BOARD Meeting: 12/08/20
Item VI – A
Attachment 2

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(A DEPARTMENT OF THE MUNICIPALITY OF THE CITY OF LOS ANGELES, CALIFORNIA)

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(A DEPARTMENT OF THE MUNICIPALITY OF THE CITY OF LOS ANGELES, CALIFORNIA)

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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MOSSADAMS

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the retirement plan and the postemployment health care plan of Los Angeles City Employees' Retirement System (LACERS), a department of the Municipality of the City of Los Angeles, California, which comprise the statements of fiduciary net position as of June 30, 2020 and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise LACERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the retirement plan and the postemployment health care plan of the Los Angeles City Employees' Retirement System as of June 30, 2020, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of LACERS present the fiduciary net position and changes in fiduciary net position of the Municipality of the City of Los Angeles, California, that are attributable to the transactions of LACERS. The financial statements do not present fairly the financial position of the entire Municipality of the City of Los Angeles, California, as of June 30, 2020, the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that accompanying management's discussion and analysis; the retirement plan's schedule of net pension liability, schedule of changes in net pension liability and related ratios, schedule of contribution history, and schedule of investment returns; and the postemployment health care plan's schedule of net OPEB liability, schedule of changes in net OPEB liability and related ratios, schedule of contribution history, and schedule of investment returns (collectively, the required supplementary information) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedules

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the LACERS' basic financial statements. The schedule of administrative expenses and schedule of investment fees and expenses (collectively, the supplemental schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

2019 Financial Statements

The financial statements of Los Angeles City Employees' Retirement System, as of and for the year ended June 30, 2019, were audited by other auditors whose report thereon, dated November 25, 2019 expressed an unmodified opinion on the presentation of those financial statements in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020 on our consideration of LACERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LACERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERS' internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
November 30, 2020

MANAGEMENT’S DISCUSSION AND ANALYSIS

Financial Highlights

- The Los Angeles City Employees' Retirement System (LACERS or the System) fiduciary net position as of June 30, 2020 was $17,863,324,000, an increase of $155,414,000 or 0.9% over the prior fiscal year.

- The total additions to the fiduciary net position of LACERS, from employer contributions made by the City of Los Angeles (the City), Member contributions, self-funded dental insurance premium, Members' portion of premium reserve, building lease and other income, and net investment income were $1,308,079,000, a 27.4% decrease from the prior fiscal year.

- The employer contributions to the Retirement Plan represented 100% of the Actuarially Determined Contribution of the employer as defined by the Governmental Accounting Standards Board (GASB) Statements No. 67, *Financial Reporting for Pension Plans,* and No. 68, *Accounting and Financial Reporting for Pensions.*

- The employer contributions to the Postemployment Health Care Plan represented 100% of the Actuarially Determined Contribution of the employer as defined by GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

- Net investment income for this fiscal year was $365,492,000, representing a 62.3% decrease compared with an investment income of $968,497,000 for the previous fiscal year.

- The total deductions from the fiduciary net position were $1,152,665,000, a 6.3% increase from the prior fiscal year, for the payment of retirement and postemployment health care benefits, refunds of Member contributions, and administrative expenses.

- The System's Net Pension Liability (NPL) for the Retirement Plan was $7,594,791,000 as of June 30, 2020. NPL, a measure required by GASB Statement No. 67 to disclose in the financial notes of a pension plan, is the difference between the Total Pension Liability (TPL) and the plan fiduciary net position. As the plan fiduciary net position is equal to the market value (also referred to as the "fair value") of the plan's assets, NPL is determined on a market value basis, and it fully reflects the plan's investment performance (1.2% rate of return, gross of fees) of this fiscal year. Compared with the previous fiscal year, the NPL increased by $1,616,963,000.

- The System's Net Other Postemployment Benefits (OPEB) Plan Liability for the postemployment health care benefits was $635,326,000 as of June 30, 2020. Net OPEB Liability (NOL) is a measure required by GASB Statement No. 74. NOL is determined on a market value basis, and is the difference between the Total OPEB Liability (TOL) and the plan fiduciary net position (market value of the plan's assets). NOL reflects the plan's investment performance (1.2% rate of return, gross of fees) for this fiscal year. As compared with the previous fiscal year, the NOL increased by $113,125,000.

- The plan fiduciary net position as a percentage of TPL for the Retirement Plan, another required disclosure of GASB Statement No. 67, was 66.3%, which is the same as the funded ratio on a market value basis reported in the actuarial valuation for the retirement benefits.

- The plan fiduciary net position as a percentage of TOL for the Postemployment Health Care Plan, another required disclosure of GASB Statement No. 74, was 81.8%, which is the same as the funded ratio on a market value basis reported in the actuarial valuation for the postemployment health care benefits.

COVID-19 Assessment

It is important to note that the ongoing COVID-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in the global financial markets. LACERS Board, management and its consultants are closely monitoring the impact of COVID-19 and are taking necessary actions to safeguard the System's investments.

However, because of the adverse economic conditions that currently exist, it is possible that the estimates and assumptions utilized in preparation of these financial statements could change significantly. Additionally, while the extent of the impact, including the length or the severity, is difficult to assess, the financial and economic market uncertainty could have a significant adverse impact on the System's future financial performance.

Management's Discussion and Analysis

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 on LACERS operations.

Financial Statements

There are two financial statements presented by LACERS. The Statement of Fiduciary Net Position on page 12 gives a snapshot of the account balances at year-end and shows the amount of the fiduciary net position (the difference between the assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources) available to pay future benefits. Over time, increases or decreases in fiduciary net position may serve as a useful indicator of whether the fiduciary net position of LACERS is improving or deteriorating. The Statement of Changes in Fiduciary Net Position on page 13 provides a view of current year additions to, and deductions from, the fiduciary net position.

Notes to the Basic Financial Statements

The notes to the basic financial statements (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 14 - 38 of this report.

Required Supplementary Information

In addition to the Management's Discussion and Analysis, other required supplementary information consists of the Schedule of Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns for the Retirement Plan, and the Schedule of Net OPEB Liability, Schedule of Changes in Net OPEB Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns for the Postemployment Health Care Plan. These schedules and notes primarily present multi-year information as required by the applicable financial reporting standards of GASB Statements No. 67 and No. 74. This required supplementary information can be found on pages 39 - 49 of this report.

Supplemental Schedules

The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Fees and Expenses, are presented to provide additional financial information on LACERS operations for the current year. These can be found on pages 50 and 51 of this report.

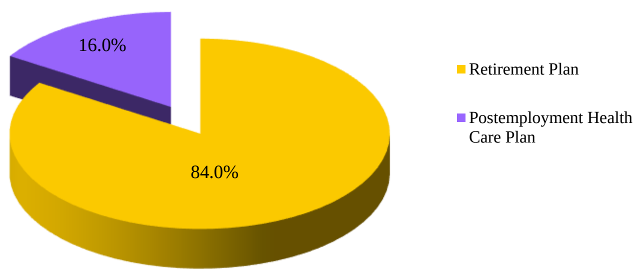
Financial Analysis

Allocation of Fiduciary Net Position

Fiduciary net position may serve as a useful indicator of a plan's financial position. The total fiduciary net position is allocated between the Retirement Plan and Postemployment Health Care Plan, as required by the existing reporting standards. The following information provides a brief description of the asset allocation between the Retirement Plan and the Postemployment Health Care Plan as of June 30, 2020 (dollars in thousands):

	Fiduciary Net Position	Percent
Retirement Plan	$ 15,012,120	84.0%
Postemployment Health Care Plan	2,851,204	16.0
Fiduciary Net Position	$ 17,863,324	100.0%

Allocation of Fiduciary Net Position



Fiduciary Net Position

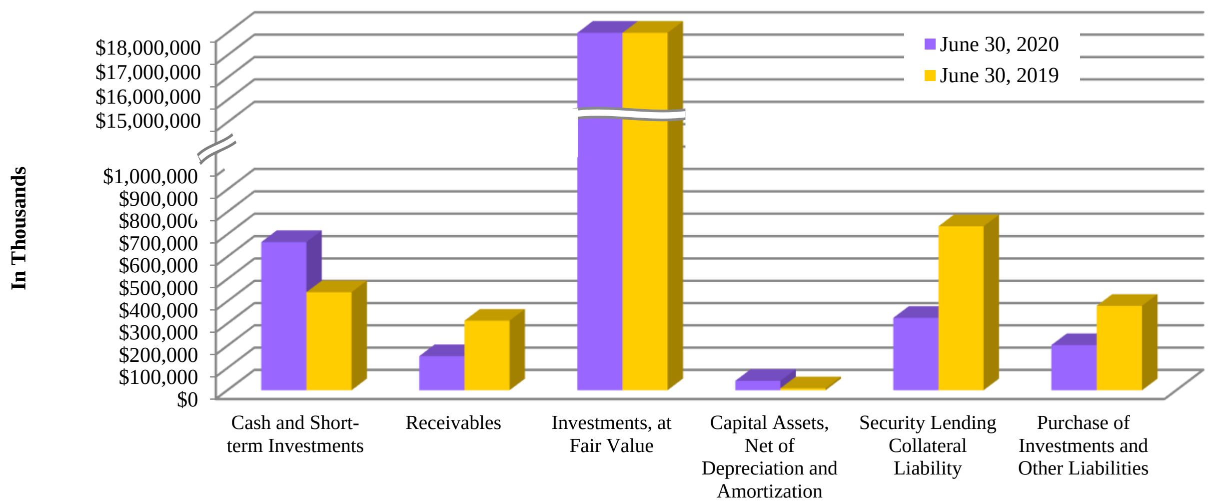
The following table and graph detail the components of the fiduciary net position of LACERS as of June 30, 2020 and 2019 (dollars in thousands):

	June 30, 2020	June 30, 2019	Change	
Cash and Short-Term Investments	$ 665,048	$ 440,455	$ 224,593	51.0 %
Receivables	153,263	312,505	(159,242)	(51.0)
Investments, at Fair Value	17,530,909	17,990,214	(459,305)	(2.6)
Capital Assets, Net of Depreciation and Amortization	42,359	8,789	33,570	382.0
Total Assets	18,391,579	18,751,963	(360,384)	(1.9)
Securities Lending Collateral Liability	325,263	705,535	(380,272)	(53.9)
Purchase of Investments and Other Liabilities	202,992	338,518	(135,526)	(40.0)
Total Liabilities	528,255	1,044,053	(515,798)	(49.4)
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	$ 17,863,324	$ 17,707,910	$ 155,414	0.9 %

Financial Analysis (Continued)

Fiduciary Net Position (Continued)

Components of Fiduciary Net Position



The majority of LACERS fiduciary net position is contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, real estate, private equity and other asset classes. Fiduciary net position increased by $155,414,000, or 0.9%, during this fiscal year.

Net Increase in Fiduciary Net Position

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

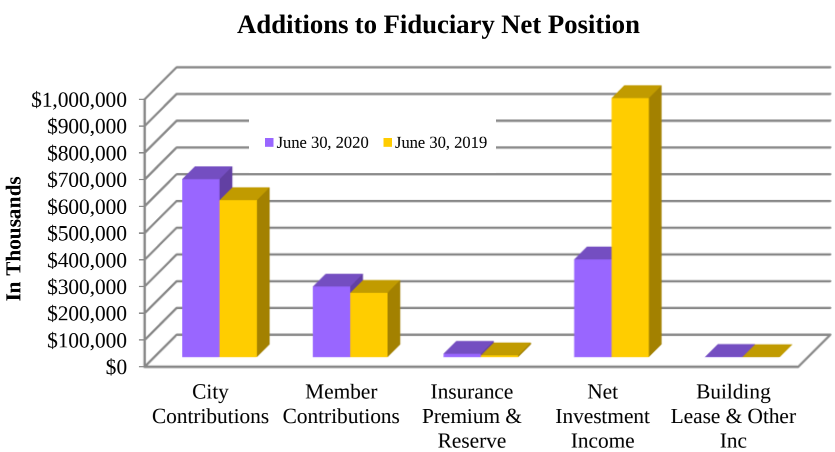
	June 30, 2020	June 30, 2019	Change	
Additions	$ 1,308,079	$ 1,802,166	$ (494,087)	(27.4) %
Deductions	1,152,665	1,083,872	68,793	6.3
Net Increase in Fiduciary Net Position	155,414	718,294	(562,880)	(78.4)
Fiduciary Net Position, Beginning of Year	17,707,910	16,989,616	718,294	4.2
Fiduciary Net Position, End of Year	$ 17,863,324	$ 17,707,910	$ 155,414	0.9 %

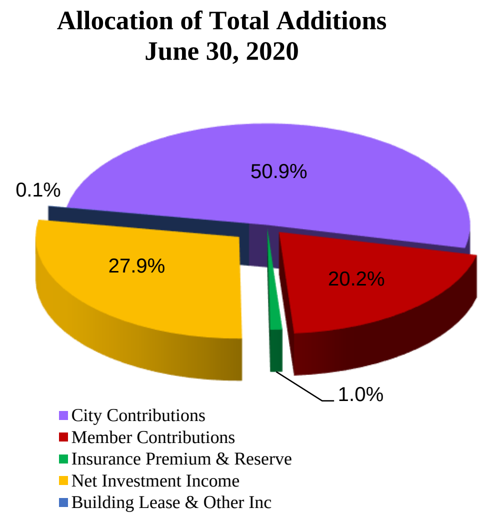
Financial Analysis (Continued)

Net Increase in Fiduciary Net Position – Additions to Fiduciary Net Position

The following table and graph represent the components that make up the additions to fiduciary net position for LACERS for the fiscal years ended June 30, 2020 and 2019 (dollars in thousands):

	June 30, 2020	June 30, 2019	Change
City Contributions	$ 665,358	$ 586,754	13.4 %
Member Contributions	263,936	240,357	9.8
Health Insurance Premium and Reserve	12,501	6,558	90.6
Net Investment Income	365,492	968,497	(62.3)
Building Lease & Other Income	792	-	N/A
Additions to Fiduciary Net Position	$ 1,308,079	$ 1,802,166	(27.4) %





The additions to LACERS fiduciary net position that primarily constitute the funding sources of LACERS benefits are City Contributions, Member Contributions, Health Insurance Premium and Reserve, and Net Investment Income.

City contributions to the Retirement Plan, the Postemployment Health Care Plan, and the Family Death Benefit Plan were $665,358,000 during the fiscal year. The total increase of $78,604,000 or 13.4% over the prior fiscal year was due to a higher payroll base (approximately 7.7% increase in payroll) and higher contribution rate recommended by the actuary for the reporting year. The total City contributions include a $46,117,000 true-up credit adjustment, a reduction from the City's advanced contribution payment, to reconcile the difference of the City's contributions based on projected payroll against actual payroll. This true-up amount, which included accrued interest at 7.25%, was recognized as liability as of the end of the reporting period. After reflecting the true-up adjustment, the aggregate employer contribution rate for this fiscal year was 29.30% (24.36% for the Retirement Plan and 4.94% for the Postemployment Health Care Plan), which is 1.47% higher than the prior fiscal year at 27.83%. $553,118,000 of actual contribution to the Retirement Plan was equal to 100% of the Actuarially Determined Contribution (ADC) of the employer, as defined by GASB Statement No. 67. $112,136,000 of actual contribution to the Postemployment Health Care Plan was equal to 100% of the ADC, as defined by GASB Statement No. 74.

In fiscal year 2019-20, Member contributions were $263,936,000, which was $23,579,000 or 9.8% greater than the prior year. The increase in Member contributions was primarily attributable to the increase in the number of Members and their salaries during the fiscal year.

Financial Analysis (Continued)

Net Increase in Fiduciary Net Position – Additions to Fiduciary Net Position (Continued)

LACERS established a Postemployment Health Care 115 Trust fund (the "115 Trust fund") in late December 2018, and replaced the existing Delta Dental PPO Plan with a self-funded Dental Plan under the 115 Trust fund effective January 1, 2019. Accordingly, LACERS recognized revenue of $10,364,000 representing monthly dental insurance premium and $2,137,000 of Member's portion from health insurance premium reserve that includes $1,319,000, Member's portion of Anthem Premium Stabilization Reserve fund transferred to LACERS.

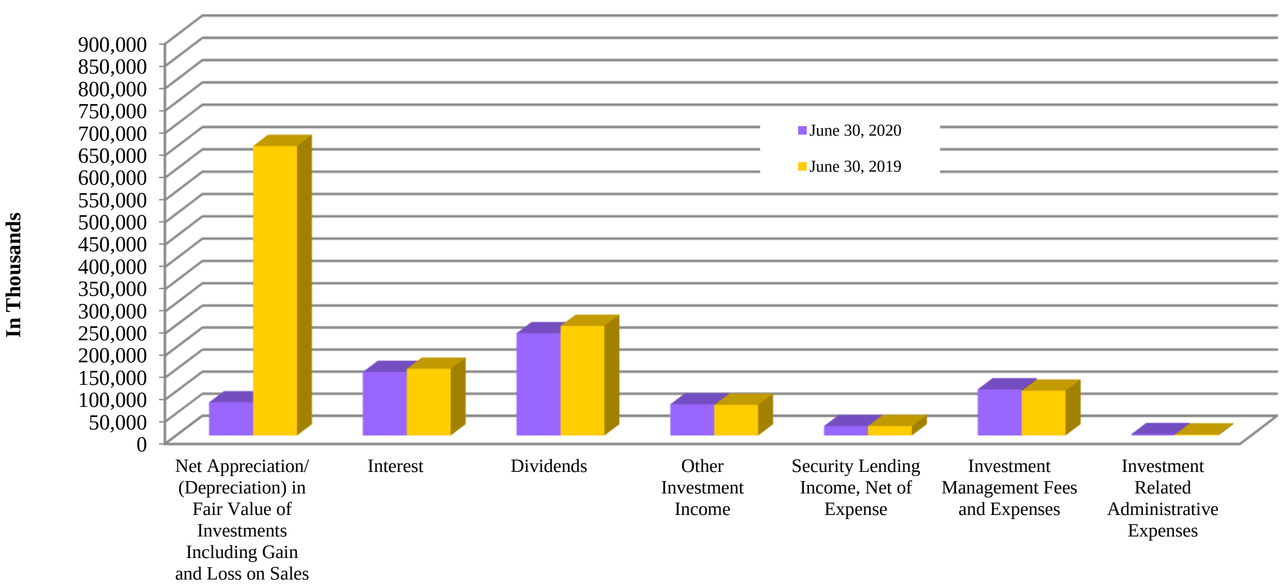
The net investment income was $365,492,000, which included $50,201,000 of net appreciation in the fair value of investments. This is discussed in more detail in the next section.

Investment Income

The following table and graph present the detail of investment income, net of investment management fees and expenses for the fiscal years ended June 30, 2020 and 2019 (dollars in thousands):

	June 30, 2020	June 30, 2019	Change
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	$ 50,201	$ 637,092	(92.1) %
Interest	124,053	121,215	2.3
Dividends	221,790	238,458	(7.0)
Other Investment Income	50,668	49,475	2.4
Securities Lending Income, Net of Expense	6,310	6,179	2.1
Sub-Total	453,022	1,052,419	(57.0)
Less: Investment Management Fees and Expenses	(84,571)	(81,582)	3.7
Investment Related Administrative Expenses	(2,959)	(2,340)	26.5
Net Investment Income	$ 365,492	$ 968,497	(62.3) %

Investment Income and Expenses



Financial Analysis (Continued)

Investment Income (Continued)

The net investment income for the current fiscal year was $365,492,000, as compared with the income of $968,497,000 for the previous fiscal year (62.3% decrease). This decrease was due primarily to a lower net appreciation in the fair value of investments of $50,201,000, compared with the previous fiscal year's amount of $637,092,000 (92.1% decrease). In general, public equity market returns were lower for the current year relative to the previous fiscal year. The Russell 3000 Index, which tracks U.S. broad market equities, returned 6.5% compared with 9.0% for the previous year. The MSCI All Country World ex-U.S. Index, which tracks non-U.S. equities in developed and emerging markets, returned -4.8% compared with 1.3% for the previous year. Fixed income markets, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, experienced a strong rally during the current fiscal year, returning 8.7% compared with 7.9% for the previous year. The net appreciation reported reflects a deduction for carried interest in the amount of $32,095,000, which represents a profit share that the general partners of these funds received as a compensation after the performance of the funds achieved agreed-upon return level.

Interest income derived from fixed income securities increased by $2,838,000 or 2.3%, while dividend income derived from equities decreased by $16,668,000 or 7.0%. The slight increase in interest income from fixed income is attributed to a portfolio rebalancing that shifted assets away from the core fixed income asset class and into the higher yielding credit opportunities and real assets asset classes. The decrease in dividend yield from equities is attributed to companies lowering or suspending dividend payments due to an uncertain economic outlook created by the COVID-19 pandemic.

Other investment income, primarily derived from private equity and private real estate partnership investments, increased by $1,193,000 or 2.4%, mainly due to several large distributions received from private real estate partnership investments currently in the process of winding down.

LACERS earns additional investment income by lending its securities to borrowers through its custodian bank. To earn income for LACERS, the custodian bank invests cash collateral pledged by borrowers on behalf of LACERS in short term fixed income securities. LACERS also generates income from fees paid by borrowers that pledge non-cash collateral. In the current fiscal year, LACERS securities lending income (net of expense) increased by $131,000 or 2.1%, from a year ago due to higher lending spreads and reinvestment spreads.

Total investment management fees, expenses, and investment related administrative expenses increased by $3,608,000 or 4.3% from the prior year. This increase corresponded with the increase in the fair value of LACERS investments over the fiscal year.

Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position

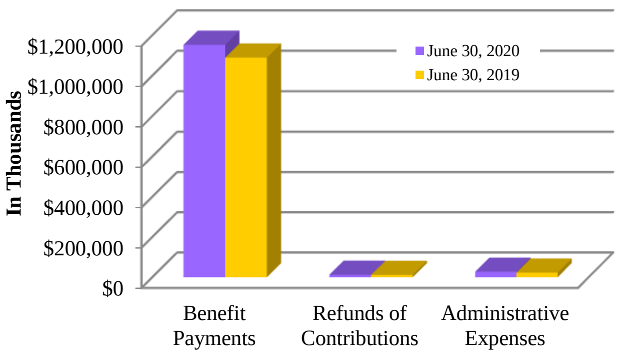
The following table and graphs provide information related to the deductions from fiduciary net position for the fiscal years ended June 30, 2020 and 2019 (dollars in thousands):

	June 30, 2020	June 30, 2019	Change
Benefit Payments	$ 1,112,911	$ 1,049,283	6.1%
Refunds of Contributions	12,332	11,684	5.5
Administrative Expenses	27,422	22,905	19.7
Deductions from Fiduciary Net Position	$ 1,152,665	$ 1,083,872	6.3%

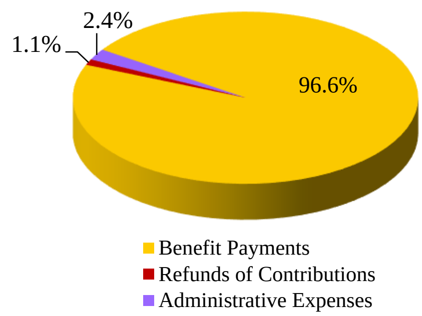
Financial Analysis (Continued)

Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position (Continued)

Deductions from Fiduciary Net Position



Allocation of Total Deductions June 30, 2020



LACERS' deductions from fiduciary net position in this 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 $68,793,000 or 6.3% from the prior fiscal year.

Compared to the prior fiscal year, benefit payments increased by $63,628,000 or 6.1%. The benefit payments for the Retirement Plan increased by $64,043,000 or 7.0% mainly due to the annual cost of living adjustments (COLA) (approximately 3.0% increase on average); increased number of retirees and beneficiaries; and the average retirement allowance of newly retired Members being higher than those of the deceased Members who were removed from the retirement payroll. On the other hand, payments for Postemployment Health Care Plan benefits decreased by $415,000 or -0.3%. This decrease was mainly due to the receipt of $10,154,000, LACERS' portion of Premium Stabilization Reserve fund maintained with Anthem Blue Cross. This amount comprise of accumulated surplus premium dollars from prior years when annual premium payments to Anthem Blue Cross exceeded annual claim costs and administrative expenses. The amount, to a degree, helped offset the increase in healthcare cost due to the increase in number of retirees and their dependents eligible for medical subsidy; increased reimbursement of Medicare Part B premium; and the full year payment of dental benefit claims paid from the Self-Funded Plan established in January 2019.

The Refunds of Member contributions increased by $648,000 or 5.5% from the prior fiscal year's $11,684,000, due primarily to the increase in refunds to Members leaving the City service.

LACERS' administrative expenses increased by $4,517,000 or 19.7% from the prior fiscal year. The increase was mainly due to higher personnel cost resulted from the mandatory COLA increases, which include retroactive payments and mandatory payouts to employees in accordance with the City's negotiated salary contracts, increased hiring to fill vacant positions, higher employee retirement payouts and increased employee health and retirement costs. Some of the increase can also be attributed to the payment of fees covering full fiscal year administration of the Self-Funded Plan. In addition, $1,329,000 of various building operating expenses was incurred this fiscal year related to the purchase of the new LACERS headquarter building.

Requests for Information

This financial report is designed to provide a general overview of 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 Division
PO Box 512218
Los Angeles, CA 90051-0218

BASIC FINANCIAL STATEMENTS

Statement of Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
As of June 30, 2020, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2020 Total	2019 Total
Assets				
Cash and Short-Term Investments	$ 558,898	$ 106,150	$ 665,048	$ 440,455
Receivables				
Accrued Investment Income	51,228	9,730	60,958	62,832
Proceeds from Sales of Investments	61,795	11,737	73,532	234,349
Other	15,777	2,996	18,773	15,324
Total Receivables	128,800	24,463	153,263	312,505
Investments, at Fair Value				
U.S. Government Obligations	1,343,146	255,100	1,598,246	1,417,515
Domestic Corporate Bonds	909,500	172,738	1,082,238	882,229
International Bonds	547,866	104,054	651,920	599,693
Other Fixed Income	438,911	83,361	522,272	902,587
Bank Loans	3,535	671	4,206	8,868
Opportunistic Debts	187,722	35,653	223,375	203,701
Domestic Stocks	3,826,132	726,685	4,552,817	4,672,500
International Stocks	4,180,522	793,994	4,974,516	5,239,973
Mortgages	474,694	90,157	564,851	526,389
Government Agencies	31,572	5,996	37,568	30,947
Derivative Instruments	1,785	339	2,124	(797)
Real Estate	629,395	119,539	748,934	792,516
Private Equity	1,884,636	357,943	2,242,579	2,008,558
Securities Lending Collateral	273,347	51,916	325,263	705,535
Total Investments, at Fair Value	14,732,763	2,798,146	17,530,909	17,990,214
Capital Assets, Net of Depreciation and Amortization	35,598	6,761	42,359	8,789
Total Assets	15,456,059	2,935,520	18,391,579	18,751,963
Liabilities				
Accounts Payable and Accrued Expenses	54,859	10,419	65,278	54,418
Accrued Investment Expenses	10,184	1,934	12,118	9,664
Purchases of Investments	105,549	20,047	125,596	274,436
Securities Lending Collateral	273,347	51,916	325,263	705,535
Total Liabilities	443,939	84,316	528,255	1,044,053
Fiduciary Net Position Restricted for Pension and Postemployment Health Care Benefits	**$ 15,012,120**	**$ 2,851,204**	**$ 17,863,324**	**$ 17,707,910**

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

Statement of Changes in Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
For the Fiscal Year Ended June 30, 2020, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2020 Total	2019 Total
Additions				
Contributions				
City Contributions	$ 553,222	$ 112,136	$ 665,358	$ 586,754
Member Contributions	263,936	-	263,936	240,357
Total Contributions	817,158	112,136	929,294	827,111
Self-Funded Insurance Premium	-	10,364	10,364	6,090
Health Insurance Premium Reserve	-	2,137	2,137	468
Investment Income				
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	41,055	9,146	50,201	637,092
Interest	102,466	21,587	124,053	121,215
Dividends	185,605	36,185	221,790	238,458
Other Investment Income	42,402	8,266	50,668	49,475
Securities Lending Income	6,210	1,211	7,421	7,268
Less: Securities Lending Expense	(917)	(194)	(1,111)	(1,089)
Sub-Total	376,821	76,201	453,022	1,052,419
Less: Investment Management Fees and Expenses	(69,121)	(15,450)	(84,571)	(81,582)
Investment Related Administrative Expenses	(2,409)	(550)	(2,959)	(2,340)
Net Investment Income	305,291	60,201	365,492	968,497
Building Lease and Other Income	645	147	792	-
Total Additions	1,123,094	184,985	1,308,079	1,802,166
Deductions				
Benefit Payments	973,197	139,714	1,112,911	1,049,283
Refunds of Contributions	12,332	-	12,332	11,684
Administrative Expenses	21,257	6,165	27,422	22,905
Total Deductions	1,006,786	145,879	1,152,665	1,083,872
Net Increase in Fiduciary Net Position	116,308	39,106	155,414	718,294
Fiduciary Net Position Restricted for Pension and Postemployment Health Care Benefits				
Beginning of Year	14,895,812	2,812,098	17,707,910	16,989,616
End of Year	**$ 15,012,120**	**$ 2,851,204**	**$ 17,863,324**	**$ 17,707,910**

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

1. Description of LACERS and Significant Accounting Policies

General Description

The Los Angeles City Employees' Retirement System (LACERS or the System) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. The Board has seven members. Four members, one of whom shall be a retired Member of the System, shall be appointed by the Mayor subject to the approval of the City Council. Two members shall be active employee Members of the System elected by active employee Members. One shall be a retired Member of the System elected by retired Members of the System. Elected Board members serve five-year terms in office, with no term limits. 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 single-employer Postemployment Health Care Plan. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor. A description of each plan is located in Note 2 and Note 3 on pages 18 - 28 of this report. All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

Basis of Accounting and Presentation

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP) as outlined by the Governmental Accounting Standards Board (GASB). The financial statements are maintained on the accrual basis of accounting. Contributions from the employer and Members were recognized when due pursuant to formal commitments and contractual requirements. Benefits, refunds, and other expenses are recognized when due and payable. The accompanying financial statements include information from the prior year summarized for comparative purpose only. Such information does not include sufficient detail to constitute a presentation in accordance with US GAAP.

Investments

Investment Policies

Funds of the System are invested pursuant to the System's investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private equity, and short-term investments. During the reporting period, there were no significant investment policy changes.

As of June 30, 2020, the Board's target asset allocation policy was as follows:

Asset Class	Target Allocation
Domestic and International Equities	46.00%
Domestic and International Bonds	13.75
Private Equity	14.00
Real Assets	13.00
Short-Term Investments	1.00
Credit Opportunities	12.25
Total	100.00%

Fair Value of Investments

Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, bank loans, stocks, and private equities are reported at fair value. The fair values of real estate investment funds are provided by the individual real estate fund managers based on periodic appraisals, in the form of either annual in-house appraisals or longer-term appraisals by outside professionals, in accordance with industry practice. The fair value determined as such is also reviewed and evaluated by the Board's real estate consultant. The private equity funds ("partnership investment"), which are managed by third party investment managers, are valued on a quarterly and/or annual basis at their net asset value as reported by the investment managers under US GAAP. US GAAP requires that assets be reported at fair value in accordance with GASB Statement No. 72 – *Fair Value Measurement and Application.* The fair values of derivative instruments are determined using available market information.

Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. LACERS investment strategy, as it relates to the debt portfolio, is mainly to achieve market appreciation and not to hold bonds to their maturities.

The provisions of the GASB Statement No. 72, *Fair Value Measurement and Application*, require investments to be measured at fair value as well as to classify the inputs used to determine fair value based on a three-level fair value hierarchy.

1. Description of LACERS and Significant Accounting Policies (Continued)

Investments (Continued)

Fair Value of Investments (Continued)

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 Fiduciary Net Position under Receivables and labeled as Proceeds from Sales of Investments, and amounts payable for purchases are reported under Liabilities and labeled as Purchases of Investments. Dividend income is recorded on the ex-dividend date. Interest income is reported at the stated interest rate as earned, and any premiums or discounts on debt securities are not amortized. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of LACERS pension plan investment. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

For the future contracts, an initial margin is required to open a position and maintain the collateral requirement until the position is closed. LACERS reports the collateral for the future contracts in the short-term investments.

Concentrations

The investment portfolio as of June 30, 2020, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Rate of Return on Investments

For the fiscal year ended June 30, 2020, the aggregate annual money-weighted rate of return for the Retirement Plan and the Postemployment Health Care Plan on LACERS investments, net of investment expenses, was 2.04%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. Separate schedules for the money-weighted rate of return for Retirement Plan and Postemployment Health Care Plan are presented in the Required Supplementary Information (RSI).

Receivables

As of June 30, 2020, LACERS held no long-term contracts for contributions receivable from the City.

Capital Assets

Purchases of capital assets are capitalized upon acquisition if the cost of purchase was $5,000 or more, and depreciated over five years using the straight-line method.

Certain costs to develop LACERS Pension Administration System (PAS), a customized software solution critical to LACERS core operations was capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The total capitalized cost of $9,413,000 is being amortized over 15 years using the straight-line method.

On October 9, 2019, LACERS Board approved the purchase of a commercial office building and underground parking structure located at 977 N. Broadway in Los Angeles, California to serve as LACERS future headquarters building. The purchase was settled at $33,750,000 on October 23, 2019. The purchase price was allocated to Land valued at $4,023,000 and Building valued at $29,727,000, based on the assessment performed on the fair value of acquired assets. In addition, LACERS incurred $236,000 in acquisition costs and subsequent Building improvements costing $89,000 during the fiscal year, which were capitalized as part of the Building cost. As of the end of the fiscal year, major capital improvements are still in progress to prepare the building for occupancy. Once the building is put to use, the System will capitalize all costs associated and begin to record depreciation expense of the headquarters in 2021.

Administrative Expenses

All administrative expenses are funded from LACERS fiduciary net position, which represents accumulated investment earnings and contributions from the City and the Members net of payments.

1. Description of LACERS and Significant Accounting Policies (Continued)

Reserves

As provided in the Los Angeles City Charter, LACERS 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 the Retirement Plan

Member Contributions (Mandatory) – To provide for individual accounts of Members consisting of Active Member mandatory contributions to the Retirement Plan and interest credited to Members accounts, less refunds of Members contributions and transfers to the Annuity reserve.

Member Contributions (Voluntary) – To provide for individual accounts of Members participating in the larger annuity program of Active Member voluntary contributions and interest/investment return credited to Members' accounts, less refunds of Member contributions (voluntary) and transfers to the Larger Annuity reserve.

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

Annuity – To provide for the Members' share of retirement benefits consisting of Members' mandatory contribution balances transferred at retirement; investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments; less payments to retired Members and beneficiaries, and allocated investment and administrative expenses.

Larger Annuity – To provide for the Larger Annuity benefit consisting of Members' voluntary contribution balances transferred at retirement including Internal Revenue Service (IRS) Section 457 deferred compensation and other rollovers; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to participating retired Members and beneficiaries, and allocated investment and administrative expenses.

Family Death Benefit Plan (FDBP) – To pay benefits under the Family Death Benefit Plan administered by LACERS consisting of Active Member voluntary contributions; matching City of Los Angeles contributions; and investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to beneficiaries and allocated investment and administrative expenses.

Reserves for the Postemployment Health Care Plan

401(h) Account- To provide health care benefits for retirees consisting of City contributions; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to insurance providers, including payment to the 115 Trust fund for the self-funded dental insurance premium and Members' portion of insurance premium reserve.

115 Trust Account – This new Health Care fund is currently limited to pay the benefit claims from LACERS self-funded Dental Plan, but ultimately will fund all health care benefits for retirees upon depletion of the existing 401(h) account reserves. The 115 Trust account currently consists of dental plan premium and prepayment; certain retired Members' health insurance premium deductions; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments of the dental plan claims and administration fees to the third party contractor who administered the dental plan claims for the System; and certain allocated administrative expenses. During this reporting year, funds from this reserve account were invested in LACERS investment pool, and therefore, investment earnings (losses) including net appreciation (depreciation) in fair value of investments were distributed.

1. Description of LACERS and Significant Accounting Policies (Continued)

Reserves (Continued)

Reserve balances as of June 30, 2020, were as follows (in thousands):

Reserved for the Retirement Plan	
Member Contributions:	
- Mandatory	$ 2,640,371
- Voluntary	7,268
Basic Pensions	11,703,185
Annuity	588,848
Larger Annuity	56,316
FDBP	16,132
	$ 15,012,120
Reserve for the Postemployment Health Care Plan	
401 (h) Account	$ 2,730,003
115 Trust Account	121,201
	2,851,204
	$ 17,863,324

Estimates

The preparation of the financial statements in conformity with US GAAP 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. Changes in economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ from those estimates materially.

Risk and Uncertainty That May Impact Financial Operations and Performance

In March 2020, the World Health Organization declared Coronavirus COVID-19 a global pandemic. The Coronavirus outbreak has caused tremendous human and economic hardship both globally and throughout the United States. The measures taken to protect public health has had an adverse impact, disrupting economic activity and creating a surge in job losses. While the ongoing pandemic poses considerable economic risks, there has been no significant disruption to LACERS' operations. The System has largely been successful in maintaining normal operation remotely. Although the financial markets remain volatile, LACERS' investment strategy is to maintain a well-diversified portfolio in order to mitigate the risk of market uncertainty.

The System is exposed to a risk that the long-term rate of return currently earned on the pension plan assets could be below the actuarially assumed rate of return, which is currently 7.00%. This could impact the plan participant actuarial determined contributions. The System's actuarial valuations use a seven year smoothing method for investment returns; any contribution rate impact from the capital markets depends largely on how deep the future market downturn is, how long it lasts, and how it fits within the fiscal year reporting periods. While the global markets have largely recouped early 2020 losses due to the pandemic, COVID-19 continues to surge globally and in many parts of the United States. LACERS' Board and management will continue to closely monitor any adverse impact on the System's investments.

New Accounting Pronouncements

GASB Statement No. 87 –*Leases*, issued in June 2017, increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset thereby enhancing the relevance and consistency of information about government's leasing activities. As a result of GASB Statement No. 95 issued in May 2020 to provide temporary relief from implementation of certain pronouncements, the effective date for Statement No. 87 is postponed to fiscal year beginning after June 15, 2021. LACERS is currently examining the impact to its current accounting policies and financial reporting from this Statement.

2. Retirement Plan Description

Plan Administration and Membership

LACERS administers a defined benefit pension plan that provides for service and disability retirement benefits, as well as death benefits.

The Retirement Plan covers all full-time personnel and department-certified part-time employees of the City, 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, certain Port Police officers of the Harbor, and certain Airport Peace Officers of the Airports who elected to opt out of LACERS. Upon transferring all active Tier 2 Members to Tier 1 as of February 21, 2016, Membership to Tier 1 is now closed to new entrants unless a Member meets one of the exceptions allowed in the Ordinance (No. 184134). Eligible employees hired on or after February 21, 2016, become Members of Tier 3.

Plan Members 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 has five or more years of continuous City service terminates employment, the Member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

As of June 30, 2020, the components of LACERS membership in both tiers (Tier 1 and Tier 3) were as follows:

Active:	
Vested	17,722
Non-vested	9,768
	27,490
Inactive:	
Non-vested	6,728
Terminated Entitled to Benefits, Not Yet Receiving Benefits	2,479
Retired	20,423
Total	57,120

Eligibility Requirement and Benefits Provided

Tier 1

Plan Members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Plan Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the Member's average monthly pensionable salary during the Member's last 12 months of service, or during any other 12 consecutive months of service designated by the Member, multiplied by the Member's years of service credit.

Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a $2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

Tier 1 – Enhanced Benefits

On March 28, 2017, the City Council adopted an ordinance (No. 184853) to amend the Los Angeles Administrative Code (LAAC) authorizing certain sworn Airport Peace Officers (APO) at LACERS to elect to transfer into Tier 6 of LAFPP Plan or to remain in LACERS Plan with enhanced benefits.

All new APO hired after that date would be enrolled in LAFPP Tier 6. Under the ordinance, APO Members who elect to remain in LACERS would be Tier 1 Members, and be eligible for enhanced benefits including more favorable disability benefits, death benefits, and a higher retirement factor of 2.30% (versus 2.16% for all other Tier 1 Members), contingent upon a mandatory additional contribution payment of $5,700 required by LAAC Section 4.1002(e)(2) to LACERS before January 8, 2019, or prior to the Member's retirement date, whichever is earlier. Among 503 APO Members who elected to remain Members of LACERS on January 7, 2018, 469 APO Members, inclusive of 43 APO Members who retired with the enhanced benefits, paid their mandatory additional contribution.

2. Retirement Plan Description (Continued)

Eligibility Requirement and Benefits Provided (Continued)

Tier 3

Plan Members are eligible to retire with unreduced benefits if they have at least 10 or more years of City service at age 60 or at least 30 years of City service at age 55, provided that five years of service must be continuous. Full unreduced retirement benefits at age 60 with 10 years of City service are determined with a 1.5% retirement factor. Plan Members also are eligible to retire with an age-based reduced benefit before reaching age 60 with 30 or more years of City service with a retirement factor of 2.0%. If the Member is age 55 or older with 30 years of service at the time of retirement, his or her retirement allowance will not be subject to reduction on account of age. However, if the Member is younger than age 55 with 30 years of service at the time of retirement, his or her retirement allowance will be reduced by the applicable early retirement reduction factor. In addition, the System also provides Tier 3 Members enhanced retirement benefits with a 2.0% retirement factor if the Member retires at age 63 with at least 10 years of service, or a retirement factor of 2.1% if the Member retires at age 63 with 30 years of service.

Tier 3 retirement benefits are determined by multiplying the Member's retirement factor (1.5% - 2.1%), with the Member's Final Average Compensation (FAC) based on the Member's pensionable salary for the last 36 months or any other 36 consecutive months designated by the Member, and by the Member's years of service credit (SC) as follows:

Age at Retirement	Required Years of Service	Retirement Benefit(1)
Under 55	30 Years	2.0% x FAC x Yrs. of SC(2)
55 and Over	30 Years	2.0% x FAC x Yrs. of SC
60 and Over	10 Years	1.5% x FAC x Yrs. of SC
63 and Over	10 Years	2.0% x FAC x Yrs. of SC
63 and Over	30 Years	2.1% x FAC x Yrs. of SC

(1) Retirement allowance may not exceed 80% of final compensation except when benefit is based solely on the annuity component funded by the Member's contributions.

(2) A reduction factor will be applied based on age at retirement.

Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a $2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

There were no Tier 3 Members who retired during this reporting period.

Cost of Living Adjustment

Retirement allowances are indexed annually for inflation. The Board has authority to determine, no later than May 1st of each year, the average annual percentage change in the Consumer Price Index (CPI) for the purpose of providing a Cost of Living Adjustment (COLA) to the benefits of eligible Members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 Members or 2.0% for Tier 3 Members. For Tier 1 Members, the COLA percentage greater than 3.0% is banked for future use.

2. Retirement Plan Description (Continued)

Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 provide for periodic actuarially-determined employer contribution rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. For the fiscal year ended June 30, 2020, the actuarially-determined aggregate employer contribution rate to the Retirement Plan by the City was 24.75% of projected payroll, based on the June 30, 2018 actuarial valuation.

Upon closing the fiscal year 2019-20, LACERS re-calculated the employer contribution rate using actual payroll incurred during the fiscal year, which was smaller than projected covered payroll used by the City to make the advance payment on July 15, 2019. As a result, employer contributions received for the Retirement Plan were $39,069,000 more than required, and this amount was credited to the employer toward employer contributions for fiscal year 2020-21. Based on actual payroll, the effective rate of employer contribution for Retirement Plan was 24.36% for fiscal year 2019-20.

Member Contributions

Tier 1 and Tier 1 Enhanced

The current contribution rate for Tier 1 and Tier 1 Enhanced Members is 11% of their pensionable salary including a 1% increase in the Member contribution rate pursuant to 2009 Early Retirement Incentive Program (ERIP) ordinance for all employees for a period of 15 years (or until the ERIP Cost obligation is fully recovered, whichever comes first). Contribution rates for Tier 1 and Tier 1 Enhanced Members is expected to decrease by 1% once ERIP obligation is fully paid.

Tier 3

The contribution rate for Tier 3 Members is 11% of their pensionable salary. Unlike Tier 1, Tier 3 Members do not pay ERIP contribution, therefore, Tier 3 Members' contribution rate will not drop down when Tier 1 Members cease to pay the 1% ERIP contribution.

2. Retirement Plan Description (Continued)

Net Pension Liability

As of June 30, 2020, the components of the net pension liability were as follows (in thousands):

Total Pension Liability	$ 22,527,195
Plan Fiduciary Net Position[1]	14,932,404
Plan's Net Pension Liability	$ 7,594,791
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	66.3%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude a total amount of $79,716 associated with Family Death and Larger Annuity Benefits. The details of the amount excluded can be found in the Schedule of Net Pension Liability on page 39.

Significant Assumptions

Projections of benefits for financial reporting purposes are based on the types of benefits provided to active, inactive, and retired Members at the time of each valuation, including expected future COLAs. The attribution method and significant assumptions used in the valuation year of June 30, 2020, are summarized below:

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Method (individual basis).
Amortization Method	Level Percent of Payroll
Actuarial Assumptions:	
Date of Experience Study	June 30, 2019 (July 1, 2016 through June 30, 2019)
Long-Term Expected Rate of Return	7.00%
Inflation	2.75%
Real Across-the-Board Salary Increase	0.50%
Projected Salary Increases	Ranges from 4.25% to 9.95% based on years of service, including inflation assumption at 2.75% and the real across-the-board salary increase assumption of 0.50%.
Annual COLAs	2.75% maximum for Tier 1 and 2.00% maximum for Tier 3.
Mortality Table for Healthy Retirees	Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Disabled Retirees	Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two dimensional mortality improvement scale MP-2019.
Mortality Table for Beneficiaries	Pub-2010 Contingent Survivor Amount-Weighted Above Meridian Mortality Tables with rates increased by 10% for males and females, projected generationally with the two dimensional mortality improvement scale MP-2019.
Percent Married / Domestic Partner	76% of male participants and 52% of female participants are assumed to be married or have a qualified domestic partner.
Spouse Age Difference	Male retirees are assumed to be three years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.

2. Retirement Plan Description (Continued)

Net Pension Liability (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2020 and 7.25% as of June 30, 2019.

The projection of cash flows used to determine the discount rate assumed Plan Member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current Plan Members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future Plan Members and their beneficiaries, as well as projected contributions from future Plan Members, are not included.

Based on those assumptions, the retirement plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability as of both June 30, 2020 and June 30, 2019.

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption that was used in the actuarial valuation as of June 30, 2020. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in 2022.

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	15.01%	5.5%
U.S. Small Cap Equity	3.99	6.3
Developed Int'l Large Cap Equity	17.01	6.6
Developed Int'l Small Cap Equity	2.97	6.9
Emerging Int'l Large Cap Equity	5.67	8.7
Emerging Int'l Small Cap Equity	1.35	10.6
Core Bonds	13.75	1.2
High Yield Bonds	2.00	3.1
Bank Loans	2.00	3.7
Emerging Market Debt (External)	2.25	3.6
Emerging Market Debt (Local)	2.25	4.8
Private Debt	3.75	6.0
Core Real Estate	4.20	4.6
Real Estate Investment Trust (REIT)	1.00	6.0
Treasury Inflation Protected Securities (TIPS)	4.00	0.9
Commodities	1.00	3.3
Non-Core Real Assets	2.80	5.8
Private Equity	14.00	9.0
Cash	1.00	0.0
Total	100.00%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of LACERS as of June 30, 2020, calculated using the discount rate of 7.00%, as well as what LACERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (dollar in thousands):

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$10,642,600	$7,594,791	$5,073,179

3. Postemployment Health Care Plan Description

Plan Administration and Membership

LACERS administers, and provides single-employer postemployment healthcare benefits to eligible retirees and their eligible spouses/domestic partners who participate in the Retirement Plan regardless of their membership tiers. These benefits consist of subsidies which may also apply to the coverage of other eligible dependent(s).

On November 9, 2018, the City Council approved Ordinance No. 185829 to amend Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code to establish the LACERS Health Care Fund (115 Trust Account) for the sole purpose of funding the retiree healthcare benefits for eligible LACERS retirees and beneficiaries as well as to help stabilize premium rates over time.

The City and the Board of LACERS entered into a written trust agreement for the LACERS Health Care Fund which shall provide an alternative funding mechanism, in addition to or in lieu of the existing 401 (h) account described in LAAC Section 4.1102 for funding benefits under the health and welfare programs. The LACERS Health Care Fund is intended to qualify for federal tax exemption under Section 115 of the Internal Revenue Code. Because health benefits paid out of the LACERS Health Care Fund are not required to be subordinate to the Plan retirement benefits, the LACERS Health Care Fund would not become taxable if the Plan health benefits surpass the 25% threshold. Second, the LACERS Health Care Fund gives LACERS more flexibility to invest premium surpluses to provide for smoothing should healthcare premiums increased considerably in the future. Currently, the Health Care Coverage Account (401 (h) account) cannot receive full refunds of excess premiums from insurance providers. However, the LACERS Health Care Fund can receive full premium surplus refunds from insurance providers; therefore, the System can invest these funds at a higher rate of return than the insurance providers' reserve account interest rate.

Effective January 1, 2019, LACERS fully-insured Delta Dental PPO Plan was replaced with LACERS self-funded Delta Dental PPO Plan. Although Delta continues to administer the plan for a fee, LACERS sets and collects premiums from enrolled Members and pays billed claims to Delta. With this arrangement, LACERS bears financial risk if claims cost exceed collected premiums. This change does not affect the maximum dental subsidy amount to the eligible retired Members.

As of June 30, 2020, the components of Membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows:

Retired Members/Surviving Spouses[(1)]	16,107
Vested terminated Members entitled to, but not yet receiving benefits[(2)]	1,526
Retired Members and surviving spouses not yet eligible for health benefits	142
Active Members	27,490
Total	45,265

(1) Total participants including married dependents and dependent children currently receiving benefits are 21,572.

(2) Includes terminated Members due a refund of employee contributions.

Eligibility Requirement and Benefits Provided

To be eligible for LACERS postemployment healthcare benefits, Member must: 1) be at least age 55; 2) have at least 10 whole years of service with LACERS; and 3) be enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). Retirees and surviving spouses/domestic partners can choose from the health plans that are available, which include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. Retirees and surviving spouses/domestic partners receive medical subsidies based on service years and service credit. The dental subsidies are provided to the retirees only, based on service years and service credit.

The maximum subsidies are set annually by the Board. Effective February 21, 2016, healthcare benefit eligibility requirements have changed for the Members who have periods of part-time service. Such Members are now eligible to participate in the LACERS retiree medical programs with a 10 whole years of service, even if some or all of that service was part-time, provided that the Member meets the eligibility requirements. Both Tier 1 and Tier 3 Members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and eligible Members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service. Eligible spouses/domestic partners of Plan Members are entitled to the System's postemployment healthcare benefits after the retired Member's death.

3. Postemployment Health Care Plan Description (Continued)

Eligibility Requirement and Benefits Provided (Continued)

During the 2011 fiscal year, the City adopted an ordinance (“Subsidy Cap Ordinance”) to limit the maximum medical subsidy at $1,190 for those Members who retire on or after July 1, 2011; however, Members who at any time prior to retirement made additional contributions are exempted from the subsidy cap 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, 2020, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 require periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2020, was 4.91% of projected payroll, based on the June 30, 2018 actuarial valuation.

Upon closing the fiscal year 2019-20, LACERS re-calculated employer contribution rate using actual payroll incurred during the fiscal year which was smaller than projected covered payroll used by the City to make the advance payment on July 15, 2019. As a result, employer contributions for Postemployment Health Care Plan were $7,048,000 more than required, and this amount was returned to the employer as a credit toward employer contribution for fiscal year 2020-21. While the total actual payroll was lower than projected, actual payroll for Tier 3 Members was higher than projected. Because the employer contribution rate for Postemployment Health Care Plan for Tier 3 Members was higher than the rate for Tier 1 Members, the overall effective rate of employer contribution for Postemployment Health Care Plan, based on actual payroll, was 4.94%, a slightly higher rate than 4.91% originally projected.

3. Postemployment Health Care Plan Description (Continued)

Net OPEB Liability

As of June 30, 2020, the components of the net OPEB liability were as follows (in thousands):

Total OPEB Liability	$ 3,486,530
Plan Fiduciary Net Position	2,851,204
Plan's Net OPEB Liability	$ 635,326
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	81.8%

Significant Assumptions

The total OPEB liability as of June 30, 2020 was determined by actuarial valuation as of June 30, 2020. The attribution method and significant assumptions used to measure the total OPEB liability, including assumptions about inflation, and healthcare cost trend rates in the valuation year of June 30, 2020, are summarized below:

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Cost Method – level percent of salary.
Amortization Method:	Level Percent of Payroll – assuming a 3.25% increase in total covered payroll.
Actuarial Assumptions:	
Date of Experience Study	June 30, 2019 (July 1, 2016 through June 30, 2019)
Long-Term Expected Rate of Return	7.00%
Inflation	2.75%
Salary Increase	Range from 4.25% to 9.95% based on years of service, including inflation assumption at 2.75%.
Mortality Table for Retirees	Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Disabled Retirees	Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two dimensional mortality improvement scale MP-2019.
Mortality Table for Beneficiaries	Pub-2010 Contingent Survivor Amount-Weighted Above Meridian Mortality Tables with rates increased by 10% for males and females, projected generationally with the two dimensional mortality improvement scale MP-2019.
Marital Status	60% of male and 35% 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.

3. Postemployment Health Care Plan Description (Continued)

Net OPEB Liability (Continued)

Significant 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 2020-2021 and later years are:

First Fiscal Year (July 1, 2020 through June 30, 2021)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	3.37%	3.12%
Anthem Blue Cross HMO	4.85%	N/A
Anthem Blue Cross PPO	3.71%	4.45%
UHC Medicare HMO	N/A	3.12%

Fiscal Year 2021 - 2022 and later	
Fiscal Year	Trend (Approx.)
2021 - 2022	6.62%
2022 - 2023	6.37%
2023 - 2024	6.12%
2024 - 2025	5.87%
2025 - 2026	5.62%
2026 - 2027	5.37%
2027 - 2028	5.12%
2028 - 2029	4.87%
2029 - 2030	4.62%
2030 - 2031 and later	4.50%

Dental Premium Trend to be applied is 4.00% for all years.

Medicare Part B Premium Trend is 4.50% for all years.

3. Postemployment Health Care Plan Description (Continued)

Net OPEB Liability (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2020 and 7.25% as of June 30, 2019.

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, employer contributions that are intended to fund benefits only for current Plan Members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future Plan Members and their beneficiaries, as well as projected contributions from future Plan Members, are not included.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan Members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability as of June 30, 2020 and June 30, 2019.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption for the actuarial valuation as of June 30, 2020. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in 2022.

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	15.01%	5.5%
U.S. Small Cap Equity	3.99	6.3
Developed Int'l Large Cap Equity	17.01	6.6
Developed Int'l Small Cap Equity	2.97	6.9
Emerging Int'l Large Cap Equity	5.67	8.7
Emerging Int'l Small Cap Equity	1.35	10.6
Core Bonds	13.75	1.2
High Yield Bonds	2.00	3.1
Bank Loans	2.00	3.7
Emerging Market Debt (External)	2.25	3.6
Emerging Market Debt (Local)	2.25	4.8
Private Debt	3.75	6.0
Core Real Estate	4.20	4.6
Real Estate Investment Trust (REIT)	1.00	6.0
Treasury Inflation Protected Securities (TIPS)	4.00	0.9
Commodities	1.00	3.3
Non-Core Real Assets	2.80	5.8
Private Equity	14.00	9.0
Cash	1.00	0.0
Total	100.00%	

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of LACERS as of June 30, 2020, calculated using the discount rate of 7.00%, as well as what LACERS net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (dollar in thousands):

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$1,137,842	$ 635,326	$ 225,113

3. Postemployment Health Care Plan Description (Continued)

Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of LACERS as of June 30, 2020, calculated using the healthcare cost trend rates as well as what LACERS net OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current rates (dollar in thousands):

1% Decrease	Current Healthcare Cost Trend Rates(1)	1% Increase
$ 187,139	$ 635,326	$1,195,159

(1) Current healthcare cost trend rates: 6.62% graded down to 4.50% over 9 years for Non-Medicare medical plan costs, and 6.12% graded down to 4.50% over 7 years for Medicare medical plan costs. 4.00% for all years for Dental and 4.50% for all years for Medicare Part B subsidy cost.

4. Contributions Required and Contributions Made

LACERS uses the Entry Age cost method to determine the required annual contribution amount for the Retirement Plan and the Postemployment Health Care Plan. The required annual contribution amount is composed of two components: normal cost, which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the 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 LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 years, except that healthcare 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 of 30 years for all layers combined. The amortization periods are "closed" as each layer of the UAAL is systematically amortized over a "fixed" period.

The total contributions to LACERS for the fiscal year ended June 30, 2020, in the amount of $929,294,000 ($817,158,000 for the Retirement Plan and $112,136,000 for the Postemployment Health Care Plan), consisted of the following (in thousands):

	Retirement Plan	Postemployment Health Care Plan
City Contributions:		
Required Contributions	$ 553,118	$ 112,136
FDBP	104	-
Total City Contributions	553,222	112,136
Member Contributions	263,936	-
Total Contributions	$ 817,158	$ 112,136

The City contributions made for the Retirement Plan under the Required Contributions category in the amount of $553,118,000 were equal to 100% of the actuarially determined contribution of the employer. The City contributions made for the Postemployment Health Care Plan, in the amount of $112,136,000, represents 100% of the actuarially determined contribution of the employer as defined by GASB Statement No. 74. Member contributions in the amount of $263,936,000 were made toward the Retirement Plan, the voluntary Larger Annuity Plan and Family Death Benefit Plan.

5. Historical Trend Information

Historical trend information, designed to provide information about LACERS progress made in accumulating sufficient assets to pay benefits when due, is presented on pages 39 - 44 for the Retirement Plan and pages 45 - 49 for the Postemployment Health Care Plan.

6. Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of LACERS 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.

LACERS considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2020, for the Retirement Plan and Postemployment Health Care Plan included approximately $4,853,000 held in LACERS general operating accounts with the City Treasurer and short-term investments funds (STIF) of $660,195,000 for a total of $665,048,000. 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, 2020, short-term investments included collective STIF of $324,917,000, international STIF of $149,075,000, and future contracts initial margin and collaterals of $186,203,000.

The fair value of derivative instruments, including equity index, commodity, currency, and interest rate future contracts, currency forward contracts and options, rights and warrants and swaps, are recorded in the Statement of Fiduciary Net Position with a net value of $2,124,000. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Fiduciary Net Position as Investment Income. LACERS enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of LACERS 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, 2020, are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Commodities	$ 180,392	$ 2,076	$ 3,077
Equity Index	26,890	73	15
Foreign Exchange	2,344	1	3
Interest Rate	(39,540)	171	133
Currency Forward Contracts	2,344	(587)	(501)
Right / Warrants	N/A	238	41
Swaps –Interest Rate	N/A	152	151
Total Value		$ 2,124	$ 2,919

6. Cash and Short-Term Investments and Investments (Continued)

Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LACERS 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 Standard and Poor's (S&P), a nationally-recognized statistical rating organization, as of June 30, 2020, are as follows (dollars in thousands):

S & P Ratings	Fair Value	Percentage
AAA	$ 51,548	1.99 %
AA+	45,690	1.76
AA	555,575	21.45
AA-	44,207	1.71
A+	45,871	1.77
A	64,074	2.47
A-	173,544	6.70
BBB+	242,534	9.36
BBB	228,559	8.82
BBB-	223,646	8.63
BB+	60,006	2.32
BB	72,074	2.78
BB-	145,134	5.60
B+	64,777	2.50
B	280,125	10.82
B-	63,422	2.45
CCC+	23,990	0.93
CCC	6,377	0.25
CCC-	3,288	0.13
CC	5,590	0.22
C	146	0.00
D	8,472	0.33
Not Rated	181,464	7.01
	$ 2,590,113	100.00%
U.S. Government Guaranteed Securities(1)	2,094,563	
Total Fixed Income Securities	$ 4,684,676	

(1) Consists of U.S. Government Bonds and GNMA Mortgage-Backed Securities which had the AA+ rating.

Credit Risk – Derivatives

Derivatives are subject to credit risk that the counterparty to a contract will default. LACERS 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.

LACERS 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. LACERS has no general investment policy with respect to netting arrangements or collateral requirements. However, these individual investment managers have set up the arrangements with the counterparties to net off the positive and negative contracts with the same counterparty in case of the counterparty's default.

As of June 30, 2020, without respect to netting arrangements, LACERS maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is $1,458,000. All counterparties of these investment derivatives had the credit rating of "A" or "AA" assigned by S&P.

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, LACERS 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, 2020, LACERS has exposure to such risk in the amount of $21,757,000 or 0.4% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 14 different investment managers, and held outside of LACERS custodial bank. LACERS policy requires each individual publicly traded equities investment manager to hold no more than 10% of their portfolios in the form of cash. LACERS is in compliance with the policy.

6. Cash and Short-Term Investments and Investments (Continued)

Custodial Credit Risk (Continued)

Investment securities are exposed to custodial credit risk if the securities are not insured, are not registered in LACERS name, and are held by the counterparty, or the counterparty's trust department or agent but not in LACERS name. As of June 30, 2020, LACERS investments were not exposed to custodial credit risk because all securities were registered in the name of the System.

Concentration of Credit Risk

The investment portfolio as of June 30, 2020, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways LACERS 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. High Yield 2% Capped Index, the BC Intermediate Government Credit Index, the BC Aggregate Bond Index, or the J.P. Morgan EMBI Global Diversified 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 LACERS investments to market interest rate fluctuations as of June 30, 2020 is provided by the following table that shows the weighted average effective duration of LACERS fixed income securities by investment type (dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 28,360	1.43
Bank Loans	4,205	1.89
Commercial Mortgage-Backed Securities	81,021	4.68
Corporate Bonds	1,353,654	7.09
Government Agencies	69,978	7.27
Government Bonds	1,057,895	7.31
Government Mortgage-Backed Securities	483,830	3.09
Index Linked Government Bonds	836,253	5.17
Municipal/Provincial Bonds	3,296	3.00
Non-Government Backed Collateralized Mortgage Obligations (C.M.O.s)	20,538	2.46
Opportunistic Debts	223,375	0.42
Other Fixed Income (Funds)	522,272	6.08
Total Fixed Income Securities	$ 4,684,677	

6. Cash and Short-Term Investments and Investments (Continued)

Highly-Sensitive Investments

Highly-sensitive investments are certain debt investments whose terms may cause their fair value to be highly-sensitive to market interest rate changes. Terms include embedded options, coupon multipliers, benchmark indexes, and reset dates. LACERS 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 LACERS asset-backed investments by investment type (in thousands):

Investment Type	Fair Value
Asset-Backed Securities	$ 28,360
Commercial Mortgage-Backed Securities	81,021
Government Agencies	69,978
Government Mortgage-Backed Securities	483,830
Non-Government Backed C.M.O.s	20,538
Total Asset-Backed Investments	$ 683,727

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. LACERS Asset Allocation policy sets a target of 27% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and private equity managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts are permitted primarily to reduce the foreign currency risk.

6. Cash and Short-Term Investments and Investments (Continued)

Foreign Currency Risk (Continued)

LACERS non-U.S. currency investment holdings as of June 30, 2020, which represent 27.3% of the 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
Australian dollar	(2,571)	152,234	-	(171)	-	149,492
Brazilian real	(1,146)	64,630	150	118	-	63,752
British pound sterling	1,590	503,563	3,827	(44)	-	508,936
Canadian dollar	1,605	219,404	-	2	-	221,011
Chilean peso	(4,913)	3,774	-	74	-	(1,065)
Chinese yuan renminbi	10,726	45,911	-	(71)	(126)	56,440
Colombian peso	(3,214)	4,080	-	108	-	974
Czech koruna	853	695	-	(115)	-	1,433
Danish krone	48	83,440	-	-	-	83,488
Egyptian pound	-	367	-	-	-	367
Euro	(4,471)	1,153,528	18,235	(47)	106,486	1,273,731
Hong Kong dollar	1,954	470,392	-	12	-	472,358
Hungarian forint	(820)	4,999	-	(59)	-	4,120
Indian rupee	(7,585)	111,906	-	(51)	-	104,270
Indonesian rupiah	1,589	20,118	-	44	-	21,751
Japanese yen	4,575	768,265	-	26	-	772,866
Malaysian ringgit	98	12,522	-	-	-	12,620
Mexican peso	1,568	35,076	-	299	278	37,221
New Israeli shekel	1,658	19,226	-	2	-	20,886
New Taiwan dollar	(2,804)	169,225	-	(37)	-	166,384
New Zealand dollar	44	6,111	-	(109)	-	6,046
Norwegian krone	448	25,797	-	-	-	26,245
Peruvian nuevo sol	(3,820)	-	-	59	-	(3,761)
Philippine peso	(2,542)	10,440	-	(40)	-	7,858
Polish zloty	1,147	5,909	-	(208)	-	6,848
Qatari riyal	-	1,712	-	-	-	1,712
Russian ruble	4,076	14,490	-	16	-	18,582
Singapore dollar	8,642	42,335	-	-	-	50,977
South African rand	(2,665)	51,743	670	110	-	49,858
South Korean won	7,322	166,080	-	7	-	173,409
Swedish krona	83	118,687	-	-	-	118,770
Swiss franc	136	335,919	-	-	-	336,055
Thai baht	6,721	14,678	-	-	-	21,399
Turkish lira	(5,570)	8,385	-	(24)	-	2,791
Total Investments Held in Foreign Currency	**$ 12,762**	**$ 4,645,641**	**$ 22,882**	**$ (99)**	**$ 106,638**	**$ 4,787,824**

6. Cash and Short-Term Investments and Investments (Continued)

Fair Value Measurements

LACERS follows GASB Statement No. 72 (GASB 72), *Fair Value Measurements and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements and disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in either a government's principal or the most advantageous market at the measurement date.

The System's investments are measured and reported within the fair value hierarchy established by US GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

Schedule of Investments by Fair Value Hierarchy

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 or 3 of the fair value hierarchy are valued using a matrix pricing technique based on the availability of the market price, the pricing source and type, and the country of incorporation of the securities. The hierarchy levels are determined based on the level of corroborative information obtained from other market sources to assert that the prices provided represent observable data.

The exchange traded Future Contracts classified in Level 1 of the fair value hierarchy are valued using a daily settlement when available or as a daily mark to market. The Foreign Exchange Contracts (liabilities) classified in Level 2 of the fair value hierarchy are valued using independent pricing services including London Close Mid-evaluation, WM/Reuters Company, Bloomberg, and Thomson Reuters.

Real estate funds classified in Level 3 of the fair value hierarchy are valued based on periodic appraisals in accordance with industry practice, or other valuation methods and techniques including models.

The System's remaining investments not categorized under the fair value hierarchy, such as private equity partnerships, real estate comingled funds and other investments which do not have a readily determinable fair value have been valued at the Net Asset Value (NAV). NAV is calculated and used as a practical expedient to estimate fair value of LACERS' interest, unless it is probable that all or a portion of the investments will be sold for an amount different from the NAV. As of June 30, 2020, LACERS had no specific plans to sell investments at amounts different from NAV. These investments are disclosed in the Investments Measured at the NAV on page 36.

6. Cash and Short-Term Investments and Investments (Continued)

Fair Value Measurements (Continued)

Schedule of Investments by Fair Value Hierarchy (Continued)

The System has the following recurring fair value measurements as of June 30, 2020 (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt securities:				
Government Bonds	$ 1,894,148	$ -	$ 1,894,148	$ -
Government Agencies	69,978	-	69,978	-
Municipal/Provincial Bonds	3,296	-	3,296	-
Corporate Bonds	1,402,552	-	1,402,402	150
Bank Loans	4,206	-	4,206	-
Government Mortgage Bonds	483,830	-	483,830	-
Commercial Mortgage Bonds	81,020	-	81,020	-
Opportunistic Debts	13,872	-	-	13,872
Total Debt Securities	3,952,902	-	3,938,880	14,022
Equity Securities:				
Common Stock:				
Basic Industries	1,098,198	1,097,962	32	204
Capital Goods Industries	505,702	505,514	180	8
Consumer & Services	2,621,797	2,620,932	3	862
Energy	599,100	599,027	-	73
Financial Services	1,238,692	1,238,631	-	61
Health Care	1,150,242	1,149,985	-	257
Information Technology	1,702,392	1,698,359	-	4,033
Real Estate	539,134	538,491	-	643
Miscellaneous	23,363	21,660	-	1,703
Total Common Stock	9,478,620	9,470,561	215	7,844
Preferred Stock	37,760	37,683	-	77
Stapled Securities	10,867	10,867	-	-
Unit Trust Equity	86	86	-	-
Total Equity Securities	9,527,333	9,519,197	215	7,921
Real Estate Funds	101,157	-	-	101,157
Total Investments by Fair Value Level	$ 13,581,392	$ 9,519,197	$ 3,939,095	$ 123,100
Investments Measured at the NAV:				
Common Fund Assets	522,272			
Private Equity Funds	2,242,578			
Real Estate Funds	647,777			
Opportunistic Debts	209,503			
Total Investments Measured at the NAV	3,622,130			
Total Investments Measured at Fair Value(1)	$ 17,203,522			
Investment Derivative Instruments:				
Future Contracts (liabilities)	$ 2,322	$ 2,322	$ -	$ -
Foreign Exchange Contracts (liabilities)	(588)	-	(588)	-
Rights/Warrants	390	367	-	23
Total Investment Derivative Instruments	$ 2,124	$ 2,689	$ (588)	$ 23

(1) Excluded $2,124,000 of investment derivative instruments (shown separately) and $325,263,000 of securities lending collateral.

6. Cash and Short-Term Investments and Investments (Continued)

Fair Value Measurements (Continued)

Investments Measured at the NAV:
(in thousands)

		Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Fund Assets [1]	$	522,272	$	-	Daily	2 days
Private Equity Funds [2]		2,242,578		1,132,761	N/A	N/A
Real Estate Funds [3]		647,777		9,119	Daily, Quarterly	1-90 days
Opportunistic Debts [4]		209,503		-	Monthly	30 days
Total Investments Measured at the NAV	$	3,622,130	$	1,141,880		

(1) Common fund assets - This investment type includes one fund that primarily invests in U.S. bonds. The fair value of the investment has been determined using a practical expedient based on the investments' NAV per share (or its equivalent). This investment can be redeemed daily, with a two-day advance redemption notice period.

(2) Private equity funds - This investment type includes 234 closed-end commingled private equity funds that invest primarily in securities of privately held U.S. and non-U.S. companies. The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). These investments are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as the underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 13 years, depending on the vintage year of each fund.

(3) Real estate funds - This investment type includes 37 commingled real estate funds that invest primarily in U.S. commercial real estate. The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). Ten investments, representing approximately 77.1% of the value of this investment type, are in open-end funds, which may be redeemed according to terms specific to each fund. Redemptions generally are subject to the funds' available cash and redemption queues. One of the open-end funds informed LACERS of an additional restriction above the original investment agreement beginning in January 2020. The fund expects this additional restriction to persist into calendar year 2021. LACERS has no intention to redeem any of this investment or the other nine investments in the near future. Twenty-seven investments, representing approximately 22.9% of the value of this investment type, are in closed-end funds and are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 12 years, depending on the vintage year of each fund.

(4) Opportunistic debts - This investment type includes two commingled funds: one that invests primarily in senior loans of non-investment grade companies (senior loan fund) and another one invests primarily in the securities and obligations of companies experiencing operational or financial distress (distressed investment fund). The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). The senior loan fund, representing approximately 96% of the value of this investment type, can be redeemed monthly. The distressed investment fund, representing approximately 4% of the value of this investment type, is being dissolved and is no longer making new underlying investments. Distributions from this fund will be received as underlying investments are liquidated by the fund manager. It is expected that this fund will be liquidated fully over the next two years.

7. Securities Lending Agreement

Under authority granted by the City Charter, LACERS has entered into various short-term arrangements with its custodian to lend securities to various brokers. There are no restrictions on the amount of securities that may be lent, and the custodian determines which lenders' accounts to lend securities from by using an impartial sequential system that matches loan requests with various lenders' accounts. All lenders are deemed to have relatively equal opportunity to profit from the lending of securities. Therefore, should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency is allocated pro rata among all lenders.

Minimum collateralization is 102% of the fair value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government and corporate securities, and commercial bank obligations. Cash collateral is invested in a separate account comprised of money market or high quality short-term investments. It is the responsibility of the custodian to monitor the collateralization on a daily basis. If the collateral is below the minimum collateralization level, additional collateral will be requested from the borrower to meet the requirement. Collateral requested each morning is required to be received on the same day. If the borrower fails to deliver additional collateral, the custodian would notify the borrower that they are in default under the securities lending agreement. If the borrower does not provide the necessary collateral after receiving notification, the legal agreement allows the custodian to close the contract with the borrower and buy-in the securities on behalf of LACERS.

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. LACERS 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 LACERS 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.

As of June 30, 2020, the fair value of the securities on loan was $1,147,198,000. The fair value of associated collateral was $1,202,872,000 ($325,263,000 of cash collateral and $877,609,000 of non-cash collateral).

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

During the reporting period, LACERS had no losses on securities lending transactions resulting from default of a borrower or lending agent. Due to the nature of the securities lending program and the custodian bank's collateralization of loans at amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to LACERS as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program. However, similar to any other investment portfolio, there is risk associated with investing cash collateral in securities. The value of the invested collateral may fall below the value of the cash collateral pledged by the borrowers, and may impair LACERS ability to return cash collateral to the borrowers upon the redemption of loans. If this scenario were to occur, LACERS would be required to make up the deficiency in collateral and would incur a loss.

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

The following table represents the fair value of securities on loan, and corresponding cash collateral received and cash reinvestment value, as of June 30, 2020 (in thousands):

Securities on Loan	Fair Value of Underlying Securities on Loan	Cash Collateral Received	Collateral Reinvestment Value
U.S. Government & Agency Securities	$ 105,349	$ 107,647	$ 107,647
Domestic Corporate Fixed Income Securities	52,261	53,458	53,458
International Fixed Income Securities	2,764	2,796	2,796
Domestic Stocks	134,771	137,344	137,344
International Stocks	22,671	24,018	24,018
Total	$ 317,816	$ 325,263	$ 325,263

7. Securities Lending Agreement (Continued)

Non-cash collateral, which LACERS does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position. LACERS income and expenses related to securities lending were $7,421,000 and $1,111,000, respectively, for the fiscal year ended June 30, 2020.

On April 28, 2020, the Board adopted several temporary Security Lending Program risk-reducing strategies to minimize potential losses due to unusual and more volatile market conditions as a result of COVID pandemic. These strategies include; (1) temporarily reducing the volume of loans in order to reduce LACERS overall exposure; (2) shorten the duration and maturity of individual investments to 60 days; and (3) require a non-U.S. country to hold a sovereign credit rating of AA- or higher (or the equivalent) by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) in order for non-U.S. government or corporate debt to be eligible for investment. Because these strategies were implemented closer to the end of this reporting period, they had minimal impact on the program's income and expenses for the reporting period. However, future securities lending income will likely decrease as a result of reduced loan volumes due to more restrictive collateral and investment guidelines.

8. Future and Forward Contracts

LACERS uses derivative financial instruments, primarily to manage portfolio risk. Future and forward contracts are marked to market and are recorded in the Statement of Fiduciary Net Position at fair value. Future contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions (refer to Note 6 – Credit Risk - Derivatives on page 30).

As of June 30, 2020, LACERS had outstanding commodities, equity index, and interest rate future contracts with an aggregate notional amount of $167,742,000, and foreign exchange future contract with a notional amount of $2,344,000. In addition, at June 30, 2020, LACERS had outstanding forward purchase commitments with a notional amount of $214,800,000 and offsetting forward sales commitments with notional amounts of $214,800,000, which expire in September 2020. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $186,203,000 as of June 30, 2020.

9. Operating Lease

The System leases building facilities under a non-cancelable operating lease that expires in March 2023, at which time a three-year renewal option is available.

The future minimum lease commitments are as follows as of June 30, 2020:

Fiscal Year 2021	$ 1,003,000
Fiscal Year 2022	1,043,000
Fiscal Year 2023	813,000
	$ 2,859,000

10. Commitments and Contingencies

As of June 30, 2020, LACERS was committed to future purchases of real estate and private equity investments at an aggregate cost of approximately $1,691,480,000, including agreements for acquisition not yet initiated.

11. Subsequent Events

City and LAWA's Separation Incentive Program

From June 2020 to September 2020, the City negotiated with various labor organizations, the implementation of Separation Incentive Program (SIP). The program is intended to address the City's significant financial challenges while minimizing the impact on City services, by incentivizing eligible employees to retire. SIP enrollment was closed on September 22, 2020. As of October 21, 2020, there were 1,379 employees who applied and were approved to retire under the program.

Los Angeles World Airport (LAWA) also offered its own SIP. As of October 21, 2020, there are 333 who applied and were approved to retire under LAWA's SIP program.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Retirement Plan

The schedules included in the Required Supplementary Information for the Retirement Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, Los Angeles City Employees' Retirement System (LACERS or the System) presented information only for those years for which information is available:

1) Schedule of Net Pension Liability
2) Schedule of Changes in Net Pension Liability and Related Ratios
3) Schedule of Investment Returns

Additional years will be displayed in the future as they become available.

Schedule of Net Pension Liability (1)
As of June 30
(Dollars in Thousands)

	2020	2019	2018	2017	2016	2015	2014	2013
Total Pension Liability	$22,527,195	$20,793,421	$19,944,578	$18,458,188	$17,424,996	$16,909,996	$16,248,853	$14,881,663
Plan Fiduciary Net Position	14,932,404	14,815,593	14,235,230	13,180,516	11,809,329	11,920,570	11,791,079	10,154,486
Plan's Net Pension Liability	$ 7,594,791	$ 5,977,828	$ 5,709,348	$ 5,277,672	$ 5,615,667	$ 4,989,426	$ 4,457,774	$ 4,727,177
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	66.3%	71.3%	71.4%	71.4%	67.8%	70.5%	72.6%	68.2%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position, amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits) were excluded. For fiscal years 2020 and 2019, Plan Fiduciary Net Position are calculated as follows:

	2020	2019
Plan Fiduciary Net Position, per Financial Statements	$ 15,012,120	$ 14,895,812
Less Non-Pension Reserves:		
Larger Annuity Contributions	7,268	7,101
Larger Annuity Benefit	56,316	56,435
Family Death Benefit	16,132	16,683
Subtotal	$ 79,716	$ 80,219
Plan Fiduciary Net Position, for NPL calculation	$ 14,932,404	$ 14,815,593

Note to Schedule:

Refer to the notes to the Schedule of Changes in Net Pension Liability and Related Ratios.

Schedule of Changes in Net Pension Liability and Related Ratios (1)
For the Fiscal Years Ended June 30
(Dollars in Thousands)

	2020	2019	2018	2017
Total Pension Liability				
Service cost (2)	$ 374,967	$ 370,409	$ 352,283	$ 340,759
Interest	1,499,208	1,439,661	1,332,878	1,302,278
Changes of benefit terms	-	-	25,173	-
Differences of expected and actual experience	308,184	(46,035)	144,224	(146,474)
Changes of assumptions	530,720	-	483,717	340,718
Benefit payments, including refunds of Member contributions	(979,305)	(915,192)	(851,885)	(804,089)
Net change in total pension liability	1,733,774	848,843	1,486,390	1,033,192
Total pension liability-beginning	20,793,421	19,944,578	18,458,188	17,424,996
Total pension liability-ending (a)	$ 22,527,195	$ 20,793,421	$ 19,944,578	$ 18,458,188
Plan fiduciary net position				
Contributions-employer	$ 553,118	$ 478,717	$ 450,195	$ 453,356
Contributions-Member	259,817	237,087	230,757	221,829
Net investment income(4)	306,712	799,351	1,243,817	1,517,545
Benefit payments, including refunds of Member contributions	(979,305)	(915,192)	(851,885)	(804,089)
Administrative expenses	(23,531)	(19,600)	(17,699)	(17,454)
Others (3)	-	-	(471)	-
Net change in Plan fiduciary net position	116,811	580,363	1,054,714	1,371,187
Plan fiduciary net position-beginning	14,815,593	14,235,230	13,180,516	11,809,329
Plan fiduciary net position-ending (b)	$ 14,932,404	$ 14,815,593	$ 14,235,230	$ 13,180,516
Plan's net pension liability-ending (a)-(b)	$ 7,594,791	$ 5,977,828	$ 5,709,348	$ 5,277,672
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	66.3%	71.3%	71.4%	71.4%
Covered payroll	$ 2,271,039	$ 2,108,171	$ 2,057,565	$ 1,973,049
Plan's net pension liability as a percentage of covered payroll	334.4%	283.6%	277.5%	267.5%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position, amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits) were excluded. See page 39 for components of fiduciary net position for fiscal years 2020 and 2019.

(2) The service cost is based on the previous year's valuation.

(3) On July 1, 2015, the System segregated Members' voluntary larger annuity contributions into the (non-pension related) Reserve for Larger Annuity Contributions pursuant to a suggestion made by the System's actuarial consultant. The Reserve balance for Larger Annuity Contributions as of June 30, 2015 was $5,200,000. On July 1, 2017, the System reallocated $471,000 of interest from the Reserve for Mandatory Member Contributions into the Reserve for Voluntary Member Contributions.

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

Schedule of Changes in Net Pension Liability and Related Ratios [1] (Continued)
For the Fiscal Years Ended June 30
(Dollars in Thousands)

	2016	2015	2014	2013
Total Pension Liability				
Service cost [2]	$ 322,574	$ 322,380	$ 317,185	$ 312,372
Interest	1,263,556	1,215,151	1,149,966	1,112,561
Changes of benefit terms	-	-	-	-
Differences of expected and actual experience	(300,813)	(135,821)	(164,247)	(235,829)
Changes of assumptions	-	-	785,439	-
Benefit payments, including refunds of Member contributions	(770,317)	(740,567)	(721,153)	(701,400)
Net change in total pension liability	515,000	661,143	1,367,190	487,704
Total pension liability-beginning	16,909,996	16,248,853	14,881,663	14,393,959
Total pension liability-ending (a)	$ 17,424,996	$ 16,909,996	$ 16,248,853	$ 14,881,663
Plan fiduciary net position				
Contributions-employer	$ 440,546	$ 381,141	$ 357,649	$ 346,181
Contributions-Member	206,377	202,463	203,975	197,722
Net investment income[4]	29,358	306,980	1,810,782	1,268,939
Benefit payments, including refunds of Member contributions	(770,318)	(740,567)	(721,153)	(701,400)
Administrative expenses	(17,204)	(15,860)	(12,372)	(13,281)
Others [3]	-	(4,666)	(2,288)	(2,514)
Net change in Plan fiduciary net position	(111,241)	129,491	1,636,593	1,095,647
Plan fiduciary net position-beginning	11,920,570	11,791,079	10,154,486	9,058,839
Plan fiduciary net position-ending (b)	$ 11,809,329	$ 11,920,570	$ 11,791,079	$ 10,154,486
Plan's net pension liability-ending (a)-(b)	$ 5,615,667	$ 4,989,426	$ 4,457,774	$ 4,727,177
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	67.8%	70.5%	72.6%	68.2%
Covered payroll	$ 1,876,946	$ 1,835,637	$ 1,802,931	$ 1,736,113
Plan's net pension liability as a percentage of covered payroll	299.2%	271.8%	247.3%	272.3%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits). See page 39 for components of fiduciary net position for fiscal years 2020 and 2019.

(2) The service cost is based on the previous year's valuation.

(3) On July 1, 2015, the System segregated Members' voluntary larger annuity contributions into the (non-pension related) Reserve for Larger Annuity Contributions pursuant to a suggestion made by the System's actuarial consultant. The Reserve balance for Larger Annuity Contributions as of June 30, 2015 was $5,200,000. On July 1, 2017, the System reallocated $471,000 of interest from the Reserve for Mandatory Member Contributions into the Reserve for Voluntary Member Contributions.

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment-related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

Schedule of Changes in Net Pension Liability and Related Ratios (Continued)

Notes to Schedule:

Changes of Benefit Terms: The June 30, 2018 calculation reflected the newly adopted enhanced benefits for Airport Peace Officers (APO) who elected to stay at LACERS Plan (refer to Note 2 – Retirement Plan Description, Tier 1 – Enhanced Benefits on page 18-19). Enhanced benefits became effective as of January 7, 2018.

Change of Assumptions: The June 30, 2014 calculations reflected various assumption changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of total pension liability for fiscal years ended on June 30, 2014 is primarily due to the lowered assumed investment rate of return from 7.75% to 7.50%, and longer assumed life expectancies for Members and beneficiaries while the June 30, 2017 increase is primarily due to the lowered assumed investment rate of return from 7.50% to 7.25%.

The June 30, 2018 calculations reflected changes in the actuarial assumptions adopted by the Board on August 14, 2018 based on the triennial experience study for the period from July 1, 2014 through June 30, 2017, including revising the mortality tables from static to generational to reflect future mortality improvement, contributing to increased total pension liability.

The June 30, 2020 calculations reflected changes in the actuarial assumptions based on the actuarial experience study covering the period from July 1, 2016 to June 30, 2019, and adopted by the Board on June 23, 2020. The changes included lowered assumed investment rate of return from 7.25% to 7.00% along with an Inflation Rate reduction from 3.00% to 2.75%, changes in various demographic assumptions such as adjustments on retirement, termination, disability and mortality rates.

Schedule of Contribution History
(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contributions (ADC)	Contributions in Relation to ADC[1]	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2011	$ 303,561	$ 303,561	$ -	$ 1,678,059	18.1%
2012	308,540	308,540	-	1,715,197	18.0
2013	346,181	346,181	-	1,736,113	19.9
2014	357,649	357,649	-	1,802,931	19.8
2015	381,141	381,141	-	1,835,637	20.8
2016	440,546	440,546	-	1,876,946	23.5
2017	453,356	453,356	-	1,973,049	23.0
2018	450,195	450,195	-	2,057,565	21.9
2019	478,717	478,717	-	2,108,171	22.7
2020	553,118	553,118	-	2,271,039	24.4

[1] Contributions received excluded $104,000 in contributions to the Family Death Benefit plan for fiscal year 2020.

Notes to Schedule:

Valuation Date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Actuarial Cost Method (individual basis).

Amortization Method Level Percent of Payroll.

Schedule of Contribution History (Continued)

Notes to Schedule (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued)

Amortization Period	Multiple layers – closed amortization period. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 Early Retirement Incentive Program (ERIP), are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two Governmental Accounting Standards Board (GASB) Statements No. 25/27 layers, were combined and amortized over 30 years.
Asset Valuation Method	Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, 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.
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Inflation	2.75%
Real Across-the-Board Salary Increase	0.50%
Projected Salary Increases(1)	Ranges from 4.25% to 9.95% based on years of service.
Cost of Living Adjustment(2)	Tier 1: 2.75% Tier 3: 2.00%
Mortality	Healthy: Pub-2010 General Health Retiree Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019. Disabled: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two dimensional mortality improvement scale MP-2019. Beneficiaries: Pub-2010 Contingent Survivor Amount-Weighted Above Meridian Mortality Tables with rates increased by 10% for males and females, projected generationally with the two dimensional mortality improvement scale MP-2019.

(1) Includes inflation at 2.75% as of June 30, 2020, plus across-the-board salary increase of 0.50% plus merit and promotional increases.

(2) Actual increases are contingent upon Consumer Price Index (CPI) increases with a 2.75% maximum for Tier 1 and a 2.00% maximum for Tier 3. For Tier 1 members with sufficient COLA bank, withdrawals from the bank can be made to increase retiree COLA up to 3% per year.

Schedule of Investment Returns
For the Fiscal Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	2.0%	5.5%	9.3%	12.6%	0.2%	2.6%	18.2%

Note to Schedule:

The rates of investment returns for the fiscal years 2020, 2015 and 2016 were much lower compared to other fiscal years. It reflected the impact of divergent and volatile global markets on LACERS investment portfolio over these reporting periods. Specifically for fiscal year 2020, investment return was impacted by the recent spread of COVID-19 which has continued to adversely impact global commercial activity and volatility in the global financial markets.

Required Supplementary Information
Postemployment Health Care Plan

The schedules included in the Required Supplementary Information for the Postemployment Health Care Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, Los Angeles City Employees' Retirement System (LACERS or the System) presented information only for those years for which information is available:

1) Schedule of Net OPEB Liability
2) Schedule of Changes in Net OPEB Liability and Related Ratios
3) Schedule of Investment Returns

Additional years will be displayed in the future as they become available.

Schedule of Net OPEB Liability
As of June 30
(Dollars in Thousands)

	2020	2019	2018	2017	2016
Total OPEB Liability	$ 3,486,530	$ 3,334,299	$ 3,256,827	$ 3,005,806	$ 2,793,689
Plan Fiduciary Net Position	2,851,204	2,812,098	2,676,371	2,438,862	2,134,877
Plan's Net OPEB Liability	$ 635,326	$ 522,201	$ 580,456	$ 566,944	$ 658,812
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	81.8%	84.3%	82.2%	81.1%	76.4%

Note to Schedule:

Refer to the notes to the Schedule of Changes in Net OPEB Liability and Related Ratios.

Schedule of Changes in Net OPEB Liability and Related Ratios
For the Fiscal Years Ended June 30
(Dollars in Thousands)

	2020	2019	2018	2017	2016
Total OPEB Liability					
Service cost[1]	$ 76,423	$ 74,478	$ 74,611	$ 68,385	$ 62,360
Interest	242,666	236,678	218,686	210,170	199,078
Changes of benefit terms	-	-	948	-	17,215
Differences between expected and actual experience[2]	(135,720)	(134,053)	(7,321)	19,666	(22,013)
Changes of assumptions	96,076	33,940	92,178	33,512	-
Benefit payments[3]	(127,214)	(133,571)	(128,081)	(119,616)	(109,940)
Net change in total OPEB liability	152,231	77,472	251,021	212,117	146,700
Total OPEB liability-beginning	3,334,299	3,256,827	3,005,806	2,793,689	2,646,989
Total OPEB liability-ending (a)	$ 3,486,530	$ 3,334,299	$ 3,256,827	$ 3,005,806	$ 2,793,689
Plan fiduciary net position					
Contributions-employer	$ 112,136	$ 107,927	$ 100,909	$ 97,457	105,983
Net investment income (loss)[4]	60,899	166,470	269,380	330,708	(344)
Benefit payments[3]	(127,214)	(133,571)	(128,081)	(119,616)	(109,940)
Administrative expense	(6,715)	(5,099)	(4,699)	(4,564)	(4,528)
Net change in Plan fiduciary net position)	39,106	135,727	237,509	303,985	(8,829)
Plan fiduciary net position-beginning	2,812,098	2,676,371	2,438,862	2,134,877	2,143,706
Plan fiduciary net position-ending (b)	$ 2,851,204	$ 2,812,098	$ 2,676,371	$ 2,438,862	$ 2,134,877
Plan's net OPEB liability-ending (a)-(b)	$ 635,326	$ 522,201	$ 580,456	$ 566,944	$ 658,812
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	81.8%	84.3%	82.2%	81.1%	76.4%
Covered payroll	$ 2,271,039	$ 2,108,171	$ 2,057,565	$ 1,973,049	$ 1,876,946
Plan's net OPEB liability as a percentage of covered payroll	28.0%	24.8%	28.2%	28.7%	35.1%

(1) The service cost is based on the previous year's valuation.

(2) After the GASB Statement No. 74 valuation report was issued for the fiscal year June 30, 2017, the System's consulting actuary reclassified $12,450,000 of OPEB liability from the *Changes of Assumption* (revised from $45,962,000 to $33,512,000) to the *Differences Between Expected and Actual Experience* (revised from $7,216,000 to $19,666,000). However, this reclassification did not affect the recommended employer contribution rates or results of the OPEB valuation in total.

(3) Benefit payments associated with the self-funded insurance premium and Member's health insurance premium reserve that were reported as both additions and deductions in fiduciary net position beginning fiscal year 2019 were excluded from the above schedule.

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

Schedule of Changes in Net OPEB Liability and Related Ratios (Continued)

Notes to Schedule:

Changes of Benefit Terms: The OPEB liability from the changes of benefit terms for the fiscal year ended June 30, 2016 is primarily due to providing retiree healthcare benefits to part-time employees who retired with 10 years of service but less than 10 years of service credit (refer to Note 3 – Postemployment Health Care Plan Description, Eligibility Requirement and Benefits Provided on pages 23 - 24) while the June 30, 2018 increase is primarily as a result of the newly adopted enhanced benefits for Airport Peace Officers (APO) who elected to stay at LACERS Plan (refer to Note 2 – Retirement Plan Description, Tier 1 – Enhanced Benefits on page 18) as some APO Members may retire earlier than expected. Enhanced benefits became effective as of January 7, 2018.

Changes of Assumptions: The OPEB liability from the changes of assumptions for the fiscal year ended June 30, 2017 is primarily due to the lowered assumed investment rate of return, from 7.50% to 7.25%, and the June 30, 2018 increase is primarily due to the new actuarial assumptions adopted in the triennial experience study (July 1, 2014 through June 30, 2017), including revising the mortality tables from static to generational. The June 30, 2019 increase is mainly due to the increased Medicare Part B Premium Trend Rate from 4.0% to 4.5% while the June 30, 2020 is due to the new actuarial assumptions adopted as a result of actuarial experience study covering the period July 1, 2016 to June 30, 2019 which included a lowered investment rate of returns from 7.25% to 7.00% as well as using revised mortality tables.

Schedule of Contribution History
(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contributions (ADC)	Contributions in Relation to ADC	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2011	$ 107,396	$ 107,396	$ -	$ 1,678,059	6.4%
2012	115,209	115,209	-	1,715,197	6.7
2013	72,916	72,916	-	1,736,113	4.2
2014	97,841	97,841	-	1,802,931	5.4
2015	100,467	100,467	-	1,835,637	5.5
2016	105,983	105,983	-	1,876,946	5.7
2017	97,457	97,457	-	1,973,049	4.9
2018	100,909	100,909	-	2,057,565	4.9
2019	107,927	107,927	-	2,108,171	5.1
2020	112,136	112,136	-	2,271,039	4.9

Notes to Schedule:

Valuation Date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method: Entry Age Actuarial Cost Method (level percent of payroll).

Amortization Method: Level Percent of Payroll.

Amortization Period: Multiple layers – closed amortization period.
Actuarial gains/losses are amortized over 15 years. Non-health related assumptions or method changes are amortized over 20 years. Health related assumptions or method changes are amortized over 15 years. Plan changes, including the 2009 Early Retirement Incentive Program (ERIP), are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two Governmental Accounting Standards Board (GASB) Statements No. 25/27 layers, were combined and amortized over 30 years.

Asset Valuation Method: Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, 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.

Actuarial Assumptions:

Investment Rate of Return: 7.00%

Inflation: 2.75%

Real Across-the-Board Salary Increase: 0.50%

Schedule of Contribution History (Continued)

Notes to Schedule (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued)

Projected Salary Increases[1]	Ranges from 4.25% to 9.95% based on years of service.
Mortality	Healthy: Pub-2010 General Health Retiree Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019
	Disabled: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two dimensional mortality improvement scale MP-2019.
	Beneficiaries: Pub-2010 Contingent Survivor Amount-Weighted Above Meridian Mortality Tables with rates increased by 10% for males and females, projected generationally with the two dimensional mortality improvement scale MP-2019.

(1) Includes inflation at 2.75% as of June 30, 2020, plus across-the-board salary increase of 0.50% plus merit and promotional increases.

Schedule of Investment Returns
For the Fiscal Years Ended June 30

	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expenses	2.1%	6.1%	10.8%	15.2%

Note to Schedule:

The required disclosure about factors that significantly affect trends in the money-weighted rate of return is not provided as only four years' rates are available. As additional years' money-weighted rate of return become available, the System will disclose factors that significantly affect trends in the rate of return.

SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 2020
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	Total
Personnel Services:			
Salaries	$ 11,148	$ 2,547	$ 13,695
Employee Benefits and Development	4,516	1,031	5,547
Total Personnel Services	15,664	3,578	19,242
Professional Services:			
Actuarial	372	85	457
Audit	69	22	91
Legal Counsel	667	155	822
Disability Evaluation	131	30	161
Retirees' Health Admin Consulting	-	550	550
Benefit Payroll Processing	140	32	172
Self-Funded Dental Plan Admin Fees	-	751	751
Other Consulting	54	12	66
Total Professional Services	1,433	1,637	3,070
Information Technology:			
Computer Hardware and Software	571	130	701
Computer Maintenance and Support	497	113	610
Total Information Technology	1,068	243	1,311
Leases:			
Office Space	791	181	972
Office Equipment	30	7	37
Total Leases	821	188	1,009
Other Expenses:			
Fiduciary Insurance	27	6	33
Educational and Due Diligence Travel	51	12	63
Office Expenses	532	122	654
Building Operating Expense	1,082	247	1,329
Depreciation and Amortization	579	132	711
Total Other Expenses	2,271	519	2,790
Total Administrative Expenses	$ 21,257	$ 6,165	$ 27,422

Schedule of Investment Fees and Expenses
For the Fiscal Year Ended June 30, 2020
(In Thousands)

	Assets Under Management	Fees and Expenses
Retirement Plan		
Investment Management Fees:		
Fixed Income Managers	$ 3,936,979	$ 5,255
Equity Managers	8,008,405	18,555
Subtotal	11,945,384	23,810
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	600
Real Estate Consulting Fees	N/A	175
Other Consulting Fees	N/A	366
Investment Related Administrative Expenses	N/A	2,409
Subtotal	N/A	3,550
Postemployment Health Care Plan		
Investment Management Fees:		
Fixed Income Managers	747,738	1,200
Equity Managers	1,521,012	4,238
Subtotal	2,268,750	5,438
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	137
Real Estate Consulting Fees	N/A	40
Other Consulting Fees	N/A	84
Investment Related Administrative Expenses	N/A	550
Subtotal	N/A	811
Total Investment Fees and Expenses excluding Private Equity and Real Estate	$ 14,214,134	$ 33,609
Private Equity Managers' Fees and Expenses:		
Retirement Plan	$ 1,884,636	$ 34,923
Postemployment Health Care Plan	357,943	7,977
Total Private Equity Managers' Fees and Expenses	$ 2,242,579	$ 42,900
Real Estate Managers' Fees and Expenses:		
Retirement Plan	$ 629,395	$ 8,972
Postemployment Health Care Plan	119,539	2,049
Total Real Estate Managers' Fees and Expenses	$ 748,934	$ 11,021
Total Assets Under Management and Fees and Expenses	$ 17,205,647(1)	$ 87,530(2)

(1) Excludes Security Lending Collateral assets of $325,263,000.
(2) Includes Investment Related Administrative Expenses of $2,959,000.