>
Refund of Members' Contributions	9,627,685	7,490,261
Administrative Expenses	6,233,431	5,760,198
<b>Total Expenditures</b>	<b>\$306,485,586</b>	<b>\$284,013,959</b>
<b>Net Revenues</b>	<b>\$678,360,730</b>	<b>\$530,904,575</b>
<b>Net Assets Available for Plan Benefits, Beginning of the Year</b>	<b>\$6,600,702,384</b>	<b>\$6,069,797,808</b>
<b>Net Assets Available for Plan Benefits, End of the Year</b>	<b>\$7,279,063,114</b>	<b>\$6,600,702,384</b>

# **CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

## **Summary of Retirement Benefits**

1. **Eligibility:** Members are eligible on their first day of City employment.
2. **Final Compensation:** Highest 12-month average salary.
3. **Service Retirement:**
  - A) **Eligibility:** Age 55 with 10 years of service, or any age with 30 years of service, or age 70.
  - B) **Benefit:** 2.16% of Final Compensation for each year of service.
  - C) **Reduction for Early Retirement:** Unreduced for retirement after age 60, or after age 55 with at least 30 years of service. Reduction factors apply for earlier retirement.
  - D) **Form of Payment:** Benefit payable for life with 50% continuance to eligible spouse or domestic partner if employee had that coverage at time of retirement. Larger continuances are available with actuarial reduction.
  - E) **Special Early Retirement Benefit:** Unreduced pensions are available for employees age 50 with 30 years of service who retire prior to September 30, 2002.

4. **Disability Retirement:**

- A) **Eligibility:** Five years of continuous service and physically or mentally incapacitated so unable to perform duties of position.
- B) **Benefit:** 1/70 of Final Compensation per year of continuous service. If service is less than 23-1/3 years, then service is projected to retirement, with a maximum service of 23-1/3 years.
- C) **Form of Payment:** Benefit payable for life with 50% continuance to eligible spouse or domestic partner if employee had this coverage at time of retirement. Larger continuances are available with actuarial reduction.

5. **Deferred Service Retirement:**

- A) **Eligibility:** Five years of service prior to termination of City service. Member must leave contributions on deposit.
- B) **Benefit:** Same as Service Retirement payable anytime after age 55, provided at least 10 years have elapsed from date of original membership (or anytime after age 70).
- C) **Form of Payment:** Same as Service Retirement.

6. **Pre-retirement Death Benefits:**

- A) **Not Eligible for Disability or Service Retirement:**

Member receives (i), (ii), and (iii) where:

(i) = Accumulated contributions with interest.

(ii) = Limited monthly pension equal to half the average monthly salary for the year before death. Benefit is payable to surviving spouse, minor children, dependent parents or domestic partner, and is payable for a period of 2 months times the number of completed years of service, to a maximum of 12 months.

(iii) = Family Death Benefit Insurance Plan benefit, if a qualified Member.

**B) Eligible for Disability Retirement or Duty-Related Death:**

Member receives (i) and (ii) where:

(i) = 100% of the benefit the Member would have received if he or she had been granted an Option 1 (Joint and 100%) actuarially reduced disability benefit on the day before death.

(ii) = Family Death Benefit Insurance Plan benefit, if a qualified Member.

Surviving spouse or domestic partner may elect A in lieu of B.

**C) Eligible for Service Retirement**

Surviving spouse or domestic partner receives a lifetime benefit equal to

100% of the benefit the Member would have been entitled to if he or she had been granted an Option 1 (Joint and 100%) actuarially reduced Service Retirement benefit on the day before death.

Benefits under the Family Death Benefit Insurance Plan are not available.

Surviving spouse or domestic partner may elect A or B in lieu of C.

**7. Post-retirement Death Benefits:**

Beneficiary receives (i), (ii), and (iii), where:

(i) = 50% continuance to surviving eligible spouse or domestic partner, if covered under the plan.

(ii) = Return of unused contributions and interest (provided normal cash refund annuity was selected) and any accrued but unpaid retirement allowance at death of last beneficiary eligible for monthly allowance.

(iii) = \$2,500 death benefit allowance for burial expenses at death of retired member.

8. **Post-retirement  
Cost-of-Living Benefits:** Each July 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.
- If benefit has been paid less than 12 months, the 3% increase is proportionately decreased.
9. **Employee Contributions:** Pre-February 1983 participants:
- Members are assumed to contribute per the schedule effective July 1, 1981. To the extent that Members contribute less than the full rates, the City should contribute 94% of the amounts otherwise paid by the Member.
- Post-January 1983 participants:
- Members contribute 6% of pay.
10. **Family Death Benefit Insurance Plan:**
- A) **Eligibility:** Employee may elect coverage after 18 months of City retirement service.
- B) **Benefits:** Benefits similar to those provided by Social Security Survivors' Insurance are payable if Member dies in active service after 18 months of Family Death Benefit Plan membership.
- C) **Cost:** It is recommended that the Member and City each contribute \$3.20 per month.

# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

## Summary of Health Subsidy Benefits

**Eligibility:** Members who retire with ten years of service. Subsidy begins at age 55. Medical benefits are available to an eligible spouse or domestic partner after the death of the eligible Member.

**Subsidy:**

*Medical*

For retired Members under age 65 or 65 and over with only Medicare Part B:

A percentage of the Maximum Subsidy, or the actual premium paid to a City approved health carrier, if less.

The percentage is 4% for each year of service, up to a maximum of 100% after 25 years.

**Maximum Subsidy:** The maximum is the rate currently paid for active City employees. As of July 1, 1999, this amount is \$508 per month.

For retired Members age 65 and over with Medicare Parts A and B:

A percentage of the premium paid to a City approved health carrier. The percentage is 75% with 10 - 14 years of service, 90% for 15-19 years of service and 100% for 20 years of service or more. Medicare Part B premiums are also paid.



For eligible surviving spouse or domestic partners:

The same subsidy provided to the Member, except this benefit is reduced to half of the Member's subsidy through September 30, 1999.

*Dental*

4% per year of service to a maximum of \$25.33 for Connecticut General and \$11.38 for Safeguard.

# **CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

## **Summary of Actuarial Assumptions and Methods Used for Valuation of Retirement Benefits**

**Interest Rate:** 8.0% per year.

**Salary Increases:** Total System payroll is assumed to increase 4.0% per year.

Annual salary increases for individuals vary by age.

<b>Age</b>	<b>Annual Salary Increase</b>
Under 34	7%
35 - 44	6%
45 - 54	5%
55 and over	4%

**Cost-of-Living:** 3.0% per year.

**Interest Earned on  
Employee Contributions** 6.5% per year.

Mortality:

A. For Pensioners on Service Retirement and Beneficiaries

1971 Group Annuity Mortality Table, with a one-year setback for males and a five-year setback for females

Sample Rates

Deaths per 1,000		
Age	Males	Females
45	2.6	1.6
50	4.7	2.9
55	7.8	5.3
60	11.9	8.5
65	19.2	13.1
70	32.4	21.3
75	51.2	36.1

B. For Pensioners on Disability Retirement:

1981 Disability Mortality Table

Sample Rates

Age	Deaths per 1,000
45	20.8
50	24.4
55	28.4
60	33.0
65	37.9
70	43.7
75	55.3

**Rehire for Former Employees:**

All former employees are assumed not to be rehired.

**Dependents:**

Where no other information is available, Members are assumed to have two children with a three-year difference in age. The eldest is assumed to reach age 21 when the participant reaches age 45.

**Proportion of Members with Spouses  
or Domestic Partners at Retirement:**

76% of male employees and 56% of female employees are assumed to be married or to have a qualified domestic partner at retirement. Wives are assumed four years younger than husbands.

**Funding Method:**

For retirement benefits: The Projected Unit Credit Cost Method.

For the Family Death Benefit Insurance Plan: One year term cost funding method, with an adjustment for the funded status of the plan at each valuation date.

**Asset Valuation Method:**

The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed 8.00% rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

**Special Early Retirement Rate:**

Employees eligible for an enhanced retirement benefit during the 1998-2002 window period are assumed to retire at the rate of 25% per year.

# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

## Summary of Actuarial Assumptions and Methods Used for Valuation of Health Subsidy Benefits

**Methods:** Future cash flows were projected by applying medical trend rate factors to current annual claim rates.

**Discount on Projected Cash Flows:** 8% per year.

**Medical Trend Rates:**

	Medical Trend			Dental Trend  Pre and Post 65
	Pre-65	Post 65		
		HMO & Medicare Part B	Other	
1999-2000	8.00%	10.00%	8.50%	8.00%
2000-2001	7.75%	10.00%	8.25%	7.75%
2001-2002	7.50%	10.00%	8.00%	7.50%
2002-2003	7.25%	10.00%	7.75%	7.25%
2003-2004	7.00%	10.00%	7.50%	7.00%
2004-2005	6.75%	9.50%	7.25%	6.75%
2005-2006	6.50%	9.00%	7.00%	6.50%
2006-2007	6.25%	8.50%	6.75%	6.25%
2007-2008	6.00%	8.00%	6.50%	6.00%
2008-2009	6.00%	7.50%	6.25%	6.00%
2009-2010	6.00%	7.00%	6.00%	6.00%
2010-2011	6.00%	6.75%	6.00%	6.00%
2011-2012	6.00%	6.50%	6.00%	6.00%
2012-2013	6.00%	6.25%	6.00%	6.00%
2013+	6.00%	6.00%	6.00%	6.00%

Mortality:	1971 Group Annuity Mortality Table, with a one-year age setback for males and a five-year age setback for females.
Probability of Termination of Employment:	Same rates as used in valuation of retirement benefits. See retirement report for details.
City Medical Plan Coverage:	80% of all retirees are assumed to receive a subsidy for a City approved health carrier.
Spouses and Domestic Partners:	91% of male and 66% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Medicare Coverage:	85% of retirees are assumed to elect Medicare Parts A & B.
Dental Coverage:	65% of retirees are assumed to elect dental coverage.
Spousal Coverage:	With regard to Members who are currently alive, 75% of eligible spouse or domestic partners are assumed to elect continued health coverage after the Member's death. With regard to deceased Members, 70% of the current eligible survivors are assumed to elect health coverage.
Funding Method:	Projected Unit Credit Funding Method.
Asset Valuation Method:	The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed 8.00% rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

**CITY OF LOS ANGELES  
CITY EMPLOYEES' RETIREMENT SYSTEM**

**Average Monthly Claim Rates for  
Health Subsidy Benefits**

Health subsidy benefits are based on a percentage of the maximum subsidy (currently \$508 per month), limited to the composite carrier rates shown on the table below.

The monthly dental subsidy amount assumed for current active members is \$0.90 multiplied by years of service (maximum of 25).

<b>Composite Carrier Rates For Health Subsidy Benefits</b>		
<b>Monthly Rate</b>		
<b>Medical</b>		
<b>Less Than Age 65</b>	<b>HMO</b>	<b>Non-HMO</b>
Married	\$508.00	\$508.00
Single	318.64	508.00
<b>Age 65 and Over</b>		
Married	62.37	428.40
Single	31.41	214.20
<b>Dental</b>	0.90 per year of service (maximum 25 years)	



# CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

## Rates Of Separation From Active Service

A schedule of the probabilities of termination of employment due to the following causes can be found on the following pages:

- |    |   |  |
|----|---|--|
| 1. | Ordinary Withdrawal:                            | Member terminates and elects a refund of Member contributions.                                       |
| 2. | Service Retirement:                             | Member retires after meeting age and service requirements for reasons other than disability.         |
| 3. | Ordinary Disability:                            | Member receives disability retirement; disability is not service related.                            |
| 4. | Service Disability:                             | None assumed.  |
| 5. | Ordinary Death:                                 | Member dies before eligibility for retirement; death is not service related.                         |
| 6. | Service Death:                                  | None assumed.  |
| 7. | Death While Eligible<br>for Service Retirement: | Member dies before retirement but after meeting age and service requirements for service retirement. |

Each rate represents the probability that a Member will separate from service at each age due to the particular cause. For example, a rate of 0.0020 for a Member's service retirement at age 50 means we assume that, on average, 2 out of 1,000 Members who are age 50 will retire at that age.

Los Angeles City Employees' Retirement System  
Rates of Separation from Active Service

Age	Ordinary Withdrawal <sup>1</sup>		Service Retirement		Ordinary Disability		Ordinary Death		Death	
	Males	Females	Males	Females	Males	Females	Males	Females	Elig for Svc Ret	Svc Ret
20	0.3117	0.1500	0.0000	0.0000	0.0000	0.0000	0.0003	0.0002	0.0000	0.0000
21	0.2500	0.1400	0.0000	0.0000	0.0000	0.0000	0.0003	0.0002	0.0000	0.0000
22	0.1889	0.1191	0.0000	0.0000	0.0000	0.0000	0.0003	0.0002	0.0000	0.0000
23	0.1985	0.1200	0.0000	0.0000	0.0000	0.0000	0.0003	0.0002	0.0000	0.0000
24	0.1491	0.1494	0.0000	0.0000	0.0000	0.0000	0.0004	0.0003	0.0000	0.0000
25	0.1462	0.1160	0.0000	0.0000	0.0002	0.0000	0.0004	0.0003	0.0000	0.0000
26	0.1312	0.1084	0.0000	0.0000	0.0003	0.0000	0.0005	0.0004	0.0000	0.0000
27	0.1126	0.0965	0.0000	0.0000	0.0004	0.0000	0.0005	0.0004	0.0000	0.0000
28	0.1070	0.0823	0.0000	0.0000	0.0005	0.0000	0.0006	0.0005	0.0000	0.0000
29	0.1008	0.0782	0.0000	0.0000	0.0006	0.0001	0.0006	0.0005	0.0000	0.0000
30	0.0801	0.0741	0.0000	0.0000	0.0008	0.0001	0.0007	0.0006	0.0000	0.0000
31	0.0747	0.0790	0.0000	0.0000	0.0009	0.0001	0.0007	0.0006	0.0000	0.0000
32	0.0674	0.0658	0.0000	0.0000	0.0010	0.0001	0.0007	0.0006	0.0000	0.0000
33	0.0640	0.0617	0.0000	0.0000	0.0011	0.0001	0.0008	0.0007	0.0000	0.0000
34	0.0605	0.0598	0.0000	0.0000	0.0013	0.0002	0.0008	0.0007	0.0000	0.0000
35	0.0584	0.0550	0.0000	0.0000	0.0014	0.0002	0.0009	0.0008	0.0000	0.0000
36	0.0559	0.0579	0.0000	0.0000	0.0015	0.0002	0.0010	0.0009	0.0000	0.0000
37	0.0480	0.0500	0.0000	0.0000	0.0016	0.0003	0.0011	0.0010	0.0000	0.0000
38	0.0456	0.0498	0.0000	0.0000	0.0017	0.0003	0.0011	0.0010	0.0000	0.0000
39	0.0433	0.0450	0.0000	0.0000	0.0018	0.0004	0.0012	0.0011	0.0000	0.0000
40	0.0426	0.0438	0.0000	0.0000	0.0018	0.0005	0.0012	0.0011	0.0000	0.0000
41	0.0409	0.0456	0.0000	0.0000	0.0019	0.0006	0.0014	0.0012	0.0000	0.0000
42	0.0412	0.0413	0.0000	0.0000	0.0019	0.0008	0.0015	0.0012	0.0000	0.0000
43	0.0346	0.0436	0.0000	0.0000	0.0019	0.0008	0.0015	0.0012	0.0000	0.0000
44	0.0370	0.0375	0.0000	0.0000	0.0020	0.0010	0.0016	0.0013	0.0000	0.0000
45	0.0340	0.0350	0.0000	0.0000	0.0020	0.0012	0.0017	0.0014	0.0000	0.0000
46	0.0285	0.0358	0.0000	0.0000	0.0021	0.0014	0.0018	0.0015	0.0000	0.0000
47	0.0286	0.0320	0.0000	0.0000	0.0021	0.0014	0.0019	0.0015	0.0000	0.0000
48	0.0260	0.0315	0.0000	0.0000	0.0022	0.0016	0.0021	0.0016	0.0000	0.0000
49	0.0241	0.0326	0.0000	0.0000	0.0022	0.0018	0.0021	0.0017	0.0000	0.0000
50	0.0438	0.0602	0.0100	0.0010	0.0023	0.0020	0.0023	0.0018	0.0000	0.0000
51	0.0536	0.0575	0.0100	0.0050	0.0023	0.0024	0.0027	0.0019	0.0000	0.0000
52	0.0480	0.0542	0.0100	0.0100	0.0023	0.0028	0.0027	0.0021	0.0000	0.0000
53	0.0440	0.0522	0.0100	0.0200	0.0023	0.0032	0.0027	0.0022	0.0000	0.0000
54	0.0410	0.0502	0.0100	0.0300	0.0024	0.0036	0.0030	0.0024	0.0000	0.0000
55	0.0400	0.0482	0.0100	0.0800	0.0024	0.0040	0.0032	0.0026	0.0021	0.0021
56	0.0350	0.0450	0.0100	0.0800	0.0024	0.0040	0.0034	0.0026	0.0024	0.0024
57	0.0300	0.0425	0.0100	0.0700	0.0024	0.0040	0.0036	0.0029	0.0026	0.0026
58	0.0275	0.0400	0.0100	0.1100	0.0024	0.0040	0.0039	0.0031	0.0029	0.0029
59	0.0250	0.0375	0.0100	0.1000	0.0024	0.0040	0.0041	0.0038	0.0032	0.0032
60	0.0225	0.0350	0.0200	0.2000	0.0024	0.0000	0.0044	0.0046	0.0035	0.0035
61	0.0200	0.0325	0.0100	0.1500	0.0024	0.0000	0.0050	0.0046	0.0039	0.0039
62	0.0175	0.0300	0.0100	0.1500	0.0025	0.0000	0.0055	0.0052	0.0043	0.0043
63	0.0150	0.0275	0.0100	0.1600	0.0025	0.0000	0.0061	0.0058	0.0048	0.0048
64	0.0125	0.0250	0.0200	0.1700	0.0025	0.0000	0.0067	0.0065	0.0053	0.0053
65	0.0000	0.0000	0.3000	0.2000	0.0000	0.0000	0.0074	0.0073	0.0059	0.0059
66	0.0000	0.0000	0.2500	0.2000	0.0000	0.0000	0.0082	0.0084	0.0065	0.0065
67	0.0000	0.0000	0.2500	0.2000	0.0000	0.0000	0.0090	0.0097	0.0072	0.0072
68	0.0000	0.0000	0.2500	0.2000	0.0000	0.0000	0.0098	0.0111	0.0078	0.0078
69	0.0000	0.0000	0.2500	0.2000	0.0000	0.0000	0.0106	0.0127	0.0086	0.0086
70	0.0000	0.0000	1.0000	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

<sup>1</sup> For Members with four or more years of service. For Members with less than four years of service, add .0500 to these rates.

## CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

### Contribution Rates Assumed For Members Participating Before February 1, 1983

Age	Normal	Survivor	Total	Age	Normal	Survivor	Total
16	8.00%	0.22%	8.22%	40	10.19%	0.91%	11.10%
17	8.04	0.28	8.32	41	10.29	0.92	11.21
18	8.08	0.33	8.41	42	10.41	0.93	11.34
19	8.14	0.39	8.53	43	10.52	0.94	11.46
20	8.20	0.44	8.64	44	10.64	0.95	11.59
21	8.27	0.48	8.75	45	10.76	0.97	11.73
22	8.34	0.53	8.87	46	10.89	0.98	11.87
23	8.42	0.56	8.98	47	11.01	0.99	12.00
24	8.50	0.60	9.10	48	11.12	1.00	12.12
25	8.58	0.63	9.21	49	11.24	1.01	12.25
26	8.66	0.66	9.32	50	11.34	1.03	12.37
27	8.75	0.68	9.43	51	11.44	1.05	12.49
28	8.86	0.70	9.56	52	11.55	1.06	12.61
29	8.96	0.72	9.68	53	11.65	1.07	12.72
30	9.06	0.75	9.81	54	11.75	1.08	12.83
31	9.17	0.77	9.94	55	11.85	1.09	12.94
32	9.28	0.79	10.07	56	11.94	1.10	13.04
33	9.40	0.81	10.21	57	12.03	1.12	13.15
34	9.50	0.82	10.32	58	12.11	1.13	13.24
35	9.61	0.83	10.44	59 +	12.19	1.14	13.33
36	9.73	0.85	10.58				
37	9.84	0.86	10.70				
38	9.96	0.87	10.83				
39	10.07	0.90	10.97				

**Total is applicable only to employees whose  
Normal and Survivor Rates are assigned by the same age.**



Exhibit XII

Los Angeles City Employees' Retirement System  
 Distribution of Pensioners by Plan Year of Retirement and by Attained Age as of June 30, 1999  
 Total for All Pensioners  
 Retirement Benefits

Attained Age	Retirements in Plan Year Beginning in													Pre 1984	Total	Average Monthly Benefit Amount		
	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986				1985	1984
Under 40	12	5	6	9	9	5	7	4	3	4	0	3	0	0	0	4	71	800
40 - 44	5	3	10	10	15	4	2	6	3	6	1	2	1	0	0	1	69	914
45 - 49	12	9	6	17	15	12	3	9	9	5	10	8	10	5	9	34	173	955
50 - 54	84	70	38	18	14	12	7	11	12	10	13	8	9	7	6	58	377	1,928
55 - 59	187	197	250	88	49	16	10	15	10	17	19	11	12	7	8	91	987	2,260
60 - 64	108	170	170	149	161	167	133	120	87	53	24	22	18	20	15	148	1,565	2,222
65 - 69	61	122	101	128	121	118	154	124	129	171	157	133	125	78	50	197	1,969	2,112
70 - 74	48	53	59	65	59	89	89	93	113	128	163	142	156	131	158	850	2,396	1,906
75 - 79	11	14	17	22	16	34	50	41	40	64	94	108	126	89	154	1,442	2,322	1,723
80 - 84	3	7	3	9	8	8	11	8	2	12	15	35	30	43	78	1,341	1,613	1,424
85 - 89	1	0	1	0	0	1	5	1	5	3	4	2	3	6	9	778	819	1,128
90 - 94	0	0	0	1	1	1	0	0	0	2	1	0	2	1	1	344	354	904
Over 94	3	3	3	2	2	4	1	3	0	0	0	0	0	0	0	107	128	751
Total	535	653	664	518	470	471	472	435	413	475	501	474	492	387	488	5,395	12,843	1,798
Average Monthly Benefit Amount	2,470	2,548	2,500	2,205	1,897	2,019	76	2,166	2,118	1,992	2,011	1,960	1,939	1,824	1,878	1,326	1,798	

Average Monthly Benefit Amount: \$1,798  
 Total Annual Benefits: \$277,022,689

Exhibit XIII

Los Angeles City Employees' Retirement System  
 Distribution of Pensioners by Plan Year of Retirement and by Attained Age as of June 30, 1999  
 Total for All Pensioners\*  
 Health Subsidy Benefits

Attained Age	Retirements in Plan Year Beginning in													Pre 1984	Total	Average Monthly Health Subsidy		
	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986				1985	1984
Under 40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
40 - 44	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	180
45 - 49	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50 - 54	74	68	33	0	0	0	0	0	0	0	0	0	0	0	0	0	0	379
55 - 59	135	164	210	67	50	6	2	1	2	2	5	2	3	1	2	11	663	357
60 - 64	86	158	139	125	103	140	125	103	78	57	4	5	2	5	3	28	1,161	349
65 - 69	46	98	80	99	89	100	110	105	102	111	127	115	94	59	41	37	1,413	164
70 - 74	28	35	40	41	35	70	69	63	78	85	116	99	116	94	99	442	1,510	115
75 - 79	3	12	9	14	8	22	37	27	29	41	61	78	88	66	109	782	1,386	104
80 - 84	2	2	3	5	4	3	7	5	0	6	5	20	21	25	47	704	859	105
85 - 89	0	0	0	0	0	0	3	1	2	1	2	2	1	3	4	350	369	100
90 - 94	0	0	0	1	0	1	0	0	0	1	1	0	1	0	0	124	129	138
Over 94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	41	41	124
Total	535	653	664	518	470	471	472	435	413	475	501	474	326	253	305	2,519	7,707	183
Average Monthly Health Subsidy	219	252	235	177	150	162	145	142	131	121	97	93	125	112	114	116	183	

Average Monthly Health Subsidy: \$183  
 Total Monthly Health Subsidy: \$1,407,544

\*Pensioners does not include beneficiaries

## CITY OF LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

<b>Retention Rates</b>			
<b>Probability of Working to Age 55</b>			
Age	Male	Female	60% male/40% female
under 25	10.91%	13.66%	12.0%
25-29	25.12%	24.88%	25.0%
30-34	39.43%	36.26%	38.2%
35-39	51.82%	47.07%	49.9%
40-44	62.53%	57.18%	60.4%
45-49	72.31%	66.91%	70.1%
50-54	85.86%	81.05%	83.9%
<b>Probability of Working 10 Years</b>			
Age	Male	Female	60% male/40% female
45-49	53.43%	51.15%	52.5%
50-54	23.62%	26.85%	24.9%
55-59	9.68%	14.32%	11.5%
60-64	5.80%	10.08%	7.5%



# STATISTICAL SECTION

**LACERS**





## STATISTICAL SECTION

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

Year Ended	Member Contributions	Employer Contributions		Net Investment Income	Total
		Dollars	% of Annual Covered Payroll		
1994	\$ 42.30	\$ 173.60	20%	\$ 326.30	\$ 542.20
1995	43.60	144.60	16%	222.10	410.30
1996	47.50	149.00	16%	528.80	725.30
1997	53.27	113.26	11%	1,733.00 *	1,899.53
1998	58.31	117.21	12%	639.39*	814.91
1999	62.56	109.36	10%	812.92*	984.84

\* Includes change in unrealized gain and loss of investment

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

Year Ended	Benefits Payments	Refunds	Administrative Expenses	Misc. Expense	Total
1994	\$ 210.70	\$ 8.50	\$ 2.82	\$ 0	\$ 222.02
1995	221.90	7.70	3.47	0	233.07
1996	233.10	8.90	4.36	0	246.36
1997	247.98	9.45	4.86	0	262.29
1998	270.76	7.50	5.76	0	284.02
1999	290.62	9.63	6.23	0	306.48

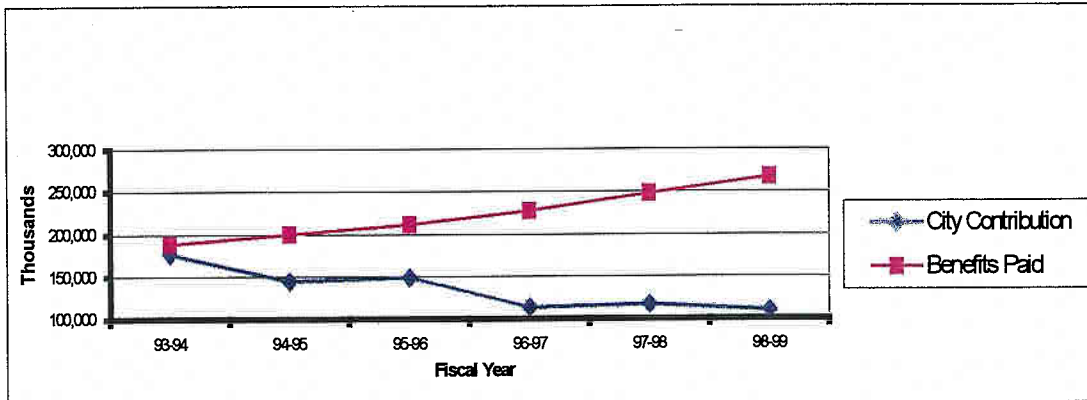


**SCHEDULE OF BENEFIT EXPENSES BY TYPE \*** (Dollars in Thousands)

Year Ended	Age & Service Benefits		Death in Service Benefits	Disability Benefits		Refunds	Total**
	Retirants	Survivors		Retirants	Survivors		
1994	\$ 151,407	\$ 15,188	\$ 5,444	\$ 6,310	\$ 1,027	\$ 8,543	\$ 187,919
1995	161,395	16,691	5,895	6,641	1,168	7,743	199,533
1996	169,979	18,063	6,296	6,913	1,289	8,857	211,397
1997	182,687	19,689	6,443	7,269	1,367	9,448	226,903
1998	201,228	21,695	7,076	8,922	1,465	7,490	247,876
1999	216,529	23,934	7,084	8,089	1,481	9,628	266,745

\* Allocated from year end retirement roll  
 \*\* These totals do not include Health Benefits or Family Death Benefits

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



Fiscal Year	93-94	94-95	95-96	96-97	97-98	98-99
City Contributions	\$ 176,632	\$ 144,562	\$ 149,036	\$ 113,262	\$ 117,209	\$ 109,362
Benefits Paid*	187,919	199,533	211,397	226,903	247,876	266,745

\* Benefits paid does not include Health Benefits or Family Death Benefits

**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 1999)**

Amount of Monthly Benefits	Number of Refrainants	Type of Retirement **								
		1	2	3	4	5	6	7	8	9
\$ 1-250	1,318	249	490	172	83	-	73	175	28	48
251-500	1,919	673	635	146	16	-	238	56	47	108
501-750	1,694	863	358	109	6	-	232	15	52	59
751-1,000	1,418	925	182	64	3	-	152	11	41	40
1,001-1,250	1,129	874	102	34	2	-	78	7	24	8
1,251-1,500	948	818	56	23	-	-	18	3	25	5
1,501-1,750	791	696	51	17	-	1	3	1	21	1
1,751-2,000	692	633	30	15	1	-	-	1	12	-
Over \$2,000	2,902	2,762	80	18	1	3	3	-	35	-
<b>Total</b>	<b>12,811 *</b>	<b>8,493</b>	<b>1,984</b>	<b>598</b>	<b>112</b>	<b>4</b>	<b>797</b>	<b>269</b>	<b>285</b>	<b>269</b>

\* If Limited Pension payment and Temporary Disability payment are included, the total would be 12,843.

** Type of Retirement	
1 - Service Member	6 - Disability Member
2 - Service Continuance	7 - Disability Continuance
3 - Vested Right Member	8 - Service Survivorship
4 - Vested Right Continuance	9 - Disability Survivorship
5 - Excess Benefit Member	

# SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates  
July 1, 1993 to June 30, 1999

Years Credited Service

5-10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs.
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<b>Period 7/1/93 to 6/30/94:</b>					
Average Monthly Benefit	\$ 655.41	\$ 925.35	\$ 1,340.22	\$ 1,773.18	\$ 2,238.59
Average Final Monthly Salary *	3,221.01	3,249.98	3,434.35	3,323.40	3,608.75
Number of Active Retirants	24	49	61	91	126
					147
					3,245.74
					4,136.56
<b>Period 7/1/94 to 6/30/95:</b>					
Average Monthly Benefit	590.11	833.67	1,321.47	1,684.80	2,264.95
Average Final Monthly Salary *	3,080.75	3,046.35	3,337.47	3,296.13	3,695.06
Number of Active Retirants	26	43	51	81	125
					129
					3,210.88
					4,254.15
<b>Period 7/1/95 to 6/30/96:</b>					
Average Monthly Benefit	649.62	877.88	1,331.52	1,863.97	2,263.63
Average Final Monthly Salary *	3,297.77	3,340.71	3,298.82	3,756.07	3,710.07
Number of Active Retirants	35	44	46	80	138
					187
					3,410.04
					4,454.81
<b>Period 7/1/96 to 6/30/97:</b>					
Average Monthly Benefit	654.96	965.78	1,377.49	1,946.40	2,458.50
Average Final Monthly Salary *	4,388.37	3,533.85	3,569.52	3,834.87	3,881.22
Number of Active Retirants	26	42	48	54	178
					322
					3,412.67
					4,609.51
<b>Period 7/1/97 to 6/30/98:</b>					
Average Monthly Benefit	545.07	1,060.97	1,441.99	1,993.51	2,646.05
Average Final Monthly Salary *	2,825.24	3,871.61	3,759.87	4,044.54	4,223.25
Number of Active Retirants	31	71	82	73	203
					359
					3,336.24
					4,742.90
<b>Period 7/1/98 to 6/30/99:</b>					
Average Monthly Benefit	545.46	1,001.72	1,466.94	1,972.35	2,690.25
Average Final Monthly Salary *	4,374.68	3,740.27	3,977.92	3,950.51	4,438.26
Number of Active Retirants	37	51	61	63	180
					317
					3,403.82
					4,795.31

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