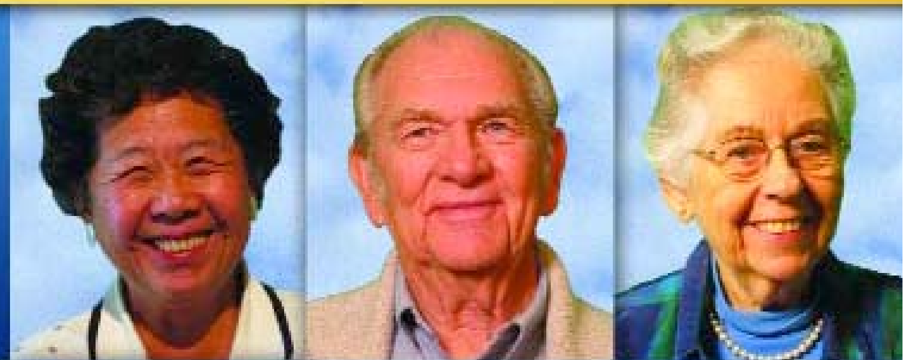
# LACERS

LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

A department of the City of Los Angeles



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

# Mission Statement

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

# Core Values

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

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

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# Comprehensive

# Annual Financial Report

## For The Fiscal Year Ended June 30, 2005

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

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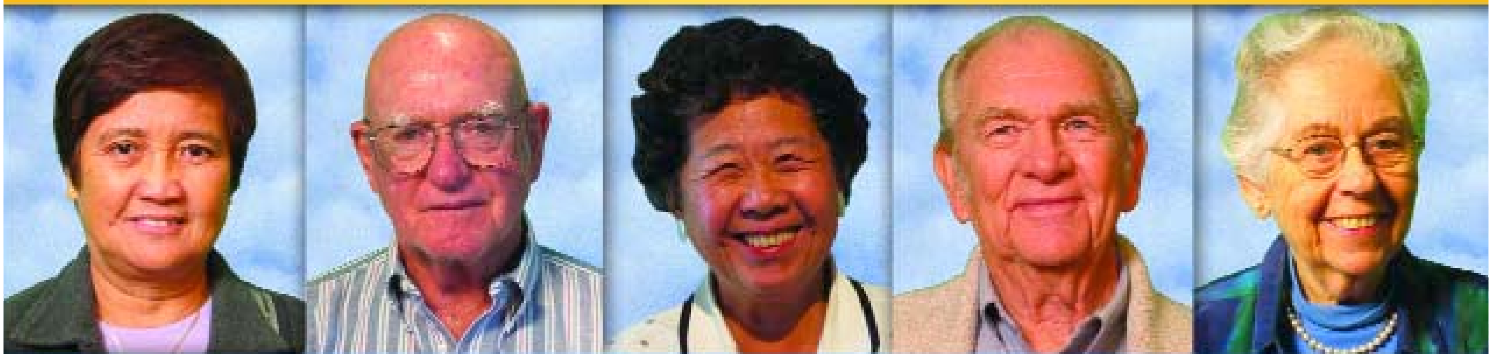
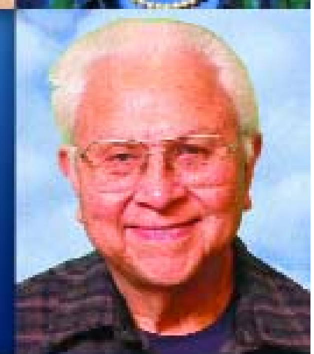


# INTRODUCTORY SECTION



LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# "Companion for Retirement"

Mrs. Carol Shigg-Montgomery
Retired LACERS member since 2001

## What our members think of us... is our bottom line.

# CITY OF LOS ANGELES

**CALIFORNIA**

ANTONIO R. VILLARAIGOSA
MAYOR

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

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

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

**ADMINISTRATION**

ROBERT AGUALLO, JR.
GENERAL MANAGER

SALLY CHOI
ASSISTANT GENERAL MANAGER

## LETTER OF TRANSMITTAL

December 16, 2005

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, 2005, the System's 69th year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operation and is the responsibility of LACERS management.

Established in 1937, LACERS is a public employee retirement system. All regular full-time and eligible part-time Los Angeles City employees accrue retirement benefits from LACERS except employees of the Department of Water and Power and sworn personnel of the Los Angeles Police and Fire Departments. LACERS provides service retirements and disability retirements for employees of the City of Los Angeles 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 and dental benefits, active and retired death benefits, and a term life insurance benefit for active members. Members of LACERS can participate in a Government Services Buyback Program, which allows members to purchase retirement service credit for service with other government employers, including the military. LACERS is a reciprocal agency with the California Public Employees' Retirement System (CalPERS) and 37 other California public pension funds. This allows members who transfer between California public retirement plans to receive an accumulated retirement benefit for continuous public service within the State of California. To provide members with additional retirement allowance, LACERS' Larger Annuity program allows voluntary contributions be made while employed or direct rollovers from deferred compensation plans at retirement.

## STRUCTURE OF THE REPORT

This report is presented in five sections:

- The Introductory Section describes the System's management and organizational structure, and a listing of the professional services used.

- The Financial Section contains the opinion of the independent auditor, Brown Armstrong Paulden McCown Starbuck & Keeter Accountancy Corporation (Brown Armstrong), the Management's Discussion and Analysis, and the basic financial statements of the System.

- The Investment Section contains the Chief Investment Officer's transmittal letter covering significant events in management of the Los Angeles City Employees' Retirement Fund along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.

- The Actuarial Section includes the certification letter produced by the consulting actuary, the Segal Company, along with actuarial valuations for the retirement benefits and heath benefits.

- The Statistical Section contains 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 conformance with accounting principles generally accepted in the United States and reporting guidelines set forth by the Government Accounting Standards Board (GASB) in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans,* Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* Statement No. 40, *Deposit and Investment Risk Disclosures,* and the Los Angeles City Charter.

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

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 establish and maintain internal control to ensure retirement system assets are protected. Management believes that internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.

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

## 2. Additions to Plan Net Assets

The total additions to plan net assets for the fiscal year ended June 30, 2005, consisting of contributions, net appreciation in fair value of investments and investment income net of investment management fees, was $1,088,206,000. This amount includes member and employer contributions of $323,405,000 and net investment income of $764,801,000. Net investment income decreased $487,716,000 as compared with the prior fiscal year. The decrease was attributed mainly to the extraordinary investment performance of the prior fiscal year, which was benefited from a strong rebound after poor market performance for the preceding three years. The rate of return for the current fiscal year's investment was at 10.0%, which exceeded the actuarial assumed rate of return. Details of the components of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 26 of the financial statements in the financial section.

## 3. Deductions to Plan Net Assets

Deductions for the fiscal year ended June 30, 2005, excluding investment management and security-lending fees were $490,887,000, which represented an increase of $30,148,000 over the prior year. This increase was mainly the result of higher average monthly pay and an increase in the number of retirees. The components of the total deductions include payments of retirement benefits of $469,212,000; refunds of contributions and interest to terminated members of $10,679,000; and administrative expenses of $10,996,000.

## 4. Changes in System Membership

LACERS membership increases for the fiscal year ended June 30, 2005 were as follows:

| | 2005 | 2004 | Increase/(Decrease) | Change |
|---|---|---|---|---|
| Active Members | 27,333 | 27,092 | 241 | 0.9 % |
| Retired Members | 14,322 | 14,137 | 185 | 1.3 % |

## 5. Major Initiatives

The Board approved the LACERS Strategic Plan for 2004-2006 on June 22, 2004. The Strategic Plan embodies LACERS "mission" and "core values" which were identified jointly by the Board and Management and outlined in the Mission Statement and the Core Values on the front inner page of this report. There are six goals and twenty specific objectives under the Strategic Plan, as updated. The six goals are: 1) to provide superior benefits administration for members, retirees, and their beneficiaries; 2) to provide quality and cost-effective retiree healthcare benefits; 3) to establish the optimal portfolio to meet our investment and actuarial objectives; 4) to adopt the best governance practices for the Board; 5) to establish the optimal work environment, organizational design, and staffing resources; and 6) to establish a strategic comprehensive communication plan. Each of the twenty objectives has an action plan that contains tasks and timelines. Staff has made significant progress in achieving the objectives contained in the Strategic Plan, a copy of which is available on LACERS' website at www.lacers.org.

In addition to implementing the Strategic Plan, LACERS staff concurrently undertook Organization Development exercises, with the assistance of a consulting firm, to bring about a fundamental culture change, especially in the areas of Customer Service, Communication, Collaboration, and Consistency. We believe that both the process and results of the Organization Development exercises will facilitate the implementation of the Strategic Plan and help us fulfill our commitment to LACERS' mission and core values.

## 6. Funded Ratio

A funded ratio is a snapshot of the relative status of LACERS' assets and liabilities. During the fiscal year, the total funded ratio, which includes both retirement plan and postemployment healthcare plan, of the System, based on actuarial value of assets, fell from 79.4% to 73.2%.

The most significant cause of this decrease in the funded ratio was years in which LACERS did not meet its assumed investment rate of return of 8%. The actuarial value of assets is determined by an actuarial smoothing method that spreads the investment gains and losses over a five-year period. As a result, the unrecognized investment losses from previous years continued to depress the funded ratio even though the investment performance was greatly improved over the last two years.

The funded ratio also decreased due to the Board's decision to include all active members in the health valuation. Previously, only members who met the 10-year service requirement were included. The funded ratio also decreased based on changes in actuarial assumptions such as mortality, retirement and termination as a result of an actuarial experience study, which the System undergoes every 3 years and losses based on the Systems' actual experience.

## 7. Financial and Economic Summary

The U.S. economy grew at a slower pace during the fiscal year. The real Gross Domestic Product (GDP) increased 3.6% during the fiscal year, as compared with the growth rate of 4.6% a year ago. Unemployment rate decreased steadily from 5.6% in June 2004 to 5.0% in June 2005. The interest rates were climbing, led by the Federal Reserve's decisions to raise the Federal Funds rate to 3.25% at the end of the fiscal year by consecutive increases of 25 basis points from 1.25% at the end of June 2004. Throughout the prior fiscal year and until the end of June 2004, the Federal Funds rate remained at 1%, the lowest level since 1958. The financial markets showed moderate growth over the fiscal year. Both the S&P 500 index and the Nasdaq Composite index gained 4.4%.

## 8. Investment Summary

The System attempts to maximize investment returns while taking prudent risks. The investment returns help provide plan participants with promised post-retirement benefits.

The System has a long-term investment horizon, and utilizes an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance. The Board's Investment Policy has been designed to produce a total portfolio, long-term real (above inflation) return of 5.75%. The System's assets are managed on a total return basis. The System's investment strategies are considered primarily in light of their impact on total plan assets subject to the provisions set forth in Section 1106 the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.

The portfolio earned a total return of 10.0% for the fiscal year ended June 30, 2005. The portfolio has annualized returns of 10.9% over the past three years, and 4.4% over the past five years. On a fair value basis, the total plan net assets increased by 7.7% from $7,734,438,000 to $8,331,757,000 during the current fiscal year.

## 9. Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LACERS for its comprehensive annual financial report for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of

Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## 10. Acknowledgements

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

In addition, we would like to acknowledge the Investments, Systems, Communications, and Accounting Sections for their efficient and dedicated efforts in preparing this report. We would also like to thank our external auditor, Brown Armstrong, for their professional assistance in the preparation of this report.

Respectfully submitted,

| | |
|---|---|
| Robert Aguallo, Jr. | Li Hsi |
| General Manager | Chief Accounting Employee |

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Los Angeles City Employees' Retirement System, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004

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

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

President

Executive Director

ALSO AWARDED IN 1999, 2000, 2001, 2002, AND 2003

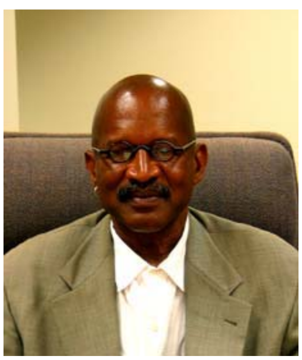
## LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

# BOARD OF ADMINISTRATION

### FISCAL YEAR 2004 - 2005

President, Appointed by the Mayor
Thomas J. Mizo

Vice President, Elected by Active Members
Shelley I. Smith



Appointed by the Mayor
Marvin Adams, Jr.

Appointed by the Mayor
Eric L. Holoman

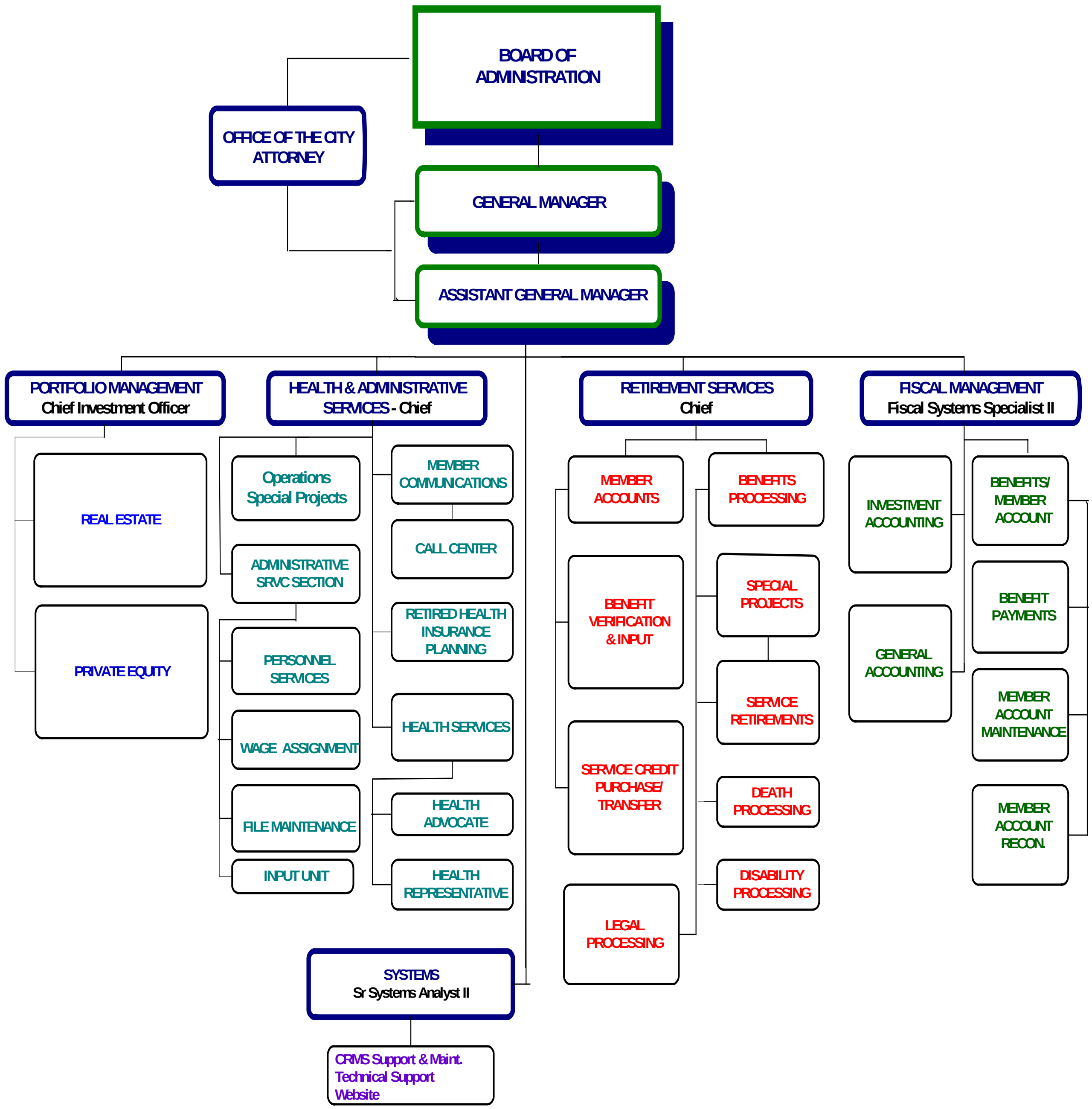
Elected by Active Members
Rick Rogers

Appointed by the Mayor
Vicky L. Schiff

Elected by Retired Members
Ken Spiker

Manager – Secretary
Robert Aguallo, Jr.

# LACERS ORGANIZATIONAL CHART



# PROFESSIONAL CONSULTANTS

## ACTUARY

**The Segal Company**
San Francisco, CA

## INDEPENDENT AUDITORS

**Brown Armstrong**
Bakersfield, CA

## BENEFICIARY VERIFICATION

**Pension Benefit Information**
Tiburon, CA

## HEALTH & WELFARE CONSULTANTS

**Deloitte & Touche**
Costa Mesa, CA

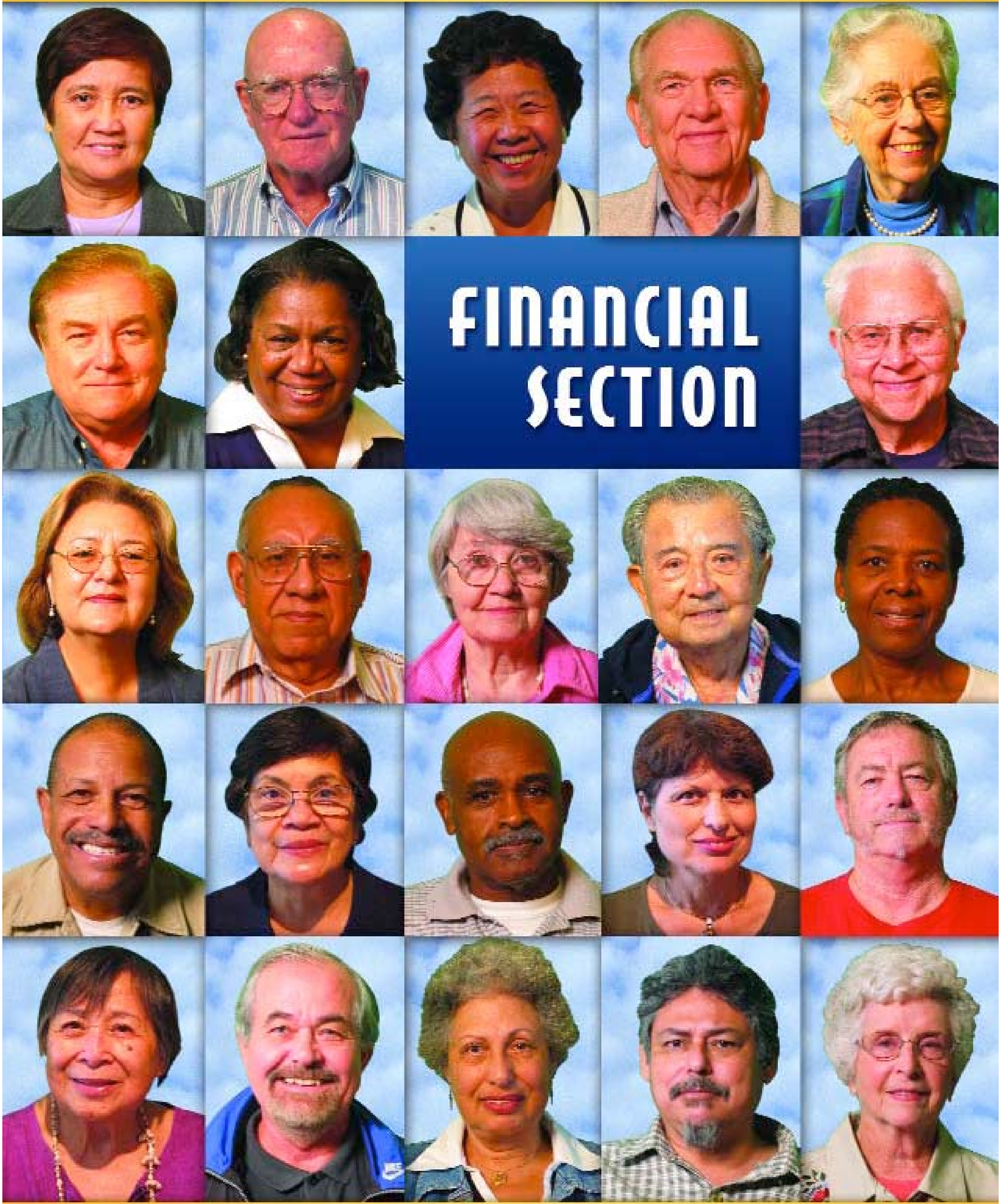
## INVESTMENT CONSULTANTS

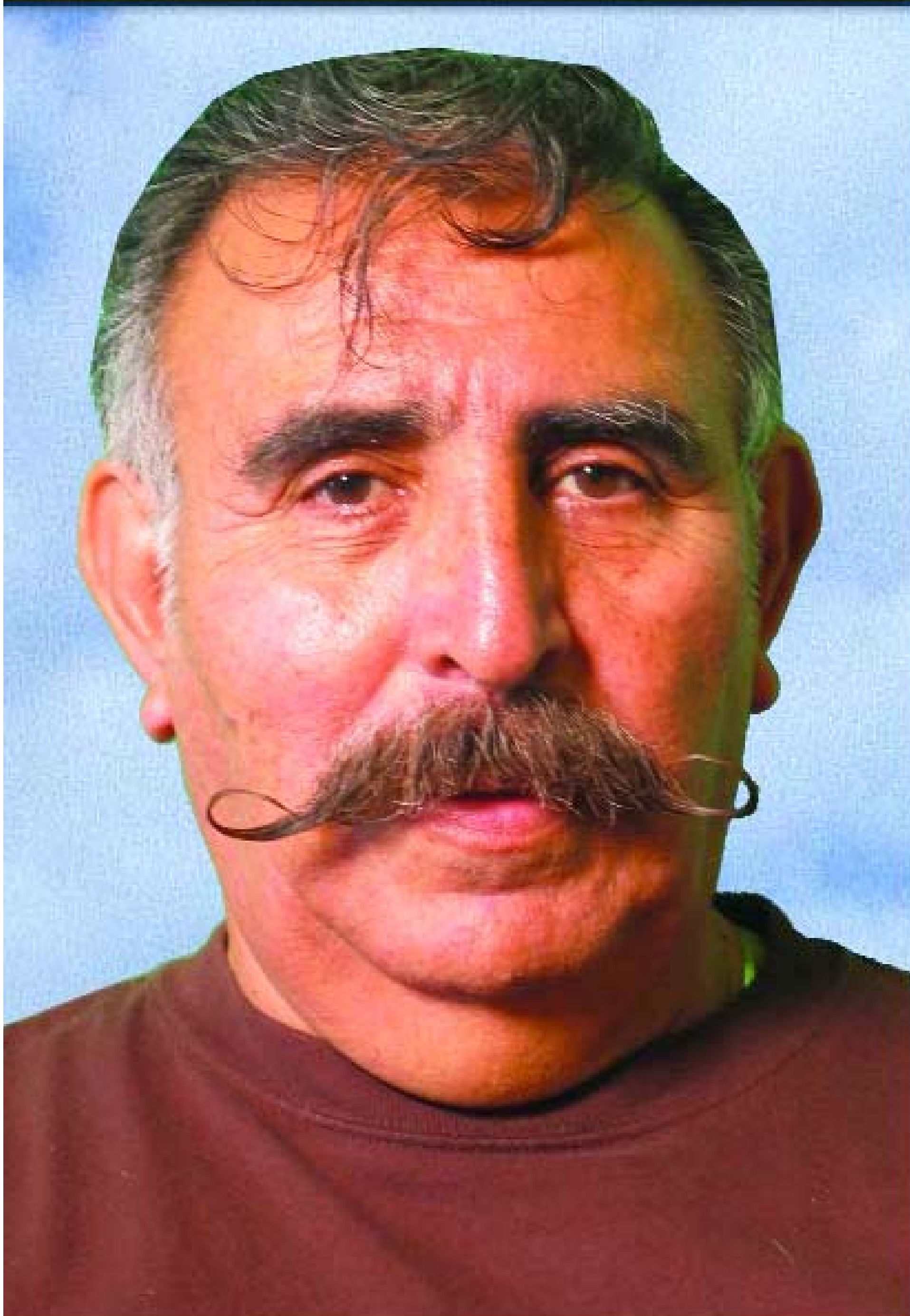
**Hamilton Lane**
Bala Cynwyd, PA

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

**The Townsend Group**
Cleveland, OH

# FINANCIAL SECTION





# LACERS

LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

## "One Step Ahead"

Mr. Bernard Martinez
Retired LACERS member since 2004

## What our members think of us... is our bottom line.

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK & KEETER
Certified Public Accountants

**Main Office**
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: bainfo@bacpas.com

**Shafter Office**
560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218



# INDEPENDENT AUDITOR'S REPORT

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, 2005, and the related Retirement Plan and Postemployment Healthcare Plan Statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The June 30, 2004 Summarized Comparative Information has been derived from the System's 2004 financial statements. These financial statements were audited by other auditors, whose report dated October 21, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Net Assets of the Retirement Plan and Postemployment Healthcare Plan of the Los Angeles City Employees' Retirement System as of June 30, 2005, and the Changes in its Net Assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the financial statements, in 2005, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3.

The management's discussion and analysis (MD&A) and Required Supplementary Information (RSI) as listed in the Table of Contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the MD&A and express no opinion on it. The RSI has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The Supplemental Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 7, 2005

As management of the Los Angeles City Employees' Retirement System (LACERS), we are pleased to provide this overview and analysis of the financial activities of LACERS for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal in the Introduction Section of LACERS' Comprehensive Annual Financial Report.

## FINANCIAL HIGHLIGHTS

- The fair value of plan net assets of LACERS as of June 30, 2005 are $8,331,757,000.
- Compared with the plan net assets of LACERS as of June 30, 2004, the value of the net assets increased $597,319,000 or 7.7% during the reporting period.
- The plan assets under the retirement plan and postemployment healthcare plan are pooled for investment purposes. Investment gain for the year was $764,801,000, as compared with an investment gain of $1,252,517,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) to both the retirement plan and the postemployment healthcare plan were $229,137,000, which includes the defrayal of a portion of member contributions.
- The employer contributions to the retirement plan represented 86.3% of the Annual Required Contribution as defined by GASB Statements No. 25 and No. 27, and resulted in a contribution shortfall of $25,110,000. The GASB shortfall will be reflected in future higher contribution rates.
- Deductions from net assets of LACERS include benefit payments, refunds of member contributions and administrative expenses. The total deductions from net assets were $490,887,000, a 6.5% increase from the prior fiscal year.
- As of June 30, 2005, the date of our last actuarial valuation, the total funded ratio for LACERS was 73.2%. The funded ratio for the retirement plan was 77.2% and the funded ratio for the postemployment healthcare plan was 52.0%. The most significant cause of this decrease in the funded ratio was years in which LACERS did not meet its assumed investment rate of return of 8%. The funded ratio also decreased due to inclusion of members with less than 10 years of service in the actuarial valuation, the actuarial assumption changes as a result of an experience study, and losses based on the System's actual experience.
- The Board's decision to adopt actuarial assumptions that include the employees with less than 10 years of service in the latest actuarial valuation of the healthcare benefits will enable both LACERS and the City to be in full compliance with the new GASB Statements 43 and GASB Statements 45 when the Statements become effective in fiscal year 2006-07 for LACERS and fiscal year 2007-08 for the City. Since 1987, the City has been prefunding the cost of postemployment healthcare benefits for all active employees with 10 or more years of service.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

*Financial Statements.* There are two financial statements presented for LACERS. The Statement of Plan Net Assets indicates the net assets, being the difference between the assets and liabilities, available to pay future benefits and gives a snapshot of the account balances at year-end. Over time, increases or decreases in net assets may serve as a useful indicator of whether the net assets of LACERS is improving or deteriorating. The Statement of Changes in Plan Net Assets provides a view of current year additions to and deductions from the plan net assets during the most recent fiscal year. The two statements can be found on pages 25 and 26 of this report.

*Notes to Financial Statements.* The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 27 – 39 of this report.

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

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

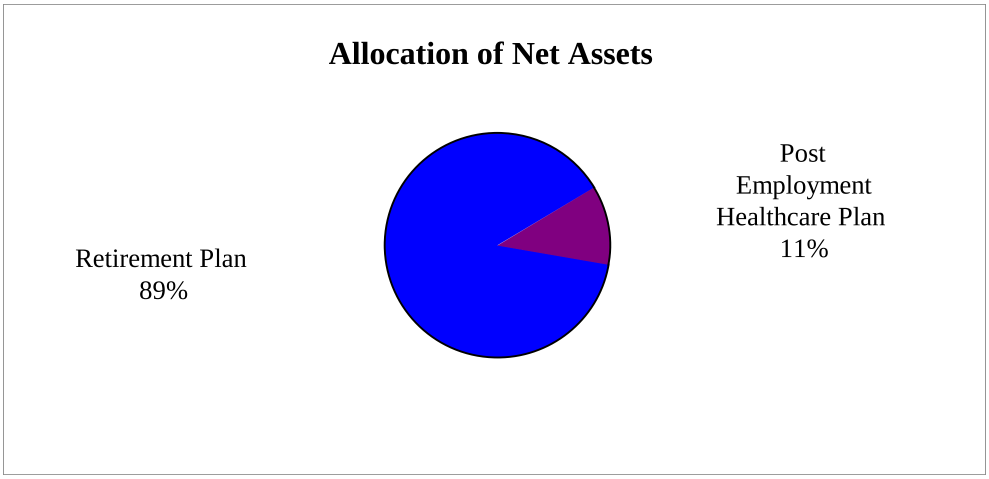
## FINANCIAL ANALYSIS

### Allocation of Net Assets

The following information provides a brief description of the asset allocation between the retirement plan and the postemployment healthcare plan as of June 30, 2005 (in thousands):

| | |
|---|---|
| Retirement Plan | $ 7,413,469 |
| Postemployment Healthcare Plan | 918,288 |
| Net Assets | $ 8,331,757 |

## Allocation of Net Assets (continued)



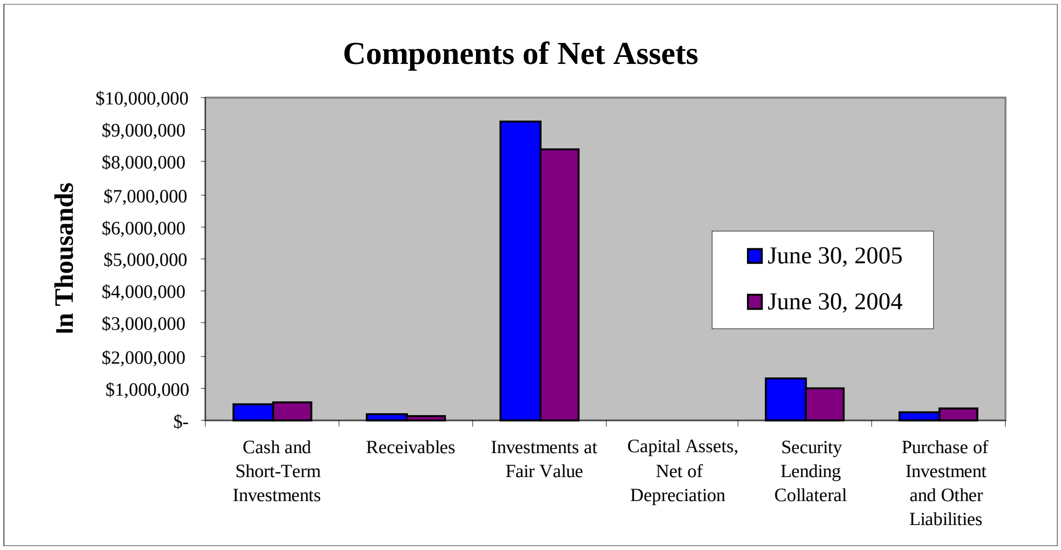

Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were $8,331,757,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the retirement plan and postemployment healthcare plan, as required by the existing reporting standards. Net assets for the retirement plan and postemployment healthcare plan are $7,413,469,000 and $918,288,000, respectively.

## Net Assets

The following table and graph represent the detailed information regarding the components of the net assets of LACERS as of June 30, 2005 and 2004 (in thousands):

| | June 30, 2005 | June 30, 2004 | Change | |
|---|---|---|---|---|
| Cash and Short-Term Investments | $ 486,208 | $ 539,354 | $ (53,146) | (9.9) % |
| Receivables | 183,248 | 147,273 | 35,975 | 24.4 |
| Investments, at Fair Value | 9,256,596 | 8,406,872 | 849,724 | 10.1 |
| Capital Assets, Net of Depreciation | 80 | 113 | (33) | (29.2) |
| Total Assets | 9,926,132 | 9,093,612 | 832,520 | 9.2 |
| Security Lending Collateral Liability | 1,319,517 | 996,067 | 323,450 | 32.5 |
| Purchase of Investment and Other Liabilities | 274,858 | 363,107 | (88,249) | (24.3) |
| Total Liabilities | 1,594,375 | 1,359,174 | 235,201 | 17.3 |
| Net Assets | $ 8,331,757 | $ 7,734,438 | $ 597,319 | 7.7 % |

## Net Assets (continued)




The largest portion of LACERS' net assets is its investment portfolio which includes cash and short-term investments, receivables, plus fixed income, equities, and other asset classes. Net assets increased by $597,319,000, or 7.7%, during the report year.

## Change in Net Assets

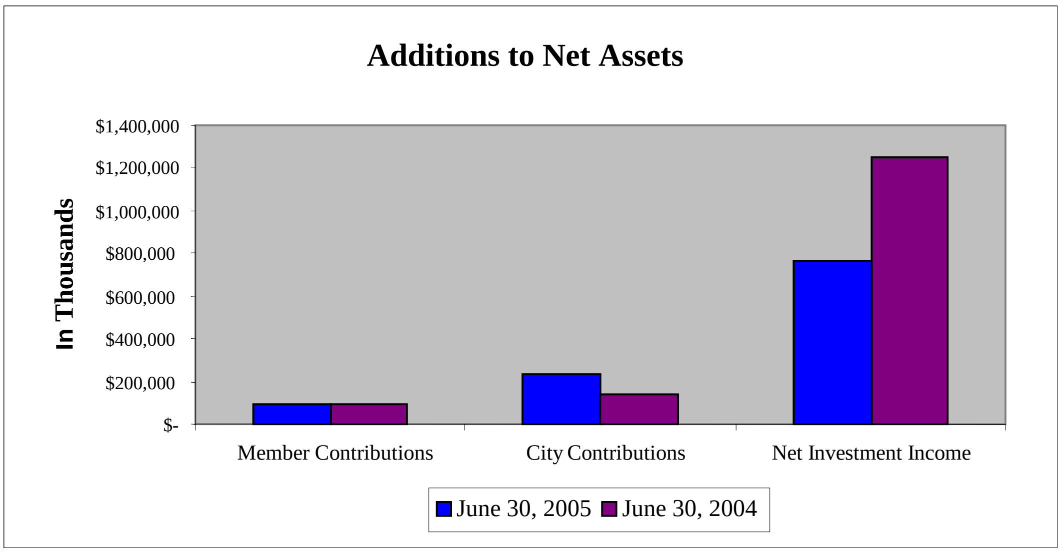
The increase in net assets was a result of a combination of factors that either add to or deduct from the plan assets. The following table summarizes the change in net assets during the report year, as compared with the prior year (in thousands):

| | June 30, 2005 | June 30, 2004 |
|---|---|---|
| Additions | $ 1,088,206 | $ 1,486,136 |
| Deductions | (490,887) | (460,739) |
| Net Increase | 597,319 | 1,025,397 |
| Net Assets, Beginning of Year | 7,734,438 | 6,709,041 |
| Net Assets, End of Year | $ 8,331,757 | $ 7,734,438 |

**Change in Net Assets – Additions to Net Assets**

The following table and graph represent the components that make up the additions to net assets for LACERS for the years ended June 30, 2005 and 2004 (in thousands):

| | June 30, 2005 | June 30, 2004 | Change |
|---|---|---|---|
| Member Contributions | $ 94,268 | $ 93,418 | 0.9 % |
| City Contributions | 229,137 | 140,201 | 63.4 |
| Net Investment Income | 764,801 | 1,252,517 | (38.9) |
| Additions to Net Assets | $ 1,088,206 | $ 1,486,136 | (26.8) % |




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

City Contributions to both the retirement plan and the postemployment healthcare plan were $229,137,000 during the year, or $88,936,000 more than the prior fiscal year due to a larger contribution percentage recommended by the actuary. However, the actual contributions to the retirement plan fell short of the Annual Required Contribution (ARC) as defined by GASB Statements No. 25 and No. 27 by $25,110,000. The shortfall was due to 1) the Board approved a reduction to the City contribution rate as the second (and the last)-year phase-in of actuarial assumption changes for the June 30, 2003 actuarial valuation which determined the contribution rate for fiscal year 2004-05, and 2) the original ARC amount and the corresponding adjusted contribution rate which was used by the City for its fiscal year 2004-05 contributions was lower than the final adjusted ARC amount calculated using the required 40-year minimum amortization period of the Unfunded Actuarial Accrued Liability (UAAL). The shortfall creates a Net Pension Obligation of the City. It is included in the gains and losses of the LACERS' UAAL as of June 30, 2005 and will cause an incrementally higher contribution rate beginning in fiscal year 2006-07 and continuing during the 15-year amortization period of such gains and losses of the UAAL.

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

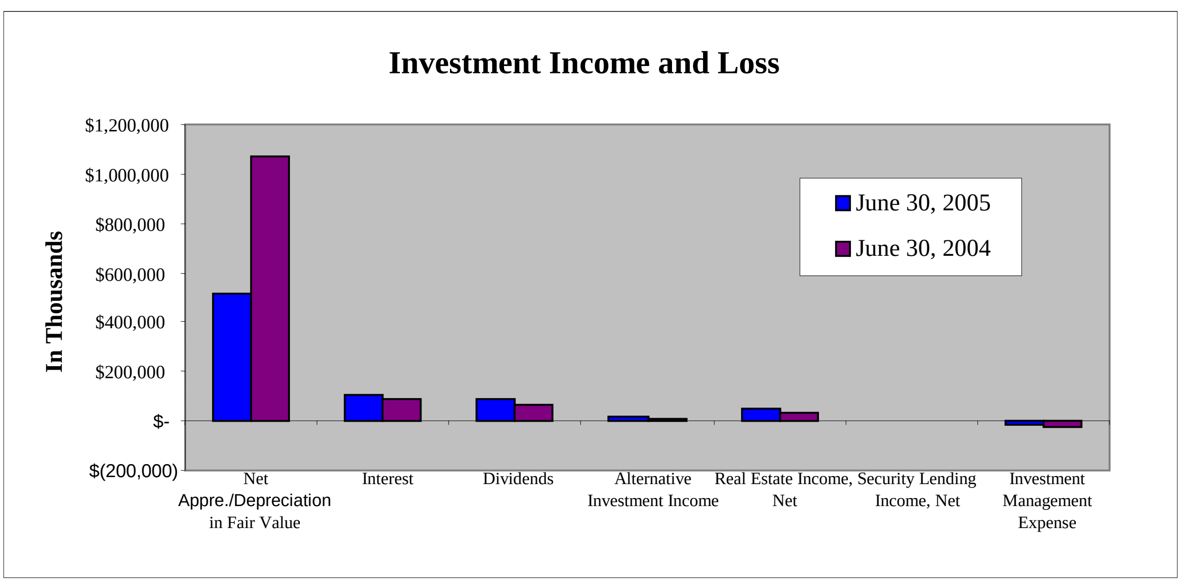
Factors that affect the amount of Member Contributions are the number and composition of members and their salaries. During the year, members contributed $94,268,000. This amount is only a slight increase of $850,000 (0.9%) from the prior year due to the delayed salary negotiation for the three-year period beginning July 1, 2004 for most members.

The net investment income decreased from the $1,252,517,000 reported in the prior fiscal year to the $764,801,000 in the current fiscal year. The current year net investment income reflects a satisfactory investment performance in itself, with a market rate of return of 10.0%. The higher level of investment income for the prior fiscal year was the result of a strong rebound from poor market performance for the preceding three years.

## Investment Income and Loss

The following table and graph present the detail of investment income and loss, net of investment management expenses for the years ended June 30, 2005 and 2004 (in thousands):

| | June 30, 2005 | June 30, 2004 | Change |
|---|---|---|---|
| Net Appreciation in Fair Value of Investments | $ 518,742 | $ 1,072,478 | (51.6) % |
| Interest | 102,306 | 92,172 | 11.0 |
| Dividends | 91,575 | 67,629 | 35.4 |
| Alternative Investment Income | 16,126 | 7,615 | 111.8 |
| Real Estate Income, Net | 49,824 | 30,133 | 65.4 |
| Security Lending Income, Net | 3,916 | 2,799 | 39.9 |
| Investment Management Expense | (17,688) | (20,309) | 12.9 |
| Total Investment Gain, Net | $ 764,801 | $ 1,252,517 | (38.9) % |



**Investment Income and Loss (continued)**

The largest portion of the net investment gain was the net appreciation in fair value of LACERS' investments in the amount of $518,742,000, which includes realized and unrealized capital gain/loss.

Adding to the investment income was the increase in stock dividends earned during the fiscal year that was 35.4% higher than the previous year. The interest income was also higher, compared with the previous year by 11.0%. This was due to the increased bond yields during the year. The real estate and alternative investments portfolio, the two other components of LACERS' asset allocation, contributed 6.5% and 2.1%, respectively, of the total investment income. Both types of income showed increases in dollar amounts from the previous year. The net security lending income also posted an increase from a year ago due to the appreciated value of securities available for lending and the increased yields. Investment management expense for the current year was 12.9% less than that of the previous year.

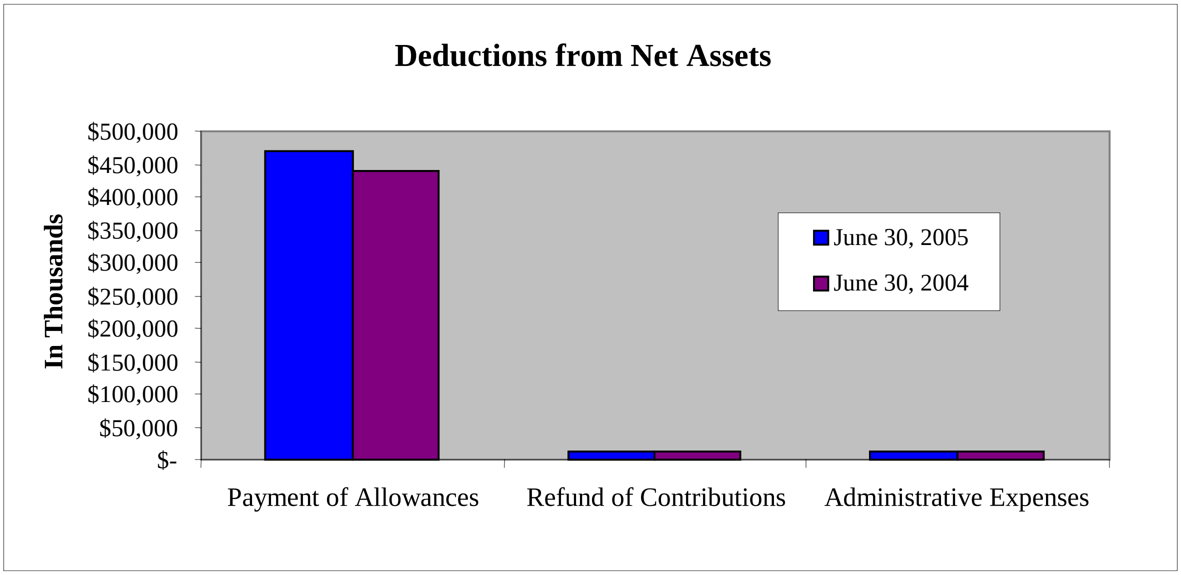
**Change in Net Assets – Deductions from Net Assets**

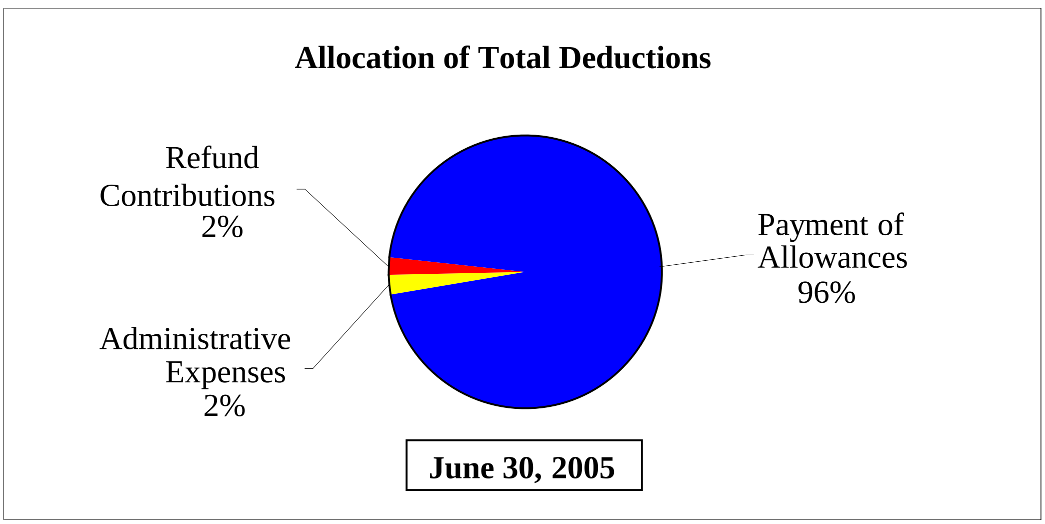
The following table and graphs provide information related to the deductions from net assets for the years ended June 30, 2005 and 2004 (in thousands):

| | June 30, 2005 | June 30, 2004 | Change |
|---|---|---|---|
| Benefit Payments | $ 469,212 | $ 438,530 | 7.0 % |
| Refund of Contributions | 10,679 | 11,338 | (5.8) |
| Administrative Expenses | 10,996 | 10,871 | 1.1 |
| Deductions from Net Assets | $ 490,887 | $ 460,739 | 6.5 % |

LACERS' deductions from net assets can be summarized as Benefit Payments, Refunds of Contributions, and Administrative Expenses. They represent the types of benefit delivery operations undertaken by LACERS and the cost associated with it. Total deductions increased by 6.5%. The increase was due to a greater amount of benefit payments, which increased by 7.0%. The reasons for this increase are primarily the increase in number of retirees by 1.3%, the average monthly benefit amount that was 4.8% higher than the prior year, which includes the annual cost of living adjustment of approximately 3.0%, and the higher expenditure on health and dental subsidies. The refund of contributions decreased by $659,000, or 5.8%, and the administrative expenses increased by $125,000, or 1.1%, when compared to the prior reporting period. Each of the two items accounted for approximately 2.2% of total deductions from net assets.

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




## REQUEST FOR INFORMATION

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

LACERS
Fiscal Management Section
360 East Second Street, Eighth Floor
Los Angeles, California 90012

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**
**RETIREMENT PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN**
**STATEMENT OF PLAN NET ASSETS**
**AS OF JUNE 30, 2005, WITH COMPARATIVE TOTALS**
***(IN THOUSANDS)***

| | Retirement Plan | Postemployment Healthcare Plan | 2005 Total | 2004 Total |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Cash and Short-Term Investments | $ 432,620 | $ 53,588 | $ 486,208 | $ 539,354 |
| Receivables | | | | |
| Accrued Investment Income | 35,268 | 4,368 | 39,636 | 28,095 |
| Proceeds from Sales of Investments | 121,082 | 14,999 | 136,081 | |
| Other | 6,701 | 830 | 7,531 | 5,983 |
| Total Receivables | 163,051 | 20,197 | 183,248 | 147,273 |
| Investments, at Fair Value | | | | |
| U.S. Government Obligations | 462,649 | 57,307 | 519,956 | 410,424 |
| Municipal Bonds | 4,242 | 526 | 4,768 | 1,967 |
| Domestic Corporate Bonds | 692,692 | 85,802 | 778,494 | 727,529 |
| International Bonds | 177,424 | 21,977 | 199,401 | 156,073 |
| Domestic Stocks | 3,208,635 | 397,445 | 3,606,080 | 3,572,190 |
| International Stocks | 1,502,535 | 186,115 | 1,688,650 | 1,485,917 |
| Mortgages | 286,439 | 35,480 | 321,919 | 379,065 |
| Government Agencies | 141,415 | 17,517 | 158,932 | 79,634 |
| Real Estate | 257,444 | 31,889 | 289,333 | 306,308 |
| Venture Capital and Alternative Investments | 328,816 | 40,730 | 369,546 | 291,698 |
| Security Lending Collateral | 1,174,086 | 145,431 | 1,319,517 | 996,067 |
| Total Investments | 8,236,377 | 1,020,219 | 9,256,596 | 8,406,872 |
| Capital Assets | | | | |
| Furniture, Fixtures and Equipment (Net of Depreciation) | 71 | 9 | 80 | 113 |
| Total Assets | 8,832,119 | 1,094,013 | 9,926,132 | 9,093,612 |
| ***Liabilities*** | | | | |
| Accounts Payable and Accrued Expenses | (26,555) | (3,290) | (29,845) | (19,284) |
| Purchases of Investments | (218,009) | (27,004) | (245,013) | (343,823) |
| Security Lending Collateral | (1,174,086) | (145,431) | (1,319,517) | (996,067) |
| Total Liabilities | (1,418,650) | (175,725) | (1,594,375) | (1,359,174) |
| ***Net Assets Held In Trust For Pension Benefits And Post-Employment Healthcare Benefits (A Schedule of Funding Progress is Presented in the Required Supplementary Information Section)*** | $ 7,413,469 | $ 918,288 | $ 8,331,757 | $ 7,734,438 |

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

**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**
**FOR THE YEAR ENDED JUNE 30, 2005, WITH COMPARATIVE TOTALS**
***(IN THOUSANDS)***

| | *Retirement Plan* | *Postemployment Healthcare Plan* | *2005 Total* | *2004 Total* |
|---|---|---|---|---|
| ***Additions*** | | | | |
| Contributions | | | | |
| Member Contributions | $ 94,268 | $ - | $ 94,268 | $ 93,418 |
| City Contributions | 175,947 | 53,190 | 229,137 | 140,201 |
| Total Contributions | 270,215 | 53,190 | 323,405 | 233,619 |
| Investment Income | | | | |
| Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales | 453,380 | 65,362 | 518,742 | 1,072,478 |
| Interest | 91,298 | 11,008 | 102,306 | 92,172 |
| Dividends | 81,721 | 9,854 | 91,575 | 67,629 |
| Alternative Investment Income | 14,391 | 1,735 | 16,126 | 7,615 |
| Real Estate Operating Income, Net of Expense | 44,542 | 5,282 | 49,824 | 30,133 |
| Security Lending Income | 4,532 | 547 | 5,079 | 3,756 |
| Less: Security Lending Expense | (1,016) | (147) | (1,163) | (957) |
| Sub-Total | 688,848 | 93,641 | 782,489 | 1,272,826 |
| Less: Investment Management Expense | (15,459) | (2,229) | (17,688) | (20,309) |
| Net Investment Income | 673,389 | 91,412 | 764,801 | 1,252,517 |
| Total Additions | 943,604 | 144,602 | 1,088,206 | 1,486,136 |
| ***Deductions*** | | | | |
| Payment of Benefits | (405,456) | (63,756) | (469,212) | (438,530) |
| Refunds of Contributions | (10,679) | - | (10,679) | (11,338) |
| Administrative Expenses | (9,303) | (1,693) | (10,996) | (10,871) |
| Total Deductions | (425,438) | (65,449) | (490,887) | (460,739) |
| ***Net Increase*** | 518,166 | 79,153 | 597,319 | 1,025,397 |
| ***Net Assets Held in Trust for Pension Benefits and Post-Employment Healthcare Benefits*** | | | | |
| ***Beginning of Year*** | 6,895,303 | 839,135 | 7,734,438 | 6,709,041 |
| ***End of Year*** | $ 7,413,469 | $ 918,288 | $ 8,331,757 | $ 7,734,438 |

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

## NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES

### General

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

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

The primary eligibility requirement for the postemployment healthcare subsidy is that the person is a retired employee, and/or an eligible spouse, who is receiving a monthly allowance from the Los Angeles City Employees' Retirement System. The required contribution rate for the postemployment healthcare benefits for the fiscal year ended June 30, 2005, was 4.02% of covered payroll.

The System's funding policy under Article XI Sections 1158 and 1160 provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2005, the annual required contribution to the retirement plan by the City was determined at 11.95%, and subsequently revised by the actuary to be 12.40% of the covered payroll. The actual contribution made by the City for fiscal year 2004-05 was less than the recommended rate (see Note 2). Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (see Note 4). Members entering subsequent 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. Generally, after five years of employment, members are eligible for future retirement benefits, which increase with length of service.

**NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, 2005:

| | |
|---|---|
| Active: | |
| Vested | 18,399 |
| Nonvested | 8,934 |
| | 27,333 |
| Inactive: | |
| Nonvested | 1,419 |
| Terminated Entitled to Benefits, Not Yet Receiving Benefits | 1,007 |
| Retired | 14,322 |
| Total | 44,081 |

## Basis of Accounting

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

## Basis of Presentation

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

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

## Fair Value of Investments

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

**NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

## Fair Value of Investments (continued)

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.

## Concentrations of Market and Credit Risk

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

## Capital Assets

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

## Administrative Expenses

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

**NOTE 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:

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

Employer Contributions – Consists of the following components:

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

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

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

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

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

Reserve balances as of June 30, 2005, are as follows (in thousands):

| | |
|---|---|
| Member Contributions | $ 1,144,148 |
| Basic Pensions | 5,792,996 |
| Retired Member Annuity | 456,562 |
| Larger Annuity | 4,510 |
| Family Death Benefit | 15,253 |
| Postemployment Health Benefit | 918,288 |
| Total Reserves | $ 8,331,757 |

**NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

## Use of Estimates in Preparation of the Financial Statements

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

## Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2005, the System was required to adopt the provisions of Governmental Accounting Standards (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends existing accounting guidance under GASB No. 3 *Deposits with Financial Institutions, Investments, including repurchase agreements and, reverse repurchase agreements*. GASB No. 40 enhances the deposit and investment risk disclosures by updating the custodial credit risk disclosure requirements of GASB No. 3 and addressing other common risks, including concentrations of credit risk, interest rate risk, and foreign currency risk. The required information is disclosed in Note 5- Cash and Short-Term Investments and Investments. Derivative investment information is further disclosed in Note 7- Futures and Forwards Contracts.

## Recently Issued Accounting Standard

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

LACERS pre-funds the healthcare plan based on an annual actuarial valuation, as opposed to being on the pay-as-you-go basis. However, in prior years, active members with less than 10 years of service had been excluded from the actuarial valuation. The actuarial valuation as of June 30, 2005 applies fully the rules of GASB 43 by including all active employees.

**NOTE 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).

**NOTE 2 – <u>CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE</u> (continued)**

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

The Board of Administration on October 11, 2005 adopted a resolution to amortize the UAAL over a fixed period of 30 years for the June 30, 2005 actuarial valuation, except for the actuarial losses derived from GASB 27 compliance, which are still amortized according to the original schedule of 15 years. Future changes in the UAAL will be separately identified and amortized as described above.

The contributions to the System for the year ended June 30, 2005, of approximately $323,405,000 ($270,215,000 for the retirement plan and $53,190,000 for the postemployment healthcare plan), were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 2003.

Contributions to the System consisted of the following for the year ended June 30, 2005 (in thousands):

| | Retirement Plan | Postemployment Healthcare Plan |
|---|---|---|
| City | | |
| Required | $ 158,132 | $ 53,190 |
| Defrayal of Portion of Member | 17,596 | - |
| Family Death Benefits Insurance | 219 | - |
| Total City | 175,947 | 53,190 |
| Member | 94,268 | - |
| Total | $ 270,215 | $ 53,190 |

The amount of the contributions made for the Retirement Plan under the Required Contribution category ($158,132,000) were less than the Annual Required Contributions (ARC) of the employer, as defined by GASB Statement No. 25 and 27. The shortfall was due to: 1) the Board approved a reduction to the City contribution rate as the second (and the last)-year phase-in of actuarial assumption changes for the June 30, 2003 actuarial valuation which determined the contribution rate for fiscal year 2004-2005, and 2) the original ARC amount and the corresponding adjusted contribution rate which was used by the City for its fiscal year 2004-2005 contributions was lower than the final adjusted ARC amount calculated using the required 40-year minimum amortization period of the UAAL. The total contribution shortfall was computed by the Board's new consulting actuary to be $25,110,000 which creates a Net Pension Obligation (NPO) of the City. The shortfall is included in the gains and losses of the UAAL as of June 30, 2005 and will cause an incrementally higher contribution rate beginning in fiscal year 2006-07, and continuing during the 15-year amortization period of such gains and losses of the UAAL.

## NOTE 3 – HISTORICAL TREND INFORMATION

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

## NOTE 4 – DEFRAYAL OF PORTION OF MEMBER CONTRIBUTIONS

For members who entered the System prior to February 1983, the City subsidizes a portion of member contributions under a collective bargaining agreement. Payments made by the City in this manner are not refundable to members upon their withdrawal from the System prior to retirement. Currently, the City contributes 99% of the total amount of member contributions that it subsidizes. However, the actuary recommends that there be no discount effective July 1, 2005.

The subsidized amount paid by the City was approximately 10.0% of total City contributions paid for the Retirement Plan for the year ended June 30, 2005. The City contributed $17,596,000 in this manner for the year ended June 30, 2005.

## NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS

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

The System considers investments purchased with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2005, on the retirement plan and postemployment healthcare plan statement of plan net assets includes approximately $631,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $485,577,000 for a total of $486,208,000. 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, 2005, short-term investments included collective STIF of $94,002,000, international STIF of $139,060,000, financial paper of $249,728,000 and future initial margin of $2,787,000.

### Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2005 are as follows:

**NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS (continued)**

Credit Quality Ratings of Investments in Fixed Income Securities (Dollars in thousands)

| Quality Ratings | Fair Value | Percentage |
|---|---|---|
| AAA | $ 533,040 | 38.17 % |
| AA | 28,286 | 2.03 |
| A | 249,886 | 17.89 |
| BBB | 299,365 | 21.44 |
| BB | 172,204 | 12.33 |
| B | 65,851 | 4.72 |
| CCC | 9,675 | 0.69 |
| Not Rated | 28,865 | 2.07 |
| Rating not Determined | 9,321 | 0.67 |
| | 1,396,493 | 100.00 % |
| U.S. Government Guaranteed Securities | 586,977 | |
| Total Fixed Income Securities | $ 1,983,470 | |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, the System would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2005, the System has exposure to such risk in the amount of $14,241,000, or 0.85% of the fair value of total international investments. The amount represents uninvested cash denominated in foreign currencies, managed by 9 different investment managers, and held outside of the System's custodial bank. The System's policy requires the international investment managers to hold no more than 10% of their portfolios in the form of cash.

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

Concentration of Credit Risk

The investment portfolio as of June 30, 2005 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

**NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS (continued)**

Interest Rate Risk

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

| Investment Type | Amount | Effective Duration (in Years) |
|---|---|---|
| Asset Backed Securities | $ 81,477 | 1.17 |
| Commercial Mortgages | 37,307 | 3.99 |
| Corporate Bonds | 792,704 | 6.52 |
| Government Agencies | 163,803 | 3.08 |
| Government Bonds | 547,781 | 5.26 |
| Government Mortgage Backed Securities | 284,055 | 3.14 |
| Gov't-issued Commercial Mortgage-Backed | 557 | 6.73 |
| Index Linked Government Bonds | 44,120 | 4.20 |
| Municipal/Provincial Bonds | 6,246 | 8.82 |
| Non-Government Backed C.M.O.s | 25,420 | 2.32 |
| Total | $ 1,983,470 | |

Highly Sensitive Investments

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

Highly Sensitive Investments (continued)

The following table shows the fair value of the System's asset-backed investments by investment type (in thousands):

| Investment Type | Amount |
|---|---|
| Asset Backed Securities | $ 81,477 |
| Commercial Mortgages | 37,307 |
| Government Agencies | 162,560 |
| Government Mortgage Backed Securities | 284,055 |
| Gov't-issued Commercial Mortgage-Backed | 557 |
| Non-Government Backed C.M.O.s | 25,420 |
| Total | $ 591,376 |

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System's Asset Allocation policy sets a target of 18% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and alternative investment managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts and currency futures are permitted primarily to reduce the foreign currency risk (refer to Note 7-Futures and Forwards Contracts).

**NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS (continued)**

Foreign Currency Risk (continued)

The System's non-U.S. investment holdings as of June 30, 2005, which represents 18.1% of fair value of total investments, is as follows:

| Foreign Currency Type | Fair Value in USD (In Thousands) |
|---|---|
| Australian dollar | $ 87,117 |
| Brazilian real | 8,816 |
| British pound sterling | 297,101 |
| Canadian dollar | 4,279 |
| Chilean peso | 168 |
| Czech koruna | 3 |
| Danish krone | 9,199 |
| Egyptian pound | 279 |
| Euro | 486,400 |
| Hong Kong dollar | 65,465 |
| Hungarian forint | 3,175 |
| Indian rupee | 9,984 |
| Indonesian rupiah | 6,573 |
| Japanese yen | 337,570 |
| Malaysian ringgit | 17,934 |
| Mexican peso | 7,065 |
| New Israeli shekel | 1,520 |
| New Taiwan dollar | 43,476 |
| New Zealand dollar | 4,232 |
| Norwegian krone | 19,621 |
| Philippine peso | 6,174 |
| Polish zloty | 2,590 |
| Singapore dollar | 32,354 |
| South African rand | 21,191 |
| South Korean won | 64,603 |
| Swedish krona | 38,325 |
| Swiss franc | 91,786 |
| Thai baht | 9,963 |
| Turkish lira | 1,454 |
| Total International Investments | $ 1,678,417 |

**NOTE 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.

**NOTE 6 – SECURITIES LENDING AGREEMENT (continued)**

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.

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, 2005, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent.

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

The following represents the balances relating to the security lending transactions as of June 30, 2005 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2005:

| Securities Lent | Cash | Non-Cash | Total Collateral Value |
|---|---|---|---|
| U.S. Government and Agency Securities | $ 551,767,922 | $ 116,007,818 | $ 667,775,740 |
| Domestic Corporate Fixed Income Securities | 172,127,299 | 11,832,833 | 183,960,132 |
| International Fixed Income Securities | 9,654,258 | 6,723,031 | 16,377,289 |
| Domestic Stocks | 394,221,608 | 3,843,884 | 398,065,492 |
| International Stocks | 191,745,745 | 278,745,949 | 470,491,694 |
| | $ 1,319,516,832 | $ 417,153,515 | $ 1,736,670,347 |

**NOTE 6 – SECURITIES LENDING AGREEMENT (continued)**

Fair value of loaned securities as of June 30, 2005:

| Securities Lent | Cash | Non-Cash | Total Fair Value of Underlying Securities |
|---|---|---|---|
| U.S. Government and Agency Securities | $ 540,018,801 | $ 113,353,860 | $ 653,372,661 |
| Domestic Corporate Fixed Income Securities | 168,016,361 | 11,580,924 | 179,597,285 |
| International Fixed Income Securities | 9,288,829 | 6,465,594 | 15,754,423 |
| Domestic Stocks | 384,290,171 | 3,752,884 | 388,043,055 |
| International Stocks | 182,770,101 | 265,220,297 | 447,990,398 |
| | $ 1,284,384,263 | $ 400,373,559 | $ 1,684,757,822 |

As of June 30, 2005, the fair value of the lent securities was $1,684,758,000. The fair value of associated collateral was $1,736,670,000. Of this amount, $1,319,517,000 represents the fair value of cash collateral and $417,153,000 represents the fair value of the noncash collateral. Noncash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were $5,079,000 and $1,163,000, respectively, for the year ended June 30, 2005.

**NOTE 7 – FUTURES AND FORWARD CONTRACTS**

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

At June 30, 2005, the System had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of $26,972,000. In addition, at June 30, 2005, the System had outstanding forward purchase commitments with a notional amount of $60,436,000 and offsetting forward sales commitments with notional amounts of $60,436,000 which expire through September 2005. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was $2,787,000 as of June 30, 2005.

The realized gain on foreign currency translation was $37,800,000 for the year ended June 30, 2005.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

At June 30, 2005, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $525,587,000.

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# Required Supplementary Information

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**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**
**REQUIRED SUPPLEMENTARY INFORMATION**
**RETIREMENT PLAN**
**SCHEDULE OF FUNDING PROGRESS**
**(*DOLLARS IN THOUSANDS)***

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Underfunded or (Overfunded) AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| June 30, 2000 | $ 6,561,365 | $ 6,012,931 | $ (548,434) | 109.1% | $ 1,182,203 | (46.4)% |
| June 30, 2001 | 6,988,782 | 6,468,066 | (520,716) | 108.1 | 1,293,350 | (40.3) |
| June 30, 2002 | 7,060,188 | 7,252,118 | 191,930 | 97.4 | 1,334,335 | 14.4 |
| June 30, 2003 | 6,999,647 | 7,659,846 | 660,199 | 91.4 | 1,405,058 | 47.0 |
| June 30, 2004 | 7,042,108 | 8,533,864 | 1,491,756 | 82.5 | 1,575,285 | 94.7 |
| June 30, 2005 | 7,193,142 | 9,321,525 | 2,128,383 | 77.2 | 1,589,306 | 133.9 |

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**
**REQUIRED SUPPLEMENTARY INFORMATION**
**RETIREMENT PLAN**
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**
***(DOLLARS IN THOUSANDS)***

| | Employer Contributions Total | |
|---|---|---|
| Year Ended June 30: | Annual Required Contribution | Percentage Contributed |
| 2000 | $ 72,146 | 100% |
| 2001 | 59,153 | 100 |
| 2002 | 32,296 | 100 |
| 2003 | 51,604 | 100 |
| 2004 | 159,083 | 63* |
| 2005 | 183,241 | 86* |

* See Note 4 – Significant Factors Affecting Employer Contributions.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**
**REQUIRED SUPPLEMENTARY INFORMATION**
**RETIREMENT PLAN**
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**
**JUNE 30, 2005**

## NOTE 1 – DESCRIPTION

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

## NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS FOR RETIREMENT PLAN

| | |
|---|---|
| Valuation Date | June 30, 2005 |
| Actuarial-Cost Method | Projected Unit Credit Cost Method – assuming a closed group |
| Amortization Method | Level Percent of Payroll – assuming a 4% increase in total covered payroll. |
| Remaining Amortization Period | Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. The existing layers on June 30, 2005, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years. |
| Asset Valuation Method | Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period. |
| Actuarial Assumptions: | |
| Investment Rate of Return | 8% |
| Includes Inflation at | 3.75% |
| Real Across-the-Board Salary Increase | 0.25% |
| Projected Salary Increases | Ranges from 10.0% to 6.75% for members with less than 5 years of service. Ranges from 6.75% to 4.75% for members with 5 or more years of service. |
| Cost of Living Adjustments | 3% |
| Mortality Table for Retirees and Beneficiaries | 1994 Group Annuity Mortality Table |
| Mortality Table for Disabled Retirees | 1994 Group Annuity Mortality Table, set forward 8 years. |

## NOTE 3 – <u>SIGNIFICANT FACTORS AFFECTING TREND IN ACTUARIAL INFORMATION</u>

The actuarial value of assets (a) is determined by an asset smoothing method which spreads the investment gains or losses over a period of five years, and does not reflect the entire change of fair value of assets of any given year. The actuarial accrued liability (b) as of June 30, 2005, in the amount of $9,321,525,000, showed a relatively large increase when compared to prior years. The large increase was due to 1) the effect of assumption changes approved by the Board such as mortality, retirement and termination for the June 30, 2005 valuation, and 2) the net loss from investments when compared with the assumed rate of return on the actuarial value of assets. The large increase in the actuarial accrued liability continued to cause the funded ratio (a/b) to decrease to 77.2%. However, there is an unrecognized investment gain of $226,010,000 as of June 30, 2005 under the asset smooth method; if all actuarial assumptions are met, the unrecognized gain will cause a lower employer contribution rate and an improved funded ratio.

## NOTE 4 – <u>SIGNIFICANT FACTORS AFFECTING EMPLOYER CONTRIBUTIONS</u>

The amount of the contributions made for the Retirement Plan under the Required Contribution category ($158,132,000) were less than the Annual Required Contribution (ARC) of the employer, as defined by GASB Statements No. 25 and No. 27. The shortfall was due to: 1) the Board approved a reduction to the City contribution rate as the second (and the last)-year phase-in of actuarial assumption changes for the June 30, 2002, actuarial valuation which determined the contribution rate for fiscal year 2004-05, and 2) the original ARC amount and the corresponding adjusted contribution rate which was used by the City for its fiscal year 2004-05 contributions was lower than the final adjusted ARC amount calculated using the required 40-year minimum amortization period of the UAAL. The total contribution shortfall was computed by the Board’s consulting actuary to be $25,110,000 which creates a Net Pension Obligation (NPO) of the City. The shortfall is included in the gains and losses of the UAAL as of June 30, 2005, and will cause an incrementally higher contribution rate beginning in fiscal year 2006-07 and continuing during the 15-year amortization period of such gains and losses of the UAAL.

# Supplemental Schedules

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**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**
**SCHEDULE OF ADMINISTRATIVE EXPENSES**
**YEAR ENDED JUNE 30, 2005**
***(IN THOUSANDS)***

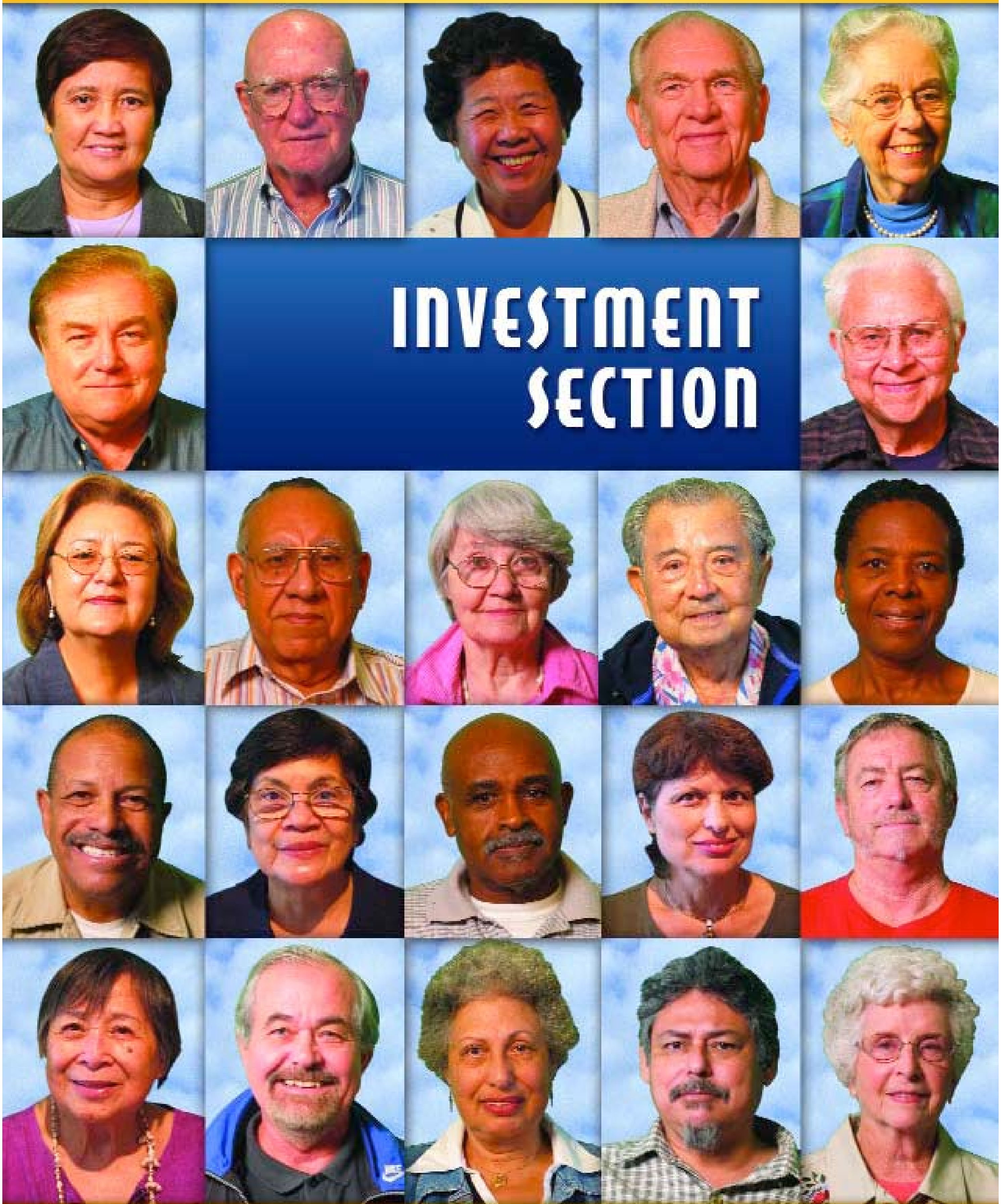
| | Retirement Plan | Postemployment Healthcare Plan | Total |
|---|---|---|---|
| Personnel Services: | | | |
| Staff Salaries | $ 5,843 | $ 842 | $ 6,685 |
| Staff Benefits | 850 | 123 | 973 |
| Total Personnel Services | 6,693 | 965 | 7,658 |
| Professional Services: | | | |
| Actuarial | 120 | 17 | 137 |
| Data Processing | 430 | 62 | 492 |
| Audit | 58 | 8 | 66 |
| Retirees' Health Consulting | - | 352 | 352 |
| Legal Counsel | 527 | 76 | 603 |
| Medical for Temporary Disability | 173 | 25 | 198 |
| Total Professional Services | 1,308 | 540 | 1,848 |
| Communication: | | | |
| Printing | 115 | 17 | 132 |
| Telephone | 4 | 1 | 5 |
| Postage | 184 | 26 | 210 |
| Travel | 80 | 11 | 91 |
| Total | 383 | 55 | 438 |
| Rentals: | | | |
| Office Space | 687 | 99 | 786 |
| Equipment Leasing | 14 | 2 | 16 |
| Total Rentals | 701 | 101 | 802 |
| Miscellaneous: | | | |
| Office | 189 | 28 | 217 |
| Depreciation | 29 | 4 | 33 |
| Total Miscellaneous | 218 | 32 | 250 |
| | $ 9,303 | $ 1,693 | $ 10,996 |

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**
**SCHEDULE OF INVESTMENT EXPENSES**
**YEAR ENDED JUNE 30, 2005**

Investment expenses of the System for the year ended June 30, 2005, were as follows (in thousands):

| | Assets Under Management | Fees |
|---|---|---|
| Retirement Plan | | |
| Investment Management Expense: | | |
| Fixed Income Managers | $ 1,764,861 | $ 1,991 |
| Equity Managers | 4,711,170 | 11,521 |
| Alternative Investment Consulting Fees | 328,816 | 398 |
| Other Investment Fees | - | 1,550 |
| Subtotal Investment Management Expenses, Excluding Real Estate and Securities Lending | 6,804,847 | 15,460 |
| Postemployment Healthcare Plan | | |
| Investment Management Expense: | | |
| Fixed Income Managers | 218,609 | 287 |
| Equity Managers | 583,560 | 1,661 |
| Alternative Investment Consulting Fees | 40,730 | 57 |
| Other Investment Fees | - | 223 |
| Subtotal | 842,899 | 2,228 |
| Total Investment Management Expenses, Excluding Real Estate and Securities Lending | $ 7,647,746 | $ 17,688 |
| Real Estate Managers' Fees: | | |
| Retirement Plan | $ 257,444 | $ 3,780 |
| Postemployment Healthcare Plan | 31,889 | 545 |
| Total Real Estate Managers' Fees | $ 289,333 | $ 4,325 |
| Security Lending Fees: | | |
| Retirement Plan | $ 1,174,086 | $ 1,016 |
| Postemployment Healthcare Plan | 145,431 | 147 |
| Total Security Lending Fees | $ 1,319,517 | $ 1,163 |

# INVESTMENT SECTION



LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# "A Better Retirement"

Mrs. Arlene Tom
Retired LACERS member since 2002

## What our members think of us... is our bottom line.

# CITY OF LOS ANGELES

CALIFORNIA

ANTONIO R. VILLARAIGOSA
MAYOR

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

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

ADMINISTRATION

ROBERT AGUALLO, JR.
GENERAL MANAGER

SALLY CHOI
ASSISTANT GENERAL MANAGER

## REPORT ON INVESTMENT ACTIVITY

December 15, 2005

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

Dear Commissioners,

Presented below is a summary report of the Fund's investment activities for the fiscal year 2004-2005.

### Market Overview

The broad global equity markets closed the fiscal year by posting strong returns while their US broad equity market counterparts generated modestly higher returns. In retrospect, the strong performance of both the global and US equity markets in the 2nd quarter of the fiscal year dominated the relatively tepid performance of the other three quarters driving positive returns over the one-year period.

Globally and domestically, returns in the 1st quarter of the fiscal year in the broad equity markets were lackluster as investor confidence languished over instability in Iraq, concerns over the outcome of the November US presidential election, and rising energy prices. The next quarter saw a restoration of investor optimism with the mitigation of geo-political and economic concerns. The broader equity markets rallied by posting double-digit returns, with the non-US equity markets generating returns above 15%. During the 3rd and 4th quarters of the fiscal year, investor sentiment in both global and US equity markets turned cautious as a result of a dragoon of mounting fears over rising inflation, higher energy prices, and currency pressures. For the twelve-month period ending the fiscal year, non-US equity markets held on to double-digit returns, whereas domestic equity markets produced lower single-digit results.

**Investment Performance**

The portfolio closed the fiscal year 2004-2005 at $8.3 billion, an increase of $600 million over the prior fiscal year. The total portfolio earned 10.0% for the twelve-months ending June 30, 2005.

For the year, all asset classes within the portfolio ended in positive territory, with real estate delivering especially strong returns. US equities returned 7.9%, slightly under performing its policy benchmark by 0.2%. Fixed income returned 9.3%, outperforming its benchmark by 1.9%. Non-US equities returned 14.3%, trailing its benchmark by 2.2%. Real Estate posted a 19.6% return, exceeding the benchmark by 4.0% while alternative investments returned 12.8%, ahead of the benchmark by 0.7%. Table 1 displays a summary of AIMR compliant investment returns.

**Policies, Procedures, and Guidelines**

The Board continued to pursue value added opportunities. Consultants were retained, and strategic plans and guidelines were adopted in both traditional real estate and alternative investments to enhance the portfolio.

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

*Public Markets*
Contracts with twelve managers of publicly traded securities were renewed (Table 2). Six new managers of publicly traded securities were added (Table 3). Of the six, two managers were funded for active intermediate-duration fixed income mandates. The remaining four managers were selected for corporate governance in targeted geographic strategies in the UK, Europe, US, and Japan.

*Private Investments*
During the fiscal year 2004-2005, the Board funded private investments in both alternative and real estate asset classes. Six alternative investment partnerships and eleven real estate partnerships were added to the portfolio (Table 4). Over the past fiscal year, alternative investment partnerships made capital calls of approximately $122 million and real estate partnerships made drawdowns of approximately $69 million. Investments were pursued in buyout, venture capital, mezzanine, and distressed/turnaround funds.

Within the specialized, non-traditional alternative investment program, LACERS has made $28 million in commitments to three partnerships focusing on underserved areas. The three funds include a fund focusing on funding talented minority managers; a fund of funds manager seeking promising emerging managers; and a fund focusing on capital starved areas in the US Hispanic market. Within the specialized, non-traditional real estate program, LACERS has made $20 million in commitments to two partnerships focusing on underserved areas in Los Angeles and in underserved urban areas with a national focus.

*Other Contracts*

New contracts were awarded for two consultants (Table 5) to provide traditional alternative investments and non traditional alternative investment services.

**Additional Information**

Additional portfolio and investment-related information is presented in Tables 6-10. Actual and Target Asset Allocations as of June 30, 2005 are shown in Table 6. The Top Ten Holdings by Security Type are listed in Tables 7 – 10. Manager and Consulting Fees are reported in Table 11. A Summary of the Top Ten Brokers Commission and Total Captured Commission Expenditures are presented in Tables 12-13. A Summary of Investments and a list of Advisory/Consulting/Custody providers are presented in Table 14-15.

Respectfully submitted,

Daniel P. Gallagher

Daniel P. Gallagher
Chief Investment Officer

# INVESTMENTS

## FISCAL YEAR 2004-2005

## OUTLINE OF INVESTMENT POLICIES

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

1. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

2. The System's investment program shall at all times comply with existing and future applicable city, state, and federal regulations.

3. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

4. The System has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

5. Investment actions are expected to comply with "prudent person" standards as described:

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

## INVESTMENT RESULTS

TABLE 1 – **Annualized investment returns compared to policy benchmark:**

| RETURN SUMMARY (gross of fees) | Annualized ** 1 Year (%) | 3 Years (%) | 5 Years (%) |
|---|---|---|---|
| **US Equity** | **7.9** | **10.3** | **1.5** |
| ***Russell 3000*** | ***8.1*** | ***9.5*** | ***-1.4*** |
| **Fixed Income** | **9.3** | **8.5** | **8.8** |
| ***LB Universal **** | ***7.4*** | ***6.6*** | ***7.6*** |
| **International Equity** | **14.3** | **13.1** | **-0.1** |
| *MS ACWI Free ex US Index ** | *16.5* | *13.6* | *0.5* |
| **Real Estate** | **19.6** | **13.3** | **12.3** |
| ***NCREIF Property Index*** | ***15.6*** | ***10.7*** | ***10.2*** |
| **Alternative** | **12.8** | **9.3** | **2.3** |
| ***Alternative IRR Index*** | ***12.1*** | ***12.5*** | ***2.6*** |
| **LACERS Total Fund** | **10.0** | **10.9** | **4.4** |
| ***LACERS Policy Benchmark*** | ***10.3*** | ***10.2*** | ***3.5*** |

* Both the MS ACWI Free ex US and Lehman Universal indices are historically blended with other indices
** Time-weighted rate of return for all asset classes; Time-weighted return for total fund

## PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

TABLE 2 – **The Board renewed contracts with the following managers of publicly traded securities:**

| Name of Firms | Discipline |
|---|---|
| Alliance Capital Management | Active Mgmt Large Cap Growth Equities |
| Aronson + Johnson + Ortiz, LP | Active Mgmt Domestic Large Cap Value Equities |
| Barclays Global Investors | Passive Mgmt Large-Cap Value Equities |
| Capital Guardian Trust Company | Active Mgmt Europe Equities |
| Daiwa SB Investments USA Ltd. | Active Mgmt Pacific Basin Equities |
| Fiduciary Trust | Active Mgmt Small Cap Growth Equities |
| Lincoln Capital Management Co. | Active Mgmt Core Plus Bonds |
| Loomis Sayles & Company | Active Mgmt Core Plus Bonds |
| Pacific Financial Research | Active Mgmt Domestic Large Cap Value Equities |
| Rhumbline Advisers | Passive Mgmt of the S&P Index Equities |
| SIT Investments Associates, Inc. | Active Mgmt Small-Cap Growth Equities |
| State Street Global Advisors | Passive Mgmt MSCI EAFE Equity Index Equities |

TABLE 3 – **The Board approved the following new contracts of new managers of publicly traded securities:**

| Investment Managers | Discipline |
|---|---|
| Baird Advisors | Active Mgmt of Intermediate Duration FI Portfolio |
| Hermes Focus Asset Management Ltd. | Non U.S. Equity – Corporate Governance |
| Knight Vinke Asset Management, LLC | Non U.S. Equity – Corporate Governance |
| LM Capital Group, LLC | Active Mgmt of Intermediate Duration FI Portfolio |
| Relational Investors LLC | Domestic Equity – Corporate Governance |
| Sparx Asset Management Co., Ltd. | Non U.S. Equity – Corporate Governance |

TABLE 4 – **The Board approved the following real estate and alterative investment partnerships:**

| Investment Partnership | Discipline |
|---|---|
| AMB Japan Fund, L. .P. | Real Estate – High Return |
| Bryanston Retail Opportunity Fund | Real Estate – High Return |
| Canyon-Johnson Urban Fund II Fund | Real Estate - High Return |
| Heitman Value Partners, L. P. | Real Estate – Enhanced Return |
| INVESCO Core Real Estate USA Fund | Real Estate – Core Return |
| JPM Strategic Property Fund | Real Estate – Core |
| LaSalle Asia Opportunity Fund II | Real Estate – High Return |
| Levine Leichtman Capital Partners III, L. .P. | Alternative Investment – Buy Out |
| OCM Opportunities V, L. P. | Alternative Investment – Distressed Debt |
| Palladium Equity Partners III, L. .P. | Alternative Investment – Buy Out |
| Parish Capital I, L. P. | Alternative Investment – Specialized Fund of Fund |
| PCCP So Calif Smart Growth Fund | Real Estate – High Return |
| Providence Equity Partners V, L ..P. | Alternative Investment – Buy Out |
| RREEF America REIT III Fund | Real Estate – Enhanced Return |
| TA Realty Fund VII | Real Estate – Enhanced Return |
| Trident Capital Fund VI, L. .P. | Alternative Investment – Venture Capital/Buy Out |
| Tuckerman Residential Inc & Value Add Fd | Real Estate – Enhanced Return |

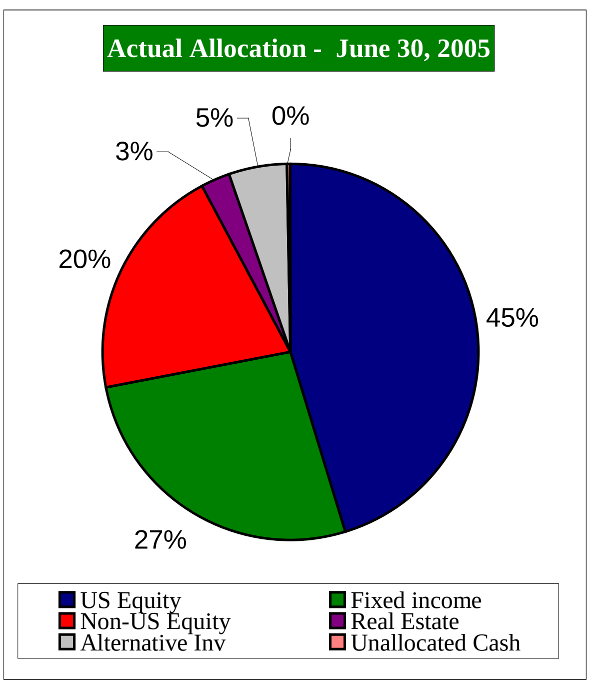
TABLE 5 – **The Board approved new contracts for the following consultants:**

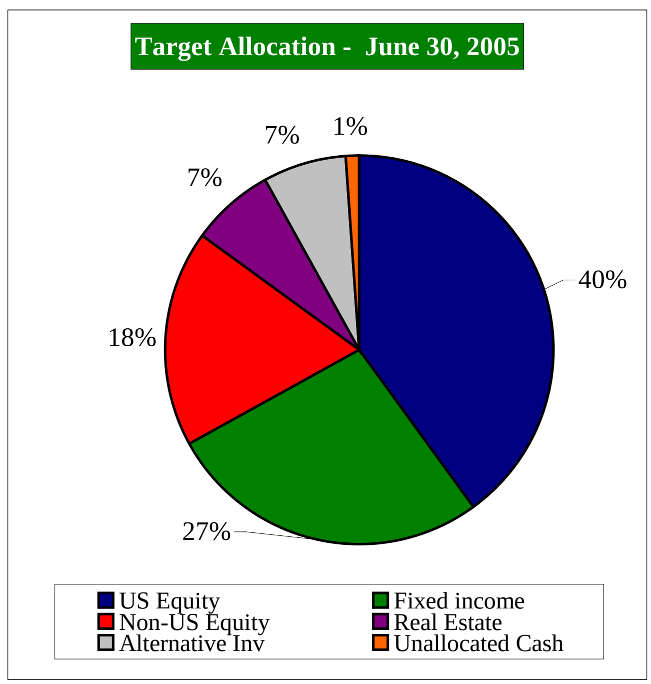
| Name of Firms | Discipline |
|---|---|
| Hamilton Lane | Traditional Alternative Investments |
| Pension Consulting Alliance, Inc. | Specialized Alternative Investments |

## ASSET ALLOCATION

TABLE 6 – **Asset Allocation as of June 30, 2005**
**Actual and Target**

| Actual | | Target | |
|---|---|---|---|
| | | | |
| **US Equity** | 45.4% | **US Equity** | 40.0 % |
| **Core Fixed Income** | 26.5% | **Core Fixed Income** | 27.0 % |
| **Non-US Equity** | 20.4 % | **Non-US Equity** | 18.0 % |
| **Real Estate** | 2.5 % | **Real Estate** | 7.0 % |
| **Alternative Investment** | 4.9 % | **Alternative Investment** | 7.0 % |
| **Unallocated Cash** | 0.3% | **Unallocated Cash** | 1.0 % |
| | | | |



## 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, 2005. A complete listing of the System's holdings may be obtained upon request.

TABLE 7 – **US EQUITY HOLDINGS**

| No. | Shares | Asset Description | Market Value US $ |
|---|---|---|---|
| 1. | 2,293,316 | Pfizer Inc. | 63,249,655 |
| 2. | 1,093,634 | Exxon Mobil Corp | 62,851,146 |
| 3. | 1,715,803 | General Electric Co. | 59,452,574 |
| 4. | 1,253,705 | Citigroup Inc. | 57,958,782 |
| 5. | 1,706,397 | Microsoft Corp. | 42,386,901 |
| 6. | 592,740 | Altria Group Inc. | 38,326,568 |
| 7. | 762,604 | Bank Amer Corp. | 34,782,368 |
| 8. | 690,218 | Wal-Mart Stores Inc. | 33,268,508 |
| 9. | 501,042 | Johnson & Johnson | 32,567,730 |
| 10. | 471,506 | FHLMC | 30,756,336 |
| **Total** | | | **455,600,568** |

TABLE 8 – **US FIXED INCOME HOLDINGS**

| No. | Par Value | Asset Description | Market Value US $ |
|---|---|---|---|
| 1. | 108,470,000 | U.S. Treas Notes 1.625% 9/30/2005 | 108,059,007 |
| 2. | 82,475,000 | FNMA Single Family Mtge 5% 15 Yrs | 83,377,112 |
| 3. | 83,685,000 | U.S. Treas Notes. Dtd 8/15/2003 2.375% due 8/15/2006 | 82,593,162 |
| 4. | 54,750,000 | FNMA 30 Yr Pass Through 5.5% 30 Yrs. | 55,485,730 |
| 5. | 39,295,000 | U.S. Treas Bonds dtd 11/16/1998 5.25% 11/15/2028 | 44,880,706 |
| 6. | 43,205,000 | U.S. Treas Notes Inflation Lnkd Bd 1.625% 1/15/2015 | 43,862,075 |
| 7. | 37,795,000 | FNMA 7.25% 1/15/2010 | 42,857,300 |
| 8. | 33,020,000 | U.S. Treas Bonds 7.25% 5/15/2016 | 42,282,374 |
| 9. | 24,950,000 | FMNA Single Family Mtge 5% 30 Yrs | 24,950,000 |
| 10. | 20,460,000 | U.S. Treas Notes. 6.125% 8/15/2007 | 21,487,788 |
| **Total** | | | **549,835,254** |

## TABLE 9 – NON-US EQUITY HOLDINGS

| No. | Shares | Asset Description | Market Value US $ |
|---|---|---|---|
| 1. | 11,484,865 | Vodafone Group | 27,997,024 |
| 2. | 400,669 | Royal Dutch Petrol | 26,193,775 |
| 3. | 209,414 | Sanofi-Aventis | 17,215,748 |
| 4. | 65,777 | Total SA | 15,472,677 |
| 5. | 32,149 | Samsung Electronic | 15,366,818 |
| 6. | 1,424,682 | BP Ord | 14,836,830 |
| 7. | 116,258 | Roche Hldgs AG Genusscheine | 14,719,419 |
| 8. | 388,700 | Toyota Motor Corp | 13,925,990 |
| 9. | 452,552 | Royal Bk Scot Group | 13,676,442 |
| 10. | 279,758 | Novartis AG | 13,331,688 |
| **Total** | | | **172,736,411** |

## TABLE 10 – NON-US FIXED INCOME HOLDINGS

| No. | Par Value | Asset Description | Market Value US $ |
|---|---|---|---|
| 1. | 16,375,000 | Deutsche Telekom Intl Fin B V Gtd Nt. Step Up 6/15/2030 | 22,658,839 |
| 2. | 17,753,000 | Utd Mexican Sts MTN Tranche TR 00015 5.875% 1/15/2014 | 18,525,256 |
| 3. | 7,400,000 | Empresa Nacional De Electricidad Chile 8.5% 4/1/2009 | 8,225,988 |
| 4. | 7,120,000 | Encana Corp 6.5% 8/15/2034-9/4/2004 BEO | 8,171,168 |
| 5. | 839,000,000 | Italy (Rep of) .375% Bds 10/10/2006 JPY | 7,610,327 |
| 6. | 5,500,000 | PYTPL Pemex Proj Fdg Master Tr 9.75% 9/15/2027 BEO | 7,177,500 |
| 7. | 5,000,000 | Utd Mexican MTN 8.3% 8/15/2031 BEO | 6,225,000 |
| 8. | 5,670,000 | Telecom Italia Cap Ser C 6.375% 11/15/2033-5/15/2005 | 6,079,958 |
| 9. | 5,735,000 | Rogers Cable Inc Sr Secd 2nd Priority 6.75% 3/15/2015 | 5,849,700 |
| 10. | 4,671,000 | Brazil (Fed Rep of) 11% Deb 8/17/2040 USD 1000 | 5,612,207 |
| **Total** | | | **96,135,943** |

## SCHEDULE OF FEES

TABLE 11 -- **SCHEDULE OF FEES** (Dollars in Thousands)

| Fiscal Year | 2005 | | 2004 | |
|---|---|---|---|---|
| | Assets Under Management | Fees | Assets Under Management | Fees |
| **Investment Manager Fees:** | | | | |
| Fixed Income Managers | $ 1,983,470 | $ 2,278 | $ 1,754,692 | $ 2,879 |
| Equity Managers | 5,294,730 | 13,182 | 5,058,107 | 15,211 |
| Real Estate Managers | 289,333 | 4,325 | 306,308 | 3,656 |
| **Total** | **$ 7,567,533** | **$ 19,785** | **$ 7,119,107** | **$ 21,746** |
| Security Lending Fees | $ 1,319,517 | $ 1,163 | $ 996,067 | $ 957 |
| Alt Investment Consultant Fees | 369,546 | 455 | 291,698 | 409 |
| Other Invest Consultant Fees | N/A | 1,773 | N/A | 1,810 |
| **Total** | **$ 1,689,063** | **$ 3,391** | **$ 1,287,765** | **$ 3,176** |

The above schedule includes securities lending, but excludes cash and cash equivalents and adjustments to cash.

## TABLE 12 -- SCHEDULE OF TOP TEN BROKERS COMMISSIONS

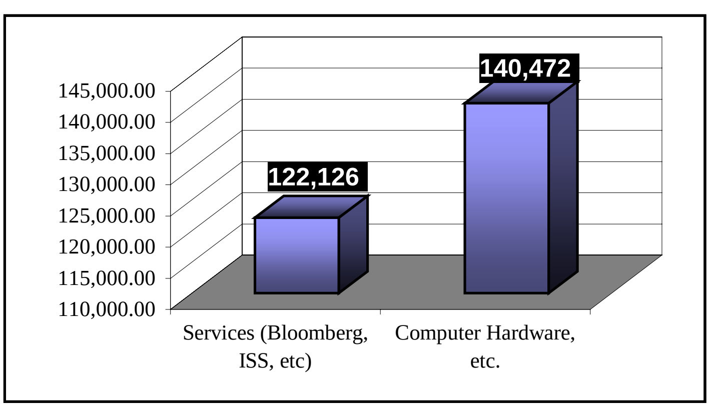
| Broker Name | Shares | | Commission | | $/Share |
|---|---|---|---|---|---|
| Instinet | 7,855,650 | $ | 205,463 | $ | 0.026 |
| UBS/Warburg Securities LLC (New York) | 4,216,072 | | 157,139 | | 0.037 |
| Goldman Sachs & Company | 9,510,812 | | 127,530 | | 0.013 |
| Merrill Lynch Pierce Fenner & Smith | 4,341,147 | | 122,760 | | 0.028 |
| Bear Stearns Securities Corp. | 2,432,811 | | 113,903 | | 0.047 |
| Credit Suisse First Boston Corp. | 2,600,443 | | 111,856 | | 0.043 |
| Citigroup Global Markets Inc./Smith Barney | 5,100,646 | | 105,639 | | 0.021 |
| Jefferies & Company | 2,499,442 | | 100,167 | | 0.040 |
| Lehman Brothers Inc. | 1,987,945 | | 75,218 | | 0.038 |
| Raymond James | 1,743,950 | | 59,086 | | 0.034 |
| Total | 42,288,918 | | 1,178,760 | | 0.028 |
| Total - Other Brokers | 48,852,714 | | 1,679,445 | | 0.034 |
| **Grand Total *** | **91,141,632** | **$** | **2,858,205** | **$** | **0.031** |

* OTC Brokers excluded because there is no stated commission.

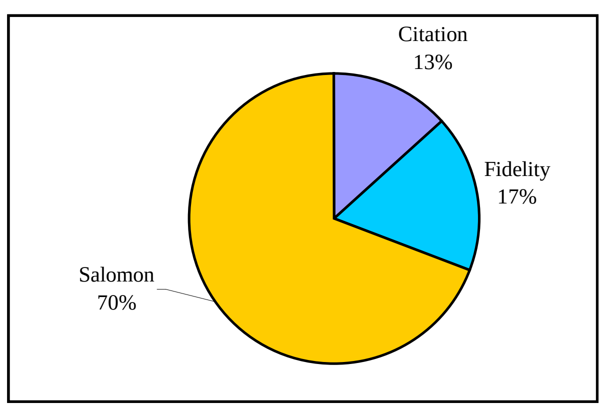
## TABLE 13 -- TOTAL CAPTURED COMMISSION EXPENDITURES 2004-2005

| | | 2004-2005 |
|---|---|---|
| Citation | $ | 35,340.00 |
| Fidelity | $ | 45,800.00 |
| Salomon | $ | 181,458.04 |
| **TOTAL** | $ | 262,598.04 |
| | | |
| Services (Bloomberg, ISS, etc) | $ | 122,126.02 |
| Computer Hardware, etc. | $ | 140,472.02 |
| **TOTAL** | $ | 262,598.04 |

**Expenditure Type**




**Expenditure by Broker**



## INVESTMENT SUMMARY

TABLE 14 -- **INVESTMENT SUMMARY AS OF JUNE 30, 2005**

| Type Of Investment | Market Value | % of Total M. V. | Domestic Market Value | Foreign Market Value |
|---|---|---|---|---|
| **Fixed Income:** | | | | |
| Government bonds/Municipal/Gov't Agencies | $ 761,949,717 | 8.23% | $ 683,656,492 | $ 78,293,225 |
| Corporate bonds | 899,601,589 | 9.72% | 778,494,171 | 121,107,418 |
| Government mortgage bonds | 321,919,217 | 3.48% | 321,919,217 | - |
| **Total fixed income** | **1,983,470,523** | **21.43%** | **1,784,069,880** | **199,400,643** |
| **Equities:** | | | | |
| Common stock: | | | | |
| Basic industries | 112,521,552 | 1.22% | 87,689,144 | 24,832,408 |
| Capital goods industries | 890,857,300 | 9.62% | 563,565,998 | 327,291,302 |
| Consumer & services | 2,163,919,074 | 23.38% | 1,491,643,229 | 672,275,845 |
| Energy | 455,697,662 | 4.92% | 259,015,671 | 196,681,991 |
| Financial services | 1,033,861,510 | 11.17% | 646,011,750 | 387,849,760 |
| Miscellaneous (Common Fund Assets) | 618,865,744 | 6.69% | 556,761,947 | 62,103,797 |
| **Total common stock** | **5,275,722,842** | **56.99%** | **3,604,687,739** | **1,671,035,103** |
| Preferred stock | 12,082,489 | 0.13% | 109 | 12,082,380 |
| Convertible bonds/equities | 6,410,882 | 0.07% | 1,077,150 | 5,333,732 |
| Rights/warrants/Unit trust equity | 513,854 | 0.01% | 314,955 | 198,899 |
| Value Indeterminable | 4 | 0.00% | 4 | - |
| **Total equities** | **5,294,730,071** | **57.20%** | **3,606,079,957** | **1,688,650,114** |
| **Real Estate:** | **289,332,724** | **3.13 %** | **289,332,724** | - |
| **Alternative Investments:** | | | | |
| Acquisitions | 132,056,233 | 1.43% | 132,056,233 | - |
| Venture capital | 194,683,699 | 2.10% | 175,154,700 | 19,528,999 |
| Subordinated debt | 16,319,801 | 0.18% | 16,319,801 | - |
| International acquisitions | 26,486,170 | 0.29% | 21,946,079 | 4,540,091 |
| **Total alternative investments** | **369,545,903** | **3.99%** | **345,476,813** | **24,069,090** |
| **Security Lending Collateral:** | **1,319,516,832** | **14.25%** | **1,118,116,829** | **201,400,003** |
| **Total Fund *** | **$ 9,256,596,053** | **100 %** | **$ 7,413,076,203** | **$ 2,113,519,850** |

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

TABLE 15 – **ADVISORY/CONSULTING/CUSTODY SERVICES**

| INVESTMENT ADVISORS | | |
|---|---|---|
| **Equity US** | | |
| **Alliance Capital Management** | **Oak Associates, Ltd.** | **SIT Investment Associates, Inc.** |
| New York, NY | Akron, OH | Minneapolis, MN |
| **Aronson,Johnson & Ortiz, LP** | **Pacific Financial Research** | **Thomson Horstmann & Bryant Inc.** |
| Philadelphia, PA | Beverly Hills, CA | Saddlebrook, NJ |
| **Barclays Global Investors** | **Relational Investors** | |
| San Francisco, CA | San Diego, CA | |
| **Fiduciary Trust Co. International** | **Rhumbline Advisers** | |
| New York, NY | Boston, MA | |
| **Non-US Equity** | | |
| **Boston Company** | **Knight Vinke** | **Templeton International** |
| Boston, MA | Monte Carlo | Fort Lauderdale, FL |
| **Capital Guardian Trust (Europe)** | **Marvin & Palmer Assoc., Inc.** | **TT Intl Inv Management** |
| Los Angeles, CA | Wilmington, DE | London, UK |
| **Daiwa SB Investments** | **Sparx Asset Management** | |
| New York, NY | New York, NY | |
| **Hermes Focus Asset Mgmt** | **State Street Global Advisors** | |
| London, UK | Boston, MA | |
| **Fixed Income** | | |
| **GMAC Institutional Adv, LLC** | **LM Capital Group, LLC** | **Lehman Bros Asset Mgmt** |
| Alpharetta, GA | San Diego, CA | Chicago, IL |
| **Robert W. Baird & Co., Inc.** | **Loomis Sayles & Company** | |
| Milwaukee, WI | Boston, MA | |
| **Cash & Short-Term** | **Consultants** | **Custodian** |
| **Managed In-House** | **Hamilton Lane** | **The Northern Trust Company** |
| | Bala Cynwyd, PA | Chicago, IL |
| | **Pension Consulting Alliance** | |
| | Portland, OR | |
| | **The Townsend Group** | |
| | Cleveland, OH | |
| **Real Estate** | | |
| **Allegis Trust** | **Aslan Realty Partners** | **Buchanan Street Partners** |
| Hanford, CT | Chicago, IL | Newport Beach, CA |
| **AMB Capital Partners** | **Bryanston Realty Partners** | **Canyon-Johnson Urban Fund II** |
| San Francisco, CA | Chicago, IL | Los Angeles, CA |

## Advisory/Consulting/Custody Services (continued)

### Real Estate (continued)

**CB Richard Ellis**
Los Angeles, CA

**DLJ Real Estate Capital Partners**
Los Angeles, CA

**ForesTree**
Boston, MA

**Heitman Value Partners, LP**
Chicago, IL

**ING Realty Partners, L.P.**
New York, NY

**INVESCO Realty Advisors**
Dallas, TX

**JP Morgan Strategic Property**
New York, NY

**Koll-Bren (K/B) Realty Adv**
New York, NY

**L&B Real Estate Counsel**
Dallas, TX

**LaSalle Inv Management**
San Francisco, CA

**Lowe's Hospitality**
Los Angeles, CA

**Miller Global Advisors**
Denver, CO

**PRISA II**
San Francisco, CA

**Realty Associates**
Boston, MA

**RREEF Funds**
San Francisco, CA

**So Calif Smart Growth Fund**
El Segundo, CA

**Tuckerman Group**
Purchase, NY

**Westbrook Partners**
Dallas, TX

### Alternative Investments

**Alchemy Partners**
London, UK

**Apollo Fund**
Purchase, NY

**Austin Ventures, LLP**
Austin, TX

**Carlyle Group**
Washington, DC

**CGW Southeast Partners, LP**
Atlanta, GA

**Chisholm Partners**
Providence, RI

**CHS Private Equity V, LP**
Chicago, IL

**CVC Capital Partners, Ltd.**
London, UK

**Essex Woodland Health Ventures**
The Woodlands, TX

**First Reserve Corporation**
Greenwich, CT

**GTRC Golder Rauner LLC**
Chicago, IL

**Hellman & Friedman Inv V, LLC**
San Francisco, CA

**InterWest Partners LP**
Menlo Park, CA

**JH Whitney & Co., LLC**
Stamford, CT

**Kelso & Company**
New York, NY

**KKR**
New York, NY

**Levine Leichtman**
Beverly Hills, CA

**Madison Dearborn, LLC**
Chicago, IL

**Menlo Ventures**
Menlo Park, CA

**Nautic Partners, LLC**
Providence, RI

**Nordic Capital**
Stockholm, Sweden

**OCM Opportunities**
Los Angeles, CA

**Olympus Partners**
Stamford, CT

**Onex Partners**
Toronto, Canada

**Palladium Equity Partners LLC**
New York, NY

**Parish Capital I, LP**
Chapel Hill, NC

**Permira**
London, UK

**Providence Equity Partners**
Providence, RI

**Reliant Equity Partners, LP**
Chicago, IL

**Resolute Fund Partners, LLC**
New York, NY

**Richland Ventures**
Nashville, TN

**Techonology Crossover**
Palo Alto, CA

**Thoma Cressey Equity Partners**
Chicago, IL

**Thomas H. Lee**
Boston, MA

**Texas Pacific Group**
Fort Worth, TX

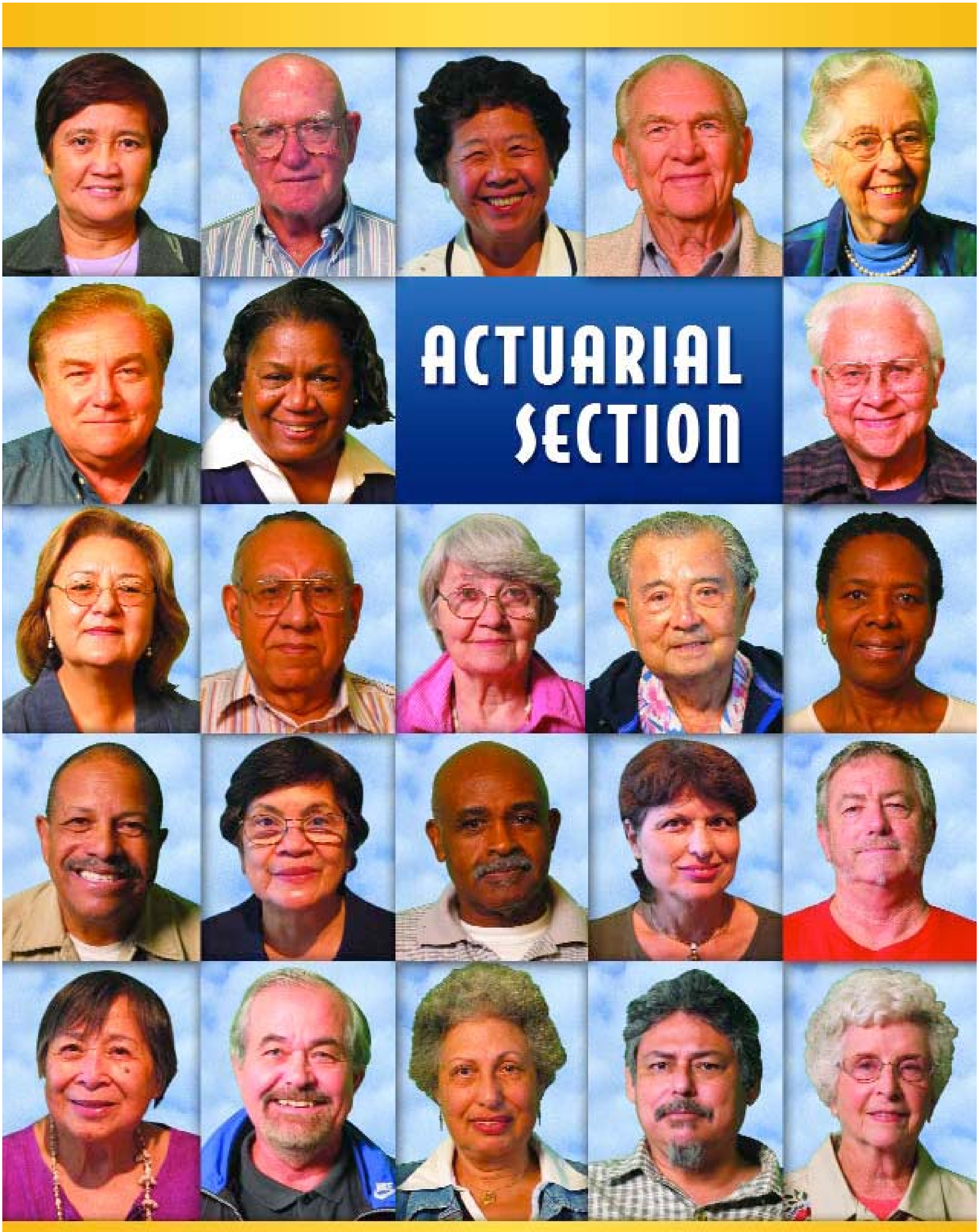
**Trident Capital**
Palo Alto, CA

**Vantage Point Venture**
San Bruno, CA

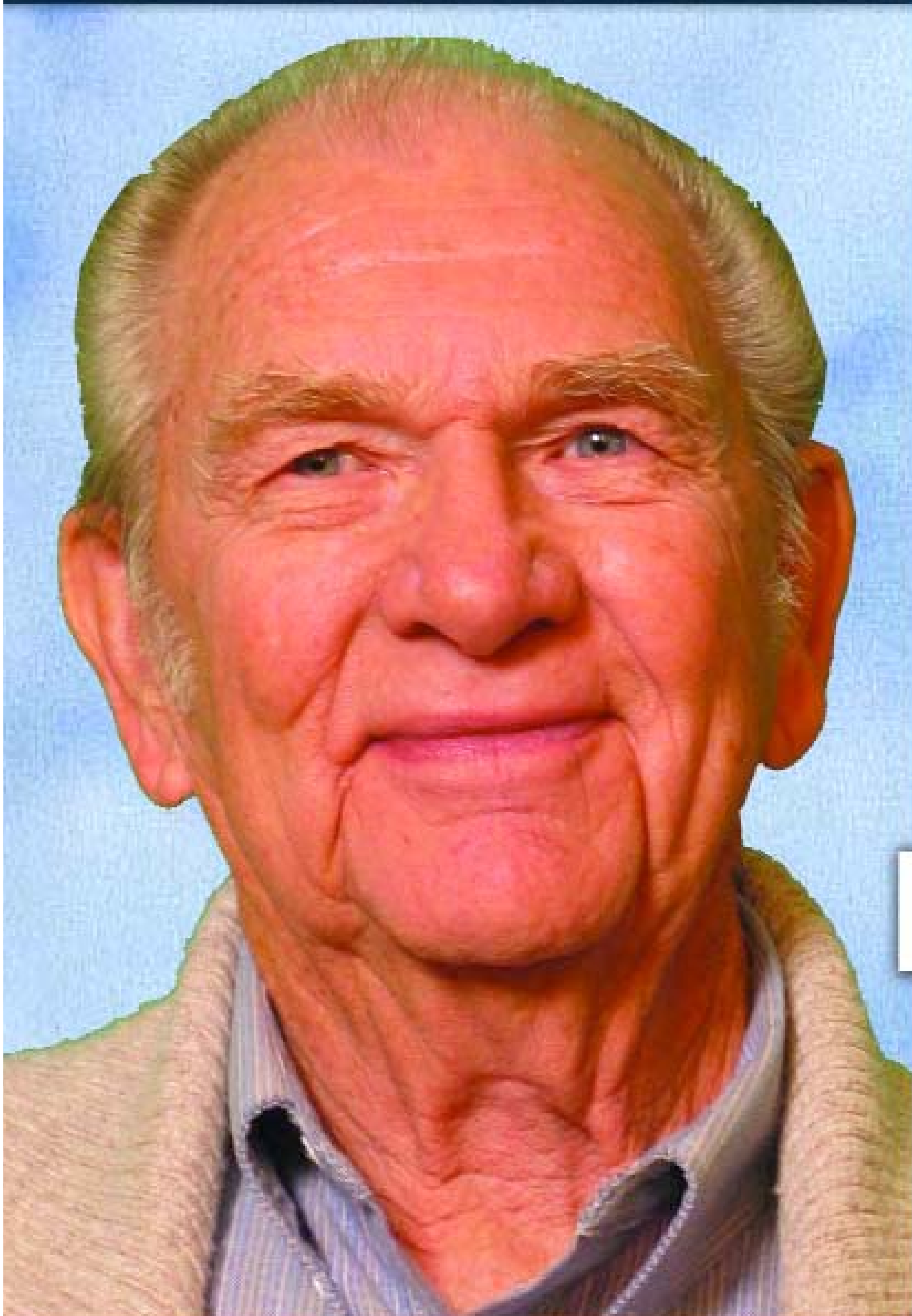
**Vestar Capital Partners**
New York, NY

**Welsh, Carson, Anderson & Stowe**
New York, NY

**Weston Presidio**
Boston, MA


ACTUARIAL
SECTION

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM



# "Taking Care of Business"

Mr. Dan Watson
Retired LACERS member since 1980

## What our members think of us... is our bottom line.

SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

November 9, 2005

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

Re: **June 30, 2005 Actuarial Valuations**

Dear Board Members:

Enclosed please find the June 30, 2005 actuarial valuations for the retirement and the health programs.

As requested by the System, we have attached the following supplemental schedules:

- Exhibit A - Summary of significant results for the two programs.
- Exhibit B - History of computed contribution rates for the two programs.
- Exhibit C - Solvency test for the retirement program.
- Exhibit D - Schedule of retirees and beneficiaries added to and removed from the rolls for the retirement program.

We look forward to discussing the reports and the enclosed schedules with you and the Board.

Sincerely,

Paul Angelo, FSA, MAAA, EA
Vice President and Consulting Actuary

Paul Poon, ASA, EA
Associate Actuary

Andy Yeung, ASA, MAAA, EA
Associate Actuary

PXP:jc
Enclosure

191974/05806.001

## Exhibit A

### Los Angeles City Employees' Retirement System
### Summary of Significant Valuation Results

| | | June 30, 2005 | June 30, 2004 | Percent Change |
|---|---|---|---|---|
| **I.** | **Total Membership** | | | |
| | A. Active Members | 27,333 | 27,092 | 0.9% |
| | B. Pensioner | 14,322 | 14,137 | 1.3% |
| **II.** | **Valuation Salary** | | | |
| | A. Total Annual Payroll | $1,589,305,846 | $1,575,284,734 | 0.9% |
| | B. Average Monthly Salary | 4,846 | 4,846 | 0.0% |
| **III.** | **Benefits to Current Retirees and Beneficiaries*** | | | |
| | A. Total Annual Benefits | $427,953,132 | $399,268,032 | 7.2% |
| | B. Average Monthly Benefit Amount | 2,490 | 2,354 | 5.8% |
| **IV.** | **Total System Assets**** | | | |
| | A. Actuarial Value | $8,105,746,091 | $7,917,509,037 | 2.4% |
| | B. Market Value | 8,331,756,497 | 7,734,438,028 | 7.7% |
| **V.** | **Unfunded Actuarial Accrued Liability (UAAL)** | | | |
| | A. Retirement Benefits | $2,128,382,740 | $1,491,755,937 | 42.7% |
| | B. Health Subsidy Benefits | 825,520,669 | 560,815,516 | 47.2% |

* Includes July COLA.

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

# Exhibit A (continued)

**Los Angeles City Employees' Retirement System**
**Summary of Significant Valuation Results**

| | | FY 2006-2007 | | FY 2005-2006 | | Change | |
|---|---|---|---|---|---|---|---|
| **VI.** | **Budget Items** | Beginning of Year | End of Pay Periods | Beginning of Year | End of Pay Periods | Beginning of Year | End of Pay Periods |
| | A. Retirement Benefits | | | | | | |
| | 1. Normal Cost as a Percent of Pay | 9.22% | 9.57% | 8.44% | 8.77% | 0.78% | 0.80% |
| | 2. Amortization of UAAL | 7.64% | 7.94% | 5.77% | 5.99% | 1.87% | 1.95% |
| | 3. Total Retirement Contribution | 16.86% | 17.51% | 14.21% | 14.76% | 2.65% | 2.75% |
| | B. Health Subsidy Contribution | | | | | | |
| | 1. Normal Cost as a Percent of Pay | 4.16% | 4.32% | 2.03% | 2.11% | 2.13% | 2.21% |
| | 2. Amortization of UAAL | 2.84% | 2.95% | 2.72% | 2.83% | 0.12% | 0.12% |
| | 3. Total Retirement Contribution | 7.00% | 7.27% | 4.75% | 4.94% | 2.25% | 2.33% |
| | C. Total Contribution (A+B) | 23.86% | 24.78% | 18.96% | 19.70% | 4.90% | 5.08% |

| **VII** | **Funded Ratio** | **June 30, 2005** | **June 30, 2004** | **Change** |
|---|---|---|---|---|
| | (Based on Valuation Value of Assets) | | | |
| | A. Retirement Benefits | 77.2% | 82.5% | -5.3% |
| | B. Healthy Subsidy Benefits | 52.0% | 60.5% | -8.5% |
| | C. Total | 73.2% | 79.4% | -6.2% |
| | (Based on Market Value of Assets) | | | |
| | D. Retirement Benefits | 79.3% | 80.6% | -1.3% |
| | E. Health Subsidy Benefits | 53.4% | 59.1% | -5.7% |
| | F. Total | 75.3% | 77.5% | -2.2% |

# Exhibit B

**Los Angeles City Employees' Retirement System**
**Computed Contribution Rates* – Historical Comparison**

| Valuation Date | Retirement | Health | Total | Valuation Payroll (thousands) |
|---|---|---|---|---|
| 06/30/1994 | 12.07% | 2.99% | 15.06% | $884,951 |
| 06/30/1995 | 7.34% | 2.30% | 9.64% | 911,292 |
| 06/30/1996 | 6.51% | 3.18% | 9.69% | 957,423 |
| 06/30/1997 | 6.57% | 1.85% | 8.42% | 990,616 |
| 06/30/1998 | 6.43% | 1.27% | 7.70% | 1,011,857 |
| 06/30/1999 | 4.93% | 0.67% | 5.60% | 1,068,124 |
| 06/30/2000 | 2.54% | 2.17% | 4.71% | 1,182,203 |
| 06/30/2001 | 3.84% | 1.98% | 5.82% | 1,293,350 |
| 06/30/2002 | 9.22% | 1.85% | 11.07% | 1,334,335 |
| 06/30/2003 | 11.95% | 4.02% | 15.97% | 1,405,058 |
| 06/30/2004 | 14.76% | 4.94% | 19.70% | 1,575,285 |
| 06/30/2005 | 17.51% | 7.27% | 24.78% | 1,589,306 |

* Contributions are assumed to be made at the end of the pay period.

# Exhibit C

**Los Angeles City Employees' Retirement System**
**Solvency Test for Retirement Benefits**
**For Years Ended June 30**

**($ In Thousands)**

| | Aggregate Actuarial Accrued Liabilities For | | | | Portion of Accrued Liabilities Covered by Reported Assets | | |
|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | | (1) | (2) | (3) |
| Valuation Date | Member Contributions | Retirees, Beneficiaries, & Deferred Vesteds | Active Members | Valuation Value of Assets | Member Contributions | Retirees, Beneficiaries, & Deferred Vesteds | Active Member |
| 06/30/1996 | $637,737 | $2,357,798 | $1,480,489 | $4,468,433 | 100.0% | 100.0% | 99.5% |
| 06/30/1997 | 683,048 | 2,598,432 | 1,604,857 | 4,802,509 | 100.0 | 100.0 | 94.8 |
| 06/30/1998 | 733,680 | 2,772,712 | 1,806,526 | 5,362,923 | 100.0 | 100.0 | 100.0 |
| 06/30/1999 | 776,617 | 2,989,218 | 1,918,751 | 5,910,948 | 100.0 | 100.0 | 100.0 |
| 06/30/2000 | 827,729 | 3,149,392 | 2,035,810 | 6,561,365 | 100.0 | 100.0 | 100.0 |
| 06/30/2001 | 889,658 | 3,444,240 | 2,134,168 | 6,988,782 | 100.0 | 100.0 | 100.0 |
| 06/30/2002 | 950,002 | 3,756,935 | 2,545,181 | 7,060,188 | 100.0 | 100.0 | 92.5 |
| 06/30/2003 | 1,005,888 | 4,021,213 | 2,632,745 | 6,999,647 | 100.0 | 100.0 | 74.9 |
| 06/30/2004 | 1,062,002 | 4,348,252 | 3,123,610 | 7,042,108 | 100.0 | 100.0 | 52.2 |
| 06/30/2005 | 1,128,101 | 4,858,932 | 3,334,492 | 7,193,142 | 100.0 | 100.0 | 36.2 |

# Exhibit D

## Los Angeles City Employees' Retirement System
## Retirees and Beneficiaries Added To and Removed From the Rolls*
## For Years Ended June 30

| Year Ended | No. of New Retirees/ Beneficiaries | Annual Allowances Added** | No. of Retirees/ Beneficiaries Removed | Annual Allowances Removed | No. of Retirees/ Beneficiaries at 6/30 | Annual Allowances at 6/30 | Percent Increase in Annual Allowances | Average Annual Allowance |
|---|---|---|---|---|---|---|---|---|
| 6/30/2001 | 773 | $22,866,958 | 466 | $6,436,730 | 13,365 | $316,057,216 | 8.6% | $23,648 |
| 6/30/2002 | 844 | 23,740,829 | 620 | 11,316,344 | 13,589 | 336,437,038 | 6.4% | 24,758 |
| 6/30/2003 | 827 | 24,729,535 | 611 | 12,008,132 | 13,805 | 359,036,215 | 6.7% | 26,008 |
| 6/30/2004 | 986 | 53,452,133 | 654 | 13,220,316 | 14,137 | 399,268,032 | 11.2% | 28,243 |
| 6/30/2005 | 934 | 43,454,836 | 749 | 14,769,736 | 14,322 | 427,953,132 | 7.2% | 29,881 |

*    Does not include Family Death Benefit Insurance Plan members.  Table based on valuation data.
**   Effective 06/30/2004, also includes the COLA granted in July.

## Los Angeles City Employees' Retirement System

# *Actuarial Valuation and Review of Retirement Program as of June 30, 2005*

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SEGAL

The Segal Company
120 Montgomery Street, Suite 500 San Francisco, CA  94104
T 415.263.8200 F 415.263.8290   www.segalco.com

*November 9, 2005*

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

*Dear Board Members:*

*We are pleased to submit this Actuarial Valuation and Review as of June 30, 2005. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2006/2007 and analyzes the preceding year's experience.*

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

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

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

*Sincerely,*

*THE SEGAL COMPANY*

*By:*

| | | |
|---|---|---|
| *Paul Angelo, FSA, MAAA* | *Paul Poon, ASA* | *Andy Yeung, ASA, MAAA* |
| *Vice President and Actuary* | *Associate Actuary* | *Associate Actuary* |

*EK/hy*

## PURPOSE

This report has been prepared by The Segal Company to present a valuation of the Los Angeles City Employees' Retirement System as of June 30, 2005. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board of Administration;
- The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of June 30, 2005, provided by LACERS;
- The assets of the Plan as of June 30, 2005, provided by LACERS;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

### Significant Issues in Valuation Year

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

- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 82.52% to 77.17%. The unfunded actuarial accrued liability has increased from $1,491.8 million to $2,128.4 million. A complete reconciliation of the System's unfunded actuarial accrued liability is provided in Section 3, Exhibit G.
- The aggregate employer rate calculated in this valuation has increased from 14.76% of payroll to 17.51% of payroll. The contribution rate for the employer increased because of: (i) lower than expected return on the valuation value of assets, (ii) changes in actuarial assumptions and methods, and (iii) other actuarial losses.
- As indicated in Section 2, Subsection B of this report, the total unrecognized investment gain as of June 30, 2005 is $226,010,406 for the assets for Retirement, Health, Family Death, and Larger Annuity Benefits. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. This implies that earning the assumed rate of investment return of 8.00% per year (net of expenses) on a market value basis will result in investment gains on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would decrease in each of the next few years.

- As instructed by the Board of Administration, the recommended contribution is set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. We have included in the calculation of the recommended contribution an additional contribution due to the application of the 40 year minimum amortization requirement for both fiscal year 2003/2004 and fiscal year 2004/2005.

  A Net Pension Obligation was created in the last valuation as well as in the June 30, 2005 valuation due to: (1) the phase-in of the higher contribution rate requirement brought by the last experience study and (2) the GASB requirement that the Unfunded Actuarial Accrued Liability (UAAL) of the Plan be amortized over an equivalent period of not greater than 40 years. Since (1) is already included in the development of the Plan's actual UAAL, the ARC calculation requires only an additional contribution to amortize (2) over a period of 15 years. In the June 30, 2005 valuation, there are 14 years of payments left in the amortization of (2) from the June 30, 2004 valuation and 15 years of payments left in the amortization of (2) from the June 30, 2005 valuation.

- The employer and employee contribution rates developed in this report are before any adjustments to reflect the City's pickup of part of the employee contributions for those hired before January 1, 1983. Since all of the employees hired before January 1, 1983 are vested and entitled to collect a pension benefit from the Plan, we recommend that the City take no discount on the pickup of employee contributions as only a minimal amount, if any, of contributions are expected to be refunded to those members.

- The employer contribution rates provided in this report have been developed assuming that they will be made by the City at either: (1) the beginning of the fiscal year (i.e., the City will prepay its contributions) or (2) throughout the year (i.e., the City will pay contributions at the end of every pay period).

- The actuarial valuation report as of June 30, 2005 is based on financial information as of that date. Changes in the value of assets subsequent to that date, to the extent that they exist, are not reflected. Declines in asset values will increase the actuarial cost of the Plan, while increases will decrease the actuarial cost of the Plan.

- The actuarial assumptions used in the June 30, 2005 valuation were those adopted by the Board as a result of our June 30, 2005 triennial experience study. A summary of the new and old assumptions is provided in Section 4, Exhibit VI.

- The Board has adopted a policy of amortizing the UAAL over a fixed period of 30 years beginning July 1, 2005. The UAALs arising from the phase-in of contribution rates for the May 30, 2002 experience study (for fiscal year 2003/2004 and 2004/2005) were excluded from this 30 year amortization policy. Future changes in the UAAL will be separately identified and amortized over various periods depending on the source of the change.

## Summary of Key Valuation Results

| | 2005 | 2004 |
|---|---|---|
| **Contributions calculated as of June 30:** | | |
| Recommended as a percent of pay (note there is a 12 month delay until the rate is effective) | | |
| At the beginning of year | 16.86% | 14.21% |
| At the end of each pay period | 17.51% | 14.76% |
| **Funding elements for plan year beginning July 1:** | | |
| Normal cost | $ 249,462,452 | $ 236,238,453 |
| Market value of assets* | 8,331,756,497 | 7,734,438,028 |
| Actuarial value of assets* | 8,105,746,091 | 7,917,509,037 |
| Valuation value of retirement assets | 7,193,142,227 | 7,042,107,591 |
| Actuarial accrued liability | 9,321,524,967 | 8,533,863,528 |
| Unfunded actuarial accrued liability | 2,128,382,740 | 1,491,755,937 |
| Funded ratio | 77.17% | 82.52% |
| **GASB 25/27 for fiscal year ended June 30:** | | |
| Annual required contributions | $183,241,489 | $159,083,407 |
| Actual contributions | 158,131,638 | 100,408,689 |
| Percentage contributed | 86.30% | 63.12% |
| **Demographic data for plan year beginning July 1:** | | |
| Number of retired members and beneficiaries | 14,322 | 14,137 |
| Number of vested former members | 2,426 | 2,232 |
| Number of active members | 27,333 | 27,092 |
| Projected total payroll | $1,589,305,846 | $1,575,284,734 |
| Projected average payroll | 58,146 | 58,146 |

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

# Actuarial Certification

November 9, 2005

This is to certify that The Segal Company has conducted an actuarial valuation of the Los Angeles City Employees' Retirement System retirement program as of June 30, 2005, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this retirement program with the last valuation completed on June 30, 2004. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the historical funding methods used in determination of the liability for retirement benefits.

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

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

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

1) Schedule of funding progress
2) Schedule of employer contributions
3) Supplementary Information Required by the GASB (Exhibit IV)

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

Paul C. Poon

Paul Poon, ASA, EA
Associate Actuary

Andy Yeung

Andy Yeung, ASA, MAAA, EA
Associate Actuary

## A. MEMBER DATA

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

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

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

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

**CHART 1**

**Member Population: 1996 – 2005**

| Year Ended June 30 | Active Members | Vested Terminated Members* | Retired Members and Beneficiaries | Ratio of Non-Actives to Actives |
|---|---|---|---|---|
| 1996 | 22,319 | N/A | 12,242 | 0.55 |
| 1997 | 22,219 | N/A | 12,698 | 0.57 |
| 1998 | 22,091 | N/A | 12,591 | 0.57 |
| 1999 | 22,504 | N/A | 12,843 | 0.57 |
| 2000 | 24,234 | N/A | 13,058 | 0.54 |
| 2001 | 25,654 | N/A | 13,365 | 0.52 |
| 2002 | 25,930 | 2,327 | 13,589 | 0.61 |
| 2003 | 26,358 | 2,593 | 13,805 | 0.62 |
| 2004 | 27,092 | 2,232 | 14,137 | 0.60 |
| 2005 | 27,333 | 2,426 | 14,322 | 0.61 |

**Includes terminated members due a refund of employee contributions*

### Active Members

Plan costs are affected by the age, years of service and payroll of active members. In this year's valuation, there were 27,333 active members with an average age of 45.6, average years of service of 12.0 years and average payroll of $58,146. The 27,092 active members in the prior valuation had an average age of 45.2, average service of 11.9 years and average payroll of $58,146.

### Inactive Members

In this year's valuation, there were a total of 2,426 members who were either (a) non-vested and entitled to a refund of member contributions or (b) vested with a right to a deferred or immediate benefit.

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

**CHART 2**

**Distribution of Active Members by Age as of June 30, 2005**

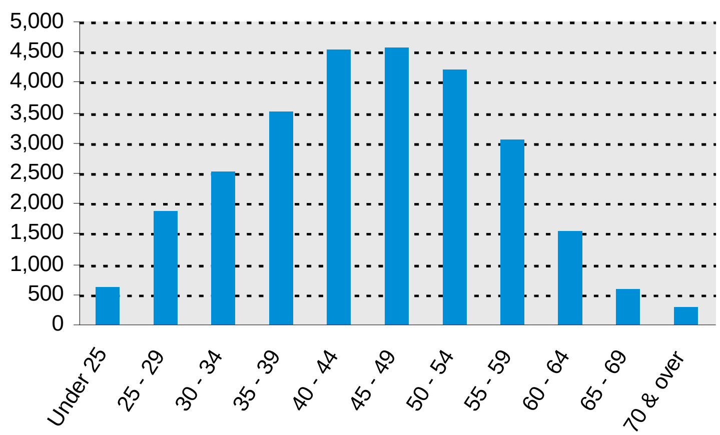
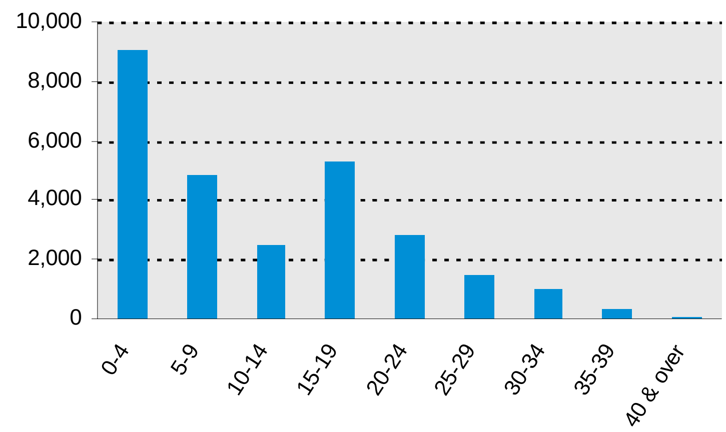



**CHART 3**

**Distribution of Active Members by Years of Service as of June 30, 2005**



**Retired Members and Beneficiaries**

As of June 30, 2005, 11,009 retired members and 3,313 beneficiaries were receiving total monthly benefits of $35,665,309. For comparison, in the previous valuation, there were 10,940 retired members and 3,197 beneficiaries receiving monthly benefits of $33,270,878.

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

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

**CHART 4**

**Distribution of Retired Members by Type and by Monthly Amount as of June 30, 2005**

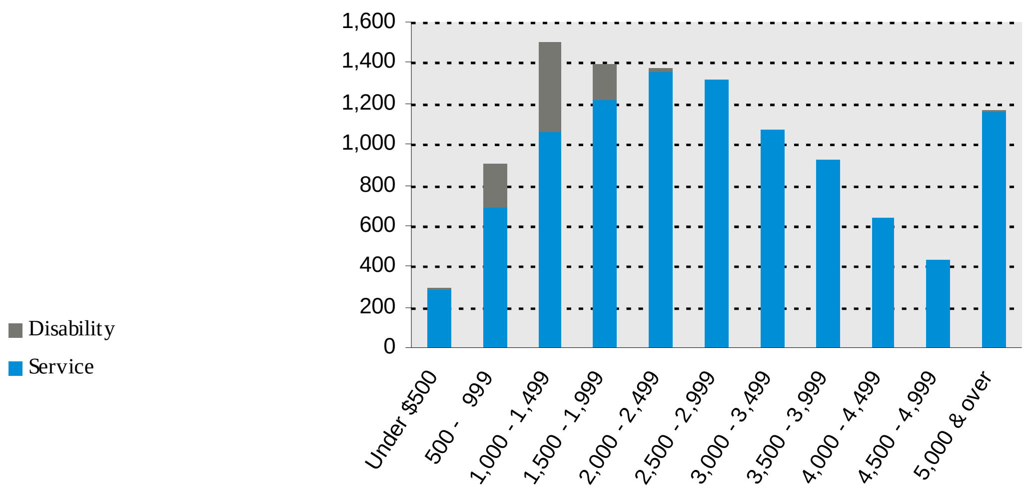
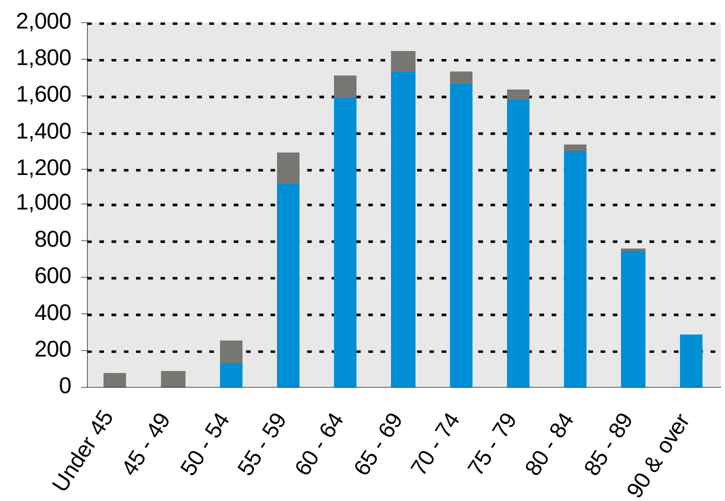



**CHART 5**

**Distribution of Retired Members by Type and by Age as of June 30, 2005**



## B. FINANCIAL INFORMATION

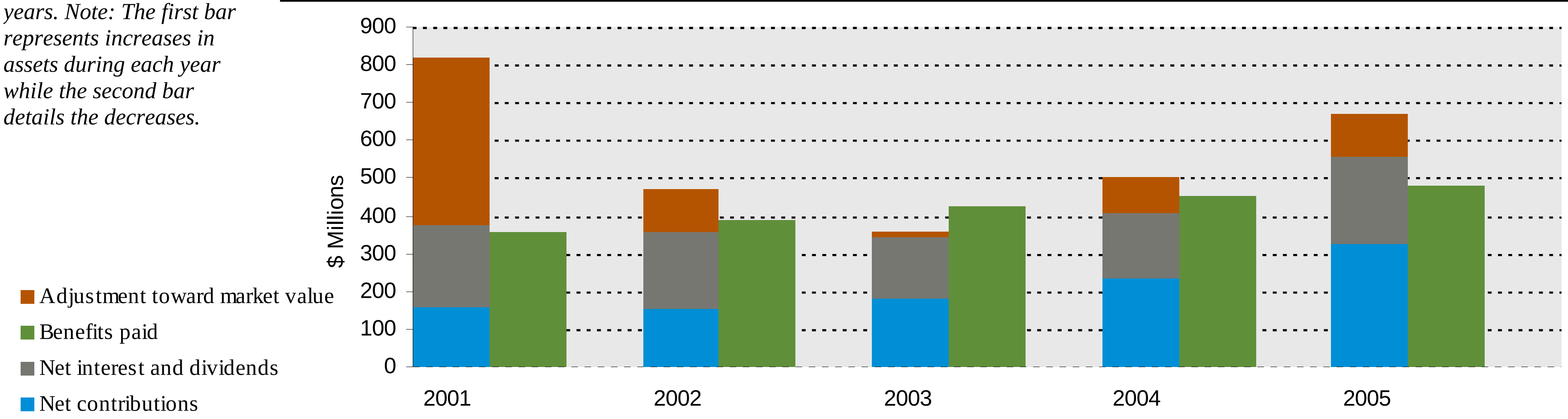
Retirement plan funding anticipates that, over the long term, both net contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

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

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

**CHART 6**

**Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended June 30, 2001 – 2005**



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

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

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

**CHART 7**

**Determination of Actuarial Value of Assets for Year Ended June 30, 2005**

| | | Original Amount | Unrecognized Return | |
|---|---|---|---|---|
| 1. | Market value of assets | | | $8,331,756,497 |
| 2. | Calculation of unrecognized return* | | | |
| | (a) Year ended June 30, 2005 | $132,848,231 | $106,278,585 | |
| | (b) Year ended June 30, 2004 | 710,820,763 | 426,492,458 | |
| | (c) Year ended June 30, 2003 | -289,230,950 | -115,692,380 | |
| | (d) Year ended June 30, 2002 | -955,341,286 | -191,068,257 | |
| | (e) Total unrecognized return | | | 226,010,406 |
| 3. | Preliminary actuarial value: (1) - (2e) | | | 8,105,746,091 |
| 4. | Adjustment to be within 20% corridor | | | 0 |
| 5. | Final actuarial value of assets: (3) + (4) | | | $8,105,746,091 |
| 6. | Actuarial value as a percentage of market value: (5) ÷ (1) | | | 97.3% |
| 7. | Market value of retirement assets | | | $7,393,706,737 |
| 8. | Valuation value of retirement assets: (5) ÷ (1) x (7) | | | $7,193,142,227 |

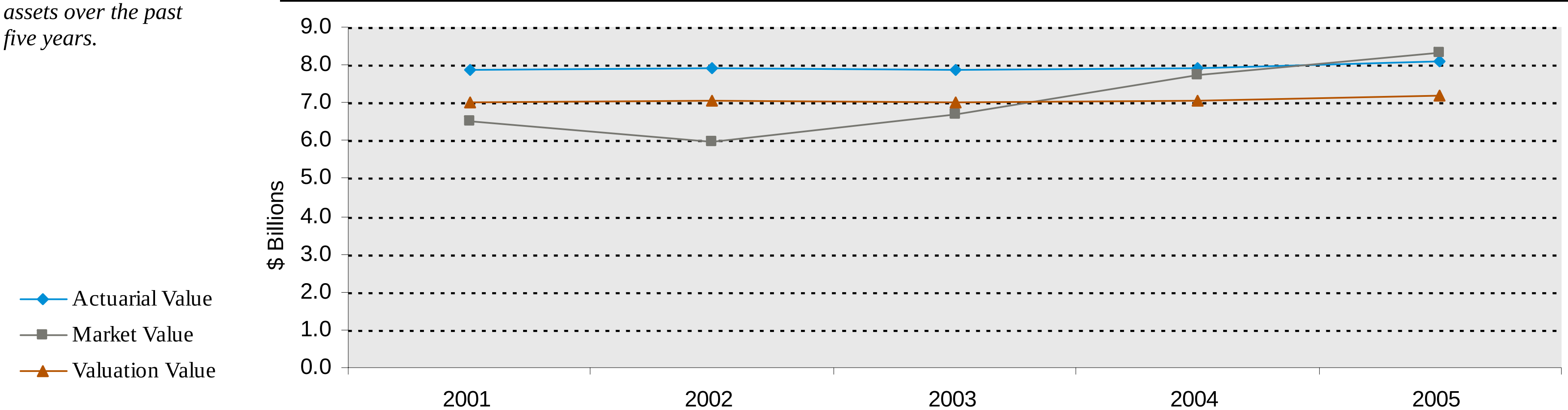
**Total return minus expected return on a market value basis*

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

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

**CHART 8**

**Actuarial Value of Assets vs. Market Value of Assets as of June 30, 2001 – 2005**



## C. ACTUARIAL EXPERIENCE

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

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

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

The total loss of $244,047,389 is comprised of an asset loss of $268,490,141, a gain of $90,755,342 from other experience, and a contribution loss of $66,312,590. The net experience variation from individual sources other than investments was 0.3% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

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

**CHART 9**

**Actuarial Experience for Year Ended June 30, 2005**

| | | |
|---|---|---|
| 1. | Net loss from investments* | -$268,490,141 |
| 2. | Net gain from other experience** | 90,755,342 |
| 3. | Net loss from contributions less than anticipated due to phase-in and one-year lag for new rates | -66,312,590 |
| 4. | Net experience loss: (1) + (2) + (3) | -$244,047,389 |

* *Details in Chart 10*

** *Details in Chart 13 – The net gain is attributed to actual liability experience from July 1, 2004 through June 30, 2005, compared to the projected experience predicted by the actuarial assumptions as of June 30, 2004.*

**Investment Rate of Return**

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on LACERS' investment policy. For valuation purposes, the assumed rate of return on the valuation value of assets is 8.00%. The actual rate of return on the valuation value of assets basis for the 2005 plan year was 4.19%.

Since the actual return for the year was less than the assumed return, LACERS experienced an actuarial loss during the year ended June 30, 2005 with regard to its investments.

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

**CHART 10**

**Actuarial Value Investment Experience for Year Ended June 30, 2005**

| | Actuarial Value (Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits) | Valuation Value (Includes assets for Retirement Only) |
|---|---|---|
| 1. Actual return | $ 344,723,988 | $ 295,427,997 |
| 2. Average value of assets | 7,945,035,660 | 7,048,976,729 |
| 3. Actual rate of return: (1) ÷ (2) | 4.34% | 4.19% |
| 4. Assumed rate of return | 8.00% | 8.00% |
| 5. Expected return: (2) x (4) | $635,602,853 | $563,918,138 |
| 6. Actuarial gain/(loss): (1) – (5) | -$290,878,865 | -$268,490,141 |

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

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

**CHART 11**

**Investment Return – Actuarial Value vs. Market Value: 2001 - 2005**

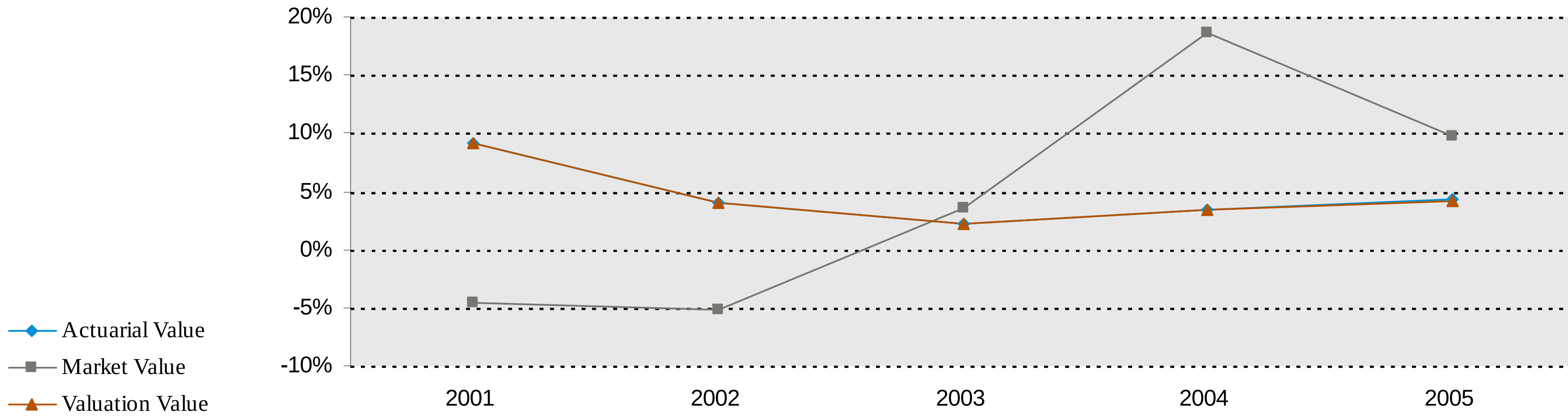
| Year Ended June 30 | Net Interest and Dividend Income | | Recognition of Capital Appreciation | | Actuarial Value Investment Return | | Market Value Investment Return | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| 2001 | $218,918,771 | 2.83 | $443,656,601 | 5.73 | $662,575,372 | 9.09 | $218,918,771 | -4.60 |
| 2002 | 201,393,778 | 2.58 | 112,813,481 | 1.44 | 314,207,259 | 4.06 | 201,393,778 | -5.25 |
| 2003 | 164,915,100 | 2.11 | 11,691,257 | 0.15 | 176,606,357 | 2.26 | 238,161,856 | 3.61 |
| 2004 | 171,166,339 | 2.19 | 96,283,183 | 1.23 | 267,449,522 | 3.42 | 1,243,644,727 | 18.84 |
| 2005 | 235,062,628 | 2.96 | 109,661,360 | 1.38 | 344,723,988 | 4.34 | 753,805,403 | 9.71 |
| Total | $991,456,616 | | $774,105,882 | | $1,765,562,498 | | $2,655,924,535 | |
| | | | | | Five-year average return | 4.61% | | 4.08% |

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

*This chart illustrates how this leveling effect has actually worked over the years 2001 - 2005.*

**CHART 12**

**Market and Actuarial Rates of Return for Years Ended June 30, 2001 - 2005**



**Other Experience**

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

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net gain from this other experience for the year ended June 30, 2005 amounted to $90,755,342 which is 1.0% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the LACERS for the year ended June 30, 2005 is shown in the chart below.

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

**CHART 13**

**Experience Due to Changes in Demographics for Year Ended June 30, 2005**

| | | |
|---|---|---|
| 1. | Salary increase for continuing actives less than expected | $116,553,414 |
| 2. | Miscellaneous | -25,798,072 |
| 3. | Total | $90,755,342 |

## D. RECOMMENDED CONTRIBUTION

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. This total amount is then divided by the projected payroll for active members to determine the funding rate of 17.51% of payroll.

We have continued to follow last year's recommended contribution policy that adjusts the contribution requirement if the GASB ARC minimum contribution is greater than the amount prescribed below. For 2005, the GASB ARC minimum is $273.0 million and no additional adjustment has been made.

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

**CHART 14**

**Recommended Contribution**

| | | Year Beginning July 1 | | | |
|---|---|---|---|---|---|
| | | 2005 | | 2004 | |
| | | Amount | % of Payroll | Amount | % of Payroll |
| 1. | Total normal cost | $ 249,462,452 | 15.70% | $ 236,238,453 | 14.99% |
| 2. | Expected employee contributions | -103,009,993 | -6.48% | -103,231,144 | -6.55% |
| 3. | Employer normal cost: (1) + (2) | $ 146,452,459 | 9.22% | $ 133,007,309 | 8.44% |
| 4. | Actuarial accrued liability | 9,321,524,967 | | 8,533,863,528 | |
| 5. | Actuarial value of assets | 7,193,142,227 | | 7,042,107,591 | |
| 6. | Unfunded actuarial accrued liability | $2,128,382,740 | | $1,491,755,937 | |
| 7. | Amortization of unfunded accrued liability | 121,432,706 | 7.64% | 90,809,198 | 5.77% |
| 8. | Total recommended contribution, not adjusted for timing | $ 267,885,165 | 16.86% | $ 223,816,507 | 14.21% |
| 9. | Total recommended contribution, adjusted for timing* | $ 278,326,214 | 17.51% | $ 232,539,943 | 14.76% |
| 10. | Projected payroll used for developing normal cost rate | $1,589,305,846 | | $1,575,284,734 | |

**Contributions are assumed to be paid at the end of every pay period.*

If paid by the City at the beginning of the year, the calculated normal cost (including expenses) is 9.22% of payroll. The remaining 7.64% of payroll will amortize the unfunded actuarial accrued liability over about 28 years.

The contribution rates as of June 30, 2005 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

**Reconciliation of Recommended Contribution**

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

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

**CHART 15**

**Reconciliation of Recommended Contribution from July 1, 2004 to July 1, 2005**

| | |
|---|---|
| **Recommended Contribution as of July 1, 2004** | $232,539,943 |
| Effect of change in amortization period | -$7,876,717 |
| Effect of change in other actuarial assumptions | 30,230,538 |
| Effect of contributions less than recommended contribution | 3,765,417 |
| Effect of investment loss | 15,245,633 |
| Effect of 40 year minimum GASB 25/27 | 1,235,271 |
| Effect of net other changes | 3,186,129 |
| **Total change** | $45,786,271 |
| **Recommended Contribution as of July 1, 2005** | $278,326,214 |

## E. INFORMATION REQUIRED BY THE GASB

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

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

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

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

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

*These graphs show key GASB factors.*

**CHART 16**

**Required Versus Actual Contributions**

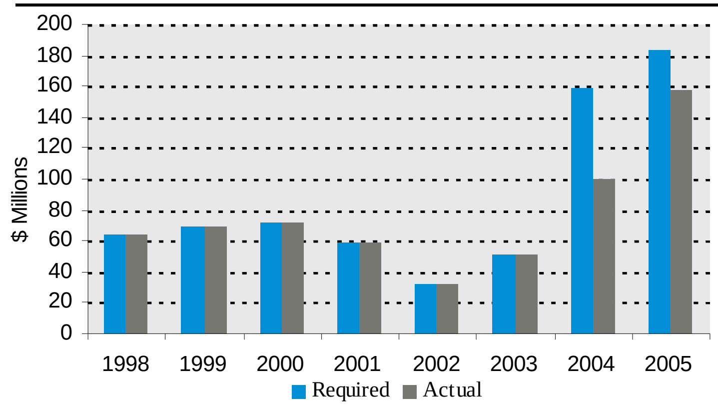
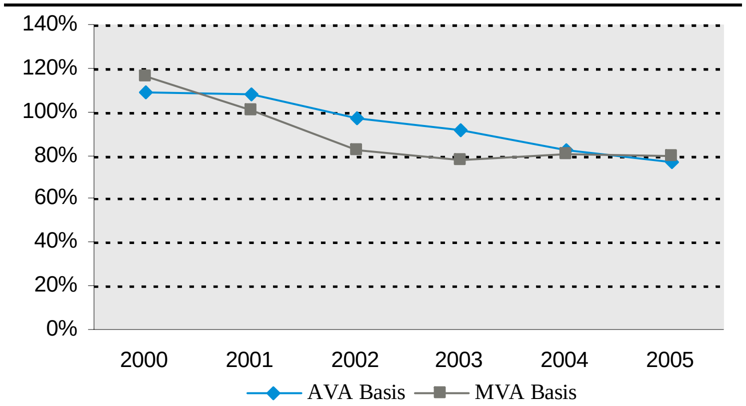



**CHART 17**

**Funded Ratio**



## EXHIBIT A

## Table of Plan Coverage

| Category | Year Ended June 30 2005 | Year Ended June 30 2004 | Change From Prior Year |
|---|---|---|---|
| **Active members in valuation:** | | | |
| Number | 27,333 | 27,092 | 0.9% |
| Average age | 45.6 | 45.2 | N/A |
| Average service | 12.0 | 11.9 | N/A |
| Projected total payroll | $1,589,305,846 | $1,575,284,734 | 0.9% |
| Projected average payroll | 58,146 | 58,146 | 0.0% |
| Account balances | 1,081,800,094 | 1,019,487,318 | 6.1% |
| Total active vested members | 18,399 | 17,591 | 4.6% |
| **Vested terminated members:** | | | |
| Number | 2,426 | 2,232 | 8.7% |
| Average age | 42.6 | 42.7 | N/A |
| Average contribution balance for those with under 5 years of service | $3,294 | $2,958 | 11.4% |
| Average monthly benefit for those members with 5 or more years of service | $1,202 | $1,183 | 1.6% |
| **Retired members:** | | | |
| Number in pay status | 10,147 | 10,093 | 0.5% |
| Average age at retirement | 60.0 | 60.1 | N/A |
| Average age | 71.4 | 71.4 | N/A |
| Average monthly benefit (includes July COLA) | $2,961 | $2,778 | 6.6% |
| **Disabled members:** | | | |
| Number in pay status | 862 | 847 | 1.8% |
| Average age at retirement | 44.3 | 44.3 | N/A |
| Average age | 60.1 | 60.2 | N/A |
| Average monthly benefit (includes July COLA) | $1,236 | $1,182 | 4.6% |
| **Beneficiaries:** | | | |
| Number in pay status | 3,313 | 3,197 | 3.6% |
| Average age | 75.2 | 75.0 | N/A |
| Average monthly benefit (includes July COLA) | $1,374 | $1,324 | 3.8% |

## EXHIBIT B

### Members in Active Service as of June 30, 2005
### By Age, Years of Service, and Average Payroll

| | | Years of Service | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age** | **Total** | **0-4** | **5-9** | **10-14** | **15-19** | **20-24** | **25-29** | **30-34** | **35-39** | **40 & over** |
| Under 25 | 610 | 602 | 8 | - - | - - | - - | - - | - - | - - | - - |
| | 28,501 | 28,230 | 48,884 | - - | - - | - - | - - | - - | - - | - - |
| 25 - 29 | 1,862 | 1,594 | 264 | 4 | - - | - - | - - | - - | - - | - - |
| | 44,882 | 43,209 | 54,751 | 60,296 | - - | - - | - - | - - | - - | - - |
| 30 - 34 | 2,521 | 1,519 | 869 | 118 | 15 | - - | - - | - - | - - | - - |
| | 52,590 | 47,893 | 59,108 | 64,661 | 55,599 | - - | - - | - - | - - | - - |
| 35 - 39 | 3,510 | 1,314 | 1,001 | 571 | 601 | 23 | - - | - - | - - | - - |
| | 56,724 | 46,584 | 58,938 | 69,543 | 62,975 | 58,145 | - - | - - | - - | - - |
| 40 - 44 | 4,555 | 1,142 | 863 | 544 | 1,476 | 499 | 31 | - - | - - | - - |
| | 61,229 | 47,255 | 58,890 | 68,528 | 69,114 | 65,710 | 65,513 | - - | - - | - - |
| 45 - 49 | 4,568 | 1,002 | 614 | 454 | 1,262 | 882 | 318 | 35 | - - | 1 |
| | 61,825 | 43,920 | 57,627 | 63,903 | 69,346 | 72,028 | 65,586 | 57,852 | - - | 87,919 |
| 50 - 54 | 4,222 | 814 | 519 | 341 | 926 | 673 | 553 | 376 | 20 | - - |
| | 63,124 | 45,351 | 58,582 | 66,610 | 66,850 | 70,344 | 71,597 | 69,784 | 69,874 | - - |
| 55 - 59 | 3,048 | 536 | 377 | 241 | 576 | 421 | 366 | 373 | 154 | 4 |
| | 63,219 | 40,510 | 54,248 | 61,422 | 65,808 | 66,937 | 75,205 | 79,376 | 79,245 | 75,402 |
| 60 - 64 | 1,530 | 305 | 185 | 120 | 304 | 191 | 131 | 144 | 123 | 27 |
| | 59,335 | 36,152 | 52,690 | 60,625 | 61,420 | 65,335 | 68,750 | 72,463 | 81,161 | 79,958 |
| 65 - 69 | 604 | 116 | 67 | 59 | 122 | 88 | 51 | 45 | 34 | 22 |
| | 54,250 | 25,574 | 43,470 | 48,850 | 64,332 | 67,275 | 64,146 | 61,684 | 73,383 | 77,037 |
| 70 & over | 303 | 94 | 32 | 23 | 47 | 35 | 28 | 17 | 14 | 13 |
| | 41,601 | 16,344 | 21,732 | 44,062 | 59,152 | 58,990 | 60,571 | 63,016 | 60,378 | 69,420 |
| Total | 27,333 | 9,038 | 4,799 | 2,475 | 5,329 | 2,812 | 1,478 | 990 | 345 | 67 |
| | $58,146 | $43,368 | $57,433 | $65,680 | $67,052 | $68,862 | $70,351 | $72,881 | $78,042 | $76,801 |

## EXHIBIT C

### Reconciliation of Member Data

| | Active Members | Vested Former Members | Disableds | Retired Members | Beneficiaries | Total |
|---|---|---|---|---|---|---|
| Number as of June 30, 2004 | 27,092 | 2,232 | 847 | 10,093 | 3,197 | 43,461 |
| New members | 1,685 | N/A | N/A | N/A | N/A | 1,685 |
| Terminations – with vested rights | -450 | 450 | 0 | 0 | 0 | 0 |
| Terminations – without vested rights | -357 | N/A | N/A | N/A | N/A | -357 |
| Retirements | -557 | -52 | N/A | 609 | N/A | 0 |
| New disabilities | -44 | -4 | 48 | N/A | N/A | 0 |
| Died with beneficiary | -2 | 0 | -1 | -37 | 40 | 0 |
| Died without beneficiary | -66 | 0 | -33 | -469 | -188 | -756 |
| Rehired | 32 | -31 | -1 | 0 | N/A | 0 |
| Data adjustments | 0 | -169* | 2 | -49 | 264 | 48 |
| Number as of June 30, 2005 | 27,333 | 2,426 | 862 | 10,147 | 3,313 | 44,081 |

**Includes non-vested members who received a refund of contributions.*

## EXHIBIT D

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

| | Year Ended June 30, 2005 | | Year Ended June 30, 2004 | |
|---|---|---|---|---|
| **Contribution income:** | | | | |
| Employer contributions | $229,136,519 | | $140,201,349 | |
| Employee contributions | 94,268,171 | | 93,417,803 | |
| Contribution income | | $323,404,690 | | $233,619,152 |
| **Investment income:** | | | | |
| Interest, dividends and other income | $263,747,032 | | $200,347,430 | |
| Recognition of capital appreciation | 109,661,360 | | 96,283,183 | |
| Less investment and administrative fees | -28,684,404 | | -29,181,091 | |
| Net investment income | | 344,723,988 | | 267,449,522 |
| **Total income available for benefits** | | $668,128,678 | | $501,068,674 |
| **Less benefit payments:** | | | | |
| Payment of benefits | -$469,212,203 | | -$440,529,521 | |
| Refunds of contributions | -10,679,421 | | -11,338,011 | |
| Net benefit payments | | -$479,891,624 | | -$451,867,532 |
| **Change in reserve for future benefits** | | $188,237,054 | | $49,201,142 |

## EXHIBIT E

## Summary Statement of Assets for Retirement, Health, Family Death, and Larger Annuity Benefits

| | Year Ended June 30, 2005 | | Year Ended June 30, 2004 | |
|---|---|---|---|---|
| **Cash equivalents** | | $ 486,208,221 | | $ 539,354,004 |
| **Accounts receivable:** | | | | |
| Investment income | $ 39,635,686 | | $ 28,095,038 | |
| Proceeds from sales | 136,080,695 | | 113,194,813 | |
| Other | 7,530,888 | | 5,982,494 | |
| Total accounts receivable | | 183,247,269 | | 147,272,345 |
| **Investments:** | | | | |
| Fixed Income | $1,502,619,496 | | $1,295,992,620 | |
| Equities | 5,294,730,071 | | 5,058,106,931 | |
| Real Estate and Mortgages | 611,251,941 | | 685,373,886 | |
| Other | 1,847,994,545 | | 1,367,398,926 | |
| Fixed Assets | 80,175 | | 113,163 | |
| Total investments at market value | | 9,256,676,227 | | 8,406,985,526 |
| **Total assets** | | $9,926,131,717 | | $9,093,611,875 |
| **Less accounts payable:** | | | | |
| Accounts payable and accrued expenses | -$29,844,814 | | -$19,284,527 | |
| Purchases of investments | -245,013,574 | | -343,822,877 | |
| Security lending collateral | -1,319,516,832 | | -996,066,443 | |
| Total accounts payable | | -$1,594,375,220 | | -$1,359,173,847 |
| **Net assets at market value** | | $8,331,756,497 | | $7,734,438,028 |
| **Net assets at actuarial value** | | $8,105,746,091 | | $7,917,509,037 |
| **Net assets at valuation value** | | $7,193,142,227 | | $7,042,107,591 |

*Note: Results may be slightly off due to rounding.*

## EXHIBIT F

**Development of the Fund Through June 30, 2005 for Retirement, Health, Family Death, and Larger Annuity Benefits**

| Year Ended June 30 | Employer Contributions | Employee Contributions | Net Investment Return* | Benefit Payments | Actuarial Value of Assets at End of Year |
|---|---|---|---|---|---|
| 2001 | $ 87,896,674 | $69,460,111 | $662,575,372 | $355,862,157 | $7,853,297,000 |
| 2002 | 79,467,671 | 75,654,360 | 314,207,259 | 387,864,290 | 7,934,762,000 |
| 2003 | 97,531,127 | 83,067,509 | 176,606,357 | 423,659,098 | 7,868,307,895 |
| 2004 | 140,201,349 | 93,417,803 | 267,449,522 | 451,867,532 | 7,917,509,037 |
| 2005 | 229,136,519 | 94,268,171 | 344,723,988 | 479,891,624 | 8,105,746,091 |

** Net of investment fees and administrative expenses*

## EXHIBIT G

## Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2005

| | | | |
|---|---|---|---|
| 1. | Unfunded actuarial accrued liability at beginning of year | | $1,491,755,937 |
| 2. | Normal cost at beginning of year | | 236,238,453 |
| 3. | Total contributions | | -269,782,315 |
| 4. | Interest | | 121,122,993 |
| 5. | Expected unfunded actuarial accrued liability | | $1,579,335,068 |
| 6. | Changes due to: | | |
| | (a) Experience loss* | $177,734,799 | |
| | (b) Assumption changes | 371,312,873 | |
| | (c) Total changes | | 549,047,672 |
| 7. | Unfunded actuarial accrued liability at end of year | | $2,128,382,740 |

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

## EXHIBIT H

### Table of Amortization Bases

| Type* | Date Established | Initial Years | Initial Amount | Annual Payment* | Years Remaining | Outstanding Balance |
|---|---|---|---|---|---|---|
| Contribution phase-in loss** | 06/30/2004 | 15 | $29,485,103 | $2,627,360 | 14 | $29,115,499 |
| Contribution phase-in loss | 06/30/2005 | 15 | 12,401,167 | 1,062,542 | 15 | 12,401,167 |
| Combined bases | 06/30/2005 | 30 | 1,715,553,201 | 93,759,629 | 30 | 1,715,553,201 |
| Change in assumptions | 06/30/2005 | 30 | 371,312,873 | 20,293,254 | 30 | 371,312,873 |
| Sub-total before GASB amount | | | | $117,742,785 | | $2,128,382,740 |
| 40 year minimum GASB 25/27 | 06/30/2004 | 15 | 29,189,615 | 2,601,030 | 14 | 28,823,715 |
| 40 year minimum GASB 25/27 | 06/30/2005 | 15 | 12,708,684 | 1,088,891 | 15 | 12,708,684 |
| Total | | | | $121,432,706 | | $2,169,915,139 |

** Level percentage of payroll*

***Reported as part of the actuarial loss of $799,324,434 in the June 30, 2004 valuation.*

## EXHIBIT I
### Section 415 Limitations

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

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

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

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

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

## EXHIBIT J
### Definitions of Pension Terms

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

**Assumptions or Actuarial Assumptions:** The estimates on which the cost of the Plan is calculated including:

(a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;

(b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates — the rate or probability of retirement at a given age;

(d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

**Normal Cost:** The amount of contributions required to fund the benefit allocated to the current year of service.

**Actuarial Accrued Liability For Actives:** The equivalent of the accumulated normal costs allocated to the years before the valuation date.

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

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

**Amortization of the Unfunded Actuarial Accrued Liability:** Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

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

## EXHIBIT I

## Summary of Actuarial Valuation Results

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

| | | | |
|---|---|---|---|
| 1. | Retired members as of the valuation date (including 3,313 beneficiaries in pay status) | | 14,322 |
| 2. | Members inactive during year ended June 30, 2005 with vested rights (including 1,419 members with under 5 years of service eligible for a refund of contributions) | | 2,426 |
| 3. | Members active during the year ended June 30, 2005 | | 27,333 |
| | Fully vested | 18,399 | |
| | Not vested | 8,934 | |

The actuarial factors as of the valuation date are as follows:

| | | | |
|---|---|---|---|
| | **Assets** | | |
| 1. | Valuation value of assets ($8,331,756,497 at market value* and $8,105,746,091 at actuarial value* as reported by LACERS) | | $7,193,142,227 |
| 2. | Present value of future normal costs | | |
| | Employee | $911,881,747 | |
| | Employer | 1,913,444,767 | |
| | Total | | $2,825,326,514 |
| 3. | Unfunded actuarial accrued liability | | 2,128,382,740 |
| 4. | Present value of current and future assets | | $12,146,851,481 |
| | **Liabilities** | | |
| 5. | Present value of future benefits | | |
| | Retired members and beneficiaries | $4,799,113,445 | |
| | Inactive members with vested rights | 106,119,652 | |
| | Active members | 7,241,618,384 | |
| | Total | | $12,146,851,481 |

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

## EXHIBIT I (continued)

## Summary of Actuarial Valuation Results

The determination of the recommended contribution is as follows:

| | | |
|---|---|---|
| 1. | Total normal cost | $249,462,452 |
| 2. | Expected employee contributions | -103,009,993 |
| 3. | Employer normal cost: (1) + (2) | $146,452,459 |
| 4. | Payment on projected unfunded actuarial accrued liability | 121,432,706 |
| 5. | Total recommended contribution: (3) + (4), not adjusted for timing | 267,885,165 |
| 6. | Total recommended contribution: (3) + (4), adjusted for timing | $278,326,214 |
| 7. | Projected payroll | $1,589,305,846 |
| 8. | Total recommended contribution as a percentage of projected payroll: (5) ÷ (7) | 16.86% |
| 9. | Total recommended contribution as a percentage of projected payroll, adjusted for timing: (6) ÷ (7) | 17.51% |

## EXHIBIT II

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

| Plan Year Ended June 30 | Annual Required Contributions | Actual Contributions | Percentage Contributed |
|---|---|---|---|
| 2000 | $ 72,146,277 | $ 72,146,277 | 100.00% |
| 2001 | 59,153,313 | 59,153,313 | 100.00% |
| 2002 | 32,296,002 | 32,296,002 | 100.00% |
| 2003 | 51,604,669 | 51,604,669 | 100.00% |
| 2004 | 159,083,407 | 100,408,689 | 63.12% |
| 2005 | 183,241,489 | 158,131,638 | 86.30% |

**EXHIBIT III**

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

| Actuarial Valuation Date | Valuation Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Overfunded) AAL (UAAL) (b) - (a) | Funded Ratio (a) / (b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c) |
|---|---|---|---|---|---|---|
| 06/30/2000 | $6,561,365,000 | $6,012,931,000 | -$548,434,000 | 109.12% | $1,182,203,000 | -46.39% |
| 06/30/2001 | 6,988,782,000 | 6,468,066,000 | -520,716,000 | 108.05% | 1,293,350,000 | -40.26% |
| 06/30/2002 | 7,060,188,000 | 7,252,118,000 | 191,930,000 | 97.35% | 1,334,335,000 | 14.38% |
| 06/30/2003 | 6,999,647,000 | 7,659,846,000 | 660,199,000 | 91.38% | 1,405,058,000 | 46.99% |
| 06/30/2004 | 7,042,107,591 | 8,533,863,528 | 1,491,755,937 | 82.52% | 1,575,284,734 | 94.70% |
| 06/30/2005 | 7,193,142,227 | 9,321,524,967 | 2,128,382,740 | 77.17% | 1,589,305,846 | 133.92% |

## EXHIBIT IV

## Supplementary Information Required by the GASB

| | |
|---|---|
| **Valuation date** | June 30, 2005 |
| **Actuarial cost method** | Projected Unit Credit Cost Method – assuming a closed group. |
| **Amortization method** | Level percent of payroll – assuming a 4% increase in total covered payroll. |
| **Remaining amortization period** | Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. The existing layers on June 30, 2005, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years. |
| **Asset valuation method** | Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five - year period. |
| **Actuarial assumptions**: | |
| Investment rate of return | 8.00% |
| Inflation rate | 3.75% |
| Real across-the-board salary increase | 0.25% |
| Projected salary increases | Ranges from 10.0% to 6.75% for members with less than 5 years of service. Ranges from 6.75% to 4.75% for members with 5 or more years of service. |
| Cost of living adjustments | 3.00% |
| **Plan membership:** | |
| Retired members and beneficiaries receiving benefits | 14,322 |
| Terminated members entitled to, but not yet receiving benefits | 2,426 |
| Active members | 27,333 |
| Total | 44,081 |

## EXHIBIT V

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

| Plan Year Ended June 30 | Employer Annual Required Contribution (a) | Employer Amount Contributed (b) | Interest on NPO (h) * .08 (c) | ARC Adjustment with Interest (h) / (e) * 1.08 (d) | Amortization Factor (e) | Pension Cost (a) + (c) – (d) (f) | Change in NPO (f) – (b) (g) | NPO Balance NPO + (g) (h) |
|---|---|---|---|---|---|---|---|---|
| 2003 | $ 51,604,669 | $ 51,604,669 | $ 0 | $ 0 | N/A | $ 51,604,669 | $ 0 | $ 0 |
| 2004 | 159,083,407 | 100,408,689 | 0 | 0 | N/A | 159,083,407 | 58,674,718 | 58,674,718 |
| 2005 | 183,241,489 | 158,131,638 | 0 | 0 | N/A | 183,241,489 | 25,109,851 | 83,784,569 |

## EXHIBIT VI

### Actuarial Assumptions and Actuarial Cost Method

The following assumptions were adopted by the Board on October 11, 2005, based on an Actuarial Experience Study as of June 30, 2005.

**Mortality Rates:**

*After Service Retirement:* 1994 Group Annuity Mortality Table.

*After Disability Retirement* 1994 Group Annuity Mortality Table, set forward 8 years.

**Termination Rates before Retirement:**

*Pre-Retirement Mortality:* 1994 Group Annuity Mortality Table.

| | Rate (%) | |
|---|---|---|
| Age | Disability | Withdrawal* |
| 25 | 0.01 | 4.45 |
| 30 | 0.04 | 3.80 |
| 35 | 0.11 | 3.05 |
| 40 | 0.18 | 2.45 |
| 45 | 0.21 | 2.10 |
| 50 | 0.24 | 1.70 |
| 55 | 0.23 | 1.35 |
| 60 | 0.00 | 0.00 |

* *Withdrawal rates are zero for members eligible to retire.*

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

| | Rate (%) |
|---|---|
| **Service** | **Withdrawal (Based on Service)** |
| 0 | 8.75 |
| 1 | 7.00 |
| 2 | 5.75 |
| 3 | 5.25 |
| 4 | 4.75 |

**Retirement Rates:**

| Age | Retirement Probability |
|---|---|
| 50 | 10% |
| 51 | 5 |
| 52 | 5 |
| 53 | 5 |
| 54 | 5 |
| 55 | 10 |
| 56 | 11 |
| 57 | 12 |
| 58 | 13 |
| 59 | 14 |
| 60 | 15 |
| 61 | 16 |
| 62 | 17 |
| 63 | 18 |
| 64 | 19 |
| 65 | 20 |
| 66 | 20 |
| 67 | 20 |
| 68 | 20 |
| 69 | 20 |
| 70 | 100 |

| | |
|---|---|
| **Retirement Age and Benefit for Inactive Vested Participants:** | Assume pension benefit will be paid at the later of age 58 or the current attained age. |
| **Exclusion of Inactive Vesteds:** | All inactive participants are included in the valuation. |
| **Definition of Active Members:** | First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department. |
| **Unknown Data for Members:** | Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male. |
| **Percent Married/Domestic Partner:** | 76% of male participants; 50% of female participants. |
| **Age of Spouse:** | Female spouses 4 years younger than their spouses. |
| **Future Benefit Accruals:** | 1.0 year of service per year. |
| **Other Reciprocal Service:** | 10% of future vested members will work at a reciprocal system. |
| **Consumer Price Index:** | Increase of 3.75% per year; benefit increases due to CPI subject to 3.0% maximum. |
| **Employee Contribution and Matching Account Crediting Rate:** | 6.50% |
| **Net Investment Return:** | 8.00% |

**Salary Increases:**

According to the following schedule:

For members with under 5 years of service,

| Service | Percentage Increase* |
|---|---|
| 0 | 6.00% |
| 1 | 5.00% |
| 2 | 4.50% |
| 3 | 3.50% |
| 4 | 2.75% |

For members with over 5 years of service,

| Age | Percentage Increase* |
|---|---|
| 20 – 24 | 2.75% |
| 25 – 29 | 2.00% |
| 30 – 34 | 1.50% |
| 35 – 39 | 1.25% |
| 40 – 49 | 1.00% |
| 50 – 69 | 0.75% |

** Before including a 3.75% inflation increase and a 0.25% across the board increase.*

**Actuarial Value of Assets:**

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

| | |
|---|---|
| **Actuarial Cost Method:** | Projected Unit Credit Cost Method. |
| **Funding Policy:** | The Los Angeles City Employees' Retirement System makes contributions equal to the Normal Cost adjusted by amount to amortize any Surplus or Unfunded Actuarial Accrued Liability. Both the Normal Cost and the Actuarial Accrued Liability are determined under the Projected Unit Credit cost method. All the bases on or before June 30, 2005 were combined and amortized over 30 years effective June 30, 2005. Any subsequent change in Surplus or Unfunded Actuarial Accrued Liability due to actuarial gains or losses are amortized over separate fifteen year periods. Any change in Surplus or Unfunded Actuarial Accrued Liability from plan amendments or plan assumption changes are amortized over separate thirty year periods. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service. |

| | |
|---|---|
| **Changes in Assumptions:** | The Board adopted the above assumptions on October 11, 2005, based on an Actuarial Experience Study as of June 30, 2005. The assumptions that changed from the previous valuation are as follows: |

**Mortality Rates:**

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

**Termination Rates before Retirement:**

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

**Change in Actuarial Assumptions (Previous Assumptions continued):**

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

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

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

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

| | Rate (%) |
|---|---|
| **Service** | **Withdrawal (Based on Service)** |
| 0 | 8.25 |
| 1 | 7.25 |
| 2 | 6.75 |
| 3 | 6.50 |
| 4 | 6.25 |

**Change in Actuarial Assumptions (Previous Assumptions continued):**

**Retirement Rates:**

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

**Retirement Age and Benefit for Inactive Vested Participants:** Assume pension benefit will be paid at the later of age 60 or the current attained age.

**Other Reciprocal Service:** No deferred vested members will leave the City of Los Angeles to work at a reciprocal system.

**Change in Actuarial Assumptions (Previous Assumptions continued):**

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

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

| Service | Percentage Increase* |
|---|---|
| 0 | 5.0% |
| 1 | 4.5% |
| 2 | 4.0% |
| 3 | 3.0% |
| 4 | 2.5% |
| 5+ | 1.0% |

** Before including 4% general CPI increase.*

## EXHIBIT VII

## Summary of Plan Provisions

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

| | |
|---|---|
| **Plan Year:** | July 1 through June 30 |
| **Census Date:** | June 30 |
| **Normal Retirement Benefit:** | |
| *Age & Service Requirement (§ 4.1020)* | Age 70;<br>Age 60 with 10 years of continuous service; or<br>Age 55 with at least 30 years of service. |
| *Amount (§ 4.1056.2)* | 2.16% of the Final Average Monthly Compensation per year of service |
| **Early Retirement Benefit:** | |
| *Age & Service Requirement (§ 4.1020)* | Age 55 with 10 years of continuous service; or<br>Any age with 30 year of service. |
| *Amount (§ 4.1056.2)* | 2.16% of the Final Average Monthly Compensation per year of service reduced for retirement ages below age 60 using the following sample Early Retirement benefit adjustment factors: |

| Age | Factor | Age | Factor |
|---|---|---|---|
| 45 | 0.6250 | 50 | 0.7750 |
| 55 | 0.9250 | 60 | 1.0000 |

| | |
|---|---|
| **Final Average Monthly Compensation:** *(§ 4.1010)* | Equivalent of monthly average salary of highest continuous 12 months (one year). |

| | |
|---|---|
| **Cost of Living benefit** *(§ 4.1040)* | Based on changes to Los Angeles area consumer price index to a maximum of 3% per year, excess banked. |
| **Death after retirement** *(§ 4.1044)* | (i) 50% of retiree’s unmodifed allowance continued to an eligible spouse or a domestic partner; or a modified continuance to an eligible spouse or a domestic partner at the time of member’s death (or a designated beneficiary selected by member at the time of retirement);<br>(ii) $2,500 lump sum death benefit paid to a designated beneficiary; and<br>(iii) Any unused contributions if the member has elected the cash refund annuity option. |
| **Death before retirement** *(§ 4.1062 and § 4.1054)* | Option #1:<br>(i) Eligibility – None.<br>(ii) Benefit – Refund of contributions plus a limited pension benefit according to the following schedule: |

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

Option #2:
(i) Eligibility – Duty-related death or after 5 years of service.
(ii) Benefit – Continuance of service or disability benefit payable under 100% joint and survivor option to an eligible spouse or qualified domestic partner.

**Member Normal Contributions:**

*(§ 4.1031)*

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

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

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

**Disability:**

*(§ 4.1055)*

*Service Requirement* 5 years of continuous service

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

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

*(§ 4.1020 and § 4.1059.1)*

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

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

Refund of employee contributions with interest.

**Changes in Plan Provisions:** There have been no changes in plan provisions, benefit amounts and eligibility requirements since the last valuation.

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Los Angeles City Employees' Retirement System

# *Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2005*
# *In accordance with GASB Statements No. 43 and No. 45*

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SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500, San Francisco, CA 94104
T 415-263-8200 F 415-263-8290 www.segalco.com

*November 9, 2005*

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

*Dear Board Members:*

*We are pleased to submit this report on our actuarial valuation of postemployment welfare benefits for the year ending June 30, 2005 under GASB Statements Number 43 and 45. It establishes the liabilities of the other postemployment benefits in accordance with GASB for the current year. It also summarizes the actuarial data.*

*This report is based on information received from the City. The actuarial projections were based on the assumptions and methods described in Exhibit V and on the plan of benefits as summarized in Exhibit VI.*

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

*Sincerely,*

*THE SEGAL COMPANY*

*By:* ______________________________ ______________________________

| | |
|---|---|
| *Paul Angelo, FSA, MAAA, EA* | *Andy Yeung, ASA, MAAA, EA* |
| *Vice President and Actuary* | *Associate Actuary* |

*TXB/hy*

**PURPOSE**

This report presents the results of our actuarial valuation of the Los Angeles City Employees' Retirement System (LACERS) post retirement medical and dental benefits for the year ending June 30, 2005. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

Actuarial computations under GASB are for purposes of fulfilling certain welfare fund accounting requirements. The calculations reported in this report have been made on a basis consistent with our understanding of GASB. Determinations for purposes other than meeting the financial accounting requirements of GASB may differ significantly from the results reported here.

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that LACERS is required to implement a funding policy to satisfy the projected expense.

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

## ACCOUNTING REQUIREMENTS

The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Under this statement, all plans of state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements.

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

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

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

.

## HIGHLIGHTS OF THE VALUATION

- The recommended contribution has increased from $77.8 million (4.94% of payroll) to $115.6 million (7.27% of payroll). The contribution rate for the employer increased primarily because of the inclusion in the valuation for the first time of active members with less than 10 years of service.
- The employer contribution rates provided in this report have been developed, assuming that they will be made by the City at either (1) the beginning of the fiscal year (i.e. the City will prepay its contributions or (2) throughout the year (i.e. the City will pay contributions at the end of every pay period).
- GASB requires that plans whose employers have total annual revenues of $100 million or more, such as LACERS, comply with the new Standard for plan years beginning after December 15, 2005 (i.e., Plan Year 2006/2007). The City is required to include the results in its financial statements effective with the following fiscal year (i.e., Fiscal year 2007/2008).
- The assumption for the discount rate is 8.00%, and is based on the assumption that 100% of benefits will be paid from the trust.
- The funding method used to develop the actuarial required contribution (ARC) is the Projected Unit Credit Method, a method that will produce an increasing normal cost as a percent of payroll.
- Contributions will generally increase with payroll growth. Other factors such as gains or losses, or changes in trend assumptions will also alter the contribution rate.
- Since the prior valuation, several actuarial assumptions have been updated to more accurately reflect past and anticipated experience (see Section 4, Exhibit V for details). Assumed medical trend is slightly higher this year than in the prior year. The changes in mortality, disability, turnover, and retirement rates are the same as those recommended in the Analysis of Actuarial Experience During the Period July 1, 2002 through June 30, 2005 for the pension plan. The net effect of the assumption changes was to increase the ARC by 0.23% of payroll. These assumptions have been adopted by the Board for the June 30, 2005 valuation.
- This year the valuation includes all actives. In prior years, actives with less than 10 years of service had been excluded from the valuation. The cost associated with the inclusion of actives with under 10 years of service is equivalent to about 2.40% of payroll.
- The Board has adopted a policy of amortizing the Unfunded Actuarial Accrued Liability (UAAL) over a fixed period of 30 years beginning July 1, 2005. The cost reduction due to this change is equivalent to 0.77% of payroll. Future changes in the UAAL will be separately identified and amortized over various periods depending on the source of the change.

*The key results and significant assumptions for the current and prior years are shown.*

## SUMMARY OF VALUATION RESULTS

| | June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **Actuarial Accrued Liability by Participant Category** | | |
| Current retirees, beneficiaries and dependents | $803,472,421 | $703,482,695 |
| Inactive vested members | 22,273,527 | 17,561,325 |
| Current active members | 893,152,844 | 698,768,806 |
| Total | $1,718,898,792 | $1,419,812,826 |
| **Actuarial Value of Assets** | $893,378,123 | $858,997,310 |
| **Unfunded Actuarial Accrued Liability** | $825,520,669 | $560,815,516 |
| **Funded Ratio** | 52.0% | 60.5% |
| **Market Value of Assets** | $918,287,952 | $839,135,318 |
| **Annual Required Contribution** | | |
| Normal cost (beginning of year) | $66,146,106 | $32,035,500 |
| Amortization of the unfunded actuarial accrued liability | 45,116,941 | 42,851,349 |
| Adjustment for timing | 4,336,570 | 2,918,643 |
| Total annual required contribution, including adjustment for timing | $115,599,617 | $77,805,492 |
| Covered payroll | 1,589,305,346 | 1,575,284,734 |
| As a percentage of pay | | |
| Beginning of year | 7.00% | 4.75% |
| At the end of each pay period | 7.27% | 4.94% |

**DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY FOR THE YEAR ENDED JUNE 30, 2005**

| | | |
|---|---|---|
| 1. | Unfunded actuarial accrued liability at beginning of year | $560,815,516 |
| 2. | Normal cost at beginning of year | 32,035,500 |
| 3. | Total contributions at beginning of year | 53,189,541 |
| 4. | Interest | 43,172,917 |
| 5. | Expected unfunded actuarial accrued liability | $582,834,392 |
| 6. | Increase due to experience loss* | 86,036,297 |
| 7. | Increase due to inclusion of actives with under 10 years of service | $132,218,798 |
| 8. | Increase due to change in actuarial assumptions | 24,431,182 |
| 9. | Unfunded actuarial accrued liability at end of year | $825,520,669 |

**Please refer to Section 4, Exhibit III for a detailed explanation of the experience loss.*

**PROJECTED CASH FLOW**

| Year Ending June 30 | Projected Number of Retirees * | | | Projected Benefit Payments | | |
|---|---|---|---|---|---|---|
| | Current | Future | Total | Current | Future | Total |
| 2006 | 15,379 | 2,094 | 17,473 | $61,647,068 | $4,792,533 | $66,439,601 |
| 2007 | 14,916 | 3,538 | 18,454 | 66,188,069 | 9,627,300 | 75,815,369 |
| 2008 | 14,453 | 4,958 | 19,411 | 69,544,380 | 15,296,434 | 84,840,814 |
| 2009 | 13,965 | 6,453 | 20,418 | 72,300,506 | 22,029,078 | 94,329,584 |
| 2010 | 13,471 | 8,012 | 21,483 | 74,310,371 | 29,787,643 | 104,098,014 |
| 2011 | 12,955 | 9,654 | 22,609 | 75,475,786 | 38,587,601 | 114,063,387 |
| 2012 | 12,444 | 11,366 | 23,810 | 75,843,231 | 48,277,576 | 124,120,807 |
| 2013 | 11,913 | 13,234 | 25,147 | 75,426,226 | 58,876,262 | 134,302,488 |
| 2014 | 11,395 | 15,057 | 26,452 | 74,028,908 | 69,765,143 | 143,794,051 |
| 2015 | 10,866 | 16,939 | 27,805 | 72,819,878 | 81,867,529 | 154,687,407 |

*Includes spouse of retirees, but excludes those not receiving a subsidy from LACERS.

## ACTUARIAL CERTIFICATION

November 9, 2005

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of the Los Angeles City Employees' Retirement System other postemployment benefit programs for the year ending June 30, 2005, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this retirement program, with the last valuation completed on June 30, 2004. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB for the determination of the liability for postemployment benefits other than pensions.

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

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

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

1) Schedule of funding progress
2) Schedule of employer contributions
3) Required supplementary information

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with the plan's funding and GASB requirements with respect to the benefit obligations addressed.

Andy Yeung

Andy Yeung, ASA, MAAA, EA
Associate Actuary

Patrick Twomey, ASA, MAAA, EA
Assistant Actuary

## CHART 1

### Summary of Statement of Assets for Retirement, Health, Family Death and Larger Annuity Benefits

| | Year Ended June 30, 2005 | | Year Ended June 30, 2004 | |
|---|---|---|---|---|
| **Cash equivalents** | | $486,208,221 | | $539,354,004 |
| **Accounts receivable:** | | | | |
| Investment income | $ 39,635,686 | | $ 28,095,038 | |
| Proceeds from sales | 136,080,695 | | 113,194,813 | |
| Other | 7,530,888 | | 5,982,494 | |
| Total accounts receivable | | 183,247,269 | | 147,272,345 |
| **Investments:** | | | | |
| Fixed Income | $1,502,619,496 | | $1,295,992,620 | |
| Equities | 5,294,730,071 | | 5,058,106,931 | |
| Real Estate and Mortgages | 611,251,941 | | 685,373,886 | |
| Other | 1,847,994,545 | | 1,367,398,926 | |
| Fixed Assets | 80,175 | | 113,163 | |
| Total investments at market value | | 9,256,676,227 | | 8,406,985,526 |
| **Total assets** | | $9,926,131,717 | | $9,093,611,875 |
| **Less accounts payable:** | | | | |
| Accounts payable and accrued expenses | -$29,844,814 | | -$19,284,527 | |
| Purchases of investments | -245,013,574 | | -343,822,877 | |
| Security lending collateral | -1,319,516,832 | | -996,066,443 | |
| Total accounts payable | | -$1,594,375,220 | | -$1,359,173,847 |
| **Net assets at market value** | | $8,331,756,497 | | $7,734,438,028 |
| **Net assets at actuarial value** | | $8,105,746,091 | | $7,917,509,037 |
| **Net assets at valuation value (retiree health)** | | $893,378,123 | | $858,997,310 |

*Note: Results may be slightly off due to rounding.*

**CHART 2**

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

| | Year Ended June 30, 2005 | | Year Ended June 30, 2004 | |
|---|---|---|---|---|
| **Contribution income:** | | | | |
| Employer contributions | $229,136,519 | | $140,201,349 | |
| Employee contributions | 94,268,171 | | 93,417,803 | |
| Contribution income | | $323,404,690 | | $233,619,152 |
| **Investment income:** | | | | |
| Interest, dividends and other income | $263,747,032 | | $200,347,430 | |
| Recognition of capital appreciation | 109,661,360 | | 96,283,183 | |
| Less investment and administrative fees | -28,684,404 | | -29,181,091 | |
| Net investment income | | 344,723,988 | | 267,449,522 |
| **Total income available for benefits** | | $668,128,678 | | $501,068,674 |
| **Less benefit payments:** | | | | |
| Payment of benefits | -$469,212,203 | | -$440,529,521 | |
| Refunds of contributions | -10,679,421 | | -11,338,011 | |
| Net benefit payments | | -$479,891,624 | | -$451,867,532 |
| **Change in reserve for future benefits** | | $188,237,054 | | $49,201,142 |

## CHART 3

### Determination of Actuarial Value of Assets as of June 30, 2005

| | | Original Amount | Percent not recognized | Amount not recognized | |
|---|---|---|---|---|---|
| 1. | Market value of assets, June 30, 2005 | | | | $8,331,756,497 |
| 2. | Calculation of unrecognized return* | | | | |
| | (a) Year ended June 30, 2005 | $132,848,231 | 80% | $106,278,585 | |
| | (b) Year ended June 30, 2004 | 710,820,763 | 60% | 426,492,458 | |
| | (c) Year ended June 30, 2003 | -289,230,950 | 40% | -115,692,380 | |
| | (d) Year ended June 30, 2002 | -955,341,286 | 20% | -191,068,257 | |
| | (e) Year ended June 30, 2001 | -980,262,575 | 0% | 0 | |
| | (f) Total unrecognized return | | | | $226,010,406 |
| 3. | Actuarial Value (1) – (2f), June 30, 2005 | | | | $8,105,746,091 |
| 4. | Actuarial value as a % of market | | | | 97.3% |
| 5. | Market value of retiree health | | | | $918,287,952 |
| 6. | Valuation value of retiree health | | | | $893,378,123 |

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

**CHART 4**

**Determination of Annual Required Contribution**

| Cost Element | 2005 Amount | 2005 Percent of Compensation | 2004 Amount | 2004 Percent of Compensation |
|---|---|---|---|---|
| 1. Normal cost (beginning of year) | $66,146,106 | 4.16% | $32,035,500 | 2.03% |
| 2. Amortization of the unfunded actuarial accrued liability | 45,116,941 | 2.84% | 42,851,349 | 2.72% |
| 3. Total Annual Required Contribution (beginning of year) | $111,263,047 | 7.00% | $74,886,849 | 4.75% |
| 4. Adjustment for timing* | 4,336,570 | | 2,918,643 | |
| 5. Total Annual Required Contribution (end of pay period) | $115,599,617 | 7.27% | $77,805,492 | 4.94% |

Determined as of June 30

* *Contributions are assumed to be paid at the end of every pay period.*

**CHART 5**

**Required Supplementary Information – Schedule of Employer Contributions**

| Plan Year Beginning | Annual Required Contributions* | Actual Contributions | Percentage Contributed |
|---|---|---|---|
| July 1, 2006 | Not Available | Not Available | Not Available |

**Contributions will be paid at the rate of 7.00% of pay if paid at the beginning of the year or at 7.27% of pay if paid at the end of every pay period.*

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing of decreasing over time relative to the actuarial accrued liability for benefits.

**CHART 6**

**Required Supplementary Information – Schedule of Funding Progress**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Overfunded) AAL (UAAL) (b) - (a) | Funded Ratio (a) / (b) | Covered Payroll (1) (c) | UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)] |
|---|---|---|---|---|---|---|
| June 30, 2000 | $810,303,000 | $854,066,000 | $43,763,000 | 94.88% | $1,182,203,000 | 3.70% |
| June 30, 2001 | 844,984,000 | 807,905,000 | -37,079,000 | 104.59 | 1,293,350,000 | -2.87 |
| June 30, 2002 | 853,916,000 | 931,964,000 | 78,048,000 | 91.63 | 1,334,335,000 | 5.85 |
| June 30, 2003 | 848,983,000 | 1,205,811,000 | 356,828,000 | 70.41 | 1,405,058,000 | 25.40 |
| June 30, 2004 | 858,997,310 | 1,419,812,826 | 560,815,516 | 60.50 | 1,575,284,734 | 35.60 |
| June 30, 2005 | 893,378,123 | 1,718,898,792 | 825,520,669 | 51.97 | 1,589,305,346 | 51.94 |

*Note: Funding ratios for years prior to June 30, 2005 were not calculated using the parameters required for GASB 43 because the plan's funding policy excluded active employees with less than 10 years of service.*

**CHART 7**

**Required Supplementary Information – Net OPEB Obligation (NOO)**

| Plan Year Beginning | Annual Required Contributions* (a) | Interest on Existing NOO (b) | ARC Adjustment (c) | Annual OPEB Cost (a) + (b) + (c) (d) | Actual Contribution Amount (e) | Net Increase in NOO (d) - (e) (f) | NOO as of End of Year (g) |
|---|---|---|---|---|---|---|---|
| July 1, 2006 | Not Available | $0 | $0 | Not Available | Not Available | Not Available | Not Available |

**Contributions will be paid at the rate of 7.00% of pay if paid at the beginning of the year or at 7.27% of pay if paid at the end of every pay period.*

## CHART 8

### Required Supplementary Information

| | |
|---|---|
| **Valuation date** | June 30, 2005 |
| **Actuarial cost method** | Projected Unit Credit – assuming a closed group |
| **Amortization method** | 30 years, assuming a 4% increase in total covered payroll |
| **Remaining amortization period** | 30 years remaining as of June 30, 2005 |
| **Asset valuation method** | Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period. |
| **Actuarial assumptions**: | |
| Discount rate | 8.00% |
| Inflation rate | 3.75% |
| Real across-the-Board salary increase | 0.25% |
| Projected salary increases | N/A |
| Heath care cost trend rate: | |
| • Medical | 12%, graded down over 7 years to ultimate rate of 5.00% |
| • Dental | 5% for all years |
| • Medicare Part B premiums | 15% in 2005/2006 based on actual increases, then 5% for all future years |
| Cost of living adjustments on health plan maximum monthly subsidy amount | Same as health care cost trends |

## CHART 8

### Required Supplementary Information (continued)

| Plan membership: | June 30, 2005 | June 30, 2004 |
|---|---|---|
| Current retirees and surviving spouses[1] | 14,322 | 14,137 |
| Inactive vested participants entitled to a future health subsidy | 561 | 552 |
| Current active members[2] | 27,333 | 13,577 |
| Total | 42,216 | 28,266 |

[1] *Includes all retirees and surviving spouses whether they are receiving a subsidy.*

[2] *Prior to the June 30, 2005 valuation, active members with less than 10 years of service were excluded from the valuation.*

## CHART 9

### Table of Amortization Bases

| Type | Date Established | Initial Year | Initial Amount | Annual Payment* | Years Remaining | Outstanding Balance |
|---|---|---|---|---|---|---|
| Combined Bases | 06/30/2005 | 30 | $668,870,689 | $36,555,595 | 30 | $668,870,689 |
| Change in Method | 06/30/2005 | 30 | 132,218,798 | 7,226,116 | 30 | 132,218,798 |
| Change in Assumptions | 06/30/2005 | 30 | 24,431,182 | 1,335,230 | 30 | 24,431,182 |
| Total | | | $825,520,669 | $45,116,941 | | $825,520,669 |

**Level percentage of pay.*

*Note: The change in method refers to the inclusion in the valuation of active members with less than ten years of service.*

*This exhibit summarizes the participant data used for the current and prior valuations.*

## EXHIBIT I

### Summary of Participant Data

| | June 30, 2005 | June 30, 2004 |
|---|---|---|
| **Retirees** | | |
| Non-disabled | 10,147 | 10,093 |
| Disabled | 862 | 847 |
| Total | 11,009 | 10,940 |
| Average age | 70.5 | 69.8 |
| **Surviving Spouses** | | |
| Number | 3,313 | 3,197 |
| Average age | 75.2 | 75.0 |
| **Active Participants**[1] | | |
| Number | 27,333 | 13,577 |
| Average age | 45.6 | 49.5 |
| Average years of service | 12.0 | 20.0 |
| **Inactive Vested Participants (excluding those with less than 10 years of service)** | | |
| Number | 561 | 552 |
| Average age | 48.4 | 47.3 |

[1] Prior to the June 30, 2005 valuation, active members with less than 10 years of service were excluded from the valuation.

## EXHIBIT II

## Actuarial Balance Sheet for Year Ended June 30, 2005

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

| | | | |
|---|---|---|---|
| | **Assets** | | |
| 1. | Valuation value of assets ($8,331,756,497 at market value* and $8,105,746,091 at actuarial value* as reported by LACERS) | | $893,378,123 |
| 2. | Present value of future normal costs | | 725,798,246 |
| 3. | Unfunded actuarial accrued liability | | 825,520,669 |
| 4. | Present value of current and future assets | | $2,444,697,038 |
| | **Liabilities** | | |
| 5. | Present value of future benefits | | |
| | Retired members and beneficiaries | $803,472,421 | |
| | Inactive members with vested rights | 22,273,527 | |
| | Active members | 1,618,951,090 | |
| | Total | | $2,444,697,038 |

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

**EXHIBIT III**

**Actuarial Experience for Year Ended June 30, 2005**

| | | |
|---|---|---|
| 1. | Net loss from investments | $25,477,294 |
| 2. | Net loss from other experience* | 55,462,661 |
| 3. | Contributions less than anticipated due to phase-in and one-year lag for new rates | 5,096,342 |
| 4. | Net experience loss: (1) + (2) + (3) | $86,036,297 |

**The net gain is attributed to actual liability experience from July 1, 2004 through June 30, 2005, compared to the actuarial assumptions as of July 1, 2004.*

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

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

- Actual rate of return from investment,
- Demographic experience (e.g., turnover, retirement, mortality, disability, etc.), relative to the prior assumptions,
- Loss from less than expected contributions due to the phase-in and the one-year lag for implementing the new rates calculated in the June 30, 2004 valuation.

The net loss from actuarial experience for the year ended June 30, 2005 amounted to ($86,036,297) which is 5.0% of the actuarial accrued liability.

**EXHIBIT IV**

**Reconciliation of Recommended Contribution**

| | |
|---|---|
| **Recommended Contributions as of July 1, 2004 (Beginning of Year)** | $ 74,886,849 |
| Effect of combining amortization bases and amortizing over 30 years | $(12,201,262) |
| Effect of contributions less than recommended contribution | 1,280,682 |
| Effect of investment losses | 1,179,901 |
| Effect of other losses on accrued liability | 3,127,409 |
| Effect of including active members with less than 10 years of service | 36,763,010 |
| Effect of change in actuarial assumptions | 3,508,301 |
| Effect of change in composition of active population | 2,718,157 |
| **Total change** | $36,376,198 |
| **Recommended Contributions as of July 1, 2005 (Beginning of Year)** | $111,263,047 |

**EXHIBIT V**

**Actuarial Assumptions and Actuarial Cost Method**

| | |
|---|---|
| **Data**: | Detailed census data and financial data for postemployment benefits were provided by LACERS. |
| **Actuarial Cost Method**: | Projected unit credit. |

The following assumptions were adopted by the Board on October 11, 2005, based on an Actuarial Experience Study as of June 30, 2005.

**Termination Rates before Retirement**:

| | Mortality | | Disability | Withdrawal |
|---|---|---|---|---|
| **Age** | **Male** | | **Female** | |
| 25 | 0.07% | 0.03% | 0.01% | |
| 30 | 0.08 | 0.04 | 0.04 | 4.45% |
| 35 | 0.09 | 0.05 | 0.11 | 3.80 |
| 40 | 0.11 | 0.07 | 0.18 | 3.05 |
| 45 | 0.16 | 0.10 | 0.21 | 2.45 |
| 50 | 0.26 | 0.14 | 0.24 | 2.10 |
| 55 | 0.44 | 0.23 | 0.23 | 1.70 |

All deaths are assumed to be non-duty related.

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

| Service | Rate |
|---|---|
| 0 | 8.75% |
| 1 | 7.00 |
| 2 | 5.75 |
| 3 | 5.25 |
| 4 | 4.75 |

**Postretirement Mortality Rates**:

| | |
|---|---|
| *Healthy* | 1994 Group Annuity Mortality Table |
| *Disabled* | 1994 Group Annuity Mortality Table, set forward 8 years |

**Active Retirement Rates**:

| Age | Rate (%) |
|---|---|
| 50 | 10% |
| 51 | 5 |
| 52 | 5 |
| 53 | 5 |
| 54 | 5 |
| 55 | 10 |
| 56 | 11 |
| 57 | 12 |
| 58 | 13 |
| 59 | 14 |
| 60 | 15 |
| 61 | 16 |
| 62 | 17 |
| 63 | 18 |
| 64 | 19 |
| 65 | 20 |
| 66 | 20 |
| 67 | 20 |
| 68 | 20 |
| 69 | 20 |
| 70 | 100 |

**Per Capita Cost Development:**

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

| Plan | Observed Participation* | Single Maximum Subsidy | Married Maximum Subsidy | Surviving Spouse Maximum Subsidy | Observed Utilization** >10 Yrs of Svc |
|---|---|---|---|---|---|
| Pre-65 & Over 65 With Medicare Part B only | | | | | |
| PPO | 0.219 | $629.83 | $883.00 | $436.08 | 0.90 |
| Kaiser | 0.607 | 436.08 | 870.56 | 436.08 | 0.90 |
| Blue Cross HMO/SH | 0.174 | 429.55 | 855.33 | 436.08 | 0.90 |
| Dental | 1.000 | 34.84 | 34.84 | 0.00 | 0.91 |
| Over 65 With Medicare Parts A and B | | | | | |
| PPO | 0.327 | $356.91 | $610.08 | $356.91 | 0.88 |
| Kaiser | 0.568 | 221.80 | 442.00 | 221.80 | 0.88 |
| Blue Cross HMO /SH | 0.105 | 196.71 | 391.25 | 196.71 | 0.88 |
| Dental | 1.000 | 34.84 | 34.84 | 0.00 | 0.86 |
| Medicare Part B | 1.000 | 78.20 | 78.20 | 0.00 | 0.78 |

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

** *Utilization ratio is the proportion of all retirees that elect to receive a subsidy.*

**Marital Status** 65% of male and 40% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.

**Spouse Age Difference** Males are assumed to be 4 years older than their female spouses.

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

**Participation** 90% of members retiring directly from City employment are assumed to receive a subsidy for a City approved health carrier.

90% of retirees are expected to elect Medicare Parts A and B.

90% of retirees are assumed to elect dental coverage.

45% of inactive members are assumed to receive a subsidy for a City approved health carrier.

85% of retirees becoming eligible for Medicare are assumed to be covered by both Parts A and B.

**Health Care Cost Subsidy Trend Rates**: Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. Trend rates are used to increase the stated subsidies into the future. For example, the proposed medical subsidy for a Kaiser male retiree under age 65 in the calendar year 2007 would be determined with the following formula: [$458.57 x (1 + 12%)] = $513.60.

| | Rate (%) | | | |
|---|---|---|---|---|
| **Premium Year Ending December 31** | **PPO** | **HMO** | **Dental** | **Medicare Part B** |
| 2007 | 12.00% | 12.00% | 5.00% | 15.00% |
| 2008 | 11.00 | 11.00 | 5.00 | 5.00 |
| 2009 | 10.00 | 10.00 | 5.00 | 5.00 |
| 2010 | 9.00 | 9.00 | 5.00 | 5.00 |
| 2011 | 8.00 | 8.00 | 5.00 | 5.00 |
| 2012 | 7.00 | 7.00 | 5.00 | 5.00 |
| 2013 | 6.00 | 6.00 | 5.00 | 5.00 |
| 2014 & later | 5.00 | 5.00 | 5.00 | 5.00 |

| | |
|---|---|
| **Plan Design**: | Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit VI. |
| **Administrative Expenses**: | No administrative expenses were valued separately from the claim costs. |

## Demographic Assumption Changes Since Prior Valuation
## Prior Year Assumptions

On October 11, 2005, the Board adopted the assumptions shown above based on the September 30, 2005 review of economic and non-economic assumptions. Several assumptions were changed. Previously, those assumptions were as follows:

**Termination Rates before Retirement**:

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

All deaths are assumed to be non-duty related.

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

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

**Postretirement Mortality Rates**:

| | |
|---|---|
| *Healthy* | UP 1994 Male Mortality Table for males, set back three years for females |
| *Disabled* | 1981 Disability Mortality Table (General) for males, set back five years for females |

**Active Retirement Rates**:

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

**Per Capita Cost Development:**

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

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

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

**Participants Excluded from Valuation** All participants with under 10 years of service are excluded from the valuation

**Marital Status** 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.

**Surviving Spouse 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.

**Participation** 80% of all retirees are assumed to receive a subsidy for a City approved health carrier.

85% of retirees are expected to elect Medicare Parts A and B.

65% of retirees are assumed to elect dental coverage.

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

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

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

**Eligibility**:

| | |
|---|---|
| *Retirees* §4.1103.2 | Retired age 55 or older with at least 10 years of service (including deferred vested members who terminate employment and receive a retirement benefit from LACERS), or if retirement date is between October 2, 1996, and September 30, 1999 at age 50 or older with at least 30 years of service. Benefits are also payable to spouses, domestic partners, or other qualified dependents while the retiree is alive. Please note that the health subsidy is not payable to a disabled retiree before the member reaches age 55. |

**Health Subsidy for Members:**

| | |
|---|---|
| *Under Age 65 or Over Age 65 And Only Enrolled in Medicare Part B:* §4.1103.2 | The System will pay 4% of the maximum health subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2005, the maximum health subsidy was $883.00 per month*. |

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

(1) Does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium and

(2) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

The maximum medical subsidy will be increased to $928.00 per month for calendar year 2006. The maximum survivor medical subsidy will be increased to $458.57 per month for calendar year 2006, the maximum dental subsidy will remain unchanged at $34.84 per month for calendar year 2006.

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

For retirees, a maximum health subsidy (limited to actual premium) of $883.00* per month, is provided (as of July 1, 2005) subject to the following vesting schedule:

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

**Dental Subsidy for Members:**
§4.1105.2

The System will pay 4% of the maximum dental subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2005, the maximum dental subsidy was $34.84* per month.

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

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

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

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

(3) Does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium and

(4) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

The maximum medical subsidy will be increased to $928.00 per month for calendar year 2006. The maximum survivor medical subsidy will be increased to $458.57 per month for calendar year 2006, the maximum dental subsidy will remain unchanged at $34.84 per month for calendar year 2006.

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

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

The maximum health subsidy available for survivors is the Kaiser single party premium ($436.08* per month as of July 1, 2005).

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

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

(3) Does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium and

(4) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

The maximum medical subsidy will be increased to $928.00 per month for calendar year 2006. The maximum survivor medical subsidy will be increased to $458.57 per month for calendar year 2006, the maximum dental subsidy will remain unchanged at $34.84 per month for calendar year 2006.

# SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

November 9, 2005

Board of Retirement
Los Angeles City Employees' Retirement System
360 East Second Street, 8th Floor
Los Angeles, CA 90012-4207

Re: **Los Angeles City Employees' Retirement System**
**FDBIP Costs as of June 30, 2005**

Dear Board Members:

We have developed our recommended contribution rates for the voluntary Family Death Benefit Insurance Plan ("Plan") as of June 30, 2005. These rates are effective for the two plan years following the valuation date through June 30, 2007. The last review of the plan was conducted by the System's prior actuary as part of their June 30, 2003 actuarial valuation. Their study yielded the current employee monthly contribution rate of $3.70. The City matches the employee's cost at the same level.

Based on the census data and the actuarial assumptions used for the June 30, 2005 actuarial valuation, we recommend maintaining the current employee monthly rate at $3.70. The City's matching monthly contribution will also remain at $3.70. With this rate, the estimated total annual contributions would be about $413,000 ($206,500 each for the members and the City).

It is our understanding that the Plan is funded on a term cost basis and the premium charged for the current year should only be sufficient to pay for the present value of the projected death benefits for those expected to die in the same period. However, there is an adjustment in the monthly premium based on the Plan's funded status to reflect the relative value of the actual plan reserve compared to the actual present value of death benefits in pay status for those who previously died. As of June 30, 2005, the Plan's term cost is $651,812 for the 4,651 active members participating at June 30, 2005. This translates to an employee and City monthly rate of $5.84 each. However, the Plan is in a surplus position as of June 30, 2005, with the Plan's actuarial value of assets of $14,839,457 exceeding the liability reserve of $11,277,827 by $3,561,630.

The surplus reserve of $3,561,630 may be sufficient to not only avoid increasing the premium rates to $5.84, but even to justify a reduction below the current monthly premium rates of $3.70 for the employee and the City. However, we are recommending no change to the rates at this time. The Plan does not currently have a funding policy on how the monthly premium rate should be adjusted to reflect the Plan's funding surplus. Maintaining the current rate will allow a gradual depletion of the surplus and it will give LACERS time to develop a policy to systematically reduce the surplus. It will also allow some margin for future adverse experience.

As noted, all of the calculations are based on the June 30, 2005 actuarial valuation participant data and actuarial assumptions. In addition, this plan requires further assumptions as shown below:

1) Each participating active member is assumed to have two children with an average age of about 13.

2) The children are assumed to be eligible for a monthly benefit of about $938 each until they reach age 18.

3) A surviving spouse is assumed to be eligible for a monthly benefit of about $312 until the children reach age 16.

4) As discussed with LACERS, survivors may not receive benefits from the FDBIP if they receive a service retirement survivorship benefit from the pension plan. Therefore, those currently eligible to retire under the pension plan do not to have a FDBIP liability in our valuation.

The above costs were certified by Paul Poon, ASA, Enrolled Actuary and Andy Yeung, ASA, Enrolled Actuary.

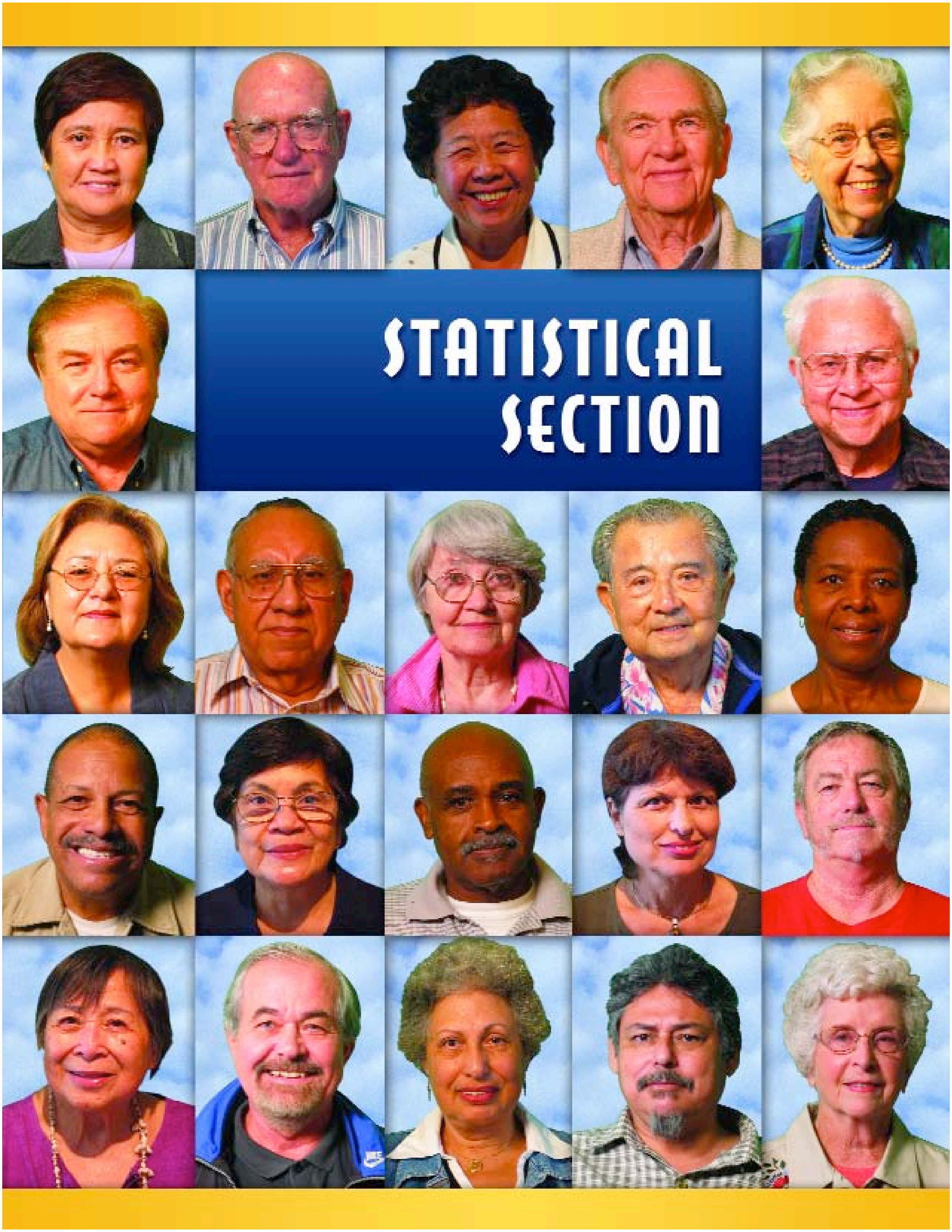
Sincerely,

Paul Angelo, FSA, MAAA
Vice President and Actuary

PXP/jc:hy

190965/05806.001 v1

# STATISTICAL SECTION



LACERS

LOS ANGELES CITY

EMPLOYEES' RETIREMENT SYSTEM

# "Peace of Mind"

Mr. Joseph Acevedo

Retired LACERS member since 1984

## What our members think of us... is our bottom line.

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

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

| Year Ended | Member Contribution | Employer Contribution Dollars | Employer Contribution % of Annual Covered Payroll | Net Investment Income (Loss) * | Total |
|---|---|---|---|---|---|
| 2000 | 64.58 | 106.61 | 9% | 771.17 | 942.36 |
| 2001 | 69.46 | 87.90 | 7% | (349.32) | (191.96) |
| 2002 | 75.66 | 79.47 | 6% | (370.50) | (215.37) |
| 2003 | 83.07 | 97.53 | 7% | 247.33 | 427.92 |
| 2004 | 93.42 | 140.20 | 9% | 1,252.52 | 1,486.14 |
| 2005 | 94.27 | 229.14 | 14% | 764.80 | 1,088.21 |

* Includes change in unrealized gain and loss of investment

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

| Year Ended | Benefits Payments | Refunds | Administrative Expense | Misc. Expense | Total |
|---|---|---|---|---|---|
| 2000 | 319.38 | 12.99 | 7.55 | - | 339.92 |
| 2001 | 343.11 | 12.92 | 8.20 | - | 364.23 |
| 2002 | 374.82 | 13.05 | 8.13 | - | 396.00 |
| 2003 | 408.98 | 14.68 | 9.17 | - | 432.82 |
| 2004 | 438.53 | 11.34 | 10.87 | - | 460.74 |
| 2005 | 469.21 | 10.68 | 11.00 | - | 490.89 |

LACERS

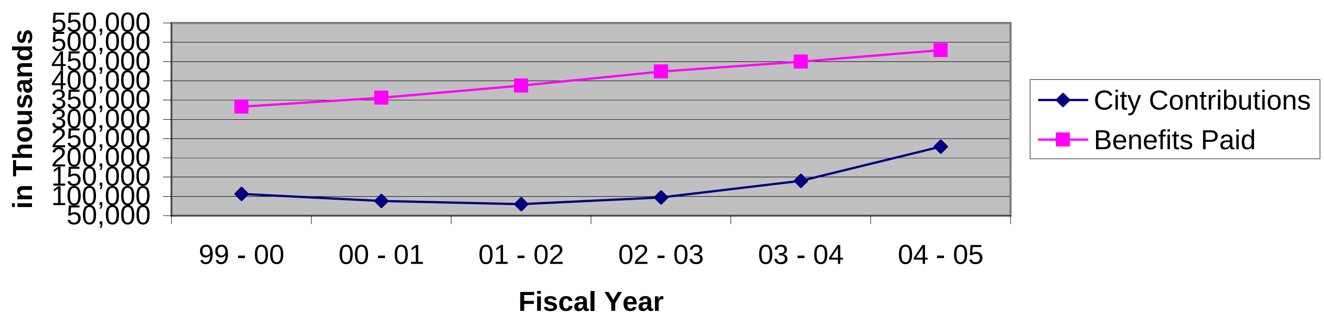
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

| Year | Age & Service Benefit | | Death in Service | Disability Benefits | | | | Benefits |
|---|---|---|---|---|---|---|---|---|
| Ended | Retirants | Survivors | Benefits | Retirants | Survivors | Sub Total | Refunds | Total |
| 2000 | 265,334 | 35,801 | 2,850 | 10,996 | 4,402 | 319,383 | 12,993 | 332,376 |
| 2001 | 285,030 | 38,523 | 2,919 | 11,882 | 4,751 | 343,105 | 12,923 | 356,028 |
| 2002 | 312,292 | 41,784 | 3,375 | 12,169 | 5,196 | 374,816 | 13,049 | 387,865 |
| 2003 | 340,934 | 45,574 | 3,045 | 13,700 | 5,727 | 408,980 | 14,679 | 423,659 |
| 2004 | 366,870 | 48,453 | 3,245 | 13,842 | 6,120 | 438,530 | 11,338 | 449,868 |
| 2005 | 392,198 | 51,564 | 3,425 | 15,455 | 6,570 | 469,212 | 10,679 | 479,891 |

* Allocated from year-end retirement roll

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




| Fiscal Year | 99 - 00 | 00 - 01 | 01 - 02 | 02 - 03 | 03 - 04 | 04 - 05 |
|---|---|---|---|---|---|---|
| **City Contributions** | $ 106,610 | $ 87,897 | $ 79,468 | $ 97,531 | $ 140,201 | $ 229,137 |
| **Benefits Paid** | $ 332,376 | $ 356,028 | $ 387,865 | $ 423,659 | $ 449,868 | $ 479,891 |

## SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 2005)

| Amount of Monthly Benefits | Number of Retirants | Type of Retirement ** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| $ 1-250 | 207 | 63 | 53 | 40 | 5 | 12 | 2 | 1 | 10 | - | 21 |
| 251-500 | 618 | 107 | 214 | 112 | 14 | 95 | 2 | 31 | 28 | - | 15 |
| 501-750 | 967 | 209 | 371 | 114 | 44 | 99 | 10 | 87 | 24 | 1 | 8 |
| 751-1,000 | 1,206 | 334 | 366 | 115 | 234 | 28 | 28 | 74 | 26 | - | 1 |
| 1,001-1,250 | 1,252 | 448 | 351 | 89 | 239 | 14 | 38 | 60 | 9 | - | 4 |
| 1,251-1,500 | 1,148 | 591 | 235 | 58 | 170 | 9 | 36 | 34 | 13 | - | 2 |
| 1,501-1,750 | 908 | 530 | 168 | 49 | 105 | 4 | 31 | 15 | 4 | - | 2 |
| 1,751-2,000 | 889 | 668 | 123 | 31 | 35 | 6 | 15 | 5 | 6 | - | - |
| Over 2,000 | 7,164 | 6,468 | 434 | 101 | 18 | 5 | 120 | 8 | 10 | - | - |
| **Total** | **14,359** * | **9,418** | **2,315** | **709** | **864** | **272** | **282** | **315** | **130** | **1** | **53** |

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

**** Type of Retirement**

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

# SCHEDULE OF AVERAGE BENEFIT PAYMENTS

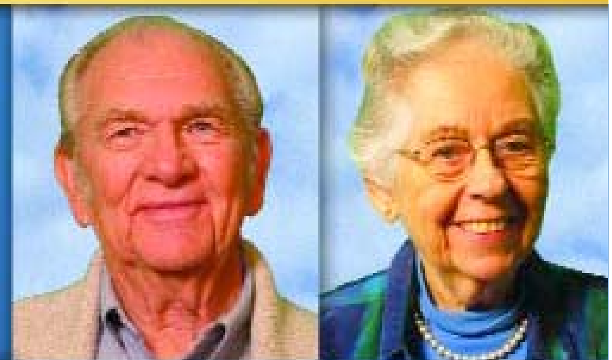
| Retirement Effective Dates July 1, 1999 to June 30, 2005 | Years Credited Service | | | | | |
|---|---|---|---|---|---|---|
| | Under 10 yrs | 11-15 yrs | 16-20 yrs | 21-25 yrs | 26-30 yrs | Over 30 yrs |
| **Period 7/1/99 to 6/30/00** | | | | | | |
| Average Monthly Benefit | $ 735.95 | $ 1,132.42 | $ 1,641.54 | $ 2,065.35 | $ 2,763.76 | $ 4,106.63 |
| Average Final Monthly Salary * | $ 2,635.28 | $ 3,768.52 | $ 4,138.52 | $ 4,077.61 | $ 4,374.17 | $ 5,221.28 |
| Number of Active Retirants | 21 | 94 | 46 | 56 | 61 | 351 |
| **Period 7/1/00 to 6/30/01** | | | | | | |
| Average Monthly Benefit | $ 890.57 | $ 1,212.14 | $ 1,603.18 | $ 2,175.49 | $ 3,018.00 | $ 4,184.31 |
| Average Final Monthly Salary * | $ 3,435.78 | $ 4,008.62 | $ 4,115.43 | $ 4,367.97 | $ 4,874.66 | $ 5,384.22 |
| Number of Active Retirants | 24 | 72 | 53 | 44 | 71 | 312 |
| **Period 7/1/01 to 6/30/02** | | | | | | |
| Average Monthly Benefit | $ 669.94 | $ 1,124.27 | $ 1,719.05 | $ 2,174.20 | $ 3,019.42 | $ 4,059.11 |
| Average Final Monthly Salary * | $ 3,481.25 | $ 4,027.35 | $ 4,593.77 | $ 4,463.04 | $ 4,871.26 | $ 5,377.03 |
| Number of Active Retirants | 24 | 64 | 76 | 45 | 75 | 304 |
| **Period 7/1/02 to 6/30/03** | | | | | | |
| Average Monthly Benefit | $ 784.57 | $ 1,206.27 | $ 1,716.25 | $ 2,461.18 | $ 3,033.76 | $ 4,179.16 |
| Average Final Monthly Salary * | $ 3,244.53 | $ 4,249.55 | $ 4,608.11 | $ 5,133.74 | $ 5,120.17 | $ 5,632.13 |
| Number of Active Retirants | 31 | 65 | 73 | 70 | 61 | 322 |
| **Period 7/1/03 to 6/30/04** | | | | | | |
| Average Monthly Benefit | $ 723.97 | $ 1,525.33 | $ 1,763.41 | $ 2,628.85 | $ 3,027.32 | $ 4,348.11 |
| Average Final Monthly Salary * | $ 4,223.90 | $ 4,998.55 | $ 4,799.69 | $ 4,914.92 | $ 5,263.19 | $ 6,050.72 |
| Number of Active Retirants | 33 | 47 | 82 | 66 | 51 | 288 |
| **Period 7/1/04 to 6/30/05** | | | | | | |
| Average Monthly Benefit | $ 1,335.21 | $ 1,638.93 | $ 1,880.90 | $ 2,673.28 | $ 3,537.33 | $ 4,734.01 |
| Average Final Monthly Salary * | $ 5,790.42 | $ 4,823.67 | $ 5,116.47 | $ 5,074.11 | $ 6,081.84 | $ 6,450.45 |
| Number of Active Retirants | 36 | 37 | 77 | 72 | 86 | 316 |

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

**REQUEST FOR INFORMATION**

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

**LACERS**
Fiscal Management Section
360 E. 2nd Street, Eighth Floor
Los Angeles, CA 90012



LACERS

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

www.lacers.org

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