LACERS

LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

CITY OF LOS ANGELES
FOUNDED 1781

# Comprehensive Annual Financial Report

## For The Fiscal Year Ended June 30, 2001

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

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

# Comprehensive Annual Financial Report

## For The Fiscal Year Ended June 30, 2001

Oscar Peters, General Manager-Secretary

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LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# INTRODUCTORY SECTION

# CITY OF LOS ANGELES

CALIFORNIA

RICHARD J. RIORDAN
MAYOR

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

(213) 473-7124

INVESTMENTS

OSCAR PETERS
GENERAL MANAGER

DANIEL P. GALLAGHER
CHIEF INVESTMENT OFFICER

## LETTER OF TRANSMITTAL

December 11, 2001

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

Dear Members of the Board:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ended June 30, 2001, the System's 65th year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operation and is the responsibility of LACERS management.

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

## STRUCTURE OF THE REPORT

This report is presented in five sections:

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

- The Financial Section contains the opinion of the independent auditors, Ernst & Young LLP, and the general-purpose financial statements of the system.

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

- The Actuarial Section includes the certification letter produced by the independent actuary, Gabriel, Roeder, Smith & Company, along with supporting schedules and information.

- The Statistical Section contains a graph and schedules related to active and retired membership, revenues, expenses, benefit expenses, City contribution, retired membership, and average benefit payments.

### 1. Accounting System and Reports

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

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

It is the responsibility of LACERS management to prepare retirement system financial statements, notes, supplementary disclosures and establish and maintain internal control to ensure retirement system assets are protected.
Ernst & Young LLP, independent auditors, have audited the general-purpose financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.

## 2. Additions to Plan Net Assets

The total additions to plan net assets for the fiscal year ended June 30, 2001, consisting of contributions and net depreciation in fair value of investments and net of investment management fees, was a reduction of $191,959,746. This amount includes member and employer contributions of $157,356,785 and net investment loss of $349,316,531. Net investment loss represented a decrease in investment income of $1,120,483,313 over the prior year; this decrease was attributed mainly to depreciation in fair value of investments. Details of the components of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 17 of the financial statements in the financial section.

## 3. Deductions to Plan Net Assets

Deductions for the fiscal year ended June 30, 2001, excluding investment management and security lending fees were $364,228,731 which represented an increase of $24,306,543 over the prior year. This increase was the result of higher retirement benefits payments due to an increase in the number of retirees. The components of the total deductions are payments of retirement benefits of $343,105,107; refunds of contributions and interest to terminated members of $12,923,295; and administrative expenses of $8,200,329.

## 4. Changes in System Membership

LACERS membership increases for the fiscal year ended June 30, 2001 were as follows:

| | 2001 | 2000 | Increase/(Decrease) | % Change |
|---|---|---|---|---|
| Active Members | 25,654 | 24,234 | 1,420 | 5.9 |
| Retired Members | 13,365 | 13,058 | 307 | 2.4 |

## 5. Major Initiatives

The retired health benefit was initially an extension of the active employee health benefits. Therefore, since inception, the administration of this benefit has been outsourced to the Employee Benefits Division of the Personnel Department of the City. In 1987, the Board began to include this benefit in computing the actuarial liability for the System. In 1999, it determined that many of the reasons for assigning administration to the Employee Benefits Division no longer existed. Therefore, the administration of the retired health benefits was brought into the System. It hired a health insurance consultant and reviewed the benefits. As a result, it made changes to the coverage for the calendar year 2000 to have the program more appropriate for its population. Because of the changing dynamics of health care for older members, it was necessary to rebid all of the retired health plans for calendar year 2001. This resulted in a significant workload for staff. For 2002, the Board made minor plan changes to further align retired member needs with the plans provided and to contain costs. In addition, all of the plan provisions that provide for retired health care were reviewed and new ordinances were prepared working with the City Attorney and the City Administrative Officer's staff.

LACERS continued to work on enhancing the new retirement management system that has consolidated the administration of the benefits of the plan on one system managed by LACERS staff. The new system has transferred all benefit administration to LACERS staff. In addition to maintaining member records, the system generates the monthly retirement roll and processes vendor and tax payments. In addition, LACERS completed the electronic imaging of all member files so that any file is immediately available to respond to member queries. With the imaged member files and the retirement management system all maintained on a server, the files are backed up daily and stored offsite. In the event of a disaster, all of the vital information can be recovered and operations can resume immediately.

### 6. Funding Status

LACERS continues to be a well funded system even though the portfolio had negative returns for the year. Because the actuarial funding process recognizes gains over a five-year period, the gains from previous years offset this year's loss. During the fiscal year, the funding ratio of the System increased from 107.3% to 107.7% and the actuarial value of the LACERS assets increased $464,019,347.

### 7. Financial and Economic Summary

While the financial markets have presented a significant challenge for portfolio investments, the economic environment was positive for the local economy. Los Angeles County's housing demand continued to strengthen during this fiscal year, driven by active job growth, low mortgage rates and healthy consumer confidence. This has been very favorable for the Fund as the City uses its property tax revenue as the primary source for its funding of the required City Contributions.

The State of California, which started the year with projected budget surpluses, was caught up in an electrical energy shortfall that is projected to consume the entire surplus. While the City was protected from these problems because of the municipal utility, the lack of State funds to support County governments and school districts will cause problems during the coming year. The California unemployment rate was 5.2% in June 2001 while the consumer price index rose only 4.3% during the 12-month period ended June 30, 2001.

### 8. Investment Summary

LACERS' investments provided a disappointing return. For the current fiscal year, the portfolio earned a total return of -4.2%, well below the actuarial earnings assumption of 8%. The portfolio has annualized returns of 6.2% over the past three years, and 8.8% over the past five years. On a fair value basis, the total plan net assets decreased 7.0% from $7,881,497,296 to $7,325,308,818 during the current fiscal year.

## 9. Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LACERS for its comprehensive annual financial report for the fiscal year ended June 30, 2000. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## 10. Acknowledgements

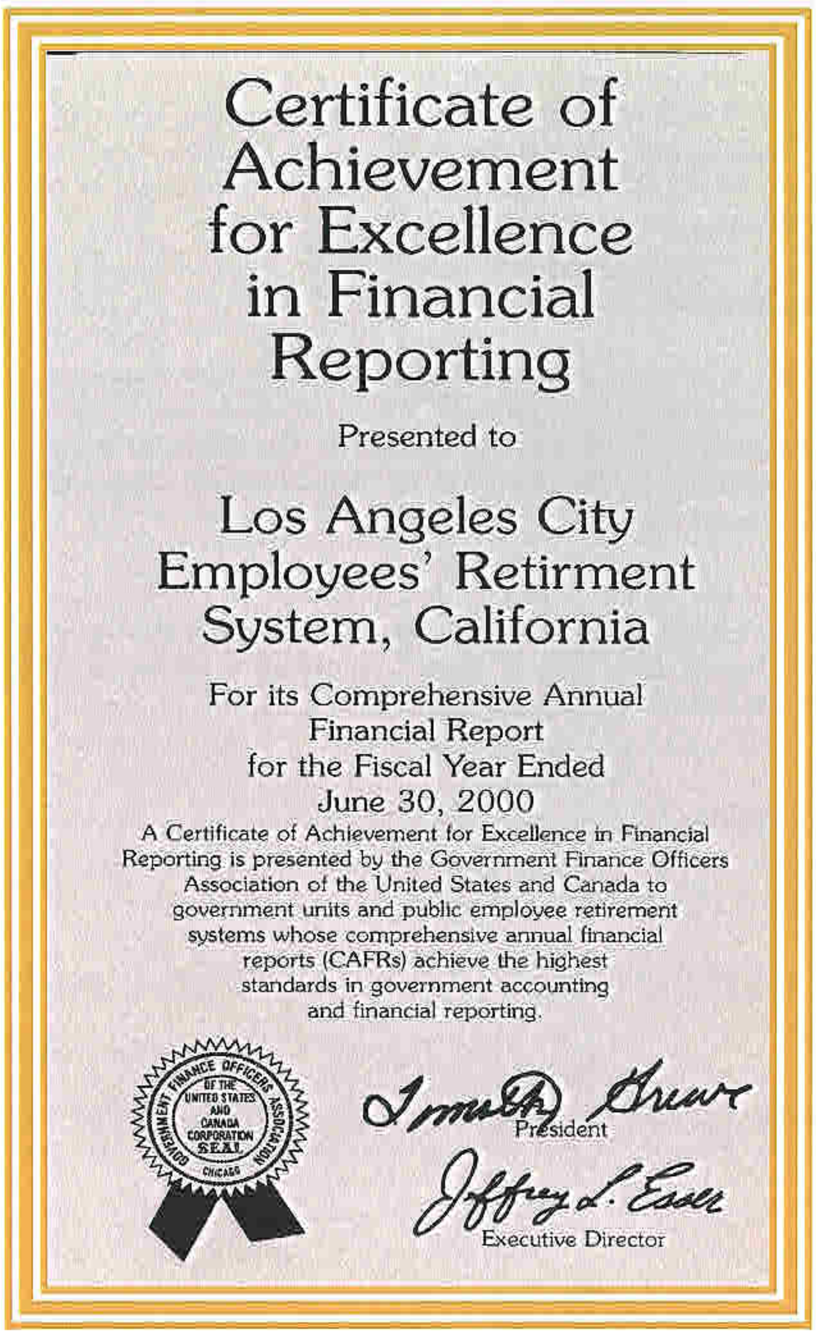
I would like to express my appreciation to the entire Board for effectively working together to set investment policies which allowed the Fund to participate in the exceptional returns of the financial markets. We'd like to thank staff for continually providing quality customer service to the members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

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

Respectfully submitted,

| | |
|---|---|
| Oscar Peters | Li Hsi |
| General Manager | Chief Accounting Employee |

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**
**CERTIFICATE OF ACHIEVEMENT FOR**
**EXCELENCE IN FINANCIAL REPORTING**
**YEAR ENDED JUNE 30, 2000**



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Los Angeles City Employees' Retirment System, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

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

President

Executive Director

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

## BOARD OF ADMINISTRATION

**FISCAL YEAR 2000 - 2001**

**President:**

WILLIAM H. DOHENY, JR.

**Vice President:**

SHELLEY I. SMITH

**Commissioners:**

ROBERT D. BEYER

JERALD K. LEE

CHARLEY M. MIMS

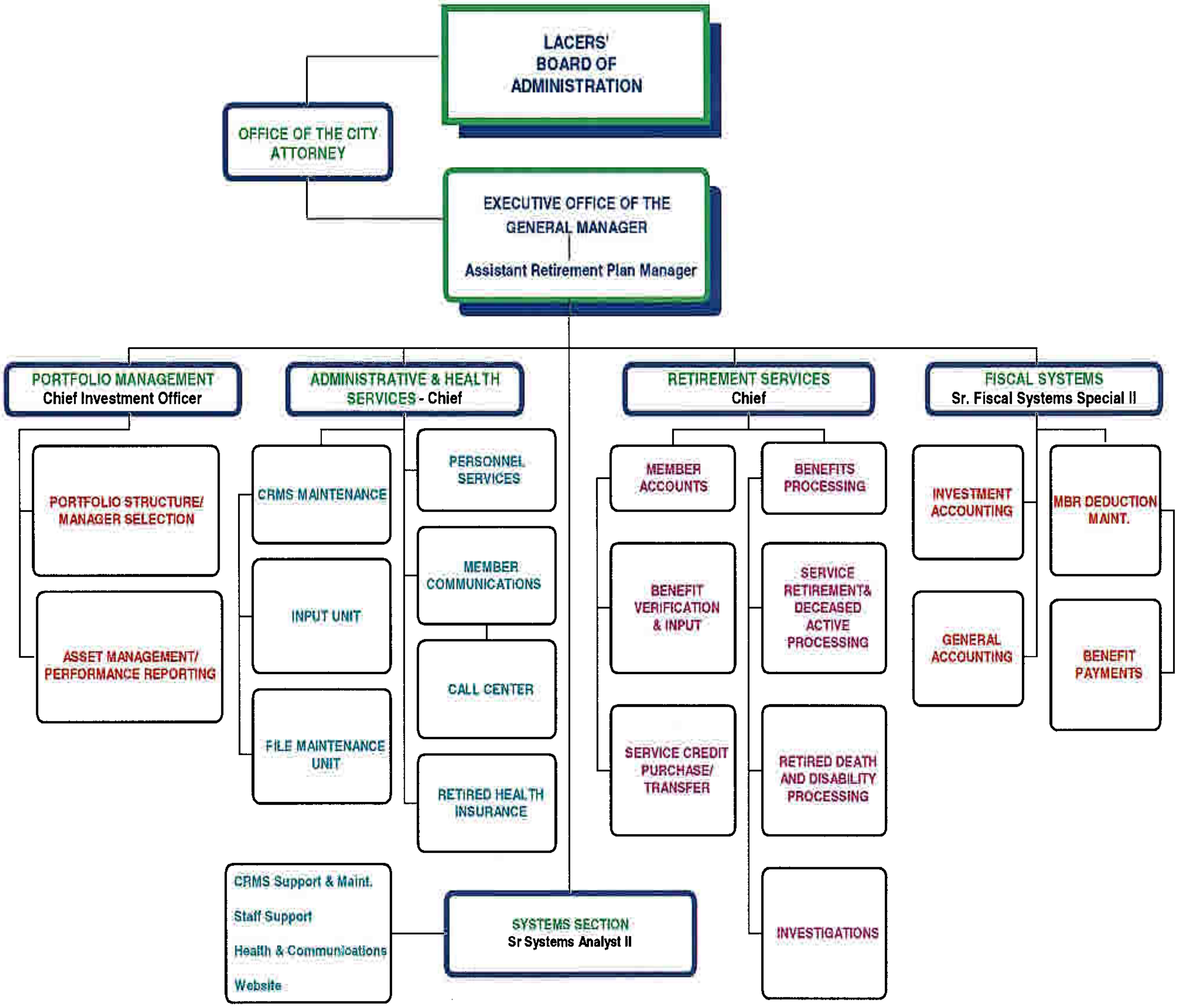
BEVERLY RYDER

KEN SPIKER

**Manager-Secretary:**

OSCAR PETERS

# LACERS ORGANIZATIONAL CHART



# PROFESSIONAL CONSULTANTS

## ACTUARY

**Gabriel, Roeder, Smith & Company**
San Diego, CA

## AUDITOR

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

## BENEFICIARY VERIFICATION

**Pension Benefit Information**
Tiburon, CA

## HEALTH & WELFARE CONSULTANTS

**Deloitte & Touche**
Costa Mesa, CA

## INVESTMENT CONSULTANTS

**The Townsend Group**
Cleveland, OH

**Pathway Capital Management**
Irvine, CA

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

## SYSTEMS CONSULTANT

**Silverback Information Systems, LLC.**
Cypress, CA

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LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# FINANCIAL SECTION

ERNST & YOUNG LLP

725 South Figueroa Street
Los Angeles, California 90017-5418

Phone: 213 977 3200

# Report of Independent Auditors

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

We have audited the accompanying retirement plan and postemployment healthcare plan statement of plan net assets of the Los Angeles City Employees' Retirement System (the System), a department of the City of Los Angeles, California, as of June 30, 2001, and the related retirement plan and postemployment healthcare plan statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the retirement plan and postemployment healthcare plan of the Los Angeles City Employees' Retirement System as of June 30, 2001, and the changes in its net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

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

Ernst + Young LLP

September 28, 2001

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

# Retirement Plan and Postemployment Healthcare Plan Statement of Plan Net Assets

As of June 30, 2001, with Comparative Totals

*(In Thousands)*

| | Retirement Plan | Postemployment Healthcare Plan | Totals 2001 | Totals 2000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term investments (*Note 5*) | $ 528,058 | $ 63,667 | $ 591,725 | $ 697,775 |
| Receivables: | | | | |
| Accrued investment income | 33,674 | 4,060 | 37,734 | 37,581 |
| Proceeds from sales of investments | 155,897 | 18,796 | 174,693 | 318,262 |
| Other | 3,928 | 474 | 4,402 | 4,221 |
| Total receivables | 193,499 | 23,330 | 216,829 | 360,064 |
| Investments, at fair value (*Notes 5 and 6*): | | | | |
| U.S. government obligations | 253,315 | 30,542 | 283,857 | 378,561 |
| Municipal bonds | 9,886 | 1,192 | 11,078 | – |
| Domestic corporate bonds | 772,541 | 93,144 | 865,685 | 656,421 |
| International bonds | 413,046 | 49,800 | 462,846 | 453,549 |
| Domestic stocks | 2,572,202 | 310,127 | 2,882,329 | 3,199,443 |
| International stocks | 1,138,651 | 137,286 | 1,275,937 | 1,582,189 |
| Mortgages | 371,044 | 44,737 | 415,781 | 286,235 |
| Government agencies | 91,113 | 10,985 | 102,098 | 121,896 |
| Real estate | 306,809 | 36,991 | 343,800 | 225,921 |
| Venture capital and alternative investments | 225,402 | 27,177 | 252,579 | 229,172 |
| Security lending collateral | 756,278 | 91,184 | 847,462 | 939,683 |
| Total investments | 6,910,287 | 833,165 | 7,743,452 | 8,073,070 |
| Total assets | 7,631,844 | 920,162 | 8,552,006 | 9,130,909 |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | 15,005 | 1,809 | 16,814 | 15,205 |
| Purchase of investments | 323,426 | 38,995 | 362,421 | 294,524 |
| Security lending collateral | 756,278 | 91,184 | 847,462 | 939,683 |
| Total current liabilities | 1,094,709 | 131,988 | 1,226,697 | 1,249,412 |
| Net assets held in trust for pension benefits and postemployment healthcare benefits (a schedule of funding progress is presented on page 33) | $ 6,537,135 | $ 788,174 | $ 7,325,309 | $ 7,881,497 |

*See accompanying notes.*

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

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

Year ended June 30, 2001, with Comparative Totals

*(In Thousands)*

| | Retirement Plan | Postemployment Healthcare Plan | Totals 2001 | Totals 2000 |
|---|---|---|---|---|
| Additions: | | | | |
| Contributions: | | | | |
| Employer | $ 79,861 | $ 8,036 | $ 87,897 | $ 106,610 |
| Plan member | 69,460 | – | 69,460 | 64,580 |
| Total contributions *(Note 2)* | 149,321 | 8,036 | 157,357 | 171,190 |
| Investment income (loss): | | | | |
| Net appreciation (depreciation) in fair value of investments, including gain (loss) on sales | (505,822) | (70,614) | (576,436) | 555,506 |
| Interest | 163,275 | 17,860 | 181,135 | 170,587 |
| Dividends | 36,458 | 3,988 | 40,446 | 50,441 |
| Alternative investment income | 1,631 | 178 | 1,809 | 225 |
| Real estate operating income, net of expense | 16,745 | 1,726 | 18,471 | 12,145 |
| | (287,713) | (46,862) | (334,575) | 788,904 |
| Investment management expense | (12,936) | (1,806) | (14,742) | (17,738) |
| Total investment income (loss), net | (300,649) | (48,668) | (349,317) | 771,166 |
| | (151,328) | (40,632) | (191,960) | 942,356 |
| Deductions: | | | | |
| Benefits | 308,636 | 34,469 | 343,105 | 319,382 |
| Refunds of contributions | 12,923 | – | 12,923 | 12,993 |
| Administrative expenses | 7,196 | 1,004 | 8,200 | 7,547 |
| | 328,755 | 35,473 | 364,228 | 339,922 |
| Net increase (decrease) | (480,083) | (76,105) | (556,188) | 602,434 |
| Net assets held in trust for pension benefits and postemployment healthcare benefits: | | | | |
| Beginning of year | 7,017,218 | 864,279 | 7,881,497 | 7,279,063 |
| End of year | $ 6,537,135 | $ 788,174 | $ 7,325,309 | $ 7,881,497 |

*See accompanying notes.*

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

Notes to Financial Statements

June 30, 2001

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

### General

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

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

The primary eligibility requirement for postemployment healthcare subsidy is that the person is a retired employee, and/or an eligible spouse, who is receiving a monthly allowance from the Los Angeles City Employees' Retirement System. The required contribution rate for the postemployment healthcare benefits for the fiscal year ended June 30, 2001, was 0.67% of covered payroll.

The System's funding policy under Article XI Sections 1158 and 1162 provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2001, the System's actuary recommended the rate of 4.93% of covered payroll as the City's contribution to the Plan for pension benefits. Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (see Note 4). Members entering subsequent to January 1983 contribute a flat rate of 6%. Members of the System have a vested right to their own contributions and accumulated investment earnings. After five years of employment, members are eligible for future retirement benefits, which

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

### General (continued)

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

The components of the System's membership were as follows at June 30, 2001:

| | |
|---|---|
| Active: | |
| Vested | 17,617 |
| Nonvested | 8,037 |
| | 25,654 |
| Inactive: | |
| Nonvested | 1,046 |
| Terminated entitled to benefit, not yet receiving benefits | 748 |
| Retired | 13,365 |
| Total | 40,813 |

### Basis of Accounting

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

### Basis of Presentation

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

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

### Fair Value of Investments

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

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

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

### Concentration of Market and Credit Risk

The System's exposure to credit loss in the event of nonperformance of its investments is limited to the carrying value of such instruments. The System's concentrations of credit risk and market risk are dictated by the System's investment guidelines. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty

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

### Concentration of Market and Credit Risk (continued)

related to changes in the value of these investments, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of plan net assets and the statement of changes in plan net assets.

### Fixed Assets

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

### Administrative Expenses

All administrative expenses are funded from the System's plan net assets.

### Reserves

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

Plan Member Contributions – Active member contributions to the Plan and investment earnings (losses) credited to members' accounts, less refunds of members' contributions and transfers to the annuity reserve.

Employer Contributions – Consists of the following components:

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

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

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

### Reserves (continued)

Family Death Benefits – Member contributions, matching City contributions, and investment earnings (losses) reserved to pay benefits under the family death benefits insurance plan established by the System, less payments to beneficiaries.

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

Reserve balances as of June 30, 2001, are as follows (in thousands):

| | | |
|---|---|---|
| Member contribution | $ | 889,658 |
| Basic pensions | | 5,190,178 |
| Retired member annuity | | 439,081 |
| Family death benefit | | 18,218 |
| Postretirement health benefit | | 788,174 |
| Total reserves | $ | 7,325,309 |

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

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

## 2. Contributions Required and Contributions Made

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

## 2. Contributions Required and Contributions Made

Most of the UAAL is amortized as a level percent of pay over the period ending June 30, 2010. Increases in the UAAL due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years, both as a level percent of pay. Plan amendments are amortized over 30 years as a level percent of pay, unless the characteristics of the amendment dictate a shorter amortization period. The amortization periods are considered closed as the amounts calculated annually are amortized over either a 15- or 30-year period.

The contributions to the System for the year ended June 30, 2001, of approximately $157,357,000 ($149,321,000 for the retirement plan and $8,036,000 for healthcare), were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 1999.

Contributions to the System consisted of the following for the year ended June 30, 2001 (in millions):

| | Amount | Percentage of Covered Payroll |
|---|---|---|
| Covered payroll at June 30, 2001 | $ 1,293.4 | 100% |
| **Retirement Plan** | | |
| Normal cost | $ 183.5 | 14.19% |
| Amortization of the unfunded actuarial accrued liability | (34.4) | (2.66)% |
| Family death benefits insurance plan | 0.2 | 0.02% |
| Total | $ 149.3 | 11.55% |
| Total City contribution | $ 79.9 | 6.18% |
| Plan member contribution | 69.4 | 5.37% |
| Total | $ 149.3 | 11.55% |

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

| | Amount | Percentage of Covered Payroll |
|---|---|---|
| **Healthcare** | | |
| Normal cost | $ 21.6 | 1.67% |
| Amortization of the unfunded actuarial accrued liability | (13.6) | (1.05)% |
| Total | $ 8.0 | 0.62% |
| Total City contribution | $ 8.0 | 0.62% |

## 3. Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 33 through 35.

## 4. Defrayal of Portion of Member Contributions

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

The amount payable by the City, based upon the actuarial valuations, was approximately 94% of subsidized member contributions for the year ended June 30, 2001. The City contributed $20.5 million in this manner for the year ended June 30, 2001.

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

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

- The aggregate monies invested in debt-type securities, such as bonds or debentures below investment grade, cannot exceed 20% of the assets of the System.

- Thirty-five percent of the System's assets may be invested in short-term money market instruments such as certificates of deposit, commercial paper, bankers acceptances and repurchase agreements. A "short-term" money market instrument is one which matures within one year from the purchase date.

- The aggregate monies invested in equity-type securities, such as common stocks, preferred stocks, convertible preferred stocks and convertible bonds and debentures cannot exceed 70% of the System's assets. A maximum of 50% of equity-type securities may be invested in corporations that have not paid a dividend on their common stock in each of the five fiscal years next preceding the date of investment.

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

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

The System considers investments purchased with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2001, on the retirement plan and postemployment healthcare statement of plan net assets includes approximately $1,248,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $590,477,000 for a total of $591,725,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's

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

office. These assets are not individually identifiable. At June 30, 2001, short-term investments included commercial paper of $210,000,000, collective STIF of $288,489,000, international STIF of $89,906,000, and future initial margin of $2,082,000.

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

At June 30, 2001, the fair value of investments was as follows (in thousands).

| | |
|---|---|
| Investments – Category 1 (held by System's agent in the System's name): | |
| Futures initial margin | $ 2,082 |
| U.S. government obligations | 494,357 |
| Domestic corporate fixed income securities | 775,064 |
| International fixed income securities | 412,279 |
| Domestic stocks | 2,643,493 |
| International stocks | 1,039,359 |
| Commercial paper | 210,000 |
| Subtotal | 5,576,634 |
| | |
| Investments – not categorized: | |
| Collective STIF | 288,489 |
| International STIF | 89,906 |

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

| | |
|---|---|
| Investments held by broker-dealers under securities loans with cash collateral: | |
| U.S. government and agency securities | $ 254,915 |
| Domestic corporate fixed-income securities | 89,075 |
| International fixed-income securities | 50,567 |
| Domestic stocks | 229,139 |
| International stocks | 195,535 |
| Subtotal | 819,231 |
| Investments held by broker-dealers under securities loans with non-cash collateral: | |
| U.S. government and agency securities | 63,542 |
| Domestic corporate fixed income securities | 1,546 |
| Domestic stocks | 9,697 |
| International stocks | 41,043 |
| Subtotal | 115,828 |
| Securities lending short-term investment pool *(Note 6)* | 847,462 |
| Real estate investment funds | 343,800 |
| Alternative investments | 252,579 |
| Equity in city treasury | 1,248 |
| Subtotal | 1,445,089 |
| Less equity in city treasury | (1,248) |
| Total investments, net of equity in city treasury | $ 8,333,929 |

## 6. Securities Lending Agreement

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

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

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

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

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

As of June 30, 2001, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent.

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

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

The following represents the balances relating to the security lending transactions as of June 30, 2001 (in thousands):

| Securities Lent | Fair Value of Underlying Securities |
|---|---|
| U.S. government and agency securities | $ 318,457 |
| Domestic corporate fixed-income securities | 90,621 |
| International fixed-income securities | 50,567 |
| Domestic stocks | 238,836 |
| International stocks | 236,578 |
| | $ 935,059 |

As of June 30, 2001, the fair value of the lent securities was $935,059,000. The fair value of associated collateral was $968,284,000. Of this amount, $847,461,000 represents the fair value of cash collateral and $120,823,000 represents the fair value of the noncash collateral. Noncash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses from security lending were $5,352,000 and $1,606,000, respectively, for the year ended June 30, 2001.

**7. Futures and Forward Contracts**

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures contracts are used to hedge cash for asset allocation purposes, and forward contracts are used to hedge against fluctuation in foreign currency-denominated assets and related income. Gains and losses on futures and forward contracts are recognized as gains or losses for the current period.

At June 30, 2001, the System had net outstanding futures and forward commitments with a notional amount of $410,303,000, which expire through September 2001. These commitments are not recorded in the general purpose financial statements. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was $2,082,000 as of June 30, 2001. The realized loss on foreign currency translation was $62,438,000 for the year ended June 30, 2001.

## 7. Futures and Forward Contracts (continued)

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

## 8. Commitments and Contingencies

At June 30, 2001, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $396,153,000.

## 9. Effect of New Pronouncements

In June 1999, GASB issued statement No. 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*. This statement establishes financial reporting standards for state and local governments, including public employee retirement systems. Under the revised requirements, government financial statements will include management's discussion and analysis (MD&A), basic financial statements, and required supplementary information.

GASB No. 34 becomes effective in three phases based on a government's total annual revenues in the first year ending after June 15, 1999. The System will be required to implement GASB No. 34 for the fiscal year ending June 30, 2002. The System has elected not to early implement GASB No. 34 and has determined its effects will not be material on the System's financial statements.

# Required Supplementary Information

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

## Required Supplementary Information
## Retirement Plan
## Schedule of Funding Progress

*(Dollars in Thousands)*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded or (Overfunded) AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| June 30, 1995 | $ 3,940,057 | $ 4,080,766 | $ 140,709 | 96.6% | $ 911,292 | 15.4% |
| June 30, 1996 | 4,468,433 | 4,476,024 | 7,591 | 99.8 | 957,423 | 0.8 |
| June 30, 1997 | 4,802,509 | 4,886,337 | 83,828 | 98.3 | 990,616 | 8.5 |
| June 30, 1998 | 5,362,923 | 5,312,918 | (50,005) | 100.9 | 1,011,857 | (4.9) |
| June 30, 1999 | 5,910,948 | 5,684,586 | (226,362) | 104.0 | 1,068,124 | (21.2) |
| June 30, 2000 | 6,561,365 | 6,012,931 | (548,434) | 109.1 | 1,182,203 | (46.4) |
| June 30, 2001 | 6,988,782 | 6,468,066 | (520,716) | 108.1 | 1,293,350 | (40.3) |

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

Required Supplementary Information
Retirement Plan
Schedule of Employer Contributions

*(Dollars in Thousands)*

| | Employer Contributions Total | |
|---|---|---|
| | **Annual Required Contribution** | **Percentage Contributed** |
| Year ended June 30 | | |
| 1995 | $ 115,130 | 100% |
| 1996 | 120,660 | 100 |
| 1997 | 88,800 | 100 |
| 1998 | 64,460 | 100 |
| 1999 | 69,249 | 100 |
| 2000 | 72,146 | 100 |
| 2001 | 59,153 | 100 |

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

Required Supplementary Information
Retirement Plan
Notes to Required Supplementary Information

**1. Description**

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

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

| | |
|---|---|
| Valuation date | June 30, 2001 |
| Actuarial cost method | Projected unit credit |
| Amortization method | Level percent supplemental cost |
| Remaining amortization period | Varies 15-30 years, closed |
| Actuarial valuation of assets method | Market value adjusted for unamortized actuarial investment gains/losses (amortized over a five-year period); actuarial value of assets must be between 80% to 120% of actual market value of plan assets. |
| Actuarial assumptions: | |
| Investment rate of return | 8% |
| Includes inflation at | 4% |
| Projected salary increases | 4% per year over a full 30-year career |
| Cost of living adjustments | 3% |

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# Supplemental Schedules

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

## Schedule of Administrative Expenses

Year ended June 30, 2001

*(In Thousands)*

| | Retirement Plan | Postemployment Healthcare | Total |
|---|---|---|---|
| Personnel services: | | | |
| Staff salaries | $ 3,715 | $ 519 | $ 4,234 |
| Staff benefits | 311 | 43 | 354 |
| Retiree's health administration | 454 | 63 | 517 |
| Total personnel services | 4,480 | 625 | 5,105 |
| Professional services: | | | |
| Actuarial | 67 | 9 | 76 |
| Data processing | 879 | 123 | 1,002 |
| Audit | 76 | 11 | 87 |
| Legal counsel | 191 | 27 | 218 |
| Medical for temporary disability | 224 | 31 | 255 |
| Total professional services | 1,437 | 201 | 1,638 |
| Communication: | | | |
| Printing | 28 | 4 | 32 |
| Telephone | 50 | 7 | 57 |
| Postage | 119 | 16 | 135 |
| Travel | 49 | 7 | 56 |
| Total communication | 246 | 34 | 280 |
| Rentals: | | | |
| Office space | 580 | 81 | 661 |
| Equipment leasing | 10 | 1 | 11 |
| Total rentals | 590 | 82 | 672 |
| Miscellaneous: | | | |
| Office expense | 443 | 62 | 505 |
| Total miscellaneous | 443 | 62 | 505 |
| | $ 7,196 | $ 1,004 | $ 8,200 |

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

## Schedule of Investment Expenses

Year ended June 30, 2001

Investment expenses of the System for the year ended June 30, 2001, were as follows (in thousands):

| | Assets Under Management | Fees |
|---|---|---|
| **Retirement Plan** | | |
| Investment Management Expense: | | |
| Fixed Income Managers | $ 1,910,944 | $ 2,289 |
| Equity Managers | 3,710,854 | 7,841 |
| Security Lending Fees | 756,278 | 1,409 |
| Alternative Investment Consulting Fees | 225,403 | 263 |
| Other Investment Fees | N/A | 1,134 |
| Subtotal Investment Management Expenses, excluding Real Estate | 6,603,479 | 12,936 |
| **Healthcare** | | |
| Investment Management Expense: | | |
| Fixed Income Managers | 230,399 | 319 |
| Equity Managers | 447,413 | 1,095 |
| Security Lending Fees | 91,184 | 197 |
| Alternative Investment Consulting Fees | 27,177 | 37 |
| Other Investment Fees | N/A | 158 |
| Subtotal Other Investment Service Fees | 796,173 | 1,806 |
| Total Investment Management Expenses, excluding Real Estate | $ 7,399,652 | $ 14,742 |
| Real Estate Managers' Fees, netted with Investment Income: | | |
| Retirement Plan | $ 306,809 | $ 3,487 |
| Healthcare | 36,991 | 487 |
| Total Real Estate Fee | $ 343,800 | $ 3,974 |

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# INVESTMENT SECTION

# CITY OF LOS ANGELES

CALIFORNIA

RICHARD J. RIORDAN
MAYOR

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

(213) 473-7124

INVESTMENTS

OSCAR PETERS
GENERAL MANAGER

DANIEL P. GALLAGHER
CHIEF INVESTMENT OFFICER

## REPORT ON INVESTMENT ACTIVITY

December 11, 2001

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

Dear Commissioners,

Presented below for your consideration is my summary report of the Fund's investment activities for fiscal year 2000-2001.

**Investment Performance**

After producing six consecutive years of double-digit growth investment returns, the portfolio declined in FY 2000-2001 in the wake of negative financial markets. The total portfolio's rate of return of -4.2% exceeded its policy benchmark of -5.3% but was below the 8% actuarial rate. The portfolio ended the fiscal year at a market value of $7.33 billion.

Domestic equities' investment return of -6.6% exceeded its benchmark of -13.9%. At a return of 11.7%, domestic fixed income beat its benchmark of 10.8%. Returning -25.7%, non-US equities under-performed their benchmark of -22.3%. Global fixed income lagged its benchmark by .5% with a return of 8.6%. With a return of 9.1%, real estate trailed its benchmark of 11.9%. Alternative investments' return of -8.2% exceeded its benchmark return of -11.3%. Table 4 displays a summary of investment returns.

## Manager Search, Contract Renewal, and New Hires

*Public Markets*

The Board issued a request for proposals for managers of small cap growth equities, Europe/Australasia/Far East (EAFE) core equities, and large cap value equities portfolios. Searches for the small cap growth and EAFE mandates were completed, and three managers were selected (Table 3). Contracts with three managers of publicly traded securities were renewed (Table 1).

*Private Investments*

The Board continued to fund private investments in both alternative and real estate asset classes. During FY2000-2001, existing partnerships made capital calls for a total of $156,561,437. The Board added five alternative investment partnerships to the portfolio (Table 2).

The Board renewed contracts with its real estate and alternative investments consultants, and with an outside law firm providing real estate legal counsel.

## Policies, Procedures, and Guidelines

The Board continued its strategic goal of reviewing and updating investment policies, procedures and guidelines. The real estate Investment Strategy and Policy documents were reviewed and updated to include minor changes.

The Investment Policy for Alternative Investments was reviewed and updated to include a "discretion-in-a-box" investment process and procedures for handling securities distributed by alternative investments partnerships. On "discretion-in-a-box", the manager has discretion to invest within pre-defined limits.

## Asset Allocation

The Board completed its two-phase asset allocation review initiated in fiscal year 1999/2000. The first phase involved a review of the portfolio at the macro level with a goal of optimizing asset class weightings, and was completed last year. The second phase, to separately restructure each asset class, was started during 1999/2000 and was completed this fiscal year.

The non-US and domestic equity asset classes were reviewed this fiscal year (2000/2001). The All Country World Index ex-US (ACWI) was adopted as the new benchmark for non-US equities. Also, the asset class was restructured toward a market weighting with the following changes:

- Reduction in the allocation to Pacific Basin equities
- Increase in the allocation to European equities
- Reduction in the allocation to emerging market equities
- Increase in the allocation to active EAFE core equities
- Reduction in the allocation to passive EAFE core equities

A review of the domestic equity asset class showed a bias towards large cap growth equities. To balance the equity styles, the Board reallocated funds to a passive large cap value strategy and authorized a search for a large cap value active manager. Also, the enhanced S&P 500 equity strategy was reviewed and its allocation designated as a source of liquidity.

The Board affirmed the asset allocation targets and ranges in June 2001 (see 'Target Allocation' in Table 5). The Board also reactivated the asset allocation rebalancing model.

Additional information relating to the portfolio is provided in Tables 5-15. Table 5 compares actual investment allocation vs. target percentages. Tables 6, 7, 8 and 9 list the largest holdings in U.S. and non-U.S. equity and fixed income instruments. Table 10 provides a schedule of fees. Tables 11, 12 and 13 show brokerage commissions and expenditures. Table 14 contains market values, and table 15 contains names of contracted investment management and consulting firms.

Respectfully submitted,

Daniel P. Gallagher

**Daniel P. Gallagher**
Chief Investment Officer

# INVESTMENTS

## FISCAL YEAR 2000-2001

## A. OUTLINE OF INVESTMENT POLICIES

LACER's general investment goals are consistent with the City Charter citations and State Constitution and are stated below:

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

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

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

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

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

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

## B. PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

TABLE 1 -- The Board renewed contracts with the following managers of publicly traded securities:

| Investment Manager | Discipline |
|---|---|
| Alliance | Large Cap Growth |
| Oak Associates | Large Cap Growth |
| Templeton | Active MSCI Pacific Basin Index |

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

| Partnership | Discipline |
|---|---|
| Austin VIII | Venture Capital |
| CVC European Equity Partners III | Acquisitions |
| JH Whitney V | Venture Capital |
| Madison Dearborn IV | Acquisitions |
| Trident Capital Fund V | Venture Capital |

TABLE 3 -- The Board approved contracts with the following managers of publicly traded securities:

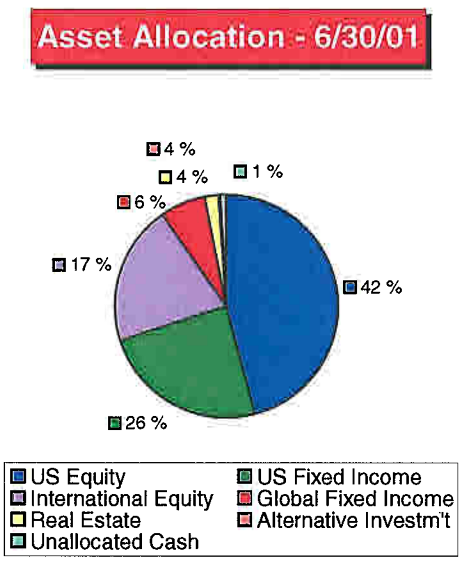
| Partnership | Discipline |
|---|---|
| Marvin & Palmer | Enhanced EAFE |
| TT International | Enhanced EAFE |
| SIT Investment Associates | Small Cap Growth |

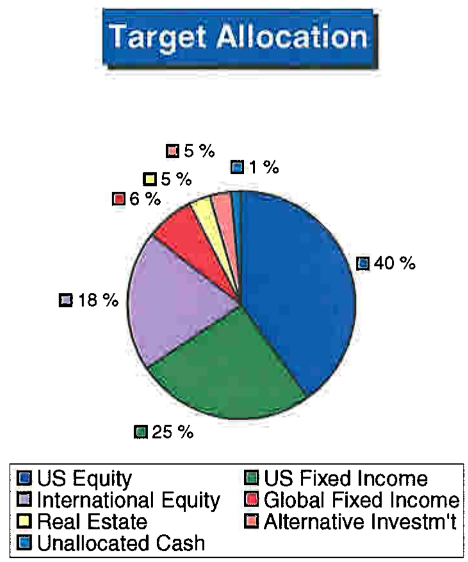
## TABLE 4 -- INVESTMENT RESULTS

| RETURN SUMMARY * | Annualized | | |
|---|---|---|---|
| (gross of fees) | 1 Year (%) | 3 Years (%) | 5 Years (%) |
| **US Equity** | **-6.6** | **6.4** | **14.4** |
| *Russell 3000* | *-13.9* | *4.2* | *13.8* |
| **US Fixed Income** | **11.7** | **6.4** | **7.5** |
| *LB Universal *** | *10.8* | *6.1* | *7.4* |
| **International Equity** | **-25.7** | **1.7** | **-1.0** |
| *MS ACWI Free ex US Index ** | *-22.3* | *-0.5* | *3.5* |
| **International Fixed Income** | **8.6** | **6.3** | **8.2** |
| *JPM Hedged Global Bond Index* | *9.1* | *6.8* | *8.7* |
| **Real Estate** | **9.1** | **11.3** | **12.9** |
| *NCREIF Property Index* | *11.9* | *12.5* | *12.7* |
| **Alternative** | **-8.2** | **15.6** | **15.9** |
| *Venture Economic Index* | -11.3 | 20.1 | 21.7 |
| **LACERS Total Fund** | **-4.2** | **6.2** | **8.8** |
| *CPI+5%* | *8.5* | *8.2* | *7.8* |

TABLE 5 -- **ASSET ALLOCATION**

| Actual | | Target | |
|---|---|---|---|
| **US Equity** | 42 % | **US Equity** | 40 % |
| **US Fixed Income** | 26 % | **US Fixed Income** | 25 % |
| **International Equity** | 17 % | **International Equity** | 18 % |
| **Global Fixed Income** | 6 % | **Global Fixed Income** | 6 % |
| **Real Estate** | 4 % | **Real Estate** | 5 % |
| **Alternative Investment** | 4 % | **Alternative Investment** | 5 % |
| **Unallocated Cash** | 1 % | **Unallocated Cash** | 1 % |




- LACERS' investment performance is calculated using monthly internal rate of return & day-weighted cashflows. Periods longer than one month are geometrically linked. This method of return calculation complies with AIMR performance presentation standards.
- Broad Asset Class Weighted Benchmark, Weighted by Target Allocations
- The MS ACWI Free and LB Universal benchmarks have historical data blended with other indices.

## LIST OF LARGEST ASSETS HELD

Displayed below are the ten largest holdings in each asset class along with their market and share/par values, as of June 30, 2001. A complete listing of the System's holdings may be obtained upon request.

### TABLE 6 -- **DOMESTIC FIXED HOLDINGS**

| No. | Par Value | Asset Description | US Market Value $ |
|---|---|---|---|
| 1. | 53,605,000 | FNMA 7.5 30 Years Jul | 54,696,398 |
| 2. | 36,550,000 | Safeco Cap 8.072 due 07-15-37 Jul | 31,210,411 |
| 3. | 20,540,000 | US Treasury 8.125Due 08/15/19 | 25,517,742 |
| 4. | 25,500,000 | AON Cap 8.205 due 01-01-27 | 24,950,730 |
| 5. | 17,305,000 | US Treas 12.75 due 11-15-2010/11-15-2005 | 22,490,789 |
| 6. | 20,000,000 | Newcourt Group Inc 6.875 due 02-16-2005 | 20,465,000 |
| 7. | 26,550,000 | Motorola Inc 6.5 due 11-15-2028 | 20,178,000 |
| 8. | 18,065,000 | May Dept Stores Co 8.5 due 06-01-2019 | 20,111,223 |
| 9. | 19,935,763 | FNMA Pool #520955 7 due 11-01-2029 | 20,072,523 |
| 10. | 19,105,000 | FHLMC 30 Yr Gold Partn 6 15 Yrs due Jul | 18,836,384 |
| Total | | | 258,529,200 |

### TABLE 7 -- **DOMESTIC EQUITY HOLDINGS**

| No. | Shares | Asset Description | Market Value US $ |
|---|---|---|---|
| 1. | 1,070,698 | General Electric Co | 52,196,528 |
| 2. | 826,031 | CITIGroup Inc | 43,647,478 |
| 3. | 580,646 | Microsoft Corp | 42,387,158 |
| 4. | 842,480 | Pfizer Inc | 33,741,324 |
| 5. | 576,865 | AOL Time Warner Inc | 30,573,845 |
| 6. | 332,048 | Exxon Mobil Corp | 29,004,393 |
| 7. | 1,488,274 | Cisco Sys Inc | 27,086,587 |
| 8. | 314,176 | Amer Intl Group Inc | 27,019,136 |
| 9. | 395,001 | Merck & Co Inc | 25,244,514 |
| 10. | 478,376 | Wal-Mart Stores Inc | 23,344,749 |
| Total | | | 334,245,712 |

TABLE 8 -- **NON-US FIXED HOLDINGS**

| No. | Par Value | Asset Description | Market Value US $ |
|---|---|---|---|
| 1. | 4,300,000,000 | Japan (Gov't of) 1.8% | 36,756,174 |
| 2. | 3,300,000,000 | Japan (Gov't of) 1.9% | 28,358,515 |
| 3. | 24,367,000 | Italy (Rep of) 6% Due 1/11/07 | 21,659,189 |
| 4. | 21,990,000 | Germany (Gov't of) 6.25% Due 04/01/30 | 20,142,034 |
| 5. | 19,640,145 | Germany (Fed Rep) 6.25% Due 04/01/24 | 17,801,775 |
| 6. | 2,218,201 | MFO Deutsche Emerging Markets Debt | 15,394,312 |
| 7. | 16,400,000 | Germany (Fed Rep) 6% Due 04/01/07 | 14,787,864 |
| 8. | 14,405,449 | Italy (Rep of) 7.75% Due 01/11/06 | 13,800,949 |
| 9. | 15,470,000 | Spain (Gov't of) 6% Due 31/1/2008 | 13,770,784 |
| 10. | 15,150,000 | Italy (Rep of) 5.25% Due 15/12/2005 | 13,058,598 |
| Total | | | 195,530,194 |

TABLE 9 -- **NON-US EQUITY HOLDINGS**

| No. | Shares | Asset Description | Market Value US $ |
|---|---|---|---|
| 1. | 9,039,577 | Vodafone Group | 20,022,690 |
| 2. | 586,463 | Glaxosmithkline | 16,495,458 |
| 3. | 613,908 | Nokia (AB) | 13,912,414 |
| 4. | 361,100 | Novartis AG | 13,068,266 |
| 5. | 624,000 | Nomura Securities | 11,957,665 |
| 6. | 1,450,860 | British Petroleum | 11,926,246 |
| 7. | 338,400 | Toyota Motor Corp | 11,911,289 |
| 8. | 179,545 | Sanofi-Synthelabo | 11,779,473 |
| 9. | 194,011 | Royal Dutch Petrol | 11,164,990 |
| 10. | 167,988 | Sony Corp | 11,044,753 |
| Total | | | 133,283,244 |

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

| **Fiscal Year** | **2000** Assets Under Management | **2000** Fees | **2001** Assets Under Management | **2001** Fees |
|---|---|---|---|---|
| **Investment Manager Fees:** | | | | |
| Fixed Income Managers | $ 1,896,663 | $ 3,236 | $2,141,343 | $ 2,608 |
| Equity Managers | 4,781,632 | 11,089 | 4,158,267 | 8,936 |
| Real Estate Managers | 225,920 | 2,579 | 343,800 | 3,974 |
| **Total** | **$ 6, 904,215** | **$ 16,904** | **$ 6,643,410** | **$ 15,518** |
| **Other Investment Service Fees:** | | | | |
| Security Lending Fees | $ 939,683 | $ 1,871 | $ 847,462 | $ 1,606 |
| Alt Investment Consultant Fees | 229,172 | 634 | 252,580 | 300 |
| Other Invest Consultant Fees | N/A | 908 | N/A | 1,292 |
| **Total** | **$ 1,168,855** | **$ 3,413** | **$ 1,100,042** | **$ 3,198** |

TABLE 11 -- **SCHEDULE OF TOP TEN BROKERS COMMISSION**

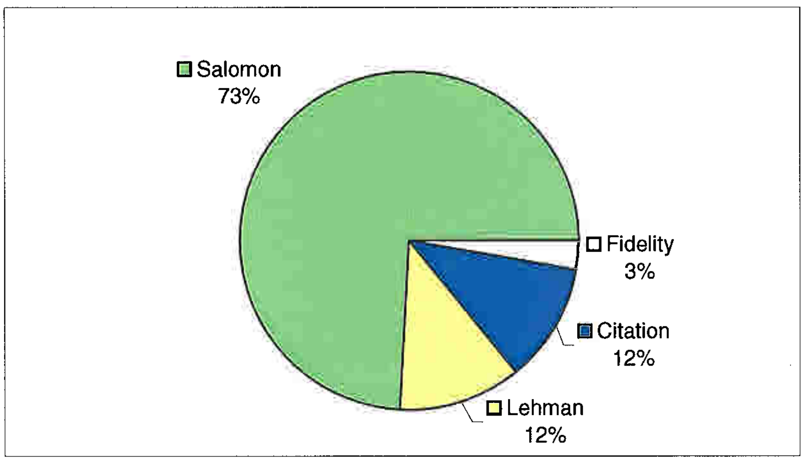
| Broker Name | Shares | Commission | $/Share |
|---|---|---|---|
| Morgan Stanely & Co Inc. | 4,074,814 | $ 115,848 | $ 0.028 |
| First Boston Corporation | 1,985,118 | 91,806 | 0.046 |
| Smith Barney | 1,833,200 | 84,444 | 0.046 |
| Merrill Lynch Pierce Fenner & Smith | 1,764,734 | 81,284 | 0.046 |
| Instinet | 2,871,371 | 78,080 | 0.027 |
| Investment Technology Group Inc | 3,347,763 | 64,690 | 0.019 |
| UBS Warburg Dillon Read LLC | 1,381,907 | 64,613 | 0.047 |
| Lynch Jones & Ryan | 1,197,450 | 62,825 | 0.052 |
| Fidelity Capital Markets | 866,700 | 50,133 | 0.058 |
| Goldman Sachs & Co | 1,576,503 | 50,116 | 0.032 |
| Total | 20,899,560 | 743,837 | 0.036 |
| Total - Other Brokers | 19,994,819 | 860,191 | 0.043 |
| **Grand Total *** | **40,894,379** | **$ 1,604,028** | **$ 0.039** |

- OTC Brokers excluded because there is no stated commission.

TABLE 12 -- **TOTAL SOFT DOLLARS EXPENDITURES 2000-2001**

| | | |
|---|---|---|
| Fidelity | $ | 5,722 |
| Citation | | 24,000 |
| Lehman | | 24,000 |
| Salomon | | 154,735 |
| **Total** | $ | 208,457 |
| | | |
| Services (Bloomberg, Proxy Monitor, etc) | | 80,627 |
| Computer Hardware, etc. | | 127,830 |
| **Total** | $ | 208,457 |

**Expenditure by broker**




**Expenditure type**

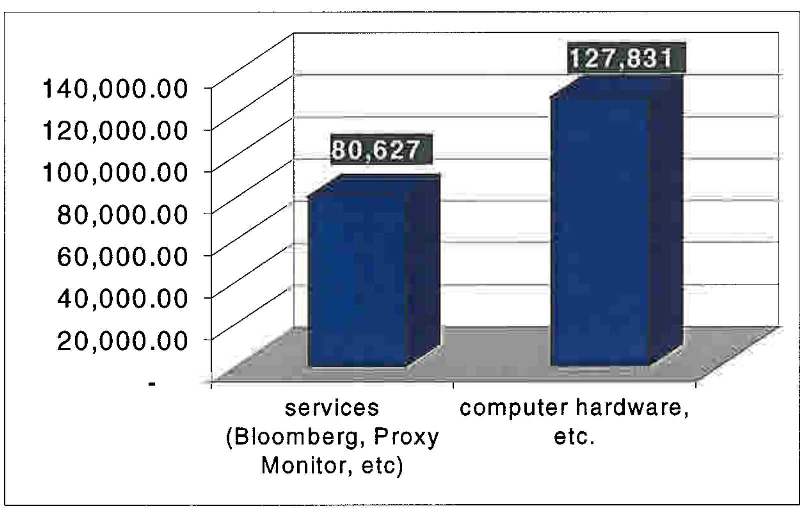


TABLE 13 -- **COMMISSION RECAPTURE 2000-2001**

| Broker Name | Amount | Percent |
|---|---|---|
| **ABEL / NOSER** | $ 8,470 | 5.20 % |
| **LYNCH, JONES & RYAN** | 154,719 | 94.75 % |
| **ROCHDALE** | 88 | 0.05 % |
| Total | $ 163,277 | 100.00 % |

TABLE 14 -- **INVESTMENT SUMMARY AS OF JUNE 30, 2001**

| Type of Investment | Fair Value | % of Total F. V. | Domestic Fair Value | Foreign Fair Value |
|---|---|---|---|---|
| **Fixed Income:** | | | | |
| Gov't bonds/Municipal/Gov't agencies | $ 859,879,000 | 11.10% | $ 397,033,000 | $ 462,846,000 |
| Corporate bonds | 865,685,394 | 11.18% | 865,685,394 | - |
| Government mortgage bonds | 415,780,649 | 5.37% | 415,780,649 | - |
| **Total fixed income** | **2,141,345,043** | **27.65%** | **1,678,499,043** | **462,846,000** |
| **Equities:** | | | | |
| Common stock: | | | | |
| Basic industries | 103,612,360 | 1.34% | 84,254,283 | 19,358,077 |
| Capital goods industries | 701,989,887 | 9.07% | 470,526,724 | 231,463,164 |
| Consumer & services | 1,400,589,518 | 18.09% | 904,107,498 | 496,482,019 |
| Convertible bonds/equities | 4,856,389 | 0.06% | 1,571,565 | 3,284,824 |
| Energy | 247,094,347 | 3.19% | 142,846,008 | 104,248,339 |
| Financial services | 658,458,634 | 8.50% | 381,779,094 | 276,679,540 |
| Misc.(Common Fund Assets) | 1,026,624,457 | 13.26% | 893,755,039 | 132,869,419 |
| **Total common stock** | **4,143,225,593** | **53.51%** | **2,878,840,210** | **1,264,385,383** |
| Preferred stock | 14,373,302 | 0.19% | 3,487,290 | 10,886,012 |
| Rights/warrants | 667,300 | 0.01% | 1,500 | 665,800 |
| **Total equities** | **4,158,266,194** | **53.70%** | **2,882,329,000** | **1,275,937,194** |
| **Real Estate:** | **343,800,174** | **4.44%** | **343,800,174** | - |
| **Alternative Investments:** | | | | |
| Acquisitions | 89,953,987 | 1.16% | 89,953,987 | - |
| Venture capital | 121,794,637 | 1.57% | 116,084,594 | 5,710,043 |
| Subordinated debt | 27,715,528 | 0.36% | 27,715,528 | - |
| International acquisitions | 13,114,878 | 0.17% | 13,114,878 | - |
| **Total alternative investments** | **252,579,030** | **3.26%** | **246,868,987** | **5,710,043** |
| **Security Lending Collateral:** | **847,461,570** | **10.94%** | **587,686,376** | **259,775,194** |
| **Total Fund** | **$ 7,743,452,011** | **100.00%** | **$5,739,183,580** | **$ 2,004,268,431** |

## TABLE 15 – **CONSULTING SERVICES**

### INVESTMENT ADVISORS

| Equity - Domestic | Real Estate | Real Estate |
|---|---|---|
| **Alliance Capital**<br>Minneapolis, MN | **Aldrich, Eastman & Waltch**<br>Boston, MA | **Miller Global Advisors**<br>Denver, CO |
| **BZW Barclays Global**<br>San Francisco, CA | **Aslan Realty Partners**<br>Chicago, IL | **L&B Real Estate Counsel**<br>Dallas, TX |
| **Dimensional Fund Advisors**<br>Santa Monica, CA | **CB Richard Ellis**<br>Los Angeles, CA | **RREEF Funds**<br>San Francisco, CA |
| **Fiduciary Trust International**<br>New York, NY | **DLJ Real Estate Capital, Partners**<br>Los Angeles, CA | **TA Associates Realty**<br>Boston, MA |
| **JP Morgan Investment Mgmt.**<br>New York, NY | **Hancock Timber Resource Group**<br>Boston, MA | **TCW Realty Advisors**<br>Los Angeles, CA |
| **Oak Associates**<br>Akron, OH | **ING Realty Partners**<br>Chicago, IL | **Tuckerman Group**<br>Boston, MA |
| **Rhumbline Advisers**<br>Boston, MA | **Invesco Realty Advisors**<br>Dallas, TX | **UBS Realty Advisors**<br>Hartford, CT |
| **SIT Investment Associates, Inc.**<br>Minneapolis, MN | **Koll Bren Realty Advisors**<br>Newport Beach, CA | **Westbrook Partners**<br>New York, NY |
| **Thomson, Horstmann & Bryant**<br>Saddlle Brook, NJ | **La Salle Advisors**<br>Chicago, IL | |

| Equity – International | Alternative | Alternative |
|---|---|---|
| **Capital Guardian Trust**<br>Los Angeles, CA | **Alchemy Partners**<br>London, UK | **Menlo Ventures**<br>Menlo Park, CA |
| **Daiwa International Capital**<br>New York, NY | **Apollo Advisors**<br>Purchase, NY | **Navis Partners**<br>Providence, RI |
| **Marvin & Palmer**<br>Wilimington, DE | **Austin Ventures**<br>Austin TX | **Oaktree Capital Management**<br>Los Angeles, CA |
| **Schroder Capital Mgmt.**<br>New York, NY | **CGW Southeast Partners**<br>Atlanta, GA | **Richland Ventures**<br>Nashville, TN |
| **State Street Global**<br>Boston, MA | **CVC Capital Partners**<br>London, UK | **Texas Pacific Group**<br>San Francisco, CA |
| **Templeton International**<br>Fort Lauderdale, FL | **Chisholm Partners**<br>Providence, RI | **Thomas Cressey**<br>Chicago, IL |
| **TT International**<br>London, UK | **Essex Woodlands**<br>Chicago, IL | **Thomas H. Lee Company**<br>Boston, MA |
| | **Golder, Thoma, Cressey & Renner**<br>Chicago, IL | **Trident**<br>Los Angeles, CA |
| | **Interwest Partners**<br>Menlo Park, CA | **Vantage Point Venture Partners**<br>San Bruno, CA |
| | **J.H. Whitney**<br>Stamford, CT | **Vestar Capital Partners**<br>New York, NY |
| | **Kelso**<br>New York, NY | **Welsh, Carson, Anderson, & Stowe**<br>New York, NY |
| | **KKR**<br>New York, NY | **Weston Presidio Capital**<br>Boston, MA |
| | **Madison Dearborn**<br>Providence, RI | |

| Fixed Income - Domestic | Global Fixed Income | Cash & Short-Term |
|---|---|---|
| **Lincoln Capital Mgmt. Co.**<br>Chicago, IL<br>**Loomis Sayles & Co., Inc.**<br>San Francisco, CA<br>**CB Richard Ellis**<br>Los Angeles, CA | **Deutsche Asset Management**<br>New York, NY | **Managed In-House** |

| Consultants | Custodian |
|---|---|
| **Pension Consulting Alliance, Inc.**<br>Portland, OR<br>**The Townsend Group**<br>Cleveland, OH<br>**Pathway Capital Management**<br>Irvine, CA | **The Northern Trust Company**<br>Chicago, IL |

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

# ACTUARIAL SECTION

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

November 29, 2001

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

Members of the Board:

Re: Actuarial Certification of the Los Angeles City Employees' Retirement System

The June 30, 2001 actuarial valuation of the Los Angeles City Employees' Retirement System (LACERS) was prepared by Gabriel, Roeder, Smith & Company. We certify that the Retirement System is in sound financial condition and that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Gabriel, Roeder, Smith & Company (GRS) completed the annual actuarial valuation as of June 30, 2001. We conducted an examination of all participant data for reasonableness. Enclosed are summaries of the employee data used in performing the actuarial valuations over the past several years (pages 97 and 114). We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period (pages 91 and 92).

The funding objective of the Plan is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Projected Unit Credit Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

Components of the UAAL are amortized as a level percentage of payroll over periods varying from 11-29 years. Each year's actuarial gain (loss) is amortized over 15 years. Any liability changes due to benefit or assumption changes are amortized over 30 years. Every five years all the amortization bases are combined. The progress being made towards meeting the funding objective through June 30, 2001 is illustrated on page 111.

For the Financial Section of the Comprehensive Annual Financial Report, GRS provided the trend data shown in the Required Supplementary Information. The schedules presented in the Actuarial Section have also been prepared and/or reviewed by our firm.

The actuarial assumptions shown in the schedules of the Actuarial Section were selected by the Retirement Board and us as being appropriate for use under the Plan. The assumptions in the June 30, 2001 valuation produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan.

Respectfully submitted,

Rick Roeder

Rick Roeder, EA, FSA, MAAA

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

November 7, 2001

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

Members of the Board:

Results of the regular Annual Actuarial Valuation as of June 30, 2001 of The Los Angeles City Employees' Retirement System are summarized. The valuation is intended to provide a measure of the funding status of the retirement system and health subsidy benefits. This valuation forms the basis for the City contribution rates for the year beginning July 1, 2002 and updates our report issued on October 18, 2001.

| Contributions | Retirement | Health |
|---|---|---|
| Normal Costs | 8.56% | 2.54% |
| Unfunded Amortization | (4.72)% | (0.56)% |
| TOTAL | 3.84% | 1.98% |

The member statistical data on which the valuation was based was furnished by LACERS, together with pertinent data on financial operations. Data was reviewed for reasonableness, but was not audited by the actuary.

There was an overall actuarial gain of $72.1 million, which reflects 1.0% of related actuarial accrued liabilities as of June 30, 2000.

The cooperation of LACERS in furnishing materials requested for this valuation is deeply acknowledged with appreciation.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY

Rick Roeder

Rick A. Roeder, E.A., F.S.A., M.A.A.A.

Los Angeles City Employees' Retirement System

## Summary of Significant Valuation Results

| | June 30, 2001 | June 30, 2000 | Percent Change |
|---|---|---|---|
| I. Total Membership | | | |
| A. Active Members | 25,654 | 24,234 | 5.9% |
| B. Pensioners | 13,365 | 13,058 | 2.4% |
| II. Salaries at June 30 | | | |
| A. Total Annual Payroll | $1,293,350,061 | $1,182,202,945 | 9.4% |
| B. Average Monthly Salary | $4,201 | $4,065 | 3.3% |
| III. Benefits to Current Pensioners and Beneficiaries | | | |
| A. Total Annual Benefits | $316,057,216 | $290,899,998 | 8.6% |
| B. Average Monthly Benefit Amount | $1,971 | $1,856 | 6.2% |
| IV. Total System Assets (Actuarial Value) | $7,853,296,534 | $7,389,277,187 | 6.3% |
| V. Unfunded Actuarial Accrued Liability/(Surplus) | | | |
| A. Retirement Benefits | ($520,716,053) | ($548,434,115) | 5.1% |
| B. Health Subsidy Benefits | ($37,079,192) | $43,762,962 | N/A |
| VI. Budget Items | FY 2002-2003 | FY 2001-2002 | |
| A. Retirement Benefits | | | |
| 1. Normal Cost as a Percent of Pay | 8.56% | 7.57% | 13.1% |
| 2. Amortization of Unfunded Actuarial Accrued Liability | (4.72%) | (5.03%) | 6.2% |
| 3. Total Retirement Contribution | 3.84% | 2.54% | 51.2% |
| B. Health Subsidy Contribution, as a Percent of Pay | 1.98% | 2.17% | (8.8%) |
| C. Total Contribution (A+B) | 5.82% | 4.71% | 23.6% |
| VII. Funded Ratio | | | |
| (Based on Actuarial Value of Assets) | | | |
| A. Retirement Benefits | 108.1% | 109.1% | (0.9%) |
| B. Health Subsidy Benefits | 104.6% | 94.9% | 10.2% |
| C. Total | 107.7% | 107.3% | 0.4% |
| (Based on Market Value of Assets) | | | |
| D. Retirement Benefits | 100.8% | 116.4% | (13.4%) |
| E. Health Subsidy Benefits | 97.6% | 101.2% | (3.6%) |
| F. Total | 100.4% | 114.5% | (12.3%) |

Promises Made, and To Be Paid For. As each year is completed, the Retirement System in effect hands an "IOU" to each member then acquiring a year of service credit – the "IOU" says: "The Los Angeles City Employees' Retirement System owes you one year's worth of retirement benefits, payments in cash commencing when you qualify for retirement."

The related key financial questions are:

Which generation of taxpayers contributes the money to cover the IOU?

The present taxpayers, who receive the benefit of the member's present year of service?

Or the future taxpayers, who happen to be in Los Angeles City at the time the IOU becomes a cash demand, years and decades later?

The principle of level percent of payroll financing intends that this year's taxpayers contribute the money to cover the IOUs being handed out this year. By following this principle, the employer contribution rate will remain approximately level from generation to generation (after funding of the system's initial unfunded liability is addressed) – our children and our grandchildren will contribute the same percents of active payroll we contribute now.

(There are systems which have a design for deferring contributions to future taxpayers, lured by a lower contribution rate now and putting aside the consequence that the contribution rate must then relentlessly grow much greater over decades of time.)

An inevitable by-product of the level-cost design is the accumulation of reserve assets, for decades, and income produced when the assets are invested. Invested assets are a by-product and not the objective. Investment income becomes, in effect, the 3rd contributor for benefits to employees, and is interlocked with the contribution amounts required from employees and employer.

(Concluded on next page)

(Concluded)

Translated to actuarial terminology, this level-cost objective means that the contribution rates must total at least the following:

Current Cost (the cost of members' service being rendered this year) . . .

plus. . .

Interest on Unfunded Accrued Liabilities (unfunded accrued liabilities are the difference between (i) liabilities for service already rendered and (ii) the accrued assets of the plan).

Computing Contributions To Support System Benefits. From a given schedule of benefits and from the employee data and asset data furnished, the actuary determines the contribution rates to support the benefits, by means of an actuarial valuation and a funding method.

An actuarial valuation has a number of ingredients such as: the rate of investment return which plan assets will earn; rates of withdrawal of active members who leave covered employment; rates of mortality; rates of disability; rates of pay increases; and the assumed age or ages at actual retirement. In an actuarial valuation assumptions must be made as to what the above rates will be, for the next year and for decades in the future. Only the subsequent actual experience of the plan can indicate the degree of accuracy of the assumptions.

Reconciling Differences Between Assumed Experience and Actual Experience. Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience, regardless of the wisdom behind the various financial assumptions or the skill of the actuary and the millions of calculations made. The future can be predicted with considerable but not complete precision, except for inflation which defies reliable prediction.

The System copes with these continually changing differences by having annual actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is continual adjustments in the computed employer contribution rates.

# THE ACTUARIAL VALUATION PROCESS

The financing diagram on the opposite page shows the relationship between the two fundamentally different philosophies of paying for retirement benefits: the method where contributions match cash benefit payments (or barely exceed cash benefit payments, as in the Federal Social Security program) which is an increasing contribution method; and the level contribution method which equalizes contributions between the generations.

\- - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -

The actuarial valuation is the mathematical process by which the level contribution rate is determined. The flow of activity constituting the valuation may be summarized as follows:

A. Covered people data, furnished by LACERS, including:

Retired lives now receiving benefits

Former employees with vested benefits not yet payable

Active employees

B. + Asset data (cash & investments), furnished by LACERS

C. + Assumptions concerning future experience in various risk areas, which are established by the Board after consulting with the actuary

D. + The funding method for employer contributions (the long-term, planned pattern for employer contributions)

E. + Mathematically combining the assumptions, the funding method, and the data

F. = Determination of:

Plan Financial Position and/or

Employer's New Contribution Rate

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# VALUATION RESULTS

# &

# COMMENTS

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## FUNDING OBJECTIVE

The funding objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens.

## CONTRIBUTION RATES

LACERS is supported by member contributions, City contributions, and investment income from Fund assets.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are intended to:

1. cover the actuarial present value of benefits allocated to the current year by the actuarial cost method (the normal cost); and
2. finance over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (unfunded actuarial accrued liability).

Computed contributions for the fiscal year beginning July 1, 2002 are shown on the following pages.

**Computed Contribution Rates**

(Expressed as Percents of Active Payroll)

| | Retirement | | Health Subsidy | |
|---|---|---|---|---|
| Valuation Date | **2001** | **2000** | **2001** | **2000** |
| Applying to Fiscal Year | 2002-03 | 2001-02 | 2002-03 | 2001-02 |
| Normal Cost | 8.56% | 7.57% | 2.54% | 2.15% |
| UAAL Amortization | (4.72)% | (5.03)% | (0.56) | 0.02 |
| **Total City Contribution** | 3.84% | 2.54% | 1.98% | 2.17% |

The above contributions are **exclusive** of applicable "picked up" employee contributions and assume contributions are made, on average, mid-year.

Ongoing unfunded actuarial accrued liabilities (UAAL) are a byproduct of actuarial gains and losses, as well as benefit, assumption and methodology changes. Each valuation generates an actuarial gain (loss) for each group valued. Each year's gain (loss) is amortized over fifteen years. Liability changes due to assumption changes and most benefit increases have been amortized over thirty years. Amortization is expressed as a percent-of-payroll and added to (or subtracted from) computed normal costs.

CALIFORNIA
Los Angeles

Los Angeles City Employees' Retirement System

**Computed Contribution Rates – Retirement Benefits**

June 30, 2001

(Expressed as Percents of Active Payroll)

## Elements of Normal Cost

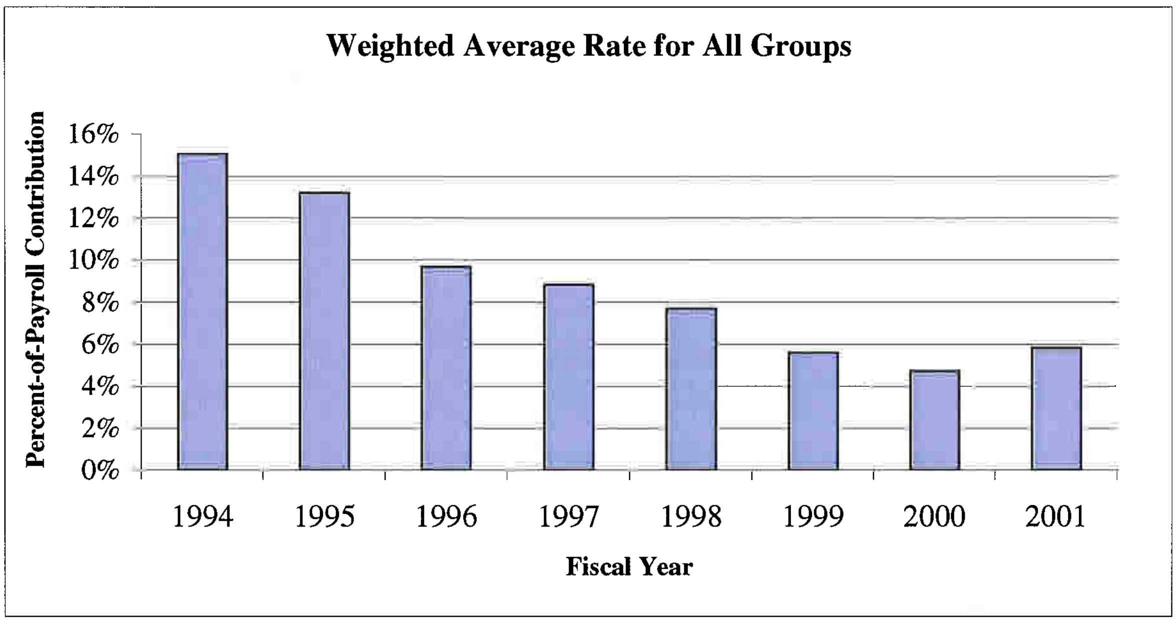
| | |
|---|---|
| Normal Retirement | 11.81% |
| Vested Deferred Retirement | 2.29 |
| Death-In-Service[1] | 0.33 |
| Disability [1] | 0.48 |
| Contribution Refunds | 0.25 |
| **Total Normal Cost** | **15.16%** |
| Less | |
| Employee Contributions[2] | 6.60 |
| Equals | |
| **Employer Normal Cost** | **8.56%** |

1 These figures could be viewed as overstated, and Normal Retirement figures understated, since, in many cases, an active member, who dies or becomes disabled will have significant service credit accrued and may be eligible for service retirement at time of disability or death benefit grant.

2 Shown employee contributions will be reduced by applicable employee pick ups. Pick ups (aka, "defrayals") averaged 6.59% for pre-1983 hires, as a percentage of present value of future payroll. The City takes a 5% discount on pick ups to reflect anticipated savings from refunds. We recommend that such discount be reduced to 3%.

**Computed Contributions – Historic Comparison**

| Valuation Date | Retirement | Health | Total | Valuation Payroll (thousands) |
|---|---|---|---|---|
| 6/30/94 | 12.07% | 2.99% | 15.06% | $884,951 |
| 6/30/95 | 7.34% | 2.30% | 9.64% | $911,292 |
| 6/30/96 | 6.51% | 3.18% | 9.69% | $957,423 |
| 6/30/97 | 6.57% | 1.85% | 8.42% | $990,616 |
| 6/30/98 | 6.43% | 1.27% | 7.70% | $1,011,857 |
| 6/30/99 | 4.93% | 0.67% | 5.60% | $1,068,124 |
| 6/30/00 | 2.54% | 2.17% | 4.71% | $1,182,203 |
| 6/30/01 | 3.84% | 1.98% | 5.82% | $1,293,350 |



## Member Contributions as of June 30, 2001

In addition to City contributions, LACERS is also funded by member contributions. The rate is 6% for those hired after January 1, 1983. For other members, the contribution is expressed as a percent of pay and varies according to age of entry into the system. For pre-1983 members, contributions are picked up by the City. Picked up contributions are nonrefundable to members.

Please refer to the Appendix for a detailed list of these rates. The City takes a 5% discount on pick ups to reflect anticipated savings from refunds. We recommend this discount be reduced to 3% to reflect the aging of this closed group.

| | (Percents of Pay) | |
|---|---|---|
| | All Active Members | |
| | 2000 | 2001 |
| Overall employee contribution rate | 6.70% | 6.60% |
| | Pre-January 1, 1983 Active Members | |
| Weighted gross rate | Unknown | 9.26% |
| Weighted rate after pick up | Unknown | 2.67% |

Los Angeles City Employees' Retirement System

**Unfunded Actuarial Accrued Liability**

June 30, 2001

## Derivation of Experience Gain (Loss)

The actuarial gains or losses realized in the operation of LACERS provide an experience test. Gains and losses are expected to cancel each other over a period of years and sizable year-to-year fluctuations are common. Numbers are in thousands.

| | Retirement | Health |
|---|---|---|
| (1) UAAL* at beginning of year | ($548,434,115) | $43,762,962 |
| (2) Contribution toward UAAL | ($59,458,369) | $192,999 |
| (3) Interest Accrual: (1) * .08 | ($43,874,729) | $3,501,037 |
| (4) Expected UAAL at the end of year (1) - (2) + (3) | ($532,850,475) | $47,071,000 |
| (5) Actual End of Year UAAL | ($520,716,053) | ($37,079,192) |
| (6) (Gain)/Loss | $12,134,422 | ($84,150,192) |
| (7) (Gain)/Loss as percentage actuarial accrued liabilities at beginning of year | 0.2% | (9.9)% |

* Unfunded actuarial accrued liability

Note: Bracketed UAAL amounts represent overfunded actuarial accrued liability

## Components of Actuarial Loss for the Valuation Ending June 30, 2001

| | |
|---|---|
| Estimated (Gain)/Loss attributed to pay increases | $16,539,000 |
| Estimated (Gain)/Loss attributed to refined deferred vested liability data | $15,535,000 |
| Estimated (Gain)/Loss attributed to post-retirement mortality | $19,417,000 |
| Estimated (Gain)/Loss attributed to employee turnover, pre-retirement mortality, retirement incidence, and miscellaneous factors | $31,234,000 |
| Estimated (Gain)/Loss attributed to investment experience | ($70,591,000) |
| Total Estimated Experience (Gain)/Loss | $12,134,00 |

## Unfunded Actuarial Accrued Liability

| | |
|---|---|
| Total actuarial accrued liabilities | $6,468,065,894 |
| Actuarial value of assets allocated to funding | 6,988,781,947 |
| (Overfunded)/Unfunded Actuarial Accrued Liability | ($520,716,053) |

Los Angeles City Employees' Retirement System

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

## Retirement Benefits

| Item | Years Left | Remaining Balance 6/30/01 | Amortization Amount |
|---|---|---|---|
| Combined Bases at 6/30/97 | 11 | $66,594,511 | $7,542,479 |
| Gain at 6/30/98 | 12 | (339,565,890) | (35,876,942) |
| Change in Assumptions at 6/98 | 27 | 238,152,227 | 14,340,601 |
| Gain at 6/30/99 | 13 | (181,205,091) | (17,982,617) |
| Plan Change at 6/30/99 | 28 | 22,645,325 | 1,335,671 |
| Change in Assumptions @ 6/99 | 28 | (9,899,167) | (583,875) |
| Gain at 6/30/00 | 14 | (329,572,390) | (30,899,463) |
| Loss at 6/30/01 | 15 | 12,134,422 | 1,080,208 |
| Total | | $ (520,716,053) | $(61,043,938) |

## Health Subsidy

| Item | Years Left | Remaining Balance 6/30/01 | Amortization Amount |
|---|---|---|---|
| Combined Bases at 6/30/97 | 11 | $49,945,554 | $5,656,822 |
| Gain at 6/30/98 | 12 | (104,409,643) | (11,031,434) |
| Change in Assumptions at 6/98 | 27 | 47,553,636 | 2,863,495 |
| Gain at 6/30/99 | 13 | (101,047,056) | (10,027,811) |
| Plan Change at 6/30/99 | 28 | 3,297,811 | 194,512 |
| Change in Assumptions @ 6/00 | 29 | 47,064,534 | 2,722,252 |
| Gain at 6/30/00 | 14 | 104,666,166 | 9,813,105 |
| Gain at 6/30/01 | 15 | (84,150,192) | (7,491,063) |
| Total | | $(37,079,191) | $(7,300,123) |

**Member Contributions as of June 30, 2001**

In addition to City contributions, LACERS is also funded by member contributions. The rate is 6% for those hired after January 1, 1983. For other members, the contribution is expressed as a percent of pay and varies according to age of entry into the system. For pre-1983 members, contributions are picked up by the City. Picked up contributions are nonrefundable to members.

Please refer to the Appendix for a detailed list of these rates. The City takes a 5% discount on pick ups to reflect anticipated savings from refunds. We recommend this discount be reduced to 3% to reflect the aging of this closed group.

| | (Percents of Pay) All Active Members | |
|---|---|---|
| | 2000 | 2001 |
| Overall employee contribution rate | 6.70% | 6.60% |
| | Pre-January 1, 1983 Active Members | |
| Weighted gross rate | Unknown | 9.26% |
| Weighted rate after pick up | Unknown | 2.67% |

## Derivation of Experience Gain (Loss)

The actuarial gains or losses realized in the operation of LACERS provide an experience test. Gains and losses are expected to cancel each other over a period of years and sizable year-to-year fluctuations are common. Numbers are in thousands.

| | Retirement | Health |
|---|---|---|
| (1) UAAL* at beginning of year | ($548,434,115) | $43,762,962 |
| (2) Contribution toward UAAL | ($59,458,369) | $192,999 |
| (3) Interest Accrual: (1) * .08 | ($43,874,729) | $3,501,037 |
| (4) Expected UAAL at the end of year (1) - (2) + (3) | ($532,850,475) | $47,071,000 |
| (5) Actual End of Year UAAL | ($520,716,053) | ($37,079,192) |
| (6) (Gain)/Loss | $12,134,422 | ($84,150,192) |
| (7) (Gain)/Loss as percentage actuarial accrued liabilities at beginning of year | 0.2% | (9.9)% |

* Unfunded actuarial accrued liability

Note: Bracketed UAAL amounts represent overfunded actuarial accrued liability

## Components of Actuarial Loss for the Valuation Ending June 30, 2001

| | |
|---|---|
| Estimated (Gain)/Loss attributed to pay increases | $16,539,000 |
| Estimated (Gain)/Loss attributed to refined deferred vested liability data | $15,535,000 |
| Estimated (Gain)/Loss attributed to post-retirement mortality | $19,417,000 |
| Estimated (Gain)/Loss attributed to employee turnover, pre-retirement mortality, retirement incidence, and miscellaneous factors | $31,234,000 |
| Estimated (Gain)/Loss attributed to investment experience | ($70,591,000) |
| Total Estimated Experience (Gain)/Loss | $12,134,00 |

## Unfunded Actuarial Accrued Liability

| | |
|---|---|
| Total actuarial accrued liabilities | $6,468,065,894 |
| Actuarial value of assets allocated to funding | 6,988,781,947 |
| (Overfunded)/Unfunded Actuarial Accrued Liability | ($520,716,053) |

Los Angeles City Employees' Retirement System

## Detail of Amortization of Unfunded Actuarial Accrued Liability

### Retirement Benefits

| Item | Years Left | Remaining Balance 6/30/01 | Amortization Amount |
|---|---|---|---|
| Combined Bases at 6/30/97 | 11 | $66,594,511 | $7,542,479 |
| Gain at 6/30/98 | 12 | (339,565,890) | (35,876,942) |
| Change in Assumptions at 6/98 | 27 | 238,152,227 | 14,340,601 |
| Gain at 6/30/99 | 13 | (181,205,091) | (17,982,617) |
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| Change in Assumptions @ 6/99 | 28 | (9,899,167) | (583,875) |
| Gain at 6/30/00 | 14 | (329,572,390) | (30,899,463) |
| Loss at 6/30/01 | 15 | 12,134,422 | 1,080,208 |
| Total | | $ (520,716,053) | $(61,043,938) |

### Health Subsidy

| Item | Years Left | Remaining Balance 6/30/01 | Amortization Amount |
|---|---|---|---|
| Combined Bases at 6/30/97 | 11 | $49,945,554 | $5,656,822 |
| Gain at 6/30/98 | 12 | (104,409,643) | (11,031,434) |
| Change in Assumptions at 6/98 | 27 | 47,553,636 | 2,863,495 |
| Gain at 6/30/99 | 13 | (101,047,056) | (10,027,811) |
| Plan Change at 6/30/99 | 28 | 3,297,811 | 194,512 |
| Change in Assumptions @ 6/00 | 29 | 47,064,534 | 2,722,252 |
| Gain at 6/30/00 | 14 | 104,666,166 | 9,813,105 |
| Gain at 6/30/01 | 15 | (84,150,192) | (7,491,063) |
| Total | | $(37,079,191) | $(7,300,123) |

**Funding Progress Indicators**

June 30, 2001

There is no single all-encompassing indicator which measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability – a measure that is influenced by the choice of actuarial cost method.

We believe a better understanding of funding progress and status can be achieved using the following indicators which are independent of the actuarial cost method.

1. The ratio of valuation assets to the actuarial present value of credited projected benefits allocated in the proportion accrued service is to projected total service – a plan continuation indicator.

2. The ratio of the unfunded actuarial present value of credited projected benefits to member payroll – a plan continuation indicator. In a soundly financed retirement system, the amount of the unfunded actuarial present value of credited projected benefits will be controlled and prevented from increasing in the absence of benefit improvements or strengthening of actuarial assumptions. However, in an inflationary environment it is seldom practical to impose this control on dollar amounts which are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ratio is expected to decrease in the absence of benefit improvements or strengthening of actuarial assumptions.

Los Angeles City Employees' Retirement System

**Funding Progress Indicators – Historic Comparison**

($ in Thousands)

**Retirement**

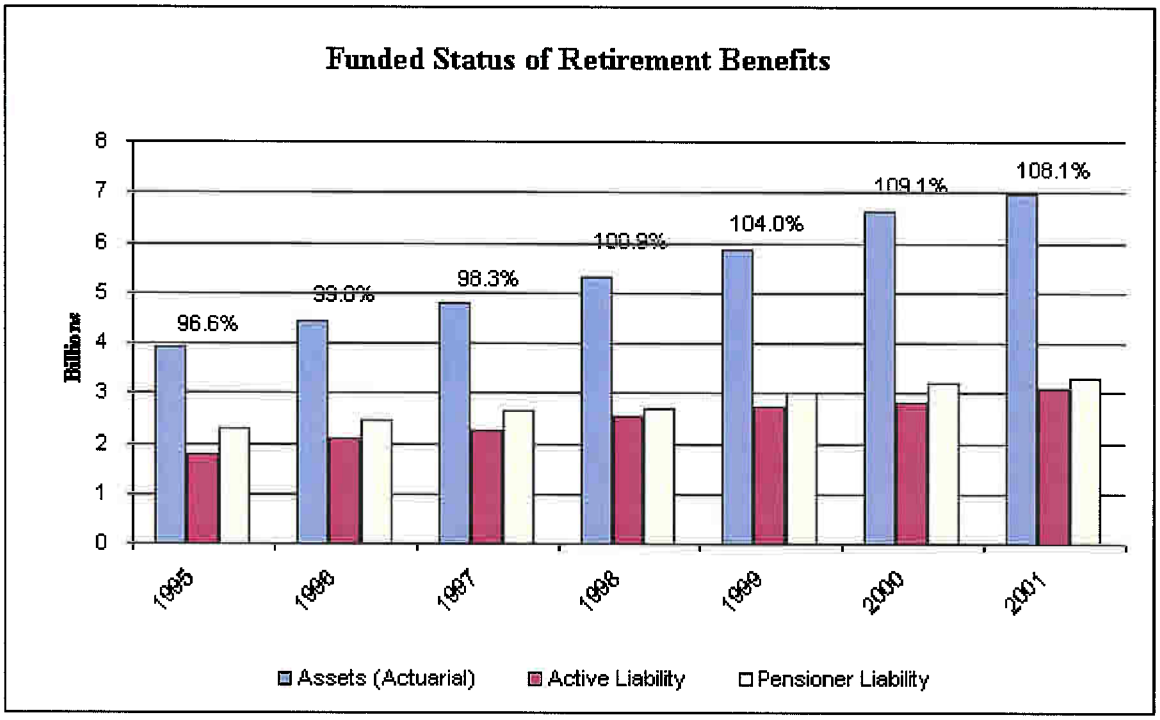
| Valuation Date | Valuation Assets | Actuarial Accrued Liability | (Overfunded) Unfunded AAL | Funded Ratio | Member Payroll | UAAL Ratio to Payroll |
|---|---|---|---|---|---|---|
| 6/30/99 | $5,910,948 | $5,684,586 | ($226,362) | 104.0% | $1,068,124 | (21.2)% |
| 6/30/00 | 6,561,365 | 6,012,931 | (548,434) | 109.1 | 1,182,203 | (46.4) |
| 6/30/01 | 6,988,782 | 6,468,066 | (520,716) | 108.1 | 1,293,350 | (40.3) |

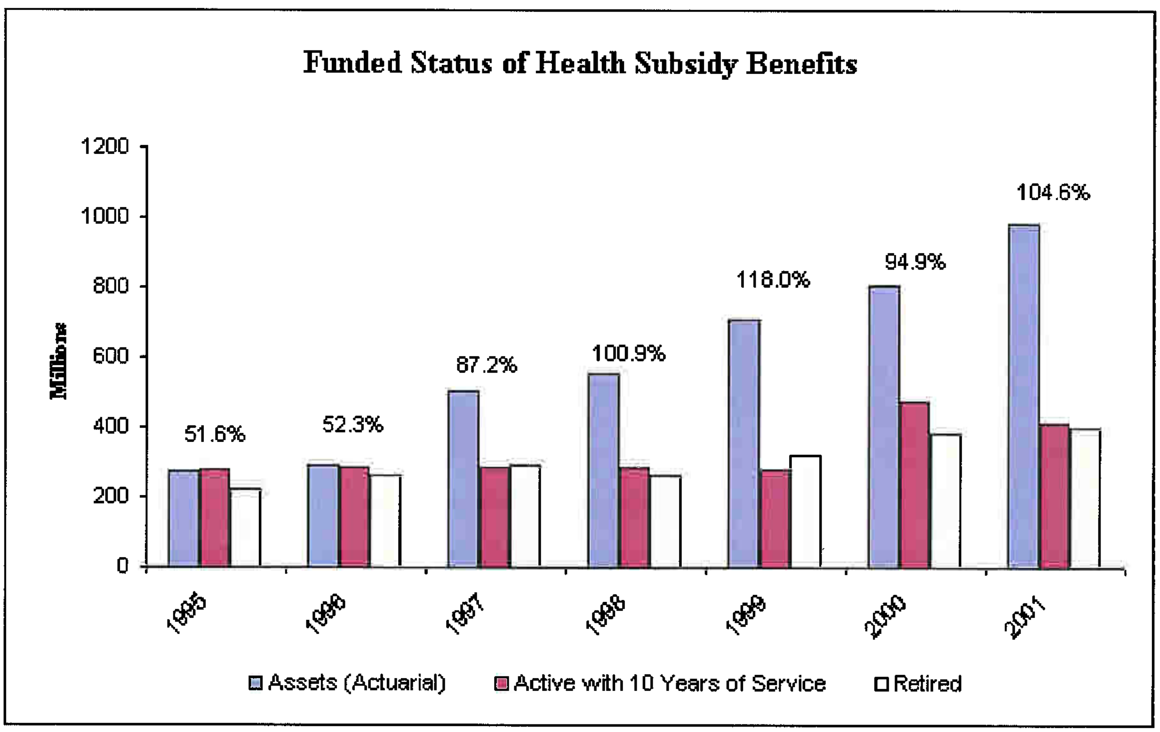
**Health Subsidy**

| Valuation Date | Valuation Assets | Actuarial Accrued Liability | (Overfunded) Unfunded AAL | Funded Ratio | Member Payroll | UAAL Ratio to Payroll |
|---|---|---|---|---|---|---|
| 6/30/99 | $724,429 | $614,093 | ($110,336) | 118.0% | $1,068,124 | (10.3)% |
| 6/30/00[1] | 810,303 | 854,066 | 43,763 | 94.9 | 1,182,203 | 3.7 |
| 6/30/01 | 844,984 | 807,905 | (37,079) | 104.6 | 1,293,350 | (2.9) |

[1] Reflects significant increase in maximum benefits

# Los Angeles City Employees' Retirement System



Los Angeles City Employees' Retirement System

**Actuarial Balance Sheet – June 30, 2001**

($ in Thousands)

## Present Resources and Expected Future Resources

| | Retirement | Health | Total |
|---|---|---|---|
| A. Actuarial value of system assets | $6,988,782 | $844,984 | $7,833,766[2] |
| B. Present value of expected future contributions | | | |
| 1. For normal costs for present actives[1] | 916,245 | 271,877 | 1,188,122 |
| 2. For unfunded actuarial accrued liability | (520,716) | (37,079) | (557,795) |
| 3. Totals | 395,529 | 234,798 | 630,327 |
| C. Present value of expected future member contributions[1] | 706,451 | - | 706,451 |
| D. Total Present and Expected Future Resources | $8,090,762 | $1,079,782 | $9,170,544 |

## Present Value of Expected Future Benefit Payments and Reserve

| | Retirement | Health | Total |
|---|---|---|---|
| A. To retirants and beneficiaries | $3,388,875 | $386,724 | $3,775,599 |
| B. To vested terminated members | 55,365 | 12,068 | 67,433 |
| C. To present active members | | | |
| 1. Allocated to service rendered prior to valuation date | 3,023,826 | 409,113 | 3,432,939 |
| 2. Allocated to service likely to be rendered after valuation date | 1,622,696 | 271,877 | 1,894,573 |
| 3. Totals | 4,646,522 | 680,990 | 5,327,512 |
| D. Total Present Value of Expected Future Benefit Payments | $8,090,762 | $1,079,782 | $9,170,544 |

[1] Prior to any employer pick-up contributions.
[2] This excludes Family Death Benefit Insurance Reserve.

## Family Death Benefit Insurance

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

Currently, the City and Members share the cost of the Plan. Each contributes $3.20 per month. This contribution rate is reviewed every two years to determine if the level of contributions is appropriate. In our opinion, a contribution of $3.46 per month from Members and the City would be sufficient to fund benefits under this plan. This rate will be next reviewed on June 30, 2003.

**Comments & Recommendations**

June 30, 2001

<u>COMMENT A</u>: The overall City contribution rate increased from 4.71% to 5.82%. Our original report indicated that the rate was 5.77%. Staff discovered an inconsistency in the manner in which the amortization dollar amounts (correctly calculated) for the Health Subsidy was applied to valuation payroll. We apologize for the error. We had changed methodology from what was done in the previous valuation and had not updated the previous approach for the Health Subsidy.

The Retirement contribution increased from 2.54% to 3.84%. This was attributable to an increase in the normal cost rate. Please see Comment D in this regard.

The portion of the contribution related to the Health Subsidy decreased from 2.17% to 1.98%. The reasons for the decrease were three-fold:

1) The investment actuarial gain also favorably impacted health assets.
2) The valued dollar maximum was unchanged from $702 per month
3) The medical inflation trend rates are slightly lower than last year

<u>COMMENT B</u>: The overall actuarial loss for retirement benefits was negligible, $12.1 million. There was an actuarial gain of 84.2 million for retiree health. The overall actuarial gain of $72.1 million is attributable to an investment actuarial gain(!!) of $79.3 million. Such gain appears counterintuitive due to the investment returns far lower than the 8% investment assumption. The June 30, 2001 market value of assets was $980 million less than the value if the 8% assumption was met on a market-to-market basis. The combination of LACERS' asset smoothing methodology over five years and substantial unrecognized previous gains account for this seeming anomaly. However, the chickens will soon come home to roost if current investment trends continue. The actuarial value of assets is now $528 million in excess of the market value of assets.

Put another way, a substantial portion of benefits earned in the current year by members ("normal cost") are being paid by excellent investment earnings in previous years. If such past excesses no longer exist next year, the payment of the normal cost would represent a significant contribution increase from the rates reflected in this valuation.

<u>COMMENT C:</u> The funded ratio for retirement benefits decreased slightly from 109.1% to 108.1%. The funded ratio for the health subsidy has increased from 94.9% to 104.6%.

<u>COMMENT D</u>: The sum of active member contribution balances from the data tape as of June 30, 2001 is $846.3 million. The sum for all vested deferred members is $27.4 million. These two sums are slightly less than the Member Deposit Reserve balance of $890 million. The $16.3 million difference may be due to unlocated members.

<u>COMMENT E</u>: To ease transition issues, the assumptions we used were virtually identical to those used by Watson Wyatt in the 2000 valuation. Nonetheless, there were a number of transition matters in this valuation (which, from our past experience, is not unusual).

The deferred vested liability went up significantly from 29.5 to 52.7 million this year. We attribute this to data refinements. We discovered numerous instances where the amounts in the pay categories seemed unreasonably low. We calculate the amount of the anticipated deferred vested benefit based on final average pay (except for about 50 participants with who we are provided calculated benefits) At our request, LACERS staff provided us with updated pay information. Last year, Watson Wyatt used raw data provided and used estimates for 3.5% of the members (many of whom were deferred vested).

We have adjusted the approach to amortized gains and losses. There was a timing issue. The amortization credit of 5.03% in the 2000 Watson Wyatt report is reflected as a percentage of pay as of June 30, 2000 but the first amortization payment is not calculated to be made under June 30, 2001. We have made this approach more consistent with what we believe is appropriate methodology for level-percent-of-pay financing.

There was a methodology difference on the calculation of normal cost accrual rates. The GRS rates provided in this report take the sum of active member normal costs and divide by actual anticipated payroll for this group in the coming year (including factors such as anticipated employee turnover and pay increases during the year) to develop a rate. The Watson Wyatt approach was based on each member of the valuation having contributions made on their behalf for the entire year.

**COMMENT F:** There has been one interesting demographic development for active members over the past two years. There has been a significant decrease in credited years of service for active members from 13.1 years to 11.8 years. This is a likely byproduct of the current window for subsidized early retirement program which will only last one more year.

**COMMENT G:** We recommend that the discount for pick ups (aka, "defrayals") be reduced from 5% to 3% due to the aging of this closed group of actives with entry age-based employee contribution rates.

**COMMENT H:** The Retirement System continues to be in outstanding financial condition in accordance with the actuarial principles of level-cost financing.

Los Angeles City Employees' Retirement System

**Brief Summary of Benefit Provisions Evaluated**

Effective June 30, 2001

1. Membership Requirements – First day of employment.

2. Final Compensation for Benefit Determination

   Highest consecutive twelve months of compensation earnable

3. Service Requirement

   A. Eligibility: Age 55 with 10 years of service, or age 70 regardless of service, or after 30 years, regardless of age

   B. Benefit Formula Per Year of Service

Unreduced: 2.16% of Final Compensation

Reduced: For retirement ages below age 60 (age 55 for those with 30+ Years of Service). (age 50 with 30 Years of Service until 10/1/2002)

| Age | Reduction | Age | Reduction |
|---|---|---|---|
| 50 | 22.5% | 55 | 7.5% |
| 51 | 19.5 | 56 | 6.0 |
| 52 | 16.5 | 57 | 4.5 |
| 53 | 13.5 | 58 | 3.0 |
| 54 | 10.5 | 59 | 1.5 |

   C. Maximum Benefit – 100% of Final Average Compensation

(Continued on Next Page)

4. Ordinary Disability

   A. Eligibility – Five years of continuous service.

   B. Benefit Formula – 1/70th of Final Compensation for each year of service (including projected years to age 65), subject to a maximum of 23 1/3 years or 1/3 of Final Compensation, or 1/70th of Final Compensation for each year of service. The midrange benefit is selected.

5. Death

   A. Eligibility – None.

   B. Benefit – Refund of employee contributions with interest plus two months' of final compensation for each year of service to a maximum of six years

or

A1. Eligibility – Duty-related death or if qualified for Disability Retirement

Benefit – Accrued Joint & 100% disability survivor benefit to Qualified Surviving Spouse or Domestic Partner.

In either case, applicable Family Death Insurance Benefits will also be paid.

or

A2. Eligibility – Qualified for Service Retirement.

B2. Benefit – Accrued Joint and 100% survivor benefit to Qualified Surviving Spouse or Domestic Partner.

(Continued on Next Page)

(Continued)

6. Death After Retirement

   A. Service or Disability Retirement

   - 50% of member's unmodified allowance continued to eligible spouse or domestic partner or modified continuance selected by the member at the time of retirement.
   - $2,500 lump sum benefit payable to member's beneficiary
   - If applicable, return of any unused employee contributions and interest

7. Withdrawal Benefits

   A. Less than Five Years of Service

   Refund of accumulated employee contributions with interest.

   B. Five or More Years of Service

   If contributions left on deposit, entitled to earned benefits commencing at any time after eligible to retire. The benefit payable is the same as Service Retirement, except that there must be at least ten years elapsed from original membership (unless the member has attained age 70).

8. Post-retirement Cost-of-Living Benefits

   Each July 1, benefits are increased by a maximum of 3% based on increases in the local CPI.

9. City Contributions

   Determined by Projected Unit Credit cost method with funding of each year's actuarial gain (loss) spread as a level percent of payroll over 15 years. Liability changes due to benefit and assumption changes are amortized over 30 years.

(Concluded on Next Page)

Los Angeles City Employees' Retirement System

## Brief Summary of Benefit Provisions Evaluated

Effective June 30, 2001

(Concluded)

10. Member Contributions

6% of pay for post-January 1, 1983 hires. Please refer to Appendix A for entry-age based rates for earlier hires.

NOTE: The summary of major plan provisions is designed to outline principal plan benefits. If the City should find the plan summary not in accordance with the actual provisions, the City should alert the actuary so they can both be sure the proper provisions are valued.

**Valuation of Health Subsidy Benefits**

## Introduction

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

The System is building a reserve through the advance funding of the health insurance subsidy for current retirees and for active members with sufficient service to receive a health subsidy (ten years). The actuarial value of the reserve available at June 30, 2001 is $844,983,700 (the market value is $788,174,306).

This section of the report contains the results of the June 30, 2001 valuation of the retiree health insurance premium subsidy. In determining the budget amounts for the fiscal year 2002-2003, we have used the same funding method and methods of amortization used in the funding of the retirement benefits. We have also used the same economic and demographic assumptions as those used in the retirement valuation. In addition, special health cost trend assumptions were used. A summary of the economic assumptions follows:

- 8.0% annual interest
- graded medical cost trend of 8.25% in 2001-2002 decreasing gradually to 6.0% in 2010 and beyond for benefits paid before age 65, and benefits paid to members without Medicare
- medical cost trend rates of 14.00% in 2001-2002 decreasing gradually to 6.00% in 2014 and beyond for benefits paid after age 65 from System HMO plans
- graded medical cost trend rates of 9.5%, decreasing gradually to 6.00% in 2014 and beyond for benefits paid after age 65 for Members who join the PPO.
- graded dental trend rates of 7.75% in 2001-2002 decreasing to 6.0% in 2008 and beyond
- Medicare Part B premium trend rates of 6.0%

These assumptions are the same as used last year in the valuation of health subsidy liabilities of the Los Angeles City Employees' Retirement System at June 30, 2001.

**Summary of Health Subsidy Benefits**

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

Subsidy: Medical

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

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

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

Maximum Subsidy: The maximum is the rate currently paid for active City employees. As of July 1, 2001, this amount is $702 per month.

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

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

For eligible surviving spouse or domestic partners:

The same subsidy provided to the Member, except this benefit is limited to the Kaiser single party premium for Members without Medicare A and B.

Dental

4% per year of service to a maximum of the premium for Blue Cross PPO or Safeguard (HMO).

Los Angeles City Employees' Retirement System

**Summary of Reported Asset Information**

Submitted for the June 30, 2001 Valuation

(in thousands)

| Reported Market Value of Assets | | Reserves | |
|---|---|---|---|
| Cash/Short-term | $591,726 | Member Deposit Reserve | $889,658 |
| Receivables | 216,829 | Basic Pension Reserve | 5,190,178 |
| Stocks | 4,158,266 | Family Death Benefit Reserve | 18,218 |
| Bonds | 1,623,466 | Annuity Reserve | 439,081 |
| Real Estate | 343,800 | Health Benefits Reserve | 788,174 |
| Mortgages | 415,781 | | |
| Miscellaneous | 354,677 | Total Reserves | $7,325,309 |
| Total Market Value | $7,704,545 | | |
| Liabilities | $379,236 | | |
| Net Market Value | $7,325,309 | | |

Revenues and Disbursements Among Applicable Reserves

| | |
|---|---|
| **Balance – Beginning of year** | **$7,881,497** |
| Revenues | |
| Employees' contributions | 69,276 |
| Employer contributions | 67,384 |
| Defrayal | 20,513 |
| Family Death Benefit Premium | 184 |
| Distributed & undistributed investment income | (330,600) |
| **Total Revenues** | **(173,243)** |
| Disbursements | |
| Benefit payments and refunds | 321,393 |
| Health & Dental Insurance | 31,576 |
| Medicare Reimbursement | 2,893 |
| Miscellaneous | 166 |
| Administrative & Investment Expense | 26,917 |
| **Total Disbursements** | **382,945** |
| **Balance – End of year** | **7,325,309** |

Los Angeles City Employees' Retirement System

## Derivation of Actuarial Value of Assets

| | Year Ending | | | |
|---|---|---|---|---|
| | June 30, 2001 | June 30, 2000 | June 30, 1999 | June 30, 1998 |
| 1. Beginning of Year Market Value | $7,881,497,296 | $7,279,063,114 | $6,600,702,384 | $6,069,797,808 |
| 2. Contributions | 157,356,785 | 171,189,588 | 171,927,161 | 175,522,533 |
| 3. Benefit Payments | 355,862,157 | 331,798,058 | 300,252,155 | 278,253,761 |
| 4. Expected Return Based on 8% | 622,579,569 | 575,900,710 | 522,923,191 | 481,474,576 |
| 5. Expected End of Year Market Value | 8,305,571,493 | 7,694,355,354 | 6,995,300,581 | 6,448,541,156 |
| 6. Actual End of Year Market Value | 7,325,308,818 | 7,881,497,296 | 7,279,063,114 | 6,600,702,384 |
| 7. Gain/(Loss) | (980,262,675) | 187,141,942 | 283,762,533 | 152,161,228 |

| | |
|---|---|
| 1. Market Value at June 30, 2001 | $7,325,308,818 |
| 2001 (Gain)/Loss x 80% | 784,210,140 |
| 2000 (Gain)/Loss x 60% | (112,285,165) |
| 1999 (Gain)/Loss x 40% | (113,505,013) |
| 1998 (Gain)/Loss x 20% | (30,432,246) |
| 2. Actuarial Value at June 30, 2001 | 7,853,296,534 |
| 3. 80% of Market Value at June 30, 2001 | 5,860,247,054 |
| 4. 120% of Market Value at June 30, 2001 | 8,790,370,582 |
| 5. Actuarial Value at June 30, 2001 (2), but no less than (3) and no more than (4) | 7,853,296,534 |

## Actuarial Value of Assets

In deriving the actuarial value of assets for retirement benefit for the 2001 valuation, we use the asset-smoothing technique as illustrated on the previous page. Assets allocated to the Retiree Health Subsidy and Family Death Benefit Insurance are subtracted.

| | Market Value | Actuarial Value |
|---|---|---|
| 1. Total Value of Assets at June 30, 2001 | $7,325,308,818 | $7,853,296,534 |
| 2. Less Reserves and Liabilities Established for: | | |
| a. Family Death Benefit Insurance | 18,217,799 | 19,530,887 |
| b. Retiree Health Subsidy | 788,174,306 | 844,983,700 |
| c. Total | 806,392,105 | 864,514,587 |
| 3. Net Assets Available for Retirement Benefits at June 30, 2001 (Item 1 less Item 2) | $6,518,916,713 | $6,988,781,947 |

Here is a summary of assets as of the past valuation dates in thousands:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| 1. Market Value | $7,325,309 | $7,881,497 | $7,279,063 |
| 2. Gross Actuarial Value | 7,853,297 | 7,389,277 | 6,653,175 |
| 3. Family Death Benefit Insurance | 19,531 | 17,609 | 17,798 |
| 4. Retiree Health Subsidy | 844,984 | 810,303 | 724,429 |
| 5. Net Actuarial Value for Retirement: (2) – (3) – (4) | $6,988,782 | $6,561,365 | $5,910,948 |

Los Angeles City Employees' Retirement System

**Distribution of Pensioners by Plan Year of Retirement and by Attained Age as of June 30, 2001**

Total for All Pensioners

Retirement Benefits

| Year Retired | Age Groups | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Under 40 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 94 + | Total |
| Pre-1985 | 2 | 3 | 18 | 56 | 86 | 126 | 180 | 625 | 1,256 | 1,400 | 837 | 382 | 98 | 5,069 |
| 1985 | 0 | 0 | 3 | 7 | 9 | 12 | 21 | 116 | 127 | 57 | 15 | 1 | 0 | 368 |
| 1986 | 0 | 0 | 7 | 9 | 8 | 15 | 41 | 159 | 135 | 74 | 9 | 1 | 1 | 459 |
| 1987 | 1 | 2 | 3 | 9 | 10 | 13 | 70 | 143 | 131 | 52 | 4 | 0 | 0 | 438 |
| 1988 | 0 | 0 | 6 | 12 | 13 | 20 | 115 | 127 | 121 | 29 | 6 | 2 | 0 | 451 |
| 1989 | 1 | 3 | 8 | 10 | 11 | 26 | 132 | 157 | 82 | 27 | 3 | 0 | 0 | 460 |
| 1990 | 1 | 3 | 6 | 7 | 11 | 11 | 138 | 119 | 71 | 15 | 2 | 2 | 0 | 386 |
| 1991 | 1 | 5 | 10 | 9 | 18 | 30 | 147 | 104 | 68 | 16 | 1 | 0 | 0 | 409 |
| 1992 | 1 | 4 | 7 | 4 | 7 | 73 | 149 | 113 | 59 | 25 | 5 | 0 | 0 | 447 |
| 1993 | 5 | 1 | 6 | 11 | 16 | 108 | 133 | 112 | 48 | 15 | 3 | 2 | 0 | 460 |
| 1994 | 5 | 9 | 17 | 14 | 14 | 147 | 127 | 77 | 30 | 10 | 1 | 0 | 1 | 452 |
| 1995 | 7 | 8 | 11 | 22 | 24 | 172 | 126 | 90 | 26 | 20 | 2 | 0 | 0 | 508 |
| 1996 | 4 | 8 | 6 | 10 | 132 | 218 | 115 | 68 | 33 | 2 | 3 | 0 | 0 | 599 |
| 1997 | 6 | 9 | 15 | 37 | 186 | 172 | 165 | 69 | 24 | 12 | 1 | 0 | 0 | 696 |
| 1998 | 8 | 8 | 12 | 49 | 194 | 144 | 96 | 51 | 24 | 5 | 1 | 1 | 0 | 593 |
| 1999 | 6 | 7 | 7 | 77 | 243 | 182 | 118 | 65 | 52 | 26 | 8 | 3 | 0 | 794 |
| 2000 | 4 | 7 | 12 | 87 | 230 | 173 | 101 | 53 | 55 | 27 | 24 | 1 | 2 | 776 |
| TOTAL | 52 | 77 | 154 | 430 | 1,212 | 1,642 | 1,974 | 2,248 | 2,342 | 1,812 | 925 | 395 | 102 | 13,365 |

Age at Retirement: 59.0
Attained Age: 71.5
Annual Pension: $23,648

Los Angeles City Employees' Retirement System

Active Members

By Attained Ages and Years of Service

| Age Group | Years of Service to Valuation Date: 0-1 | 1-2 | 2-3 | 3-4 | 4-5 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35 + | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 15-19 NO. | 13 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 13 |
| TOT PAY | 204,095 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 204,095 |
| AVG PAY | 15,700 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,700 |
| 20-24 NO. | 362 | 142 | 39 | 16 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 567 |
| TOT PAY | 9,934,908 | 4,426,195 | 1,337,366 | 559,686 | 291,304 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16,549,459 |
| AVG PAY | 27,444 | 31,170 | 34,291 | 34,980 | 36,413 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 29,188 |
| 25-29 NO. | 590 | 443 | 242 | 118 | 87 | 97 | 4 | 0 | 0 | 0 | 0 | 0 | 1,581 |
| TOT PAY | 19,527,643 | 16,708,852 | 9,973,815 | 4,761,679 | 3,945,753 | 4,419,085 | 188,386 | 0 | 0 | 0 | 0 | 0 | 59,525,213 |
| AVG PAY | 33,098 | 37,717 | 41,214 | 40,353 | 45,353 | 45,558 | 47,096 | 0 | 0 | 0 | 0 | 0 | 37,650 |
| 30-34 NO. | 505 | 442 | 310 | 188 | 183 | 561 | 477 | 15 | 0 | 0 | 0 | 0 | 2,681 |
| TOT PAY | 17,586,936 | 17,956,954 | 13,216,985 | 8,279,616 | 8,393,825 | 30,174,363 | 23,761,377 | 653,266 | 0 | 0 | 0 | 0 | 120,023,321 |
| AVG PAY | 34,826 | 40,627 | 42,635 | 44,041 | 45,868 | 53,787 | 49,814 | 43,551 | 0 | 0 | 0 | 0 | 44,768 |
| 35-39 NO. | 450 | 382 | 251 | 159 | 149 | 599 | 1,466 | 440 | 31 | 0 | 0 | 0 | 3,927 |
| TOT PAY | 16,264,796 | 15,863,074 | 10,797,515 | 7,551,901 | 7,056,129 | 3,148,265 | 80,280,470 | 22,508,575 | 1,457,997 | 0 | 0 | 0 | 192,828,722 |
| AVG PAY | 36,144 | 41,526 | 43,018 | 47,496 | 47,357 | 51,833 | 54,762 | 51,156 | 47,032 | 0 | 0 | 0 | 49,103 |
| 40-44 NO. | 353 | 300 | 236 | 148 | 101 | 484 | 1,361 | 996 | 411 | 6 | 0 | 0 | 4,396 |
| TOT PAY | 12,871,612 | 13,079,283 | 10,104,986 | 6,505,102 | 4,969,686 | 24,853,162 | 75,312,368 | 58,043,338 | 22,142,997 | 304,138 | 0 | 0 | 228,186,669 |
| AVG PAY | 36,463 | 43,598 | 42,818 | 43,953 | 49,205 | 51,350 | 55,336 | 58,276 | 53,876 | 50,690 | 0 | 0 | 51,908 |
| 45-49 NO. | 293 | 239 | 157 | 84 | 80 | 395 | 1,047 | 810 | 660 | 398 | 29 | 0 | 4,192 |
| TOT PAY | 10,814,430 | 9,848,131 | 7,436,934 | 3,698,586 | 3,662,867 | 20,986,922 | 57,830,366 | 46,766,086 | 38,229,344 | 21,964,361 | 1,563,954 | 0 | 222,801,982 |
| AVG PAY | 36,909 | 41,206 | 47,369 | 44,031 | 45,786 | 53,131 | 55,234 | 57,736 | 57,923 | 55,187 | 53,929 | 0 | 53,149 |
| 50-54 NO. | 223 | 162 | 140 | 81 | 68 | 281 | 707 | 555 | 560 | 735 | 367 | 7 | 3,886 |
| TOT PAY | 8,046,217 | 6,697,210 | 6,424,972 | 3,354,877 | 3,117,525 | 13,990,052 | 39,156,308 | 31,148,618 | 33,491,811 | 45,982,142 | 22,803,947 | 434,470 | 214,648,148 |
| AVG PAY | 36,082 | 41,341 | 45,893 | 41,418 | 45,846 | 49,787 | 55,384 | 56,124 | 59,807 | 62,561 | 62,136 | 62,067 | 55,236 |
| 55-59 NO. | 120 | 105 | 78 | 57 | 38 | 159 | 442 | 358 | 289 | 367 | 383 | 99 | 2,495 |
| TOT PAY | 4,312,478 | 4,394,717 | 3,453,595 | 2,051,360 | 1,670,205 | 7,532,242 | 23,503,006 | 19,546,374 | 17,171,027 | 23,477,234 | 27,539,973 | 6,729,698 | 141,381,908 |
| AVG PAY | 35,937 | 41,854 | 44,277 | 35,989 | 43,953 | 47,373 | 53,174 | 54,599 | 59,415 | 63,971 | 71,906 | 67,977 | 56,666 |
| 60-64 NO. | 55 | 39 | 30 | 24 | 21 | 104 | 242 | 195 | 146 | 152 | 127 | 96 | 1,231 |
| TOT PAY | 1,855,908 | 1,168,405 | 1,076,893 | 979,663 | 885,491 | 4,170,009 | 12,683,842 | 10,380,036 | 8,024,297 | 8,583,221 | 8,173,216 | 6,676,717 | 64,657,699 |
| AVG PAY | 33,744 | 29,959 | 35,896 | 40,819 | 42,166 | 40,096 | 52,413 | 53,231 | 54,961 | 56,469 | 64,356 | 69,549 | 52,525 |
| 65-99 NO. | 37 | 19 | 11 | 13 | 8 | 86 | 130 | 101 | 93 | 75 | 53 | 59 | 685 |
| TOT PAY | 978,602 | 439,622 | 368,866 | 322,616 | 267,677 | 2,358,772 | 6,850,776 | 5,332,400 | 5,035,992 | 3,934,974 | 2,892,731 | 3,759,916 | 32,542,944 |
| AVG PAY | 26,449 | 23,138 | 33,533 | 24,817 | 33,460 | 27,428 | 52,698 | 52,796 | 54,150 | 52,466 | 54,580 | 63,727 | 47,508 |
| TOT NO. | 3,001 | 2,273 | 1,494 | 888 | 743 | 2,766 | 5,876 | 3,470 | 2,190 | 1,733 | 959 | 261 | 25,654 |
| TOT AMT | 102,397,624 | 90,582,442 | 64,191,927 | 38,065,087 | 34,260,461 | 139,532,873 | 319,566,899 | 194,378,694 | 125,553,464 | 104,246,069 | 62,973,821 | 7,600,801 | 1,293,350,161 |
| AVG AMT | 34,121 | 39,851 | 42,966 | 42,866 | 46,111 | 50,446 | 54,385 | 56,017 | 57,330 | 60,154 | 65,666 | 67,436 | 50,415 |

Los Angeles City Employees' Retirement System

**Membership Summary**

In the June 30, 2001 Actuarial Valuation

## ACTIVES

| | No. | Annual Salary | Averages: Annual Salary | Averages: Age | Averages: Service |
|---|---|---|---|---|---|
| 6/30/00 | 24,234 | $1,182,202,945 | $48,783 | 44.4 | 12.3 |
| 6/30/01 | 25,654 | 1,293,350,061 | 50,415 | 44.3 | 11.8 |
| Percent Increase | 5.9% | 9.4% | 3.3% | | |

## DEFERRED VESTED

| | No. | Member Contribution | Averages: Contribution Balance | Averages: Age | Averages: Service |
|---|---|---|---|---|---|
| 6/30/00 | 701 | N/A | N/A | N/A | N/A |
| 6/30/01 | 748 | $27,416,346 | $36,653 | 46.6 | 12.1 |

## RETIRED AND BENEFICIARES

| | No. | Annual Allowance | Annual Allowance | Attained Age | Age at Retirement | New Retirees: No. | New Retirees: Age | New Retirees: Average Allowance |
|---|---|---|---|---|---|---|---|---|
| 6/30/00 | 13,058 | $290,899,998 | $22,278 | 71.6 | N/A | N/A | N/A | N/A |
| 6/30/01 | 13,365 | 316,057,216 | 23,648 | 71.5 | 59.0 | 575 | 59.1 | $34,231 |
| Percent Increase | 2.4% | 8.6% | 6.2% | | | | | |

Los Angeles City Employees' Retirement System

**Retirants and Beneficiaries June 30, 2001**

Tabulated by Type of Allowances Being Paid

| Type of Allowance | No. | Annual Allowance[1] | Average Annual Allowance |
|---|---|---|---|
| **Service Retirement** | | | |
| Unmodified | | | |
| 50% Continuance | 4,253 | $113,812,508 | $26,761 |
| No Continuance | 2,605 | 64,126,619 | 24,617 |
| Optional Forms | | | |
| 100% Continuance | 1,224 | 39,055,535 | 31,908 |
| 75% Continuance | 631 | 24,123,134 | 38,230 |
| 60% Continuance | 594 | 21,848,229 | 36,782 |
| Not Coded/Data issue | 139 | 1,691,221 | 12,167 |
| Other | 21 | 1,161,616 | 55,315 |
| Beneficiary | 2,463 | 35,335,796 | 14,347 |
| Total Service Retirement | 11,930 | $301,154,658 | $25,243 |
| **Disability Retirement** | | | |
| Unmodified | | | |
| 50% Continuance | 294 | $3,366,379 | $11,450 |
| No Continuance | 303 | 3,638,436 | 12,008 |
| Optional Forms | | | |
| 100% Continuance | 39 | 515,370 | 13,215 |
| 75% Continuance | 8 | 101,667 | 12,708 |
| 60% Continuance | 7 | 126,086 | 18,012 |
| Not Coded/Data issue | 183 | 2,284,932 | 12,486 |
| Beneficiary | 553 | 4,359,502 | 7,883 |
| Total Disability Retirement | 1,387 | $14,392,372 | $10,377 |
| **Other Beneficiaries** | 48 | 510,186 | 10,629 |
| Total Allowances Being Paid | 13,365 | $316,057,216 | $23,648 |

[1] Benefits do not include COLA increase on July 1, 2001.

Los Angeles City Employees' Retirement System

**Historical Membership Summary**

In the June 30, 2001 Actuarial Valuation

## Actives

| | | | Averages | | | |
|---|---|---|---|---|---|---|
| | No. | Annual Compensation | Compensation | Percentage Increase | Age | Years of Service |
| 6/30/96 | 22,319 | $957,422,907 | $42,897 | -- % | 43.9 | 12.5 |
| 6/30/97 | 22,219 | 990,616,145 | 44,584 | 3.9 | 44.2 | 12.9 |
| 6/30/98 | 22,091 | 1,011,857,180 | 45,804 | 2.7 | 44.5 | 13.2 |
| 6/30/99 | 22,504 | 1,068,124,413 | 47,464 | 3.6 | 44.6 | 13.1 |
| 6/30/00 | 24,234 | 1,182,202,945 | 48,783 | 2.8 | 44.4 | 12.3 |
| 6/30/01 | 25,654 | 1,293,350,061 | 50,415 | 3.3 | 44.3 | 11.8 |

## Retirees and Beneficiaries

| | | | Averages | | |
|---|---|---|---|---|---|
| | No. | Annual Total Pensions | Pension | Percentage Increase | Attained Age |
| 6/30/96 | 12,242 | $219,872,033 | $17,960 | -- % | 71.6 |
| 6/30/97 | 12,698 | 240,692,161 | 18,955 | 5.5 | 71.5 |
| 6/30/98 | 12,591 | 259,378,957 | 20,600 | 8.7 | 71.5 |
| 6/30/99 | 12,843 | 277,022,689 | 21,570 | 4.7 | 71.5 |
| 6/30/00 | 13,058 | 290,899,998 | 22,278 | 3.3 | 71.6 |
| 6/30/01 | 13,365 | 316,057,216 | 23,648 | 6.2 | 71.5 |

## Actuarial Cost Methods - June 30, 2001

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using a projected unit credit actuarial cost method. Future, anticipated compensation increases are incorporated into this method. The actuarial cost methods, as a part of the actuarial valuation report as of June 30, 2000, were last adopted by the Board on October 24, 2000.

Financing of Unfunded Actuarial Accrued Liability. Each year's actuarial gain (loss) is funded (or credited, if negative) in fifteen installments. Any liability changes due to benefit or assumption changes are funded over 30 years.

Active member payroll in aggregate is assumed to increase 4% a year for the purpose of determining the level percent contributions, although individual annual pay increase rates will increase by greater percentages per year for the purpose of projecting individual pays.

Deferred Member Actuarial Accrued Liability. Data provided includes date of hire, date of birth, date of termination, last pay and an indicator if the deferred member is known to work with a reciprocal employer. Service credit, highest average salary, and deferred retirement age were estimated, based on the data provided. The estimates were used to compute the retirement benefit, upon which the liabilities are based.

**Actuarial Assumptions Used for the June 30, 2001 Valuation**

The contribution requirements and benefit values of the Fund are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described on the previous page. The actuarial assumptions, as a part of the actuarial valuation report as of June 30, 2000, were last adopted by the Board on October 24, 2000.

The principal areas of financial risk which require assumptions about future experiences are:

(i) long-term rates of investment return to be generated by the assets of the Fund.

(ii) patterns of pay increases to members.

(iii) rates of mortality among members, retirants, and beneficiaries.

(iv) rates of withdrawal of active members (without entitlement to a retirement benefit).

(v) rates of disability among members.

(vi) the age patterns of actual retirements.

In making a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives -- a period of time which can be as long as a century.

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Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

(Continued on Next Page)

**Actuarial Assumptions Used for the June 30, 2001 Valuation**

(Continued)

The Projected Unit Credit Actuarial Cost Method was used in conjunction with the following actuarial assumptions.

The investment return rate used for the actuarial valuation calculations was 8% a year, net of administrative expenses, compounded annually. This assumption, used to equate the value of payments due at different points in time, is adopted by the Retirement Board. The rate is comprised of two elements:

| | |
|---|---|
| Inflation | 4% |
| Real Rate of Return | 4% |
| Total | 8% |

The inflation rate used for the actuarial valuation calculations was 4% per year, compounded annually. It represents the difference between the investment return rate and the assumed real rate of return.

Inflation actually experienced, as measured by the Consumer Price Index for urban wage earners, has been as follows:

Consumer Price Index
Urban Wage Earners and Clerical Workers Before 1978
All Urban Consumers After 1977
10 Year Moving Averages

| | |
|---|---|
| June 30, 1961 | 1.4 % |
| June 30, 1971 | 3.1% |
| June 30, 1981 | 8.4% |
| June 30, 1991 | 4.1% |
| June 30, 2001 | 2.7% |
| **50-Year Average** | **3.9%** |

**Actuarial Assumptions Used for the June 30, 2001 Valuation**

(Continued)

Compensation increase rates used to project current pays to those, upon which a benefit will be based, are represented by the following table.

Annual Rate of Compensation Increase

| | |
|---|---|
| Inflation | 4% |
| plus | |
| Merit & Longevity | See Table Below for Sample Ages |

| Age | |
|---|---|
| 20 | 3% |
| 25 | 3% |
| 30 | 3% |
| 35 | 2% |
| 40 | 2% |
| 45 | 1% |
| 50 | 1% |
| 55 | 0% |
| 60 | 0% |

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment.

| | % of Active Members Separating Within Next Year | | | | | |
|---|---|---|---|---|---|---|
| Sample | Withdrawal | | Death | | Disability | |
| Ages | Men | Women | Men | Women | Men | Women |
| 20 | 31.17% | 15.00% | 0.03% | 0.02% | --% | --% |
| 25 | 14.62% | 11.60% | .04% | .03% | 0.02% | --% |
| 30 | 8.01% | 7.41% | .06% | .05% | .06% | 0.01% |
| 35 | 5.84% | 5.50% | .08% | .07% | .13% | .02% |
| 40 | 4.26% | 4.38% | .12% | .10% | .18% | .04% |
| 45 | 3.40% | 3.50% | .17% | .14% | .20% | .12% |
| 50 | 4.38% | 6.02% | .23% | .18% | .23% | .20% |
| 55 | 4.00% | 4.82% | .32% | .26% | .24% | .40% |
| 60 | 2.25% | 3.5% | .35% | .35% | .24% | --% |

NOTES: Withdrawal rates are 5% higher for actives with less than 4 years of service. The illustrated death rates at age 60 assume eligibility for service retirement.

The post-retirement mortality table used was the 1971 Group Annuity Mortality Table, setback one year for males and five years for females. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. The 1981 Disability Mortality Table (General) is used for disabilitants. Related values are shown below.

| | Future Life Expectancy (Years) | | % Dying Within Next Year | |
|---|---|---|---|---|
| | Non-disabled Retirees | | Non-disabled Retirees | |
| Sample Ages | Men | Women | Men | Women |
| 45 | 32.3 | 36.0 | 0.26% | 0.16% |
| 50 | 27.8 | 31.4 | .47 | .29 |
| 55 | 23.5 | 26.9 | .78 | .53 |
| 60 | 19.5 | 22.7 | 1.19 | .85 |
| 65 | 15.8 | 18.8 | 1.92 | 1.31 |
| 70 | 12.5 | 15.1 | 3.24 | 2.13 |
| 75 | 9.7 | 11.9 | 5.12 | 3.61 |

**Actuarial Assumptions Used for the June 30, 2001 Valuation**

(Continued)

| Sample Ages | Future Life Expectancy (Years) Disabled Retirees: Men | Future Life Expectancy (Years) Disabled Retirees: Women | % Dying Within Next Year Disabled Retirees: Men | % Dying Within Next Year Disabled Retirees: Women |
|---|---|---|---|---|
| 45 | 23.6 | 23.6 | 2.08% | 2.08% |
| 50 | 21.1 | 21.1 | 2.44 | 2.44 |
| 55 | 18.7 | 18.7 | 2.84 | 2.84 |
| 60 | 16.4 | 16.4 | 3.30 | 3.30 |
| 65 | 14.1 | 14.1 | 3.79 | 3.79 |
| 70 | 11.7 | 11.7 | 4.37 | 4.37 |
| 75 | 9.2 | 9.2 | 5.53 | 5.53 |

**Actuarial Assumptions Used for the June 30, 2001 Valuation**

(Continued)

<u>The rates of retirement</u> used to measure the probability of eligible members retiring during the next year.

| Retirement Ages | Men | Women |
|---|---|---|
| 50 | 1.0% | 0.1% |
| 51 | 1.0% | 0.5% |
| 52 | 1.0% | 1.0% |
| 53 | 1.0% | 2.0% |
| 54 | 1.0% | 3.0% |
| 55 | 10.0% | 8.0% |
| 56 | 11.0% | 8.0% |
| 57 | 12.0% | 7.0% |
| 58 | 13.0% | 11.0% |
| 59 | 14.0% | 10.0% |
| 60 | 20.0% | 20.0% |
| 61 | 18.0% | 10.0% |
| 62 | 16.0% | 15.0% |
| 63 | 18.0% | 16.0% |
| 64 | 20.0% | 17.0% |
| 65 | 30.0% | 20.0% |
| 66 | 25.0% | 20.0% |
| 67 | 25.0% | 20.0% |
| 68 | 25.0% | 20.0% |
| 69 | 25.0% | 20.0% |
| 70 | 100.0% | 100.0% |

For the special early retirement window, which provides unreduced pensions to employees age 50 and older with 30 or more years of service who retire prior to September 30, 2002, we assumed those eligible would retire at a rate of 25% per year.

Once a member is eligible for retirement, we assumed that the probability of withdrawal is "turned-off", thus the liability is valued as an immediate benefit rather than a deferred benefit at age 60.

For current deferred vested members, we assume that benefits will commence at the later of age 60 or current attained age. We assume that none of the deferred vested members are reciprocal.

**Actuarial Assumptions Used for the June 30, 2001 Valuation**

(Continued)

Survivor Benefits. Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital Status – 76% of men and 56% of women were assumed married or having a domestic partner at retirement.

Spouse Census – Women were assumed to be 4 years younger than men.

Los Angeles City Employees' Retirement System

**Summary of Actuarial Assumptions and Methods**

**Used for Valuation of Health Subsidy Benefits**

| | |
|---|---|
| Methods: | Future cash flows were projected by applying medical trend rate factors to current annual claim rates. |
| Discount on Projected Cash Flows: | 8% per year. |

Medical Trend Rates:

| | Medical Trend | | | | |
|---|---|---|---|---|---|
| | Pre-65 | Post 65 | | Dental Trend | Medicare Part B |
| | | HMO | PPO | Pre and Post 65 | |
| 2001-2002 | 8.25% | 14.00% | 9.50% | 7.75% | 6.00% |
| 2002-2003 | 8.00% | 13.00% | 9.00% | 7.50% | 6.00% |
| 2003-2004 | 7.75% | 12.00% | 8.75% | 7.25% | 6.00% |
| 2004-2005 | 7.50% | 11.00% | 8.50% | 7.00% | 6.00% |
| 2005-2006 | 7.25% | 10.00% | 8.25% | 6.75% | 6.00% |
| 2006-2007 | 7.00% | 9.00% | 8.00% | 6.50% | 6.00% |
| 2007-2008 | 6.75% | 9.50% | 7.75% | 6.25% | 6.00% |
| 2008-2009 | 6.50% | 8.00% | 7.50% | 6.00% | 6.00% |
| 2009-2010 | 6.25% | 7.50% | 7.25% | 6.00% | 6.00% |
| 2010-2011 | 6.00% | 7.00% | 7.00% | 6.00% | 6.00% |
| 2011-2012 | 6.00% | 6.75% | 6.75% | 6.00% | 6.00% |
| 2012-2013 | 6.00% | 6.50% | 6.50% | 6.00% | 6.00% |
| 2013-2014 | 6.00% | 6.25% | 6.25% | 6.00% | 6.00% |
| 2014 + | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |

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

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

## Definitions of Technical Terms

Actuarial Accrued Liability. The difference between the actuarial present value of system benefits and the actuarial value of future normal costs. Also referred to as "accrued liability" or "actuarial liability".

Actuarial Assumptions. Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Accrued Service. Service credited under the system which was rendered before the date of the actuarial valuation.

Actuarial Equivalent. A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of retirement system benefits between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

Actuarial Gain (Loss). The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

Actuarial Present Value. The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

Amortization. Paying off an interest-discounted amount with periodic payments of interest and principal -- as opposed to paying off with lump sum payment.

Normal Cost. The actuarial present value of retirement system benefits allocated to the current year by the actuarial cost method.

Pension Benefit Obligation. A standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

(Concluded on Next Page)

## Definitions of Technical Terms

(Concluded)

Unfunded Actuarial Accrued Liability. The difference between actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded actuarial liability" or "unfunded accrued liability".

Most retirement systems have unfunded actuarial accrued liability. They arise each time new benefits are added and each time an actuarial loss is realized.

The existence of unfunded actuarial accrued liability is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liability does not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liability and the trend in its amount (after due allowance for devaluation of the dollar). Unfunded actuarial accrued liability must be controlled.

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

($ in Thousands)

| Valuation Date | Valuation Assets | Actuarial Accrued Liability | (Overfunded) Unfunded AAL | Funded Ratio | Member Payroll | UAAL Ratio to Payroll |
|---|---|---|---|---|---|---|
| 6/30/96 | $4,468,433 | $4,476,024 | $7,591 | 99.8% | 957,423 | 0.8% |
| 6/30/97 | 4,802,509 | 4,886,337 | 83,828 | 98.3 | 990,616 | 8.5 |
| 6/30/98 | 5,362,923 | 5,312,918 | (50,005) | 100.9 | 1,011,857 | (4.9) |
| 6/30/99 | 5,910,948 | 5,684,586 | (226,362) | 104.0 | 1,068,124 | (21.2) |
| 6/30/00 | 6,561,365 | 6,012,931 | (548,434) | 109.1 | 1,182,203 | (46.4) |
| 6/30/01 | 6,988,782 | 6,468,066 | (520,716) | 108.1 | 1,293,350 | (40.3) |

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

| Year Ended June 30 | Actuarially Required Contributions (ARC)[1] | Contributions Made[1] |
|---|---|---|
| 1996 | $120,660,148 | 100% |
| 1997 | 88,799,922 | 100% |
| 1998 | 64,459,744 | 100% |
| 1999 | 69,248,626 | 100% |
| 2000 | 72,146,277 | 100% |
| 2001 | 59,153,313[1] | 100% |

[1] Exclusive of City-Paid Defrayals of $20,512,541 and FDB contributions of $195,000.

## Solvency Test for Retirement Benefits
For Years Ended June 30, 2001

(In Thousands)

| | Aggregate Accrued Liabilities For | | | | Portion of Accrued Liabilities Covered by Reported Assets | | |
|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | | (1) | (2) | (3) |
| Valuation Date | Active Member Contributions | Retirants, Beneficiaries, & Deferred Vesteds | Active Member | Reported Assets* | | | |
| 6-30-96 | $637,737 | $2,357,798 | $1,480,489 | $4,468,433 | 100.0% | 100.0% | 99.5% |
| 6-30-97 | 683,048 | 2,598,432 | 1,604,857 | 4,802,509 | 100.0 | 100.0 | 94.8 |
| 6-30-98 | 733,680 | 2,772,712 | 1,806,526 | 5,362,923 | 100.0 | 100.0 | 100.0 |
| 6-30-99 | 776,617 | 2,989,218 | 1,918,751 | 5,910,948 | 100.0 | 100.0 | 100.0 |
| 6-30-00 | 827,729 | 3,149,392 | 2,035,810 | 6,651,365 | 100.0 | 100.0 | 100.0 |
| 6-30-01 | 889,658 | 3,444,240 | 2,134,168 | 6,988,782 | 100.0 | 100.0 | 100.0 |

* Actuarial Value of Assets excluding the Family Death Benefit Insurance Plan Reserve

## Retirants and Beneficiaries Added To and Removed From the Rolls

| Year Ended | No. of New Retirants/ Beneficiaries | Annual Allowances Added | No. of Retirants/ Beneficiaries Removed | Annual Allowances Removed | No. of Retirants/ Beneficiaries at 6/30 | Annual Allowances at 6/30 | % Increase in Annual Allowances | Average Annual Allowances |
|---|---|---|---|---|---|---|---|---|
| 6/30/01 | 918 | $3,986,705 | 593 | $899,294 | 13,549 * | $311,688,614 | N/A | $ 23,005 |

* Includes Family Death Benefit Insurance Plan beneficiaries and their allowances.

Los Angeles City Employees' Retirement System

**Contribution Rates Assumed for Members**
Participating Before February 1, 1983

| Age | Normal | Survivor | Total | Age | Normal | Survivor | Total |
|---|---|---|---|---|---|---|---|
| 16 | 8.00% | 0.22% | 8.22% | 40 | 10.19% | 0.91% | 11.10% |
| 17 | 8.04 | 0.28 | 8.32 | 41 | 10.29 | 0.92 | 11.21 |
| 18 | 8.08 | 0.33 | 8.41 | 42 | 10.41 | 0.93 | 11.34 |
| 19 | 8.14 | 0.39 | 8.53 | 43 | 10.52 | 0.94 | 11.46 |
| 20 | 8.20 | 0.44 | 8.64 | 44 | 10.64 | 0.95 | 11.59 |
| 21 | 8.27 | 0.48 | 8.75 | 45 | 10.76 | 0.97 | 11.73 |
| 22 | 8.34 | 0.53 | 8.87 | 46 | 10.89 | 0.98 | 11.87 |
| 23 | 8.42 | 0.56 | 8.98 | 47 | 11.01 | 0.99 | 12.00 |
| 24 | 8.50 | 0.60 | 9.10 | 48 | 11.12 | 1.00 | 12.12 |
| 25 | 8.58 | 0.63 | 9.21 | 49 | 11.24 | 1.01 | 12.25 |
| 26 | 8.66 | 0.66 | 9.32 | 50 | 11.34 | 1.03 | 12.37 |
| 27 | 8.75 | 0.68 | 9.43 | 51 | 11.44 | 1.05 | 12.49 |
| 28 | 8.86 | 0.70 | 9.56 | 52 | 11.55 | 1.06 | 12.61 |
| 29 | 8.96 | 0.72 | 9.68 | 53 | 11.65 | 1.07 | 12.72 |
| 30 | 9.06 | 0.75 | 9.81 | 54 | 11.75 | 1.08 | 12.83 |
| 31 | 9.17 | 0.77 | 9.94 | 55 | 11.85 | 1.09 | 12.94 |
| 32 | 9.28 | 0.79 | 10.07 | 56 | 11.94 | 1.10 | 13.04 |
| 33 | 9.40 | 0.81 | 10.21 | 57 | 12.03 | 1.12 | 13.15 |
| 34 | 9.50 | 0.82 | 10.32 | 58 | 12.13 | 1.13 | 13.24 |
| 35 | 9.61 | 0.83 | 10.44 | 59 - Over | 12.19 | 1.14 | 13.33 |
| 36 | 9.73 | 0.85 | 10.58 | | | | |
| 37 | 9.84 | 0.86 | 10.70 | | | | |
| 38 | 9.96 | 0.87 | 10.83 | | | | |
| 39 | 10.07 | 0.90 | 10.97 | | | | |

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

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LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# STATISTICAL SECTION

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

# STATISTICAL SECTION

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

| Year Ended | Member Contributions | Employer Contributions Dollars | Employer Contributions % of Annual Covered Payroll | Net Investment Income (Loss) | Total |
|---|---|---|---|---|---|
| 1996 | $ 47.50 | $ 149.00 | 16% | $ 528.80 | $ 725.30 |
| 1997 | 53.27 | 113.26 | 11% | 1,733.00 * | 1,899.53 |
| 1998 | 58.31 | 117.21 | 12% | 639.40 * | 814.92 |
| 1999 | 62.56 | 109.36 | 10% | 812.92 * | 984.84 |
| 2000 | 64.58 | 106.61 | 9% | 771.17 * | 942.36 |
| 2001 | 69.46 | 87.90 | 7% | (349.32)* | (191.96) |

* Includes change in unrealized gain and loss of investment

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

| Year Ended | Benefits Payments | Refunds | Administrative Expenses | Misc. Expense | Total |
|---|---|---|---|---|---|
| 1996 | $ 233.10 | $ 8.90 | $ 4.36 | $ - | $ 246.36 |
| 1997 | 247.98 | 9.45 | 4.86 | - | 262.29 |
| 1998 | 270.76 | 7.50 | 5.76 | - | 284.02 |
| 1999 | 290.62 | 9.63 | 6.23 | - | 306.48 |
| 2000 | 319.38 | 12.99 | 7.55 | - | 339.92 |
| 2001 | 343.11 | 12.92 | 8.20 | - | 364.23 |

LACERS

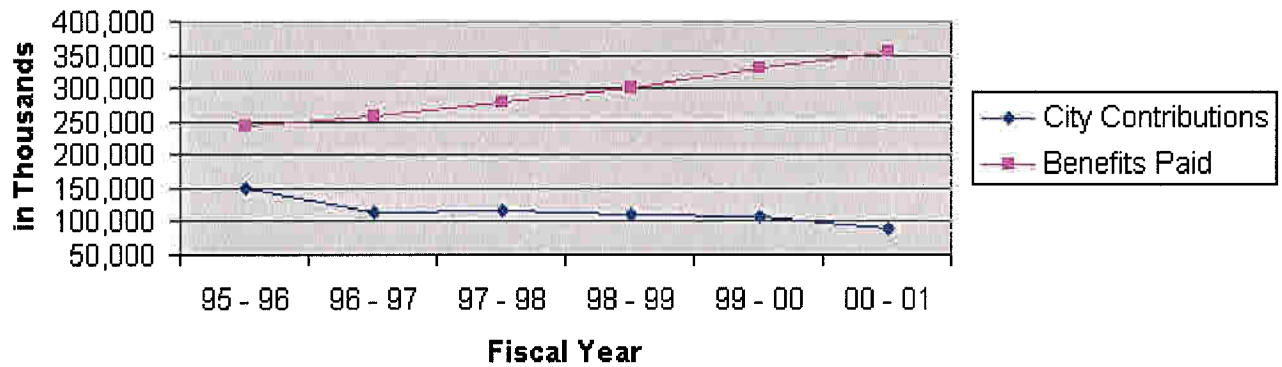
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

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

| Year | Age & Service Benefit | | Death in Service | Disability Benefits | | | | Benefits |
|---|---|---|---|---|---|---|---|---|
| Ended | Retirants | Survivors | Benefits | Retirants | Survivors | Sub Total | Refunds | Total |
| 1996 | $ 199,575 | $ 21,209 | $ 2,676 | $ 8,117 | $ 1,514 | $ 233,091 | $ 8,857 | $ 241,948 |
| 1997 | 212,376 | 22,888 | 2,674 | 8,451 | 1,590 | 247,979 | 9,448 | 257,427 |
| 1998 | 231,584 | 24,968 | 2,257 | 10,268 | 1,686 | 270,763 | 7,490 | 278,253 |
| 1999 | 248,986 | 27,521 | 3,113 | 9,301 | 1,703 | 290,624 | 9,628 | 300,252 |
| 2000 | 265,334 | 35,801 | 2,850 | 10,996 | 4,402 | 319,383 | 12,993 | 332,376 |
| 2001 | 285,030 | 38,523 | 2,919 | 11,882 | 4,751 | 343,105 | 12,923 | 356,028 |

* Allocated from year end retirement roll

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




| Fiscal Year | 95 - 96 | 96 - 97 | 97 - 98 | 98 - 99 | 99 - 00 | 00 - 01 |
|---|---|---|---|---|---|---|
| **City Contributions** | $149,036 | $113,262 | $117,209 | $ 109,362 | $106,610 | $ 87,897 |
| **Benefits Paid** | 241,948 | 257,427 | 278,253 | 300,252 | 332,376 | 356,028 |

# SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 2001)

| Amount of Monthly Benefits | Number of Retirants | Type of Retirement ** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| $ 1-250 | 250 | 65 | 93 | 60 | 9 | 21 | 1 | 1 |
| 251-500 | 856 | 158 | 335 | 130 | 24 | 149 | 7 | 53 |
| 501-750 | 1,244 | 386 | 424 | 130 | 122 | 54 | 27 | 101 |
| 751-1,000 | 1,344 | 490 | 372 | 85 | 270 | 20 | 32 | 75 |
| 1,001-1,250 | 1,282 | 645 | 284 | 61 | 213 | 9 | 40 | 30 |
| 1,251-1,500 | 1,059 | 661 | 179 | 46 | 113 | 7 | 38 | 15 |
| 1,501-1,750 | 961 | 761 | 111 | 20 | 38 | 4 | 25 | 2 |
| 1,751-2,000 | 841 | 706 | 73 | 26 | 6 | 2 | 25 | 3 |
| Over -2,000 | 5,271 | 4,854 | 275 | 48 | 8 | 2 | 82 | 2 |
| **Total** | **13,108** * | **8,726** | **2,146** | **606** | **803** | **268** | **277** | **282** |

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

** **Type of Retirement**

1 - Service Member
2 - Service Continuance
3 - Vested Right Member
4 - Disability Member

5 - Disability Continuance
6 - Service Survivorship
7 - Disability Survivorship

| Retirement Effective Dates | Years Credited Service | | | | | |
|---|---|---|---|---|---|---|
| July 1, 1995 to June 30, 2001 | 5-10 yrs | 11-15 yrs | 16-20 yrs | 21-25 yrs | 26-30 yrs | Over 30 yrs. |
| **Period 7/1/95 to 6/30/96** | | | | | | |
| Average Monthly Benefit | $793.64 | $971.67 | $1,344.18 | $1,982.62 | $2,405.61 | $3,726.38 |
| Average Final Monthly Salary * | $3,140.38 | $3,212.83 | $3,178.60 | $3,881.26 | $3,759.68 | $4,628.41 |
| Number of Active Retirants | 59 | 37 | 42 | 60 | 102 | 141 |
| **Period 7/1/96 to 6/30/97** | | | | | | |
| Average Monthly Benefit | $1,627.24 | $1,058.65 | $1,405.62 | $2,731.77 | $2,578.88 | $3,682.53 |
| Average Final Monthly Salary * | $3,822.70 | $3,443.61 | $3,485.82 | $3,740.63 | $3,935.10 | $4,729.11 |
| Number of Active Retirants | 41 | 35 | 40 | 47 | 155 | 235 |
| **Period 7/1/97 to 6/30/98** | | | | | | |
| Average Monthly Benefit | $720.37 | $1,150.20 | $1,476.11 | $2,199.54 | $2,859.62 | $3,535.37 |
| Average Final Monthly Salary * | $2,976.28 | $3,825.05 | $3,595.38 | $4,251.19 | $4,370.57 | $4,578.42 |
| Number of Active Retirants | 42 | 70 | 67 | 50 | 170 | 257 |
| **Period 7/1/98 to 6/30/99** | | | | | | |
| Average Monthly Benefit | $727.64 | $1,162.72 | $1,545.98 | $1,973.30 | $2,906.24 | $3,737.25 |
| Average Final Monthly Salary * | $3,398.10 | $3,905.21 | $3,923.87 | $3,815.17 | $4,551.09 | $4,980.46 |
| Number of Active Retirants | 47 | 53 | 46 | 50 | 141 | 216 |
| **Period 7/1/99 to 6/30/00** | | | | | | |
| Average Monthly Benefit | $975.43 | $1,427.80 | $1,653.49 | $2,055.80 | $3,103.41 | $3,900.36 |
| Average Final Monthly Salary * | $3,408.24 | $4,056.23 | $4,261.30 | $4,076.39 | $4,926.20 | $5,343.09 |
| Number of Active Retirants | 40 | 65 | 44 | 64 | 169 | 232 |
| **Period 7/1/00 to 6/30/01** | | | | | | |
| Average Monthly Benefit | $837.10 | $1,190.20 | $1,554.22 | $2,215.89 | $3,334.43 | $4,204.79 |
| Average Final Monthly Salary * | $3,950.30 | $4,154.23 | $4,007.25 | $4,300.28 | $5,137.02 | $5,456.50 |
| Number of Active Retirants | 24 | 52 | 45 | 44 | 140 | 221 |

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