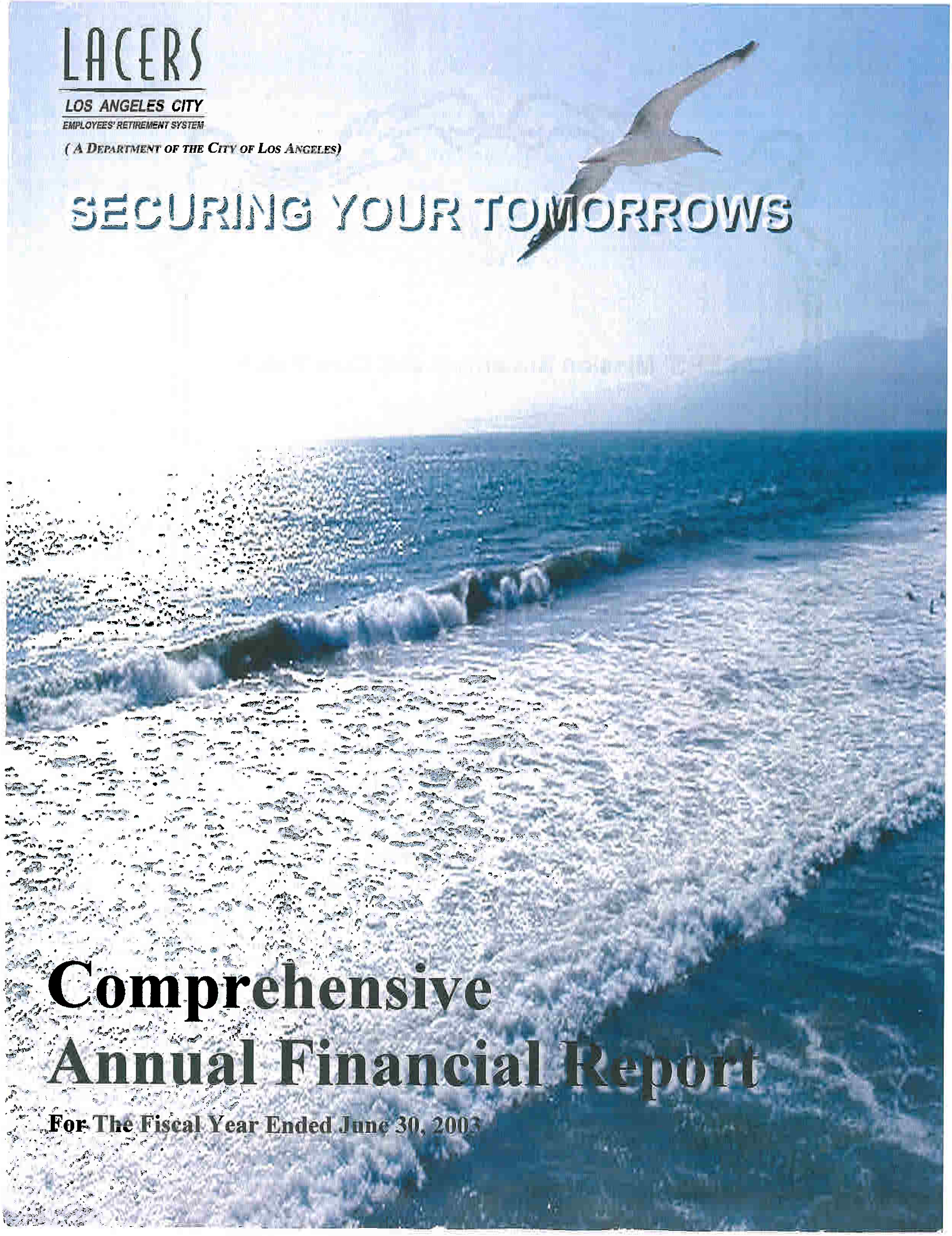

LACERS

LOS ANGELES CITY

EMPLOYEES' RETIREMENT SYSTEM

(A DEPARTMENT OF THE CITY OF LOS ANGELES)

SECURING YOUR TOMORROWS

Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2003

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

LACERS' Mission Statement and Core Values

Mission Statement:

Securing your tomorrows – LACERS is dedicated to providing superior service and protecting retirement benefits for the financial future of its members.

Core Values:

The LACERS Board and Staff are committed to reflecting these core values in all we say and do:

- Fulfilling fiduciary responsibilities with the utmost integrity and accountability
- Thinking independently, respecting individuality, and working as a team
- Encouraging open communication and collaboration
- Continuously expanding our knowledge

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2003

Robert Aguallo, Jr., General Manager-Secretary

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INTRODUCTORY SECTION

CITY OF LOS ANGELES

CALIFORNIA

JAMES K. HAHN
MAYOR

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

ROBERT AGUALLO, JR.
GENERAL MANAGER
(213) 473-7280

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

TTY (888) 349-3996

LETTER OF TRANSMITTAL

December 17, 2003

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, or the System) for the fiscal year ended June 30, 2003, the System's 67th 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, the City 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, the Management's Discussion and Analysis, and the basic 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 Management's Discussion and Analysis is located in the Financial Section at page 15, which contains financial highlights, overview of the financial statements and financial analysis in the narrative format. Readers of this CAFR are encouraged to review this supplementary information to gain an insight of LACERS' financial activities.

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, and supplementary disclosures, and to establish and maintain internal control to ensure retirement system assets are protected.

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

2. 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, the administration of the retired health benefits was transferred from the Department of Personnel to 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 under an enhanced version of the imaging system 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.

LACERS management is working with the Board to develop a new strategic plan for the next three to five years. In the process of implementing the strategic plan, strategic goals and objectives will be identified, and specific action plans to achieve the goals and objectives will be developed. The ultimate purpose of such planning process is to transform LACERS into a premier retirement trust fund that provides superior service and protects retirement benefits for the financial futures of its members.

3. Financial and Economic Summary

U.S. economic activity remained sluggish during most of the fiscal year. The interest rates were historically low, and inflation was still firmly under control. The economy showed signs of improving after April of 2003, especially in the residential real estate and construction, air traffic, and energy sectors. The financial markets started to recover from the downward trend in mid-March, 2003. By the end of the fiscal year, the major stock indexes were almost back to the level of one year ago. Due to the recovery's late occurrence in the fiscal year, LACERS' portfolio benefited only slightly from the market rebound and achieved a modest investment rate of return of 4.5%. We expect that the continued recovery of the financial markets will reflect well in the next fiscal year's portfolio performance.

4. 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, 2002. 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.

5. 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, Systems, and Accounting 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,

Robert Aguallo, Jr.	Li Hsi
General Manager	Chief Accounting Employee

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, 2002

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

President

Executive Director

ALSO AWARDED 1999, 2000, 2001

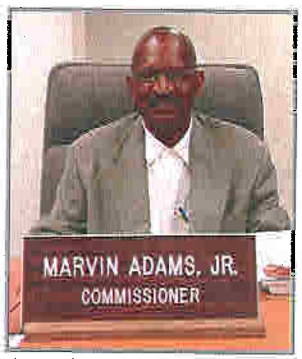
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FISCAL YEAR 2002 - 2003

President, Elected by Active Members
Shelley I. Smith

Vice President, Elected by Active Members
Charlie Mims

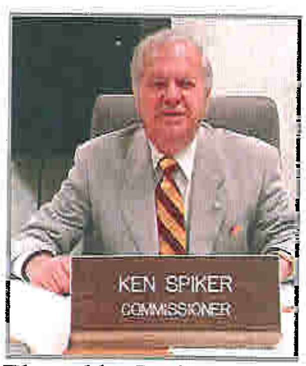


Appointed by the Mayor
Marvin Adams, Jr.

Appointed by the Mayor
Thomas J. Mizo

Appointed by the Mayor
Eric L. Holoman

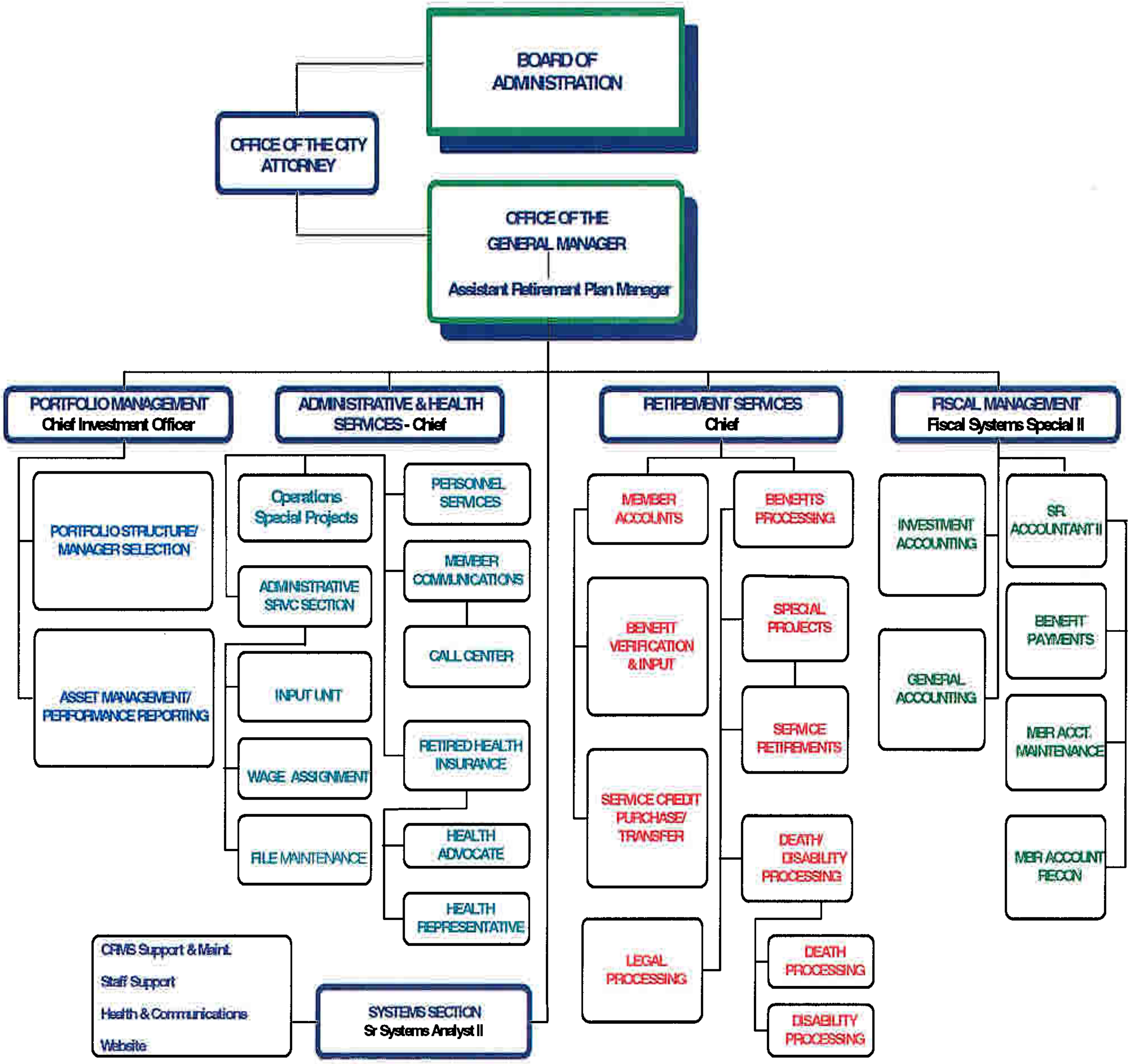
Appointed by the Mayor
Vicky L. Schiff



Elected by Retired Mbrs.
Ken Spiker

Manager – Secretary
Robert Aguallo, Jr.

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


FINANCIAL SECTION

ERNST & YOUNG

Ernst & Young LLP
725 South Figueroa Street
Los Angeles, California 90017-5418

Phone: (213) 977-3200
www.ey.com

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, 2003, 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. The prior year summarized comparative information has been derived from the System's 2002 financial statements and, in our report dated September 20, 2002, we expressed an unqualified opinion on those financial statements.

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, 2003, and the changes in its net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

The accompanying required supplementary information including Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information on pages 15 through 23 and 41 through 44 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

October 3, 2003

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, 2003. 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, 2003 are $6,709,041,000.
- Compared with the plan net assets of LACERS as of June 30, 2002, the value of the net assets decreased $4,899,000 or 0.1% during the reporting period.
- The plan assets under the retirement plan and postemployment healthcare plan are pooled for investment purposes. Investment gain for the year was $247,325,000, as compared with an investment loss of $370,493,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) were $97,531,000, including the actuary's recommended contribution to the postemployment healthcare plan in the amount of $26,608,000.
- Deduction from net assets of LACERS includes benefit payments, refunds of member contributions and administrative expenses. The total deductions from net assets were $432,823,000, a 9.3% increase from the prior fiscal year.
- As of June 30, 2003, the date of our last actuarial valuation, the funded ratio for LACERS was 88.6%. The funded ratio for the retirement plan was 91.4% and the funded ratio for the postemployment healthcare plan was 70.4%. 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 $0.89 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 24 and 25 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 26 – 37 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.

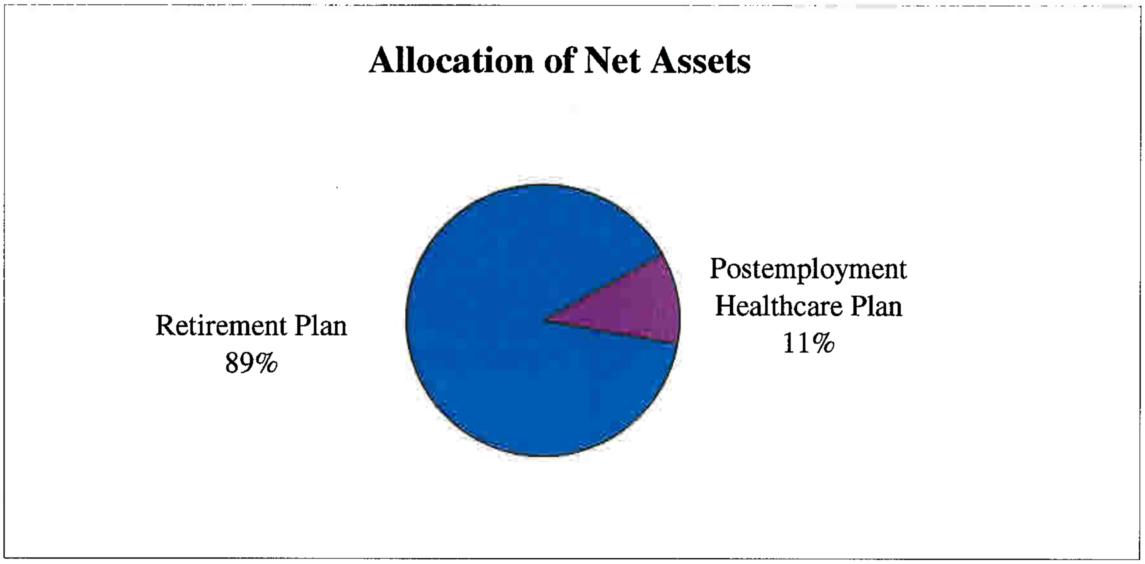
FINANCIAL ANALYSIS

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, 2003 (in thousands):

Retirement Plan	$	5,985,142
Postemployment Healthcare Plan		723,899
Net Assets	**$**	**6,709,041**

Allocation of Net Assets (continued)



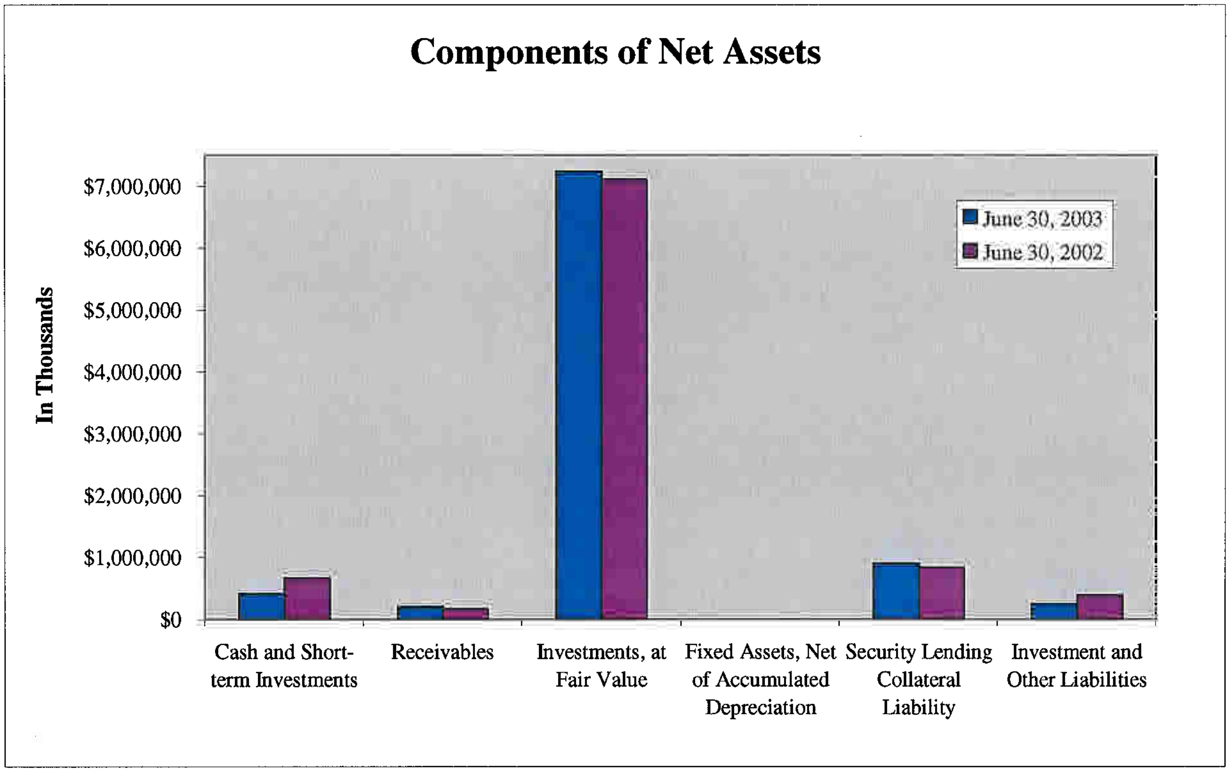
Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were $6,709,041,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the retirement plan and postemployment healthcare plan, as required by the existing reporting standards. Net assets for the retirement plan and postemployment healthcare plan are $5,985,142,000 and $723,899,000, 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, 2003 and 2002 (in thousands):

	June 30, 2003	June 30, 2002	Change	
Cash and Short-term Investments	$ 410,784	$ 667,167	$ (256,383)	(38.4)%
Receivables	204,239	171,749	32,490	18.9
Investments, at Fair Value	7,239,780	7,108,039	131,741	1.9
Capital Assets, Net of Depreciation	56	71	(15)	(21.1)
Total Assets	**7,854,859**	**7,947,026**	**(92,167)**	**(1.2)**
Security Lending Collateral Liability	899,561	838,213	61,348	7.3
Investment and Other Liabilities	246,257	394,873	(148,616)	(37.6)
Total Liabilities	**1,145,818**	**1,233,086**	**(87,268)**	**(7.1)**
Net Assets	**$ 6,709,041**	**$ 6,713,940**	**$ (4,899)**	**(0.1)%**

Net Assets (continued)



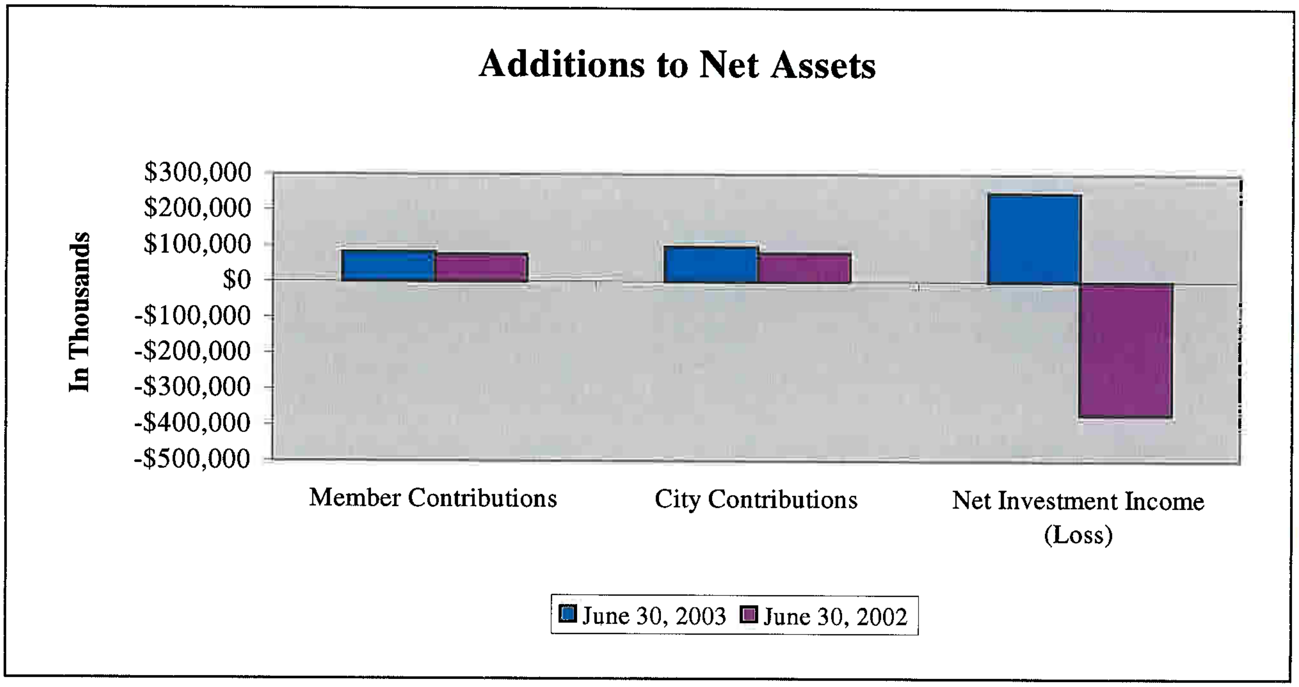
The largest portion of LACERS's net assets is its investment portfolio which includes cash and short-term investments, receivables, plus fixed income, equities, and other asset classes. Net assets decreased by $4,899,000 during the report year. The decrease is attributable to the fact that the total additions to Net Assets, including the Net Investment Income of $247,325,000 and Member and City contributions, still fell short of the total deductions from Net Assets by a little less than 0.1%.

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, 2003 and 2002 (in thousands):

	June 30, 2003	June 30, 2002	Change
Member Contributions	$ 83,068	$ 75,654	9.8%
City Contributions	97,531	79,468	22.7
Net Investment Income (Loss)	247,325	(370,493)	166.8
Additions to Net Assets	**$ 427,924**	**$ (215,371)**	**298.7%**

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



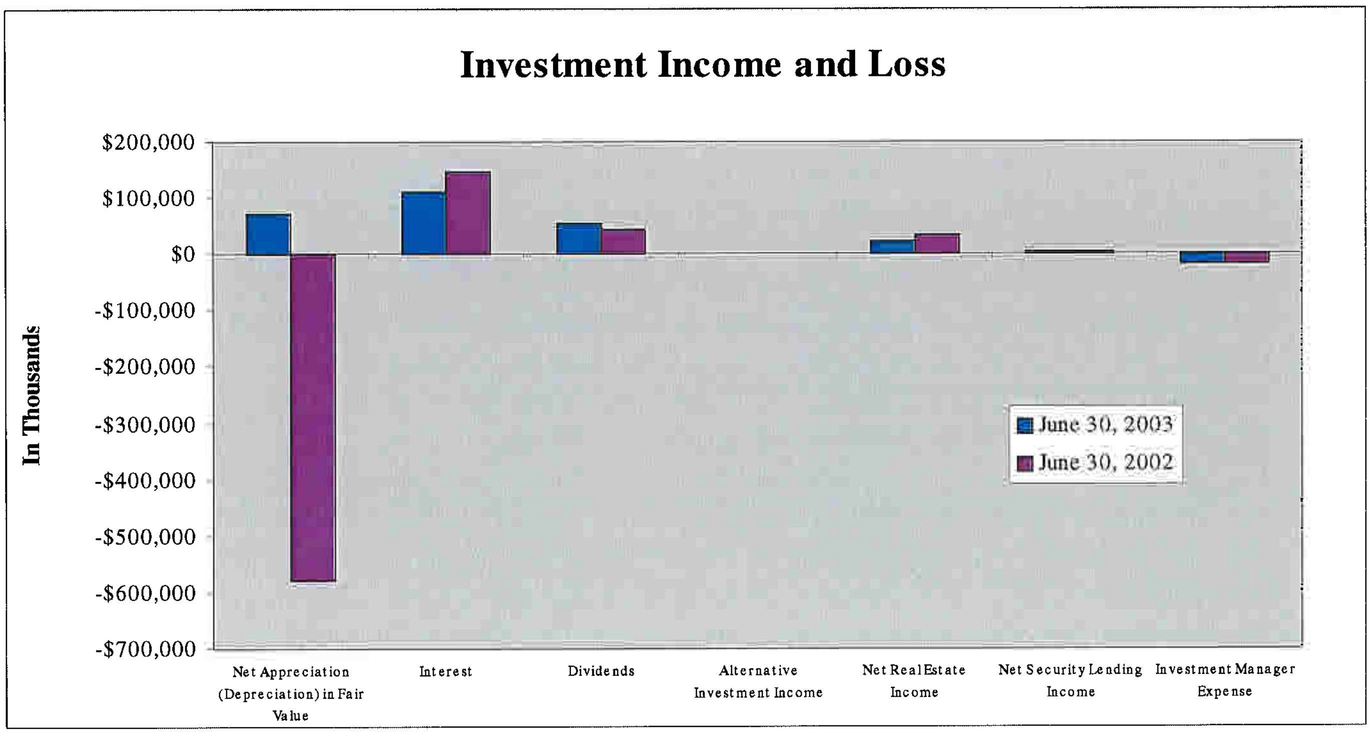
The additions to LACERS's net assets consist of Member Contributions, City Contributions, and Net Investment Income (Loss). These additions are the main funding source to support LACERS's benefits. City Contributions were $97,531,000 during the year, or $18,063,000 more than the prior fiscal year due to a larger contribution percentage recommended by the actuary. The recommended contribution percentage was 5.82% of total covered payroll for fiscal 2003, as compared with 4.71% 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 $83,068,000, or $7,414,000 (9.8%) more than the prior year due to a 1.7% net increase in the number of members and salary increases.

The net investment income bounced back from a $370,493,000 loss reported in the prior fiscal year to a gain of $247,325,000 in the current fiscal year due to improved market situations.

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, 2003 and 2002 (in thousands):

	June 30, 2003	June 30, 2002	Change
Net Appreciation (Depreciation) in Fair Value of Investments	$ 73,247	$ (580,020)	112.6%
Interest	110,373	146,685	(24.8)
Dividends	53,491	42,803	25.0
Alternative Investment Income	2,004	2,148	(6.7)
Real Estate Income, Net	23,117	31,666	(27.0)
Security Lending Income, Net	2,570	3,913	(34.3)
Investment Management Expense	(17,477)	(17,688)	1.2
Total Investment Gain (Loss), Net	**$ 247,325**	**$ (370,493)**	**166.8%**



Investment Income and Loss (continued)

The amount of net investment gain was $247,325,000 during the year, or 166.8% more than the prior fiscal year. The stock markets bottomed out near the end of the current fiscal year, resulting in a net appreciation in fair value of LACERS's investments by $73,247,000. The net appreciation includes realized and unrealized capital gain/loss and compares more favorably with the net depreciation of $580,020,000 of the year before.

Adding to the investment income was the increase in stock dividends earned during the fiscal year that was 25.0% higher than the previous year. The interest income was lower, however, compared with the previous year by 24.8%. This was due to the continued lower bond yields and a decrease in bond holdings by approximately 19%. The real estate and alternative investments portfolio, the two other components of LACERS's asset allocation, contributed 9.3% and 0.8%, respectively, of the total investment income. Both types of income showed a decrease from the previous year. Security lending income also posted a decrease by 34.3% from a year ago due to the suppressed level of interest rates. Investment management expense was maintained at about the same level of the previous year with a slight decrease of 1.2%.

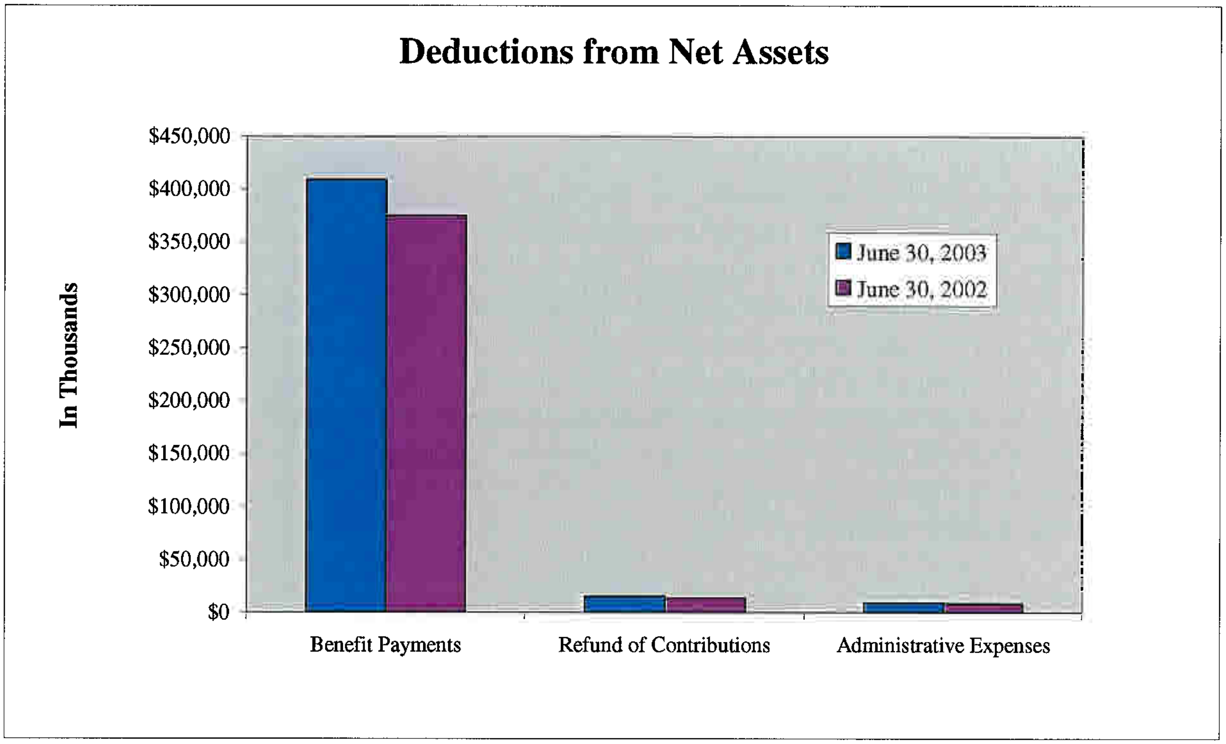
Change in Net Assets – Deductions from Net Assets

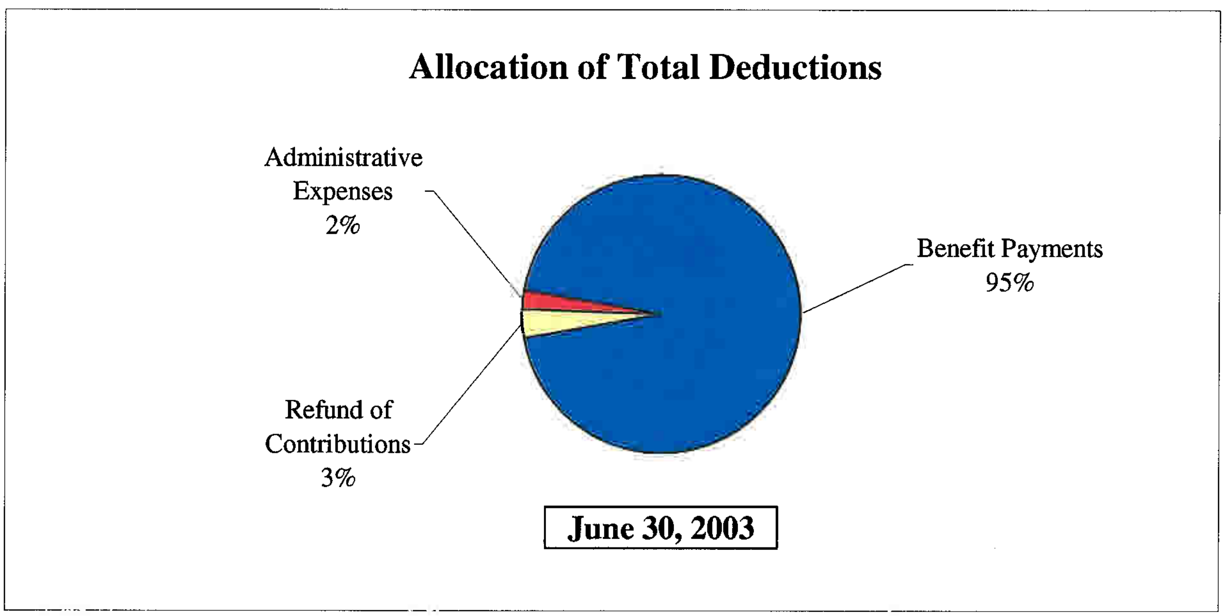
The following table and graphs provide information related to the deductions from net assets for the years ended June 30, 2003 and 2002 (in thousands):

	June 30, 2003	June 30, 2002	Change
Benefit Payments	$ 408,979	$ 374,816	9.1%
Refund of Contributions	14,679	13,049	12.5
Administrative Expenses	9,165	8,133	12.7
Deductions from Net Assets	**$ 432,823**	**$ 395,998**	**9.3%**

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 9.3%. Most of the increase was due to a greater amount of benefit payments, which increased by 9.1%. The reasons for this increase are primarily the annual cost of living adjustment of approximately 3.0%, the increase in number of retirees by 1.5%, the average monthly benefit amount that was 2.1% higher than the prior year, and the higher expenditure on health and dental subsidies. Refunds of Contributions and Administrative Expenses also increased between 12.0% and 13.0% over the prior reporting period, and accounted for approximately 3.4% and 2.1% 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, 2003, with Comparative Totals

(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Totals 2003	Totals 2002
Assets				
Cash and short-term investments (*Note 5*)	$ **366,461**	$ **44,323**	$ **410,784**	$ 667,167
Receivables:				
Accrued investment income	**24,088**	**2,913**	**27,001**	36,580
Proceeds from sales of investments	**154,018**	**18,628**	**172,646**	130,379
Other	**4,096**	**496**	**4,592**	4,790
Total receivables	**182,202**	**22,037**	**204,239**	171,749
Investments, at fair value (*Notes 5 and 6*):				
U.S. government obligations	**369,850**	**44,733**	**414,583**	330,486
Municipal bonds	**49,950**	**6,041**	**55,991**	47,307
Domestic corporate bonds	**595,843**	**72,067**	**667,910**	820,034
International bonds	**154,751**	**18,717**	**173,468**	239,851
Domestic stocks	**2,562,191**	**309,895**	**2,872,086**	2,464,769
International stocks	**1,115,880**	**134,965**	**1,250,845**	1,185,591
Mortgages	**199,195**	**24,093**	**223,288**	427,094
Government agencies	**71,777**	**8,681**	**80,458**	149,752
Real estate	**308,719**	**37,340**	**346,059**	369,553
Venture capital and alternative investments	**227,960**	**27,572**	**255,532**	235,389
Security lending collateral	**802,498**	**97,062**	**899,560**	838,213
Total investments	**6,458,614**	**781,166**	**7,239,780**	7,108,039
Capital assets:				
Furniture, fixtures and equipment (net of depreciation)	**50**	**6**	**56**	71
Total assets	**7,007,327**	**847,532**	**7,854,859**	7,947,026
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	**(16,500)**	**(1,996)**	**(18,496)**	(18,039)
Purchases of investments	**(203,186)**	**(24,575)**	**(227,761)**	(376,834)
Security lending collateral	**(802,499)**	**(97,062)**	**(899,561)**	(838,213)
Total current liabilities	**(1,022,185)**	**(123,633)**	**(1,145,818)**	(1,233,086)
Net assets held in trust for pension benefits and postemployment healthcare benefits (a schedule of funding progress is presented on page 41)	$ **5,985,142**	$ **723,899**	$ **6,709,041**	$ 6,713,940

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, 2003, with Comparative Totals

(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Totals 2003	Totals 2002
Additions:				
Contributions:				
Plan member	$ **83,068**	$ **–**	$ **83,068**	$ 75,654
Employer	**70,923**	**26,608**	**97,531**	79,468
Total contributions *(Note 2)*	**153,991**	**26,608**	**180,599**	155,122
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments, including gain and loss on sales	**64,062**	**9,185**	**73,247**	(580,020)
Interest	**98,787**	**11,586**	**110,373**	146,685
Dividends	**47,876**	**5,615**	**53,491**	42,803
Alternative investment income	**1,794**	**210**	**2,004**	2,148
Real estate operating income, net of expense	**20,770**	**2,347**	**23,117**	31,666
Security lending income *(Note 6)*	**3,286**	**385**	**3,671**	5,590
Security lending expense	**(963)**	**(138)**	**(1,101)**	(1,677)
	235,612	**29,190**	**264,802**	(352,805)
Investment management expense	**(15,286)**	**(2,191)**	**(17,477)**	(17,688)
Total investment income (loss), net	**220,326**	**26,999**	**247,325**	(370,493)
Total additions	**374,317**	**53,607**	**427,924**	(215,371)
Deductions:				
Benefits	**(358,195)**	**(50,784)**	**(408,979)**	(374,816)
Refunds of contributions	**(14,679)**	**–**	**(14,679)**	(13,049)
Administrative expenses	**(7,706)**	**(1,459)**	**(9,165)**	(8,133)
Total deductions	**(380,580)**	**(52,243)**	**(432,823)**	(395,998)
Net (decrease) increase	**(6,263)**	**1,364**	**(4,899)**	(611,369)
Net assets held in trust for pension benefits and postemployment healthcare benefits:				
Beginning of year	**5,991,405**	**722,535**	**6,713,940**	7,325,309
End of year	$ **5,985,142**	$ **723,899**	$ **6,709,041**	$ 6,713,940

See accompanying notes.

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

Notes to Financial Statements

June 30, 2003

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, 2003, was 1.98% 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, 2003, the System's actuary recommended the rate of 3.84% 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

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, 2003:

Active:	
Vested	**17,105**
Nonvested	**9,253**
	26,358
Inactive:	
Nonvested	**1,511**
Terminated entitled to benefits, not yet receiving benefits	**1,082**
Retired	**13,805**
Total	**42,756**

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).

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.

Fair Value of Investments

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

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

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

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

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 interest credited to members' accounts, less refunds of members' contributions and transfers to the annuity reserve.

Employer Contributions – Consists of the following components:

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

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

Reserves (continued)

Annuity – Member contributions transferred to the City and used to provide for the members' share of retirement benefits and investment earnings (losses) excluding net appreciation (deprecation) in fair value of investments, less payments to retired members.

Family Death Benefits – Member contributions, matching City contributions, and investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments reserved to pay benefits under the family death benefits insurance plan established by the System, less payments to beneficiaries.

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

Reserve balances as of June 30, 2003, are as follows (in thousands):

Member contributions	$ 1,005,888
Basic pensions	4,513,731
Retired member annuity	448,745
Family death benefit	16,778
Postemployment health benefit	723,899
Total reserves	$ 6,709,041

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.

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, 2003, of approximately \$180,599,000 (\$153,991,000 for the retirement plan and \$26,608,000 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, 2003 (in thousands):

	Retirement Plan	Postemployment Healthcare Plan
City contributions:		
Required contribution	$ 51,604	$ 26,608
Defrayal of portion of member contributions	19,108	–
Family death benefits insurance plan	211	–
Total City contributions	70,923	26,608
Member contributions	83,068	–
Total contributions	$ 153,991	$ 26,608

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 41 through 44.

4. Defrayal 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 subsidized amount paid by the City, based upon the actuarial valuations, was approximately 27% of total City contributions paid for the Retirement Plan for the year ended June 30, 2003. The City contributed $19.1 million in this manner for the year ended June 30, 2003.

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.

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, 2003, on the retirement plan and postemployment healthcare plan statement of plan net assets includes approximately $843,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $409,941,000 for a total of $410,784,000. 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, 2003, short-term investments included collective STIF of $300,772,000, international STIF of $107,023,000, and future initial margin of $2,146,000.

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.

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

At June 30, 2003, 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	$ 2,146
U.S. government obligations	411,527
Domestic corporate fixed income securities	552,202
International fixed income securities	167,826
Domestic stocks	2,498,621
International stocks	939,623
Subtotal	4,571,945
Investments held by broker-dealers under securities loans with noncash collateral:	
U.S. government and agency securities	156,408
Domestic corporate fixed income securities	3,557
Domestic stocks	5,272
International stocks	133,026
Subtotal	298,263
Total Category 1	4,870,208
Investments – not categorized:	
Investments held by broker-dealers under securities loans with cash collateral:	
U.S. government and agency securities	206,385
Domestic corporate fixed income securities	112,151
International fixed income securities	5,642
Domestic stocks	368,193
International stocks	178,196
Subtotal	870,567

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

Collective STIF	$ **300,772**
International STIF	**107,023**
Securities lending short-term investment pool *(Note 6)*	**899,560**
Real estate investment funds	**346,059**
Alternative investments	**255,532**
Equity in City treasury	**843**
Subtotal	**1,909,789**
Total investments – not categorized	**2,780,356**
Less equity in City treasury	**(843)**
Total investments, net of equity in City treasury	**$ 7,649,721**

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.

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, 2003, 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, 2003 (in thousands):

Securities Lent	**Fair Value of Underlying Securities**
U.S. government and agency securities	**$ 362,793**
Domestic corporate fixed income securities	**115,708**
International fixed income securities	**5,642**
Domestic stocks	**373,464**
International stocks	**311,222**
	$ 1,168,829

As of June 30, 2003, the fair value of the lent securities was $1,168,829,000. The fair value of associated collateral was $1,213,628,000. Of this amount, $899,560,000 represents the fair value of cash collateral and $314,068,000 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 $3,671,000 and $1,101,000, respectively, for the year ended June 30, 2003.

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 primarily in trade settlements. Futures and forward contracts are marked to market and are recorded in the statement of plan net assets at fair value.

At June 30, 2003, the System had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of $52,870,000. In addition, at June 30, 2003, the System had outstanding forward purchase commitments with a notional amount of $69,124,000 and offsetting forward sales commitments with notional amounts of $69,124,000 which expire through September 2003. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was $2,146,000 as of June 30, 2003. The realized gain on foreign currency translation was $39,188,000 for the year ended June 30, 2003. Futures contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

8. Commitments and Contingencies

At June 30, 2003, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $305,452,000.

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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)	Underfunded 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, 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
June 30, 2003	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0

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:		
1998	$ 64,460	100%
1999	69,249	100
2000	72,146	100
2001	59,153	100
2002	32,296	100
2003	51,604	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, 2003
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.
Mortality table for disabled retirees	1981 Disability Table, set back five years for females.

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, showed a relatively large increase as a result of the assumption changes approved by the Board such as mortality, withdrawal and salary increases. The Retirement Plan's total liability increased by $462,651,000 as a result of these assumption changes. The large increase in the actuarial accrued liability continued to cause the funded ratio (a/b) to decrease to 91.4%. 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, 2003

(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Total
Personnel services:			
Staff salaries	$ 4,695	$ 673	$ 5,368
Staff benefits	665	95	760
Total personnel services	5,360	768	6,128
Professional services:			
Actuarial	86	13	99
Data processing	573	82	655
Audit	81	12	93
Retirees' health consulting	–	354	354
Legal counsel	233	33	266
Medical for temporary disability	292	42	334
Total professional services	1,265	536	1,801
Communication:			
Printing	94	13	107
Postage	143	21	164
Travel	61	9	70
Total communication	298	43	341
Rentals:			
Office space	636	91	727
Equipment leasing	21	3	24
Total rentals	657	94	751
Miscellaneous:			
Office	111	16	127
Depreciation	15	2	17
Total miscellaneous	126	18	144
	$ 7,706	$ 1,459	$ 9,165

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

Schedule of Investment Expenses

Year ended June 30, 2003

Investment expenses of the System for the year ended June 30, 2003, were as follows (in thousands):

	Assets Under Management	Fees
Retirement Plan		
Investment management expense:		
Fixed income managers	$ 1,441,366	$ 1,688
Equity managers	3,678,071	12,053
Alternative investment consulting fees	227,960	241
Other investment fees	N/A	1,304
Subtotal investment management expenses, excluding real estate and securities lending	5,347,397	15,286
Postemployment Healthcare Plan		
Investment management expense:		
Fixed income managers	174,332	242
Equity managers	444,861	1,728
Alternative investment consulting fees	27,571	34
Other investment fees	N/A	187
Subtotal	646,764	2,191
Total investment management expenses, excluding real estate and securities lending	$ 5,994,161	$ 17,477
Real estate managers' fees:		
Retirement plan	$ 308,719	$ 3,470
Postemployment Healthcare Plan	37,340	392
Total real estate managers' fees	$ 346,059	$ 3,862
Security lending fees:		
Retirement plan	$ 802,498	$ 963
Postemployment Healthcare Plan	97,062	138
Total security lending fees	$ 899,560	$ 1,101


INVESTMENT SECTION

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

ROBERT AGUALLO, JR.
GENERAL MANAGER
(213) 473-7280

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

TTY (888) 349-3996

REPORT ON INVESTMENT ACTIVITY

December 17, 2003

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

Dear Commissioners,

Presented below is a summary report of the Fund's investment activities for the fiscal year 2002-2003.

Market Overview

The fiscal year 2002-2003 began with a fading market outlook exacerbated by fears of conflict with Iraq. Erosion of investor confidence due to political and economic uncertainty left major equity markets with double-digit declines. The following quarter began with the equity markets advancing on investor optimism fueled by news that interest rate cuts by US and European central banks would boost the sagging global economy. However, tensions in the Middle East and in North Korea coupled with growing fears of terrorism and declining profit expectations tempered that advance. The quarter ending March 31 was marked with the outbreak of military conflict in Iraq. Global equity markets rallied at the outset of the war in Iraq, but soon retreated as war-related uncertainties, the SARS virus, and increasing tensions in North Korea dampened investor confidence. In the quarter ending June 30, investor sentiment turned bullish and the markets rallied on news of the war in Iraq winding down, lower interest rates globally, and signs of an improving US economy.

Investment Performance

The portfolio closed the fiscal year 2002/2003 with a rate of return in positive territory, ending two consecutive years of negative returns. The total portfolio returned +4.5% for the twelve-months ended June 30, 2003, outperforming the policy benchmark by 20 basis points (.2%). The portfolio had a market value of $6.7 billion on June 30, 2003.

For the year ended June 30, 2003, asset classes within the portfolio provided mixed returns. Domestic equities returned .3%, slightly underperforming its policy benchmark of .8%. Fixed income returned 14.5% to beat the benchmark by 3.0%. Non-US equities posted a return of –4.8% trailing its benchmark by .6%. With a return of 8.4%, real estate was above the benchmark by 1.3% while alternative investments' return of –6.8% trailed the benchmark by 7.8%. However, it should be noted that because of the "J" curve effect, alternative investments' returns for periods of less than 3-years are not meaningful. Table 1 displays a summary of AIMR compliant investment returns.

Manager Search, Contract Renewals, and New Hires

Public Markets

The emerging markets equities manager search initiated in the prior fiscal year was completed, and one manager was selected (Table 2). Contracts with two managers of publicly traded securities, the general pension fund consultant, and the custodian were renewed (Table 3).

Two fixed income managers were placed on probation in the fiscal year: Loomis Sayles & Company had key personnel and some organizational changes; and Lincoln Capital Management underwent a change in ownership.

Private Investments

During the fiscal year 2002/2003, the Board funded private investments in both alternative and real estate asset classes. Over the past fiscal year, partnerships made capital calls of approximately $101 million. Five alternative investment partnerships were added to the portfolio (Table 4).

Other Contract Renewals

Contracts were renewed with the following law firms: Arter & Hadden; Mayer, Brown, Rowe & Maw; Nossaman, Guthner, Knox & Elliott.

Policies, Procedures, and Guidelines

In November 2002, the Board revised asset allocation targets to increase portfolio returns with a deminimus change in portfolio risk. The fixed income target allocation was decreased from 31% to 27% and the target allocations for real estate and alternative investments were increased from 5% to 7%, respectively.

In light of disappointing total portfolio investment returns in prior years, the Board began considering additional, non-traditional ways of enhancing portfolio value. Preliminary investigation was started in the areas of specialized real estate and alternative investment strategies, as well as corporate governance investing.

Asset Allocation

Additional information relating to the portfolio as of June 30, 2003 is provided in Tables 5 to 15. Table 5 compares actual investment allocation versus target percentages. Tables 6, 7, 8 and 9 list LACERS 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 lists names of contracted investment management and consulting firms.

Respectfully submitted,

Daniel P. Gallagher

Daniel P. Gallagher
Chief Investment Officer

INVESTMENTS

FISCAL YEAR 2002-2003

OUTLINE OF INVESTMENT POLICIES

The Los Angeles City Employees' Retirement System (LACERS, or the System) 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".

INVESTMENT RESULTS

TABLE 1 – **Annualized investment returns compared to policy benchmark:**

RETURN SUMMARY (gross of fees)	Annualized **		
	1 Year (%)	3 Years (%)	5 Years (%)
US Equity	**0.3**	**-6.9**	**0.8**
Russell 3000	*0.8*	*-10.5*	*-1.1*
Fixed Income	**14.5**	**11.0**	**8.1**
*LB Universal **	*11.5*	*10.0*	*7.5*
International Equity	**-4.8**	**-13.1**	**-1.5**
*MS ACWI Free ex US Index **	*-4.2*	*-11.9*	*-2.8*
Real Estate	**8.4**	**10.0**	**11.1**
NCREIF Property Index	*7.1*	*8.6*	*10.2*
Alternative	**-6.8**	**-10.2**	**0.8**
Alternative IRR Index	*1.0*	*-5.5*	*0.6*
LACERS Total Fund	**4.5**	**-1.6**	**3.6**
LACERS Policy Benchmark	*4.3*	*-2.6*	*3.0*

* Both the MS ACWI Free ex US and Lehman Universal indices are historically blended with other indices
** Time-weighted rate of return for all asset classes; Dollar weighted return for total fund

PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

TABLE 2 – **The following emerging markets equities manager was added:**

Name of Firm	Discipline
The Boston Company	Emerging Markets

TABLE 3 – **Contracts were renewed with the following managers of publicly traded securities, consultant, and custodian:**

Name of Firms	Discipline
Barclays Global Investors	Passive S&P 500 Index
Lincoln Capital Management	Active Fixed Income
Pension Consulting Alliance, Inc.	Consultant
The Northern Trust Company	Custodian

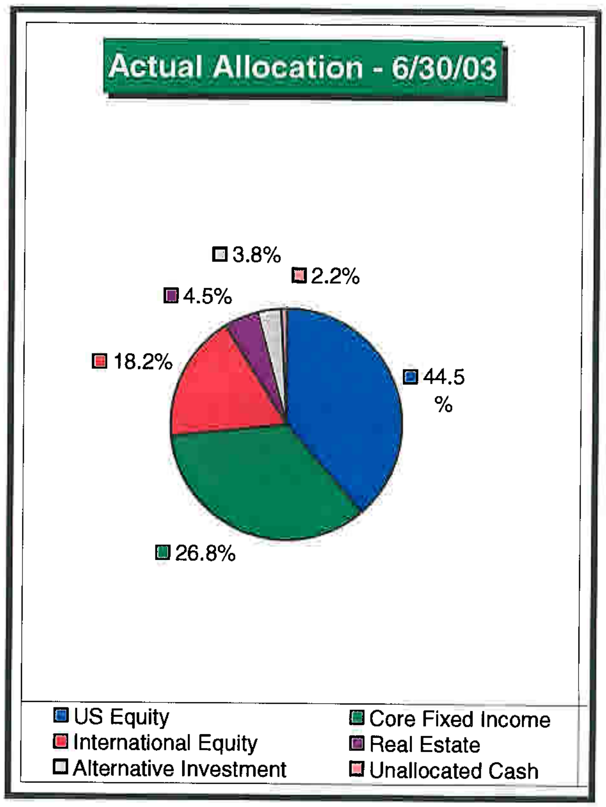
TABLE 4 – **The following alternative investment partnerships were added:**

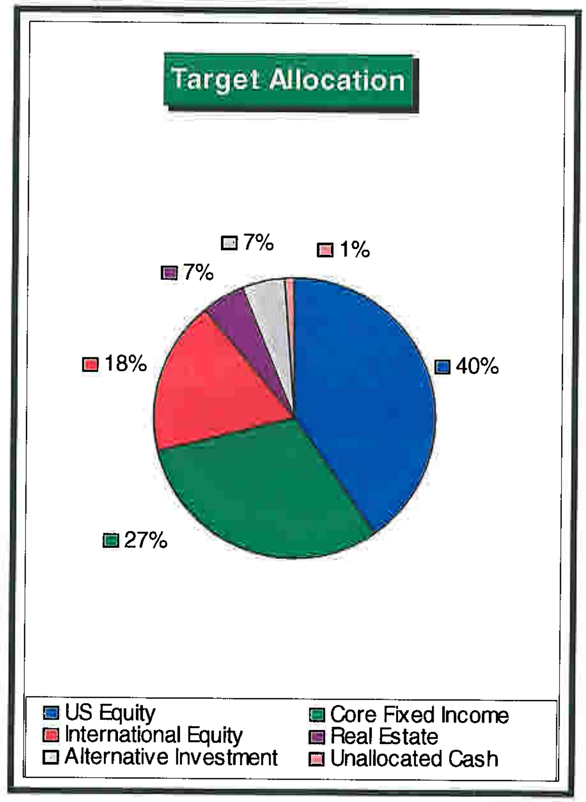
Investment Partnership	Discipline
GTCR Fund VIII	Acquisition
Nordic Capital V	Acquisition
Olympus Growth Fund IV, L.P.	Special Situations
Permira Europe III, L.P.	Acquisition
Resolute Fund, L.P.	Acquisition

ASSET ALLOCATION

TABLE 5 – **Asset Allocation as of June 30, 2003**
Actual and Target

Actual		Target	
US Equity	44.5 %	**US Equity**	40.0 %
Core Fixed Income	26.8 %	**Core Fixed Income**	27.0 %
International Equity	18.2 %	**International Equity**	18.0 %
Real Estate	4.5 %	**Real Estate**	7.0 %
Alternative Investment	3.8 %	**Alternative Investment**	7.0 %
Unallocated Cash	2.2 %	**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, 2003. 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.	16,605,000	FNMA 30 Yr Pass-Through 5.5 30 Yrs Settles Jul	17,160,271
2.	10,930,000	US Treas Bds 11/17/1980 12.75 due 11/15/2010	13,770,051
3.	12,155,000	FNMA Preassign 1.875 12-15-2004	12,269,500
4.	8,080,000	US Treas Bds 8.75% due 05-15-2017	12,093,174
5.	9,985,000	FNMA TBA 30 Yr Pass-Through 6.5 30 Yrs Jul	10,412,458
6.	7,135,000	US Treas Bds 11.75 due 02-15-2010/02-15-2005	8,325,689
7.	8,050,000	FNMA Single Family Mtg 5 15 Yrs Settles Jul	8,314,120
8.	8,105,000	FNMA Single Family Mtg 4.5 15 Yrs Settles Jul	8,266,290
9.	6,740,000	US Treas Nts 6.875 due 05-15-2006	7,726,399
10.	6,870,000	FHLMC 30 Yr Gold Partn 5.5 30 Years Settles Jul	7,401,443
Total			105,739,395

TABLE 7 -- **DOMESTIC EQUITY HOLDINGS**

No.	Shares	Asset Description	Market Value US $
1.	1,511,281	Pfizer IncCom	51,610,246
2.	1,144,385	CITIGroup Inc	48,979,678
3.	1,874,368	Microsoft Corp	48,002.565
4.	1,233,015	Gen Elec Co	35,362,870
5.	902,312	Exxon Mobil Corp	32,848,875
6.	570,445	Wal-Mart Stores Inc	30,615,783
7.	439,971	FNMA	29,671,644
8.	603,402	Altria Group Inc	27,418,587
9.	1,637,715	Cisco Sys Inc	27,333,463
10.	1,167,411	Amern Intl Ltd	26,862,507
Total			358,706,218

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	20,226,179
2.	8,000,000	Mexico-United Mexican Bd 11.375 due 09-15-2016	11,680,000
3.	7,400,000	Empresa Nacional de Electricidad Chile 8.5 due 04-01-2009	7,919,924
4.	5,500,000	Petroleos Mexicanos Global Bd 9.5 due 09-15-2027	6,737,500
5.	5,925,000	Samsung Electrs Ltd Deb 144 A 7.7 due 10-01-2028	6,420,923
6.	5,500,000	Mexican Medium Term Nts Book 8.3 due 08-15-20031	6,333,250
7.	5,000,000	Mexican Medium Term Nts #TR 00009 8 due 09-24-2022	5,600,000
8.	4,455,000	Mexican Medium Term Nts #TR 00006 8.375 due 01-14-2011	5,338,100
9.	5,500,000	Fin Ltd Nt 7.5 due 11-15-2028	5,144,890
10.	5,250,000	Brazil 11% Bds 17/08/2040 USD1000	4,511,183
Total			79,911,949

TABLE 9 -- NON-US EQUITY HOLDINGS

No.	Shares	Asset Description	Market Value US $
1.	13,876,038	Vodafone Group	27,133,389
2.	449,416	Royal Dutch Petrol	20,860,342
3.	980,714	Nokia	16,149,836
4.	384,185	Astrazeneca	15,405,183
5.	454,898	Royal Bk Scotland	12,760,954
6.	217,892	UBS AG	12,120,750
7.	992,338	HSBC Hldgs	11,724,460
8.	195,943	Sanofi-Synthelabo Eur	11,475,630
9.	432,800	Credit Suisse Grp	11,390,735
10.	217,028	Paribas Eur	11,028,226
Total			150,049,505

SCHEDULE OF FEES

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

Fiscal Year	2003		2002	
	Assets Under Management	Fees	Assets Under Management	Fees
Investment Manager Fees:				
Fixed Income Managers	$ 1,615,698	$ 1,930	$ 2,014,524	$ 2,038
Equity Managers	4,122,932	13,781	3,650,361	14,026
Real Estate Managers	346,059	3,862	369,553	3,695
Total	**$ 6,084,689**	**$ 19,573**	**$ 6,034,438**	**$ 19,759**
Security Lending Fees	$ 899,560	$ 1,101	$ 838,212	$ 1,677
Alt Investment Consultant Fees	255,531	275	235,389	275
Other Invest Consultant Fees	N/A	1,491	N/A	1,349
Total	**$ 1,155,091**	**$ 2,867**	**$1,073,601**	**$ 3,301**

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

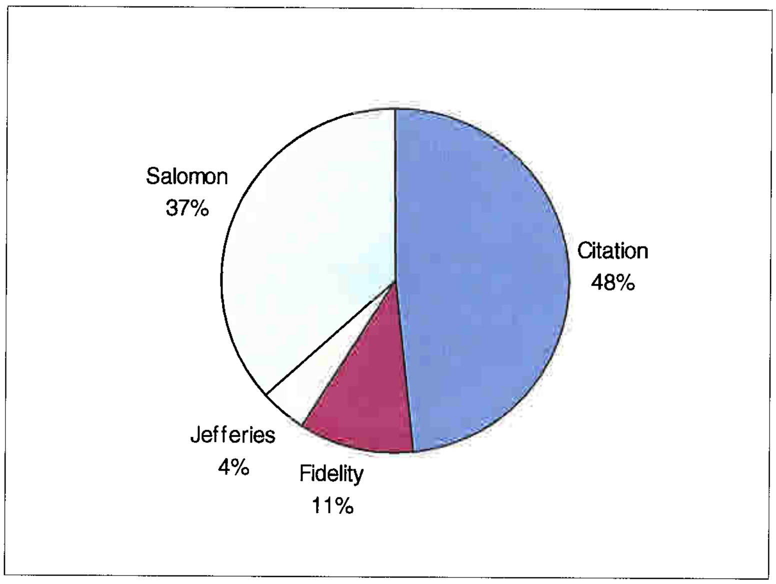
Broker Name	Shares	Commission	$/Share
Instinet	6,084,472	$ 191,946	$ 0.032
Merrill Lynch Pierce Fenner & Smith	4,067,827	150,415	0.037
Banc America Secur. Montgomery Div	3,355,258	138,726	0.041
First Union Capital Markets Clearance	2,643,600	118,698	0.045
Goldman Sachs & Company	5,263,172	112,593	0.021
Fidelity Capital Markets	2,006,650	105,465	0.053
Credit Suisse First Boston Corporation	2,111,205	94,712	0.045
Jefferies & Company	2,129,154	91,121	0.043
Smith Barney Inc	2,343,707	85,234	0.036
Investment Technology Group	3,851,217	78,979	0.021
Total	33,856,262	1,167,889	0.034
Total - Other Brokers	53,087,394	2,012,380	0.038
Grand Total *	**86,943,656**	**$ 3,180,269**	**$ 0.037**

- OTC Brokers excluded because there is no stated commission.

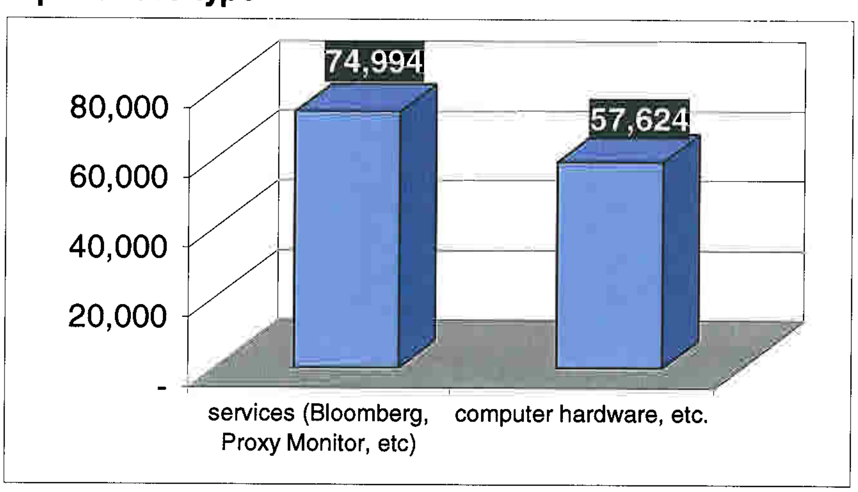
TABLE 12 -- TOTAL CAPTURED COMMISSION EXPENDITURES 2002-2003

Citation	$	63,752
Fidelity		14,372
Jefferies		5,918
Salomon		48,576
Total	$	**132,618**
Services (Bloomberg, Proxy Monitor, etc)		74,994
Computer Hardware, etc.		57,624
Total	$	**132,618**

Expenditure by broker



Expenditure type



COMMISSION RECAPTURE

TABLE 13 -- **COMMISSION RECAPTURE FY 2002-2003**

Broker Name	Amount	Percent
ABEL / NOSER	$ 6,949	3 %
LYNCH, JONES & RYAN	208,905	95 %
ROCHDALE	4,906	2 %
Total	$ 220,760	100 %

INVESTMENT SUMMARY

TABLE 14 -- **INVESTMENT SUMMARY AS OF JUNE 30, 2003**

Type of Investment	Market Value	% of Total M. V.	Domestic Fair Value	Foreign Fair Value
Fixed Income:				
Government bonds/Municipal/Gov't Agencies	$ 724,500,000	10.01 %	$ 551,032,000	$ 173,468,000
Corporate bonds	667,910,000	9.23 %	667,910,000	-
Government mortgage bonds	223,288,000	3.08 %	223,288,000	-
Total fixed income	**1,615,698,000**	**22.32%**	**1,442,230,000**	**173,468,000**
Equities:				
Common stock:				
Basic industries	85,847,623	1.19 %	65,013,795	20,833,828
Capital goods industries	547,403,504	7.56 %	342,231,195	205,172,309
Consumer & services	1,684,021,490	23.26 %	1,198,745,130	485,276,359
Energy	271,522,252	3.75 %	159,005,352	112,516,901
Financial services	817,111,017	11.29 %	528,808,566	288,302,452
Miscellaneous (Common Fund Assets)	702,360,775	9.70 %	570,166,565	132,194,210
Total common stock	**4,108,266,661**	**56.75 %**	**2,863,970,602**	**1,244,296,059**
Preferred stock	12,073,566	0.17 %	6,733,071	5,340,495
Convertible bonds/equities	2,322,716	0.03 %	1,175,324	1,147,392
Rights/warrants/Unit trust equity	268,320	0.00 %	207,002	61,318
Total equities	**4,122,931,263**	**56.95 %**	**2,872,086,000**	**1,250,845,263**
Real Estate:	**346,059,000**	**4.78 %**	**346,059,000**	-
Alternative Investments:				
Acquisitions	87,761,959	1.21 %	87,761,959	-
Venture capital	123,608,665	1.71 %	108,092,822	15,515,843
Subordinated debt	27,794,369	0.38 %	27,794,369	-
International acquisitions	16,366,758	0.23 %	16,366,758	-
Total alternative investments	**255,531,751**	**3.53 %**	**240,015,908**	**15,515,843**
Security Lending Collateral:	**899,560,197**	**12.43 %**	**705,014,817**	**194,545,380**
Total Fund	**$ 7,239,780,212**	**100 %**	**$5,605,405,725**	**$ 1,634,374,486**

ADVISORY / CONSULTING / CUSTODY SERVICES

TABLE 15 -- ADVISORY / CONSULTING / CUSTODY SERVICES

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

Equity – International	Alternative	Alternative
Boston Company Los Angeles, CA	**Alchemy Partners** London, UK	**Menlo Ventures** Menlo Park, CA
Capital Guardian Trust Los Angeles, CA	**Apollo Advisors** Purchase, NY	**Nautic V** Providence, RI
Daiwa International Capital New York, NY	**Austin Ventures** Austin TX	**Nordic Capital V** Stockholm, Sweden
Marvin & Palmer Wilmington, DE	**CGW Southeast Partners** Atlanta, GA	**Oaktree Capital Management** Los Angeles, CA
Schroder Capital Management New York, NY	**Chisholm Partners** Providence, RI	**Olympus Growth Fund IV** Stamford, CT
State Street Global Boston, MA	**CVC Capital Partners** London, UK	**Permira Europe III** St. Peter Port, Guernsey
Templeton International Fort Lauderdale, FL	**Essex Woodlands** Chicago, IL	**Resolute Fund** New York, NY
TT International London, UK	**Golder, Thoma, Cressey & Renner** Chicago, IL	**Richland Ventures** Nashville, TN
	Interwest Partners Menlo Park, CA	**Texas Pacific Group** San Francisco, CA
	J.H. Whitney Stamford, CT	**Thomas Cressey** Chicago, IL

Equity – International	Alternative	Alternative
	Kelso New York, NY **KKR** New York, NY **Madison Dearborn** Providence, RI	**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

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


ACTUARIAL SECTION

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

December 22, 2003

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, 2003 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, 2003. 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 103 and 126). 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 100 and 101).

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, 2003 is illustrated on page 123.

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, 2003 valuation produce results which, in the aggregate, reasonably appropriate the anticipated future experience of the Plan.

Respectfully submitted,

Rick Roeder

Rick Roeder, EA, FSA, MAAA

GRS

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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

December 4, 2003

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, 2003 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, 2004.

CONTRIBUTIONS	RETIREMENT	HEALTH
Normal Costs	10.54%	2.03%
Unfunded Amortization	1.41%	1.99%
TOTAL	11.95%	4.02%

It is our understanding that the Retirement Board will recommend a rate 1.27% **lower** than the sum of the above rates, 15.97%, to reflect the second year of last year's phase-in of assumption changes over three years.

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 $809.2 million, which reflects 9.9% of related actuarial accrued liabilities as of June 30, 2002 and is inclusive of some premium data refinements. Also, there is a net reduction in actuarial liabilities of $102.2 million due to a revision of lower long-term medical inflation assumptions.

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

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY

Rick Roeder

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

Los Angeles City Employees' Retirement System

Summary of Significant Valuation Results

	June 30, 2003	June 30, 2002	Percent Change
I. Total Membership			
A. Active Members	26,358	25,930	1.7%
B. Pensioners	13,805	13,589	1.6%
II. Salaries at June 30			
A. Total Annual Payroll	$1,405,057,848	$1,334,335,478	5.3%
B. Average Monthly Salary	$4,442	$4,288	3.6%
III. Benefits to Current Pensioners and			
A. Total Annual Benefits prior to 7/1 COLA	$359,036,215	$336,437,038	6.7%
B. Average Monthly Benefit Amount	$2,167	$2,063	5.0%
IV. Total System Assets (Incl. FDBIP reserve)			
A. Actuarial Value	$7,868,307,895	$7,934,761,638	(0.8)%
B. Market Value	$6,709,041,681	$6,713,940,288	(0.1)%
V. Unfunded Actuarial Accrued			
A. Retirement Benefits	$660,199,346	$191,930,161	244.0%
B. Health Subsidy Benefits	$356,827,890	$78,047,910	357.2%
VI. Budget Items	FY 2004-2005	FY 2003-2004	
A. Retirement Benefits			
1. Normal Cost as a Percent of Pay	10.54%	10.58%	(0.4)%
2. Amortization of Unfunded Actuarial Accrued Liability	1.41%	(1.36%)	NA
3. Total Retirement Contribution	11.95%	9.22%	29.6%
B. Health Subsidy Contribution, as a Percent	4.02%	1.85%	104.3%
C. Total Contribution (A+B)	15.97%	11.07%	42.1%
VII. Funded Ratio			
(Based on Actuarial Value of Assets)			
A. Retirement Benefits	91.4%	97.4%	(6.2)%
B. Health Subsidy Benefits	70.4%	91.6%	(29.7)%
C. Total	88.6%	96.7%	(9.6)%
(Based on Market Value of Assets)			
D. Retirement Benefits	77.9%	82.4%	(5.5)%
E. Health Subsidy Benefits	60.0%	77.5%	(29.2)%
F. Total	75.5%	81.8%	(8.9)%

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

The related key financial questions are:

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

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

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

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

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

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

(Concluded on next page)

(Concluded)

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

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

plus. . .

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

<u>Computing Contributions To Support System Benefits</u>. 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 <u>an actuarial valuation and a funding method</u>.

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.

<u>Reconciling Differences Between Assumed Experience and Actual Experience</u>. 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 <u>inflation which defies reliable prediction</u>.

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

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

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

E. = Determination of:

Plan Financial Position and/or

Employer's New Contribution Rate

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VALUATION RESULTS

&

COMMENTS

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FUNDING OBJECTIVE

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

CONTRIBUTION RATES

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

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

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

Computed contributions for the fiscal year beginning July 1, 2004 are shown on the following pages.

Computed Contribution Rates

(Expressed as Percents of Active Payroll)

	Retirement		Health Subsidy	
Valuation Date	2003	2002	2003	2002
Applying to Fiscal Year	2004-05	2003-04	2004-05	2003-04
Normal Cost	10.54%	10.58%	2.03%	1.83%
UAAL Amortization	1.41%	(1.36)%	1.99%	0.02%
Total City Contribution	11.95%	9.22%	4.02%	1.85%

The above contributions are **exclusive** of applicable "picked up" employee contributions (defrayals) 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

June 30, 2003

(Expressed as Percents of Active Payroll)

Elements of Normal Costs for

Retirement Benefits

Normal Retirement	14.52%
Vested Deferred Retirement	1.25
Death-In-Service[1]	0.60
Disability [1]	0.43
Contribution Refunds	0.18
Total Normal Cost	**16.98%**
Less	
Employee Contributions[2]	6.44
Equals	
Employer Normal Cost	**10.54%**

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.

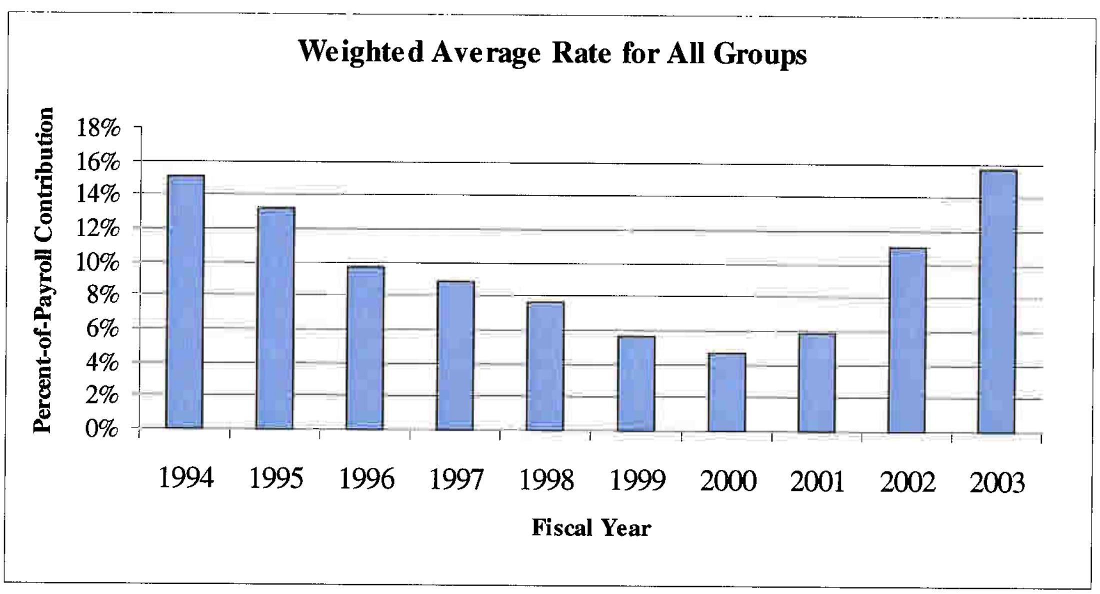
2 Shown employee contributions will be reduced by applicable employee pick ups. Pick ups (aka, "defrayals") averaged 6.58% for pre-1983 hires, as a percentage of present value of future payroll. We recommend that the City take a 1% discount on pick ups to reflect anticipated savings from refunds.

Los Angeles City Employees' Retirement System

Computed Contribution Rates - 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
6/30/03	11.95%	4.73%	16.68%	$1,405,058
6/30/03[1]	11.95%	4.02%	15.97%	$1,405,058

[1]Reflects overall lowering of medical inflation assumptions



Member Contributions as of June 30, 2003

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 (defrayals) are nonrefundable to members.

Please refer to the Appendix for a detailed list of these rates. We recommend a 1% discount on pick ups to reflect anticipated savings from refunds.

	(Percents of Pay) All Active Members	
	2002	2003
Overall employee contribution rate	6.49%	6.44%
	Pre-January 1, 1983 Active Members	
Weighted gross contribution rate	9.25%	9.24%
Weighted pick up rate	6.58%	6.58%
Weighted rate after pick ups	2.67%	2.66%

Los Angeles City Employees' Retirement System

Unfunded Actuarial Accrued Liability

June 30, 2003

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.

	Retirement	Health
(1) UAAL* at beginning of year	$191,930,161	$78,047,910
(2) Normal Cost for the year	$117,246,034	$34,790,295
(3) City Contributions net of defrayals	$51,604,669	$26,607,924
(4) Interest Accrual	$17,929,555	$6,564,831
(5) Adjustments for one year lag	$49,390,845	$8,825,419
(6) Assumption Change	$0	($102,227,491)
(7) Expected UAAL at the end of year (1) + (2) - (3) + (4) - (5) + (6)	$226,110,237	($18,257,798)
(8) Actual End of Year UAAL	$660,199,346	$356,827,890
(9) Total (Gain)/Loss	$434,089,109	$375,085,688
(10) (Gain)/loss as percentage actuarial accrued liabilities at beginning of year	6.0%	40.2%
Note:		
Asset Loss	398,959,034	48,102,157
- percentage of AAL at beginning of year	5.5%	5.2%
Liability Loss/(Gain)	35,130,075	326,983,531
- percentage of AAL at beginning of year	0.5%	35.0%

Los Angeles City Employees' Retirement System

Unfunded Actuarial Accrued Liability

Components of Actuarial Gain (Loss) for Retirement Benefits

Estimated Loss attributed to investment experience	$398,959,000
Estimated Loss attributed to pay increases	$21,801,000
Estimated Loss attributed to post-retirement mortality	$14,928,000
Estimated Loss attributed to lag in actual versus expected contributions	$73,690,000
Estimated (Gain) attributed to employee turnover, pre-retirement mortality, retirement incidence, and miscellaneous factors	($75,289,000)
Total Estimated Experience Loss	$434,089,000

Unfunded Actuarial Accrued Liability

Total actuarial accrued liabilities	$7,659,846,696
Assets allocated to retirement plan	$6,999,647,350
Unfunded Actuarial Accrued Liability	$660,199,346

Comparative Schedule – Experience (Gain)/Loss

Valuation Date	(Gain)/Loss	Beginning of Year Accrued Liabilities	(Gain)/Loss Percentage
6/30/98	$ (356,764,069)	$ 4,886,336,641	(7.3)%
6/30/99	(185,388,031)	5,312,918,078	(3.5)
6/30/00	(332,557,507)	5,684,586,071	(5.9)
6/30/01	12,134,422	6,012,931,343	0.2
6/30/02	190,564,594	6,468,065,894	2.9
6/30/03	434,089,109	7,252,117,949	6.0

Los Angeles City Employees' Retirement System

Unfunded Actuarial Accrued Liability

Components of Actuarial Loss for Health Benefits

Estimated Loss attributed to erroneous 2002 age 65+ HMO premium rates	$132,572,680
Estimated Loss attributed to post-retirement mortality	$4,602,307
Estimated (Gain) attributed to lag in actual versus expected contributions	($1,780,606)
Estimated Loss attributed to employee turnover, pre-retirement mortality, retirement incidence, premium increases and miscellaneous factors	$191,589,150
Estimated Loss attributed to investment experience	$48,102,157
Total Estimated Experience Loss	$375,085,688

Unfunded Actuarial Accrued Liability

Total actuarial accrued liabilities	$1,205,811,297
Assets allocated to retirement plan	$848,983,407
Unfunded Actuarial Accrued Liability	$356,827,890

Comparative Schedule - Experience (Gain)/Loss

Valuation Date	(Gain)/Loss	Beginning of Year Accrued Liability	(Gain)/Loss Percentage
6/30/99	($103,379,627)	$552,122,744	(18.7)%
6/30/00	$105,614,184	$614,093,168	17.2%
6/30/01	($84,150,192)	$854,065,575	(9.9)%
6/30/02	$50,481,385	$807,904,508	6.2%
6/30/03[1]	$375,085,688	$931,963,709	40.2%

[1]Reflects some incorrect premium rates provided for 2002 valuation

Los Angeles City Employees' Retirement System

Detail of Amortization of Unfunded Actuarial Accrued Liability

Retirement Benefits

Item	Years Left	Remaining Balance 6/30/03	Amortization Amount
Combined Bases at 6/30/97	9	$61,058,238	$8,158,460
Gain at 6/30/98	10	(317,025,618)	(38,806,756)
Change in Assumptions at 6/30/98	25	246,185,759	15,511,271
Gain at 6/30/99	11	(171,738,375)	(19,451,048)
Plan Change at 6/30/99	26	23,470,777	1,444,705
Change in Assumptions at 6/30/99	26	(10,260,003)	(631,538)
Gain at 6/30/00	12	(316,335,690)	(33,422,548)
Loss at 6/30/01	13	11,773,683	1,168,409
Loss at 6/30/02	14	188,180,162	17,643,062
Plan Changes at 6/30/02	29	38,439,021	2,223,345
Change in Assumptions at 6/30/02	29	472,362,283	27,321,831
Loss at 6/30/03	15	434,089,109	38,642,681
Total		**$660,199,346**	**$19,801,874**

Health Subsidy

Item	Years Left	Remaining Balance 6/30/03	Amortization Amount
Combined Bases at 6/30/97	9	$45,793,377	$6,118,805
Gain at 6/30/98	10	(97,478,965)	(11,932,293)
Change in Assumptions at 6/30/98	25	49,157,752	3,097,252
Gain at 6/30/99	11	(95,768,045)	(10,846,666)
Plan Change at 6/30/99	26	3,418,020	210,391
Change in Assumptions at 6/30/00	27	48,898,449	2,944,475
Loss at 6/30/00	12	100,462,431	10,614,390
Gain at 6/30/01	13	(81,648,521)	(8,102,720)
Loss at 6/30/02	14	49,849,738	4,673,723
Change in Assumptions at 6/30/02	29	61,285,456	3,544,802
Loss at 6/30/03	15	375,085,688	33,390,187
Change in Assumptions at 6/30/03	30	(102,227,491)	(5,804,758)
Total		**$356,827,890**	**$27,907,588**

Los Angeles City Employees' Retirement System

Funding Progress Indicators

June 30, 2003

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

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

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

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

Los Angeles City Employees' Retirement System

Funding Progress Indicators – Historic Comparison

($ in Thousands)

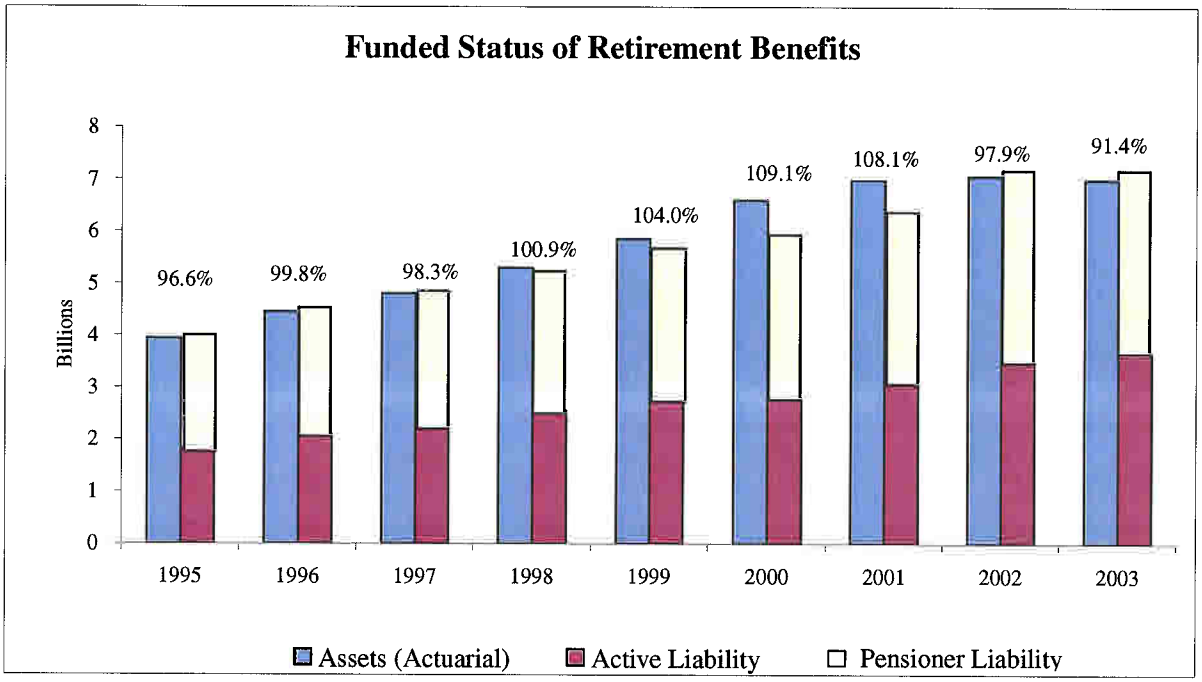
Retirement

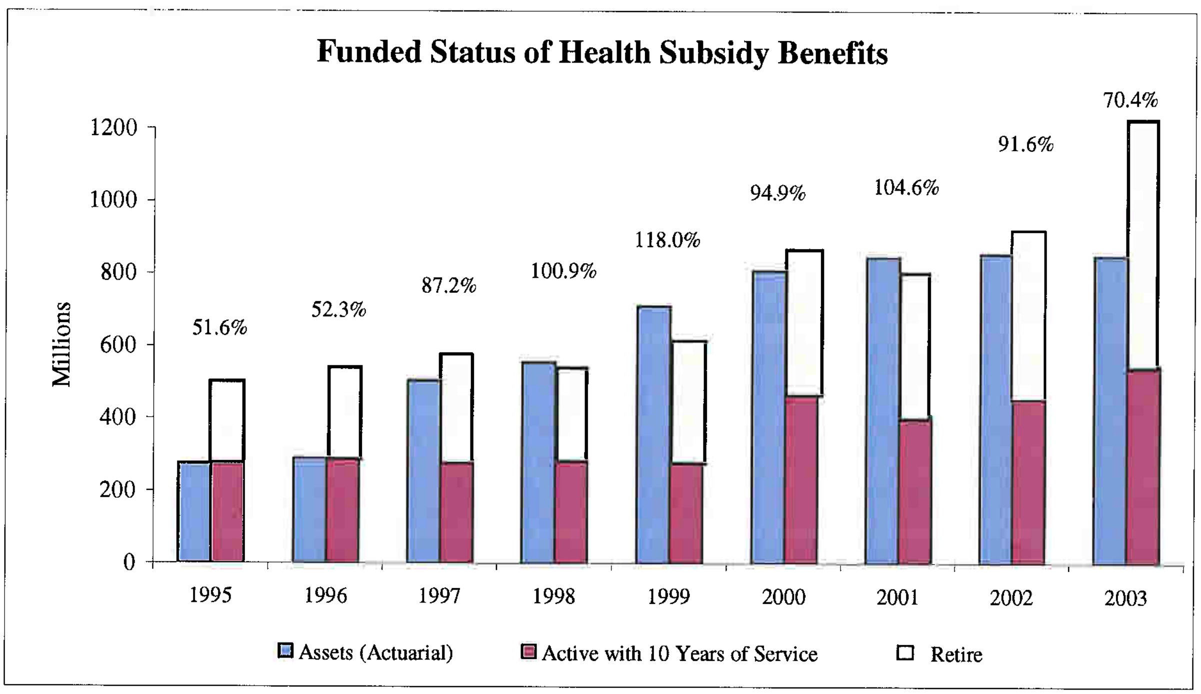
Valuation Date	Valuation Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Member Payroll	UAAL Ratio to Payroll
6/30/99	$5,910,948	$5,684,586	($226,362)	104.0%	$1,068,124	(21.2)%
6/30/00	6,561,365	6,012,931	(548,434)	109.1	1,182,203	(46.4)
6/30/01	6,988,782	6,468,066	(520,716)	108.1	1,293,350	(40.3)
6/30/02[2]	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4
6/30/03	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0

Health Subsidy

Valuation Date	Valuation Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Member Payroll	UAAL Ratio to Payroll
6/30/99	$724,429	$614,093	($110,336)	118.0%	$1,068,124	(10.3)%
6/30/00[1]	810,303	854,066	43,763	94.9	1,182,203	3.7
6/30/01	844,984	807,905	(37,079)	104.6	1,293,350	(2.9)
6/30/02[2]	853,916	931,964	78,048	91.6	1,334,335	5.8
6/30/03[2,3]	848,983	1,205,811	356,828	70.4	1,405,058	25.4

1 Reflects significant increase in maximum benefits
2 Reflects assumption changes
3 Reflects significant increase in maximum benefits and underreporting of certain 2002 subsidies


Funded Status of Retirement Benefits
Billions
8
7
6
5
4
3
2
1
0
96.6%
99.8%
98.3%
100.9%
104.0%
109.1%
108.1%
97.9%
91.4%
1995
1996
1997
1998
1999
2000
2001
2002
2003
Assets (Actuarial)
Active Liability
Pensioner Liability


Funded Status of Health Subsidy Benefits
Millions
1200
1000
800
600
400
200
0
51.6%
52.3%
87.2%
100.9%
118.0%
94.9%
104.6%
91.6%
70.4%
1995
1996
1997
1998
1999
2000
2001
2002
2003
Assets (Actuarial)
Active with 10 Years of Service
Retire

Los Angeles City Employees' Retirement System

Actuarial Balance Sheet – June 30, 2003

($ in Thousands)

Present Resources and Expected Future Resources

		Retirement	Health	Total
A.	Actuarial value of system assets	$6,999,647	$848,983	$7,848,630[2]
B.	Present value of expected future contributions			
	1. Normal costs for present actives[1]	$1,414,900	$272,509	$1,687,409
	2. For unfunded actuarial accrued liability	$660,199	$356,828	$1,017,027
	3. Totals	$2,075,099	$629,337	$2,704,436
C.	Present value of expected future member contributions[1]	$865,029	$0	$865,029
D.	Total Present and Expected Future Resources	$9,939,775	$1,478,320	$11,418,095

A.	To retirants and beneficiaries	$3,991,159	$645,242	$4,636,401
B.	To vested terminated members	$91,749	$14,896	$106,645
C.	To present active members			
	1. Allocated to service rendered prior to valuation date	$3,576,939	$545,673	$4,122,612
	2. Allocated to service to be rendered after valuation date	$2,279,928	$272,509	$2,552,437
	3. Totals	$5,856,867	$818,182	$6,675,049
D	Total Present Value of Expected Future Benefit Payments	$9,939,775	$1,478,320	$11,418,095

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

Family Death Benefit Insurance Plan Contribution Rate

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.

In our opinion, a contribution of $3.70 per month from Members and the City would be sufficient to fund benefits under this plan. This rate will be reviewed next on June 30, 2005.

Los Angeles City Employees' Retirement System

Comments & Recommendations

June 30, 2003

<u>COMMENT A</u>: At the request of retirement staff, we are issuing an updated valuation report to reflect an assumption change to assumed health inflation. The overall City computed rate again increased significantly from 11.07% to 15.97%. Both rates are **before** the phase-in, adopted by the Retirement Board last fall. This phase-in over three years reflects the contribution increase due to assumption changes resulting from last year's experience study. After the phase-in is considered, the Board policy rates increased from 8.53% (11.07% - 2.54%) to 14.70% (15.97% - 1.27%). For purposes of expensing on City financial statements, this may create a Net Pension Obligation for the shortfall, other factors equal.

We predicted the likelihood of a contribution rate increase last year due to the $1.2 billion of deferred losses (excess of actuarial value of assets over market value due to asset smoothing) as of last year's valuation date. Over the past two years, the valuation rates have increased by almost 10% of payroll. This is likely unprecedented in LACERS' history and is part of a national phenomena.

The retirement contribution increased from 9.22% to 11.95%. About 90% of this increase is due to investment yields falling well short of the assumed net investment return of 8%. The return on actuarial value of assets was 2.26%. This resulted in an actuarial investment loss of $399 million for retirement benefits.

The portion of the contribution related to the Health Subsidy also increased substantially from 1.85% to 4.02%. The reasons for this increase were three-fold:

1. There was a $48.1 million dollar actuarial loss on investments.

2. The 16% change in the valued dollar maximum from $751 to $872 per month was substantially higher than the assumed trend in the 2002 valuation. In certain categories, premiums increased by 20+%. Many premium categories are below the maximum and, thus, are not directly impacted by changes in the maximum.

3. Even though the funded ratio fell significantly from 104.6% to 91.6% in **last** year's valuation, a couple of the updated 2002 HMO premiums were not accurately reported to us. Thus, the increase in this year's health subsidy rate is greater than it should be on a comparative basis to 2002. Similarly, the 2002 increase was lower than it should have been compared to 2001. Please see page 119 for details in regard to the derivation of the subsidy. Both staff and Deloitte/Touche have carefully reviewed this.

<u>COMMENT B:</u> We have been directed to use a new long-term medical inflation assumption, decreasing from 6% to 4%, and are assuming such refinement has been or will be adopted by the Retirement Board. This partly offsets the significant increase in the health subsidy contribution rate increase. The new ultimate medical inflation rate is consistent with the inflation assumption for retirement benefits, also at 4%. We have recommended such lower inflation assumption in each of the past two valuations. We also increased some of the HMO premium rates over the next several years to reflect the likelihood of higher near-term increases.

The net impact of the change in assumptions was to lower the contribution rate from 4.73% to 4.02%. In the original valuation report, we showed a rate of 4.84%. However, upon review, it was discovered that one of the 2003 premium rates provided us was overstated.

The implementation of our recommendation may seem counterintuitive given recent sharp increases in medical care. However, we do not believe that it is structurally possible for medical inflation to run at 150% of general inflation in the long-term (LACERS' existing inflation assumption is 4%). For example, the percent of Gross National Product currently spent on medical care is between 14-15%. Given the assumptions before revision, the percent of GNP spent on health care would be roughly 25% in the year 2025. We think such scenario is unlikely.

COMMENT C: The aggregate actuarial investment loss of $447 million comes on the heels of last year's loss of $305 million loss. For this purpose, it is helpful to remember that "loss" is compared to your 8% return assumption, not zero.

Even though the market has strongly rebounded in the six months ended September 30, LACERS should be prepared for at least one more year where there will be some more upward pressure on computed rates. There are still $1.16 billion in deferred losses due to smoothing of short-term market performance. In the past three valuations, market returns have lagged the assumed investment rate by **over** two billion dollars.

COMMENT D: The funded ratio for retirement benefits decreased from 97.4% to 91.4%. The funded ratio for the health subsidy has decreased from 91.6% to 70.4%. The overall funded ratio dropped from 96.7% to 88.6%. This is markedly higher than the overall 75.5% funded ratio if the ratio instead used market value of assets.

COMMENT E: While the overall financial picture is significantly less favorable than two years ago, are there any optimistic signs? Yes, even if they are very faint right now. This valuation does not reflect the economic results of a second consecutive strong quarter just ended. For the first time in three years, market-to-market returns were positive, roughly 3.6%. While still shy of the assumed return, it is much better than the negative market returns reflected in the two previous valuations.

Even though the existing deferred losses of $1.16 billion is daunting, it is slightly less than the 2002 deferred losses.

Also, bear in mind that LACERS, unlike many other entities, does actuarially advance fund for health subsidy benefits. Most governmental entities fund such obligations on either a "pay as you go" or "as funds are available" basis. Thus, LACERS is more conservative in this regard than many counterparts.

COMMENT F: We recommend that the discount for pick ups (aka, "defrayals") continue to be 1%.

COMMENT G: We again recommend to make the health subsidy valuation more consistent with the retirement valuation if it is desired to be consistent with the manner retirement benefits are valued. We inherited methodology where only those active members with 10+ years of service are valued. For retirement benefits, all actives are valued.

Last, it is possible with the significant changes in the medical arena that LACERS is experiencing greater utilization than has been assumed. We will review this experience and offer future comments. Ironically, LACERS is affected by the relative attractiveness (or lack thereof) of other retiree medical plans. This is because we assume that there is less than 100% participation. For example, we assume 20% of members will decline medical coverage and 35% will decline dental coverage. Since many other medical plans have passed along some of the recent substantial cost increases to employees, the LACERS plan probably looks more attractive today than several years ago. This is particularly true for those who have less than 25 years of service and thus receive less than the maximum benefit.

Los Angeles City Employees' Retirement System

Summary of Benefit Provisions – Retirement

Effective June 30, 2003

1. Membership Requirements – First day of employment

2. Final Compensation for Benefit Determination

   Highest consecutive twelve months of compensation earnable

3. Service Retirement

   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 : 2.16% of Final Compensation

   Reduced: For retirement ages below age 60

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

   C. Maximum Benefit – 100% of Final Average Compensation

4. Ordinary Disability

   A. Eligibility – Five years of continuous service.

   B. Benefit Formula – $1/70^{th}$ 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 1/3 years.

(Continued on Next Page)

5. Death

   A. Eligibility – None.

   Benefit – Refund of employee contributions with interest and a limited pension equal to one month of final compensation for each year of service to a maximum of six years payable over two 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.

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

(Continued on Next Page)

(Continued)

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.

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.

Los Angeles City Employees' Retirement System

Summary of Health Subsidy Benefits

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).

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: <u>Medical</u>

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, 2003, this amount is $872 per month. This is an increase from the previous maximum of $751.

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 ($58.70 for 2003).

Maximum Subsidy: As of July 1, 2003, this amount is $503.75 per month.

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. Surviving spouses do not receive a subsidy for Medicare Part B premiums or for dental. As of July 1, 2003, this amount is $400.04 per month.

<u>Dental</u>

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 Health Subsidy Benefits

Monthly Premiums for City-Approved Health Carriers as of January 1, 2003, before application of maximum subsidies:

Medical			
Less than age 65	Kaiser HMO	PacifiCare/SH	Blue Cross PPO
Married	$800.08	$751.75	$1,456.92
Single	400.04	418.58	663.19
Age 65 and over			
Married	345.96	379.58	571.94
Single	172.98	191.13	294.94
Dental	$13.28 (Safeguard)		$38.38

Los Angeles City Employees' Retirement System

Summary of Reported Asset Information

Submitted for the June 30, 2003 Valuation

(in thousands)

Report Market Value of Assets		Reserves	
Cash/Short-term	$410,784	Member Deposit Reserve	$1,005,888
Receivables	204,239	Basic Pension Reserve	4,513,731
Stocks	4,122,931	Family Death Benefit Reserve	16,778
Bonds	1,311,953	Annuity Reserve	448,745
Real Estate	346,059	Health Benefits Reserve	723,900
Mortgages	223,288		
Miscellaneous	336,045	Total Reserves	$6,709,042
Total Market Value	$6,955,299		
Liabilities	246,257		
Net Market Value	$6,709,042		

Revenues and Disbursements Among Applicable Reserves

Balance - Beginning of Year	**$6,713,940**
Revenues	
Employees' Contributions	82,866
Employer Contributions	78,423
Defrayal	19,108
Family Death Benefit Premium	202
Earnings	196,520
Realized & Unrealized Gain & Loss	73,247
Total Revenues	**450,366**
Disbursements	
Benefit Payments and Refunds	372,874
Health & Dental Insurance	47,237
Medicare Reimbursements	3,548
Admin.& Investment Expense	31,605
Total Disbursements	**455,264**
Net Increase/(Decrease)	(4,898)
Balance - End of year	**$6,709,042**

Los Angeles City Employees' Retirement System

Derivation of Actuarial Value of Assets

		Year Ending			
		June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
1.	Beginning of Year Market Value	$6,713,940,288	$7,325,308,818	$7,881,497,296	$7,279,063,114
2.	Contributions	180,598,636	155,122,031	157,356,785	171,189,588
3.	Benefit Payments	423,659,098	387,864,290	355,862,157	331,798,058
4.	Expected Return Based on 8% Assumption	527,392,805	576,715,015	622,579,569	575,900,710
5.	Expected End of Year Market Value	6,998,272,631	7,669,281,574	8,305,571,493	7,694,355,354
6.	Actual End of Year Market Value	6,709,041,681	6,713,940,288	7,325,308,818	7,881,497,296
7.	Gain/(Loss) on Market Value of Assets	(289,230,950)	(955,341,286)	(980,262,675)	187,141,942
8.	Return on Market Value	3.61%	(5.25%)	(4.60%)	10.60%
	Return on Actuarial Value	2.26%	4.06%		

1.	Market Value at June 30, 2003	$6,709,041,681
	2003 (Gain)/Loss x 80%	231,384,760
	2002 (Gain)/Loss x 60%	573,204,772
	2001 (Gain)/Loss x 40%	392,105,070
	2000 (Gain)/Loss x 20%	(37,428,388)
2.	Actuarial Value at June 30, 2003	7,868,307,895
3.	80% of Market Value at June 30, 2003	5,367,233,345
4.	120% of Market Value at June 30, 2003	8,050,850,017
5.	Actuarial Value at June 30, 2003	
	(2), but no less than (3) and no more than (4)	$ 7,868,307,895

Actuarial Value of Assets by Plan

In deriving the actuarial value of assets for retirement benefits for the 2003 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 benefits, these values are then subtracted from the total actuarial value.

	Market Value	Actuarial Value
1. Total Value of Assets at June 30, 2002	$6,709,041,681	$7,868,307,895
2. Less Reserves and Liabilities Established for:		
a. Family Death Benefit Insurance Plan	16,778,034	19,677,138
b. Retiree Health Subsidy	723,899,616	848,983,407
c. Total	740,677,650	868,660,545
3. Net Assets Available for Retirement Benefits at June 30, 2003 (Item 1 less Item 2)	$5,968,364,031	$6,999,647,350

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

	2002	2001	2000
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, 2003 Actuarial Valuation

Actives	No.	Annual Compensation	Average Annual Compensation	Average Age	Average Service
6/30/03	26,358	$1,405,057,848	$53,307	44.8	11.8
6/30/02	25,930	1,334,335,478	51,459	44.4	11.8
Percent Change	1.7%	5.3%	3.6%	0.9%	0.0%

Pensioners/ Beneficiaries	No.	Annual Benefit[1]	Average Annual Allowance	Average Attained Age	Average Retirement Age
6/30/03	13,805	$359,036,215	$26,008	71.5	58.8
6/30/02	13,589	336,437,038	24,758	71.5	58.9
Percent Change	1.6%	6.7%	5.0%	0.0%	(0.2%)

[1] Does not include the July 1 Cola of 3.0% for both 2002 and 2003.

Deferred Vesteds	No.	Employee Contributions	Annual Accrued Benefits	Average Contribution Balance	Average Annual Accrued Benefits	Average Age	Average Service
6/30/03	1,082[2]	$42,610,747	$14,695,830	$39,381	$13,582	47.1	12.3
6/30/02	957	34,807,353	12,199,821	36,371	12,748	46.5	11.7
Percent Change	13.1%	22.4%	20.5%	8.3%	6.5%	1.3%	5.1%

Inactives	No.	Employee Contributions	Average Contribution Balance	Average Age	Average Service
6/30/03	1,511[2]	$4,510,334	$2,985	39.5	1.1
6/30/02	1,370	3,875,663	2,829	39.3	1.1
Percent Change	10.3%	16.4%	5.5%	0.5%	0.0%

[2] Approximately 300 active data records were found to be inactive or deferred vested based on their last payroll activity.

Los Angeles City Employees' Retirement System

Historical Membership Summary

In the June 30, 2003 Actuarial Valuation

Actives

			Averages			
	No.	Annual Compensation	Compensation	Percentage Increase	Age	Years of Service
6/30/96	22,319	$957,422,907	$42,897	-- %	43.9	12.5
6/30/97	22,219	990,616,145	44,584	3.9%	44.2	12.9
6/30/98	22,091	1,011,857,180	45,804	2.7%	44.5	13.2
6/30/99	22,504	1,068,124,413	47,464	3.6%	44.6	13.1
6/30/00	24,234	1,182,202,945	48,783	2.8%	44.4	12.3
6/30/01	25,654	1,293,350,061	50,415	3.3%	44.3	11.8
6/30/02	25,930	1,334,335,478	51,459	2.1%	44.4	11.8
6/30/03	26,358	1,405,057,848	53,307	3.6%	44.8	11.8

Retirants and Beneficiaries

			Averages		
	No.	Annual Total Pensions	Pension	Percentage Increase	Attained Age
6/30/96	12,242	$219,872,033	$17,960	-- %	71.6
6/30/97	12,698	240,692,161	18,955	5.5%	71.5
6/30/98	12,591	259,378,957	20,600	8.7 %	71.5
6/30/99	12,843	277,022,689	21,570	4.7%	71.5
6/30/00	13,058	290,899,998	22,278	3.3%	71.6
6/30/01	13,365	316,057,216	23,648	6.2%	71.5
6/30/02	13,589	336,437,038	24,758	4.7%	71.5
6/30/03	13,805	359,036,215	26,008	5.0%	71.5

Los Angeles City Employees' Retirement System

Retirants and Beneficiaries June 30, 2003

Tabulated by Type of Allowances Being Paid

Type of Allowance	No.	Annual Allowance[1]	Average Annual Allowance
Service Retirement			
Unmodified			
50% Continuance	4,278	$125,795,828	$29,405
No Continuance	2,721	73,956,530	27,180
Optional Forms			
100% Continuance	1,365	46,384,879	33,982
75% Continuance	666	27,346,644	41,061
60% Continuance	620	24,714,665	39,862
Not Coded	125	1,692,600	13,541
Other	28	1,311,386	46,835
Beneficiary	2,515	40,762,862	16,208
Total Service Retirement	12,318	$341,965,394	$27,761
Disability Retirement			
Unmodified			
50% Continuance	304	$3,871,779	$12,736
No Continuance	305	4,075,862	13,363
Optional Forms			
100% Continuance	40	555,794	13,895
75% Continuance	15	212,538	14,169
60% Continuance	7	134,399	19,200
Not Coded	168	2,204,563	13,122
Beneficiary	570	5,166,859	9,065
Total Disability Retirement	1,409	$16,221,794	$11,513
Other Beneficiaries	78	$849,027	$10,885
Total Allowances Being Paid	13,805	$359,036,215	$26,008

[1] Benefits do not include COLA increase on July 1, 2003.

Los Angeles City Employees' Retirement Systems

Active Members

By Attained Ages and Years of Service

Age Group	Years of Service to Valuation Date: 0-1	1-2	2-3	3-4	4-5	5-9	10-14	15-19	20-24	25-29	30-34	35 +	Total
15-19 NO.	7	0	0	0	0	0	0	0	0	0	0	0	7
TOT PAY	121,458	0	0	0	0	0	0	0	0	0	0	0	121,458
AVG PAY	17,351	0	0	0	0	0	0	0	0	0	0	0	17,351
20-24 NO.	354	137	88	27	7	4	0	0	0	0	0	0	617
TOT PAY	8,613,282	4,628,162	3,396,324	1,057,117	271,107	167,232	0	0	0	0	0	0	18,133,223
AVG PAY	24,331	33,782	38,595	39,152	38,730	41,808	0	0	0	0	0	0	29,389
25-29 NO.	428	405	398	244	137	119	0	0	0	0	0	0	1,731
TOT PAY	13,082,325	16,351,661	16,770,939	11,430,801	6,664,192	5,770,294	0	0	0	0	0	0	70,070,213
AVG PAY	30,566	40,374	42,138	46,848	48,644	48,490	0	0	0	0	0	0	40,480
30-34 NO.	333	388	366	373	283	575	184	13	0	0	0	0	2,515
TOT PAY	12,105,748	17,240,653	15,656,450	18,367,418	14,750,707	30,818,977	10,297,075	676,582	0	0	0	0	119,913,610
AVG PAY	36,354	44,435	42,777	49,242	52,123	53,598	55,962	52,045	0	0	0	0	47,679
35-39 NO.	316	272	318	327	237	652	980	453	7	0	0	0	3,562
TOT PAY	11,125,853	12,546,840	13,959,819	16,155,148	11,876,078	35,909,808	58,453,897	24,932,127	382,949	0	0	0	185,342,519
AVG PAY	35,208	46,128	43,899	49,404	50,110	55,076	59,647	55,038	54,707	0	0	0	52,033
40-44 NO.	285	230	299	271	211	521	1,028	1,200	399	9	0	0	4,453
TOT PAY	9,897,729	10,049,450	13,603,631	14,090,807	10,405,624	28,073,221	62,020,039	75,215,325	22,589,838	538,075	0	0	246,483,737
AVG PAY	34,729	43,693	45,497	51,996	49,316	53,883	60,331	62,679	56,616	59,786	0	0	55,352
45-49 NO.	260	199	209	210	146	416	836	1,041	647	318	20	0	4,302
TOT PAY	8,430,615	8,770,401	9,401,722	10,675,198	7,387,142	22,826,496	49,750,623	65,986,372	40,157,257	18,368,671	1,078,106	0	242,832,603
AVG PAY	32,425	44,072	44,984	50,834	50,597	54,871	59,510	63,387	62,067	57,763	53,905	0	56,446
50-54 NO.	246	143	202	162	136	322	569	772	524	636	260	7	3,979
TOT PAY	7,978,560	6,295,768	9,622,870	7,619,697	7,574,594	16,717,547	33,752,207	47,230,313	32,877,475	42,394,847	16,617,860	461,031	229,142,769
AVG PAY	32,433	44,026	47,638	47,035	55,696	51,918	59,318	61,179	62,743	66,659	63,915	65,862	57,588
55-59 NO.	173	86	107	95	92	206	358	521	331	407	427	126	2,929
TOT PAY	5,862,623	3,287,671	4,797,589	4,524,829	4,543,217	10,086,346	20,611,911	31,243,629	20,542,005	28,486,705	31,286,288	8,789,671	174,062,484
AVG PAY	33,888	38,229	44,837	47,630	49,383	48,963	57,575	59,969	62,060	69,992	73,270	69,759	59,427
60-64 NO.	85	50	49	47	45	116	184	278	153	144	142	121	1,414
TOT PAY	2,337,334	1,711,424	1,874,856	2,210,737	2,239,457	5,188,350	9,839,678	16,073,206	9,276,712	8,588,257	10,014,987	9,069,082	78,424,080
AVG PAY	27,498	34,228	38,262	47,037	49,766	44,727	53,477	57,817	60,632	59,641	70,528	74,951	55,463
65-99 NO.	84	23	25	19	19	89	96	159	96	88	68	83	849
TOT PAY	1,706,439	432,808	750,840	613,192	597,851	2,346,872	4,852,620	9,239,341	5,735,508	4,669,537	4,075,039	5,511,104	40,531,152
AVG PAY	20,315	18,818	30,034	32,273	31,466	26,369	50,548	58,109	59,745	53,063	59,927	66,399	47,740
TOT NO.	2,571	1,933	2,061	1,775	1,313	3,020	4,235	4,437	2,157	1,602	917	337	26,358
TOT AMT	81,261,968	81,314,839	89,835,040	86,744,942	66,309,967	157,905,144	249,578,050	270,596,895	131,561,744	103,046,093	63,072,279	23,830,888	1,405,057,848
AVG AMT	31,607	42,067	43,588	48,870	50,503	52,286	58,932	60,986	60,993	64,323	68,781	70,715	53,307

Los Angeles City Employees' Retirement System

Distribution of Pensioners by Plan Year of Retirement and by Attained Age as of June 30, 2003

Retirement Benefits

Year Retired	Under 50	50-59	60-64	65-69	70-74	75-79	80-89	90+	Total
Pre-1984	2	82	85	125	166	618	1,828	527	3,433
1984	4	12	6	16	24	183	186	6	437
1985	0	13	10	14	65	129	178	5	414
1986	0	14	7	18	74	108	112	2	335
1987	2	16	11	19	121	138	112	2	421
1988	4	15	10	15	134	112	110	1	401
1989	0	21	17	19	152	132	73	2	416
1990	9	18	20	76	146	113	56	1	439
1991	8	17	11	82	112	96	39	3	368
1992	9	22	17	107	123	78	36	0	392
1993	10	9	9	136	133	73	49	3	422
1994	9	22	15	161	119	79	36	1	442
1995	24	32	64	137	104	54	15	1	431
1996	18	37	97	141	112	52	24	0	481
1997	16	43	219	153	91	48	15	0	585
1998	18	97	211	182	112	42	18	0	680
1999	22	117	206	115	67	44	9	1	581
2000	23	203	210	151	91	45	52	5	780
2001	19	238	199	138	74	50	70	9	797
2002	19	280	165	121	80	46	56	15	782
2003	25	322	155	109	63	29	59	6	768
TOTALS	241	1,630	1,744	2,035	2,163	2,269	3,133	590	13,805

Age at Retirement: 58.8
Attained Age: 71.5
Annual Pension: $26,008 prior to 7-1-03 Cola

Actuarial Cost Methods - June 30, 2003

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.

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, and average compensation. Accrued benefits were calculated based on the data provided.

Actuarial Assumptions Used for the June 30, 2003 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 Board subsequently elected to phase in assumption changes, reflecting 3.81% of the increase in computed rate, over three years.

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

(Continued on Next Page)

Actuarial Assumptions Used for the June 30, 2003 Valuation

(Continued)

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

One year term cost funding method was used for the Family Death Benefit Insurance Plan. There is an adjustment for the funded status of the plan at each valuation date.

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, 1963	1.4 %
June 30, 1973	3.7%
June 30, 1983	8.4%
June 30, 1993	3.8%
June 30, 2003	2.4%
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:

	7/01/02-6/30/03	7/01/01-6/30/02	7/01/00-6/30/01	7/01/99-6/30/00	7/01/98-6/30/99	3-Year Average	5-Year Average
Inflation[1]	3.0%	2.8%	3.7%	2.7%	1.9%	3.2%	2.8%
Assumed						4.0%	4.0%
Average Pay Increase	3.6%	2.1%	3.3%	2.8%	3.6%	3.0%	3.1%
Assumed						4.0%	4.0%
Merit & Longevity Pay Increase	0.6%	(0.7%)	(0.4%)	0.1%	1.7%	(0.2%)	0.3%
Assumed	1.0%	1.0%	Varied depending on age				
Total Payroll	5.3%	3.2%	9.4%	10.7%	5.6%	5.9%	6.8%
Assumed						4.0%	4.0%
Investment Return Rate[2]	2.3%	4.1%	9.1%	13.6%	14.4%	5.2%	8.6%
Assumed						8.0%	8.0%
Real Rate of Investment Return	(0.7%)	1.3%	5.4%	10.9%	12.5%	2.0%	5.8%
Assumed						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, 2003 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:

Service	All Members
0	4.0%
1	3.5
2	3.0
3	2.0
4	1.5

Cost-of-Living Increase: 3.0% per year

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

	% of Active Members Separating Within Next Year			
Sample	Withdrawal	Death		Disability
Ages	All Members	Men	Women	All Members
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

All deaths are assumed to be non-duty related.

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

Service	Rate
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, 2003 Valuation

(Continued)

The post-retirement mortality table used was the 1994 Male Group Annuity Mortality Table, setback three years for females. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. The 1981 Disability Mortality Table (General) is used for male disabilitants, the table was setback five years for female disabilitants. Related values are shown below.

	Future Life Expectancy (Years) Non-disabled Retirees		% Dying Within Next Year Non-disabled Retirees	
Sample Ages	Men	Women	Men	Women
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

	Future Life Expectancy (Years) Disabled Retirees		% Dying Within Next Year Disabled Retirees	
Sample Ages	Men	Women	Men	Women
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

Actuarial Assumptions Used for the June 30, 2003 Valuation

(Continued)

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

Retirement Ages	All Members
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

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.

Employee contributions are assumed to accumulate at a rate of 6.50%. Employee contribution interest is based on the 5-Year U.S. Treasury Note.

Actuarial Assumptions Used for the June 30, 2003 Valuation

(Continued)

Members are assumed to have two children with 3-year age difference. The youngest is assumed to turn 18 when the participant is 45. (This is used for the valuation of the Family Death Benefit Insurance Plan)

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

Marital Status – 76% of men and 50% 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

Age	
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

Age	
45-49	61.9%
50-54	30.5
55-59	13.3
60-64	8.6

Valuation of Health Subsidy Benefits

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, 2003 is $848,983,407 (the market value is $723,899,616).

In determining the health subsidy benefits budget amounts for the fiscal year 2004-2005, 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 7.75% in 2003-2004 decreasing gradually to 4.0% in 2014 and beyond for benefits paid to members under age 65, and benefits paid to members without Medicare, who are enrolled in the PPO.
- graded medical cost trend of 10.75% in 2003-2004 decreasing gradually to 4.0% in 2014 and beyond for benefits paid to members under age 65, and benefits paid to members without Medicare, who are enrolled in an HMO.
- medical cost trend rates of 15.0% (25.0% for Kaiser) in 2003-2004 decreasing gradually to 4.0% in 2016 and beyond for benefits paid after age 65 from System HMO plans
- graded medical cost trend rates of 10.75%, decreasing gradually to 4.0% in 2016 and beyond for benefits paid after age 65 for Members who join the PPO.
- graded dental trend rates of 7.25% in 2003-2004 decreasing to 4.0% in 2014 and beyond
- Medicare Part B premium trend rates of 6.0%, decreasing gradually to 4.0% in 2016.

Updated health cost trend assumptions were adopted as of June 30, 2003. The ultimate health inflation rate was changed from 6.0% to 4.0%.

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.
Funding Method:	Projected Unit Credit Funding Method (only those members with 10 or more years of service are valued).

Medical Trend Rates:

	Medical Trend				**Dental Trend**	**Medicare Part B**
	Pre-65		**Post-65**			
	PPO	**HMO**	**PPO**	**HMO**[1]		
2003-2004	7.75%	10.75%	10.75%	15.00%	7.25%	6.00%
2004-2005	7.50%	10.50%	10.50%	14.00%	7.00%	6.00%
2005-2006	7.25%	8.75%	9.25%	11.50%	6.75%	6.00%
2006-2007	7.00%	7.00%	8.00%	9.00%	6.50%	6.00%
2007-2008	6.50%	6.50%	7.50%	8.50%	6.25%	6.00%
2008-2009	6.00%	6.00%	7.00%	8.00%	6.00%	6.00%
2009-2010	5.50%	5.50%	6.50%	7.50%	5.50%	5.75%
2010-2011	5.00%	5.00%	6.00%	7.00%	5.00%	5.50%
2011-2012	4.75%	4.75%	5.50%	6.50%	4.75%	5.25%
2012-2013	4.50%	4.50%	5.00%	6.00%	4.50%	5.00%
2013-2014	4.25%	4.25%	4.75%	5.50%	4.25%	4.75%
2014-2015	4.00%	4.00%	4.50%	5.00%	4.00%	4.50%
2015-2016	4.00%	4.00%	4.25%	4.50%	4.00%	4.25%
2016+	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

[1] An increase of 25% is assumed for Kaiser for 2003-2004 in anticipation of a large increase in rates for that plan.

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.
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.
Carrier Election	Participating actives are assumed to follow the same pattern as the current retirees in electing health carriers. For the 2003 valuation, actual retiree election percents for pre-65 are 13% PPO, 66% Kaiser, and 21% Pacificare/SH. Election percents for post-65 are 31% PPO, 57% Kaiser, and 12% Pacificare/SH.
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.
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

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

The following methodology is used to develop blended subsidy amounts to be used in the valuation of current actives and current deferred vesteds health subsidies. The participation percent for carrier elections is assumed to be the same as the current retiree participation rates. Based on the 7/2003 date, 31.2% of participating post-65 retirees are in the PPO, 56.8% are in Kaiser, and 12.0% are in PacifiCare/SH. Based on the 7/2003 date, 13.1% of participating pre-65 retirees are in the PPO, 66.4% are in Kaiser, and 20.5% are in PacifiCare/SH. These participation percents are used to determine a blend of the different carrier amounts. Utilization assumption factors are then applied to the blended rates. Our valuation software then prorates on service to determine the portion subsidized. This methodology is done separately for pre-65 and post-65, and for single, married, and surviving spouse coverage as shown below. Finally, since subsidies are revised every January 1, we apply a half year of the medical trend assumed from January 1, 2003 to June 30, 2003 to bring rates forward to the July 1 valuation year.

PRE 65

Plan	Participation Percent	Single Maximum Subsidy	Married Maximum Subsidy	Surviving Spouse Maximum Subsidy	Utilization
PPO	0.131	$663.19	$872.00[1]	$400.04	0.80
Kaiser	0.664	400.04	800.08	400.04	0.80
PacifiCare/SH	0.205	418.58	751.75	400.04	0.80
Dental	1.000	38.38	38.38	0.00	0.65

Blended Monthly Premiums

Coverage type	PPO	Kaiser	PacifiCare	Dental	Medicare	Sum	Half Year of Trend
Single Pre 65	$69.50	$212.50	$68.65	$24.95	$0.00	$375.60	$390
Married Pre 65	91.39	425.00	123.29	24.95	0.00	664.62	690
Surv Spo Pre 65	41.92	212.50	65.61	0.00	0.00	320.03	332

[1] Capped by overall maximum subsidy of $872.

Summary of Actuarial Assumptions and Methods

Used for Valuation of Health Subsidy Benefits

POST 65

Plan	Participation Percent	Single Maximum Subsidy	Married Maximum Subsidy	Surviving Spouse Maximum Subsidy	Utilization
PPO	0.312	$294.94	$503.75[1]	$294.94	0.80
Kaiser	0.568	172.80	345.58	172.80	0.80
PacifiCare/SH	0.120	191.13	379.58	191.13	0.80
Dental	1.000	38.38	38.38	0.00	0.65
Medicare Part B	1.000	58.70	58.70	0.00	0.85

Blended Monthly Premiums

Coverage type	PPO	Kaiser	PacifiCare	Dental	Medicare	Sum	Half Year of Trend
Single Post65	$73.62	$78.52	$18.35	$24.95	$49.90	$245.33	$257
Married Post65	125.74	157.03	36.44	24.95	49.90	394.05	412
Surv Spo Post65	73.62	78.52	18.35	0.00	0.00	170.49	178

[1] Capped by post 65 maximum subsidy of $503.75.

For the valuation of current retirees, subsidies valued are based on actual average subsidies paid for pre-65 and post-65 coverage, shown below. Averages are calculated on a per retiree basis and include medical, dental, and Medicare Part B premium subsidies. We apply a half year of the medical trend assumed from January 1, 2003 to June 30, 2003 to bring rates forward to the July 1 valuation year.

Monthly Average Retiree Subsidies

	Pre-65	Post-65
Single	$ 553.71	$ 414.19
Married	319.44	298.45
Surviving Spouse	108.16	108.38

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)

Definitions of Technical Terms

(Concluded)

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

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

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

Los Angeles City Employees' Retirement System

GASB No. 25 Disclosure

Schedule of Funding Progress

Retirement Benefits

($ in Thousands)

Valuation Date	Valuation Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Member Payroll	UAAL Ratio to Payroll
6/30/96	$4,468,433	$4,476,024	$7,591	99.8%	$957,423	0.8%
6/30/97	4,802,509	4,886,337	83,828	98.3	990,616	8.5
6/30/98	5,362,923	5,312,918	(50,005)	100.9	1,011,857	(4.9)
6/30/99	5,910,948	5,684,586	(226,362)	104.0	1,068,124	(21.2)
6/30/00	6,561,365	6,012,931	(548,434)	109.1	1,182,203	(46.4)
6/30/01	6,988,782	6,468,066	(520,716)	108.1	1,293,350	(40.3)
6/30/02	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4
6/30/03	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0

Los Angeles City Employees' Retirement System

GASB No. 25 Disclosure

Schedule of Employer Contributions

Retirement Benefits

Year Ended June 30	Actuarially Required Contributions (ARC)[1]	Contributions Made[1]
1998	$64,459,744	100%
1999	69,248,626	100%
2000	72,146,277	100%
2001	59,153,313	100%
2002	32,296,002	100%
2003	51,604,669	100%

[1] Exclusive of Health Subsidy contributions and Family Death Benefit contributions. Defrayals not included in this figure.

Los Angeles City Employees' Retirement System

Solvency Test for Retirement Benefits

For Years Ended June 30

(In Thousands)

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
Valuation Date	Member Contributions	Retirants, Beneficiaries, & Deferred Vesteds	Active Member	Reported Assets*			
6-30-96	$637,737	$2,357,798	$1,480,489	$4,468,433	100.0%	100.0%	99.5%
6-30-97	683,048	2,598,432	1,604,857	4,802,509	100.0	100.0	94.8
6-30-98	733,680	2,772,712	1,806,526	5,362,923	100.0	100.0	100.0
6-30-99	776,617	2,989,218	1,918,751	5,910,948	100.0	100.0	100.0
6-30-00	827,729	3,149,392	2,035,810	6,561,365	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
6-30-03	1,005,888	4,021,213	2,632,745	6,999,647	100.0	100.0	74.9

* 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*

For Years Ended June 30

Year Ended	No. of New Retirants/ Beneficiaries	Annual Allowances Added	No. of Retirants/ Beneficiaries Removed	Annual Allowances Removed	No. of Retirants/ Beneficiaries at 6/30	Annual Allowances at 6/30	% Increase in Annual Allowances	Average Annual Allowances
6/30/01	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
6/30/03	827	24,729,535	611	12,008,132	13,805	359,036,215	6.7%	26,008

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

Contribution Rates Assumed for Members
Participating Before February 1, 1983

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

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

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STATISTICAL SECTION

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF ADDITIONS BY SOURCE (Dollars in Millions)

Year Ended	Member Contribution	Employer Contribution Dollars	Employer Contribution % of Annual Covered Payroll	Net Investment Income (Loss) *	Total
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)
2003	83.07	97.53	7%	247.33	427.92

* Includes change in unrealized gain and loss of investment

SCHEDULE OF DEDUCTIONS BY TYPE (Dollars in Millions)

Year Ended	Benefits Payments	Refunds	Administrative Expense	Misc. Expense	Total
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
2003	408.98	14.68	9.17	-	432.82

LACERS

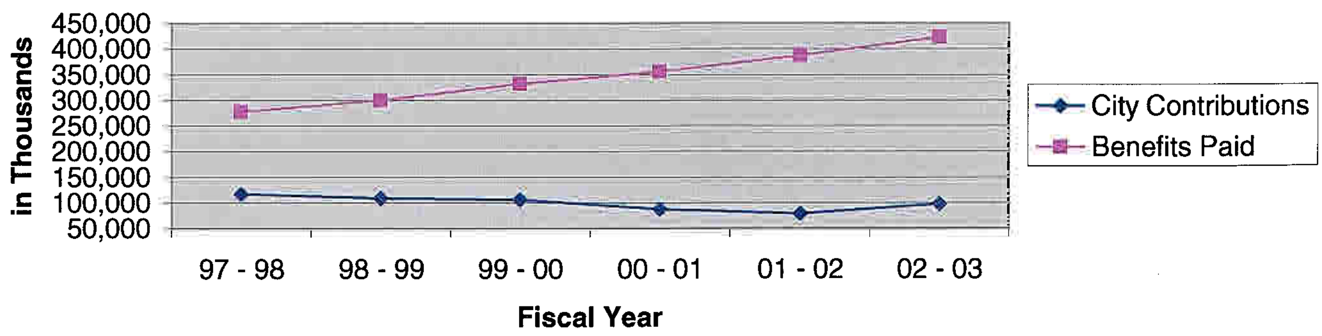
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

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

Year	Age & Service Benefit		Death in Service	Disability Benefits				Benefits
Ended	Retirants	Survivors	Benefits	Retirants	Survivors	Sub Total	Refunds	Total
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
2003	340,934	45,574	3,045	13,700	5,727	408,980	14,679	423,659

* Allocated from year end retirement roll

CITY CONTRIBUTIONS versus BENEFITS PAID (Dollars in Thousands)



Fiscal Year	97 - 98	98 - 99	99 - 00	00 - 01	01 - 02	02 - 03
City Contributions	$ 117,209	$ 109,362	$ 106,610	$ 87,897	$ 79,468	$ 97,531
Benefits Paid	278,253	300,252	332,376	356,028	$ 387,865	$ 423,659

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 2003)

Amount of Monthly Benefits	Number of Retirants	Type of Retirement **								
		1	2	3	4	5	6	7	8	9
$ 1-250	201	64	64	49	7	14	2	1	5	-
251-500	660	111	264	112	23	108	1	41	16	1
501-750	1,073	311	390	123	55	87	15	92	14	-
751-1,000	1,298	412	368	103	280	23	33	79	15	-
1,001-1,250	1,287	541	338	70	228	14	44	52	8	-
1,251-1,500	1,108	634	216	43	152	7	34	22	5	-
1,501-1,750	948	661	142	39	67	6	25	8	4	-
1,751-2,000	896	727	100	26	12	5	23	3	2	-
Over 2,000	6,249	5,697	352	74	15	3	103	5	8	-
Total	**13,720 ***	**9,158**	**2,234**	**639**	**839**	**267**	**280**	**303**	**77**	**1**

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

**** Type of Retirement**

1 - Service Member
2 - Service Continuance
3 - Vested Right Member
4 - Disability Member
5 - Disability Continuance
6 - Service Survivorship
7 - Disability Survivorship
8 - QDRO Life Time
9 - QDRO Term Annuity

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates	Years Credited Service					
July 1, 1997 to June 30, 2003	Under 10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs.
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	$926.63	$1,100.39	$1,421.29	$2,086.92	$2,527.74	$3,647.76
Average Final Monthly Salary *	$3,236.60	$3,720.51	$3,576.44	$4,190.03	$3,983.61	$4,606.75
Number of Active Retirants	44	69	59	53	90	351
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	$867.93	$1,148.83	$1,522.13	$1,880.45	$2,577.53	$3,771.93
Average Final Monthly Salary *	$3,368.21	$3,806.39	$3,802.72	$3,800.85	$4,212.96	$4,902.17
Number of Active Retirants	54	58	46	38	74	304
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	$690.69	$1,067.02	$1,543.48	$1,953.26	$2,594.61	$3,881.48
Average Final Monthly Salary *	$2,739.95	$3,769.77	$4,122.69	$4,085.41	$4,365.46	$5,232.41
Number of Active Retirants	20	93	48	58	64	353
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	$799.65	$1,143.74	$1,498.38	$2,032.88	$2,873.38	$3,941.27
Average Final Monthly Salary *	$3,484.27	$4,009.60	$4,086.46	$4,348.42	$4,866.91	$5,372.33
Number of Active Retirants	21	74	53	47	71	319
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	$613.41	$1,388.23	$1,607.72	$2,047.58	$2,855.29	$3,806.00
Average Final Monthly Salary *	$3,674.57	$4,049.58	$4,548.68	$4,412.29	$4,882.75	$5,341.46
Number of Active Retirants	19	64	77	48	78	308
Period 7/1/01 to 6/30/03						
Average Monthly Benefit	$626.16	$1,129.13	$2,428.65	$2,403.79	$2,828.73	$3,989.85
Average Final Monthly Salary *	$2,818.45	$4,181.28	$4,536.24	$5,212.58	$4,900.49	$5,544.03
Number of Active Retirants	17	49	62	62	58	312

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

REQUEST FOR INFORMATION

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

LACERS

Los Angeles City Employees' Retirement System
360 East Second Street, Second Floor
Los Angeles, CA 90012

www. lacers.org

(800) 779-8328
(213) 473-7200
TDD: (888) 349-3996