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

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

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

ANNUAL FINANCIAL REPORT

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Retirement Plan and Postemployment Health Care Plan Statement of Fiduciary Net Position of the Los Angeles City Employees' Retirement System (LACERS), a department of the Municipality of the City of Los Angeles, California, as of June 30, 2014, and the related Retirement Plan and Postemployment Health Care Plan Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise LACERS basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Retirement Plan and Postemployment Health Care Plan of LACERS as of June 30, 2014, and the changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2014, LACERS implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, which modified the current financial reporting of those elements. Additionally**,** as discussed in Note 1 to the financial statements, the financial statements include investments that are not listed on national exchanges or for which quoted market prices are not available. These investments include private equities, and investments in real assets. Such investments totaled $2.0 billion (12.8% of total assets) at June 30, 2014. Where a publicly listed price is not available, the management of LACERS uses alternative sources of information including audited financial statements, unaudited interim reports, independent appraisals, and similar evidence to determine the fair value of the investments. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of LACERS that collectively comprise LACERS basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Report on Summarized Comparative Information

We have previously audited LACERS June 30, 2013 financial statements, and our report dated November 19, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Pasadena, California
December 26, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Financial Highlights

- LACERS fiduciary net position as of June 30, 2014 was $13,935,772,000, an increase of $2,013,234,000 or 16.9% over the prior fiscal year.
- The total additions to the fiduciary net position of LACERS, from employer contributions made by the City of Los Angeles (the City), Member contributions, and net investment income, were $2,855,565,000, a 33.0% increase from the prior fiscal year.
- The employer contributions to the Retirement Plan represented 100% of the Actuarially Determined Contribution of employer as defined by the Governmental Accounting Standards Board (GASB) Statement No 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The employer contributions to the Postemployment Health Care Plan represented 100% of the Annually Required Contribution (ARC) as defined by GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* and No. 45, Accounting and *Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*
- Net Investment income for this fiscal year was $2,195,770,000, representing 43.6% increase compared with an investment income of $1,529,244,000 for the previous reporting period.
- The total deductions from the fiduciary net position were $842,331,000, a 2.8% increase from the prior fiscal year, for the payment of retirement and postemployment health care benefits, refunds of Member contributions, and administrative expenses.
- The System's Net Pension Liability (NPL) for the retirement benefits was $4,457,774,000 as of June 30, 2014. NPL, an important measure required by the GASB Statement No. 67 to disclose in the financial notes of a pension plan, is the difference between the Total Pension Liability (TPL) and the Plan fiduciary net position. As the Plan fiduciary net position is equal to the market value of the System's assets, NPL is determined on market value basis, and it fully reflects LACERS' strong investment performance (18.4% rate of return, gross of fees) of this fiscal year. Compared with the previous fiscal year, the NPL fell by $269,403,000.
- The "Plan Fiduciary Net Position as a Percentage of TPL", another required disclosure by GASB Statement No. 67, is 72.6%, which is exactly the same as the funded ratio on market value basis reported in the actuarial valuation for the retirement benefits.
- Based on the most recent actuarial valuation as of June 30, 2014, the funded ratio for the Postemployment Health Care Plan was 72.9%, showing an improvement from 71.9% of the same period a year ago. This funded ratio was determined on actuarial value basis: the ratio of actuarial value of assets to the actuarial accrued liabilities of Postemployment Health Care Plan. On market value basis, the funded ratio showed an even greater improvement from 71.4% to 78.5%.

Overview of the Financial Statements

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

Financial Statements

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 14 - 29 of this report.

Required Supplementary Information

In addition to the Management's Discussion and Analysis, other required supplementary information consists of Schedule of Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions History, Schedule of Investment Returns, and the Notes to Required Supplementary Information for the Retirement Plan; and Schedule of Funding Progress, Schedule of Employer Contributions, and the Notes to Required Supplementary Information for the Postemployment Health Care Plan. These schedules and notes primarily present multi-year information as required by the applicable financial reporting

Overview of the Financial Statements (Continued)

Required Supplementary Information (Continued)

standards. This required supplementary information can be found on pages 30 - 35 of this report.

Supplemental Schedules

The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Fees and Expenses, are presented to provide additional financial information on LACERS' operations for the current year. They can be found on pages 36 and 37 of this report.

Management's Discussion and Analysis

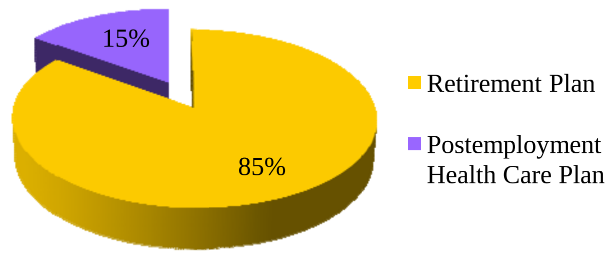
Financial Analysis

Allocation of Fiduciary Net Position

Fiduciary net position may serve as a useful indicator of a plan's financial position. The total fiduciary net position is allocated between the Retirement Plan and Postemployment Health Care Plan, as required by the existing reporting standards. The following information provides a brief description of the asset allocation between the Retirement Plan and the Postemployment Health Care Plan as of June 30, 2014 (dollars in thousands):

	Fiduciary Net Position	Percent
Retirement Plan	$11,844,437	85.0%
Postemployment Health Care Plan	2,091,335	15.0
Fiduciary Net Position	$13,935,772	100.0%

Allocation of Fiduciary Net Position



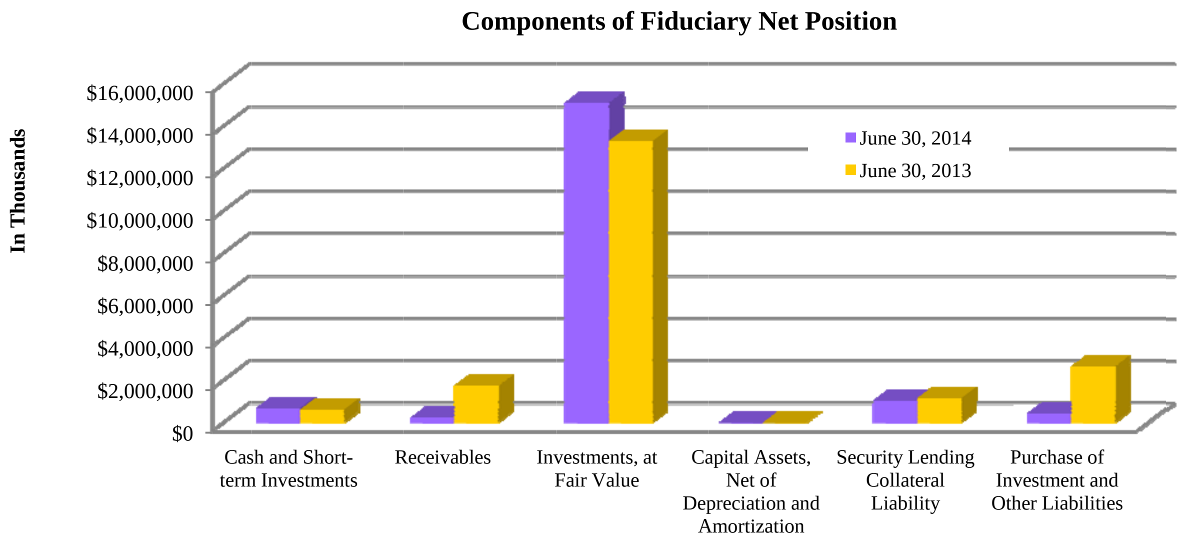
Fiduciary Net Position

The following table and graph represent the detailed information regarding the components of the fiduciary net position of LACERS as of June 30, 2014 and 2013 (dollars in thousands):

	June 30, 2014	June 30, 2013	Change	
Cash and Short-Term Investments	$ 681,629	$ 606,604	$ 75,025	12.4 %
Receivables	222,090	1,734,747	(1,512,657)	(87.2)
Investments, at Fair Value	14,482,891	12,781,115	1,701,776	13.3
Capital Assets, Net of Depreciation and Amortization	2,668	1,318	1,350	102.4
Total Assets	15,389,278	15,123,784	265,494	1.8
Security Lending Collateral Liability	1,022,532	1,155,982	(133,450)	(11.5)
Purchase of Investments and Other Liabilities	430,974	2,045,264	(1,614,290)	(78.9)
Total Liabilities	1,453,506	3,201,246	(1,747,740)	(54.6)
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	$ 13,935,772	$ 11,922,538	$ 2,013,234	16.9 %

Financial Analysis (Continued)

Fiduciary Net Position (Continued)



The majority of LACERS' fiduciary net position is contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, and other asset classes. Fiduciary net position increased by $2,013,234,000, or 16.9%, during this fiscal year. The increase is primarily attributable to the $1,924,720,000 net appreciation in fair value of investments, reflecting a very strong year for the equity markets.

Net Increase in Fiduciary Net Position

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

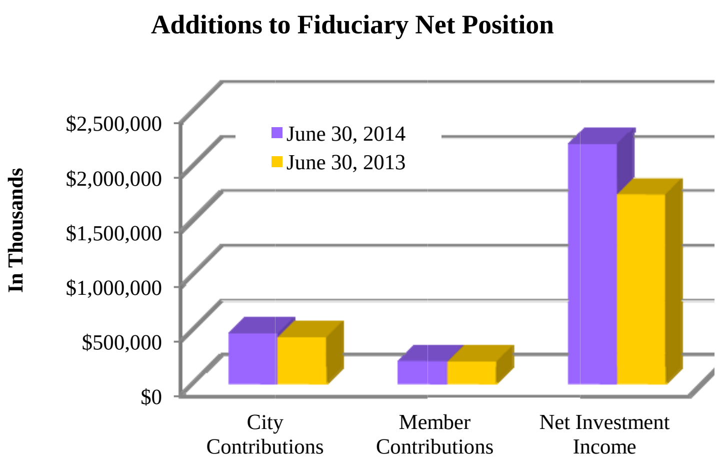
	June 30, 2014	June 30, 2013	Change	
Additions	$ 2,855,565	$ 2,146,391	$ 709,174	33.0 %
Deductions	842,331	819,554	22,777	2.8
Net Increase in Fiduciary Net Position	2,013,234	1,326,837	686,397	51.7
Fiduciary Net Position, Beginning of Year	11,922,538	10,595,701	1,326,837	12.5
Fiduciary Net Position, End of Year	$ 13,935,772	$ 11,922,538	$ 2,013,234	16.9 %

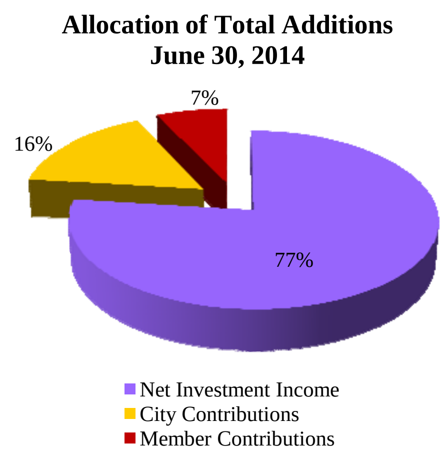
Financial Analysis (Continued)

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

The following table and graph represent the components that make up the additions to fiduciary net position for LACERS for the years ended June 30, 2014 and 2013 (dollars in thousands):

	June 30, 2014	June 30, 2013	Change
City Contributions	$ 455,659	$ 419,266	8.7 %
Member Contributions	204,136	197,881	3.2
Net Investment Income	2,195,770	1,529,244	43.6
Additions to Fiduciary Net Position	$ 2,855,565	$ 2,146,391	33.0 %





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

City Contributions to the Retirement Plan, the Postemployment Health Care Plan, and the Family Death Benefit Plan were $455,659,000 during the year, $36,393,000 or 8.7% more than the prior fiscal year due to a higher payroll base and a higher contribution rate recommended by the actuary. The total City contribution includes a true-up payment of $5,192,000, to reconcile the shortfall of the contribution based on projected payroll versus actual payroll. This true-up amount, which included accrued interest at 7.75%, was recognized as contributions receivable as of the end of the reporting period. In addition, this fiscal year's City contributions, for the first time, included the funding of the benefit costs for the new tier of Members (Tier 2). The aggregate employer contribution rate for this fiscal year was 25.26% (19.84% for the Retirement Plan and 5.42% for the Postemployment Health Care Plan) which is 1.12% higher than the prior fiscal year's rate of 24.14%. The actual contribution to the Retirement Plan in the amount of $357,649,000 was equal to 100% of the Actuarially Determined Contribution (ADC) of employer, as defined by GASB Statement No. 67. The actual contribution to the Postemployment Health Care Plan in the amount of $97,841,000 was equal to 100% of the Annual Required Contribution (ARC), as defined by GASB Statements No. 43 and 45.

Factors that may affect the amount of Member contributions include the change in number and composition of Members, the change in Member salaries, and the change in Member contribution rates. In fiscal year 2013-14,

Financial Analysis (Continued)

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

Member contributions were $204,136,000, which was $6,255,000 or 3.2% greater than the prior year in spite of a decrease in Active Members by 1.8% during the year. The increased contributions were primarily due to the overall increase in Members' salaries. Although the contribution rate for the new Tier 2 Members, at 10%, is 1% lower than most of the Tier 1 Members' contribution rate, it did not have significant impact on total Member contributions since the Tier 2 Members' payroll was only about 1% of the total payroll base for this fiscal year.

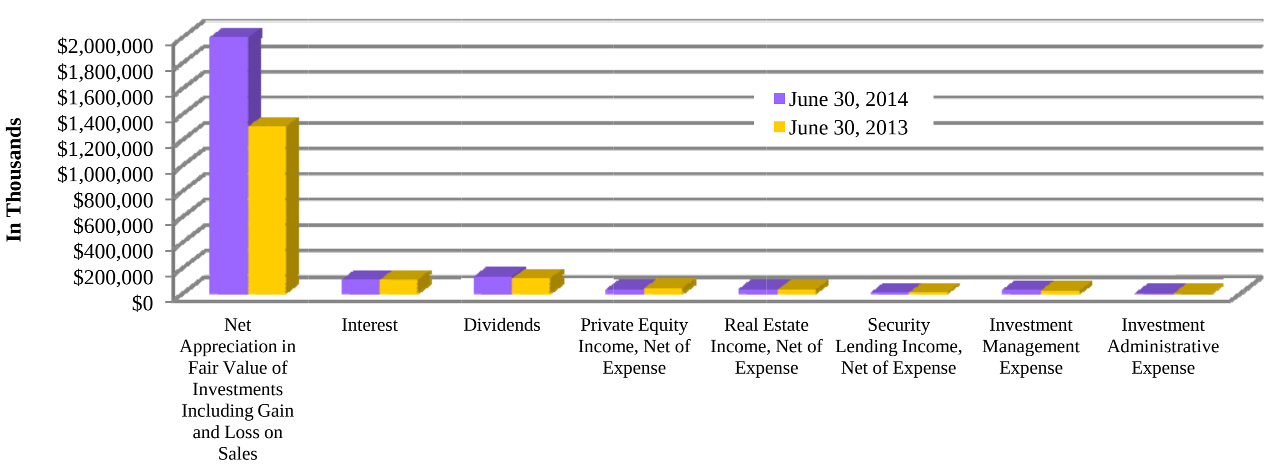
The net investment income of $2,195,770,000, which included $1,924,720,000 of net appreciation in fair value of investments, reflected the continued high investment performance of LACERS under the strong financial and stock markets during the fiscal year. This is discussed in more detail in the next section.

Investment Income

The following table and graph present the detail of investment income, net of investment management expenses for the years ended June 30, 2014 and 2013 (dollars in thousands):

	June 30, 2014	June 30, 2013	Change
Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales	$ 1,924,720	$ 1,258,819	52.9 %
Interest	103,600	102,989	0.6
Dividends	129,149	114,950	12.4
Private Equity Income, Net of Expense	30,012	39,420	(23.9)
Real Estate Income, Net of Expense	29,500	28,307	4.2
Security Lending Income, Net of Expense	4,841	5,795	(16.5)
Sub-Total	2,221,822	1,550,280	43.3
Less: Investment Management Expense	(24,876)	(21,036)	18.3
Investment Administrative Expense	(1,176)	-	N/A
Net Investment Income	$ 2,195,770	$ 1,529,244	43.6 %

Investment Income and Expenses



Financial Analysis (Continued)

Investment Income (Continued)

The net investment income for the current fiscal year was $2,195,770,000, as compared with the income of $1,529,244,000 for the previous fiscal year (43.6% increase). This large increase of investment income which included $1,924,720,000 of net unrealized and realized gains was primarily due to the increases in the market value of U.S. and non-U.S. equity holdings of LACERS in a very favorable economic and financial environment over the reporting period. Major global stock indices rose significantly during the fiscal year. The Standard and Poor's (S&P) 500 Index, a gauge of U.S. equities, returned 24.6%, Dow Jones Industrial Average was up 12.9% while the Morgan Stanley All Country World Index excluding U.S. (MS ACWI ex U.S.) which tracks non-U.S. equities was also up 21.8%. Stock market returns were fueled by favorable global economic growth and accommodative monetary and fiscal policies from central banks and governments across the globe.

Due to the continued low interest rates influenced by the Federal Reserve's monetary policy which affected the yields of fixed income securities during the report year, interest income derived from bonds and other fixed income securities was about the same as the prior year, with a slight increase of $611,000.

Dividend income derived from stocks increased by $14,199,000 (12.4%) due to healthy corporate earnings as well as higher dividend payouts by many companies.

Income from private equity in the current fiscal year decreased by $9,408,000, (-23.9%), attributable to the slower partnership distributions in the wake of record high distribution during the prior fiscal year, and the "J-Curve" effect of the new investments.

Real estate income showed moderate increase by $1,193,000 (4.2%), driven by robust demand for commercial real estate, growing rents, and increased transaction volume.

LACERS earns additional investment income by lending securities to borrowers through its custodian bank. The borrowers provide cash or non-cash collateral to LACERS' custodian bank. The custodian bank, in turn, invests the cash collateral on behalf of the borrowers in short and intermediate term fixed income securities. In the reporting year, LACERS security lending income (net of expense) decreased by $954,000 (-16.5%) from a year ago due to lower borrower demand for securities held in LACERS portfolio, and increased rebates to borrowers.

The investment management expense posted an increase by $3,840,000, or 18.3%, from the prior year. The increase corresponds to the significant increase in assets under management, as indicated by the growth in LACERS fiduciary net position at the end of the reporting year by more than $2.0 billion over the prior year. In order to comply with the GASB Statement No. 67, $1,176,000 of investment related administrative expenses, mostly the personnel costs of LACERS' investment staff, was reclassified from Administrative expenses to Investment expense.

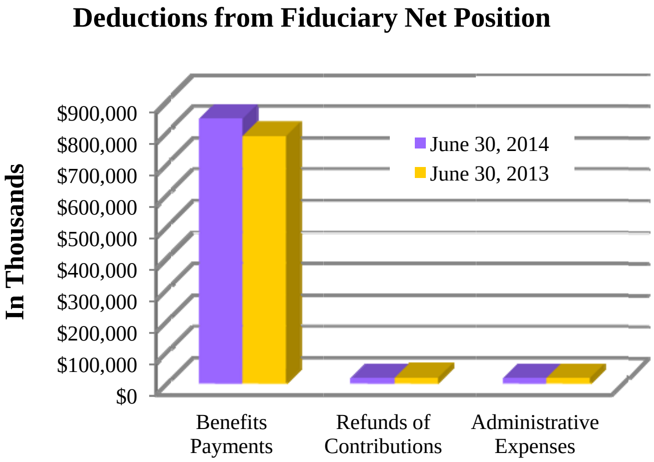
Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position

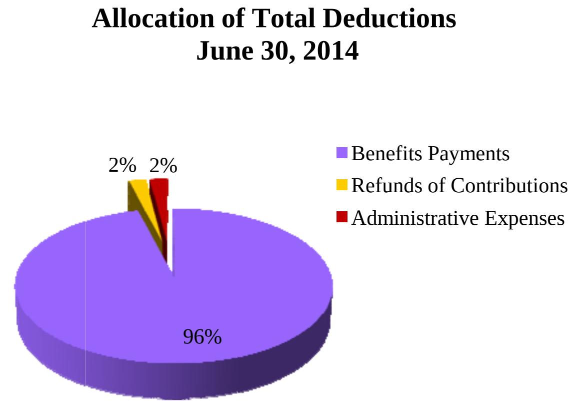
The following table and graphs provide information related to the deductions from fiduciary net position for the years ended June 30, 2014 and 2013 (dollars in thousands):

	June 30, 2014	June 30, 2013	Change
Benefits Payments	$ 810,584	$ 785,308	3.2 %
Refunds of Contributions	15,982	17,697	(9.7)
Administrative Expenses	15,765	16,549	(4.7)
Deductions from Fiduciary Net Position	$ 842,331	$ 819,554	2.8 %

Financial Analysis (Continued)

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





LACERS deductions from fiduciary net position in the reporting period can be summarized as Benefits Payments, Refunds of Contributions, and Administrative Expenses. These deductions represent the types of benefit delivery operations undertaken by LACERS and the costs associated with them. Total deductions increased by $22,777,000 or 2.8%.

Compared to the prior year, benefits payments increased by $25,276,000 or 3.2%. The benefits payments for the Retirement Plan increased by $21,594,000 (3.1%) mainly due to the annual cost of living adjustments (COLA) (approximately 2.0% increase on average up to a maximum of 3.0%); increased number of retirees and beneficiaries; and the average retirement allowance of newly retired Members being higher than those of the deceased Members who were removed from the retirement payroll. Payments for Postemployment Health Care Plan benefits also increased by $3,682,000 (3.8%), due to the increased maximum health subsidy from $1,367 to $1,464 per month as the renewed medical premium rates for 2014 increased. The health care benefit expense reflected an one-time defrayal by the return of excess premium stabilization reserve in the amount of $3,225,000 from a postemployment health care provider.

Refunds of contributions decreased by $1,715,000 (-9.7%) mainly due to the decreased number of City employees transferring to the Department of Water and Power (DWP) and the associated transfer of their retirement contributions from LACERS to the Water and Power Employees' Retirement Plan (WPERP). The reciprocity program between WPERP and LACERS was suspended by City ordinance effective January 1, 2014.

LACERS administrative expenses during the reporting period decreased by $784,000 (-4.7%) from the prior year. The decrease was primarily due to the reclassification of investment related administrative expenses to investment expense as required by GASB Statement No. 67 in this fiscal year. The reclassified expenses included salaries, wages, and employee benefit cost for investment officers and supporting staff as well as travel expenses incurred for investment related education, training, and due diligence visits. Without the reclassification and compared on the same basis, the administrative expenses would be $392,000 (2.4%) higher than the prior year. This variance was mainly attributable to the increased salaries and wages caused by the mandated City COLA, and slightly increased number of filled positions for full-time regular employees as well as Relief Retirement Workers during the reporting period.

Requests for Information

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

LACERS
Fiscal Management Section
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

AUDITED FINANCIAL STATEMENTS

Statement of Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
As of June 30, 2014, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2014 Total	2013 Total
Assets				
Cash and Short-Term Investments	$ 579,337	$ 102,292	$ 681,629	$ 606,604
Receivables				
Accrued Investment Income	35,029	6,185	41,214	38,025
Proceeds from Sales of Investments	141,525	24,989	166,514	1,688,400
Other	12,207	2,155	14,362	8,322
Total Receivables	188,761	33,329	222,090	1,734,747
Investments, at Fair Value				
U.S. Government Obligations	415,440	73,353	488,793	585,729
Municipal Bonds	5,394	952	6,346	7,430
Domestic Corporate Bonds	993,904	175,490	1,169,394	1,064,399
International Bonds	427,177	75,425	502,602	338,185
Bank Loans	1,408	249	1,657	-
Opportunistic Debts	10,877	1,921	12,798	1,217
Domestic Stocks	4,529,612	799,779	5,329,391	4,568,125
International Stocks	2,794,440	493,405	3,287,845	2,510,595
Mortgages	564,050	99,592	663,642	617,640
Government Agencies	25,345	4,475	29,820	42,574
Derivative Instruments	152	27	179	-
Real Estate	599,688	105,885	705,573	682,344
Private Equity	1,072,883	189,436	1,262,319	1,206,895
Security Lending Collateral	869,081	153,451	1,022,532	1,155,982
Total Investments	12,309,451	2,173,440	14,482,891	12,781,115
Capital Assets				
Furniture, Computer Hardware and Software (Net of Depreciation and Amortization)	2,268	400	2,668	1,318
Total Assets	13,079,817	2,309,461	15,389,278	15,123,784
Liabilities				
Accounts Payable and Accrued Expenses	15,197	2,683	17,880	56,205
Accrued Investment Expenses	10,194	1,799	11,993	-
Derivative Instruments	123	22	145	19
Purchases of Investments	340,785	60,171	400,956	1,989,040
Security Lending Collateral	869,081	153,451	1,022,532	1,155,982
Total Liabilities	1,235,380	218,126	1,453,506	3,201,246
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	**$ 11,844,437**	**$ 2,091,335**	**$ 13,935,772**	**$ 11,922,538**

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

Statement of Changes in Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
For the Year Ended June 30, 2014, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2014 Total	2013 Total
Additions				
Contributions				
City Contributions	$ 357,818	$ 97,841	$ 455,659	$ 419,266
Member Contributions	204,136	-	204,136	197,881
Total Contributions	561,954	97,841	659,795	617,147
Investment Income				
Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales	1,591,780	332,940	1,924,720	1,258,819
Interest	87,044	16,556	103,600	102,989
Dividends	108,510	20,639	129,149	114,950
Private Equity Income, Net of Expense	25,481	4,531	30,012	39,420
Real Estate Income, Net of Expense	24,917	4,583	29,500	28,307
Security Lending Income	4,785	910	5,695	6,816
Less: Security Lending Expense	(705)	(149)	(854)	(1,021)
Sub-Total	1,841,812	380,010	2,221,822	1,550,280
Less: Investment Management Expense	(20,573)	(4,303)	(24,876)	(21,036)
Investment Administrative Expense	(973)	(203)	(1,176)	-
Net Investment Income	1,820,266	375,504	2,195,770	1,529,244
Total Additions	2,382,220	473,345	2,855,565	2,146,391
Deductions				
Benefits Payments	708,956	101,628	810,584	785,308
Refunds of Contributions	15,982	-	15,982	17,697
Administrative Expenses	12,438	3,327	15,765	16,549
Total Deductions	737,376	104,955	842,331	819,554
Net Increase in Fiduciary Net Position	1,644,844	368,390	2,013,234	1,326,837
Fiduciary Net Position Restricted for Pension and Postemployment Health Care Benefits				
Beginning of Year	10,199,593	1,722,945	11,922,538	10,595,701
End of Year	**$ 11,844,437**	**$ 2,091,335**	**$ 13,935,772**	**$ 11,922,538**

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

Note 1 – Description of LACERS and Significant Accounting Policies

General Description

The Los Angeles City Employees' Retirement System (LACERS, or the "System") is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. The Board has seven Members. Four Members, one of whom shall be a retired Member of the System, shall be appointed by the Mayor subject to the approval of the City Council. Two Members shall be active employee Members of the System elected by active employee Members. One shall be a retired Member of the System elected by retired Members of the System. Elected Board Members serve five-year terms in office, with no term limits. The System is a Department of the Municipality of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles' Annual Financial Report as a pension trust fund.

The System operates a single-employer defined benefit plan (the Retirement Plan) and a Postemployment Health Care Plan. Changes to the benefit terms require approval by the City Council. A description of each plan is located in Note 2 and Note 3 (pages 16 - 22). All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

On October 26, 2012, the Los Angeles City Council approved amending Chapter 10 and 11 of Division 4 of the Los Angeles Administrative Code to establish a second benefit tier (Tier 2) for new hires who become Members of the LACERS on or after July 1, 2013, except as provided otherwise in Section 4.1052(a) of the Administrative Code (refer to Note 2 – Retirement Plan Description on pages 17 and 18, and Note 3 – Postemployment Health Care Plan Description on page 20 for each tier's required contributions and benefits received).

Basis of Accounting and Presentation

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP) as outlined by the Governmental Accounting Standards Board (GASB). The financial statements are maintained on the accrual basis of accounting. Contributions from the employer and Members were recognized when due pursuant to formal commitments and contractual requirements. Benefits, refunds, and other expenses are recognized when due and payable.

The accompanying financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with the US GAAP.

Investments

Investment Policies

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

As of June 30, 2014, the Board's adopted asset allocation policy was as follows:

Asset Class	Target Allocation
Domestic and International Equities	53.0%
Domestic and International Bonds	19.0
Private Equity	12.0
Private Real Estate	5.0
Public Real Assets	5.0
Short-term Investments	1.0
Credit Opportunities	5.0
Total	100.0%

Fair Value of Investments

Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, bank loans, stocks, and private equities are reported at fair value. The fair values of real estate investment funds are provided by the individual real estate fund managers based on periodic appraisals, in the form of either annual in-house appraisals or longer-term appraisals by outside professionals, in accordance with industry practice. The fair value determined as such is also reviewed and evaluated by the Board's real estate consultant. The private equity funds ("partnership investment"), which are managed by third party investment managers, are valued on a quarterly and/or annual basis at their net asset value as reported by the investment managers under US GAAP. US GAAP requires that assets be reported at fair value in accordance with Accounting Standards Codification

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

Investments (Continued)

Fair Value of Investments (Continued)

Topic 820 – *Fair Value Measurement and Disclosures.* The fair values of derivative instruments are determined using available market information. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Management's investment strategy, as it relates to the debt portfolio, is mainly to achieve market appreciation and not to hold bonds to their maturities.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the Statement of Fiduciary Net Position under Receivables and labeled as Proceeds from Sales of Investments, and amounts payable for purchases are reported under (Current) Liabilities and labeled as Purchases of Investments. Dividend income is recorded on the ex-dividend date. Interest income is reported at the stated interest rate as earned, and any premiums or discounts on debt securities are not amortized. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of LACERS pension plan investment. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

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

Concentrations

The investment portfolio as of June 30, 2014 contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Rate of Return on Investments

For the year ended June 30, 2014, the annual money-weighted rate of return on LACERS investments, net of investment expenses, was 18.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivables

There was no long-term contract for contributions receivable from the City as of June 30, 2014. However, the City made $5,192,000 of true up contributions after the end of the reporting period on July 15, 2014, based on the actual payroll. This true up amount, which included accrued interest at 7.75%, was recognized as contributions receivable as of the end of the reporting period.

Capital Assets

Prior to July 1, 2001, purchases of capital assets, consisting primarily of office furniture and computer equipment were recorded and expensed in the year acquired. Effective July 1, 2001, these purchases are capitalized upon acquisition if the cost of purchase is $5,000 or more, and depreciated over five years using the straight-line method.

In order to comply with the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, certain costs for developing LACERS' new Pension Administration System (PAS), a strategic initiative critical to LACERS future operations, have been capitalized, and amortized over 15 years, which is its estimated useful life, using the straight-line method.

Administrative Expenses

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

Reserves

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

Reserves for Retirement Plan

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

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

Annuity – Member contributions transferred to the City and used to provide for the Members' share of retirement benefits and investment earnings (losses) excluding net appreciation (depreciation)

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

Reserves (Continued)

in fair value of investments, less payments to retired Members.

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

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

Reserve for Postemployment Health Care Plan

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

Reserve balances as of June 30, 2014, were as follows (in thousands):

Reserve for Retirement Plan		
Member Contributions	$ 1,924,582	
Basic Pensions	9,400,069	
Annuity	466,428	
Larger Annuity	37,073	
FDBP	16,285	$11,844,437
Reserve for Postemployment Health Care Plan		2,091,335
Total Reserves		$ 13,935,772

Use of Estimates in Preparation of the Financial Statements

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

Implementation of New Accounting Pronouncement

On June 25, 2012, the GASB approved two new standards designed to substantially improve the accounting and financial reporting of public employee pensions for state and local governments: GASB Statement No. 67, *Financial reporting for Pension Plans – an amendment of GASB Statement No. 25*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. These statements represent one of the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. In the current fiscal year, LACERS implemented the provisions of GASB Statement No. 67. The implementation of this statement enhanced accountability and transparency through revised and new note disclosures and required supplementary information (RSI). Significant changes include an actuarial calculation of total and net position liability using a discount rate required by paragraph 40 of the Statement No. 67, a sensitivity analysis of net pension liability using discount rates at one percentage point higher and lower than that required by paragraph 40 of the Statement No. 67, disclosure of the annual money-weighted rate of return, and disclosure of the asset allocation policy. This information is presented in the Note 2 and in RSI schedules. The previously reported schedule of funding progress under GASB Statement No. 25 is no longer included in RSI. The previously reported schedule of employer contributions for Retirement Plan is replaced by a schedule of actuarially determined employer contribution in RSI.

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. There are no accounts presented in the prior year's data that have been reclassified to be consistent with the current year's presentation.

Note 2 – Retirement Plan Description

Plan Administration and Membership

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

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

Note 2 – Retirement Plan Description (Continued)

Plan Administration and Membership (Continued)

Department including those who elected to opt out of LACERS. Membership to Tier 1 is now closed to new entrants. Eligible employees hired on or after July 1, 2013, except as provided otherwise in Section 4.1052(a) of the Los Angeles Administrative Code become Members of Tier 2.

At June 30, 2014, the components of LACERS membership in both tiers were as follows:

Active:	
Vested	21,787
Non-vested	2,222
	24,009
Inactive:	
Non-vested	4,191
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,840
Retired	17,532
Total	47,572

Members of LACERS have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, Members are eligible for future retirement benefits, which increase with length of service. If a Member who has five or more years of continuous City service terminates employment, the Member has the option of receiving retirement benefits when eligible or withdrawing from LACERS, or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

Eligibility Requirement and Benefits Provisions

Tier 1

Plan Members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Plan Members also are eligible to retire with an age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the Member's average monthly salary during the Member's last 12 months of service, or during any other 12 consecutive months of service designated by the Member, multiplied by the Member's years of service credit. Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, refund of Member's contributions plus a limited pension benefit equal to 50% of monthly salary will be paid up to 12 months, or survivor benefits will be paid to an eligible spouse or qualified domestic partner if such Member was eligible to retire. Upon a retired Member's death, modified or unmodified allowance continued to an eligible spouse or qualified domestic partner in addition to the funeral allowance will be paid.

Tier 2

Plan Members are eligible to retire with 10 or more years of continuous City service at age 65, or at age 70 or older regardless of length of City service. Plan Members also are eligible to retire with an age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service. Full (unreduced) retirement benefits are determined as 2.00% of the Member's average monthly salary during the Member's last 36 months of service, or during any other 36 consecutive months of service designated by the Member, multiplied by the Member's years of service credit. Plan Members with 10 years of continuous service are eligible for disability retirement, and the benefits are determined as 1/90 of the Member's final average monthly salary for each year of service. Upon an active Member's death, refund of Member's contributions plus a limited pension benefit equal to 50% of monthly salary up to 12 months will be paid; optional survivor benefits will be paid if such Member was eligible to retire. For retired Members, the only death benefits will be the funeral allowance unless the retiree elected at the time of retirement to take a reduced allowance in order to provide for a continuance. There were no Tier 2 Members who retired during this reporting period.

Cost of Living Adjustment

Retirement allowances are indexed annually for inflation. The Board has authority to determine, no later than May 1st of each year, the average annual percentage change in the Consumer Price Index (CPI) for the purpose of providing a Cost of Living Adjustment (COLA) to the benefits of eligible Members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 Members or 2.0% for Tier 2 Members. The excess over the maximum will be banked for Tier 1 Members only.

Note 2 – Retirement Plan Description (Continued)

Employer Contribution

The Retirement Plan's funding policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter provides for periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2014, the actuarially determined contribution of employer to the Retirement Plan by the City was 19.84% of covered payroll, based on the June 30, 2012 actuarial valuation.

Member Contributions

Tier 1

As a result of the 2009 Early Retirement Incentive Program (ERIP) ordinance which stipulates a 1% increase in the Member contribution rate for all employees for a period of 15 years (or until the ERIP Cost obligation is fully recovered, whichever comes first), and the new ordinances adopted by the City Council in 2011 requiring additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy, most of the Members' contribution rates were increased to 11% of pay as of June 30, 2014. Members from two bargaining groups who currently contribute at 8% will contribute 11% of pay effective June 29, 2016. Members from only one bargaining group, which consist of approximately 1% of the total Members, are contributing at 7% with no agreement for rate increase as of June 30, 2014.

Tier 2

The initial contribution rate for the active Members in Tier 2, will be 10% of their pensionable salary for the first four years. The Board of LACERS will establish the Tier 2 Members' contribution rate every three years thereafter, with the first such determination to be effective July 1, 2017, for the following three years. The contribution rate shall be an actuarially determined rate sufficient to fund 75% of normal cost and 50% of any unfunded liability for Tier 2. Unlike Tier 1, Tier 2 Member contribution is paid solely for the purpose of providing benefits for the Member only and does not include a survivor contribution.

Net Pension Liability

As of June 30, 2014 the components of the net pension liability were as follows (in thousands):

Total Pension Liability	$ 16,248,853
Plan Fiduciary Net Position	(11,791,079)
Plan's Net Pension Liability	$ 4,457,774
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.6%

Significant Assumptions

Projections of benefits for financial reporting purposes are based on the types of benefits provided to active, inactive, and retired Members at the time of each valuation, including expected future COLAs. The attribution method and significant assumptions used in the valuation year of June 30, 2014, are summarized below:

Valuation Date	June 30, 2014
Attribution Method	Entry Age Method – assuming a closed group.
Actuarial Assumptions:	
Date of Experience Study	June 30, 2014
Long-term Expected Rate of Return	7.50%
Includes Inflation at	3.25%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increases	Ranges from 10.5% to 6.1% for Members with less than five years of service, and from 5.1% to 4.4% for Members with five or more years of service, including Inflation.
Annual Cost of Living Adjustments	3.00% for Tier 1 and 2.00% for Tier 2

Note 2 – Retirement Plan Description (Continued)

Significant Assumptions (Continued)

Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, projected with Scale BB to 2020, set back one year for males and no set back for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, projected with Scale BB to 2020, set back seven years for males and set forward eight years for females.
Percent Married / Domestic Partner	76% of male participants; 50% of female participants are assumed to be married or have a qualified domestic partner.
Spouse Age Difference	Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.

Discount Rate

The discount rates used to measure the total pension liability were 7.50% and 7.75% as of June 30, 2014 and June 30, 2013, respectively. Both rates are long-term expected rate of return on the System's investments.

The long-term expected rate of return was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Arithmetic Long-term Expected Real Rate of Return
U.S. Larger Cap Equity	20.4%	5.9%
U.S. Small Cap Equity	3.6	6.6
Developed Int'l Equity	21.7	7.0
Emerging Market Equity	7.3	8.5
Core Bonds	16.5	0.7
High Yield Bonds	2.5	2.9
Private Real Estate	5.0	4.7
Private Equity	12.0	10.5
Public Real Assets	5.0	3.4
Credit Opportunities	5.0	3.1
Cash	1.0	(0.5)
Total	100.0%	

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

Based on those assumptions, LACERS fiduciary net position was projected to be available to make "all" projected future benefit payments for current plan Members. Therefore, in accordance with the GASB Statement No. 67, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of LACERS as of June 30, 2014, calculated using the discount rate of 7.5%, as well as what LACERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate (dollars in thousands):

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
$6,655,035	$4,457,774	$2,631,738

Note 3 – Postemployment Health Care Plan Description

Plan Description

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

During the 2011 fiscal year, the City adopted an ordinance ("Freeze Ordinance") to freeze the maximum medical subsidy at $1,190 for those Members who retire on or after July 1, 2011. However, Members who at any time prior to retirement contribute the additional 2% or 4% of pay pursuant to the ordinances mentioned in Note 2 on page 18 are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2014, approximately 99% of non-retired Members were making the additional contributions, and therefore not subject to the medical subsidy freeze.

Postemployment health care benefits for the Tier 2 Members differ from those for the Tier 1 Members in their annual subsidy accrual after 10 years of service; Tier 1 earns 4% per year while Tier 2 earns 3% per year. As mentioned above, spouses/domestic partners of Tier 2 Members are not entitled to System's postemployment health care benefits.

Funding Policies and Funded Status and Progress

Article XI Sections 1158 and 1160 of the Los Angeles City Charter requires periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2014, was 5.42% of covered payroll, determined by the June 30, 2012 actuarial valuation. As of June 30, 2014, the most recent actuarial valuation date, the Postemployment Health Care Plan was 72.9% funded. The actuarial accrued liability for benefits was $2,662,853,000 and the actuarial value of assets was $1,941,225,000, resulting in an UAAL of $721,628,000. The covered payroll as of the June 30, 2014 valuation was $1,898,064,000. The ratio of UAAL to the covered payroll was 38.0%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns, and the health care cost trends. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 34 following the notes to the basic financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 3 – Postemployment Health Care Plan Description (Continued)

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.00% increase in total covered payroll.
Amortization Period	Multiple layers – closed amortization period. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years, except that assumptions specifically related with the Postemployment Health Care benefits and reviewed annually by the Board are amortized over 15 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over five years. Actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers for Retirement Plan, were combined and amortized over 30 years. Health trend and premium assumption changes are amortized over 15 years. Years remaining range from 10 to 28 years.
Asset Valuation Method	Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the fair value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of fair value of assets. An Ad Hoc change was made in 2014 to combine the unrecognized returns and losses of prior years as of June 30, 2013 into one layer and recognize it evenly over six years from fiscal year 2013-14 through fiscal year 2018-19.
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and no set back for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward seven years for males and set forward eight years for females.
Marital Status	60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.
Surviving Spouse Coverage	With regard to Members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.

Note 3 – Postemployment Health Care Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Participation

50% of inactive Members are assumed to receive a subsidy for a City approved health carrier.

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

Health Care Cost Trend Rates

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

Medical Premium Trend Rates to be applied to fiscal year 2014-2015 and later years are:

First Fiscal Year (July 1, 2014 through June 30, 2015)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	7.52%	5.55%
Anthem Blue Cross HMO	7.59%	N/A
Anthem Blue Cross PPO	0.48%	6.55%
UnitedHealthcare (formerly Secure Horizons)	N/A	6.59%

Fiscal Year 2015 - 2016 and later	
Fiscal Year	Trend (Approx)
2015 - 2016	6.88%
2016 - 2017	6.63%
2017 - 2018	6.38%
2018 - 2019	6.13%
2019 - 2020	5.88%
2020 - 2021	5.63%
2021 - 2022	5.38%
2022 - 2023	5.13%
2023 and later	5.00%

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

Medicare Part B Premium Trend for the 2014-15 fiscal year is 2.50% (calculated based on the actual increase in premium from 2014 to 2015). 5.00% for years following the 2015 calendar year.

Note 4 – Contributions Required and Contributions Made

LACERS switched to the Entry Age cost method in the June 30, 2012 actuarial valuation to determine the fiscal year 2013-14 required annual contribution amount for the Retirement Plan and the Postemployment Health Care Plan. The required annual contribution amount is composed of two components: normal cost which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the UAAL which is the difference between LACERS actuarial liabilities and actuarial assets.

The components of the UAAL are amortized as a level percent of pay. Based on LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 years, except that health cost trend and premium assumption changes are amortized over 15 years. Plan changes and experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period of 30 years for all layers combined. The amortization periods are "closed" as each layer of the UAAL is systematically amortized over a "fixed" period.

The contributions to LACERS for the year ended June 30, 2014, in the amount of $659,795,000 ($561,954,000 for the Retirement Plan and $97,841,000 for the Postemployment Health Care Plan), were made in accordance with actuarially-determined requirements computed by the actuarial valuation dated June 30, 2012.

Contributions to LACERS consisted of the following for the year ended June 30, 2014 (in thousands):

	Retirement Plan	Postemployment Health Care Plan
City Contributions:		
Required Contributions	$ 357,649	$ 97,841
FDBP	169	-
Total City Contributions	357,818	97,841
Member Contributions	204,136	-
Total Contributions	$ 561,954	$ 97,841

The City contributions made for the Retirement Plan under the Required Contribution category in the amount of $357,649,000 were equal to 100% of the actuarially determined contribution of the employer. The City contributions made for the Postemployment Health Care Plan, in the amount of $97,841,000, represents 100% of the ARC as defined by GASB Statements No. 43 and No. 45. Member contributions in the amount of $204,136,000 were made toward the Retirement Plan and the voluntary Family Death Benefit Plan.

Note 5 – Historical Trend Information

Historical trend information designed to provide information about LACERS progress made in accumulating sufficient assets to pay benefits when due is presented on pages 30 - 33 for the Retirement Plan and pages 34 - 35 for the Postemployment Health Care Plan.

Note 6 – Cash and Short-Term Investments and Investments

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

LACERS considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2014 on the Retirement Plan and Postemployment Health Care Plan included approximately $1,028,000 held in LACERS general operating accounts with the City Treasurer and short-term investments funds (STIF) of $680,601,000 for a total of $681,629,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable. At June 30, 2014, short-term investments included collective STIF of $195,335,000, international STIF of $203,383,000, and future contracts initial margin and collaterals of $281,883,000.

Note 6 – Cash and Short-Term Investments and Investments (Continued)

The fair value of derivative instruments, including equity index and interest rate future contracts, currency forward contracts, and rights and warrants, are recorded in the Statement of Fiduciary Net Position with a net value of $34,000. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Fiduciary Net Position as Investment Income (Loss). LACERS enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of LACERS derivatives for the current and previous fiscal years are classified as investment derivatives.

The notional amount and the fair value of derivative instruments as of June 30, 2014, are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Equity Index	$ 18,992	$ 7	$ (72)
Interest Rate	(34,604)	(145)	15
Currency Forward Contracts	23,480	(8)	14
Right / Warrants	N/A	180	96
Total Value		$ 34	$ 53

Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LACERS seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2014, are as follows (dollars in thousands):

S & P Ratings	Fair Value	Percentage
AAA	$ 71,086	3.02 %
AA	696,056	29.61
A	426,587	18.15
BBB	676,298	28.77
BB	238,264	10.14
B	116,255	4.95
CCC	29,661	1.26
CC	1,478	0.06
C	249	0.01
D	3,542	0.15
Not Rated	91,410	3.88
	2,350,886	100.00 %
U.S. Government Guaranteed Securities[(1)]	524,166	
Total Fixed Income Securities	$ 2,875,052	

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

Credit Risk – Derivatives

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

LACERS permits investment managers, under the terms of individual guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. It is the responsibility of these investment managers to actively monitor counterparties on their financial safety and ensure compliance with the investment restrictions. LACERS has no general investment policy with respect to netting arrangements or collateral requirements. However, these individual investment managers have set up the arrangements with the counterparties to net off the positive and negative contracts with the same counterparty in case of the counterparty's default.

Note 6 – Cash and Short-Term Investments and Investments (Continued)

Credit Risk – Derivatives (Continued)

As of June 30, 2014, without respect to netting arrangements, LACERS maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is as follows (in thousands):

S & P Ratings	Fair Value
AA-	$ 33
A	30
Total Credit Risk	$ 63

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, LACERS would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2014, LACERS has exposure to such risk in the amount of $26,049,000, or 0.65% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 16 different investment managers, and held outside of LACERS custodial bank. LACERS policy requires each individual publicly traded equities investment managers to hold no more than 10% of their portfolios in the form of cash. LACERS is in compliance with the policy.

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

Concentration of Credit Risk

The investment portfolio as of June 30, 2014, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways LACERS manages its exposure to interest rate risk is by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the BC U.S. High Yield 2% Capped Index, the BC Intermediate Government Credit Index, the BC Aggregate Bond Index, or the J.P. Morgan EMBI Global Diversified Index, depending on the Board's mandates. The effective duration is a measure, in years, of interest-rate sensitivity in debt investments. The longer the effective duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the fair values of LACERS investments to market interest rate fluctuations is provided by the following table that shows the weighted average effective duration of LACERS fixed income securities by investment type (dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 43,636	2.23
Bank Loans	1,657	2.38
Commercial Mortgage-Backed Securities	115,997	2.38
Corporate Bonds	1,519,652	5.59
Government Agencies	39,864	6.14
Government Bonds	522,998	4.93
Government Mortgage-Backed Securities	551,141	3.97
Index Linked Government Bonds	43,371	9.28
Municipal/Provincial Bonds	6,752	6.27
Non-Government Backed C.M.O.s	17,186	1.89
Opportunistic Debts	12,798	0.10
Total Fixed Income Securities	$ 2,875,052	

Note 6 – Cash and Short-Term Investments and Investments (Continued)

Highly Sensitive Investments

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

Investment Type	Fair Value
Asset-Backed Securities	$ 43,636
Commercial Mortgage-Backed Securities	115,997
Government Agencies	39,864
Government Mortgage-Backed Securities	551,141
Non-Government Backed C.M.O.s	17,186
Total Asset-Backed Investments	$ 767,824

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. LACERS Asset Allocation policy sets a target of 29% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and private equity managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts are permitted primarily to reduce the foreign currency risk.

Note 6 – Cash and Short-Term Investments and Investments (Continued)

Foreign Currency Risk (Continued)

LACERS non-U.S. currency investment holdings as of June 30, 2014, which represent 22.6% of the fair value of total investments, are as follows (in thousands):

Foreign Currency Type	Cash and Adjustments to Cash	Equity	Fixed Income	Derivative Instruments	Other Investments	Total Fair Value in USD
Argentine peso	$ 33	$ -	$ -	$ -	$ -	$ 33
Australian dollar	1,040	148,408	-	(25)	-	149,423
Brazilian real	(844)	40,503	1,414	(19)	-	41,054
British pound sterling	2,769	577,580	5,531	(24)	9,650	595,506
Canadian dollar	2,235	155,032	9,525	7	-	166,799
Chilean peso	1,065	1,423	-	(1)	-	2,487
Chinese yuan renminbi	740	-	-	(3)	-	737
Colombian peso	250	816	-	-	-	1,066
Czech koruna	31	706	-	-	-	737
Danish krone	44	65,377	-	-	-	65,421
Egyptian pound	228	619	-	-	-	847
Euro	3,960	808,147	-	143	109,880	922,130
Hong Kong dollar	1,611	151,087	-	25	-	152,723
Hungarian forint	103	2,790	-	-	-	2,893
Indian rupee	1,887	31,326	-	-	-	33,213
Indonesian rupiah	282	7,388	112	-	-	7,782
Japanese yen	3,554	484,587	-	26	171	488,338
Malaysian ringgit	1,703	8,602	-	-	-	10,305
Mexican peso	455	7,176	11,394	3	-	19,028
New Ghana cedi	-	-	159	-	-	159
New Israeli shekel	54	7,931	-	-	-	7,985
New Romanian leu	232	-	-	-	-	232
New Taiwan dollar	1,112	40,221	-	-	-	41,333
New Zealand dollar	94	3,421	-	-	-	3,515
Norwegian krone	199	37,099	-	-	-	37,298
Peruvian nuevo sol	460	-	-	-	-	460
Philippine peso	327	11,984	-	(3)	-	12,308
Polish zloty	633	5,669	-	-	-	6,302
Qatari rial	-	1,283	-	-	-	1,283
Russian ruble	(500)	4,131	499	(15)	-	4,115
Singapore dollar	637	44,934	-	-	-	45,571
South African rand	54	27,771	347	(2)	-	28,170
South Korean won	13	77,884	-	-	-	77,897
Swedish krona	796	70,174	-	-	-	70,970
Swiss franc	21	259,976	-	-	-	259,997
Thai baht	57	10,679	-	-	-	10,736
Turkish lira	326	9,257	-	-	-	9,583
United Arab Emirates dirham	10	1,535	-	-	-	1,545
Total Investments Held in Foreign Currency	$ 25,671	$ 3,105,516	$ 28,981	$ 112	$ 119,701	$ 3,279,981

Note 7 – Securities Lending Agreement

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

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

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

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

As of June 30, 2014, LACERS had no credit risk exposure to borrowers because the amounts LACERS owed the borrowers exceed the amounts the borrowers owed LACERS. LACERS had no losses on securities lending transactions resulting from default of a borrower or lending agent. Due to the nature of the securities lending program and the custodian bank's collateralization of loans at amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to LACERS as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program.

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

The following tables represent the balances of collateral received and loaned securities as of June 30, 2014 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2014:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 321,530	$ -	$ 321,530
Domestic Corporate Fixed Income Securities	187,673	29	187,702
International Fixed Income Securities	24,366	3,276	27,642
Domestic Stocks	440,547	1,465	442,012
International Stocks	48,416	438,546	486,962
	$1,022,532	$ 443,316	$1,465,848

Note 7 – Securities Lending Agreement (Continued)

Fair value of loaned securities as of June 30, 2014:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 315,286	$ -	$ 315,286
Domestic Corporate Fixed Income Securities	183,759	29	183,788
International Fixed Income Securities	23,269	3,115	26,384
Domestic Stocks	431,315	1,435	432,750
International Stocks	45,439	409,083	454,222
	$ 999,068	$ 413,662	$ 1,412,730

As of June 30, 2014, the fair value of the lent securities was $1,412,730,000. The fair value of associated collateral was $1,465,848,000. Of this amount, $1,022,532,000 represents the fair value of cash collateral and $443,316,000 represents the fair value of the non-cash collateral. Non-cash collateral, which LACERS does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position. LACERS income and expenses related to securities lending were $5,695,000 and $854,000, respectively, for the year ended June 30, 2014.

Note 8 – Futures and Forward Contracts

LACERS uses derivative financial instruments, primarily to manage portfolio risk. Futures and forward contracts are marked to market and are recorded in the Statement of Fiduciary Net Position at fair value. Futures contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions (refer to Note 6 – Credit Risk - Derivatives on pages 24 and 25).

As of June 30, 2014, LACERS had outstanding equity index future contracts with an aggregate notional amount of $18,992,000, and interest rate future contracts with a negative notional amount of $34,604,000 due to its short position. In addition, at June 30, 2014, LACERS had outstanding forward purchase commitments with a notional amount of $23,480,000 and offsetting forward sales commitments with notional amounts of $23,480,000, which expire through September 2014. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $281,883,000 as of June 30, 2014.

Note 9 – Commitments and Contingencies

At June 30, 2014, LACERS was committed to future purchases of real estate and private equity investments at an aggregate cost of approximately $885,607,000.

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

Note 10 – Subsequent Events

Date of Management’s Review

The potential for subsequent events was evaluated through December 26, 2014, which was the date of management’s review.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Retirement Plan
(Dollars in Thousands)

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

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

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

Schedule of Net Pension Liability

	June 30, 2014	June 30, 2013
Total Pension Liability	$ 16,248,853	$ 14,881,663
Plan Fiduciary Net Position	(11,791,079)	(10,154,486)
Plan's Net Pension Liability	$ 4,457,774	$ 4,727,177
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.6%	68.2%

Note to Schedule:

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

Required Supplementary Information
Retirement Plan
(Dollars in Thousands)

Schedule of Changes in Net Pension Liability and Related Ratios[1]

	June 30, 2014	June 30, 2013
Total Pension Liability		
Service cost	$ 317,185	$ 312,372
Interest	1,149,966	1,112,561
Changes of benefit terms	-	-
Differences between expected and actual experience	(164,247)	(235,829)
Changes of assumptions	785,439	-
Benefit payments, including refunds of Member contributions	(721,153)	(701,400)
Net change in total pension liability	1,367,190	487,704
Total pension liability- beginning	14,881,663	14,393,959
Total pension liability- ending (a)	$ 16,248,853	$ 14,881,663
Plan fiduciary net position		
Contributions- employer	$ 357,649	$ 346,181
Contributions- Member	203,975	197,722
Net investment income	1,810,782	1,268,939
Benefit Payments, including refunds of Member contributions	(721,153)	(701,400)
Administrative expense	(12,372)	(13,281)
Other (Transfer to Larger Annuity Reserve)	(2,288)	(2,514)
Net change in Plan fiduciary net position	1,636,593	1,095,647
Plan fiduciary net position - beginning	10,154,486	9,058,839
Plan fiduciary net position - ending (b)	$ 11,791,079	$ 10,154,486
Plan's net pension liability - ending (a)-(b)	$ 4,457,774	$ 4,727,177
Plan fiduciary net position as a percentage of the total pension liability	72.6%	68.2%
Covered-employee payroll	$ 1,802,931	$ 1,736,113
Plan's net pension liability as a percentage of covered-employee payroll	247.3%	272.3%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude amounts associated with Health, Family Death, and Larger Annuity Benefits.

Note to Schedule:

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

(Dollars in Thousands)

Schedule of Contribution History

Fiscal Year	Actuarially Determined Contributions (ADC)	Contributions in Relation to ADC	Contribution Deficiency	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2005	$ 183,241	$ 158,131	$ 25,110	$ 1,477,754	10.7 %
2006	227,741	227,741	-	1,602,620	14.2
2007	277,516	277,516	-	1,646,056	16.9
2008	288,119	288,119	-	1,741,850	16.5
2009	274,555	274,555	-	1,832,796	15.0
2010	258,643	258,643	-	1,827,864	14.2
2011	303,561	303,561	-	1,678,059	18.1
2012	308,540	308,540	-	1,715,197	18.0
2013	346,181	346,181	-	1,736,113	19.9
2014	357,649	357,649	-	1,802,931	19.8

Notes to Schedule:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method — Entry Age Actuarial Cost Method, level percent of salary.

Amortization Method — Level Percent of Payroll – assuming a 4.0% increase in total covered payroll.

Amortization Period — Multiple layers – closed amortization period.
Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over five years. Actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years.

Asset Valuation Method — Market value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets. An Ad Hoc change was made in 2014 to combine the unrecognized returns and losses of prior years as of June 30, 2013 into one layer and recognize it evenly over six years from fiscal year 2013-14 through fiscal year 2018-19.

Actuarial Assumptions:

	June 30, 2014	June 30, 2013
Investment Rate of Return	7.50%	7.75%
Inflation Rate	3.25%	3.50%
Real Across-the-Board Salary Increase	0.75%	0.75%
Projected Salary Increases[(1)]	Ranges from 10.50% to 6.10% for Members with less than five years of service, and from 5.10% to 4.40% for Members with five or more years of service.	Ranges from 11.25% to 6.50% for Members with less than five years of service, and from 6.50% to 4.65% for Members with five or more years of service.

Schedule of Contribution History (Continued)

Notes to Schedule (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued)

	June 30, 2014	June 30, 2013
Cost of Living Adjustment(2)	Tier 1: 3.00% Tier 2: 2.00%	Tier 1: 3.00% Tier 2: 2.00%
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.	Healthy: RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.

(1) Includes inflation at 3.25% as of June 30, 2014 and 3.50% as of June 30, 2013 plus across-the-board salary increases of 0.75% plus merit and promotional increases.

(2) Actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1 and a 2.00% maximum for Tier 2.

Schedule of Investment Returns

	Fiscal Year 2014
Annual money-weighted rate of return, net of investment expenses	18.2%

Note to Schedule:

The required disclosure about factors that significantly affect trends in the rate of return is not provided this year because the money-weighted rate of return is calculated for the current fiscal year only.

Required Supplementary Information
Postemployment Health Care Plan
(Dollars in Thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded 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, 2009[(1)]	$ 1,342,497	$ 2,058,177	$ 715,680	65.2 %	$ 1,816,171	39.4 %
June 30, 2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
June 30, 2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
June 30, 2012	1,642,374	2,292,400	650,026	71.6	1,819,270	35.7
June 30, 2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7
June 30, 2014	1,941,225	2,662,853	721,628	72.9	1,898,064	38.0

(1) Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	$ 95,122	100 %
2010	96,511	100
2011	107,396	100
2012	115,209	100
2013	72,916	100
2014	97,841	100

Note 1 – Description

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

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

On October 28, 2014 the Board adopted assumption changes as a result of the June 30, 2014 Experience Study, including a lowered investment return assumption of 7.50%, from 7.75%, and longer life expectancies of LACERS Members and beneficiaries. The cost impact of these assumption changes amounts to $135 million, which will cause the City contribution rate to increase by approximately 0.48% of pay for 20 years, pursuant to the amortization policy modified by the Board on September 9, 2014.

Due to the seven-year Asset Smoothing method used in the actuarial valuation process, six-seventh of the large investment gains of the fiscal year ended on June 30, 2014 are unrecognized and deferred to the future years. The deferred gain amounts to $1.0 billion, which will cause City contribution rates to fall in the next few years if the investment returns match the new 7.50% assumption and all other assumptions are met.

SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Year Ended June 30, 2014
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	Total
Personnel Services:			
Salaries	$ 8,183	$ 1,712	$ 9,895
Employee Development and Benefits	1,292	270	1,562
Total Personnel Services	9,475	1,982	11,457
Professional Services:			
Actuarial	147	30	177
Audit	69	14	83
Legal Counsel	749	157	906
Disability Evaluation Services	90	19	109
Retirees Health Administrative Consulting	-	726	726
Benefit Payroll Processing	181	38	219
Total Professional Services	1,236	984	2,220
Information Technology:			
Computer Hardware and Software	347	73	420
Computer Maintenance and Support	32	7	39
Total Information Technology	379	80	459
Leases:			
Office Space	710	148	858
Office Equipment	19	4	23
Total Leases	729	152	881
Other Expenses:			
Fiduciary Insurance	56	12	68
Educational and Due Diligence Travel	50	10	60
Office Expenses	362	76	438
Depreciation and Amortization	151	31	182
Total Other Expenses	619	129	748
Total Administrative Expenses	$ 12,438	$ 3,327	$ 15,765

Schedule of Investment Fees and Expenses
For the Year Ended June 30, 2014
(In Thousands)

	Assets Under Management	Fees and Expenses
Retirement Plan		
Investment Management Expenses:		
Fixed Income Managers	$ 2,443,595	$ 3,554
Equity Managers	7,324,204	15,825
Subtotal Investment Management Expenses	9,767,799	19,379
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	665
Real Estate Consulting Fees	N/A	179
Other Consulting Fees	N/A	350
Investment Administrative Expenses	N/A	973
Subtotal Other Investment Fees and Expenses	N/A	2,167
Postemployment Health Care Plan		
Investment Management Expenses:		
Fixed Income Managers	431,457	744
Equity Managers	1,293,211	3,310
Subtotal Investment Management Expenses	1,724,668	4,054
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	139
Real Estate Consulting Fees	N/A	37
Other Consulting Fees	N/A	73
Investment Administrative Expenses	N/A	203
Subtotal Other Investment Fees and Expenses	N/A	452
Total Investment Fees and Expenses excluding Private Equity and Real Estate Consulting Fees, and Security Lending Expenses	$ 11,492,467	$ 26,052
Private Equity Managers' Fees:		
Retirement Plan	$ 1,072,883	$ 16,660
Postemployment Health Care Plan	189,436	3,485
Total Private Equity Managers' Fees	$ 1,262,319	$ 20,145
Real Estate Managers' Fees:		
Retirement Plan	$ 599,688	$ 8,263
Postemployment Health Care Plan	105,885	1,729
Total Real Estate Managers' Fees	$ 705,573	$ 9,992
Security Lending Expenses:		
Retirement Plan	$ 869,081	$ 705
Postemployment Health Care Plan	153,451	149
Total Security Lending Expenses	$ 1,022,532	$ 854