LACERS

LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM
A Department of the City of Los Angeles, CA

Securing Your Tomorrows

Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2007

LACERS

70th ANNIVERSARY

1937 – 2007

WORKING HARD FOR 70 YEARS,
SO YOU WON'T HAVE TO.

(A Department of the City of Los Angeles, CA)
360 East Second Street, 2nd Floor
Los Angeles, CA 90012-4207

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

Issued by

Robert Aguallo, Jr.

General Manager

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Please note: use of the term "The System" refers to the Los Angeles City Employees' Retirement System.

Introductory Section

LACERS is dedicated to providing superior service and protecting retirement benefits for the financial future of its Members.

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

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

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ADMINISTRATION

ROBERT AGUALLO, JR.
GENERAL MANAGER

THOMAS MOUTES
ASSISTANT GENERAL MANAGER

LETTER OF TRANSMITTAL

December 11, 2007

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

Dear Members of the Board:

After one of our most successful years, it is with honor 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, 2007. For 70 years, LACERS has continued to serve the needs of over 15,000 Retired Members and their beneficiaries. We also play a significant role in securing the tomorrows of the 30,000 current City of Los Angeles employees. In the most recent decade, LACERS has led the way in pre-funding and administering health care subsidies. Part of our trust fund is earmarked for health benefits for our Members.

LACERS has grown from a small accounting staff into the vital and premier retirement system that it is today. In tune with the changing perspective of retirement due in part to history's largest generation, the Baby Boomers, leaving their mark. Studies show that this generation sees retirement as a new start, rather than an end of their professional lives. Many plan to work in other fields, volunteer on a significant level, or fuel new hobbies and endeavors that do not reflect the traditional view of retirement.

With an increasing number of new retirees, LACERS has had to grow and go in different directions. We provide services that were unimaginable 70 years ago. LACERS has stepped up its Customer Service Program, providing Planning for Retirement seminars at satellite offices of the City and other off-site locations. Next year, LACERS will offer a series of financial planning classes that Members can take to learn how to manage their personal finances.

Our dedication to sound financial practices for our Members is mirrored in a CAFR that lays bare our commitment to provide accurate, concise and high-quality financial information for its Board of Administration, interested parties and Members. The information presented herein will enable to readers of understand the System and provides extensive and reliable information for making management decisions and determining the direction of LACERS stewardship.

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. 34, *Basic Financial Statements - and Management's Discussion and Analysis*[*] *- for State, Local Governments,* Statement No. 40, *Deposit and Investment Risk Disclosures,* Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and Statement No. 50, *Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*, and the Los Angeles City Charter.

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

It is the responsibility of LACERS management to prepare the System financial statements, notes and supplementary disclosures and establish and maintain internal control to ensure the System assets are protected. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.[†]

2. Additions to Plan Net Assets

The total additions to plan net assets for the fiscal year ended June 30, 2007, consisting of contributions, net appreciation in fair value of investments and investment income net of investment management fees was $2,337,887,000. This amount includes Member and employer contributions of $514,627,000 and net investment income of $1,823,260,000. Net investment income increased $769,388,000 as compared with the prior fiscal year. The increase was attributed mainly to the net appreciation in the fair value of investments resulting from the strong total portfolio return during the fiscal year. The rate of return for the current fiscal year's investment was at 19.5%, 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 27 of the financial statements in the financial section.

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

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

3. Deductions from Plan Net Assets

Deductions for the fiscal year ended June 30, 2007, excluding investment management and security lending fees, were $551,746,000, which represented an increase of $32,934,000 over the prior year. This increase mainly resulted from higher average monthly pay and an increase in the number of retirees. The components of the total deductions include payments of retirement benefits of $522,937,000 ($457,847,000 for the Retirement Plan and $65,090,000 for Postemployment Healthcare Plan, respectively), refunds of contributions and interest to terminated Members of $17,452,000, and administrative expenses of $11,357,000.

4. Changes in System Membership

LACERS Membership increases for the fiscal year ended June 30, 2007 were as follows:

	2007	2006	Increase	Change
Active Members	30,175	28,839	1,336	4.6 %
Retired Members	14,836	14,570	266	1.8 %

5. Major Initiatives

LACERS vigorously continues to implement its Strategic Plan. The Strategic Plan, which embodies LACERS mission and core values, encompasses initiatives affecting our retirement and health benefit programs, investment portfolios, and the Board Governance administration of LACERS. The progress of its implementation has been closely monitored by the executive management and reported to the Board quarterly. The Plan is subject to modification as objectives are completed or converted into routine, on-going staff work, or when new initiatives are identified and added. The Board approved the current, modified Strategic Plan in March 2007. It is available on LACERS website at: http://www.lacers.org/AboutLACERS/StrategicPlan/index.htm.

As a part of the Strategic Plan, the Board conducted its first self-evaluation and discussed the results during the January 2007 annual Board Off-site meeting with the assistance of a management-consulting firm. Board self-evaluation is considered one of the best practices in Board governance.

Moreover, during the fiscal year, LACERS retained an actuarial consultant, Deloitte Consulting LLP, to perform an actuarial audit – also considered an industry best practice. An actuary audit is performed to validate the results of the retirement and health benefits valuations conducted by the Board's consulting actuary, and to ensure the reasonableness of the underlying actuarial assumptions and the actuarial cost method utilized in performing such actuarial valuations. The audit report stated that the results of LACERS actuarial valuations, as well as the actuarial assumptions and methodologies applied in the valuations, are reasonable and appropriate. LACERS will continue the actuarial audit periodically in the future.

In April 2007, the Board approved the acquisition of Web Member Services software. The software will interface with LACERS main database and provide specific information to the active and retired Members via Internet. Active and retired Members will be able to log into their own accounts at any time at their convenience for the information they need, such as service and contributions, demographic information, benefit payments, or 1099-R information. Web Member Services will be accessed from a link at LACERS website. This project is expected to be completed by June 2008.

This year there was an increased focus on finding new opportunities to add value and on geopolitical risk management in the investment program. Please see *Report on Investment Activity* on page 61 for details.

6. Funded Ratio

The funded ratio is a snapshot of the relative status of LACERS assets and liabilities. It varies annually because of actuarial valuation, reflecting changes in liabilities, investment returns, demographics, actuarial assumptions and other factors. During the fiscal year, the total funded ratio for both the Retirement Plan and the Postemployment Healthcare Plan, based on actuarial value of assets, rose from 74.7% to 79.8% (81.7% for the Retirement Plan and 68.5% for the Postemployment Healthcare Plan). The increase is mainly due to favorable investment performance, lower-than-expected health premiums and subsidies, and lower actuarial assumption on health care cost trend rate for the Postemployment Healthcare Plan. Because the System employs a smoothing methodology to spread its investment gains and losses over 5 years to minimize the effects of volatile investment returns, the funded ratio does not fully reflect LACERS favorable investment results of last three fiscal years. In fact, a deferred gain for $1.3 billion had been accumulated as of June 30, 2007. This large unrecognized deferred investment gain will help to improve the System's funded ratio, and to control the City's pension costs, in the next few years.

7. Financial and Economic Summary

The U.S. Economy, as measured by Gross Domestic Product (GDP) grew at a sluggish pace during the fiscal year ended June 30, 2007. The real GDP increased by just 1.9%, as compared with 3.2% annually for the previous reporting period. The slower growth was caused primarily by the slump in the U.S. housing market after a 5-year boom. Employment data, however, remained firm with an unemployment rate of 4.5% at the end of fiscal year, continuing the decreasing trend since June of 2003 when the unemployment rate was at 6.3%, but at a slower speed. The federal fund rate, a key interest rate, was 5.25% as of the end of June 2007, the highest level in the last three years, unchanged from the rate of a year ago. All three major stock indices posted double-digit increases in the fiscal year ended June 30, 2007, amid worries about the sub-prime mortgage crisis and the high-energy costs: 20.3% for the Dow Jones Industrial Average, 18.4% for the S&P 500 Index and 19.8% for the NASDAQ Composite Index, respectively. These increases occurred despite worries about the sub-prime mortgage crisis and the energy costs.

8. Investment Summary

The System established the investment policies in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the LACERS. The System's investment policies are designed to maximize the investment return while taking prudent risks. The System's assets are managed on a total return basis, and the Board's Investment Policy has been designed to produce a total portfolio, long-term real (above inflation) return of 5.0%. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification, while allowing sufficient flexibility in the management oversight process to capture investment opportunities as they occur.

The portfolio consists of investments in U.S. and non-U.S. stocks and bonds, short-term financial instruments, real estate and private equity. This asset mix serves to diversify the portfolio, minimizing portfolio volatility. Total net assets were valued at $11.1 billion as of June 30, 2007, an increase of $1.8 billion compared with prior fiscal year, because of favorable investment returns. The increase reflects a 19.5% rate of return during the fiscal year, more than double the actuarial assumption rate of 8%, and 1% higher than the policy benchmark of 18.5%. The Board continues its effort on finding new ways to add value in the investment portfolio while focusing on risk management.

For the last five calendar years, LACERS has commissioned CEM Benchmarking, Inc. (CEM) to analyze the cost effectiveness of its investment portfolio relative to other peer and U.S. funds. In each of those years, CEM's analysis concluded that LACERS investment operation has a "high" or "positive" value added above our policy benchmark and is cost effective.

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, 2006. 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 would like to thank staff for continually providing quality customer service to our Members and various City departments while conducting related business.

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

Respectfully submitted,

Robert Aguallo, Jr.
General Manager

Mikyong Jang
Chief Accounting Employee

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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, 2006

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, 2003, 2004 & 2005

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FISCAL YEAR 2006 – 2007

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Appointed by the Mayor

Moctesuma Esparza
Vice President
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Kelly Candaele
Member
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Richard M. Rogers
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Elected by Active Members

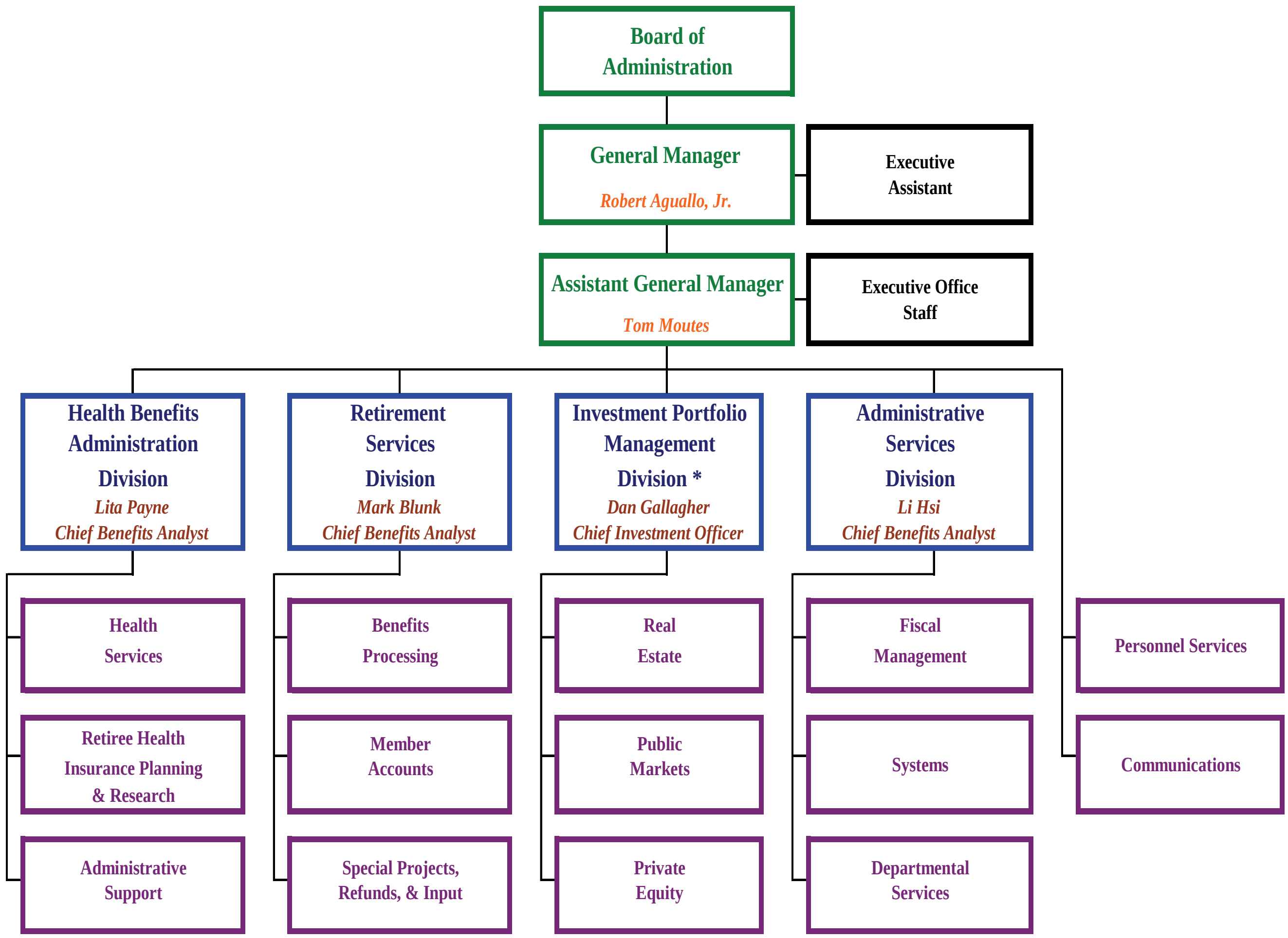
Shelley I. Smith
Member
Elected by Active Members

Ken Spiker
Member
Elected by Retired Members

Steven Uranga
Member
Appointed by the Mayor

ORGANIZATIONAL CHART

AS OF JUNE 30, 2007



* A list of firms managing the investment portfolio can be found in the Investment Section, Table 15, pages 73-75.

PROFESSIONAL CONSULTANTS

ACTUARY

The Segal Company
San Francisco, CA

INDEPENDENT AUDITOR

Brown Armstrong
Bakersfield, CA

BENEFICIARY VERIFICATION

Pension Benefit Information
Tiburon, CA

HEALTH & WELFARE CONSULTANT

Deloitte Consulting LLP
Los Angeles, CA

INVESTMENT CONSULTANTS

Courtland Partners, Ltd.
Cleveland, OH

Hamilton Lane
Bala Cynwyd, PA

Pension Consulting Alliance Inc.
Portland, OR

The Townsend Group (contract expired 3/31/07)
Cleveland, OH

1937

1937 Mayor: Frank L. Shaw

- 1937 - LACERS is born
- 1937 - Amelia Earhardt starts her final round world adventure from Burbank Airport
- 1937 - 20 California Counties establish systems separate from the State Retirement System
- 1937 - "Kilroy was here"

Financial

1947

1947 Mayor: Fletcher Bowron

- 1941 - Pearl Harbor attacked on Dec. 7. President Franklin D. Roosevelt delivers Day of Infamy speech. The decade is marked by World War II and the changes it brings to the local economy
- 1947 - Jackie Robinson is the first African American baseball player to play Major League Baseball.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

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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, 2007, and the related Retirement Plan and Postemployment Healthcare Plan Statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2006 financial statements and, in our report dated September 28, 2006, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Net Assets of the Retirement Plan and Postemployment Healthcare Plan of the Los Angeles City Employees' Retirement System as of June 30, 2007, 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 2007, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 50, *Pension Disclosures- an amendment of GASB Statements No. 25 and No. 27.*

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 THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 9, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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, 2007. 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 plan net assets of LACERS as of June 30, 2007 were $11,071,619,000. Compared with the plan net assets of LACERS as of June 30, 2006, the value of the net assets increased $1,786,141,000 or 19.2% 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 $1,823,260,000, as compared with an investment gain of $1,053,872,000 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 $408,393,000. This amount included annual contributions of $392,750,000, which was 23.86% of estimated City's covered payroll of $1,646,056,000; Member contributions – defrayal of $15,433,000; and the City's matching contribution for Family Death Benefit Insurance Plan for $210,000.

- The employer contributions to the Retirement Plan represented 100.0% of the Annual Required Contribution as defined by GASB Statements No. 25 and No. 27. The employer contributions to the Postemployment Healthcare Plan represented 100.0% of the Annual Required Contribution as defined by GASB Statements No. 43 and No. 45.

- Deductions from net assets of LACERS included benefit payments, refunds of Member contributions and administrative expenses. The total deductions from net assets were $551,746,000, a 6.3% increase from the prior fiscal year.

- As of June 30, 2007, the date of our last actuarial valuation, the funded ratio for the Retirement Plan was 81.7% and the funded ratio for the Postemployment Healthcare Plan was 68.5%. The total funded ratio for LACERS was 79.8%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes, or a variety of other actuarial gains and losses.

Overview of the Financial Statements

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

Financial Statements
There are two financial statements presented 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 are 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 26 and 27 of this report.

Notes to Financial Statement
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 28 – 46 of this report.

Required Supplementary Information
In addition to this Management's Discussion and Analysis, the other required supplementary information consists of a Schedule of Funding Progress, a Schedule of Employer Contributions and the Notes to Required Supplementary Information for both the Retirement Plan and the Postemployment Healthcare Plan. 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 49 – 54 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 57 and 58 of this report.

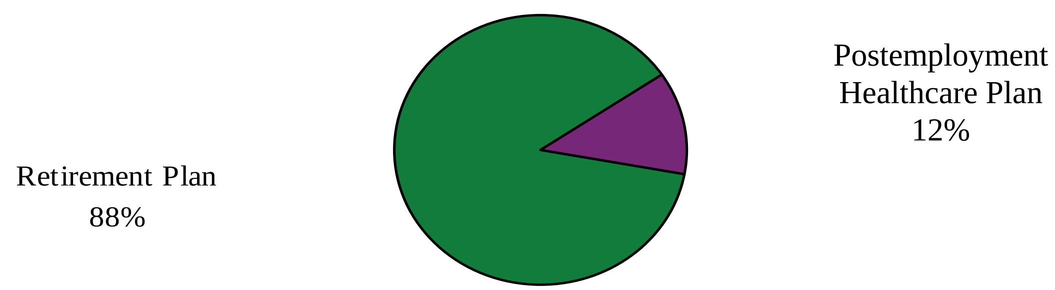
FINANCIAL ANALYSIS

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, 2007 *(in thousands)*:

Retirement Plan	$ 9,733,117
Postemployment Healthcare Plan	1,338,502
Net Assets	$11,071,619

Allocation of Net Assets



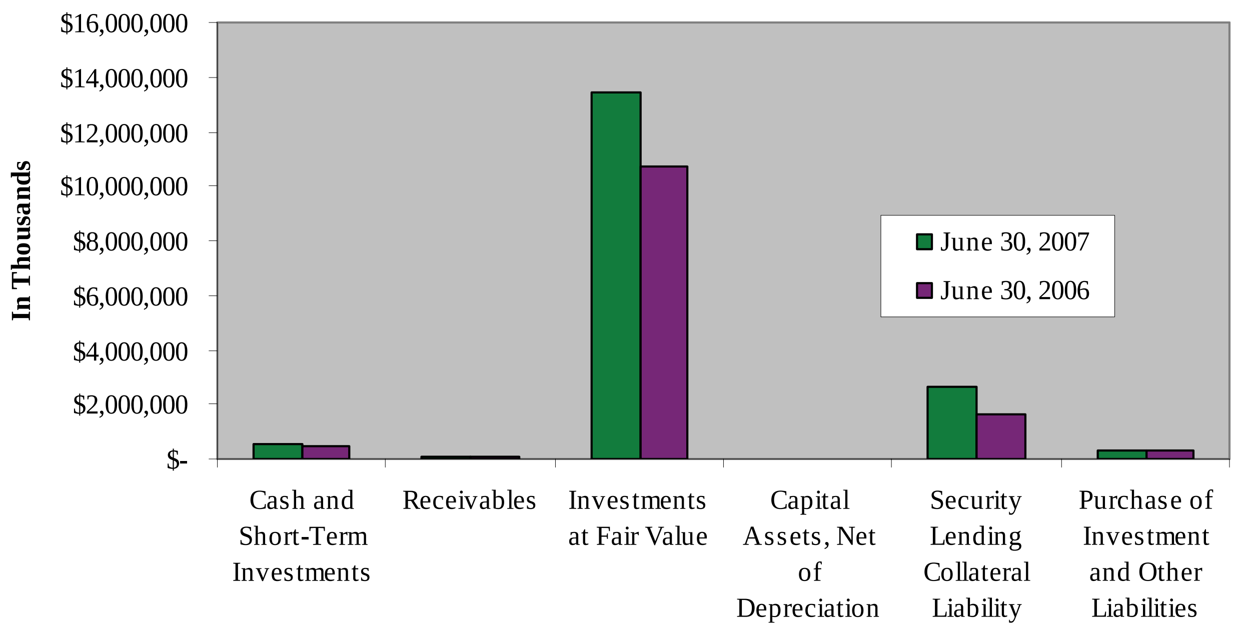
Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were $11,071,619,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the Retirement Plan and Postemployment Healthcare Plan, as required by the existing reporting standards. Net assets for the Retirement Plan and Postemployment Healthcare Plan are $9,733,117,000 and $1,338,502,000, 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, 2007 and 2006 *(in thousands)*:

	June 30, 2007	June 30, 2006	Change	
Cash and Short-Term Investments	$ 519,341	$ 460,159	$ 59,182	12.9 %
Receivables	110,854	82,467	28,387	34.4
Investments, at Fair Value	13,400,885	10,720,674	2,680,211	25.0
Capital Assets, Net of Depreciation	306	283	23	8.1
Total Assets	14,031,386	11,263,583	2,767,803	24.6
Security Lending Collateral Liability	(2,612,246)	(1,646,747)	965,499	58.6
Purchase of Investments and Other Liabilities	(347,521)	(331,358)	16,163	4.9
Total Liabilities	(2,959,767)	(1,978,105)	981,662	49.6
Net Assets	$ 11,071,619	$ 9,285,478	$ 1,786,141	19.2 %

Components of Net Assets



The largest portion of LACERS net assets is its investment portfolio, which includes cash and short-term investments, receivables, fixed income, equities, and other asset classes. Net assets increased by $1,786,141,000, or 19.2%, during the reporting 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 reporting year, as compared with the prior year *(in thousands)*:

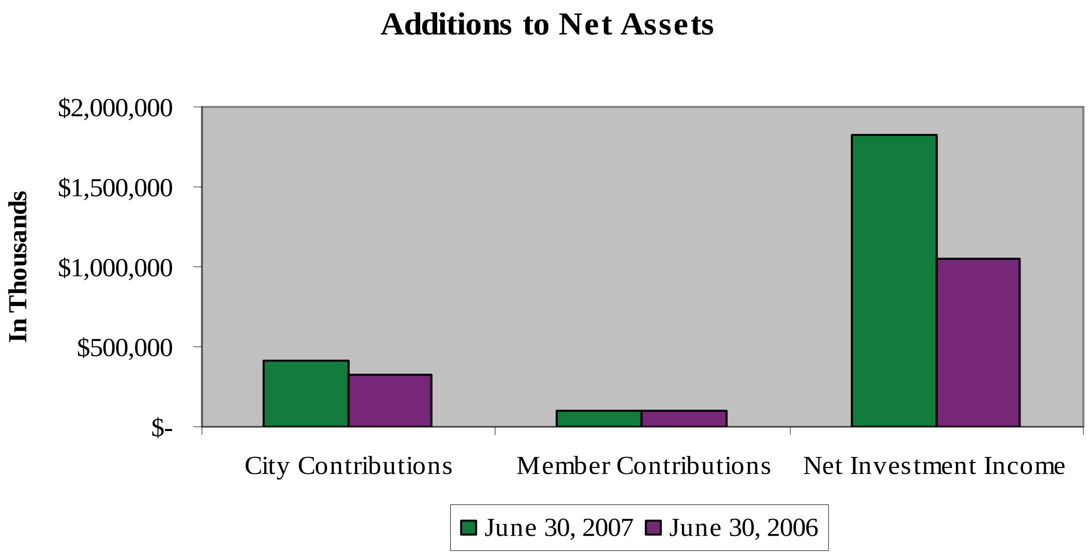
	June 30, 2007	June 30, 2006
Additions	$ 2,337,887	$ 1,472,533
Deductions	(551,746)	(518,812)
Net Increase	1,786,141	953,721
Net Assets, Beginning of Year	9,285,478	8,331,757
Net Assets, End of Year	$11,071,619	$ 9,285,478

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, 2007 and 2006 *(in thousands)*:

	June 30, 2007	June 30, 2006	Change
City Contributions	$ 408,393	$ 320,399	27.5 %
Member Contributions	106,234	98,262	8.1
Net Investment Income	1,823,260	1,053,872	73.0
Additions to Net Assets	$2,337,887	$1,472,533	58.8 %

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



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

City Contributions to the Retirement Plan, the Postemployment Healthcare Plan and the Family Death Benefit Insurance Plan were $408,393,000 during the year or $87,994,000 more than the prior fiscal year, due to a higher contribution rate recommended by the actuary and increased payroll base. One of the major reasons for the increased contribution rate was the inclusion for the first time of active Members with less than 10 years of service in the June 30, 2005 actuarial valuation of Postemployment Healthcare Plan, which determined the contribution rate for this fiscal year, to comply with the requirements of GASB No. 43 and No. 45. The City contribution rate was 16.86% for the Retirement Plan and 7.00% for the Postemployment Healthcare Plan, or 23.86% in total, of the City payroll, which was $1,646,056,000. The actual contribution to the Retirement Plan was equal to 100% of the Annual Required Contribution (ARC) of $277,517,000 as defined by GASB Statements No. 25 and No. 27. The actual contribution to the Postemployment Healthcare Plan was equal to 100% of the Annual Required Contribution (ARC) of $115,233,000 as defined by GASB Statements No. 43 and No. 45.

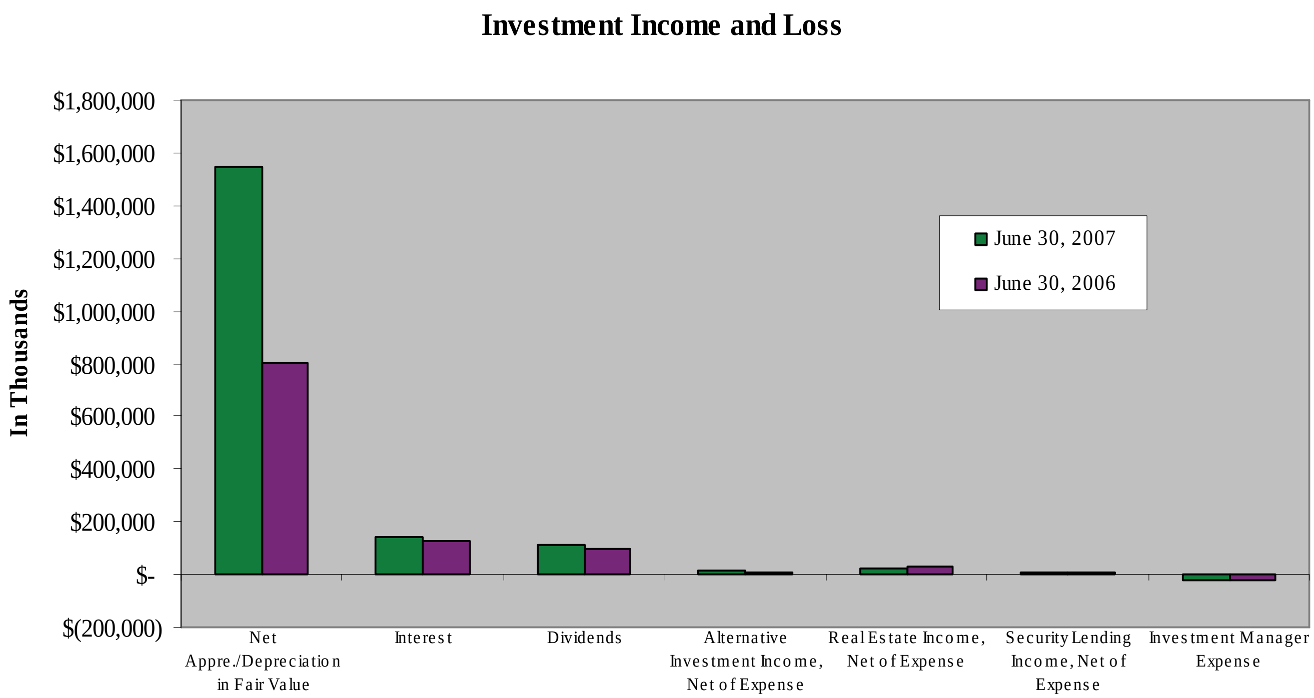
Factors that affect the amount of Member Contributions are a net increase in the number and the composition of Members and their salaries. During the year, Members contributed $106,234,000, which was $7,972,000 (8.1%) more than the prior year. The number of Members increased by 4.6%.

The net investment income increased from $1,053,872,000 reported in the prior fiscal year to $1,823,260,000 in the current fiscal year. The current year net investment income reflected the continued strong total portfolio return attributable to the favorable market conditions as well as the Board-approved asset allocation and selections of investments managers.

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, 2007 and 2006 *(in thousands)*:

	June 30, 2007	June 30, 2006	Change
Net Appreciation in Fair Value of Investments	$ 1,550,225	$ 803,398	93.0 %
Interest	139,223	125,689	10.8
Dividends	110,822	93,961	17.9
Alternative Investment Income, Net of Expense	17,484	10,769	62.4
Real Estate Income, Net of Expense	19,390	32,406	(40.2)
Security Lending Income, Net of Expense	7,177	5,637	27.3
Investment Management Expense	(21,061)	(17,988)	(17.1)
Total Investment Gain, Net	$ 1,823,260	$ 1,053,872	73.0 %



The largest portion of the net investment gain was the net appreciation in fair value of LACERS investments for $1,550,225,000, which includes realized and unrealized capital gain/loss.

Investment Income and Loss *(continued)*

Total investment income (net of fees) increased by 73.0% during the fiscal year. Except for the real estate income, all other types of investment income showed increases in dollar amounts compared with the previous year. The interest income and the stock dividends income, derived from the two major components of LACERS asset allocation – bonds and stocks, increased by $13,534,000 (10.8%) and $16,861,000 (17.9%), respectively. The increased interest income was attributable to higher short-term interest rates. The alternative investments portfolio contributed $6,715,000 more to the investment income, which is 62.4% higher than the previous year. This was mainly due to the increase of the funding size in the alternative investments portfolio. The lower real estate income, approximately $10,000,000 less than prior year, was mainly caused by the liquidation of two real estate partnerships. The net security lending income posted an increase of 27.3% compared with a year ago due to the appreciated value of securities available for lending and the increased yields. Investment management expense for the current year increased by $3,073,000 (17.1%) from 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, 2007 and 2006 *(in thousands)*:

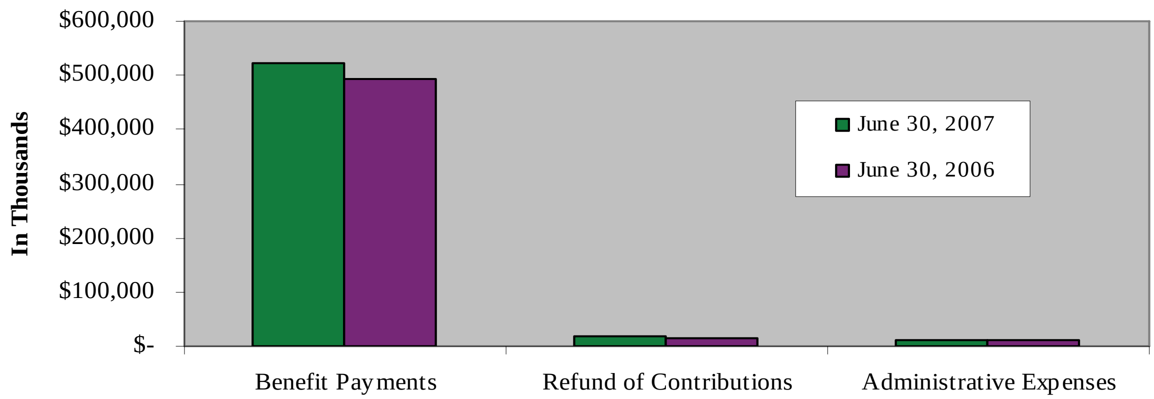
	June 30, 2007	June 30, 2006	Change
Benefit Payments	$ 522,937	$ 493,583	5.9 %
Refund of Contributions	17,452	13,021	34.0
Administrative Expenses	11,357	12,208	(7.0)
Deductions from Net Assets	$ 551,746	$ 518,812	6.3 %

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 costs associated with it. Total deductions increased by 6.3%. The benefit payments increased by $29,354,000 or 5.9%. This increase is due to the increase in number of retirees by 1.8% and increase in the average monthly benefit amount by 2.7% compared to the prior year, which includes the annual cost of living adjustment of approximately 3%. The refund of contributions increased by $4,431,000 or 34.0%. The increase is primarily due to the increased transfer of $3,660,000 to the Department of Water and Power (DWP) Employees' Retirement Plan, which has a reciprocity program with LACERS.

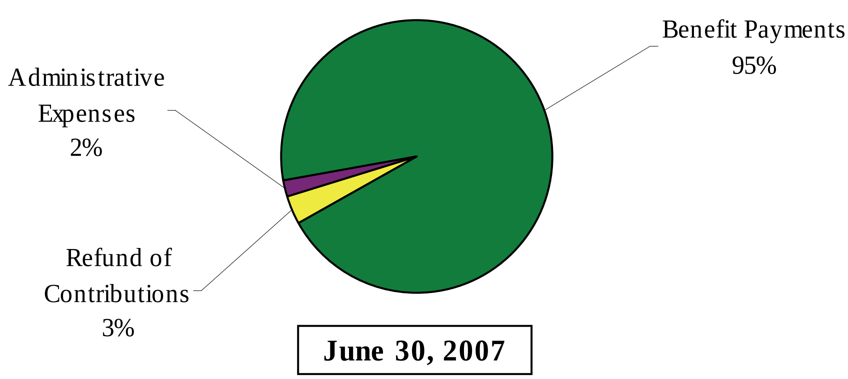
Change in Net Assets – Deductions from Net Assets ***(continued)***

The administrative expenses decreased by $850,000, or 7.0%, when compared to the prior reporting period. It was due to an offset in administrative expenses by miscellaneous income for $1,102,000 received from legal settlement. Absent this offset, the actual administrative expenses increased by $250,000, or 2.0%. Refund of contributions and administrative expenses accounted for approximately 3.2% and 2.1% of total deductions from net assets, respectively.

Deductions from Net Assets



Allocation of Total Deductions



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, 8th Floor
Los Angeles, CA 90012

RETIREMENT PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2007, WITH COMPARATIVE TOTALS

(in thousands)

	Retirement Plan	*Postemployment Healthcare Plan*	*2007 Total*	*2006 Total*
Assets				
Cash and Short-Term Investments	$ 456,556	$ 62,785	$ 519,341	$ 460,159
Receivables				
Accrued Investment Income	33,727	4,638	38,365	33,632
Proceeds from Sales of Investments	56,541	7,776	64,317	40,956
Other	7,184	988	8,172	7,879
Total Receivables	97,452	13,402	110,854	82,467
Investments, at Fair Value				
U.S. Government Obligations	444,314	61,102	505,416	419,027
Municipal Bonds	1,611	222	1,833	4,554
Domestic Corporate Bonds	672,686	92,508	765,194	738,308
International Bonds	163,003	22,416	185,419	152,726
Domestic Stocks	4,003,992	550,631	4,554,623	3,899,606
International Stocks	2,293,223	315,365	2,608,588	2,008,855
Mortgages	665,048	91,458	756,506	699,853
Government Agencies	179,297	24,657	203,954	225,044
Real Estate	449,437	61,807	511,244	405,681
Venture Capital and Alternative Investments	611,736	84,126	695,862	520,273
Security Lending Collateral	2,296,439	315,807	2,612,246	1,646,747
Total Investments	11,780,786	1,620,099	13,400,885	10,720,674
Capital Assets				
Furniture, Fixtures and Equipment (Net of Depreciation)	269	37	306	283
Total Assets	12,335,063	1,696,323	14,031,386	11,263,583
Liabilities				
Accounts Payable and Accrued Expenses	(25,724)	(3,538)	(29,262)	(24,882)
Purchases of Investments	(279,783)	(38,476)	(318,259)	(306,476)
Security Lending Collateral	(2,296,439)	(315,807)	(2,612,246)	(1,646,747)
Total Liabilities	(2,601,946)	(357,821)	(2,959,767)	(1,978,105)
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)	$ 9,733,117	$ 1,338,502	$ 11,071,619	$ 9,285,478

RETIREMENT PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007, WITH COMPARATIVE TOTALS

(in thousands)

	Retirement Plan	*Postemployment Healthcare Plan*	*2007 Total*	*2006 Total*
Additions				
Contributions				
City Contributions	$ 293,160	$ 115,233	$ 408,393	$ 320,399
Member Contributions	106,234	-	106,234	98,262
Total Contributions	399,394	115,233	514,627	418,661
Investment Income				
Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales	1,346,681	203,544	1,550,225	803,398
Interest	124,351	14,872	139,223	125,689
Dividends	98,984	11,838	110,822	93,961
Alternative Investment Income, Net of Expense	15,914	1,570	17,484	10,769
Real Estate Operating Income, Net of Expense	17,559	1,831	19,390	32,406
Security Lending Income	8,012	958	8,970	7,045
Less: Security Lending Expense	(1,558)	(235)	(1,793)	(1,408)
Sub-Total	1,609,943	234,378	1,844,321	1,071,860
Less: Investment Management Expense	(18,296)	(2,765)	(21,061)	(17,988)
Net Investment Income	1,591,647	231,613	1,823,260	1,053,872
Total Additions	1,991,041	346,846	2,337,887	1,472,533
Deductions				
Payment of Benefits	(457,847)	(65,090)	(522,937)	(493,583)
Refunds of Contributions	(17,452)	-	(17,452)	(13,021)
Administrative Expenses	(9,501)	(1,856)	(11,357)	(12,208)
Total Deductions	(484,800)	(66,946)	(551,746)	(518,812)
Net Increase	1,506,241	279,900	1,786,141	953,721
Net Assets Held in Trust for Pension Benefits and Postemployment Healthcare Benefits				
Beginning of Year	8,226,876	1,058,602	9,285,478	8,331,757
End of Year	$ 9,733,117	$ 1,338,502	$ 11,071,619	$ 9,285,478

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 – DESCRIPTION OF THE SYSTEM AND SIGNIFICANT ACCOUNTING POLICIES

General Description

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

The System operates a single-employer defined benefit plan (the Retirement Plan) and Postemployment Healthcare Plan. A description of each Plan is located in Note 2 and Note 3. All Notes to the Financial Statements apply to both Plans unless indicated otherwise.

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. Because the employer has made a formal commitment to provide the contributions, employer contributions are recognized when due. 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.

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. The fair values of real estate investment funds are provided by the individual real estate fund managers based on periodic appraisals, in the form of either annual in-house appraisals or longer-term appraisals by outside professionals, in accordance with the industry practice. The fair value determined as such is also evaluated by the Board's real estate consultant. The fair value of alternative investment funds are provided by the individual General Partners at a liquidating event or other significant events during the reporting period. The fair value of futures and forward contracts are determined using available market information. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Management's investment strategy, as it relates to the debt portfolio, is to achieve market appreciation and not hold bonds to their maturities.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the statement of plan net assets 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 risks. 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.

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:

1. Basic Pensions – City contributions and investment earnings (losses), accumulated to provide for the City's guaranteed portion of retirement benefits, less payments to Members.
2. 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 Benefit Insurance Plan established by the System, less payments to beneficiaries.

Retiree Health Insurance Benefits – City contributions and investment earnings (losses) accumulated to provide health care benefits for retirees, less payments and/or reimbursements to retired Members.

Reserves *(continued)*

Reserve balances as of June 30, 2007, were as follows *(in thousands)*:

Member Contributions	$ 1,323,610
Basic Pension	7,928,127
Retired Member Annuity	456,982
Larger Annuity	10,888
Family Death Benefit	13,510
Postemployment Health Benefit	1,338,502
Total Reserves	$ 11,071,619

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

In the financial statements for the fiscal year ended June 30, 2007, the System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, Financial Reporting for Postemployment Benefits Plan Other Than Pension Plans, and the GASB Statement No. 50, Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.

GASB No. 43 establishes uniform financial reporting standards for Other Postemployment Benefits (OPEB). OPEB include healthcare and other non-pension benefits provided to employees as part of their compensation for services. LACERS Postemployment Healthcare Plan is required to implement the rules of GASB No. 43 in the financial statements for fiscal year 2006-07. However, starting with the actuarial valuation as of June 30, 2005, the rules of GASB No. 43 were fully applied in the calculation of the annual required contribution and the funded ratio. Prior to June 30, 2005, active Members with less than 10 years of service had been excluded from the actuarial valuation.

In order for an OPEB Plan to be considered a Trust or Trust Equivalent arrangement rather than an Agency Fund for reporting purposes pursuant to GASB No. 43, certain criteria must be met. These criteria are: 1) Employer contributions to the plan are irrevocable; 2) Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan; and 3) Plan assets are legally protected from creditors of the employer or the plan administrator. LACERS Postemployment Healthcare Plan meets all these criteria.

Recently Issued Accounting Standard

GASB No. 50 amends GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, to conform to the requirements of GASB No. 43. GASB No. 50 is effective for periods beginning after June 15, 2007. LACERS early implementation of this statement for the fiscal year ended June 30, 2007 provides the required disclosure in Note 1, Fair Value of Investments, and Note 2, Retirement Plan Description, to the financial statements.

NOTE 2 – RETIREMENT PLAN DESCRIPTION

Plan Description

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

Eligible employees contribute based on rates delineated in the City's Administrative Code. The City contributes to the Retirement Plan 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 service and disability retirement benefits, as well as death benefits. Changes to the types of benefits provided require approval by the City Council.

At June 30, 2007, the components of the System's Membership were as follows:

Active:	
Vested	20,056
Nonvested	10,119
	30,175
Inactive:	
Nonvested	2,166
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,137
Retired	14,836
Total	48,314

Funding Policies and Funded Status and Progress

The Plan'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, 2007, the annual required contribution to the Retirement Plan by the City was determined at 16.86% of covered payroll, determined by the June 30, 2005 actuarial valuation. The actual contribution made by the City for fiscal year 2006-07 was equal to the recommended rate as instructed by the Board of Administration, which is 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. 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 6). 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 interest posted to their accounts. Generally, after five years of employment, Members are eligible for future retirement benefits. 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 interest refunded. Benefits are based upon age, length of service and compensation.

As of June 30, 2007, the most recent actuarial valuation date, the Plan was 81.7% funded. The actuarial accrued liability for benefits was $10,526,874,000 and the actuarial value of assets was $8,599,700,000, resulting in an unfunded actuarial accrued liability (UAAL) of $1,927,174,000. The covered payroll as of June 30, 2007 valuation was $1,896,609,000. The ratio of UAAL to the covered payroll was 101.6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation and investment returns. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 49 following the notes to financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques such as 5-year smoothing of assets and amortization of UAAL over 15 or 30 years, that are designed to reduce the effects of short-term volatility in funding, consistent with the long-term perspective of the calculations. The actuarial methods and significant assumptions used in the valuation year of June 30, 2007 are summarized in this note to conform to the disclosure requirements for GASB No. 50.

Valuation Date	June 30, 2007
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, closed. Plan and assumption changes are amortized over 30 years, closed. 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. The amortization period may be adjusted to comply with GASB requirements on maximum amortization period for all layers combined.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last 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%
▪ **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**	3.00%
▪ **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 – POSTEMPLOYMENT HEALTHCARE PLAN DESCRIPTION

Plan Description

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

Funding Policies and Funded Status and Progress

The Plan'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, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Healthcare Plan for the fiscal year ended June 30, 2007, was 7.0% of covered payroll, determined by the June 30, 2005 actuarial valuation. As of June 30, 2007, the most recent actuarial valuation date, the Plan was 68.5% funded. The actuarial accrued liability for benefits was $1,730,400,000 and the actuarial value of assets was $1,185,544,000, resulting in an unfunded actuarial accrued liability (UAAL) of $544,856,000. The covered payroll as of June 30, 2007 valuation was $1,896,609,000. The ratio of UAAL to the covered payroll was 28.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 52 following the notes to financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, funded ratios for years prior to June 30, 2005 were not calculated using the parameters required for GASB No. 43 because the Plan's funding policy excluded active employees with less than 10 years of service.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques such as 5-year smoothing of assets and amortization of UAAL over 15 or 30 years, that are designed to reduce the effects of short-term volatility in funding, consistent with the long-term perspective of the calculations.

Valuation Date	June 30, 2007
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, closed. Plan changes are amortized over 30 years, closed. The existing layers on June 30, 2005 were combined and amortized over 30 years. The amortization period may be adjusted to comply with GASB requirements on maximum amortization period for all layers combined.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last 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%
▪ **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
▪ **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 four 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.

Actuarial Methods and Assumptions *(continued)*

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 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. The remaining 15% will be covered by Medicare Part B only.

Health Care Cost Trend Rates

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

Medical Premium Trend Rates to be applied to Fiscal Year 2007-08 and later years are:

First Fiscal Year (July 1, 2007 through June 30, 2008)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	6.32%	N/A
Blue Cross HMO	4.73%	N/A
Blue Cross PPO	6.44%	9.08%
Senior Advantage	7.18%	
Secure Horizons	3.65%	

Fiscal Year 2008 - 2009 and later	
Fiscal Year	Trend (Approx)
2008 - 2009	8.75%
2009 - 2010	8.25%
2010 - 2011	7.75%
2011 - 2012	7.25%
2012 - 2013	6.75%
2013 - 2014	6.25%
2014 - 2015	5.75%
2015 - 2016	5.25%
2016 - 2017 & later	5.00%

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

Medicare Part B Premium Trend to be applied is 4.07% for the Fiscal Year 2007-08, and 5.00% in the Fiscal Year 2008-09 and later.

NOTE 4 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The System currently uses the Projected Unit Credit Cost Method to determine the required annual contribution amount for the Retirement Plan and the Postemployment Healthcare Plan. The required annual contribution amount is composed of two components, (1) normal cost, which is the cost of the portion of the benefit that is allocated to this year, and (2) the payment to amortize the unfunded actuarial accrued liability (UAAL) which is the difference between LACERS actuarial liabilities and assets.

For the valuation as of June 30, 2007, the components of the UAAL are amortized as a level percent of pay. Based on the System's amortization policy, increases or decreases in the UAAL due to plan or assumption changes are amortized over 30 years. Experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period for all layers combined. The amortization periods are considered "closed" as the amounts calculated annually are amortized over either a 15- or 30-year period.

The contributions to the System for the year ended June 30, 2007, of approximately $514,627,000 ($399,394,000 for the Retirement Plan and $115,233,000 for the Postemployment Healthcare Plan), were made in accordance with actuarially-determined requirements computed through the actuarial valuation dated June 30, 2005.

Contributions to the System consisted of the following for the year ended June 30, 2007 *(in thousands)*:

	Retirement Plan	Postemployment Healthcare Plan
City Contributions:		
Required Contribution	$ 277,517	$ 115,233
Defrayal Portion of Member Contributions	15,433	-
Family Death Benefits Insurance Plan	210	-
Total City Contributions	293,160	115,233
Member Contributions	106,234	-
Total Contributions	$ 399,394	$ 115,233

The amount of the contributions made for the Retirement Plan under the Required Contribution category ($277,517,000) were equal to 100% of the Annual Required Contributions (ARC) of the employer as defined by GASB Statements No. 25 and No. 27. The contributions made for the Postemployment Healthcare Plan, for $115,233,000, represents 100% of the ARC as defined by GASB No. 43 and No. 45.

NOTE 5 – HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 49 through 51 for the Retirement Plan and pages 52 through 54 for the Postemployment Healthcare Plan.

NOTE 6 – DEFRAYAL PORTION OF MEMBER CONTRIBUTIONS-RETIREMENT PLAN

For Members who entered the System prior to February 1983, the City subsidizes a portion of Member contributions. Payments made by the City in this manner are not refundable to Members upon their withdrawal from the System prior to retirement.

The subsidized amount paid by the City was approximately 5.3% of total City contributions paid for the Retirement Plan for the year ended June 30, 2007. The City contributed $15,433,000 in this manner for the year ended June 30, 2007.

NOTE 7 – 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, 2007, on the Retirement Plan and Postemployment Healthcare Plan Statement of Plan Net Assets includes approximately $1,417,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $517,924,000 for a total of $519,341,000. 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, 2007, short-term investments included collective STIF of $141,934,000, international STIF of $110,013,000, financial paper of $264,832,000 and future initial margin of $1,145,000.

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, 2007 are as follows:

Credit Risk *(continued)*

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

Quality Ratings	Fair Value	Percentage
AAA	$ 1,053,371	55.81 %
AA	60,729	3.22
A	152,302	8.07
BBB	301,454	15.97
BB	74,628	3.95
B	73,444	3.89
CCC	28,264	1.50
Not Rated	143,216	7.59
	1,887,408	100.00 %
U.S. Government Guaranteed Securities	530,914	
Total Fixed Income Securities	$ 2,418,322	

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, 2007, none of the System's deposits were exposed to such risk.

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

Concentration of Credit Risk

The investment portfolio as of June 30, 2007 contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways the System manages its exposure to interest rate risk is by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the 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	Weighted Average Duration (in Years)
Asset Backed Securities	$ 46,758	1.06
Commercial Mortgage Backed Securities	108,968	4.23
Corporate Bonds	756,560	6.29
Government Agencies	216,436	3.23
Government Bonds	538,714	6.83
Government Mortgage Backed Securities	647,031	4.62
Gov't-issued Commercial Mortgage-Backed	507	3.04
Municipal/Provincial Bonds	3,384	7.22
Non-Government Backed C.M.O.s	99,964	2.01
Total	$ 2,418,322	

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	$ 46,758
Commercial Mortgage Backed Securities	108,968
Government Agencies	216,436
Government Mortgage Backed Securities	647,031
Gov't-issued Commercial Mortgage-Backed	507
Non-Government Backed C.M.O.s	99,964
Total	$ 1,119,664

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System's Asset Allocation policy sets a target of 20% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate and alternative investment managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts and currency futures are permitted primarily to reduce the foreign currency risk (refer to Note 9 - Futures and Forwards Contracts).

Foreign Currency Risk *(continued)*

The System's non-U.S. investment holdings as of June 30, 2007, which represents 19.7% of fair value of total investments, is as follows:

Foreign Currency Type	Fair Value in USD (In Thousands)
Argentine Peso	$ 91
Australian dollar	128,918
Brazilian real	13,351
British pound sterling	464,049
Canadian dollar	4,147
Chilean peso	2,678
Czech koruna	2,034
Danish krone	16,564
Egyptian pound	481
Euro	839,732
Hong Kong dollar	110,405
Hungarian forint	1,647
Iceland krona	10,172
Indian rupee	16,116
Indonesian rupiah	5,454
Japanese yen	441,754
Malaysian ringgit	14,340
Mexican peso	17,348
New Israeli shekel	2,565
New Taiwan dollar	59,012
New Zealand dollar	1,693
Norwegian krone	37,444
Philippine peso	34,560
Polish zloty	3,397
Singapore dollar	72,912
South African rand	20,116
South Korean won	90,892
Swedish krona	48,233
Swiss franc	147,496
Thai baht	26,123
Turkish lira	6,311
Total International Investments	$ 2,640,035

NOTE 8 – SECURITIES LENDING AGREEMENT

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

Minimum collateralization is 102% of 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, 2007, 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 non-cash collateral unless the borrower defaults.

The following represents the balances relating to the security lending transactions as of June 30, 2007 *(in thousands)*:

Fair value of collateral received for loaned securities as of June 30, 2007:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 630,952	$ 28,415	$ 659,367
Domestic Corporate Fixed Income Securities	108,535	22,210	130,745
International Fixed Income Securities	8,518	9,130	17,648
Domestic Stocks	1,474,753	3,425	1,478,178
International Stocks	389,488	115,161	504,649
	$ 2,612,246	$ 178,341	$ 2,790,587

Fair value of loaned securities as of June 30, 2007:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 619,203	$ 27,841	$ 647,044
Domestic Corporate Fixed Income Securities	106,150	21,820	127,970
International Fixed Income Securities	8,159	8,856	17,015
Domestic Stocks	1,444,163	3,364	1,447,527
International Stocks	371,563	108,915	480,478
	$ 2,549,238	$ 170,796	$ 2,720,034

As of June 30, 2007, the fair value of the lent securities was $2,720,034,000. The fair value of associated collateral was $2,790,587,000. Of this amount, $2,612,246,000 represents the fair value of cash collateral and $178,341,000 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 $8,970,000 and $1,793,000, respectively, for the year ended June 30, 2007.

NOTE 9 — 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, 2007, the System had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of $21,733,000. In addition, at June 30, 2007, the System had outstanding forward purchase commitments with a notional amount of $50,944,000 and offsetting forward sales commitments with notional amounts of $50,944,000, which expire through September 2007. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was $1,145,000 as of June 30, 2007.

The realized gain on foreign currency translation was $25,626,000 for the year ended June 30, 2007.

NOTE 10 — COMMITMENTS AND CONTINGENCIES

At June 30, 2007, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $829,495,000.

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS

(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, 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
June 30, 2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7
June 30, 2007	8,599,700	10,526,874	1,927,174	81.7	1,896,609	101.6

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(in thousands)

Year Ended June 30:	Employer Contributions Total: Annual Required Contribution	Employer Contributions Total: Percentage Contributed
2002	$ 32,296	100 %
2003	51,604	100
2004	159,083	63
2005	183,241	86
2006	227,741	100
2007	277,517	100

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
Securing Your Tomorrows

A Department of the City of Los Angeles

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1 – DESCRIPTION

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

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TREND IN ACTUARIAL INFORMATION AND EMPLOYER CONTRIBUTIONS

Due to favorable investment performance, the actuarial investment rate of return exceeded the 8% assumption for the second time in a row. The total unrecognized investment gain, created by the 5-year "asset smoothing," is $1,258,692,000 for the Retirement Plan and the Postemployment Healthcare Plan. This large deferred gain will help to control contribution rates in the next few years.

The Annual Required Contribution (ARC) for the employer is the sum of the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost is the portion of the actuarial present value of plan benefits, which is allocated to a valuation year assuming all actuarial assumptions are met. The amortization of the UAAL is the payment stream required to fund the difference between LACERS actuarial liabilities and LACERS actuarial assets.

The amount of the contributions made for the Retirement Plan under the Required Contribution category ($277,517,000) were equal to 100% of ARC as defined by GASB Statements No. 25 and No. 27.

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE PLAN
SCHEDULE OF FUNDING PROGRESS

(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, 2002	$ 853,916	$ 931,964	$ 78,048	91.6 %	$ 1,334,335	5.8 %
June 30, 2003	848,983	1,205,811	356,828	70.4	1,405,058	25.4
June 30, 2004	858,997	1,419,813	560,816	60.5	1,575,285	35.6
June 30, 2005	893,378	1,718,899	825,521	52.0	1,589,305	51.9
June 30, 2006	990,270	1,730,799	740,529	57.2	1,733,340	42.7
June 30, 2007	1,185,544	1,730,400	544,856	68.5	1,896,609	28.7

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(in thousands)

	Employer Contributions Total	
Year Ended June 30:	Annual Required Contribution	Percentage Contributed
2002	$ 27,589	100 %
2003	26,608	100
2004	20,144	100
2005	53,190	100
2006	76,116	100
2007	115,233	100

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE PLAN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1 – DESCRIPTION

The historical trend information about the Postemployment Healthcare Plan 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. As the Board decided to comply with the requirements in GASB No. 43 and No. 45 for the actuarial valuation of the Postemployment Healthcare Plan as of June 30, 2005, the funded ratios for years prior to June 30, 2005 were not calculated using the parameters required by GASB No. 43 and No. 45 because the plan's funding policy excluded active employees with less than 10 years of service. Similarly, the annual required contribution (ARC) for fiscal year ended June 30, 2006 was determined in the June 30, 2004 valuation and it was not calculated using the parameters required by GASB No. 43 and No. 45.

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TREND IN ACTUARIAL INFORMATION AND EMPLOYER CONTRIBUTIONS

Due to favorable investment performance, the actuarial investment rate of return exceeded the 8% assumption for the second time in a row. The total unrecognized investment gain, created by the 5-year "asset smoothing," is $1,258,692,000 for the Retirement Plan and the Postemployment Healthcare Plan. This large deferred gain will help to control contribution rates in the next few years.

The Annual Required Contribution (ARC) for the employer is the sum of the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost is the portion of the actuarial present value of plan benefits, which is allocated to a valuation year assuming all actuarial assumptions are met. The amortization of the UAAL is the payment stream required to fund the difference between LACERS actuarial liabilities and LACERS actuarial assets.

The amount of the contributions made for the Postemployment Healthcare Plan under the Required Contribution category ($115,233,000) were equal to 100% of ARC as defined by GASB Statements No. 43 and No. 45. Due to lower medical trend assumption and per capita costs adopted by the Board for the June 30, 2007 actuarial valuation, in addition to the favorable investment return, the employer contribution rate determined for fiscal year 2008-09 will be lower at 5.19%, as compared with 7.00% for this fiscal year.

SUPPLEMENTAL SCHEDULES

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SCHEDULE OF ADMINISTRATIVE EXPENSES
YEAR ENDED JUNE 30, 2007

(in thousands)

	Retirement Plan	Postemployment Healthcare Plan	Total
Personnel Services:			
Staff Salaries	$ 6,819	$ 1,030	$ 7,849
Staff Benefits	987	149	1,136
Total Personnel Services	7,806	1,179	8,985
Professional Services:			
Actuarial	119	18	137
Data Processing	423	64	487
Audit	83	13	96
Retirees' Health Consulting	-	420	420
Legal Counsel	471	71	542
Medical for Temporary Disability	173	26	199
Total Professional Services	1,269	612	1,881
Communication:			
Printing	78	12	90
Telephone	4	1	5
Postage	129	20	149
Travel	80	12	92
Total Communication	291	45	336
Rentals:			
Office Space	883	134	1,017
Equipment Leasing	34	5	39
Total Rentals	917	139	1,056
Miscellaneous:			
Office	(850)	(129)	(979)
Depreciation	68	10	78
Total Miscellaneous	(782)	(119)	(901)
	$ 9,501	$ 1,856	$ 11,357

SCHEDULE OF INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2007

Investment expenses of the System for the year ended June 30, 2007, were as follows *(in thousands)*:

	Assets Under Management	Fees
Retirement Plan		
Investment Management Expense:		
Fixed Income Managers	$ 2,125,959	$ 2,279
Equity Managers	6,297,215	14,388
Subtotal Investment Management Expense	8,423,174	16,667
Other Investment Expense:		
Alternative Investments Consulting Fee	-	1,029
Real Estate and Other Consulting Fee	-	599
Subtotal Other Investment Expense	-	1,628
Postemployment Healthcare Plan		
Investment Management Expense:		
Fixed Income Managers	292,363	344
Equity Managers	865,996	2,175
Subtotal Investment Management Expense	1,158,359	2,519
Other Investment Expense:		
Alternative Investments Consulting Fee	-	156
Real Estate and Other Consulting Fee	-	91
Subtotal Other Investment Expense	-	247
Total Investment Management Expense and Other Investment Expense, Excluding Alternative Investments, Real Estate and Securities Lending	$ 9,581,533	$ 21,061
Alternative Investments Managers' Fees:		
Retirement Plan	$ 611,736	$ 10,567
Postemployment Healthcare Plan	84,126	1,597
Total Alternative Investments Managers' Fees	$ 695,862	$ 12,164
Real Estate Managers' Fees:		
Retirement Plan	$ 449,437	$ 8,530
Postemployment Healthcare Plan	61,807	1,289
Total Real Estate Managers' Fees	$ 511,244	$ 9,819
Security Lending Fees:		
Retirement Plan	$ 2,296,439	$ 1,558
Postemployment Healthcare Plan	315,807	235
Total Security Lending Fees	$ 2,612,246	$ 1,793

1957

1957 Mayor: Morris Poulson

- 1953 - Members receive interest on their contributions

Investment

1967

1967 Mayor: Samuel Yorty

- 1965 - Family Death Benefit Insurance Plan is created
- 1965 - Surviving Spouses will receive a lifetime benefit
- 1967 - Part-time Employees become eligible for membership

CITY OF LOS ANGELES
CALIFORNIA

ANTONIO R. VILLARAIGOSA
MAYOR

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
360 EAST SECOND STREET
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REPORT ON INVESTMENT ACTIVITY

December 5, 2007
Board of Administration
Los Angeles City Employees' Retirement System
360 East Second Street, 2nd Floor
Los Angeles, CA 90012

Dear Commissioners,

Presented below is a summary report of the Fund's investment activities for the fiscal year 2006-2007.

Over the past fiscal year, the U.S. and global equity markets demonstrated optimism and renewed confidence as the events in the world economies and credit markets unfolded. In the face of a dynamic market environment, LACERS broadly diversified portfolio achieved an annual performance return ranked in the upper quintile of a universe of public pension funds at the close of the past fiscal year.

Market Overview

The fiscal year opened with the international and U.S. equity markets trading up as investor optimism was revitalized on the brighter outlook of U.S. and world economies. However, strong investor fears subsequently emerged, resulting in the markets dramatically pulling back in late February 2007. Concerns over the looming possibility of a recession in the U.S. economy, a growing deterioration in the U.S. subprime mortgage market, and China and India invoking more restrictive monetary policies all contributed to falling markets. The skittishness in the markets began to dissipate in the final quarter of the fiscal year as reports of improving economies, strong corporate earnings, and subdued inflationary pressures began to surface. Markets turned bullish and posted strong gains by the end of the fiscal year.

Investment Performance

The total portfolio value at the close of the fiscal year 2006-07 was $11.1 billion, an increase of $1.8 billion over the prior fiscal year. The total portfolio returned 19.5% for the twelve-month period ending June 30, 2007, the highest annual rate of return in twenty years.

For the year, all asset classes generated positive returns with notably stronger returns from the international equity, alternative investments and corporate governance asset classes. U.S. equities returned 20.1% and matched its benchmark return. International equities posted a 30.1% return, which was 0.5% above its benchmark. Fixed income outperformed its benchmark by 0.5% with a 7.1% return. Real estate produced a 15.5% return, underperforming its benchmark by 1.1%. Alternative investments generated an outstanding return of 31.3%, outperforming its benchmark by 6.4%. Corporate governance returned 26.6%, outperforming its benchmark by 4.9%. Table 1 displays a summary of time-weighted rates of return based on fair value of assets.

Policies, Procedures and Guidelines

During the fiscal year, policies and procedures were updated while new strategic plans were implemented.

The Board adopted a Geopolitical Risk Investment Policy, which establishes the framework for allowing the Board to consider the impact of corporate governance actions on a global basis. Acting upon the newly adopted geopolitical policy, the Board subsequently approved a divestment and exclusion policy for companies doing business in the Sudan.

The Board adopted an Emerging Manager Addendum to the Real Estate Strategic Plan, which would allow for the consideration of new managers and strategies outside the scope of the LACERS "carve-out" program.

The Board approved restructuring the non-U.S. equity portfolio which included: changing the benchmark to the MSCI World ex-U.S.; increasing the emerging markets allocation to a market weighting of 14%; issuing a Request for Proposal for emerging markets equity manager; and, doubling the corporate governance investment allocation.

The Board updated the Private Equity Strategic Plan to reflect an increase in the maximum commitment amounts to both new and follow-on funds. The higher commitment amounts are expected to reduce the number of general partner relationships and establish a more concentrated core portfolio.

Manager Search, Contract Renewals and New Hires

Public Markets
Contracts with four managers of publicly traded securities were renewed (Table 2). One new emerging manager fund of funds with an all-cap strategy was added (Table 3) that would complement the current small- and large-cap strategies in the emerging managers fund of funds mandate.

Private Investments
During the fiscal year 2006-07, the Board approved allocations to private investments in both alternative and real estate classes. The alternative investment and real estate partnerships are shown in Table 4. Twenty alternative investment partnerships, totaling commitments of $340.5 million, were directed across buyout, venture capital and distressed/turnaround funds. Seven real

estate partnerships were added to the portfolio with total commitments of $185 million. Of the seven real estate partnerships added, six were domestic strategies, and one pursued a non-U.S. focus. During the past fiscal year, alternative investments and real estate partnerships made capital calls of approximately $220 million and $123 million, respectively.

In the specialized, non-traditional alternative investment program, LACERS made $56 million in commitments to six partnerships. These vehicles may be minority- or women-owned, or Los Angeles based, and/or may target underserved demographic sectors; clean technology; distressed debt or other undercapitalized private equity opportunities.

Within the specialized, non-traditional real estate program, LACERS made $45 million in commitments to workforce housing within the Los Angeles County area. LACERS also allocated $10 million to a strategy focusing on real estate opportunities adjacent to urban medical centers.

Other Contracts
The Board approved a contract with Courtland Partners, Ltd. (Courtland) for real estate consulting services (Table 5). Courtland opened a Los Angeles office to service its local clients.

Additional Information

Additional portfolio and investment-related information is presented in Tables 6-10. Actual and Target Asset Allocations as of June 30, 2007 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. An Investment Summary is presented in Table 14, and a list of Advisory/Consulting/Custody Services providers is presented in Table 15.

Respectfully submitted,

Daniel P. Gallagher

Daniel P. Gallagher
Chief Investment Officer

INVESTMENTS

FISCAL YEAR 2006-2007

OUTLINE OF INVESTMENT POLICIES

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

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. Investment performance data is calculated in conformance with Global Investment Performance Standards (GIPS).

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		Annualized*	
(gross of fees)	1 Year (%)	3 Years (%)	5 Years (%)
U.S. Equity	**20.1**	**12.7**	**12.2**
Russell 3000	*20.1*	*12.4*	*11.5*
Fixed Income	**7.1**	**5.4**	**6.4**
*LB Universal***	*6.6*	*4.5*	*5.2*
International Equity	**30.1**	**24.3**	**19.4**
*MS ACWI Free ex U.S. Index***	*29.6*	*24.5*	*19.5*
Real Estate	**15.5**	**19.3**	**14.9**
NCREIF Property Index	*16.6*	*17.2*	*13.7*
Alternative	**31.3**	**23.7**	**17.0**
Alternative IRR Index	*24.9*	*17.0*	*16.0*
Corporate Governance	**26.6**	**N/A**	**N/A**
Composite Benchmark	*21.7*	*N/A*	*N/A*
LACERS Total Fund	**19.5**	**13.9**	**12.9**
LACERS Policy Benchmark	*18.5*	*13.1*	*11.9*

* Time-weighted rate of return based on fair value of assets for all asset classes.
** Both the MS ACWI Free ex U.S. and Lehman Universal indices are historically blended with other indices.

PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

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

Name of Firm	Discipline
Lehman Brothers Asset Management	Lehman Aggregate Bond Index Portfolio
Lehman Brothers Asset Management	Active Domestic Fixed Income
Templeton Investment Counsel LLC	Pacific Basin Active Int’l Equity Portfolio Mgmt.
TT International	Active Non-U.S. EAFE Core Equities Management

TABLE 3 – The Board approved a contract with a new manager of publicly traded securities

Investment Manager	Discipline
Progress Investment Management	U.S. Equity Fund of Funds Emerging Managers

TABLE 4 – The Board approved the following real estate and alternative investment partnerships

Investment Partnerships	Discipline
Avenue Special Situations Fund V, L.P.	Alternative Investment – Distressed Debt
Cardinal Americas, L.P.	Alternative Investment – Buyout
Carlyle Partners V, L.P.	Alternative Investment – Buyout
CHP III, L.P.	Alternative Investment – Venture Capital
First Reserve XI, L.P.	Alternative Investment – Buyout
Green Equity Investors, L.P.	Alternative Investment – Buyout
GTCR IX, L.P.	Alternative Investment – Buyout
Hellman & Friedman VI, L.P.	Alternative Investment – Buyout
KH Growth Equity Fund, L.P.	Alternative Investment – Venture Capital
KKR 2006 Fund	Alternative Investment – Buyout
Lindsay Goldberg & Bessemer II, L.P.	Alternative Investment – Buyout
NGEN II, L.P.	Alternative Investment – Venture Capital
Nogales Investors Fund II, L.P.	Alternative Investment – Buyout
OCM Opportunities Fund VII and VIIb, L.P.	Alternative Investment – Distressed Debt
Parish Capital II, L.P.	Alternative Investment – Buyout/Venture Cap
Permira IV Managers, L.P.	Alternative Investment – Buyout
Providence Equity Partners VI, L.P.	Alternative Investment – Buyout
Saybrook Corporate Opportunity Fund, L.P.	Alternative Investment – Distressed Debt
TCW/Crescent Mezzanine Partners IV, L.P.	Alternative Investment – Mezzanine Debt
TPG Star, L.P.	Alternative Investment – Venture Capital
Buchanan Fund V, L.P.	Real Estate – Value Added
CB Richard Ellis Strategic Partners UK III, L.P.	Real Estate – Value Added
City View LA Urban Land Fund I, L.P.	Real Estate – Workforce Housing
Colony Investors VIII, L.P.	Real Estate – Opportunistic
Genesis Workforce Housing Fund II, L.P.	Real Estate – Workforce Housing
MacFarlane Urban Real Estate Fund II, L.P.	Real Estate – Urban Core/Value Added
Valencia Next Block Medical Fund I, L.P.	Real Estate – Niche Strategy/Medical

TABLE 5 – The Board approved a contract with a new consultant

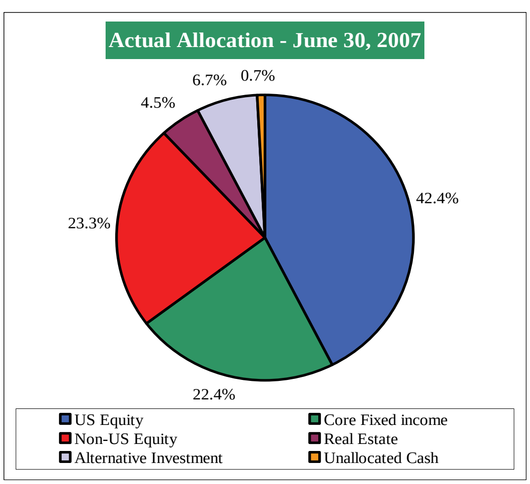
Name of Firm	Discipline
Courtland Partners, Ltd.	Real Estate

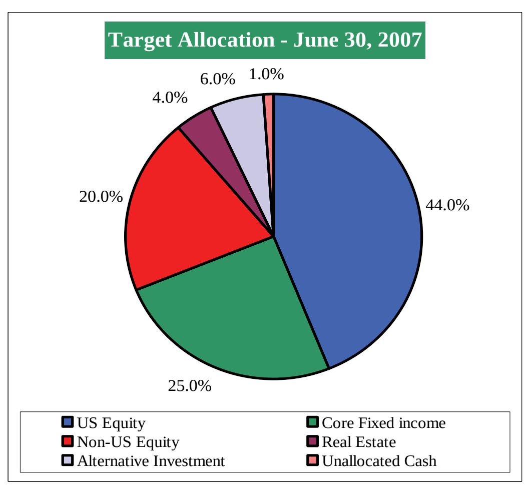
ASSET ALLOCATION

TABLE 6 – Asset Allocation as of June 30, 2007

Actual and Target

Asset Allocation June 30, 2007			
Actual		**Target**	
U.S. Equity	42.4%	U.S. Equity	44.0%
Core Fixed Income	22.4%	Core Fixed Income	25.0%
Non-U.S. Equity	23.3%	Non-U.S. Equity	20.0%
Real Estate	4.5%	Real Estate	4.0%
Alternative Investment	6.7%	Alternative Investment	6.0%
Unallocated Cash	0.7%	Unallocated Cash	1.0%
Total	**100.0%**	**Total**	**100.0%**





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, 2007. A complete listing of the System's holdings is available on the website (www.lacers.org).

TABLE 7 – U.S. Equity Holdings

No.	Shares	Asset Description	Market Value $ U.S.
1.	937,944	Exxon Mobil Corp	$ 78,674,743
2.	1,003,241	Citigroup Inc.	51,456,231
3.	1,295,452	General Electric Co	49,589,903
4.	1,101,093	AT&T Inc.	45,695,360
5.	85,991	Google Inc. Class A	45,005,970
6.	1,500,569	Microsoft Corp	44,221,768
7.	356,359	Apple Inc.	43,490,052
8.	872,341	JP Morgan Chase & Co	42,264,921
9.	468,013	Chevron Corp	39,425,415
10.	1,406,639	Cisco Systems Inc	39,174,896
Total			**$478,999,259**

TABLE 8 – U.S. Fixed Income Holdings

No.	Par Value	Asset Description	Market Value $ U.S.
1.	124,270,000	UST 4.375% 8/15/2012	$121,464,232
2.	86,165,000	FNMA 5%15 Yr	83,256,931
3.	80,365,000	UST 4.5%11/15/2015	77,514,534
4.	69,855,000	FNMA 5.5% 30 Yr	67,366,416
5.	63,150,000	FNMA 5% 30 Yr	59,163,656
6.	46,535,000	UST 4.75%2/15/2037	43,877,433
7.	40,795,000	FNMA 7.25%1/15/2010	42,756,995
8.	44,465,000	UST 4.5% 5/15/2017	42,630,819
9.	42,922,727	FNMA 4.5% 8/1/2035	39,070,370
10.	36,648,545	FNMA 5.5%2/1/2037	35,347,155
Total			**$612,448,541**

TABLE 9 – Non-U.S. Equity Holdings

No.	Shares	Asset Description	Market Value $ U.S.
1.	335,746	Total SA	$27,324,400
2.	166,320	Siemens AG	23,938,123
3.	1,854,235	Royal Bank Scotland	23,549,148
4.	353,580	Toyota Motor Corp	22,332,273
5.	6,442,293	Vodafone Group	21,688,981
6.	441,263	ING Groep NV	19,541,126
7.	82,688	Allianz SE	19,385,537
8.	238,245	Sanofi-Aventis	19,335,069
9.	344,288	Astrazeneca Ord	18,509,826
10.	453,662	Royal Dutch Shell ‘A’	18,497,208
Total			$214,101,691

TABLE 10 – Non-U.S. Fixed Income Holdings

No.	Par Value (in local currency)	Asset Description	Market Value $ U.S.
1.	600,000,000	Rabobank Nederland EMTN 13.5% 1/28/2008	$9,608,095
2.	925,000	Mexico 8% 12/17/2015	8,770,055
3.	8,355,000	Telecom Italia Cap Gtd Sr Note 7.2% 7/18/2036	8,589,466
4.	8,085,000	Telefonica Emisiones Sr Note 6.421% 6/20/2016	8,197,802
5.	7,400,000	Empresa Nacional de Electricidad Chile 8.5% 4/1/2009	7,741,066
6.	7,120,000	Encana Corp 6.5% 8/15/2034	7,161,951
7.	4,671,000	Brazil 11% Deb 8/17/2040	6,131,388
8.	4,725,000	Vale Overseas Ltd 6.25% 1/23/2017	4,686,350
9.	408,000,000	Dev Bank of Japan 1.75% 6/21/2010	3,360,768
10.	3,400,000	Rogers Cable Sr Secd 2nd Priority 5.50% 3/15/2014	3,297,065
Total			$67,544,006

SCHEDULE OF FEES AND COMMISSIONS

TABLE 11– Schedule of Fees (in thousands)

Fiscal Year	2007		2006	
	Assets Under Management	Fees	Assets Under Management	Fees
Investment Manager Fees				
• Fixed Income Managers	$2,418,322	$2,623	$2,239,512	$2,681
• Equity Managers	7,163,211	16,563	5,908,461	13,697
• Real Estate Managers	511,244	9,819	405,681	6,366
• Alt Investment Managers	695,862	12,164	520,273	2,818*
Total	**$10,788,639**	**$ 41,169**	**$ 9,073,927**	**$25,562**
Security Lending Fees	$2,612,246	$1,793	$1,646,747	$1,408
Real Estate & Other Inv Cons Fees	N/A	1,875	N/A	1,610
Total	**$2,612,246**	**$ 3,668**	**$1,646,747**	**$ 3,018**

* The 2006 amount was adjusted to include the alternative investment managers' fees.

Table 11: The 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
1.	Merrill Lynch	5,265,124	$168,104	$0.032
2.	Cabrera Capital Markets	5,469,408	135,431	0.025
3.	Bear Stearns	4,585,055	124,753	0.027
4.	JP Morgan Securities	3,237,789	101,643	0.031
5.	Citigroup Global Markets	4,544,201	99,399	0.022
6.	BNY ESI	2,399,184	97,311	0.041
7.	Daiwa Securities American	4,076,577	97,069	0.024
8.	Credit Suisse First Boston	4,246,299	91,642	0.022
9.	Investment Technology Group	5,600,921	86,029	0.015
10.	Goldman Sachs	3,704,205	70,943	0.019
	Total	43,128,763	1,072,324	0.025
	Total - Other Brokers	71,062,527	2,082,698	0.029
	Grand Total*	114,191,290	$ 3,155,022	$0.028

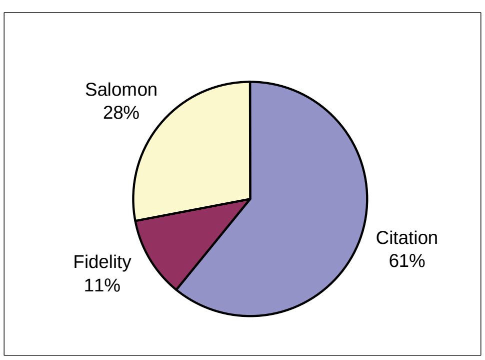
* OTC Brokers excluded because there is no stated commission.

TABLE 13 – Total Captured Commission Expenditures 2006-2007

Captured Commission Expenditures 2006-2007

Citation	$	128,959
Fidelity		23,404
Salomon		59,794
TOTAL	$	212,157
Services (Bloomberg, ISS, etc.)	$	120,176
Computer hardware, etc.		91,981
TOTAL	$	212,157

Expenditure by Broker



Expenditure by Type

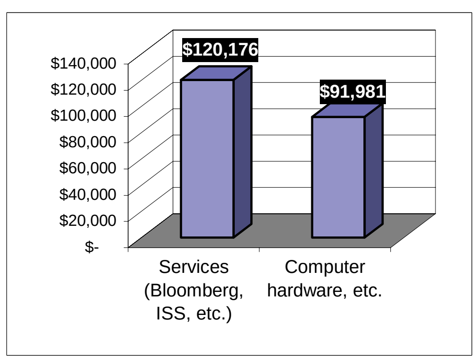


TABLE 14 – Investment Summary as of June 30, 2007

Type of Investment	Market Value (M.V.)	% of Total M. V.	Domestic M. V.	Foreign M. V.
Fixed Income				
• Government bonds/Municipal/Gov't Agencies	$ 758,533,460	5.66%	$ 711,203,042	$ 47,330,418
• Corporate bonds	903,282,528	6.74%	765,193,927	138,088,601
• Government and commercial mortgage bonds	756,505,640	5.65%	756,505,640	-
Total Fixed Income	**2,418,321,628**	**18.05%**	**2,232,902,609**	**185,419,019**
Equities				
• Common stock				
o Basic industries	777,476,344	5.80%	464,548,473	312,927,871
o Capital goods industries	374,888,257	2.79%	122,646,125	252,242,132
o Consumer & services	1,408,297,784	10.51%	795,038,326	613,259,458
o Energy	789,047,270	5.89%	495,477,944	293,569,326
o Financial services	1,473,975,739	11.00%	785,826,989	688,148,750
o Health care	602,992,649	4.50%	458,363,067	144,629,582
o Information technology	833,373,262	6.22%	643,223,582	190,149,680
o Miscellaneous (Common Fund Assets)	872,552,527	6.51%	789,497,671	83,054,856
Total Common Stock	**7,132,603,832**	**53.22%**	**4,554,622,177**	**2,577,981,655**
• Preferred stock	25,496,379	0.19%	-	25,496,379
• Convertible bonds/equities	4,732,514	0.04%	-	4,732,514
• Rights/warrants/Unit trust equity	377,077	0.00%	-	377,077
Total Equities	**7,163,209,802**	**53.45%**	**4,554,622,177**	**2,608,587,625**
Real Estate	**511,244,253**	**3.82%**	**494,916,435**	**16,327,818**
Alternative Investments				
• Acquisitions	296,087,940	2.21%	296,087,940	-
• Distressed debt	26,632,282	0.20%	26,632,282	31,182,510
• International acquisitions	43,872,789	0.33%	12,690,279	-
• Mezzanine	6,157,287	0.04%	6,157,287	-
• Venture capital	323,111,814	2.41%	270,482,806	52,629,008
Total alternative investments	**695,862,112**	**5.19%**	**612,050,594**	**83,811,518**
Security Lending Collateral	**2,612,246,459**	**19.49%**	**2,214,240,629**	**398,005,830**
Total Fund*	**$13,400,884,254**	**100.00%**	**$10,108,732,444**	**$3,292,151,810**

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

TABLE 15 – Advisory/Consulting/Custody Services

INVESTMENT ADVISORS		
US Equity		
Alliance Bernstein New York, NY	**Donald Smith & Co., Inc.** New York, NY	**Rhumbline Advisers** Boston, MA
Aronson, Johnson & Ortiz, LP Philadelphia, PA	**Fiduciary Trust Co. International** New York, NY	**SIT Investment Associates, Inc.** Minneapolis, MN
Attucks Asset Management Chicago, IL	**PanAgora Asset Management, Inc.** Boston, MA	**Thomson Horstmann & Bryant Inc.** Saddlebrook, NJ
Barclays Global Investors San Francisco, CA	**Progress Investment Management** San Francisco, CA	
Capital Prospects, LLC Stamford, CT	**Relational Investors** San Diego, CA	
Non-US Equity		
Boston Company Boston, MA	**Knight Vinke** Monte Carlo	**Templeton International** Fort Lauderdale, FL
Capital Guardian Trust (Europe) Los Angeles, CA	**Marvin & Palmer Assoc., Inc.** Wilmington, DE	**TT Intl Inv Management** London, UK
Daiwa SB Investments New York, NY	**Sparx Asset Management** New York, NY	
Hermes Focus Asset Mgmt London, UK	**State Street Global Advisors** Boston, MA	
Fixed Income		
Robert W. Baird & Co., Inc. Milwaukee, WI	**LM Capital Group, LLC** San Diego, CA	**Quadrant** Alpharetta, GA
Lehman Bros Asset Mgmt Chicago, IL	**Loomis Sayles & Company** Boston, MA	
Cash & Short-Term	**Consultants**	**Custodian**
Managed In-House	**Hamilton Lane** Bala Cynwyd, PA	**The Northern Trust Company** Chicago, IL
	Pension Consulting Alliance Portland, OR	
	Courtland Partners, Ltd Cleveland, OH	
Real Estate		
Allegis Trust Hartford, CT	**CB Richard Ellis** Los Angeles, CA	**ForesTree** Boston, MA
AMB Capital Partners San Francisco, CA	**CIM Urban REIT, LLC** Los Angeles, CA	**Genesis Workforce Housing** New York, NY
Aslan Realty Partners Chicago, IL	**City View Urban Fund** Santa Monica, CA	**Heitman Value Partners** Chicago, IL
Bryanston Realty Partners Chicago, IL	**Colony Investors** Los Angeles, CA	**ING Realty Partners** New York, NY
Buchanan Street Partners Newport Beach, CA	**CPI Capital Partners Europe** Los Angeles, CA	**INVESCO Realty Advisors** Dallas, TX
Canyon-Johnson Urban Fund Los Angeles, CA	**DLJ Real Estate Capital Partners** Los Angeles, CA	**JP Morgan** New York, NY

Advisory/Consulting/Custody Services (continued)

Real Estate (continued)

Koll-Bren (K/B) Realty Adv
New York, NY
L&B Real Estate Counsel
Dallas, TX
LaSalle Inv Management
San Francisco, CA
Lowe Hospitality
Los Angeles, CA
MacFarlane Urban Real Estate Fund
San Francisco, CA
Miller Global Advisors
Denver, CO
Pacific Coast Capital Partners
El Segundo, CA
PRISA II
San Francisco, CA
Realty Associates
Boston, MA
RREEF Funds
San Francisco, CA
Stockbridge Real Estate
San Francisco, CA
Tuckerman Group
Rye Brook, NY
Urban America Fund
New York, NY
Valencia Capital Management
Dallas, TX
Walton Street Real Estate
Chicago, IL
Westbrook Real Estate Fund
Dallas, TX

Alternative Investments

Acon-Bastion Partners
Fort Worth, TX
Alchemy Partners
London, UK
Apollo Fund
Purchase, NY
Austin Ventures, LLP
Austin, TX
Avenue Special Situations
New York, NY
Blackstone Capital Partners
New York, NY
Cardinal Americas
Santa Ana, CA
Carlyle Group
Washington, DC
CGW Southeast Partners
Atlanta, GA
Charterhouse Capital Partners
London, UK
Chisholm Partners
Providence, RI
CHP
Princeton, NJ
CHS Private Equity
Chicago, IL
Craton Equity Partners
Los Angeles, CA
CVC Capital Partners
London, UK
DFJ
Menlo Park, CA
Enhanced Equity
New Orleans, LA
Essex Woodland Health Ventures
The Woodlands, TX
First Reserve Corporation
Greenwich, CT
Green Equity Investors
Los Angeles, CA
GTCR Golder Rauner LLC
Chicago, IL
Halifax Capital
Raleigh, NC
Hellman & Friedman Inv
San Francisco, CA
InterWest Partners
Menlo Park, CA
JH Whitney & Co.
Stamford, CT
Kelso & Company
New York, NY
KH Growth Equity
Los Angeles, CA
KKR
New York, NY
Levine Leichtman
Beverly Hills, CA
Lindsay Goldberg & Bessemer
New York, NY
Madison Dearborn
Chicago, IL
Menlo Ventures
Menlo Park, CA
Nautic Partners
Providence, RI
Newbridge Asia
Fort Worth, TX
NGEN
Santa Barbara, CA
Nogales Investors
Los Angeles, CA
Nordic Capital
Stockholm, Sweden
Oak Investment Partners
Westport, CT
OCM Opportunities
Los Angeles, CA
Olympus Partners
Stamford, CT
Onex Partners
Toronto, Canada
Palladium Equity Partners
New York, NY
Parish Capital
Chapel Hill, NC
Permira
Guernsey, UK
Pharos Capital Partners
Nashville, TN
Polaris Venture Partners
Waltham, MA
Providence Equity Partners
Providence, RI
Reliant Equity Partners
Chicago, IL
Resolute Fund Partners
New York, NY
Richland Ventures
Nashville, TN
Rustic Canyon/Fontis Partners
Santa Monica, CA
Saybrook Corporate Opportunity
Santa Monica, CA
Spark Capital
Boston, MA
Sterling Partners
Baltimore, MD

Advisory/Consulting/Custody Services (continued)

Alternative Investments (continued)		
TA	**Texas Pacific Group**	**Welsh, Carson, Anderson & Stowe**
Boston, MA	Fort Worth, TX	New York, NY
Techonology Crossover	**Trident Capital**	**Weston Presidio**
Palo Alto, CA	Palo Alto, CA	Boston, MA
Thoma Cressey Equity Partners	**Vantage Point Venture**	**Whippoorwill**
Chicago, IL	San Bruno, CA	White Plains, NY
Thomas H. Lee	**Vestar Capital Partners**	**Yucaipa American Alliance**
Boston, MA	New York, NY	Los Angeles, CA

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1977

1977 Mayor: Tom Bradley

- 1971 - Previous Balances are also credited interest
- 1975 - Retirement Factor goes UP - to 2.16%

Actuarial

1987

1987 Mayor: Tom Bradley

- 1980s - The subway system was developed and built.
- 1980 - LACERS establishes reciprocity with the Department of Water and Power
- 1983 - Members contribution rate goes up to 6%
- 1987 - LACERS begins pre-funding retiree health benefits for employees with 10+ years of Service

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 8, 2007

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

Re: June 30, 2007 Actuarial Valuations

Dear Board Members:

Enclosed please find the June 30, 2007 actuarial valuations for the retirement, health, and family death benefit insurance plans.

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

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

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

Sincerely,

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

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

PXP/gxk
Enclosure

4031385v1/05806.002

Exhibit A

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

		June 30, 2007	June 30, 2006	Percent Change
I.	**Total Membership**			
	A. Active Members	30,175	28,839	4.6%
	B. Pensioners and Beneficiaries	14,836	14,570	1.8%
II.	**Valuation Salary**			
	A. Total Annual Payroll	$1,896,609,013	$1,733,339,536	9.4%
	B. Average Monthly Salary	5,238	5,009	4.6%
III.	**Benefits to Current Retirees and Beneficiaries***			
	A. Total Annual Benefits	$476,633,928	$455,712,924	4.6%
	B. Average Monthly Benefit Amount	2,677	2,606	2.7%
IV.	**Total System Assets****			
	A. Actuarial Value	$9,806,868,041	$8,686,104,097	12.9%
	B. Market Value	11,065,560,426	9,285,478,072	19.2%
V.	**Unfunded Actuarial Accrued Liability (UAAL)**			
	A. Retirement Benefits	$1,927,174,412	$2,195,663,013	-12.2%
	B. Health Subsidy Benefits	544,856,288	740,529,235	-26.4%

* *Includes July COLA.*

** *Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits. The June 30, 2007 assets exclude $6,058,515 of discounted Harbor Port Police assets transferred in October 2007.*

Exhibit A (continued)

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

		FY 2008-2009		FY 2007-2008		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	9.29%	9.66%	9.13%	9.48%	0.16%	0.18%
	2. Amortization of UAAL	5.64%	5.86%	7.41%	7.70%	(1.77)%	(1.84)%
	3. Total Retirement Contribution	14.93%	15.52%	16.54%	17.18%	(1.61)%	(1.66)%
	B. Health Subsidy Contribution						
	1. Normal Cost as a Percent of Pay	3.54%	3.68%	3.87%	4.02%	(0.33)%	(0.34)%
	2. Amortization of UAAL	1.63%	1.70%	2.38%	2.47%	(0.75)%	(0.77)%
	3. Total Retirement Contribution	5.17%	5.38%	6.25%	6.49%	(1.08)%	(1.11)%
	C. Total Contribution (A+B)	20.10%	20.90%	22.79%	23.67%	(2.69)%	(2.77)%

VII.	**Funded Ratio**	June 30, 2007	June 30, 2006	Change
	(Based on Valuation Value of Assets)**			
	A. Retirement Benefits	81.7%	77.8%	3.9%
	B. Health Subsidy Benefits	68.5%	57.2%	11.3%
	C. Total	79.8%	74.7%	5.1%
	(Based on Market Value of Assets)**			
	D. Retirement Benefits	92.2%	83.1%	9.1%
	E. Health Subsidy Benefits	77.3%	61.2%	16.1%
	F. Total	90.1%	79.8%	10.3%

* *Total contribution rates payable on July 15, 2008 are 14.98% for retirement, 5.19% for health, and 20.17% in total.*

** *The June 30, 2007 assets exclude $6,058,515 of discounted Harbor Port Police assets transferred in October 2007.*

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
06/30/2006	17.18%	6.49%	23.67%	1,733,340
06/30/2007	15.52%	5.38%	20.90%	1,896,609

* *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		
Valuation Date	**(1) Member Contributions**	**(2) Retirees, Beneficiaries, & Deferred Vesteds**	**(3) Active Members**	**Valuation Value of Assets**	**(1) Member Contributions**	**(2) Retirees, Beneficiaries, & Deferred Vesteds**	**(3) 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
06/30/2006	1,210,246	5,149,385	3,511,031	7,674,999	100.0	100.0	37.5
06/30/2007	1,307,008	5,365,437	3,854,429	8,599,700*	100.0	100.0	50.0

** Excludes assets transferred for Port Police.*

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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
6/30/2002	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
6/30/2006	890	42,821,079	642	15,061,287	14,570	455,712,924	6.5%	31,277
6/30/2007	821	34,131,744	555	13,210,740	14,836	476,633,928	4.6%	32,127

* *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.*

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LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Actuarial Valuation and Review of Retirement Program as of June 30, 2007

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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 8, 2007

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, 2007. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2008/2009 and analyzes the preceding year's experience.

The census information on which our calculations were based was prepared by the LACERS 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 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	Andy Yeung
Paul Angelo, FSA, MAAA, EA	*Andy Yeung, ASA, MAAA, EA*
Senior Vice President and Actuary	*Vice President and Associate Actuary*

JKH/DNA/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, 2007. 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, 2007, provided by LACERS;
- The assets of the Plan as of June 30, 2007, provided by LACERS;
- Economic assumptions regarding future salary increases and investment earnings;
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.; and
- The discounted value of assets transferred to the City of Los Angeles Fire and Police Pension Plan (LAFPP) in October 2007 for certain Harbor Port Police Officers.

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 increased from 77.76% to 81.69%. The unfunded actuarial accrued liability has decreased from $2,195.7 million to $1,927.2 million. A complete reconciliation of the System’s unfunded actuarial accrued liability is provided in Section 3, Exhibit G.
- The aggregate employer rate (payable at the end of each pay period) calculated in this valuation has decreased from 17.18% of payroll to 15.52% of payroll. The decrease was due to: (i) amortization costs being spread out over a higher than expected payroll base, (ii) higher than expected return on the valuation value of assets, and (iii) other actuarial experience.
- As indicated in Section 2, Subsection B of this report, the total unrecognized investment gain as of June 30, 2007 is $1,258,692,385 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.

- Consistent with prior instructions from 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 continued to include 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 (NPO) was created in the June 30, 2004 and June 30, 2005 valuations due to: (1) the phase-in of the higher contribution rate required from the 2002 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, 2007 valuation, there are 12 years of payments left in the amortization of (2) from the June 30, 2004 valuation and 13 years of payments left in the amortization of (2) from the June 30, 2005 valuation.

  Due to the one-year lag in implementing the contribution rates, the amortization of the NPO created in the June 30, 2004 valuation has only begun with the 2005/2006 fiscal year. Additional details are provided in Section 4, Exhibit V. As shown in this year's valuation, the amortization of the NPO created in the June 30, 2005 valuation has begun with the 2006/2007 fiscal year.

- 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 actuarial valuation report as of June 30, 2007 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 Board has adopted a policy of amortizing the June 30, 2005 UAAL over a fixed period of 30 years beginning July 1, 2005. The UAALs arising from the phase-in of contribution rates for the 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. A new 15-year amortization base was established in the June 30, 2007 valuation for an experience gain during 2006-2007. See Section 3, Exhibit H for details.

- Due to the transfer of Harbor Port Police Officers from LACERS to LAFPP, assets were transferred from LACERS in October 2007 and the estimated June 30, 2007 value of those assets (discounted at 8% per year for 4 months) was accrued as a liability payable for the June 30, 2007 LACERS valuation value of assets.
- 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). This year, at the request of LACERS, we have also calculated the rate assuming payment on July 15, 2008. Those results are shown in footnotes throughout the report.

Summary of Key Valuation Results

	2007	2006
Contributions calculated as of June 30:		
Recommended as a percentage of pay (note there is a 12-month delay until the rate is effective)		
At the beginning of the year	14.93%****	16.54%
At the end of each pay period	15.52%	17.18%
Funding elements for plan year ended June 30:		
Normal cost	$297,670,637	$270,276,764
Market value of assets*	11,071,618,941	9,285,478,072
Actuarial value of assets*	9,812,926,556	8,686,104,097
Valuation value of retirement assets**	8,599,699,772	7,674,999,374
Actuarial accrued liability	10,526,874,184	9,870,662,387
Unfunded/(overfunded) actuarial accrued liability	1,927,174,412	2,195,663,013
Funded ratio	81.69%	77.76%
GASB 25/27 for fiscal year ended June 30:		
Annual required contributions	$277,516,400	$227,740,600
Actual contributions	277,516,400	227,740,600
Percentage contributed	100.00%	100.00%
Demographic data for plan year ended June 30:		
Number of retired members and beneficiaries	14,836	14,570
Number of vested former members	3,303	2,903
Number of active members	30,175	28,839
Projected total payroll***	$1,896,609,013	$1,733,339,536
Projected average payroll***	62,854	60,104

**Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits and before excluding $6,058,515 of discounted Harbor Port Police assets (retirement and health) transferred in October 2007.*

***The June 30, 2007 assets exclude $5,269,481 of discounted Harbor Port Police assets transferred in October 2007.*

****Reflects annualized salaries for part-time members.*

*****The contribution rate payable on July 15, 2008 is 14.98% for 2007.*

Actuarial Certification

November 8, 2007

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, 2007, 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, 2006. 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.

Andy Yeung

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

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, non-vested members (entitled to a refund of member contribitions), 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: 1998 – 2007

Year Ended June 30	Active Members	Vested Terminated Members*	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
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
2006	28,839	2,903	14,570	0.61
2007	30,175	3,303	14,836	0.60

**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 30,175 active members with an average age of 45.3, average years of service of 11.5 years and average payroll of $62,854. The 28,839 active members in the prior valuation had an average age of 45.4, average service of 11.7 years and average payroll of $60,104.

Inactive Members

In this year's valuation, there were 3,303 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, 2007

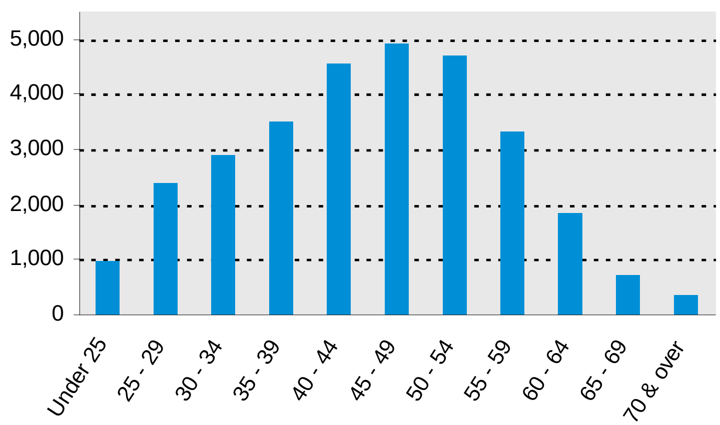
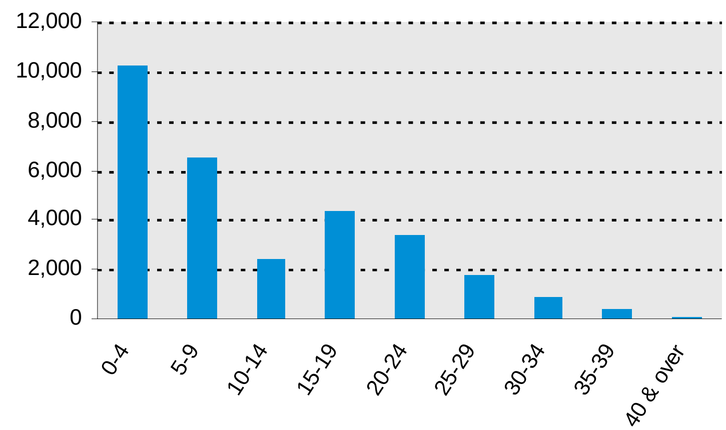


CHART 3

Distribution of Active Members by Years of Service as of June 30, 2007



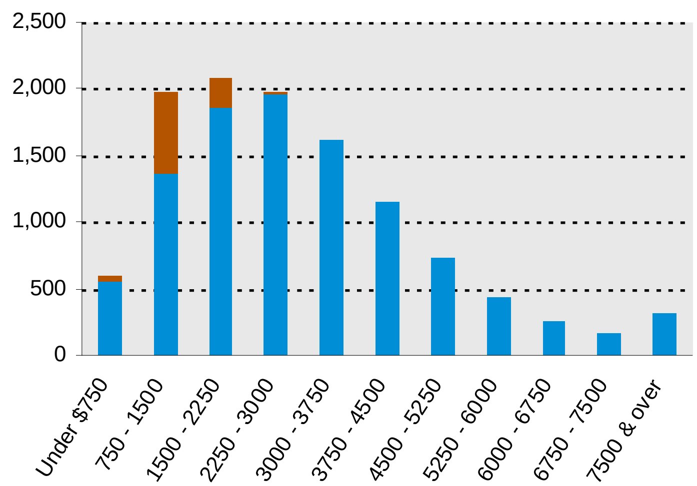
Retired Members and Beneficiaries
As of June 30, 2007, 11,299 retired members and 3,537 beneficiaries were receiving total monthly benefits of $39,720,299. For comparison, in the previous valuation, there were 11,119 retired members and 3,451 beneficiaries receiving monthly benefits of $37,973,016.

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

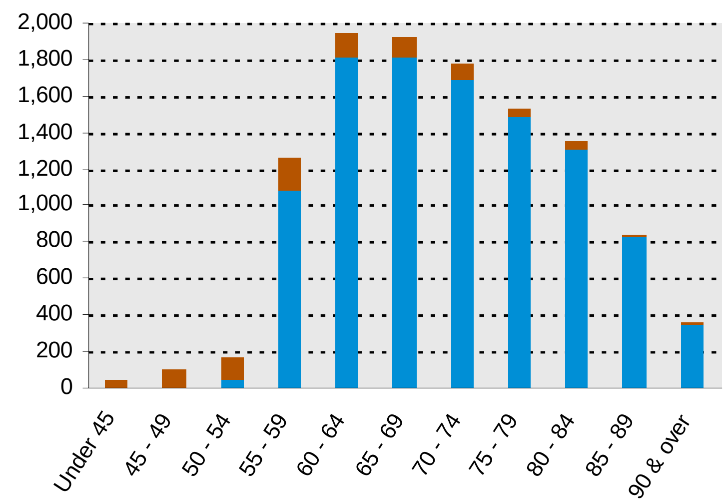
Distribution of Retired Members by Type and by Monthly Amount as of June 30, 2007



Disability
Regular

CHART 5

Distribution of Retired Members by Type and by Age as of June 30, 2007



B. FINANCIAL INFORMATION

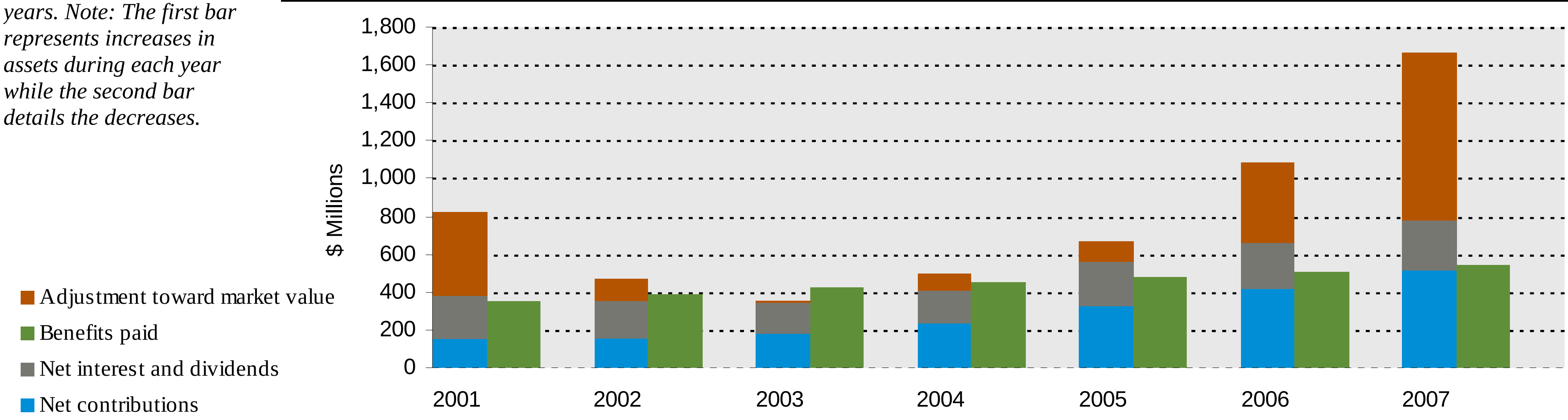
Retirement plan funding anticipates that, over the long term, both net contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

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 seven 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 – 2007



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, 2007

		Original Amount	Percent Not Recognized	Amount Not Recognized	
1.	Market value of assets*				$11,071,618,941
2.	Calculation of unrecognized return**				
	(a) Year ended June 30, 2007	$1,054,377,186	80%	$843,501,749	
	(b) Year ended June 30, 2006	366,478,652	60%	219,887,191	
	(c) Year ended June 30, 2005	132,848,231	40%	53,139,292	
	(d) Year ended June 30, 2004	710,820,763	20%	142,164,153	
	(e) Total unrecognized return				1,258,692,385
3.	Preliminary actuarial value: (1) - (2e)				9,812,926,556
4.	Adjustment to be within 20% corridor				0
5.	Final actuarial value of assets*: (3) + (4)				$9,812,926,556
6.	Actuarial value as a percentage of market value: (5) ÷ (1)				88.6%
7.	Market value of retirement assets				$9,708,718,396
8.	Valuation value of retirement assets (5) ÷ (1) x (7)				$8,604,969,253
9.	Discounted Harbor Port Police retirement assets transferred in October 2007				$5,269,481
10.	Net valuation value of retirement assets (8) - (9)				$8,599,699,772

** Before adjustment to exclude $6,058,515 of discounted Harbor Port Police assets (retirement and health) transferred in October 2007*

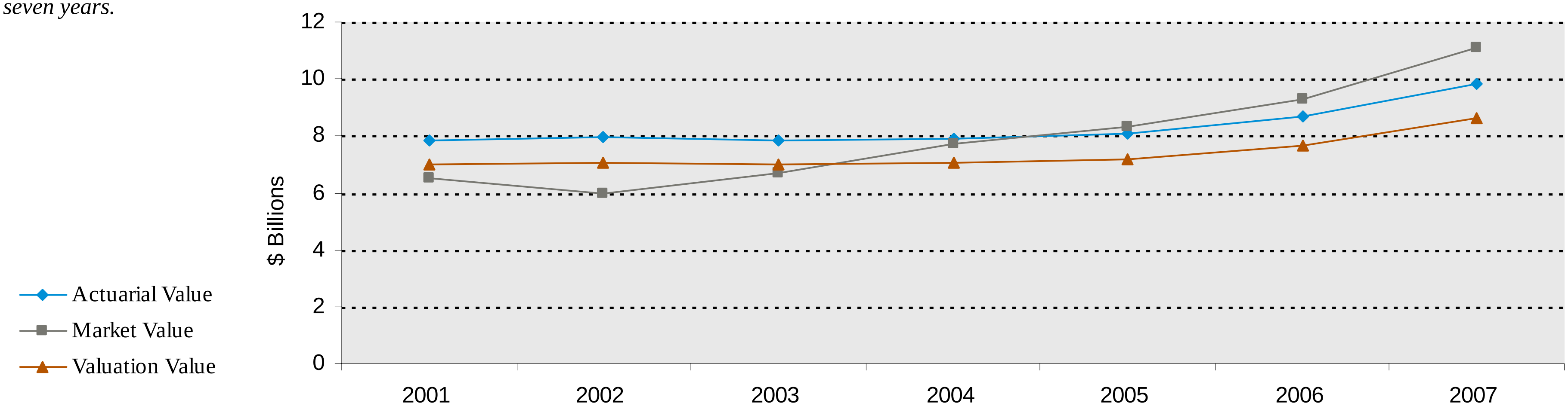
***Total return minus expected return on a market value basis*

The actuarial value, market value and valuation 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 of market value, 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 of assets versus the market value over the past seven years.

CHART 8

Actuarial Value of Assets vs. Market Value of Assets as of June 30, 2001 – 2007



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 gain of $309,656,196 was due primarily to an investment gain of $381,796,808 offset by a loss of $72,140,612 from all other sources. The net experience variation from all sources was 2.9% 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, 2007

1.	Net gain/(loss) from investments*	$381,796,808
2.	Net gain/(loss) from other experience**	-66,537,371
3.	Net loss from contribution less than anticipated due to actual payroll higher than projected payroll used to determine prepaid contributions	-5,603,241
4.	Net experience gain/(loss): (1) + (2) + (3)	$309,656,196

** Details in Chart 10.*

*** Details in Chart 13. The net gain is attributed to actual liability experience from June 30, 2006 through June 30, 2007 compared to the projected experience predicted by the actuarial assumptions as of June 30, 2006.*

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 the 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 2007 plan year was 12.91%.

Since the actual return for the year was greater than the assumed return, the LACERS experienced an actuarial gain during the year ended June 30, 2007 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, 2007

	Actuarial Value (Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits)	Valuation Value (Includes assets for Retirement Only)
1. Actual return	$1,152,584,883	$1,003,938, 663
2. Average value of assets	$8,869,702,354	$7,776,773,182
3. Actual rate of return: (1) ÷ (2)	12.99%	12.91%
4. Assumed rate of return	8.00%	8.00%
5. Expected return: (2) x (4)	$709,576,188	$622,141,855
6. Actuarial gain/(loss): (1) – (5)	$443,008,695	$381,796,808

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 for the last seven years, including the five-year year average.

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 - 2007

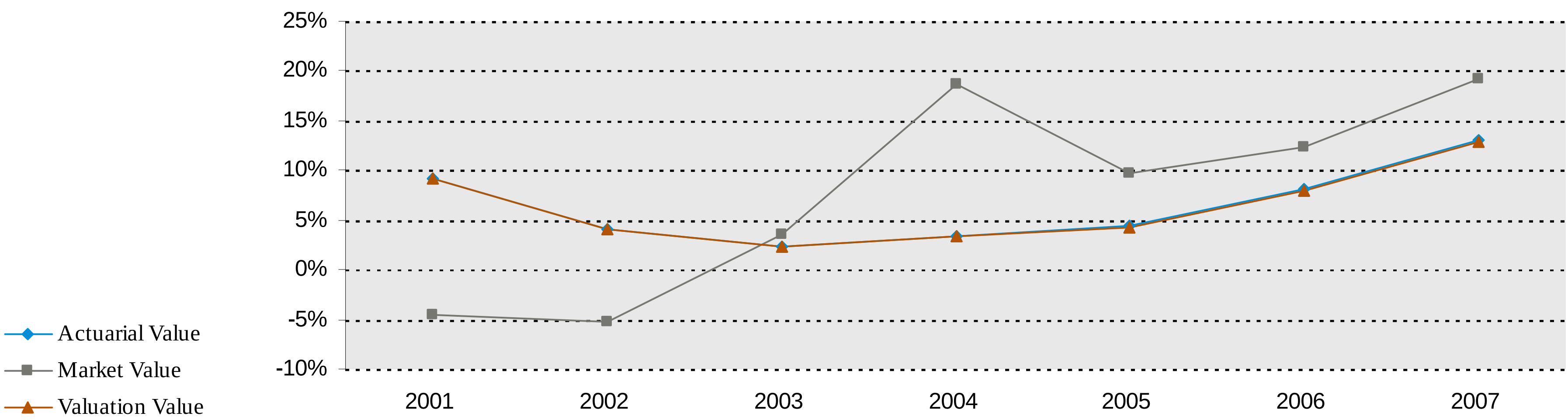
	Net Interest and Dividend Income		Recognition of Capital Appreciation		Actuarial Value Investment Return		Market Value Investment Return	
Year Ended June 30	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2001	$218,918,771	2.83%	$443,656,601	5.73%	$662,575,372	9.09%	$218,918,771	-4.60%
2002	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%
2006	238,266,254	2.90%	430,034,467	5.24%	668,300,721	8.14%	1,041,664,291	12.34%
2007	261,677,229	2.95%	890,907,654	10.04%	1,152,584,883	12.99%	1,811,903,293	19.13%
Total	$1,491,400,099		$2,095,048,003		$3,586,448,102		$5,509,492,119	
					Five-year average return	6.16%		12.57%

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 - 2007 .

CHART 12

Market and Actuarial Rates of Return for Years Ended June 30, 2001 - 2007



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 loss from this other experience for the year ended June 30, 2007 amounted to $66,537,371 which is 0.6% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the LACERS for the year ended June 30, 2007 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, 2007

1.	Loss due to higher than expected salary increases for continuing actives	-$124,597,094
2.	Gain due to correction in retiree benefit payment amount	84,385,320
3.	Miscellaneous losses	-26,325,597
4.	Net gain/(loss)	-$66,537,371

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 15.52% of payroll.

We have continued to follow the method used in the June 30, 2005 valuation to adjust the contribution requirement if the GASB ARC minimum contribution is greater than the amount prescribed below. For 2007, the beginning of year minimum GASB ARC is $281.6 million and no additional adjustment has been made to the recommended contributions.

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

CHART 14

Recommended Contribution

		Year Ended June 30			
		2007		2006	
		Amount	% of Payroll	Amount	% of Payroll
1.	Total normal cost	$297,670,637	15.69%	$270,276,764	15.59%
2.	Expected employee contributions	-121,395,801	-6.40%	-112,008,469	-6.46%
3.	Employer normal cost: (1) + (2)	$176,274,836	9.29%	$158,268,295	9.13%
4.	Actuarial accrued liability	10,526,874,184		9,870,662,387	
5.	Valuation value of assets	8,599,699,772		7,674,999,374	
6.	Unfunded actuarial accrued liability	$1,927,174,412		$2,195,663,013	
7.	Amortization of unfunded accrued liability	106,963,925	5.64%	128,361,079	7.41%
8.	Total recommended contribution, not adjusted for timing	$283,238,761	14.93%**	$286,629,374	16.54%
9.	Total recommended contribution, adjusted for timing*	$294,278,228	15.52%	$297,800,993	17.18%
10.	Projected payroll used for developing normal cost rate	$1,896,609,013		$1,733,339,536	

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

***Contribution rate payable on July 15, 2008 is 14.98% for 2007.*

If paid by the City at the beginning of the year, the calculated normal cost (including expenses) is 9.29% of payroll. The remaining 5.64% of payroll will amortize the unfunded actuarial accrued liability over an equivalent single amortization period of about 29 years.

The contribution rates as of June 30, 2007 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.

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 June 30, 2006 to June 30, 2007

Recommended Contribution as of June 30, 2006	$297,800,993
Effect of change in amortization amounts	$ 5,334,565
Effect of contributions (more)/less than recommended contribution	498,802
Effect of investment (gain)/loss	-33,987,670
Effect of other gains and losses on accrued liability	5,923,177
Increase in employer normal cost, due to payroll and demographic changes	18,708,361
Total change	-$3,522,765
Recommended Contribution as of June 30, 2007	$294,278,228

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 within the range of the GASB reporting 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 factors.

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

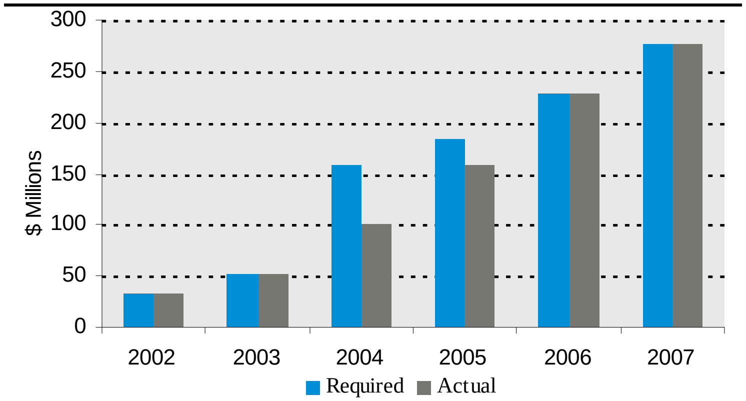


CHART 17

Funded Ratio

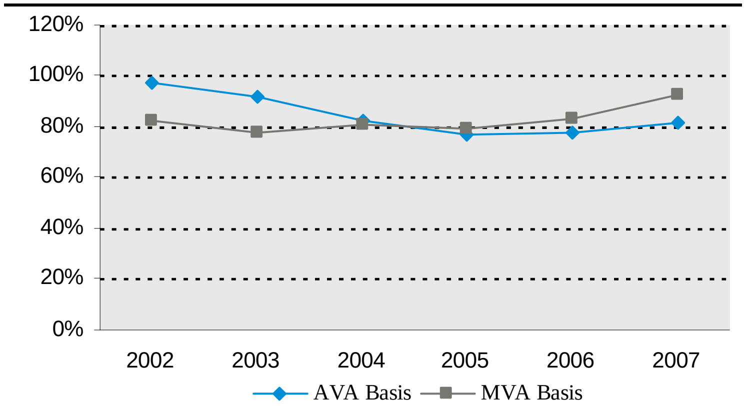


EXHIBIT A
Table of Plan Coverage

Category	Year Ended June 30 2007	Year Ended June 30 2006	Change From Prior Year
Active members in valuation:			
Number	30,175	28,839	4.6%
Average age	45.3	45.4	N/A
Average service	11.5	11.7	N/A
Projected total payroll*	$1,896,609,013	$1,733,339,536	9.4%
Projected average payroll*	$62,854	$60,104	4.6%
Account balances	$1,247,502,196	$1,156,968,388	7.8%
Total active vested members	20,056	19,510	2.8%
Vested terminated members:			
Number	3,303	2,903	13.8%
Average age	42.4	42.7	N/A
Average contribution balance for those with under 5 years of service	$3,633	$3,555	2.2%
Average monthly benefit for those with 5 or more years of service	$1,278	$1,260	1.4%
Retired members:			
Number in pay status	10,398	10,234	1.6%
Average service at retirement	26.4	26.3	N/A
Average age at retirement	60.0	59.9	N/A
Average age	71.6	71.4	N/A
Average monthly benefit (includes July COLA)	$3,192	$3,116	2.4%
Disabled members:			
Number in pay status	901	885	1.8%
Average service at retirement	12.2	12.2	N/A
Average age at retirement	44.8	44.5	N/A
Average age	60.7	60.2	N/A
Average monthly benefit (includes July COLA)	$1,318	$1,290	2.2%
Beneficiaries:			
Number in pay status	3,537	3,451	2.5%
Average age	75.5	75.3	N/A
Average monthly benefit (includes July COLA)	$1,510	$1,433	5.4%

**Reflects annualized salaries for part-time members.*

EXHIBIT B

Members in Active Service as of June 30, 2007
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	960	948	12	- -	- -	- -	- -	- -	- -	- -
	$38,442	$38,347	$45,989	- -	- -	- -	- -	- -	- -	- -
25 - 29	2,395	1,969	423	3	- -	- -	- -	- -	- -	- -
	48,524	46,882	56,123	$54,327	- -	- -	- -	- -	- -	- -
30 - 34	2,901	1,629	1,139	130	3	- -	- -	- -	- -	- -
	56,872	51,847	62,959	66,343	$64,115	- -	- -	- -	- -	- -
35 - 39	3,518	1,380	1,249	498	369	22	- -	- -	- -	- -
	61,433	52,036	64,415	72,318	71,263	$70,340	- -	- -	- -	- -
40 - 44	4,564	1,245	1,088	553	1,157	491	30	- -	- -	- -
	65,244	52,291	63,649	71,630	75,301	70,526	$68,630	- -	- -	- -
45 - 49	4,924	1,047	915	437	1,039	1,041	432	13	- -	- -
	67,462	51,367	62,080	68,198	74,770	79,475	70,508	$70,414	- -	- -
50 - 54	4,691	900	739	336	832	867	652	339	26	- -
	68,284	51,743	62,514	69,416	73,523	77,184	75,730	73,121	$76,016	- -
55 - 59	3,312	568	515	253	512	523	433	326	179	3
	68,626	49,642	62,738	66,192	71,316	74,520	77,530	82,587	77,156	$81,335
60 - 64	1,847	327	326	140	288	299	182	124	136	25
	66,395	45,741	60,273	61,152	67,953	72,630	75,354	84,975	88,242	77,013
65 - 69	710	116	120	58	126	118	61	51	37	23
	61,495	39,118	52,077	59,103	67,672	69,098	73,222	68,738	76,918	84,698
70 & over	353	102	36	34	47	58	21	16	19	20
	52,475	34,331	45,203	38,611	59,899	67,946	69,536	61,972	79,740	67,939
Total	30,175	10,231	6,562	2,442	4,373	3,419	1,811	869	397	71
	$62,854	$49,025	$62,259	$68,627	$73,152	$75,640	$74,603	$77,861	$80,980	$77,129

EXHIBIT C
Reconciliation of Member Data

	Active Members	Vested Former Members	Disableds	Retired Members	Beneficiaries	Total
Number as of June 30, 2006	28,839	2,903	885	10,234	3,451	46,312
New members	2,924	N/A	N/A	N/A	N/A	2,924
Terminations – with vested rights	-609	609	0	0	0	0
Retirements	-486	-70	N/A	556	N/A	0
New disabilities	-37	-5	42	N/A	N/A	N/A
New beneficiaries	N/A	N/A	N/A	N/A	266	266
Deaths	-65	-4	-21	-391	-180	-661
Refund of members contributions	-455	-198	0	0	0	-653
Rehired	64	-59	-4	-1	N/A	0
Data adjustments	0	127*	-1	0	0	126
Number as of June 30, 2007	30,175	3,303	901	10,398	3,537	48,314

**Includes members who were both hired and terminated during the year.*

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, 2007		Year Ended June 30, 2006	
Contribution income:				
Employer contributions	$408,392,318		$320,399,222	
Employee contributions	106,233,984		98,262,366	
Net contribution income		$514,626,302		$418,661,588
Investment income:				
Interest, dividends and other income	$294,096,161		$268,461,511	
Recognition of capital appreciation	890,907,654		430,034,467	
Less investment and administrative fees	-32,418,932		-30,195,257	
Net investment income		1,152,584,883		668,300,721
Total income available for benefits		$1,667,211,185		$1,086,962,309
Less benefit payments:				
Payment of benefits	-$522,936,405		-$493,583,253	
Refunds of contributions	-17,452,321		-13,021,051	
Net benefit payments		-$540,388,726		-$506,604,304
Change in reserve for future benefits		$1,126,822,459		$580,358,005

Notes: *(1) Results may be slightly off due to rounding.*

(2) Before excluding discounted Harbor Port Police assets transferred in October 2007.

EXHIBIT E

Table of Financial Information for Retirement, Health, Family Death, and Larger Annuity Benefits

	Year Ended June 30, 2007		Year Ended June 30, 2006	
Cash equivalents		$519,342,132		$460,158,677
Accounts receivable:				
Investment income	$38,365,027		$33,631,936	
Proceeds from sales	64,316,910		40,956,282	
Other	8,172,306		7,878,261	
Total accounts receivable		110,854,243		82,466,479
Investments:				
Fixed Income	$2,418,321,628		$2,239,512,373*	
Equities	7,163,209,802		5,908,461,505*	
Real Estate and Alternative Investment	1,207,106,364		925,953,899*	
Other	2,612,552,358		1,647,030,614*	
Total investments at market value		13,401,190,152		10,720,958,391
Total assets		$14,031,386,527		$11,263,583,547
Less accounts payable:				
Accounts payable and accrued expenses	-$29,261,758		-$24,881,849	
Purchases of investments	-318,259,361		-306,476,731	
Security lending collateral	-2,612,246,467		-1,646,746,895	
Total accounts payable		-$2,959,767,586		-$1,978,105,475
Net assets at market value		$11,071,618,941		$9,285,478,072
Net assets at actuarial value		$9,812,926,556		$8,686,104,097
Net assets at valuation value (retirement benefits)		$8,599,699,772		$7,674,999,374

** Reclassified but the total is unchanged.*

Note: Market value and actuarial value of assets as of June 30, 2007 are before excluding the Harbor Port Police assets transferred in October 2007. The June 30, 2007 valuation value of assets is after the transfer of $5,269,481 of discounted Harbor Port Police assets in October 2007.

EXHIBIT F

Development of the Fund Through June 30, 2007 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
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
2006	320,399,222	98,262,366	668,300,721	506,604,304	8,686,104,097
2007	408,392,318	106,233,984	1,152,584,883	540,388,726	9,812,926,556

** Net of investment fees and administrative expenses*

EXHIBIT G

Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2007

1.	Unfunded actuarial accrued liability at beginning of year	$2,195,663,013
2.	Normal cost at beginning of year	270,276,764
3.	Total contributions	-398,990,323
4.	Interest	170,214,913
5.	Expected unfunded actuarial accrued liability	$2,237,164,367
6.	Changes due to experience gain*	-309,989,955
7.	Unfunded actuarial accrued liability at end of year	$1,927,174,412

* *Excludes loss from contributions less than anticipated due to actual payroll higher than projected payroll used to determine prepaid contributions. 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	$2,841,753	12	$27,944,714
Contribution phase-in loss	06/30/2005	15	12,401,167	1,149,246	13	12,031,925
Combined bases	06/30/2005	30	1,715,553,201	101,410,415	28	1,786,349,207
Change in assumptions	06/30/2005	30	371,312,873	21,949,184	28	386,635,901
Experience loss	06/30/2006	15	24,171,861	2,153,908	14	23,868,861
Experience gain	06/30/2007	15	-309,656,196	-26,531,599	15	-309,656,196
Subtotal before GASB amount				$102,972,907		$1,927,174,412
40-year minimum GASB 25/27	06/30/2004	15	29,189,615	2,813,274	12	27,664,663
40-year minimum GASB 25/27	06/30/2005	15	12,708,684	1,177,744	13	12,330,285
Total				$106,963,925		$1,967,169,360

** Level percentage of payroll*

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 $180,000 for 2007. 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; and

(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 3,537 beneficiaries in pay status)		14,836
2.	Members inactive during year ended June 30, 2007 with vested rights (including 2,166 members with under 5 years of service eligible for a refund of contributions)		3,303
3.	Members active during the year ended June 30, 2007		30,175
	Fully vested	20,056	
	Not vested	10,119	

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

	Assets		
1.	Valuation value of assets ($11,071,618,941 at market value* and $9,812,926,556 at actuarial value* as reported by LACERS)		$8,599,699,772**
2.	Present value of future normal costs		
	Employee	$1,070,085,650	
	Employer	2,291,240,252	
	Total		$3,361,325,902
3.	Unfunded actuarial accrued liability		1,927,174,412
4.	Present value of current and future assets		$13,888,200,086
	Liabilities		
5.	Present value of future benefits		
	Retired members and beneficiaries	$5,288,370,437	
	Inactive members with vested rights	136,572,584	
	Active members	8,463,257,065	
	Total		$13,888,200,086

**Market and actuarial values of assets include assets for Retirement, Health, Family Death, and Larger Annuity Benefits and are before excluding the Harbor Port Police assets transferred in October 2007.*

*** Valuation value of assets is after excluding $5,269,481 of discounted Harbor Port Police assets transferred in October 2007.*

EXHIBIT I (continued)

Summary of Actuarial Valuation Results

The determination of the recommended contribution is as follows:

1.	Total normal cost	$297,670,637
2.	Expected employee contributions	-121,395,801
3.	Employer normal cost: (1) + (2)	$176,274,836
4.	Payment on projected unfunded actuarial accrued liability	106,963,925
5.	Total recommended contribution: (3) + (4), not adjusted for timing	283,238,761
6.	Total recommended contribution: (3) + (4), adjusted for timing	$294,278,228
7.	Projected payroll	$1,896,609,013
8.	Total recommended contribution as a percentage of projected payroll: (5) ÷ (7)	14.93%*
9.	Total recommended contribution as a percentage of projected payroll, adjusted for timing: (6) ÷ (7)	15.52%

**Contribution rate payable on July 15, 2008 is 14.98% for 2007.*

EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

Plan Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
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%
2006	227,740,600	227,740,600	100.00%
2007	277,516,400	277,516,400	100.00%

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)
06/30/2002	$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%
06/30/2006	7,674,999,374	9,870,662,387	2,195,663,013	77.76%	1,733,339,536	126.67%
06/30/2007	8,599,699,772*	10,526,874,184	1,927,174,412	81.69%	1,896,609,013	101.61%

** Valuation value of assets is after excluding $5,269,481 of discounted Harbor Port Police assets transferred in October 2007.*

EXHIBIT IV

Supplementary Information Required by the GASB

Valuation date	June 30, 2007
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	14,836
Terminated members entitled to, but not yet receiving benefits	3,303
Active members	30,175
Total	48,314

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
2006	227,740,600	227,740,600	4,693,977	5,429,482	11.6712*	227,005,095	(735,505)	83,049,064
2007	277,516,400	277,516,400	6,643,929	7,970,213	11.3532**	276,190,116	(1,326,284)	81,722,780

* *Due to the one-year lag in implementing new contribution rates, only the portion of the NPO established in the June 30, 2004 valuation is being amortized during 2005/2006.*

***Similarly, the portion of the NPO established in the June 30, 2005 valuation is being amortized during 2006/2007 and the weighted average factor for the June 30, 2004 and June 30, 2005 layers is shown.*

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, except those arising from the phrase-in of contribution rates for the 2002 experience study, 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 15 year periods. Any change in Surplus or Unfunded Actuarial Accrued Liability from plan amendments or plan assumption changes are amortized over separate 30 year periods. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.
Changes in Assumptions:	There have been no changes in actuarial assumptions since the last valuation.

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; Age 60 with 10 years of continuous service; or Age 55 with at least 30 years of service.
Amount (§ 4.1056.2)	2.16% per year of service (not greater than 100%) of the Final Average Monthly Compensation.

Early Retirement Benefit:

Age & Service Requirement (§ 4.1020)	Age 55 with 10 years of continuous service; or Any age with 30 year of service.
Amount (§ 4.1056.2)	2.16% per year of service (not greater than 100%) of the Final Average Monthly Compensation, reduced for retirement ages below age 60 using the following sample Early Retirement benefit adjustment factors:

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

Death before Retirement:

(§ 4.1062 and § 4.1054)

Option #1:

(i) Eligibility – None.

(ii) Benefit – Refund of contributions plus a limited pension benefit equal to 50% of monthly salary paid, according to the following schedule:

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

Option #2:

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

Withdrawal of Contributions Benefit (Ordinary Withdrawal):

Refund of employee contributions with interest.

Changes in Plan Provisions: There have been no changes in plan provisions, 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, 2007
In accordance with GASB Statements No. 43 and No. 45

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

November 8, 2007

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 as of June 30, 2007 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 Retirement System. 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
Senior Vice President and Actuary

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

DTB/kek

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 as of June 30, 2007. 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 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.

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HIGHLIGHTS OF THE VALUATION

- The recommended contribution has decreased from $108.3 million (6.25% of payroll) to $98.1 million (5.17% of payroll), assuming contributions made by the City at the beginning of the plan year.
- 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). This year, at the request of LACERS, we have also calculated the rate assuming payment on July 15, 2008. Those results are shown in footnotes throughout the report.
- Due to the transfer of Harbor Port Police from LACERS to LAFPP, assets were transferred from LACERS in October 2007 and the estimated June 30, 2007 value of those assets (discounted at 8% per year for 4 months) was accrued as a liability payable for the June 30, 2007 LACERS valuation value of assets.
- LACERS has elected to comply with GASB 43 effective with the June 30, 2005 valuation. The City is required to include the GASB 45 results in its financial statements effective with fiscal year 2007/2008.
- 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.
- The assumption for the discount rate is 8.00%, and is based on the assumptions that the City is paying a contribution that equals the ARC and that 100% of benefits will be paid from the trust.
- 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.
- The Board has adopted a policy of amortizing the entire Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2005 over a fixed period of 30 years beginning July 1, 2005.
- In this valuation, we have not established a separate amortization base for the actuarial gains arising during the 2006/2007 plan year. This is because amortizing those gains over a 15-year period while continuing to amortize the plan's remaining UAAL over the 29-year period established at the June 30, 2006 valuation (with 28 years remaining as of June 30, 2007) would not satisfy the GASB requirements for amortizing the UAAL. Satisfying those GASB requirements is part of the Board's current funding policy.

  In order to meet the GASB amortization requirements, we propose that the actuarial gains occurring during 2006/2007 be combined with the plan's remaining UAAL from the June 30, 2006 valuation and the entire UAAL be amortized over a period of 28 years as of June 30, 2007. The contribution rates in this report have been developed using this 28-year amortization schedule.

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

SUMMARY OF VALUATION RESULTS

	June 30	
	2007	**2006**
Actuarial Accrued Liability by Participant Category		
Current retirees, beneficiaries and dependents	$792,200,391	$808,647,216
Inactive vested members	22,064,082	24,363,101
Current active members	916,135,708	897,788,633
Total	$1,730,400,181	$1,730,798,950
Actuarial Value of Assets	$1,185,543,893	$990,269,715
Unfunded Actuarial Accrued Liability	544,856,288	740,529,235
Funded Ratio	68.5%	57.2%
Market Value of Assets	$1,337,713,402	$1,058,602,064
Annual Required Contribution		
Normal cost (beginning of year)	$67,197,687	$67,095,811
Amortization of the unfunded actuarial accrued liability	30,931,299	41,226,085
Adjustment for timing	3,928,506	4,221,936
Total annual required contribution, including adjustment for timing	$102,057,492	$112,543,832
Covered payroll	1,896,609,013	1,733,339,536
As a percentage of pay		
Beginning of year	5.17%**	6.25%
At the end of each pay period	5.38%	6.49%

**The June 30, 2007 assets exclude $789,034 of discounted Harbor Port Police assets transferred in October 2007.*

***Contribution rate payable on July 15, 2008 is 5.19% for 2007.*

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY FOR THE YEAR ENDED JUNE 30, 2007

1.	Unfunded actuarial accrued liability at beginning of year	$740,529,235
2.	Normal cost at beginning of year	67,095,811
3.	Total contributions at beginning of year	115,232,538
4.	Interest	55,391,401
5.	Expected unfunded actuarial accrued liability	747,783,909
6.	Decrease due to the combined effect of experience gains, updated assumptions and methods	(202,927,621)
7.	Unfunded actuarial accrued liability at end of year	$544,856,288

PROJECTED CASH FLOW

Year Ending June 30	Projected Number of Retirees *			Projected Benefit Payments		
	Current	Future	Total	Current	Future	Total
2008	16,087	1,442	17,529	$67,992,789	$5,893,883	$73,886,672
2009	15,635	2,433	18,068	69,043,739	11,425,074	80,468,813
2010	15,163	3,428	18,591	70,684,410	17,840,229	88,524,639
2011	14,664	4,480	19,144	71,864,560	25,276,057	97,140,617
2012	14,146	5,591	19,737	72,436,729	33,754,898	106,191,627
2013	13,607	6,776	20,383	72,481,819	43,340,828	115,822,647
2014	13,090	7,957	21,047	72,079,721	53,453,416	125,533,137
2015	12,555	9,160	21,715	71,462,625	64,789,156	136,251,781
2016	12,008	10,365	22,373	70,500,250	76,819,315	147,319,565
2017	11,477	11,620	23,097	69,406,216	89,643,726	159,049,942

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

ACTUARIAL CERTIFICATION

November 8, 2007

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 as of June 30, 2007, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this postemployment welfare benefits program, with the last valuation completed on June 30, 2006. 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.

Dave Bergerson

Dave Bergerson, ASA, MAAA, EA
Vice President and Actuary

Patrick Twomey

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, 2007		Year Ended June 30, 2006	
Cash equivalents		$519,342,132		$460,158,677
Accounts receivable:				
Investment income	$38,365,027		$ 33,631,936	
Proceeds from sales	64,316,910		40,956,282	
Other	8,172,306		7,878,261	
Total accounts receivable		110,854,243		82,466,479
Investments:				
Fixed Income	$2,418,321,628		$2,239,512,373*	
Equities	7,163,209,802		5,908,461,505*	
Real Estate and Alternative Investment	1,207,106,364		925,953,899*	
Other	2,612,552,358		1,647,030,614*	
Total investments at market value		13,401,190,152		10,720,958,391
Total assets		$14,031,386,527		$11,263,583,547
Less accounts payable:				
Accounts payable and accrued expenses	-$29,261,758		-$24,881,849	
Purchases of investments	-318,259,361		-306,476,731	
Security lending collateral	-2,612,246,467		-1,646,746,895	
Total accounts payable		-$2,959,767,586		-$1,978,105,475
Net assets at market value		$11,071,618,941		$9,285,478,072
Net assets at actuarial value		$9,812,926,556		$8,686,104,097
Net assets at valuation value (retiree health)		$1,185,543,893**		$990,269,715

**Reclassified but the total is unchanged.*

***Adjusted by $789,034 to reflect Port Police transfer.*

Note: Market value and actuarial value of assets as of June 30, 2007 are before excluding the Harbor Port Police assets transferred in October 2007. The June 30, 2007 valuation value of assets is after the transfer of $789,034 of discounted Harbor Port Police assets in October 2007.

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, 2007		Year Ended June 30, 2006	
Contribution income:				
Employer contributions	$408,392,318		$320,399,222	
Employee contributions	106,233,984		98,262,366	
Contribution income		$514,626,302		$418,661,588
Investment income:				
Interest, dividends and other income	$294,096,161		$268,461,511	
Recognition of capital appreciation	890,907,654		430,034,467	
Less investment and administrative fees	-32,418,932		-30,195,257	
Net investment income		1,152,584,883		668,300,721
Total income available for benefits		$1,667,211,185		$1,086,962,309
Less benefit payments:				
Payment of benefits	-$522,936,405		-$493,583,253	
Refunds of contributions	-17,452,321		-13,021,051	
Net benefit payments		-$540,388,726		-$506,604,304
Change in reserve for future benefits		$1,126,822,459		$580,358,005

CHART 3

Determination of Actuarial Value of Assets as of June 30, 2007

		Original Amount	Percent not recognized	Amount not recognized	
1.	Market value of assets*, June 30, 2007				$11,071,618,941
2.	Calculation of unrecognized return**				
	(a) Year ended June 30, 2007	$1,054,377,187	80%	$843,501,749	
	(b) Year ended June 30, 2006	366,478,652	60%	219,887,191	
	(c) Year ended June 30, 2005	132,848,231	40%	53,139,292	
	(d) Year ended June 30, 2004	710,820,763	20%	142,164,153	
	(e) Total unrecognized return				$1,258,692,385
3.	Preliminary actuarial value (1) – (2e)				$9,812,926,556
4.	Adjustment to be within 20% corridor				0
5.	Final actuarial value of assets* (3) + (4)				$9,812,926,556
6.	Actuarial value as a percentage of market value				88.6%
7.	Market value of retiree health assets				$1,338,502,436
8.	Valuation value of retiree health assets (5) ÷ (1) X 7				$1,186,332,927
9.	Discounted Harbor Port Police health assets transferred in October 2007				$789,034
10.	Net valuation value of retiree health assets (8) – (9)				$1,185,543,893

* *Before adjustment to exclude $6,058,515 of discounted Harbor Police Port assets (retirement and health) transferred in October 2007.*

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

CHART 4

Determination of Annual Required Contribution

Cost Element	Determined as of June 30 2007 Amount	2007 Percent of Compensation	2006 Amount	2006 Percent of Compensation
1. Normal cost (beginning of year)	$67,197,684	3.54%	$67,095,811	3.87%
2. Amortization of the unfunded actuarial accrued liability	30,931,299	1.63%	41,226,085	2.38%
3. Total Annual Required Contribution (beginning of year)	$98,128,986	5.17%**	$108,321,896	6.25%
4. Adjustment for timing*	3,928,506	0.21%	4,221,936	0.24%
5. Total Annual Required Contribution (end of pay period)	$102,057,492	5.38%	$112,543,832	6.49%

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

*** Contribution rate payable on July 15, 2008 is 5.19% for 2007.*

CHART 5

Required Supplementary Information – Schedule of Employer Contributions

Plan Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2006*	$76,116,104	$76,116,104	100.0%
2007	$115,232,538	$115,232,538	100.0%

** ARC for plan year ended June 30, 2006 was determined in the June 30, 2004 valuation and it was 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.*

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 (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
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
June 30, 2006	990,269,715	1,730,798,950	740,529,235	57.21	1,733,339,536	42.72
June 30, 2007	1,185,543,893	1,730,400,181	544,856,288	68.51	1,896,609,013	28.73

Note: Funded 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 Ended June 30	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)
2006*	$76,116,104	$0	$0	$76,116,104	$76,116,104	$0	$0
2007	$115,232,538	$0	$0	$115,232,538	$115,232,538	$0	$0

** ARC for plan year ended June 30, 2006 was determined in the June 30, 2004 valuation and it was 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 8

Required Supplementary Information

Valuation date	June 30, 2007
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	28 years remaining as of June 30, 2007
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	8.75%, starting in the 2008/2009 fiscal year graded down by 0.50% per year over 8 years to ultimate rate of 5.00%.
• Dental	5% for all years
• Medicare Part B premiums	4.07% for the 2007/2008 fiscal year increase and 5.00% in the 2008/2009 fiscal year and later.
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, 2007**	**June 30, 2006**
Current retirees and surviving spouses[1]	14,836	14,570
Inactive vested participants entitled to a future health subsidy	607	617
Current active members	30,175	28,839
Total	45,618	44,026

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

CHART 9
Table of Amortization Bases

Type	Date Established	Initial Year	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Combined Bases	06/30/2007	28	$544,856,288**	$30,931,299	28	$544,856,288
Total			$544,856,288	$30,931,299		$544,856,288

* *Level percentage of pay.*

** *This is the balance of prior year's amortization layers net of current year's actuarial gain. See page 140 for detail.*

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

EXHIBIT I

Summary of Participant Data

	June 30, 2007	June 30, 2006
Retirees		
Non-disabled	10,398	10,234
Disabled	901	885
Total	11,299**	11,119*
Average age	70.7	70.0
Surviving Spouses		
Number	3,537**	3,451*
Average age	75.0	74.8
Active Participants		
Number	30,175	28,839
Average age	45.3	45.4
Average years of service	11.5	11.7
Inactive Vested Participants (excluding those with less than 10 years of service)		
Number	607	617
Average age	48.9	48.7

* *Total participants shown. Of the 11,119 retirees, 9,814 are receiving a medical subsidy and of the 3,451 surviving spouses, 1,607 are receiving a medical subsidy.*

** *Total participants shown. Of the 11,299 retirees, 9,724 are receiving a medical subsidy and of the 3,537 surviving spouses, 1,612 are receiving a medical subsidy.*

EXHIBIT II

Actuarial Balance Sheet for Year Ended June 30, 2007

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

	Assets	
1.	Valuation value of assets ($11,071,618,941 at market value* and $9,812,926,556 at actuarial value* as reported by LACERS)	$1,185,543,893**
2.	Present value of future normal costs	748,367,266
3.	Unfunded actuarial accrued liability	544,856,288
4.	Present value of current and future assets	$2,478,767,447
	Liabilities	
5.	Present value of future benefits	
	Retired members and beneficiaries	$792,200,391
	Inactive members with vested rights	22,064,082
	Active members	1,664,502,974
	Total	$2,478,767,447

* *Market and actuarial values of assets include assets for Retirement, Health, Family Death and Larger Annuity Benefits and are before excluding the Harbor Port Police assets transferred in October 2007.*

** *Valuation value of assets is after excluding $789,034 of discounted Harbor Port Police assets transferred in October 2007.*

EXHIBIT III

Actuarial Experience for Year Ended June 30, 2007

1.	Net (gain) from investments	($73,555,539)
2.	Net (gain) from reduction in medical trend assumption	(65,232,160)
3.	Net (gain) from reduction in starting per capita cost	(65,019,220)
4.	Net loss from demographic experience	879,298
5.	Net experience (gain) (1) + (2) + (3) + (4)	($202,927,621)

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,
- Updated subsidy levels (starting per capita cost), and
- Updated trend rates.

EXHIBIT IV

Reconciliation of Recommended Contribution

Recommended Contributions as of June 30, 2006 (Beginning of Year)	$ 108,321,896
Effect of investment (gain)	(4,175,722)
Effect of other liability gains, assumption and method changes	(6,017,188)
Total change	($10,192,910)
Recommended Contributions as of June 30, 2007 (Beginning of Year)	$ 98,128,986

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.

Termination Rates before Retirement:

	Mortality			
Age	**Male**	**Female**	**Disability**	**Withdrawal**
25	0.07%	0.03%	0.01%	4.45%
30	0.08	0.04	0.04	3.80
35	0.09	0.05	0.11	3.05
40	0.11	0.07	0.18	2.45
45	0.16	0.10	0.21	2.10
50	0.26	0.14	0.24	1.70
55	0.44	0.23	0.23	1.35

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

Measurement Date:	June 30, 2007
Discount Rate:	8.00%
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 premiums are reviewed and adjusted for increases in the cost of health care services.

Maximum Dental Subsidy (same as premium)

Carrier	Participation Percent	Monthly 2007-2008 Fiscal Year Subsidy
Wellpoint	74.9	$38.11
SafeGuard	25.1	$12.71

Per Capita Cost Development:

Participant Under Age 65 or Not Eligible for Medicare A & B										
2007-2008 Fiscal Year		**Single Party**			**Married**			**Surviving Spouse**		
CARRIER	Election Percent	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser	**57.5**	$501.07	$1,002.50	**$501.07**	$1,001.15	$1,002.50	**$1,001.15**	$501.07	$502.06	**$501.07**
Blue Cross PPO	**25.0**	$794.19	$1,002.50	**$794.19**	$1,585.53	$1,002.50	**$1,002.50**	$794.19	$502.06	**$502.06**
Blue Cross HMO	**17.5**	$514.90	$1,002.50	**$514.90**	$1,026.95	$1,002.50	**$1,002.50**	$514.90	$502.06	**$502.06**

Participant Eligible for Medicare A &B										
2007-2008 Fiscal Year		**Single Party**			**Married**			**Surviving Spouse**		
CARRIER	Election Percent	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**	Monthly Premium	Maximum Subsidy	**Subsidy**
Kaiser	**57.4**	$176.16	$176.16	**$176.16**	$351.33	$351.33	**$351.33**	$176.16	$176.16	**$171.16**
Blue Cross PPO	**33.5**	$380.93	$380.93	**$380.93**	$740.19	$589.24	**$589.24**	$380.93	$380.93	**$380.93**
Secure Horizons	**9.1**	$150.91	$150.91	**$150.91**	$299.96	$299.96	**$299.96**	$150.91	$150.91	**$150.91**

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 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. The remaining 15% will be covered by Medicare Part B only.

Health Care Cost Subsidy Trend Rates:

Trends to be applied in following fiscal years, to all health plans.
Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium
First Fiscal Year (July 1, 2007 through June 30, 2008)

PLAN	Blue Cross PPO, Under Age 65	Blue Cross PPO, Age 65 and Over	Kaiser HMO, Under Age 65	Senior Advantage	Blue Cross HMO, Under 65	Secure Horizons
Trend to be applied to 2007-2008 Fiscal Year premium	6.44%	9.08%	6.32%	7.18%	4.73%	3.65%

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

Fiscal Year	Trend (Approx)	Calendar Year	Trend (applied to calculate following year premium)
2008-2009	8.75%	2008	9.00%
2009-2010	8.25%	2009	8.50%
2010-2011	7.75%	2010	8.00%
2011-2012	7.25%	2011	7.50%
2012-2013	6.75%	2012	7.00%
2013-2014	6.25%	2013	6.50%
2014-2015	5.75%	2014	6.00%
2015-2016	5.25%	2015	5.50%
2016-2017 and later	5.00%	2016 and later	5.00%

Dental Premium Trend	5.00% for all years.
Medicare Part B Premium Trend	4.07% for the 2007/2008 fiscal year increase and 5.00% in the 2008/2009 fiscal year and later.

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.
Assumption Changes Since Prior Evaluation:	The trend rates on future health care costs were updated. The maximum subsidy and utilization table was updated based on updated provisions and data.

EXHIBIT VI

Summary of Plan

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, 2007, the maximum health subsidy was $983.00 per month, and will increase to $1,022 per month on January 1, 2008.

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

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

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

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

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

Dental Subsidy for Members:
§4.1105.2

The System will pay 4% of the maximum dental subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2007, the maximum dental subsidy was $37.18 per month and will increase to $39.04 on January 1, 2008.

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

Medicare Part B Subsidy for Members:
§4.1104

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

Surviving Spouse Subsidy:
§4.1107 & §4.1107.1

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

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

The maximum health subsidy available for survivors is the Kaiser single-party premium ($492.36 per month as of July 1, 2007, increasing to $511.76 on January 1, 2008) or the single-party premium of the plan in which the survivor is enrolled, whichever is less.

Over Age 65 and Enrolled in Both Medicare Parts A and B: For survivors, a maximum health subsidy limited to the single-party monthly premium of the plan in which the survivor is enrolled, is provided subject to the following vesting schedule:

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

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SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
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November 8, 2007

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, 2007

Dear Board Members:

We have developed our recommended contribution rates for the voluntary Family Death Benefit Insurance Plan ("Plan") as of June 30, 2007. These rates are effective for the two plan years beginning July 1, 2008 and ending June 30, 2010. The last review of the Plan was conducted as part of the June 30, 2005 actuarial valuation. That study yielded the current employee monthly contribution rate of $3.70. The City matches the employees' cost at the same level.

RECOMMENDATIONS

Based on the census data and the actuarial assumptions used for the June 30, 2007 actuarial valuation, our observations and recommendations are as follows:

- Due to the timing of the valuation, we recommend maintaining the current employee monthly rate at $3.70 through the end of the current plan year (June 30, 2008). Based on this rate, the estimated total annual contributions would be about $383,400 ($191,700 each for the members and the City) for plan year 2007/2008.
- It is our understanding that the earnings currently credited to the Family Death Benefits Reserve only take into account interest, dividends, and other income not related to market value appreciation. In other words, realized and unrealized gains (or losses) are not credited to this reserve. This procedure is different than that used for the crediting of the retirement plan reserves, with the

exception of the Reserve for Member Contributions. Since the future payment liability for this program has been discounted at the valuation interest rate of 8% per year, we are recommending that the Family Death Benefit Reserve be credited with the same total earnings (i.e., including realized and unrealized gains or losses) as the retirement plan reserves (excluding Member Contributions). We recommend that this procedure start with the plan year beginning July 1, 2008. The current crediting procedure would remain in place until that time.

- Assuming the previous recommendation is adopted, we also recommend that the current employee monthly rate of $3.70 be maintained for the two plan years beginning July 1, 2008 and ending June 30, 2010. If the previous recommendation is not adopted, then the employee monthly rate will need to be increased to a level to be determined by Segal, based on a discount rate that reflects the current interest crediting policy.
- The plan does not currently have a funding policy on how the monthly premium rate should be adjusted to reflect any funding surplus. We recommend that the Board consider developing a surplus policy for this Plan.

ANALYSIS AND ASSUMPTIONS

It is our understanding that the Plan is funded on a term cost basis and the premium charged for the current year is only supposed to 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, 2007, the Plan's term cost is $609,075 for the 4,318 active members participating at June 30, 2007. This translates to an employee and City monthly rate of $5.88 each. However, the Plan is in a surplus position as of June 30, 2007, with the Plan's actuarial value of assets of $11,974,118 exceeding the liability reserve of $10,529,297 by $1,444,821.

Based upon the current earnings crediting procedure that does not include realized and unrealized gains (or losses) for the Family Death Benefit Reserve, we anticipate that the surplus reserve of $1,444,821 will not be sufficient to maintain the current monthly premium rates of $3.70 for the employee and the City for the two plan years beginning July 1, 2008, since the surplus of $1,444,821 is anticipated to be fully depleted before June 30, 2010. Based upon our recommendation for the earnings crediting procedure, however, the current monthly premium rate of $3.70 could be maintained through June 30, 2010.

As noted, all of the calculations are based on the June 30, 2007 actuarial valuation participant data and actuarial assumptions shown in the retirement plan valuation report. 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 Andy Yeung, ASA, Enrolled Actuary.

Sincerely,

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

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

DNA/jc:hy

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1997

1997 Mayor: Richard J. Riordan

- 1995 - A health plan option for Members outside of California is created - the Medical Premium Reimbursement Plan
- 1996 - Domestic Partnerships are recognized as the same as Marriage

Statistics

2007

2002 Mayor: James K. Hahn

- 2003 - LACERS establishes retirement benefits seminars to educate members about the Plan
- 2007 - GFOA awards LACERS its 8th *Excellence in Financial Reporting Award*

2007 Mayor: Antonio R.Villaraigosa

LACERS Los Angeles City Employees' Retirement System *Securing Your Tomorrows*

A Department of the City of Los Angeles

SCHEDULE OF ADDITIONS BY SOURCE - RETIREMENT PLAN

(in thousands)

Fiscal Year	Member Contribution	Employer Contribution		Net Investment Income (Loss) **	Total
		Dollars	% of Annual Covered Payroll		
1998	$ 58,314	$ 85,439	6.5%	$ 547,934	$ 691,687
1999	62,560	89,863	6.6	659,888	812,311
2000	64,579	92,364	6.4	682,805	839,748
2001	69,460	79,861	4.9	(300,649)	(151,328)
2002	75,654	51,879	2.5	(320,330)	(192,797)
2003	83,068	70,923	3.8	220,326	374,317
2004	93,418	120,057	6.9*	1,097,366	1,310,841
2005	94,268	175,947	10.7*	673,389	943,604
2006	98,262	244,283	14.2*	925,399	1,267,944
2007	106,234	293,160	16.9*	1,591,647	1,991,041

* Contributions received at the beginning of the fiscal year with discounted rate

** Includes change in unrealized gain and loss of investment

SCHEDULE OF DEDUCTIONS BY TYPE - RETIREMENT PLAN

(in thousands)

Fiscal Year	Benefit Payments	Refunds	Administrative Expense	Misc. Expense	Total
1998	$ 249,375	$ 7,490	$ 5,598	$ -	$ 262,463
1999	268,298	9,628	5,549	-	283,475
2000	289,396	12,993	6,627	-	309,016
2001	308,636	12,923	7,196	-	328,755
2002	332,747	13,049	7,137	-	352,933
2003	358,196	14,679	7,706	-	380,581
2004	380,276	11,338	9,066	-	400,680
2005	405,456	10,679	9,303	-	425,438
2006	431,232	13,021	10,284	-	454,537
2007	457,847	17,452	9,501	-	484,800

SCHEDULE OF ADDITIONS BY SOURCE
POSTEMPLOYMENT HEALTHCARE PLAN

(in thousands)

Fiscal Year	Employer Contribution		Net Investment Income (Loss) **	Total
	Dollars	% of Annual Covered Payroll		
1998	$ 31,770	3.2%	$ 91,462	$ 123,232
1999	19,499	1.9	153,031	172,530
2000	14,246	1.3	88,362	102,608
2001	8,036	0.7	(48,668)	(40,632)
2002	27,589	2.2	(50,163)	(22,574)
2003	26,608	2.0	26,999	53,607
2004	20,144	1.4*	155,151	175,295
2005	53,190	3.6*	91,412	144,602
2006	76,116	4.8*	128,473	204,589
2007	115,233	7.0*	231,613	346,846

* Contributions received at the beginning of the fiscal year with discounted rate

** Includes change in unrealized gain and loss of investment

SCHEDULE OF DEDUCTIONS BY TYPE
POSTEMPLOYMENT HEALTHCARE PLAN

(in thousands)

Fiscal Year	Benefit Payments	Administrative Expense	Misc. Expense	Total
1998	$ 21,388	$ 165	$ -	$ 21,553
1999	22,326	683	-	23,009
2000	29,987	920	-	30,907
2001	34,469	1,004	-	35,473
2002	42,069	996	-	43,065
2003	50,784	1,459	-	52,243
2004	58,254	1,805	-	60,059
2005	63,756	1,693	-	65,449
2006	62,351	1,924	-	64,275
2007	65,090	1,856	-	66,946

CHANGES IN PLAN NET ASSETS - RETIREMENT PLAN
LAST TEN FISCAL YEARS
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
City Contributions	$ 85,439	$ 89,863	$ 92,364	$ 79,861	$ 51,879	$ 70,923	$ 120,057	$ 175,947	$ 244,283	$ 293,160
Member Contributions	58,314	62,560	64,579	69,460	75,654	83,068	93,418	94,268	98,262	106,234
Net Investment Income (Loss)	547,934	659,888	682,805	(300,649)	(320,330)	220,326	1,097,366	673,389	925,399	1,591,647
Total Additions	691,687	812,311	839,748	(151,328)	(192,797)	374,317	1,310,841	943,604	1,267,944	1,991,041
Deductions										
Benefit Payments	249,375	268,298	289,396	308,636	332,747	358,196	380,276	405,456	431,232	457,847
Refunds	7,490	9,628	12,993	12,923	13,049	14,679	11,338	10,679	13,021	17,452
Administrative Expense	5,598	5,549	6,627	7,196	7,137	7,706	9,066	9,303	10,284	9,501
Total Deductions	262,463	283,475	309,016	328,755	352,933	380,581	400,680	425,438	454,537	484,800
Change in Plan Net Assets	**$ 429,224**	**$ 528,836**	**$ 530,732**	**$ (480,083)**	**$ (545,730)**	**$ (6,264)**	**$ 910,161**	**$ 518,166**	**$ 813,407**	**$ 1,506,241**

CHANGES IN PLAN NET ASSETS - POSTEMPLOYMENT HEALTHCARE PLAN
LAST TEN FISCAL YEARS
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
City Contributions	$ 31,770	$ 19,499	$ 14,246	$ 8,036	$ 27,589	$ 26,608	$ 20,144	$ 53,190	$ 76,116	$ 115,233
Net Investment Income (Loss)	91,462	153,031	88,362	(48,668)	(50,163)	26,999	155,151	91,412	128,473	231,613
Total Additions	123,232	172,530	102,608	(40,632)	(22,574)	53,607	175,295	144,602	204,589	346,846
Deductions										
Benefit Payments	21,388	22,326	29,987	34,469	42,069	50,784	58,254	63,756	62,351	65,090
Administrative Expense	165	683	920	1,004	996	1,459	1,805	1,693	1,924	1,856
Total Deductions	21,553	23,009	30,907	35,473	43,065	52,243	60,059	65,449	64,275	66,946
Change in Plan Net Assets	**$ 101,679**	**$ 149,521**	**$ 71,701**	**$ (76,105)**	**$ (65,639)**	**$ 1,364**	**$ 115,236**	**$ 79,153**	**$ 140,314**	**$ 279,900**

SCHEDULE OF BENEFIT EXPENSES BY TYPE - RETIREMENT PLAN *

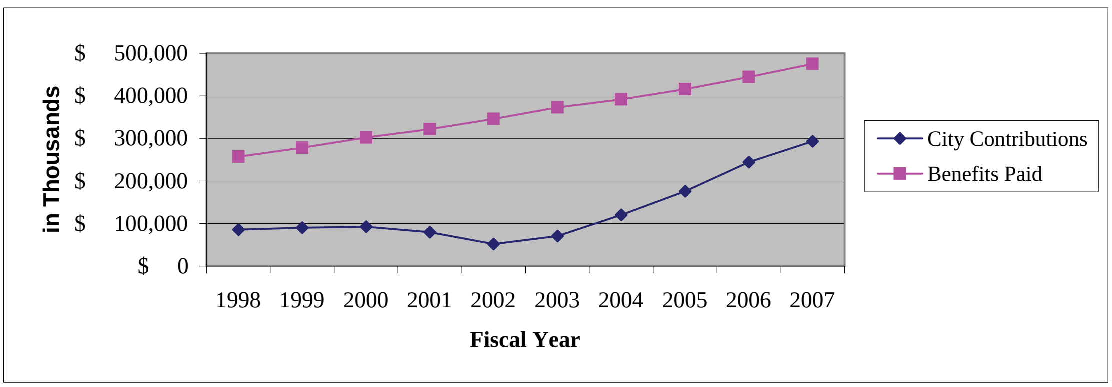
(in thousands)

Fiscal	Age & Service Benefit		Death in Service	Disability Benefits				Benefits
Year	Retirants	Survivors	Benefits	Retirants	Survivors	Sub Total	Refunds	Total
1998	$ 213,290	$ 22,996	$ 2,079	$ 9,457	$ 1,553	$ 249,375	$ 7,490	$ 256,865
1999	229,858	25,407	2,874	8,586	1,572	268,297	9,628	277,925
2000	240,422	32,440	2,582	9,964	3,989	289,397	12,993	302,390
2001	256,395	34,653	2,626	10,688	4,274	308,636	12,923	321,559
2002	277,241	37,094	2,996	10,803	4,613	332,747	13,049	345,796
2003	298,599	39,915	2,667	11,999	5,016	358,196	14,679	372,875
2004	318,135	42,017	2,814	12,003	5,307	380,276	11,338	391,614
2005	338,907	44,558	2,960	13,355	5,677	405,457	10,679	416,136
2006	360,515	47,509	3,053	14,173	5,982	431,232	13,021	444,253
2007	383,558	50,497	2,746	14,856	6,190	457,847	17,452	475,299

* Allocated from year-end retirement roll

CITY CONTRIBUTIONS versus BENEFITS PAID

(in thousands)



Fiscal Year	City Contributions	Benefits Paid
1998	$ 85,439	$ 256,865
1999	89,863	277,925
2000	92,364	302,390
2001	79,861	321,559
2002	51,879	345,796
2003	70,923	372,875
2004	120,057	391,614
2005	175,947	416,136
2006	244,283	444,253
2007	293,160	475,299

SCHEDULE OF BENEFIT EXPENSES BY TYPE - POSTEMPLOYMENT HEALTHCARE PLAN *

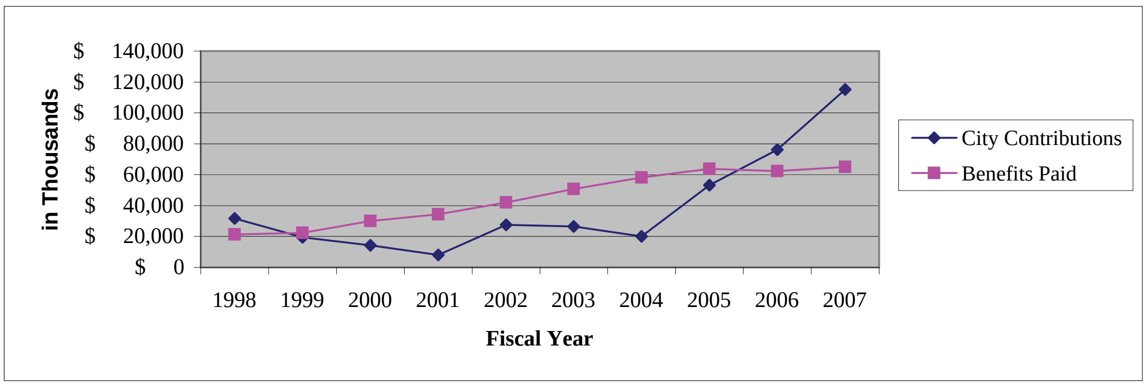
(in thousands)

Fiscal	Age & Service Benefit		Death in Service	Disability Benefits				Benefits
Year	Retirants	Survivors	Benefits	Retirants	Survivors	Sub Total	Refunds	Total
1998	$ 18,294	$ 1,972	$ 178	$ 811	$ 133	$ 21,388	$ -	$ 21,388
1999	19,128	2,114	239	715	131	22,327	-	22,327
2000	24,912	3,361	268	1,032	413	29,986	-	29,986
2001	28,635	3,870	293	1,194	477	34,469	-	34,469
2002	35,051	4,690	379	1,366	583	42,069	-	42,069
2003	42,335	5,659	378	1,701	711	50,784	-	50,784
2004	48,735	6,436	431	1,839	813	58,254	-	58,254
2005	53,291	7,006	465	2,100	893	63,755	-	63,755
2006	52,127	6,869	441	2,049	865	62,351	-	62,351
2007	54,529	7,179	390	2,112	880	65,090	-	65,090

*Allocated from year-end retirement roll

CITY CONTRIBUTIONS versus BENEFITS PAID

(in thousands)



Fiscal Year	City Contributions	Benefits Paid
1998	$ 31,770	$ 21,388
1999	19,499	22,327
2000	14,246	29,986
2001	8,036	34,469
2002	27,589	42,069
2003	26,608	50,784
2004	20,144	58,254
2005	53,190	63,755
2006	76,116	62,351
2007	115,233	65,090

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS - RETIREMENT PLAN

June 30, 2007

Amount of Monthly Benefits	Number of Retirants *	Type of Benefits **									
		1	2	3	4	5	6	7	8	9	10
$ 1-250	203	48	41	2	36	3	11	1	17	-	44
251-500	560	103	175	-	103	9	68	25	47	-	30
501-750	889	143	344	8	115	37	113	69	40	1	19
751-1,000	1,045	254	339	18	113	156	35	81	43	-	6
1,001-1,250	1,211	368	339	30	103	263	16	59	27	-	6
1,251-1,500	1,070	439	257	29	83	192	11	34	23	-	2
1,501-1,750	988	535	190	31	52	142	5	22	9	-	2
1,751-2,000	854	560	139	24	38	63	5	11	12	-	2
Over 2,000	8,050	7,140	538	143	145	36	8	14	23	-	3
Total	**14,870**	**9,590**	**2,362**	**285**	**788**	**901**	**272**	**316**	**241**	**1**	**114**

* The Limited Term Retirement Plan and Family Death Benefit Insurance Plan payments are not included.

**** Type of Benefits**

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

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS - POSTEMPLOYMENT HEALTHCARE PLAN
June 30, 2007

Amount of Monthly Benefits	Number of Retirants	Type of Benefits ***						
		1	2	3	4	5	6	7
Medical								
$ 0-200	3,100	1,978	787	66	84	95	44	46
201-400	3,610	2,875	456	45	114	80	21	19
401-600	1,687	1,355	101	42	98	79	5	7
601-800	1,389	1,283	-	-	82	24	-	-
801-983 *	1,226	1,205	-	-	17	4	-	-
Total	**11,012**	**8,696**	**1,344**	**153**	**395**	**282**	**70**	**72**
Dental								
$ 0-10	1,998	519	976	122	75	176	58	72
11-20	2,127	1,941	-	-	106	80	-	-
21-30	877	735	-	-	102	40	-	-
31-37.18 **	5,612	5,473	-	-	113	26	-	-
Total	**10,614**	**8,668**	**976**	**122**	**396**	**322**	**58**	**72**

* Maximum health subsidy for plan year 2007
** Maximum dental subsidy for plan year 2007

***** Type of Benefits**

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

SCHEDULE OF AVERAGE BENEFIT PAYMENTS - RETIREMENT PLAN

Retirement Effective Dates July 1, 1997 to June 30, 2007	Years Credited Service 0-10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	$ 927	$ 1,100	$ 1,421	$ 2,087	$ 2,528	$ 3,648
Average Final Monthly Salary *	$ 3,237	$ 3,721	$ 3,576	$ 4,190	$ 3,984	$ 4,607
Number of Active Retirants	44	69	59	53	90	351
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	$ 868	$ 1,149	$ 1,522	$ 1,880	$ 2,578	$ 3,772
Average Final Monthly Salary *	$ 3,368	$ 3,806	$ 3,803	$ 3,801	$ 4,213	$ 4,902
Number of Active Retirants	54	58	46	38	74	304
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	$ 736	$ 1,132	$ 1,642	$ 2,065	$ 2,764	$ 4,107
Average Final Monthly Salary *	$ 2,635	$ 3,769	$ 4,139	$ 4,078	$ 4,374	$ 5,221
Number of Active Retirants	21	94	46	56	61	351
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	$ 891	$ 1,212	$ 1,603	$ 2,175	$ 3,018	$ 4,184
Average Final Monthly Salary *	$ 3,436	$ 4,009	$ 4,115	$ 4,368	$ 4,875	$ 5,384
Number of Active Retirants	24	72	53	44	71	312
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	$ 670	$ 1,124	$ 1,719	$ 2,174	$ 3,019	$ 4,059
Average Final Monthly Salary *	$ 3,481	$ 4,027	$ 4,594	$ 4,463	$ 4,871	$ 5,377
Number of Active Retirants	24	64	76	45	75	304
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 785	$ 1,206	$ 1,716	$ 2,461	$ 3,034	$ 4,179
Average Final Monthly Salary *	$ 3,245	$ 4,250	$ 4,608	$ 5,134	$ 5,120	$ 5,632
Number of Active Retirants	31	65	73	70	61	322
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 724	$ 1,525	$ 1,763	$ 2,629	$ 3,027	$ 4,348
Average Final Monthly Salary *	$ 4,224	$ 4,999	$ 4,800	$ 4,915	$ 5,263	$ 6,051
Number of Active Retirants	33	47	82	66	51	288

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

(continues)

SCHEDULE OF AVERAGE BENEFIT PAYMENTS - RETIREMENT PLAN *(continued)*

Retirement Effective Dates July 1, 1997 to June 30, 2007	Years Credited Service					
	0-10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 1,335	$ 1,639	$ 1,881	$ 2,673	$ 3,537	$ 4,734
Average Final Monthly Salary *	$ 5,790	$ 4,824	$ 5,116	$ 5,074	$ 6,082	$ 6,450
Number of Active Retirants	36	37	77	72	86	316
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 1,200	$ 1,338	$ 2,122	$ 2,468	$ 3,492	$ 4,828
Average Final Monthly Salary *	$ 3,798	$ 4,664	$ 5,422	$ 5,262	$ 5,937	$ 6,380
Number of Active Retirants	40	33	59	88	93	271
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	$ 1,023	$ 1,301	$ 1,991	$ 2,633	$ 3,227	$ 4,997
Average Final Monthly Salary *	$ 3,702	$ 5,170	$ 5,223	$ 5,514	$ 5,515	$ 6,543
Number of Active Retirants	41	33	62	85	74	230

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

SCHEDULE OF AVERAGE BENEFIT PAYMENTS - POSTEMPLOYMENT HEALTHCARE PLAN

June 30, 2007	Years Credited Service				
	Under 10 yrs *	10-15 yrs	16-20 yrs	21-25 yrs	Over 25 yrs
Health Insurance					
Average Monthly Benefit	$ -	$ 224	$ 312	$ 373	$ 493
Number of Active Retirants	52	918	1,233	1,510	7,299
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 18	$ 23	$ 28
Number of Active Retirants	116	864	1,102	1,383	7,149

* Healthcare benefits are not provided to retirants with services less than 10 years, except three members who are covered under "Compulsory Retirement" provision per the City's Administrative Code Section 4.1103.2.

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

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