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, 2006

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
(A Department of the City of Los Angeles, CA)

Comprehensive
Annual Financial Report

For The Fiscal Year Ended June 30, 2006

Robert Aguallo, Jr., General Manager

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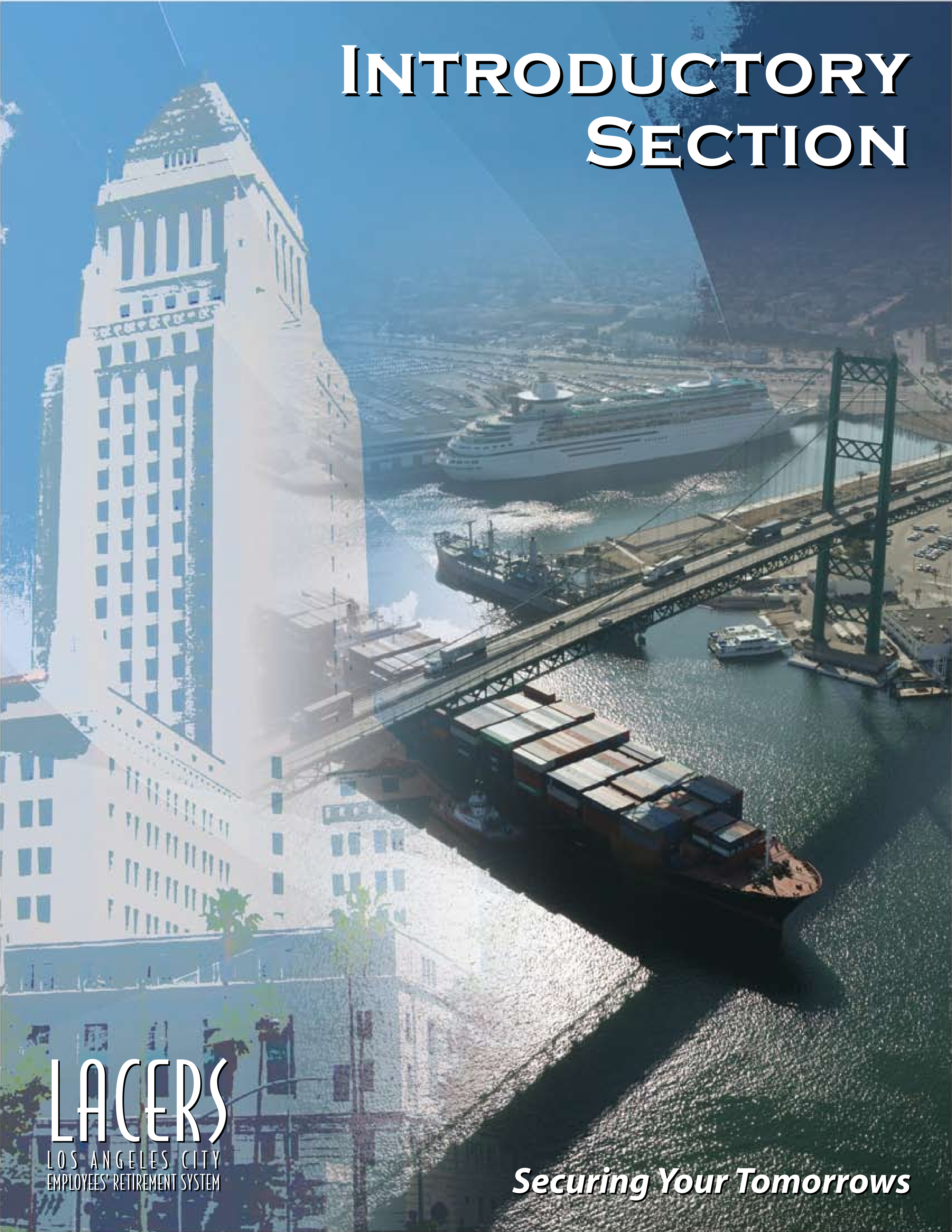

LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

Securing Your Tomorrows

CITY OF LOS ANGELES
CALIFORNIA

ANTONIO R. VILLARAIGOSA
MAYOR

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

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ADMINISTRATION

ROBERT AGUALLO, JR.
GENERAL MANAGER

LETTER OF TRANSMITTAL

December 12, 2006

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

Dear Members of the Board:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ended June 30, 2006, the System's 70th 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 and eligible part-time Los Angeles City employees accrue retirement benefits from LACERS except employees of the Department of Water and Power and sworn personnel of the Los Angeles Police and Fire Departments. LACERS provides service retirements and disability retirements for employees of the City of Los Angeles to facilitate separation from City service, allowing a new generation of City workers to assume the responsibilities of effective government service. LACERS also provides health and dental benefits, active and retired death benefits, and a term life insurance benefit 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 (CalPERS) and 37 other California public pension funds. 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. To provide members with additional retirement allowance, LACERS' Larger Annuity program allows voluntary contributions be made while employed or direct rollovers from deferred compensation plans at retirement.

STRUCTURE OF THE REPORT

This report is presented in five sections:

- The Introductory Section describes the System's management and organizational structure, and a listing of the professional services used.

- The Financial Section contains the opinion of the independent auditor, Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter Accountancy Corporation (Brown Armstrong), 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 System along with graphs and schedules regarding asset allocation, asset diversification, investment management fees, and history of performance.

- The Actuarial Section includes the certification letter produced by the consulting actuary, the Segal Company, along with actuarial valuations for the retirement benefits and health benefits.

- The Statistical Section contains schedules related to active and retired membership, revenues, expenses, changes in plan net assets, benefit expenses, City contributions, retired membership, and average benefit payments.

1. Accounting System and Reports

This CAFR was prepared in conformance 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, Local Governments,* Statement No. 40, *Deposit and Investment Risk Disclosures, and* Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and the Los Angeles City Charter.

The Management's Discussion and Analysis is located in the Financial Section starting on page 17, which contains financial highlights, overview of the financial statements and financial analysis in the narrative format. Readers of CAFR are encouraged to review this supplementary information to gain 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 establish and maintain internal control to ensure retirement system assets are protected. Management believes that internal control is adequate and that the accompanying statements, schedules, and tables are fairly presented.

Brown Armstrong, the independent auditor, has audited and expressed an unqualified opinion regarding LACERS' basic financial statements.

2. Additions to Plan Net Assets

The total additions to plan net assets for the fiscal year ended June 30, 2006, consisting of contributions, net appreciation in fair value of investments and investment income net of investment management fees, was $1,472,533,000. This amount includes member and employer contributions of $418,661,000 and net investment income of $1,053,872,000. Net investment income increased $289,071,000 as compared with the prior fiscal year. The increase was attributed mainly to the net appreciation in the fair value of investments resulting from the strong total portfolio return during the fiscal year. The rate of return for the current fiscal year's investment was at 12.4%, which exceeded the actuarial assumed rate of return. Details of the components of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 27 of the financial statements in the financial section.

3. Deductions to Plan Net Assets

Deductions for the fiscal year ended June 30, 2006, excluding investment management and security lending fees were $518,812,000, which represented an increase of $27,925,000 over the prior year. This increase was mainly the result of higher average monthly pay and an increase in the number of retirees. The components of the total deductions include payments of retirement benefits of $493,583,000; refunds of contributions and interest to terminated members of $13,021,000; and administrative expenses of $12,208,000.

4. Changes in System Membership

LACERS membership increases for the fiscal year ended June 30, 2006 were as follows:

	2006	2005	Increase/(Decrease)	Change
Active Members	28,839	27,333	1,506	5.5 %
Retired Members	14,570	14,322	248	1.7 %

5. Major Initiatives

In February 2006, the Board revised the asset allocation plan using an evolving approach over a three-year period to adjust the target percentages of certain asset categories. The funding pace will be increased each year in alternative investments and real estate to achieve 8% and 7% of the total asset mix by 2009. Although the previous targets for the two asset classes were 7% and 7%, the actual funded levels were only 4.8% and 3.3%, respectively. As a part of the asset allocation adjustment, the long-term targets for both U.S. and Non-U.S. equities were also increased from 40% and 18% to 42% and 20%. The weight of fixed income, however, was reduced from 27% to 22% of the total asset mix. The allocation for cash remains at 1%.

The Board approved the modified Strategic Plan of LACERS in March 2006. The Strategic Plan embodies LACERS "mission" and "core values" and encompasses initiatives impacting the retirement and health benefit programs, the investment portfolios, and the Board Governance administration of LACERS. The progress of its implementation has been closely monitored by the executive management and reported to the Board quarterly. The modification was necessary because some Strategic Plan objectives were completed, other objectives were considered on-going staff work, and some new initiatives were identified. The new objectives included in the modified Strategic Plan include Develop a Comprehensive Business Continuance Plan and expanding the Systematic Internal Reviews of Working Units. For details of LACERS' modified Strategic Plan, please visit LACERS' website at www.lacers.org.

In April 2006, the Board approved the Request For Qualifications (RFQ) for Audit Actuarial services. The purpose of an actuary audit, which is considered an industry best practice, is to ensure the accuracy of valuation results, and the reasonableness of actuarial assumptions and methodology. The result of the audit will help to provide higher level of assurance in the System's financial health, as well as the appropriateness of City's contribution amount made to LACERS. The audit is expected to be performed in the next fiscal year.

6. Funded Ratio

The funded ratio is a snapshot of the relative status of LACERS' assets and liabilities, and it changes annually reflecting changes in liabilities, investment returns, demographic, actuarial assumptions, and other factors. During the fiscal year, the total funded ratio, which includes both retirement plan and postemployment healthcare plan, of the System, based on actuarial value of assets, rose from 73.2% to 74.7%. The increase is mainly due to favorable investment performance, as well as lower-than-expected retiree health premiums and subsidies. Because the System smoothes its investment gains and losses over 5 years to minimize the effects of volatile investment returns, a deferred investment gain in the amount of $599 million has been accumulated over the past two years. If the System's investment performance keeps exceeding the 8% assumed rate of return in the future, all things being equal, the deferred investment gain will help to further increase the funded ratio.

7. Financial and Economic Summary

The U.S. Economy grew at a slower pace during the fiscal year. The real Gross Domestic Product (GDP) increased 2.6% during the fiscal year, as compared with 3.3% during the prior fiscal year. Unemployment rate fell steadily from 5.0% in June 2005 to 4.6% in June 2006, the best ever since June of 2001, or two months before the terrorist attacks on New York and Washington D.C. The Federal Reserve continued the course of raising interest rate by a quarter point periodically since the end of June 2004 when the federal fund rate was at 1%, the lowest level since 1958, as a measured response to balance sustainable economic growth and the maintenance of price stability. By the end of June 2006 the interest rate was at 5.25%. U.S. equity market showed moderate growth over the fiscal year. The S&P 500 Index increased 5.5%, and the Nasdaq Composite Index increased 5.6% in the fiscal year ended June 30, 2006.

8. Investment Summary

The System's total assets were valued at $9.3 billion as of June 30, 2006, an increase of $954 million compared with prior fiscal year, as a result of favorable investment returns. The portfolio posted a 12.4% total market rate of return during the fiscal year, higher than the actuarial assumption rate of 8%. The portfolio has annualized returns of 13.6% over the past three years, and 7.8% over the past five years.

The System continued to perform in the top quartile of all similarly-sized public pension funds in the United States, an indication of the effectiveness of investment operation managed by the Board as to setting the optimized asset allocation plan and selecting the best investment managers.

A recent cost-effective analysis of System's fund performed by Cost Effective Measurement, Inc. found that the System generated higher returns at lower cost and with lower risk when compared to its peer group of U.S. Pension funds with assets from $6.9 billion to $14 billion. The System's 7.8% 5-year Investment return was above its peer median of 6.5%, and its total asset management costs of 38.6 basis points were also below its comparison benchmark cost of 47 basis points. In addition, the System's 5-year implementation risk, as measured by the Standard Deviation of investment return, was 0.6%, well below its peer median of 1.2%.

9. Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LACERS for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

10. Acknowledgements

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

In addition, we would like to acknowledge the Investments, Systems, Communications, and Fiscal Management Sections for their efficient and dedicated efforts in preparing this report. We would also like to thank our external auditor, Brown Armstrong, for their professional assistance in the preparation of this report.

Respectfully submitted,

Robert Aguallo, Jr.	Mikyong Jang
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, 2005

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ALSO AWARDED IN 1999, 2000, 2001, 2002, 2003 & 2004

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FISCAL YEAR 2005 - 2006

Eric L. Holoman, President
Appointed by the Mayor

Shelley I. Smith, Vice President
Elected by Active Members

Kelly Candaele
Appointed by the Mayor

Moctesuma Esparza
Appointed by the Mayor

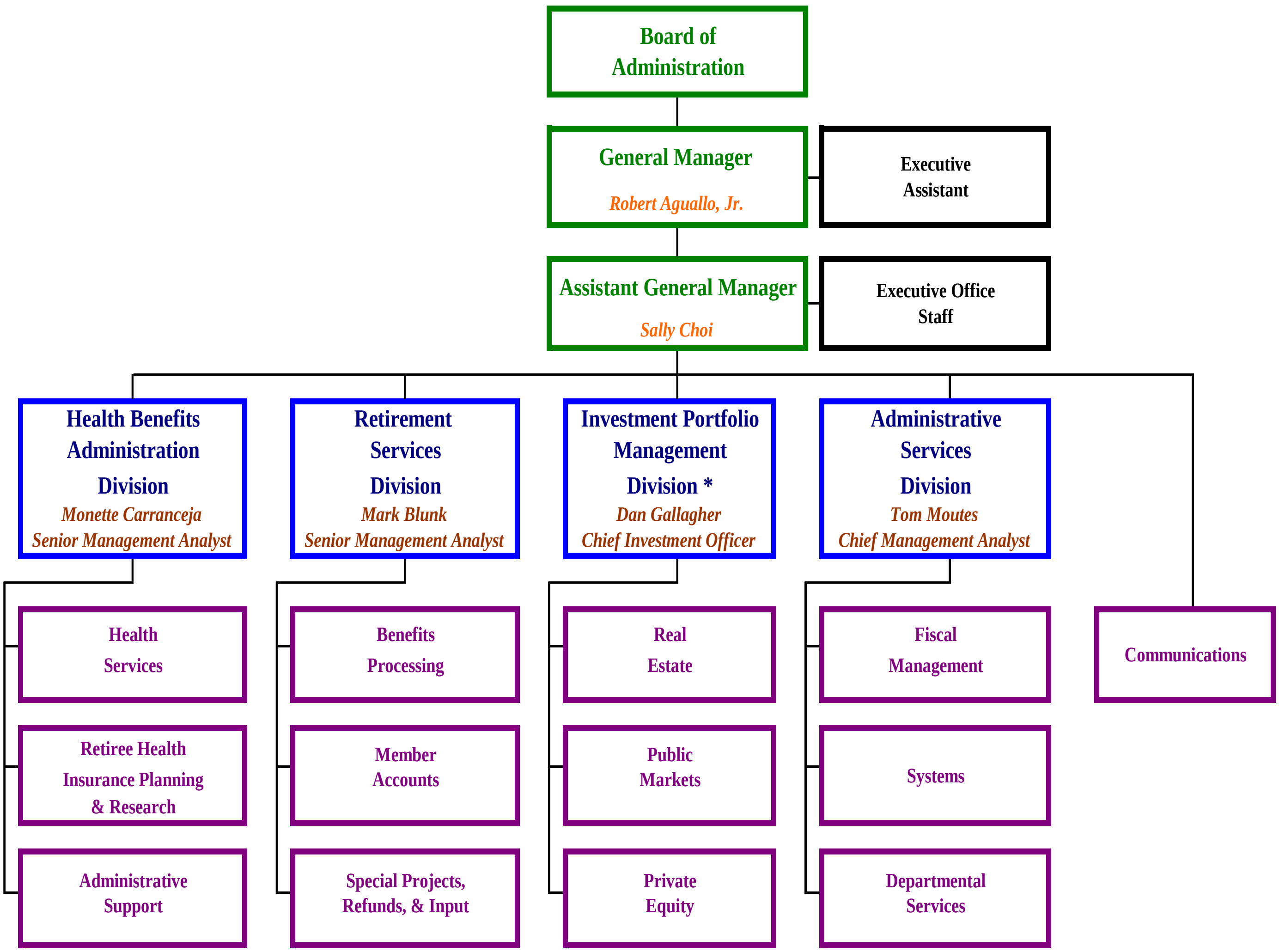
Adolfo V. Nodal
Appointed by the Mayor

Richard M. Rogers
Elected by Active Members

Ken Spiker
Elected by Retired Members

LACERS ORGANIZATIONAL CHART

AS OF JUNE 30, 2006



* A list of firms managing the investment portfolio can be found in the Investment Section, Table 15, pages 65-67.

PROFESSIONAL CONSULTANTS

ACTUARY

The Segal Company
San Francisco, CA

INDEPENDENT AUDITORS

Brown Armstrong
Bakersfield, CA

BENEFICIARY VERIFICATION

Pension Benefit Information
Tiburon, CA

HEALTH & WELFARE CONSULTANTS

Deloitte & Touche
Costa Mesa, CA

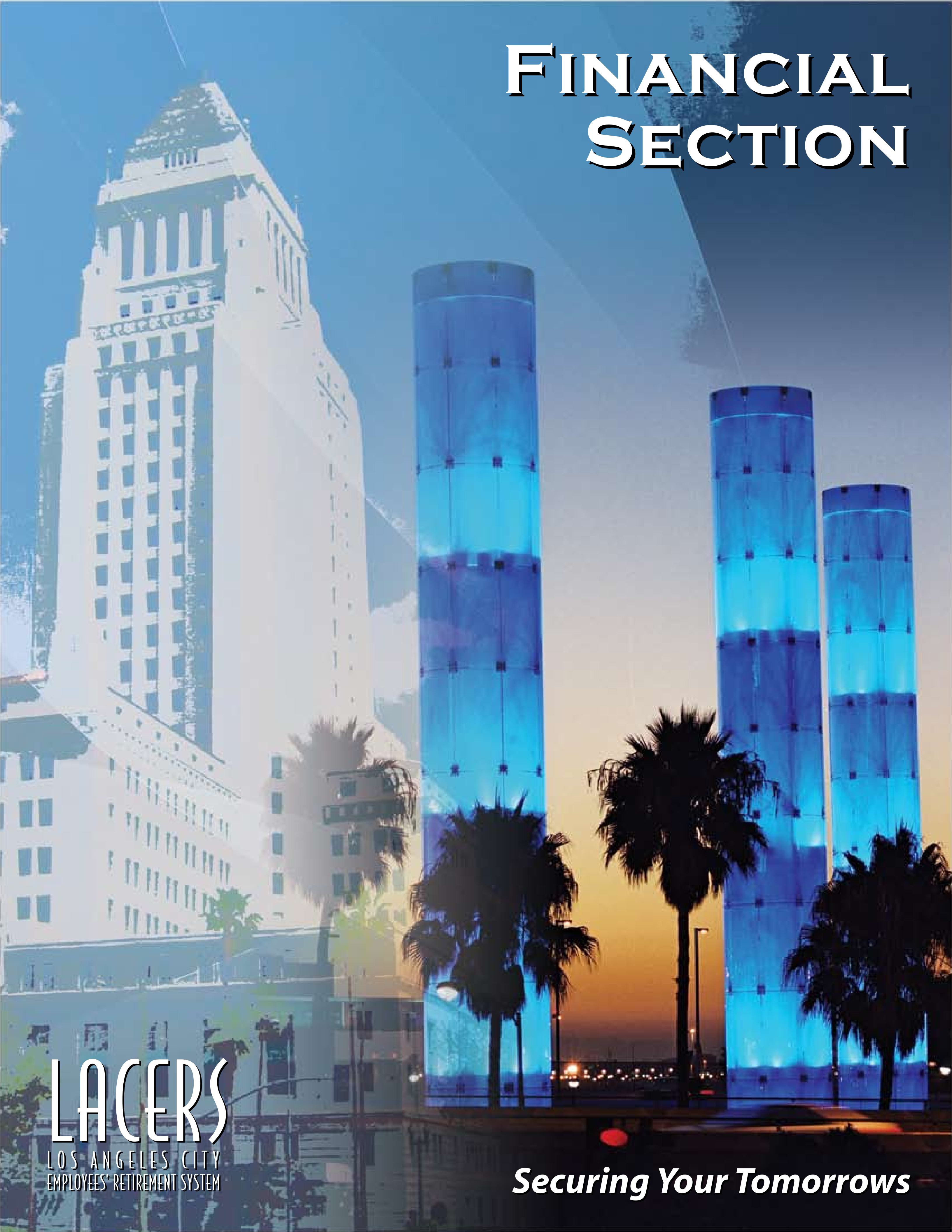
INVESTMENT CONSULTANTS

Hamilton Lane
Bala Cynwyd, PA

Pension Consulting Alliance Inc.
Portland, OR

The Townsend Group
Cleveland, OH

Financial Section



BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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, 2006, 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 2005 financial statements and, in our report dated October 7, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2006, and the Changes in its Net Assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the financial statements, in 2006, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section.

The management's discussion and analysis (MD&A) and Required Supplementary Information (RSI) as listed in the Table of Contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the MD&A and express no opinion on it. The RSI has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The Supplemental Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
September 28, 2006

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, 2006. 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' Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

- The plan net assets of LACERS as of June 30, 2006 are $9,285,478,000.
- Compared with the plan net assets of LACERS as of June 30, 2005, the value of the net assets increased $953,721,000 or 11.4% 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 $1,053,872,000, as compared with an investment gain of $764,801,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) to both the retirement plan and the postemployment healthcare plan were $320,399,000. This amount included $303,857,000, which was 18.96% of estimated City's covered payroll of $1,602,620,000, defrayal portion of $ 16,328,000 and City's matching contribution for Family Death Benefit Insurance Plan in the amount of $ 214,000.
- The employer contributions to the retirement plan represented 100.0% of the Annual Required Contribution as defined by GASB Statements No. 25 and No. 27.
- Deductions from net assets of LACERS include benefit payments, refunds of member contributions and administrative expenses. The total deductions from net assets were $518,812,000, a 5.7% increase from the prior fiscal year.
- As of June 30, 2006, the date of our last actuarial valuation, the funded ratio for the retirement plan was 77.8% and the funded ratio for the postemployment healthcare plan was 57.2%. The total funded ratio for LACERS was 74.7%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes, or a variety of other actuarial gains and losses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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 11 and 12 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 13 – 23 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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 24 – 27 of this report.

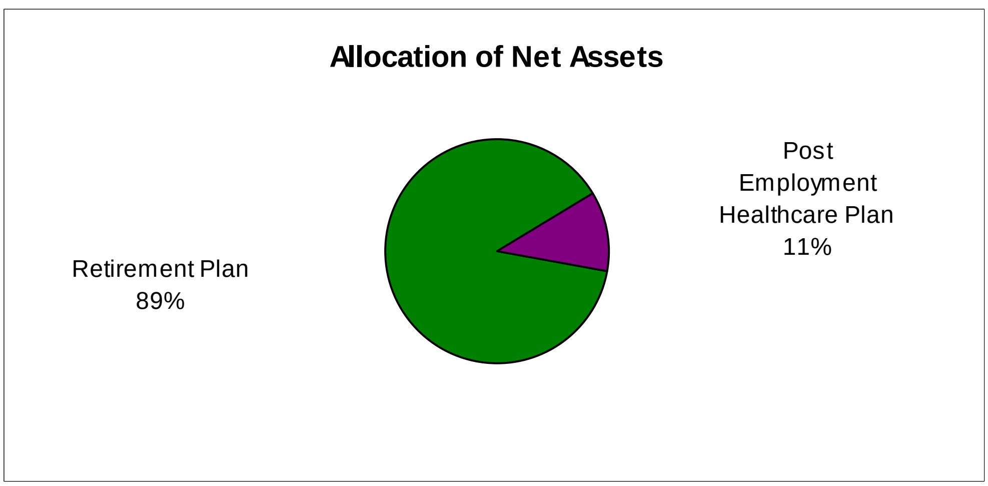
Supplemental Schedules. The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS' operations for the current year. They can be found on pages 28 and 29 of this report.

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, 2006 (in thousands):

Retirement Plan	$ 8,226,876
Postemployment Healthcare Plan	1,058,602
Net Assets	$ 9,285,478

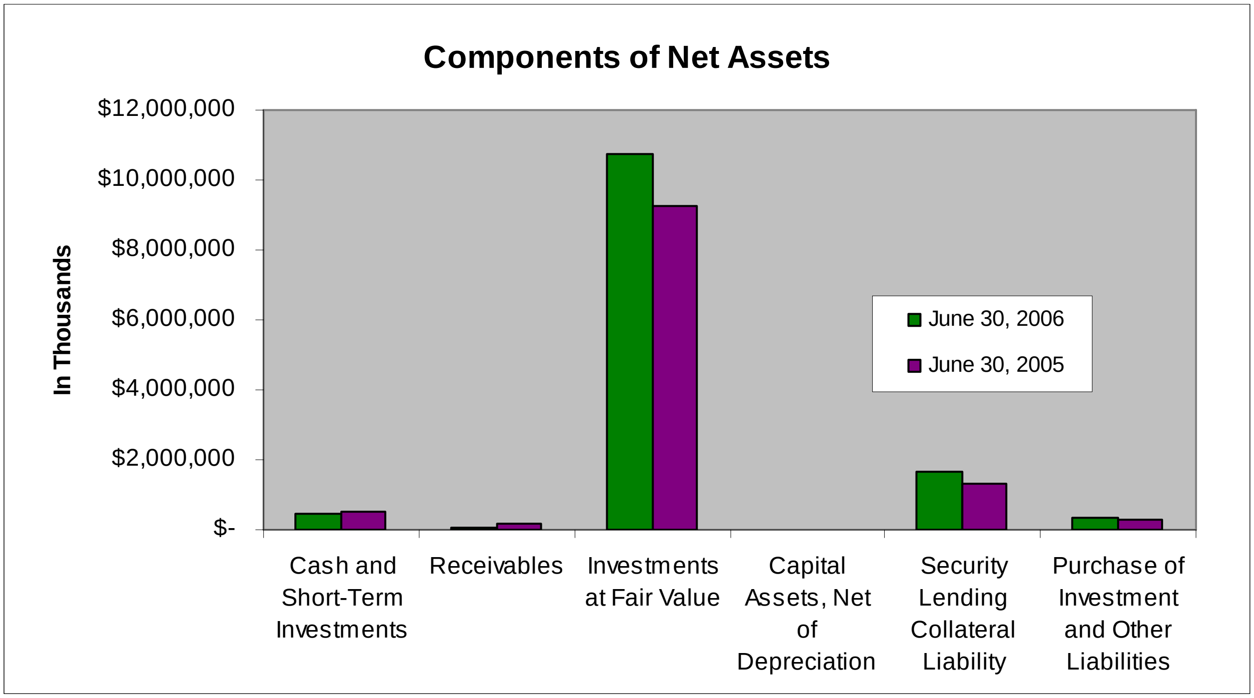


Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were $9,285,478,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the retirement plan and postemployment healthcare plan, as required by the existing reporting standards. Net assets for the retirement plan and postemployment healthcare plan are $8,226,876,000 and $1,058,602,000, 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, 2006 and 2005 (in thousands):

	June 30, 2006	June 30, 2005	Change	
Cash and Short-Term Investments	$ 460,159	$ 486,208	$ (26,049)	(5.4) %
Receivables	82,467	183,248	(100,781)	(55.0)
Investments, at Fair Value	10,720,674	9,256,596	1,464,078	15.8
Capital Assets, Net of Depreciation	283	80	203	253.8
Total Assets	11,263,583	9,926,132	1,337,451	13.5
Security Lending Collateral Liability	(1,646,747)	(1,319,517)	327,230	24.8
Purchase of Investments and Other Liabilities	(331,358)	(274,858)	56,500	20.6
Total Liabilities	(1,978,105)	(1,594,375)	383,730	24.1
Net Assets	$ 9,285,478	$ 8,331,757	$ 953,721	11.4 %



The largest portion of LACERS' net assets is its investment portfolio, which includes cash and short-term investments, receivables, plus fixed income, equities, and other asset classes. Net assets increased by $953,721,000, or 11.4%, during the report year.

Change in Net Assets

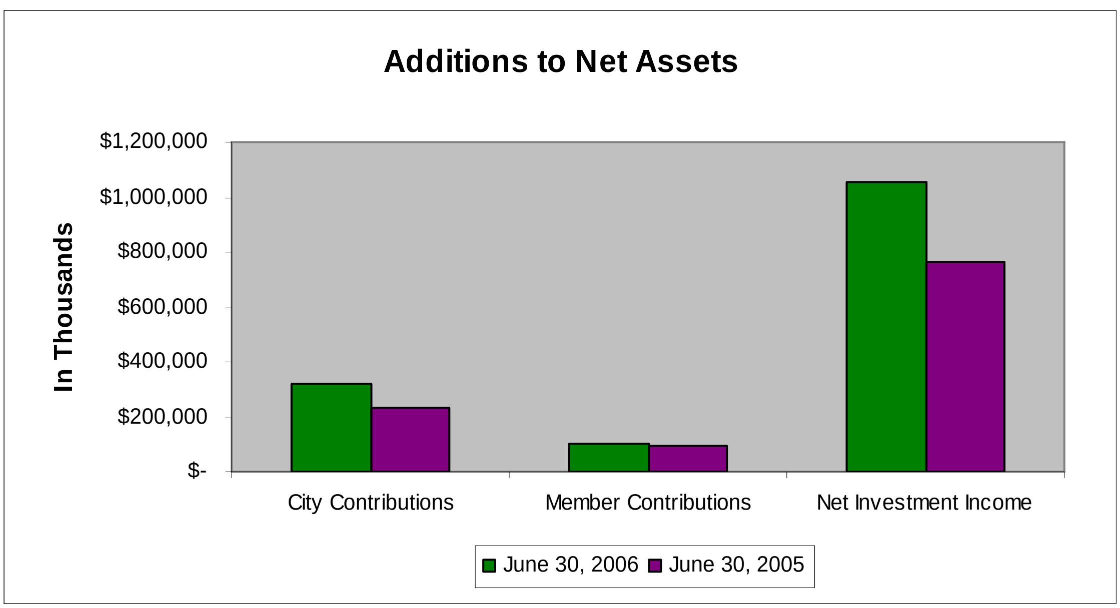
The increase in net assets was a result of a combination of factors that either add to or deduct from the plan assets. The following table summarizes the change in net assets during the report year, as compared with the prior year (in thousands):

	June 30, 2006	June 30, 2005
Additions	$ 1,472,533	$ 1,088,206
Deductions	(518,812)	(490,887)
Net Increase	953,721	597,319
Net Assets, Beginning of Year	8,331,757	7,734,438
Net Assets, End of Year	$ 9,285,478	$ 8,331,757

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, 2006 and 2005 (in thousands):

	June 30, 2006	June 30, 2005	Change
City Contributions	$ 320,399	$ 229,137	39.8 %
Member Contributions	98,262	94,268	4.2
Net Investment Income	1,053,872	764,801	37.8
Additions to Net Assets	$ 1,472,533	$ 1,088,206	35.3 %



The additions to LACERS' net assets consist of Member Contributions, City Contributions, and Net Investment Income. These additions are the main funding source to support LACERS' benefits.

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

City Contributions to both the retirement plan and the postemployment healthcare plan were $320,399,000 during the year, or $91,262,000 more than the prior fiscal year due to a larger contribution rate recommended by the actuary and increased payroll base. City contribution rate was 14.21% for retirement plan and 4.75% for the postemployment healthcare plan, 18.96% in total, of City payroll which was $1,602,620,000. The actual contributions to the retirement plan was equal to 100% of the Annual Required Contribution (ARC) of $227,741,000 as defined by GASB Statements No. 25 and No. 27.

Factors that affect the amount of Member Contributions are the number and composition of members and their salaries. During the year, members contributed $98,262,000, an increase of $3,994,000 (4.2%). This is due to salary increases and a net increase in the number of members.

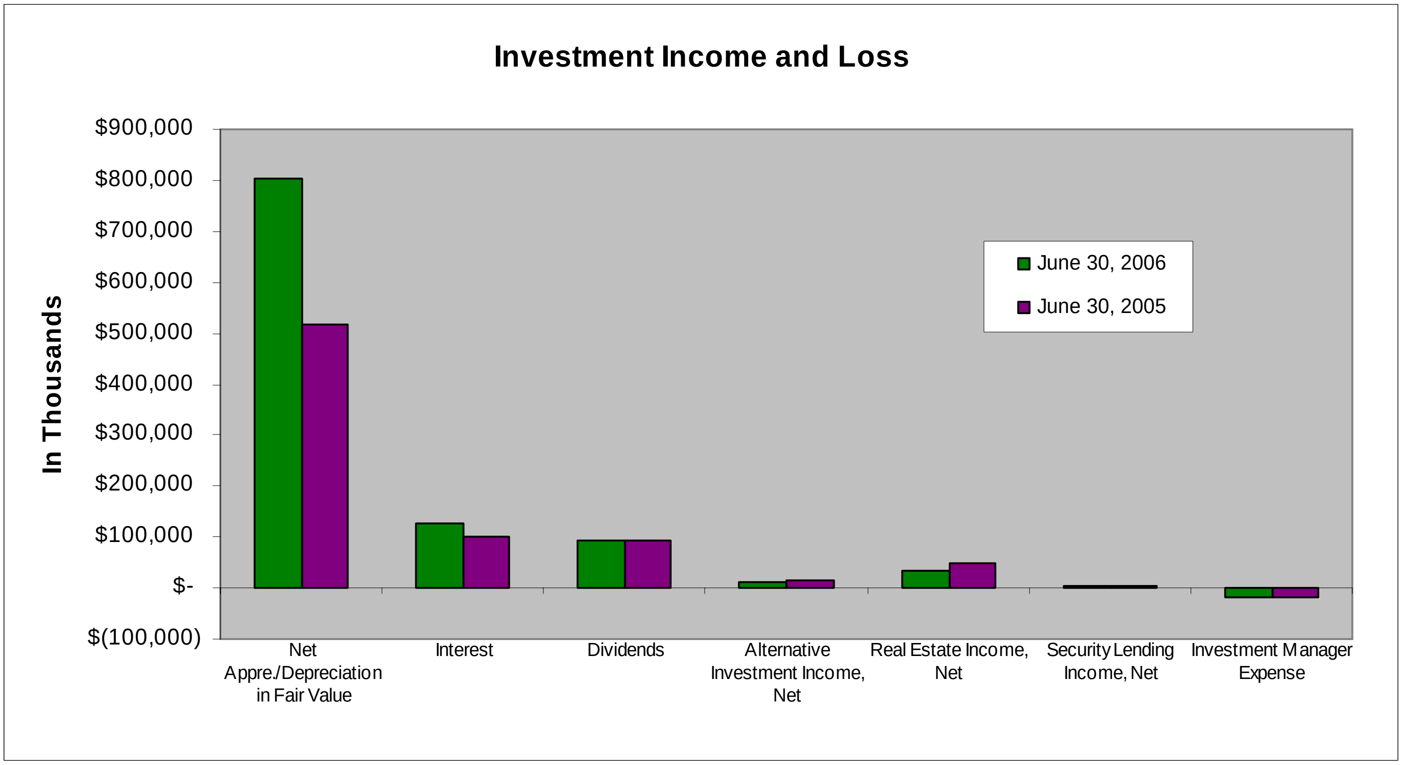
The net investment income increased from $764,801,000 reported in the prior fiscal year to the $1,053,872,000 in the current fiscal year. The current year net investment income reflected the continued strong total portfolio return based on the asset allocation and selections of investments and investment managers approved by the Board.

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, 2006 and 2005 (in thousands):

	June 30, 2006	June 30, 2005	Change
Net Appreciation in Fair Value of Investments	$ 803,398	$ 518,742	54.9 %
Interest	125,689	102,306	22.9
Dividends	93,961	91,575	2.6
Alternative Investment Income, Net	10,769	16,126	(33.2)
Real Estate Income, Net	32,406	49,824	(35.0)
Security Lending Income, Net	5,637	3,916	43.9
Investment Management Expense	(17,988)	(17,688)	1.7
Total Investment Gain, Net	$ 1,053,872	$ 764,801	37.8 %

Investment Income and Loss (continued)



The largest portion of the net investment gain was the net appreciation in fair value of LACERS' investments in the amount of $803,398,000, which includes realized and unrealized capital gain/loss.

Adding to the investment income was the increase in interest earned during the fiscal year that was 22.9% higher than the previous year. This was due to the increased bond yields during the year. The stock dividends income also showed an increase in dollar amount from the previous year. The real estate and alternative investments portfolio, the two other components of LACERS' asset allocation, contributed 3.1% and 1.0%, respectively, of the total investment income. Both types of income showed decreases in dollar amounts from the previous year. The net security lending income posted an increase of 43.9% compared from a year ago due to the appreciated value of securities available for lending and the increased yields. Investment management expense for the current year was slightly increased by $300,000 (1.7%) from the previous year.

Change in Net Assets – Deductions from Net Assets

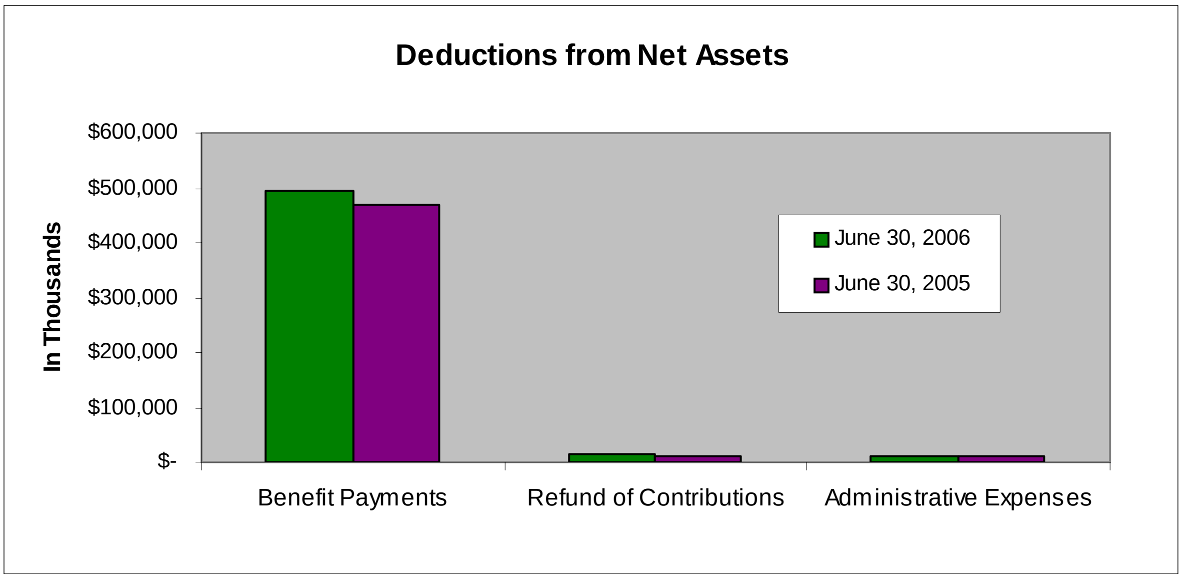
The following table and graphs provide information related to the deductions from net assets for the years ended June 30, 2006 and 2005 (in thousands):

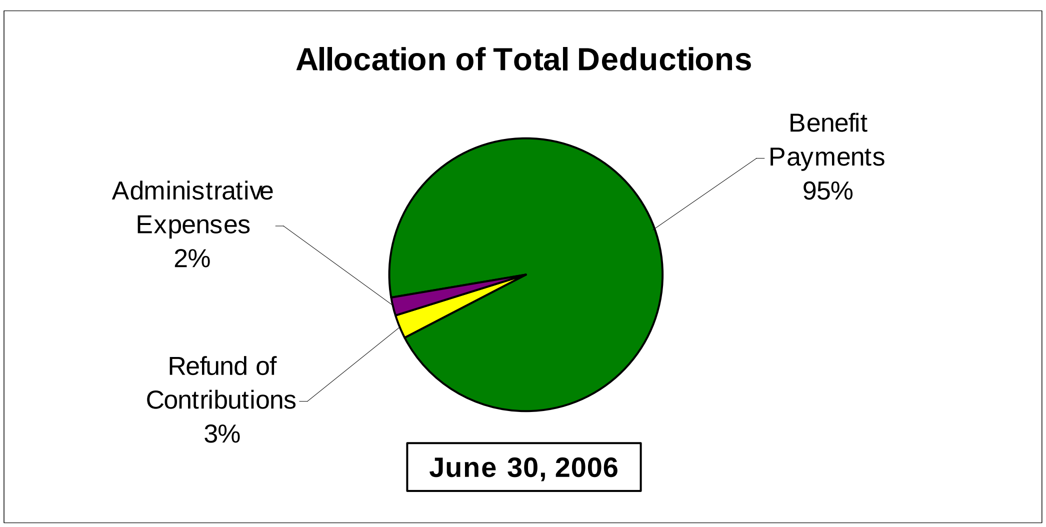
	June 30, 2006	June 30, 2005	Change
Benefit Payments	$ 493,583	$ 469,212	5.2 %
Refund of Contributions	13,021	10,679	21.9
Administrative Expenses	12,208	10,996	11.0
Deductions from Net Assets	$ 518,812	$ 490,887	5.7 %

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

LACERS' 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 5.7%. The benefit payments increased by $24,371,000 or 5.2%. This increase is due to the increase in number of retirees by 1.7% and increase in the average monthly benefit amount by 4.7% compared to the prior year, which includes the annual cost of living adjustment of approximately 3.0%. The refund of contributions increased by $2,342,000 or 21.9%. The increase is primarily due to the increased transfer of $2,099,000 to the Department of Water and Power (DWP) Employees' Retirement Plan, which has a reciprocity program with LACERS.

The administrative expenses increased by $1,212,0000, or 11.0%, when compared to the prior reporting period, to meet operational needs and to implement strategic planning goals. Refund of contributions and administrative expenses accounted for approximately 2.5% and 2.4% of total deductions from net assets, respectively.





REQUEST FOR INFORMATION

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

LACERS
Fiscal Management Section
360 East Second Street, Eighth Floor
Los Angeles, California 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, 2006, WITH COMPARATIVE TOTALS
(IN THOUSANDS)

	Retirement Plan	*Postemployment Healthcare Plan*	*2006 Total*	*2005 Total*
Assets				
Cash and Short-Term Investments	$ 407,698	$ 52,461	$ 460,159	$ 486,208
RECEIVABLES				
Accrued Investment Income	29,798	3,834	33,632	39,636
Proceeds from Sales of Investments	36,287	4,669	40,956	136,081
Other	6,980	899	7,879	7,531
Total Receivables	73,065	9,402	82,467	183,248
Investments, at Fair Value				
U.S. Government Obligations	371,255	47,772	419,027	519,956
Municipal Bonds	4,035	519	4,554	4,768
Domestic Corporate Bonds	654,136	84,172	738,308	778,494
International Bonds	135,314	17,412	152,726	199,401
Domestic Stocks	3,455,027	444,579	3,899,606	3,606,080
International Stocks	1,779,833	229,022	2,008,855	1,688,650
Mortgages	620,065	79,788	699,853	321,919
Government Agencies	199,388	25,656	225,044	158,932
Real Estate	359,431	46,250	405,681	289,333
Venture Capital and Alternative Investments	460,959	59,314	520,273	369,546
Security Lending Collateral	1,459,008	187,739	1,646,747	1,319,517
Total Investments	9,498,451	1,222,223	10,720,674	9,256,596
Capital Assets				
Furniture, Fixtures and Equipment (Net of Depreciation)	251	32	283	80
Total Assets	9,979,465	1,284,118	11,263,583	9,926,132
Liabilities				
Accounts Payable and Accrued Expenses	(22,045)	(2,837)	(24,882)	(29,845)
Purchases of Investments	(271,536)	(34,940)	(306,476)	(245,013)
Security Lending Collateral	(1,459,008)	(187,739)	(1,646,747)	(1,319,517)
Total Liabilities	(1,752,589)	(225,516)	(1,978,105)	(1,594,375)
Net Assets Held In Trust For Pension Benefits And Post-Employment Healthcare Benefits (A Schedule of Funding Progress is Presented in the Required Supplementary Information Section)	$ 8,226,876	$ 1,058,602	$ 9,285,478	$ 8,331,757

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

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
FOR THE YEAR ENDED JUNE 30, 2006, WITH COMPARATIVE TOTALS
(IN THOUSANDS)

	Retirement Plan	Postemployment Healthcare Plan	2006 Total	2005 Total
Additions				
Contributions				
City Contributions	$ 244,283	$ 76,116	$ 320,399	$ 229,137
Member Contributions	98,262	-	98,262	94,268
Total Contributions	342,545	76,116	418,661	323,405
Investment Income				
Net Appreciation in Fair Value of Investments Including Gain and Loss on Sales	700,724	102,674	803,398	518,742
Interest	112,452	13,237	125,689	102,306
Dividends	84,066	9,895	93,961	91,575
Alternative Investment Income, Net of Expense	9,635	1,134	10,769	16,126
Real Estate Operating Income, Net of Expense	29,136	3,270	32,406	49,824
Security Lending Income	6,303	742	7,045	5,079
Less: Security Lending Expense	(1,228)	(180)	(1,408)	(1,163)
Sub-Total	941,088	130,772	1,071,860	782,489
Less: Investment Management Expense	(15,689)	(2,299)	(17,988)	(17,688)
Net Investment Income	925,399	128,473	1,053,872	764,801
Total Additions	1,267,944	204,589	1,472,533	1,088,206
Deductions				
Payment of Benefits	(431,232)	(62,351)	(493,583)	(469,212)
Refunds of Contributions	(13,021)	-	(13,021)	(10,679)
Administrative Expenses	(10,284)	(1,924)	(12,208)	(10,996)
Total Deductions	(454,537)	(64,275)	(518,812)	(490,887)
Net Increase	813,407	140,314	953,721	597,319
Net Assets Held in Trust for Pension Benefits and Post-Employment Healthcare Benefits				
Beginning of Year	7,413,469	918,288	8,331,757	7,734,438
End of Year	$ 8,226,876	$ 1,058,602	$ 9,285,478	$ 8,331,757

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

NOTE 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, elected officials, and certain Port Police officers of the Harbor Department. 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.

Postemployment healthcare subsidy is provided to eligible retirees and spouse. The required contribution rate for the postemployment healthcare benefits for the fiscal year ended June 30, 2006, was 4.75% of covered payroll.

The System's funding policy under Article XI Sections 1158 and 1160 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, 2006, the annual required contribution to the retirement plan by the City was determined at 14.21%. The actual contribution made by the City for fiscal year 2005-06 was equal to the recommended rate as instructed by the Board of Administration, which is the recommended contribution is set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. 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 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, 2006:

Active:	
Vested	19,510
Nonvested	9,329
	28,839
Inactive:	
Nonvested	1,806
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,097
Retired	14,570
Total	46,312

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 of America, as outlined by the Governmental Accounting Standards Board (GASB).

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 in-house by staff.

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.

NOTE 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. Depreciation is calculated using the straight –line method.

Administrative Expenses

All administrative expenses are funded from the System's plan net assets which include both the investment earnings and the contributions from employers and members.

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.

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

Larger Annuity – Member contributions at retirement or IRS Section 457 deferred compensation rollovers, investment earnings (losses) including net appreciation (depreciation) in fair value of investments, less payments to beneficiaries.

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.

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

NOTE 1 – <u>DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES</u> (continued)

<u>Reserves</u> (continued)

Reserve balances as of June 30, 2006, are as follows (in thousands):

Member Contributions	$	1,225,887
Basic Pensions		6,520,231
Retired Member Annuity		458,486
Larger Annuity		7,911
Family Death Benefit		14,361
Postemployment Health Benefit		1,058,602
Total Reserves	$	9,285,478

<u>Use of Estimates in Preparation of the Financial Statements</u>

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

<u>Implementation of New Accounting Pronouncements</u>

In the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006, the System implemented the provisions of Governmental Accounting Standards (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section. The statement is effective for periods beginning after June 15, 2005. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the reporting requirements. Applying the provisions of this statement resulted in expanding the Statistical Section to include ten years of trend information and adding financial trend information on changes in plan net assets.

<u>Recently Issued Accounting Standard</u>

The Governmental Accounting Standards Board (GASB) has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB 43). Other postemployment benefits include healthcare and other nonpension benefits provided to employees as part of their compensation for services. This statement requires all public pension funds to report the full cost of these benefits. LACERS' postemployment healthcare plan is required to implement the rules of GASB 43 in the financial statements for fiscal year 2006-07.

LACERS pre-funds the healthcare plan based on an annual actuarial valuation, as opposed to being on the pay-as-you-go basis. However, in prior years, active members with less than 10 years of service had been excluded from the actuarial valuation. Starting with the actuarial valuation as of June 30, 2005 the rules of GASB 43 were fully applied by including all active employees.

NOTE 2 – <u>CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE</u>

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 allocated to this year, and (2) the payment to amortize the unfunded actuarial accrued liability (UAAL) which is the difference between LACERS' actuarial liabilities and assets.

NOTE 2 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (continued)

For the valuation as of June 30, 2006, the components of the UAAL are amortized as a level percent of pay. Increases in the UAAL due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years. Plan amendments are amortized over 30 years, 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.

To comply with the amortization requirements of Government Accounting Standard Board (GASB) statement No. 43 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", the actuarial gains for the health subsidy benefits in the amount of $140,265,000 were combined with the balance of the prior-year Unfunded Actuarial Accrued Liability (UAAL) and amortized over a period of 29 years, instead of being amortized as a separate layer over 15 years based on the existing UAAL amortization policy. This was done to avoid the net current amortization amount being lower than what was required by GASB.

The contributions to the System for the year ended June 30, 2006, of approximately $418,661,000 ($342,545,000 for the retirement plan and $76,116,000 for the postemployment healthcare plan), were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 2004.

Contributions to the System consisted of the following for the year ended June 30, 2006 (in thousands):

	Retirement Plan	Postemployment Healthcare Plan
City Contributions:		
Required Contribution	$ 227,741	$ 76,116
Defrayal Portion of Member Contributions	16,328	-
Family Death Benefits Insurance Plan	214	-
Total City Contributions	244,283	76,116
Member Contributions	98,262	-
Total Contributions	$ 342,545	$ 76,116

The amount of the contributions made for the Retirement Plan under the Required Contribution category ($227,741,000) were equal to 100% of the Annual Required Contributions (ARC) of the employer as defined by GASB Statements No. 25 and No. 27.

NOTE 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 24 through 27.

NOTE 4 – DEFRAYAL PORTION OF MEMBER CONTRIBUTIONS

For members who entered the System prior to February 1983, the City subsidizes a portion of member contributions. Payments made by the City in this manner are not refundable to members upon their withdrawal from the System prior to retirement.

The subsidized amount paid by the City was approximately 6.7% of total City contributions paid for the Retirement Plan for the year ended June 30, 2006. The City contributed $16,328,000 in this manner for the year ended June 30, 2006.

NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS

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

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, 2006, on the retirement plan and postemployment healthcare plan statement of plan net assets includes approximately $452,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $459,707,000 for a total of $460,159,000. 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, 2006, short-term investments included collective STIF of $107,708,000, international STIF of $82,104,000, financial paper of $244,156,000 and future initial margin of $25,739,000.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2006 are as follows:

Credit Quality Ratings of Investments in Fixed Income Securities (Dollars in thousands)

Quality Ratings	Fair Value	Percentage
AAA	$ 1,021,605	56.92 %
AA	42,233	2.35
A	194,962	10.86
BBB	267,536	14.90
BB	71,033	3.96
B	88,152	4.91
CCC	7,721	0.43
Not Rated	101,728	5.67
	1,794,970	100.00 %
U.S. Government Guaranteed Securities	444,542	
Total Fixed Income Securities	$ 2,239,512	

NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, the System would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2006, the System has exposure to such risk in the amount of $18,655,000, or 0.95% of the fair value of total international investments. The amount represents uninvested cash denominated in foreign currencies, managed by 13 different investment managers, and held outside of the System's custodial bank. The System's policy requires the international investment managers to hold no more than 10% of their portfolios in the form of cash.

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

Concentration of Credit Risk

The investment portfolio as of June 30, 2006 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

Interest Rate Risk

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

Investment Type	Amount	Weighted Average Duration (in Years)
Asset Backed Securities	$ 63,367	15.73
Commercial Mortgages	88,298	15.57
Corporate Bonds	685,540	7.21
Government Agencies	233,665	2.68
Government Bonds	464,466	7.43
Government Mortgage Backed Securities	611,030	13.51
Govt-issued Commercial Mortgage-Backed	525	9.35
Municipal/Provincial Bonds	6,100	5.40
Non-Government Backed C.M.O.s	86,521	16.27
Total	$ 2,239,512	

NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS (continued)

Highly Sensitive Investments

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

Investment Type	Amount
Asset Backed Securities	$ 63,367
Commercial Mortgages	88,298
Government Agencies	233,665
Government Mortgage Backed Securities	611,030
Gov't-issued Commercial Mortgage-Backed	525
Non-Government Backed C.M.O.s	86,521
Total	$ 1,083,406

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System's Asset Allocation policy sets a target of 21% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and alternative investment managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts and currency futures are permitted primarily to reduce the foreign currency risk (refer to Note 7- Futures and Forwards Contracts).

NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS (continued)

Foreign Currency Risk (continued)

The System's non-U.S. investment holdings as of June 30, 2006, which represents 18.3% of fair value of total investments, is as follows:

Foreign Currency Type	Fair Value in USD (In Thousands)
Argentine Peso	$ 3,652
Australian dollar	81,685
Brazilian real	10,076
British pound sterling	342,022
Canadian dollar	1,380
Chilean peso	1,934
Czech koruna	1,695
Danish krone	5,264
Euro	578,227
Hong Kong dollar	68,331
Hungarian forint	1,410
Indian rupee	10,406
Indonesian rupiah	3,900
Japanese yen	437,394
Malaysian ringgit	12,598
Mexican peso	6,603
New Israeli shekel	1,258
New Taiwan dollar	53,483
New Zealand dollar	1,165
Norwegian krone	28,001
Philippine peso	14,603
Polish zloty	2,210
Singapore dollar	33,022
South African rand	13,271
South Korean won	62,787
Swedish krona	43,622
Swiss franc	124,299
Thai baht	12,245
Turkish lira	2,170
Total International Investments	$ 1,958,713

NOTE 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.

NOTE 6 – SECURITIES LENDING AGREEMENT (continued)

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.

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, 2006, 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, 2006 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2006:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 500,092	$ 73,030	$ 573,122
Domestic Corporate Fixed Income Securities	172,252	19,415	191,667
International Fixed Income Securities	23,566	7,975	31,541
Domestic Stocks	660,646	11,399	672,045
International Stocks	290,191	270,070	560,261
	$ 1,646,747	$ 381,889	$ 2,028,636

Fair value of loaned securities as of June 30, 2006:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 492,185	$ 71,823	$ 564,008
Domestic Corporate Fixed Income Securities	169,386	19,103	188,489
International Fixed Income Securities	22,629	7,651	30,280
Domestic Stocks	649,352	11,196	660,548
International Stocks	282,244	258,180	540,424
	$ 1,615,796	$ 367,953	$ 1,983,749

NOTE 6 – SECURITIES LENDING AGREEMENT (continued)

As of June 30, 2006, the fair value of the lent securities was $1,983,749,000. The fair value of associated collateral was $2,028,636,000. Of this amount, $1,646,747,000 represents the fair value of cash collateral and $381,889,000 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 $7,045,000 and $1,408,000, respectively, for the year ended June 30, 2006.

NOTE 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. 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.

At June 30, 2006, the System had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of $5,700,000. In addition, at June 30, 2006, the System had outstanding forward purchase commitments with a notional amount of $27,968,000 and offsetting forward sales commitments with notional amounts of $27,968,000, which expire through September 2006. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was $25,739,000 as of June 30, 2006.

The realized gain on foreign currency translation was $8,796,000 for the year ended June 30, 2006.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

At June 30, 2006, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $659,282,000.

REQUIRED SUPPLEMENTARY INFORMATION

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, 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
June 30, 2004	7,042,108	8,533,864	1,491,756	82.5	1,575,285	94.7
June 30, 2005	7,193,142	9,321,525	2,128,383	77.2	1,589,306	133.9
June 30, 2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7

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)

Year Ended June 30:	Employer Contributions Total: Annual Required Contribution	Employer Contributions Total: Percentage Contributed
2001	$ 59,153	100%
2002	32,296	100
2003	51,604	100
2004	159,083	63
2005	183,241	86
2006	227,741	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
JUNE 30, 2006

NOTE 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.

NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS FOR RETIREMENT PLAN

Valuation Date	June 30, 2006
Actuarial-Cost Method	Projected Unit Credit Cost Method – assuming a closed group
Amortization Method	Level Percent of Payroll – assuming a 4% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. The existing layers on June 30, 2006, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period.
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Includes Inflation at	3.75%
Real Across-the-Board Salary Increase	0.25%
Projected Salary Increases	Ranges from 10.0% to 6.75% for members with less than 5 years of service. Ranges from 6.75% to 4.75% for members with 5 or more years of service.
Cost of Living Adjustments	3.00%
Mortality Table for Retirees and Beneficiaries	1994 Group Annuity Mortality Table
Mortality Table for Disabled Retirees	1994 Group Annuity Mortality Table, set forward 8 years.

NOTE 3 – SIGNIFICANT FACTORS AFFECTING TREND IN ACTUARIAL INFORMATION

Due to favorable investment performance, actuarial investment rate of return exceeded the 8% assumption for the first time in five years. The total unrecognized investment gain, created by the 5-year "asset smoothing", is $599,374,000. This large deferred gain will help to control contribution rates in the next few years.

NOTE 4 – SIGNIFICANT FACTORS AFFECTING EMPLOYER CONTRIBUTIONS

The Annual Required Contribution (ARC) for the employer is the sum of the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost is the portion of the actuarial present value of plan benefits, which is allocated to a valuation year assuming all actuarial assumptions are met. The amortization of the UAAL is the payment stream required to fund the difference between LACERS actuarial liabilities and LACERS actuarial assets.

The amount of the contributions made for the Retirement Plan under the Required Contribution category ($227,741,000) were equal to 100% of ARC as defined by GASB Statements No. 25 and No. 27.

SUPPLEMENTAL SCHEDULES

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)
SCHEDULE OF ADMINISTRATIVE EXPENSES
YEAR ENDED JUNE 30, 2006
(IN THOUSANDS)

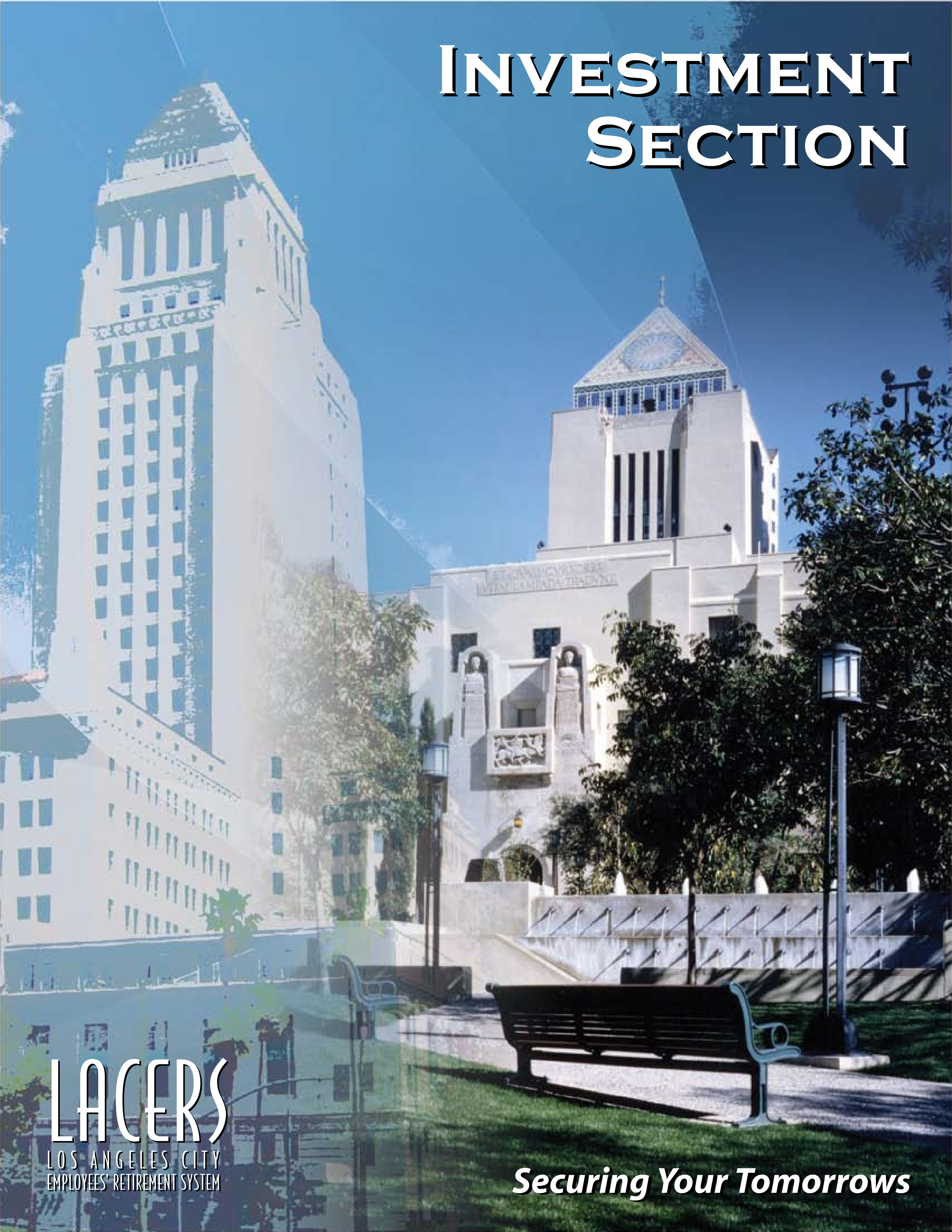
	Retirement Plan	Postemployment Healthcare Plan	Total
Personnel Services:			
Staff Salaries	$ 6,240	$ 914	$ 7,154
Staff Benefits	843	125	968
Total Personnel Services	7,083	1,039	8,122
Professional Services:			
Actuarial	189	28	217
Data Processing	602	88	690
Audit	82	12	94
Retirees' Health Consulting	-	417	417
Legal Counsel	610	89	699
Medical for Temporary Disability	172	25	197
Total Professional Services	1,655	659	2,314
Communication:			
Printing	116	17	133
Telephone	4	1	5
Postage	194	28	222
Travel	84	12	96
Total Communication	398	58	456
Rentals:			
Office Space	888	130	1,018
Equipment Leasing	18	3	21
Total Rentals	906	133	1,039
Miscellaneous:			
Office	199	29	228
Depreciation	43	6	49
Total Miscellaneous	242	35	277
	$ 10,284	$ 1,924	$ 12,208

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)
SCHEDULE OF INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2006

Investment expenses of the System for the year ended June 30, 2006, were as follows (in thousands):

	Assets Under Management	Fees
Retirement Plan		
Investment Management Expense:		
Fixed Income Managers	$ 1,984,193	$ 2,338
Equity Managers	5,234,861	11,946
Subtotal Investment Management Expense	7,219,054	14,284
Other Investment Expense:		
Alternative Investments Consulting Fee	-	1,034
Real Estate and Other Consulting Fee	-	371
Subtotal Other Investment Expense	-	1,405
Postemployment Healthcare Plan		
Investment Management Expense:		
Fixed Income Managers	255,318	343
Equity Managers	673,601	1,751
Subtotal Investment Management Expense	928,919	2,094
Other Investment Expense:		
Alternative Investments Consulting Fee	-	151
Real Estate and Other Consulting Fee	-	54
Subtotal Other Investment Expense	-	205
Total Investment Management Expense and Other Investment Expense, Excluding Alternative Investments, Real Estate and Securities Lending	$ 8,147,973	$ 17,988
Alternative Investments Managers' Fees:		
Retirement Plan	$ 460,959	$ 2,458
Postemployment Healthcare Plan	59,314	360
Total Alternative Investments Managers' Fees	$ 520,273	$ 2,818
Real Estate Managers' Fees:		
Retirement Plan	$ 359,431	$ 5,552
Postemployment Healthcare Plan	46,250	814
Total Real Estate Managers' Fees	$ 405,681	$ 6,366
Security Lending Fees:		
Retirement Plan	$ 1,459,008	$ 1,228
Postemployment Healthcare Plan	187,739	180
Total Security Lending Fees	$ 1,646,747	$ 1,408

Investment Section



LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

Securing Your Tomorrows

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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REPORT ON INVESTMENT ACTIVITY

December 11, 2006

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

Dear Members of the Board:

Presented below is a summary report of the Fund's investment activities for the fiscal year 2005-2006.

Market Overview

This fiscal year proved that diversification works! Investments in non-U.S. equities, real estate, and alternative investments were amply rewarded, keeping the portfolio in the top quartile of its peer group. Optimism in the global economy over corporate earnings, a long overdue rebound in Japan, and favorable economic conditions in both developed and emerging markets helped to offset rising interest rates and flat returns in the bond portfolio. Meanwhile, real estate and alternative investments continued to draw large amounts of capital, with realizations providing terrific investment returns.

In the U.S., this fiscal year could be called the "Year of the Fed," as the U.S. market held its breath with each Federal Reserve Meeting in anticipation of further interest rate hikes. The first quarter of the fiscal year weathered Hurricanes Rita and Katrina, the effects of higher energy prices and the growing fears of inflation and how they would affect corporate profits. Global equity markets rallied as investor sentiment overseas reflected optimism about the global economy. Non-U.S. equities helped to offset a negative bond market.

The next quarter, U.S. equity markets were softer reflecting investor continued worries over an economic slowdown from hurricane-related disruptions as well as higher energy prices. Non-U.S. and U.S. markets rebounded in the third quarter amid the Fed cautioning investors in March that further policy firming might be needed. The fiscal year ended with the Fed announcing another rate hike in June but there was an expected pause in future interest rate hikes due to a "moderating" economy.

Investment Performance

The portfolio closed the fiscal year 2005-2006 at $9.3 billion, an increase of $1 billion over the prior fiscal year. The total portfolio earned 12.4% for the twelve-months ending June 30, 2006.

For the year, all asset classes within the portfolio ended in positive territory, with international equity, real estate and alternative investments delivering especially strong returns. U.S. equities returned 10.6%, outperforming its policy benchmark by 1.0%. Fixed income returned .1%, outperforming its benchmark by .4%. Non-U.S. equities returned 28.9%, outperforming its benchmark by 1.0%. Real Estate posted a 25.6% return, exceeding the benchmark by 5.4% while alternative investments returned 27.5%, ahead of the benchmark by 13.8%. Table 1 displays a summary of time-weighted rate of investment returns.

Policies, Procedures, and Guidelines

The Board continued to pursue value added opportunities. Consultants were retained, and strategic plans and guidelines were adopted in both traditional real estate and alternative investments to enhance the portfolio. A domestic proxy policy was approved reflecting the Board's recognition that sound corporate governance means you can do well while doing good. The Board also adopted a conflict governance and marketing cessation policy to specifically address how conflict issues will be disclosed and processed by the Board consistent with its fiduciary mandates.

Manager Search, Contract Renewals, and New Hires

Public Markets
Contracts with three managers of publicly traded securities were renewed (Table 2). Four new managers of publicly traded securities were added (Table 3). Of the four, two managers were funded for U.S. equity fund of funds managers of emerging managers and the other two were managers to fill the U.S. equity small cap value mandate.

Private Investments
During the fiscal year 2005-2006, the Board funded private investments in both alternative and real estate asset classes. Twenty-two alternative investment partnerships and eight real estate partnerships were added to the portfolio (Table 4).
Over the past fiscal year, alternative investment partnerships made capital calls of approximately $151 million and real estate partnerships made drawdowns of approximately $142 million. Investments were pursued in buyout, venture capital, mezzanine, and distressed/turnaround funds.

Within the specialized, non-traditional alternative investment program, LACERS has made $33 million in commitments to five partnerships focusing on specialized areas. Three of these funds include a fund focusing on mid to later stage media, manufacturing and business services targeting the Hispanic and other ethnic markets; a venture capital fund that seeks controlling equity primarily in underserved ethnic regional and national markets; and a middle market buy out fund focusing on U.S. Hispanic owned or operated companies. The other two funds are venture capital funds focusing on clean technology products such as powerline communications, water monitoring and testing, environmental pesticides, and silicon fabrication resource management. Within the specialized, non-traditional real estate program, LACERS has made $40 million in commitments to two partnerships focusing on the underserved urban areas with a national focus. LACERS also began research on a Workforce Housing program in Los Angeles, with an assessment of the demand, risk, and potential returns of such an investment.

Other Contracts

One contract was renewed with a consultant (Table 5) as a full retainer general fund consultant.

Additional Information

Additional portfolio and investment-related information is presented in Tables 6-10. Actual and Target Asset Allocations as of June 30, 2006 are shown in Table 6. The Top Ten Holdings by Security Type are listed in Tables 7 – 10. Manager and Consulting Fees are reported in Table 11. A Summary of the Top Ten Brokers Commission and Total Captured Commission Expenditures are presented in Tables 12-13. A Summary of Investments and a list of Advisory/Consulting/Custody providers are presented in Table 14-15.

Respectfully submitted,

Daniel P. Gallagher

Daniel P. Gallagher
Chief Investment Officer

INVESTMENTS

FISCAL YEAR 2005-2006

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		Annualized **	
(gross of fees)	1 Year (%)	3 Years (%)	5 Years (%)
US Equity	**10.6**	**13.9**	**5.0**
Russell 3000	***9.6***	***12.6***	***3.5***
Fixed Income	**0.1**	**3.8**	**6.5**
LB Universal *	***-0.3***	***2.7***	***5.4***
International Equity	**28.9**	**25.1**	**11.6**
*MS ACWI Free ex US Index **	*27.9*	*25.3*	*11.4*
Real Estate	**25.6**	**20.0**	**16.0**
NCREIF Property Index	***20.2***	***15.1***	***11.7***
Alternative	**27.5**	**21.3**	**8.0**
Alternative IRR Index	13.7	16.8	7.5
LACERS Total Fund	**12.4**	**13.6**	**7.8**
LACERS Policy Benchmark	***10.7***	***12.4***	***7.0***

* 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; Time-weighted return for total fund

PUBLIC AND PRIVATE EQUITY INVESTMENT CONTRACT ACTIVITY

TABLE 2 – **The Board renewed contracts with the following managers of publicly traded securities:**

Name of Firms	Discipline
Barclays Global Investors	Passive Equity S&P 500 Index
Marvin & Palmer Associates, Inc.	Active Equity Non-US EAFE Core Equities Mgmt
The Boston Company Asset Management	Active Equity Non-US Global Emerging Markets

TABLE 3 – **The Board approved the following new contracts of new managers of publicly traded securities:**

Investment Managers	Discipline
Attucks Asset Management	US Equity Fund of Funds of Emerging Managers
Capital Prospects, LLC	US Equity Fund of Funds of Emerging Managers
Donald Smith & Co., Inc.	US Equity Small Cap Value
PanAgora Asset Management, Inc.	US Equity Small Cap Value

TABLE 4 – **The Board approved the following real estate and alternative investment partnerships:**

Investment Partnerships	Discipline
Acon-Bastion Partners II, L.P.	Alternative Investment - Mid Market Buy Out
Apollo Investment Fund VI, L.P.	Alternative Investment Buy Out – US
Avenue Special Situations Fund, V, LP	Alternative Investment – Distressed Debt
Blackstone Capital	Alternative Investment – Buy Out
Charterhouse Capital Partners VIII, LP	Alternative Investment – Buy Out Euro
DFJ Element, LP	Alternative Investment – Venture Capital
Enhanced Equity Fund	Alternative Investment – Buy Out
Halifax Capital Partners II, LP	Alternative Investment – Buy Out
JH Whitney & Co., LLC V	Alternative Investment – Buy Out
KKR European Fund II	Alternative Investment – W. Europe
Newbridge Asia IV, LP	Alternative Investment – So Pacific and Asia
Oak Investment Partners XII, LP	Alternative Investment – Venture Capital
Paladin Private Equity Partners	Alternative Investment – Venture Capital
Pharos Capital Partners II-A, LP	Alternative Investment – Venture Capital
Polaris Venture Partners V, LP	Alternative Investment – Venture Capital
Rustic Canyon/Fontis Partners Fund I, LP	Alternative Investment - Venture Capital
Spark Capital, LP	Alternative Investment – Venture Capital
Sterling Partners	Alternative Investment – Venture Capital
TA X, LP	Alternative Investment – Buy Out
TPG Partners V, LP	Alternative Investment – Buy Out
Whippoorwill Distressed Opportunity Fd, LP	Alternative Investment – Distressed Debt
Yucaipa Amer. Alliance Fd,I, LP	Alternative Investment – Buy Out
California Smart Growth Fund IV, LP	Real Estate – Specialized Program
CB Richard Ellis Strategic Partners Fd IV	Real Estate – Value Added
CIM Urban REIT, LLC	Real Estate – Core Property Types
CPI Capital Partners Europe, LP	Real Estate – European Focus
JP Morgan Alternative Property Fund	Real Estate – Open end Enhanced Fund
Stockbridge Real Estate Fund II	Real Estate – Domestic High Return
Urban America Fund II	Real Estate – Specialized Program
Walton Street Real Estate Fund V	Real Estate – High Return, US, Mexico, Europe

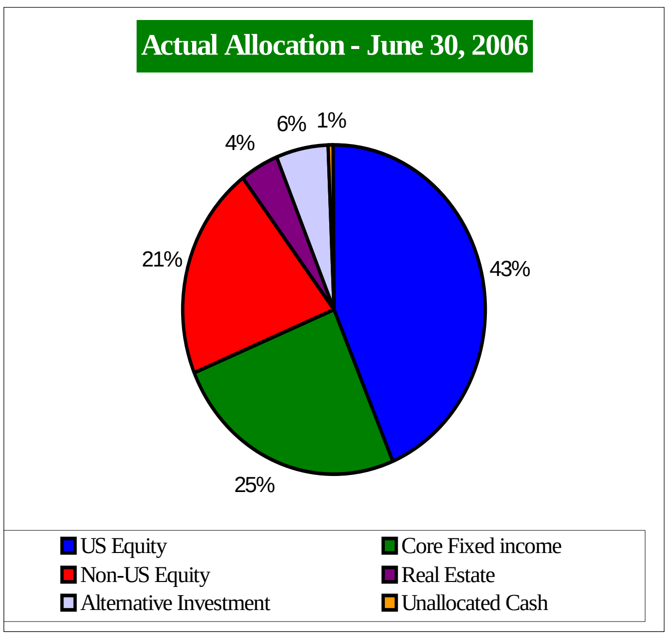
TABLE 5 – **The Board renewed a contract with one consultant:**

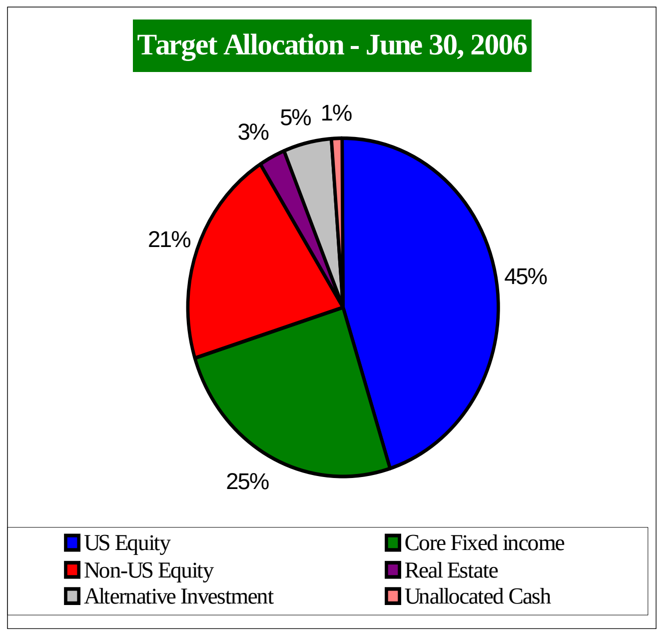
Name of Firm	Discipline
Pension Consulting Alliance	General Fund Consultant

ASSET ALLOCATION

TABLE 6 – **Asset Allocation as of June 30, 2006**
Actual and Target

Actual		Target	
US Equity	43.5%	**US Equity**	45.0%
Core Fixed Income	25.0%	**Core Fixed Income**	25.0%
Non-US Equity	21.3%	**Non-US Equity**	21.0%
Real Estate	4.0%	**Real Estate**	3.0%
Alternative Investment	5.7%	**Alternative Investment**	5.0%
Unallocated Cash	0.5%	**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, 2006. A complete listing of the System's holdings may be obtained upon request.

TABLE 7 **– US EQUITY HOLDINGS**

No.	Shares	Asset Description	Market Value US $
1.	952,619	Exxon Mobil Corp	$ 58,443,176
2.	894,476	Citigroup	43,149,522
3.	623,922	Proctor & Gamble Co.	34,690,063
4.	981,393	General Electric Co.	32,346,713
5.	430,714	Bank America Corp	20,717,343
6.	47,505	Google	19,920,272
7.	270,800	Wellpoint Inc.	19,706,116
8.	261,400	Halliburton Co.	19,398,494
9.	829,640	Microsoft Corp	19,330,612
10.	324,625	Apple Computer	18,542,580
		Total	**$ 286,244,891**

TABLE 8 **– US FIXED INCOME HOLDINGS**

No.	Par Value	Asset Description	Market Value US $
1.	101,370,000	FNMA 5.50% 7/15/2034	$ 97,346,827
2.	83,570,000	FNMA 5% 15 Years Settles July	80,462,199
3.	77,540,000	UST 4.5% 2/15/2036	69,525,543
4.	59,035,000	UST 4.5% 11/15/2015	45,230,838
5.	43,845,000	FNMA 7.25% 1/15/2010	46,333,642
6.	49,075,000	FNMA 5% 30 Years Settles July	45,869,814
7.	46,650,000	UST 4.375% 8/15/2012	44,875,107
8.	45,836,153	FNMA 835751 4.5% 8/1/2035	41,554,277
9.	39,774,578	FHLMC GO 1960 5% 12/1/2035	37,174,514
10.	33,860,000	UST dtd 8/15/2003 2.375% 8/15/2006	33,756,829
		Total	**$ 542,129,590**

TABLE 9 – NON-US EQUITY HOLDINGS

No.	Shares	Asset Description	Market Value US $
1.	7,610,849	Vodafone Group Ord	$ 16,223,333
2.	442,400	Royal Dutch Shell 'A' Shares	14,877,247
3.	1,177,076	BP Ord	13,726,368
4.	125,140	Sanofi-Aventis	12,208,784
5.	122,240	Alcon Inc. Common	12,046,752
6.	350,500	Royal Bank Scotland Group	11,526,191
7.	645,775	HSBC Holdings	11,364,650
8.	991,000	Kon KPN NV	11,138,180
9.	349,720	ADR Teva Pharmaceutical Ind.	11,047,655
10.	331,635	GlaxoSmithKline	9,268,103
		Total	**$ 123,427,263**

TABLE 10 – NON-US FIXED INCOME HOLDINGS

No.	Par Value	Asset Description	Market Value US $
1.	19,210,000	Telefonica Emisiones SA 6.421% 6/20/2016	$ 19,170,139
2.	8,068,000	Utd Mexican States MTN TR 00015 5.875% 1/15/2014	7,825,960
3.	7,400,000	Empresa Nacional de Electricidad Chile Nt 8.5% 4/1/2009	7,811,070
4.	7,120,000	Encana Corp 6.5% 8/15/2034-9/4/2004	7,092,937
5.	4,671,000	Brazil (Fed Rep of) 11% Deb 8/17/2040	5,785,267
6.	4,290,000	Telecom Italia Capital SA Notes 5.25% 10/1/2015	3,882,991
7.	11,845,000	Argentina (Rep of) 2% 9/30/2014	3,608,116
8.	4,355,000	Kinder Morgan Fin Corp 6.4% 1/5/2036-2/14/2006	3,562,216
9.	23,665,000	Sweden (Kingdom of) 5.25% 3/15/2011 Ser 1045	3,490,723
10.	3,040,000	Rogers Wireless Inc. Sr Secd Note 6.375% 3/1/2014	2,895,600
		Total	**$ 65,125,019**

SCHEDULE OF FEES

TABLE 11 -- **SCHEDULE OF FEES** (Dollars in Thousands)

Fiscal Year	2006 Assets Under Management	2006 Fees	2005 Assets Under Management	2005 Fees
Investment Manager Fees:				
Fixed Income Managers	$ 2,239,512	$ 2,681	$ 1,983,470	$ 2,278
Equity Managers	5,908,461	13,697	5,294,730	13,182
Real Estate Managers	405,681	6,366	289,333	4,325
Total	**$ 8,553,654**	**$ 22,744**	**$ 7,567,533**	**$ 19,785**
Security Lending Fees	$ 1,646,747	$ 1,408	$ 1,319,517	$ 1,163
Alt Investment Consulting Fees	520,273	1,185	369,546	455
Real Estate & Other Inv Cons Fees	N/A	425	N/A	1,773
Total	**$ 2,167,020**	**$ 3,018**	**$ 1,689,063**	**$ 3,391**

The above schedule includes securities lending, but excludes cash and cash equivalents and adjustments to cash.

TABLE 12 -- SCHEDULE OF TOP TEN BROKERS COMMISSIONS

	Broker Name	Shares	Commission	$/Share
1.	State Street Brokerage Svcs	25,631,019	$ 292,186	$ 0.011
2.	Citigroup Global Markets	5,473,683	101,814	0.019
3.	Jeffries & Company	2,598,596	100,319	0.039
4.	Merrill Lynch Pierce Fenner & Smith	2,769,042	99,162	0.036
5.	J P Morgan Securities Inc.	2,536,677	92,211	0.036
6.	Credit Suisse First Boston Corporation	2,183,061	91,315	0.042
7.	Instinet	4,277,903	73,643	0.017
8.	Fidelity Capital Markets	1,759,011	69,937	0.040
9.	Investment Technology Group Inc.	3,523,904	67,969	0.019
10.	Needham & Company	1,466,856	63,949	0.044
	Total	52,219,752	1,052,505	0.020
	Total - Other Brokers	67,504,663	2,140,438	0.032
	Grand Total *	**119,724,415**	**$ 3,192,943**	**$ 0.027**

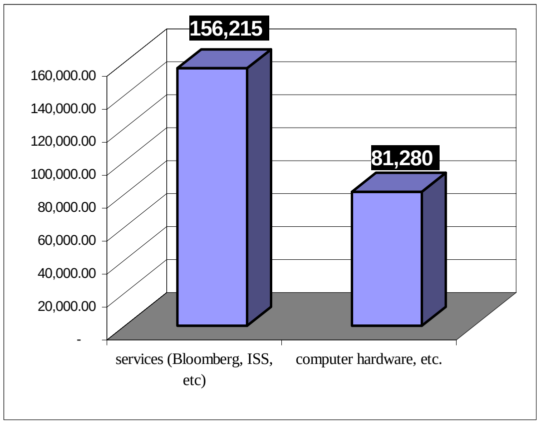
* OTC Brokers excluded because there is no stated commission.

TABLE 13 -- TOTAL CAPTURED COMMISSION EXPENDITURES 2005-2006

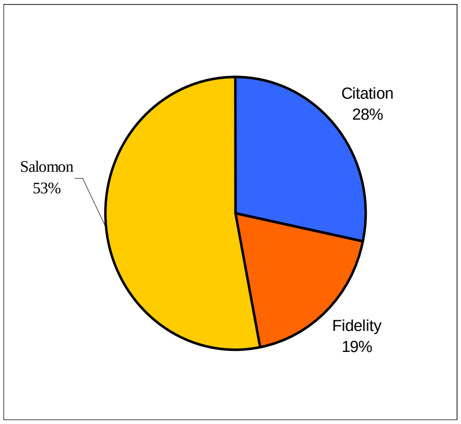
Captured Commission Expenditures
2005-2006

Citation	$ 67,443
Fidelity	44,067
Salomon	125,985
TOTAL	**$ 237,495**
Services (Bloomberg, ISS, etc)	$ 156,215
Computer hardware, etc.	81,280
TOTAL	**$ 237,495**

Expenditure by Type



Expenditure by Broker



INVESTMENT SUMMARY

TABLE 14 -- **INVESTMENT SUMMARY AS OF JUNE 30, 2006**

Type Of Investment	Market Value	% of Total M. V.	Domestic Market Value	Foreign Market Value
Fixed Income:				
Government bonds/Municipal/Gov't Agencies	$ 704,231,589	6.57%	$ 648,625,683	$ 55,605,906
Corporate bonds	835,428,235	7.79%	738,308,248	97,119,987
Government mortgage bonds	699,852,550	6.53%	699,852,550	-
Total Fixed Income	**2,239,512,374**	**20.89%**	**2,086,786,481**	**152,725,893**
Equities:				
Common stock:				
Basic industries	91,101,042	0.85%	66,507,782	24,593,260
Capital goods industries	1,102,276,430	10.28%	735,665,008	366,611,422
Consumer & services	2,120,275,560	19.78%	1,430,070,419	690,205,141
Energy	480,613,081	4.48%	316,816,448	163,796,633
Financial services	1,244,213,017	11.61%	715,023,825	529,189,192
Miscellaneous (Common Fund Assets)	841,890,744	7.85%	634,523,993	207,366,751
Total Common Stock	**5,880,369,874**	**54.85%**	**3,898,607,475**	**1,981,762,399**
Preferred stock	21,437,981	0.20%	-	21,437,981
Convertible bonds/equities	6,280,831	0.06%	991,875	5,288,956
Rights/Warrants/Unit trust equity	372,818	0.00%	7,180	365,638
Total Equities	**5,908,461,504**	**55.11%**	**3,899,606,530**	**2,008,854,974**
Real Estate:	**405,680,874**	**3.78%**	**396,517,123**	**9,163,751**
Alternative Investments:				
Acquisitions	216,216,327	2.02%	216,216,327	-
Venture capital	240,362,380	2.24%	212,332,564	28,029,816
Distressed debt	30,419,848	0.28%	30,419,848	-
International acquisitions	33,274,470	0.31%	15,787,028	17,487,442
Total Alternative Investments	**520,273,025**	**4.85%**	**474,755,767**	**45,517,258**
Security Lending Collateral:	**1,646,746,894**	**15.36%**	**1,332,989,649**	**313,757,245**
Total Fund *	**$ 10,720,674,671**	**100.00%**	**$ 8,190,655,550**	**$ 2,530,019,121**

* Total Fund includes securities lending, but excludes cash and cash equivalents and adjustments to cash.

TABLE 15 – **ADVISORY/CONSULTING/CUSTODY SERVICES**

INVESTMENT ADVISORS		
US Equity		
Alliance Capital Management	**Donald Smith & Co., Inc.**	**Rhumbline Advisers**
New York, NY	New York, NY	Boston, MA
Aronson, Johnson & Ortiz, LP	**Fiduciary Trust Co. International**	**SIT Investment Associates, Inc.**
Philadelphia, PA	New York, NY	Minneapolis, MN
Barclays Global Investors	**PanAgora Asset Management, Inc.**	**Thomson Horstmann & Bryant Inc.**
San Francisco, CA	Boston, MA	Saddlebrook, NJ
Capital Prospects, LLC	**Relational Investors**	
Stamford, CT	San Diego, CA	
Non-US Equity		
Boston Company	**Knight Vinke**	**Templeton International**
Boston, MA	Monte Carlo	Fort Lauderdale, FL
Capital Guardian Trust (Europe)	**Marvin & Palmer Assoc., Inc.**	**TT Intl Inv Management**
Los Angeles, CA	Wilmington, DE	London, UK
Daiwa SB Investments	**Sparx Asset Management**	
New York, NY	New York, NY	
Hermes Focus Asset Mgmt	**State Street Global Advisors**	
London, UK	Boston, MA	
Fixed Income		
GMAC Institutional Adv, LLC	**LM Capital Group, LLC**	**Lehman Bros Asset Mgmt**
Alpharetta, GA	San Diego, CA	Chicago, IL
Robert W. Baird & Co., Inc.	**Loomis Sayles & Company**	
Milwaukee, WI	Boston, MA	
Cash & Short-Term	**Consultants**	**Custodian**
Managed In-House	**Hamilton Lane**	**The Northern Trust Company**
	Bala Cynwyd, PA	Chicago, IL
	Pension Consulting Alliance	
	Portland, OR	
	The Townsend Group	
	Cleveland, OH	

Advisory/Consulting/Custody Services (continued)

Real Estate

Allegis Trust
Hanford, CT

AMB Capital Partners
San Francisco, CA

Aslan Realty Partners
Chicago, IL

Bryanston Realty Partners
Chicago, IL

Buchanan Street Partners
Newport Beach, CA

Canyon-Johnson Urban Fund II
Los Angeles, CA

CB Richard Ellis
Los Angeles, CA

DLJ Real Estate Capital Partners
Los Angeles, CA

ForesTree
Boston, MA

Heitman Value Partners, LP
Chicago, IL

ING Realty Partners, L.P.
New York, NY

INVESCO Realty Advisors
Dallas, TX

JP Morgan
New York, NY

Koll-Bren (K/B) Realty Adv
New York, NY

L&B Real Estate Counsel
Dallas, TX

LaSalle Inv Management
San Francisco, CA

Lowe's Hospitality
Los Angeles, CA

Miller Global Advisors
Denver, CO

Pacific Coast Capital Partners
El Segundo, CA

PRISA II
San Francisco, CA

Realty Associates
Boston, MA

RREEF Funds
San Francisco, CA

Stockbridge Real Estate
San Mateo, CA

Tuckerman Group
Purchase, NY

Urban America
New York, New York

Westbrook Partners
Dallas, TX

Alternative Investments

Alchemy Partners
London, UK

Apollo Fund
Purchase, NY

Austin Ventures, LLP
Austin, TX

Avenue Special Situations
New York, NY

Blackstone Capital Partners
New York, NY

Carlyle Group
Washington, DC

CGW Southeast Partners, LP
Atlanta, GA

Charterhouse Partners
London, UK

Chisholm Partners
Providence, RI

CHS Private Equity V, LP
Chicago, IL

CVC Capital Partners, Ltd.
London, UK

DFJ Element, LP
Menlo Park, CA

Enhanced Equity
New Orleans, LA

Essex Woodland Health Ventures
The Woodlands, TX

First Reserve Corporation
Greenwich, CT

GTRC Golder Rauner LLC
Chicago, IL

Halifax Capital
Raleigh, NC

Heitman Value Partners, LP
Chicago, IL

Hellman & Friedman Inv V, LLC
San Francisco, CA

InterWest Partners LP
Menlo Park, CA

JH Whitney & Co., LLC
Stamford, CT

Advisory/Consulting/Custody Services (continued)

Alternative Investments (Continued)		
Kelso & Company New York, NY	**Palladium Equity Partners LLC** New York, NY	**TA** Boston, MA
KKR New York, NY	**Parish Capital I, LP** Chapel Hill, NC	**Technology Crossover** Palo Alto, CA
Levine Leichtman Beverly Hills, CA	**Permira** London, UK	**Thoma Cressey Equity Partners** Chicago, IL
Madison Dearborn, LLC Chicago, IL	**Pharos Capital Partners** Nashville, TN	**Thomas H. Lee** Boston, MA
Menlo Ventures Menlo Park, CA	**Polaris Venture Partners** Waltham, MA	**Texas Pacific Group** Fort Worth, TX
Nautic Partners, LLC Providence, RI	**Providence Equity Partners** Providence, RI	**Trident Capital** Palo Alto, CA
Newbridge Asia Fort Worth, TX	**Reliant Equity Partners, LP** Chicago, IL	**Vantage Point Venture** San Bruno, CA
Nordic Capital Stockholm, Sweden	**Resolute Fund Partners, LLC** New York, NY	**Vestar Capital Partners** New York, NY
OCM Opportunities Los Angeles, CA	**Richland Ventures** Nashville, TN	**Welsh, Carson, Anderson & Stowe** New York, NY
Olympus Partners Stamford, CT	**Rustic Canyon/Fontis Partners** Santa Monica, CA	**Weston Presidio** Boston, MA
Onex Partners Toronto, Canada	**Spark Capital** Boston, MA	**Whippoorwill** White Plains, NY
Paladin Private Equity New York, NY	**Sterling Partners** Baltimore, MD	**Yucaipa** Los Angeles, CA

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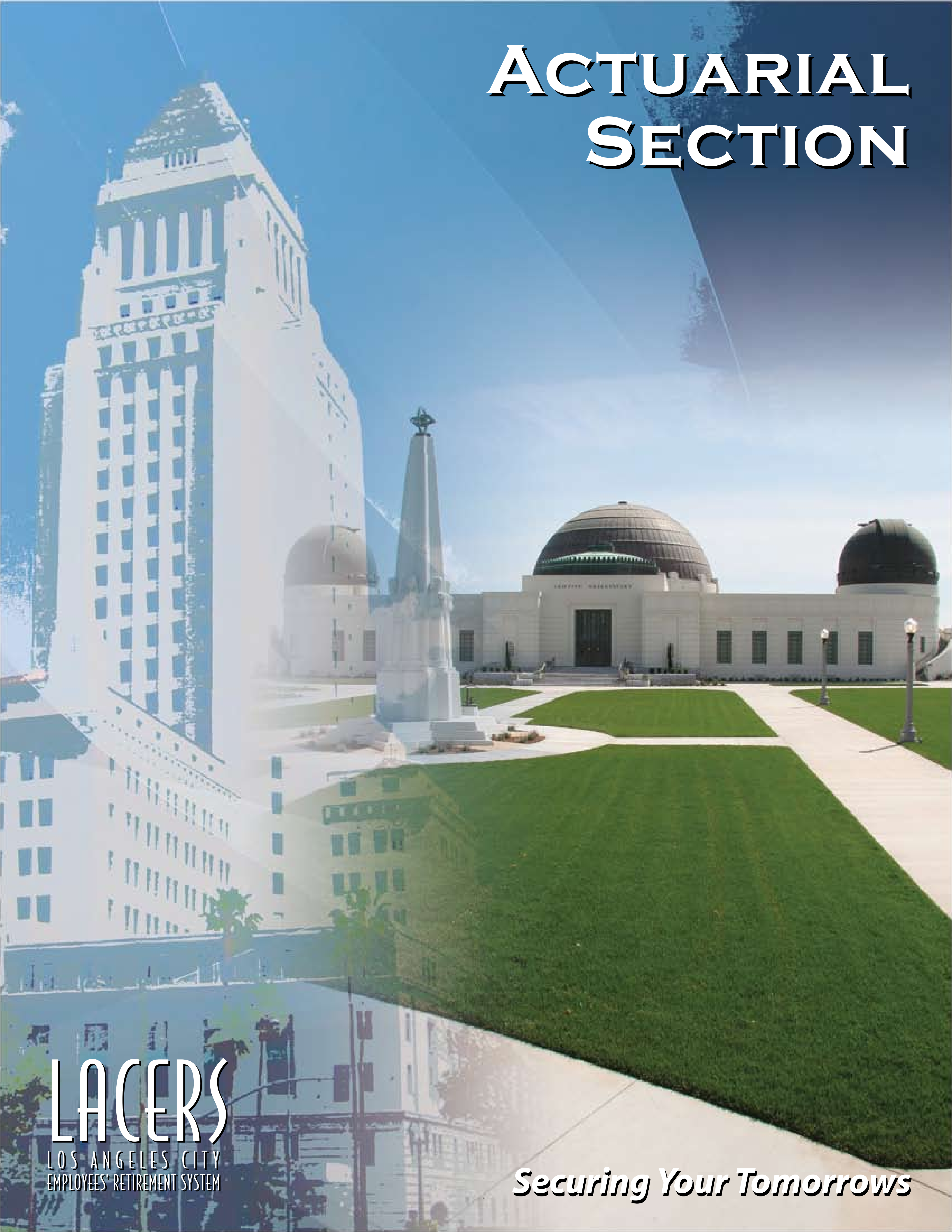
ACTUARIAL SECTION



LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

Securing Your Tomorrows

THE SEGAL COMPANY
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

November 9, 2006

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

Re: **June 30, 2006 Actuarial Valuations**

Dear Board Members:

Enclosed please find the June 30, 2006 actuarial valuations for the retirement and the health programs.

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

- Exhibit A - Summary of significant results for the two programs.
- Exhibit B - History of computed contribution rates for the two programs.
- Exhibit C - Solvency test for the retirement program.
- Exhibit D - Schedule of retirees and beneficiaries added to and removed from the rolls for the retirement program.

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

Sincerely,

Paul Angelo, FSA, MAAA, EA
Vice President and Consulting Actuary

Paul Poon, ASA, EA
Associate Actuary

Andy Yeung, ASA, MAAA, EA
Associate Actuary

PXP:gxk
Enclosure

4001128v1/05806.006

Exhibit A

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

		June 30, 2006	June 30, 2005	Percent Change
I.	**Total Membership**			
	A. Active Members	28,839	27,333	5.5%
	B. Pensioner	14,570	14,322	1.7%
II.	**Valuation Salary**			
	A. Total Annual Payroll	$1,733,339,536	$1,589,305,846	9.1%
	B. Average Monthly Salary	5,009	4,846	3.4%
III.	**Benefits to Current Retirees and Beneficiaries***			
	A. Total Annual Benefits	$455,712,924	$427,953,132	6.5%
	B. Average Monthly Benefit Amount	2,606	2,490	4.7%
IV.	**Total System Assets****			
	A. Actuarial Value	$8,686,104,097	$8,105,746,091	7.2%
	B. Market Value	9,285,478,072	8,331,756,497	11.4%
V.	**Unfunded Actuarial Accrued Liability (UAAL)**			
	A. Retirement Benefits	$2,195,663,013	$2,128,382,740	3.2%
	B. Health Subsidy Benefits	740,529,235	825,520,669	-10.3%

* Includes July COLA.
** Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits.

Exhibit A (continued)

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

		FY 2007-2008		FY 2006-2007		Change	
VI.	**Budget Items**	Beginning of Year	End of Pay Periods	Beginning of Year	End of Pay Periods	Beginning of Year	End of Pay Periods
	A. Retirement Benefits						
	1. Normal Cost as a Percent of Pay	9.13%	9.48%	9.22%	9.57%	-0.09%	-0.09%
	2. Amortization of UAAL	7.41%	7.70%	7.64%	7.94%	-0.23%	-0.24%
	3. Total Retirement Contribution	16.54%	17.18%	16.86%	17.51%	-0.32%	-0.33%
	B. Health Subsidy Contribution						
	1. Normal Cost as a Percent of Pay	3.87%	4.02%	4.16%	4.32%	-0.29%	-0.30%
	2. Amortization of UAAL	2.38%	2.47%	2.84%	2.95%	-0.46%	-0.48%
	3. Total Retirement Contribution	6.25%	6.49%	7.00%	7.27%	-0.75%	-0.78%
	C. Total Contribution (A+B)	22.79%	23.67%	23.86%	24.78%	-1.07%	-1.11%

		June 30, 2006	June 30, 2005	Change
VII	**Funded Ratio**			
	(Based on Valuation Value of Assets)			
	A. Retirement Benefits	77.8%	77.2%	0.6%
	B. Healthy Subsidy Benefits	57.2%	52.0%	5.2%
	C. Total	74.7%	73.2%	1.5%
	(Based on Market Value of Assets)			
	D. Retirement Benefits	83.1%	79.3%	3.8%
	E. Health Subsidy Benefits	61.2%	53.4%	7.8%
	F. Total	79.8%	75.3%	4.5%

Exhibit B

Los Angeles City Employees' Retirement System
Computed Contribution Rates* – Historical Comparison

Valuation Date	Retirement	Health	Total	Valuation Payroll (thousands)
06/30/1994	12.07%	2.99%	15.06%	$884,951
06/30/1995	7.34%	2.30%	9.64%	911,292
06/30/1996	6.51%	3.18%	9.69%	957,423
06/30/1997	6.57%	1.85%	8.42%	990,616
06/30/1998	6.43%	1.27%	7.70%	1,011,857
06/30/1999	4.93%	0.67%	5.60%	1,068,124
06/30/2000	2.54%	2.17%	4.71%	1,182,203
06/30/2001	3.84%	1.98%	5.82%	1,293,350
06/30/2002	9.22%	1.85%	11.07%	1,334,335
06/30/2003	11.95%	4.02%	15.97%	1,405,058
06/30/2004	14.76%	4.94%	19.70%	1,575,285
06/30/2005	17.51%	7.27%	24.78%	1,589,306
06/30/2006	17.18%	6.49%	23.67%	1,733,340

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

Exhibit C

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

($ In Thousands)

	Aggregate Actuarial Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
Valuation Date	Member Contributions	Retirees, Beneficiaries, & Deferred Vesteds	Active Members	Valuation Value of Assets	Member Contributions	Retirees, Beneficiaries, & Deferred Vesteds	Active Member
06/30/1996	$637,737	$2,357,798	$1,480,489	$4,468,433	100.0%	100.0%	99.5%
06/30/1997	683,048	2,598,432	1,604,857	4,802,509	100.0	100.0	94.8
06/30/1998	733,680	2,772,712	1,806,526	5,362,923	100.0	100.0	100.0
06/30/1999	776,617	2,989,218	1,918,751	5,910,948	100.0	100.0	100.0
06/30/2000	827,729	3,149,392	2,035,810	6,561,365	100.0	100.0	100.0
06/30/2001	889,658	3,444,240	2,134,168	6,988,782	100.0	100.0	100.0
06/30/2002	950,002	3,756,935	2,545,181	7,060,188	100.0	100.0	92.5
06/30/2003	1,005,888	4,021,213	2,632,745	6,999,647	100.0	100.0	74.9
06/30/2004	1,062,002	4,348,252	3,123,610	7,042,108	100.0	100.0	52.2
06/30/2005	1,128,101	4,858,932	3,334,492	7,193,142	100.0	100.0	36.2
06/30/2006	1,210,246	5,149,385	3,511,031	7,674,999	100.0	100.0	37.5

Exhibit D

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

Year Ended	No. of New Retirees/ Beneficiaries	Annual Allowances Added**	No. of Retirees/ Beneficiaries Removed	Annual Allowances Removed	No. of Retirees/ Beneficiaries at 6/30	Annual Allowances at 6/30	Percent Increase in Annual Allowances	Average Annual Allowance
6/30/2001	773	$22,866,958	466	$6,436,730	13,365	$316,057,216	8.6%	$23,648
6/30/2002	844	23,740,829	620	11,316,344	13,589	336,437,038	6.4%	24,758
6/30/2003	827	24,729,535	611	12,008,132	13,805	359,036,215	6.7%	26,008
6/30/2004	986	53,452,133	654	13,220,316	14,137	399,268,032	11.2%	28,243
6/30/2005	934	43,454,836	749	14,769,736	14,322	427,953,132	7.2%	29,881
6/30/2006	890	42,821,079	642	15,061,287	14,570	455,712,924	6.5%	31,277

* Does not include Family Death Benefit Insurance Plan members. Table based on valuation data.
** Effective 06/30/2004, also includes the COLA granted in July.

Los Angeles City Employees' Retirement System

Actuarial Valuation and Review of Retirement Program as of June 30, 2006

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SEGAL

The Segal Company
120 Montgomery Street, Suite 500 San Francisco, CA 94104
T 415.263.8200 F 415.263.8290 www.segalco.com

November 8, 2006

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

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of June 30, 2006. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2007/2008 and analyzes the preceding year's experience.

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

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

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

Sincerely,

THE SEGAL COMPANY

By: ______________________________

Paul Angelo, FSA, MAAA, EA *Senior Vice President and Actuary*	*Paul C. Poon, ASA, MAAA, EA* *Associate Actuary*	*Andy Yeung, ASA, MAAA, EA* *Associate Actuary*

PXP/hy

PURPOSE

This report has been prepared by The Segal Company to present a valuation of the Los Angeles City Employees' Retirement System as of June 30, 2006. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board of Administration;
- The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of June 30, 2006, provided by LACERS;
- The assets of the Plan as of June 30, 2006, provided by LACERS;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

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

- The ratio of the valuation value of assets to actuarial accrued liabilities increased from 77.17% to 77.76%. The unfunded actuarial accrued liability has increased from $2,128.4 million to $2,195.7 million. A complete reconciliation of the System's unfunded actuarial accrued liability is provided in Section 3, Exhibit G.
- The aggregate employer rate calculated in this valuation has decreased from 17.51% of payroll to 17.18% of payroll. The decrease was due to: (i) amortization costs being spread out over a higher than expected payroll base, (ii) slightly higher than expected return on the valuation value of assets, and (iii) other actuarial experience.
- As indicated in Section 2, Subsection B of this report, the total unrecognized investment gain as of June 30, 2006 is $599,373,975 for the assets for Retirement, Health, Family Death, and Larger Annuity Benefits. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. This implies that earning the assumed rate of investment return of 8.00% per year (net of expenses) on a market value basis will result in investment gains on the actuarial value of assets in the next few years. Therefore, if the actual market return is equal to

the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would decrease in each of the next few years.

- As instructed by the Board of Administration, the recommended contribution is set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. We have included in the calculation of the recommended contribution an additional contribution due to the application of the 40-year minimum amortization requirement for both fiscal year 2003/2004 and fiscal year 2004/2005.

  A Net Pension Obligation (NPO) was created in the June 30, 2004 and June 30, 2005 valuations due to: (1) the phase-in of the higher contribution rate required from the 2002 experience study and (2) the GASB requirement that the Unfunded Actuarial Accrued Liability (UAAL) of the Plan be amortized over an equivalent period of not greater than 40 years. Since (1) is already included in the development of the Plan's actual UAAL, the ARC calculation requires only an additional contribution to amortize (2) over a period of 15 years. In the June 30, 2006 valuation, there are 13 years of payments left in the amortization of (2) from the June 30, 2004 valuation and 14 years of payments left in the amortization of (2) from the June 30, 2005 valuation.

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

- The employer and employee contribution rates developed in this report are before any adjustments to reflect the City's pickup of part of the employee contributions for those hired before January 1, 1983. Since all of the employees hired before January 1, 1983 are vested and entitled to collect a pension benefit from the Plan, we recommend that the City take no discount on the pickup of employee contributions as only a minimal amount, if any, of contributions are expected to be refunded to those members.

- The actuarial valuation report as of June 30, 2006 is based on financial information as of that date. Changes in the value of assets subsequent to that date, to the extent that they exist, are not reflected. Declines in asset values will increase the actuarial cost of the Plan, while increases will decrease the actuarial cost of the Plan.

- The Board has adopted a policy of amortizing the June 30, 2005 UAAL over a fixed period of 30 years beginning July 1, 2005. The UAALs arising from the phase-in of contribution rates for the 2002 experience study (for fiscal year 2003/2004 and 2004/2005) were excluded from this 30-year amortization policy. Future changes in the UAAL will be separately identified and amortized over various periods depending on the source of the change. A new 15-year amortization base was established in the June 30, 2006 valuation for an experience loss during 2005-2006. See Section 3, Exhibit H for details.

Summary of Key Valuation Results

	2006	2005
Contributions calculated as of June 30:		
Recommended as a percent of pay (note there is a 12-month delay until the rate is effective)		
At the beginning of year	16.54%	16.86%
At the end of each pay period	17.18%	17.51%
Funding elements for plan year beginning July 1:		
Normal cost	$270,276,764	$249,462,452
Market value of assets*	9,285,478,072	8,331,756,497
Actuarial value of assets*	8,686,104,097	8,105,746,091
Valuation value of retirement assets	7,674,999,374	7,193,142,227
Actuarial accrued liability	9,870,662,387	9,321,524,967
Unfunded actuarial accrued liability	2,195,663,013	2,128,382,740
Funded ratio	77.76%	77.17%
GASB 25/27 for fiscal year ending June 30:		
Annual required contributions	$227,740,600	$183,241,489
Actual contributions	227,740,600	158,131,638
Percentage contributed	100.0%	86.30%
Demographic data for plan year beginning July 1:		
Number of retired members and beneficiaries	14,570	14,322
Number of vested former members	2,903	2,426
Number of active members	28,839	27,333
Projected total payroll	$1,733,339,536**	$1,589,305,846
Projected average payroll	60,104**	58,146

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

***For 2006, reflects annualized salaries for part-time members.*

Actuarial Certification

November 8, 2006

This is to certify that The Segal Company has conducted an actuarial valuation of the Los Angeles City Employees' Retirement System retirement program as of June 30, 2006, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this retirement program with the last valuation completed on June 30, 2005. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of the historical funding methods used in determination of the liability for retirement benefits.

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

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

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

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

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

Paul C. Poon

Paul Poon, ASA, MAAA, EA
Associate Actuary

Andy Yeung

Andy Yeung, ASA, MAAA, EA
Associate Actuary

A. MEMBER DATA

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

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

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

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

CHART 1

Member Population: 1997 – 2006

Year Ended June 30	Active Members	Vested Terminated Members*	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
1997	22,219	N/A	12,698	0.57
1998	22,091	N/A	12,591	0.57
1999	22,504	N/A	12,843	0.57
2000	24,234	N/A	13,058	0.54
2001	25,654	N/A	13,365	0.52
2002	25,930	2,327	13,589	0.61
2003	26,358	2,593	13,805	0.62
2004	27,092	2,232	14,137	0.60
2005	27,333	2,426	14,322	0.61
2006	28,839	2,903	14,570	0.61

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

Active Members

Plan costs are affected by the age, years of service and payroll of active members. In this year's valuation, there were 28,839 active members with an average age of 45.4, average years of service of 11.7 years and average payroll of $60,104. Salaries for part-time members have been annualized. The 27,333 active members in the prior valuation had an average age of 45.6, average service of 12.0 years and average payroll of $58,146.

Inactive Members

In this year's valuation, there were a total of 2,903 members who were either (a) non-vested and entitled to a refund of member contributions or (b) vested with a right to a deferred or immediate benefit.

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

CHART 2

Distribution of Active Members by Age as of June 30, 2006

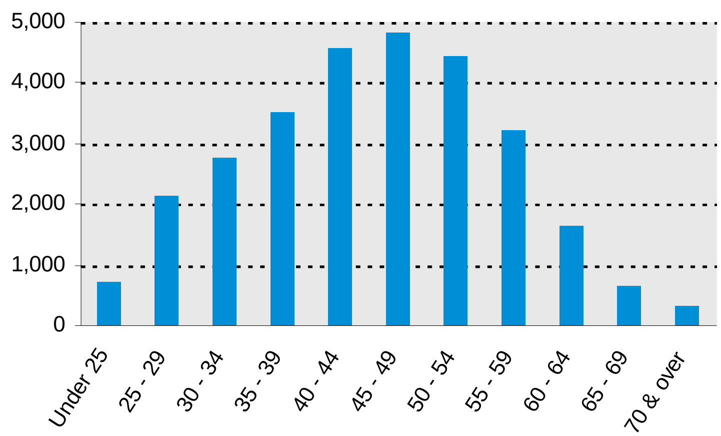
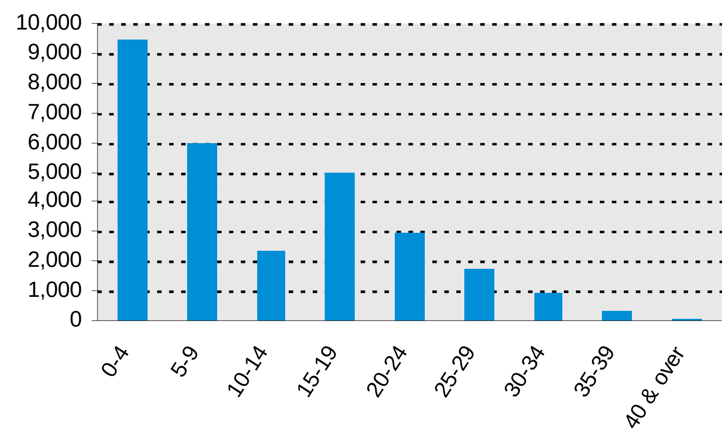


CHART 3

Distribution of Active Members by Years of Service as of June 30, 2006



Retired Members and Beneficiaries

As of June 30, 2006, 11,119 retired members and 3,451 beneficiaries were receiving total monthly benefits of $37,973,016. For comparison, in the previous valuation, there were 11,009 retired members and 3,313 beneficiaries receiving monthly benefits of $35,665,309.

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

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

CHART 4

Distribution of Retired Members by Type and by Monthly Amount as of June 30, 2006

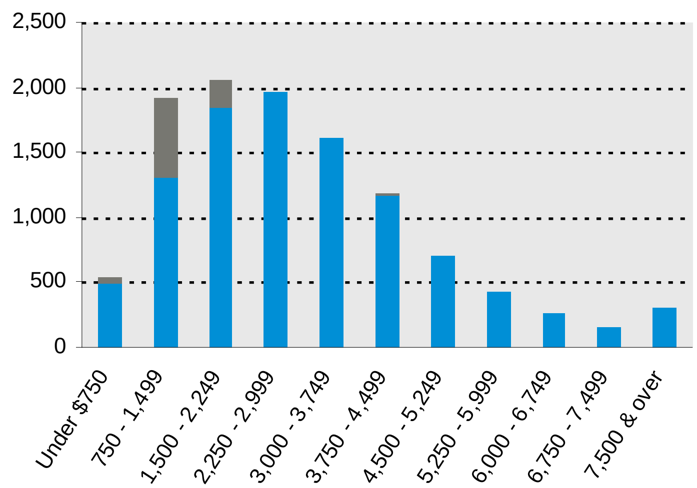
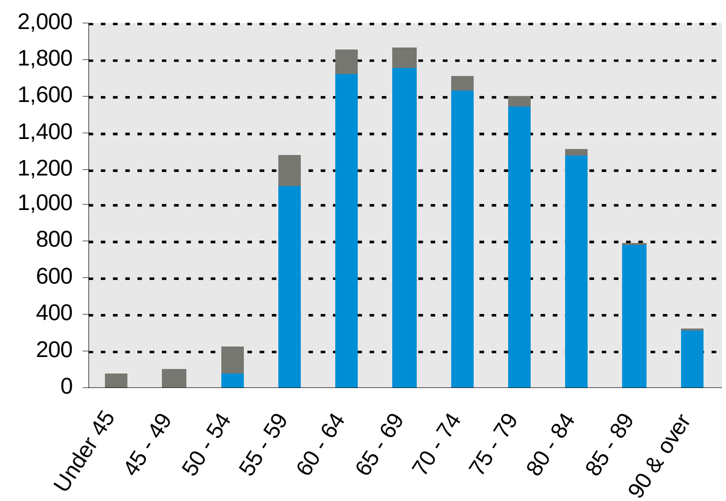


CHART 5

Distribution of Retired Members and by Type and by Age as of June 30, 2006



Disability
Service

SEGAL

B. FINANCIAL INFORMATION

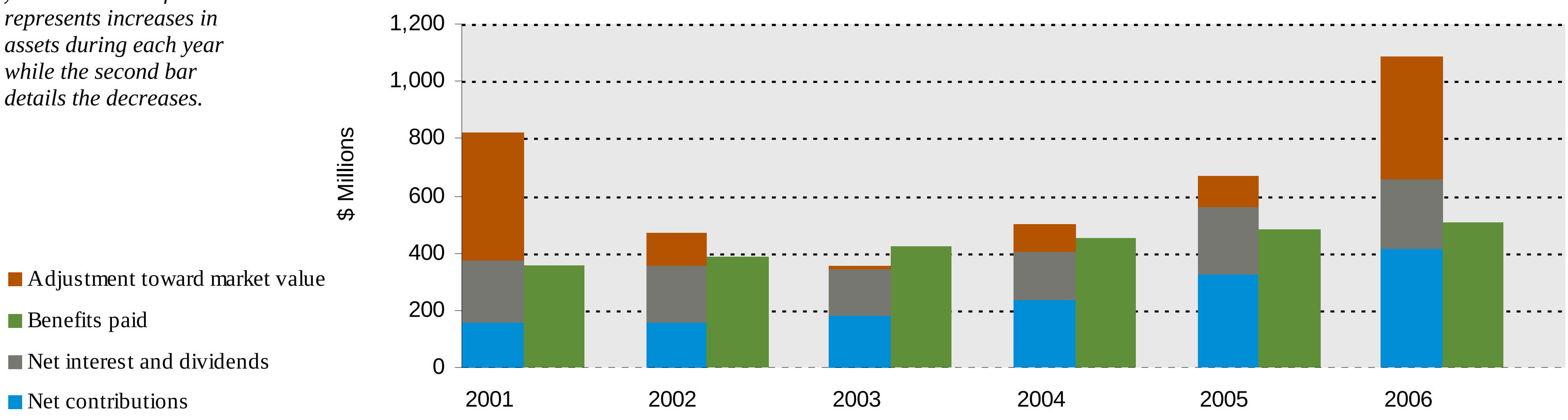
Retirement plan funding anticipates that, over the long term, both net contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

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

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

CHART 6

Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended June 30, 2001 – 2006



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

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

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

CHART 7

Determination of Actuarial Value of Assets for Year Ended June 30, 2006

1.	Market value of assets				$9,285,478,072
2.	Calculation of unrecognized return*	Original Amount	Percent Not Recognized	Amount Not Recognized	
	(a) Year ended June 30, 2006	$366,478,652	80%	$293,182,921	
	(b) Year ended June 30, 2005	132,848,231	60%	79,708,939	
	(c) Year ended June 30, 2004	710,820,763	40%	284,328,305	
	(d) Year ended June 30, 2003	-289,230,950	20%	-57,846,190	
	(e) Total unrecognized return				599,373,975
3.	Preliminary actuarial value: (1) - (2e)				8,686,104,097
4.	Adjustment to be within 20% corridor				0
5.	Final actuarial value of assets: (3) + (4)				$8,686,104,097
6.	Actuarial value as a percentage of market value: (5) ÷ (1)				93.5%
7.	Market value of retirement assets				$8,204,603,306
8.	Valuation value of retirement assets (5) ÷ (1) x (7)				$7,647,999,374

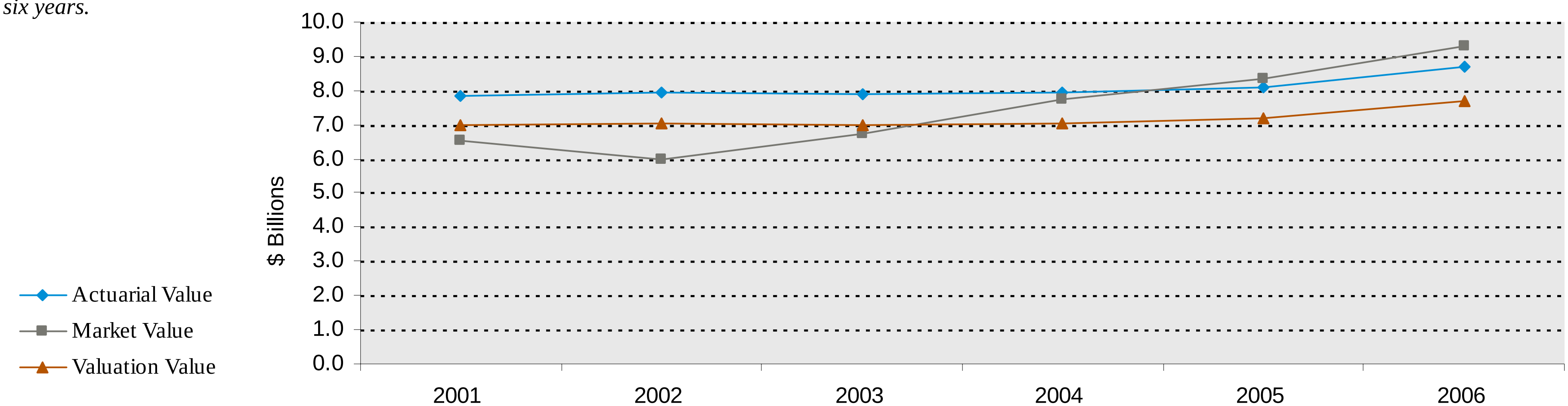
**Total return minus expected return on a market value basis*

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

This chart shows the change in the actuarial value of assets versus the market value over the past six years.

CHART 8

Actuarial Value of Assets vs. Market Value of Assets as of June 30, 2001 – 2006



C. ACTUARIAL EXPERIENCE

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

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

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

The total loss of $24,171,862 was due mainly to a contribution loss of $31,656,219 offset by slight gains from all other sources. The net experience variation from all sources was 0.2% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

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

CHART 9

Actuarial Experience for Year Ended June 30, 2006

1.	Net gain/(loss) from investments*	$ 1,225,479
2.	Net gain/(loss) from other experience**	6,258,877
3.	Net loss from contributions less than anticipated due to one-year lag for new rate	-31,656,219
4.	Net experience gain/(loss): (1) + (2) + (3)	-$24,171,862

* *Details in Chart 10.*

** *Details in Chart 13. The net gain is attributed to actual liability experience from June 30, 2005 through June 30, 2006, compared to the projected experience predicted by the actuarial assumptions as of June 30, 2005.*

Investment Rate of Return
A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on LACERS' investment policy. For valuation purposes, the assumed rate of return on the valuation value of assets is 8.00%. The actual rate of return on the valuation value of assets basis for the 2006 plan year was 8.02%.

Since the actual return for the year was slightly higher than the assumed return, LACERS experienced a slight actuarial gain during the year ended June 30, 2006 with regard to its investments.

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

CHART 10

Actuarial Value Investment Experience for Year Ended June 30, 2006

	Actuarial Value (Includes assets for Retirement, Health, Family Death, and Larger Annuity Benefits)	**Valuation Value (Includes assets for Retirement Only)**
1. Actual return	$ 668,300,721	$ 581,789,199
2. Average value of assets	8,213,810,086	7,257,046,501
3. Actual rate of return: (1) ÷ (2)	8.14%	8.02%
4. Assumed rate of return	8.00%	8.00%
5. Expected return: (2) x (4)	$657,104,807	$580,563,720
6. Actuarial gain/(loss): (1) – (5)	$11,195,914	$1,225,479

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

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

CHART 11

Investment Return – Actuarial Value vs. Market Value: 2001 - 2006

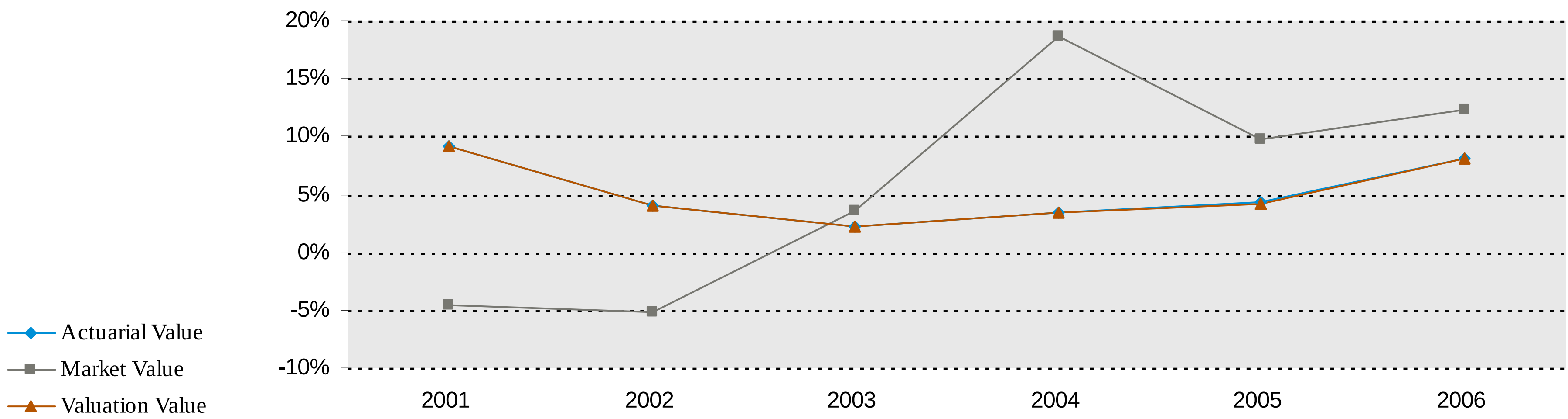
	Net Interest and Dividend Income		Recognition of Capital Appreciation		Actuarial Value Investment Return		Market Value Investment Return	
Year Ended June 30	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2001	$218,918,771	2.83%	$443,656,601	5.73%	$662,575,372	9.09%	$218,918,771	-4.60%
2002	201,393,778	2.58%	112,813,481	1.44%	314,207,259	4.06%	201,393,778	-5.25%
2003	164,915,100	2.11%	11,691,257	0.15%	176,606,357	2.26%	238,161,856	3.61%
2004	171,166,339	2.19%	96,283,183	1.23%	267,449,522	3.42%	1,243,644,727	18.84%
2005	235,062,628	2.96%	109,661,360	1.38%	344,723,988	4.34%	753,805,403	9.71%
2006	238,266,254	2.90%	430,034,467	5.24%	668,300,721	8.14%	1,041,664,291	12.34%
Total	$1,229,722,870		$1,204,140,349		$2,433,863,219		$3,697,588,826	
					Five-year average return	4.43%		7.53%

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

This chart illustrates how this leveling effect has actually worked over the years 2001 - 2006 .

CHART 12

Market and Actuarial Rates of Return for Years Ended June 30, 2001 - 2006



Other Experience

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

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net gain from this other experience for the year ended June 30, 2006 amounted to $6,258,878, which is 0.1% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the LACERS for the year ended June 30, 2006 is shown in the chart below.

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

CHART 13

Experience Due to Changes in Demographics for Year Ended June 30, 2006

1.	Loss due to higher than expected salary increases for continuing actives	-$50,201,920
2.	Miscellaneous gains	56,460,797
3.	Net gain/(loss)	$6,258,877

D. RECOMMENDED CONTRIBUTION

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. This total amount is then divided by the projected payroll for active members to determine the funding rate of 17.18% of payroll.

We have continued to follow last year's recommended contribution policy that adjusts the contribution requirement if the GASB ARC minimum contribution is greater than the amount prescribed below. For 2006, the beginning of year minimum GASB ARC is $278.0 million and no additional adjustment has been made to the recommended contributions.

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

CHART 14

Recommended Contribution

		Year Beginning June 30			
		2006		2005	
		Amount	% of Payroll	Amount	% of Payroll
1.	Total normal cost	$270,276,764	15.59%	$249,462,452	15.70%
2.	Expected employee contributions	-112,008,469	-6.46%	-103,009,993	-6.48%
3.	Employer normal cost: (1) + (2)	$158,268,295	9.13%	$146,452,459	9.22%
4.	Actuarial accrued liability	9,870,662,387		9,321,524,967	
5.	Valuation value of assets	7,674,999,374		7,193,142,227	
6.	Unfunded actuarial accrued liability	$2,195,663,013		$2,128,382,740	
7.	Amortization of unfunded accrued liability	128,361,079	7.41%	121,432,706	7.64%
8.	Total recommended contribution, not adjusted for timing	$286,629,374	16.54%	$267,885,165	16.86%
9.	Total recommended contribution, adjusted for timing*	$297,800,993	17.18%	$278,326,214	17.51%
10.	Projected payroll used for developing normal cost rate	$1,733,339,536		$1,589,305,846	

**Contributions are assumed to be paid at the end of every pay period.*

If paid by the City at the beginning of the year, the calculated normal cost (including expenses) is 9.13% of payroll. The remaining 7.41% of payroll will amortize the unfunded actuarial accrued liability over an equivalent single amortization period of 27 years.

The contribution rates as of June 30, 2006 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation.

Reconciliation of Recommended Contribution

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

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

CHART 15

Reconciliation of Recommended Contribution from June 30, 2005 to June 30, 2006

Recommended Contribution as of June 30, 2005	$278,326,214
Increase on prior year amortization amounts	5,046,626
Effect of contributions (more)/less than recommended contribution	2,818,044
Effect of investment (gain)/loss	-109,092
Effect of other gains and losses on accrued liability	-557,167
Increase in employer normal cost, due to payroll and demographic changes	12,276,368
Total change	$19,474,779
Recommended Contribution as of June 30, 2006	$297,800,993

E. INFORMATION REQUIRED BY THE GASB

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

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

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

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

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

These graphs show key GASB factors.

CHART 16

Required Versus Actual Contributions

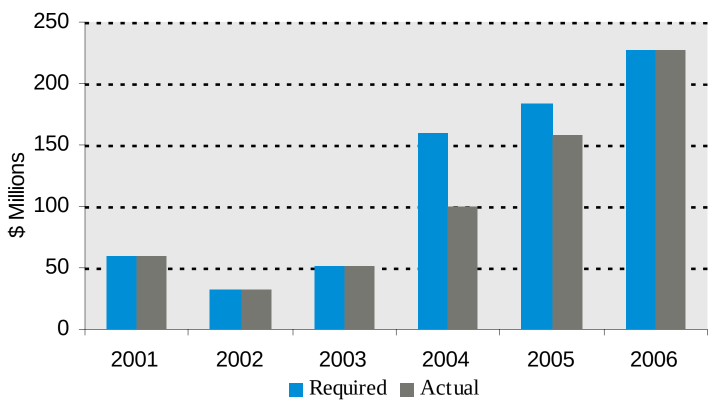


CHART 17

Funded Ratio

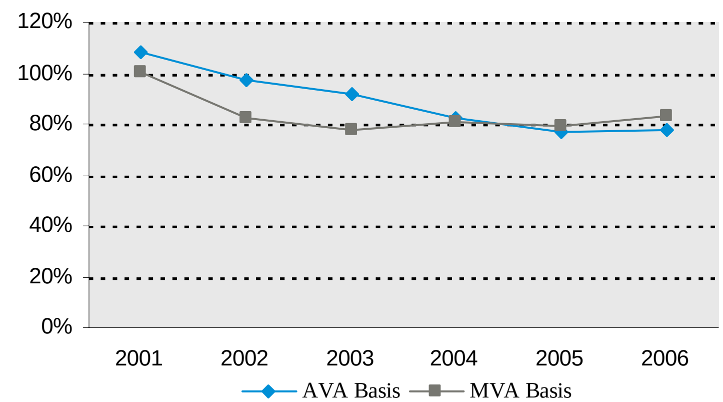


EXHIBIT A
Table of Plan Coverage

Category	Year Ended June 30 2006	Year Ended June 30 2005	Change From Prior Year
Active members in valuation:			
Number	28,839	27,333	5.5%
Average age	45.4	45.6	N/A
Average service	11.7	12.0	N/A
Projected total payroll	$1,733,339,536*	$1,589,305,846	9.1%
Projected average payroll	60,104*	58,146	3.4%
Account balances	1,156,968,388	1,081,800,094	6.9%
Total active vested members	19,510	18,399	6.0%
Vested terminated members:			
Number	2,903	2,426	19.7%
Average age	42.7	42.6	N/A
Average contribution balance for those with under 5 years of service	$3,555	$3,294	7.9%
Average monthly benefit for those with 5 or more years of service	$1,260	$1,202	4.8%
Retired members:			
Number in pay status	10,234	10,147	0.9%
Average service at retirement	26.3	N/A	
Average age at retirement	59.9	60.0	N/A
Average age	71.4	71.4	N/A
Average monthly benefit (includes July COLA)	$3,116	$2,961	5.2%
Disabled members:			
Number in pay status	885	862	2.7%
Average service at retirement	12.2	N/A	
Average age at retirement	44.5	44.3	N/A
Average age	60.2	60.1	N/A
Average monthly benefit (includes July COLA)	$1,290	$1,236	4.4%
Beneficiaries:			
Number in pay status	3,451	3,313	4.2%
Average age	75.3	75.2	N/A
Average monthly benefit (includes July COLA)	$1,433	$1,374	4.3%

**For 2006, reflects annualized salaries for part-time members.*

EXHIBIT B

Members in Active Service as of June 30, 2006
By Age, Years of Service, and Average Payroll

		Years of Service								
Age	Total	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	722	714	8	- -	- -	- -	- -	- -	- -	- -
	$35,701	$35,622	$42,740	- -	- -	- -	- -	- -	- -	- -
25 - 29	2,137	1,744	393	- -	- -	- -	- -	- -	- -	- -
	46,953	45,473	53,517	- -	- -	- -	- -	- -	- -	- -
30 - 34	2,757	1,577	1,054	118	8	- -	- -	- -	- -	- -
	53,982	49,927	59,047	$62,445	$61,301	- -	- -	- -	- -	- -
35 - 39	3,529	1,355	1,155	510	486	23	- -	- -	- -	- -
	58,866	50,321	60,372	71,031	66,250	$60,865	- -	- -	- -	- -
40 - 44	4,582	1,167	1,028	518	1,331	488	50	- -	- -	- -
	62,393	50,554	60,446	67,574	70,451	67,518	$60,514	- -	- -	- -
45 - 49	4,832	1,004	808	422	1,228	913	443	14	- -	- -
	64,004	48,208	58,988	66,288	69,821	75,088	68,099	$54,947	- -	- -
50 - 54	4,444	871	639	339	864	724	618	365	24	- -
	64,974	49,786	59,214	67,431	68,931	72,611	73,368	69,623	$75,048	- -
55 - 59	3,224	508	503	237	573	442	420	375	164	2
	65,126	45,138	58,254	63,593	67,682	70,530	72,216	79,257	75,936	$100,299
60 - 64	1,629	295	252	125	295	231	134	145	123	29
	62,972	46,864	54,168	59,618	64,113	66,779	71,232	76,930	84,731	75,596
65 - 69	650	106	84	67	133	90	59	49	39	23
	58,987	37,711	49,125	52,285	66,583	67,166	67,000	65,528	74,606	75,690
70 & over	333	101	32	40	43	40	29	15	15	18
	47,671	30,550	41,569	39,122	57,260	60,573	64,272	61,370	73,144	62,614
Total	28,839	9,442	5,956	2,376	4,961	2,951	1,753	963	365	72
	$60,104	$47,263	$58,662	$66,087	$68,689	$71,346	$70,866	$73,924	$78,585	$73,067

EXHIBIT C

Reconciliation of Member Data

	Active Members	Vested Former Members	Disableds	Retired Members	Beneficiaries	Total
Number as of June 30, 2005	27,333	2,426	862	10,147	3,313	44,081
New members	3,005	N/A	N/A	N/A	N/A	3,005
Terminations – with vested rights	-578	578	0	0	0	0
Retirements	-511	-39	N/A	550	N/A	0
New disabilities	-54	0	54	N/A	N/A	N/A
New beneficiaries	N/A	N/A	N/A	N/A	311	311
Deaths	-62	-4	-32	-500	-173	-771
Refund of member contributions	-357	-152	0	0	0	-509
Rehired	61	-60	0	-1	N/A	0
Data adjustments	2	154*	1	38	0	195
Number as of June 30, 2006	28,839	2,903	885	10,234	3,451	46,312

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

EXHIBIT D

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

	Year Ended June 30, 2006		Year Ended June 30, 2005	
Contribution income:				
Employer contributions	$320,399,222		$229,136,519	
Employee contributions	98,262,366		94,268,171	
Net contribution income		$418,661,588		$323,404,690
Investment income:				
Interest, dividends and other income	$268,461,511		$263,747,032	
Recognition of capital appreciation	430,034,468		109,661,360	
Less investment and administrative fees	-30,195,257		-28,684,404	
Net investment income		668,300,721		344,723,988
Total income available for benefits		$1,086,962,309		$668,128,678
Less benefit payments:				
Payment of benefits	-$493,583,253		-$469,212,203	
Refunds of contributions	-13,021,051		-10,679,421	
Net benefit payments		-$506,604,304		-$479,891,624
Change in reserve for future benefits		$580,358,005		$188,237,054

Note: Results may be slightly off due to rounding.

EXHIBIT E

Table of Financial Information for Retirement, Health, Family Death, and Larger Annuity Benefits

	Year Ended June 30, 2006		Year Ended June 30, 2005	
Cash equivalents		$460,158,677		$486,208,221
Accounts receivable:				
Investment income	$33,631,936		$39,635,686	
Proceeds from sales	40,956,282		136,080,695	
Other	7,878,261		7,530,888	
Total accounts receivable		82,466,479		183,247,269
Investments:				
Fixed Income	$1,314,615,877		$1,502,619,496	
Equities	5,908,461,506		5,294,730,071	
Real Estate and Mortgages	1,105,533,424		611,251,941	
Other	2,392,347,584		1,848,074,719	
Total investments at market value		10,720,958,391		9,256,676,227
Total assets		$11,263,583,547		$9,926,131,717
Less accounts payable:				
Accounts payable and accrued expenses	-$24,881,849		-$29,844,814	
Purchases of investments	-306,476,731		-245,013,574	
Security lending collateral	-1,646,746,895		-1,319,516,832	
Total accounts payable		-$1,978,105,475		-$1,594,375,220
Net assets at market value		$9,285,478,072		$8,331,756,497
Net assets at actuarial value		$8,686,104,097		$8,105,746,091
Net assets at valuation value (retirement benefits)		$7,674,999,374		$7,193,142,227

EXHIBIT F

Development of the Fund Through June 30, 2006 for Retirement, Health, Family Death and Larger Annuity Benefits

Year Ended June 30	Employer Contributions	Employee Contributions	Net Investment Return*	Benefit Payments	Actuarial Value of Assets at End of Year
2001	$87,896,674	$69,460,111	$662,575,372	$355,862,157	$7,853,297,000
2002	79,467,671	75,654,360	314,207,259	387,864,290	7,934,762,000
2003	97,531,127	83,067,509	176,606,357	423,659,098	7,868,307,895
2004	140,201,349	93,417,803	267,449,522	451,867,532	7,917,509,037
2005	229,136,519	94,268,171	344,723,988	479,891,624	8,105,746,091
2006	320,399,222	98,262,366	668,300,721	506,604,304	8,686,104,097

** Net of investment fees and administrative expenses*

EXHIBIT G

Development of Unfunded Actuarial Accrued Liability for Year Ended June 30, 2006

1. Unfunded actuarial accrued liability at beginning of year	$2,128,382,740
2. Normal cost at beginning of year	249,462,452
3. Total contributions	-342,130,590
4. Interest	167,432,767
5. Expected unfunded actuarial accrued liability	$2,203,147,369
6. Changes due to experience gain*	-7,484,356
7. Unfunded actuarial accrued liability at end of year	$2,195,663,013

* *Excludes loss from contributions less than anticipated due to one-year lag of new rates. That loss is already included in the development of item 5.*

EXHIBIT H

Table of Amortization Bases

Type*	Date Established	Initial Years	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Contribution phase-in loss	06/30/2004	15	$29,485,103	$2,732,455	13	$28,607,190
Contribution phase-in loss	06/30/2005	15	12,401,167	1,105,044	14	12,245,715
Combined bases	06/30/2005	30	1,715,553,201	97,510,013	29	1,751,537,058
Change in assumptions	06/30/2005	30	371,312,873	21,104,984	29	379,101,189
Experience loss	06/30/2006	15	24,171,861	2,071,065	15	24,171,861
Subtotal before GASB amount				$124,523,561		$2,195,663,013
40-year minimum GASB 25/27	06/30/2004	15	29,189,615	2,705,071	13	28,320,500
40-year minimum GASB 25/27	06/30/2005	15	12,708,684	1,132,447	14	12,549,376
Total				$128,361,079		$2,236,502,889

** Level percentage of payroll*

EXHIBIT I

Section 415 Limitations

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

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

In particular, Section 415(b) of the IRC limits the maximum annual benefit payable at the Normal Retirement Age to a dollar limit of $160,000 indexed for inflation. That limit is $175,000 for 2006. Normal Retirement Age for these purposes is age 62. These are the limits in simplified terms. They must be adjusted based on each participant's circumstances, for such things as age at retirement, form of benefits chosen and after tax contributions.

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

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

EXHIBIT J
Definitions of Pension Terms

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

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

(a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;

(b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates — the rate or probability of retirement at a given age; and

(d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal Cost: The amount of contributions required to fund the cost of benefits allocated to the current year of service.

Actuarial Accrued Liability For Actives: The equivalent of the accumulated normal costs allocated to the years before the valuation date.

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

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

Amortization of the Unfunded Actuarial Accrued Liability: Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

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

EXHIBIT I

Summary of Actuarial Valuation Results

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

1.	Retired members as of the valuation date (including 3,451 beneficiaries in pay status)		14,570
2.	Members inactive during year ended June 30, 2006 with vested rights (including 1,806 members with under 5 years of service eligible for a refund of contributions)		2,903
3.	Members active during the year ended June 30, 2006		28,839
	Fully vested	19,510	
	Not vested	9,329	

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

	Assets		
1.	Valuation value of assets ($9,285,478,072 at market value* and $8,686,104,097 at actuarial value* as reported by LACERS)		$7,674,999,374
2.	Present value of future normal costs		
	Employee	$ 988,361,288	
	Employer	2,090,320,887	
	Total		$3,078,682,175
3.	Unfunded actuarial accrued liability		2,195,663,013
4.	Present value of current and future assets		$12,949,344,562
	Liabilities		
5.	Present value of future benefits		
	Retired members and beneficiaries	$5,078,341,207	
	Inactive members with vested rights	124,321,108	
	Active members	7,746,682,247	
	Total		$12,949,344,562

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

EXHIBIT I (continued)

Summary of Actuarial Valuation Results

The determination of the recommended contribution is as follows:

1.	Total normal cost	$270,276,764
2.	Expected employee contributions	-112,008,469
3.	Employer normal cost: (1) + (2)	$158,268,295
4.	Payment on projected unfunded actuarial accrued liability	128,361,079
5.	Total recommended contribution: (3) + (4), not adjusted for timing	286,629,374
6.	Total recommended contribution: (3) + (4), adjusted for timing	$297,800,993
7.	Projected payroll	$1,733,339,536
8.	Total recommended contribution as a percentage of projected payroll: (5) ÷ (7)	16.54%
9.	Total recommended contribution as a percentage of projected payroll, adjusted for timing: (6) ÷ (7)	17.18%

EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

Plan Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2001	$ 59,153,313	59,153,313	100.00%
2002	32,296,002	32,296,002	100.00%
2003	51,604,669	51,604,669	100.00%
2004	159,083,407	100,408,689	63.12%
2005	183,241,489	158,131,638	86.30%
2006	227,740,600	227,740,600	100.00%

EXHIBIT III

Supplementary Information Required by the GASB – Schedule of Funding Progress

Actuarial Valuation Date	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
06/30/2001	$6,988,782,000	$6,468,066,000	-$520,716,000	108.05%	$1,293,350,000	-40.26%
06/30/2002	7,060,188,000	7,252,118,000	191,930,000	97.35%	1,334,335,000	14.38%
06/30/2003	6,999,647,000	7,659,846,000	660,199,000	91.38%	1,405,058,000	46.99%
06/30/2004	7,042,107,591	8,533,863,528	1,491,755,937	82.52%	1,575,284,734	94.70%
06/30/2005	7,193,142,227	9,321,524,967	2,128,382,740	77.17%	1,589,305,846	133.92%
06/30/2006	7,674,999,374	9,870,662,387	2,195,663,013	77.76%	1,733,339,536	126.67%

EXHIBIT IV

Supplementary Information Required by the GASB

Valuation date	June 30, 2006
Actuarial cost method	Projected Unit Credit Cost Method – assuming a closed group.
Amortization method	Level percent of payroll – assuming a 4% increase in total covered payroll.
Remaining amortization period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. The existing layers on June 30, 2005, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years.
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five - year period.
Actuarial assumptions:	
Investment rate of return	8.00%
Inflation rate	3.75%
Real across-the-board salary increase	0.25%
Projected salary increases	Ranges from 10.0% to 6.75% for members with less than 5 years of service. Ranges from 6.75% to 4.75% for members with 5 or more years of service.
Cost of living adjustments	3.00%
Plan membership:	
Retired members and beneficiaries receiving benefits	14,570
Terminated members entitled to, but not yet receiving benefits	2,903
Active members	28,839
Total	46,312

EXHIBIT V

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

Plan Year Ended June 30	Employer Annual Required Contribution (a)	Employer Amount Contributed (b)	Interest on NPO (h) * .08 (c)	ARC Adjustment with Interest (h) / (e) * 1.08 (d)	Amortization Factor (e)	Pension Cost (a) + (c) – (d) (f)	Change in NPO (f) – (b) (g)	NPO Balance NPO + (g) (h)
2003	$ 51,604,669	$ 51,604,669	$ 0	$ 0	N/A	$ 51,604,669	$ 0	$ 0
2004	159,083,407	100,408,689	0	0	N/A	159,083,407	58,674,718	58,674,718
2005	183,241,489	158,131,638	0	0	N/A	183,241,489	25,109,851	83,784,569
2006	227,740,600	227,740,600	4,693,977	5,429,482	11.6712*	227,005,095	(735,505)	83,049,064

* *Due to the one-year lag in implementing new contribution rates, only the portion of the NPO established in the June 30, 2004 valuation is being amortized during 2005/2006.*

EXHIBIT VI

Actuarial Assumptions and Actuarial Cost Method

The following assumptions were adopted by the Board on October 11, 2005, based on an Actuarial Experience Study as of June 30, 2005.

Mortality Rates:

After Service Retirement:	1994 Group Annuity Mortality Table.
After Disability Retirement	1994 Group Annuity Mortality Table, set forward 8 years.

Termination Rates before Retirement:

Pre-Retirement Mortality:	1994 Group Annuity Mortality Table.

	Rate (%)	
Age	**Disability**	**Withdrawal***
25	0.01	4.45
30	0.04	3.80
35	0.11	3.05
40	0.18	2.45
45	0.21	2.10
50	0.24	1.70
55	0.23	1.35
60	0.00	0.00

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

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

Service	Rate (%) Withdrawal (Based on Service)
0	8.75
1	7.00
2	5.75
3	5.25
4	4.75

Retirement Rates:

Age	Retirement Probability
50	10%
51	5
52	5
53	5
54	5
55	10
56	11
57	12
58	13
59	14
60	15
61	16
62	17
63	18
64	19
65	20
66	20
67	20
68	20
69	20
70	100

Retirement Age and Benefit for Inactive Vested Participants:	Assume pension benefit will be paid at the later of age 58 or the current attained age.
Exclusion of Inactive Vesteds:	All inactive participants are included in the valuation.
Definition of Active Members:	First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.
Unknown Data for Members:	Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.
Percent Married/Domestic Partner:	76% of male participants; 50% of female participants.
Age of Spouse:	Female spouses 4 years younger than their spouses.
Future Benefit Accruals:	1.0 year of service per year.
Other Reciprocal Service:	10% of future vested members will work at a reciprocal system.
Consumer Price Index:	Increase of 3.75% per year; benefit increases due to CPI subject to 3.0% maximum.
Employee Contribution and Matching Account Crediting Rate:	6.50%
Net Investment Return:	8.00%

Salary Increases:

According to the following schedule:

For members with under 5 years of service,

Service	Percentage Increase*
0	6.00%
1	5.00%
2	4.50%
3	3.50%
4	2.75%

For members with over 5 years of service,

Age	Percentage Increase*
20 – 24	2.75%
25 – 29	2.00%
30 – 34	1.50%
35 – 39	1.25%
40 – 49	1.00%
50 – 69	0.75%

** Before including a 3.75% inflation increase and a 0.25% across the board increase.*

Actuarial Value of Assets:

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

Actuarial Cost Method:	Projected Unit Credit Cost Method.
Funding Policy:	The Los Angeles City Employees' Retirement System makes contributions equal to the Normal Cost adjusted by amount to amortize any Surplus or Unfunded Actuarial Accrued Liability. Both the Normal Cost and the Actuarial Accrued Liability are determined under the Projected Unit Credit cost method. All the bases on or before June 30, 2005, except those arising from the phrase-in of contribution rates for the 2002 experience study, were combined and amortized over 30 years effective June 30, 2005. Any subsequent change in Surplus or Unfunded Actuarial Accrued Liability due to actuarial gains or losses are amortized over separate 15 year periods. Any change in Surplus or Unfunded Actuarial Accrued Liability from plan amendments or plan assumption changes are amortized over separate 30 year periods. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.
Changes in Assumptions:	There have been no changes in actuarial assumptions since the last valuation.

EXHIBIT VII
Summary of Plan Provisions

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

Plan Year:	July 1 through June 30
Census Date:	June 30
Normal Retirement Benefit:	
Age & Service Requirement (§ 4.1020)	Age 70; Age 60 with 10 years of continuous service; or Age 55 with at least 30 years of service.
Amount (§ 4.1056.2)	2.16% per year of service (not greater than 100%) of the Final Average Monthly Compensation.
Early Retirement Benefit:	
Age & Service Requirement (§ 4.1020)	Age 55 with 10 years of continuous service; or Any age with 30 year of service.
Amount (§ 4.1056.2)	2.16% per year of service (not greater than 100%) of the Final Average Monthly Compensation, reduced for retirement ages below age 60 using the following sample Early Retirement benefit adjustment factors:

Age	Factor	Age	Factor
45	0.6250	50	0.7750
55	0.9250	60	1.0000

Final Average Monthly Compensation: *(§ 4.1010)*	Equivalent of monthly average salary of highest continuous 12 months (one year).
Cost of Living benefit *(§ 4.1040)*	Based on changes to Los Angeles area consumer price index to a maximum of 3% per year, excess banked.
Death after retirement *(§ 4.1044)*	(I) 50% of retiree's unmodifed allowance continued to an eligible spouse or a domestic partner; or a modified continuance to an eligible spouse or a domestic partner at the time of member's death (or a designated beneficiary selected by member at the time of retirement); (ii) $2,500 lump sum death benefit paid to a designated beneficiary; and (iii) Any unused contributions if the member has elected the cash refund annuity option.

Death before retirement

(§ 4.1062 and § 4.1054)

Option #1:

(i) Eligibility – None.

(ii) Benefit – Refund of contributions plus a limited pension benefit equal to 50% of monthly salary paid, according to the following schedule:

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

Option #2:

(i) Eligibility – Duty-related death or after 5 years of service.

(ii) Benefit – Continuance of service or disability benefit payable under 100% joint and survivor option to an eligible spouse or qualified domestic partner.

Member Normal Contributions:
(§ 4.1031)

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

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

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

Disability:
(§ 4.1055)

Service Requirement 5 years of continuous service

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

Deferred Withdrawal Retirement Benefit (Vested):
(§ 4.1020 and § 4.1059.1)

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

Withdrawal of Contributions Benefit (Ordinary Withdrawal):

Refund of employee contributions with interest.

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

4001170v1/05806.002

Los Angeles City Employees' Retirement System

Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2006
In accordance with GASB Statements No. 43 and No. 45

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THE SEGAL COMPANY
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November 8, 2006

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

Dear Board Members:

We are pleased to submit this report on our actuarial valuation of postemployment welfare benefits as of June 30, 2006 under GASB Statements Number 43 and 45. It establishes the liabilities of the other postemployment benefits in accordance with GASB for the current year. It also summarizes the actuarial data.

This report is based on information received from the Retirement System. The actuarial projections were based on the assumptions and methods described in Exhibit V and on the plan of benefits as summarized in Exhibit VI.

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

Sincerely,

THE SEGAL COMPANY

By:

Paul Angelo, FSA, MAAA, EA	*Andy Yeung, ASA, MAAA, EA*
Senior Vice President and Actuary	*Associate Actuary*

DTB/dvb

PURPOSE

This report presents the results of our actuarial valuation of the Los Angeles City Employees' Retirement System (LACERS) post retirement medical and dental benefits as of June 30, 2006. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

Actuarial computations under GASB are for purposes of fulfilling certain welfare fund accounting requirements. The calculations in this report have been made on a basis consistent with our understanding of GASB. Determinations for purposes other than meeting the financial accounting requirements of GASB may differ significantly from the results reported here.

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

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

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

ACCOUNTING REQUIREMENTS

The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Under this statement, all plans of state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements.

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

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

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

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HIGHLIGHTS OF THE VALUATION

- The recommended contribution has decreased from $111.3 million (7.00% of payroll) to $108.3 million (6.25% of payroll), assuming contributions made by the City at the beginning of the plan year.
- The employer contribution rates provided in this report have been developed, assuming that they will be made by the City at either (1) the beginning of the fiscal year (i.e. the City will prepay its contributions or (2) throughout the year (i.e. the City will pay contributions at the end of every pay period).
- LACERS has elected to comply with GASB 43 effective with the June 30, 2005 valuation. The City is required to include the GASB 45 results in its financial statements effective with fiscal year 2007/2008.
- The assumption for the discount rate is 8.00%, and is based on the assumption that 100% of benefits will be paid from the trust.
- The funding method used to develop the actuarial required contribution (ARC) is the Projected Unit Credit Method, a method that will produce an increasing normal cost as a percent of payroll.
- Contributions will generally increase with payroll growth. Other factors such as gains or losses, or changes in trend assumptions will also alter the contribution rate.
- The Board has adopted a policy of amortizing the entire Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2005 over a fixed period of 30 years beginning July 1, 2005.
- In this valuation, we have not established a separate amortization base for the actuarial gains arising during the 2005/2006 plan year. This is because amortizing those gains over a 15-year period while continuing to amortize the plan's remaining UAAL over the 30-year period established at the June 30, 2005 valuation (with 29 years remaining as of June 30, 2006) would not satisfy the GASB requirements for amortizing the UAAL. Satisfying those GASB requirements is part of the Board's current funding policy.

  In order to meet the GASB amortization requirements, we propose that the actuarial gains occurring during 2005/2006 be combined with the plan's remaining UAAL from the June 30, 2005 valuation and the entire UAAL be amortized over a period of 29 years as of June 30, 2006. The contribution rates in this report have been developed using this 29-year amortization schedule.

The key results and significant assumptions for the current and prior years are shown.

SUMMARY OF VALUATION RESULTS

	June 30	
	2006	**2005**
Actuarial Accrued Liability by Participant Category		
Current retirees, beneficiaries and dependents	$808,647,216	$803,472,421
Inactive vested members	24,363,101	22,273,527
Current active members	897,788,633	893,152,844
Total	$1,730,798,950	$1,718,898,792
Actuarial Value of Assets	$990,269,715	$893,378,123
Unfunded Actuarial Accrued Liability	740,529,235	825,520,669
Funded Ratio	57.2%	52.0%
Market Value of Assets	$1,058,602,064	$918,287,952
Annual Required Contribution		
Normal cost (beginning of year)	$67,095,811	$66,146,106
Amortization of the unfunded actuarial accrued liability	41,226,085	45,116,941
Adjustment for timing	4,221,936	4,336,570
Total annual required contribution, including adjustment for timing	$112,543,832	$115,599,617
Covered payroll	1,733,339,536	1,589,305,346
As a percentage of pay		
Beginning of year	6.25%	7.00%
At the end of each pay period	6.49%	7.27%

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY FOR THE YEAR ENDED JUNE 30, 2006

1.	Unfunded actuarial accrued liability at beginning of year	$825,520,669
2.	Normal cost at beginning of year	66,146,106
3.	Total contributions at beginning of year	76,116,104
4.	Interest	65,244,054
5.	Expected unfunded actuarial accrued liability	$880,794,725
6.	Decrease due to experience (gain)*	(140,265,490)
7.	Unfunded actuarial accrued liability at end of year	$740,529,235

**Please refer to Section 4, Exhibit III for a detailed explanation of the experience (gain).*

PROJECTED CASH FLOW

Year Ending June 30	Projected Number of Retirees *			Projected Benefit Payments		
	Current	Future	Total	Current	Future	Total
2007	15,733	2,239	17,972	$65,704,372	$5,218,214	$70,922,586
2008	15,270	3,710	18,980	69,316,825	10,350,604	79,667,429
2009	14,784	5,248	20,032	72,334,839	16,555,748	88,890,587
2010	14,287	6,840	21,127	74,681,697	23,830,490	98,512,187
2011	13,772	8,514	22,286	76,278,954	32,199,378	108,478,332
2012	13,251	10,282	23,533	76,817,449	41,626,499	118,443,948
2013	12,711	12,180	24,891	76,667,338	52,011,725	128,679,063
2014	12,188	14,073	26,261	75,470,487	62,888,148	138,358,635
2015	11,656	15,969	27,625	73,988,905	74,277,184	148,266,089
2016	11,116	17,891	29,007	72,217,079	86,691,988	158,909,067

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

ACTUARIAL CERTIFICATION

November 8, 2006

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of the Los Angeles City Employees' Retirement System other postemployment benefit programs as of June 30, 2006, in accordance with generally accepted actuarial principles and practices. Actuarial valuations are performed annually for this retirement program, with the last valuation completed on June 30, 2005. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB for the determination of the liability for postemployment benefits other than pensions.

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

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

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

1) Schedule of funding progress
2) Schedule of employer contributions
3) Required supplementary information

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with the plan's funding and GASB requirements with respect to the benefit obligations addressed.

Dave Bergerson, ASA, MAAA, EA

Patrick Twomey, ASA, MAAA, EA
Assistant Actuary

CHART 1

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

	Year Ended June 30, 2006		Year Ended June 30, 2005	
Cash equivalents		$460,158,677		$486,208,221
Accounts receivable:				
Investment income	$ 33,631,936		$ 39,635,686	
Proceeds from sales	40,956,282		136,080,695	
Other	7,878,261		7,530,888	
Total accounts receivable		82,466,479		183,247,269
Investments:				
Fixed Income	$1,314,615,877		$1,502,619,496	
Equities	5,908,461,506		5,294,730,071	
Real Estate and Mortgages	1,105,533,424		611,251,941	
Other	2,392,347,584		1,848,074,719	
Total investments at market value		10,720,958,391		9,256,676,227
Total assets		$11,263,583,547		$9,926,131,717
Less accounts payable:				
Accounts payable and accrued expenses	-$24,881,849		-$29,844,814	
Purchases of investments	-306,476,731		-245,013,574	
Security lending collateral	-1,646,746,895		-1,319,516,832	
Total accounts payable		-$1,978,105,475		-$1,594,375,220
Net assets at market value		$9,285,478,072		$8,331,756,497
Net assets at actuarial value		$8,686,104,097		$8,105,746,091
Net assets at valuation value (retiree health)		$990,269,715		$893,378,123

Note: Results may be slightly off due to rounding.

CHART 2

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

	Year Ended June 30, 2006		Year Ended June 30, 2005	
Contribution income:				
Employer contributions	$320,399,222		$229,136,519	
Employee contributions	98,262,366		94,268,171	
Contribution income		$418,661,588		$323,404,690
Investment income:				
Interest, dividends and other income	$268,461,511		$263,747,032	
Recognition of capital appreciation	430,034,467		109,661,360	
Less investment and administrative fees	-30,195,257		-28,684,404	
Net investment income		668,300,721		344,723,988
Total income available for benefits		$1,086,962,309		$668,128,678
Less benefit payments:				
Payment of benefits	-$493,583,253		-$469,212,203	
Refunds of contributions	-13,021,051		-10,679,421	
Net benefit payments		-$506,604,304		-$479,891,624
Change in reserve for future benefits		$580,358,005		$188,237,054

CHART 3

Determination of Actuarial Value of Assets as of June 30, 2006

		Original Amount	Percent not recognized	Amount not recognized	
1.	Market value of assets, June 30, 2006				$9,285,478,072
2.	Calculation of unrecognized return*				
	(a) Year ended June 30, 2006	$366,478,652	80%	$ 293,182,921	
	(b) Year ended June 30, 2005	132,848,231	60%	79,708,939	
	(c) Year ended June 30, 2004	710,820,763	40%	284,328,305	
	(d) Year ended June 30, 2003	-289,230,950	20%	-57,846,190	
	(e) Total unrecognized return				$ 599,373,975
3.	Preliminary actuarial value (1) – (2e)				$8,686,104,097
4.	Adjustment to be within 20% corridor				0
5.	Final actuarial value of assets (3) + (4)				$8,686,104,097
6.	Actuarial value as a percentage of market value				93.5%
7.	Market value of retiree health assets				$1,058,602,065
8.	Valuation value of retiree health assets (5) ÷ (1) X 7				$ 990,269,715

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

CHART 4

Determination of Annual Required Contribution

Cost Element	2006 Amount	2006 Percent of Compensation	2005 Amount	2005 Percent of Compensation
1. Normal cost (beginning of year)	$67,095,811	3.87%	$66,146,106	4.16%
2. Amortization of the unfunded actuarial accrued liability	41,226,085	2.38%	45,116,941	2.84%
3. Total Annual Required Contribution (beginning of year)	$108,321,896	6.25%	$111,263,047	7.00%
4. Adjustment for timing*	4,221,936	0.24%	4,336,570	0.27%
5. Total Annual Required Contribution (end of pay period)	$112,543,832	6.49%	$115,599,617	7.27%

Determined as of June 30.

** Contributions are assumed to be paid at the end of every pay period.*

CHART 5

Required Supplementary Information – Schedule of Employer Contributions

Plan Year Beginning	Annual Required Contributions	Actual Contributions	Percentage Contributed
July 1, 2005	$76,116,104	$76,116,104	100.0%
July 1, 2006*	$111,263,047	N/A	N/A

** Due to the 12 month timing adjustment, actual contributions will not be available until the end of the Plan Year.*

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

CHART 6

Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2001	$844,984,000	$807,905,000	-$37,079,000	104.59%	$1,293,350,000	-2.87%
June 30, 2002	853,916,000	931,964,000	78,048,000	91.63	1,334,335,000	5.85
June 30, 2003	848,983,000	1,205,811,000	356,828,000	70.41	1,405,058,000	25.40
June 30, 2004	858,997,310	1,419,812,826	560,815,516	60.50	1,575,284,734	35.60
June 30, 2005	893,378,123	1,718,898,792	825,520,669	51.97	1,589,305,346	51.94
June 30, 2006	990,269,715	1,730,798,950	740,529,235	57.21	1,733,339,536	42.72

Note: Funded ratios for years prior to June 30, 2005 were not calculated using the parameters required for GASB 43 because the plan's funding policy excluded active employees with less than 10 years of service.

CHART 7

Required Supplementary Information – Net OPEB Obligation (NOO)

Plan Year Beginning	Annual Required Contributions (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of End of Year (g)
July 1, 2005*	$76,116,104	$0	$0	$76,116,104	$76,116,104	$0	$0
July 1, 2006**	$111,263,047	$0	$0	$111,263,047	N/A	N/A	N/A
July 1, 2007**	$108,321,896	N/A	N/A	N/A	N/A	N/A	N/A

* *Determined prior to compliance with GASB 43/45.*
** *Due to the lag in implementation of the contribution rates, actual contributions will not be available until the end of the Plan Year.*

CHART 8

Required Supplementary Information

Valuation date	June 30, 2006
Actuarial cost method	Projected Unit Credit – assuming a closed group
Amortization method	30 years, assuming a 4% increase in total covered payroll
Remaining amortization period	29 years remaining as of June 30, 2006
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period.
Actuarial assumptions:	
Discount rate	8.00%
Inflation rate	3.75%
Real across-the-Board salary increase	0.25%
Projected salary increases	N/A
Heath care cost trend rate:	
• Medical	12%, graded down over 7 years to ultimate rate of 5.00%
• Dental	5% for all years
• Medicare Part B premiums	5.6% in 2006/2007 based on actual Medicare Part B premium increase, then 5% for all years
Cost of living adjustments on health plan maximum monthly subsidy amount	Same as health care cost trends

CHART 8

Required Supplementary Information (continued)

Plan membership:	**June 30, 2006**	**June 30, 2005**
Current retirees and surviving spouses[1]	14,570	14,322
Inactive vested participants entitled to a future health subsidy	617	561
Current active members	28,839	27,333
Total	44,026	42,216

[1] *Includes all retirees and surviving spouses whether they are receiving a subsidy.*

CHART 9

Table of Amortization Bases

Type	Date Established	Initial Year	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Combined Bases	06/30/2006	29	$740,529,235**	$41,226,085	29	$740,529,235
Total			$740,529,235	$41,226,085		$740,529,235

* *Level percentage of pay.*

** *This is the balance of prior year's amortization layers net of current year's actuarial gain. See page 3 for detail.*

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

EXHIBIT I

Summary of Participant Data

	June 30, 2006	June 30, 2005
Retirees		
Non-disabled	10,234	10,147
Disabled	885	862
Total	11,119*	11,009
Average age	70.0	70.5
Surviving Spouses		
Number	3,451*	3,313
Average age	74.8	75.2
Active Participants		
Number	28,839	27,333
Average age	45.4	45.6
Average years of service	11.7	12.0
Inactive Vested Participants (excluding those with less than 10 years of service)		
Number	617	561
Average age	48.7	48.4

*Total participants shown. Of the 11,119 retirees, 9,814 are receiving a subsidy and of the 3,451 surviving spouses, 1,607 are receiving a subsidy.

EXHIBIT II

Actuarial Balance Sheet for Year Ended June 30, 2006

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

	Assets	
1.	Valuation value of assets ($9,285,478,072 at market value* and $8,686,104,097 at actuarial value* as reported by LACERS)	$990,269,715
2.	Present value of future normal costs	738,342,796
3.	Unfunded actuarial accrued liability	740,529,235
4.	Present value of current and future assets	$2,469,141,746
	Liabilities	
5.	Present value of future benefits	
	Retired members and beneficiaries	$808,647,216
	Inactive members with vested rights	24,363,101
	Active members	1,636,131,429
	Total	$2,469,141,746

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

EXHIBIT III

Actuarial Experience for Year Ended June 30, 2006

1.	Net (gain) from investments	$ (8,061,340)
2.	Net loss from demographic changes*	31,472,170
3.	Net (gain) from premium and subsidy increases less than assumed	(163,676,320)
4.	Net experience (gain): (1) + (2)	$ (140,265,490)

**The net loss is attributed to actual liability experience from July 1, 2005 through June 30, 2006, compared to the actuarial assumptions as of June 30, 2005.*

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

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

- Actual rate of return from investment,
- Demographic experience (e.g., turnover, retirement, mortality, disability, etc.), relative to the prior assumptions,

The net gain from premium and subsidy experience for the year ended June 30, 2006 amounted to ($164 million) which is 9% of the actuarial accrued liability. This gain was primarily because the premium and subsidy increases were less than expected.

EXHIBIT IV

Reconciliation of Recommended Contribution

Recommended Contributions as of June 30, 2005 (Beginning of Year)	$ 111,263,047
Effect of investment gains	(448,784)
Effect of other gains on accrued liability	(7,529,452)
Effect of change in composition of active population	5,037,085
Total change	$ (2,941,151)
Recommended Contributions as of June 30, 2006 (Beginning of Year)	$ 108,321,896

EXHIBIT V

Actuarial Assumptions and Actuarial Cost Method

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

Actuarial Cost Method: Projected unit credit.

The following assumptions were adopted by the Board on October 11, 2005, based on an Actuarial Experience Study as of June 30, 2005.

Termination Rates before Retirement:

	Mortality			
Age	**Male**	**Female**	**Disability**	**Withdrawal**
25	0.07%	0.03%	0.01%	4.45%
30	0.08	0.04	0.04	3.80
35	0.09	0.05	0.11	3.05
40	0.11	0.07	0.18	2.45
45	0.16	0.10	0.21	2.10
50	0.26	0.14	0.24	1.70
55	0.44	0.23	0.23	1.35

All deaths are assumed to be non-duty related.

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

Service	**Rate**
0	8.75%
1	7.00
2	5.75
3	5.25
4	4.75

Measurement Date:	June 30, 2006
Discount Rate:	8.00%
Postretirement Mortality Rates:	
Healthy	1994 Group Annuity Mortality Table
Disabled	1994 Group Annuity Mortality Table, set forward 8 years

Active Retirement Rates:

Age	Rate (%)
50	10%
51	5
52	5
53	5
54	5
55	10
56	11
57	12
58	13
59	14
60	15
61	16
62	17
63	18
64	19
65	20
66	20
67	20
68	20
69	20
70	100

Per Capita Cost Development:

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

Plan	Observed Participation*	Single Maximum Subsidy	Married Maximum Subsidy	Surviving Spouse Maximum Subsidy	Observed Utilization** All Retirees	Observed Utilization** ≥10 Yrs of Svc
Pre-65 & Over 65 With Medicare Part B only						
PPO	0.234	$650.43	$928.00	$439.45	0.81	0.87
Kaiser	0.586	439.45	877.30	439.45	0.81	0.87
Blue Cross HMO	0.180	443.90	882.63	439.45	0.81	0.87
Dental	1.000	34.84	34.84	0.00	0.76	0.84
Over 65 With Medicare Parts A and B						
PPO	0.328	$320.01	$597.58	$320.01	0.81	0.87
Kaiser	0.568	161.01	320.42	161.01	0.81	0.87
Blue Cross HMO	0.104	202.14	399.11	202.14	0.81	0.87
Dental	1.000	34.84	34.84	0.00	0.83	0.87
Medicare Part B	1.000	88.50	88.50	0.00	0.74	0.78

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

** *Utilization ratio is the proportion of all retirees that elect to receive a subsidy.*

Marital Status

65% of male and 40% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.

Spouse Age Difference

Males are assumed to be 4 years older than their female spouses.

Surviving Spouse Coverage

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

Participation

90% of members retiring directly from City employment are assumed to receive a subsidy for a City approved health carrier.

90% of retirees are expected to elect Medicare Parts A and B.

90% of retirees are assumed to elect dental coverage.

45% of inactive members are assumed to receive a subsidy for a City approved health carrier.

85% of retirees becoming eligible for Medicare are assumed to be covered by both Parts A and B.

Health Care Cost Subsidy Trend Rates:

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. Trend rates are used to increase the stated subsidies into the future. For example, the proposed medical subsidy for a Kaiser male retiree under age 65 in the 2007/2008 plan year would be determined with the following formula: [$439.45 x (1 + 12%)] = $492.18.

	Rate (%)			
Premium Year Ending June 30	**PPO & HMO under 65**	**PPO & HMO over 65**	**Dental**	**Medicare Part B**
2008	12.00%	12.00%	5.00%	5.60%
2009	11.00	11.00	5.00	5.00
2010	10.00	10.00	5.00	5.00
2011	9.00	9.00	5.00	5.00
2012	8.00	8.00	5.00	5.00
2013	7.00	7.00	5.00	5.00
2014	6.00	6.00	5.00	5.00
2015 & later	5.00	5.00	5.00	5.00

Plan Design:	Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit VI.
Administrative Expenses:	No administrative expenses were valued separately from the claim costs.
Assumption Changes Since Prior Evaluation:	The trend rates on future health care costs were updated. The maximum subsidy and utilization table was updated based on updated provisions and data.

EXHIBIT VI

Summary of Plan

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

Eligibility:

Retirees
§4.1103.2

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

Health Subsidy for Members:

Under Age 65 or Over Age 65 And Only Enrolled in Medicare Part B:
§4.1103.2

The System will pay 4% of the maximum health subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2006, the maximum health subsidy was $928.00 per month*.

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

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

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

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

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

Dental Subsidy for Members:
§4.1105.2

The System will pay 4% of the maximum dental subsidy (limited to actual premium) for each year of Service Credit, up to 100% of the maximum health subsidy. As of July 1, 2006, the maximum dental subsidy was $34.84* per month.

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

Medicare Part B Subsidy for Members:
§4.1104

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

Surviving Spouse Subsidy:
§4.1107 & §4.1107.1

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

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

The maximum health subsidy available for survivors is the Kaiser single-party premium ($439.45* per month as of July 1, 2006) or the single-party premium of the plan in which the survivor is enrolled, whichever is less.

Over Age 65 and Enrolled in Both Medicare Parts A and B: For survivors, a maximum health subsidy limited to the single-party monthly premium of the plan in which the survivor is enrolled, is provided subject to the following vesting schedule:

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

Note: For purposes of our valuation, we did not apply the vesting percentage to premiums for current retirees eligible for Medicare. This difference is immaterial.

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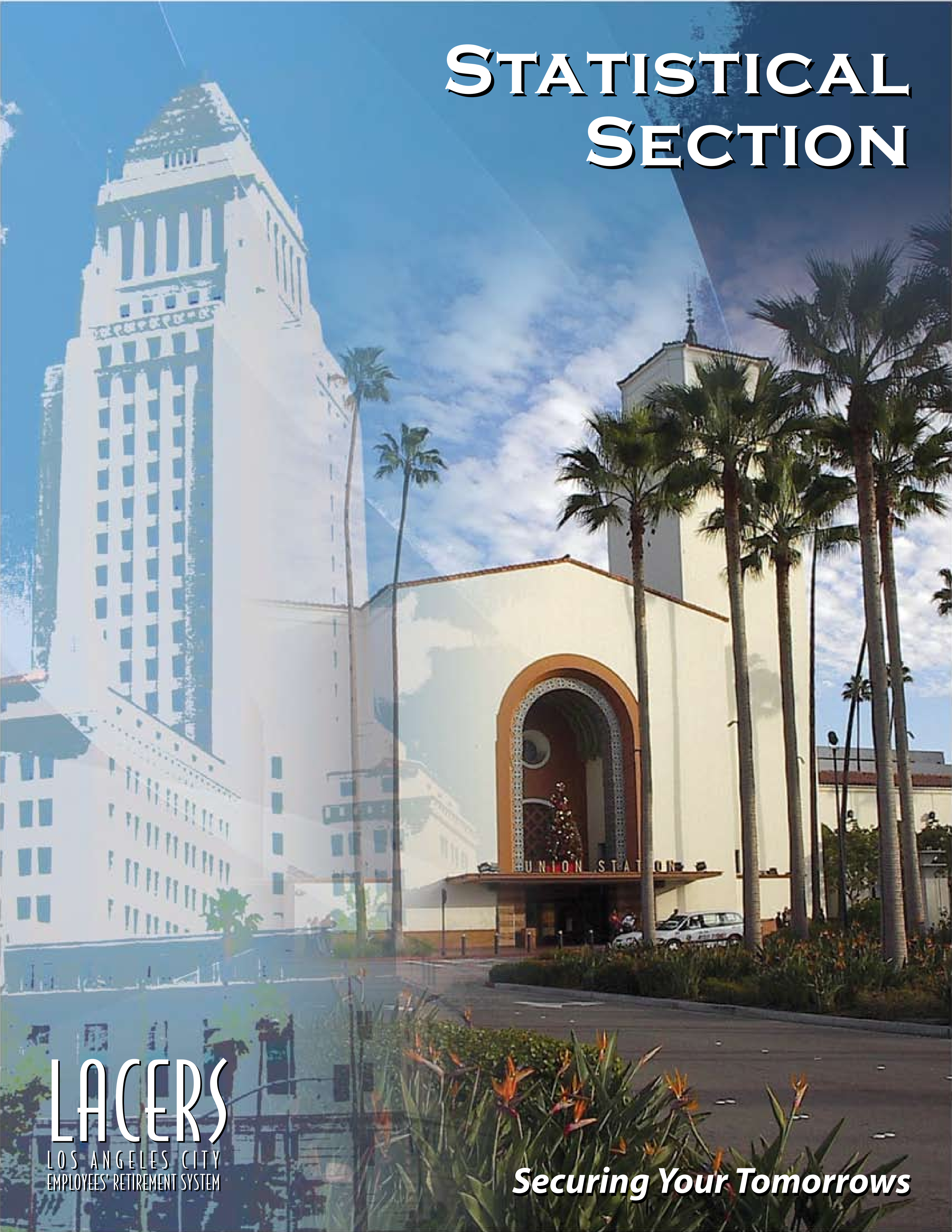
Statistical Section



LACERS
LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

Securing Your Tomorrows

SCHEDULE OF ADDITIONS BY SOURCE (Dollars in Millions)

Fiscal Year	Member Contribution	Employer Contribution Dollars	Employer Contribution % of Annual Covered Payroll	Net Investment Income (Loss) **	Total
1997	$ 53.27	$ 113.26	9.6%	$ 1,733.00	$ 1,899.53
1998	58.31	117.21	9.7	639.40	814.92
1999	62.56	109.36	8.4	812.92	984.84
2000	64.58	106.61	7.7	771.17	942.36
2001	69.46	87.90	5.6	(349.32)	(191.96)
2002	75.66	79.47	4.7	(370.50)	(215.37)
2003	83.07	97.53	5.8	247.33	427.92
2004	93.42	140.20	8.3*	1,252.52	1,486.14
2005	94.27	229.14	14.3*	764.80	1,088.21
2006	98.26	320.40	19.0*	1,053.87	1,472.53

* Contributions received at the beginning of the fiscal year with discounted rate

* * Includes change in unrealized gain and loss of investment

SCHEDULE OF DEDUCTIONS BY TYPE (Dollars in Millions)

Fiscal Year	Benefit Payments	Refunds	Administrative Expense	Misc. Expense	Total
1997	$ 247.98	$ 9.45	$ 4.86	$ -	$ 262.29
1998	270.76	7.50	5.76	-	284.02
1999	290.62	9.63	6.23	-	306.48
2000	319.38	12.99	7.55	-	339.92
2001	343.11	12.92	8.20	-	364.23
2002	374.82	13.05	8.13	-	396.00
2003	408.98	14.68	9.17	-	432.82
2004	438.53	11.34	10.87	-	460.74
2005	469.21	10.68	11.00	-	490.89
2006	493.58	13.02	12.21	-	518.81

CHANGES IN PLAN NET ASSETS
LAST TEN FISCAL YEARS
(Dollars in Thousands)

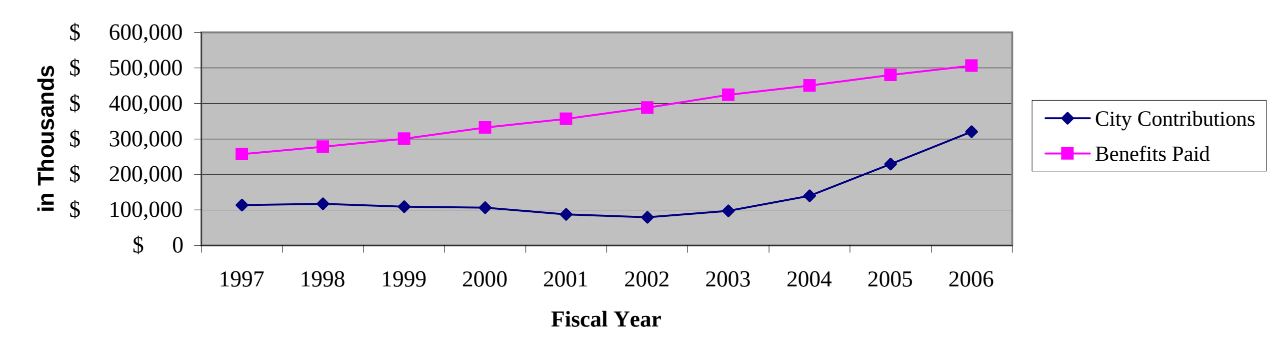
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions										
City Contributions	$ 113,262	$ 117,209	$ 109,362	$ 106,610	$ 87,897	$ 79,468	$ 97,531	$ 140,201	$ 229,137	$ 320,399
Member Contributions	53,270	58,314	62,560	64,579	69,460	75,654	83,068	93,418	94,268	98,262
Net Investment Income (Loss)	1,733,000	639,396	812,919	771,167	(349,317)	(370,493)	247,325	1,252,517	764,801	1,053,872
Total Additions	1,899,532	814,919	984,841	942,356	(191,960)	(215,371)	427,924	1,486,136	1,088,206	1,472,533
Deductions										
Benefit Payments	247,979	270,763	290,624	319,383	343,105	374,816	408,980	438,530	469,212	493,583
Refunds	9,448	7,490	9,628	12,993	12,923	13,049	14,679	11,338	10,679	13,021
Administrative Expense	4,858	5,763	6,232	7,547	8,200	8,133	9,165	10,871	10,996	12,208
Miscellaneous Expense	-	-	-	-	-	-	-	-	-	-
Total Deductions	262,285	284,016	306,484	339,923	364,228	395,998	432,824	460,739	490,887	518,812
Change in Plan Net Assets	**$ 1,637,247**	**$ 530,903**	**$ 678,357**	**$ 602,433**	**$ (556,188)**	**$ (611,369)**	**$ (4,900)**	**$ 1,025,397**	**$ 597,319**	**$ 953,721**

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

Fiscal Year	Age & Service Benefit Retirants	Age & Service Benefit Survivors	Death in Service Benefits	Disability Benefits Retirants	Disability Benefits Survivors	Sub Total	Refunds	Benefits Total
1997	$ 212,376	$ 22,888	$ 2,674	$ 8,451	$ 1,590	$ 247,979	$ 9,448	$ 257,427
1998	231,584	24,968	2,257	10,268	1,686	270,763	7,490	278,253
1999	248,986	27,521	3,113	9,301	1,703	290,624	9,628	300,252
2000	265,334	35,801	2,850	10,996	4,402	319,383	12,993	332,376
2001	285,030	38,523	2,919	11,882	4,751	343,105	12,923	356,028
2002	312,292	41,784	3,375	12,169	5,196	374,816	13,049	387,865
2003	340,934	45,574	3,045	13,700	5,727	408,980	14,679	423,659
2004	366,870	48,453	3,245	13,842	6,120	438,530	11,338	449,868
2005	392,198	51,564	3,425	15,455	6,570	469,212	10,679	479,891
2006	412,642	54,378	3,494	16,222	6,847	493,583	13,021	506,604

* Allocated from year-end retirement roll

CITY CONTRIBUTIONS versus BENEFITS PAID (Dollars in Thousands)



Fiscal Year	City Contributions	Benefits Paid
1997	$ 113,262	$ 257,427
1998	117,209	278,253
1999	109,362	300,252
2000	106,610	332,376
2001	87,897	356,028
2002	79,468	387,865
2003	97,531	423,659
2004	140,201	449,868
2005	229,137	479,891
2006	320,399	506,604

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (June 30, 2006)

Amount of Monthly Benefits	Number of Retirants *	Type of Retirement **									
		1	2	3	4	5	6	7	8	9	10
$ 1-250	203	51	46	-	35	3	12	1	19	-	36
251-500	581	96	188	2	103	11	80	27	48	-	26
501-750	938	167	364	9	117	38	105	81	39	1	17
751-1,000	1,109	284	346	24	112	190	33	77	40	-	3
1,001-1,250	1,257	396	357	38	98	269	16	58	20	-	5
1,251-1,500	1,082	498	252	29	65	170	10	33	23	-	2
1,501-1,750	955	548	168	31	52	124	6	18	6	-	2
1,751-2,000	867	595	145	18	34	49	5	9	10	-	2
Over 2,000	7,623	6,812	485	134	120	31	7	13	20	-	1
Total	**14,615**	**9,447**	**2,351**	**285**	**736**	**885**	**274**	**317**	**225**	**1**	**94**

* The Limited Term Retirement Plan and Family Death Benefit Insurance Plan payments are not included.

**** Type of Retirement**

1 - Service Retirement
2 - Service Continuance
3 - Service Survivorship
4 - Vested Right Retirement
5 - Disability Retirement
6 - Disability Continuance
7 - Disability Survivorship
8 - DRO Life Time Annuity
9 - DRO Term Annuity
10 - Larger Annuity

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates July 1, 1996 to June 30, 2006	Years Credited Service					
	Under 10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
Period 7/1/96 to 6/30/97						
Average Monthly Benefit	$ 769.86	$ 1,105.27	$ 1,447.79	$ 1,972.17	$ 2,656.25	$ 3,793.00
Average Final Monthly Salary *	$ 3,822.70	$ 3,504.14	$ 3,485.82	$ 3,714.96	$ 3,935.10	$ 4,729.11
Number of Active Retirants	41	33	40	48	155	235
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	$ 735.95	$ 1,132.42	$ 1,641.54	$ 2,065.35	$ 2,763.76	$ 4,106.63
Average Final Monthly Salary *	$ 2,635.28	$ 3,768.52	$ 4,138.52	$ 4,077.61	$ 4,374.17	$ 5,221.28
Number of Active Retirants	21	94	46	56	61	351
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	$ 890.57	$ 1,212.14	$ 1,603.18	$ 2,175.49	$ 3,018.00	$ 4,184.31
Average Final Monthly Salary *	$ 3,435.78	$ 4,008.62	$ 4,115.43	$ 4,367.97	$ 4,874.66	$ 5,384.22
Number of Active Retirants	24	72	53	44	71	312
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	$ 669.94	$ 1,124.27	$ 1,719.05	$ 2,174.20	$ 3,019.42	$ 4,059.11
Average Final Monthly Salary *	$ 3,481.25	$ 4,027.35	$ 4,593.77	$ 4,463.04	$ 4,871.26	$ 5,377.03
Number of Active Retirants	24	64	76	45	75	304
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 784.57	$ 1,206.27	$ 1,716.25	$ 2,461.18	$ 3,033.76	$ 4,179.16
Average Final Monthly Salary *	$ 3,244.53	$ 4,249.55	$ 4,608.11	$ 5,133.74	$ 5,120.17	$ 5,632.13
Number of Active Retirants	31	65	73	70	61	322

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

(continues)

SCHEDULE OF AVERAGE BENEFIT PAYMENTS (continued)

Retirement Effective Dates July 1, 1996 to June 30, 2006	Years Credited Service Under 10 yrs	11-15 yrs	16-20 yrs	21-25 yrs	26-30 yrs	Over 30 yrs
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 723.97	$ 1,525.33	$ 1,763.41	$ 2,628.85	$ 3,027.32	$ 4,348.11
Average Final Monthly Salary *	$ 4,223.90	$ 4,998.55	$ 4,799.69	$ 4,914.92	$ 5,263.19	$ 6,050.72
Number of Active Retirants	33	47	82	66	51	288
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 1,335.21	$ 1,638.93	$ 1,880.90	$ 2,673.28	$ 3,537.33	$ 4,734.01
Average Final Monthly Salary *	$ 5,790.42	$ 4,823.67	$ 5,116.47	$ 5,074.11	$ 6,081.84	$ 6,450.45
Number of Active Retirants	36	37	77	72	86	316
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 1,200.38	$ 1,337.79	$ 2,121.60	$ 2,468.17	$ 3,492.06	$ 4,828.30
Average Final Monthly Salary *	$ 3,798.31	$ 4,663.66	$ 5,421.59	$ 5,262.20	$ 5,936.56	$ 6,379.60
Number of Active Retirants	40	33	59	88	93	271

***** 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

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Los Angeles, CA 90012-4207

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