

# Los Angeles City Employees' Retirement System

**Actuarial Valuation and Review of  
Retirement and Health Benefits  
as of June 30, 2012**

This report has been prepared at the request of the Board of Administration to assist in administering the Fund. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Administration and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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November 21, 2012

Board of Retirement  
Los Angeles City Employees' Retirement System  
202 W. 1<sup>st</sup> Street, Suite 500  
Los Angeles, CA 90012-4401

**Re: June 30, 2012 Actuarial Valuations**

Dear Board Members:

Enclosed please find the June 30, 2012 actuarial valuations for the retirement and health plans.

As requested by the System, we have attached the following supplemental schedules:

- Exhibit A - Summary of significant results for the retirement and health plans.
- Exhibit B - History of computed contribution rates for the retirement and health plans.
- Exhibit C - Solvency test for the retirement plan<sup>1</sup>.
- Exhibit D - Schedule of retirees and beneficiaries added to and removed from the rolls for the retirement plan<sup>2</sup>.

We look forward to discussing the reports and the enclosed schedules with the Board.

Sincerely,

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Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President and Actuary

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

<sup>1</sup> For the health plan, a similar schedule is provided in Exhibit H of the health valuation report.

<sup>2</sup> For the health plan, a similar schedule is provided in Exhibit B of the health valuation report.

**Benefits, Compensation and HR Consulting** Offices throughout the United States and Canada



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## Exhibit A

### Los Angeles City Employees' Retirement System Summary of Significant Valuation Results

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Percent Change</u>
<b>I. Total Membership</b>			
A. Active Members	24,917	25,449	-2.1%
B. Pensioners and Beneficiaries	17,223	17,197	0.2%
<b>II. Valuation Salary</b>			
A. Total Annual Payroll	\$1,819,269,630	\$1,833,392,381	-0.8%
B. Average Monthly Salary	6,084	6,003	1.3%
<b>III. Benefits to Current Retirees and Beneficiaries<sup>(1)</sup></b>			
A. Total Annual Benefits	\$676,874,760	\$656,547,204	3.1%
B. Average Monthly Benefit Amount	3,275	3,182	2.9%
<b>IV. Total System Assets<sup>(2)</sup></b>			
A. Actuarial Value	\$11,620,457,827	\$11,280,641,736	3.0%
B. Market Value	10,595,700,986	10,693,603,976	-0.9%
<b>V. Unfunded Actuarial Accrued Liability (UAAL)</b>			
A. Retirement Benefits	\$4,458,999,264	\$3,700,692,504	20.5%
B. Health Subsidy Benefits	650,026,667	421,823,917	54.1%

<sup>(1)</sup> Includes July COLA.

<sup>(2)</sup> Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits.

**Exhibit A (continued)**

**Los Angeles City Employees' Retirement System  
Summary of Significant Valuation Results**

VI. Budget Items	<u>FY 2013-2014**</u>		<u>FY 2012-2013**</u>		<u>Change</u>	
	Beginning of Year*	July 15	Beginning of Year	July 15	Beginning of Year	July 15
<i>After Reflecting Additional Employee Contributions for Unfrozen Health Subsidies (Composite Rates)</i>						
A. Retirement Benefits						
1. Normal Cost as a Percent of Pay	6.88%	6.90%	7.47%	7.49%	(0.59)%	(0.59)%
2. Amortization of UAAL	<u>13.67%</u>	<u>13.72%</u>	<u>13.37%</u>	<u>13.42%</u>	<u>0.30%</u>	<u>0.30%</u>
3. Total Retirement Contribution	20.55%	20.62%	20.84%	20.91%	(0.29)%	(0.29)%
B. Health Subsidy Contribution						
1. Normal Cost as a Percent of Pay	3.55%	3.56%	3.11%	3.12%	0.44%	0.44%
2. Amortization of UAAL	<u>1.98%</u>	<u>1.99%</u>	<u>1.22%</u>	<u>1.22%</u>	<u>0.76%</u>	<u>0.77%</u>
3. Total Health Subsidy Contribution	5.53%	5.55%	4.33%	4.34%	1.20%	1.21%
C. Total Contribution (A + B)	26.08%	26.17%	25.17%	25.25%	0.91%	0.92%
<b>VII. Funded Ratio</b>						
(Based on Valuation Value of Assets)						
A. Retirement Benefits	69.0%		72.4%		-3.4%	
B. Health Subsidy Benefits	71.6%		78.6%		-7.0%	
C. Total	69.4%		73.2%		-3.8%	
(Based on Market Value of Assets)						
D. Retirement Benefits	62.9%		68.6%		-5.7%	
E. Health Subsidy Benefits	65.3%		74.5%		-9.2%	
F. Total	63.3%		69.4%		-6.1%	

\* *Alternative contribution payment date for FY 2013-2014:*

	<u>Retirement</u>	<u>Health</u>	<u>Total</u>
<i>End of Pay Periods (after reflecting additional employee contributions)</i>	21.34%	5.74%	27.08%

\*\* *Before adjustments to phase in over five years the impact of new actuarial assumptions (as a result of the June 30, 2011 triennial Experience Study) on the City's contributions. For Fiscal Year 2013-2014 contribution rates after the phase-in adjustments, refer to our letter dated November 16, 2012.*

## Exhibit B

### 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
06/30/2005	17.51%	7.27%	24.78%	1,589,306
06/30/2006	17.18%	6.49%	23.67%	1,733,340
06/30/2007	15.52%	5.38%	20.90%	1,896,609
06/30/2008	14.65%	5.48%	20.13%	1,977,645
06/30/2009	18.73%	6.62%	25.35%	1,816,171
06/30/2010				
Before Additional Employee Contributions	21.19%	7.45%	28.64%	1,817,662
After Additional Employee Contributions	18.67%	6.94%	25.61%	1,817,662
06/30/2011**				
Before Additional Employee Contributions	24.31%	4.49%	28.80%	1,833,392
After Additional Employee Contributions	21.64%	4.49%	26.13%	1,833,392
06/30/2012**				
After Additional Employee Contributions	21.34%	5.74%	27.08%	1,819,270

\* Contributions are assumed to be made at the end of the pay period.

\*\* Before adjustments to phase in over five years the impact of new actuarial assumptions (as a result of the June 30, 2011 triennial Experience Study) on the City's contributions. For Fiscal Year 2013-2014 contribution rates after the phase-in adjustments, refer to our letter dated November 16, 2012.

## Exhibit C

### Los Angeles City Employees' Retirement System Solvency Test for Retirement Benefits For Years Ended June 30

(\$ In Thousands)

	<u>Aggregate Actuarial Accrued Liabilities For</u>			<u>Valuation Value of Assets</u>	<u>Portion of Accrued Liabilities Covered by Reported Assets</u>		
	(1)	(2)	(3)		(1)	(2)	(3)
<u>Valuation Date</u>	<u>Member Contributions</u>	<u>Retirees, Beneficiaries, &amp; Inactives</u>	<u>Active Members</u>		<u>Member Contributions</u>	<u>Retirees, Beneficiaries, &amp; Inactives</u>	<u>Active Members</u>
06/30/1996	\$637,737	\$2,357,798	\$1,480,489	\$4,468,433	100.0%	100.0%	99.5%
06/30/1997	683,048	2,598,432	1,604,857	4,802,509	100.0	100.0	94.8
06/30/1998	733,680	2,772,712	1,806,526	5,362,923	100.0	100.0	100.0
06/30/1999	776,617	2,989,218	1,918,751	5,910,948	100.0	100.0	100.0
06/30/2000	827,729	3,149,392	2,035,810	6,561,365	100.0	100.0	100.0
06/30/2001	889,658	3,444,240	2,134,168	6,988,782	100.0	100.0	100.0
06/30/2002	950,002	3,756,935	2,545,181	7,060,188	100.0	100.0	92.5
06/30/2003	1,005,888	4,021,213	2,632,745	6,999,647	100.0	100.0	74.9
06/30/2004	1,062,002	4,348,252	3,123,610	7,042,108	100.0	100.0	52.2
06/30/2005	1,128,101	4,858,932	3,334,492	7,193,142	100.0	100.0	36.2
06/30/2006	1,210,246	5,149,385	3,511,031	7,674,999	100.0	100.0	37.5
06/30/2007	1,307,008	5,365,437	3,854,429	8,599,700*	100.0	100.0	50.0
06/30/2008	1,408,074	5,665,130	4,113,200	9,438,318	100.0	100.0	57.5
06/30/2009	1,282,663	7,356,302	3,403,019	9,577,747	100.0	100.0	27.6
06/30/2010	1,379,098	7,507,945	3,707,982	9,554,027	100.0	100.0	18.0
06/30/2011	1,474,824	7,765,071	4,151,809	9,691,011	100.0	100.0	10.9
06/30/2012	1,625,207	7,893,684	4,875,068	9,934,959	100.0	100.0	8.5

\* Excludes assets transferred for Port Police.

**Exhibit D**

**Los Angeles City Employees' Retirement System  
Retirees and Beneficiaries Added To and Removed From the Rolls\*  
For Years Ended June 30**

<b><u>Year Ended</u></b>	<b><u>No. of New Retirees/ Beneficiaries</u></b>	<b><u>Annual Allowances Added**</u></b>	<b><u>No. of Retirees/ Beneficiaries Removed</u></b>	<b><u>Annual Allowances Removed</u></b>	<b><u>No. of Retirees/ Beneficiaries at 6/30</u></b>	<b><u>Annual Allowances at 6/30</u></b>	<b><u>Percent Increase in Annual Allowances</u></b>	<b><u>Average Annual Allowance</u></b>
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
06/30/2005	934	43,454,836	749	14,769,736	14,322	427,953,132	7.2%	29,881
06/30/2006	890	42,821,079	642	15,061,287	14,570	455,712,924	6.5%	31,277
06/30/2007	821	34,131,744	555	13,210,740	14,836	476,633,928	4.6%	32,127
06/30/2008	748	40,680,279	609	14,956,623	14,975	502,357,584	5.4%	33,546
06/30/2009	632	36,887,854	616	17,386,042	14,991	521,859,396	3.9%	34,812
06/30/2010	2,893	144,594,918	620	17,604,486	17,264	648,849,828	24.3%	37,584
06/30/2011	528	24,282,965	595	16,585,589	17,197	656,547,204	1.2%	38,178
06/30/2012	620	38,314,256	594	17,986,700	17,223	676,874,760	3.1%	39,301

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

\*\* Effective 06/30/2004, also includes the COLA granted in July.

# Los Angeles City Employees' Retirement System

**Actuarial Valuation and Review of Retirement  
Benefits as of June 30, 2012**

This report has been prepared at the request of the Board of Administration to assist in administering the Fund. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Administration and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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*November 21, 2012*

*Board of Administration  
Los Angeles City Employees' Retirement System  
202 W. 1<sup>st</sup> Street, Suite 500  
Los Angeles, CA 90012-4401*

*Dear Board Members:*

*We are pleased to submit this Actuarial Valuation and Review as of June 30, 2012. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2013/2014 and analyzes the preceding year's experience.*

*This report was prepared in accordance with generally accepted actuarial principles and practices, at the request of the Board to assist in administering the Plan. The census and financial information on which our calculations were based were prepared by LACERS. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, FCA, Enrolled Actuary.*

*The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.*

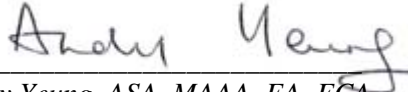
*We are Members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board 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, EA, FCA  
Senior Vice President and Actuary*

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

*DNA/hy*

## SECTION 1

### VALUATION SUMMARY

Purpose .....	i
Significant Issues in Valuation Year.....	i
Summary of Key Valuation Results.....	v
Actuarial Certification .....	vi

## SECTION 2

### VALUATION RESULTS

A. Member Data .....	1
B. Financial Information.....	4
C. Actuarial Experience.....	7
D. Recommended Contribution .	12
E. Information Required by GASB.....	14
F. Volatility Ratios.....	15

## SECTION 3

### SUPPLEMENTAL INFORMATION

EXHIBIT A Table of Plan Coverage.....	16
EXHIBIT B Members in Active Service as of June 30, 2012.....	17
EXHIBIT C Reconciliation of Member Data .	18
EXHIBIT D Summary Statement of Income and Expenses on an Actuarial Value Basis for Retirement, Health, Family Death and Larger Annuity Benefits.....	19
EXHIBIT E Summary Statement of Assets for Retirement, Health, Family Death, and Larger Annuity Benefits .....	20
EXHIBIT F Development of the Fund Through June 30, 2012 for Retirement, Health, Family Death and Larger Annuity Benefits.....	21
EXHIBIT G Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2012 .....	22
EXHIBIT H Table of Amortization Bases.....	23
EXHIBIT I Section 415 Limitations .....	24
EXHIBIT J Definitions of Pension Terms.....	25

## SECTION 4

### REPORTING INFORMATION

EXHIBIT I Summary of Actuarial Valuation Results.....	27
EXHIBIT II Supplementary Information Required by the GASB – Schedule of Employer Contributions.....	29
EXHIBIT III Supplementary Information Required by the GASB – Schedule of Funding Progress...	30
EXHIBIT IV Supplementary Information Required by the GASB.....	31
EXHIBIT V Development of the Net Pension Obligation and the Annual Pension Cost Pursuant to GASB 27 .....	32
EXHIBIT VI Actuarial Assumptions and Actuarial Cost Method .....	33
EXHIBIT VII Summary of Plan Provisions .....	39

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

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### Purpose

This report has been prepared by The Segal Company to present an actuarial valuation of the Los Angeles City Employees' Retirement System as of June 30, 2012. 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 members, and retired members and beneficiaries as of June 30, 2012, provided by LACERS;
- The assets of the Plan as of June 30, 2012, provided by LACERS;
- 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:

*Ref: Pg. 38*

- The results of this valuation reflect the changes in the funding policy (specifically the actuarial cost method and the amortization schedule for the UAAL), as adopted by the Board on October 23, 2012 for the June 30, 2012 valuation<sup>1</sup>. These changes are outlined in Section 4, Exhibit VI of this report. These changes resulted in a decrease in the employer contribution rate of 0.68% of payroll (payable at the end of each pay period; this is before reflecting the five-year phase-in that was adopted with the 2011 valuation, as discussed below).

*Ref: Pg. 22*

- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 72.37% to 69.02%. On a market value of assets basis, the funded ratio decreased from 68.60% to 62.94%. The unfunded actuarial accrued liability increased from \$3,700.7 million to \$4,459.0 million. A complete reconciliation of the System's unfunded actuarial accrued liability is provided in Section 3, Exhibit G.

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<sup>1</sup> The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal. The existing amortization layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years.

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

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*Ref: Pg. 13*

- The aggregate employer rate (payable at the end of each pay period) calculated in this valuation has decreased from 21.64% of payroll to 21.34% of payroll. Both of these rates are after adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees<sup>2</sup>. The annual dollar contributions calculated in this valuation decreased from about \$396.7 million to \$388.1 million. The decrease was due to: (i) the change in the actuarial cost method and re-amortization of the balances of the prior UAAL layers, (ii) the increase in the proportion of members paying the additional 2% or 4% employee contributions relative to the data reported for such members and used in the June 30, 2011 valuation, and (iii) other actuarial gains, offset somewhat by (iv) the increase in the amortization amounts due to the assumed 4.25% total payroll growth, (v) the loss from lower than expected contributions resulting from the one-year delay in implementing the higher contribution rate calculated in the prior valuation, and (vi) the lower than expected return on the valuation value of assets (after smoothing). A complete reconciliation of the aggregate employer contribution is provided in Section 2, Chart 15.

On October 25, 2011, the Board elected to phase in the impact of new actuarial assumptions (adopted as a result of the June 30, 2011 triennial Experience Study) on the City's retirement and health plan contributions over a five-year period, beginning with the 2012-2013 Fiscal Year. The recommended (i.e., pre-phase-in) contribution rates for Fiscal Year 2013-2014 (the second year of the phase-in) are contained in this report. In a separate letter, we provide the "phased-in" contribution rates for Fiscal Year 2013-2014.

*Ref: Pg. 5*

- As indicated in Section 2, Subsection B of this report, the total unrecognized investment loss as of June 30, 2012 is \$1,024,756,841<sup>3</sup> for the assets for Retirement, Health, Family Death, and Larger Annuity Benefits. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next several years. This implies that earning the assumed rate of investment return of 7.75% per year (net of expenses) on a market value basis will result in net investment losses on the actuarial value of assets after June 30, 2012. Item 9 in Chart 7 shows how, under the asset smoothing method, the \$1,024.8 million in unrecognized losses will be recognized in the next six years.

The deferred losses of \$1,024.8 million represent 10% of the market value of assets as of June 30, 2012. Unless offset by future investment gains or other favorable experience, the recognition of the \$1,024.8 million market losses is expected to have a significant impact on the System's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

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<sup>2</sup> For the June 30, 2012 valuation, we have assumed that all employees who are making the additional contributions are contributing at the 4% additional level, as this valuation determines the contribution requirements for fiscal year 2013/2014 (note that the 2% additional contribution rate increases to 4% effective January 1, 2013).

<sup>3</sup> For comparison purposes, the total unrecognized investment loss as of June 30, 2011 was \$587,037,760.

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

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- If the retirement plan component of the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 69.02% to 62.94%.
- If the retirement plan component of the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer rate (payable at the end of each pay period) would increase from 21.34% to 23.92% of payroll.
- The actuarial valuation report as of June 30, 2012 is based on financial information as of that date. Changes in the value of assets subsequent to that date 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.
- As in prior years, the employer contribution rates (before adjustments for the five-year phase in of the impact of new actuarial assumptions adopted for the June 30, 2011 valuation) provided in this report have been developed assuming they will be paid by the City on any of the following dates:
  - (1) The beginning of the fiscal year, or
  - (2) On July 15, 2013, or
  - (3) Throughout the year (i.e., the City will pay contributions at the end of every pay period).
- Consistent with prior instructions from the Board of Administration, the recommended contribution is set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. We have also continued to include in the calculation of the recommended contribution an additional contribution due to the application of the 40-year minimum amortization requirement for both fiscal year 2003/2004 and fiscal year 2004/2005.

*Ref: Pg. 23*

A Net Pension Obligation (NPO) was created in the June 30, 2004 and June 30, 2005 valuations due to: (1) the phase-in of the higher contribution rate required from the 2002 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. In the June 30, 2012 valuation, there are 7 years of payments left in the amortization of (2) from the June 30, 2004 valuation and 8 years of payments left in the amortization of (2) from the June 30, 2005 valuation.

*Ref: Pg. 32*

Due to the one-year lag in implementing the contribution rates, the amortization of the NPO created in the June 30, 2004 valuation has only begun with the 2005/2006 fiscal year. As shown in this year's valuation, the amortization of the NPO created in the June 30, 2005 valuation has begun with the 2006/2007 fiscal year. Additional details are provided in Section 4, Exhibit V.

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

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- ERIP Ordinance No. 180926 stipulates that the member contribution rate for all employees shall increase to 7% on July 1, 2011 for a period of 15 years, or until the ERIP Cost Obligation is fully paid, whichever comes first. Prior to the ERIP, members hired on or after January 1, 1983 contributed 6% of pay, while the member contribution rates for employees hired before January 1, 1983 were based on the members' ages at entry, ranging from 8.22% at entry age 16 to 13.33% for entry ages 59 and over. We understand that members hired before January 1, 1983 (Defrayal Group) had a portion of their member contribution rates picked up by the employer, and that the net member rate after the pick-up was below 6% prior to the effective date of the ERIP. The net member contribution rate for the Defrayal Group was to increase to 6% as of the ERIP effective date, and then to 7% effective July 1, 2011.
- The California Actuarial Advisory Panel (CAAP) has recently adopted a set of model disclosure elements recommended for actuarial valuation reports for public retirement systems in California. Information has been added to this valuation report consistent with the recommendations regarding basic disclosure elements. In particular, we are now including new information regarding measures of plan volatility.
- The Governmental Accounting Standards Board (GASB) recently approved two new Statements affecting the reporting of pension liabilities for accounting purposes. Statement 67 replaces Statement 25 and is for plan reporting. Statement 68 replaces Statement 27 and is for employer reporting. It is important to note that the new GASB rules only redefine pension expense for financial reporting purposes, and do not apply to contribution amounts for actual pension funding purposes. Employers and plans can still develop and adopt funding policies under current practices. Because these new Statements are not effective until the fiscal year ending June 30, 2014 for Plan reporting and the fiscal year ending June 30, 2015 for employer reporting, the financial reporting information in this report continues to be in accordance with Statements 25 and 27.

*Ref: Pg. 15*

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

**Summary of Key Valuation Results**

	<b>2012</b>	<b>2011</b>
<b>Contributions calculated as of June 30:<sup>(1)</sup></b>		
Recommended as a percentage of pay (there is a 12-month delay until the rate is effective)		
At the beginning of the year	20.55%	20.84%
On July 15	20.62%	20.91%
At the end of each pay period	21.34%	21.64%
<b>Funding elements for plan year ended June 30:</b>		
Normal cost	\$312,372,769	\$309,476,634
Market value of assets (MVA) <sup>(2)</sup>	10,595,700,986	10,693,603,976
Actuarial value of assets (AVA) <sup>(2)</sup>	11,620,457,827	11,280,641,736
Valuation value of retirement assets (VVA)	9,934,959,310	9,691,011,496
Market value of retirement assets (MVA)	9,058,839,138	9,186,697,130
Actuarial accrued liability (AAL)	14,393,958,574	13,391,704,000
Unfunded/(overfunded) actuarial accrued liability (UAAL) on VVA basis	4,458,999,264	3,700,692,504
Funded ratio on VVA basis (VVA/AAL)	69.02%	72.37%
Funded ratio on MVA basis for retirement (MVA/AAL)	62.94%	68.60%
<b>GASB 25/27 for fiscal year ended June 30:</b>		
Annual required contributions	\$308,539,905	\$303,560,953
Actual contributions	308,539,905	303,560,953
Percentage contributed	100.00%	100.00%
<b>Demographic data for plan year ended June 30:</b>		
Number of retired members and beneficiaries	17,223	17,197
Number of inactive members	5,808	5,623
Number of active members	24,917	25,449
Projected total payroll <sup>(3)</sup>	\$1,819,269,630	\$1,833,392,381
Projected average payroll <sup>(3)</sup>	\$73,013	\$72,042

<sup>(1)</sup> Both the June 30, 2012 and the June 30, 2011 contribution rates are after adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees. The contribution rates for both valuations are also before adjustments to phase in over five years the City contribution rate impact of new actuarial assumptions adopted as recommended in the June 30, 2011 triennial Experience Study.

<sup>(2)</sup> Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits.

<sup>(3)</sup> Reflects annualized salaries for part-time members.

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

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**Actuarial Certification**

November 21, 2012

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, 2012, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this retirement program with the last valuation completed on June 30, 2011. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the historical funding methods used in determination of the liability for retirement benefits.

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

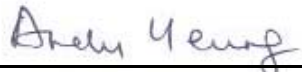
One of the general goals of an actuarial valuation is to establish contributions that fully fund the Retirement System's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Both the Normal Cost and the Actuarial Accrued Liability are determined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

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

In addition to all schedules that are shown in the actuarial section of the CAFR, a listing of supporting schedules included in the statistical and financial sections of the System's CAFR prepared by Segal is provided below:

- 1) Schedule of funding progress
- 2) Schedule of employer contributions
- 3) Supplementary Information Required by GASB (Exhibit IV)

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



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Andy Yeung, ASA, MAAA, EA, FCA  
Vice President and 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, inactive non-vested members (entitled to a refund of member contributions), inactive vested 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 ten valuations can be seen in this chart.*

**CHART 1**  
**Member Population: 2003 – 2012**

Year Ended June 30	Active Members	Inactive Members*	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
2003	26,358	2,593	13,805	0.62
2004	27,092	2,232	14,137	0.60
2005	27,333	2,426	14,322	0.61
2006	28,839	2,903	14,570	0.61
2007	30,175	3,303	14,836	0.60
2008	30,236	4,273	14,975	0.64
2009	30,065	4,554	14,991	0.65
2010	26,245	5,344	17,264	0.86**
2011	25,449	5,623	17,197	0.90
2012	24,917	5,808	17,223	0.92

\* Includes terminated members due a refund of employee contributions.

\*\*Reflects 2009 Early Retirement Incentive Program.

**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 24,917 active members with an average age of 47.8, average years of service of 13.9 years and average payroll of \$73,013.

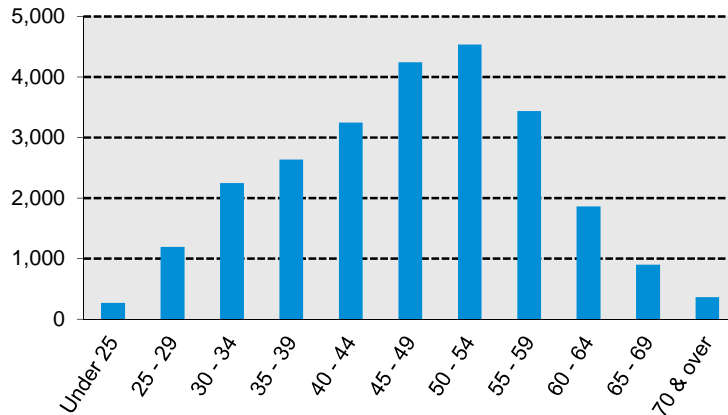
The 25,449 active members in the prior valuation had an average age of 47.0, average service of 13.0 years and average payroll of \$72,042.

**Inactive Members**

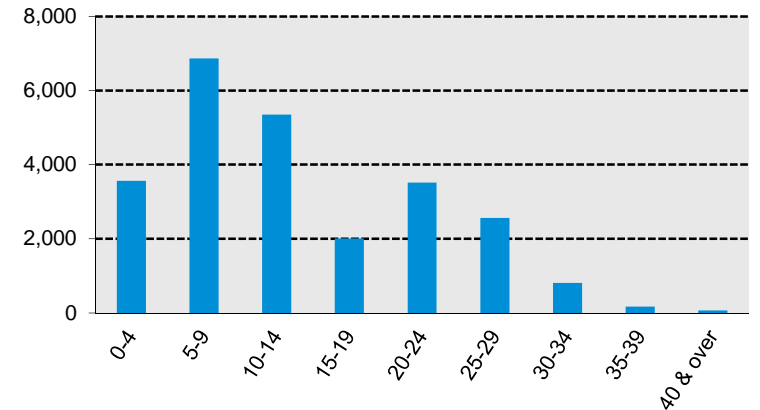
In this year's valuation, there were 5,808 members who were either non-vested and entitled to a refund of member contributions or vested with a right to a deferred or immediate benefit.

*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, 2012**



**CHART 3**  
**Distribution of Active Members by Years of Service as of June 30, 2012**



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

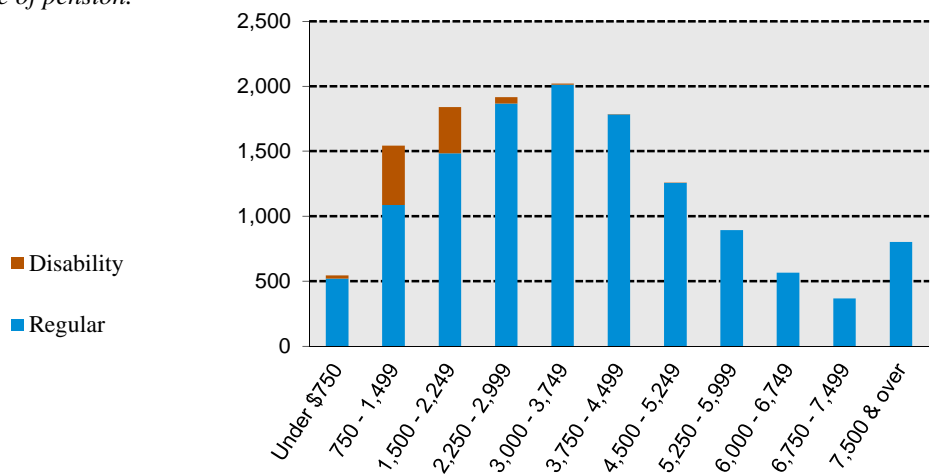
**Retired Members and Beneficiaries**

As of June 30, 2012, 13,531 retired members and 3,692 beneficiaries were receiving total monthly benefits of \$56,403,202. For comparison, in the previous valuation, there were 13,550 retired members and 3,647 beneficiaries receiving monthly benefits of \$54,705,331.

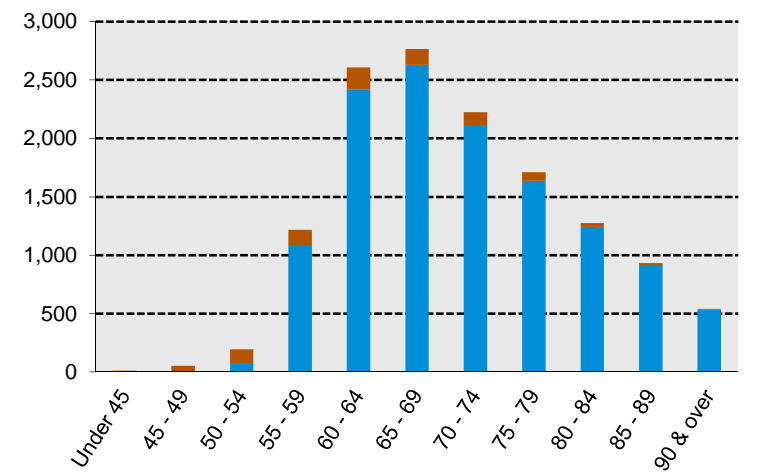
Please note that the monthly benefits provided have been adjusted for the COLA granted effective for the month of July.

*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, 2012**



**CHART 5**  
**Distribution of Retired Members by Type and by Age as of June 30, 2012**



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

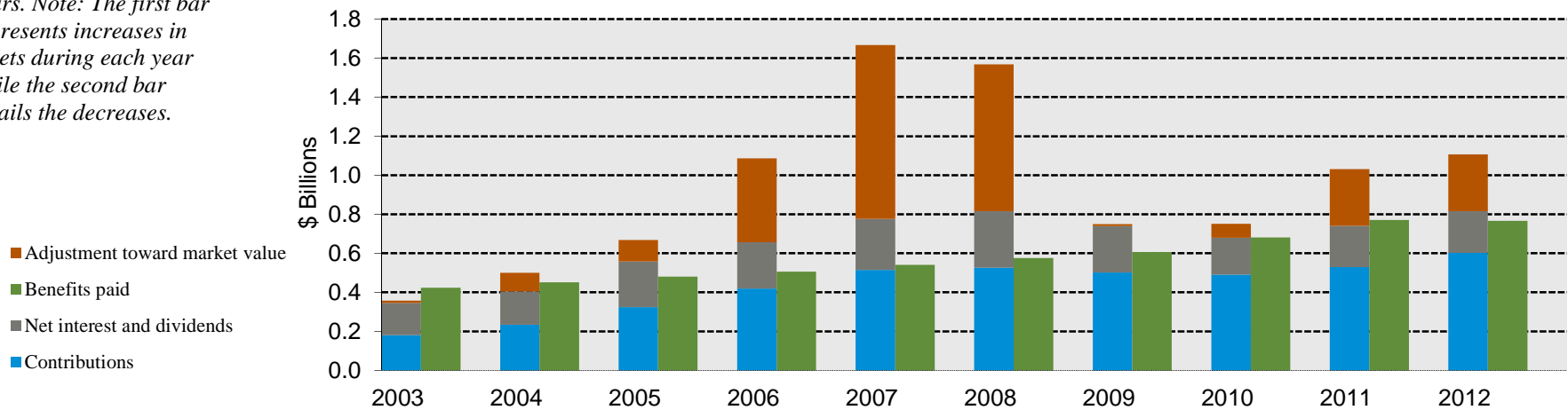
**B. FINANCIAL INFORMATION**

Retirement plan funding anticipates that, over the long term, both net 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 ten 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, 2003 – 2012**



## 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 value of assets as of the valuation date.*

### CHART 7

#### Determination of Actuarial Value of Assets as of June 30, 2012

1. Market value of assets				\$10,595,700,986
2. Calculation of unrecognized return*	<u>Original Amount</u>	<u>Percent Not Recognized</u>	<u>Amount Not Recognized</u>	
(a) Year ended June 30, 2012	-\$770,325,267	85.71%	-\$660,278,800	
(b) Year ended June 30, 2011	1,208,621,516	71.43%	863,301,083	
(c) Year ended June 30, 2010	392,956,483	57.14%	224,546,562	
(d) Year ended June 30, 2009	-2,964,832,484	40.00%**	-1,185,932,994	
(e) Year ended June 30, 2008	-1,549,293,380	24.00%**	-371,830,411	
(f) Year ended June 30, 2007	1,054,377,186	10.00%**	<u>105,437,719</u>	
(g) Total unrecognized return				-\$1,024,756,841
3. Preliminary actuarial value: (1) - (2g)				\$11,620,457,827
4. Adjustment to be within 40% corridor				0
5. Final actuarial value of assets: (3) + (4)				<u>\$11,620,457,827</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)				109.67%
7. Market value of retirement assets				\$9,058,839,138
8. Valuation value of retirement assets (5) ÷ (1) x (7)				\$9,934,959,310
9. Deferred return recognized in each of the next 6 years:				
(a) Amount recognized on 6/30/2013				-\$357,038,095
(b) Amount recognized on 6/30/2014				-462,475,814
(c) Amount recognized on 6/30/2015				-276,560,608
(d) Amount recognized on 6/30/2016				118,750,390
(e) Amount recognized on 6/30/2017				62,613,750
(f) Amount recognized on 6/30/2018				<u>-110,046,467</u>
(g) Subtotal (may not total exactly due to rounding)				-\$1,024,756,841

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

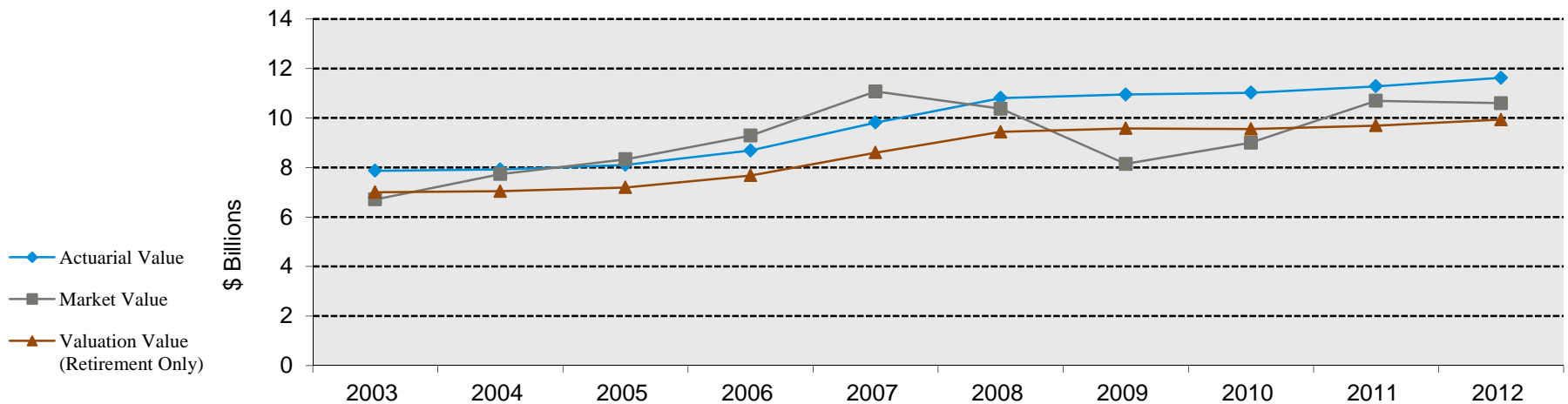
\*\* These percentages have been calculated by taking the unrecognized returns developed using a 5-year smoothing period through June 30, 2009 and recognizing those amounts over an extended period of an additional 2 years (for a total of 7 years from the original date of the investment gains or losses) starting with the June 30, 2010 valuation.

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

The actuarial value, market value and valuation 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 of market value, 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 assets over the past ten years.*

**CHART 8**  
**Valuation Value (Retirement Only), Actuarial Value, and Market Value of Assets as of June 30, 2003 – 2012**



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

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**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 of \$192,321,144 was due to an investment loss of \$323,452,856 (after smoothing), offset by a gain of \$131,131,712 from all other sources. The net experience variation from all other sources was 0.91% 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.*

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**CHART 9**

**Actuarial Experience for Year Ended June 30, 2012**

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1. Net loss from investments*	-\$323,452,856
2. Net gain from other experience**	207,404,637
3. Net loss from one year delay in implementing the higher contribution rate calculated in the June 30, 2011 valuation until fiscal year 2012/2013	<u>-76,272,925</u>
4. Net experience loss: (1) + (2) + (3)	-\$192,321,144

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\* *Details in Chart 10.*

\*\* *Details in Chart 13. The net gain is attributed to actual liability experience from July 1, 2011 through June 30, 2012 compared to the projected experience predicted by the actuarial assumptions as of June 30, 2011.*

**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 7.75% (for the June 30, 2011 valuation). The actual rate of return on the valuation value of assets basis for the 2012 plan year was 4.43%.

Since the actual return for the year was less than the assumed return, LACERS experienced an actuarial loss during the year ended June 30, 2012 with regard to its investments.

**CHART 10**

**Actuarial Value Investment Experience for Year Ended June 30, 2012**

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

	<b>Actuarial Value (Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits)</b>	<b>Valuation Value (Includes assets for Retirement Only)</b>
1. Actual return	\$504,812,528	\$431,300,224
2. Average value of assets	11,392,440,523	9,738,749,414
3. Actual rate of return: (1) ÷ (2)	4.43%	4.43%
4. Assumed rate of return	7.75%	7.75%
5. Expected return: (2) x (4)	\$882,914,141	\$754,753,080
6. Actuarial gain/(loss): (1) – (5)	<u>-\$378,101,613</u>	<u>-\$323,452,856</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, Family Death and Larger Annuity Benefits for the last ten years, including the five-year average.

Based on recommendations previously adopted by the Board, we have maintained the assumed long-term rate of return of 7.75% for the June 30, 2012 valuation.

### CHART 11

#### Investment Return – Actuarial Value vs. Market Value: 2003 – 2012

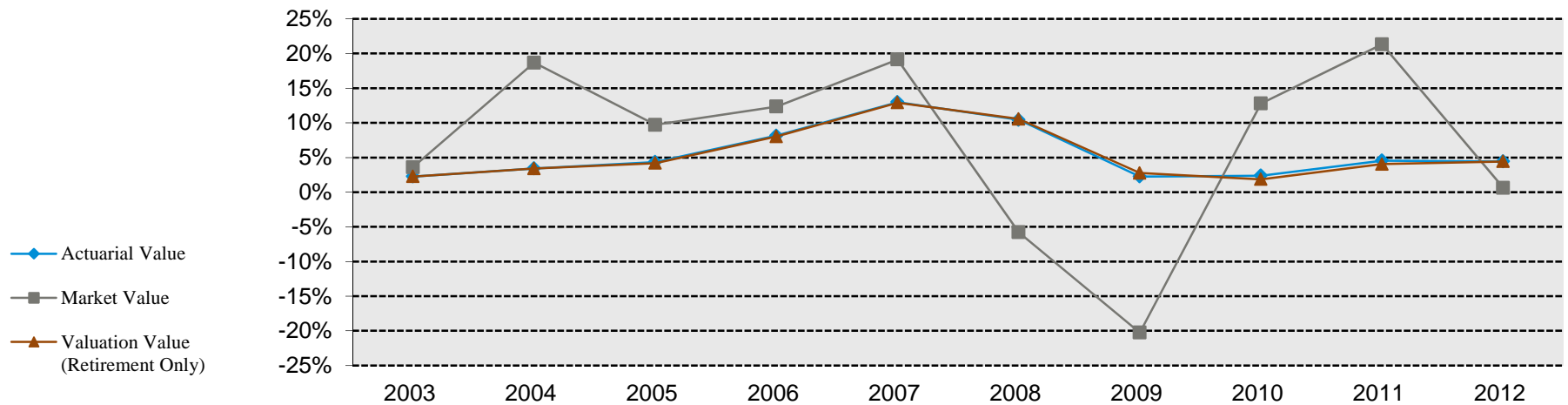
Year Ended June 30	Net Interest and Dividend Income		Recognition of Capital Appreciation		Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2003	\$164,915,100	2.11%	\$11,691,257	0.15%	\$176,606,357	2.26%	\$238,161,856	3.61%
2004	171,166,339	2.19%	96,283,183	1.23%	267,449,522	3.42%	1,243,644,727	18.84%
2005	235,062,628	2.96%	109,661,360	1.38%	344,723,988	4.34%	753,805,403	9.71%
2006	238,266,254	2.90%	430,034,467	5.24%	668,300,721	8.14%	1,041,664,291	12.34%
2007	261,677,229	2.95%	890,907,654	10.04%	1,152,584,883	12.99%	1,811,903,293	19.13%
2008	290,092,182	2.91%	752,500,487	7.53%	1,042,592,669	10.44%	-649,747,001	-5.78%
2009	237,249,377	2.17%	9,861,278	0.09%	247,110,655	2.26%	-2,125,637,471	-20.26%
2010	190,583,695	1.73%	71,009,369	0.64%	261,593,064	2.37%	1,049,769,484	12.79%
2011	211,685,408	1.91%	291,263,922	2.63%	502,949,330	4.54%	1,934,130,562	21.33%
2012	<u>213,980,878</u>	1.88%	<u>290,831,650</u>	2.55%	<u>504,812,528</u>	4.43%	<u>67,093,447</u>	0.62%
Total	\$2,214,679,090		\$2,954,044,627		\$5,168,723,717		\$5,364,788,591	
					Five-year average return	4.77%		0.68%
					Ten-year average return	5.46%		6.46%

**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 2003 - 2012.*

**CHART 12**  
**Valuation Value (Retirement Only), Actuarial Value, and Market Value Rates of Return for Years Ended June 30, 2003 - 2012**



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

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**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, and
- salary increases different than assumed.

The net gain from this other experience for the year ended June 30, 2012 amounted to \$207,404,637 which is 1.44% of the actuarial accrued liability.

A brief summary of the demographic gain experience of LACERS for the year ended June 30, 2012 is shown in the chart below.

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

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**CHART 13**

**Experience Due to Changes in Demographics for Year Ended June 30, 2012**

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1. Gain due to lower than expected salary increases for continuing actives	\$187,935,617
2. Gain due to lower than expected COLA granted to retirees and beneficiaries	21,935,583
3. Miscellaneous loss	<u>-2,466,563</u>
4. Net gain	\$207,404,637

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## 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 21.34% of payroll. We have continued to follow the method used in the June 30, 2005 valuation to adjust the contribution requirement if the GASB ARC minimum contribution is greater than the amount prescribed below. For 2012, the

beginning of year minimum GASB ARC is \$355.5 million, so no additional adjustment has been made to the recommended contributions.

As shown in item 1 below, the total normal cost rate increased from 16.88% as of June 30, 2011 to 17.17% as of June 30, 2012, after reflecting the modification in the normal cost as a result of the change from the PUC to the EAN funding method.

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

#### CHART 14

#### Recommended Contribution<sup>(1)</sup>

	Year Ended June 30			
	2012		2011	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	\$312,372,769	17.17%	\$309,476,634	16.88%
2. Expected employee contributions <sup>(2)</sup>	<u>-187,242,501</u>	<u>-10.29%</u>	<u>-172,522,223</u>	<u>-9.41%</u>
3. Employer normal cost: (1) + (2)	\$125,130,268	6.88%	\$136,954,411	7.47%
4. Actuarial accrued liability	14,393,958,574		13,391,704,000	
5. Valuation value of assets	<u>-9,934,959,310</u>		<u>-9,691,011,496</u>	
6. Unfunded actuarial accrued liability	\$4,458,999,264		\$3,700,692,504	
7. Amortization of unfunded accrued liability	248,791,845	13.67%	245,213,183	13.37%
8. Total recommended contribution, beginning of year: (3) + (7)	<u>\$373,922,113</u>	<u>20.55%</u>	<u>\$382,167,594</u>	<u>20.84%</u>
9. Total recommended contribution, July 15	<u>\$375,070,896</u>	<u>20.62%</u>	<u>\$383,341,710</u>	<u>20.91%</u>
10. Total recommended contribution, end of pay periods	<u>\$388,141,240</u>	<u>21.34%</u>	<u>\$396,700,272</u>	<u>21.64%</u>
11. Projected payroll	\$1,819,269,630		\$1,833,392,381	

<sup>(1)</sup> Both the June 30, 2012 and the June 30, 2011 contribution rates are after adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees. The contribution rates for the June 30, 2011 and June 30, 2012 valuations are also before adjustments to phase in over five years the City contribution rate impact of new actuarial assumptions adopted as recommended in the June 30, 2011 triennial Experience Study.

<sup>(2)</sup> Discounted to beginning of year. The average employee rate for contributions made at the end of each pay period is actually 9.78% for the June 30, 2011 valuation and 10.69% for the June 30, 2012 valuation. The increase in the average employee rate is mainly due to a larger percentage of employees contributing the additional 2% or 4% employee contributions as of June 30, 2012.

## 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 6.88% of payroll. The remaining 13.67% of payroll will amortize the unfunded actuarial accrued liability over an equivalent single amortization period of about 27 years.

The contribution rates as of June 30, 2012 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.

### Reconciliation of Recommended Contribution

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

#### CHART 15

#### Reconciliation of Recommended Contribution\* from June 30, 2011 to June 30, 2012

<b>Recommended Contribution as of June 30, 2011</b>	21.64%
Effect of increase in amortization component due to less than expected payroll	0.71%
Effect of contributions less than recommended contribution	0.22%**
Effect of investment loss	0.95%**
Effect of other gains on accrued liability***	(0.62)**%
Effect of more employees paying additional 2% or 4% employee contributions relative to data reported and used in the June 30, 2011 valuation	(0.88)%
Effect of changes in actuarial cost method and the re-amortization of the balances of the prior UAAL layers	<u>(0.68)%</u>
<b>Total change</b>	<u>(0.30)%</u>
<b>Recommended Contribution as of June 30, 2012</b>	21.34%

\* Based on contributions at the end of each pay period and after adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees. The rates are also before adjustments to phase in over five years the impact of new actuarial assumptions as a result of the June 30, 2011 triennial Experience Study.

\*\* Amortized over 30 years. These 2011/2012 actuarial gains / (losses) have been combined with the balances of the prior UAAL layers (except from the 2009 ERIP and the two GASB 25/27 layers) and amortized over 30 years.

\*\*\* Primarily from lower than expected salary increases for continuing actives and lower than expected COLA granted to retirees and beneficiaries.

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

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

**E. INFORMATION REQUIRED BY GASB**

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes for 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 the GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded within the range of GASB reporting 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

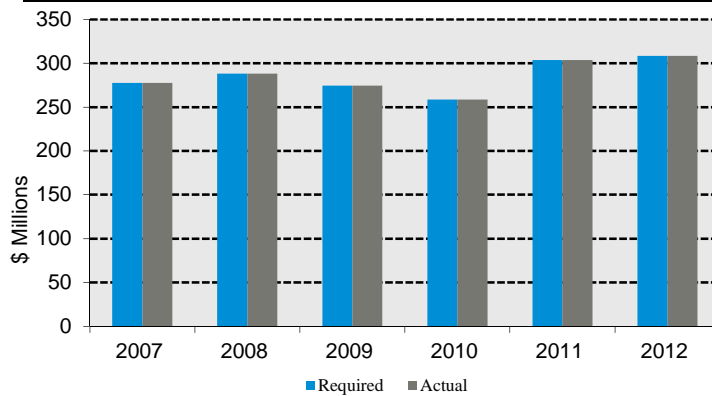
actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB standards. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements,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

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

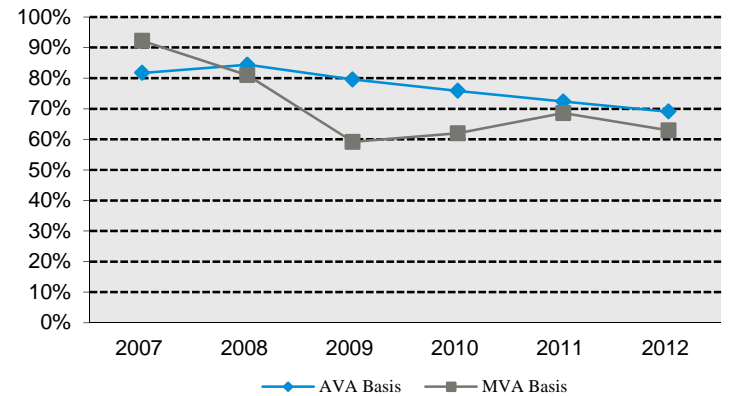
The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits II, III, and IV.

*These graphs show key GASB factors.*

**CHART 16**  
**Required Versus Actual Contributions**



**CHART 17**  
**Funded Ratio**



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

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### F. VOLATILITY RATIOS

Retirement plans are subject to volatility in the level of required contributions. This volatility tends to increase as retirement plans become more mature.

The Asset Volatility Ratio (AVR), which is equal to the market value of assets divided by total payroll, provides an indication of the potential contribution volatility for any given level of investment volatility. A higher AVR indicates that the plan is subject to a greater level of contribution volatility. This is a current measure since it is based on the current level of assets.

For LACERS, the current AVR is about 5.0. This means that a 1% asset gain/(loss) (relative to the assumed investment return) translates to about 5.0% of one-year's payroll. Since LACERS amortizes actuarial gains and losses over a period of 15 years, there would be a 0.4% of payroll decrease/(increase) in the required contribution for each 1% asset gain/(loss).

The Liability Volatility Ratio (LVR), which is equal to the Actuarial Accrued Liability divided by payroll, provides an indication of the longer-term potential for contribution volatility for any given level of investment volatility. This is because, over an extended period of time, the plan's assets should track the plan's liabilities. For example, if a plan is 50% funded on a market value basis, the liability volatility ratio would be double the asset volatility ratio and the plan sponsor should expect contribution volatility to increase over time as the plan becomes better funded.

The LVR also indicates how volatile contributions will be in response to changes in the Actuarial Accrued Liability due to actual experience or to changes in actuarial assumptions.

For LACERS, the current LVR is about 7.9. This is about 44% higher than the AVR. Therefore, we would expect that contribution volatility will increase over the long-term.

*This chart shows how the asset and liability volatility ratios have varied over time.*

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**CHART 18**  
**Volatility Ratios for Years Ended June 30, 2008 – 2012**

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Year Ended June 30	Asset Volatility Ratio	Liability Volatility Ratio
2008	4.6	5.7
2009	3.8	6.5
2010	4.3	6.9
2011	5.0	7.3
2012	5.0	7.9

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

**EXHIBIT A**

**Table of Plan Coverage**

<b>Category</b>	<b>Year Ended June 30</b>		<b>Change From Prior Year</b>
	<b>2012</b>	<b>2011</b>	
<b>Active members in valuation:</b>			
Number	24,917	25,449	-2.1%
Average age	47.8	47.0	N/A
Average service	13.9	13.0	N/A
Projected total payroll*	\$1,819,269,630	\$1,833,392,381	-0.8%
Projected average payroll*	\$73,013	\$72,042	1.3%
Account balances	\$1,522,033,113	\$1,376,457,926	10.6%
Total active vested members	21,410	20,113	6.4%
<b>Inactive members:</b>			
Number	5,808	5,623	3.3%
Average age	43.8	43.2	N/A
Average contribution balance for those with under 5 years of service	\$4,762	\$4,486	6.2%
Average monthly benefit at age 60 for those with 5 or more years of service**	\$1,399	\$1,381	1.3%
<b>Retired members:</b>			
Number in pay status	12,634	12,658	-0.2%
Average service at retirement	26.9	27.0	N/A
Average age at retirement	60.1	60.2	N/A
Average age	71.2	70.9	N/A
Average monthly benefit (includes July COLA)	\$3,804	\$3,697	2.9%
<b>Disabled members:</b>			
Number in pay status	897	892	0.6%
Average service at retirement	12.0	12.0	N/A
Average age at retirement	45.6	45.4	N/A
Average age	63.6	62.9	N/A
Average monthly benefit (includes July COLA)	\$1,534	\$1,486	3.2%
<b>Beneficiaries:</b>			
Number in pay status	3,692	3,647	1.2%
Average age	76.2	76.0	N/A
Average monthly benefit (includes July COLA)	\$1,888	\$1,807	4.5%

\* Reflects annualized salaries for part-time members.

\*\* Based on salary at termination from LACERS.



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

**EXHIBIT B**

**Members in Active Service as of June 30, 2012  
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	267	256	11	--	--	--	--	--	--	--
	\$38,234	\$37,811	\$48,086	--	--	--	--	--	--	--
25 - 29	1,193	681	501	11	--	--	--	--	--	--
	54,087	51,357	57,737	\$56,863	--	--	--	--	--	--
30 - 34	2,247	610	1,277	356	4	--	--	--	--	--
	64,223	60,675	64,813	68,150	\$67,244	--	--	--	--	--
35 - 39	2,634	456	1,121	921	133	3	--	--	--	--
	70,402	63,231	69,132	74,597	76,334	\$83,900	--	--	--	--
40 - 44	3,248	401	969	1,057	447	350	24	--	--	--
	73,652	63,015	65,611	77,095	84,019	83,968	\$80,847	--	--	--
45 - 49	4,239	360	892	943	472	1,057	483	32	--	--
	76,686	61,014	65,316	75,151	83,566	87,692	81,286	\$80,737	--	--
50 - 54	4,535	328	746	784	390	941	985	353	8	--
	78,380	57,640	63,183	72,591	80,627	85,767	92,105	81,392	\$111,763	--
55 - 59	3,433	221	676	612	296	660	642	252	73	1
	78,348	63,132	65,294	72,812	81,349	84,761	89,682	87,832	89,540	\$47,816
60 - 64	1,861	133	388	383	173	304	275	112	68	25
	76,005	56,039	59,944	73,407	78,782	81,814	87,837	92,811	103,272	101,858
65 - 69	900	67	190	216	71	143	117	47	20	29
	70,292	46,827	53,914	70,372	72,188	75,721	81,790	83,457	121,309	96,880
70 & over	360	51	90	68	26	57	37	15	6	10
	59,353	34,251	48,330	60,257	62,322	72,652	75,117	80,090	86,963	90,933
Total	24,917	3,564	6,861	5,351	2,012	3,515	2,563	811	175	65
	\$73,013	\$56,938	\$64,230	\$73,787	\$81,173	\$85,013	\$88,180	\$85,040	\$99,434	\$97,125

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

**EXHIBIT C**

**Reconciliation of Member Data**

	<b>Active Members</b>	<b>Inactive Members</b>	<b>Disableds</b>	<b>Retired Members</b>	<b>Beneficiaries</b>	<b>Total</b>
Number as of June 30, 2011	25,449	5,623	892	12,658	3,647	48,269
New members	405	N/A	N/A	N/A	N/A	405
Terminations – with vested rights	-671	672	-1	0	0	0
Retirements	-273	-91	N/A	364	N/A	0
New disabilities	-6	-24	30	N/A	N/A	0
Died with beneficiary	N/A	N/A	N/A	N/A	226	226
Deaths or benefits expired	-47	-38	-23	-388	-181	-677
Refund of members contributions	-162	-145	0	0	0	-307
Rehired	222	-221	-1	0	N/A	0
Data adjustments	<u>0</u>	<u>32*</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>32</u>
Number as of June 30, 2012	24,917	5,808	897	12,634	3,692	47,948

\* Includes members who were both hired and terminated during the year.

Note: For the change in the annual benefits from the retirees and beneficiaries added to and removed from the rolls, refer to Exhibit D of the supplemental schedules that accompany this report.

**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, Family Death and Larger Annuity Benefits**

	June 30, 2012	June 30, 2011
<b>Contribution income:</b>		
Employer contributions	\$423,920,740	\$414,133,032
Employee contributions	<u>178,246,151</u>	<u>114,731,434</u>
Net contribution income	\$602,166,891	\$528,864,466
<b>Investment income:</b>		
Interest, dividends and other income	\$250,580,061	\$253,769,776
Recognition of capital appreciation	290,831,650	291,263,922
Less investment and administrative fees	<u>-36,599,183</u>	<u>-42,084,368</u>
Net investment income	<u>\$504,812,528</u>	<u>\$502,949,330</u>
<b>Total income available for benefits</b>	<b>\$1,106,979,419</b>	<b>\$1,031,813,796</b>
<b>Less benefit payments:</b>		
Payment of benefits	-\$756,062,733	-\$752,540,330
Refunds of contributions	<u>-11,100,595</u>	<u>-18,215,248</u>
Net benefit payments	-\$767,163,328	-\$770,755,578
<b>Change in reserve for future benefits</b>	<b>\$339,816,091</b>	<b>\$261,058,218</b>

*Note: Results may be slightly off due to rounding.*

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

**EXHIBIT E**

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

	June 30, 2012	June 30, 2011
<b>Cash equivalents</b>	\$392,891,992	\$609,896,414
<b>Accounts receivable:</b>		
Investment income	\$34,986,262	\$34,381,558
Proceeds from sales	57,169,167	32,911,670
Other	<u>7,590,978</u>	<u>7,059,792</u>
Total accounts receivable	\$99,746,407	\$74,353,020
<b>Investments:</b>		
Fixed Income	\$2,603,009,587	\$2,331,369,654
Equities	5,859,900,968	6,225,586,700
Real Estate and Alternative Investment	1,835,006,695	1,659,534,331
Other	<u>933,960,402</u>	<u>1,377,311,588</u>
Total investments at market value	<u>\$11,231,877,652</u>	<u>\$11,593,802,273</u>
<b>Total assets</b>	\$11,724,516,051	\$12,278,051,707
<b>Less accounts payable:</b>		
Accounts payable and accrued expenses	-\$39,898,959	-\$132,446,670
Purchases of investments	-238,732,442	-222,421,912
Security lending collateral	<u>-850,183,665</u>	<u>-1,229,579,148</u>
Total accounts payable	-\$1,128,815,066	-\$1,584,447,730
<b>Net assets at market value</b>	<u>\$10,595,700,986</u>	<u>\$10,693,603,976</u>
<b>Net assets at actuarial value</b>	<u>\$11,620,457,827</u>	<u>\$11,280,641,736</u>
<b>Net assets at valuation value (retirement benefits)</b>	<u>\$9,934,959,310</u>	<u>\$9,691,011,496</u>

*Note: Results may be slightly off due to rounding.*

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

**EXHIBIT F**

**Development of the Fund Through June 30, 2012 for Retirement, Health, Family Death and Larger Annuity Benefits**

<b>Year Ended June 30</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>	<b>Net Investment Return*</b>	<b>Benefit Payments</b>	<b>Actuarial Value of Assets at End of Year</b>
2007	\$408,392,318	\$106,233,984	\$1,152,584,883	\$540,388,726	\$9,812,926,556
2008	411,658,277	114,678,456	1,042,592,669**	576,014,324***	10,805,841,634
2009	383,637,842	118,592,071	247,110,655	605,798,000	10,949,384,202
2010	362,751,146	126,961,295	261,593,064	681,106,189	11,019,583,518
2011	414,133,032	114,731,434	502,949,330	770,755,578	11,280,641,736
2012	423,920,740	178,246,151	504,812,528	767,163,328	11,620,457,827

\* *Net of investment fees and administrative expenses.*

\*\* *Includes an \$11,000,000 return of excess reserve from PPO carrier.*

\*\*\* *Includes transfer of \$6,220,076 to Fire and Police pension.*

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

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**EXHIBIT G**

**Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2012**

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1. Unfunded actuarial accrued liability at beginning of year	\$3,700,692,504
2. Normal cost at beginning of year	309,476,634
3. Total contributions	-486,619,660
4. Interest	<u>280,972,002</u>
5. Expected unfunded actuarial accrued liability	\$3,804,521,480
6. Changes due to experience loss*	116,048,219
7. Changes due to change in actuarial cost method	538,429,565
8. Unfunded actuarial accrued liability at end of year	<u>\$4,458,999,264</u>

\* Excludes \$76,272,925 loss from contributions less than anticipated due to one-year delay in implementing the higher contribution rate calculated in the June 30, 2011 valuation. That loss is already included in the development of item 5.

*The breakdown of the experience loss is as follows:*

<i>Investment loss</i>	<i>\$323,452,856</i>
<i>(Gain) due to lower than expected salary increases for continuing actives</i>	<i>(187,935,617)</i>
<i>(Gain) due to lower than expected COLA granted to retirees and beneficiaries</i>	<i>(21,935,583)</i>
<i>Miscellaneous loss</i>	<i><u>2,466,563</u></i>
<i>Total loss</i>	<i>\$116,048,219</i>

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

**EXHIBIT H**

**Table of Amortization Bases**

<b>Type</b>	<b>Date Established</b>	<b>Initial Years</b>	<b>Initial Amount</b>	<b>Outstanding Balance</b>	<b>Years Remaining</b>	<b>Annual Payment*</b>
Plan amendment (2009 ERIP)	06/30/2009	15	\$300,225,354	\$285,450,984	12	\$28,340,596
Combined bases**	06/30/2012	30	4,173,548,280	<u>4,173,548,280</u>	30	<u>215,643,088</u>
Subtotal before GASB amount				\$4,458,999,264		\$243,983,684
40-year minimum GASB 25/27	06/30/2004	15	29,189,615	21,547,397	7	3,391,359
40-year minimum GASB 25/27	06/30/2005	15	12,708,684	<u>10,126,218</u>	8	<u>1,416,802</u>
Total				\$4,490,672,879		\$248,791,845

\* Beginning of year payments, based on level percentage of payroll.

\*\* On October 23, 2012, the Board elected to combine all amortization bases as of June 30, 2012, except for the basis associated with the 2009 ERIP and the two GASB 25/27 bases, which remain on their original schedules. In addition, the Board adopted an initial amortization period of 30 years for the combined bases as of June 30, 2012.

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

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#### EXHIBIT I

#### Section 415 Limitations

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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 \$200,000 for 2012 and \$205,000 for 2013. 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

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#### EXHIBIT J

#### Definitions of Pension Terms

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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; and
- (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**

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**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 the 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 3,692 beneficiaries in pay status)		17,223
2. Inactive members during year ended June 30, 2012 (including 4,174 members with under 5 years of service eligible for a refund of contributions)		5,808
3. Members active during the year ended June 30, 2012		24,917
Fully vested	21,410	
Not vested	3,507	

The actuarial factors as of the valuation date are as follows:

**Assets**

1. Valuation value of assets (\$10,595,700,986 at market value* and \$11,620,457,827 at actuarial value* as reported by LACERS)		\$9,934,959,310
2. Present value of future normal costs		
Employee**	\$1,642,301,844	
Employer**	<u>1,094,904,925</u>	
Total		2,737,206,769
3. Unfunded actuarial accrued liability		<u>4,458,999,264</u>
4. Present value of current and future assets		\$17,131,165,343

**Liabilities**

5. Present value of future benefits		
Retired members and beneficiaries	\$7,729,618,966	
Inactive members	267,239,405	
Active members	<u>9,134,306,972</u>	
Total		\$17,131,165,343

\* Market value and actuarial value of assets include assets for Retirement, Health, Family Death, and Larger Annuity Benefits.

\*\* After adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees.

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

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### EXHIBIT I (continued)

#### Summary of Actuarial Valuation Results\*

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The determination of the recommended contribution is as follows:

1. Total normal cost	\$312,372,769
2. Expected employee contributions**	<u>-187,242,501</u>
3. Employer normal cost: (1) + (2)	\$125,130,268
4. Payment on projected unfunded actuarial accrued liability	248,791,845
5. Total recommended contribution: (3) + (4), payable beginning of year	<u>\$373,922,113</u>
6. Total recommended contribution: adjusted for July 15 payment	<u>\$375,070,896</u>
7. Total recommended contribution: adjusted for biweekly payment	<u>\$388,141,240</u>
8. Projected payroll	\$1,819,269,630
9. Item 5 as a percentage of projected payroll: (5) ÷ (8)	20.55%
10. Item 6 as a percentage of projected payroll: (6) ÷ (8)	20.62%
11. Item 7 as a percentage of projected payroll: (7) ÷ (8)	21.34%

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\* The June 30, 2012 contribution rates are after adjustments for the additional 2% or 4% employee contributions that have been implemented by the City for some of the bargaining groups and for all non-represented employees. The contribution rates for the June 30, 2012 valuation are also before adjustments to phase in over five years the City contribution rate impact of new actuarial assumptions adopted as recommended in the June 30, 2011 triennial Experience Study.

\*\* Discounted to beginning of year.

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

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**EXHIBIT II**

**Supplementary Information Required by the GASB – Schedule of Employer Contributions**

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<b>Plan Year Ended June 30</b>	<b>Annual Required Contributions</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2007	\$277,516,400	\$277,516,400	100.00%
2008	288,119,041	288,119,041	100.00%
2009	274,554,786	274,554,786	100.00%
2010	258,642,795	258,642,795	100.00%
2011	303,560,953	303,560,953	100.00%
2012	308,539,905	308,539,905	100.00%

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

**EXHIBIT III**

**Supplementary Information Required by the GASB – Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Valuation Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)</b>
06/30/2007	\$8,599,699,772*	\$10,526,874,184	\$1,927,174,412	81.69%	\$1,896,609,013	101.61%
06/30/2008	9,438,318,300	11,186,403,741	1,748,085,441	84.37%	1,977,644,640	88.39%
06/30/2009	9,577,747,421	12,041,983,936	2,464,236,515	79.54%	1,816,171,212	135.68%
06/30/2010	9,554,027,411	12,595,025,119	3,040,997,708	75.86%	1,817,662,284	167.30%
06/30/2011	9,691,011,496	13,391,704,000	3,700,692,504	72.37%	1,833,392,381	201.85%
06/30/2012	9,934,959,310	14,393,958,574	4,458,999,264	69.02%	1,819,269,630	245.10%

\* Valuation value of assets excludes \$5,269,481 of discounted Harbor Port Police assets transferred in October 2007.

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

**EXHIBIT IV**

**Supplementary Information Required by the GASB**

<b>Valuation date</b>	June 30, 2012
<b>Actuarial cost method</b>	Entry Age Normal Cost Method – closed group.
<b>Amortization method</b>	Level percent of payroll – assuming a 4.25% increase in total covered payroll.
<b>Remaining amortization period</b>	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 30 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over 5 years. Actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years.
<b>Asset valuation method</b>	Market value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets.

**Actuarial assumptions:**

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 11.25% to 6.50% for members with less than 5 years of service. Ranges from 6.50% to 4.65% for members with 5 or more years of service.
Cost of living adjustments	3.00%

**Plan membership:**

Retired members and beneficiaries receiving benefits	17,223
Inactive members*	5,808
Active members	<u>24,917</u>
Total	47,948

\* *Either non-vested and entitled to a refund of member contributions or vested with a right to a deferred or immediate benefit.*

**SECTION 4: Reporting Information for the 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) x .08* (c)	ARC Adjustment with Interest (h) / (e) x 1.08* (d)	Amortization Factor (e)	Pension Cost (a) + (c) – (d) (f)	Change in NPO (f) – (b) (g)	NPO Balance Prior NPO + (g) (h)
2007	\$277,516,400	\$277,516,400	\$6,643,929	\$7,970,213	11.3532**	\$276,190,116	\$(1,326,284)	\$81,722,780
2008	288,119,041	288,119,041	6,537,822	8,289,017	10.8207	286,367,846	(1,751,195)	79,971,585
2009	274,554,786	274,554,786	6,397,727	8,620,578	10.2384	272,331,935	(2,222,851)	77,748,734
2010***	258,642,795	258,642,795	6,219,899	8,863,501	9.7444	255,999,193	(2,643,602)	75,105,132
2011	303,560,953	303,560,953	6,008,410	9,240,200	9.0873	300,329,163	(3,231,790)	71,873,342
2012	308,539,905	308,539,905	5,749,868	9,632,908	8.4205	304,656,865	(3,883,040)	67,990,302

\* Based on interest rate adopted by the Board before the change to 7.75% used in developing the contribution rate in the June 30, 2011 valuation for the 2012/2013 Fiscal Year.

\*\* The portion of the NPO established in the June 30, 2005 valuation is being amortized during 2006/2007 and the weighted average factor for the June 30, 2004 and June 30, 2005 layers is shown.

\*\*\* The calculation of the NPO has been adjusted to reflect the 4.25% total payroll growth assumption, which was adopted by the Board for fiscal year 2009/2010 funding requirements.



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

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**EXHIBIT VI**

**Actuarial Assumptions and Actuarial Cost Method**

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**Post-Retirement Mortality Rates:**

- Healthy:* RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females.
- Disabled:* RP-2000 Combined Healthy Mortality Table, set forward 5 years for males and set forward 6 years for females.

The tables shown above were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.

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**Termination Rates Before Retirement:**

- Pre-Retirement Mortality:* RP-2000 Combined Healthy Mortality Table, set back 2 years for males and set back 1 year for females.

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

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

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

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

<b>Service</b>	<b>Rate (%)</b>	
	<b>Termination (Based on Service)</b>	
0	11.25	
1	8.00	
2	7.25	
3	6.25	
4	5.50	

**Retirement Rates:**

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

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

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<b>Retirement Age and Benefit for Inactive Vested Participants:</b>	Pension benefit paid at the later of age 57 or the current attained age. For reciprocals, 4.65% compensation increases per annum.
<b>Exclusion of Inactive Members:</b>	All inactive participants are included in the valuation.
<b>Definition of Active Members:</b>	First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.
<b>Unknown Data for Members:</b>	Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.
<b>Percent Married/Domestic Partner:</b>	76% of male participants; 50% of female participants.
<b>Age of Spouse:</b>	Female spouses 3 years younger than their spouses.
<b>Future Benefit Accruals:</b>	1.0 year of service per year.
<b>Other Reciprocal Service:</b>	10% of future inactive vested members will work at a reciprocal system.
<b>Consumer Price Index:</b>	Increase of 3.50% per year; benefit increases due to CPI subject to 3.0% maximum.
<b>Employee Contribution and Matching Account Crediting Rate:</b>	Based on average of 5-year Treasury note rate. An assumption of 3.50% is used to approximate that crediting rate in this valuation.
<b>Net Investment Return:</b>	7.75%

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

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**Salary Increases:**

Inflation: 3.50%; additional 0.75% “across the board” salary increases (other than inflation); plus the following promotional and merit increases:

*For members with under 5 years of service:*

<u>Service</u>	<u>Percentage Increase</u>
0	7.00%
1	6.25%
2	4.75%
3	3.50%
4	2.25%

*For members with 5 or more years of service:*

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

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**Actuarial Value of Assets:**

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

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

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**Actuarial Cost Method:** Entry Age Normal Cost Method.

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**Funding Policy:** The plan sponsor of the City of Los Angeles Employees' Retirement System makes contributions equal to the normal cost adjusted by an amount to amortize any surplus or unfunded actuarial accrued liability. Both the normal cost and the actuarial accrued liability are determined under the Entry Age Normal cost method and are calculated on an individual basis. Entry age is calculated as age on the valuation date minus years of service.

Under the current funding policy, changes in the UAAL due to actuarial gains/losses are amortized over separate 15 year periods. Any changes in the UAAL due to assumption or method changes are amortized over separate 30 year periods. Plan changes, including the 2009 ERIP, are amortized over separate 15 year periods. Future ERIPs will be amortized over 5 years. Any actuarial surplus is amortized over 30 years. All the bases on or before June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years effective June 30, 2012.

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

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

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**Changes in Actuarial Assumptions and Methods:**

Based on actions taken by the Board at their October 23, 2012 meeting, the following actuarial methods were changed since the prior valuation. Previously, these methods were as follows:

**Actuarial Cost Method:**

Projected Unit Credit Cost Method.

**Funding Policy:**

The plan sponsor of the City of Los Angeles Employees' Retirement System makes contributions equal to the normal cost adjusted by an amount to amortize any surplus or unfunded actuarial accrued liability. Both the normal cost and the actuarial accrued liability are determined under the Projected Unit Credit cost method. All the bases on or before June 30, 2005, except those arising from the phase-in of contribution rates for the 2002 experience study, were combined and amortized over 30 years effective June 30, 2005. Under the current funding policy, changes in the UAAL due to actuarial gains/losses are amortized over separate 15 year periods. Any changes in the UAAL due to assumption or method changes are amortized over separate 30 year periods. Plan changes, including the 2009 ERIP, are amortized over separate 15 year periods. Future ERIPs will be amortized over 5 years. Any actuarial surplus is amortized over 30 years.

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

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

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

**EXHIBIT VII**  
**Summary of Plan Provisions**

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

**Plan Year:** July 1 through June 30  
**Census Date:** June 30

**Normal Retirement Benefit:**

<i>Age &amp; Service Requirement</i> (§ 4.1020)	Age 70; or 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% per year of service (not greater than 100%) of the Final Average Monthly Compensation.

**Early Retirement Benefit:**

<i>Age &amp; 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% per year of service (not greater than 100%) of the Final Average Monthly Compensation, reduced for retirement ages below age 60 using the following sample Early Retirement benefit adjustment factors:

Age	Factor
45	0.6250
50	0.7750
55	0.9250
60	1.0000

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

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<b>Final Average Monthly Compensation:</b> (§ 4.1010)	Equivalent of monthly average salary of highest continuous 12 months (one year).
<b>Cost of Living Benefit:</b> (§ 4.1040)	Based on changes to Los Angeles area consumer price index, to a maximum of 3% per year; excess banked.
<b>Death after Retirement:</b> (§ 4.1044)	<ul style="list-style-type: none"><li>(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);</li><li>(ii) \$2,500 lump sum death benefit paid to a designated beneficiary; and</li><li>(iii) Any unused contributions if the member has elected the cash refund annuity option.</li></ul>



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

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**Death before Retirement:**  
(§ 4.1062 and § 4.1054)

Option #1:

- (i) Eligibility – None.
- (ii) Benefit – Refund of employee contributions plus a limited pension benefit equal to 50% of monthly salary paid, 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 the Los Angeles City Employees' Retirement System**

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**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%

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

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

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

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**Disability:**  
(§ 4.1055)

*Service Requirement*

5 years of continuous service

*Amount*

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

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

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**Deferred Withdrawal Retirement Benefit (Vested):**

(§ 4.1020 and § 4.1059.1)

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

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**Withdrawal of Contributions Benefit (Ordinary Withdrawal):**

Refund of employee contributions with interest.

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**Changes in Plan Provisions:**

There have been no changes in plan provisions since the last valuation.

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

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**NOTE:** *The summary of major Plan provisions is designed to outline principal plan benefits as interpreted for purposes of the actuarial valuation. If the System should find the plan summary not in accordance with the actual provisions, the System should alert the actuary to ensure the proper provisions are valued.*

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# Los Angeles City Employees' Retirement System

**Actuarial Valuation and Review of Other  
Postemployment Benefits (OPEB) as of  
June 30, 2012 In accordance with GASB  
Statements No. 43 and No. 45**

This report has been prepared at the request of the Board of Administration to assist in administering the Fund. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Administration and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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THE SEGAL COMPANY  
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*November 21, 2012*

*Board of Administration  
Los Angeles City Employees' Retirement System  
202 W. 1<sup>st</sup> Street, Suite 500  
Los Angeles, CA 90012*

*Dear Board Members:*

*We are pleased to submit this Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2012 under Governmental Accounting Standards Board Statements No. 43 and No. 45. The report summarizes the actuarial data used in the valuation, discloses the Net OPEB Obligation (NOO) as of June 30, 2012, establishes the Annual Required Contribution (ARC) for the coming year, and analyzes the preceding year's experience. This report was based on the census and financial data provided by the Retirement System and the terms of the Plan as summarized in Exhibit III. The actuarial calculations were completed under the supervision of Thomas Bergman, ASA, MAAA, Enrolled Actuary and Patrick Twomey, ASA, MAAA, Enrolled Actuary.*

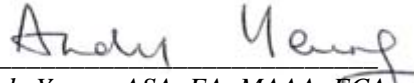
*This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions used in this valuation and described in Exhibit II are reasonably related to the experience of and the expectations for the Plan. The actuarial projections are based on these assumptions and the plan of benefits as summarized in Exhibits II and III.*

*Sincerely,*

THE SEGAL COMPANY

By:

  
Paul Angelo, FSA, EA, MAAA, FCA  
Senior Vice President and Actuary

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

JRC/kek

## SECTION 1

### EXECUTIVE SUMMARY

Purpose .....	1
Highlights of the Valuation .....	1
Summary of Valuation Results .....	3
Actuarial Certification .....	4

## SECTION 2

### VALUATION RESULTS

CHART 1 Actuarial Present Value of Total Projected Benefits (APB) and Actuarial Balance Sheet.....	5
CHART 2 Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL) .....	6
CHART 3 Table of Amortization Bases .....	7
CHART 4 Determination of Annual Required Contribution (ARC) ....	8
CHART 5 Required Supplementary Information – Schedule of Employer Contributions .....	10
CHART 6 Required Supplementary Information – Schedule of Funding Progress .....	11
CHART 7 Required Supplementary Information – Net OPEB Obligation (NOO).....	12
CHART 8 Member Population .....	13

## SECTION 3

### VALUATION DETAILS

EXHIBIT A Summary of Participant Data....	14
EXHIBIT B Retirees and Beneficiaries Added to and Removed from the Rolls	15
EXHIBIT C Cash Flow Projections .....	16
EXHIBIT D Summary Statement of Income and Expenses on an Actuarial Value Basis for Retirement, Health, Family Death and Larger Annuity Benefits.....	17
EXHIBIT E Summary Statement of Assets for Retirement, Health, Family Death, and Larger Annuity Benefits ....	18
EXHIBIT F Determination of Actuarial Value of Assets for Year Ended June 30, 2012.....	19
EXHIBIT G Reconciliation of Recommended Contribution.....	20
EXHIBIT H Solvency Test for Retirement Benefits.....	21

## SECTION 4

### SUPPORTING INFORMATION

EXHIBIT I Summary of Required Supplementary Information .....	22
EXHIBIT II Actuarial Assumptions and Actuarial Cost Method.....	23
EXHIBIT III Summary of Plan .....	30
EXHIBIT IV Definitions of Terms.....	33
EXHIBIT V Accounting Requirements .....	36

## SECTION 1: Executive Summary for Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45

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### PURPOSE

This report presents the results of our actuarial valuation of the City of Los Angeles Employees' Retirement System OPEB plan as of June 30, 2012. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

### HIGHLIGHTS OF THE VALUATION

- The recommended contribution has increased from \$79.6 million (4.34% of payroll) to \$101.0 million (5.55% of payroll), assuming contributions are made by the City on July 15. A reconciliation of the change in the recommended contribution rate is provided on page 20, Section 3.
- The funded ratio on an actuarial value basis has decreased from 78.57% to 71.64% in this valuation. On a market value basis, the funded ratio has decreased from 74.48% to 65.33%. The unfunded actuarial accrued liability (UAAL) has increased from \$421.8 million to \$650.0 million. A reconciliation of the change in the UAAL is provided on page 6, Section 2.
- In the June 30, 2011 valuation, the retiree health benefits liability reflected for the first time the freeze in medical subsidy for non-retired members who did not begin to contribute an additional 2% or 4% of employee contributions to the Pension Plan.<sup>1</sup> In the

June 30, 2011 valuation, it was assumed based on the data available at the time of valuation that about 76% of active members were making the additional contributions. In the June 30, 2012 valuation, about 95% of non-retired members are making the additional contributions based on the data available for this valuation, and so are not subject to the freeze. The increase was due to several bargaining groups electing to make additional contributions after the adoption of the prior valuation. The change in proportion of members contributing (and hence not subject to the freeze) increased the unfunded actuarial accrued liability by about \$111 million and increased the recommended contribution in this valuation by about 0.70% of payroll.

- LACERS has elected to comply with GASB 43 effective with the June 30, 2005 valuation. We understand that the City had applied the results in the June 30, 2005 valuation to establish contributions for fiscal year 2006/2007. The City has complied with the requirements of GASB 45 effective with that fiscal year.
- The funding method used to develop the annual required contribution (ARC) is the Entry Age Normal Method, a method that will produce a level normal cost as a percent of payroll for individual members. This is a change, adopted by the Board on October 23, 2012, from the prior valuation, which used the Projected Unit Credit Method.
- On October 23, 2012, the Board elected to combine all amortization bases as of June 30, 2012, except for the base associated with the 2009 ERIP, which remains on its original schedule. In addition, the Board adopted an

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<sup>1</sup> For the June 30, 2012 valuation, we have assumed that all employees who are making the additional contributions are contributing at the 4% additional level, as this valuation determines the contribution requirements for fiscal year 2013/2014 (note that the 2% additional contribution rate increases to 4% effective January 1, 2013).



**SECTION 1: Executive Summary for Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

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initial amortization period of 30 years for the combined bases as of June 30, 2012.

- The discount rate for this valuation is 7.75%, and is based on the assumptions that the City is paying a contribution that equals the ARC and that 100% of benefits will be paid from the trust.
- On October 25, 2011, the Board elected to phase in the impact of new actuarial assumptions on the City's retirement and health plan contributions over a five-year period, beginning with the 2012-2013 fiscal year. The recommended (i.e., pre-phase-in) contribution rates for Fiscal Year 2013-2014 are contained in this report. In a separate letter, we provide the "phased-in" contribution rates for Fiscal Year 2013-2014.
- As indicated in Section 3, Exhibit F of this report, the total unrecognized investment loss as of June 30, 2012 is \$1,024.8 million for the assets for Retirement, Health, Family Death, and Larger Annuity Benefits. For comparison purposes, the total unrecognized investment loss as of June 30, 2011 was \$587.0 million. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. This implies that earning the assumed rate of investment return of 7.75% per year (net of expenses) on a market value basis will result in investment losses on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met, the contribution requirements would increase in each of the next few years.
- The deferred losses of \$1,024.8 million represent 9.7% of the market value of assets as of June 30, 2012.

Unless offset by future investment gains or other favorable experience, the recognition of the \$1,024.8 million market losses is expected to have a significant impact on the System's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 71.64% to 65.33%.
- If the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer rate (payable on July 15) would increase from 5.55% to 5.96% of payroll.

**SECTION 1: Executive Summary for Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

*The key valuation results for the current and prior years are shown.*

**SUMMARY OF VALUATION RESULTS**

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
<b>Actuarial Accrued Liability (AAL)</b>	\$2,292,400,227	\$1,968,707,666
<b>Actuarial Value of Assets</b>	1,642,373,560	1,546,883,749
<b>Unfunded Actuarial Accrued Liability</b>	650,026,667	421,823,917
<b>Funded Ratio on Actuarial Value Basis</b>	71.64%	78.57%
<b>Market Value of Assets</b>	1,497,539,891	\$1,466,384,856
<b>Funded Ratio on Market Value Basis</b>	65.33%	74.48%
<b>Annual Required Contribution (ARC) for coming year*</b>		
Normal cost (beginning of year)	\$64,622,420	\$57,105,892
Amortization of the unfunded actuarial accrued liability	<u>36,064,191</u>	<u>22,247,320</u>
Total Annual Required Contribution (beginning of year)	\$100,686,611	\$79,353,212
Total Annual Required Contribution (July 15)	101,000,249	79,597,005
Total Annual Required Contribution (end of each pay period)	104,515,418	82,370,775
Projected total payroll**	\$1,819,269,630	\$1,833,392,381
ARC as a percentage of pay		
Beginning of year	5.53%	4.33%
July 15	5.55%	4.34%
End of each pay period	5.74%	4.49%
<b>Total Participants</b>	43,877	44,470
<b>Annual OPEB Cost (AOC) for Coming Year</b>		
Annual Required Contributions (July 15)	\$79,597,005	\$115,208,835
Interest on Net OPEB Obligations	0	0
ARC Adjustments	<u>0</u>	<u>0</u>
Total Annual OPEB Cost	\$79,597,005	\$115,208,835
AOC as a percent of pay	4.34%	6.71%

\* Both the June 30, 2012 and June 30, 2011 contribution rates are before adjustments to phase-in over five years the City contribution rate impact due to new actuarial assumptions adopted as recommended in the June 30, 2011 triennial experience study.

\*\* Reflects amount calculated in the pension valuation.

**SECTION 1: Executive Summary for Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

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November 21, 2012

**ACTUARIAL CERTIFICATION**

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of Los Angeles City Employees' Retirement System's other postemployment benefit programs as of June 30, 2012, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements No. 43 and No. 45 for the determination of the liability for postemployment benefits other than pensions.

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

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

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

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



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Thomas Bergman, ASA, MAAA, EA  
Assistant Actuary



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Patrick Twomey, ASA, MAAA, EA  
Assistant Actuary

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

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The actuarial present value of total projected benefits uses the actuarial assumptions disclosed in Section 4 to calculate the value today of all benefits expected to be paid to current actives and retired plan members. The actuarial balance sheet shows the expected breakdown of how these benefits will be financed.

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**CHART 1**

**Actuarial Present Value of Total Projected Benefits (APB) and Actuarial Balance Sheet**

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	<b>Actuarial Present Value of Total Projected Benefits (APB)</b>	
	<b>June 30, 2012</b>	<b>June 30, 2011</b>
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$1,083,168,136	\$1,066,350,888
Current active members	1,778,567,090	1,498,346,962
Terminated members entitled but not yet eligible	<u>24,454,075</u>	<u>19,963,811</u>
Total	\$2,886,189,301	\$2,584,661,661
	<b>June 30, 2012</b>	<b>June 30, 2011</b>
<b>Actuarial Balance Sheet</b>		
The actuarial balance sheet as of the valuation date is as follows:		
<b>Assets</b>		
1. Actuarial value of assets	\$1,642,373,560	\$1,546,883,749
2. Present value of future normal costs	593,789,074	615,953,995
3. Unfunded actuarial accrued liability	<u>650,026,667</u>	<u>421,823,917</u>
4. Present value of current and future assets	\$2,886,189,301	\$2,584,661,661
<b>Liabilities</b>		
5. Actuarial Present Value of total Projected Benefits	\$2,886,189,301	\$2,584,661,661

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**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

The actuarial accrued liability shows that portion of the APB (Chart 1) allocated to periods prior to the valuation date by the actuarial cost method. The chart below shows the portion of the liability for active and inactive members,

and reconciles the unfunded actuarial accrued liability from last year to this year.

**CHART 2**

**Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)**

	June 30, 2012	June 30, 2011
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$1,083,168,136	\$1,066,350,888
Current active members	1,184,778,016	882,392,967
Terminated members entitled but not yet eligible	<u>24,454,075</u>	<u>19,963,811</u>
Total actuarial accrued liability	\$2,292,400,227	\$1,968,707,666
<b>Unfunded Actuarial Accrued Liability</b>		
Total actuarial accrued liability	\$2,292,400,227	1,968,707,666
Actuarial value of assets	<u>1,642,373,560</u>	<u>1,546,883,749</u>
Unfunded actuarial accrued liability	\$650,026,667	\$421,823,917
<b>Development of Unfunded Actuarial Accrued Liability for the Year Ended June 30, 2012</b>		
1. Unfunded actuarial accrued liability as of June 30, 2011		\$421,823,917
2. Employer normal cost as of June 30, 2011		57,105,892
3. Total employer contributions during 2011/2012 fiscal year		-115,208,835
4. Interest		<u>28,573,863</u>
5. Expected Unfunded actuarial accrued liability as of June 30, 2012		392,294,837
6. Change due to investment and demographic losses		52,862,790
7. Change due to average premiums less than projected		(7,627,620)
8. Change due to additional bargaining groups making contributions to avoid retiree medical subsidy freeze (relative to the membership data provided and used in the June 30, 2011 valuation)		111,242,018
9. Change due to actuarial cost method change		<u>101,254,642</u>
10. Unfunded actuarial accrued liability as of June 30, 2012		\$650,026,667

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

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The unfunded actuarial accrued liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. Los Angeles City Employees' Retirement System has elected to amortize the unfunded actuarial accrued liability using the following rules: The unfunded actuarial accrued liability as of June 30, 2012 is amortized over a fixed

period of 30 years beginning July 1, 2012. Assumption changes resulting from the triennial experience study will be amortized over 30 years. Health trend and premium assumption changes, plan changes, and gains and losses will be amortized over 15 years. The costs associated with the 2009 ERIP have been amortized over 15 years beginning with the June 30, 2009 valuation date.

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**CHART 3**

**Table of Amortization Bases**

<b>Type</b>	<b>Date Established</b>	<b>Initial Year</b>	<b>Initial Amount</b>	<b>Outstanding Balance</b>	<b>Annual Payment*</b>	<b>Years Remaining</b>
Implementation of ERIP	06/30/2009	15	\$54,735,645	\$52,042,053	\$5,166,921	12
Combined Bases**	06/30/2012	30	597,984,614	<u>597,984,614</u>	<u>30,897,270</u>	30
Total				\$650,026,667	\$36,064,191	

\* *Level percentage of pay*

\*\* *On October 23, 2012, the Board elected to combine all amortization bases as of June 30, 2012, except for the base associated with the 2009 ERIP, which remains on its original schedule. In addition, the Board adopted an initial amortization period of 30 years for the combined bases as of June 30, 2012.*

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

The Annual Required Contribution (ARC) is the amount calculated to determine the annual cost of the OPEB plan for accounting purposes on an accrual basis. The calculation consists of adding the Normal Cost of the plan to an amortization payment. Both are determined as of the start of the accounting period and adjusted as if the annual cost were to be contributed throughout the fiscal year or on July 15<sup>th</sup>.

The amortization payment for the June 30, 2012 valuation was based on a combined base, restarted with a 30-year level percent of pay amortization, except for the change in unfunded actuarial accrued liability due to adoption of the Early Retirement Incentive Program (ERIP) is amortized over 15 years, starting on June 30, 2009.

**CHART 4**

**Determination of Annual Required Contribution (ARC)**

Cost Element	Determined as of June 30			
	2012*		2011*	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$64,622,420	3.55%	\$57,105,892	3.11%
2. Amortization of the unfunded actuarial accrued liability	<u>36,064,191</u>	<u>1.98%</u>	<u>22,247,320</u>	<u>1.22%</u>
3. Total Annual Required Contribution (beginning of year)	\$100,686,611	5.53%	\$79,353,212	4.33%
4. Projected Payroll**	\$1,819,269,630		\$1,833,392,381	
5. Adjustment for timing (July 15)	\$313,638	0.02%	243,793	0.01%
6. Total Annual Required Contribution (July 15)	\$101,000,249	5.55%	\$79,597,005	4.34%
7. Adjustment for timing (end of pay period)	\$3,828,807	0.21%	3,017,563	0.16%
8. Total Annual Required Contribution (end of pay period)	\$104,515,418	5.74%	\$82,370,775	4.49%

\* Both the June 30, 2011 and 2012 contribution rates are before adjustment to phase in over five years the City Contribution rate impact of new actuarial assumptions adopted as recommended in the June 30, 2011 triennial experience study.

\*\* Reflects amount calculated in the pension valuation.

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

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The Annual OPEB Cost (AOC) adjusts the ARC for any past differences between the ARC and contributions in relation to the ARC as tracked in the Net OPEB Obligation (NOO). The AOC is the cost of OPEB actually recognized as an expense for the Fiscal Year under GASB 45.

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**CHART 4 (continued)**  
**Determination of Annual OPEB Cost (AOC)**

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Cost Element	Determined as of June 30			
	2012*		2011*	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Annual Required Contribution (July 15)	\$101,000,249	5.55%	\$79,597,005	4.34%
2. Interest on Beginning of Year Net OPEB Obligation (NOO)	0	0.00%	0	0.00%
3. ARC adjustment	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0.00%</u>
4. Annual OPEB Cost (July 15)	<u>\$101,000,249</u>	<u>5.55%</u>	<u>\$79,597,005</u>	<u>4.34%</u>

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\* June 30, 2011 and 2012 contribution rates are before adjustment to phase in over five years the City Contribution rate impact of new actuarial assumptions used in the June 30, 2011 valuation.



**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

For GASB 43 (plan reporting) purposes, the schedule of employer contributions compares actual contributions to the ARC. For GASB 45 (employer reporting) purposes, the

schedule of employer contributions compares actual contributions to the AOC.

**CHART 5  
Required Supplementary Information – Schedule of Employer Contributions  
GASB 43**

<b>Fiscal Year Ended June 30</b>	<b>Annual Required Contributions</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2007	\$115,232,538	\$115,232,538	100.00%
2008	108,848,499	108,848,499	100.00%
2009	95,122,090	95,122,090	100.00%
2010	96,511,234	96,511,234	100.00%
2011	107,395,804	107,395,804	100.00%
2012	115,208,835	115,208,835	100.00%

**Required Supplementary Information – Schedule of Employer Contributions  
GASB 45**

<b>Fiscal Year Ended June 30</b>	<b>Annual OPEB Cost</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2007	\$115,232,538	\$115,232,538	100.00%
2008	108,848,499	108,848,499	100.00%
2009	95,122,090	95,122,090	100.00%
2010	96,511,234	96,511,234	100.00%
2011	107,395,804	107,395,804	100.00%
2012	115,208,835	115,208,835	100.00%

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CHART 6**

**Required Supplementary Information – Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll* (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]</b>
06/30/2007	\$1,185,543,893	\$1,730,400,181	\$544,856,288	68.51%	\$1,896,609,013	28.73%
06/30/2008	1,342,919,611	1,928,042,900	585,123,289	69.65%	1,977,644,640	29.59%
06/30/2009	1,342,496,524	2,058,176,825	715,680,301	65.23%	1,816,171,212	39.41%
06/30/2010	1,425,726,017	2,233,874,432	808,148,415	63.82%	1,817,662,284	44.46%
06/30/2011	1,546,883,749	1,968,707,666	421,823,917	78.57%	1,833,392,381	23.01%
06/30/2012	1,642,373,560	2,292,400,227	650,026,667	71.64%	1,819,269,630	35.73%

\* Reflects amount calculated in the pension valuation.

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

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The Net OPEB obligation measures the accumulated differences between the annual OPEB cost and the actual contributions in relation to the ARC.

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**CHART 7**

**Required Supplementary Information – Net OPEB Obligation (NOO)**

<b>Fiscal Year End</b>	<b>Annual Required Contribution (a)</b>	<b>Interest on Existing NOO (b)</b>	<b>ARC Adjustment (c)</b>	<b>Annual OPEB Cost (a) + (b) + (c) (d)</b>	<b>Actual Contribution Amount (e)</b>	<b>Net Increase in NOO (d) - (e) (f)</b>	<b>NOO as of Fiscal Year (g)</b>
06/30/2007	\$115,232,538	\$0	\$0	\$115,232,538	\$115,232,538	\$0	\$0
06/30/2008	108,848,499	0	0	108,848,499	108,848,499	0	0
06/30/2009	95,122,090	0	0	95,122,090	95,122,090	0	0
06/30/2010	96,511,234	0	0	96,511,234	96,511,234	0	0
06/30/2011	107,395,804	0	0	107,395,804	107,395,804	0	0
06/30/2012	115,208,835	0	0	115,208,835	115,208,835	0	0

**SECTION 2: Valuation Results for the Los Angeles City Employees' Retirement System June 30, 2012 Measurement Under GASB 43 and 45**

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

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

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**CHART 8**

**Member Population: 2007 – 2012**

<b>Year Ended June 30</b>	<b>Active Participants</b>	<b>Inactive Members</b>	<b>Retired Members and Beneficiaries</b>	<b>Ratio of Non-Actives to Actives</b>
2007	30,175	607	11,336	0.40
2008	30,236	703	12,004	0.42
2009	30,065	674	11,893	0.42
2010	26,245	806	13,442	0.54*
2011	25,449	813	13,436	0.56
2012	24,917	858	13,431	0.57

\* Reflects 2009 Early Retirement Incentive Program.

**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

*This exhibit summarizes the participant data used for the current and prior valuations.*

**EXHIBIT A  
Summary of Participant Data**

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
<b>Retirees*</b>		
Number of non-disabled	11,439	11,456
Number of disabled	<u>300</u>	<u>298</u>
Total number of retirees	11,739	11,754
Average age of retirees	71.1	70.8
Number of spouses	4,671	4,772
Average age of spouses	67.6	66.2
<b>Surviving Spouses*</b>		
Number	1,692	1,682
Average age	79.2	78.9
<b>Active Participants</b>		
Number	24,917	25,449
Average age	47.8	47.0
Average years of service	13.9	13.0
<b>Inactive Vested Participants (excluding those with less than 10 years of service)</b>		
Number	858	813
Average age	50.7	50.6

\* Excludes retirees not yet eligible for retiree health benefits.

**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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**EXHIBIT B**

**Retirees and Beneficiaries Added to and Removed from the Rolls**

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<b>Year Ended 6/30</b>	<b>No. of New Retirees/ Beneficiaries</b>	<b>Annual Allowances Added*</b>	<b>No. of Retirees/ Beneficiaries Removed</b>	<b>Annual Allowances Removed</b>	<b>No. of Retirees/ Beneficiaries at 6/30</b>	<b>Annual Allowances at 6/30</b>	<b>Percent Increase in Annual Allowances</b>	<b>Average Annual Allowance</b>
2007	696	\$8,660,848	497	\$1,923,000	11,336	\$66,602,200	11.3%	\$5,875
2008	1,139	6,472,277	471	2,051,109	12,004	71,023,368	6.6	5,917
2009	376	5,542,283	487	2,697,150	11,893	73,868,501	4.0	6,211
2010	2,104	23,010,841	555	2,670,987	13,442	94,208,355	27.5	7,009
2011	431	5,670,390	437	2,774,684	13,436	97,104,061	3.1	7,227
2012	433	-540,583	438	2,516,835	13,431	94,046,643	-3.1	7,002

\* Also reflects changes in subsidies for continuing retirees and beneficiaries.

**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**EXHIBIT C**

**Cash Flow Projections**

The ARC generally exceeds the current pay-as-you-go (“paygo”) cost of an OPEB plan. Over time the paygo cost will tend to grow and may even eventually exceed the ARC in a well-funded plan. The following table projects the paygo cost as the projected net fund payment over the next ten years.

Year Ending June 30	Projected Number of Retirees*			Projected Benefit Payments		
	Current	Future	Total	Current	Future	Total
2013	18,102	1,021	19,123	\$93,261,219	\$5,984,652	\$99,245,871
2014	17,603	1,803	19,406	94,616,502	12,026,345	106,642,847
2015	17,083	2,669	19,752	95,958,719	19,449,187	115,407,906
2016	16,516	3,616	20,132	96,478,433	28,333,021	124,811,454
2017	15,950	4,680	20,630	96,616,758	39,037,871	135,654,629
2018	15,360	5,790	21,150	96,168,304	50,967,814	147,136,118
2019	14,763	6,930	21,693	95,734,337	63,829,620	159,563,957
2020	14,162	8,111	22,273	94,442,402	78,028,180	172,470,582
2021	13,558	9,301	22,859	93,069,459	92,750,597	185,820,056
2022	12,948	10,424	23,372	92,021,253	107,255,431	199,276,684

\* Includes spouses of retirees, but excludes those not receiving a subsidy from LACERS.

**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**EXHIBIT D**

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

	June 30, 2012	June 30, 2011
<b>Contribution income:</b>		
Employer contributions	\$423,920,740	\$414,133,032
Employee contributions	<u>178,246,151</u>	<u>114,731,434</u>
Net contribution income	\$602,166,891	\$528,864,466
<b>Investment income:</b>		
Interest, dividends and other income	\$250,580,061	\$253,769,776
Recognition of capital appreciation	290,831,650	291,263,922
Less investment and administrative fees	<u>-36,599,183</u>	<u>-42,084,368</u>
Net investment income	<u>\$504,812,528</u>	<u>\$502,949,330</u>
<b>Total income available for benefits</b>	<b>\$1,106,979,419</b>	<b>\$1,031,813,796</b>
<b>Less benefit payments:</b>		
Payment of benefits	-\$756,062,733	-\$752,540,330
Refunds of contributions	<u>-11,100,595</u>	<u>-18,215,248</u>
Net benefit payments	-\$767,163,328	-\$770,755,578
<b>Change in reserve for future benefits</b>	<b>\$339,816,091</b>	<b>\$261,058,218</b>

*Note: Results may be slightly off due to rounding.*



**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**EXHIBIT E**

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

	June 30, 2012	June 30, 2011
<b>Cash equivalents</b>	\$392,891,992	\$609,896,414
<b>Accounts receivable:</b>		
Investment income	\$34,986,262	\$34,381,558
Proceeds from sales	57,169,167	32,911,670
Other	<u>7,590,978</u>	<u>7,059,792</u>
Total accounts receivable	\$99,746,407	\$74,353,020
<b>Investments:</b>		
Fixed Income	\$2,603,009,587	\$2,331,369,654
Equities	5,859,900,968	6,225,586,700
Real Estate and Alternative Investment	1,835,006,695	1,659,534,331
Other	<u>933,960,402</u>	<u>1,377,311,588</u>
Total investments at market value	<u>\$11,231,877,652</u>	<u>\$11,593,802,273</u>
<b>Total assets</b>	\$11,724,516,051	\$12,278,051,707
<b>Less accounts payable:</b>		
Accounts payable and accrued expenses	-\$39,898,959	-\$132,446,670
Purchases of investments	-238,732,442	-222,421,912
Security lending collateral	<u>-850,183,665</u>	<u>-1,229,579,148</u>
Total accounts payable	-\$1,128,815,066	-\$1,584,447,730
<b>Net assets at market value</b>	<u>\$10,595,700,986</u>	<u>\$10,693,603,976</u>
<b>Net assets at actuarial value</b>	<u>\$11,620,457,827</u>	<u>\$11,280,641,736</u>
<b>Net assets at valuation value (retiree health)</b>	<u>\$1,642,373,560</u>	<u>\$1,546,883,749</u>

*Note: Results may be slightly off due to rounding.*

**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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 value of assets as of the valuation date.*

**EXHIBIT F**

**Determination of Actuarial Value of Assets for Year Ended June 30, 2012**

1. Market value of assets				\$10,595,700,986
2. Calculation of unrecognized return*	Original Amount	Percent Not Recognized	Amount Not Recognized	
(a) Year ended June 30, 2012	-\$770,325,267	85.71%	-\$660,278,800	
(b) Year ended June 30, 2011	1,208,621,516	71.43%	863,301,083	
(c) Year ended June 30, 2010	392,956,483	57.14%	224,546,562	
(d) Year ended June 30, 2009	-2,964,832,484	40.00%**	-1,185,932,994	
(e) Year ended June 30, 2008	-1,549,293,380	24.00%**	-371,830,411	
(f) Year ended June 30, 2007	1,054,377,186	10.00%**	105,437,719	
(g) Total unrecognized return				-\$1,024,756,841
3. Preliminary actuarial value: (1) - (2g)				\$11,620,457,827
4. Adjustment to be within 40% corridor				0
5. Final actuarial value of assets: (3) + (4)				<u>\$11,620,457,827</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)				109.67%
7. Market value of retiree health assets				\$1,497,539,891
8. Valuation value of retiree health assets (5) ÷ (1) x (7)				\$1,642,373,560
9. Deferred return recognized in each of the next 6 years:				
(a) Amount recognized on 6/30/2013				-\$357,038,095
(b) Amount recognized on 6/30/2014				-462,475,814
(c) Amount recognized on 6/30/2015				-276,560,608
(d) Amount recognized on 6/30/2016				118,750,390
(e) Amount recognized on 6/30/2017				62,613,750
(f) Amount recognized on 6/30/2018				<u>-110,046,467</u>
(g) Subtotal (may not total exactly due to rounding)				-\$1,024,756,841

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

\*\* These percentages have been calculated by taking the unrecognized returns developed using a 5-year smoothing period through June 30, 2009 and recognizing those amounts over an extended period of an additional 2 years (for a total of 7 years from the original date of the investment gains or losses) starting with the June 30, 2010 valuation.

**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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

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**EXHIBIT G**

**Reconciliation of Recommended Contribution\* from June 30, 2011 to June 30, 2012**

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<b>Recommended Contribution as of June 30, 2011**</b>	4.49%
Effect of increase in amortization component due to less than expected payroll	0.06%
Effect of contributions more than recommended contribution***	-0.11%
Effect of investment loss***	0.16%
Effect of additional non-retired members contributing to avoid retiree medical subsidy freeze***	0.70%
Effect of other assumption changes and starting medical costs lower than expected***	-0.01%
Effect of composition of active population	0.15%
Effect of demographic gains and losses***	0.03%
Effect of change in actuarial cost method and re-amortization of the balances of the prior UAAL layers	0.27%
<b>Recommended Contribution as of June 30, 2012**</b>	<u>5.74%</u>

\* *Based on contributions at the end of each pay period.*

\*\* *Before adjustments to phase in over five years the impact of new actuarial assumptions adopted as recommended in the June 30, 2011 triennial experience study.*

\*\*\* *Changes in unfunded actuarial accrued liability were amortized over 30 years and have been combined with the balances of the prior UAAL layers (except for the 2009 ERIP).*

**SECTION 3: Supplemental Valuation Details for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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**EXHIBIT H**

**Solvency Test for OPEB**

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<u>Valuation Date</u>	<u>Aggregate Actuarial Accrued Liabilities For</u>			<u>Valuation Value of Retiree Health Assets</u>	<u>Portion of Accrued Liabilities Covered by Reported Assets</u>		
	<u>(1)</u> <u>Terminated Members</u>	<u>(2)</u> <u>Retirees, Beneficiaries, &amp; Dependents</u>	<u>(3)</u> <u>Active Members</u>		<u>(1)</u> <u>Terminated Members</u>	<u>(2)</u> <u>Retirees, Beneficiaries, &amp; Dependents</u>	<u>(3)</u> <u>Active Members</u>
06/30/2007	\$22,064,082	\$792,200,391	\$916,135,708	\$1,185,543,893	100%	100%	41%
06/30/2008	25,933,078	849,872,270	1,865,096,157	1,342,919,611	100	100	25
06/30/2009	26,181,886	1,118,519,907*	1,723,009,711	1,342,496,524	100	100	11
06/30/2010	34,454,928	1,124,253,854	1,075,165,650	1,425,726,017	100	100	25
06/30/2011	19,963,811	1,066,350,888	882,392,967	1,546,883,749	100	100	52
06/30/2012	24,454,075	1,083,168,136	1,184,778,016	1,642,373,560	100	100	45

*\*Includes liabilities for the 2,393 ERIP-electing members*

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**EXHIBIT I**

**Summary of Required Supplementary Information**

<b>Valuation date</b>	June 30, 2012	
<b>Actuarial cost method</b>	Entry Age Normal Cost Method – assuming a closed group	
<b>Amortization method</b>	Level percent of payroll – assuming a 4.25% increase in total covered payroll.	
<b>Remaining amortization period</b>	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption changes resulting from the triennial experience study are amortized over 30 years. Health trend and premium assumption changes are amortized over 15 years. The initial unfunded liabilities on June 30, 2012 were combined and amortized over 30 years. The costs associated with the 2009 ERIP have been amortized over 15 years beginning with the June 30, 2009 valuation date. Plan changes, including the liability change due to the ERIP is amortized over 15 years. Future ERIPs will be amortized over 5 years. Actuarial surplus is amortized over 30 years.	
<b>Asset valuation method</b>	<p>Market value of assets less unrecognized returns.</p> <p>Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period.</p> <p>In addition, the actuarial value of assets is further adjusted, if necessary, to stay within 40% of the market value of assets.</p>	
<b>Actuarial assumptions:</b>		
Investment rate of return	7.75%	
Inflation rate	3.50%	
Real across-the-board salary increase	0.75%	
Projected salary increases	N/A	
Medical cost trend rate	Actual increase for 2012-2013, 8.25% starting in the 2013-2014 fiscal year graded down by 0.50% per year over 7 years to an ultimate rate of 5.00%	
Dental cost trend rate	5.00%	
Medicare Part B premium	5.00%	
<b>Plan membership:</b>	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Current retirees, beneficiaries, and dependents receiving benefits	18,102	18,208
Current active participants	24,917	25,449
Terminated participants entitled but not yet eligible	<u>858</u>	<u>813</u>
Total	43,877	44,470

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method**

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

**Unknown Data for Members:** Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

**Actuarial Cost Method:** Entry Age Normal Cost Method, level percent of salary.

**Termination Rates before Retirement:**

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

<b>Age</b>	<b>Disability</b>	<b>Termination*</b>
25	0.01%	5.50%
30	0.03	5.35
35	0.05	4.35
40	0.09	3.15
45	0.15	2.30
50	0.19	1.85
55	0.20	1.75
60	0.20	1.75

All deaths are assumed to be non-duty related.

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

\* Termination rates for actives with less than 5 years of service are as follows:

<b>Service</b>	<b>Rate</b>
0	11.25%
1	8.00
2	7.25
3	6.25
4	5.50

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**Measurement Date:** June 30, 2012

**Discount Rate:** 7.75%, net of investment and administrative expenses

**Postretirement Mortality Rates:**

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

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

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

**Active Retirement Rates:**

**Retirement Probability**

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

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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**Retirement Age and Benefit for Inactive Vested Participants:**

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

**Exclusion of Inactive Vested:**

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

**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 premiums are reviewed and adjusted for increases in the cost of health care services.

Maximum Dental Subsidy (same as premium)

<u>Carrier</u>	<u>Participation Percent</u>	<u>Monthly 2012- 2013 Fiscal Year Subsidy</u>
Met Life PPO	77.3	\$43.47
SafeGuard	22.7	\$13.53



**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**Per Capita Cost Development – Not Subject to Medical Subsidy Freeze:**

2012-2013 Fiscal Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER	Observed and Assumed Election Percent	Monthly Premium*	Maximum Subsidy	Subsidy	Monthly Premium*	Maximum Subsidy	Subsidy	Monthly Premium*	Maximum Subsidy	Subsidy
Kaiser HMO	<b>61.0</b>	\$637.67	\$1,278.50	<b>\$637.67</b>	\$1,275.34	\$1,278.50	<b>\$1,275.34</b>	\$637.67	\$637.67	<b>\$637.67</b>
Blue Cross PPO	<b>21.9</b>	\$1,026.97	\$1,278.50	<b>\$1,026.97</b>	\$2,049.42	\$1,278.50	<b>\$1,278.50</b>	\$1,026.97	\$637.67	<b>\$637.67</b>
Blue Cross HMO	<b>17.1</b>	\$747.40	\$1,278.50	<b>\$747.40</b>	\$1,490.27	\$1,278.50	<b>\$1,278.50</b>	\$747.40	\$637.67	<b>\$637.67</b>

2012-2013 Fiscal Year		Single Party			Married/With Domestic Partner			Eligible Survivor		
CARRIER	Observed and Assumed Election Percent	Monthly Premium*	Maximum Subsidy	Subsidy	Monthly Premium*	Maximum Subsidy	Subsidy	Monthly Premium*	Maximum Subsidy	Subsidy
Kaiser HMO	<b>58.2</b>	\$211.33	\$211.33	<b>\$211.33</b>	\$422.65	\$422.65	<b>\$422.65</b>	\$211.33	\$211.33	<b>\$211.33</b>
Blue Cross LPPO	<b>29.6</b>	\$438.19	\$438.19	<b>\$438.19</b>	\$871.86	\$689.72	<b>\$689.72</b>	\$438.19	\$438.19	<b>\$438.19</b>
UHC Medicare Adv HMO	<b>12.2</b>	\$242.57	\$242.57	<b>\$242.57</b>	\$480.62	\$480.62	<b>\$480.62</b>	\$242.57	\$242.57	<b>\$242.57</b>

\* With the exception of Kaiser, the amounts reflect the inclusion of the Vision Service Plan premium.

Members who are subject to the retiree medical subsidy freeze will have monthly health insurance subsidy maximums fixed at the levels in effect at July 1, 2011, as shown in the table below:

	Single Party	Married/With Domestic Partner	Eligible Survivor
Under 65 – All Plans	\$1,190	\$1,190	\$595.60
Over 65			
Kaiser HMO	\$205.25	\$408.52	\$205.25
Blue Cross LPPO	\$480.40	\$678.77	\$480.41
UHC Medicare Adv HMO	\$219.09	\$433.93	\$219.09

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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

**Spouse Age Difference:** Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.

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

**Participation:** Retiree Medical and Dental Coverage Election:

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

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

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

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

**Health Care Cost Subsidy Trend Rates:**

Trends to be applied in following fiscal years, to all health plans. Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium First Fiscal Year (July 1, 2012 through June 30, 2013)						
PLAN	Blue Cross PPO, Under Age 65	Blue Cross PPO, Age 65 and Over	Kaiser HMO, Under Age 65	Senior Advantage	Blue Cross HMO, Under 65	UHC Medicare HMO
Trend to be applied to 2012- 2013 Fiscal Year premium	7.99%	7.76%	11.45%	5.52%	5.77%	4.25%
			The fiscal year trend rates are based on the following calendar year trend rates:			
Fiscal Year	Trend (Approx.)		Calendar Year	Trend (applied to calculate following year premium)		
2013-2014	8.25%		2013	8.50%		
2014-2015	7.75%		2014	8.00%		
2015-2016	7.25%		2015	7.50%		
2016-2017	6.75%		2016	7.00%		
2017-2018	6.25%		2017	6.50%		
2018-2019	5.75%		2018	6.00%		
2019-2020	5.25%		2019	5.50%		
2020 and later	5.00%		2020 and later	5.00%		
Dental Premium Trend	5.00% for all years					
Medicare Part B Premium Trend	Trend for the 2012-13 fiscal year will be calculated based on the actual increase in Medicare B premium from 2012 to 2013, when it becomes available. 5.00% for years following the 2013 calendar year.					

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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**Health Care Reform:**

As previously directed by LACERS, we have not reflected in the current valuation the impact of potential excise tax imposed by the Patient Protection and Affordable Care Act (PPACA), and the Health Care and Education Reconciliation Act (HCERA), which were signed into law in March of 2010. We understand that FASB requires the disclosure of the tax liability for single employer and non-governmental plans. GASB has not yet offered any guidance on how to comply with this legislation for disclosure purposes and they do not always follow the FASB lead.

In particular, it is our understanding that beginning in 2018, the legislation will impose a 40 percent excise tax on the cost of health plans above a certain threshold. It is our further understanding that the thresholds in 2018 for non-Medicare retirees aged 55 through 64 are \$11,850 for single coverage and \$30,950 for family coverage as specified in the Health Care Reform. For all other retirees the thresholds in 2018 are \$10,200 for single coverage and \$27,500 for family coverage. PPACA allows the higher thresholds also to be used for any member “who participates in a plan sponsored by an employer the majority of whose employees covered by the plan are engaged in a high-risk profession or employed to repair or install electrical or telecommunication lines.”

The thresholds in 2019 are indexed and for the purpose of this valuation, they are assumed to increase by 4.50% (i.e., 1% over the assumed 3.5% CPI assumption used in the retirement valuation) over those in 2018. After 2019, the thresholds are assumed to increase by 3.50% (assumed CPI inflation) per year.

**Administrative Expenses:**

No administrative expenses were valued separately from the premium costs.

**Plan Design:**

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

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**Assumption Changes  
Since Prior Valuation:**

Health care cost trend rates have been updated.

Starting premium costs were revised to reflect updated data.

Medical and dental carrier election assumptions were updated.

Based on actions taken by the Board at their October 23, 2012 meeting, the actuarial cost method was changed from projected unit credit to entry age normal.

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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**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 plans as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

**Eligibility:**

*Retirees*

§4.1103.2

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

**Medical Subsidy for Members**

**Not Subject to Freeze:**

*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, 2012, the maximum health subsidy was \$1,190 per month, and will increase to \$1,278.50 on January 1, 2013.

*Over Age 65 and Enrolled in*

*Both Medicare Parts A and B:*

§4.1103.2

For retirees, a maximum health subsidy limited to the single-party monthly premium of the plan in which the member is enrolled, is provided subject to the following vesting schedule:

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

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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An additional amount is added for coverage of dependents which shall not exceed the amount provided a retiree not enrolled in Parts A and B and covered by the same medical plan and with the same years of service.

The combined member and dependent subsidy shall not exceed the actual premium.

**Dental Subsidy for Members:**  
§4.1105.2

The System will pay 4% of the maximum dental subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum dental subsidy. As of July 1, 2012, the maximum dental subsidy was \$44.14 per month and will decrease to \$43.47 on January 1, 2013.

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

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

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

**Surviving Spouse Subsidy:**  
§4.1107 & §4.1107.1

The surviving spouse or domestic partner will be entitled to a health subsidy (limited to the actual single-party premium) based on member's years of service and the surviving dependent's eligibility for Medicare.

*Under Age 65 or Over Age 65  
And Only Enrolled in Medicare  
Part B:*

The maximum health subsidy available for survivors is the Kaiser single-party premium (\$593.62 per month as of July 1, 2012, increasing to \$637.67 on January 1, 2013) or the single-party premium of the plan in which the survivor is enrolled, whichever is less.

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

---

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

For survivors, a maximum health subsidy limited to the single-party monthly premium of the plan in which the survivor is enrolled, is provided subject to the following vesting schedule:

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

**Subsidy Freeze:**

As of the June 30, 2011 valuation, the retiree health benefits program was changed to freeze the medical subsidy for non-retired members who did not begin to contribute an additional 2% or 4% of employee contributions to the Pension Plan.

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

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

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

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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**EXHIBIT IV**

**Definitions of Terms**

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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.

**Actuarial Present Value of Total  
Projected Benefits (APB):**

Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

**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 Retirees:**

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



**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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<b>Actuarial Value of Assets (AVA):</b>	The value of assets used by the actuary in the valuation. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.
<b>Funded Ratio:</b>	The ratio AVA/AAL.
<b>Unfunded Actuarial Accrued Liability (UAAL):</b>	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.
<b>Amortization of the Unfunded Actuarial Accrued Liability:</b>	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
<b>Investment Return (discount rate):</b>	The rate of earnings of the Plan from its investments, including interest, dividends and capital 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 capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.
<b>Covered Payroll:</b>	Annual reported salaries for all active participants on the valuation date.
<b>ARC as a Percentage of Covered Payroll:</b>	The ratio of the annual required contribution to covered payroll.
<b>Health Care Cost Trend Rates:</b>	The annual rate of increase in net claims costs per individual benefiting from the Plan.
<b>Annual Required Contribution (ARC):</b>	The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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<b>Net OPEB Obligation (NOO):</b>	The NOO is the cumulative difference between the annual OPEB cost and actual contributions made. If the plan is not pre-funded, the actual contribution would be equal to the annual benefit payments less retiree contributions.
<b>Annual OPEB Cost (AOC):</b>	Annual OPEB cost is the measure required by GASB 45 of a sole or agent employer's "cost" of participating in an OPEB plan. When an employer has no net OPEB obligation, annual OPEB cost is equal to the ARC. When a net OPEB obligation has a liability (positive) balance, annual OPEB cost is equal to (a) the ARC, plus (b) one year's interest on the beginning balance of the net OPEB obligation, less (c) an adjustment to the ARC to offset, approximately, the amount included in the ARC for amortization of the past contribution deficiencies. When a net OPEB obligation has an asset (negative) balance, the interest adjustment should be deducted from and the ARC adjustment should be added to the ARC, to determine annual OPEB cost.
<b>ARC Adjustment:</b>	The ARC adjustment is an amortization payment based on the prior year NOO. The purpose of the interest and ARC adjustments is to avoid "double-counting" annual OPEB cost and liabilities. Without the adjustments, annual OPEB cost and the net OPEB obligation (liability) would be overstated by the portion of the amortization amount previously recognized in annual OPEB cost. With the adjustments, annual OPEB cost should be approximately equal to the ARC that would have been charged if all prior ARCs had been paid in full, plus one year's interest on the net OPEB obligation.
<b>Employer Contributions:</b>	For the purposes of GASB 43/45, an employer has contributed to an OPEB plan if the employer has (a) provided benefits directly to retired plan members or their beneficiaries, (b) paid insurance premiums to insure the payment of benefits, or (c) irrevocably transferred assets to a qualifying trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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**EXHIBIT V**

**Accounting Requirements**

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The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under these statements, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standards supplement cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

The statements cover 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 benefits valued in this report are limited to those described in Exhibit III of Section 4, which are based on those 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 is not limited by legal or contractual limits on funding the plan unless those limits clearly translate into benefit limits on the substantive plan being valued.

The new standards introduce 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, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. These assumptions are summarized in Exhibit II of Section 4. This amount is then discounted to determine the actuarial present value of the total projected 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, Required Supplementary Information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan. Exhibits IV and VI of Section

**SECTION 4: Supporting Information for the Los Angeles City Employees' Retirement System June 30, 2012  
Measurement Under GASB 43 and 45**

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4 contain a definition of terms as well as more information about GASB 43/45 concepts.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

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, if any.

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.

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November 21, 2012

Mr. Tom Moutes  
General Manager  
Los Angeles City Employees' Retirement System  
202 W. 1<sup>st</sup> Street, Suite 500  
Los Angeles, CA 90012-4401

**Re: The Los Angeles City Employees' Retirement System  
FY 2013-2014 Retirement and Health Plan Contributions  
with Adjustments to Reflect Five-Year Phase-in of City Contribution Rates**

Dear Tom:

On October 25, 2011, the Board elected to phase in the impact of new actuarial assumptions (adopted as recommended in the June 30, 2011 triennial Experience Study) on the City's retirement and health plan contributions over a five-year period, beginning with the 2012-2013 Fiscal Year. The recommended (i.e., pre-phase-in) contribution rates for Fiscal Year 2013-2014 (i.e., the second year of the phase-in) are contained in Segal's June 30, 2012 reports entitled *Actuarial Valuation and Review of Retirement Benefits* and *Actuarial Valuation and Review of Other Postemployment Benefits (OPEB)*. This letter provides the "phased-in" contribution rates for Fiscal Year 2013-2014 and an analysis of the financial reporting and future contribution rate impact of the five-year phase-in.

**PHASE-IN CONTRIBUTION RATES FOR 2013-2014**

Table A below shows the full impact of the new actuarial assumptions on the City's retirement and health plan contributions for Fiscal Year 2012-2013 as determined in the June 30, 2011 valuations, assuming payment at the beginning of the year, on July 15, 2012, or at the end of each pay period. This is the portion of the increase over the current contribution rates that will be phased-in over five years.

**Table A**

<b>Plan:</b>	<b>Impact of the New Actuarial Assumptions (percentage of payroll):</b>		
	<u>Beginning of Year</u>	<u>July 15</u>	<u>End of Pay Periods</u>
Retirement	1.20%	1.21%	1.23%
Health	<u>0.18%</u>	<u>0.18%</u>	<u>0.19%</u>
Total	1.38%	1.39%	1.42%

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The decreases in the contribution rates for the second year of the phase-in are simply 60% of the rates shown in Table A. The adjustments to the contribution rates as provided in the June 30, 2012 reports are shown below in Table B.

**Table B**

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<b>Plan:</b>	<b>Second-Year Deferred Portion of the Impact of the New Actuarial Assumptions (percentage of payroll):</b>		
	<u>Beginning of Year</u>	<u>July 15</u>	<u>End of Pay Periods</u>
Retirement	0.72%	0.73%	0.74%
Health	<u>0.11%</u>	<u>0.11%</u>	<u>0.11%</u>
Total	0.83%	0.84%	0.85%

The phased-in City contribution rates for 2013-2014 are provided in Table D. For your convenience, we have also provided in Table C the City contribution rates for 2013-2014 before the phase-in. The rates in Table D (after the phase-in) are developed by taking the rates in Table C (before the phase-in) minus the rates in Table B.

**Table C**

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<b>Plan:</b>	<b>City Contribution Rates for 2013-2014, Before Reflecting Five-Year Phase-In of the Impact of the New Actuarial Assumptions (percentage of payroll):</b>		
	<u>Beginning of Year</u>	<u>July 15</u>	<u>End of Pay Periods</u>
Retirement	20.55%	20.62%	21.34%
Health	<u>5.53%</u>	<u>5.55%</u>	<u>5.74%</u>
Total	26.08%	26.17%	27.08%

**Table D**

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<b>Plan:</b>	<b>City Contribution Rates for 2013-2014, After Reflecting Five-Year Phase-In of the Impact of the New Actuarial Assumptions (percentage of payroll):</b>		
	<u>Beginning of Year</u>	<u>July 15</u>	<u>End of Pay Periods</u>
Retirement	19.83%	19.89%	20.60%
Health	<u>5.42%</u>	<u>5.44%</u>	<u>5.63%</u>
Total	25.25%	25.33%	26.23%

## **IMPACT OF FIVE-YEAR PHASE-IN ON FINANCIAL REPORTING**

Both the retirement plan and the health plan contribution rates recommended in Segal's June 30, 2012 actuarial valuation reports satisfy the parameters required for determining the Annual Required Contribution (ARC) under Governmental Accounting Standards 25/27 and 43/45 for the 2013-2014 Fiscal Year, including the requirement that the System's Unfunded Actuarial Accrued Liability be amortized over an Equivalent Single Amortization Period (ESAP) of no longer than 30 years. Those requirements are met before any phase-in, and they reflect the full contribution rate impact of the new actuarial assumptions.

We have calculated that, for both the retirement and health plans, the ESAP is still shorter than 30 years even after the phase-in. This means that contributing the phase-in rates for Fiscal Year 2013-2014 will not result in the City recording a liability either for the retirement plan (Net Pension Obligation or "NPO") or for the health plan (Net OPEB Obligation or "NOO").

If you have any questions, please let us know.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President and Actuary



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

DNA/kek