LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

Los Angeles City Employees' Retirement System

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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

Issued by
Thomas Moutes
General Manager

360 E. Second Street, 2nd Floor
Los Angeles, CA 90012-4207
www.LACERS.org

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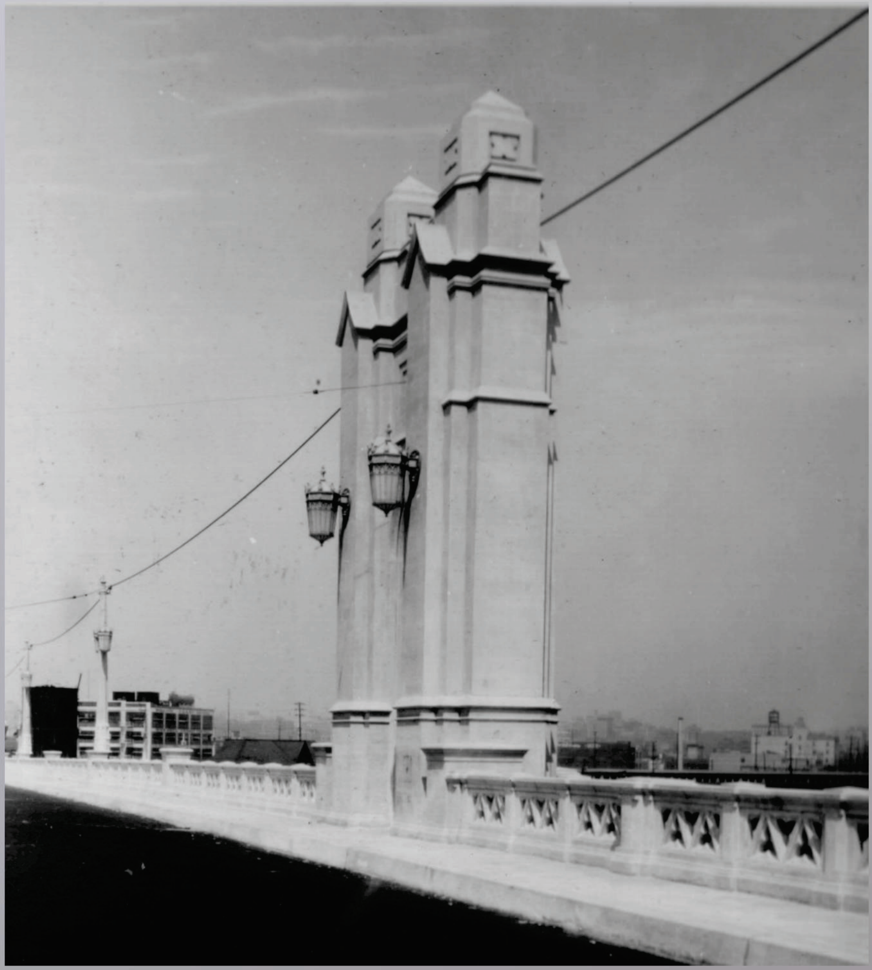

INTRODUCTION

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

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Letter of Transmittal

December 30, 2011

Board of Administration
Los Angeles City Employees' Retirement System
360 E. Second Street, 2nd Floor
Los Angeles, CA 90012-4207

Dear Members of the Board:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ending June 30, 2011.

Since 1937, LACERS has been keeping the retirement promises made by the City of Los Angeles to its civilian employees by administering a defined benefit retirement plan. Currently, LACERS administers retirement and retiree health benefits to over 25,000 active members and 17,000 retired members and beneficiaries.

In the twelve months ending June 30, 2011, LACERS retired over 250 members, and provided survivorship benefits to over 270 new beneficiaries, provided individual counseling to 1,209 members, and educational seminars to 2,431 members. While the average number of retirements is lower than the norm, the preceding fiscal year experienced the retirement of 2,533 members, five times our annual average due to the City's offering of the Early Retirement Incentive Program (ERIP). The fiscal year ending June 30, 2011 was also marked by the largest financial gain of our trust assets since fiscal year 1985-86. These assets are invested to help fund pension and health benefits. We have kept health benefit costs down by rigorously negotiating retiree health insurance premiums resulting in increases that were less than one-third of predicted national trend rates. Through additional proactive efforts, we were able to successfully pursue funding under the new federal Early Retiree Reinsurance Program and secured $3.8 million in health premium reimbursements to the benefit of our members. Lastly, our focus over the past years on succession planning and team building around strategic initiatives has helped ensure a smooth transition of three key leadership positions including the General Manager, Chief Investment Officer, and General Fund Consultant.

This CAFR presents a comprehensive view of our financial condition including the System's financial statements, investment performance, and actuarial valuations for retirement and health benefits.

Accounting System and Reports

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

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

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

It is the responsibility of LACERS management to prepare the System's financial statements, notes, and supplementary disclosures, and to establish and maintain internal control to ensure the System assets are protected. However, there are inherent limitations associated with internal control, such as the risk of circumventions as a result of cost considerations, collusions, or improper management override which may exist in any system. Management believes that the System's internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.* LACERS management assumes full responsibility for the contents of this report.

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

Additions to Plan Net Assets

The additions to plan net assets consist of contributions, net appreciation in fair value of investments, and investment income net of investment expenses. The total amount of additions for the fiscal year ending June 30, 2011 was $2,479,012,000, including member and employer contributions of $528,864,000, net appreciation in fair value of investments of $1,722,445,000, and various investment incomes, net of investment expenses, of $227,703,000. The net investment income of $1,950,148,000 for the current fiscal year represents a net increase of $883,315,000 as compared to the prior fiscal year's net investment income of $1,066,833,000. The increase is attributed mainly to the net appreciation in the fair value of investments, which is $863,259,000 higher than that of the prior fiscal year. The System's investment rate of return for the current fiscal year was 22.6% (gross of fees), which significantly outperformed the 7.75% 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 25 of the financial statements in the Financial Section of this CAFR.

Deductions from Plan Net Assets

Deductions for the fiscal year ended June 30, 2011 totaled $786,773,000, which represented an increase of $88,605,000 (12.7%) over the prior year. This increase was entirely attributable to higher benefit payments as a result of the increased number of members retired under the ERIP which took place during the last seven months of the prior fiscal year. The components of the total deductions included payments of retirement benefits of $752,540,000 ($654,384,000 for the Retirement Plan and $98,156,000 for the Postemployment Healthcare Plan), refunds of contributions to terminated members of $18,215,000, and administrative expenses of $16,018,000.

Changes in System Membership

LACERS membership changes for the fiscal year ended June 30, 2011 were as follows:

	2011	2010	Decrease	Change
Active Members	25,449	26,245	796	(3.0)%
Retired Members	17,197	17,264	67	(0.4)%

Major Initiatives

Accomplishments on several strategic initiatives in this fiscal year move us toward realizing our goals of enhanced customer service, enhanced investment risk management, minimizing employer contributions, and maximizing organizational efficiencies.

Audit our compliance with Internal Revenue Code provisions

The Internal Revenue Code grants tax exempt status to public pension plan participants and the plan sponsor when the pension plan complies with applicable tax code sections (mainly IRC sections 415 and 401(1)(17)). Through the combined efforts of department staff, City Attorney staff, and our tax counsel, we continue to make strides in this area.

Develop strategies to reduce the impact of cost drivers on medical plan premiums

Working closely with our health carriers to obtain and analyze data on our members' usage of their health benefits has resulted in changes to our benefit designs and delivery models to better meet members' needs at the best value.

Enhanced Investment Due Diligence Program

To enhance portfolio performance, a more rigorous due diligence review of our investment managers was established along with higher standards of practice.

Begin the process of replacing our computerized pension administration system

A computerized pension administration system needs to accurately house and compute members' data to generate the promised pension benefits when due. To ensure LACERS purchases/develops a replacement system which continues to meet these needs with the latest technology available, significant review and documentation of staff knowledge on tracking, processing, and calculating pension benefits is required, and incorporation of complex business and legal rules must also be reflected in those calculations. This multi-year effort requiring significant investment of staff time was initiated during this fiscal year.

Funding Status and Progress

The funded ratio, the ratio of the actuarial value of assets to actuarial accrued liabilities, is a snapshot of the relative status of LACERS assets and liabilities. It is determined annually in the actuarial valuation, reflecting changes in liabilities, investment returns, demographics, actuarial assumptions, and other factors during the reporting year. Based on the June 30, 2011 actuarial valuation, the combined funded ratio for the Retirement Plan and the Postemployment Healthcare Plan was decreased by 0.8% from a year ago to 73.2%. Individually, the funded ratio for the Retirement Plan decreased from 75.9% to 72.4%; and for the Postemployment Healthcare Plan, the funded ratio increased from 63.8% to 78.6%. The decreased funded ratio for the Retirement Plan is primarily attributable to the continued recognition of the large deferred investment loss of fiscal year 2008-09, and the lowering of the assumed investment rate of return from 8% to 7.75%, despite the strong investment return of 22.6% for this fiscal year. The significantly higher funded ratio for the Postemployment Healthcare Plan is primarily attributable to the very favorable 2012 renewal rates coupled with the slightly lower initial medical trend rate, as well as the retiree health subsidy freeze for Active Members who did not begin to contribute an additional 2% or 4% of employee contributions to the Plan (refer to Note 3 – Postemployment Healthcare Plan Description on page 30 of the financial statements in the Financial Section of this CAFR). As of June 30, 2011, there is still a combined unrecognized investment loss in the amount of $587,038,000 resulting from the asset smoothing method used in the actuarial valuation process. Although much smaller than the balance of $2,018,219,000 at the beginning of the fiscal year, this deferred investment loss will cause the funded ratio to decrease in the next few years even if the investment returns match the 7.75% assumption and all other assumptions are met.

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

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

The System's total portfolio was valued at $10.8 billion as of June 30, 2011, an increase of $1.8 billion (20.0%) compared to the prior fiscal year. The portfolio posted a gross of fees return of 22.6% (or a net of fees return of 22.3%) over a one-year period, which is the highest annual rate of return since fiscal year 1985-86. It is the second year in a row that the portfolio highly outperformed its actuarial assumed rate of investment return of 7.75%.

In a comparison to other public funds with market values greater than $1 billion in TUCS (Trust Universe Comparison Service), the System ranked in the 32nd percentile for the one-year period. The annualized investment returns in detail are presented in the Investment Results on page 53 of the Investment Section. The detail of investment income and loss can be found on pages 19 - 21 of the Financial Section. Other investment related information is summarized in the Investment Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LACERS for its CAFR for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our report for the current fiscal year continues to meet the requirements of the Certificate of Achievement Program and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

I would like to express my appreciation to our Board for supporting our strategic and management initiatives which allow us to better serve our Members and Plan Sponsor. Also, I would like to express my appreciation to LACERS staff for continually providing excellent customer service to our Members.

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

Respectfully Submitted,

Thomas Moutes
General Manager

Mikyong Jang
Chief Accountant

Board of Administration
As of June 30, 2011

Roberta Conroy
President
Appointed by the Mayor

Richard M. Rogers
Vice President
Elected by Active Members

Jerry Bardwell
Member
Appointed by the Mayor

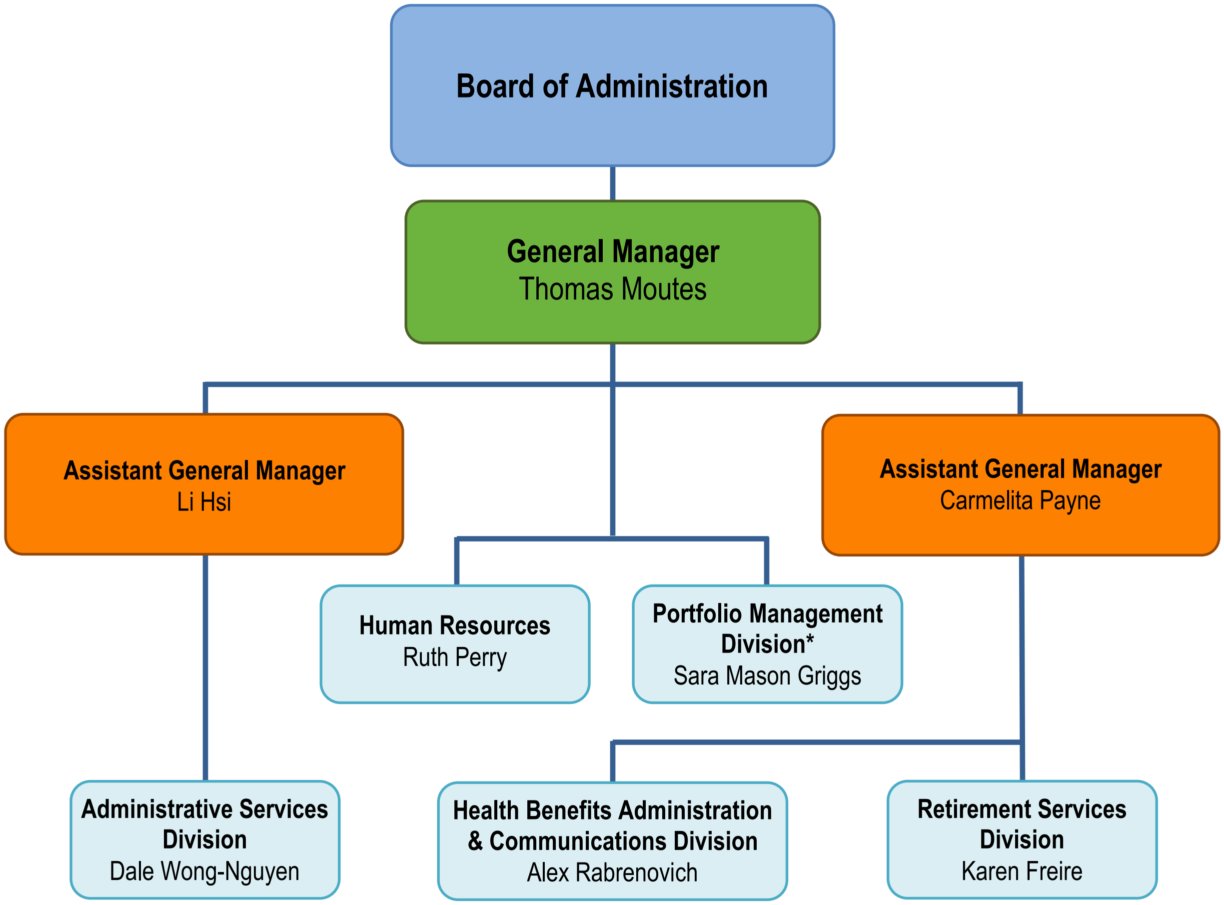
Elizabeth L. Greenwood
Member
Elected by Active Members

Jeffrey Penichet
Member
Appointed by the Mayor

Ken Spiker
Member
Elected by Retired Members

Robert A. Chick
Member
Appointed by the Mayor

Organizational Chart
As of June 30, 2011



* A list of firms managing the investment portfolio can be found in the Investment Section, pages 60 and 61.

Professional Consultants

Actuary
The Segal Company

Independent Auditor
Brown Armstrong

Investment Consultants
Courtland Partners, Ltd.
Hamilton Lane
Pension Consulting Alliance, Inc.
Wilshire Associates Incorporated

Health & Welfare Consultant
Towers Watson Delaware, Inc.

Fiduciary Consultant
Hewitt EnnisKnupp, Inc

Legal/Fiduciary Counsel
Ice Miller, LLP
Reed Smith, LLP

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, 2010

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

Jeffrey R. Emer

Executive Director

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

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FINANCIAL

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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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 Municipality of the City of Los Angeles, California, as of June 30, 2011, 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 2010 financial statements and, in our report dated November 18, 2010, 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, 2011 and 2010, and the Changes in Net Assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The schedules of administrative expenses and investment expenses, as shown in the financial section, and the introductory, investment, actuarial, and statistical are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of administrative expenses and investment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Connie Perez

Pasadena, California
December 29, 2011

Management's Discussion and Analysis

As management of the Los Angeles City Employees' Retirement System (LACERS), we are pleased to provide this overview and analysis of the financial activities of LACERS for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal in the Introductory Section of LACERS Comprehensive Annual Financial Report.

Financial Highlights

- The amount of plan net assets of LACERS as of June 30, 2011 was $10,693,604,000.
- Compared with the value of the plan net assets of LACERS as of June 30, 2010, the value of the net assets increased by $1,692,239,000, or 18.8% during the reporting period.
- The plan assets under the Retirement Plan and Postemployment Healthcare Plan are pooled for investment purposes. Investment income for the year was $1,950,148,000, as compared with an investment income of $1,066,833,000 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 $414,133,000. This amount included an annual contribution of $410,957,000, which was 24.49% of the City's estimated covered payroll of $1,678,059,000, Member contribution defrayal of $2,982,000, and City's matching contribution for Family Death Benefit Insurance Plan in the amount of $194,000.
- The employer contributions to the Retirement Plan represented 100% of the Annual Required Contribution as defined by the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27. The employer contributions to the Postemployment Healthcare Plan represented 100% 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 $786,773,000, a 12.7% increase from the prior fiscal year.
- Based on the most recent actuarial valuation as of June 30, 2011, the funded ratio for the Retirement Plan was 72.4% and the funded ratio for the Postemployment Healthcare Plan was 78.6%. The total funded ratio for LACERS was 73.2%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting investment performance, demographic changes, actuarial assumption/method changes, benefit structure changes, and/or a variety of other actuarial gains and losses.

Overview of the Financial Statements

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

Financial Statements

There are two financial statements presented by LACERS. The Statement of Plan Net Assets gives a snapshot of the account balances at year-end and shows the amount of the net assets (the difference between the assets and liabilities) available to pay future benefits. 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. The two statements can be found on pages 24 and 25 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 26 – 39 of this report.

Required Supplementary Information

In addition to this Management's Discussion and Analysis, other required supplementary information consists of a Schedule of Funding Progress, a Schedule of Employer Contributions, and the Notes to Required Supplementary Information for both the Retirement Plan and the Postemployment Healthcare Plan. These schedules and notes primarily present the actuarially-determined information in a multi-year format as required by the applicable financial reporting standards. This required supplementary information can be found on pages 40 – 43 of this report.

Supplemental Schedules

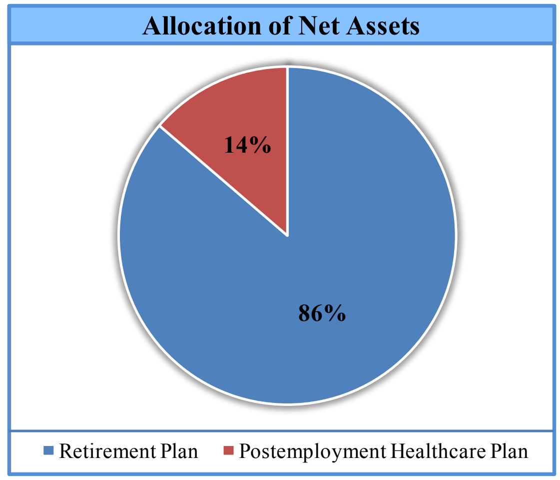
The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS operations for the current year. They can be found on pages 46 and 47 of this report.

Financial Analysis

Allocation of Net Assets

Net assets may serve as a useful indicator of a plan's financial position. The total plan net assets are allocated between the Retirement Plan and Postemployment Healthcare Plan, as required by the existing reporting standards. The following information provides a brief description of the asset allocation between the Retirement Plan and the Postemployment Healthcare Plan as of June 30, 2011 (dollars in thousands):

	Net Assets	Percent
Retirement Plan	$ 9,227,219	86.3%
Postemployment Healthcare Plan	1,466,385	13.7
Net Assets	$10,693,604	100.0%



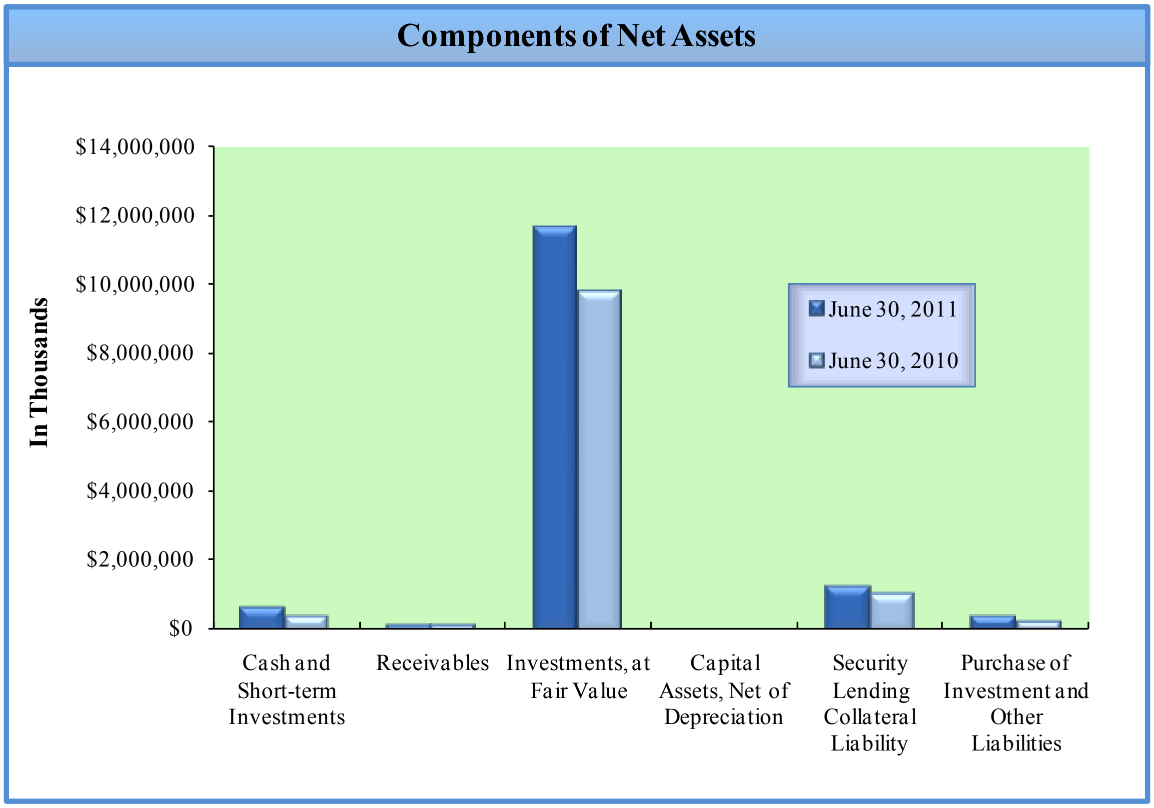
Net Assets

The following table and graph represent the detailed information regarding the components of the net assets of LACERS as of June 30, 2011 and 2010 (dollars in thousands):

	June 30, 2011	June 30, 2010	Change	
Cash and Short-term Investments	$ 609,897	$ 372,183	$ 237,714	63.9 %
Receivables	74,353	75,188	(835)	(1.1)
Investments, at Fair Value	11,593,552	9,740,098	1,853,454	19.0
Capital Assets, Net of Depreciation	250	380	(130)	(34.2)
Total Assets	12,278,052	10,187,849	2,090,203	20.5
Security Lending Collateral Liability	1,229,579	987,637	241,942	24.5
Purchase of Investment and Other Liabilities	354,869	198,847	156,022	78.5
Total Liabilities	1,584,448	1,186,484	397,964	33.5
Net Assets	$ 10,693,604	$ 9,001,365	$ 1,692,239	18.8 %

Financial Analysis (Continued)

Net Assets (Continued)



The majority of LACERS net assets are contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, and other asset classes. Net assets increased by $1,692,239,000, or 18.8%, during this fiscal year. The increase is primarily attributable to investment gain, including $1,722,445,000 of net appreciation in fair value of investments, as a result of a continued market recovery from the global financial and economic crisis of 2008.

Change in Net Assets

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

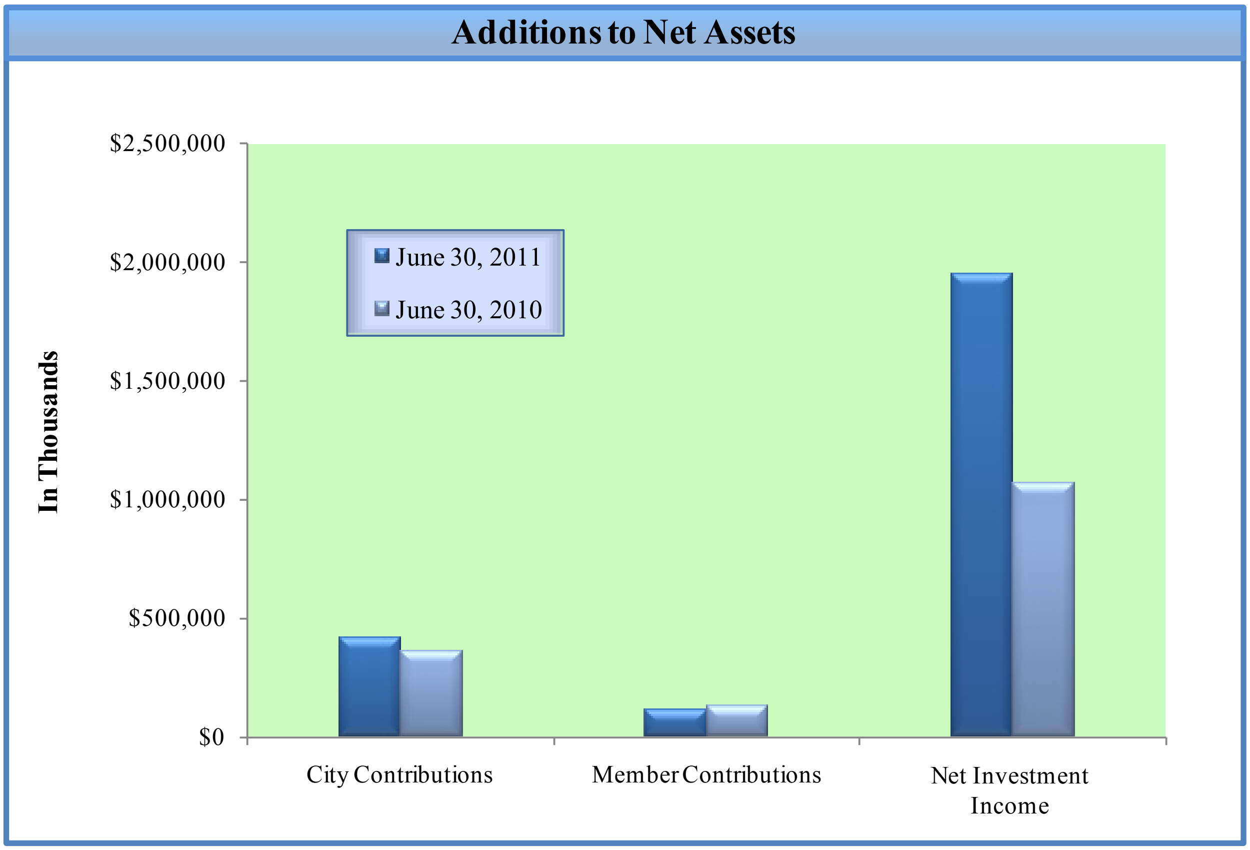
	June 30, 2011	June 30, 2010	Change	
Additions	$ 2,479,012	$ 1,556,545	$ 922,467	59.3 %
Deductions	(786,773)	(698,168)	(88,605)	12.7
Net Increase	1,692,239	858,377	833,862	97.1
Net Assets, Beginning of Year	9,001,365	8,142,988	858,377	10.5
Net Assets, End of Year	$ 10,693,604	$ 9,001,365	$ 1,692,239	18.8 %

Financial Analysis (Continued)

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, 2011 and 2010 (dollars in thousands):

	June 30, 2011	June 30, 2010	Change
City Contributions	$ 414,133	$ 362,751	14.2 %
Member Contributions	114,731	126,961	(9.6)
Net Investment Income	1,950,148	1,066,833	82.8
Additions to Net Assets	$ 2,479,012	$ 1,556,545	59.3 %



Financial Analysis (Continued)

Change in Net Assets – Additions to Net Assets (Continued)

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

City Contributions to the Retirement Plan, the Postemployment Healthcare Plan and the Family Death Benefit Insurance Plan were $414,133,000 during the year, or $51,382,000 more than the prior fiscal year due to the increased contribution rate recommended by the actuary in its June 30, 2009 actuarial valuation. The City contribution rate was 24.49% of the total City payroll ($1,678,059,000) for the fiscal year 2010-11, or 18.09% due to the Retirement Plan and 6.40% due to the Postemployment Healthcare Plan. The actual contribution to the Retirement Plan was equal to 100% of the Annual Required Contribution (ARC) of $303,561,000 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 $107,396,000 as defined by GASB Statements No. 43 and No. 45.

Factors that may affect the amount of Member Contributions include the change in number and composition of Members, the change in Member salaries, and the change in Member contribution rates. During the year, the number of active Members decreased by 3.0%, and the total Members' contribution was $114,731,000, which was $12,230,000 or 9.6% less than the prior year. The decrease was mainly due to the inflated base in the prior year resulting from Early Retirement Incentive Program (ERIP) participants' purchase of additional service credit or additional annuities to supplement their retirement benefits. However, the noted decrease is to some extent lessened by the additional 2% employee contributions implemented by the City for some of the bargaining groups of active Members effective April 24, 2011 or May 22, 2011 (Refer to Note 2 on page 28 – Retirement Plan Description).

The net investment income of $1,950,148,000 reflected the continued recovery of the financial and stock market from the heavy losses of years 2008-09. This is discussed in more detail in the next section.

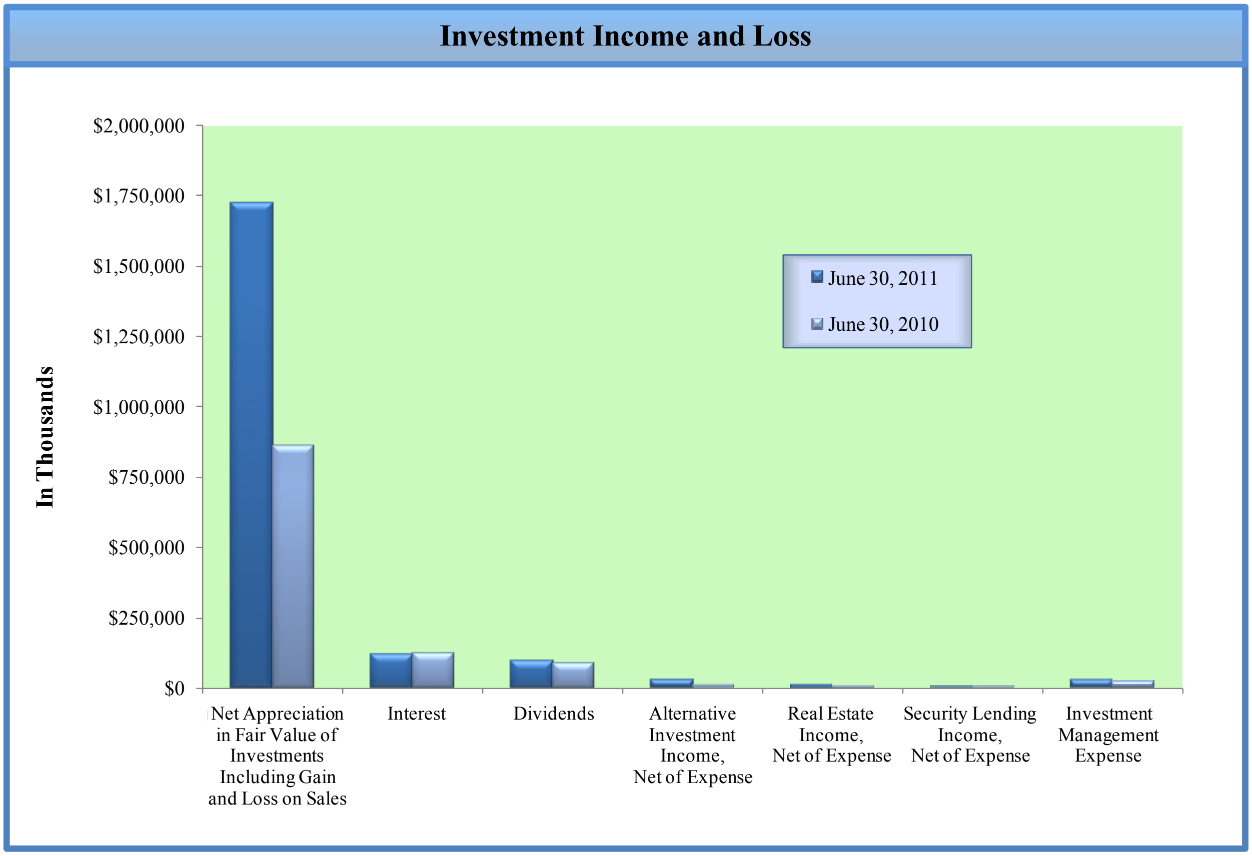
Investment Income and Loss

The following table and graph present the detail of investment income and loss, net of investment management expenses for the years ended June 30, 2011 and 2010 (dollars in thousands):

	June 30, 2011	June 30, 2010	Change
Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales	$ 1,722,445	$ 859,186	100.5 %
Interest	117,112	122,720	(4.6)
Dividends	94,544	88,995	6.2
Alternative Investment Income, Net of Expense	27,527	9,023	205.1
Real Estate Income, Net of Expense	10,484	6,445	62.7
Security Lending Income, Net of Expense	4,103	3,822	7.4
Sub-Total	1,976,215	1,090,191	81.3
Less: Investment Management Expense	(26,067)	(23,358)	11.6
Net Investment Income	$ 1,950,148	$ 1,066,833	82.8 %

Financial Analysis (Continued)

Investment Income and Loss (Continued)



The net investment income for the current fiscal year was $1,950,148,000, as compared with the income of $1,066,833,000 for the previous fiscal year (82.8% increase). This increased investment income which included $1,722,445,000 of both realized and unrealized capital gain and loss, was primarily due to the increases in the value of domestic and international equity holdings, as well as private equity investments. Several factors contributed to the favoring of equity market: 1) The Federal Reserve applied the quantitative easing policy to increase the money supply to the economy; 2) interest rates continued to be kept at historic lows; 3) improvement in U.S. corporate profits and consumer confidence level; 4) extension of Bush-Era tax cuts to individual and business; and 5) improvement of world markets especially on emerging markets. As a result, the Dow Jones Industrial Average was up 27.0% while the S&P 500 Index was up 28.1% during the reporting period.

With the exception of the interest income, all other components of the investments reported either a modest or strong increase.

Interest income derived from bonds decreased by $5,608,000 (-4.6%). Since December 2008, the Federal Reserve has maintained a target range for the federal funds rate of 0.00 to 0.25 percent which have adversely affected the income from bond yields for three consecutive years.

The dividend income derived from stocks increased by $5,549,000 (6.2%) due to stronger than expected earnings posted by U.S. corporations.

Alternative investment income showed a significant increase of $18,504,000 (205.1%), which is more than double the prior year. This increase in alternative investment income was primarily due to a period of recovery versus rescue in the public markets, with Initial Public Offer (IPO) activity doubling for this period. Real estate income also increased by $4,039,000 (62.7%) as compared to the prior year primarily as a reflection of the current market stabilization and increased transaction activities. Currently, investors have concerns with the lagging U.S. economy and the possibility of a double dip recession as well as the Eurozone sovereign debt crisis which creates the potential for increase market volatility.

Financial Analysis (Continued)

Investment Income and Loss (Continued)

LACERS earns additional investment income by lending securities to borrowers through its custodian bank. The borrowers provide cash or non-cash collateral to the System's custodial bank. The custodian bank then invests the cash collateral on behalf of the borrowers in short and intermediate term fixed income securities. LACERS security lending income, net of expense, increased by 7.4%, or $281,000 more than a year ago as the security lending markets were more stable compared to the prior year.

Investment management expense for the current fiscal year increased by $2,709,000 (11.6%) as compared to the prior year. The increase corresponds with the higher fair value of investment portfolio, as the investment management fees are based on the value of investment assets.

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, 2011 and 2010 (dollars in thousands):

	June 30, 2011	June 30, 2010	Change
Benefit Payments	$ 752,540	$ 653,134	15.2 %
Refunds of Contributions	18,215	27,971	(34.9)
Administrative Expenses	16,018	17,063	(6.1)
Deductions from Net Assets	$ 786,773	$ 698,168	12.7 %

LACERS deductions from net assets in the reporting period can be summarized as Benefit Payments, Refunds of Contributions, and Administrative Expenses. These deductions represent the types of benefit delivery operations undertaken by LACERS and the costs associated with them. Total deductions increased by $88,605,000 or 12.7%.

Benefit payments increased by $99,406,000, or 15.2%, compared to the prior year. This increase is predominately due to the increased number of retired members resulted from the City's Early Retirement Incentive Program (ERIP) which began in November 2009 and concluded at the end of the prior fiscal year. The ERIP significantly increased the number of retired members receiving Retirement and Postemployment Healthcare benefits. Consequently, there was a substantial increase in benefit payments for the whole current fiscal year, as compared with the prior fiscal year when the higher benefit payments due to the ERIP only affected a partial year. The total benefit payments for this reporting year increased by 15.2%, which also included the average annual cost of living adjustment (COLA) of approximately 2.0%. Although the average annual percentage change in the Consumer Price Index (CPI) for the Los Angeles area applicable for determining the July 2010 COLA was negative 0.8%, the majority of LACERS retired members and beneficiaries still received a COLA up to maximum of 3% by drawing down their COLA banks which represent past CPI changes in excess of 3% accumulated for applying in future years when CPI changes are less than 3%. Compared to the prior fiscal year, the benefit payments for the Retirement Plan and the Postemployment Healthcare Plan were increased by $84,446,000 (14.8%) and $14,960,000 (18.0%), respectively. The total benefit payments represent 95.6% of total deductions from System's net assets.

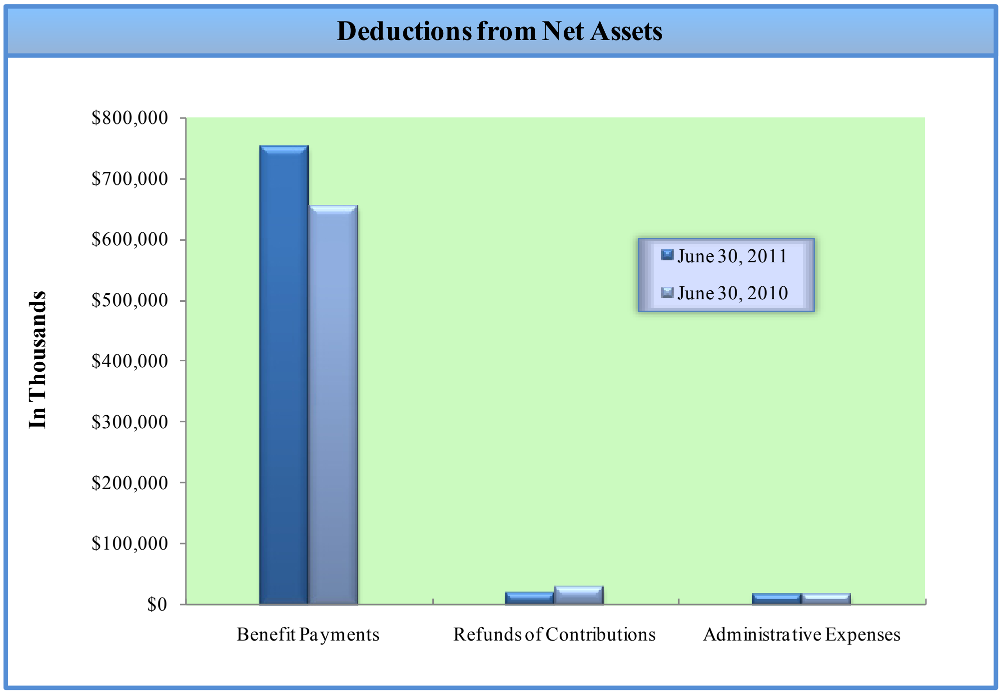
Refunds of contributions decreased by $9,756,000 or 34.9%. The decrease was mainly the result of decreased transfer of funds to the Department of Water and Power (DWP) Employees' Retirement Plan under the reciprocity program and the higher base in the prior year. During the last fiscal year, substantially larger number of City employees moved to DWP as one of the City's measures to resolve the budget deficit. For this reporting year, such transfers, in the amount of $8,980,000, represent a decrease of $9,049,000 from the last fiscal year.

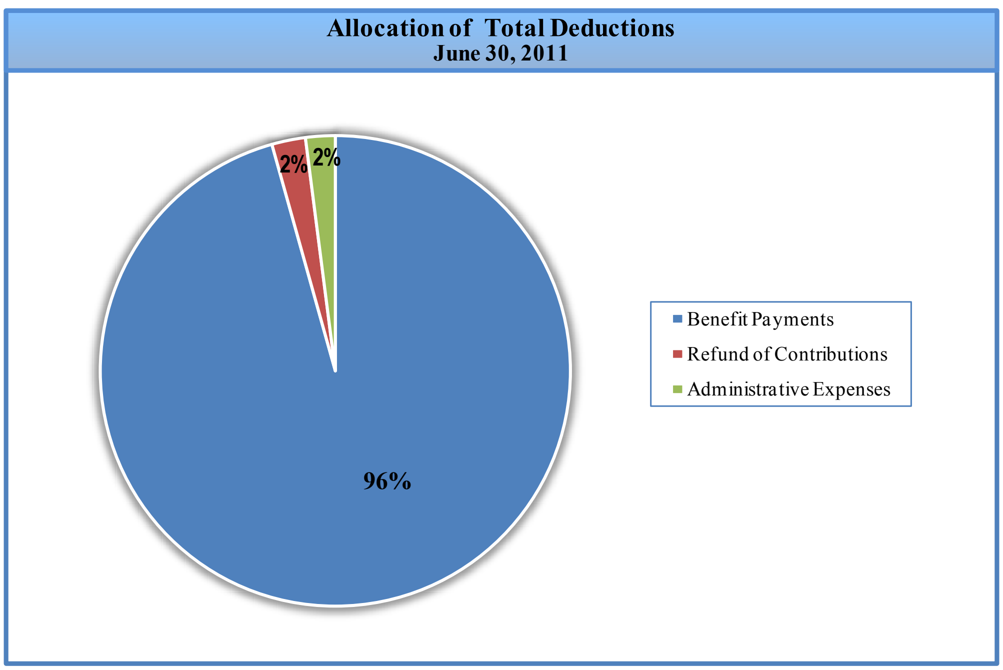
Administrative expense also decreased by $1,045,000 or 6.1% from the prior year. The decrease was mainly attributable to an inflated base of prior fiscal year which included additional costs for the salaries/wages of loaned employees and overtime costs for LACERS employees incurred to administer the ERIP during the prior year, as compared to the current fiscal year wherein the System returned to its normal level of administrative expenses in carrying out its operations.

Management's Discussion and Analysis

Financial Analysis (Continued)

Change in Net Assets – Deductions from Net Assets (Continued)





Requests for Information

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

LACERS
Fiscal Management Section
360 E. Second Street, 2nd Floor
Los Angeles, CA 90012-4207

AUDITED FINANCIAL STATEMENTS

Statement of Plan Net Assets
Retirement Plan and Postemployment Healthcare Plan
As of June 30, 2011, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	2011 Total	2010 Total
Assets				
Cash and Short-Term Investments	$ 526,263	$ 83,634	$ 609,897	$ 372,183
Receivables				
Accrued Investment Income	29,667	4,715	34,382	33,362
Proceeds from Sales of Investments	28,399	4,513	32,912	37,692
Other	6,091	968	7,059	4,134
Total Receivables	64,157	10,196	74,353	75,188
Investments, at Fair Value				
U.S. Government Obligations	504,067	80,106	584,173	395,086
Municipal Bonds	5,043	801	5,844	1,365
Domestic Corporate Bonds	801,669	127,401	929,070	1,081,526
International Bonds	206,151	32,761	238,912	192,270
Opportunistic Debt	126,827	20,155	146,982	107,792
Domestic Stocks	3,548,577	563,938	4,112,515	3,269,880
International Stocks	1,823,312	289,760	2,113,072	1,688,388
Mortgages	453,929	72,138	526,067	550,445
Government Agencies	40,816	6,487	47,303	54,556
Derivative Instruments	432	69	501	-
Real Estate	499,776	79,424	579,200	459,720
Venture Capital and Alternative Investments	932,191	148,143	1,080,334	951,433
Security Lending Collateral	1,060,970	168,609	1,229,579	987,637
Total Investments	10,003,760	1,589,792	11,593,552	9,740,098
Capital Assets				
Furniture, Fixtures and Equipment (Net of Depreciation)	216	34	250	380
Total Assets	10,594,396	1,683,656	12,278,052	10,187,849
Liabilities				
Accounts Payable and Accrued Expenses	114,285	18,162	132,447	29,685
Derivative Instruments	-	-	-	25
Purchases of Investments	191,922	30,500	222,422	169,137
Security Lending Collateral	1,060,970	168,609	1,229,579	987,637
Total Liabilities	1,367,177	217,271	1,584,448	1,186,484
Net Assets Held in Trust for Pension Benefits and Post-employment Healthcare Benefits	**$ 9,227,219**	**$ 1,466,385**	**$ 10,693,604**	**$ 9,001,365**

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

Statement of Changes in Plan Net Assets
Retirement Plan and Postemployment Healthcare Plan
For the Year Ended June 30, 2011, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	2011 Total	2010 Total
Additions				
Contributions				
City Contributions	$ 306,737	$ 107,396	$ 414,133	$ 362,751
Member Contributions	114,731	-	114,731	126,961
Total Contributions	421,468	107,396	528,864	489,712
Investment Income				
Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales	1,458,050	264,395	1,722,445	859,186
Interest	100,795	16,317	117,112	122,720
Dividends	81,372	13,172	94,544	88,995
Alternative Investment Income, Net of Expense	23,976	3,551	27,527	9,023
Real Estate Operating Income, Net of Expense	9,156	1,328	10,484	6,445
Security Lending Income	4,077	660	4,737	4,451
Less: Security Lending Expense	(537)	(97)	(634)	(629)
Sub-Total	1,676,889	299,326	1,976,215	1,090,191
Less: Investment Management Expense	(22,065)	(4,002)	(26,067)	(23,358)
Net Investment Income	1,654,824	295,324	1,950,148	1,066,833
Total Additions	2,076,292	402,720	2,479,012	1,556,545
Deductions				
Benefits Payments	654,384	98,156	752,540	653,134
Refunds of Contributions	18,215	-	18,215	27,971
Administrative Expenses	13,232	2,786	16,018	17,063
Total Deductions	685,831	100,942	786,773	698,168
Net Increase	1,390,461	301,778	1,692,239	858,377
Net Assets Held in Trust for Pension Benefits and Postemployment Healthcare Benefits				
Beginning of Year	7,836,758	1,164,607	9,001,365	8,142,988
End of Year	**$ 9,227,219**	**$ 1,466,385**	**$ 10,693,604**	**$ 9,001,365**

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

Note 1 – Description of the System and Significant Accounting Policies

General Description

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

The System operates a single-employer defined benefit plan (the Retirement Plan) and a Postemployment 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 generally accepted accounting principles (GAAP) in the United States of America, as outlined by the Governmental Accounting Standards Board (GASB).

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

Fair Value of Investments

Funds of the System are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board under Article XI Section 1106(d) of the City Charter. The System's investment portfolios are composed of domestic and international equities, domestic and international bonds, derivative instruments, real estate and alternative investments, and short-term investments.

Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, 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 industry practice. The fair value determined as such is also reviewed and evaluated by the Board's real estate consultant. The fair value of alternative investment funds is provided by the individual General Partners at liquidating events or other significant events during the reporting period. The fair values of derivative instruments are determined using available market information. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Management's investment strategy, as it relates to the debt portfolio, is mainly to achieve market appreciation and not to hold bonds to their maturities.

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

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

Capital Assets

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 if the cost of purchase is $5,000 or more. 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 the investment earnings and the contributions from the City and the Members.

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

Reserves

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

Reserves for Retirement Plan

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

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

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

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

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

Reserve for Postemployment Healthcare Plan

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

Reserve balances as of June 30, 2011, were as follows (in thousands):

Reserve for Retirement Plan		
Member Contributions	$ 1,496,091	
Basic Pensions	7,132,285	
Annuity	558,321	
Larger Annuity	26,221	
Family Death Benefits	14,301	$ 9,227,219
Reserve for Postemployment Healthcare Plan		1,466,385
Total Reserves		$ 10,693,604

Use of Estimates in Preparation of the Financial Statements

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

Note 2 – Retirement Plan Description

Plan Description

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

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

At June 30, 2011, the components of the System's membership were as follows:

Active:	
Vested	20,113
Non-vested	5,336
	25,449
Inactive:	
Non-vested	4,058
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,565
Retired	17,197
Total	48,269

Note 2 – Retirement Plan Description (Continued)

Funding Policies and Funded Status and Progress

The Plan's funding policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter 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, 2011, the annual required contribution to the Retirement Plan by the City was 18.09% of covered payroll, determined by the June 30, 2009 actuarial valuation. The actual contribution made by the City for fiscal year 2010-11 was equal to the rate as adopted by the Board of Administration, which is the recommended contribution rate set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27.

Prior to the ERIP, there were two different types of contributions from Members. Members who entered the System prior to February 1983 (Defrayal Group) contributed from 8.22% to 13.33% of their salaries based upon their ages when they entered the System; however, these contributions were subsidized by the City under a collective bargaining agreement (see Note 6 – Defrayal Portion of Member Contributions-Retirement Plan). Members entering the System subsequent to January 1983 contributed a flat rate of 6%. Starting November 8, 2009, as ERIP Ordinance became effective, all Members of the System contributed a flat rate of 6% of pay regardless of their entry date. ERIP Ordinance also stipulates a 1% increase the Member contribution rate for all employees effective on July 1, 2011 for a period of 15 years, or until the ERIP Cost Obligation is fully paid, whichever comes first. Further, new Ordinances adopted by the City Council in 2011 provide that Members represented by certain bargaining groups are required to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, Members' contribution rates at the end of reporting period are either 6% or 8% of pay. Effective July 1, 2011, Members' contribution rates will be 7%, 9% or 11% of pay, depending upon the terms and conditions of specific Memoranda Of Understanding (MOU) to which a member is subject.

Members of the System have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, Members are eligible for future retirement benefits, which increase with length of service. If a Member, who is at least age 70 or 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, 2011, the most recent actuarial valuation date, the Plan was 72.4% funded. The actuarial accrued liability for benefits was $13,391,704,000 and the actuarial value of assets was $9,691,011,000, resulting in an unfunded actuarial accrued liability (UAAL) of $3,700,693,000. The covered payroll as of June 30, 2011 valuation was $1,833,392,000. The ratio of UAAL to the covered payroll was 201.9%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation, and investment returns. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 40 following the notes to financial statements, provides 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 of each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and significant assumptions used in the valuation year of June 30, 2011 are summarized in this note to conform to the disclosure requirements for GASB Statement No. 50.

Note 2 – Retirement Plan Description (Continued)

Funding Policies and Funded Status and Progress (Continued)

Valuation Date	June 30, 2011
Actuarial-Cost Method	Projected Unit Credit Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption or method changes resulting from triennial experience study are amortized over 30 years. 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. Plan changes, including the liability change due to 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over 5 years. Actuarial surplus is 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 7 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 7 year period. The result of such smoothing process shall fall between 60% - 140% of Market Value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Includes Inflation at	3.50%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increases	Ranges from 11.25% to 6.50% for Members with less than 5 years of service. Ranges from 6.50% to 4.65% for Members with 5 or more years of service.
Cost of Living Adjustments	3.00%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward 5 years for males and set forward 6 years for females.
Percent Married / Domestic Partner	76% of male participants; 50% of female participants are assumed to be married.
Spouse Age Difference	Female spouses are 3 years younger than their spouses.

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

During this fiscal year, the City adopted an Ordinance to freeze the maximum medical subsidy at the current year level of $1,190 for those members who retire on or after July 1, 2011. However, Members who at any time prior to retirement contribute the additional 2% or 4% of pay pursuant to the Ordinances mentioned in Note 2 are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party Non-Medicare Part A and Part B premium. As of June 30, 2011, approximately 63% of non-retired members were making the additional contributions, and therefore not subject to the medical subsidy freeze.

Funding Policies and Funded Status and Progress

The Plan's funding policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter 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. The required contribution rate for the Postemployment Healthcare Plan for the fiscal year ended June 30, 2011, was 6.4% of covered payroll, determined by the June 30, 2009 actuarial valuation. As of June 30, 2011, the most recent actuarial valuation date, the Plan was 78.6% funded. The actuarial accrued liability for benefits was $1,968,708,000 and the actuarial value of assets was $1,546,884,000, resulting in an unfunded actuarial accrued liability (UAAL) of $421,824,000. The covered payroll as of the June 30, 2011 valuation was $1,833,392,000. The ratio of UAAL to the covered payroll was 23.0%.

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. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 42 following the notes to financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time 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 7-year smoothing of assets and amortization of UAAL over 15 or 30 years, that are designed to reduce the effects of short-term volatility in funding, consistent with the long-term perspective of the calculations.

Note 3 – Postemployment Healthcare Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2011
Actuarial-Cost Method	Projected Unit Credit Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption or method changes resulting from triennial experience study are amortized over 30 years, except that health cost trend and premium assumption changes are amortized over 15 years. The unfunded layers on June 30, 2005 were combined and amortized over 30 years. Plan changes, including the liability change due to 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over 5 years. Actuarial surplus is 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 7 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 7 year period. The result of such smoothing process shall fall between 60% - 140% of Market Value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward 5 years for males and set forward 6 years for females.
Marital Status	60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.
Surviving Spouse Coverage	With regard to Members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.
Participation	50% of inactive Members are assumed to receive a subsidy for a City approved health carrier. 100% of retirees becoming eligible for Medicare is assumed to be covered by both Parts A and B.

Note 3 – Postemployment Healthcare Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Healthcare Cost Trend Rates

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

Medical Premium Trend Rates to be applied to Fiscal Year 2011-2012 and later years are:

First Fiscal Year (July 1, 2011 through June 30, 2012)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	4.33%	5.38%
Blue Cross HMO	6.81%	N/A
Blue Cross PPO	3.98%	-3.11%
UnitedHealthcare (formerly Secure Horizons)	N/A	8.01%

Fiscal Year 2012 - 2013 and later	
Fiscal Year	Trend (Approx)
2012 - 2013	8.75%
2013 - 2014	8.25%
2014 - 2015	7.75%
2015 - 2016	7.25%
2016 - 2017	6.75%
2017 - 2018	6.25%
2018 - 2019	5.75%
2019 - 2020	5.25%
2020 and later	5.00%

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

Medicare Part B Premium Trend from 2011-12 to 2012-13 is 4.33%, and 5.00% assumed for all following years.

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 a given year, and (2) the payment to amortize the unfunded actuarial accrued liability (UAAL) which is the difference between LACERS actuarial liabilities and actuarial assets.

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

The contributions to the System for the year ended June 30, 2011, in the amount of $528,864,000 ($421,468,000 for the Retirement Plan and $107,396,000 for the Postemployment Healthcare Plan), were made in accordance with actuarially-determined requirements computed by the actuarial valuation dated June 30, 2009.

Contributions to the System consisted of the following for the year ended June 30, 2011 (in thousands):

	Retirement Plan	Postemployment Healthcare Plan
City Contributions:		
Required Contribution	$ 303,561	$ 107,396
Defrayal Portion of Member Contributions	2,982	-
Family Death Benefit Insurance Plan	194	-
Total City Contributions	306,737	107,396
Member Contributions	114,731	-
Total Contributions	$ 421,468	$ 107,396

The City contributions made for the Retirement Plan under the Required Contribution category in the amount of $303,561,000 were equal to 100% of the Annual Required Contributions (ARC) of the employer as defined by GASB Statements No. 25 and No. 27. The City contributions made for the Postemployment Healthcare Plan, in the amount of $107,396,000, represents 100% of the ARC as defined by GASB No. 43 and No. 45. Member contributions in the amount of $114,731,000 were made toward the Retirement Plan and voluntary Family Death Benefit Insurance Plan.

Note 5 – Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 40 through 41 for the Retirement Plan and pages 42 through 43 for the Postemployment Healthcare Plan.

Note 6 – Defrayal Portion of Member Contributions-Retirement Plan

For Members who entered the System prior to February 1983 (Defrayal Group), the City subsidized a portion of Member contributions. Payments made by the City based on the subsidy are not refundable to Members upon their withdrawal from the System prior to retirement.

As all Members of the System, including the Defrayal Group, contributed 6% starting November 8, 2009 and a large number of members in the Defrayal Group retired during ERIP election of last fiscal year, the subsidized amount to the Defrayal Group by the City for the current fiscal year decreased to $2,982,000, which is approximately 0.97% of total City contributions paid to the Retirement Plan for the year ended June 30, 2011. The City's subsidy will be discontinued after June 30, 2011.

Note 7 – Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of the System's funds, and should discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent 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.

Note 7 – Cash and Short-Term Investments and Investments (Continued)

The System considers investments with maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2011, on the Retirement Plan and Postemployment Healthcare Plan, included approximately $1,013,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $608,884,000 for a total of $609,897,000. 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, 2011, short-term investments included collective STIF of $211,452,000, international STIF of $286,559,000 and future initial margin of $110,873,000.

The fair value of derivative instruments, including equity index and interest rate future contracts, currency forward contracts, and rights and warrants, are recorded in the Statement of Plan Net Assets with a net value of $501,000 and reported as a (current) Asset. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Plan Net Assets as Investment Income (Loss). The System enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all the System's derivatives for the current and previous fiscal years are classified as investment derivatives.

The notional amount and the fair value of derivative instruments as of June 30, 2011 are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Equity Index	$ 12,673	$ 144	$ 236
Interest Rate	(58,048)	149	149
Currency Forward			
Contracts	51,703	59	85
Right / Warrants	N/A	149	56
Total Value		$ 501	$ 526

Credit Risk - Investments

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2011 are as follows (dollars in thousands):

S & P Ratings	Fair Value	Percentage
AAA *	$ 516,401	27.07 %
AA	40,132	2.10
A	336,986	17.66
BBB	480,318	25.18
BB	172,963	9.07
B	96,020	5.03
CCC	31,383	1.64
CC	2,390	0.13
C	1,011	0.05
D	8,574	0.45
Not Rated	221,744	11.62
	1,907,922	100.00 %
U.S. Government Guaranteed Securities **	570,578	
Total Fixed Income Securities	$ 2,478,500	

* Includes FNMA and FHLMC of $419,415 in total which were downgraded to AA+ by S&P in August 2011.

** Includes U.S. Government Bonds and Notes and GNMA Mortgage-Backed Securities which had the AAA rating. However, these securities were downgraded to AA+ by S&P in August 2011.

Credit Risk - Derivatives

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

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

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Credit Risk – Derivatives (Continued)

policy with respect to netting arrangements or collateral requirements. However, these individual investment managers have set up the arrangements with the counterparties to net off the positive and negative contracts with the same counterparty in case of the counterparty's default.

As of June 30, 2011, without respect to netting arrangements, the System's maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is as follows (in thousands):

S & P Ratings	Amount
AA-	$ 36
A+	457
Total Credit Risk	$ 493

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, 2011, the System has exposure to such risk in the amount of $27,686,000, or 1.08% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 13 different investment managers, and held outside of the System's custodial bank. The System's policy requires each individual publicly traded equities investment managers to hold no more than 10% of their portfolios in the form of cash. The System is in compliance with the policy.

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

Concentration of Credit Risk

The investment portfolio as of June 30, 2011 contained no concentration of investments in any one entity that represented 5 percent or more of the total investment portfolio.

Interest Rate Risk

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

Investment Type	Amount	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 33,155	1.15
Commercial Mortgage-Backed Securities	91,756	4.47
Corporate Bonds	1,060,082	5.99
Government Agencies	51,417	2.91
Government Bonds	561,813	3.07
Government Mortgage-Backed Securities	434,311	2.73
Index Linked Government Bonds	57,276	2.58
Municipal/Provincial Bonds	10,785	5.25
Non-Government Backed C.M.O.s	30,775	3.76
Opportunistic Debt *	146,982	2.72
Derivative Instruments	148	4.30
Total Fixed Income Securities	$ 2,478,500	

* Due to the lack of sufficient data for several securities in this category to report Weighted Average Effective Duration, the Modified Duration was reported instead for those securities.

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Highly Sensitive Investments

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

Investment Type	Amount
Asset Backed Securities	$ 33,155
Commercial Mortgage-Backed Securities	91,756
Government Agencies	51,417
Government Mortgage-Backed Securities	434,311
Non-Government Backed C.M.O.s	30,775
Total Asset-Backed Investments	$ 641,414

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 are permitted primarily to reduce the foreign currency risk.

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Foreign Currency Risk (Continued)

The System's non-U.S. currency investment holdings as of June 30, 2011, which represents 18.9% of fair value of total investments, are as follows (in thousands):

Foreign Currency Type	Cash and Adjustments to Cash	Equity	Fixed Income	Derivatives Instruments	Other Investments	Total Fair Value in USD
Argentine peso	$ 65	$ -	$ -	$ -	$ -	$ 65
Australian dollar	3,098	133,299	5,635	14	-	142,046
Brazilian real	449	18,390	3	1	-	18,843
British pound sterling	(2,064)	299,722	-	407	21,343	319,408
Canadian dollar	8,436	71,763	13,533	9	-	93,741
Columbian peso	-	665	-	-	-	665
Czech koruna	11	435	-	-	-	446
Danish krone	(166)	16,621	-	-	-	16,455
Egyptian pound	27	925	-	-	-	952
Euro	5,172	514,561	-	(324)	106,368	625,777
Hong Kong dollar	1,935	142,220	-	14	-	144,169
Hungarian forint	6	1,379	-	-	-	1,385
Indian rupee	879	30,839	-	-	-	31,718
Indonesian rupiah	(158)	13,294	-	-	-	13,136
Japanese yen	584	304,373	-	93	35,971	341,021
Malaysian ringgit	139	4,988	-	-	-	5,127
Mexican peso	298	4,377	12,178	-	-	16,853
New Israeli shekel	1,036	3,821	-	-	-	4,857
New Taiwan dollar	1,517	46,053	-	-	-	47,570
New Zealand dollar	10	962	-	-	-	972
Norwegian krone	1,226	18,716	2,458	-	-	22,400
Philippine peso	229	16,770	-	-	-	16,999
Polish zloty	(104)	3,446	-	-	-	3,342
Singapore dollar	685	35,499	-	-	-	36,184
South African rand	385	27,619	-	-	-	28,004
South Korean won	1,076	82,350	-	-	-	83,426
Swedish krona	2,661	33,122	-	-	-	35,783
Swiss franc	2,174	106,125	-	11	-	108,310
Thai baht	(55)	25,426	-	121	-	25,492
Turkish lira	93	4,981	-	-	-	5,074
United Arab Emirates dirham	43	1,307	-	-	-	1,350
Total Investments Held in Foreign Currency	$ 29,687	$ 1,964,048	$ 33,807	$ 346	$ 163,682	$ 2,191,570

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, 2011, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceed the amounts the borrowers owed the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent. Due to the nature of the securities lending program and Northern Trust's collateralization of loans at 102% and 105% plus accrued interest for fixed income securities, it was previously believed that there were no material credit risks to the System as defined in GASB Statement No. 28 and GASB Statement No. 40 by our participation in the securities lending program.

For this current fiscal year, the System recognized a realized loss related to the security lending in the amount of $95,663,000, which is included in the "Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales" on page 25. The amount represents the System's payment to the custodian on July 7, 2011 to cover the collateral deficiency resulting from impairment of securities purchased with the cash collateral, pursuant to contract requirements. The collateral deficiency originated in fiscal year 2008-09, but the amount was not measurable with certainty until this fiscal year.

To reduce reinvestment risk exposures, the System has approved a securities lending policy and strengthened existing securities lending guidelines to incorporate the use of only the highest quality securities.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in a collateral account consisting of short and intermediate term investments. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

The following tables represent the balances of collateral received and loaned securities as of June 30, 2011 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2011:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 361,531	$ 6,000	$ 367,531
Domestic Corporate Fixed Income Securities	151,099	-	151,099
International Fixed Income Securities	9,764	96,401	106,165
Domestic Stocks	625,059	10,410	635,469
International Stocks	82,126	239,181	321,307
	$1,229,579	$ 351,992	$1,581,571

Note 8 – Securities Lending Agreement (Continued)

Fair value of loaned securities as of June 30, 2011:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 354,237	$ 5,875	$ 360,112
Domestic Corporate Fixed Income Securities	148,209	-	148,209
International Fixed Income Securities	9,158	91,542	100,700
Domestic Stocks	613,472	10,235	623,707
International Stocks	78,346	220,553	298,899
	$ 1,203,422	$ 328,205	$ 1,531,627

As of June 30, 2011, the fair value of the lent securities was $1,531,627,000. The fair value of associated collateral was $1,581,571,000. Of this amount, $1,229,579,000 represents the fair value of cash collateral and $351,992,000 represents the fair value of the non-cash collateral. Non-cash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were $4,737,000 and $634,000, respectively, for the year ended June 30, 2011.

Note 9 – Futures and Forward Contracts

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures and forward contracts are marked to market and are recorded in the Statement of Plan Net 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 (Refer to Note 7 – Credit Risk-Derivatives).

At June 30, 2011, the System had outstanding equity index future contracts with an aggregate notional amount of $12,673,000, and interest rate future contracts with a negative notional amount of $58,048,000 due to short position. In addition, at June 30, 2011, the System had outstanding forward purchase commitments with a notional amount of $51,703,000 and offsetting forward sales commitments with notional amounts of $51,703,000, which expire through September 2011. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $110,873,000 as of June 30, 2011.

Note 10 – Commitments and Contingencies

At June 30, 2011, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $679,468,000.

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

Required Supplementary Information
Retirement Plan
(Dollars in Thousands)

Schedule of Funding Progress

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, 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
June 30, 2008	9,438,318	11,186,404	1,748,086	84.4	1,977,645	88.4
June 30, 2009*	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
June 30, 2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
June 30, 2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	$ 227,741	100 %
2007	277,517	100
2008	288,119	100
2009	274,555	100
2010	258,643	100
2011	303,561	100

Note 1 – Description

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

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

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

Certain members are required to make additional contributions pursuant to various Memoranda of Understanding and City Ordinances adopted by the City Council in 2011, as mentioned in Note 2. Actuarially, Member contributions substitute for City contributions with a slight discount to compensate for the refundability of Member contributions.

Due to asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2011, there is a combined unrecognized investment loss in the amount of $587,038,000. The amount is significantly smaller than that of the previous year, which was $2,018,219,000. The deferred loss 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 7.75% per year (net of expenses) on a market value basis will result in investment losses in the next few years in terms of the actuarial value of assets. Therefore, the contribution requirements would increase in the next few years even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

Required Supplementary Information
Postemployment Healthcare Plan
(Dollars in Thousands)

Schedule of Funding Progress

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, 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
June 30, 2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
June 30, 2009*	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
June 30, 2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
June 30, 2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	$ 76,116	100 %
2007	115,233	100
2008	108,848	100
2009	95,122	100
2010	96,511	100
2011	107,396	100

Note 1 – Description

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

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

On October 11, 2011, the Board adopted annual health benefits-related assumptions for the June 30, 2011 actuarial valuation, which include a retiree health subsidy freeze for non-retired members not making the 2% or 4% additional contributions as mentioned in Note 2 on page 28 – Retirement Plan Description and Note 3 on page 30 – Postemployment Healthcare Plan Description. The subsidy freeze reduces the actuarial liability of the Postemployment Healthcare benefits as well as the employer contributions. As of June 30, 2011, 37% of the non-retired members are subject to the subsidy freeze.

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

Due to asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2011, there is a combined unrecognized investment loss in the amount of $587,038,000. The amount is significantly smaller than that of the previous year, which was $2,018,219,000. The deferred loss 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 7.75% per year (net of expenses) on a market value basis will result in investment losses in the next few years in terms of the actuarial value of assets. Therefore, the contribution requirements would increase in the next few years even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

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SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Year Ended June 30, 2011
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Total
Personnel Services:			
Staff Salaries	$ 8,639	$ 1,567	$ 10,206
Staff Benefits	1,272	232	1,504
Total Personnel Services	9,911	1,799	11,710
Professional Services:			
Actuarial	106	19	125
Data Processing	652	118	770
Audit	89	16	105
Retirees' Health Consulting	-	386	386
Legal Counsel	557	101	658
Medical for Temporary Disability	89	16	105
Total Professional Services	1,493	656	2,149
Communication:			
Printing	71	13	84
Telephone	15	3	18
Postage	89	16	105
Member Outreach Program	1	-	1
Travel	69	13	82
Total Communication	245	45	290
Rentals:			
Office Space	1,091	197	1,288
Equipment Leasing	42	8	50
Total Rentals	1,133	205	1,338
Miscellaneous:			
Office	318	57	375
Depreciation	132	24	156
Total Miscellaneous	450	81	531
Total Administrative Expenses	$ 13,232	$ 2,786	$ 16,018

Schedule of Investment Expenses
For the Year Ended June 30, 2011
(In Thousands)

	Assets Under Management	Fees
Retirement Plan		
Investment Management Expense:		
Fixed Income Managers	$ 2,138,631	$ 6,033
Equity Managers	5,372,193	14,653
Subtotal Investment Management Expense	7,510,824	20,686
Other Investment Expense:		
Alternative Investments Consulting Fee	-	882
Real Estate and Other Consulting Fee	-	497
Subtotal Other Investment Expense	-	1,379
Postemployment Healthcare Plan		
Investment Management Expense:		
Fixed Income Managers	339,869	1,094
Equity Managers	853,746	2,657
Subtotal Investment Management Expense	1,193,615	3,751
Other Investment Expense:		
Alternative Investments Consulting Fee	-	160
Real Estate and Other Consulting Fee	-	90
Subtotal Other Investment Expense	-	250
Total Investment Management Expense and Other Investment Expense, Excluding Alternative Investments, Real Estate and Securities Lending	$ 8,704,439	$ 26,066
Alternative Investments Managers' Fees:		
Retirement Plan	$ 932,191	$ 16,947
Postemployment Healthcare Plan	148,143	3,073
Total Alternative Investments Managers' Fees	$ 1,080,334	$ 20,020
Real Estate Managers' Fees:		
Retirement Plan	$ 499,776	$ 7,950
Postemployment Healthcare Plan	79,424	1,442
Total Real Estate Managers' Fees	$ 579,200	$ 9,392
Security Lending Fees:		
Retirement Plan	$ 1,060,970	$ 537
Postemployment Healthcare Plan	168,609	97
Total Security Lending Fees	$ 1,229,579	$ 634

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INVESTMENT

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

360 E. Second Street, 2nd Floor
Los Angeles, CA 90012
(800) 779-8328
TDD (888) 349-3996
www.lacers.org

Report on Investment Activity

December 30, 2011

Board of Administration
Los Angeles City Employees' Retirement System
360 E. Second Street, 2nd Floor
Los Angeles, CA 90012-4207

Dear Members of the Board:

Presented below is a summary report of the Fund's investment activities for the fiscal year 2010-2011.

Market Overview

During fiscal year 2010-2011, financial markets continued a rally that began in March 2009, proving to be resilient to various global economic and political concerns. In the U.S., investor optimism was fueled by signs of an improving economy, strong corporate earnings, and buoyant liquidity resulting from a second round of quantitative easing by the Fed. Non-U.S. markets, in general, also benefited from favorable market sentiment and investors' increased appetite for risk assets. However, throughout the fiscal year, the markets were challenged by a European debt crisis, nuclear fears from an earthquake-driven Tsunami in Japan, concerns over inflation and slowing growth rates in China and other emerging markets, and political uprisings in the Middle East, creating significant volatility in global markets.

In the last quarter of the fiscal year, the bull market run lost momentum as concerns over the sustainability of a global economic recovery resurfaced and a flight-to-safety to high quality assets ensued once again. Despite this, all asset classes delivered positive returns for the LACERS investment portfolio for the fiscal year ended 2011.

Investment Performance

Traditional Programs

LACERS total portfolio was valued at $10.8 billion on June 30, 2011, an increase of $1.8 billion from the prior fiscal year end. The total portfolio posted a double-digit annualized gross return, driven by double-digit gains for four out of five asset classes. For the fiscal year, the total fund earned 22.6%. Individual asset class net returns were: U.S. equity, 33.6%; non-U.S. equity, 29.4%; fixed income, 7.3%; alternative investments, 21.3%; and real estate, 12.7%.

The total portfolio underperformed its policy benchmark by 70 basis points for the fiscal year, primarily due to underperformance of three out of five asset classes relative to their respective benchmarks. U.S. publicly traded equity and fixed income investments over the past year outperformed their benchmarks by 120 and 250 basis points, respectively. Non-U.S. publicly traded equity, real estate and alternative investments returns lagged their benchmarks by 30, 330, and 1510 basis points, respectively, for the year.

In comparison to other public funds with a market value greater than $1 billion in the TUCS (Trust Universe Comparison Service), LACERS ranked in the 32nd percentile for the one-year period ending June 30, 2011.

Special Programs

For the fiscal year, three out of four investment managers in the corporate governance program underperformed their respective benchmarks. The program consists of concentrated portfolios, whose returns are event driven. As such, wide tracking error is expected from the investment managers in this program.

Two out of three of the emerging manager equity fund of funds programs outperformed their respective benchmarks for the fiscal year. Also, all four investment managers in the opportunistic fixed income program outperformed their respective benchmarks for the period.

The Investment Results table shown on page 53 displays a summary of time-weighted rates of return based on fair value of assets by asset classes and total fund.

Policies, Procedures and Guidelines

During the fiscal year, the Board of Administration adopted revised securities lending and proxy voting policies.

Contract Renewals and New Hires

During the fiscal year 2010-2011, contracts with twelve managers of publicly traded securities were renewed as shown in the table on page 54. Seven were domestic equity managers, one was a fund of funds manager of emerging managers, two were fixed income managers and two were non-U.S. equity managers.

Private Investments

LACERS approved six private equity and venture capital partnerships totaling $110 million of committed capital, four real estate partnerships totaling $75 million of committed capital, and one opportunistic fixed income partnership totaling $50 million of committed capital, as shown in the table on page 54.

Investment Consulting Services

As summarized in the table on page 54, the Board approved: 1) a three-year contract with a new LACERS general pension fund consultant; 2) a one-year contract for a LACERS headquarters facility separate account manager and; 3) a contract amendment for the traditional Alternative Investments consultant to provide services for the specialized, non-traditional alternative investments portfolio.

Acknowledgements

For this reporting period through April 8, 2011, Wayne Ige was the Acting Chief Investment Officer of LACERS. He is now retired. We thank Wayne for his years of dedicated service to LACERS.

Respectfully submitted,

Sara Mason Griggs
Chief Investment Officer

Outline of Investment Policies
Fiscal Year 2010-2011

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

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

Investment Results

Annualized asset class investment returns compared to policy benchmarks:

	Annualized * (gross of fees)		
Asset Class / Benchmark	**1 Yr. (%)**	**3 Yrs. (%)**	**5 Yrs. (%)**
U.S. Equity	**33.6**	**4.7**	**3.4**
Russell 3000	32.4	4.0	3.4
Non-U.S. Equity	**29.4**	**1.0**	**4.0**
LACERS MS ACWI ex U.S. Index**	29.7	-0.3	3.7
Fixed Income	**7.3**	**9.0**	**7.7**
BC US Universal**	4.8	6.7	6.6
Alternative Investment	**21.3**	**4.4**	**10.9**
Russell 3000 plus 400 bps	36.4	8.0	7.4
Real Estate	**12.7**	**-16.8**	**-6.1**
NCREIF Property Index	16.0	-3.6	3.5
LACERS Total Fund	**22.6**	**3.7**	**4.7**
LACERS Policy Benchmark	23.3	3.9	4.7

* Time-weighted rate of return based on fair value of assets by asset classes and total fund.

** Both the LACERS MS ACWI ex U.S. and BC US Universal indices are historically blended with other indices.

Public, Private Equity & Real Estate Investment Contract Activity

Contracts with managers of publicly traded securities renewed:

Firms	Mandate
Alliance Bernstein	U.S. Equity Active Large Cap Growth
Aronson Johnson Ortiz	U.S. Equity Active Large Cap Value
Blackrock Institutional Trust Company	U.S. Equity Passive Russell 1000 Value
Daiwa SB Investments	Non-U.S. Equity Active Pacific Basin
Franklin Global Advisers	U.S. Equity Active Small Cap Growth
LM Capital Group	Fixed Income Active Core Plus
Progress Investment Management	U.S. Equity Active Fund-of-Funds of Emerging Managers
Rhumbline Advisors	U.S. Equity Passive S&P 500 Index
Robert W. Baird & Co., Inc.	Fixed Income Active Intermediate Duration
Sit Investment Associates	U.S. Equity Active Small Cap Growth
State Street Global Advisors	Non-U.S. Equity Passive MSCI World ex-U.S. Index
Thompson, Horstmann & Bryant	U.S. Equity Active Small Cap Value

New alternative investment and real estate partnerships:

Investment Managers	Mandate
BC European Capital IX, L.P.	Alternative Investment - Buyout
EnCap Energy Capital Fund VIII, L.P.	Alternative Investment - Buyout
Energy Capital Partners II, L.P.	Alternative Investment - Buyout
Khosla Ventures IV L.P.	Alternative Investment - Venture Capital
Providence TMT Special Situation Fund II	Alternative Investment - Special Situation
Spark Capital III, L.P.	Alternative Investment - Venture Capital
Bristol Value Fund II, L.P.	Real Estate - Value Add
DRA Growth and Income Fund VII, LLC	Real Estate - Value Add
Lone Star Fund Real Estate Fund II, L.P.	Real Estate - Opportunistic
Lone Star Fund VII, L.P.	Real Estate - Opportunistic

New opportunistic fixed income partnership:

Investment Consultants	Type of Service
Highbridge Principal Strategies Senior Loan Fund II, L.P.	Senior Secured Loan Origination

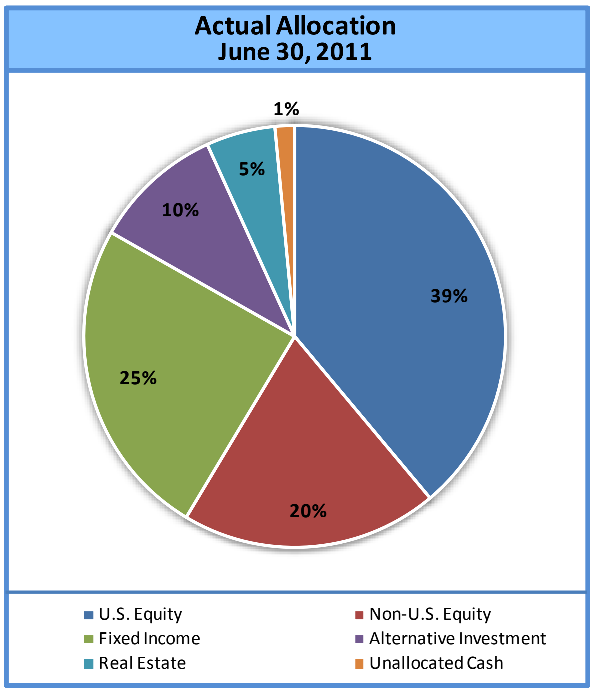
Contracts with investment consultants awarded/renewed:

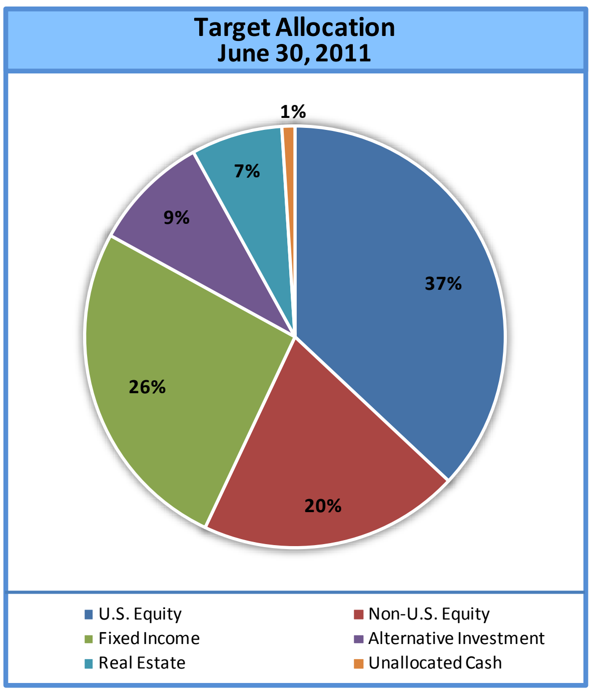
Investment Consultant	Type of Service
CB Richard Ellis Investors	Headquarters Facility Separate Account Management
Hamilton Lane	Traditional Alternative Investments Consultant and Specialized, Non-Traditional Alternative Investments Consultant
Wilshire Associates	General Fund Consultant

Asset Allocation
As of June 30, 2011

	Actual
U.S. Equity	38.9%
Non-U.S. Equity	19.7
Fixed Income	24.6
Alternative Investment	10.0
Real Estate	5.3
Unallocated Cash	1.5
Total	100.0%

	Target
U.S. Equity	37.0%
Non-U.S. Equity	20.0
Fixed Income	26.0
Alternative Investment	9.0
Real Estate	7.0
Unallocated Cash	1.0
Total	100.0%





List of Largest Assets Held by Market Value

Displayed below are the ten largest holdings in each asset class along with their market and share/par values as of June 30, 2011. A complete listing of the System's holdings is available on www.LACERS.org.

Largest U.S. Equity Holdings

	Shares	Asset Description	Market Value (in US$)
1.	172,586	Apple Inc.	$ 57,931,943
2.	1,156,300	JPMorgan Chase & Co.	47,338,922
3.	62,009	Google Inc.	31,400,117
4.	292,926	Chevron Corp.	30,124,510
5.	364,140	Exxon Mobil Corp.	29,633,713
6.	334,553	Schlumberger Ltd.	28,905,379
7.	837,016	Oracle Corp.	27,546,197
8.	355,850	Procter & Gamble	22,621,385
9.	792,048	Wells Fargo & Co.	22,224,867
10.	299,846	United Parcel Svc Inc.	21,867,769
		Total	$ 319,594,802

Largest Non-U.S. Equity Holdings

	Shares	Asset Description	Market Value (in US$)
1.	603,991	BHP Billiton Ltd.	$ 28,322,514
2.	329,935	Novartis AG	20,180,110
3.	250,881	Bayer AG	20,165,736
4.	437,780	Toyota Motor Corp.	17,888,484
5.	902,848	UBS AG	16,437,838
6.	5,985,657	Vodafone Group	15,884,790
7.	88,381	Roche Hldgs AG	14,768,654
8.	654,594	Xstrata Plc.	14,413,340
9.	103,375	Siemens AG	14,193,470
10.	183,370	BNP Paribas	14,151,675
		Total	$ 176,406,611

List of Largest Assets Held by Market Value

Largest U.S. Fixed Income Holdings

	Par Value	Asset Description	Market Value (in US$)
1.	$72,325,000	United States Treas Nts .625% Due 04-30-2013	$ 72,584,647
2.	69,420,000	United States Treas Nts 1.125% Due 12-15-2011	69,739,957
3.	63,205,000	United States Treas Nts T-Nt 1.875% Due 06-15-2012	64,195,043
4.	57,415,000	FHLMC Gold Single Family 4% 30 Yrs Settles July	57,361,145
5.	38,750,000	United States Treas Nts Index Linked 2.375% Due 01-15-2017	49,289,311
6.	45,915,000	FNMA Single Family Mortgage 4.5% 30 Yrs Settles July	47,500,491
7.	39,220,000	FNMA 30 Year Pass-Thrus 5.5% 30 Years Settles July	42,406,625
8.	37,080,000	United States Treas Nts Dtd 00032 4.25% Due 08-15-2013	40,023,225
9.	26,970,000	United States Treas Nts Dtd 00084 4% Due 02-15-2015	29,726,010
10.	26,390,000	United States Treas Nts Dtd 00049 4% Due 02-15-2014	28,666,138
		Total	$ 501,492,592

Largest Non-U.S. Fixed Income Holdings

	Par Value (in local currency)	Asset Description	Market Value (in US$)
1.	1,330,000	Mexico (Utd Mex St) 8% Bds 12-17-2015	$ 12,178,172
2.	8,215,000	Arcelormittal Sa 6.125% Due 06-01-2018	8,798,906
3.	7,120,000	Encana Corp 6.5% Due 08-15-2034	7,543,875
4.	7,350,000	BP Cap Mkts PLC 4.5% Due 10-01-2020	7,495,486
5.	6,290,000	Transalta Corp 6.5% Due 03-15-2040	6,550,343
6.	5,750,000	Amer Movil Sab De 5% Due 03-30-2020	5,998,394
7.	5,000,000	Pvtpl Hynix Semiconductor 7.875% Due 06-27-2017/06-27-2012	5,275,000
8.	5,075,000	Capital One Multi-Asset Execution Nt Cl A Var Rate 09-15-2015	5,070,042
9.	5,000,000	Pvtpl Banco Santander Chile Sr Nt 144a 3.75% Due 09-22-2015	5,037,500
10.	5,040,000	Pvtpl Kia Mtrs Corp Sr Nt 144a 3.625% Due 06-14-2016	4,985,548
		Total	$ 68,933,266

Schedules of Fees and Commissions

Schedule of Fees

(In Thousands)

	2011 Assets Under Management	Fees	2010 Assets Under Management	Fees
Investment Manager Fees:				
Fixed Income Managers	$ 2,478,500	$ 7,127	$ 2,383,040	$ 6,342
Equity Managers	6,225,939	17,310	4,958,268	15,354
Real Estate Managers	579,200	9,392	459,720	10,750
Alternative Investment Managers	1,080,334	20,020	951,433	20,098
Total	$ 10,363,973	$ 53,849	$ 8,752,461	$ 52,544
Security Lending Fees	$ 1,229,579	$ 634	$ 987,637	$ 629
Alternative, Real Estate & Other Investment Consulting Fees	N/A	1,629	N/A	1,662
Total	$ 1,229,579	$ 2,263	$ 987,637	$ 2,291

Schedule of Top Ten Brokerage Commissions

	Broker	Shares	Commission	$/Share
1.	Deutsche Bank Securities Inc	22,437,797	$ 167,159	$ 0.007
2.	Investment Technology Group Inc	6,212,925	128,684	0.021
3.	Merrill Lynch Fenner & Smith Inc	30,076,434	125,946	0.004
4.	Citigroup Global Ltd Broker	21,516,460	124,111	0.006
5.	Macquarie Securities Ltd, Hong Kong	35,452,601	112,777	0.003
6.	UBS Warburg LLC	3,458,733	112,533	0.033
7.	UBS Securities Asia	23,221,382	109,793	0.005
8.	Citigroup Global Markets Inc/Smith Barney	3,755,041	109,062	0.029
9.	Goldman Sachs & Company	2,848,301	106,985	0.038
10.	Citigroup Global Markets Inc	37,036,874	105,513	0.003
	Total	186,016,548	1,202,563	0.006
	Total - Other Brokers	519,044,956	5,060,183	0.010
	Grand Total*	705,061,504	$ 6,262,746	$ 0.009

* OTC Brokers excluded because there is no stated commission.

LACERS has commission recapture arrangements with brokerage firms. For the current fiscal year, LACERS recaptured a total of $28,602 commission credit from Fidelity and Citigroup, of which none of the amount was directed to pay for any investment expenses.

Investment Summary
As of June 30, 2011

Type of investment	Market Value	% of Total Market Value	Domestic Market Value	Foreign Market Value
Fixed Income				
Government bonds	$ 619,088,489	5.34%	$ 584,172,804	$ 34,915,685
Government agencies	51,417,413	0.44	47,302,536	4,114,877
Municipal / provincial bonds	10,784,947	0.09	5,844,442	4,940,505
Corporate bonds	1,124,011,182	9.70	929,070,317	194,940,865
Commercial mortgage bonds	91,756,373	0.79	91,756,373	-
Government mortgage bonds	434,311,250	3.75	434,311,250	-
Opportunistic debt	146,982,424	1.27	146,982,424	-
Derivative instruments	148,383	0.00	148,383	-
Total Fixed Income	2,478,500,461	21.38	2,239,588,529	238,911,932
Equities				
Common stock				
Basic industries	611,595,642	5.28	363,660,732	247,934,910
Capital goods industries	393,375,532	3.39	142,719,029	250,656,503
Consumer & services	1,095,466,294	9.45	599,051,323	496,414,971
Energy	673,433,145	5.81	407,503,703	265,929,442
Financial services	890,286,202	7.68	421,077,988	469,208,214
Health care	440,869,094	3.80	329,889,995	110,979,099
Information technology	799,954,696	6.90	633,415,759	166,538,937
Miscellaneous (Common Fund Assets)	1,283,875,771	11.07	1,215,196,827	68,678,944
Total Common Stock	6,188,856,376	53.38	4,112,515,356	2,076,341,020
Preferred stock	36,545,232	0.32	-	36,545,232
Derivative instruments	351,925	0.00	-	351,925
Unit trust equity	185,091	0.00	-	185,091
Total Equities	6,225,938,624	53.70	4,112,515,356	2,113,423,268
Real Estate	579,200,057	5.00	527,177,227	52,022,830
Alternative Investments				
Acquisitions	636,007,146	5.48	605,703,161	30,303,985
Distressed debt	52,237,138	0.45	52,237,138	-
International acquisitions	94,779,355	0.82	22,830,881	71,948,474
Mezzanine	13,524,093	0.12	13,524,093	-
Venture capital	283,786,542	2.45	238,230,161	45,556,381
Total Alternative Investments	1,080,334,274	9.32	932,525,434	147,808,840
Security Lending Collateral	1,229,579,148	10.60	1,137,689,330	91,889,818
Total Fund*	**$ 11,593,552,564**	**100.00%**	**$ 8,949,495,876**	**$ 2,644,056,688**

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

Advisory/Consulting/Custody Services

Investment Advisors

U.S. Equity

AllianceBernstein
Aronson Johnson Ortiz
Attucks Asset Management
BlackRock Institutional Trust Company
Blum Capital Partners
Capital Prospects
Donald Smith & Co
Franklin Global Advisers
New Mountain Capital
PanAgora Asset Management
Progress Investment Management
Relational Investors
Rhumbline Advisors
Sit Investment Associates
Thomson Horstmann & Bryant

Non-U.S. Equity

Batterymarch Financial Management
Boston Company
Capital Guardian Trust Company
Daiwa SB Investments
Franklin Templeton
Knight Vinke Asset Management
Marvin & Palmer Associates
State Street Global Advisors
TT International

Fixed Income

Highbridge Principal Strategies
LM Capital Group
Loomis Sayles & Company
Neuberger Berman
Oaktree Capital Management
Quadrant Real Estate Advisors
Robert W. Baird & Co.
Torchlight Investors
Whippoorwill Associates

Cash & Short-Term

The Northern Trust Company

Real Estate

Apollo Global Real Estate
Bristol Group
Bryanston Realty Partners
Buchanan Street Partners
Canyon-Johnson Urban Funds
CB Richard Ellis
CIM Group
CityView
Colony Investors
Concert Realty Partners
DLJ Real Estate Capital Partners
DRA Advisors
Hancock Timber Resource Group
Heitman Value Partners
Hunt Realty Investments
Integrated Capital
Invesco Real Estate
JP Morgan
Koll-Bren (K/B) Realty Advisors
LaSalle Investment Management
Lone Star Funds
Lowe Hospitality
MacFarlane Partners
Mesa West Capital
Miller Global Properties
Pacific Coast Capital Partners
Paladin Realty Partners
Phoenix Realty Group
Prologis
Prudential Real Estate Investors
Realty Associates
RREEF
Stockbridge Real Estate
Tuckerman Group
UrbanAmerica
Urdang
Walton Street Real Estate
Westbrook Real Estate Partners

Investment Advisors (Continued)

Alternative Investments

Acon-Bastion Partners
Advent International
Alchemy Partners
American Securities
Angeleno Group
Apollo Management
Ares Management
Austin Ventures
Avenue Capital Group
BC Partners
Blackstone
Cardinal Partners
Carlyle Group
Carpenter & Company
CGW Southeast Partners
Charterhouse Capital Partners
CHS Capital
Chisholm Partners
Craton Equity Investors
CVC Capital Partners
DFJ Frontier
Element Partners
Energy Capital Partners
Encap Energy Capital
Enhanced Equity
Essex Woodland Health Ventures
First Reserve Corporation
GTCR
Halifax Capital
Hellman & Friedman Investors
HM Capital Partners
InterWest Partners
The Jordan Company
JH Whitney & Co.
Kelso & Company
Khosla Ventures
KKR
Leonard Green & Partners
Levine Leichtman Capital Partners
Lindsay Goldberg & Bessemer
Madison Dearborn Partners
Menlo Ventures
Nautic Partners
New Enterprises Associates
New Mountain Partners
Newbridge Asia
NGEN Partners
Nogales Investors
Nordic Capital
Oak Investment Partners
Oaktree Capital Management
Olympus Partners
Onex Partners
Palladium Equity Partners
Parish Capital
Permira
Pharos Capital Partners
Polaris Venture Partners
Providence Equity Partners
Reliant Equity Partners
Richland Ventures
Rustic Canyon/Fontis Partners
Saybrook Capital
Spark Capital
Spire Capital
St. Cloud Capital
StarVest Partners
Sterling Partners
TA Associates
Technology Crossover Ventures
TCW/Crescent Mezzanine
Texas Pacific Group
Thoma Cressey Bravo
Thomas H. Lee Partners
Trident Capital
VantagePoint Venture Partners
Vestar Capital Partners
Vicente Capital Partners
Vista Equity Partners
Welsh, Carson, Anderson & Stowe
Weston Presidio
Yucaipa American Alliance

Consultants

Courtland Partners
Hamilton Lane
Pension Consulting Alliance
Wilshire Associates

Custodian

The Northern Trust Company

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ACTUARIAL

Actuarial Valuation Summary

Summary of Significant Valuation Results

	June 30, 2011	June 30, 2010	Percent Change
I. Total Membership			
a. Active Members	25,449	26,245	(3.0) %
b. Pensioners and Beneficiaries	17,197	17,264	(0.4) %
II. Valuation Salary			
a. Total Annual Payroll	$1,833,392,381	$1,817,662,284	0.9 %
b. Average Monthly Salary	6,003	5,771	4.0 %
III. Benefits to Current Retirees and Beneficiaries(1)			
a. Total Annual Benefits	$656,547,204	$648,849,828	1.2 %
b. Average Monthly Benefit Amount	3,182	3,132	1.6 %
IV. Total System Assets(2)			
a. Actuarial Value	$11,280,641,736	$11,019,583,518	2.4 %
b. Market Value	10,693,603,976	9,001,364,526	18.8 %
V. Unfunded Actuarial Accrued Liability (UAAL)			
a. Retirement Benefits	$3,700,692,504	$3,040,997,708	21.7 %
b. Health Subsidy Benefits	421,823,917	808,148,415	(47.8) %

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

	FY 2012-2013(2)		FY 2011-2012		Change	
VI. Budget Items	Beginning of Year(1)	End of Pay Periods	Beginning of Year	End of Pay Periods	Beginning of Year	End of Pay Periods
Before Reflecting Additional Employee Contributions for Unfrozen Health Subsidies						
a. Retirement Benefits						
1. Normal Cost as a Percent of Pay	10.04%	10.42%	9.37%	9.74%	0.67%	0.68%
2. Amortization of UAAL	13.37%	13.89%	11.02%	11.45%	2.35%	2.44%
3. Total Retirement Contribution	23.41%	24.31%	20.39%	21.19%	3.02%	3.12%
b. Health Subsidy Contribution						
1. Normal Cost as a Percent of Pay	3.11%	3.23%	4.14%	4.30%	(1.03)%	(1.07)%
2. Amortization of UAAL	1.22%	1.26%	3.03%	3.15%	(1.81)%	(1.89)%
3. Total Health Subsidy Contribution	4.33%	4.49%	7.17%	7.45%	(2.84)%	(2.96)%
c. Total Contribution (a+b)	27.74%	28.80%	27.56%	28.64%	0.18%	0.16%
After Reflecting Additional Employee Contributions for Unfrozen Health Subsidies (Composite Rates)						
d. Retirement Benefits						
1. Normal Cost as a Percent of Pay	7.47%	7.75%	6.95%	7.22%	0.52%	0.53%
2. Amortization of UAAL	13.37%	13.89%	11.02%	11.45%	2.35%	2.44%
3. Total Retirement Contribution	20.84%	21.64%	17.97%	18.67%	2.87%	2.97%
e. Health Subsidy Contribution						
1. Normal Cost as a Percent of Pay	3.11%	3.23%	4.14%	4.30%	(1.03)%	(1.07)%
2. Amortization of UAAL	1.22%	1.26%	3.03%	3.15%	(1.81)%	(1.89)%
3. Total Health Subsidy Contribution	4.33%	4.49%	7.17%	7.45%	(2.84)%	(2.96)%
f. Total Contribution (d+e)	25.17%	26.13%	25.14%	26.12%	0.03%	0.01%

(1) Alternative contribution payment date for FY 2012-2013:

	Retirement	Health	Total
July 15, 2012 (before reflecting additional employee contributions)	23.49%	4.34%	27.83%
July 15, 2012 (after reflecting additional employee contributions)	20.91%	4.34%	25.25%

(2) Before adjustments to phase in over five years the impact of new actuarial assumptions (as a result of the June 30, 2011 triennial Experience Study) on the City's contribution rates. After the phase-in adjustments, the contribution rates payable on July 15, 2012 are 19.94% for retirement, 4.20% for health and 24.14% in total.

Summary of Significant Valuation Results (Continued)

	June 30, 2011	June 30, 2010	Change
VII. Funded Ratio			
(Based on Valuation Value of Assets)			
a. Retirement Benefits	72.4%	75.9%	(3.5)%
b. Health Subsidy Benefits	78.6%	63.8%	14.8%
c. Total	73.2%	74.0%	(0.8)%
(Based on Market Value of Assets)			
d. Retirement Benefits	68.6%	62.0%	6.6%
e. Health Subsidy Benefits	74.5%	52.1%	22.4%
f. Total	69.4%	60.5%	8.9%

Actuarial Certification

December 7, 2011

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, 2011, 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, 2010. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the historical funding methods used in determination of the liability for retirement benefits.

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

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

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 GASB

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

Andy Yeung

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

Member Valuation Data

Member Population: 2005 - 2011

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

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

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

Year Ended June 30	No. of New Retirees/ Beneficiaries	Annual Allowances Added[2]	No. of Retirees/ Beneficiaries Removed	Annual Allowances Removed	No. of Retirees/ Beneficiaries at 6/30	Annual Allowances at 6/30	Percent Increase in Annual Allowances	Average Annual Allowance
2005	934	$ 43,454,836	749	$ 14,769,736	14,322	$427,953,132	7.2%	$ 29,881
2006	890	42,821,079	642	15,061,287	14,570	455,712,924	6.5%	31,277
2007	821	34,131,744	555	13,210,740	14,836	476,633,928	4.6%	32,127
2008	748	40,680,279	609	14,956,623	14,975	502,357,584	5.4%	33,546
2009	632	36,887,854	616	17,386,042	14,991	521,859,396	3.9%	34,812
2010	2,893	144,594,918	620	17,604,486	17,264	648,849,828	24.3%	37,584
2011	528	24,282,965	595	16,585,589	17,197	656,547,204	1.2%	38,178

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

Solvency Test for Retirement Benefits

For Years Ended June 30
(Dollars in Thousands)

	Aggregate Actuarial Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Member Contributions	Retirees, Beneficiaries & Inactives	Active Members	Valuation Value of Assets	Member Contributions	Retirees, Beneficiaries & Inactives	Active Members
06/30/1996	$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(1)	100.0	100.0	50.0
06/30/2008	1,408,074	5,665,130	4,113,200	9,438,318	100.0	100.0	57.5
06/30/2009(2)	1,282,663	7,356,302	3,403,019	9,577,747	100.0	100.0	27.6
06/30/2010	1,379,098	7,507,945	3,707,982	9,554,027	100.0	100.0	18.0
06/30/2011	1,474,824	7,765,071	4,151,809	9,691,011	100.0	100.0	10.9

(1) Excludes assets transferred for Port Police.
(2) Based on revised June 30, 2009 valuation.

Actuarial Analysis of Financial Experience

Development of Unfunded Actuarial Accrued Liability
for Year Ended June 30, 2011

1. Unfunded actuarial accrued liability at beginning of year	$3,040,997,708
2. Normal cost at beginning of year	292,655,906
3. Total contributions	(421,101,746)
4. Interest	238,717,651
5. Expected unfunded actuarial accrued liability	3,151,269,519
6. Changes due to experience loss(1)	178,466,632
7. Changes due to new actuarial assumptions	370,956,353
8. Unfunded actuarial accrued liability at end of year	$3,700,692,504

(1) Excludes $78,522,174 loss from contributions less than anticipated due to one-year delay in implementing the higher contribution rate calculated in the June 30, 2010 valuation. That loss is already included in the development of item 5.

The breakdown of the experience loss is as follows:

Investment loss	$377,520,732
(Gain) due to lower than expected salary increases for continuing actives	(61,440,807)
(Gain) due to lower than expected COLA granted to retirees and beneficiaries	(121,761,848)
Miscellaneous (gain)	(15,851,445)
Total loss	$178,466,632

Actuarial Balance Sheet

Assets		
1. Valuation value of assets ($10,693,603,976 at market value(1) and $11,280,641,736 at actuarial value(1) as reported by LACERS)		$ 9,691,011,496
2. Present value of future normal costs		
Employee(2)	$1,110,872,591	
Employer(2)	2,241,458,519	
Total		3,352,331,110
3. Unfunded actuarial accrued liability		3,700,692,504
4. Present value of current and future assets		$16,744,035,110
Liabilities		
5. Present value of future benefits		
Retired members and beneficiaries		$ 7,599,101,139
Inactive members		264,335,832
Active members		8,880,598,139
Total		$16,744,035,110

(1) Market and actuarial values of assets include assets for Retirement, Health, Family Death, and Larger Annuity Benefits.
(2) Before adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees.

Summary of Actuarial Assumptions and Actuarial Cost Method

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

Mortality Rates

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

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

Termination Rates before Retirement

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

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

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

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

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

Retirement Rates

	Rate (%)	
Age	Non-55/30	55/30
50	8	0
51	4	0
52	4	0
53	4	0
54	15	0
55	8	20
56	8	15
57	8	15
58	8	15
59	8	15
60	8	15
61	8	16
62	8	17
63	8	18
64	8	19
65	13	20
66	13	20
67	13	20
68	13	20
69	13	20
70	100	100

Retirement Age and Benefit for Inactive Vested Participants

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

Exclusion of Inactive Members

All inactive participants are included in the valuation.

Definition of Active Members

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

Unknown Data for Members

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

Percent Married/Domestic Partner

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

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Age of Spouse
Female spouses three years younger than their spouses.

Future Benefit Accruals
1.0 year of service per year.

Other Reciprocal Service
10% of future inactive vested members will work at a reciprocal system.

Consumer Price Index (CPI)
Increase of 3.50% per year; benefit increases due to CPI subject to 3.0% maximum.

Employee Contribution and Matching Account Crediting Rate
Based on average of 5-year Treasury note rate. An assumption of 3.50% is used to approximate that crediting rate in this valuation.

Net Investment Return
7.75%

Salary Increases
According to the following schedule:

For members with under 5 years of service:

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

For members with 5 or more years of service:

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

* Before including a 3.50% inflation increase and a 0.75% across the board increase.

Actuarial Cost Method
Projected Unit Credit Cost Method

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

Funding Policy
The plan sponsor of the City of Los Angeles Employees' Retirement System makes contributions equal to the normal cost adjusted by an amount to amortize any surplus or unfunded actuarial accrued liability. Both the normal cost and the actuarial accrued liability are determined under the Projected Unit Credit cost method. All the bases on or before June 30, 2005, except those arising from the phase-in of contribution rates for the 2002 experience study, were combined and amortized over 30 years effective June 30, 2005. Under the current funding policy, changes in the UAAL due to actuarial gains/losses will be amortized over separate 15-year periods. Any changes in the UAAL due to assumption or method changes are amortized over separate 30-year periods. Plan changes, including the 2009 ERIP, are amortized over separate 15-year periods. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years.

Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.

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

Summary of Plan Provisions

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

Plan Year

July 1 through June 30

Census Date

June 30

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
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 CPI to a maximum of 3% per year, excess banked.

Death after Retirement (§ 4.1044)

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

Death before Retirement (§ 4.1062 and § 4.1054)

Option #1:

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

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

Option #2:

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

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:

Summary of Plan Provisions (Continued)

Member Normal Contributions (§ 4.1031) (Continued)

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%

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

In addition, members in certain bargaining groups are required to pay an additional 4% member contribution rate, beginning July 1, 2011. All non-represented members and members of one particular bargaining group are required to pay an additional 2% member contribution rate retroactive to July 1, 2011. For these members, the additional member contribution rate will increase to 4% beginning January 1, 2013.

* The net member rate after defrayals was adjusted to 6% upon the effective date of ERIP Ordinance 180926.

Disability (§ 4.1055)

Service Requirement
5 years of continuous service

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

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 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 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

Beginning July 1, 2011, members in certain bargaining groups are required to pay an additional 4% member contribution rate. In addition, all non-represented members and members in one particular bargaining group are required to pay an additional 2% member contribution rate retroactive to July 1, 2011. For these members, the additional member contribution rate will increase to 4% beginning January 1, 2013.

Actuarial Certification

December 8, 2011

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of Los Angeles City Employees' Retirement System's other postemployment benefit programs as of June 30, 2011, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements No. 43 and No. 45 for the determination of the liability for postemployment benefits other than pensions.

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

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

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

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements 43 and 45 with respect to the benefit obligations addressed. The signing actuaries are Members of the Society of Actuaries, and/or the American Academy of Actuaries, as well as other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

Thomas Bergman

Thomas Bergman, MAAA, EA
Assistant Actuary

Patrick Twomey, ASA, MAAA, EA
Assistant Actuary

Actuarial Analysis of Financial Experience

Development of Unfunded Actuarial Accrued Liability
for the Year Ended June 30, 2011

1. Unfunded actuarial accrued liability at beginning of year	$808,148,415
2. Employer normal cost at beginning of year	75,282,221
3. Total employer contributions at July 15	(107,395,804)
4. Interest	62,473,427
5. Expected unfunded actuarial accrued liability	838,508,259
6. Change due to investment and demographic losses	17,135,631
7. Change due to subsidy freeze	(186,909,821)
8. Change due to assumption changes from triennial experience study	51,057,507
9. Change due to other assumption changes and starting costs less than expected[1]	(297,967,659)
10. Unfunded actuarial accrued liability at end of year	$421,823,917

(1) The primary reason for this change is premiums and medical subsidies lower than projected.

Actuarial Balance Sheet

Assets	
1. Actuarial value of assets	$1,546,883,749
2. Present value of future normal costs	615,953,995
3. Unfunded actuarial accrued liability	421,823,917
4. Present value of current and future assets	$2,584,661,661
Liabilities	
5. Actuarial present value of total projected benefits	$2,584,661,661

Summary of Actuarial Assumptions and Actuarial Cost Method

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

Termination Rates before Retirement

Pre-Retirement Mortality

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

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

All deaths are assumed to be non-duty related.

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

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

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

Measurement Date

June 30, 2011

Discount Rate

7.75%, net of investment and administrative expenses

Postemployment Mortality Rates

Healthy

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

Disabled

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

These tables reasonably reflect the projected mortality experience of the Plan as of the measurement date. The RP-2000 Healthy Combined Table (separate tables for males and females) with ages set back and the tables used for Disabled Retirement were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.

Active Retirement Rates

	Rate (%)	
Age	Non-55/30	55/30
50	8	0
51	4	0
52	4	0
53	4	0
54	15	0
55	8	20
56	8	15
57	8	15
58	8	15
59	8	15
60	8	15
61	8	16
62	8	17
63	8	18
64	8	19
65	13	20
66	13	20
67	13	20
68	13	20
69	13	20
70	100	100

Retirement Age and Benefit for Inactive Vested Participants

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

Exclusion of Inactive Vested

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

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Per Capita Cost Development

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

Maximum Dental Subsidy (same as premium)

Carrier	Participation Percent	Monthly 2011-2012 Fiscal Year Subsidy
MetLife PPO	77.1	$40.15
SafeGuard	22.9	$12.96

Medical Subsidy
Participant Under Age 65 or Not Eligible for Medicare A & B
2011-2012 Fiscal Year

Carrier	Election Percent	Single Party Subsidy	Married/with Domestic Partner Subsidy	Eligible Survivor Subsidy
Kaiser	59.9	$594.61	$1,188.23	$594.61
Blue Cross PPO	22.1	$990.90	$1,190.00	$594.61
Blue Cross HMO	18.0	$716.61	$1,190.00	$594.61

Medical Subsidy
Participant Eligible for Medicare A & B
2011-2012 Fiscal Year

Carrier	Election Percent	Single Party Subsidy	Married/with Domestic Partner Subsidy	Eligible Survivor Subsidy
Kaiser	58.1	$207.00	$413.01	$207.00
Blue Cross PPO	29.5	$451.93	$651.04	$451.93
United-Healthcare	12.4	$230.83	$457.28	$230.83

Marital Status

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

Spouse Age Difference

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

Surviving Spouse Coverage

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

Participation

Retiree Medical and Dental Coverage Election:

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

* Inactive members are assumed to elect coverages at 50% of the rates shown above.

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

Health Care Cost Subsidy Trend Rates

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

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

First Fiscal Year (July 1, 2011 through June 30, 2012)

Plan	Trend to be applied to 2011-2012 Fiscal Year premium
Blue Cross PPO, Under Age 65	3.98%
Blue Cross PPO, Age 65 and Over	(3.11)%
Kaiser HMO, Under Age 65	4.33%
Senior Advantage	5.38%
Blue Cross HMO, Under 65	6.81%
UnitedHealthcare	8.01%

Summary of Actuarial Assumptions and Actuarial Cost Method (Continued)

Health Care Cost Subsidy Trend Rates (Continued)

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)
2012-2013	8.75%	2012	9.00%
2013-2014	8.25%	2013	8.50%
2014-2015	7.75%	2014	8.00%
2015-2016	7.25%	2015	7.50%
2016-2017	6.75%	2016	7.00%
2017-2018	6.25%	2017	6.50%
2018-2019	5.75%	2018	6.00%
2019-2020	5.25%	2019	5.50%
2020 & later	5.00%	2020 & later	5.00%

Dental Premium Trend: 5.00% for all years.

Medicare Part B Premium Trend: 4.33% from 2011-2012 to 2012-2013, 5.00% for all following years.

Administrative Expenses

No administrative expenses were valued separately from the claim costs.

Actuarial Value of Assets

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

Actuarial Cost Method

Projected Unit Credit Cost Method

Funding Policy

The plan sponsor of the City of Los Angeles Employees' Retirement System makes contributions equal to the normal cost adjusted by an amount to amortize any surplus or unfunded actuarial accrued liability. Both the normal cost and the actuarial accrued liability are determined under the Projected Unit Credit cost method. The unfunded actuarial accrued liability as of June 30, 2007 is amortized over a fixed period of 28 years beginning July 1, 2007. Assumption changes resulting from the triennial experience study are amortized over 30 years. Health trend and premium assumption changes, plan changes, and gains and losses are amortized over 15 years. The costs associated with the 2009 ERIP have been amortized over 15 years beginning with the June 30, 2009 valuation date.

Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.

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

Assumption Changes since Prior Valuation

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

- Health care cost trend rates have been updated.
- Starting premium costs were revised to reflect updated data.
- Medical and dental carrier election assumptions were updated.
- Some of the demographic assumptions have been updated as a result of the experience study as of June 30, 2011.

Summary of Plan Provisions

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

Eligibility

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

Summary of Plan Provisions (Continued)

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, 2011, the maximum health subsidy was $1,190 per month, and will remain at $1,190 on January 1, 2012.

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 dental subsidy. As of July 1, 2011, the maximum dental subsidy was $36.16 per month and will increase to $44.14 on January 1, 2012.

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 ($595.60 per month as of July 1, 2011, decreasing to $593.62 on January 1, 2012) 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%

Subsidy Freeze

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

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

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

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

STATISTICAL

Statistical Section

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

The financial and operating trend information is as follows:

Schedule of Additions by Source - Retirement Plan

(Dollars in Thousands)

		Employer Contribution			
Fiscal Year	Member Contribution	Dollars	% of Annual Covered Payroll	Net Investment Income (Loss) *	Total
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
2008	114,678	302,810	16.5**	(550,386)	(132,898)
2009	118,592	288,516	15.0***	(1,800,906)	(1,393,798)
2010	126,961	266,240	14.2***	911,088	1,304,289
2011	114,731	306,737	18.1***	1,654,824	2,076,292

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

Schedule of Deductions by Type - Retirement Plan

(In Thousands)

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Miscellaneous Expenses	Total
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
2008	484,549	15,149	11,987	5,366*	517,051
2009	510,634	21,325	12,829	-	544,788
2010	569,938	27,971	14,204	-	612,113
2011	654,384	18,215	13,232	-	685,831

* Transfer to Fire and Police Pension.

Schedule of Additions by Source - Postemployment Healthcare Plan

(Dollars in Thousands)

Fiscal Year	Employer Contribution Dollars	Employer Contribution % of Annual Covered Payroll	Miscellaneous Income	Net Investment Income (Loss) *	Total
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
2008	108,848	6.3 **	11,000***	(96,007)	23,841
2009	95,122	5.2 ****	-	(309,334)	(214,212)
2010	96,511	5.3 ****	-	155,745	252,256
2011	107,396	6.4 ****	-	295,324	402,720

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

Schedule of Deductions by Type - Postemployment Healthcare Plan

(In Thousands)

Fiscal Year	Benefit Payments	Administrative Expenses	Miscellaneous Expenses	Total
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
2008	70,096	2,367	854*	73,317
2009	73,839	2,569	-	76,408
2010	83,196	2,859	-	86,055
2011	98,156	2,786	-	100,942

* Transfer to Fire and Police Pension.

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

(In Thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
City Contributions	$ 51,879	$ 70,923	$ 120,057	$ 175,947	$ 244,283	$ 293,160	$ 302,810	$ 288,516	$ 266,240	$ 306,737
Member Contributions	75,654	83,068	93,418	94,268	98,262	106,234	114,678	118,592	126,961	114,731
Net Investment Income (Loss)	(320,330)	220,326	1,097,366	673,389	925,399	1,591,647	(550,386)	(1,800,906)	911,088	1,654,824
Total Additions	(192,797)	374,317	1,310,841	943,604	1,267,944	1,991,041	(132,898)	(1,393,798)	1,304,289	2,076,292
Deductions										
Benefit Payments	332,747	358,196	380,276	405,456	431,232	457,847	484,549	510,634	569,938	654,384
Refunds of Contributions	13,049	14,679	11,338	10,679	13,021	17,452	15,149	21,325	27,971	18,215
Administrative Expenses	7,137	7,706	9,066	9,303	10,284	9,501	11,987	12,829	14,204	13,232
Miscellaneous Expenses	-	-	-	-	-	-	5,366*	-	-	-
Total Deductions	352,933	380,581	400,680	425,438	454,537	484,800	517,051	544,788	612,113	685,831
Changes in Plan Net Assets	$(545,730)	$ (6,264)	$ 910,161	$ 518,166	$ 813,407	$1,506,241	$(649,949)	$(1,938,586)	$ 692,176	$1,390,461

* Transfer to Fire and Police Pension.

Changes in Plan Net Assets - Postemployment Healthcare Plan
Last Ten Fiscal Years

(In Thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
City Contributions	$ 27,589	$ 26,608	$ 20,144	$ 53,190	$ 76,116	$ 115,233	$ 108,848	$ 95,122	$ 96,511	$ 107,396
Miscellaneous Income	-	-	-	-	-	-	11,000*	-	-	-
Net Investment Income (Loss)	(50,163)	26,999	155,151	91,412	128,473	231,613	(96,007)	(309,334)	155,745	295,324
Total Additions	(22,574)	53,607	175,295	144,602	204,589	346,846	23,841	(214,212)	252,256	402,720
Deductions										
Benefit Payments	42,069	50,784	58,254	63,756	62,351	65,090	70,096	73,839	83,196	98,156
Administrative Expenses	996	1,459	1,805	1,693	1,924	1,856	2,367	2,569	2,859	2,786
Miscellaneous Expenses	-	-	-	-	-	-	854**	-	-	-
Total Deductions	43,065	52,243	60,059	65,449	64,275	66,946	73,317	76,408	86,055	100,942
Changes in Plan Net Assets	$ (65,639)	$ 1,364	$ 115,236	$ 79,153	$ 140,314	$ 279,900	$ (49,476)	$ (290,620)	$ 166,201	$ 301,778

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

Schedule of Benefit Expenses by Type - Retirement Plan

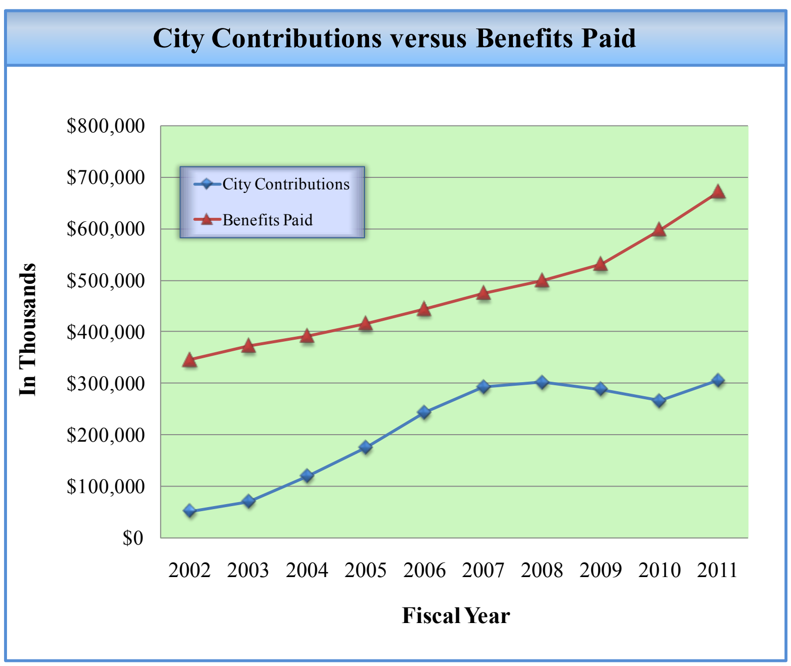
(In Thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Type of Benefit										
Age & Service Benefits:										
Retirants	$ 277,241	$ 298,599	$ 318,135	$ 338,907	$ 360,515	$ 383,558	$ 406,891	$ 428,819	$ 483,295	$ 563,254
Survivors	37,094	39,915	42,017	44,558	47,509	50,497	53,064	56,716	60,299	64,160
Death in Service Benefits	2,996	2,667	2,814	2,960	3,053	2,746	2,600	2,735	2,699	2,674
Disability Benefits:										
Retirants	10,803	11,999	12,003	13,355	14,173	14,856	15,390	15,462	16,268	16,544
Survivors	4,613	5,016	5,307	5,677	5,982	6,190	6,604	6,902	7,377	7,752
Sub-total	332,747	358,196	380,276	405,457	431,232	457,847	484,549	510,634	569,938	654,384
Refunds of Contributions:										
Separation	10,329	12,497	8,792	7,833	9,616	14,393	10,973	17,081	21,814	13,951
Death in Service	1,359	810	1,531	1,294	1,473	1,216	1,279	1,312	1,269	1,640
Unused Contributions	758	777	339	680	851	570	1,048	1,390	1,094	1,281
Miscellaneous	603	595	676	872	1,081	1,273	1,849	1,542	3,794	1,343
Sub-total	13,049	14,679	11,338	10,679	13,021	17,452	15,149	21,325	27,971	18,215
Total Benefits Paid	$ 345,796	$ 372,875	$ 391,614	$ 416,136	$ 444,253	$ 475,299	$ 499,698	$ 531,959	$ 597,909	$ 672,599

City Contributions versus Benefits Paid - Retirement Plan

(In Thousands)

Fiscal Year	City Contributions	Benefits Paid
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
2008	302,810	499,698
2009	288,516	531,959
2010	266,240	597,909
2011	306,737	672,599



Schedule of Benefit Expenses by Type - Postemployment Healthcare Plan

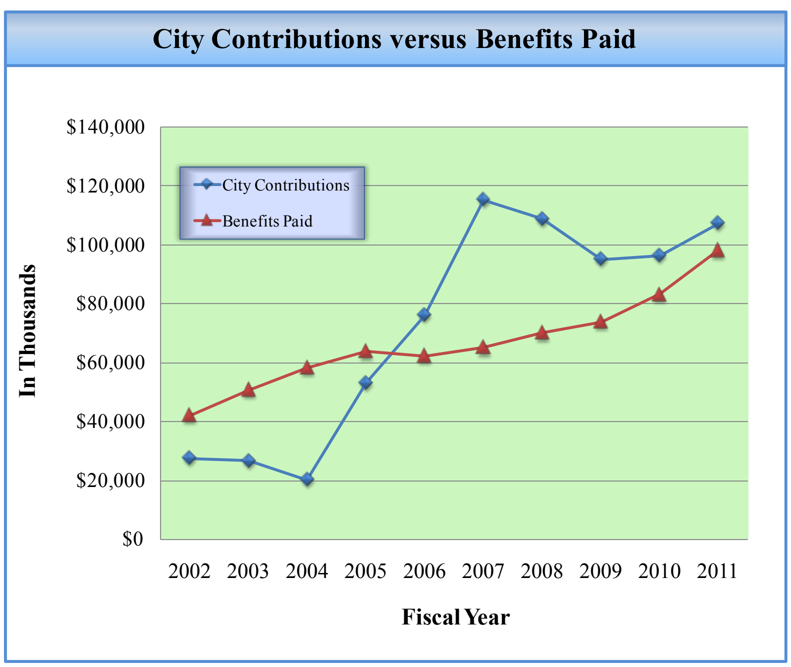
(In Thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Type of Benefit										
Age & Service Benefits:										
Retirants	$ 35,051	$ 42,335	$ 48,735	$ 53,291	$ 52,127	$ 54,529	$ 58,863	$ 62,009	$ 70,548	$ 84,487
Survivors	4,690	5,659	6,436	7,006	6,869	7,179	7,676	8,201	8,802	9,624
Death in Service Benefits	379	378	431	465	441	390	376	396	394	401
Disability Benefits:										
Retirants	1,366	1,701	1,839	2,100	2,049	2,112	2,226	2,236	2,375	2,481
Survivors	583	711	813	893	865	880	955	997	1,077	1,163
Total Benefits Paid	$ 42,069	$ 50,784	$ 58,254	$ 63,755	$ 62,351	$ 65,090	$ 70,096	$ 73,839	$ 83,196	$ 98,156

City Contributions versus Benefits Paid - Postemployment Healthcare Plan

(In Thousands)

Fiscal Year	City Contributions	Benefits Paid
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
2008	108,848	70,096
2009	95,122	73,839
2010	96,511	83,196
2011	107,396	98,156



Schedule of Retired Members by Type of Benefits - Retirement Plan

Amount of Monthly Benefits	Number of Retirants *	Type of Benefits ** 1	2	3	4	5	6	7	8	9	10	11
$ 1 to $ 500	562	162	135	1	138	6	40	11	68	1	174	6
501 to 1,000	1,596	327	497	15	260	96	162	122	116	1	74	-
1,001 to 1,500	2,061	567	563	51	225	429	37	121	68	-	27	1
1,501 to 2,000	1,870	911	401	49	143	263	14	49	40	-	9	-
2,001 to 2,500	1,669	1,153	263	47	74	79	10	22	21	-	8	-
2,501 to 3,000	1,583	1,302	150	38	60	12	2	9	10	-	1	-
3,001 to 3,500	1,596	1,397	109	36	38	3	-	6	7	-	-	-
3,501 to 4,000	1,373	1,247	78	27	15	4	-	-	2	-	1	-
4,001 to 4,500	1,200	1,111	66	5	13	-	-	1	4	-	-	-
4,501 to 5,000	887	827	46	5	6	1	-	-	2	-	-	-
Over $5,000	2,793	2,640	104	23	25	-	-	-	1	-	-	-
Total	17,190	11,644	2,412	297	997	893	265	341	339	2	294	7

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

** Type of Benefits

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

Schedule of Retired Members by Type of Benefits - Postemployment Healthcare Plan

Amount of Monthly Benefits	Number of Retirants	Type of Benefits *** 1	2	3	4	5	6	7
Medical								
$ 0 to $ 200	883	538	139	25	51	74	30	26
201 to 400	3,147	2,170	738	62	82	48	18	29
401 to 600	4,735	3,803	528	79	174	108	17	26
601 to 800	1,699	1,618	-	-	55	26	-	-
801 to 1,000	969	870	-	-	83	16	-	-
1,001 to 1,190*	1,450	1,423	-	-	22	5	-	-
Total	12,883	10,422	1,405	166	467	277	65	81
Dental								
$ 0 to $ 10	2,185	515	1,140	139	89	161	57	84
11 to 20	2,484	2,269	-	-	127	88	-	-
21 to 30	1,126	923	-	-	135	68	-	-
31 to 36.16**	7,113	6,953	-	-	134	26	-	-
Total	12,908	10,660	1,140	139	485	343	57	84

* Maximum medical subsidy for plan year 2011.
** Maximum dental subsidy for plan year 2011.
*** 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, 2001 to June 30, 2011	Years Credited Service 0-10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
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
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 1,335	$ 1,639	$ 1,881	$ 2,673	$ 3,537	$ 4,734
Average Final Monthly Salary *	$ 5,790	$ 4,824	$ 5,116	$ 5,074	$ 6,082	$ 6,450
Number of Active Retirants	36	37	77	72	86	316
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 1,200	$ 1,338	$ 2,122	$ 2,468	$ 3,492	$ 4,828
Average Final Monthly Salary *	$ 3,798	$ 4,664	$ 5,422	$ 5,262	$ 5,937	$ 6,380
Number of Active Retirants	40	33	59	88	93	271
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	$ 1,023	$ 1,301	$ 1,991	$ 2,633	$ 3,227	$ 4,997
Average Final Monthly Salary *	$ 3,702	$ 5,170	$ 5,223	$ 5,514	$ 5,515	$ 6,543
Number of Active Retirants	41	33	62	85	74	230
Period 7/1/07 to 6/30/08						
Average Monthly Benefit	$ 883	$ 1,191	$ 2,105	$ 3,246	$ 3,818	$ 5,127
Average Final Monthly Salary *	$ 3,846	$ 4,336	$ 5,139	$ 5,922	$ 6,482	$ 6,754
Number of Active Retirants	22	36	50	91	69	229
Period 7/1/08 to 6/30/09						
Average Monthly Benefit	$ 759	$ 1,626	$ 2,348	$ 3,109	$ 4,150	$ 5,513
Average Final Monthly Salary *	$ 4,561	$ 5,739	$ 5,820	$ 6,078	$ 6,241	$ 6,954
Number of Active Retirants	25	21	51	63	55	121
Period 7/1/09 to 6/30/10						
Average Monthly Benefit	$ 907	$ 1,964	$ 2,810	$ 3,911	$ 4,674	$ 5,818
Average Final Monthly Salary *	$ 3,755	$ 5,525	$ 6,030	$ 6,316	$ 6,514	$ 6,708
Number of Active Retirants **	94	140	137	365	559	1,238
Period 7/1/10 to 6/30/11						
Average Monthly Benefit	$ 768	$ 1,414	$ 2,369	$ 3,146	$ 3,721	$ 5,920
Average Final Monthly Salary *	$ 5,266	$ 5,175	$ 6,141	$ 6,424	$ 6,409	$ 7,882
Number of Active Retirants	51	42	27	55	42	37

* Average Final Monthly Salary = Average of last or highest 12 consecutive months' salary.
** Large increase primarily due to accelerated retirements stimulated by the City's Early Retirement Incentive Program (ERIP).

Schedule of Average Benefit Payments - Postemployment Healthcare Plan

Retirement Effective Dates July 1, 2001 to June 30, 2011	Years Credited Service Under 10 yrs *	10-15 yrs	16-20 yrs	21-25 yrs	Over 25 yrs
Period 7/1/01 to 6/30/02					
Health Insurance					
Average Monthly Benefit	$ -	$ 273	$ 361	$ 487	$ 616
Number of Active Retirants	1	61	62	64	386
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 18	$ 23	$ 29
Number of Active Retirants	1	59	59	58	375
Period 7/1/02 to 6/30/03					
Health Insurance					
Average Monthly Benefit	$ -	$ 279	$ 449	$ 498	$ 628
Number of Active Retirants	1	61	65	67	393
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 18	$ 23	$ 27
Number of Active Retirants	4	57	64	64	382
Period 7/1/03 to 6/30/04					
Health Insurance					
Average Monthly Benefit	$ -	$ 317	$ 413	$ 558	$ 600
Number of Active Retirants	3	50	86	76	340
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 19	$ 21	$ 28
Number of Active Retirants	3	48	81	71	337
Period 7/1/04 to 6/30/05					
Health Insurance					
Average Monthly Benefit	$ -	$ 333	$ 419	$ 490	$ 675
Number of Active Retirants	5	58	88	100	391
Dental Insurance					
Average Monthly Benefit	$ -	$ 14	$ 19	$ 22	$ 29
Number of Active Retirants	3	56	75	89	380
Period 7/1/05 to 6/30/06					
Health Insurance					
Average Monthly Benefit	$ -	$ 310	$ 471	$ 530	$ 656
Number of Active Retirants	-	51	84	90	372
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 18	$ 28	$ 28
Number of Active Retirants	4	46	76	82	363
Period 7/1/06 to 6/30/07					
Health Insurance					
Average Monthly Benefit	$ -	$ 297	$ 469	$ 562	$ 664
Number of Active Retirants	2	33	94	100	357
Dental Insurance					
Average Monthly Benefit	$ -	$ 13	$ 17	$ 25	$ 27
Number of Active Retirants	4	34	91	93	352

Schedule of Average Benefit Payments - Postemployment Healthcare Plan (Continued)

Retirement Effective Dates July 1, 2001 to June 30, 2011	Years Credited Service Under 10 yrs *	10-15 yrs	16-20 yrs	21-25 yrs	Over 25 yrs
Period 7/1/07 to 6/30/08					
Health Insurance					
Average Monthly Benefit	$ -	$ 348	$ 425	$ 580	$ 646
Number of Active Retirants	3	33	60	86	327
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 20	$ 25	$ 28
Number of Active Retirants	2	32	50	85	315
Period 7/1/08 to 6/30/09					
Health Insurance					
Average Monthly Benefit	$ -	$ 354	$ 508	$ 613	$ 661
Number of Active Retirants	-	20	56	50	251
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 16	$ 20	$ 23
Number of Active Retirants	2	20	51	48	251
Period 7/1/09 to 6/30/10					
Health Insurance					
Average Monthly Benefit	$ -	$ 385	$ 562	$ 634	$ 786
Number of Active Retirants **	8	116	110	267	1,978
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 21	$ 26	$ 28
Number of Active Retirants **	11	120	102	261	1,987
Period 7/1/10 to 6/30/11					
Health Insurance					
Average Monthly Benefit	$ -	$ 465	$ 440	$ 688	$ 648
Number of Active Retirants	1	31	31	69	145
Dental Insurance					
Average Monthly Benefit	$ -	$ 12	$ 17	$ 22	$ 17
Number of Active Retirants	2	26	26	68	130

* Healthcare benefits are not provided to retirants with services less than 10 years.
** Large increase primarily due to accelerated retirements stimulated by the City's Early Retirement Incentive Program (ERIP).

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

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