

Los Angeles City Employees' Retirement System

Summary of Significant Valuation Results

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Percent Change</u>
I. Total Membership			
A. Active Members	27,092	26,358	2.8%
B. Pensioner	14,137	13,805	2.4%
II. Salaries at June 30			
A. Total Annual Payroll	\$1,575,284,734	\$1,405,057,848	12.1%
B. Average Monthly Salary	4,846	4,442	9.1%
III. Benefits to Current Pensioners and Beneficiaries			
A. Total Annual Benefits	\$399,268,032*	\$359,036,215	11.2%
B. Average Monthly Benefit Amount	2,354*	2,167	8.6%
IV. Total System Assets**			
A. Actuarial Value	\$7,917,509,037	\$7,868,307,895	0.6%
B. Market Value	7,734,438,028	6,709,041,681	15.3%
V. Unfunded Actuarial Accrued			
A. Retirement Benefits	\$1,491,755,937	\$660,199,346	126.0%
B. Health Subsidy Benefits	560,815,516	356,827,890	57.2%
VI. Budget Items	<u>FY 2005-2006</u>	<u>FY 2004-2005</u>	
A. Retirement Benefits			
1. Normal Cost as a Percent of Pay	8.77%	10.54%	-1.77%
2. Amortization of Unfunded Actuarial Accrued Liability	<u>5.99%</u>	<u>1.41%</u>	4.58%
3. Total Retirement Contribution	14.76%	11.95%	2.81%
B. Health Subsidy Contribution, as a Percent	<u>4.94%</u>	<u>4.02%</u>	0.92%
C. Total Contribution (A+B)	19.70%	15.97%	3.73%
VII. Funded Ratio			
(Based on Valuation Value of Assets)			
A. Retirement Benefits	82.5%	91.4%	-8.9%
B. Healthy Subsidy Benefits	60.5%	70.4%	-9.9%
C. Total	79.4%	88.6%	-9.2%
(Based on Market Value of Assets)			
D. Retirement Benefits	80.6%	77.9%	2.7%
E. Health Subsidy Benefits	59.1%	60.0%	-0.9%
F. Total	77.5%	75.5%	2.0%

* Includes July COLA.

** Includes assets for Retirement, Health and Family Death Benefits.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Computed Contribution Rates – Historical Comparison

<u>Valuation Date</u>	<u>Retirement</u>	<u>Health</u>	<u>Total</u>	<u>Valuation Payroll (thousands)</u>
06/30/1994	12.07%	2.99%	15.06%	\$884,951
06/30/1995	7.34%	2.30%	9.64%	\$911,292
06/30/1996	6.51%	3.18%	9.69%	\$957,423
06/30/1997	6.57%	1.85%	8.42%	\$990,616
06/30/1998	6.43%	1.27%	7.70%	\$1,011,857
06/30/1999	4.93%	0.67%	5.60%	\$1,068,124
06/30/2000	2.54%	2.17%	4.71%	\$1,182,203
06/30/2001	3.84%	1.98%	5.82%	\$1,293,350
06/30/2002*	9.22%	1.85%	11.07%	\$1,334,335
06/30/2003**	11.95%	4.02%	15.97%	\$1,405,058
06/30/2004	14.76%	4.94%	19.70%	\$1,575,285

* Retirement rate revised to 10.90%, total contribution rate revised to 12.75%, based on GASB 25/27.

** Retirement rate revised to 12.40%, total contribution rate revised to 16.42%, based on GASB 25/27.

Los Angeles City Employees' Retirement System

Actuarial Valuation and Review of Retirement Program as of June 30, 2004

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January 18, 2005

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

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of June 30, 2004. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2005/2006 and analyzes the preceding year's experience.

The census information on which our calculations were based and the financial information was provided by the Board of Administration. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Administration are reasonably related to the experience of and the expectations for the Plan.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,

THE SEGAL COMPANY

By:

*Paul Angelo, FSA, MAAA
Vice President and Actuary*

*Andy Yeung, ASA, MAAA
Associate Actuary*

SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System

Purpose

This report has been prepared by The Segal Company to present a valuation of the Los Angeles City Employees' Retirement System as of June 30, 2004. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board of Administration;
- The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of June 30, 2004, provided by the Administration Office;
- The assets of the Plan as of June 30, 2004, provided by the Administration Office;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

The following key findings were the result of this actuarial valuation:

- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 91.38% to 82.52%. The unfunded actuarial accrued liability has increased from \$660.2 million to \$1,491.8 million. A complete reconciliation of the System's unfunded actuarial accrued liability is provided in Section 3, Exhibit G.
- The aggregate employer rate calculated in this valuation has increased from 11.95% of payroll to 14.76% of payroll. The contribution rate for the employer increased because of: (i) higher than expected salary increases; (ii) lower than expected return on the valuation value of assets, and (iii) other actuarial losses.
- As indicated in Section 2, Subsection B of this report, the total unrecognized investment loss as of June 30, 2004 is \$183,071,009. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, to the extent it is not offset by recognition of investment gains derived from future experience. This implies that earning the assumed rate of investment return of 8.00% per year (net of expenses) on a market value basis will result in investment losses on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would still increase in each of the next few years.

SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System

- As instructed by the Board of Administration, we have set the recommended contribution equal to the greater of the current policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. We have included in the calculation of the recommended contribution an additional contribution due to the application of the 40 year minimum amortization requirement for fiscal year 2003/04. A Net Pension Obligation was created as of June 30, 2004 due to: (1) the phase-in of the higher contribution rate requirement brought by the last experience study and (2) the GASB requirement that the Unfunded Actuarial Accrued Liability (UAAL) of the Plan be amortized over an equivalent period of not greater than 40 years. Since (1) is already included in the development of the Plan's actual UAAL, the ARC calculation requires only an additional contribution to amortize (2) over a period of 15 years.
- The employer and employee contribution rates developed in this report are before any adjustments to reflect the City's pickup of part of the employee contributions for those hired before January 1, 1983. Since all of the employees hired before January 1, 1983 are vested and entitled to collect a pension benefit from the Plan, we recommend that the City take no discount on the pickup of employee contributions as only a minimal amount, if any, of contributions are expected to be refunded to those members.
- The employer contribution rates provided in this report have been developed assuming that they will be made by the City at either: (1) the beginning of the fiscal year (i.e., the City will prepay its contributions) or (2) on average at the middle of the year (i.e., the City will pay contributions at the end of every pay period).
- The current funding method (Projected Unit Credit) produces a pattern of increasing cost as a percent of pay. In addition, under the current approach, we have not included any additional dollar normal cost to fund the benefit for new employees expected to be hired during the next plan year. We recommend that the Board consider reviewing this funding method in conjunction with the next experience study.
- The actuarial valuation report as of June 30, 2004 is based on financial information as of that date. Changes in the value of assets subsequent to that date, to the extent that they exist, are not reflected. Declines in asset values will increase the actuarial cost of the Plan, while increases will decrease the actuarial cost of the Plan. For example, a 10% change in the current year's actuarial value of assets would produce a 3.97% change in the recommended contribution rate. Because the valuation value of assets involves a smoothing method, a 10% change in market value would not be fully reflected immediately in the valuation value of assets. Rather, that effect would be spread over a period of years. We have shown the full impact immediately so as to indicate the long-term sensitivity of costs to market fluctuations.

SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System

Summary of Key Valuation Results

	2004	2003
Contributions calculated as of June 30:		
Recommended as a percent of pay (note there is a 12 month delay until the rate is effective)	14.76%	11.95%
Funding elements for plan year beginning June 30:		
Normal cost	\$236,238,453	\$227,761,893
Market value of assets*	7,734,438,028	6,709,041,681
Actuarial value of assets*	7,917,509,037	7,868,307,895
Valuation value of retirement assets	7,042,107,591	6,999,647,350
Actuarial accrued liability	8,533,863,528	7,659,846,696
Unfunded actuarial accrued liability	1,491,755,937	660,199,346
GASB 25/27 for plan year beginning July 1:		
Annual required contributions	Not Available	\$159,083,407
Actual contributions	Not Available	100,408,689
Percentage contributed	Not Available	63.12%
Funded ratio	82.52%	91.38%
Covered payroll	\$1,575,284,734	\$1,405,057,848
Demographic data for plan year beginning June 30:		
Number of retired members and beneficiaries	14,137	13,805
Number of vested former members	2,232	2,593
Number of active members	27,092	26,358
Total payroll	\$1,575,284,734	\$1,405,057,848
Average payroll	58,146	53,307

* Includes assets for Retirement, Health and Family Death Benefits

SECTION 1: Valuation Summary for the Los Angeles City Employees' Retirement System

ACTUARIAL CERTIFICATION

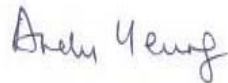
January 18, 2005

This is to certify that The Segal Company has conducted an actuarial valuation of the Los Angeles City Employees' Retirement System retirement program as of June 30, 2004, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the current historical funding methods used in determination of the liability for retirement benefits.

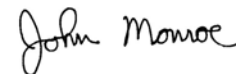
The actuarial valuation is based on the plan of benefits verified by LACERS and on participant and financial data provided by the administration office.

The actuarial computations made are for funding plan benefits and for satisfying the financial accounting requirements under GASB Statements No. 25 and 27. Accordingly, additional determinations will be needed for other purposes, such as judging benefit security at termination.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the plan's current funding information.



Andy Yeung, ASA, MAAA, EA
Associate Actuary



John Monroe, EA, MAAA
Associate Actuary

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, non-vested (entitled to a refund of member contributions) and vested terminated members, retired members and beneficiaries.

This section presents a summary of significant statistical data on these member groups.

More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A, B, and C.

A historical perspective of how the member population has changed over the past nine valuations can be seen in this chart.

CHART 1
Member Population: 1996 – 2004

Year Ended June 30	Active Members	Vested Terminated Members*	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
1996	22,319	N/A	12,242	0.55
1997	22,219	N/A	12,698	0.57
1998	22,091	N/A	12,591	0.57
1999	22,504	N/A	12,843	0.57
2000	24,234	N/A	13,058	0.54
2001	25,654	N/A	13,365	0.52
2002	25,930	2,327	13,589	0.61
2003	26,358	2,593	13,805	0.62
2004	27,092	2,232	14,137	0.60

**Includes terminated members due a refund of member contributions*

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

Active Members

Plan costs are affected by the age, years of service and payroll of active members. In this year's valuation, there were 27,092 active members with an average age of 45.2, average years of service of 11.9 years and average payroll of \$58,146. The 26,358 active members in the prior valuation had an average age of 44.9, average service of 11.8 years and average payroll of \$53,307.

Inactive Members

In this year's valuation, there were 2,232 members non-vested (entitled to a refund of member contributions) and vested members with a vested right to a deferred or immediate vested benefit.

These graphs show a distribution of active members by age and by years of service.

CHART 2
Distribution of Active Members by Age as of June 30, 2004

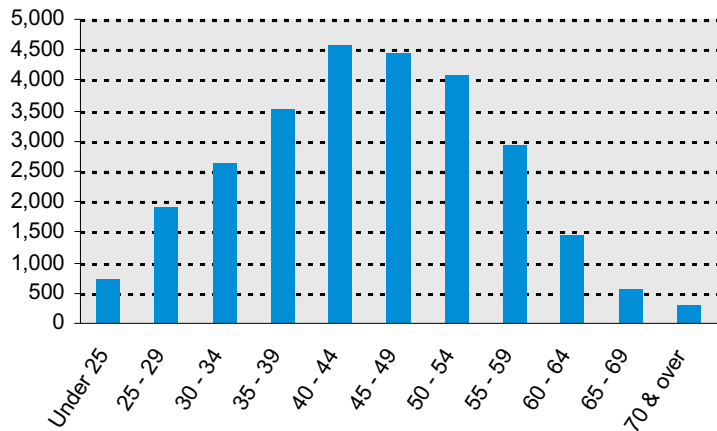
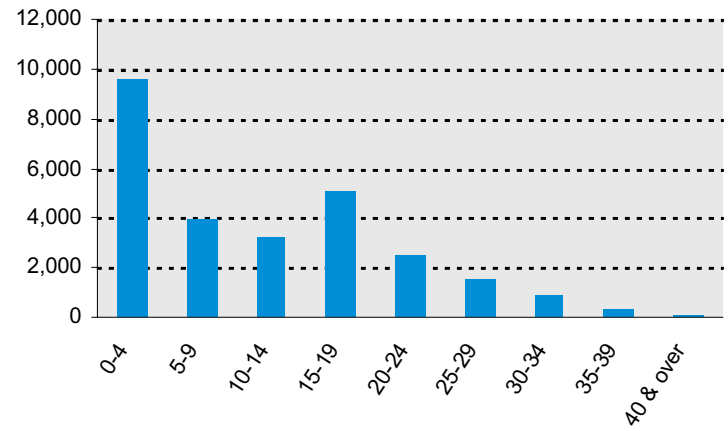


CHART 3
Distribution of Active Members by Years of Service as of June 30, 2004



SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

Retired Members and Beneficiaries

As of June 30, 2004, 10,940 retired members and 3,197 beneficiaries were receiving total monthly benefits of \$33,270,878. For comparison, in the previous valuation, there were 10,642 retired members and 3,163 beneficiaries receiving monthly benefits of \$30,817,275.

Please note that the monthly benefits provided have been adjusted for the COLA granted effective for the month of July.

These graphs show a distribution of the current retired members based on their monthly amount and age, by type of pension.

CHART 4
Distribution of Retired Members by Type and by Monthly Amount as of June 30, 2004

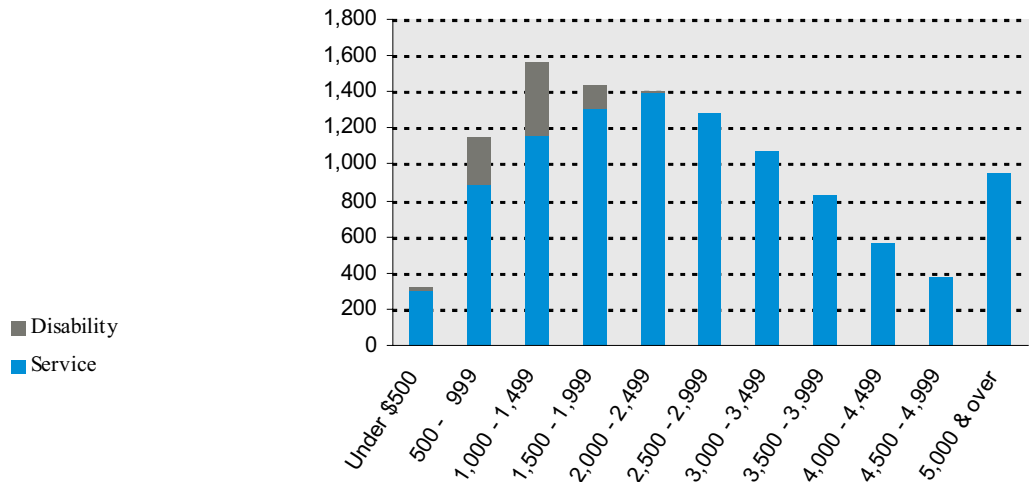
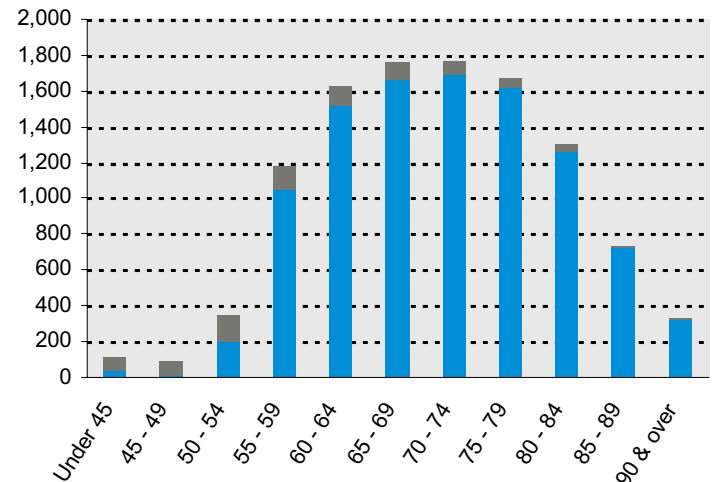


CHART 5
Distribution of Retired Members by Type and by Age as of June 30, 2004



SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

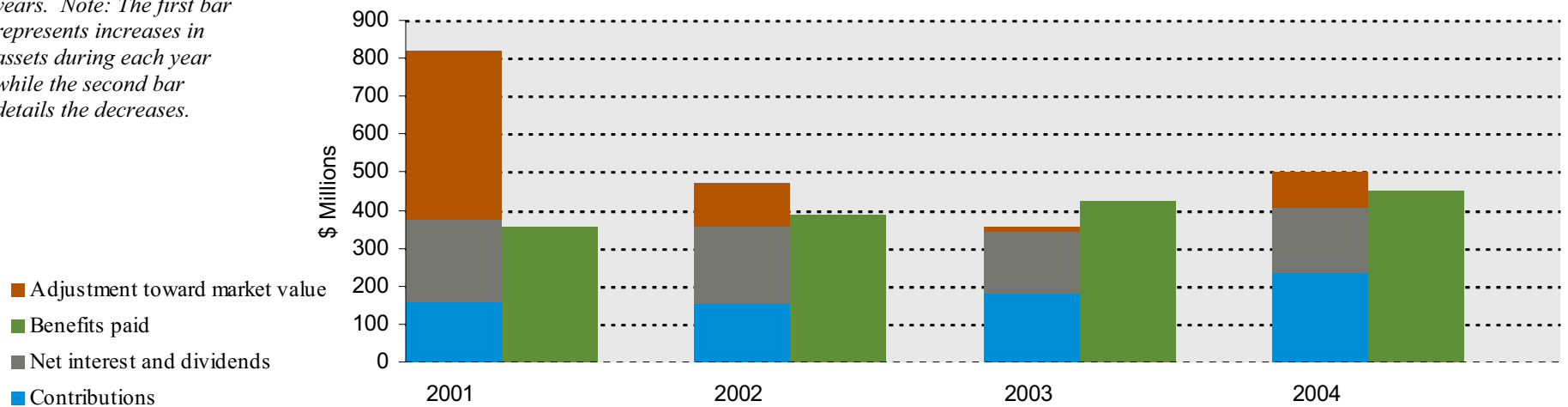
B. FINANCIAL INFORMATION

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

Retirement plan assets change as a result of the net impact of these income and expense components. Additional financial information, including a summary of these transactions for the valuation year, is presented in Section 3, Exhibits D, E and F.

The chart depicts the components of changes in the actuarial value of assets over the last four years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.

CHART 6
Comparison of Increases and Decreases in the Actuarial Value of Assets
for Years Ended June 30, 2001 – 2004



SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Administration has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

The chart shows the determination of the actuarial and valuation value of assets as of the valuation date.

**CHART 7
Determination of Actuarial Value and Valuation Value of Assets for Year Ended June 30, 2004**

1. Market value of assets		\$7,734,438,028
2. Calculation of unrecognized return*	<u>Original Amount</u>	<u>Unrecognized Return</u>
(a) Year ended June 30, 2004	\$710,820,763	\$568,656,610
(b) Year ended June 30, 2003	-289,230,950	-173,538,570
(c) Year ended June 30, 2002	-955,341,286	-382,136,514
(d) Year ended June 30, 2001	-980,262,675	<u>-196,052,535</u>
(e) Total unrecognized return		-183,071,009
3. Preliminary actuarial value: (1) - (2e)		7,917,509,037
4. Adjustment to be within 20% corridor		0
5. Final actuarial value of assets: (3) + (4)		<u>\$7,917,509,037</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)		102.4%
7. Market value of retirement assets		6,879,277,876
8. Valuation value of retirement assets (5) ÷ (1) x (7)		<u>\$7,042,107,591</u>

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

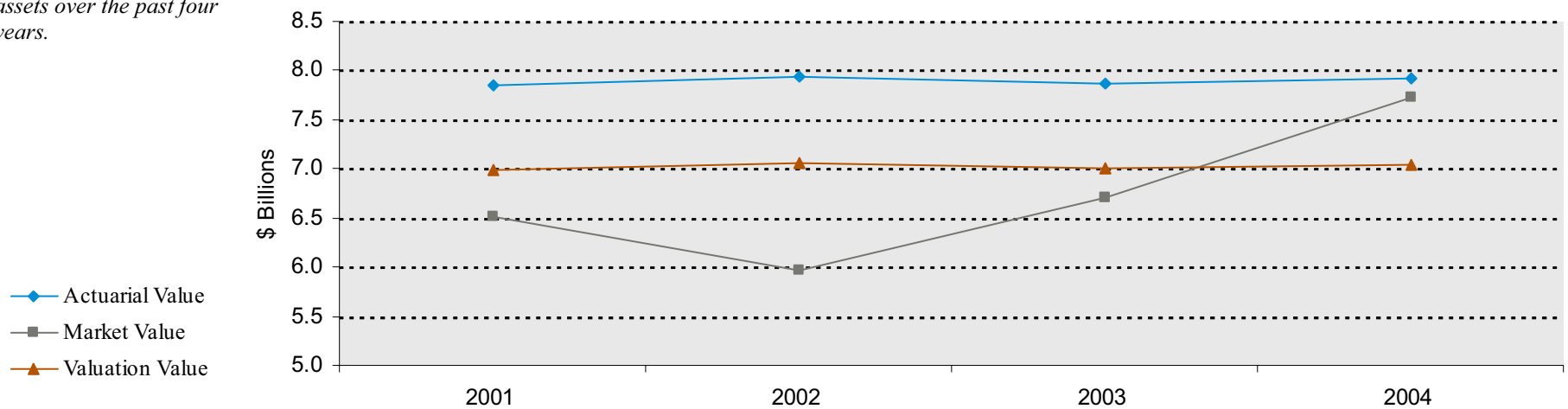
SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

The actuarial value, valuation value and market value of assets are representations of LACERS' financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The portion of the total actuarial value of assets allocated for retirement benefits based on a prorated share on a market value basis is shown as the valuation value of assets. The valuation value of assets is significant because LACERS' liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

This chart shows the change in the actuarial value, the valuation value and the market value of assets over the past four years.

CHART 8

Actuarial Value, Valuation Value and Market Value of Assets as of June 30, 2001 – 2004



SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

C. ACTUARIAL EXPERIENCE

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that over the long term, experience will

return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss is \$799,324,434, \$336,383,508 from investments, \$40,416,421 from contribution experience and \$422,524,505 from other sources. The net experience variation from individual sources other than investments was 5.4% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience during the past year.

**CHART 9
Actuarial Experience for Year Ended June 30, 2004**

1. Net loss from investments*	-\$336,383,508
2. Net loss from other experience**	-422,524,505
3. Net loss from contributions less than anticipated due to phase-in and one-year time lag for new rates	<u>-40,416,421</u>
4. Net experience loss: (1) + (2) + (3)	-\$799,324,434

* Details in Chart 10.

** Details in Chart 13.

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

Investment Rate of Return

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on LACERS' investment policy. For valuation purposes, the assumed rate of return on the valuation value of assets is 8.00%. The actual rate of return on the valuation value of assets basis for the 2004 plan year was 3.17%.

Since the actual return for the year was less than the assumed return, LACERS experienced an actuarial loss during the year ended June 30, 2004 with regard to its investments.

This chart shows the gain/(loss) due to investment experience.

**CHART 10
Actuarial Value Investment Experience for Year Ended June 30, 2004**

	Actuarial Value (Includes assets for Retirement, Health and Family Death Benefits)	Valuation Value (Includes assets for Retirement Only)
1. Actual return	\$267,449,522	\$220,599,219
2. Average value of assets	7,819,565,763	6,962,284,097
3. Actual rate of return: (1) ÷ (2)	3.42%	3.17%
4. Assumed rate of return	8.00%	8.00%
5. Expected return: (2) x (4)	\$625,565,261	\$556,982,728
6. Actuarial gain/(loss): (1) – (5)	<u>-\$358,115,739</u>	<u>-\$336,383,508</u>

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the market value investment return for the Retirement, Health and Family Death Benefits assets for the last four years.

Based upon this experience and future expectations, we have maintained the assumed rate of return of 8.00%.

CHART 11

Investment Return – Actuarial Value vs. Market Value: 2001 - 2004

Year Ended June 30	Net Interest and Dividend Income		Recognition of Capital Appreciation		Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2001	218,918,771	2.83	443,656,601	5.73	662,575,372	9.09	218,918,771	-4.60
2002	201,393,778	2.58	112,813,481	1.44	314,207,259	4.06	201,393,778	-5.25
2003	164,915,100	2.11	11,691,257	0.15	176,606,357	2.26	238,161,856	3.61
2004	<u>171,166,339</u>	2.21	<u>96,283,183</u>	1.24	<u>267,449,522</u>	3.42	<u>1,243,644,727</u>	18.84
Total	\$756,393,988		\$664,444,522		\$1,420,838,510		\$1,902,119,132	
					Four-year average return	4.68		2.71

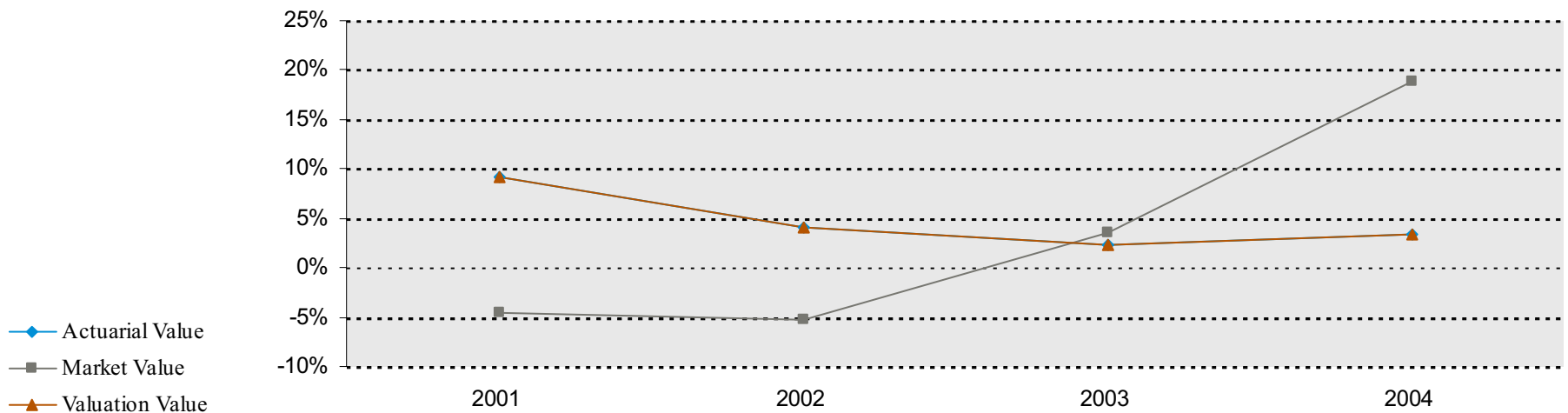
Note: Each year's yield is weighted by the average asset value in that year.

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

This chart illustrates how this leveling effect has actually worked over the years 2001 – 2004.

CHART 12
Market, Actuarial and Valuation Rates of Return for Years Ended June 30, 2001 - 2004



SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

Other Experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),

- the number of disability retirements,
- salary increases different than assumed, and
- change in valuation software that changes allocation of the present value of benefits between normal cost and actuarial accrued liability.

The net loss from this other experience for the year ended June 30, 2004 amounted to (\$422,524,505) which is 5.0% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the LACERS for the year ended June 30, 2004 is shown in the chart below.

The chart shows elements of the experience gain/(loss) for the most recent year.

CHART 13

Experience Due to Changes in Other Experience for Year Ended June 30, 2004

1. Salary increase for continuing actives greater than expected	-\$225,109,234
2. Change in valuation software that changes allocation of present value of benefits between normal cost and actuarial accrued liability	-71,017,767
3. Miscellaneous	<u>-126,397,504</u>
4. Total	<u>-\$422,524,505</u>

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

D. RECOMMENDED CONTRIBUTION

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. This total amount is then divided by the projected payroll for active members to determine the funding rate of 14.76% of payroll.

minimum is \$211.9 million and no additional adjustment has been made.

The recommended contribution policy has been updated to adjust the contribution requirement if the GASB ARC minimum contribution is greater than the amount prescribed below. For 2004, the GASB ARC

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

CHART 14
Recommended Contribution

	Year Beginning June 30			
	2004		2003	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	\$236,238,453	14.99%	\$227,761,893	16.33%
2. Expected employee contributions	<u>-103,231,144</u>	<u>-6.55%</u>	<u>-86,350,999</u>	<u>-6.19%</u>
3. Employer normal cost: (1) + (2)	\$133,007,309	8.44%	\$141,410,894	10.14%
4. Actuarial accrued liability	8,533,863,528		7,659,846,696	
5. Actuarial value of assets	<u>7,042,107,591</u>		<u>6,999,647,350</u>	
6. Unfunded actuarial accrued liability	\$1,491,755,937		\$660,199,346	
7. Amortization of unfunded accrued liability	90,809,198	5.77%	19,059,065	1.37%
8. Total recommended contribution, not adjusted for timing	<u>\$223,816,507</u>	<u>14.21%</u>	<u>\$160,469,959</u>	<u>11.51%</u>
9. Total recommended contribution, adjusted for timing*	<u>\$232,539,943</u>	<u>14.76%</u>	<u>\$166,724,122</u>	<u>11.95%</u>
10. Projected payroll used for developing normal cost rate	\$1,575,284,734		\$1,395,008,058	

*Recommended contributions are assumed to be paid at the end of every month.

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

If paid by the City at the beginning of the year, the calculated normal cost (including expenses) is 8.44% of payroll. The remaining 5.77% of payroll will amortize the unfunded actuarial accrued liability.

The contribution rates as of June 30, 2004 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

Reconciliation of Recommended Contribution

The chart below details the changes in the recommended contribution from the prior valuation to the current year's valuation.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

CHART 15

Reconciliation of Recommended Contribution from July 1, 2003 to July 1, 2004

Recommended Contribution as of July 1, 2003	\$166,724,122
Effect of contributions less than recommended contribution	3,597,882
Effect of investment loss	29,944,964
Effect of other losses on accrued liability	37,613,262
Effect of net other changes	<u>(5,340,287)</u>
Total change	<u>\$65,815,821</u>
Recommended Contribution as of July 1, 2004	\$232,539,943

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

E. INFORMATION REQUIRED BY THE GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded on an actuarially sound basis and in accordance with the GASB funding requirements. Chart 16 below presents a graphical representation of this information for the Plan.

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the

actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

Although GASB requires that the valuation value of assets be used to determine the funded ratio, Chart 17 shows the funded ratio calculated using both the valuation value of assets and the market value of assets.

The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits II, III, and IV.

These graphs show key GASB factors.

CHART 16
Required Versus Actual Contributions

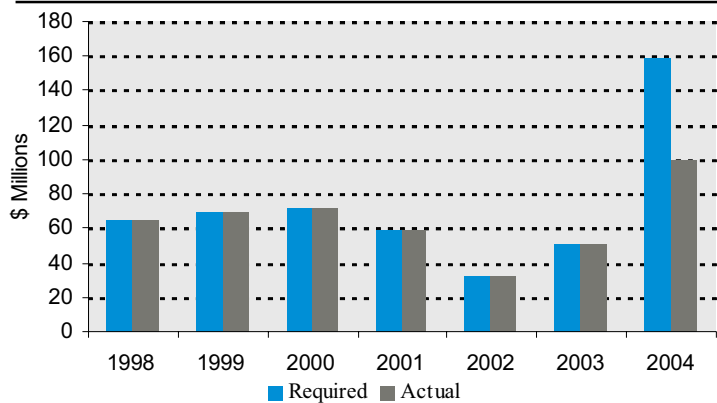
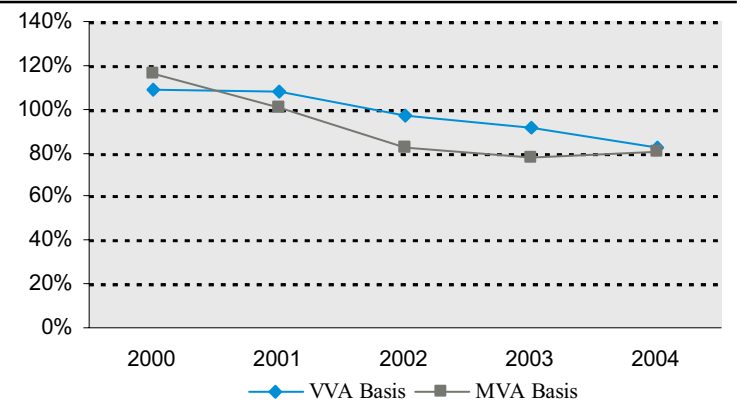


CHART 17
Funded Ratio



SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT A

Table of Plan Coverage

Category	Year Ended June 30		Change From Prior Year
	2004	2003	
Active members in valuation:			
Number	27,092	26,358	2.8%
Average age	45.2	44.9	N/A
Average service	11.9	11.8	N/A
Total payroll	\$1,575,284,734	\$1,405,057,848	12.1%
Average payroll	58,146	53,307	9.1%
Account balances	1,019,487,318	944,193,600	8.0%
Total active vested members	17,591	16,772	4.9%
Vested terminated members:			
Number	2,232	2,593	-13.9%
Average age	42.7	42.7	N/A
Average contribution balance for those with under 5 years of service	\$2,958	N/A	N/A
Average monthly benefit for those members with 5 or more years of service	\$1,183	N/A	N/A
Retired members:			
Number in pay status	10,093	9,803	2.9%
Average age at retirement	60.1	N/A	N/A
Average service	26.1	N/A	N/A
Average age	71.4	71.4	N/A
Average monthly benefit (includes July COLA)	\$2,778	\$2,637	5.3%
Disabled members:			
Number in pay status	847	839	1.1%
Average age at retirement	44.3	N/A	N/A
Average service	12.1	N/A	N/A
Average age	60.2	59.7	N/A
Average monthly benefit (includes July COLA)	\$1,182	\$1,131	4.5%
Beneficiaries:			
Number in pay status	3,197	3,163	1.1%
Average age	75.0	74.9	N/A
Average monthly benefit (includes July COLA)	\$1,324	\$1,269	4.3%

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT B

**Members in Active Service as of June 30, 2004
By Age, Years of Service, and Average Payroll**

Age	Years of Service									
	Total	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	724	720	4	--	--	--	--	--	--	--
	\$30,227	\$30,128	\$47,874	--	--	--	--	--	--	--
25 - 29	1,898	1,681	214	3	--	--	--	--	--	--
	44,801	43,647	53,887	\$43,288	--	--	--	--	--	--
30 - 34	2,627	1,698	750	154	25	--	--	--	--	--
	52,307	48,137	59,038	64,633	\$57,651	--	--	--	--	--
35 - 39	3,524	1,372	784	740	609	19	--	--	--	--
	57,294	48,295	59,109	68,508	61,594	\$57,576	--	--	--	--
40 - 44	4,576	1,247	730	743	1,360	482	14	--	--	--
	61,062	48,978	58,069	67,109	69,104	64,581	\$70,220	--	--	--
45 - 49	4,436	1,026	482	626	1,186	787	290	39	--	--
	61,951	46,039	57,527	66,279	69,425	69,845	63,906	\$64,616	--	--
50 - 54	4,081	838	435	428	872	577	625	293	13	--
	62,771	46,624	58,849	63,706	66,738	69,051	72,171	68,784	\$71,916	--
55 - 59	2,934	531	287	285	553	356	381	387	149	5
	64,567	43,645	54,182	63,121	65,797	66,265	76,842	80,752	79,582	72,331
60 - 64	1,439	289	148	149	275	179	128	134	115	22
	59,417	38,741	48,966	60,083	60,500	67,186	64,345	75,110	81,358	81,117
65 - 69	572	108	56	56	114	85	51	45	35	22
	54,824	27,709	37,275	53,070	63,396	67,495	60,490	63,216	83,552	67,684
70 & over	281	74	41	24	50	29	24	15	13	11
	43,959	19,236	22,225	46,056	59,836	61,558	58,122	70,291	68,446	72,389
Total	27,092	9,584	3,931	3,208	5,044	2,514	1,513	913	325	60
	\$58,146	\$44,786	\$56,946	\$65,591	\$66,754	\$67,689	\$70,466	\$74,358	\$79,886	\$73,860

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT C

Reconciliation of Member Data

	Active Members	Vested Former Members	Disableds	Retired Members	Beneficiaries	Total
Number as of July 1, 2003	26,358	2,593	839	9,803	3,163	42,756
New members	1,613	N/A	N/A	N/A	N/A	1,613
Terminations – with vested rights	-331	331	0	0	0	0
Terminations – without vested rights	-411	-388	N/A	N/A	N/A	-799
Retirements	-464	-55	N/A	519	N/A	0
New disabilities	-17	-15	32	N/A	N/A	0
Died with beneficiary	0	0	-2	-10	12	0
Died without beneficiary	0	0	-17	-401	-221	-639
Rehired	344	-341	-3	0	N/A	0
Data adjustments	0	107	-2	182	243	530
Number as of June 30, 2004	27,092	2,232	847	10,093	3,197	43,461

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT D

Summary Statement of Income and Expenses on an Actuarial Value Basis for Retirement, Health and Family Death Benefits

	Year Ended June 30, 2004	Year Ended June 30, 2003
Contribution income:		
Employer contributions	\$140,201,349	\$97,531,127
Employee contributions	<u>93,417,803</u>	<u>83,067,509</u>
Contribution income	\$233,619,152	\$180,598,636
Investment income:		
Interest, dividends and other income	\$200,347,430	\$191,556,709
Recognition of capital appreciation	96,283,183	11,691,257
Less investment and administrative fees	<u>-29,181,091</u>	<u>-26,641,609</u>
Net investment income	<u>267,449,522</u>	<u>176,606,357</u>
Total income available for benefits	\$501,068,674	\$357,204,993
Less benefit payments:		
Payment of benefits	-\$440,529,521	-\$408,979,796
Refunds of contributions	<u>-11,338,011</u>	<u>-14,679,302</u>
Net benefit payments	-\$451,867,532	-\$423,659,098
Change in reserve for future benefits	\$49,201,142	-\$66,454,105

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT E

Summary of Statement of Assets for Retirement, Health and Family Death Benefits

	Year Ended June 30, 2004	Year Ended June 30, 2003
Cash equivalents	\$539,354,004	\$410,784,149
Accounts receivable:		
Investment income	\$28,095,038	\$27,001,516
Proceeds from sales	113,194,813	172,646,370
Other	<u>5,982,494</u>	<u>4,591,406</u>
Total accounts receivable	147,272,345	204,239,292
Investments:		
Fixed income	\$1,295,992,620	\$1,311,952,438
Equities	5,058,106,931	4,122,931,262
Real estate and mortgages	685,373,886	569,346,685
Other	1,367,398,926	1,235,550,179
Fixed assets	<u>113,163</u>	<u>55,392</u>
Total investments at market value	<u>8,406,985,526</u>	<u>7,239,835,956</u>
Total assets	\$9,093,611,875	\$7,854,859,397
Less accounts payable:		
Accounts payable and accrued expenses	-\$19,284,527	-\$18,496,212
Purchases of investments	-343,822,877	-227,761,307
Security lending collateral	<u>-996,066,443</u>	<u>-899,560,197</u>
Total accounts payable	-\$1,359,173,847	-\$1,145,817,716
Net assets at market value	<u>\$7,734,438,028</u>	<u>\$6,709,041,681</u>
Net assets at actuarial value	<u>\$7,917,509,037</u>	<u>\$7,868,307,895</u>
Net assets at valuation value	<u>\$7,042,107,591</u>	<u>\$6,999,647,350</u>

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT F

Development of the Fund Through June 30, 2004 for Retirement, Health and Family Death Benefits

Year Ended June 30	Employer Contributions	Employee Contributions	Net Investment Return*	Benefit Payments	Actuarial Value of Assets at End of Year
2001	\$87,896,674	\$69,460,111	\$662,575,372	\$355,862,157	\$7,853,297,000
2002	79,467,671	75,654,360	314,207,259	387,864,290	7,934,762,000
2003	97,531,127	83,067,509	176,606,357	423,659,098	7,868,307,895
2004	140,201,349	93,417,803	267,449,522	451,867,532	7,917,509,037

** Net of investment fees and administrative expenses*

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT G

Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2004

1. Unfunded actuarial accrued liability at beginning of year	\$660,199,346
2. Normal cost at beginning of year	227,761,893
3. Total contributions	-213,474,726
4. Interest	<u>58,361,411</u>
5. Expected unfunded actuarial accrued liability	\$732,847,924
6. Increase due to experience loss*:	<u>758,908,013</u>
7. Unfunded actuarial accrued liability at end of year	<u>\$1,491,755,937</u>

* Excludes \$40,416,421 loss from contributions less than anticipated due to phase-in and one-year time lag for new rates. That loss is already included in the development of item 5.

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT H

Table of Amortization Bases

Type*	Date Established	Initial Years	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Combined Bases	06/30/1997	15	\$72,430,216	\$8,166,516	8	\$57,462,284
Gain	06/30/1998	15	-358,304,524	-38,845,076	9	-302,048,549
Change in assumption	06/30/1998	30	224,524,794	15,526,588	24	249,756,855
Gain	06/30/1999	15	-186,776,099	-19,470,256	10	-165,258,334
Plan Change	06/30/1999	30	21,748,503	1,446,132	25	23,846,687
Change in assumption	06/30/2000	30	-9,507,144	-632,161	25	-10,424,328
Gain	06/30/2000	15	-333,772,990	-33,455,551	11	-306,900,241
Loss	06/30/2001	15	12,134,999	1,169,563	12	11,501,032
Loss	06/30/2002	15	190,569,002	17,660,483	13	184,894,842
Plan Change	06/30/2002	30	37,649,323	2,225,541	28	39,203,004
Change in assumption	06/30/2002	30	462,657,994	27,348,811	28	481,750,578
Loss	06/30/2003	15	434,089,109	38,680,839	14	428,647,673
Loss	06/30/2004	15	799,324,434	<u>68,486,779</u>	15	<u>799,324,434</u>
Sub-total before GASB amount				\$88,308,208		\$1,491,755,937
40 Year Minimum GASB 25/27	06/30/2004	15	29,189,615	<u>2,500,990</u>	15	<u>29,189,615</u>
Total				\$90,809,198		\$1,520,945,552

* Level percentage of payroll

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT I

Section 415 Limitations

Section 415 of the Internal Revenue Code (IRC) specifies the maximum benefits that may be paid to an individual from a defined benefit plan and the maximum amounts that may be allocated each year to an individual's account in a defined contribution plan.

A qualified pension plan may not pay benefits in excess of the Section 415 limits. The ultimate penalty for non-compliance is disqualification: active participants could be taxed on their vested benefits and the IRS may seek to tax the income earned on the plan's assets.

In particular, Section 415(b) of the IRC limits the maximum annual benefit payable at the Normal Retirement Age to a dollar limit of \$160,000 indexed for inflation. That limit is \$165,000 for 2004 and \$170,000 for 2005. Normal Retirement Age for these purposes is age 62. These are the limits in simplified terms. They must be adjusted based on each participant's circumstances, for such things as age at retirement, form of benefits chosen and after tax contributions.

Benefits in excess of the limits may be paid through a qualified governmental excess plan that meets the requirements of Section 415(m).

Legal Counsel's review and interpretation of the law and regulations should be sought on any questions in this regard.

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

EXHIBIT J

Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or Actuarial

Assumptions:

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal Cost:

The amount of contributions required to fund the benefit allocated to the current year of service.

Actuarial Accrued Liability

For Actives:

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability

For Pensioners:

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded Actuarial Accrued

Liability:

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

SECTION 3: Supplemental Information for the Los Angeles City Employees' Retirement System

Amortization of the Unfunded

Actuarial Accrued Liability

Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

Investment Return:

The rate of earnings of the Plan from its investments, including interest, dividends and market gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the market gains and losses to avoid significant swings in the value of assets from one year to the next.

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT I

Summary of Actuarial Valuation Results

The valuation was made with respect to the following data supplied to us:

1. Retired members as of the valuation date (including 3,197 beneficiaries in pay status)		14,137
2. Members inactive during year ended June 30, 2004 with vested rights (including 1,296 members with under 5 years of service eligible for a refund of contributions)		2,232
3. Members active during the year ended June 30, 2004		27,092
Fully vested	17,591	
Not vested	9,501	

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

Assets

1. Valuation value of assets (\$7,734,438,028 at market value* and \$7,917,509,037 at actuarial value* as reported by Administration Office)		\$7,042,107,591
2. Present value of future normal costs		
Employee	\$908,344,143	
Employer	<u>1,805,292,639</u>	
Total		\$2,713,636,782
3. Unfunded actuarial accrued liability		<u>1,491,755,937</u>
4. Present value of current and future assets		\$11,247,500,310

Liabilities

5. Present value of future benefits		
Retired members and beneficiaries	\$4,310,204,942	
Inactive members with vested rights	80,561,748	
Active members	<u>6,856,733,620</u>	
Total		\$11,247,500,310

* Includes assets for Retirement, Health and Family Death Benefits.

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT I (continued)

Summary of Actuarial Valuation Results

The determination of the recommended contribution is as follows:

1. Total normal cost	\$236,238,453
2. Expected employee contributions	<u>-103,231,144</u>
3. Employer normal cost: (1) + (2)	\$133,007,309
4. Payment on unfunded actuarial accrued liability	90,809,198
5. Total recommended contribution: (3) + (4), not adjusted for timing	<u>\$223,816,507</u>
6. Total recommended contribution: (3) + (4), adjusted for timing	<u>\$232,539,943</u>
7. Projected payroll	\$1,575,284,734
8. Total recommended contribution as a percentage of projected payroll, not adjusted for timing: (5) ÷ (7)	14.21%
9. Total recommended contribution as a percentage of projected payroll, adjusted for timing: (6) ÷ (7)	14.76%

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

Plan Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
1998	\$64,459,744	\$64,459,744	100.00%
1999	69,248,626	69,248,626	100.00%
2000	72,146,277	72,146,277	100.00%
2001	59,153,313	59,153,313	100.00%
2002	32,296,002	32,296,002	100.00%
2003	51,604,669	51,604,669	100.00%
2004	159,083,407	100,408,689	63.12%

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT III

Supplementary Information Required by the GASB – Schedule of Funding Progress

Actuarial Valuation Date	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll* [(b) - (a) / (c)]
06/30/1999	\$5,910,948,000	\$5,684,586,000	-\$226,362,000	103.98%	\$1,068,124,000	-21.19%
06/30/2000	6,561,365,000	6,012,931,000	-548,434,000	109.12%	1,182,203,000	-46.39%
06/30/2001	6,988,782,000	6,468,066,000	-520,716,000	108.05%	1,293,350,000	-40.26%
06/30/2002	7,060,188,000	7,252,118,000	191,930,000	97.35%	1,334,335,000	14.38%
06/30/2003	6,999,647,000	7,659,846,000	660,199,000	91.38%	1,405,058,000	46.99%
06/30/2004	7,042,107,591	8,533,863,528	1,491,755,937	82.52%	1,575,284,734	94.70%

* *Not less than zero*

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT IV

Supplementary Information Required by the GASB

Valuation date	June 30, 2004
Actuarial cost method	Projected Unit Credit Cost Method – assuming a closed group.
Amortization method	Level percent of payroll – assuming a 4% increase in total covered payroll.
Remaining amortization period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years.
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five - year period.
Actuarial assumptions:	
Investment rate of return	8.00%
Inflation rate	4.00%
Projected salary increases	Ranges from 8.0% to 5.5% for members with less than 5 years of service. For members with 5 or more years of service, the increase is 5.00% per year.
Cost of living adjustments	3.00%
Plan membership:	
Retired members and beneficiaries receiving benefits	14,137
Terminated members entitled to, but not yet receiving benefits	2,232
Active members	<u>27,092</u>
Total	43,461

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT V

Development of the Net Pension Obligation and the Annual Pension Cost Pursuant to GASB 27

Plan Year Ended June 30	Employer Annual Required Contribution (a)	Employer Amount Contributed (b)	Interest on NPO (h)* 8.00% (c)	ARC Adjustment (h) / (e) (d)	Amortization Factor (e)	Pension Cost (a) + (c) – (d) (f)	Change in NPO (f) – (b) (g)	NPO Balance NPO + (g) (h)
2003	\$51,604,669	\$51,604,669	\$0	\$0	N/A	\$51,604,669	\$0	\$0
2004	159,083,407	100,408,689	0	0	N/A	159,083,407	58,674,718	58,674,718

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT VI
Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

After Service Retirement: 1994 Uninsured Pensioner Mortality Table for Males, setback 3 years for females.
After Disability Retirement 1981 Disabled Mortality Table (General), setback 5 years for females.

Termination Rates before Retirement:

Age	Mortality	
	Male	Female
25	0.04	0.03
30	0.06	0.05
35	0.08	0.07
40	0.12	0.10
45	0.17	0.14
50	0.23	0.18
55	0.32	0.26
60	0.44	0.42

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

Termination Rates before Retirement (continued):

Age	Rate (%)	
	Disability	Withdrawal*
25	0.01	5.75
30	0.02	5.25
35	0.07	3.75
40	0.12	2.75
45	0.17	2.25
50	0.20	1.70
55	0.20	1.45
60	0.00	1.20
65	0.00	0.00

** Withdrawal rates are zero for members expected to retire.*

Rates of Withdrawal for members with less than 5 years of service are as follows:

Service	Rate (%)
	Withdrawal (Based on Service)
0	8.25
1	7.25
2	6.75
3	6.50
4	6.25

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

Retirement Rates:	<u>Age</u>	<u>Retirement Probability</u>
	50	1.00%
	51	1.00
	52	1.00
	53	1.00
	54	2.00
	55	9.00
	56	10.00
	57	10.00
	58	12.00
	59	12.00
	60	20.00
	61	15.00
	62	25.00
	63	10.00
	64	15.00
	65	26.00
	66	23.00
	67	23.00
	68	23.00
	69	23.00
	70	100.00

Retirement Age and Benefit for Inactive

Vested Participants: Assume pension benefit will be paid at the later of age 60 or the current attained age.

Exclusion of Inactive Vested: All inactive participants are included in the valuation.

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

Definition of Active Members:	First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.
Unknown Data for Members:	Same as those exhibited by Members with similar known characteristics. If not specified, Members are assumed to be male.
Percent Married/Domestic Partner:	76% of male participants; 50% of female participants.
Age of Spouse:	Female spouses 4 years younger than their spouses.
Future Benefit Accruals:	1.0 year of service per year.
Other Government Service:	Currently, it is assumed that no deferred vested members will leave the City of Los Angeles to work at a reciprocal system.
Consumer Price Index:	Increase of 4.0% per year; benefit increases due to CPI subject to 3.0% maximum.
Employee Contribution and Matching Account Crediting Rate:	6.50%
Net Investment Return:	8.00%
Salary Increases:	According to the following schedule:

Service	Percentage Increase*
0	4.0%
1	3.5%
2	3.0%
3	2.0%
4	1.5%
5+	1.0%

* Before including 4% general CPI increase.

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

Actuarial Value of Assets: The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and expected returns on a market value basis and is recognized over a five year period. The actuarial value of assets can not be less than 80% or greater than 120% of the market value of assets.

Actuarial Cost Method: Projected Unit Credit Cost Method.

Funding Policy: The Los Angeles City Employees' Retirement System makes contributions equal to the Normal Cost adjusted by amount to amortize any Surplus or Unfunded Actuarial Accrued Liability. Both the Normal Cost and the Actuarial Accrued Liability are determined under the Projected Unit Credit cost method. All the bases on or before June 30, 1997 were combined and amortized over 15 years effective June 30, 1997. Any subsequent change in Surplus or Unfunded Actuarial Accrued Liability due to actuarial gains or losses are amortized over separate fifteen year periods. Any change in Surplus or Unfunded Actuarial Accrued Liability from plan amendments or plan assumption changes are amortized over separate thirty year periods. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.

Changes in Assumptions: There have been no changes in actuarial assumptions since the last valuation.

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

**EXHIBIT VII
Summary of Plan Provisions**

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

Plan Year:	July 1 through June 30			
Census Date:	June 30			
Normal Retirement Benefit:				
<i>Age & Service Requirement</i> (§ 4.1020)	Age 70; Age 60 with 10 years of continuous service; or Age 55 with at least 30 years of service.			
<i>Amount</i> (§ 4.1056.2)	2.16% of the Final Average Monthly Compensation per year of service			
Early Retirement Benefit:				
<i>Age & Service Requirement</i> (§ 4.1020)	Age 55 with 10 years of continuous service; or Any age with 30 year of service.			
<i>Amount</i> (§ 4.1056.2)	2.16% of the Final Average Monthly Compensation per year of service reduced for retirement ages below age 60 using the following sample Early Retirement benefit adjustment factors:			
	<u>Age</u>	<u>Factor</u>	<u>Age</u>	<u>Factor</u>
	45	0.6250	50	0.7750
	55	0.9250	60	1.0000
Final Average Monthly Compensation: (§ 4.1010)	Equivalent of monthly average salary of highest continuous 12 months (one year).			

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

Cost of Living benefit
(§ 4.1040) Based on changes to Los Angeles area consumer price index to a maximum of 3% per year, excess banked.

Death after retirement
(§ 4.1044)

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

Death before retirement
(§ 4.1062 and § 4.1054)

Option #1:

- (i) Eligibility – None.
- (ii) Benefit – Refund of contributions plus a limited pension benefit according to the following schedule:

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

Option #2:

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

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

Member Normal Contributions:

(§ 4.1031)

If an employee became a plan member on or after January 1, 1983, the member normal contribution rate is 6%.

If an employee became a plan member before January 1, 1983, the rate is based on age at entry, sample rates by entry age (before reflecting applicable pick ups by the employers or “defrayals”) are as follows:

<u>Entry Age</u>	<u>Normal Rate</u>	<u>Survivor Rate</u>
20	8.20%	0.44%
30	9.06%	0.75%
40	10.19%	0.91%
50	11.34%	1.03%

Disability:

(§ 4.1055)

Service Requirement

5 years of continuous service

Amount

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

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

Deferred Withdrawal Retirement Benefit (Vested):

(§ 4.1020 and § 4.1059.1)

<i>Age & Service Requirement</i>	Age 70 with 5 years of continuous service; Age 60 with 5 years of continuous service and at least 10 years have elapsed from first date of membership; or Age 55 with at least 30 years of service. Deferred employee who meets part-time eligibility: age 60 with at least 10 years from the first date of membership.
<i>Amount</i>	See Normal retirement benefit
<i>Age & Service Requirement</i>	Age 55 with 5 years of continuous service and at least 10 years have elapsed from first date of membership; or Age 55 with 10 years of continuous service. Deferred employee who meets part-time eligibility: age 55 with at least 10 years from the first date of membership.
<i>Amount</i>	See Early retirement benefit

Withdrawal of Contributions Benefit (Ordinary Withdrawal):

Refund of employee contributions with interest.

Changes in Plan Provisions:

There have been no changes in plan provisions, benefit amounts and eligibility requirements since the last valuation.

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT VIII

Solvency Test for Retirement Benefits For Years Ended June 30 (\$ In Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Valuation Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Member Contributions	(2) Retirants, Beneficiaries, & Deferred Vesteds	(3) Active Members		(1)	(2)	(3)
06/30/1996	\$637,737	\$2,357,798	\$1,480,489	\$4,468,433	100.0%	100.0%	99.5%
06/30/1997	683,048	2,598,432	1,604,857	4,802,509	100.0	100.0	94.8
06/30/1998	733,680	2,772,712	1,806,526	5,362,923	100.0	100.0	100.0
06/30/1999	776,617	2,989,218	1,918,751	5,910,948	100.0	100.0	100.0
06/30/2000	827,729	3,149,392	2,035,810	6,561,365	100.0	100.0	100.0
06/30/2001	889,658	3,444,240	2,134,168	6,988,782	100.0	100.0	100.0
06/30/2002	950,002	3,756,935	2,545,181	7,060,188	100.0	100.0	92.5
06/30/2003	1,005,888	4,021,213	2,632,745	6,999,647	100.0	100.0	74.9
06/30/2004	1,062,002	4,348,252	3,123,610	7,042,108	100.0	100.0	52.2

SECTION 4: Reporting Information for Los Angeles City Employees' Retirement System

EXHIBIT IX

Retirants and Beneficiaries Added To and Removed From the Rolls* For Years Ended June 30

<u>Year Ended</u>	<u>No. of New Retirants/ Beneficiaries</u>	<u>Annual Allowances Added**</u>	<u>No. of Retirants/ Beneficiaries Removed</u>	<u>Annual Allowances Removed</u>	<u>No. of Retirants/ Beneficiaries at 6/30</u>	<u>Annual Allowances at 6/30</u>	<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowances</u>
06/30/2001	773	\$22,866,958	466	\$6,436,730	13,365	\$316,057,216	8.6%	\$23,648
06/30/2002	844	23,740,829	620	11,316,344	13,589	336,437,038	6.4%	24,758
06/30/2003	827	24,729,535	611	12,008,132	13,805	359,036,215	6.7%	26,008
06/30/2004	986	53,452,133	654	13,220,316	14,137	399,268,032	11.2%	28,243

* Does not include Family Death Benefit Insurance Plan members. Table based on valuation data.

** For 06/30/2004, also includes the COLA granted in July 2003 and July 2004.

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Los Angeles City Employees' Retirement System

Actuarial Valuation and Review of Health Program as of June 30, 2004

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THE SEGAL COMPANY
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December 3, 2004

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

Dear Board Members:

We are pleased to submit this report on our actuarial valuation of postemployment health benefits as of June 30, 2004. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal year 2005/2006 and analyses the preceding year's experience.

The census information on which our calculations were based and the financial information was provided by the Board of Administration. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Dave Bergerson, ASA, MAAA, Enrolled Actuary. The actuarial projections were based on the assumptions and methods described in Exhibit II and on the plan of benefits as summarized in Exhibit III. This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Administration are reasonably related to the experience of and the expectations for the Plan.

We look forward to discussing this material with you at your next meeting.

Sincerely,

THE SEGAL COMPANY

By:

*Paul Angelo, FSA, MAAA
Vice President and Actuary*

*Andy Yeung, ASA, MAAA
Associate Actuary*

PURPOSE

This report presents the results of our actuarial valuation of the Los Angeles City Employees' Retirement System (LACERS) post retirement medical and dental benefits as of June 30, 2004. The results are in accordance with generally accepted actuarial principles and practices. **The accounting standards of GASB 43 and 45 that supplement the current cash accounting have not been applied.** The results under the guidelines prescribed by GASB would produce significantly different results than shown in this report.

The calculations shown in this report are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. **In addition, all employees with under 10 years of service have been excluded from our calculation consistent with the Board's current funding policy.**

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets.

The calculation of an accounting obligation does not, in and of itself, imply that LACERS is required to implement an accelerated funding policy to satisfy the projected expense.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

ACCOUNTING REQUIREMENTS

As previously noted, the Governmental Accounting Standards Board (GASB) rules are **not** being applied in our calculation of liabilities shown in this report. For instance, the GASB liability calculation should include all active employees, which requires adding those who are currently excluded from the valuation because they have less than 10 years of service. The application of the GASB accounting parameters may potentially require the plan to use different assumptions and methodologies and hence will produce a different liability for accounting purposes.

For reference purposes, we have provided a general description of the new GASB Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Under this statement, all plans of state and local government entities that provide other post employment are required to report the cost of these benefits on their financial statements. **GASB requires that plans whose employers have total annual revenues of \$100 million or more, such as LACERS, comply with the new Standard for plan years beginning after December 15, 2005. (i.e., Plan year 2006/2007). The City is required to include the results in its financial statements effective with the following fiscal year (i.e. Fiscal year 2007/2008).**

The statement includes postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. The new standard introduces an accrual-basis accounting requirement; thereby, recognizing the employer cost of postemployment benefits over an employee's career. The standards also

introduce a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnovers, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is then discounted to determine the actuarial present value of the projected cost of these benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the net OPEB obligation (NOO). In addition, supplementary information (RSI) is required. This information includes historical information about the UAAL and the progress in funding the Plan.

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

HIGHLIGHTS OF THE VALUATION

- The recommended contribution has increased from 4.02% of payroll to 4.94% of payroll. The contribution rate for the employer increased because of: (i) lower than expected return on the valuation value of assets, (ii) change in actuarial assumptions, and (iii) other actuarial losses.
- The employer contribution rates provided in this report have been developed assuming that they will be made by the City at either (1) the beginning of the fiscal year (i.e. the City will prepay its contributions) or (2) on average at the middle of the year (i.e. the City will pay contributions at the end of every pay period).
- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 70.4% to 60.5%. The unfunded actuarial accrued liability has increased from \$356.8 million to \$560.8 million. A complete summary of the actuarial experience during the past year is provided in Exhibit H.
- The assumption for the discount rate is 8.0%, and is based on the long term return assumption for trust assets.
- In this valuation, we have increased the health care trend assumptions used in the last valuation and this change has resulted in an increase in the contribution requirement. However, this contribution increase is offset partially by the less than anticipated premium increase for calendar year 2005.
- The funding method used to develop the recommended contribution is Projected Unit Credit, a method that will produce an increasing normal cost as a percent of payroll. In addition, under the current approach, we have not included any additional dollar normal cost to fund the benefits for new employees expected to be included in future valuations (i.e. have just attained 10 years of service). We recommend that the Board consider review of this funding method in conjunction with the next experience study.
- Contributions will generally increase with payroll growth. Other factors such as gains or losses, or changes in trend assumptions will also alter the contribution rate.
- The market value of assets is slightly less than the valuation value of assets due to prior year losses being smoothed over a 5-year period.

SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System

SUMMARY OF VALUATION RESULTS

	June 30, 2004	June 30, 2003
Actuarial Accrued Liability by Participant Category		
Current retirees, beneficiaries and dependents	\$703,482,695	\$645,242,000
Other participants fully eligible for benefits	17,561,325	Not Available
Other participants not yet fully eligible for benefits	<u>698,768,806</u>	<u>Not Available</u>
Total	\$1,419,812,826	\$1,205,811,000
Valuation Value of Assets	\$858,997,310	\$848,983,407
Funded Ratio	60.5%	70.4%
Market Value of Assets	\$839,135,318	\$723,899,616
Unfunded Actuarial Accrued Liability	\$560,815,516	\$356,827,890
Recommended Contribution not adjusted for timing		
Normal cost	\$32,035,500	\$27,256,373
Amortization of the unfunded actuarial accrued liability	<u>42,851,349</u>	<u>26,860,717</u>
Total recommended contribution	\$74,886,849	\$54,117,090
Recommended as a percent of pay (payable on the average at the middle of the year)*	4.94%	4.02%

* These rates are based on estimated payroll of \$1,575,284,734 for 2004 and \$1,395,008,058 for 2003. Neither rate is adjusted for the 12-month delay until the rate is effective for the increase due to interest nor the decrease due to the assumed increase in total payroll.

December 3, 2004

ACTUARIAL CERTIFICATION

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of the Los Angeles City Employees' Retirement System health program as of June 30, 2004, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the current historical funding methods used in determination of the liability for medical and dental benefits.

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

The actuarial computations made are for funding plan benefits. Determinations for purposes of financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations will be needed for that purposes and other purposes, such as judging benefit security at termination or adequacy of funding an ongoing plan.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the plan's current funding information.



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



Chuck Fuhrer, FSA, MAAA
Vice President and Senior Health Actuary

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit A

Summary Statement of Income and Expense on an Actuarial Value Basis for Retirement, Health and Family Death Benefits

	Year Ended June 30, 2004	Year Ended June 30, 2003
Contribution income:		
Employer contributions	\$140,201,349	\$97,531,127
Employee contributions	<u>93,417,803</u>	<u>83,067,509</u>
Contribution income	\$233,619,152	\$180,598,636
Investment income:		
Interest, dividends and other income	\$200,347,430	\$191,556,709
Recognition of capital appreciation	96,283,183	11,691,257
Less investment and administrative fees	<u>-29,181,091</u>	<u>-26,641,609</u>
Net investment income	<u>267,449,522</u>	<u>176,606,357</u>
Total income available for benefits	\$501,068,674	\$357,204,993
Less benefit payments:		
Payment of benefits	-\$440,529,521	-\$408,979,796
Refunds of contributions	<u>-11,338,011</u>	<u>-14,679,302</u>
Net benefit payments	-\$451,867,532	-\$423,659,098
Change in reserve for future benefits	\$49,201,142	-\$66,454,105

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit B

Summary of Statement of Assets for Retirement, Health and Family Death Benefits

	Year Ended June 30, 2004	Year Ended June 30, 2003
Cash equivalents	\$539,354,004	\$410,784,149
Accounts receivable:		
Investment income	\$28,095,038	\$27,001,516
Proceeds from sales	113,194,813	172,646,370
Other	<u>5,982,494</u>	<u>4,591,406</u>
Total accounts receivable	147,272,345	204,239,292
Investments:		
Fixed Income	\$1,295,992,620	\$1,311,952,438
Equities	5,058,106,931	4,122,931,262
Real Estate and Mortgages	685,373,886	569,346,685
Other	1,367,398,926	1,235,550,179
Fixed Assets	<u>113,163</u>	<u>55,392</u>
Total investments at market value	<u>8,406,985,526</u>	<u>7,239,835,956</u>
Total assets	\$9,093,611,875	\$7,854,859,397
Less accounts payable:		
Accounts payable and accrued expenses	-\$19,284,527	-\$18,496,212
Purchases of investments	-343,822,877	-227,761,307
Security lending collateral	<u>-996,066,443</u>	<u>-899,560,197</u>
Total accounts payable	-\$1,359,173,847	-\$1,145,817,716
Net assets at market value	<u>\$7,734,438,028</u>	<u>\$6,709,041,681</u>
Net assets at actuarial value	<u>\$7,917,509,037</u>	<u>\$7,868,307,895</u>
Net assets at valuation value (retiree health)	<u>\$858,997,310</u>	<u>\$848,983,407</u>

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit C

Determination of Actuarial Value of Assets as of June 30, 2004

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Administration has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

The chart shows the determination of the actuarial and valuation value of assets as of the valuation date.

1. Market value of assets			\$7,734,438,028
2. Calculation of unrecognized return*	<u>Original</u>	<u>Unrecognized</u>	
	<u>Amount</u>	<u>Return</u>	
(a) Year ended June 30, 2004	\$710,820,763	\$568,656,610	
(b) Year ended June 30, 2003	-289,230,950	-173,538,570	
(c) Year ended June 30, 2002	-955,341,286	-382,136,514	
(d) Year ended June 30, 2001	-980,262,675	-196,052,535	
(e) Total unrecognized return			-183,071,009
3. Preliminary actuarial value: (1) - (2e)			7,917,509,037
4. Adjustment to be within 20% corridor			0
5. Final actuarial value of assets: (3) + (4)			<u>\$7,917,509,037</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)			102.4%
7. Market value of retiree health assets			839,135,318
8. Valuation value of retiree health assets (5) ÷ (1) x (7)			<u>\$858,997,310</u>

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

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit D

Cash Flow Projection

Year Ending June 30,	Projected Number of Retirees electing coverage under the Health Program*			Projected Benefit Payments		
	Current	Future	Total	Current	Future	Total
2005	19,349	1,056	20,405	\$56,272,732	\$4,276,005	\$60,548,737
2006	18,638	1,861	20,499	58,001,873	8,163,446	66,165,319
2007	17,908	2,638	20,546	61,184,975	13,089,208	74,274,183
2008	17,173	3,401	20,574	63,701,725	18,757,638	82,459,363
2009	16,429	4,156	20,585	65,635,143	25,251,243	90,886,386
2010	15,683	4,866	20,549	66,812,731	32,239,913	99,052,644
2011	14,946	5,562	20,508	67,313,297	39,840,126	107,153,423
2012	14,214	6,229	20,443	66,999,043	47,746,863	114,745,906
2013	13,464	6,877	20,341	66,082,564	55,779,779	121,862,343
2014	12,758	7,499	20,257	64,695,350	63,866,128	128,561,478

* Includes spouses of retirees.

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit E

Table of Amortization Bases

Type*	Date Established	Initial Years	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Combined Bases	06/30/1997	15	54,322,308	6,124,847	8	43,096,429
Gain	06/30/1998	15	(110,171,401)	(11,944,076)	9	(92,873,819)
Change in assumption	06/30/1998	30	44,832,551	3,100,310	24	49,870,819
Gain	06/30/1999	15	(104,153,669)	(10,857,377)	10	(92,154,520)
Plan Change	06/30/1999	30	3,167,219	210,599	25	3,472,763
Change in assumption	06/30/2000	30	46,098,996	2,947,383	26	49,749,581
Loss	06/30/2000	15	106,000,201	10,624,872	11	97,465,905
Gain	06/30/2001	15	(84,154,024)	(8,110,721)	12	(79,757,731)
Loss	06/30/2002	15	50,482,550	4,678,338	13	48,979,443
Change in assumption	06/30/2002	30	60,026,393	3,548,302	28	62,503,517
Loss	06/30/2003	15	375,085,691	33,423,158	14	370,383,878
Change in assumption	06/30/2003	30	(102,227,493)	(5,810,490)	29	(104,371,720)
Loss	06/30/2004	15	120,613,283	10,334,246	15	120,613,283
Change in assumption	06/30/2004	30	83,837,688	<u>4,581,957</u>	30	<u>83,837,688</u>
Total				42,851,349		560,815,516

* Level percentage of Pay

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit F

Determination of Recommended Contribution

	Year Beginning June 30			
	2004		2003	
	Amount	% of Payroll	Amount	% of Payroll
1. Employer normal cost	\$ 32,035,500	2.03	\$27,256,373	1.95
2. Actuarial accrued liability	1,419,812,826		1,205,811,297	
3. Valuation value of assets	<u>858,997,310</u>		<u>848,983,407</u>	
4. Unfunded actuarial accrued liability	\$560,815,516		\$356,827,890	
5. Amortization of unfunded accrued liability	42,851,349	2.72	26,860,717	1.93
6. Total recommended contribution, not adjusted for timing	<u>\$ 74,886,849</u>	<u>4.75</u>	<u>\$54,117,090</u>	<u>3.88</u>
7. Total recommended contribution, adjusted for timing*	<u>\$ 77,805,492</u>	<u>4.94</u>	<u>\$56,226,252</u>	<u>4.02</u>
8. Projected payroll used for developing normal cost rate	\$1,575,284,734		\$1,395,008,058	

**Recommended contributions are assumed to be paid at the end of every month.*

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit G

Reconciliation of Recommended Contribution

Recommended Contributions as of July 1, 2003	\$54,117,090
Effect of contributions less than recommended contribution	\$3,212,710
Effect of investment losses	1,446,726
Effect of other losses on accrued liability	7,313,095
Effect of change in actuarial assumptions	<u>8,797,228</u>
Total change	\$20,769,759
Recommended Contributions as of July 1, 2004	\$74,886,849

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit H

Actuarial Experience for Year Ended June 30, 2004

1. Net loss from investments	\$16,885,057
2. Net loss from other experience	42,073,717
3. Effect of change in valuation system	24,158,253
4. Contributions less than anticipated due one-year time lag for new rates	<u>37,496,256</u>
5. Net experience loss: (1) + (2) + (3) + (4)	\$120,613,283

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

The differences between the expected and the actual experience are provided in the table above. These include:

- Actual rate of return from investment,
- Demographic experience (e.g., turnover, retirement, mortality, disability, etc.),
- Change in valuation software that changes allocation of the present value of benefits between normal cost and actuarial accrued liability, and

- Loss from less than expected contributions due to the phase-in and the one-year lag for implementing the new rates calculated in the June 30, 2003 valuation.

The net loss from actuarial experience for the year ended June 30, 2004 amounted to (\$120,613,283) which is 8.5% of the actuarial accrued liability.

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit I

Development of Unfunded Actuarial Accrued Liability for the Year Ended June 30, 2004

1. Unfunded actuarial accrued liability at beginning of year	\$356,827,890
2. Normal cost at beginning of year	27,256,373
3. Total contributions	20,144,426
4. Interest	<u>29,920,964</u>
5. Expected unfunded actuarial accrued liability	\$393,860,801
6. Increase due to experience loss*:	\$83,117,027
7. Change in actuarial assumptions	<u>\$83,837,688</u>
8. Unfunded actuarial accrued liability at end of year	\$560,815,516

* Excludes \$37,496,256 loss from contributions less than anticipated due to phase-in and one-year time lag for new rates. That loss is already included in the development of item 5.

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit J

Actuarial Balance Sheet for Year Ended June 30, 2004

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

Assets

1. Valuation value of assets (\$7,734,438,028 at market value* and \$7,917,509,037 at actuarial value* as reported by Administration Office)	\$858,997,310
2. Present value of future normal costs	\$279,448,740
3. Unfunded actuarial accrued liability	<u>560,815,516</u>
4. Present value of current and future assets	\$1,699,261,566

Liabilities

5. Present value of future benefits		
Retired members and beneficiaries	\$703,482,695	
Inactive members with vested rights	17,015,401	
Active members	<u>978,763,470</u>	
Total		\$1,699,261,566

* Includes assets for Retirement, Health and Family Death Benefits.

SECTION 3: Valuation Details for the Los Angeles City Employees' Retirement System

Exhibit K

Schedule of Funding Progress for Health Program

Actuarial Valuation Date	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
06/30/1999	\$724,429,000	\$614,093,000	\$-110,336,000	117.97%	\$1,068,124,000	-10.33%
06/30/2000	810,303,000	854,066,000	43,763,000	94.88%	1,182,203,000	3.70%
06/30/2001	844,984,000	807,905,000	-37,079,000	104.59%	1,293,350,000	-2.87%
06/30/2002	853,916,000	931,964,000	78,048,000	91.63%	1,334,335,000	5.85%
06/30/2003	848,983,000	1,205,811,000	356,828,000	70.41%	1,405,058,000	25.40%
06/30/2004	858,997,310	1,419,812,826	560,815,516	60.50%	1,575,284,734	35.60%

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

EXHIBIT I

Summary of Participant Data

This exhibit summarizes the participant data used for the current valuation.

	June 30, 2004
Retirees	
Non-disabled	10,093
Disabled	<u>847</u>
Total	10,940
Average age	69.8
Surviving Spouses	
Number	3,197
Average age	75.0
Inactive Vested Participants (excluding those with less than 10 years of service)	
Number	552
Average age	47.3
Active Participants (excluding those with less than 10 years of service)	
Number	13,577
Average age	49.5
Average years of service	20.0

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method

Data: Detailed census data and financial data for postemployment benefits were provided by LACERS.

Actuarial Cost Method: Projected unit credit.

Termination Rates before Retirement:

Age	Mortality		Disability	Withdrawal
	Male	Female		
20	0.04%	0.02%	0.00%	6.25%
25	0.04	0.03	0.01	5.75
30	0.06	0.05	0.02	5.25
35	0.08	0.07	0.07	3.75
40	0.12	0.10	0.12	2.75
45	0.17	0.14	0.17	2.25
50	0.23	0.18	0.20	1.70
55	0.32	0.26	0.20	1.45

All deaths are assumed to be non-duty related.

Note: Withdrawal rates for actives with less than 5 years of service are as follows and supersede the above probabilities:

Service	Rate
0	8.25%
1	7.25
2	6.75
3	6.50
4	6.25

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

Postretirement Mortality Rates:

Healthy

UP 1994 Male Mortality Table for males, set back three years for females

Disabled

1981 Disability Mortality Table (General) for males, set back five years for females

Active Retirement Rates:

Age	Rate (%)
50-53	1.00
54	2.00
55	9.00
56-57	10.00
58-59	12.00
60	20.00
61	15.00
62	25.00
63	10.00
64	15.00
65	26.00
66-69	23.00
70	100.00

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

Per Capita Cost Development:

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

Plan

<u>Pre-65 and Over 65 with Medicare Part B only</u>	Participation Ratio*	Maximum Monthly Subsidy			Observed Utilization**
		Single	Married	Surviving Spouse	
PPO	0.161	\$702.85	\$883.00	\$452.86	0.84
Kaiser	0.643	452.86	813.87	452.56	0.84
Pacificare/SH	0.196	490.81	882.09	452.56	0.84
Dental	1.000	39.86	39.86	0.00	0.78
<u>Post-65 with Medicare Parts A and B</u>					
PPO	0.311	\$340.29	\$520.44	\$340.29	0.84
Kaiser	0.568	277.22	552.45	277.22	0.84
Pacificare/SH	0.121	204.74	407.31	204.13	0.84
Dental	1.000	39.86	39.86	0.00	0.84
Medicare Part B	1.000	66.60	66.60	0.00	0.77

* Participation ratio is the proportion of retirees electing to receive a subsidy that select that specific plan.

** Utilization ratio is the proportion of all retirees that elect to receive a subsidy, note the observed rates are based on the combined medical rates.

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

<i>Administrative Expenses</i>	No administrative expenses were valued separately from the claim costs.
<i>Participants Excluded from Valuation</i>	All participants with under 10 years of service are excluded from the valuation
<i>Marital Status</i>	91% of male and 66% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
<i>Spouse Age Difference</i>	Males are assumed to be 4 years older than their female spouses.
<i>Surviving Spouse Coverage</i>	With regard to members who are currently alive, 75% of eligible spouse or domestic partners are assumed to elect continued health coverage after the Member's death. With regard to deceased Members, 70% of the current eligible survivors are assumed to elect health
<i>Participation</i>	80% of all retirees are assumed to receive a subsidy for a City approved health carrier. 85% of retirees are expected to elect Medicare Parts A and B. 65% of retirees are assumed to elect dental coverage.

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

Health Care Cost Subsidy Trend Rates: Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. Trend rates are used to increase the stated subsidies into the future. For example, the proposed medical subsidy for a Kaiser male retiree age pre-65 in the calendar year 2006 would be determined with the following formula: $[\$436.08 \times (1 + 12\%)] = \488.41 .

Premium Year Ending December 31	Pre-65 PPO	Pre-65 HMO	Post-65 PPO	Post-65 HMO	Dental	Medicare Part B
2006	13.00%	12.00%	12.00%	12.00%	5.00%	6.00%
2007	12.00%	11.00%	11.00%	11.00%	5.00%	5.00%
2008	11.00%	10.00%	10.00%	10.00%	5.00%	5.00%
2009	10.00%	9.00%	9.00%	9.00%	5.00%	5.00%
2010	9.00%	8.00%	8.00%	8.00%	5.00%	5.00%
2011	8.00%	7.00%	7.00%	7.00%	5.00%	5.00%
2012	7.00%	6.00%	6.00%	6.00%	5.00%	5.00%
2013	6.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2014 & later	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Plan Design: Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.

Administrative Expenses: No administrative expenses were valued separately from the claim costs.

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

**Demographic Assumption
Changes Since Prior Valuation**

Except for the trend rates, the assumptions used in this valuation are the same as those used in the prior valuation. The trend rates used in last year's valuation are shown below. The trend rates are no longer divided by carrier.

Year	Medical Trend				Dental Trend	Medicare Part B
	Pre-65		Post-65			
	PPO	HMO	PPO	HMO		
2003-2004	7.75%	10.75%	10.75%	15.00%	7.25%	6.00%
2004-2005	7.50%	10.50%	10.50%	14.00%	7.00%	6.00%
2005-2006	7.25%	8.75%	9.25%	11.50%	6.75%	6.00%
2006-2007	7.00%	7.00%	8.00%	9.00%	6.50%	6.00%
2007-2008	6.50%	6.50%	7.50%	8.50%	6.25%	6.00%
2008-2009	6.00%	6.00%	7.00%	8.00%	6.00%	6.00%
2009-2010	5.50%	5.50%	6.50%	7.50%	5.50%	5.75%
2010-2011	5.00%	5.00%	6.00%	7.00%	5.00%	5.50%
2011-2012	4.75%	4.75%	5.50%	6.50%	4.75%	5.25%
2012-2013	4.50%	4.50%	5.00%	6.00%	4.50%	5.00%
2013-2014	4.25%	4.25%	4.75%	5.50%	4.25%	4.75%
2014-2015	4.00%	4.00%	4.50%	5.00%	4.00%	4.50%
2015-2016	4.00%	4.00%	4.25%	4.50%	4.00%	4.25%
2016+	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

EXHIBIT III

Summary of Plan

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

Eligibility:

Retirees

§4.1103.2

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

Health Subsidy for Members:

Under Age 65 or

Over Age 65 And Only

Enrolled in Medicare Part B:

§4.1103.2

The System will pay 4% of the maximum health subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2004, the maximum health subsidy was \$883.00 per month*.

*Premium subsidy amount is subject to review by the Board on a calendar year basis. The Board, at its discretion, by resolution, may change the maximum monthly amount of the medical plan subsidy provided to retired employees as long as any increase:

- (1) Does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium and
- (2) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

The maximum medical subsidy will remain unchanged at \$883.00 per month for calendar year 2005. The maximum survivor medical subsidy will be lowered to \$436.08 per month for calendar year 2005, the maximum dental subsidy will be lowered to \$34.84 per month for calendar year 2005.

SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System

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

For retirees, a maximum health subsidy (limited to actual premium) of \$883.00* per month, is provided (as of July 1, 2004) subject to the following vesting schedule:

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

Dental Subsidy for Members:
§4.1105.2

The System will pay 4% of the maximum dental subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2004, the maximum dental subsidy was \$39.86* per month.

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

**Medicare Part B Subsidy for
Members:**
§4.1104

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

*Premium subsidy amount is subject to review by the Board on a calendar year basis. The Board, at its discretion, by resolution, may change the maximum monthly amount of the medical plan subsidy provided to retired employees as long as any increase:

- (3) Does not exceed the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium and
- (4) The average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rates for the same period.

The maximum medical subsidy will remain unchanged at \$883.00 per month for calendar year 2005. The maximum survivor medical subsidy will be lowered to \$436.08 per month for calendar year 2005, the maximum dental subsidy will be lowered to \$34.84 per month for calendar year 2005.

Surviving Spouse Subsidy:
§4.1107 & §4.1107.1

The surviving spouse or domestic partner will be entitled a to a health subsidy (limited to actual premium) based on member's year of service (see Health Subsidy schedules above for members) and the surviving dependent's eligibility for Medicare.

The maximum health subsidy available for survivors is the Kaiser single party premium (\$452.86* per month as of July 1, 2004).

There is no dental subsidy for a surviving spouse or domestic partner.

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