

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM



Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2002

Oscar Peters, General Manager-Secretary

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LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM



INTRODUCTORY SECTION

CITY OF LOS ANGELES

CALIFORNIA



JAMES K. HAHN
MAYOR

BOARD OF ADMINISTRATION

—
SHELLEY I. SMITH
PRESIDENT

ROBERT D. BEYER
VICE PRESIDENT

—
MARVIN ADAMS, JR.
ERIC L. HOLOMAN
CHARLEY M. MIMS
THOMAS J. MIZO
KEN SPIKER

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

—
OSCAR PETERS
GENERAL MANAGER
(213) 473-7280

DANIEL P. GALLAGHER
CHIEF INVESTMENT OFFICER
(213) 473-7124

—
TTY (888) 349-3996

LETTER OF TRANSMITTAL

December 11, 2002

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

Dear Members of the Board:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ended June 30, 2002, the System's 66th year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operation and is the responsibility of LACERS management.

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

STRUCTURE OF THE REPORT

This report is presented in five sections:

- The Introductory Section describes the System's management and organizational structure, a summary of the plan provisions, and a listing of the professional services used.
- The Financial Section contains the opinion of the independent auditors, Ernst & Young LLP, and the general-purpose financial statements of the System.
- The Investment Section contains the Chief Investment Officer's transmittal letter covering significant events in management of the Los Angeles City Employees' Retirement Fund along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, Gabriel, Roeder, Smith & Company, along with supporting schedules and information.
- The Statistical Section contains a graph and schedules related to active and retired membership, revenues, expenses, benefit expenses, City contribution, retired membership, and average benefit payments.

1. Accounting System and Reports

This CAFR was prepared in conformity with accounting principles generally accepted in the United States and reporting guidelines set forth by the Government Accounting Standards Board (GASB) in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and the Los Angeles City Charter.

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

It is the responsibility of LACERS management to prepare retirement system financial statements, notes, supplementary disclosures and establish and maintain internal control to ensure retirement system assets are protected.

Ernst & Young LLP, independent auditors, have audited the general-purpose financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.

2. Additions to Plan Net Assets

The total additions to plan net assets for the fiscal year ended June 30, 2002, consisting of contributions, net depreciation in fair value of investments and investment income net of investment management fees, was a reduction of \$215,371,160. This amount includes member and employer contributions of \$155,122,031 and net investment loss of \$370,493,191. Net investment loss decreased \$21,176,660 over the prior year; this decrease was attributed mainly to depreciation in fair value of investments. Details of the components of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 26 of the financial statements in the financial section.

3. Deductions to Plan Net Assets

Deductions for the fiscal year ended June 30, 2002, excluding investment management and security-lending fees were \$395,997,369, which represented an increase of \$31,768,638 over the prior year. This increase was the result of more retirement benefits payments due to an increase in the number of retirees. The components of the total deductions include payments of retirement benefits of \$374,815,678; refunds of contributions and interest to terminated members of \$13,048,612; and administrative expenses of \$8,133,079.

4. Changes in System Membership

LACERS membership increases for the fiscal year ended June 30, 2002 were as follows:

	<u>2002</u>	<u>2001</u>	<u>Increase/(Decrease)</u>	<u>Change</u>
Active Members	25,930	25,654	276	1.1 %
Retired Members	13,589	13,365	224	1.7 %

5. Major Initiatives

The retired health benefit was initially an extension of the active employee health benefits. Therefore, since inception, the administration of this benefit has been outsourced to the Employee Benefits Division of the Personnel Department of the City. In 1987, the Board began to include this benefit in computing the actuarial liability for the System. In 1999, it determined that many of the reasons for assigning administration to the Employee Benefits Division no longer existed. Therefore, the administration of the retired health benefits was brought into the System. The System hired a health insurance consultant and reviewed the benefits. As a result, changes were made to the coverage for the calendar year 2000 to have the program more appropriate for its population. Because of the changing dynamics of health care needs for older members, it was necessary to rebid for all of the retired health care service providers for calendar year 2001. In 2002 and 2003, the Board made minor plan changes to further align retired member needs with the health care service providers offered and to contain costs.

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

6. Funding Status

LACERS actuarial funding status fell below 100% with two consecutive years of negative returns. The actuarial funding process recognizes gains and losses over a five-year period; the gains from previous years did not offset the losses of the last two years. This was compounded by the changing demographics of the membership, which were incorporated in revised actuarial assumptions that were used in the calculation of this year's actuarial valuation. The primary factors that increased the liability are that more members are staying in City employment to retirement and that the current members' life expectancy is longer. During the fiscal year, the funding ratio of the System fell from 107.7% to 96.7% and the actuarial value of LACERS assets increased \$81,465,104.

7. Financial and Economic Summary

While the financial markets continued to present a significant challenge for portfolio investments, the local economy also faced problems. The declining economic environment was reflected in many of the City's sources of revenue. Continued strong residential real estate prices provided a continuing positive source of revenue; however, this was offset by declines in utility users' taxes and hotel occupancy taxes.

The State of California projected budget decreases as business revenues and personal income fell. The Los Angeles County unemployment rate was 7.2% in June 2002 while the consumer price index rose only 2.02% during the 12-month period ended June 30, 2002.

8. Investment Summary

LACERS investments provided disappointing returns. For the current fiscal year, the portfolio earned a total return of -4.8%, well below the actuarial earnings assumption of 8%. The portfolio has annualized returns of .3% over the past three years, and 4.0% over the past five years. On a fair value basis, the total plan net assets decreased 8.3% from \$7,325,308,818 to \$6,713,940,288 during the current fiscal year.

9. Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LACERS for its comprehensive annual financial report for the fiscal year ended June 30, 2001. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

10. Acknowledgements

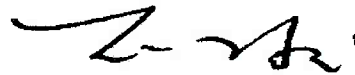
I would like to express my appreciation to the entire Board for effectively working together to set investment policies which will enable the Fund to meet its long-term goals. We'd like to thank staff for continually providing quality customer service to the members and various City departments while conducting related business.

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

Respectfully submitted,



Oscar Peters
General Manager



Li Hsi
Chief Accounting Employee

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING
YEAR ENDED JUNE 30, 2001**

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Los Angeles City
Employees' Retirement
System, California**

**For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001**

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



Imelda Aruete
President

Jeffrey L. Eselle
Executive Director



LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FISCAL YEAR 2001 - 2002

President:

SHELLEY I. SMITH

Vice President:

ROBERT D. BEYER

Commissioners:

MARVIN ADAMS, JR.

ERIC L. HOLOMAN

CHARLEY M. MIMS

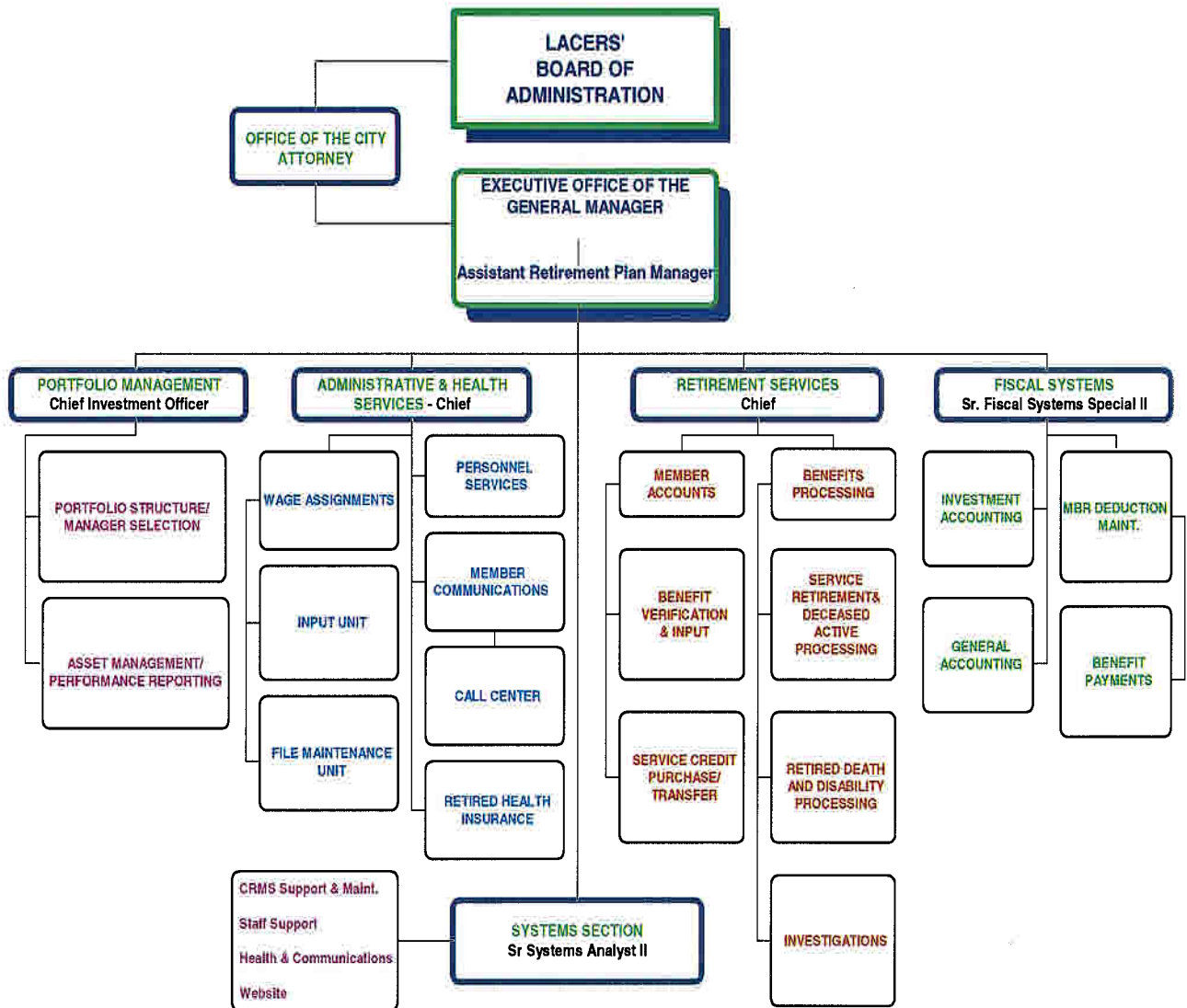
THOMAS J. MIZO

KEN SPIKER

Manager-Secretary:

OSCAR PETERS

LACERS ORGANIZATIONAL CHART



PROFESSIONAL CONSULTANTS

ACTUARY

Gabriel, Roeder, Smith & Company
San Diego, CA

AUDITOR

Ernst & Young LLP
Los Angeles, CA

BENEFICIARY VERIFICATION

Pension Benefit Information
Tiburon, CA

HEALTH & WELFARE CONSULTANTS

Deloitte & Touche
Costa Mesa, CA

INVESTMENT CONSULTANTS

The Townsend Group
Cleveland, OH

Pathway Capital Management
Irvine, CA

Pension Consulting Alliance Inc.
Portland, OR

SYSTEMS CONSULTANT

Silverback Information Services, LLC.
Cypress, CA

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LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM



FINANCIAL SECTION

Report of Independent Auditors

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

We have audited the accompanying retirement plan and postemployment healthcare plan statement of plan net assets of the Los Angeles City Employees' Retirement System (the System), a department of the City of Los Angeles, California, as of June 30, 2002, and the related retirement plan and postemployment healthcare plan statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the retirement plan and postemployment healthcare plan of the Los Angeles City Employees' Retirement System as of June 30, 2002, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

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

Ernst & Young LLP

September 20, 2002

Management's Discussion and Analysis

As management of the Los Angeles City Employees' Retirement System (LACERS), we are pleased to provide this overview and analysis of the financial activities of LACERS for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal in the Introduction Section of LACERS's Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

- The plan net assets of LACERS as of June 30, 2002 are \$6,713,940,000.
- The value of the net assets decreased \$611,369,000 or 8.4% during the reporting period, primarily as a result of adverse market conditions.
- The plan assets under the retirement plan and postemployment healthcare plan are pooled for investment purposes. Investment loss for the year was \$370,493,000.
- Employer contributions made by the City of Los Angeles (the City) were \$79,468,000, including the actuary's recommended contribution to the postemployment healthcare plan in the amount of \$27,589,000.
- Deduction from net assets of LACERS include benefit payments, refunds of member contributions and administrative expenses. The total deductions from net assets were \$395,998,000, an 8.7% increase from the prior fiscal year.
- As of June 30, 2002, the date of our last actuarial valuation, the funded ratio for LACERS was 96.7%. The funded ratio for the retirement plan was 97.4% and the funded ratio for the postemployment healthcare plan was 91.6%. The funded ratio (actuarial value of assets divided by actuarial accrued liability) is an indicator of LACERS's ability to pay accrued benefits when due. In general, this ratio indicates that for every dollar of benefit due \$.97 of assets are available for payment.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Financial statements. There are two financial statements presented for LACERS. The Statement of Plan Net Assets indicates the net assets, being the difference between the assets and liabilities, available to pay future benefits and gives a snapshot of the account balances at year-end. Over time, increases or decreases in net assets may serve as a useful indicator of whether the net assets of LACERS is improving or deteriorating. The Statement of Changes in Plan Net Assets provides a view of current year additions to and deductions from the plan net assets during the most recent fiscal year. The two statements can be found on pages 25 and 26 of this report.

Notes to financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 27 – 38 of this report.

Required supplementary information. In addition to this Management's Discussion and Analysis, the other required supplementary information pertains solely to the retirement plan and consists of a Schedule of Funding Progress, a Schedule of Employer Contributions, and the Notes to Required Supplementary Information. They primarily present actuarially determined information in a multi-year format as required by the applicable financial reporting standards. This required supplementary information can be found on pages 41 – 44 of this report.

Supplemental schedules. The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS's operations. They can be found on pages 47 and 48 of this report.

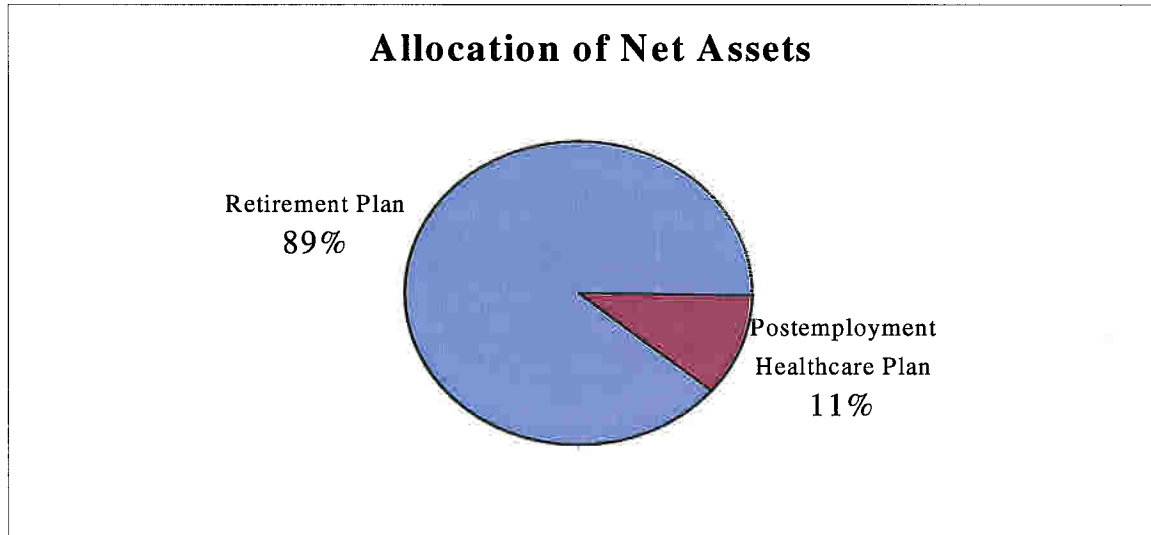
FINANCIAL ANALYSIS

Allocation of Net Assets

The following information provides a brief description of the asset allocation between the retirement plan and the postemployment healthcare plan as of June 30, 2002 (in thousands):

Retirement Plan	\$ 5,991,405
Postemployment Healthcare Plan	<u>722,535</u>
Net Assets	<u><u>\$ 6,713,940</u></u>

Allocation of Net Assets (continued)



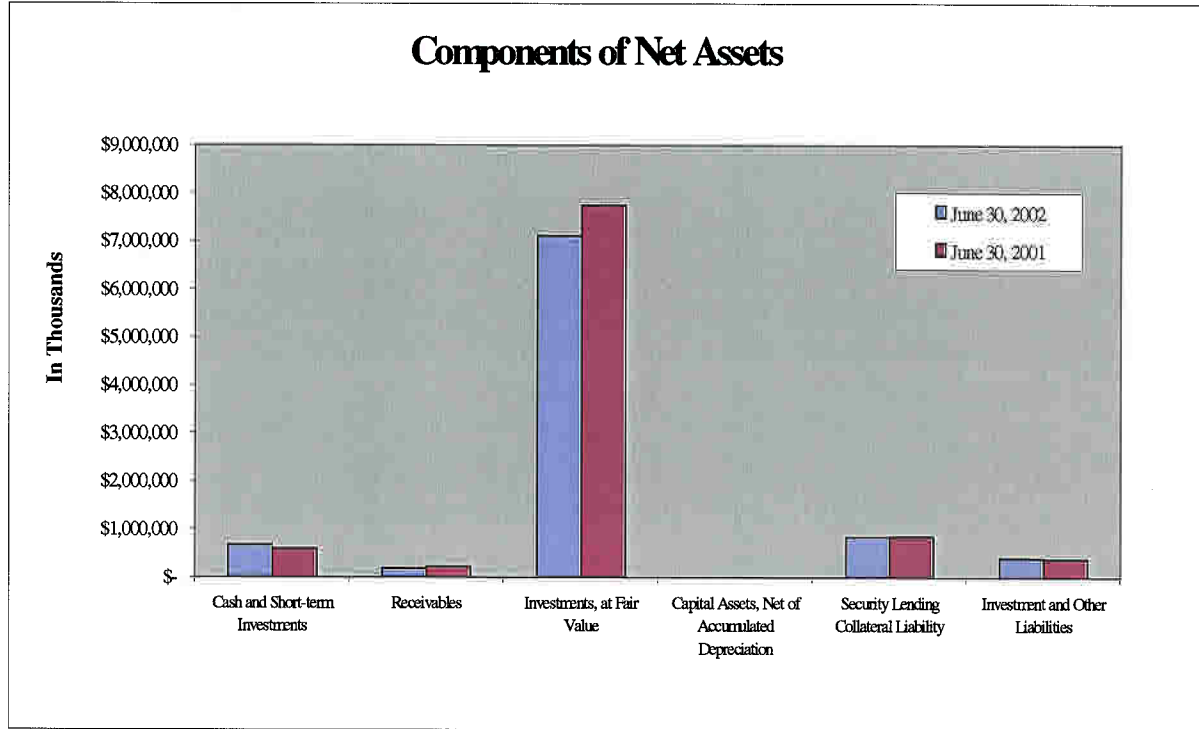
Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were \$6,713,940,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the retirement plan and postemployment healthcare plan, as required by the existing reporting standards. Net assets for the retirement plan and postemployment healthcare plan are \$5,991,405,000 and \$722,535,000, respectively.

Net Assets

The following table and graph represent the detailed information regarding the components of the net assets of LACERS as of June 30, 2002 and 2001 (in thousands):

	June 30, 2002	June 30, 2001	Change	
Cash and Short-term Investments	\$ 667,167	\$ 591,725	\$ 75,442	12.75%
Receivables	171,749	216,829	(45,080)	(20.79)
Investments, at Fair Value	7,108,039	7,743,452	(635,413)	(8.21)
Capital Assets, Net of Depreciation	71	-	71	n.a.
Total Assets	7,947,026	8,552,006	(604,980)	(7.07)
Security Lending Collateral Liability	838,213	847,462	(9,249)	(1.09)
Investment and Other Liabilities	394,873	379,235	15,638	4.12
Total Liabilities	1,233,086	1,226,697	6,389	0.52
Net Assets	\$ 6,713,940	\$ 7,325,309	\$ (611,369)	(8.35)%

Net Assets (continued)



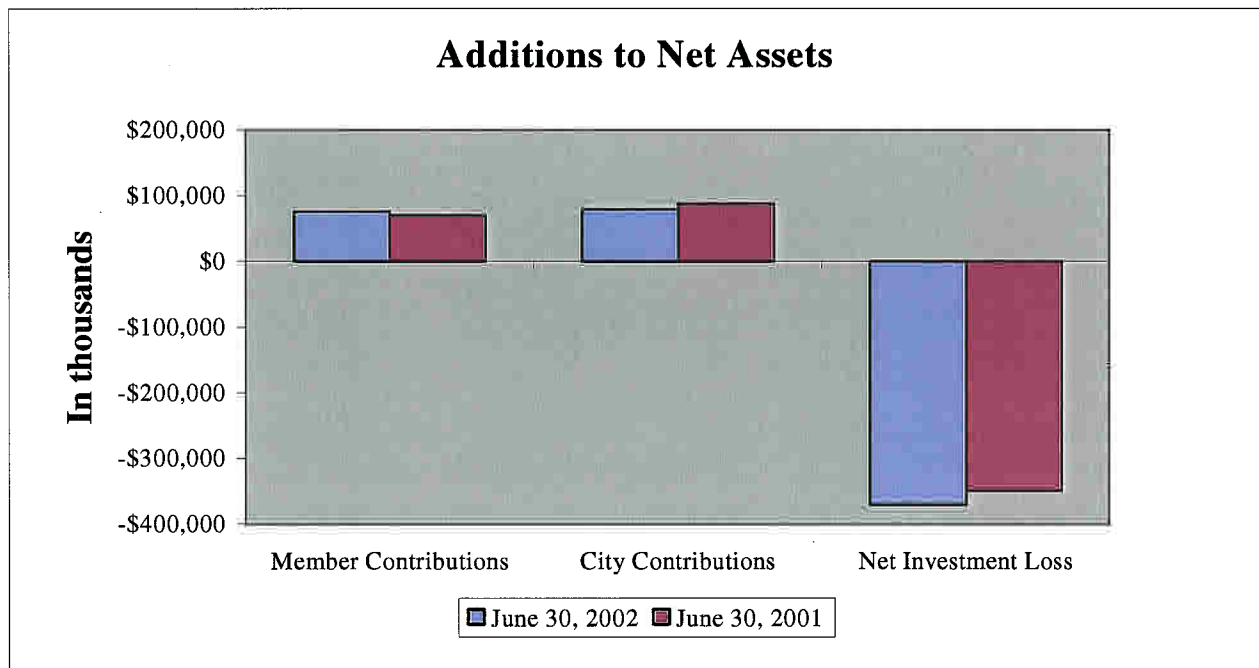
The largest portion of LACERS's net assets reflect its investment portfolio which includes cash and short-term investments, receivables, plus fixed income, equities, and other asset classes. Net assets decreased by \$611,369,000 during the report year. Most of the decrease is attributable to the large amount of investment loss that more than offsets the entire contributions and brings total additions for the year to a negative amount.

Change in Net Assets – Additions to Net Assets

The following table and graph represent the components that make up the additions to net assets for LACERS for the years ended June 30, 2002 and 2001 (in thousands):

	June 30, 2002	June 30, 2001	Change
Member Contributions	\$ 75,654	\$ 69,460	8.92%
City Contributions	79,468	87,897	(9.59)
Net Investment Loss	(370,493)	(349,317)	(6.06)
Additions to Net Assets	\$ (215,371)	\$ (191,960)	(12.20)%

Change in Net Assets – Additions to Net Assets (continued)



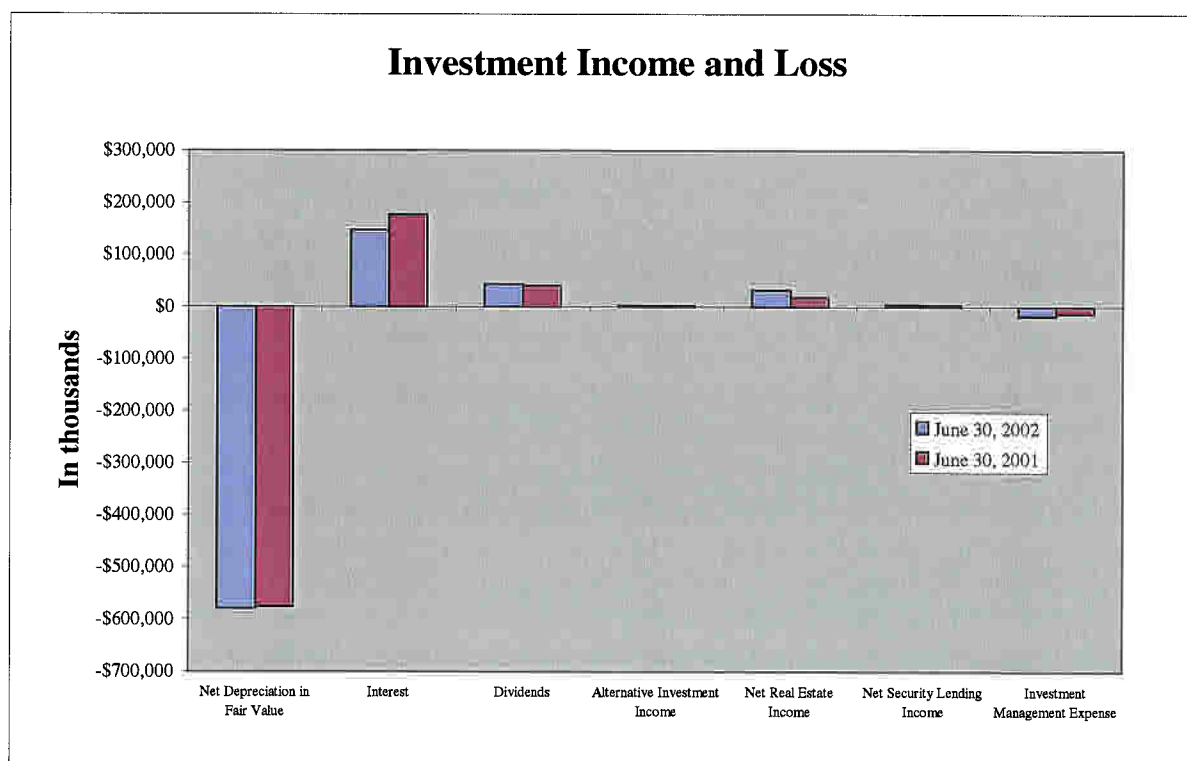
The additions to LACERS's net assets consist of Member Contributions, City Contributions, and Net Investment Loss. These additions are the main funding source to support LACERS's benefits. City Contributions were \$79,468,000 during the year, or \$8,429,000 less than the prior fiscal year due to a smaller contribution percentage recommended by the actuary two years ago. The recommended contribution percentage was 4.71% of total covered payroll for fiscal 2002, as compared with 5.60% for the preceding fiscal year. Factors that affect the amount of Member Contributions, however, are the number and composition of members and their salaries. During the year, members contributed \$6,194,000 (8.9%) more than the prior year due to a 1.1% net increase in the number of members, an overall increase in the number of members contributing at the higher rate (6%), and salary increases.

The net investment loss more than offset the Member Contributions and City Contributions and is discussed in the following section.

Investment Income and Loss

The following table and graph present the detail of investment income and loss, net of investment management expenses for the years ended June 30, 2002 and 2001 (in thousands):

	June 30, 2002	June 30, 2001	Change
Net Depreciation in Fair Value of Investments	\$ (580,020)	\$ (576,436)	(0.62)%
Interest	146,685	175,783	(16.55)
Dividends	42,803	40,446	5.83
Alternative Investment Income	2,148	1,809	18.74
Real Estate Income, Net	31,666	18,471	71.44
Security Lending Income, Net	3,913	3,746	4.46
Investment Management Expense	(17,688)	(13,136)	34.65
Total Investment Loss, Net	\$ (370,493)	\$ (349,317)	(6.06)%



Investment Income and Loss (continued)

The amount of net investment loss was \$370,493,000 during the year, or 6% more than the prior fiscal year. The weak financial markets continued during the current fiscal year as evidenced by the \$580,020,000 net depreciation in fair value of LACERS's investments. The net depreciation includes realized and unrealized capital gain/loss and remains at about the same level as the year before.

One other reason for the expanded investment loss was the decrease in interest income by 16.5%. This was due to lower net bond yields and a slight decrease in bond holdings. The alternative investments and real estate portfolio produced positive returns, which counteracted the market movements as expected by the diversification of LACERS's asset allocation. Investment management expense increased by over \$4,000,000 due to a net increase of three investment managers and increased fees for performance that exceeded industry benchmarks.

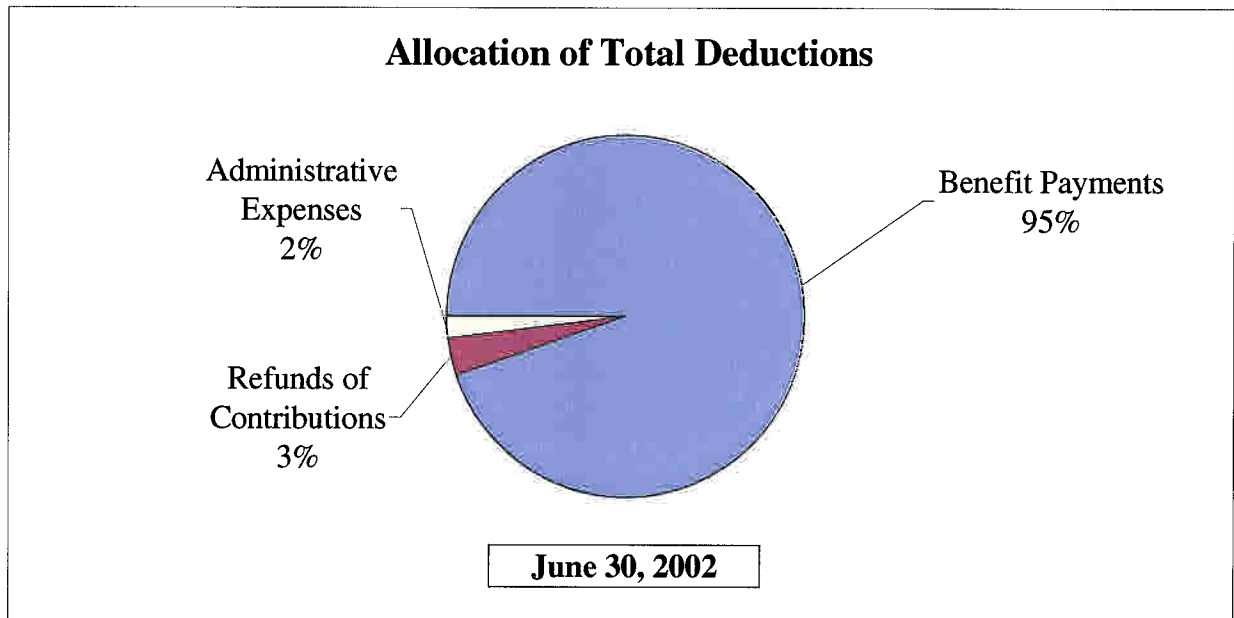
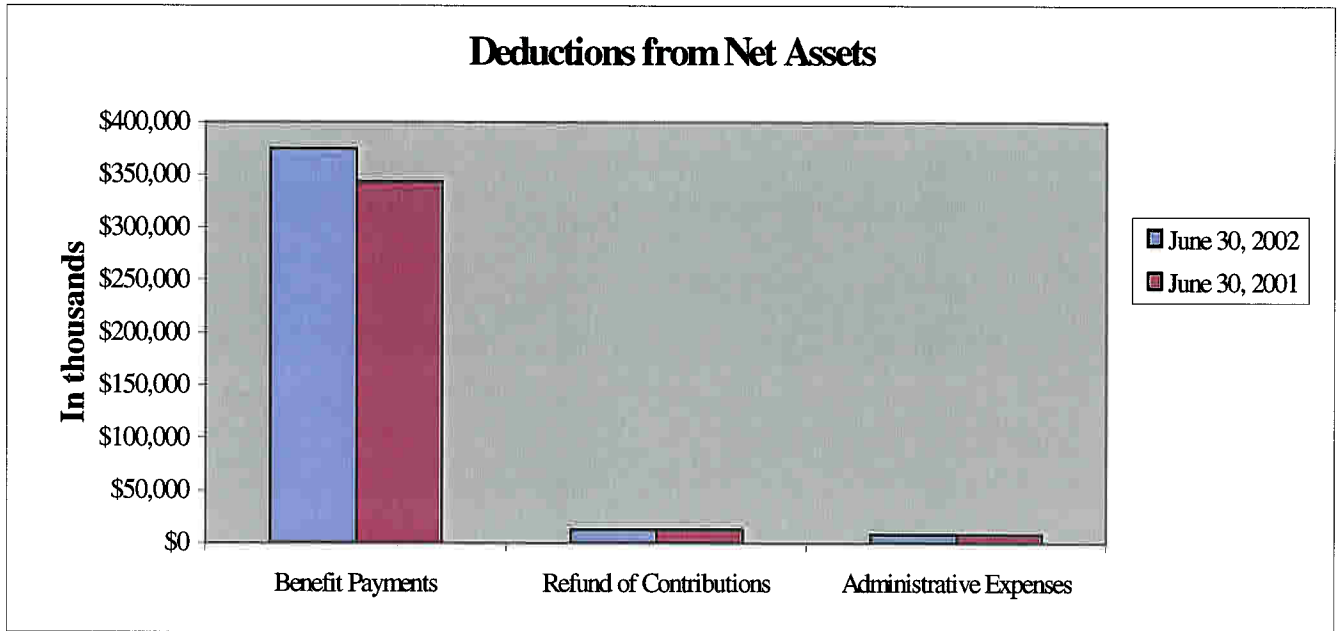
Change in Net Assets – Deductions from Net Assets

The following table and graphs provide information related to the deductions from net assets for the years ended June 30, 2002 and 2001 (in thousands):

	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>	<u>Change</u>
Benefit Payments	\$ 374,816	\$ 343,105	9.24%
Refund of Contributions	13,049	12,923	0.98
Administrative Expenses	8,133	8,200	(0.82)
Deductions from Net Assets	<u>\$ 395,998</u>	<u>\$ 364,228</u>	<u>8.72%</u>

LACERS's deductions from net assets can be summarized as Benefit Payments, Refunds of Contributions, and Administrative Expenses. They represent the types of benefit delivery operations undertaken by LACERS and the cost associated with it. Total deductions increased by 8.7%. Most of the increase was due to a greater amount of benefit payments, which increased by 9.2%. The reasons for this increase are primarily the annual cost of living adjustment of approximately 3%, the increase in number of retirees by 1.7%, and the average monthly benefit amount that was 4.7% higher than the prior year. Refunds of Contributions and Administrative Expenses remained at about the same level as the prior fiscal year, and accounted for approximately 3% and 2% of total deductions from net assets, respectively.

Change in Net Assets – Deductions from Net Assets (continued)



REQUEST FOR INFORMATION

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

LACERS
Fiscal Management Division
360 East Second Street, Eighth Floor
Los Angeles, CA 90012

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

Retirement Plan and Postemployment
Healthcare Plan Statement of Plan Net Assets

As of June 30, 2002, with Comparative Totals

(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Totals	
			2002	2001
Assets				
Cash and short-term investments (Note 5)	\$ 595,369	\$ 71,798	\$ 667,167	\$ 591,725
Receivables:				
Accrued investment income	32,643	3,937	36,580	37,734
Proceeds from sales of investments	116,348	14,031	130,379	174,693
Other	4,274	516	4,790	4,402
Total receivables	153,265	18,484	171,749	216,829
Investments, at fair value (Notes 5 and 6):				
U.S. government obligations	294,920	35,566	330,486	283,857
Municipal bonds	42,216	5,091	47,307	11,078
Domestic corporate bonds	731,784	88,250	820,034	865,685
International bonds	214,039	25,812	239,851	462,846
Domestic stocks	2,199,518	265,251	2,464,769	2,882,329
International stocks	1,058,001	127,590	1,185,591	1,275,937
Mortgages	381,131	45,963	427,094	415,781
Government agencies	133,636	16,116	149,752	102,098
Real estate	329,783	39,770	369,553	343,800
Venture capital and alternative investments	210,057	25,332	235,389	252,579
Security lending collateral	748,007	90,206	838,213	847,462
Total investments	6,343,092	764,947	7,108,039	7,743,452
Capital assets:				
Furniture, fixtures and equipment (net of depreciation)	64	7	71	-
Total assets	7,091,790	855,236	7,947,026	8,552,006
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	16,098	1,941	18,039	16,814
Purchases of investments	336,280	40,554	376,834	362,421
Security lending collateral	748,007	90,206	838,213	847,462
Total current liabilities	1,100,385	132,701	1,233,086	1,226,697
Net assets held in trust for pension benefits and postemployment healthcare benefits (a schedule of funding progress is presented on page 41)	\$ 5,991,405	\$ 722,535	\$ 6,713,940	\$ 7,325,309

See accompanying notes.

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

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

Year ended June 30, 2002, with Comparative Totals

(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Totals 2002	Totals 2001
Additions:				
Contributions:				
Employer	\$ 51,879	\$ 27,589	\$ 79,468	\$ 87,897
Plan member	75,654	-	75,654	69,460
Total contributions (Note 2)	127,533	27,589	155,122	157,357
Investment income (loss):				
Net depreciation in fair value of investments, including gain and loss on sales	(508,968)	(71,052)	(580,020)	(576,436)
Interest	131,723	14,962	146,685	175,783
Dividends	38,439	4,364	42,803	40,446
Alternative investment income	1,929	219	2,148	1,809
Real estate operating income, net of expense	28,513	3,153	31,666	18,471
Security lending income, net of expense (Note 6)	3,521	392	3,913	3,746
	(304,843)	(47,962)	(352,805)	(336,181)
Investment management expense	(15,487)	(2,201)	(17,688)	(13,136)
Total investment loss, net	(320,330)	(50,163)	(370,493)	(349,317)
Total additions	(192,797)	(22,574)	(215,371)	(191,960)
Deductions:				
Benefits	332,747	42,069	374,816	343,105
Refunds of contributions	13,049	-	13,049	12,923
Administrative expenses	7,137	996	8,133	8,200
Total deductions	352,933	43,065	395,998	364,228
Net decrease	(545,730)	(65,639)	(611,369)	(556,188)
Net assets held in trust for pension benefits and postemployment healthcare benefits:				
Beginning of year	6,537,135	788,174	7,325,309	7,881,497
End of year	\$ 5,991,405	\$ 722,535	\$ 6,713,940	\$ 7,325,309

See accompanying notes.

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

Notes to Financial Statements

June 30, 2002

1. Description of the Plan and Significant Accounting Policies

General

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

The System operates a single-employer defined benefit plan (the retirement plan) and postemployment healthcare plan. The City and eligible employees contribute to the System based upon rates recommended by an independent actuary and adopted by the Board. Contributions are invested and applied to benefit payments with accumulated investment earnings. The retirement plan provides for death, normal and disability retirement benefits. Changes to the types of benefits provided require approval by the City Council.

The primary eligibility requirement for the postemployment healthcare subsidy is that the person is a retired employee, and/or an eligible spouse, who is receiving a monthly allowance from the Los Angeles City Employees' Retirement System. The required contribution rate for the postemployment healthcare benefits for the fiscal year ended June 30, 2002, was 2.17% of covered payroll.

The System's funding policy under Article XI Sections 1158 and 1162 provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2002, the System's actuary recommended the rate of 2.54% of covered payroll as the City's contribution to the retirement plan for pension benefits. Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (see Note 4). Members entering

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

Notes to Financial Statements (continued)

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

General (continued)

subsequent to January 1983 contribute a flat rate of 6%. Members of the System have a vested right to their own contributions and accumulated investment earnings. After five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member with five or more years of service terminates employment, the member has the option of receiving retirement benefits when eligible or withdrawing from the System and having his or her contributions and accumulated investment earnings refunded. Benefits are based upon age, length of service and compensation.

The components of the System's membership were as follows at June 30, 2002:

Active:	
Vested	16,854
Nonvested	9,076
	<u>25,930</u>
Inactive:	
Nonvested	1,158
Terminated entitled to benefits, not yet receiving benefits	957
Retired	13,589
Total	<u><u>41,634</u></u>

Basis of Accounting

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

Basis of Presentation

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

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

Notes to Financial Statements (continued)

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

Basis of Presentation (continued)

The accompanying financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States.

Reclassifications

Certain reclassifications have been made to the prior year financial statement captions to make them consistent with current year presentation.

Fair Value of Investments

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

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

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the statement of plan net assets as receivables and labeled proceeds from sales of

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

Notes to Financial Statements (continued)

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

Fair Value of Investments (continued)

investments, and amounts payable for purchases are reported as current liabilities and labeled purchases of investments. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

Concentrations of Market and Credit Risk

The System's exposure to credit loss in the event of nonperformance of its investments is limited to the carrying value of such instruments. The System's concentrations of credit risk and market risk are dictated by the System's investment guidelines. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statement of plan net assets and the statement of changes in plan net assets.

Capital Assets

Effective July 1, 2001, purchases of capital assets, consisting primarily of office furniture and computer equipment are capitalized upon acquisition and depreciated over five years. Prior to July 1, 2001, these purchases were recorded and expensed in the year acquired.

Administrative Expenses

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

Reserves

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

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

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

Notes to Financial Statements (continued)

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

Reserves (continued)

Employer Contributions – Consists of the following components:

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

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

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

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

Reserve balances as of June 30, 2002, are as follows (in thousands):

Member contribution	\$ 950,002
Basic pensions	4,579,727
Retired member annuity	444,197
Family death benefit	17,480
Postemployment health benefit	722,534
Total reserves	<u>\$ 6,713,940</u>

Use of Estimates in Preparation of the Financial Statements

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

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

Notes to Financial Statements (continued)

2. Contributions Required and Contributions Made

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

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

The contributions to the System for the year ended June 30, 2002, of approximately \$155,122,000 (\$127,533,000 for the retirement plan and \$27,589,000 for the postemployment healthcare plan), were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 2000.

Contributions to the System consisted of the following for the year ended June 30, 2002 (in thousands):

	Retirement Plan	Postemployment Healthcare Plan
Required contribution	\$ 32,296	\$ 27,589
Defrayal of portion of member contributions	19,388	-
Family death benefits insurance plan	195	-
Total City contributions	51,879	27,589
Member contributions	75,654	-
Total contributions	\$ 127,533	\$ 27,589

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

Notes to Financial Statements (continued)

3. Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 25 through 28.

4. Defrayment of Portion of Member Contributions

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

The amount payable by the City, based upon the actuarial valuations, was approximately 37% of subsidized member contributions for the year ended June 30, 2002. The City contributed \$19.4 million in this manner for the year ended June 30, 2002.

5. Cash and Short-Term Investments and Investments

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

- The aggregate monies invested in debt-type securities, such as bonds or debentures below investment grade, cannot exceed 20% of the assets of the System.
- Thirty-five percent of the System's assets may be invested in short-term money market instruments such as certificates of deposit, commercial paper, bankers' acceptances and repurchase agreements. A "short-term" money market instrument is one which matures within one year from the purchase date.
- The aggregate monies invested in equity-type securities, such as common stocks, preferred stocks, convertible preferred stocks and convertible bonds and debentures cannot exceed 70% of the System's assets. A maximum of 50% of equity-type securities may be invested in corporations that have not paid a dividend on their common stock in each of the five fiscal years next preceding the date of investment.

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

Notes to Financial Statements (continued)

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

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

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

The System considers investments purchased with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2002, on the retirement plan and postemployment healthcare plan statement of plan net assets includes approximately \$757,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of \$666,410,000 for a total of \$667,167,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable. At June 30, 2002, short-term investments included commercial paper of \$54,991,000, collective STIF of \$170,348,000, international STIF of \$439,278,000, and future initial margin of \$1,793,000.

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

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

Notes to Financial Statements (continued)

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

At June 30, 2002, the fair value of investments was as follows (in thousands).

Investments – Category 1 (held by System's agent in the System's name):

Investments held by broker-dealers not under securities loans:

Futures initial margin	\$ 1,793
U.S. government obligations	567,826
Domestic corporate fixed income securities	735,158
International fixed income securities	202,895
Domestic stocks	2,195,990
International stocks	859,067
Commercial paper	54,991

Subtotal	4,617,720
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Investments held by broker-dealers under securities loans with noncash collateral:

U.S. government and agency securities	130,527
Domestic corporate fixed income securities	123
International fixed income securities	4,629
Domestic stocks	3,175
International stocks	152,386

Subtotal	290,840
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Total Category 1	4,908,560
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Investments – not categorized:

Investments held by broker-dealers under securities loans with cash collateral:

U.S. government and agency securities	256,286
Domestic corporate fixed income securities	84,753
International fixed income securities	32,327
Domestic stocks	265,604
International stocks	174,138

Subtotal	813,108
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Los Angeles City Employees' Retirement System
(A Department of the City of Los Angeles, California)

Notes to Financial Statements (continued)

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

Collective STIF	\$ 170,348
International STIF	439,278
Securities lending short-term investment pool (<i>Note 6</i>)	838,213
Real estate investment funds	369,553
Alternative investments	235,389
Equity in City treasury	757
Subtotal	<u>2,053,538</u>
Total investments - not categorized	<u>2,866,646</u>
Less equity in City treasury	<u>(757)</u>
Total investments, net of equity in City treasury	<u><u>\$ 7,774,449</u></u>

6. Securities Lending Agreement

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

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

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

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

Notes to Financial Statements (continued)

6. Securities Lending Agreement (continued)

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

As of June 30, 2002, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent.

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

The following represents the balances relating to the security lending transactions as of June 30, 2002 (in thousands):

Securities Lent	Fair Value of Underlying Securities
U.S. government and agency securities	\$ 386,813
Domestic corporate fixed income securities	84,876
International fixed income securities	36,956
Domestic stocks	268,779
International stocks	326,524
	\$ 1,103,948

As of June 30, 2002, the fair value of the lent securities was \$1,103,948,000. The fair value of associated collateral was \$1,141,703,000. Of this amount, \$838,213,000 represents the fair value of cash collateral and \$303,490,000 represents the fair value of the noncash collateral. Noncash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were \$5,590,000 and \$1,677,000, respectively, for the year ended June 30, 2002.

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

Notes to Financial Statements (continued)

7. Futures and Forward Contracts

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

At June 30, 2002, the System had net outstanding futures and forward commitments with a notional amount of \$141,377,000, which expire through September 2002. These commitments are not recorded in the financial statements. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was \$1,793,000 as of June 30, 2002. The realized loss on foreign currency translation was \$43,599,000 for the year ended June 30, 2002. Future contracts have little credit risk, as organized exchanges are the counterparties. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

8. Commitments and Contingencies

At June 30, 2002, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately \$317,395,000.

9. Effect of New Pronouncements

In June 1999, GASB issued statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments." This statement establishes financial reporting standards for state and local governments, including public employee retirement systems. The System implemented GASB No. 34 for the fiscal year ended June 30, 2002, and the effect on the System's financial statements was not material. Under the revised requirements, government financial statements will include management's discussion and analysis (MD&A), basic financial statements, and required supplementary information.

Required Supplementary Information

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

Required Supplementary Information
Retirement Plan
Schedule of Funding Progress

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded or (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 1997	\$ 4,802,509	\$ 4,886,337	\$ 83,828	98.3%	\$ 990,616	8.5%
June 30, 1998	5,362,923	5,312,918	(50,005)	100.9	1,011,857	(4.9)
June 30, 1999	5,910,948	5,684,586	(226,362)	104.0	1,068,124	(21.2)
June 30, 2000	6,561,365	6,012,931	(548,434)	109.1	1,182,203	(46.4)
June 30, 2001	6,988,782	6,468,066	(520,716)	108.1	1,293,350	(40.3)
June 30, 2002	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4

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

Required Supplementary Information
Retirement Plan
Schedule of Employer Contributions

(Dollars in Thousands)

	Employer Contributions Total	
	Annual Required Contribution	Percentage Contributed
Year ended June 30:		
1997	\$ 88,800	100%
1998	64,460	100
1999	69,249	100
2000	72,146	100
2001	59,153	100
2002	32,296	100

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

Required Supplementary Information
Retirement Plan
Notes to Required Supplementary Information

1. Description

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

2. Actuarial Methods and Assumptions for Retirement Plan

Valuation date	June 30, 2002
Actuarial-cost method	Projected unit credit
Amortization method	Level percent supplemental cost
Remaining amortization period	Varies 15-30 years, closed
Actuarial valuation-of-assets method	Market value adjusted for unamortized actuarial investment gains/losses (amortized over a five-year period); actuarial value of assets must be between 80% to 120% of actual market value of plan assets.
Actuarial assumptions:	
Investment rate of return	8%
Includes inflation at	4%
Projected salary increases	5% per year, higher for members with less than five years of service.
Cost of living adjustments	3%
Mortality table for retirees and beneficiaries	1994 Male Group Annuity Table, setback three years for females (1971 Group Annuity Mortality Table used for the fiscal year ended June 30, 2001).
Mortality table for disabled retirees	1981 Disability Table, set back five years for females.

Actuarial assumption changes, such as mortality, withdrawal and salary increases were reflected in the June 30, 2002, valuation. The Retirement Plan's total liability increased by \$462,651,000 as a result of the assumption changes.

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

Required Supplementary Information
Retirement Plan

Notes to Required Supplementary Information (continued)

3. Significant Factors Affecting Trend in Actuarial Information

The actuarial value of assets (a) is determined by an actuarial method which amortizes the gains or losses over a period of five years, and does not reflect the entire change of fair value of assets of any given year. The actuarial accrued liability (b) as of June 30, 2002, shows a relatively large increase as a result of the assumption changes approved by the Board. The large increase in the actuarial accrued liability caused the funded ratio (a/b) to decrease to 97.4%. Lacking a significant increase in the fair value of investments over the next few years, the unrecognized loss accumulated under the amortization method will begin to reduce the actuarial value of assets and to depress further the funded ratio.



Supplemental Schedules

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

Schedule of Administrative Expenses

Year ended June 30, 2002

(In Thousands)

	Retirement Plan	Postemployment Healthcare	Total
Personnel services:			
Staff salaries	\$ 4,209	\$ 588	\$ 4,797
Staff benefits	444	62	506
Total personnel services	4,653	650	5,303
Professional services:			
Actuarial	39	6	45
Data processing	476	66	542
Audit	110	15	125
Retirees' health consulting	331	46	377
Legal counsel	220	31	251
Medical for temporary disability	132	18	150
Total professional services	1,308	182	1,490
Communication:			
Printing	113	16	129
Telephone	21	3	24
Postage	66	9	75
Travel	45	6	51
Total communication	245	34	279
Rentals:			
Office space	622	87	709
Equipment leasing	19	3	22
Total rentals	641	90	731
Miscellaneous:			
Office	281	39	320
Depreciation	9	1	10
Total miscellaneous	290	40	330
	\$ 7,137	\$ 996	\$ 8,133

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

Schedule of Investment Expenses

Year ended June 30, 2002

Investment expenses of the System for the year ended June 30, 2002, were as follows (in thousands):

	Assets Under Management	Fees
Retirement Plan		
Investment management expense:		
Fixed income managers	\$ 1,797,726	\$ 1,788
Equity managers	3,257,520	12,308
Alternative investment consulting fees	210,057	241
Other investment fees	N/A	1,150
Subtotal investment management expenses, excluding real estate	5,265,303	15,487
Healthcare		
Investment management expense:		
Fixed income managers	216,798	250
Equity managers	392,841	1,718
Alternative investment consulting fees	25,332	34
Other investment fees	N/A	199
Subtotal	634,971	2,201
Total Investment management expenses, excluding real estate	\$ 5,900,274	\$ 17,688
Real estate managers' fees:		
Retirement plan	\$ 329,783	\$ 3,298
Healthcare	39,770	397
Total real estate managers' fees	\$ 369,553	\$ 3,695
Security lending fees:		
Retirement plan	\$ 748,006	\$ 1,497
Healthcare	90,206	180
Total security lending fees	\$ 838,212	\$ 1,677

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM



INVESTMENT SECTION



CITY OF LOS ANGELES

CALIFORNIA



JAMES K. HAHN
MAYOR

BOARD OF ADMINISTRATION

—
SHELLEY I. SMITH
PRESIDENT

ROBERT D. BEYER
VICE PRESIDENT

—
MARVIN ADAMS, JR.
ERIC L. HOLOMAN
CHARLEY M. MIMS
THOMAS J. MIZO
KEN SPIKER

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

360 EAST SECOND STREET
2ND FLOOR
LOS ANGELES, CA 9001 2-4207

—
OSCAR PETERS
GENERAL MANAGER
(213) 473-7280
DANIEL P. GALLAGHER
CHIEF INVESTMENT OFFICER
(213) 473-7124

—
TTY (888) 349-3996

REPORT ON INVESTMENT ACTIVITY

December 11, 2002

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

Dear Commissioners,

Presented below for your consideration is my summary report of the Fund's investment activities for fiscal year 2001-2002.

Market Overview

The first quarter of the FY 2001-2002 was marred by the tragedy of the September 11 terrorist attacks on the World Trade Center in New York. This tragic event caused turmoil in global equity markets, exacerbating the global equity market declines already underway. Equity market fears drove investors to a flight to quality, particularly benefiting US Treasury bonds. The following quarter saw a rebound in global public equity markets in response to the rate cuts of central banks and growing market optimism. Accounting scandals and fear of weaker corporate earnings hurt the markets in the third quarter of the fiscal year. In the last quarter FY 2001/2002, fundamental concerns of lower corporate earnings, threats of further acts of terrorism, and the increasing frequency and magnitude of accounting scandals contributed to an atmosphere of economic uncertainty resulting in an erosion of investor confidence globally, and continuing the decline in equity markets.

Investment Performance

After producing six consecutive years of double-digit growth investment returns through FY 1999-2000, the portfolio declined in FY 2001-2002 for the second consecutive year. For the year ended June 30, 2002, the total portfolio's rate of return of -4.8% exceeded its policy benchmark of -5.6%, but was below the 8% actuarial rate. On a relative basis, the portfolio performed in the top 1/3 of public pension funds greater than \$1 billion. The portfolio ended the fiscal year at a market value of \$6.7 billion.

Domestic equities' investment return of -13.9% exceeded its benchmark of -17.2%. Fixed income returned 7.1%, trailing its benchmark of 7.7%. Returning -7.3%, non-US equities out-performed its benchmark of -8.2%. With a return of 13.1%, real estate exceeded its benchmark of 6.5%, while alternative investments' return of -12.4% lagged its benchmark return of -4.2%. Table 4 displays a summary of investment returns.

Manager Search, Contract Renewal, and New Hires

Public Markets

The Board issued a request for proposal for an emerging markets equities portfolio manager. The large cap value equities manager search begun in the prior fiscal year was completed, and two managers were selected (Table 3). Contracts with seven managers of publicly traded securities were renewed (Table 1).

Private Investments

The Board continued to fund private investments in both alternative and real estate asset classes. During FY 2001-2002, partnerships made capital calls of approximately \$83 million. The Board added one alternative investment partnership and one real estate partnership to the portfolio (Table 2).

Policies, Procedures, and Guidelines

The Board continued its strategic goal of reviewing and updating investment policies, procedures and guidelines. The Real Estate Investment Strategy and Policy documents were reviewed, and increases in both the commitment target and upper asset allocation range were adopted.

The Investment Policy for Alternative Investments was reviewed and updated to include a revised benchmark for the asset class. The Proxy Policy was amended to address proxy voting in non-US markets.

Asset Allocation

The Board eliminated global bonds as a separate asset class, terminating the contract with Morgan Grenfell. Remaining assets were transferred to current core bonds managers.

The JP Morgan contract was terminated, discontinuing the enhanced equity index mandate. Assets funded the new large cap value equity managers.

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

Respectfully submitted,



Daniel P. Gallagher
Chief Investment Officer

INVESTMENTS

FISCAL YEAR 2001-2002

OUTLINE OF INVESTMENT POLICIES

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

1. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.
2. The System's investment program shall at all times comply with existing and future applicable city, state, and federal regulations.
3. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.
4. The System has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.
5. Investment actions are expected to comply with "prudent person" standards as described:

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

PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

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

Investment Manager	Discipline
Daiwa SB Investments	Active Pacific Basin Equity
Capital Guardian Trust Company	Active European Equity
Fiduciary Trust	Active Small Cap Growth Equity
Rhumblin	Passive S&P 500 Index Equity
Barclays Global Investors	Passive Large Cap Value Index Equity
Loomis Sayles & Co.	Active Core Fixed Income
State Street Global Investors	Passive EAFE Indexed Non-US Equity

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

Investment Partnership	Discipline
Oaktree Capital Management Opportunities Fund IV	Distressed Debt
Tuckerman Fund III	Multi-family Residential Development

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

Investment Manager	Discipline
Aronson Partners	Active domestic Large Cap Value Equity
Pacific Financial Advisors	Active domestic Large Cap Value Equity

INVESTMENT RESULTS

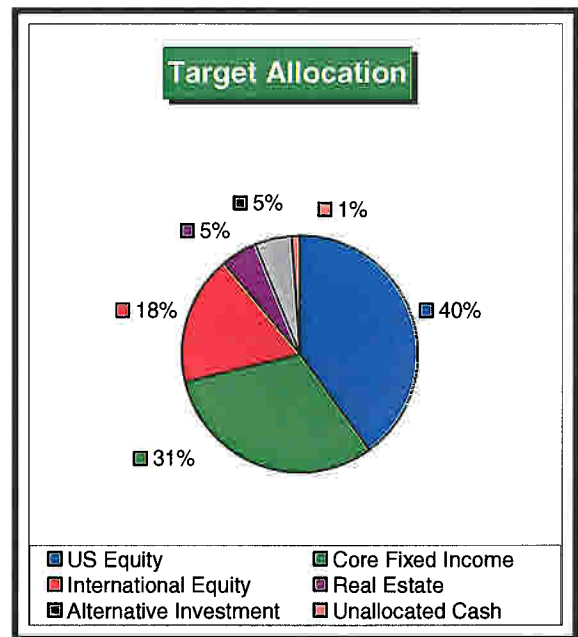
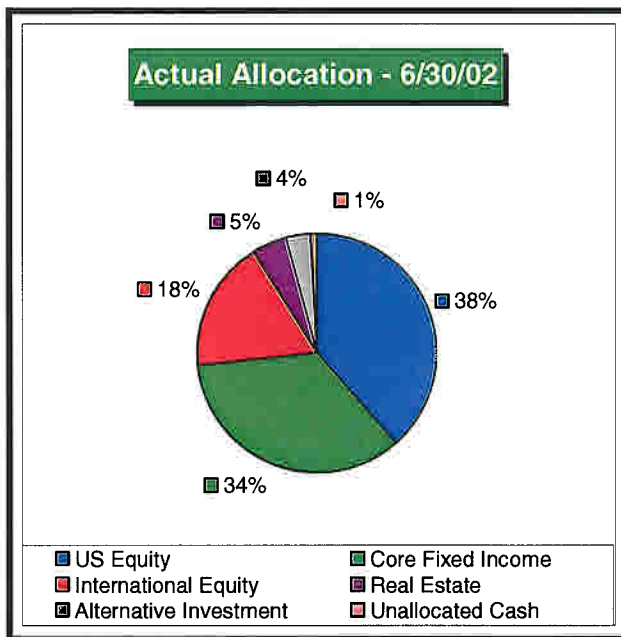
TABLE 4 -- Annualized actual investment returns compared to benchmark index:

RETURN SUMMARY *	Annualized		
	1 Year (%)	3 Years (%)	5 Years (%)
US Equity	-13.9	-3.7	5.2
<i>Russell 3000</i>	<i>-17.2</i>	<i>-7.9</i>	<i>3.8</i>
US Fixed Income	7.1	7.6	7.3
<i>LB Universal **</i>	<i>7.7</i>	<i>7.7</i>	<i>7.3</i>
International Equity	-7.3	-6.9	-4.8
<i>MS ACWI Free ex US Index *</i>	<i>-8.2</i>	<i>-5.7</i>	<i>0.8</i>
Real Estate	13.1	11.3	13.3
<i>NCREIF Property Index</i>	<i>6.5</i>	<i>10.0</i>	<i>12.07</i>
Alternative	-12.4	2.8	6.7
<i>Alternative IRR Index</i>	<i>-4.2</i>	<i>1.7</i>	<i>7.6</i>
LACERS Total Fund	-4.8	0.3	4.0
<i>LACERS Policy Benchmark</i>	<i>-5.6</i>	<i>-0.7</i>	<i>5.3</i>

ASSET ALLOCATION

TABLE 5 – Asset Allocation as of June 30, 2002
Actual and Target

Actual		Target	
US Equity	38.6 %	US Equity	40.0 %
Core Fixed Income	34.6 %	Core Fixed Income	31.0 %
International Equity	18.0 %	International Equity	18.0 %
Real Estate	4.6 %	Real Estate	5.0 %
Alternative Investment	3.5 %	Alternative Investment	5.0 %
Unallocated Cash	0.7 %	Unallocated Cash	1.0 %



LIST OF LARGEST ASSETS HELD

Displayed below are the ten largest holdings in each asset class along with their market and share/par values, as of June 30, 2002. A complete listing of the System's holdings may be obtained upon request.

TABLE 6 -- **DOMESTIC FIXED HOLDINGS**

No.	Par Value	Asset Description	Market Value US \$
1.	17,305,000	US Treas Bds 12.75% due 11-15-2010	22,221,177
2.	17,505,000	FNMA 15 Yr pass-through 6% 15 yrs	17,849,673
3.	11,700,000	US Treas Nts 6.125% due 08-15-2007	12,756,276
4.	9,435,000	US Treas Bds 8.75% due 05-15-2017	12,586,761
5.	8,475,000	US Treas Bds 6.375% due 08-15-2017	9,245,038
6.	8,540,013	FNMA Pool #190300 6% due 09-01-2024	8,652,912
7.	7,135,000	US Treas Bds 11.75% due 02-15-20010	8,619,936
8.	7,272,381	FNMA Pool #251697 6.5% due 05-01-2028	7,451,354
9.	6,665,000	FNMA 6.5% due 08-15-2004	7,116,420
10.	6,870,000	GNMA 1 30 Yr Single Family 6.5% 30 Yrs	7,005,270
Total			113,504,817

TABLE 7 -- **DOMESTIC EQUITY HOLDINGS**

No.	Shares	Asset Description	Market Value US \$
1.	688,798	Microsoft Corp	37,677,250
2.	418,260	FNMA Com Stk	30,846,675
3.	765,611	CITIGroup Inc	29,667,426
4.	708,570	Exxon Mobil Corp	28,994,684
5.	916,136	Gen Elec Co	26,613,750
6.	686,523	Pfizer Inc	24,028,305
7.	386,244	FHLMC Vtg Com	23,638,132
8.	417,157	Wal-Mart Stores Inc	22,947,806
9.	1,648,231	Tyco Intl Ltd	22,267,600
10.	502,965	Philip Morris Cos Inc	21,969,511
Total			268,651,139

TABLE 8 – NON-US FIXED INCOME HOLDINGS

No.	Par Value	Asset Description	Market Value US \$
1.	15,875,000	Deutsche Telekom Intl 8.75 due 06-15-2030	14,757,495
2.	10,000,000	Empresa Nacional de Electricidad Chile 8.5 due 04-01-2009	9,972,550
3.	8,000,000	Mexico (United Mexican States) 11.375% Bds 09-15-2016	9,860,000
4.	9,795,000	Italy (Rep of) 4.5% due 1/3/2007	8,658,110
5.	5,750,000	Philips Elec 6.125% due 16/5/2011	5,811,556
6.	5,925,000	Samsung Electrs Ltd due 10-01-2027	5,800,575
7.	5,500,000	Petroleos Mexicanos Global 9.5 due 09-15-2027	5,678,750
8.	10,000,000	Asian Dev Bank 5.25% due 15/9/2004	5,566,599
9.	5,500,000	Utd Mexican Sts Medium Term Nts Book 8.3 due 08-15-2031	5,348,750
10.	5,250,000	Household Fin Corp 6.25% Emtn 21/09/05	5,239,608
Total			76,693,993

TABLE 9 -- NON-US EQUITY HOLDINGS

No.	Shares	Asset Description	Market Value US \$
1.	69,622	Samsung Electronic	19,040,431
2.	298,064	Royal Dutch Petrol	16,602,285
3.	372,150	Novartis AG	16,366,348
4.	10,834,825	Vodafone Group	14,863,492
5.	743,506	Nokia	10,882,080
6.	1,275,010	British Petroleum	10,708,327
7.	195,600	Sony Corp	10,329,952
8.	357,598	Philips Elec	9,983,898
9.	42,803	Nestle	9,979,937
10.	443,694	Glaxosmithkline	9,589,947
Total			128,346,697

SCHEDULE OF FEES

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

Fiscal Year	2002		2001	
	Assets Under Management	Fees	Assets Under Management	Fees
Investment Manager Fees:				
Fixed Income Managers	\$ 2,014,524	\$ 2,038	\$ 2,014,524	\$ 2,608
Equity Managers	3,650,361	14,026	3,650,361	8,936
Real Estate Managers	369,553	3,695	369,553	3,974
Total	\$ 6,034,438	\$ 19,759	\$ 6,643,411	\$ 15,518
Other Investment Service Fees:				
Security Lending Fees	\$ 838,212	\$ 1,677	\$ 939,683	\$ 1,871
Alt Investment Consultant Fees	235,389	275	229,172	634
Other Invest Consultant Fees	N/A	1,349	N/A	908
Total	\$ 1,073,601	\$ 3,301	\$ 1,168,855	\$ 3,413

TABLE 11 -- SCHEDULE OF TOP TEN BROKERS COMMISSIONS

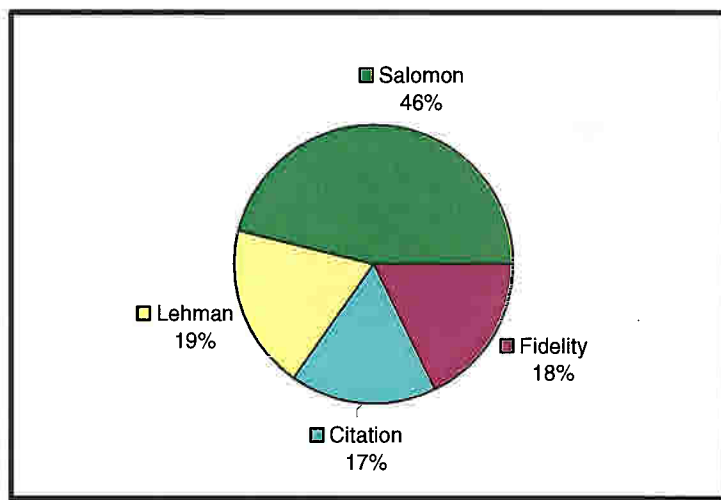
Broker Name	Shares	Commission	\$/Share
Instinet	4,365,197	\$ 123,172	\$ 0.028
Jefferies & Company	2,720,900	114,697	0.042
Credit Suisse First Boston Corporation	2,297,258	110,289	0.048
Smith Barney Inc	1,973,042	77,697	0.039
Merrill Lynch Pierce Fenner & Smith	4,347,213	77,619	0.018
Bear, Stearns, Securities Corp	1,652,500	75,603	0.046
UBS Warburg Dillon Read LLC	1,634,841	75,403	0.046
Banc America Secur. Montgomery Div	1,573,122	73,242	0.047
Investment Technology Group	2,815,834	71,809	0.026
Fidelity Capital Markets	1,108,300	63,206	0.057
Total	24,488,207	862,737	0.035
Total - Other Brokers	30,737,578	1,317,022	0.043
Grand Total *	55,225,785	\$ 2,179,759	\$ 0.040

- OTC Brokers excluded because there is no stated commission.

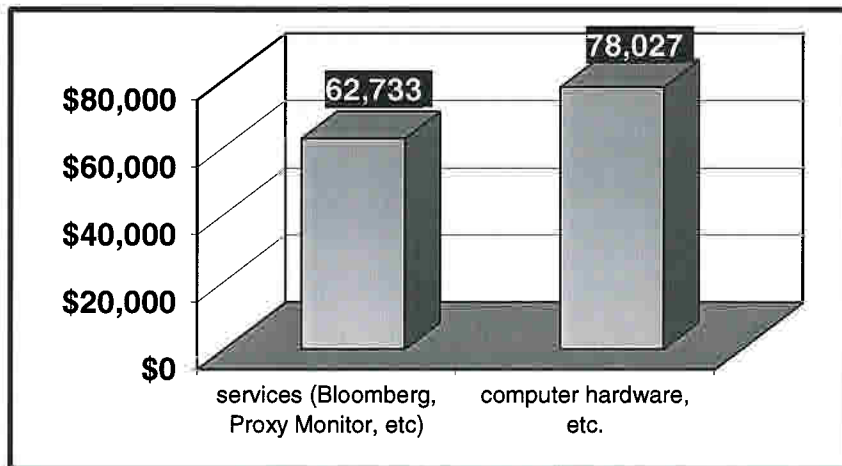
TABLE 12 -- **TOTAL DIRECTED COMMISSION EXPENDITURES 2001-2002**

Fidelity	\$	25,032
Citation		24,000
Lehman		26,892
Salomon		64,836
Total	\$	140,760
Services (Bloomberg, Proxy Monitor, etc)		62,733
Computer Hardware, etc.		78,027
Total	\$	140,760

Expenditure by broker



Expenditure type



COMMISSION RECAPTURE

TABLE 13 -- COMMISSION RECAPTURE FY 2001-2002

Broker Name	Amount	Percent
ABEL / NOSER	\$ 5,405	3.00 %
LYNCH, JONES & RYAN	177,941	97.00 %
ROCHDALE	65	0.00 %
Total	\$ 183,411	100.00 %

INVESTMENT SUMMARY

TABLE 14 -- INVESTMENT SUMMARY AS OF JUNE 30, 2002

Type of Investment	Fair Value	% of Total F. V.	Domestic Fair Value	Foreign Fair Value
Fixed Income:				
Government bonds/Municipal/Gov't agencies	\$ 767,396,000	10.79%	\$ 527,545,000	\$ 239,851,000
Corporate bonds	820,034,000	11.54%	820,034,000	-
Government mortgage bonds	427,094,000	6.01%	427,094,000	-
Total fixed income	2,014,524,000	28.34%	1,774,673,000	239,851,000
Equities:				
Common stock:				
Basic industries	68,447,397	0.96%	52,906,046	15,541,352
Capital goods industries	562,043,834	7.91%	334,485,547	227,558,287
Consumer & services	1,353,281,563	19.04%	902,813,561	450,468,002
Convertible bonds/equities	3,936,990	0.06%	1,063,171	2,873,820
Energy	239,880,046	3.37%	135,137,219	104,742,827
Financial services	745,797,034	10.49%	479,429,347	266,367,686
Misc.(Common Fund Assets)	662,647,583	9.32%	556,229,062	106,418,520
Total common stock	3,636,034,447	51.15%	2,462,063,953	1,173,970,495
Preferred stock	11,177,179	0.16%	2,664,096	8,513,084
Rights/warrants/Unit trust equity	3,148,374	0.05%	40,952	3,107,422
Total equities	3,650,360,000	51.36%	2,464,769,000	1,185,591,000
Real Estate:	369,553,495	5.20%	369,553,495	-
Alternative Investments:				
Acquisitions	91,345,011	1.29%	91,345,011	-
Venture capital	103,902,380	1.46%	92,956,526	10,945,854
Subordinated debt	28,567,901	0.40%	28,567,901	-
International acquisitions	11,573,373	0.16%	-	11,573,373
Total alternative investments	235,388,665	3.31%	212,869,438	22,519,227
Security Lending Collateral:	838,212,868	11.79%	624,695,623	213,517,245
Total Fund	\$ 7,108,039,028	100 %	\$5,446,560,556	\$ 1,661,478,472

ADVISORY / CONSULTING / CUSTODY SERVICES

TABLE 15 -- ADVISORY / CONSULTING / CUSTODY SERVICES

INVESTMENT ADVISORS		
Equity - Domestic	Real Estate	Real Estate
Alliance Capital Minneapolis, MN BZW Barclays Global San Francisco, CA Dimensional Fund Advisors Santa Monica, CA Fiduciary Trust International New York, NY JP Morgan Investment Mgmt. New York, NY Oak Associates Akron, OH Rhumblin Advisers Boston, MA SIT Investment Associates, Inc. Minneapolis, MN Thomson, Horstmann & Bryant Saddle Brook, NJ	Aldrich, Eastman & Waltch Boston, MA Aslan Realty Partners Chicago, IL CB Richard Ellis Los Angeles, CA DLJ Real Estate Capital, Partners Los Angeles, CA Hancock Timber Resource Group Boston, MA ING Realty Partners Chicago, IL Invesco Realty Advisors Dallas, TX Koll Bren Realty Advisors Newport Beach, CA La Salle Advisors Chicago, IL	Miller Global Advisors Denver, CO L&B Real Estate Counsel Dallas, TX RREEF Funds San Francisco, CA TA Associates Realty Boston, MA TCW Realty Advisors Los Angeles, CA Tuckerman Group Boston, MA UBS Realty Advisors Hartford, CT Westbrook Partners New York, NY
Equity - International	Alternative	Alternative
Capital Guardian Trust Los Angeles, CA Daiwa International Capital New York, NY Marvin & Palmer Wilmington, DE Schroder Capital Mgmt. New York, NY State Street Global Boston, MA Templeton International Fort Lauderdale, FL TT International London, UK	Alchemy Partners London, UK Apollo Advisors Purchase, NY Austin Ventures Austin TX CGW Southeast Partners Atlanta, GA CVC Capital Partners London, UK Chisholm Partners Providence, RI Essex Woodlands Chicago, IL Golder, Thoma, Cressey & Renner Chicago, IL Interwest Partners Menlo Park, CA J.H. Whitney Stamford, CT Kelso New York, NY KKR New York, NY Madison Dearborn Providence, RI	Menlo Ventures Menlo Park, CA Navis Partners Providence, RI Oaktree Capital Management Los Angeles, CA Richland Ventures Nashville, TN Texas Pacific Group San Francisco, CA Thomas Cressey Chicago, IL Thomas H. Lee Company Boston, MA Trident Los Angeles, CA Vantage Point Venture Partners San Bruno, CA Vestar Capital Partners New York, NY Welsh, Carson, Anderson, & Stowe New York, NY Weston Presidio Capital Boston, MA

TABLE 15 -- **ADVISORY / CONSULTING / CUSTODY SERVICES - continued**

INVESTMENT ADVISORS

Fixed Income - Domestic

Cash & Short-Term

Lincoln Capital Mgmt. Co.
Chicago, IL
Loomis Sayles & Co., Inc.
San Francisco, CA
CB Richard Ellis
Los Angeles, CA

Managed In-House

Consultants

Custodian

Pension Consulting Alliance, Inc.
Portland, OR
The Townsend Group
Cleveland, OH
Pathway Capital Management
Irvine, CA

The Northern Trust Company
Chicago, IL

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM



ACTUARIAL SECTION



December 3, 2002

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

Members of the Board:

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

The June 30, 2002 actuarial valuation of the Los Angeles City Employees' Retirement System (LACERS) was prepared by Gabriel, Roeder, Smith & Company. We certify that the Retirement System is in sound financial condition and that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Gabriel, Roeder, Smith & Company (GRS) completed the annual actuarial valuation as of June 30, 2002. We conducted an examination of all participant data for reasonableness. Enclosed are summaries of the employee data used in performing the actuarial valuations over the past several years (pages 102 and 122). We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period (pages 99 and 100).

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

Components of the UAAL are amortized as a level percentage of payroll over periods varying from 10-30 years. Each year's actuarial gain (loss) is amortized over 15 years. Any liability changes due to benefit or assumption changes are amortized over 30 years. Every five years all the amortization bases are combined. The progress being made towards meeting the funding objective through June 30, 2002 is illustrated on page 119.

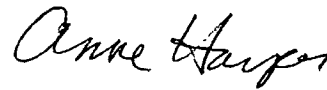
For the Financial Section of the Comprehensive Annual Financial Report, GRS provided the trend data shown in the Required Supplementary Information. The schedules presented in the Actuarial Section have also been prepared and/or reviewed by our firm.

The actuarial assumptions shown in the schedules of the Actuarial Section were selected by the Retirement Board and us as being appropriate for use under the Plan. The assumptions in the June 30, 2002 valuation produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan.

Respectfully submitted,



Rick Roeder, EA, FSA, MAAA



Anne Harper, EA



October 17, 2002

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

Members of the Board:

Results of the regular Annual Actuarial Valuation as of June 30, 2002 of The Los Angeles City Employees' Retirement System are summarized. The valuation is intended to provide a measure of the funding status of the retirement system and health subsidy benefits. This valuation forms the basis for the City contribution rates for the year beginning July 1, 2003.

CONTRIBUTIONS	RETIREMEN T	HEALTH
Normal Costs	10.58%	1.83%
Unfunded Amortization	(1.36)%	0.02%
TOTAL	9.22%	1.85%

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

There was an overall actuarial loss of \$241.0 million, which reflects 3.3% of related actuarial accrued liabilities as of June 30, 2001. This is in addition to a \$560 million liability increase attributed to assumption and benefit changes.

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

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY

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

Los Angeles City Employees' Retirement System

Summary of Significant Valuation Results

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>Percent Change</u>
I. Total Membership			
A. Active Members	25,930	25,654	1.1%
B. Pensioners	13,589	13,365	1.7%
II. Salaries at June 30			
A. Total Annual Payroll	\$1,334,335,478	\$1,293,350,061	3.2%
B. Average Monthly Salary	\$4,288	\$4,201	2.1%
III. Benefits to Current Pensioners and			
A. Total Annual Benefits prior to 7/1 COLA	\$336,437,038	\$316,057,216	6.4%
B. Average Monthly Benefit Amount	\$2,063	\$1,971	4.7%
IV. Total System Assets (Actuarial Value)			
A. Actuarial Value	\$7,934,761,638	\$7,853,296,534	1.0%
B. Market Value	\$6,713,940,288	\$7,325,308,818	(8.3%)
V. Unfunded Actuarial Accrued			
A. Retirement Benefits	\$191,930,161	(\$520,716,053)	N/A
B. Health Subsidy Benefits	\$78,047,910	(\$37,079,192)	N/A
VI. Budget Items	<u>FY 2003-2004</u>	<u>FY 2002-2003</u>	
A. Retirement Benefits			
1. Normal Cost as a Percent of Pay	10.58%	8.56%	23.6%
2. Amortization of Unfunded Actuarial Accrued Liability	(1.36%)	(4.72%)	71.2%
3. Total Retirement Contribution	9.22%	3.84%	140.1%
B. Health Subsidy Contribution, as a Percent	1.85%	1.98%	(6.6%)
C. Total Contribution (A+B)	11.07%	5.82%	90.2%
VII. Funded Ratio			
(Based on Actuarial Value of Assets)			
A. Retirement Benefits	97.4%	108.1%	(9.9%)
B. Health Subsidy Benefits	91.6%	104.6%	(12.4%)
C. Total	96.7%	107.7%	(10.2%)
(Based on Market Value of Assets)			
D. Retirement Benefits	82.4%	100.8%	(18.3%)
E. Health Subsidy Benefits	77.5%	97.6%	(20.6%)
F. Total	81.8%	100.4%	(18.5%)

Los Angeles City Employees' Retirement System
Financial Principles and Operational Techniques

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

The related key financial questions are:

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

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

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

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

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

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

(Concluded on next page)

Los Angeles City Employees' Retirement System
Financial Principles and Operational Techniques

(Concluded)

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

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

plus. . .

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

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

An actuarial valuation has a number of ingredients such as: the rate of investment return which plan assets will earn; rates of withdrawal of active members who leave covered employment; rates of mortality; rates of disability; rates of pay increases; and the assumed age or ages at actual retirement.

In an actuarial valuation assumptions must be made as to what the above rates will be, for the next year and for decades in the future. Only the subsequent actual experience of the plan can indicate the degree of accuracy of the assumptions.

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

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

THE ACTUARIAL VALUATION PROCESS

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

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

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

Retired lives now receiving benefits

Former employees with vested benefits not yet payable

Active employees

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

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

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

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

F. = Determination of:

Plan Financial Position and/or

Employer's New Contribution Rate

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**VALUATION RESULTS
&
COMMENTS**

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Los Angeles City Employees' Retirement System

June 30, 2002

FUNDING OBJECTIVE

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

CONTRIBUTION RATES

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

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

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

Computed contributions for the fiscal year beginning July 1, 2003 are shown on the following pages.

Los Angeles City Employees' Retirement System

Computed Contribution Rates

(Expressed as Percents of Active Payroll)

Valuation Date	<u>Retirement</u>		<u>Health Subsidy</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Applying to Fiscal Year	2003-04	2002-03	2003-04	2002-03
Normal Cost	10.58%	8.56%	1.83%	2.54%
UAAL Amortization	(1.36)%	(4.72)%	0.02%	(0.56)%
Total City Contribution	9.22%	3.84%	1.85%	1.98%

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

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



Los Angeles City Employees' Retirement System
Computed Contribution Rates – Retirement Benefits

June 30, 2002

(Expressed as Percents of Active Payroll)

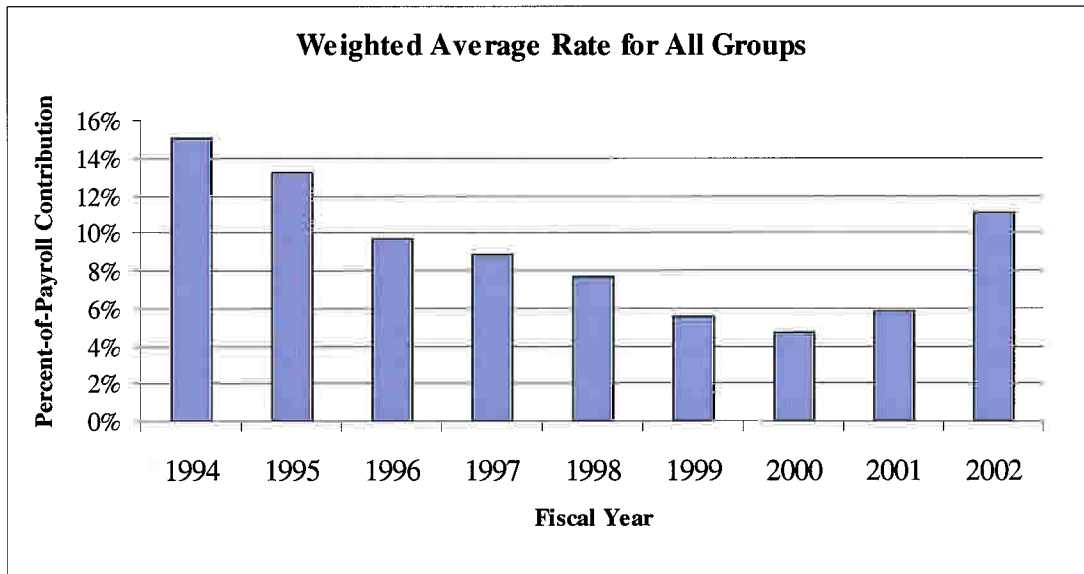
Elements of Normal Cost

Normal Retirement	14.64%
Vested Deferred Retirement	1.28
Death-In-Service ¹	0.52
Disability ¹	0.44
Contribution Refunds	<u>0.19</u>
Total Normal Cost	17.07%
Less	
Employee Contributions ²	<u>6.49</u>
Equals	
Employer Normal Cost	10.58%

- 1 These figures could be viewed as overstated, and Normal Retirement figures understated, since, in many cases, an active member, who dies or becomes disabled will have significant service credit accrued and may be eligible for service retirement at time of disability or death benefit grant.
- 2 Shown employee contributions will be reduced by applicable employee pick ups. Pick ups (aka, "defrayals") averaged 6.58% for pre-1983 hires, as a percentage of present value of future payroll. We recommend that the City take a 1% discount on pick ups to reflect anticipated savings from refunds.

Los Angeles City Employees' Retirement System
Computed Contributions – Historic Comparison

Valuation Date	Retirement	Health	Total	Valuation Payroll (thousands)
6/30/94	12.07%	2.99%	15.06%	\$884,951
6/30/95	7.34%	2.30%	9.64%	\$911,292
6/30/96	6.51%	3.18%	9.69%	\$957,423
6/30/97	6.57%	1.85%	8.42%	\$990,616
6/30/98	6.43%	1.27%	7.70%	\$1,011,857
6/30/99	4.93%	0.67%	5.60%	\$1,068,124
6/30/00	2.54%	2.17%	4.71%	\$1,182,203
6/30/01	3.84%	1.98%	5.82%	\$1,293,350
6/30/02	9.22%	1.85%	11.07 %	\$1,334,335



Los Angeles City Employees' Retirement System
Member Contributions as of June 30, 2002

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

Please refer to the Appendix for a detailed list of these rates. The City currently takes a 3% discount on pick ups to reflect anticipated savings from refunds. We recommend a 1% discount since there is significantly less employee turnover from the City than previously assumed, as shown in the 1998 – 2002 experience study.

	(Percents of Pay)	
	<u>All Active Members</u>	
	<u>2001</u>	<u>2002</u>
Overall employee contribution rate	6.60%	6.49%
	<u>Pre-January 1, 1983 Active Members</u>	
Weighted gross rate	9.26%	9.25%
Weighted rate after pick up	2.67%	2.67%

Los Angeles City Employees' Retirement System

Unfunded Actuarial Accrued Liability

June 30, 2002

Derivation of Experience Gain (Loss)

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

	<u>Retirement</u>	<u>Health</u>
(1) Unfunded Actuarial Accrued Liability (UAAL) at beginning of year	(\$520,716,053)	(\$37,079,192)
(2) Normal Cost for the year	99,457,898	28,247,620
(3) City Contributions net of defrayals	32,296,002	27,589,038
(4) Interest Accrual	(39,022,491)	(2,940,499)
(5) Expected UAAL at end of year (1) + (2) - (3) + (4)	(492,576,648)	(39,361,109)
(6) Increase in UAAL due to benefit enhancements	37,648,786	0
(7) Increase in UAAL due to assumption changes	462,651,397	60,025,541
(8) Expected UAAL at the end of year after changes	7,723,535	20,664,432
(9) Actual End of Year UAAL	191,930,161	78,047,910
(10) Lag adjustment for actual versus expected contributions	6,357,968	(6,902,093)
(11) Total (Gain)/Loss (9) - (8) + (10)	\$190,564,594	\$50,481,385
(12) (Gain)/Loss as percentage of actuarial accrued liabilities at beginning of year	2.9%	6.2%
Note:		
Asset Loss	\$262,035,481	\$43,607,266
- as percentage of AL at beginning of year	4.1%	0.7%
Liability (Gain)/Loss	(\$71,470,887)	\$6,874,119
- as percentage of AL at beginning of year	(1.1%)	0.1%

Los Angeles City Employees' Retirement System
(Gain)/Loss on Unfunded Accrued Liability for Retirement Benefits

Components of Actuarial Gain (Loss)

Estimated (Gain) attributed to pay increases	(\$87,656,000)
Estimated (Gain) attributed to post-retirement mortality	(\$13,287,000)
Estimated Loss attributed to rehires and data refinements	\$7,076,000
Estimated Loss attributed to employee turnover, pre-retirement mortality, retirement incidence, and miscellaneous factors	\$22,397,000
Estimated Loss attributed to investment experience	<u>\$262,035,000</u>
Total Estimated Experience Loss	\$190,565,000

Unfunded Actuarial Accrued Liability

Total actuarial accrued liabilities	\$7,252,117,949
Assets allocated to retirement plan	<u>\$7,060,187,788</u>
Unfunded Actuarial Accrued Liability	\$191,930,161

Los Angeles City Employees' Retirement System
Detail of Amortization of Unfunded Actuarial Accrued Liability

Retirement Benefits

<u>Item</u>	<u>Years Left</u>	<u>Remaining Balance 6/30/02</u>	<u>Amortization Amount</u>
Combined Bases at 6/30/97	10	\$64,083,697	\$7,844,415
Gain at 6/30/98	11	(329,446,750)	(37,313,062)
Change in Assumptions at 6/30/98	26	242,301,216	14,914,452
Gain at 6/30/99	12	(177,013,415)	(18,702,409)
Plan Change at 6/30/99	27	23,068,881	1,389,118
Change in Assumptions at 6/30/99	27	(10,084,319)	(607,239)
Gain at 6/30/00	13	(323,826,517)	(32,136,228)
Loss at 6/30/01	14	11,982,591	1,123,442
Loss at 6/30/02	15	190,564,594	16,964,090
Plan Changes at 6/30/02	30	37,648,786	2,137,801
Change in Assumptions at 6/30/02	30	462,651,397	26,270,617
Total		\$ 191,930,161	(\$18,115,003)

Health Subsidy

<u>Item</u>	<u>Years Left</u>	<u>Remaining Balance 6/30/02</u>	<u>Amortization Amount</u>
Combined Bases at 6/30/97	10	\$48,062,456	\$5,883,272
Gain at 6/30/98	11	(101,298,211)	(11,473,012)
Change in Assumptions at 6/98	26	48,382,096	2,978,080
Gain at 6/30/99	12	(98,709,614)	(10,429,196)
Plan Change at 6/30/99	27	3,359,493	202,296
Change in Assumptions at 6/30/00	28	48,000,649	2,831,183
Loss at 6/30/00	13	102,841,381	10,205,879
Gain at 6/30/01	14	(83,097,266)	(7,790,886)
Loss at 6/30/02	15	50,481,385	4,493,861
Change in Assumptions at 6/30/02	30	60,025,541	3,408,415
Total		\$78,047,910	\$309,892

Los Angeles City Employees' Retirement System

Funding Progress Indicators

June 30, 2002

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

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

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

Los Angeles City Employees' Retirement System
Funding Progress Indicators – Historic Comparison

(\$ in Thousands)

Retirement

<u>Valuation Date</u>	<u>Valuation Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Member Payroll</u>	<u>UAAL Ratio to Payroll</u>
6/30/99	\$5,910,948	\$5,684,586	(\$226,362)	104.0%	\$1,068,124	(21.2)%
6/30/00	6,561,365	6,012,931	(548,434)	109.1	1,182,203	(46.4)
6/30/01	6,988,782	6,468,066	(520,716)	108.1	1,293,350	(40.3)
6/30/02 ²	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4

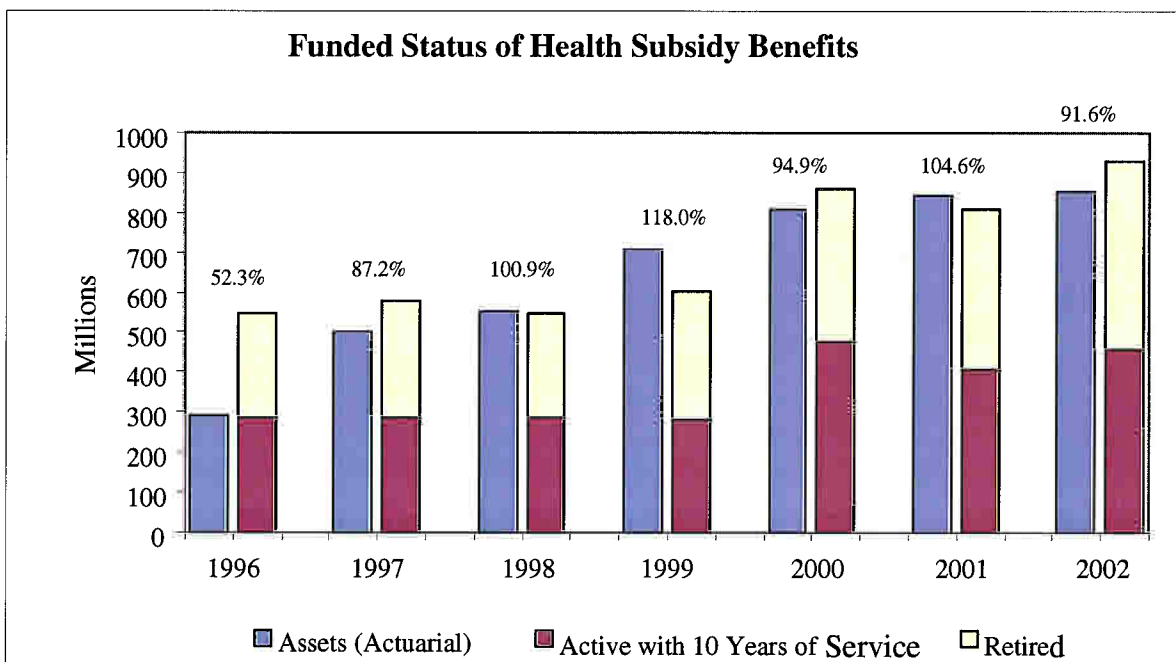
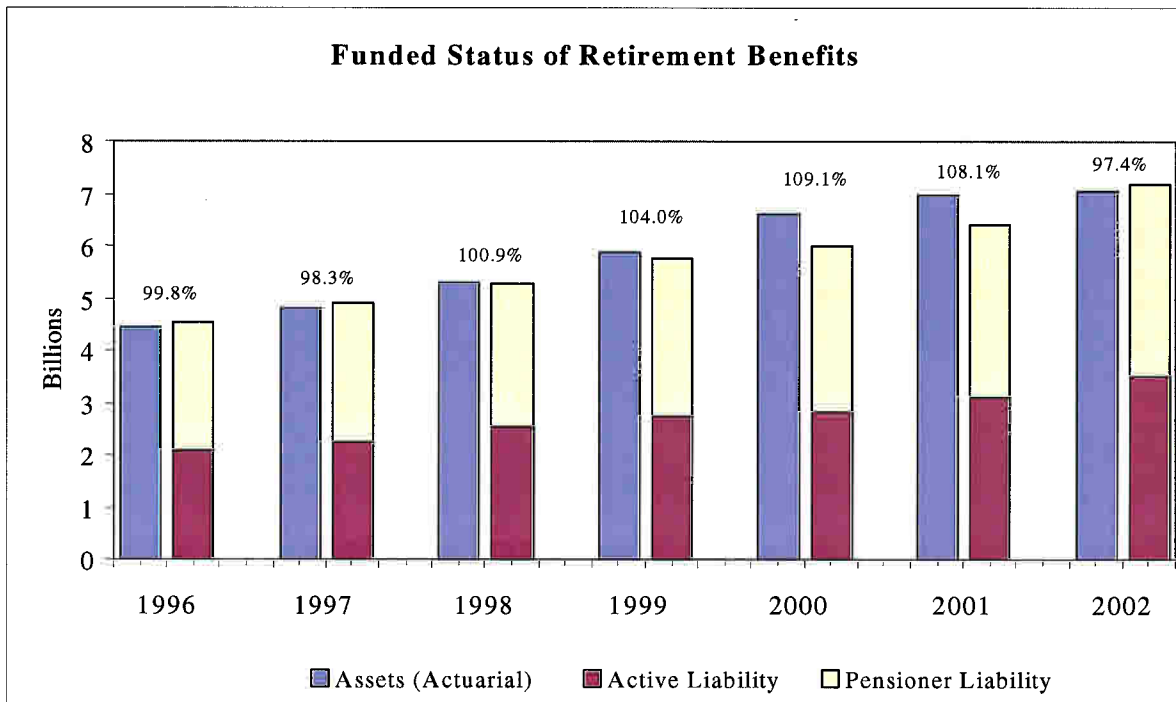
Health Subsidy

<u>Valuation Date</u>	<u>Valuation Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Member Payroll</u>	<u>UAAL Ratio to Payroll</u>
6/30/99	\$724,429	\$614,093	(\$110,336)	118.0%	\$1,068,124	(10.3)%
6/30/00 ¹	810,303	854,066	43,763	94.9	1,182,203	3.7
6/30/01	844,984	807,905	(37,079)	104.6	1,293,350	(2.9)
6/30/02 ²	853,916	931,964	78,048	91.6	1,334,335	5.8

¹ Reflects significant increase in maximum benefits

² Reflects assumption changes

Los Angeles City Employees' Retirement System



Los Angeles City Employees' Retirement System

Actuarial Balance Sheet – June 30, 2002

(\$ in Thousands)

Present Resources and Expected Future Resources

	<u>Retirement</u>	<u>Health</u>	<u>Total</u>
A. Actuarial value of system assets	\$7,060,188	\$853,916	\$7,914,104 ²
B. Present value of expected future contributions			
1. For normal costs for present actives ¹	\$1,330,233	\$230,088	\$1,560,321
2. For unfunded actuarial accrued liability	<u>\$191,930</u>	<u>\$78,048</u>	<u>\$269,978</u>
3. Totals	\$1,522,163	\$308,136	\$1,830,299
C. Present value of expected future member contributions ¹	<u>\$815,993</u>	<u>\$0</u>	<u>\$815,993</u>
D. Total Present and Expected Future Resources	\$9,398,344	\$1,162,052	\$10,560,396

Present Value of Expected Future Benefit Payments and Reserve

A. To retirants and beneficiaries	\$3,735,123	\$465,300	\$4,200,423
B. To vested terminated members	\$75,216	\$12,088	\$87,304
C. To present active members			
1. Allocated to service rendered prior to valuation date	\$3,441,779	\$454,576	\$3,896,355
2. Allocated to service likely to be rendered after valuation date	<u>\$2,146,226</u>	<u>\$230,088</u>	<u>\$2,376,314</u>
3. Totals	\$5,588,005	\$684,664	\$6,272,669
D. Total Present Value of Expected Future Benefit Payments	\$9,398,344	\$1,162,052	\$10,560,396

¹ Prior to any employer pick-up contributions.

² This excludes Family Death Benefit Insurance Reserve.

Family Death Benefit Insurance

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

Currently, the City and Members share the cost of the Plan. Each contributes \$3.46 per month. This contribution rate is reviewed every two years to determine if the level of contributions is appropriate. This rate will be next reviewed as part of the June 30, 2003 valuation.

Comments & Recommendations

June 30, 2002

COMMENT A: The overall City contribution rate increased significantly from 5.82% to 11.07%.

The retirement contribution increased from 3.84% to 9.22%. This was attributable to a wide variety of factors in order of impact:

- 1) Assumption changes, most notably a significant lowering of assumed employee turnover rates, updating assumed mortality experience from a 1971 table to a 1994 table and slightly higher pay increases for age 55+ actives
- 2) An actuarial loss of \$241 million, primarily attributable to lower investment earnings than assumed and lower employee turnover than assumed
- 3) Ad hoc benefit increases for those retired prior to July 1, 1978 and a one-year extension of the 50/30 early retirement subsidy through September 30, 2003

The portion of the contribution related to the Health Subsidy decreased from 1.98% to 1.85%. The reasons for the slight decrease were:

- 1) The change in the valued dollar maximum from \$702 to \$751 per month was slightly less than the assumed trend
- 2) Assumed medical inflation trend rates are slightly lower than last year, as previously projected
- 3) The number of active members with 10+ years of service declined by 300. Unlike the retirement benefit valuation, the health subsidy valuation is restricted to those actives currently meeting the ten-year requirement to receive the subsidy.

COMMENT B: The investment loss on the actuarial value of assets was \$305 million, \$262 million which is attributable to retirement benefits. Using market value, the loss was \$955 million. For this purpose, it is helpful to remember that "loss" is compared to your 8% return assumption, not zero. As occurred last year, five-year smoothing of the actuarial value of assets strongly masked the losses on a market value basis.

With the bear market continuing, no longer is a substantial portion of benefits earned in the current year by members ("normal cost") being paid by excellent investment earnings in previous years. We predicted this likelihood in last year's valuation.

With over \$1.2 billion in deferred losses not yet recognized in the actuarial value of assets, an increase in next year's computed rate is close to a certainty. One indication of the magnitude of the market downturn is that this is far above the \$528 million in deferred losses as of June 30, 2001.

COMMENT C: The funded ratio for retirement benefits decreased from 108.1% to 97.4%. The funded ratio for the health subsidy has decreased from 104.6% to 91.6%. The overall funded ratio is 96.7%. This is markedly higher than the overall 81.8% funded ratio if the ratio instead used market value of assets.

Los Angeles City Employees' Retirement System

Comments & Recommendations

June 30, 2002

(Continued)

COMMENT D: The sum of active member contribution balances from the data tape as of June 30, 2002 is \$896.6 million. The sum for all vested deferred members is \$34.8 million. These two sums are slightly less than the Member Deposit Reserve balance of \$950 million. The \$18.6 million difference may be largely due to unlocated members.

COMMENT E: The significant experience loss occurred in spite of an actuarial gain of \$87.7 million due to lower compensation increases than anticipated. A significant number of actives had no change in their valuation compensation from 2001.

COMMENT F: There is an apparent paradox in the amortization of unfunded liabilities for retirement benefits. There is an unfunded liability of \$191.9 million but a net amortization credit of 1.36%. The reason is that the liability increases associated with both benefit increases and assumption changes are amortized over thirty years whereas experience gains and losses use only a fifteen-year horizon.

ANY uniform amortization period would have resulted in a positive amortization cost component.

COMMENT G: We recommend that the discount for pick ups (aka, "defrayals") be reduced from 3% to 1% due to the aging of this closed group of actives with entry age-based employee contribution rates and the markedly reduced rates of assumed employee turnover.

COMMENT H: At the Winter retreat, we would like to discuss two ways to make the health subsidy valuation more consistent with the retirement valuation. Last year, GRS inherited methodology where only those active members with 10+ years of service are valued. For retirement benefits, all actives are valued.

Also, we believe that the long-term medical inflation assumptions should be made more consistent with the 4% inflation assumption for retirement benefits. We realize this seems counter intuitive given the double-digit medical price increases of the past couple years but we do not believe that America will keep spending a greater percentage of output on medical care indefinitely.

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



Los Angeles City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated

Effective June 30, 2002

1. Membership Requirements – First day of employment.

2. Final Compensation for Benefit Determination
Highest consecutive twelve months of compensation earnable

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

 - B. Benefit Formula Per Year of Service
Unreduced: 2.16% of Final Compensation

Reduced: For retirement ages below age 60 (age 55 for those with 30+ Years of Service). (Age 50 with 30 Years of Service until 10/1/2003. This date was extended from 10/1/2002 in the 2001 valuation)

<u>Age</u>	<u>Reduction</u>	<u>Age</u>	<u>Reduction</u>
50	22.5%	55	7.5%
51	19.5	56	6.0
52	16.5	57	4.5
53	13.5	58	3.0
54	10.5	59	1.5

-
-
- C. Maximum Benefit – 100% of Final Average Compensation

(Continued on Next Page)

Los Angeles City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated

Effective June 30, 2002

(Continued)

4. Ordinary Disability

A. Eligibility – Five years of continuous service.

B. Benefit Formula – $1/70^{\text{th}}$ of Final Compensation for each year of service. This is compared to a minimum benefit, based on projected years of service to age 65. Such minimum is subject to a maximum projection of $23 \frac{1}{3}$ years.

5. Death

A. Eligibility – None.

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

or

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

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

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

or

A2. Eligibility – Qualified for Service Retirement.

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

(Continued on Next Page)

Los Angeles City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated
Effective June 30, 2002

(Continued)

6. Death After Retirement

A. Service or Disability Retirement

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

7. Withdrawal Benefits

A. Less than Five Years of Service

Refund of accumulated employee contributions with interest.

B. Five or More Years of Service

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

8. Post-retirement Cost-of-Living Benefits

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

9. City Contributions

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

(Concluded on Next Page)

Los Angeles City Employees' Retirement System
Brief Summary of Benefit Provisions Evaluated
Effective June 30, 2002

(Concluded)

10. Member Contributions

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

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



Valuation of Health Subsidy Benefits

Introduction

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

The System is building a reserve through the advance funding of the health insurance subsidy for current retirees and for active members with sufficient service to receive a health subsidy (ten years).

The actuarial value of the reserve available at June 30, 2002 is \$853,915,799 (the market value is \$722,534,582).

This section of the report contains the results of the June 30, 2002 valuation of the retiree health insurance premium subsidy. In determining the budget amounts for the fiscal year 2003-2004, we have used the same funding method and methods of amortization used in the funding of the retirement benefits. We have also used the same economic and demographic assumptions as those used in the retirement valuation. In addition, special health cost trend assumptions were used. A summary of the economic assumptions follows:

- 8.0% annual interest
- graded medical cost trend of 8.00% in 2002-2003 decreasing gradually to 6.0% in 2010 and beyond for benefits paid before age 65, and benefits paid to members without Medicare
- medical cost trend rates of 13.00% in 2002-2003 decreasing gradually to 6.00% in 2014 and beyond for benefits paid after age 65 from System HMO plans
- graded medical cost trend rates of 9.0%, decreasing gradually to 6.00% in 2014 and beyond for benefits paid after age 65 for Members who join the PPO.
- graded dental trend rates of 7.50% in 2002-2003 decreasing to 6.0% in 2008 and beyond
- Medicare Part B premium trend rates of 6.0%

These assumptions are the same as used last year in the valuation of health subsidy liabilities of the Los Angeles City Employees' Retirement System at June 30, 2002.

Los Angeles City Employees' Retirement System

Summary of Health Subsidy Benefits

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

Subsidy: Medical
For retired Members under age 65 or 65 and over with only Medicare Part B: A percentage of the Maximum Subsidy, or the actual premium paid to a City approved health carrier, if less.

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

Maximum Subsidy: As of July 1, 2002, this amount is \$751 per month. This is an increase from the previous maximum of \$702.

For retired Members age 65 and over with Medicare Parts A and B:
A percentage of the premium paid to a City approved health carrier. The percentage is 75% with 10 – 14 years of service, 90% for 15 – 19 years of service and 100% for 20 years of service or more. Medicare Part B premiums are also paid.

For eligible surviving spouse or domestic partners:
The same subsidy provided to the Member, except this benefit is limited to the Kaiser single party premium for Members without Medicare A and B.

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

Los Angeles City Employees' Retirement System

Summary of Reported Asset Information

Submitted for the June 30, 2002 Valuation

(in thousands)

Reported Market Value of Assets		Reserves	
Cash/Short-term	\$667,167	Member Deposit Reserve	\$950,002
Receivables	171,748	Basic Pension Reserve	4,579,727
Stocks	3,650,361	Family Death Benefit Reserve	17,480
Bonds	1,437,677	Annuity Reserve	444,197
Real Estate	369,554	Health Benefits Reserve	722,534
Mortgages	427,093		
Miscellaneous	385,213	Total Reserves	\$6,713,940
Total Market Value	\$7,108,813		
Liabilities	\$394,873		
Net Market Value	\$6,713,940		

Revenues and Disbursements Among Applicable Reserves

Balance – Beginning of year	\$7,325,309
Revenues	
Employees' contributions	75,470
Employer contributions	60,080
Defrayal	19,388
Family Death Benefit Premium	184
Distributed & undistributed investment income	(347,433)
Total Revenues	(192,311)
Disbursements	
Benefit payments and refunds	345,795
Health & Dental Insurance	38,870
Medicare Reimbursement	3,199
Administrative & Investment Expense	31,194
Total Disbursements	419,058
Net (Decrease)	(611,369)
Balance – End of year	6,713,940

Los Angeles City Employees' Retirement System

Derivation of Actuarial Value of Assets

	Year Ending			
	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>
1. Beginning of Year Market Value	\$7,325,308,818	\$7,881,497,296	\$7,279,063,114	\$6,600,702,384
2. Contributions	155,122,031	157,356,785	171,189,588	171,927,161
3. Benefit Payments	387,864,290	355,862,157	331,798,058	300,252,155
4. Expected Return Based on 8%	576,715,015	622,579,569	575,900,710	522,923,191
5. Expected End of Year Market Value	7,669,281,574	8,305,571,493	7,694,355,354	6,995,300,581
6. Actual End of Year Market Value	6,713,940,288	7,325,308,818	7,881,497,296	7,279,063,114
7. Gain/(Loss)	(955,341,286)	(980,262,675)	187,141,942	283,762,533
1. Market Value at June 30, 2002				\$6,713,940,288
2002 (Gain)/Loss x 80%				764,273,029
2001 (Gain)/Loss x 60%				588,157,605
2000 (Gain)/Loss x 40%				(74,856,777)
1999 (Gain)/Loss x 20%				(56,752,507)
2. Actuarial Value at June 30, 2002				7,934,761,638
3. 80% of Market Value at June 30, 2002				5,371,152,230
4. 120% of Market Value at June 30, 2002				8,056,728,346
5. Actuarial Value at June 30, 2002				
(2), but no less than (3) and no more than (4)				7,934,761,638

Los Angeles City Employees' Retirement System

Actuarial Value of Assets

In deriving the actuarial value of assets for retirement benefit for the 2002 valuation, we use the asset-smoothing technique as illustrated on the previous page. The actuarial value of assets for the Family Death Benefit Insurance and Health Subsidy are calculated by adjusting their reserves by the ratio of the total system's actuarial value to market value of assets. To derive the Actuarial Value of Assets for Retirement Benefit, these values are then subtracted from the total Actuarial Value.

	<u>Market Value</u>	<u>Actuarial Value</u>
1. Total Value of Assets at June 30, 2002	\$6,713,940,288	\$7,934,761,638
2. Less Reserves and Liabilities Established for:		
a. Family Death Benefit Insurance	17,479,658	20,658,051
b. Retiree Health Subsidy	<u>722,534,582</u>	<u>853,915,799</u>
c. Total	740,014,240	874,573,850
3. Net Assets Available for Retirement Benefits at June 30, 2002 (Item 1 less Item 2)	\$5,973,926,048	\$7,060,187,788

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

	<u>2002</u>	<u>2001</u>	<u>2000</u>
1. Market Value	\$6,713,940	\$7,325,309	\$7,881,497
2. Gross Actuarial Value	7,934,762	7,853,297	7,389,277
3. Family Death Benefit Insurance	20,658	19,531	17,609
4. Retiree Health Subsidy	853,916	844,984	810,303
5. Net Actuarial Value for Retirement: (2) – (3) – (4)	\$7,060,188	\$6,988,782	\$6,561,365

Los Angeles City Employees' Retirement System

Membership Summary

In the June 30, 2002 Actuarial Valuation

ACTIVES

	<u>No.</u>	<u>Annual Compensation</u>	<u>Averages</u>		
			<u>Annual Compensation</u>	<u>Age</u>	<u>Service</u>
6/30/01	25,654	\$1,293,350,061	\$50,415	44.3	11.8
6/30/02	25,930	1,334,335,478	51,459	44.4	11.8
Percent Increase	1.1%	3.2%	2.1%		

DEFERRED VESTED

	<u>No.</u>	<u>Member Contributions</u>	<u>Annual Accrued Benefits</u>	<u>Averages</u>			
				<u>Contribution Balance</u>	<u>Annual Accrued Benefits</u>	<u>Age</u>	<u>Service</u>
6/30/01	748	\$27,416,346	\$9,573,019	\$36,653	\$12,798	46.6	12.1
6/30/02	957 ¹	34,807,353	12,199,821	36,371	12,748	46.5	11.7
Percent Increase	27.9%	27.0%	27.4%	(0.8%)	(0.4%)		

RETIRANTS AND BENEFICIARIES

	<u>No.</u>	<u>Annual Allowance</u> ²	<u>Averages</u>			<u>New Retirees</u>		
			<u>Annual Allowance</u>	<u>Attained Age</u>	<u>Age at Retirement</u>	<u>No.</u>	<u>Age</u>	<u>Average Allowance</u>
6/30/01	13,365	\$316,057,216	\$23,648	71.5	59.0	575	59.1	\$34,231
6/30/02	13,589	336,437,038	24,758	71.5	58.9	619	58.9	32,540
Percent Increase	1.7%	6.4%	4.7%					

¹ The significant increase in deferred vesteds is a reflection of staff's data review that occurred during the experience study, not actual experience.

² Prior to 7-1 COLA.

Los Angeles City Employees' Retirement System

Historical Membership Summary

In the June 30, 2002 Actuarial Valuation

Actives

	<u>No.</u>	<u>Annual Compensation</u>	<u>Averages</u>			<u>Years of Service</u>
			<u>Compensation</u>	<u>Percentage Increase</u>	<u>Age</u>	
6/30/96	22,319	\$957,422,907	\$42,897	-- %	43.9	12.5
6/30/97	22,219	990,616,145	44,584	3.9%	44.2	12.9
6/30/98	22,091	1,011,857,180	45,804	2.7%	44.5	13.2
6/30/99	22,504	1,068,124,413	47,464	3.6%	44.6	13.1
6/30/00	24,234	1,182,202,945	48,783	2.8%	44.4	12.3
6/30/01	25,654	1,293,350,061	50,415	3.3%	44.3	11.8
6/30/02	25,930	1,334,335,478	51,459	2.1%	44.4	11.8

Retirants and Beneficiaries

	<u>No.</u>	<u>Annual Total Pensions</u>	<u>Averages</u>		
			<u>Pension</u>	<u>Percentage Increase</u>	<u>Attained Age</u>
6/30/96	12,242	\$219,872,033	\$17,960	-- %	71.6
6/30/97	12,698	240,692,161	18,955	5.5%	71.5
6/30/98	12,591	259,378,957	20,600	8.7 %	71.5
6/30/99	12,843	277,022,689	21,570	4.7%	71.5
6/30/00	13,058	290,899,998	22,278	3.3%	71.6
6/30/01	13,365	316,057,216	23,648	6.2%	71.5
6/30/02	13,589	336,437,038	24,758	4.7%	71.5

Los Angeles City Employees' Retirement System

Retirants and Beneficiaries June 30, 2002

Tabulated by Type of Allowances Being Paid

<u>Type of Allowance</u>	<u>No.</u>	<u>Annual Allowance¹</u>	<u>Average Annual Allowance</u>
Service Retirement			
Unmodified			
50% Continuance	4,256	\$119,069,049	\$27,977
No Continuance	2,667	68,728,893	25,770
Optional Forms			
100% Continuance	1,292	42,380,507	32,802
75% Continuance	658	25,922,716	39,396
60% Continuance	607	22,983,255	37,864
Not Coded/Data issue	128	1,663,233	12,994
Other	20	1,025,122	51,256
Beneficiary	<u>2,506</u>	<u>38,693,865</u>	<u>15,440</u>
Total Service Retirement	12,134	\$320,466,640	\$26,411
Disability Retirement			
Unmodified			
50% Continuance	292	\$3,565,557	\$12,211
No Continuance	302	3,869,666	12,813
Optional Forms			
100% Continuance	39	546,304	14,008
75% Continuance	11	157,871	14,352
60% Continuance	7	130,485	18,641
Not Coded/Data issue	175	2,219,888	12,685
Beneficiary	<u>560</u>	<u>4,753,350</u>	<u>8,488</u>
Total Disability Retirement	1,386	\$15,243,121	\$10,998
Other Beneficiaries	<u>69</u>	<u>\$727,277</u>	<u>\$10,540</u>
Total Allowances Being Paid	<u>13,589</u>	<u>\$336,437,038</u>	<u>\$24,758</u>

¹ Benefits do not include COLA increase on July 1, 2002.

Los Angeles City Employees' Retirement System
Active Members

By Attained Ages and Years of Service

Age Group	Years of Service to Valuation date													Total	
	0-1	1-2	2-3	3-4	4-5	5-9	10-14	15-19	20-24	25-29	30-34	35 & Up			
15-19 NO.	10	0	0	0	0	0	0	0	0	0	0	0	0	0	10
TOT PAY	192,702	0	0	0	0	0	0	0	0	0	0	0	0	0	192,702
AVG PAY	19,270	0	0	0	0	0	0	0	0	0	0	0	0	0	19,270
20-24 NO.	336	186	67	21	8	3	0	0	0	0	0	0	0	0	621
TOT PAY	9,127,331	6,286,123	2,376,159	828,872	316,555	139,922	0	0	0	0	0	0	0	0	19,074,963
AVG PAY	27,165	33,796	35,465	39,470	39,569	46,641	0	0	0	0	0	0	0	0	30,717
25-29 NO.	508	461	322	184	81	107	0	0	0	0	0	0	0	0	1,663
TOT PAY	17,759,747	17,034,377	13,617,955	8,179,012	3,470,585	4,941,229	0	0	0	0	0	0	0	0	65,002,906
AVG PAY	34,960	36,951	42,292	44,451	42,847	46,180	0	0	0	0	0	0	0	0	39,088
30-34 NO.	448	390	422	286	178	540	349	10	0	0	0	0	0	0	2,623
TOT PAY	17,732,989	14,941,243	18,645,424	13,402,127	8,334,654	27,713,427	17,905,480	581,422	0	0	0	0	0	0	119,256,767
AVG PAY	39,583	38,311	44,183	46,861	46,824	51,321	51,305	58,142	0	0	0	0	0	0	45,466
35-39 NO.	325	369	349	248	148	633	1,264	430	10	0	0	0	0	0	3,776
TOT PAY	13,017,341	14,867,784	15,821,694	11,325,065	6,951,861	33,472,625	71,814,861	22,503,672	531,087	0	0	0	0	0	190,305,991
AVG PAY	40,053	40,292	45,334	45,666	46,972	52,879	56,816	52,334	53,109	0	0	0	0	0	50,399
40-44 NO.	277	298	284	207	126	463	1,186	1,121	402	7	0	0	0	0	4,371
TOT PAY	10,659,794	11,856,035	13,478,854	9,385,052	5,883,974	24,088,994	67,272,836	67,583,894	21,329,656	377,562	0	0	0	0	231,916,651
AVG PAY	38,483	39,785	47,461	45,338	46,698	52,028	56,722	60,289	53,059	53,937	0	0	0	0	53,058
45-49 NO.	266	222	227	156	85	387	951	939	664	326	15	0	0	0	4,238
TOT PAY	10,441,516	9,289,462	10,290,360	7,771,543	4,313,436	20,630,554	54,231,050	56,473,712	38,540,195	18,036,927	821,226	0	0	0	230,839,982
AVG PAY	39,254	41,844	45,332	49,818	50,746	53,309	57,025	60,142	58,042	55,328	54,748	0	0	0	54,469
50-54 NO.	165	207	159	120	82	275	659	681	577	618	386	5	0	0	3,934
TOT PAY	6,270,846	8,648,221	6,780,315	6,025,094	3,870,528	13,645,467	36,861,647	39,416,556	34,928,354	39,433,147	23,423,576	354,765	0	0	219,658,515
AVG PAY	38,005	41,779	42,643	50,209	47,202	49,620	55,936	57,880	60,534	63,808	60,683	70,953	0	0	55,836
55-59 NO.	112	107	96	86	58	162	405	447	332	354	402	111	0	0	2,672
TOT PAY	4,098,727	4,527,377	4,202,559	4,280,738	2,294,080	7,944,190	21,648,109	25,295,669	19,725,715	24,063,493	27,960,234	7,853,012	0	0	153,893,904
AVG PAY	36,596	42,312	43,777	49,776	39,553	49,038	53,452	56,590	59,415	67,976	69,553	70,748	0	0	57,595
60-64 NO.	43	49	48	40	34	102	207	239	162	145	138	101	0	0	1,308
TOT PAY	1,592,974	1,676,236	1,979,454	1,602,153	1,360,816	4,059,246	11,212,708	13,011,973	9,138,654	8,255,278	8,901,382	7,089,011	0	0	69,879,885
AVG PAY	37,046	34,209	41,239	40,054	40,024	39,797	54,168	54,443	56,411	56,933	64,503	70,188	0	0	53,425
65-99 NO.	30	28	15	16	14	82	107	132	95	69	58	68	0	0	714
TOT PAY	539,382	711,866	366,010	465,150	302,655	2,210,743	5,558,593	7,153,679	5,377,578	3,667,800	3,597,842	4,361,915	0	0	34,313,212
AVG PAY	17,979	25,424	24,401	29,072	21,618	26,960	51,949	54,195	56,606	53,157	62,032	64,146	0	0	48,058
TOT NO.	2,520	2,317	1,989	1,364	814	2,754	5,128	3,999	2,242	1,519	999	285	0	0	25,930
TOT AMT	91,433,348	89,838,725	87,558,786	63,264,806	37,099,144	138,846,398	286,505,284	232,020,578	129,571,239	93,834,207	64,704,260	19,658,703	0	0	1,334,335,478
AVG AMT	36,283	38,774	44,022	46,382	45,576	50,416	55,871	58,020	57,793	61,774	64,769	68,978	0	0	51,459

Los Angeles City Employees' Retirement System
Distribution of Pensioners by Plan Year of Retirement and by Attained Age as of June 30, 2002
 Total for All Pensioners
 Retirement Benefits

<u>Year Retired</u>	<u>Age Groups</u>								<u>Total</u>
	<u>Under 50</u>	<u>50-59</u>	<u>60-64</u>	<u>65-69</u>	<u>70-74</u>	<u>75-79</u>	<u>80-89</u>	<u>90+</u>	
Pre-1983	7	77	85	109	174	566	1,759	524	3,301
1983	0	20	9	15	26	211	203	7	491
1984	4	14	7	21	73	182	166	7	474
1985	1	12	12	15	100	130	164	2	436
1986	3	13	5	24	92	120	87	2	346
1987	4	17	15	16	138	136	106	2	434
1988	6	16	10	15	163	117	86	1	414
1989	1	22	20	69	127	138	51	2	430
1990	8	20	21	110	138	110	40	0	447
1991	8	17	11	103	116	88	27	4	374
1992	10	24	16	128	120	75	28	0	401
1993	11	8	10	163	122	71	39	1	425
1994	11	23	65	141	115	69	26	1	451
1995	28	28	108	129	94	36	13	1	437
1996	21	37	127	145	96	45	24	0	495
1997	17	72	231	138	91	37	9	0	595
1998	21	125	211	176	105	33	17	0	688
1999	24	180	163	117	61	31	9	1	586
2000	24	244	197	149	75	52	44	5	790
2001	22	280	184	127	70	49	69	5	806
2002	17	304	160	103	74	51	49	10	768
TOTALS	248	1,553	1,667	2,013	2,170	2,347	3,016	575	13,589

Age at Retirement: 58.9
 Attained Age: 71.5
 Annual Pension: \$24,758 prior to 7-01-02 Cola

Los Angeles City Employees' Retirement System
Actuarial Cost Methods - June 30, 2002

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using a projected unit credit actuarial cost method. Future, anticipated compensation increases are incorporated into this method. The actuarial cost methods, as a part of the actuarial valuation report as of June 30, 2001 were last adopted by the Board on October 23, 2001.

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

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

Deferred Member Actuarial Accrued Liability. Data provided includes date of hire, date of birth, date of termination, benefit service, average compensation, and accrued benefit. Accrued benefits were only provided for approximately 25% of the deferred members. Accrued benefits were calculated for the remaining 75% of the deferred members based on the data provided.

Los Angeles City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2002 Valuation

The contribution requirements and benefit values of the Fund are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described on the previous page. The actuarial assumptions were adopted by the Board on September 10, 2002.

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

- (i) long-term rates of investment return to be generated by the assets of the Fund.
- (ii) patterns of pay increases to members.
- (iii) rates of mortality among members, retirants, and beneficiaries.
- (iv) rates of withdrawal of active members (without entitlement to a retirement benefit).
- (v) rates of disability among members.
- (vi) the age patterns of actual retirements.

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

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience.

(Continued on Next Page)

Los Angeles City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2002 Valuation

(Continued)

The result is a continual series of adjustments (usually small) to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

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

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

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

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

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

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

June 30, 1962	1.3 %
June 30, 1972	3.3%
June 30, 1982	8.8%
June 30, 1992	3.8%
June 30, 2002	2.5%

50-Year Average 3.9%

The Los Angeles City Employees' Retirement System

Comparison of Selected Actuarial Assumptions to Actual Experience

The salary increase assumptions project annual increases in total member payroll of 4.0%, the inflation portion of the individual pay increase assumptions. In effect, this assumes no change in the number of active members. Changes actually experienced in areas related to these assumptions have been as follows:

		<u>7/01/01- 6/30/02</u>	<u>7/01/00- 6/30/01</u>	<u>7/01/99- 6/30/00</u>	<u>7/01/98- 6/30/99</u>	<u>3-Year Average</u>	<u>4-Year Average</u>
Inflation ¹		2.8%	3.7%	2.7%	1.9%	3.1%	2.8%
	Assumed	4.0%				4.0%	4.0%
Average Pay Increase		2.1%	3.3%	2.8%	3.6%	2.7%	2.9%
	Assumed	4.0%					
Merit & Longevity							
Pay Increase		(0.7)%	(0.4)%	0.1%	1.7%	(0.3)%	0.2%
	Assumed	1.0%	Varied depending on age				
Total Payroll		3.2%	9.4%	10.7%	5.6%	7.7%	7.2%
	Assumed	4.0%				4.0%	4.0%
Investment Return Rate ²		4.1%	9.1%	13.6%	14.4%	8.9%	10.2%
	Assumed	8.0%				8.0%	8.0%
Real Rate of							
Investment Return		1.3%	5.4%	10.9%	12.5%	5.8%	7.4%
	Assumed	4.0%				4.0%	4.0%

¹ Based on Consumer Price Index for Los Angeles-Riverside-Orange County, All Items, 1982-84=100.

² Based on actuarial value of assets NOT market value or book value.

Los Angeles City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2002 Valuation

(Continued)

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

Annual Rate of Compensation Increase

Inflation	4%
plus	
Merit & Longevity	1%

Members with less than 5 years of service receive an additional merit increase based on the following table:

<u>Service</u>	<u>All Members</u>
0	4.0%
1	3.5
2	3.0
3	2.0
4	1.5

Los Angeles City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2002 Valuation

(Continued)

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death) and are significantly lower than in the 2001 valuation. This assumption measures the probabilities of members remaining in employment.

Sample Ages	% of Active Members Separating Within Next Year			
	<u>Withdrawal</u>	<u>Death</u>		<u>Disability</u>
	<u>All Members</u>	<u>Men</u>	<u>Women</u>	<u>All Members</u>
20	6.25%	.03%	.02%	.00%
25	5.75	.04	.03	.01
30	5.25	.06	.05	.02
35	3.75	.08	.07	.07
40	2.75	.12	.10	.12
45	2.25	.17	.14	.17
50	1.70	.23	.18	.20
55	1.45	.32	.26	.20
60	1.20	.44	.42	.00

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

<u>Service</u>	<u>Rate</u>
0	8.25%
1	7.25
2	6.75
3	6.50
4	6.25

Los Angeles City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2002 Valuation

(Continued)

The post-retirement mortality table used was the 1994 Male Group Annuity Mortality Table, setback three years for females (In the 2001 valuation, the 1971 Group Annuity Mortality Table, with setbacks, was used). This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. The 1981 Disability Mortality Table (General) is used for male disabilitants, the table was setback five years for female disabilitants (No setback for female disabilitants was used in the 2001 valuation). Related values are shown below.

Sample	Future Life Expectancy (Years)		% Dying Within Next Year	
	Non-disabled Retirees		Non-disabled Retirees	
<u>Ages</u>	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
45	34.7	37.5	.17%	.13%
50	30.0	32.8	.28	.20
55	25.4	28.2	.48	.35
60	21.2	23.7	.86	.60
65	17.3	19.6	1.56	1.09
70	13.8	15.8	2.55	1.94
75	10.7	12.5	4.00	3.06

Sample	Future Life Expectancy (Years)		% Dying Within Next Year	
	Disabled Retirees		Disabled Retirees	
<u>Ages</u>	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
45	23.6	26.2	2.08%	1.76%
50	21.1	23.6	2.44	2.08
55	18.7	21.1	2.84	2.44
60	16.4	18.7	3.30	2.84
65	14.1	16.4	3.79	3.30
70	11.7	14.1	4.37	3.79
75	9.2	11.7	5.53	4.37

Los Angeles City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2002 Valuation

(Continued)

The rates of retirement used to measure the probability of eligible members retiring during the next year and were revised from the 2001 valuation.

<u>Retirement Ages</u>	<u>All Members</u>
50	1.0%
51	1.0
52	1.0
53	1.0
54	2.0
55	9.0
56	10.0
57	10.0
58	12.0
59	12.0
60	20.0
61	15.0
62	25.0
63	10.0
64	15.0
65	26.0
66	23.0
67	23.0
68	23.0
69	23.0
70	100.0

For the special early retirement window, which provides unreduced pensions to employees age 50 and older with 30 or more years of service who retire prior to September 30, 2003, we assumed those eligible would retire at a rate of 25% per year.

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

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

Los Angeles City Employees' Retirement System
Actuarial Assumptions Used for the June 30, 2002 Valuation

(Continued)

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

Marital Status – 76% of men and 50% (56% was used in the 2001 valuation) of women were assumed married or having a domestic partner at retirement.

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

Retention Rates

Probability of Working to Age 55

<u>Age</u>	
Under 25	26.0%
25-29	35.5
30-34	46.9
35-39	58.1
40-44	68.8
45-49	78.8
50-54	90.4

Probability of Working 10 Years

<u>Age</u>	
45-49	61.9%
50-54	30.5
55-59	13.3
60-64	8.6

Los Angeles City Employees' Retirement System
Summary of Actuarial Assumptions and Methods
Used for Valuation of Health Subsidy Benefits

Methods: Future cash flows were projected by applying medical trend rate factors to current annual claim rates.

Discount on Projected Cash Flows: 8% per year.

Medical Trend Rates:

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

Los Angeles City Employees' Retirement System
Summary of Actuarial Assumptions and Methods
Used for Valuation of Health Subsidy Benefits

Mortality:	UP 94 with a 3 year age setback for females. (Previously, 1971 Group Annuity Mortality Table, with a one-year age setback for males and a five-year age setback for females.)
Probability of Termination of Employment:	Same rates as used in valuation of retirement benefits. See retirement report for details.
City Medical Plan Coverage:	80% of all retirees are assumed to receive a subsidy for a City approved health carrier.
Spouses and Domestic Partners:	91% of male and 66% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Medicare Coverage:	85% of retirees are assumed to elect Medicare Parts A & B.
Dental Coverage:	65% of retirees are assumed to elect dental coverage.
Spousal Coverage:	With regard to Members who are currently alive, 75% of eligible spouse or domestic partners are assumed to elect continued health coverage after the Member's death. With regard to deceased Members, 70% of the current eligible survivors are assumed to elect health coverage.
Funding Method:	Projected Unit Credit Funding Method (only those members with 10 or more years of service are valued).
Asset Valuation Method:	The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed 8.00% rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Los Angeles City Employees' Retirement System

Definitions of Technical Terms

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

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

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

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

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

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

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

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

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

(Concluded on Next Page)

Los Angeles City Employees' Retirement System

Definitions of Technical Terms

(Concluded)

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

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

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

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



Los Angeles City Employees' Retirement System

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

(\$ in Thousands)

<u>Valuation Date</u>	<u>Valuation Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Member Payroll</u>	<u>UAAL Ratio to Payroll</u>
6/30/96	\$4,468,433	\$4,476,024	\$7,591	99.8%	\$957,423	0.8%
6/30/97	4,802,509	4,886,337	83,828	98.3	990,616	8.5
6/30/98	5,362,923	5,312,918	(50,005)	100.9	1,011,857	(4.9)
6/30/99	5,910,948	5,684,586	(226,362)	104.0	1,068,124	(21.2)
6/30/00	6,561,365	6,012,931	(548,434)	109.1	1,182,203	(46.4)
6/30/01	6,988,782	6,468,066	(520,716)	108.1	1,293,350	(40.3)
6/30/02	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4

Los Angeles City Employees' Retirement System

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

<u>Year Ended June 30</u>	<u>Actuarially Required Contributions (ARC)¹</u>	<u>Contributions Made¹</u>
1997	\$88,799,922	100%
1998	64,459,744	100%
1999	69,248,626	100%
2000	72,146,277	100%
2001	59,153,313	100%
2002	32,296,002 ¹	100%

¹ Exclusive of Health Subsidy contributions of \$27,589,038 and FDB contributions of \$195,000. Defrayals not included in this figure.

Los Angeles City Employees' Retirement System

Solvency Test for Retirement Benefits

For Years Ended June 30, 2002

(In Thousands)

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)	Reported Assets*	(1)	(2)	(3)
	Member Contributions	Retirants, Beneficiaries, & Deferred Vesteds	Active Member		(1)	(2)	(3)
6-30-96	\$637,737	\$2,357,798	\$1,480,489	\$4,468,433	100.0%	100.0%	99.5%
6-30-97	683,048	2,598,432	1,604,857	4,802,509	100.0	100.0	94.8
6-30-98	733,680	2,772,712	1,806,526	5,362,923	100.0	100.0	100.0
6-30-99	776,617	2,989,218	1,918,751	5,910,948	100.0	100.0	100.0
6-30-00	827,729	3,149,392	2,035,810	6,561,365	100.0	100.0	100.0
6-30-01	889,658	3,444,240	2,134,168	6,988,782	100.0	100.0	100.0
6-30-02	950,002	3,756,935	2,545,181	7,060,188	100.0	100.0	92.5

* Actuarial Value of Assets excluding the FDBIP and Health Subsidy assets.

Los Angeles City Employees' Retirement System

Retirants and Beneficiaries Added To and Removed From the Rolls*

<u>Year Ended</u>	<u>No. of New Retirants/ Beneficiaries</u>	<u>Annual Allowances Added</u>	<u>No. of Retirants/ Beneficiaries Removed</u>	<u>Annual Allowances Removed</u>	<u>No. of Retirants/ Beneficiaries at 6/30</u>	<u>Annual Allowances at 6/30</u>	<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowance</u>
6/30/01	773	22,866,958	466	6,436,730	13,365	316,057,216	8.6%	23,648
6/30/02	844	23,740,829	620	11,316,344	13,589	336,437,038	6.4%	24,758

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

Los Angeles City Employees' Retirement System

Contribution Rates Assumed for Members
Participating Before February 1, 1983

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

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

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LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM



STATISTICAL SECTION



STATISTICAL SECTION

SCHEDULE OF ADDITIONS BY SOURCE (Dollars in Millions)

Year Ended	Member Contributions	Employer Contributions		Net Investment Income (Loss) *	Total
		Dollars	% of Annual Covered Payroll		
1997	\$ 53.27	\$ 113.26	11%	\$ 1,733.00	\$ 1,899.53
1998	58.31	117.21	12%	639.40	814.92
1999	62.56	109.36	10%	812.92	984.84
2000	64.58	106.61	9%	771.17	942.36
2001	69.46	87.90	7%	(349.32)	(191.96)
2002	75.66	79.47	6%	(370.50)	(215.37)

* Includes change in unrealized gain and loss of investment

SCHEDULE OF DEDUCTIONS BY TYPE (Dollars in Millions)

Year Ended	Benefits Payments	Refunds	Administrative Expenses	Misc. Expense	Total
1997	\$ 247.98	\$ 9.45	\$ 4.86	\$ -	\$ 262.29
1998	270.76	7.50	5.76	-	284.02
1999	290.62	9.63	6.23	-	306.48
2000	319.38	12.99	7.55	-	339.92
2001	343.11	12.92	8.20	-	364.23
2002	374.82	13.05	8.13	-	396.00

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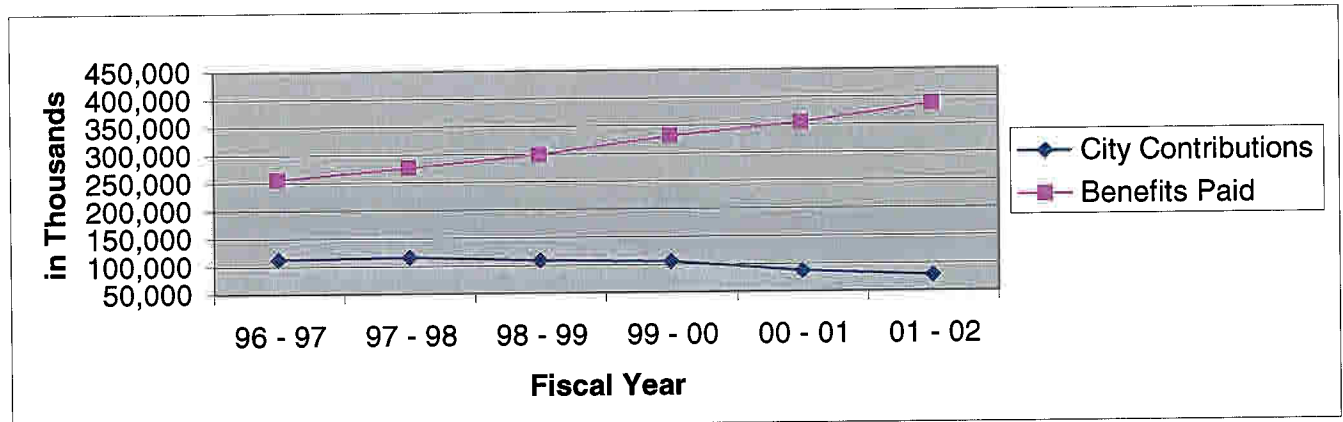
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF BENEFIT EXPENSES BY TYPE * (Dollars in Thousands)

Year Ended	Age & Service Benefit		Death in Service Benefits	Disability Benefits		Sub Total	Refunds	Benefits Total
	Retirants	Survivors		Retirants	Survivors			
1997	\$ 212,376	\$ 22,888	\$ 2,674	\$ 8,451	\$ 1,590	\$ 247,979	\$ 9,448	\$ 257,427
1998	231,584	24,968	2,257	10,268	1,686	270,763	7,490	278,253
1999	248,986	27,521	3,113	9,301	1,703	290,624	9,628	300,252
2000	265,334	35,801	2,850	10,996	4,402	319,383	12,993	332,376
2001	285,030	38,523	2,919	11,882	4,751	343,105	12,923	356,028
2002	312,292	41,784	3,375	12,169	5,196	374,816	13,049	387,865

* Allocated from year end retirement roll

CITY CONTRIBUTIONS versus BENEFITS PAID (Dollars in Thousands)



Fiscal Year	96 - 97	97 - 98	98 - 99	99 - 00	00 - 01	01 - 02
City Contributions	\$113,262	\$117,209	\$109,362	\$106,610	\$87,897	\$79,468
Benefits Paid	257,427	278,253	300,252	332,376	356,028	387,865

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 2002)

Amount of Monthly Benefits	Number of Retirees	Type of Retirement **						
		1	2	3	4	5	6	7
\$ 1-250	213	65	70	51	7	18	1	1
251-500	732	127	295	118	22	121	3	46
501-750	1,151	340	409	126	75	80	18	103
751-1,000	1,343	457	374	99	287	22	35	69
1,001-1,250	1,321	603	343	63	218	10	44	40
1,251-1,500	1,107	661	195	48	140	7	36	20
1,501-1,750	963	714	131	32	49	7	25	5
1,751-2,000	860	712	87	22	9	2	25	3
Over 2,000	5,814	5,324	319	63	11	2	92	3
Total	13,504 *	9,003	2,223	622	818	269	279	290

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

** Type of Retirement

1 - Service Member	5 - Disability Continuance
2 - Service Continuance	6 - Service Survivorship
3 - Vested Right Member	7 - Disability Survivorship
4 - Disability Member	

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates July 1, 1996 to June 30, 2002	Years Credited Service				
	5-10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs

Period 7/1/96 to 6/30/97						
Average Monthly Benefit	\$769.86	\$1,105.27	\$1,447.79	\$1,972.17	\$2,656.25	\$3,793.00
Average Final Monthly Salary *	\$3,822.70	\$3,504.14	\$3,485.82	\$3,714.96	\$3,935.10	\$4,729.11
Number of Active Retirees	41	33	40	48	155	235
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	\$741.98	\$1,198.73	\$1,517.84	\$2,265.53	\$2,946.67	\$3,645.39
Average Final Monthly Salary *	\$2,976.28	\$3,868.99	\$3,597.88	\$4,251.19	\$4,370.57	\$4,588.69
Number of Active Retirees	42	68	68	50	170	255
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	\$741.22	\$1,202.57	\$1,592.36	\$2,042.81	\$2,983.22	\$3,842.81
Average Final Monthly Salary *	\$3,366.61	\$3,937.49	\$3,939.54	\$3,821.90	\$4,549.55	\$4,977.74
Number of Active Retirees	48	50	47	49	142	215
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	\$772.02	\$1,185.61	\$1,690.56	\$2,056.45	\$3,190.31	\$4,137.79
Average Final Monthly Salary *	\$3,453.68	\$3,998.88	\$4,240.06	\$4,029.93	\$4,912.55	\$5,336.47
Number of Active Retirees	39	71	45	66	168	232
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	\$779.09	\$1,502.33	\$1,543.44	\$2,613.07	\$3,242.12	\$4,089.61
Average Final Monthly Salary *	\$3,743.65	\$4,104.77	\$4,074.85	\$4,225.13	\$5,186.10	\$5,434.66
Number of Active Retirees	30	61	48	49	144	232
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	\$726.59	\$1,263.36	\$1,821.58	\$2,680.25	\$3,251.15	\$3,924.93
Average Final Monthly Salary *	\$3,734.19	\$4,448.60	\$4,578.03	\$4,850.83	\$5,077.69	\$5,374.95
Number of Active Retirees	24	58	51	49	146	201

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