



2013
ANNUAL REPORT

Pension and OPEB Trust Fund of the County of Los Angeles, California
Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2013 and 2012





Los Angeles County Employees Retirement Association
300 N. Lake Avenue, Pasadena, CA 91101
626-564-6000 lacera.com

Issued by:

Gregg Rademacher

Chief Executive Officer

Robert R. Hill

Assistant Executive Officer

JJ Popowich

Assistant Executive Officer



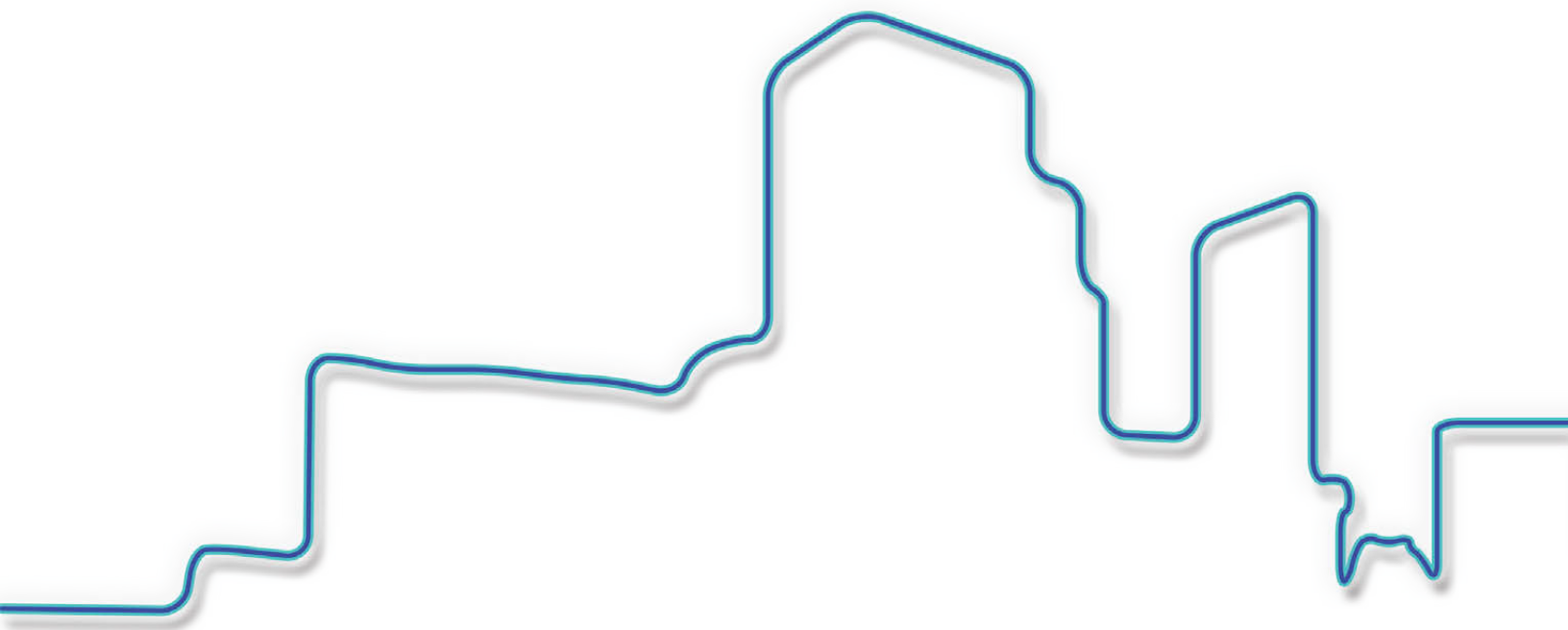
We Produce

1938

Founded on Trust, Devoted to Service

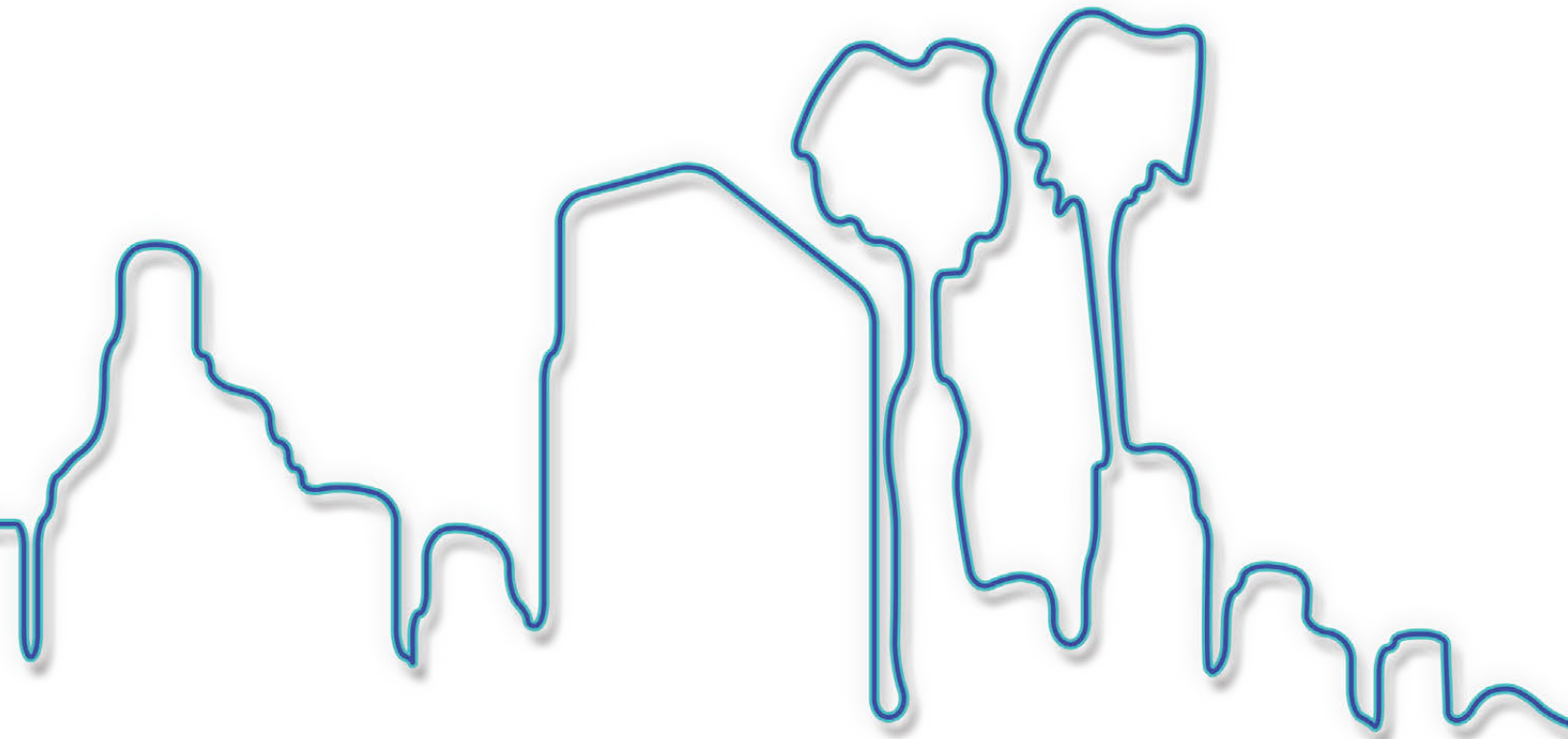
In 1937, Los Angeles County established a pension trust fund (Fund) to provide defined retirement, disability, and death benefits to eligible County employees. In 1938, LACERA was introduced to administer it. With that, a circle of trust was formed. The County trusts us to prudently invest and grow the Fund and keep it healthy and sustainable. County employees (our members) trust we will be there to pay all benefits to which they are legally entitled.

Upholding our stakeholders' trust requires the expertise and collaboration of hundreds of dedicated individuals. They are the folks who provide exceptional service to our members. They are the people who come to work each day dedicated to fulfilling **our mission to produce, protect, and provide the promised benefits**. This annual report honors them — the Boards, management, and staff of LACERA.



A Life of Service

**Prudently investing the pension fund... upholding the public trust.
Paying the promised benefits... upholding our members' trust.**





◀ **Certificate of Achievement**

Each year, a Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada (GFOA) to government units and public employee retirement systems whose Comprehensive Annual Financial Reports (CAFRs) achieve the highest standards in government accounting and reporting. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. For the 23rd consecutive year, LACERA has earned this prestigious award for the 2012 Comprehensive Annual Financial Report. We believe our current CAFR continues to meet the Certificate of Achievement Program’s requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.



◀ **PPCC Award**

LACERA received the Public Pension Coordinating Council’s (PPCC)* Public Pension Standards 2012 Award, in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards. The Public Pension Standards are intended to reflect minimum expectations for public retirement systems management and administration, and serve as a benchmark by which all defined benefit public plans should be measured. LACERA is a ten-time recipient of this important award.

*A confederation of NASRA, NCPERS, and NCTR.



Introductory Section



Letter of Transmittal 6
 Boards of Retirement and Investments 10
 2013 Organizational Chart..... 14
 List of Professional Consultants 15

Financial Section



Independent Auditor’s Report 18
 Management’s Discussion and Analysis 20

Basic Financial Statements
 Statement of Fiduciary Net Position 29
 Statement of Changes in
 Fiduciary Net Position 30
 Notes to the Basic Financial Statements 31

Required Supplementary Information
 Schedule of Funding Progress —
 Pension Plan 69
 Schedule of Employer Contributions —
 Pension Plan 69
 Schedule of Funding Progress —
 OPEB Program 70
 Schedule of Employer Contributions —
 OPEB Program 70

Other Supplementary Information
 Administrative Expenses 71
 Schedule of Investment Expenses 72
 Schedule of Payments to Consultants 73
 Statement of Changes in Assets and
 Liabilities — OPEB Agency Fund 73

Investment Section



Annual Consultant’s Review 76
 Chief Investment Officer’s Report 78
 Investment Summary — Pension Plan 83
 Investment Summary — OPEB Agency Fund 83
 Investment Summary — OPEB Trust 83
 Investment Results Based on Fair Value 84
 Total Pension Investment Rates of Return 85
 Largest Equity Holdings
 (by Fair Value) 85
 Largest Fixed Income Holdings
 (by Fair Value) 86
 Schedule of Investment Management Fees 86
 List of Investment Managers 87

Actuarial Section



Actuary’s Certification Letter —
 Pension Plan 90
 Actuary’s Certification Letter —
 OPEB Program 92
 Summary of Actuarial Assumptions
 and Methods — Pension Plan 94
 Active Member Valuation Data 97
 Retirants and Beneficiaries Added to
 and Removed from Retiree Payroll —
 Pension Plan 98
 Actuary Solvency Test — Pension Plan 98
 Actuarial Analysis of Financial Experience —
 Pension Plan 99
 Actuarial Analysis of Financial Experience —
 OPEB Program 99
 Probability of Occurrence 100

Statistical Section



Statistical Information Overview 104
 Changes in Fiduciary Net Position —
 Pension Plan 105
 Changes in Fiduciary Net Position —
 OPEB Trust 106
 Pension Benefit Expenses by Type 107
 Active and Deferred Members 108
 Retired Members by Type of
 Pension Benefit 109
 Retired Members by Type of
 OPEB Benefit 110
 Schedule of Average Pension
 Benefit Payments 111
 Active Members and Participating
 Pension Employers 116
 Retired Members of Participating
 OPEB Employers 117
 Employer Contribution Rates:
 County of Los Angeles 117
 Los Angeles County Office of Education,
 Little Lake Cemetery District, and Local
 Agency Formation Commission 118
 Employer Contribution Rates:
 South Coast Air Quality
 Management District (SCAQMD) 118
 STAR COLA Program Costs 119



December 3, 2013

Los Angeles County Employees Retirement Association
Board of Retirement/Board of Investments
300 N. Lake Avenue, Suite 820
Pasadena, CA 91101

I am pleased to present the Los Angeles County Employees Retirement Association (LACERA) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This report is intended to provide a detailed review of the association's financial, actuarial, and investment status. LACERA has the duty and authority to administer defined retirement plan benefits for the employees of Los Angeles County and outside districts. It is our mission to produce, protect, and provide the promised benefits to our members and their beneficiaries. In the course of fulfilling that mission, we provide comprehensive customer service to more than 157,000 members, including more than 58,000 benefit recipients.

Inspired by Service, Defined by Trust

The annual report for fiscal year ended June 30, 2013 honors the men and women who make LACERA function on a daily basis. Guided by the watchful eyes of our Board of Retirement and Board of Investments, LACERA management and staff continue to serve our members with honor, efficiency, and transparency. Some LACERA people are highly visible; most work quietly behind the scenes. This report honors them all.

Our Retirement Benefits Specialists are perhaps the most visible. They serve our members directly through individual retirement counseling sessions at our Member Service Center, phone interactions through our Call Center, and workshops held at various locations throughout the County. Less visible, but no less valuable, are hundreds of LACERA staff who serve our members behind the scenes. Some of them invest and grow the retirement fund to ensure current, as well as future benefits are properly funded. Some enroll new hires in LACERA retirement plans, or implement member retirements, or pay benefits, or process an array of other member transactions. LACERA is a force of approximately 365 professionals representing a broad range of disciplines — from attorneys, accountants, and investment analysts, to information technology specialists, internal auditors, quality assurance monitors, communications specialists, and a host of others. Each member of our team serves an important role and each is committed to upholding the trust placed in us by the County and by our members.



Gregg Rademacher
Chief Executive Officer



Robert R. Hill
Assistant Executive Officer



JJ Popowich
Assistant Executive Officer

LACERA and Its Services

On January 1, 1938, LACERA was established to provide retirement allowances and other benefits to the general and safety members employed by Los Angeles County. Subsequently, LACERA expanded its membership program to include four other outside districts:

- Little Lake Cemetery District
- Local Agency Formation Commission
- Los Angeles County Office of Education
- South Coast Air Quality Management District

Since our inception, LACERA has been governed by the California Constitution, the County Employees Retirement Law of 1937 (CERL), and the regulations, procedures, and policies adopted by LACERA's Boards of Retirement and Investments. The Los Angeles County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect benefits of LACERA members. On September 12, 2012, California Governor Jerry Brown signed the Public Employees' Pension Reform Act of 2013 (PEPRA) into law. As of January 1, 2013, LACERA is governed by CERL and PEPRA. Both laws are contained in the California Government Code.

The Board of Retirement is responsible for the general management of LACERA. The Board of Investments is responsible for determining LACERA's investment objectives, strategies, and policies. Both Boards appoint a Chief Executive Officer, to whom is delegated the responsibility of overseeing the day-to-day management of LACERA and developing its annual administrative budget. Adoption of the budget is subject to approval by both Boards.

Financial Information

Internal Control

The financial attest audit performed by Brown Armstrong CPAs states that LACERA's financial statements which are prepared by management, are presented in conformity with Generally Accepted Accounting Principles, and are free of material misstatement. Management acknowledges it is responsible for the entire contents of this CAFR. In the course of sustaining a rigorous and comprehensive control environment throughout its operations, LACERA practices stringent risk management activities and annually performs a detailed, organization-wide risk assessment in which control objectives and their related processes are reviewed.

Maintaining appropriate internal controls is the responsibility of management; however, management recognizes no control or combination of controls can entirely free an organization from all error or misstatement. At their best, controls provide reasonable assurance such failings do not occur. The concept of reasonable assurance recognizes the cost of a control should not exceed benefits likely derived; the valuation of costs and benefits requires estimates and judgments by management.

LACERA management is provided such assurance through the ongoing efforts of its Internal Audit and Quality Control Divisions and its Boards. The Executive Office is confident LACERA's established controls and the interactions of those controls detect all significant occurrences and prevent noteworthy inaccuracies.

Analysis

An overview of LACERA's fiscal operations is presented in the Management's Discussion and Analysis (MD&A) preceding the financial statements. This transmittal letter, when taken into consideration with the MD&A, provides an enhanced picture of the activities of the organization.

Investment Activities

The Board of Investments adopted an Investment Policy Statement that provides a framework for the management of



LACERA's investments. This Statement establishes LACERA's investment policies and objectives and defines the principal duties of the Board, investment staff, investment managers, master custodian, and consultants.

A pension fund's strategic asset allocation policy, implemented in a consistent and disciplined manner, is generally recognized to have the most impact on a fund's investment performance. The asset allocation process determines a fund's optimal long-term asset class mix (target allocation), which is expected to achieve a specific set of investment objectives. LACERA's strategic asset allocation targets are long-term by design because of the Fund's long-term investment horizon and the illiquidity of certain asset classes, such as Private Equity and Real Estate.

This year, amid continued market volatility, the total Fund returned 12.1 percent (gross of fees). This represents an overperformance of 70 basis points above its Policy Benchmark, which returned 11.4 percent. Over the five-year period ended June 30, 2013, the total Fund's annualized return was 4.4 percent (gross of fees).

Actuarial Funding Status

Pursuant to provisions in the CERL, LACERA engages an independent actuarial firm to perform annual actuarial valuations. A system actuarial valuation is performed every three years (triennial valuation). The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member contribution rates necessary to properly fund the system. LACERA also hires an independent actuarial firm to audit the results of each triennial valuation. The latest triennial valuation was conducted as of June 30, 2010.

LACERA is funded by member and employer contributions and investment earnings on those contributions. Normal member contributions are those required to fund a specific annuity at a specified age. Member contribution rates for members who entered LACERA membership prior to January 1, 2013 vary according to the member's plan and age at first membership. The CERL also requires members to pay half the contributions required to fund the cost-of-living benefit, which is affected by changes in both economic and non-economic assumptions.

Liabilities not funded through member contributions are the responsibility of the employer. Changes in any of the economic and non-economic assumptions impact employer contribution rates. The employer is responsible for contributing to cover the cost of benefits expected to be accrued in the future and half of the cost-of-living benefit. These are called normal cost contributions. The employer is responsible also for making additional contributions to eliminate any shortfalls in funding covering liabilities that have accrued in the past, which is known as the Unfunded Actuarial Accrued Liability (UAAL).

Provisions of Public Employees' Pension Reform Act of 2013 (PEPRA) require equal sharing of normal costs between employers and employees. In January 2013, LACERA established two new retirement plans — General Plan G and Safety Plan C — for members with membership dates on or after January 1, 2013. Contributions for these plans are based on a single flat-rate percentage and are structured in accordance with the required 50/50 cost-sharing. A member's age at first membership is not considered.

The June 30, 2012 valuation, determining the funded ratio to be 76.8 percent, recognized an Unfunded Actuarial Accrued Liability (UAAL) of \$11.77 billion. The County contribution rate was therefore set equal to 10.09 percent of payroll for the amortization of the UAAL over a closed 30-year layered period, plus the normal cost rate of 9.73 percent, for a total contribution rate of 19.82 percent of payroll.

In October 2011, the Board of Investments adopted a decrease in the investment return assumption, to be phased in over a period of three years. The investment return assumption in effect for the 2011 actuarial valuation was 7.70 percent. The assumption in effect for the 2012 actuarial valuation is 7.60; an assumption of 7.50 percent is scheduled to be in effect for the 2013 valuation. For each decrease in the investment return assumption, a corresponding decrease in the price and wage inflation assumptions will be made.



Summary of Accomplishments for Fiscal Year 2012 - 2013

PEPRA drove many of our efforts this fiscal year. In October 2012, we notified our members of PEPRA and its applicable provisions, one of which was the discontinuation of Additional Retirement Credit (ARC) or “airtime” purchases, effective January 1, 2013. Response was overwhelming and our staff responded admirably, successfully juggling intense PEPRA-related demands with normal business. Our Member Services Division provided one-on-one counseling sessions to 28,337 members and fielded 128,970 calls through our Call Center. The Outreach team educated 14,391 members during 510 workshops they presented at 195 various County locations. This fiscal year, our Claims Processing Division processed 23,072 ARC requests, 59,479 monthly retirement allowances, and integrated 2,568 new retirees to the monthly retiree payroll. Additionally, 326,375 pieces of mail were processed and 721,622 documents were scanned and indexed by our Administrative Services staff. Our Retiree Healthcare Division responded to 36,576 phone calls and mailed 47,000 insurance packages for 2013.

Technology also played a pivotal role in handling the increased demand. This year, 39,931 members are registered on My LACERA, the secure members-only section on lacera.com. The portal recorded 75,519 visits, a new high. Members took advantage of My LACERA’s online calculator to generate 22,269 ARC cost estimates and 66,744 Retirement Benefit Estimates. To further enhance our online member self-service capability, we added an Appointment and Workshop Reservation System to lacera.com. Shortly after its introduction, online appointments for one-on-one consultations with a LACERA Retirement Benefits Specialist were booked two months ahead.

Awards and Recognition

For the 23rd consecutive year, the Government Finance Officers Association (GFOA) awarded LACERA its Certificate of Achievement for Excellence in Financial Reporting. This award is in recognition of our CAFR for the fiscal year ended June 30, 2012.

LACERA is a recipient also of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting, for the 15th year running. We received this honor for our Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2012.

These awards recognize contributions to the practice of government finance exemplifying outstanding financial management. In doing so, they stress practical, documented work that offers leadership to the profession.

The Public Pension Coordinating Council (PPCC) presented its Public Pension Standards Award to LACERA in recognition of compliance with professional standards for plan design and administration for the fiscal year ended June 30, 2012. LACERA is a ten-time recipient of this honor, which is judged on a retirement system’s Comprehensive Benefit Program, Funding Adequacy, Actuarial Valuation, Independent Audit, Investments, and Communications.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report in a timely manner is made possible by the dedicated teamwork of LACERA staff under the leadership, dedication, and support of the LACERA Boards. I am sincerely grateful to the LACERA Boards and staff, as well as to all of our professional service providers, who perform so diligently to ensure the successful operation and financial soundness of LACERA.

Respectfully submitted,

Gregg Rademacher

Gregg Rademacher
Chief Executive Officer

The Promised Benefits

Board of Retirement (BOR)



Marvin Adams
(BOR term expires December 31, 2014)

An advocate for LACERA and the services we provide, Mr. Adams has been actively involved throughout his career with issues affecting public employees. Retired after 26 years of public service with the City of Los Angeles, he previously served as a Board Commissioner for the Los Angeles City Employees Retirement System.



Yves Chery
Chair
(BOR term expires December 31, 2014)

Our Board chair also serves as vice-president of the State Association of County Retirement Systems and sits on the Trustees Committee of the International Foundation of Employee Benefit Plans. Mr. Chery serves the County through his work with at-risk youth as a Deputy Probation Officer II. He is a strong supporter of LACERA's worksite counseling seminars and other Outreach programs.

Sadonya Antebi
(BOR term expires December 31, 2013)

Ms. Antebi was first appointed to the Board in 1996 and has served several terms since that time. She is passionate about ensuring our retirement system continues its high standards and performance levels. During her active career, Ms. Antebi served as Chief of Disaster Planning and Operations for the County Department of Health Services.

Not pictured



Vivian H. Gray
(BOR term expires December 31, 2015)

As a senior founding attorney for the Alternate Public Defender's Office, Ms. Gray possesses strong analytical skills and experience in handling complicated issues. She is focused on ensuring the fair administration of LACERA's defined benefits plan and protecting employees' promised benefits. Prior to becoming an attorney, Ms. Gray was a deputy sheriff for Los Angeles County.



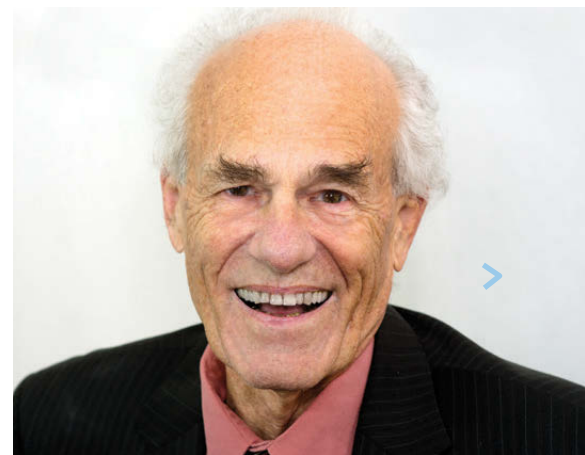
David Green
(BOI term expires December 31, 2014)

As a social worker for the County Department of Children and Family Services, Mr. Green is dedicated to protecting the rights of children and families. As Board member, he is equally dedicated to ensuring the long-term security of LACERA retiree benefits. Mr. Green has served as an officer in two local SEIU affiliates and as the chair of the SEIU Retirement Committee.



Joseph Kelly
Chief Deputy Treasurer and Tax Collector
Alternate Ex-officio Member; BOR & BOI

Mr. Kelly reports directly to the Treasurer and Tax Collector and oversees the day-to-day operations of the department. Prior to joining the County 16 years ago, Mr. Kelly spent eight years with a high profile investment bank. His professional certifications include Certified Treasury Professional and Certified Internal Auditor.



Board of Investments (BOI)

John M. Barger

(BOR term expires December 31, 2014)
(BOI term expires December 31, 2015)

An attorney with more than 25 years of experience in investments, entrepreneurship, and public service, Mr. Barger is a great asset to both LACERA boards. His resume includes Managing Director, NorthernCross Partners, and Special Assistant to the Executive Director of the Federal Housing Finance Board during the George H.W. Bush administration.



Alan J. Bernstein

(BOR term expires December 31, 2015)

Mr. Bernstein brings both private and public sector experience to the Board. His accomplishments include service as Planning Commissioner for the City of West Hollywood; president of Harper Management; and chair of the West Hollywood Chamber of Commerce. Mr. Bernstein has also served as chair of the Family Equality Council; and co-vice-chair, National Gay & Lesbian Task Force.



William de la Garza

Secretary
(BOR term expires December 31, 2014)

Mr. de la Garza retired from the position of Deputy Director of Parks and Recreation in 1991, after 35 years with the Department of Parks and Recreation. He has lectured on Sports and Recreation Administration at area universities and has authored publications on sports officiating. Mr. de la Garza is a past president of the California Retired County Employees Association and the Retired Employees of Los Angeles County.



Shawn R. Kehoe

(BOR term expires December 31, 2013)

Mr. Kehoe is a Sergeant in the County Sheriff's Department. While serving on the Department, he has gained experience in a wide variety of patrol, custody, and administrative assignments. Sgt. Kehoe is actively engaged in his board position and is focused on issues that impact the retirement system. His special interests include public policy and retiree healthcare.



Edward "Ed" C. Morris

(BOR term expires December 31, 2014)

During his County career, Mr. Morris managed the Retirement Benefits Division of LACERA. The knowledge and experience he gained in that position make him uniquely qualified to sit on the Board. Prior to LACERA, Mr. Morris worked in the Offices of the County Auditor and County Treasurer. He sits on the Board of Directors of Retired Employees of Los Angeles County.



William R. Pryor

(BOR term expires December 31, 2013)
(BOI term expires December 31, 2013)

Mr. Pryor has been sharing his insight and experience with LACERA since his first election to the Board of Retirement in 2000. An active voice in the pension community, he is a member of the Executive Board of the National Conference of Public Employee Retirement Systems and has testified before state and federal committees in defense of defined benefit pension plans. Mr. Pryor is a Fire Department Captain and Director of the L. A. County Firefighters Local 1014.

Boards of Retirement and Investments

Mark J. Saladino

Vice-Chair, BOR
County Treasurer and Tax Collector
Ex-officio Member, BOR & BOI

An attorney with specialties in finance and investments, Mr. Saladino brings a wealth of knowledge to both Boards. He has testified on securities issues before the U.S. Congress and the California Legislature, and has been asked to speak on topics related to public finance and investments by numerous professional, governmental, and educational organizations.



Diane A. Sandoval

Secretary
(BOI term expires December 31, 2014)

Ms. Sandoval is a retired LACERA employee who first joined the Board in 2006. During her 40-year career, she served in a variety of positions, including LACERA Accounting Division Manager. Her experience and first-hand knowledge of our operations spawns the keen insight she provides the Board. Ms. Sandoval is treasurer of California Retired County Employees Association and sits on that group's Executive and Finance Committees.



Herman Santos

Chair
(BOI term expires December 31, 2015)

Mr. Santos is an attorney in the County Public Defender's Office. He began on the Board in 2004 and has served in various executive Board capacities. A defender of LACERA benefits, Mr. Santos is the chair and co-creator of the SEIU Local 721 Secure Retirement Committee, and the SEIU State and National Public Pension Roundtable, Change to Win Federation.



Michael S. Schneider

(BOI term expires December 31, 2014)

Mr. Schneider is a CPA with broad business experience. He is the owner of a CPA firm, co-founder of a recycling company, and has worked as a corporate controller. Since joining the Board in 1998, Mr. Schneider has served in several capacities, including chair and vice-chair. He is also a former college statistics instructor and has been an Advisory Committee Member of the County Assessor's Office since 1997.



Carolyn Widener

(BOI term expires December 31, 2013)

Prior to joining the Board, Ms. Widener served as a California State Teachers' Retirement System trustee, where she gained experience in decision-making on actuarial valuations, annual budget adoptions, and personnel compensation. Her understanding of public pension operations is of great value to the Board. Ms. Widener previously served on the executive board of the National Conference of Public Employee Retirement



Leonard Unger

Vice-Chair
(BOI term expires December 31, 2014)

With an extensive law background with experience in estates, trusts, and litigation, Mr. Unger brings impressive qualifications to the Board. He also serves on several professional, charity, and educational boards and is active in civic organizations. In 1998, Mr. Unger received the Thurgood Marshall Award from the Bar Association of the City of New York for his pro bono death penalty work.



BOARD OF RETIREMENT

Overall management of LACERA is vested in its Board of Retirement. The Board of Retirement is responsible for the administration of the retirement system and the retiree healthcare benefits program (OPEB Program). Its duties also include the review and processing of disability retirement applications.

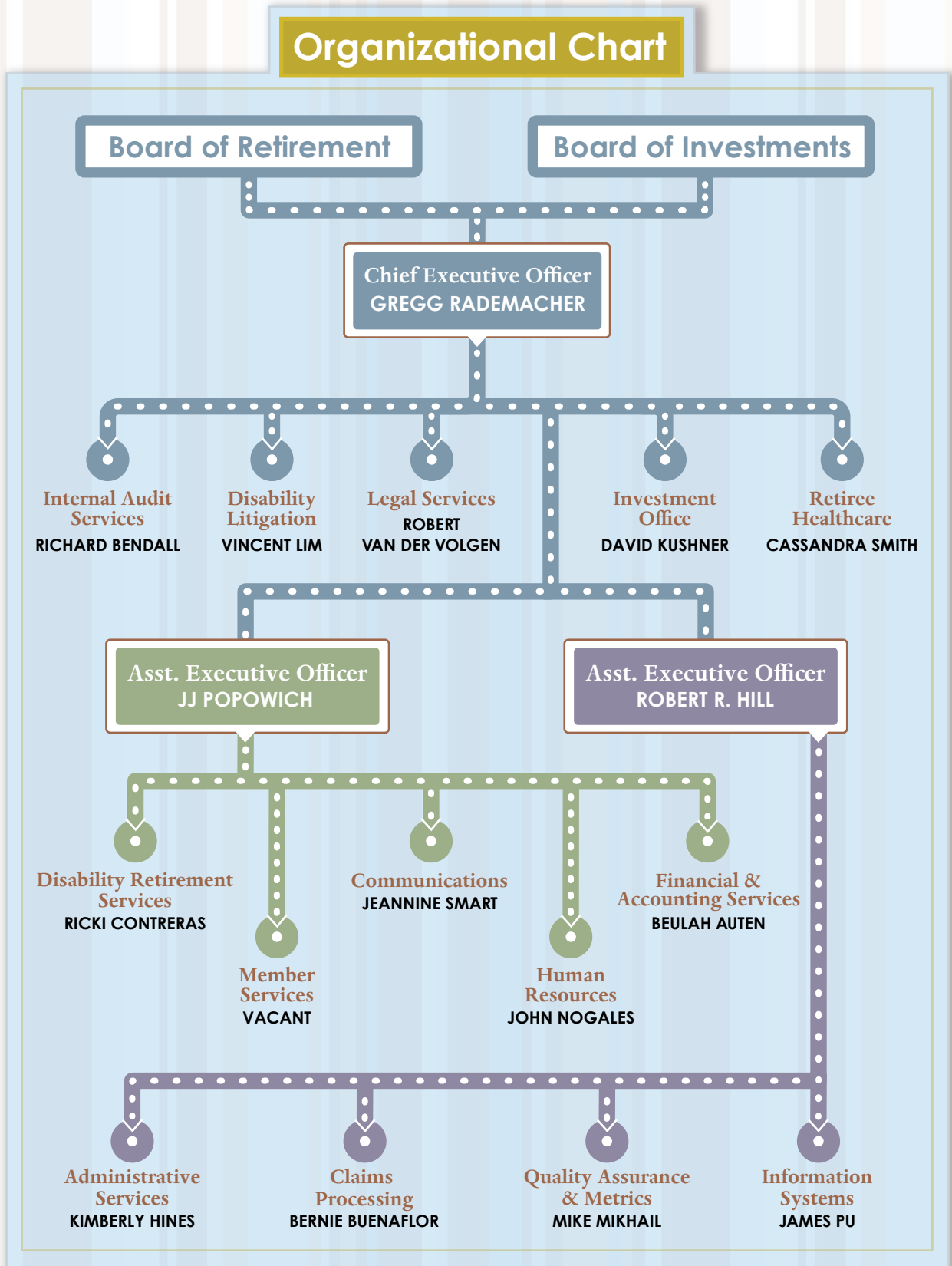
The Board of Retirement is comprised of four elected members, two elected alternate members, and four members appointed by the County Board of Supervisors. The County Treasurer and Tax Collector also sits on the Board as an ex-officio member. Each appointed and elected member serves a three-year term.

BOARD OF INVESTMENTS

The Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising authority and control over the investment of the retirement fund.

The Board of Investments is comprised of four elected members, four appointed members, and the County Treasurer and Tax Collector, who is an ex-officio member. Each appointed and elected member serves a three-year term.

The County Employees Retirement Law of 1937 (CERL), one of the laws governing LACERA, requires the four members appointed by the County Board of Supervisors to have "significant experience in institutional investing." Los Angeles is the only CERL county that maintains a Board of Investments to manage its retirement fund.



Consulting Actuary

Milliman

Auditing Actuary

Segal Consulting

Auditors

Brown Armstrong, CPAs

Commercial Banking

The Bank of New York Mellon Treasury Services

Custodian

The Bank of New York Mellon Trust Company, N.A.

Data Processing

Los Angeles County Internal Services Department

Governance ConsultantsGlass, Lewis & Company, LLC
Institutional Shareholder Services, Inc.**Investment Consultants**Credit Suisse Customized Fund Investment Group
The Townsend Group
Wilshire Associates**Mortgage Loan Custodians**

Deutsche Bank National Trust Company

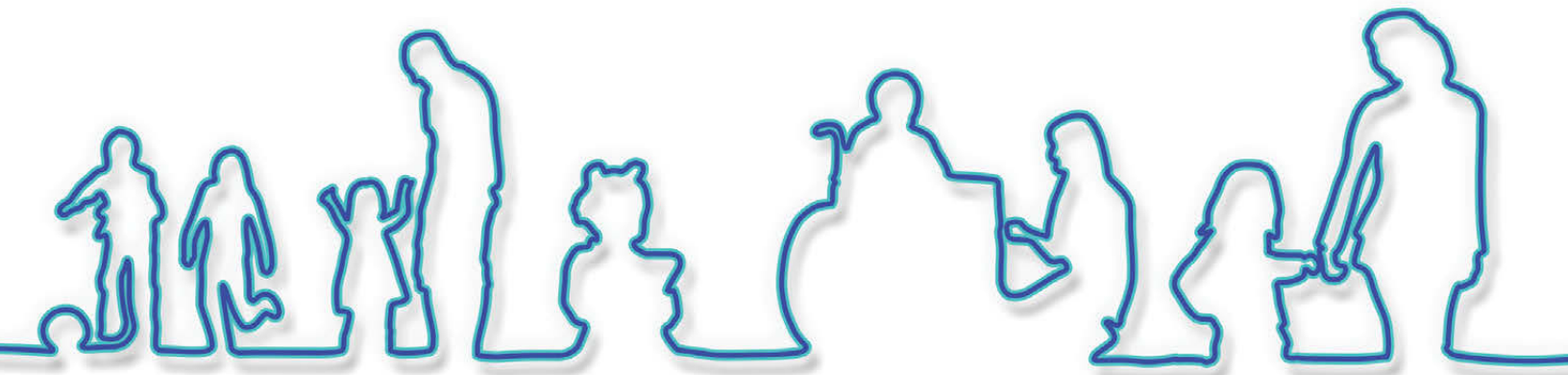
Legal ConsultantsAndrews Kurth, LLP
Bryan Cave, LLP
Cox, Castle & Nicholson, LLP
DLA Piper (U.S.), LLP
Glaser, Weil, Fink, Jacobs, Howard & Shapiro, LLP
Kauff, McClain & McGuire, LLP
Kessel & Associates
Klausner & Kaufman
Liebert Cassidy Whitmore
Locke, Lord Bissell & Liddell, LLP
Manatt, Phelps & Phillips, LLP
Olson Hagel & Fishburn, LLP
Orrick, Herrington & Sutcliffe, LLP
Paul, Hastings, Janofsky & Walker, LLP
Pillsbury Winthrop Shaw Pittman, LLP
Pircher, Nichols & Meeks, LLP
Seyfarth Shaw, LLP
Sidley Austin, LLP
Steptoe & Johnson, LLP



Financial Section

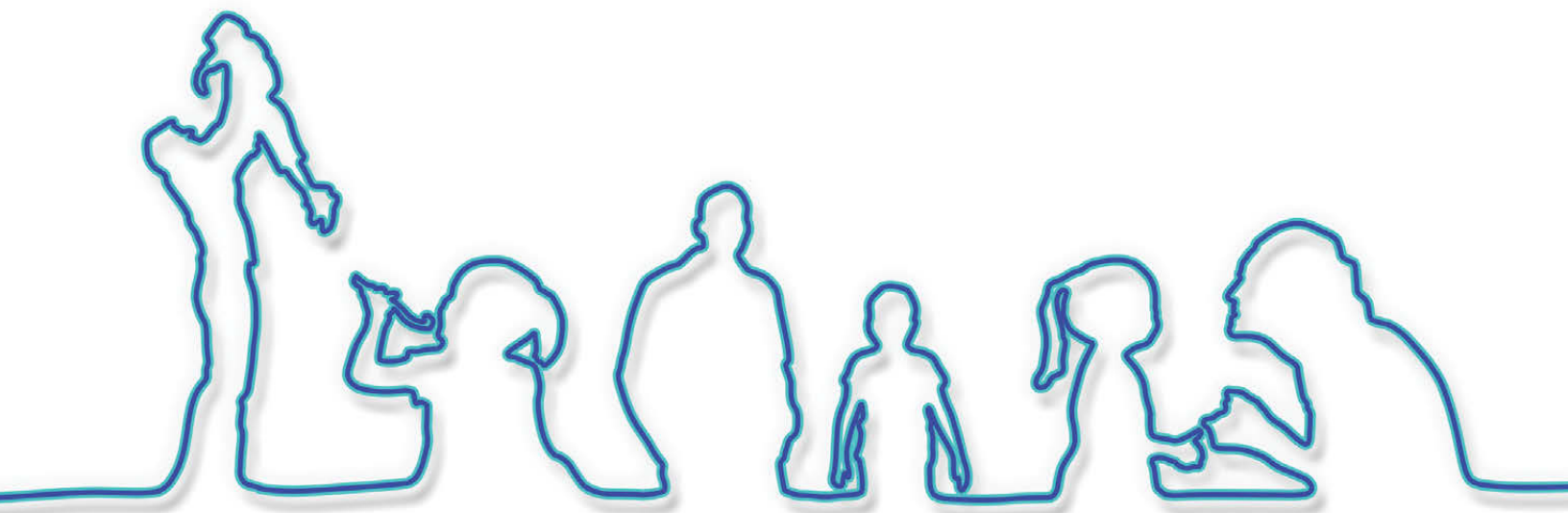


Communications & Leadership Development Teams





Passionate about enriching the lives of disadvantaged children, this recent social work grad is eager to begin her career in the **County Department of Children and Family Services**. After viewing the New Hire video on lacera.com and completing some simple paperwork, she received her LACERA New Hire Welcome Package, introducing her new LACERA retirement plan. When she has a few minutes, she'll read the Summary Plan Description included in the package to learn about the provisions of her defined benefit plan. Our Communications specialists worked with a cross-divisional team to ensure the new hire materials she received are informative, concise, and easy to explore. *After all, making a difference in the lives of at-risk children doesn't leave a lot of spare time.*





BROWN ARMSTRONG
Certified Public Accountants

Boards of Retirement and Investments
 Los Angeles County Employees Retirement Association
 Pasadena, California

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Los Angeles County Employees Retirement Association (LACERA) as of June 30, 2013 and 2012, and the Other Post-Employment Benefits Trust (the OPEB Trust) as of June 30, 2013, and the related Statement of Changes in Fiduciary Net Position for the years then ended and the related notes to the financial statements, which collectively comprise LACERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LACERA's and the OPEB Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LACERA's and the OPEB Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of LACERA and the OPEB Trust as of June 30, 2013 and 2012, and its changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note B to the financial statements, during the year ended June 30, 2013, LACERA and the OPEB Trust implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred*

Outflows of Resources, Deferred Inflows of Resources, and Net Position, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LACERA's and the OPEB Trust's basic financial statements. The other supplementary information and the introductory, investment, actuarial, and statistical sections, 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.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, on our consideration of LACERA's and the OPEB Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERA's and the OPEB Trust's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Andrew J. Paulden
Bakersfield, California
October 9, 2013

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles County Employees Retirement Association (LACERA) is an overview of its fiscal operations for the year ended June 30, 2013. Readers are encouraged to consider the information presented here in conjunction with the Basic Financial Statements and the Notes to the Basic Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

FINANCIAL HIGHLIGHTS

- Net Position Restricted for Benefits, as reported in the *Statement of Fiduciary Net Position*, totaled \$41.8 billion, an increase of \$3.5 billion or 9.1 percent from the prior year.
- Total Additions, as reflected in the *Statement of Changes in Fiduciary Net Position*, were \$6.1 billion. This was primarily due to investment earnings and member and employer contributions. Additions totaled \$4.8 billion more than the amounts realized for 2012.
- Total Deductions, as reflected in the *Statement of Changes in Fiduciary Net Position*, totaled \$2.6 billion, an increase of \$154 million or 6.3 percent from the prior year. The increase was primarily attributable to the increase in the retiree payroll.
- The latest actuarial valuation completed by Milliman, LACERA's independent consulting actuary, was as of June 30, 2012, and determined the funded status (the ratio of actuarial value of assets to actuarial accrued liabilities) to be 76.8 percent.

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A serves as an introduction to the Basic Financial Statements. LACERA has two Basic Financial Statements, the Notes to the Basic Financial Statements, and four Required Supplementary Schedules of historical trend information. The Basic Financial Statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB), utilizing the accrual basis of accounting.

The implementation of GASB Statement No. 63 caused the names of LACERA's Basic Financial Statements to change; thus, they are now referred to as the *Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position*. The *Statement of Fiduciary Net Position* is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities owed at year-end. The Net Position Restricted for Benefits, which is the assets less the liabilities, reflects the funds available for future use.

During fiscal year June 30, 2013, the County of Los Angeles (County) and LACERA made initial contributions to the newly established irrevocable Other Post-Employment Benefit Trust Fund (OPEB Trust). The OPEB Trust is presented in the *Statement of Fiduciary Net Position* under a separate column. The Net Position Restricted for Benefits at year-end will serve as a funding tool for paying expenses associated with other post-employment benefits such as those options in the Retiree Healthcare Program.

The Other Post-Employment Benefit Program (OPEB Program or Retiree Healthcare Benefits Program) is presented as the OPEB Agency Fund. The assets and liabilities related to OPEB activities are reported as an Agency Fund, because the Fund is not an irrevocable trust. LACERA is acting as a custodian for these funds on behalf of the plan sponsors and participants. The OPEB Program is administered on a pay-as-you-go basis; therefore, only assets and liabilities are reported.

The *Statement of Changes in Fiduciary Net Position* reflects all the activities that occurred during the fiscal year and the impact of those addition or deduction activities on the Net Position Restricted for Benefits.



Beulah Auten
Chief Financial Officer

The trend of additions versus deductions to the Pension Plan will indicate the condition of LACERA's financial position over time. The *Statement of Changes in Assets and Liabilities* for the OPEB Agency Fund is presented in the Other Supplementary Information Section.

To distinguish the activities of the OPEB Trust from the Pension Plan, the OPEB Trust is also presented in the *Statement of Changes in Fiduciary Net Position* under a separate column. Addition and deduction activities for this newly established Trust are limited to administrative expenses.

The Notes to the Basic Financial Statements (Notes) are an integral part of the financial statements. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year.

The *Schedule of Funding Progress – Pension Plan* and the *Schedule of Funding Progress – OPEB Program*, which are Required Supplementary Schedules, include historical trend information about the actuarially funded status of the Pension Plan and OPEB Program respectively, and the progress made in accumulating sufficient assets to pay benefits when due. The other Required Supplementary Schedules, the *Schedule of Employer Contributions – Pension Plan* and the *Schedule of Employer Contributions – OPEB Program*, present historical trend information about the annual required contributions of the employers or plan sponsors (i.e., County of Los Angeles and outside districts) and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of the Pension Plan and OPEB Program over time.

FINANCIAL ANALYSIS — PENSION PLAN

Net Position Restricted for Benefits

As of June 30, 2013, LACERA's financial position increased \$3.5 billion or 9.1 percent from the prior year, due primarily to positive investment returns. For the fiscal year ended 2013, LACERA's portfolio gained 11.9 percent (net of fees) while retiree payroll and other expenses remained relatively consistent with the prior period.

As of June 30, 2013, LACERA had \$41.8 billion in Net Position Restricted for Benefits, which means Total Assets of \$43.7 billion exceeded Total Liabilities of \$1.9 billion. As of June 30, 2012, LACERA had \$38.3 billion in Net Position Restricted for Benefits as a result of Total Assets of \$41.2 billion exceeding Total Liabilities of \$2.9 billion. The Total Net Position Restricted for Benefits represents funds available for future retirement benefit payments. However, of importance is the fact that unlike private pension funds, public pension funds are not yet required to report the future liability of obligations owed to retirees. The reporting of this obligation as a liability will begin in fiscal year-end 2014 under new GASB standards adopted in late June 2012. Only current liabilities are reported in the *Statement of Fiduciary Net Position*.

Net Position Restricted for Benefits

As of June 30, 2013, 2012, and 2011

(Dollars in Millions)

	2013	2012	2011	2013 - 2012 % Change	2012 - 2011 % Change
Investments	\$42,286	\$38,627	\$39,770	9.5%	-2.9%
Other Assets	1,440	2,580	2,959	-44.2%	-12.8%
Total Assets	43,726	41,207	42,729	6.1%	-3.6%
Total Liabilities	(1,952)	(2,900)	(3,277)	-32.7%	-11.5%
Net Position Restricted for Benefits	\$41,774	\$38,307	\$39,452	9.1%	-2.9%

ADDITIONS AND DEDUCTIONS TO NET POSITION RESTRICTED FOR BENEFITS

The primary sources that finance the promised benefits LACERA provides to members and their beneficiaries are investment income and the collection of member and plan sponsor retirement contributions. For fiscal year 2013, Total Additions amounted to \$6.1 billion, as a result of strong investment returns in the U.S. equity market. For fiscal year 2012, Total Additions amounted to \$1.3 billion, primarily due to increased employer and member contributions.

The net investment gain for fiscal year 2013 was \$4.7 billion, an increase of \$5.0 billion from fiscal year 2012's net investment loss of \$0.3 billion. This fiscal year's investment returns of 11.9 percent (net of fees) exceeded the actuarial assumed investment earnings rate of 7.60 percent. The investment gains and losses experienced will continue to impact the actuarial funded ratio over time as they are recognized in the future during the actuarial asset-smoothing process.

To finance employer contributions that are due to LACERA, the County of Los Angeles (County) makes semimonthly cash payments and/or directs LACERA to transfer funds from the County Contribution Credit Reserve (CCCR). For fiscal year ended June 30, 2013, the County paid its employer contributions due in the form of semimonthly cash payments to cover approximately six and one-half months. In addition, the County utilized \$448.8 million from the CCCR to finance its employer contributions for the remaining five and one-half months. For fiscal year ended June 30, 2012, the County paid all of its employer contributions due to LACERA in the form of semimonthly cash payments.

The primary uses of LACERA's assets include the payment of the promised benefits to members and their beneficiaries, the refund of contributions to terminated employees, and the cost of administering the plan. These deductions totaled \$2.6 billion for fiscal year 2013, an increase of \$154 million or 6.3 percent from the prior year. For fiscal year 2012, these deductions totaled \$2.4 billion, an increase of \$120 million or 5.2 percent from the prior year.

Additions and Deductions in Fiduciary Net Position — Pension

For the Years Ended June 30, 2013, 2012, and 2011

(Dollars in Millions)

	2013	2012	2011	2013 - 2012 % Change	2012 - 2011 % Change
Contributions	\$1,403	\$1,587	\$1,409	-11.6%	12.6%
Net Investment Income/(Loss)	4,659	(291)	6,930	1701.0%	-104.2%
Total Additions	6,062	1,296	8,339	367.7%	-84.5%
Benefits and Refunds	(2,541)	(2,391)	(2,270)	6.3%	5.3%
Administrative Expenses and Misc.	(54)	(50)	(51)	8.0%	-2.0%
Total Deductions	(2,595)	(2,441)	(2,321)	6.3%	5.2%
Net Increase/(Decrease)	3,467	(1,145)	6,018	402.8%	-119.0%
Net Position Restricted for Benefits at Beginning of Year	38,307	39,452	33,434	-2.9%	18.0%
Ending Net Position Restricted for Benefits	\$41,774	\$38,307	\$39,452	9.1%	-2.9%

PLAN ADMINISTRATION

LACERA Membership

The table below provides comparative LACERA membership data for the last two fiscal years. Vested members increased 2.6 percent from fiscal years ended 2012 to 2013, evidence in a continuing trend of employees increasing their service history to vest in the retirement system, thereby securing future benefits. Retired members increased slightly, by 2.3 percent, between the two fiscal years ended, possibly indicating employees decided to delay retirement from active employment.

LACERA Membership

As of June 30, 2013 and 2012

	2013	2012
Active Members:		
Vested	73,980	72,096
Non-Vested	17,565	19,856
Total Active Members	91,545	91,952
Retired Members	58,067	56,752
Terminated Vested (Deferred)	7,959	7,859
Total Membership	157,571	156,563

PEPRA

California Assembly Bill 340, known as the California Public Employees' Pension Reform Act of 2013 (PEPRA), was signed into law on September 12, 2012, after lawmakers in Sacramento spent close to a year exploring and debating reforms to public pension systems in California. PEPRA was effective January 1, 2013. It mandates significant plan design changes and provides the opportunity to continue with an existing plan formula, provided it is more cost-effective than the formula offered under PEPRA.

LACERA worked closely with the County, the plan sponsor, to successfully implement the State-mandated PEPRA. To assist the County in selecting a plan formula for new members joining the retirement system on or after January 1, 2013, LACERA engaged the plan's consulting actuary to perform an analysis and present corresponding employer and employee contribution rates. The County Board of Supervisors determined that new members will join two newly-created plan tiers, General Plan G (based on the existing General Plan D) and Safety Plan C (based on the existing Safety Plan B). These newly-created retirement plan tiers are administered as contributory plan tiers. Although the previous plan tiers use an "age-based" contribution rate structure, the LACERA Board of Investments set the General Plan G and Safety Plan C contributions based on a single average rate.

ADMINISTRATIVE EXPENSES

The LACERA Boards of Retirement and Investments jointly approve the annual budget, which controls administrative expenses and represents approximately 0.13 percent of total actual Net Position Restricted for Benefits.

Beginning in fiscal year 2012, LACERA implemented a new provision of the County Employees Retirement Law of 1937 (CERL), which provided administrative budget limitation relief to LACERA by shifting from an asset-based cap to a more stable liability-based cap. This new CERL provision states that the annual budget for

administrative expenses of a CERL retirement system may not exceed twenty-one hundredths of one percent (0.21%) of the actuarial accrued liability of the retirement system as of the prior fiscal year ended. The cost of legal representation is not to exceed one-hundredth of one percent (0.01%) of system assets in any budget year. For fiscal years ended 2013 and 2012, LACERA's appropriation for legal representation was included in the administrative expense allocation.

The table below provides a comparison of the actual administrative expenses for the fiscal years ended 2013 and 2012. The actuarial accrued liability was used to calculate the statutory budget amount. LACERA's administrative expenditures are well below the limit imposed by law for both years.

Budget-to-Actual Analysis of Administrative Expenses

As of June 30, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Basis for Budget Calculation (Actuarial Accrued Liability)		
Actual Administrative Expenses	\$53,863	\$50,218
Basis for Budget Calculation	48,598,166	46,646,838
Administrative Expenses as a Percentage of the Basis for Budget Calculation	0.11%	0.11%
Limit per CERL	0.21%	0.21%

ACTUARIAL VALUATIONS

In order to determine whether the Net Position Restricted for Benefits will be sufficient to meet future obligations, the actuarial funded status needs to be calculated. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which represent the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the employees (members) and the plan sponsors are needed to pay all expected future benefits.

In December 2009, the LACERA Board of Investments adopted a new Retirement Benefit Funding Policy (Funding Policy). The changes in the Funding Policy continued to impact the valuation for 2012, including the implementation of five-year smoothing on asset gains and losses. The positive investment return for fiscal year ended 2012 was more than offset by large deferred asset losses from prior years. The asset smoothing method has recognized only four-fifths of the significant asset loss that occurred in fiscal year ended 2009, and only one-fifth of the asset loss from the fiscal year ended June 30, 2012. The Funding Policy utilized what is referred to as a "layered" amortization method. Under this method, the 2009 Unfunded Actuarial Accrued Liability (UAAL) amount is amortized over a closed 30-year period. Future actuarial gains and losses on the UAAL are amortized over new closed 30-year periods beginning with the June 30, 2010 valuation. For the June 30, 2012 valuation, four amortization layers were used to calculate the total amortization payment beginning July 1, 2013.

The Funding Policy was amended in February 2013 to conform to the new standards PEPRA mandated. In addition, beginning with the June 30, 2012 valuation and on a prospective basis, the Board of Investments approved inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve balance as part of valuation assets.

In October 2011, the Board of Investments adopted a decrease in the investment return assumption, to be phased in over a three-year period. The investment return assumption in effect for the June 30, 2011 and June 30, 2012 actuarial valuations were 7.70 percent and 7.60 percent, respectively. The investment return assumption that is scheduled to be in effect for the 2013 actuarial valuation is 7.50 percent. For each decrease in the investment return assumption, a corresponding decrease in the price and wage inflation assumptions will be made.

LACERA's independent consulting actuary, Milliman, performed the actuarial valuation as of June 30, 2012 and determined the Funded Ratio of the actuarial assets to the actuarial accrued liabilities decreased to 76.8 percent, as compared to 80.6 percent as of June 30, 2011. The relatively flat investment return for the year was offset by recognition of current and deferred asset losses in prior years, resulting in a 4.6 percent decrease in the Funded Ratio under the five-year actuarial asset smoothing method. For the fiscal year ended in 2012, the Fund returned 0.1 percent (net of fees) on a market basis, which is less than the assumed rate of 7.60 percent. The large recognized loss on actuarial assets from the fiscal year ended June 30, 2009, had an impact on the 2012 valuation results.

FAIR VALUE, RATES OF RETURN, AND FUNDED RATIO

The table below provides a three-year history of investment and actuarial returns and the actuarial funded ratio. An expanded version of this table, which provides ten years of information, can be found in the Investment Section.

The investment returns have turned from significantly to moderately positive over the last three years. The Board of Investments has reduced the assumed rate of return (as described in the Actuarial Valuations section above), while the funded ratio has decreased slightly from fiscal years ended 2011 to 2012. Even though investment returns were positive, as mentioned, the actuarial smoothing of losses has recognized only part of the large deferred asset losses from prior fiscal years.

Fair Value, Rates of Return, and Funded Ratio

For the Last Three Fiscal Years Ended June 30

(Dollars in Thousands)

Fiscal Year-End	Total Investment Portfolio Fair Value	Total Fund Return (gross of fees)	Return on Smoothed Valuation Assets*	Actuarial Assumed Rate of Return	Funded Ratio
2011	\$39,770,032	20.4%	3.3%	7.70%	80.6%
2012	38,627,163	0.3%	1.8%	7.60%	76.8%
2013**	\$42,285,906	12.1%	—	—	—

*Returns calculated using the money-weighted rate of return method (net of fees).

**Actuarial valuation report for June 30, 2013 not available at CAFR publication.

INTEREST CREDITS FOR RESERVE ACCOUNTS

Pursuant to CERL, LACERA credits interest semiannually on December 31 and June 30 to all contributions in the retirement plan that have been on deposit six months prior to such dates. The Board of Investments' policy is to credit annual interest equal to the current actuarial assumed earnings rate in the same priorities as listed for the allocation of actuarial assets, provided there are sufficient realized earnings for the six-month period to support that interest rate.

The semiannual interest crediting rate applied during the fiscal year ended 2013 was 3.85 percent (i.e., 7.70 percent annual rate). As previously stated, in October 2011, the Board of Investments approved to reduce the assumed actuarial earnings rate over a three-year period from 7.75 percent to 7.50 percent. The new rate of 7.70 percent was implemented with the Board of Investments' adoption of the June 30, 2011 actuarial valuation. To provide ample time for both the plan sponsor (Los Angeles County) and LACERA to prepare for the rate change implementation, the new 7.70 percent rate was effective July 1, 2012, which was also when the corresponding employee contribution rates, as recommended in the June 30, 2011 valuation, took effect.

The total Fund's positive return provided ample realized earnings, which allowed LACERA to credit the full 3.85 percent semiannual interest for the periods ended December 31, 2012 and June 30, 2013 to certain reserve accounts, according to the CERL provisions.

ECONOMIC FACTORS

The U.S. economy continued to improve steadily with the Federal Reserve (Fed) providing the support with an open-ended quantitative easing, buying bonds and driving long-term yields to near historic low levels. Positive growth trends led by a run-up in the stock market, the rebound of housing prices, and the revival of household wealth has brought confidence back to the economy.

Moving forward, the U.S. economy is expected to produce moderate Gross Domestic Product growth. However, the magnitude and timing of the Fed's tapering (i.e., reducing its \$85 billion per month asset purchase program) and the looming government shutdown may present a degree of volatility in financial markets.

The global economy grew at a modest pace with Europe fighting a recession, growth slowing in China, and Abenomics (economic policies advocated by Japan's Prime Minister, Shinzō Abe) successfully accelerating economic activity in Japan. These factors will continue to be downside risks in the new fiscal year, as the global economy is projected to be slowed.

For the fiscal year ended June 30, 2013, LACERA's total fund return was 12.1 percent, gross of fees. The Fund's return exceeded its Policy benchmark, which returned 11.4 percent.

OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST

Pursuant to the California Government Code, the County established an irrevocable, tax-exempt Other Post-Employment Benefit (OPEB) Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Program administered by LACERA.

On May 15, 2012, the County hired the LACERA Board of Investments to manage and invest the OPEB Trust assets. The participating employers will be responsible for and have full discretion over contributions to and withdrawals from the OPEB Trust. At this time, there are two participating employers in the OPEB Trust: the County and LACERA.

Financial Analysis

As reflected in the *Statement of Changes in Fiduciary Net Position*, the participating employers' initial contribution of \$448.8 million made up the majority of the additions to the OPEB Trust. Additions also included net investment income of \$0.2 million and total deductions of \$0.2 million due to administrative expenses charged to establish and manage the new Trust. The total Net Position Restricted for Benefits for the OPEB Trust as of fiscal year June 30, 2013 is \$448.8 million.

Information related to the OPEB Trust has been included throughout various sections of this report to meet financial reporting standards.

NEW PENSION ACCOUNTING AND FINANCIAL REPORTING STANDARDS

On June 25, 2012, the Governmental Accounting Standards Board (GASB) voted to approve two new standards designed to substantially improve the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for governments that provide their employees with defined benefit pensions. These accounting and financial reporting standards represent the most significant fundamental changes in reporting requirements for pension plans (LACERA) and plan sponsors (Los Angeles County and outside districts) since 1994.

For LACERA, the new standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the Notes to the Basic Financial Statements. The new financial reporting provisions for LACERA are effective for fiscal year ending June 30, 2014.

The new standards require Los Angeles County and outside districts to recognize their proportionate share of long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This proportionate share is based on the plan sponsors' long-term contribution effort. The new financial reporting standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For Los Angeles County and outside districts, the new financial reporting provisions are effective for its fiscal year ending June 30, 2015.

LACERA established a GASB 67/68 Task Force comprised of key stakeholders from the County, outside districts, and external professional service providers to discuss requirements for implementation of the new accounting standards. The Task Force provides the opportunity to open the lines of communication among the parties involved and work toward establishing timelines and a framework for preliminary implementation decisions.

GASB issued the *Implementation Guide* for GASB Statement No. 67 in late June 2013. The LACERA Boards of Retirement and Investments, through our professional organizations, management, and consultants, will evaluate and implement these new requirements as prescribed within the required time frame. Limited guidance has been available for GASB Statement No. 68 thus far. However, GASB anticipates releasing the GASB Statement No. 68 *Implementation Guide* in the first quarter of 2014.

SUBSEQUENT EVENT

At its March 2013 meeting, the Board of Investments selected a new bank to provide custodial and commercial banking services to LACERA. This transition took effect July 1, 2013, when all custodied assets were transferred and all custodial and commercial banking services commenced with the new bank. To ensure the completeness and integrity of the transition, an independent accounting firm was hired to perform a separate audit of the investment portfolio transition from the prior custodian to the new custodian.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Boards of Retirement and Investments, our membership, and other interested third parties with a general overview of LACERA's finances and to show accountability for the funds it receives.

Address questions regarding this report and/or requests for additional financial information to:

Chief Financial Officer
LACERA
300 N. Lake Avenue, Suite 650
Pasadena, CA 91101

Respectfully submitted,

Beulah S. Auten

Beulah S. Auten, CPA, CGFM, CGMA
Chief Financial Officer

Statement of Fiduciary Net Position

As of June 30, 2013 and June 30, 2012

(Dollars in Thousands)

	2013		2012		
	Pension Plan	OPEB Trust	OPEB Agency Fund	Pension Plan	OPEB Agency Fund
Assets					
Cash	\$184,297	\$1	\$690	\$132,387	\$435
Cash Collateral on Loaned Securities	138,273	—	—	1,469,510	—
Receivables					
Contributions Receivable	64,664	—	—	60,835	—
Accounts Receivable - Sale of Investments	939,919	—	—	759,053	—
Accrued Interest and Dividends	88,242	1,688	—	110,360	—
Accounts Receivable - Other	24,717	—	38,996	47,315	38,517
Total Receivables	1,117,542	1,688	38,996	977,563	38,517
Investments at Fair Value					
U.S. and Non-U.S. Equities	21,404,466	—	—	19,008,993	—
Fixed Income	11,354,170	447,313	130,532	10,747,978	114,404
Private Equity	3,730,991	—	—	3,789,891	—
Real Estate	4,108,198	—	—	3,899,087	—
Commodities	1,194,331	—	—	929,259	—
Hedge Funds	493,750	—	—	251,955	—
Total Investments	42,285,906	447,313	130,532	38,627,163	114,404
Total Assets	43,726,018	449,002	170,218	41,206,623	153,356
Liabilities					
Accounts Payable - Purchase of Investments	1,743,312	—	—	1,367,869	—
Retiree Payroll and Other Payables	656	—	198	508	157
Accrued Expenses	29,380	147	387	24,116	126
Tax Withholding Payable	28,247	—	—	26,580	—
Obligations under Securities Lending Program	138,273	—	—	1,469,510	—
Accounts Payable - Other	12,631	—	39,101	11,284	38,669
Due to Employers	—	—	130,532	—	114,404
Total Liabilities	1,952,499	147	170,218	2,899,867	153,356
Net Position Restricted for Benefits*	\$41,773,519	\$448,855	—	\$38,306,756	—

*See Schedule of Funding Progress-Pension Plan included in this Section for the Actuarial Valuation of Assets as of the most recent valuation date. The accompanying Notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Position

For the Years Ended June 30, 2013 and 2012

(Dollars in Thousands)

	2013	2013	2012
	Pension Plan	OPEB Trust	Pension Plan
Additions			
Contributions			
Employer	\$723,195	\$448,819	\$1,078,929
Member	679,572	—	506,758
Total Contributions	1,402,767	448,819	1,585,687
Investment Income			
From Investing Activities:			
Net Appreciation/(Depreciation) in Fair Value of Investments	2,661,499	(1,711)	(1,432,805)
Investment Income	2,079,642	5,364	1,213,169
Total Investing Activity Income/(Loss)	4,741,141	3,653	(219,636)
Less Expenses from Investing Activities	(86,815)	(3,444)	(75,216)
Net Investing Activity Income/(Loss)	4,654,326	209	(294,852)
From Securities Lending Activities:			
Securities Lending Income	4,286	—	4,234
Less Expenses from Securities Lending Activities:			
Borrower Rebates	1,321	—	373
Management Fees	(918)	—	(764)
Total Expenses from Securities Lending Activities	403	—	(391)
Net Securities Lending Income	4,689	—	3,843
Total Net Investment Income/(Loss)	4,659,015	209	(291,009)
Miscellaneous	385	—	1,004
Total Additions	6,062,167	449,028	1,295,682
Deductions			
Retiree Payroll	2,514,096	—	2,371,393
Administrative Expenses	53,863	173	50,218
Refunds	25,012	—	17,621
Lump-Sum Death/Burial Benefits	2,243	—	1,584
Miscellaneous	190	—	121
Total Deductions	2,595,404	173	2,440,937
Net Increase/(Decrease) in Net Position	3,466,763	448,855	(1,145,255)
Net Position Restricted for Benefits			
Beginning of Year	38,306,756	—	39,452,011
End of Year	\$41,773,519	\$448,855	\$38,306,756

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

Note A — Plan Description

The Los Angeles County Employees Retirement Association (LACERA) was established on January 1, 1938. It is governed by the California Constitution; the County Employees Retirement Law of 1937 (CERL); and the regulations, procedures, and policies adopted by LACERA's Boards of Retirement and Investments. The Los Angeles County (County) Board of Supervisors may also adopt resolutions, as permitted by CERL, which may affect the benefits of LACERA members. LACERA operates as a cost-sharing multiple-employer defined benefit plan for Los Angeles County and its affiliated Superior Court, plus four outside districts: Little Lake Cemetery District, Local Agency Formation Commission, Los Angeles County Office of Education, and South Coast Air Quality Management District.

Adoption of PEPRA

In September 2012, Governor Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA), which included amendments to the County Employees Retirement Law of 1937 (CERL). This new law applies to new employees who became first-time LACERA members on or after January 1, 2013. Some of the provisions included: caps on compensations that may be used for pensions; equal sharing of pension costs; new pension formulas for general and safety members; specified exclusions from pensionable compensation; three-year final compensation; and prohibition on benefit replacement plans. For all employees, it included: prohibition of retroactive pension increases; elimination of ARC purchases;

180-day break in service for retired annuitants (with some exceptions); forfeiture of pension and related benefits for certain felony convictions; and a new CERL definition of "compensation earnable."

LACERA worked closely with the County, the plan sponsor, to successfully implement the State-mandated PEPRA. To assist the County in selecting a plan formula for new members joining the retirement system on or after January 1, 2013, LACERA engaged the plan actuary to perform an analysis and present corresponding employer and employee contribution rates. The County Board of Supervisors determined that new members will join two newly created plan tiers, General Plan G (based on the existing General Plan D) and Safety Plan C (based on the existing Safety Plan B). These newly created retirement plan tiers are administered as contributory plan tiers. Although the previous plan tiers use an "age-based" contribution rate structure, the LACERA Board of Investments set the General Plan G and Safety Plan C contributions based on a single average rate.

Membership

LACERA provides retirement, disability, and death benefits to its active safety and general members and administers the plan sponsors' retiree health benefit program. (See Note N — Other Post-Employment Benefits Program.) Safety membership includes law enforcement (Sheriff and District Attorney Investigators), firefighting, forester, and lifeguard

LACERA Membership

As of June 30, 2013 and 2012

	2013	2012
Active Members:		
Vested	73,980	72,096
Non-Vested	17,565	19,856
Total Active Members	91,545	91,952
Retired Members	58,067	56,752
Terminated Vested (Deferred)	7,959	7,859
Total Membership	157,571	156,563

Note A continued

classifications. General membership is applicable to all other occupational classifications. The retirement benefits within the plan are tiered based on the date of LACERA membership. Additional information regarding the benefit structure is available by contacting LACERA.

Investments

Pension Plan: Assets in the Pension Plan are derived from three sources: employer contributions; employee contributions (made by the employer on behalf of employees pursuant to §414(h) (2) of the Internal Revenue Code); and investment earnings. Assets of the Pension Plan are held separate from any other assets and are invested pursuant to policies and procedures adopted by LACERA's Board of Investments.

Other Post-Employment Benefits (OPEB) Agency

Fund: The County of Los Angeles (County) provides a health insurance program and death benefits for retired employees and their dependents, which LACERA administers on the County's behalf. Pursuant to an agreement between the County and LACERA, the County subsidizes, either in whole or in part, insurance premiums covering program participants. An Agency Fund is maintained to record income and expenses as well as to maintain asset and liability balances.

LACERA maintains two investment accounts under the OPEB Agency Fund: the OPEB Operating Account and OPEB Reserve Account. Funds in these two accounts are reported and invested separately from Pension Plan assets. External managers invest funds in both accounts pursuant to policies and procedures approved by LACERA's Board of Investments. In addition, tax counsel advises that investment income realized in these types of accounts maintained by government entities generally is exempt from federal income taxation under §115 of the Internal Revenue Code.

OPEB Operating Account: This account is primarily used to fund the OPEB Program's operations. Additions include the monthly insurance subsidy collected from the County, payments from program participants, and

interest income. Deductions include premium payments to insurance carriers and program administrative expenses.

OPEB Reserve Account: This account was established to help stabilize premium rates over time. Annual surpluses and deficits for the various insurance plans result from the difference between premiums received and the healthcare costs incurred. The accumulated surplus is held in this account to address deficits and/or emergency premiums. Additions include rebates from insurance carriers and other income. Deductions include management fees and County-authorized payments to offset waived premium costs (i.e., insurance premium holidays) for both the County and affected participants.

Other Post-Employment Benefits (OPEB) Trust:

The County established a tax-exempt OPEB Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Benefits Program which is administered by LACERA, for eligible retired members, as well as eligible dependents and survivors of LACERA members.

The County hired the LACERA Board of Investments to act as Trustee and Investment Manager by entering into a Trust and Investment Services Agreement on May 15, 2012. The Board of Investments approved an Investment Policy and initial asset allocation for the purpose of effectively managing and monitoring the assets of the OPEB Trust. Contributions and transfers to the OPEB Trust are determined at the County's discretion.

The OPEB Trust will serve as a funding tool for the participating employers to pay expenses associated with other post-employment benefits and to prefund the liability for retiree healthcare benefits. The OPEB Trust does not modify the participating employer's benefit programs and at this time, there are two participating employers in the OPEB Trust: Los Angeles County and LACERA. For fiscal year ended June 30, 2013, the participating employers provided the initial contributions to the OPEB Trust.

Benefit Provisions

Vesting occurs when a member accumulates five years' creditable service under contributory plans or accumulates 10 years of creditable service under the general service non-contributory plan. Benefits are based upon 12 or 36 months' average compensation, depending on the plan, as well as age at retirement and length of service as of the retirement date, according to applicable statutory formula. Vested members who terminate employment before retirement age are considered terminated vested (deferred) members. Service-connected disability benefits may be granted regardless of length of service consideration. Five years of service are required for nonservice-connected disability eligibility according to applicable statutory formula. Members of the non-contributory plan, who are covered under separate long-term disability provisions not administered by LACERA, are not eligible for disability benefits provided by LACERA.

Cost-of-Living Adjustment (COLA)

Under provisions in the CERL, the LACERA Board of Retirement (BOR) shall, before April 1 each year, determine whether there has been an increase or decrease in the cost of living, as shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers for the area in which the county seat is situated, as of the preceding January 1. Effective April 1 of each year, the BOR must increase or decrease retirement and survivor allowances by a percentage of the total allowance to approximate, to the nearest one-half of one percent, the percentage of annual increase or decrease in the cost of living as of the preceding January 1 for members and survivors who were retired prior to April 1. Plan A members may receive a 3.0 percent maximum increase, while Plan B, C, and D members may receive a 2.0 percent maximum increase. Plan E members receive cost-of-living increases up to 2.0 percent for service credit earned subsequent to June 4, 2002. Any CPI cost-of-living increase or decrease in any year that is not met by the maximum annual change of 3.0 percent or 2.0 percent in allowances will be accumulated to be met by increases or decreases in allowances for future

years. The accumulated percentage carryover is known as the COLA Accumulation.

STAR Program

In addition to cost-of-living increases, the CERL also provides the BOR the authority to grant supplemental cost-of-living increases. Under this program, known as the Supplemental Targeted Adjustment for Retirees (STAR), excess earnings have been used to restore retirement allowances to 80 percent of the purchasing power held by retirees at the time of retirement. Except for Program years 2005 and 2010 through 2012, the BOR made permanent the 2001 through 2009 STAR Programs at an 80 percent level as authorized in the CERL §31874.3. There were no new retirees or beneficiaries entitled to additional STAR benefits for Program years 2005 and 2010 through 2013 due to the modest Consumer Price Index percentage increase. Thus, all eligible members had COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

Future ad hoc increases in the current STAR Program will be subject to approval by the BOR on an annual basis, provided sufficient excess earnings are available as determined by the Board of Investments (BOI). Permanent STAR benefits become part of the member's retirement allowance and are payable for life. Ad hoc STAR benefits are payable only for the calendar year approved.

Since the inception of the STAR Program in 1990 to the present, the Program received \$1.5 billion in funding. Except for Program years 2005 and 2010 through 2013, the STAR Program funded approximately \$353 million when the BOR made permanent the 2001-2009 STAR Program benefits. As of June 30, 2013, there is \$614 million available in the STAR Program reserve to fund future benefits. Total STAR Program costs since inception equaled \$921 million.

The STAR Program is administered on a calendar year basis. The Statistical Section contains a 10-year trend schedule of costs for the STAR Program.

NOTE B — Summary of Significant Accounting Policies

Reporting Entity

LACERA, with its own governing Boards, is an independent governmental entity separate and distinct from the County of Los Angeles (County). Because of the nature of the close relationship between LACERA as a blended component unit to the County, LACERA's basic financial statements are reflected as a Pension Trust Fund of the County's basic financial statements. LACERA's operations are heavily dependent upon County funding, and the operations almost exclusively benefit the County. Maintaining appropriate controls and preparing the financial statements are the responsibility of LACERA management, with oversight by LACERA's Internal Audit staff.

LACERA wholly owns numerous Title Holding Corporations (THCs) and Limited Liability Companies (LLCs). The THCs are nonprofit corporations under §501(c)(25) of the Internal Revenue Code (IRC). The LLCs do not have tax-exempt status, but their income is excludable from taxation under IRC §115. The THCs invest in commercial properties located throughout the United States, and the LLCs invest in hotels and office buildings. The financial activities of the THCs and LLCs are included in the accompanying financial statements as investments at fair value.

Method of Reporting

LACERA follows the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting to reflect the overall operations of

LACERA. Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each benefit plan.

Capital Assets (Including Intangible Assets)

Capital Assets are items that benefit more than one fiscal year. LACERA's potential capital assets are largely in information technology. Due to the continual upgrading of information technology systems by LACERA, these items are expensed as they are immaterial to the plan's Fiduciary Net Position. Management reviewed and considered all expenses that could be capitalized as intangible assets and determined these items to be appropriately classified as expenses for the current fiscal year.

Accrued Vacation and Sick Leave

Employees who terminate or retire from active employment are entitled to full compensation for all unused vacation and a percentage of their unused sick leave. The accrued vacation and sick leave balances for LACERA employees as of June 30, 2013 and 2012 were \$2.9 million and \$2.7 million, respectively.

Cash

Cash includes deposits with various financial institutions, the County trust fund, and non-U.S. currency holdings, which have original maturities of less than 90 days, translated to U.S. dollars using the exchange rates in effect at June 30, 2013 and 2012.

Investments

Investments are carried at fair value. Fair values for investments are derived by various methods, as indicated in the following table:

Investments	Source
Publicly Traded Securities, such as stocks and bonds. Bonds include obligations of the U.S. Treasury, U.S. Agencies, non-U.S. governments, and both U.S. and non-U.S. corporations. Also included are mortgage-backed securities and asset-backed securities.	Valuations are provided by LACERA's custodian, based on end-of-day prices from external pricing vendors. Non-U.S. securities reflect currency exchange rates in effect at June 30, 2013 and 2012.
Whole Loan Mortgages	For the LACERA Member Home Loan Program, valuation is performed by LACERA staff based on loan information provided by Ocwen Financial Corporation, the program's mortgage servicer, with fair market value adjustments based on the market returns of the Barclays mortgage-backed securities index.
Real Estate Equity Funds	Fair value as provided by the real estate fund manager, based on review of cash flow, exit capitalization rates, and market trends; fund managers commonly subject each property to independent third-party appraisal annually. Investments under development are carried at cumulative cost until developed.
Real Estate - title holding corporations, limited liability companies, and special purpose entities	Fair value of the investment as provided by investment managers. Each property is subject to independent third-party appraisals every three years.
Real Estate Debt Investments	Fair value for real estate debt investments as provided by investment managers.
Private Equity	<p>Fair value provided by the investment manager as follows:</p> <p>Private investments – valued by the General Partner giving consideration to financial condition and operating results of the portfolio companies, nature of investment, marketability, and other factors deemed relevant.</p> <p>Public investments – valued based on quoted market prices, less a discount, if appropriate, for restricted securities.</p> <p>Fair values are reviewed by LACERA's private equity consultant.</p>

There are certain market risks, credit risks, foreign currency exchange risks, liquidity risks, and event risks that may subject LACERA to economic changes occurring in certain industries, sectors, or geographies.

Dividend income is recorded on the ex-dividend date. Other investment income is recorded as earned on an accrual basis.

Use of Estimates

The preparation of LACERA's financial statements in conformity with accounting principles generally accepted in the United States of America (i.e., GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes to the financial statements. Actual results could differ from these estimates.

Implementation of New Accounting Pronouncement

LACERA adopted Governmental Accounting Standards Board (GASB) Statement Number 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net

Position, effective June 30, 2013. This caused the names of LACERA's Basic Financial Statements to change; thus, they are now referred to as the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. Also, certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

NOTE C — Contributions

Members and employers contribute to LACERA based on unisex rates recommended by an independent consulting actuary and adopted by the Board of Investments and the Los Angeles County Board of Supervisors. Contributory plan members are required to contribute between approximately 5 percent and 13 percent of their annual covered salary. Member and employer contributions received from the outside districts are considered part of LACERA's pension plan as a whole.

Participating employers are required to contribute the remaining amounts necessary to finance the coverage of their employees (members) through monthly or annual prefunded contributions at actuarially determined rates. Rates for the contributory plan tiers for members who entered the Plan prior to January 1, 2013 are based upon age at entry to the Plan and plan-type enrollment. Members entering the Plan starting January 1, 2013 have a rate methodology different than the previous plan tier's "age-based" structure. The newly created retirement plan tiers are administered as contributory plan tiers where the respective plan tier members pay a single average rate. LACERA's

consulting actuary determined these rates following an analysis of Assembly Bill 340, California Public Employees' Pension Reform Act of 2013 (PEPRA). Both member rate methodologies are actuarially designed for the employees, as a group, to make the same dollar contributions into the plan. As a result of collective bargaining, actual member contribution rates for various plans are controlled through these agreements and through additional employer contributions (for some contributory plans), known as the surcharge amount, which is subject to change each year.

For fiscal year ended June 30, 2013, Los Angeles County (County) paid its employer contributions due to LACERA in the form of semimonthly cash payments to cover approximately six and one-half months. The County utilized \$448.8 million from the County Contribution Credit Reserve to provide employer contributions for the remaining five and one-half months. For fiscal year ended June 30, 2012, the County paid its employer contributions due to LACERA in the form of semimonthly cash payments.

NOTE D — Reserves

LACERA includes accounts within Net Position Restricted for Benefits as reserve accounts for various operating purposes stipulated in various agreements. Reserves are neither required nor recognized under accounting principles generally accepted in the United States of America. These are not shown separately on the Statement of Fiduciary Net Position, as the sum of these reserves equal the Net Position Restricted for Benefits. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due.

Pension Plan

LACERA's major classes of reserves are as follows:

Member Reserves represent the balance of member contributions. Additions include member contributions and related earnings. Deductions include annuity payments to retirees, refunds to members, and related expenses.

Employer Reserves represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from employers and related earnings. Deductions include annuity payments to retired members, lump-sum death/burial benefit payments to members' survivors, and supplemental disability payments.

County Contribution Credit Reserve (CCCR) was created pursuant to the 1994 Retirement System Funding Agreement between LACERA and the County of Los Angeles (County). Seventy-five percent (75%) of excess earnings in fiscal years 1995-1999 were credited into the CCCR. Deductions include payments, as the County authorizes, for current and future employer contributions due to LACERA.

Supplemental Targeted Adjustment for Retirees (STAR) Reserve represents the balance of

transfers from the Contingency Reserve for future supplemental cost-of-living adjustment (COLA) increases. Twenty-five percent (25%) of excess earnings in fiscal years 1995-1999 was credited to the STAR Reserve pursuant to the 1994 Retirement System Funding Agreement between LACERA and the County. Prior additions include transfers from the Contingency Reserve. Deductions include COLA payments to retirees and funding for permanent benefits. Except for Program years 2005 and 2010 through 2012, the Board of Retirement (BOR) made permanent the 2001 through 2009 STAR Programs at an 80 percent level as authorized in the County Employees Retirement Law of 1937 (CERL). There were no new retirees or beneficiaries entitled to additional STAR benefits for Program years 2005 and 2010 through 2013 due to the modest Consumer Price Index percentage increase. Thus, all eligible members had COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

Future ad hoc increases in the current STAR Program will be subject to approval by the BOR on an annual basis, provided sufficient excess earnings are available as determined by the Board of Investments (BOI). Permanent STAR benefits become part of the member's retirement allowance and are payable for life. Ad hoc STAR benefits are payable only for the calendar year approved.

Contingency Reserve represents reserves accumulated for future earning deficiencies, investment losses, and other contingencies. Additions include realized investment income and other revenues. Deductions include investment expenses; administrative expenses; interest allocated to other reserves to the extent that realized earnings are available for the six-month period and in priority order as defined in the Retirement Benefit Funding Policy (Funding Policy) approved by the BOI in 2009; and funding of the STAR Reserve when excess earnings are available and authorized by the BOR. The Contingency Reserve is used to satisfy the CERL requirement for LACERA to reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies.

For fiscal year ended June 30, 2013, the net investment earnings were applied to credit interest to some of the reserves in accordance with the Funding Policy, leaving no balance in the

Contingency Reserve. For fiscal year ended June 30, 2012, the Contingency Reserve balance of \$136 million represented 0.4 percent of the Fair Value of Total Investments.

Reserves

As of June 30, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Member Reserves	\$16,866,229	\$15,707,024
Employer Reserves	20,612,325	20,381,597
County Contribution Credit Reserve	21,891	470,710
STAR Reserve	614,011	614,011
Contingency Reserve	—	135,850
Total Reserves at Book Value	38,114,456	37,309,192
Unrealized Investment Portfolio Appreciation	3,659,063	997,564
Total Reserves at Fair Value	\$41,773,519	\$38,306,756

OPEB Trust

The County hired the LACERA Board of Investments to manage and invest the County's Other Post-Employment Benefits (OPEB) Trust. During the fiscal year ended June 30, 2013, the County made contributions to prefund the growing liability for retiree healthcare benefits. The Employer Reserves represent the balance of employer contributions received from both

employers: the County and LACERA. Additions include contributions from employers and investment income. Deductions include investment and administrative expenses.

As of June 30, 2013, the Employer Reserves balance was \$451 million.

NOTE E — Pension Actuarial Valuations

The County Employees Retirement Law of 1937 (CERL) requires an actuarial valuation to be performed at least every three years for the purpose of measuring the Plan's funding progress and setting contribution rates. LACERA exceeds this requirement by engaging an independent actuarial consulting firm to perform an actuarial valuation for the pension plan annually. Employer contribution rates may be updated annually as a result of the valuation.

Actuarial standards guide the frequency to which an investigation of experience (experience study) is performed. LACERA engages an independent actuarial consulting firm to perform the experience study at least every three years (on a triennial basis). The economic and demographic assumptions are reviewed and updated as required each time an experience study is performed. The experience study and corresponding annual valuation serve as the basis for changes in member contribution rates necessary to properly fund the Plan. New assumptions were adopted by the Board of

Investments (BOI) beginning with the June 30, 2010 actuarial valuation, based on the results of the 2010 triennial experience study. In October 2011, the BOI adopted a decrease in the investment return and other economic assumptions, to be phased in over a period of three years. The investment return assumption in effect for the 2012 actuarial valuation was 7.60 percent. The investment return assumption that is scheduled to be in effect for the 2013 actuarial valuation is 7.50 percent. A corresponding decrease in the price and wage inflation assumptions is scheduled to be made for the 2013 valuation.

The information displayed below presents the funded status as of the June 30, 2012 actuarial valuation. The Schedule of Funding Progress — Pension Plan in the Required Supplementary Information section immediately following the Notes to the Basic Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability of benefits.

Funded Status as of the Most Recent Actuarial Valuation Date

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Valuation Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded Actuarial Accrued Liabilities (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2012	\$39,039,364	\$50,809,425	\$11,770,061	76.8%	\$6,619,816	177.8%

Actuarial Methods and Significant Assumptions

Actuarial Cost Method	Entry Age Normal.
Actuarial Asset Valuation Method	Five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. The expected market value is the prior year's market value increased with the net cash flow of funds, both adjusted to reflect expected investment returns during the past fiscal year at the investment return assumption. The five-year smoothing valuation basis for all assets was adopted beginning with the June 30, 2009 valuation.
Inflation Rate — Consumer Price Index (CPI)	3.35 percent This rate was adopted beginning with the June 30, 2011 valuation.
Investment Return	7.60 percent Compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2012 valuation.
Projected Salary Increases	4.11 percent to 10.08 percent The total expected increase in salary includes both merit and the general wage increase assumption of 3.85 percent per annum. The total result is compounded rather than additive. Increases are assumed to occur mid-year (i.e., January 1st) and apply only to base salary. The mid-year timing reflects that salary increases occur throughout the year, or on average mid-year. These rates were adopted beginning with the June 30, 2012 valuation.
Post-Retirement Benefit Increases	<p>Increase varies by plan. Regular Plan Cost-of-Living Adjustment (COLA) is not greater than the Consumer Price Index (CPI) assumption. A supplemental COLA may be provided to certain members to limit the loss of purchasing power to no more than 20.0 percent.</p> <p>Post-retirement benefit increases of either 3.0 percent or 2.0 percent per year are assumed for the valuation in accordance with the benefits provided. These adjustments, which are based on the CPI, are assumed payable each year in the future as they are less than the expected increase in the CPI of 3.35 percent per year. This rate was adopted beginning with the June 30, 2012 valuation.</p> <p>Plan E members receive a prorated post-retirement benefit increase of 2.0 percent for service credit earned after June 4, 2002. The portion payable is based on the member's years of service earned after June 4, 2002 to his/her total years of service. The portion of the full 2.0 percent increase not provided for may be purchased by the member.</p>

Actuarial Methods and Significant Assumptions continued

Amortization Method and Period

In accordance with LACERA's Funding Policy adopted in 2009, the County's contributions are set equal to the normal cost rate, net of expected member contributions for the next year, plus amortization of any Unfunded Actuarial Accrued Liability (UAAL) or Surplus Funding. A UAAL occurs if the Funded Ratio is less than 100 percent. Surplus Funding occurs if the Funded Ratio is greater than 100 percent.

The amortization of the UAAL beginning with the June 30, 2009 valuation is funded over a closed 30-year period. Any future unanticipated changes in the UAAL, such as assumption changes or actuarial gains and losses, are amortized over new closed 30-year periods beginning with the June 30, 2010 valuation. This approach is often referred to as a "layered amortization method." For the June 30, 2012 valuation, four amortization layers were used to calculate the total amortization payment beginning July 1, 2013. The employer contribution rate is not allowed to be less than the rate if LACERA amortized the total UAAL over a 30-year period. If the Funded Ratio is greater than 100 percent in future valuations, the amortization of any Surplus Funding is funded over an open or "rolling" 30-year period.

In December 2009, the BOI adopted a new Retirement Benefit Funding Policy (Funding Policy). The Funding Policy was amended in February 2013 to conform with the new standards mandated in the California Public Employees' Pension Reform Act of 2013. In addition, for the June 30, 2012 valuation, the BOI approved inclusion of the STAR Reserve as part of valuation assets for 2012 and on an ongoing basis; the liability for STAR benefits that may be granted in the future is not included in the valuation.

The latest actuarial valuation as of June 30, 2012 increased the County's normal cost rate from 9.65 percent to 9.73 percent. The change in the normal cost contribution rates from year to year is generally due to a few factors. This year, the normal cost rate was impacted by new economic assumptions, normal actuarial experience, and contribution cancellation for a select group of members hired prior to 1973 with 30 years of service. The County's

required contribution rate to finance the UAAL over a layered 30-year period increased from 7.89 percent to 10.09 percent. Additionally, new member contribution rates were increased slightly at all entry ages effective with the 2012 valuation, when the assumed rate of investment return was lowered to 7.60 percent (with corresponding decreases in CPI and wage inflation assumptions).

The combined result is a 2.28 percent increase in the total required County contribution rate from the previous valuation (from 17.54 percent to 19.82 percent of payroll). The most significant factor causing the increase was the recognition of deferred investment losses under the asset smoothing method, which resulted in a 1.92 percent increase in the UAAL rate. Additionally, the change in investment return assumption caused a 0.54 percent increase. All other factors had a relatively minor impact, causing a 0.18 percent decrease in total.

NOTE F — Partial Annuitization of Benefit Payments

In January 1987, LACERA entered into agreements to purchase single life annuities from two insurance carriers to provide benefit payments to a portion of the retired members. Under the terms of the agreements, LACERA continues to administer all benefit payments to covered members. There is no effect on covered members, since they retain all benefits accorded other LACERA members, including rights to continuance of benefits to survivors, health insurance subsidies, and cost-of-living adjustments (COLA). The values of the annuities are entirely allocated to covered members.

The monthly annuity reimbursement from the carriers is limited to the straight life annuity payments and statutory COLA increases. LACERA

is responsible for any differences in benefit payments payable to covered members that are unreimbursed by the insurance carriers. The reimbursements received are netted with the pension and annuity payments in the financial statements. During fiscal year ended June 30, 2013, LACERA paid \$28.0 million to covered members and received \$22.9 million in related reimbursements. During fiscal year ended June 30, 2012, LACERA paid \$31.3 million to covered members and received \$25.7 million in related reimbursements. As the monthly annuity reimbursement from carriers is allocated to covered members, the fair value of contracts has been excluded from pension plan assets and actuarially determined information.

NOTE G — Deposit and Investment Risks

The County Employees Retirement Law of 1937 (CERL) vests the Board of Investments (BOI) with exclusive control over LACERA's investment portfolio. The BOI established an Investment Policy Statement in accordance with applicable local, state, and federal laws. BOI members exercise authority and control over the management of LACERA's Net Position Restricted for Benefits by setting policy that the investment staff executes either internally or through the use of prudent external experts.

The Investment Policy Statement encompasses the following:

- U.S. Equity Investment Policy
- Non-U.S. Equity Investment Policy
- Private Equity Investment Policy
- Fixed Income Investment Policy
- Cash and Cash Equivalents Investment Policy
- Real Estate Investment Policy
- Commodities Investment Policy
- Corporate Governance Principles
- Derivatives Investment Policy
- Emerging Manager Policy
- Manager Monitoring and Review Policy
- Securities Lending Policy
- Placement Agent Policy
- Hedge Fund Policy

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LACERA seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the Pension Fund at an acceptable level of risk within this asset class. To control Credit Risk, credit quality guidelines have been established.

The majority of the Core, Core Plus, and High Yield portfolios meet the following guidelines in terms of credit quality.

Domestic Fixed Income Core and Core Plus Portfolios

A minimum of 80 percent and 70 percent of Core and Core Plus portfolios, respectively, must be

invested in securities rated investment-grade by the major credit rating agencies: Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch).

In addition:

- Money market instruments must be rated at least A-2/P-2 or equivalent by at least one major credit rating agency.
- All rated securities, including Rule 144A securities, must be rated at least B- by S&P or equivalent by at least one major credit rating agency at the time of purchase.
- Unrated issues may be purchased provided, in the judgment of the Investment Manager, they would not violate LACERA's minimum credit quality criteria.
- Unrated issues and securities rated BBB+, BBB, or BBB- by S&P or equivalent, in combination, may represent up to 30 percent of the portfolio.

Domestic High-Yield Fixed Income Portfolios

By definition, high-yield bonds are securities rated below investment grade; therefore, the majority of bonds in the high-yield portfolios are rated below investment grade by at least one of the major credit rating agencies: Moody's, S&P, and Fitch.

In addition:

- Money market instruments must be rated at least A-2/P-2 or equivalent by at least one major credit rating agency.
- At least 95 percent of all rated securities, including Rule 144A securities, must be rated at least B- by S&P or equivalent by at least one major credit rating agency at the time of purchase.
- Consistent with the preceding requirement, a maximum of 5.0 percent of the portfolio may be invested in issues rated below B- by S&P or equivalent; however, these issues must be rated at least CCC by S&P or Caa by Moody's.
- Unrated issues may be purchased provided, in the judgment of the Investment Manager, they would not violate LACERA's minimum credit criteria.

The following is a schedule of the credit quality ratings by Moody's, a nationally recognized statistical rating organization, of investments in fixed income securities. Short-term investments and whole loan mortgages of \$1.9 billion are excluded from this presentation. Additionally, investment-grade fixed income securities of \$300 million (3 percent of combined fixed income) and \$127 million (1 percent of combined fixed income) held in OPEB Trust and OPEB Agency Fund, respectively, were excluded.

Credit Quality Ratings of Investments in Fixed Income Securities

As of June 30, 2013

(Dollars in Thousands)

	U.S. Treasuries	U.S. Govt. Agencies	Municipals	Corporate Debt/Credit Securities	Pooled Funds	Total	% of Portfolio
Aaa	\$1,308,982	\$1,870,847	\$1,199	\$383,671	—	\$3,564,699	37%
Aa	—	3,368	30,992	194,012	—	228,372	3%
A	—	2,229	90,602	613,672	—	706,503	7%
Baa	—	—	—	1,332,190	—	1,332,190	14%
Ba	—	—	—	641,555	—	641,555	7%
B	—	—	8,133	781,436	—	789,569	8%
Caa	—	—	—	213,398	—	213,398	2%
Ca	—	—	2,816	4,580	—	7,396	0%
C	—	—	—	4,070	—	4,070	0%
Not Rated	—	—	1,896	410,220	1,668,830	2,080,946	22%
Total Investment in Fixed Income Securities	\$1,308,982	\$1,876,444	\$135,638	\$4,578,804	\$1,668,830	\$9,568,698	100%

Custodial Credit Risk

LACERA's contract with its primary custodian (Bank) provides that the Bank may hold LACERA's securities registered in the Bank's or its agent's nominee name, in bearer form, book-entry form, a clearing house corporation, or a depository, so long as the Bank's records clearly indicate that the securities are held in custody for LACERA's account. The Bank may also hold securities in custody in LACERA's name when required by LACERA. When held in custody by the Bank, the securities are not at risk of loss in the event of the Bank's financial failure, because the securities are not property (assets) of the Bank. Cash invested overnight in the Bank's depository accounts is subject to the risk

that in the event of the Bank's failure, LACERA might not recover all or some of its deposits. This risk is mitigated when the overnight deposits are insured or collateralized. LACERA's policy as incorporated in its current contract with the Bank requires the Bank to certify it has taken all steps to assure all LACERA monies on deposit with the Bank are eligible for and covered by "pass-through insurance," in accordance with applicable law and FDIC rules and regulations. The steps taken by the Bank include paying deposit insurance premiums when due, maintaining a "prompt corrective action" (PCA) capital category of "well capitalized," and identifying on the Bank's records that it acts as a

Note G continued

fiduciary for LACERA with respect to the monies on deposit. In addition, the Bank is required to provide evidence of insurance and to maintain a Financial Institution Bond, which will cover the loss of money and securities with respect to any and all property the Bank or its agents hold in or for LACERA's account, up to the amount of the bond. To implement certain investment strategies in a cost-effective manner, some of LACERA's assets are invested in investment managers' pooled vehicles. The securities in these vehicles may be held by a different custodian.

Counterparty Risk

Counterparty Risk for investments is the risk that, in the event of the failure of the counterparty to complete a transaction, LACERA would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

No more than 5 percent of the Core, Core Plus, or High-Yield portfolios may be invested in securities of a single issuer, except: U.S. Treasury securities, government-guaranteed debt (including G-7 countries), agency debt, agency mortgage-backed securities, and manager's approved commingled funds.

As of June 30, 2013, LACERA did not hold any investments in any one issuer that would represent 5 percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Interest Rate Risk

Interest Rate Risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

To manage Interest Rate Risk, the modified adjusted duration of the Domestic Fixed Income Core, Core Plus, and High-Yield portfolios is restricted to +/- 25.0 percent of the duration of the portfolios' respective benchmarks. Deviations from any of the stated guidelines require prior written authorization from LACERA.

The Fixed Income Securities — Duration schedule presents the duration by investment type. Short-term investments and whole loan mortgages of \$1.9 billion are excluded from this presentation. Additionally, investment-grade fixed income securities of \$300 million (3 percent of combined fixed income) and \$127 million (1 percent of combined fixed income) held in OPEB Trust and OPEB Agency Fund, respectively, were excluded.

Fixed Income Securities — Duration

As of June 30, 2013

(Dollars in Thousands)

Investment Type	Fair Value	Modified Duration ¹
U.S. Government and Agency Instruments:		
U.S. Treasury	\$1,308,982	6.42
U.S. Government Agency	1,876,444	4.47
Municipal/Revenue Bonds	135,638	11.62
Subtotal U.S. Government and Agency Instruments	\$3,321,064	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	\$259,602	2.45
Commercial Mortgage-Backed Securities	173,936	3.73
Corporate and Other Credit	2,716,993	5.74
Fixed Income Swaps	7,156	(13.65)
Pooled Investments	1,668,830	N/A
Other Fixed Income	106,087	N/A
Subtotal Corporate Securities	\$4,932,604	
Non-U.S. Fixed Income	\$147,238	6.14
Private Placement Fixed Income	1,167,792	5.66
Subtotal Non-U.S. and Private Placement Securities	\$1,315,030	
Total Fixed Income Securities	\$9,568,698	

¹Modified Duration is a measure of a bond's sensitivity to interest rates. It is calculated as the percentage change in a bond's price caused by a change in the bond's yield. For example, a modified duration of 5 indicates that a 1 percent increase in a bond's yield will cause the bond price to decline 5 percent.

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. LACERA's authorized managers are permitted to invest in approved countries or regions, as stated in their respective investment guidelines. To mitigate foreign currency

risk, LACERA has in place a passive currency hedging program, which hedges into U.S. dollars (USD) approximately 50 percent of LACERA's foreign currency exposure for developed markets equities.

The following schedule represents LACERA's exposure to Foreign Currency Risk in U.S. dollars. LACERA is invested in several non-U.S. commingled funds. This means LACERA owns units of a commingled fund, and the fund holds the actual securities and/or currencies. The values shown include LACERA's pro rata portion of non-U.S. commingled fund holdings.

Non-U.S. Investment Securities at Fair Value

As of June 30, 2013

(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate		Total
				Commingled Funds	Private Equity Investments	
AMERICAS						
Argentine Peso	\$4,065	—	—	—	—	\$4,065
Bermuda Dollar	902	—	—	—	—	902
Brazilian Real	198,540	—	—	—	—	198,540
Canadian Dollar	776,094	19,230	843	—	—	796,167
Chilean Peso	20,517	—	—	—	—	20,517
Columbian Peso	9,723	—	—	—	—	9,723
Mexican Peso	107,476	42,457	1,483	—	—	151,416
Peruvian New Sol	1,813	—	—	—	—	1,813
EUROPE						
Euro	2,188,949	50,521	21,481	58,031	299,317	2,618,299
British Pound Sterling	1,733,037	27,390	1,921	29,452	49,262	1,841,062
Czech Republic Koruna	1,071	—	—	—	—	1,071
Danish Krone	101,389	—	—	—	—	101,389
Hungarian Forint	8,560	—	—	—	—	8,560
Norwegian Krone	83,400	—	189	—	—	83,589
Polish Zloty	20,404	—	—	—	—	20,404
Russian Ruble	123,069	—	—	—	—	123,069
Swedish Krona	233,146	—	172	1,905	—	235,223
Swiss Franc	662,836	—	15	—	—	662,851
PACIFIC						
Australian Dollar	533,757	—	3,128	13,230	—	550,115
Chinese RNB	11,172	—	—	—	—	11,172
Japanese Yen	1,651,331	694	4,096	32,574	—	1,688,695
New Zealand Dollar	11,710	—	8	—	—	11,718
South Korean Won	289,908	—	11	—	—	289,919
MIDDLE EAST						
Egyptian Pound	2,266	—	—	—	—	2,266
Israeli Shekel	34,221	—	—	—	—	34,221
Lebanese Pound	595	—	—	—	—	595
Morocco Dirham	783	—	—	—	—	783
New Turkish Lira	58,745	—	—	—	—	58,745
Oman Rial	1,533	—	—	—	—	1,533
Qatari Rial	586	—	—	—	—	586
UAE Dirham	5,477	—	—	—	—	5,477

Non-U.S. Investment Securities at Fair Value continued

As of June 30, 2013

(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Total
AFRICA						
CFA Franc (W. African)	1,480	—	—	—	—	1,480
Ghana New Cedi	542	—	—	—	—	542
Kenya Shilling	422	—	—	—	—	422
Nigerian Naira	11,816	—	—	—	—	11,816
South African Rand	115,871	—	—	—	—	115,871
Zimbabwe Dollar	1,727	—	—	—	—	1,727
SOUTHEAST ASIA						
Hong Kong Dollar	723,648	—	1,808	33,421	—	758,877
Indonesian Rupiah	54,695	—	27	—	—	54,722
Malaysian Ringgit	56,040	—	—	—	—	56,040
Philippine Peso	15,604	6,500	—	—	—	22,104
Singapore Dollar	200,719	—	4,547	11,802	—	217,068
Taiwan Dollar	191,390	—	—	—	—	191,390
Thailand Baht	69,762	—	165	2,737	—	72,664
SOUTH ASIA						
Indian Rupee	171,101	—	—	—	—	171,101
Sri Lankan Rupee	2,436	—	—	—	—	2,436
Pakistani Rupee	3,748	—	—	—	—	3,748
Total Securities Subject to Foreign Currency Risk						
	\$10,498,076	\$146,792	\$39,894	\$183,152	\$348,579	\$11,216,493
U.S. Dollar (Securities held by Non-U.S. Managers)						
	297,099	446	—	164,268	—	461,813
Total Non-U.S. Investment Securities						
	\$10,795,175	\$147,238	\$39,894	\$347,420	\$348,579	\$11,678,306

NOTE H — Securities Lending Program

The Board of Investments' (BOI) policies authorize LACERA to participate in a securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction. Securities are lent to brokers and dealers (borrower), and in turn, LACERA receives cash as collateral. LACERA pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Earnings generated above and beyond the interest paid to the borrower represent the net income to LACERA from the transaction.

LACERA's securities lending program is managed by LACERA's custodian bank, via Bank of New York Mellon Global Securities Lending (BNY Mellon GSL) and a third-party lending agent, Goldman Sachs Agency Lending (GSAL). BNY Mellon GSL lends LACERA's non-U.S. equities, U.S. Treasury, agency, and mortgage-backed securities. The non-U.S. loans are collateralized at 105 percent, while the U.S. loans are collateralized at 102 percent of the loan market value. BNY Mellon GSL invests the collateral it receives on loans in short-term, highly liquid instruments. GSAL lends LACERA's U.S. equities and corporate bonds. GSAL's loans are secured by collateral with a market value of at least 102 percent of the borrowed securities. Bank of New York Mellon (BNY Mellon) invests collateral received from GSAL in short-term debt and money market instruments.

The collateral under both relationships is marked-to-market daily, and if the market value of the securities rises, LACERA receives additional

collateral. The income earned from the investments made by BNY Mellon GSL and BNY Mellon is split between LACERA and the lending agent, based on contractual agreements.

Under the terms of their lending agreements, both lending agents provide borrower default indemnification in the event a borrower does not return securities on loan. The terms of the lending agreements entitle LACERA to terminate all loans upon the occurrence of default and purchase a like amount of "replacement securities." In the event the purchase price of replacement securities exceeds the amount of collateral, the lending agent shall be liable to LACERA for the amount of such excess, with interest. Either LACERA or the borrower of the security can terminate a loan on demand.

At year end, LACERA had no credit risk exposure to borrowers, because the amount of collateral received exceeded the value of securities on loan. As of June 30, 2013, there were no violations of legal or contractual provisions. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2013 and 2012. As of June 30, 2013, the fair value of securities on loan was \$135 million with the value of cash collateral received of \$138 million. As of June 30, 2012, the fair value of securities on loan was \$2.01 billion with the value of cash collateral received of \$1.47 billion and non-cash collateral of \$587 million. LACERA's income, net of expenses from securities lending, was \$4.7 million and \$3.8 million for the years ended June 30, 2013 and 2012, respectively.

The following table shows the fair value of securities on loan and cash collateral received.

Securities Lending

As of June 30, 2013

(Dollars in Thousands)

Securities on Loan	Fair Value of Securities on Loan	Cash/Non-Cash Collateral Received
U.S. Equities	\$105,169	\$107,947
U.S. Corporate Fixed Income	29,695	30,326
Total	\$134,864	\$138,273

NOTE I — Derivative Financial Instruments

LACERA's Investment Policy Statement and Manager Guidelines allow the use of derivatives by certain investment managers. Derivatives are financial instruments that derive their value, usefulness, and marketability from an underlying instrument that represents direct ownership of an asset or an obligation of an issuer whose payments are based on or derived from the performance of some agreed-upon benchmark. Managers are required to mark-to-market derivative positions daily and may trade only with counterparties with a credit rating of A3/A-, as defined by Moody's Investors Service (Moody's) and Standard & Poor's (S&P), respectively. Trades with counterparties with a minimum credit rating of BBB/Baa2 may also be allowed with the posting of initial collateral. Substitution, risk control, and arbitrage are the only derivative strategies permitted. Speculation is prohibited. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from derivatives are included in net investment income. For financial reporting purposes, all LACERA derivatives are classified as investment derivatives. The following types of derivatives are permitted: futures contracts, currency forward contracts, option contracts, and swap agreements.

Futures Contracts

A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

Currency Forward Contracts

A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a non-standardized contract that is tailored to each specific transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date. Currency forward contracts are used to manage currency exposure, to implement the passive currency hedge, and to facilitate the settlement of international security purchase and sale transactions.

Option Contracts

An option contract is a type of derivative in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

Swap Agreements

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows the counterparties exchange are tied to a notional amount. A swap agreement specifies the time period over which the periodic payments will be exchanged. The fair value represents the gains or losses as of the prior marking-to-market.

The Investment Derivatives schedule below reports the fair value balances, changes in fair value, and notional amounts of derivatives outstanding as of and for the years ended June 30, 2013 and 2012, classified by type.

Investment Derivatives

As of June 30, 2013 and 2012

(Dollars in Thousands)

Derivative Type	2013		2012	2013 - 2012
	Notional Amount	Fair Value	Fair Value	Change in Fair Value
Currency Forward Contracts	\$(4,265,177)	\$57,530	\$42,258	\$15,272
Futures Contracts	943,917	(37,040)	(1,184)	(35,856)
Option Contracts	(343,457)	(4,259)	(872)	(3,387)
Swap Agreements	257,939	(12,088)	16,215	(28,303)
Total	\$(3,406,778)	\$4,143	\$56,417	\$(52,274)

All investment derivative positions are included as part of Investments at Fair Value in the *Statement of Fiduciary Net Position*. All changes in fair value are reported as part of Net Appreciation/(Depreciation) in Fair Value of Investments in the *Statement of Changes in Fiduciary Net Position*.

Investment information was provided either by investment managers or LACERA's investment custodian.

Custodial Credit Risk

LACERA's investments include collateral associated with derivatives activity. As of June 30, 2013, collateral for derivatives was \$97.6 million. The collateral margins are maintained in margin accounts at financial services firms that provide brokerage services. Each account is uninsured and is subject to custodial credit risk.

Counterparty Credit Risk

LACERA is exposed to counterparty credit risk

on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to counterparty credit risk include currency forward contracts and swap agreements. To minimize counterparty credit risk exposure, LACERA's investment managers continuously monitor credit ratings of counterparties. Should there be a counterparty failure, LACERA would be exposed to the loss of the fair value of derivatives that are in asset positions and any collateral provided to the counterparty, net of the effect of applicable netting arrangements. LACERA requires investment managers to have Master Agreements in place that permit netting in order to minimize credit risk. Netting arrangements provide LACERA with a legal right of setoff in the event of bankruptcy or default by the counterparty. LACERA would be exposed to loss of collateral provided by the counterparty. Collateral provided by the counterparty reduces LACERA's counterparty credit risk exposure.

The following Counterparty Credit Risk-Derivatives Analysis schedule discloses the counterparty credit ratings of LACERA's investment derivatives in asset positions by type, as of the current fiscal year-end. The schedule displays the fair value of investments by counterparty credit rating in increasing magnitude of risk. Investments are classified by Moody's credit rating.

Counterparty Credit Risk Analysis

As of June 30, 2013
(Dollars in Thousands)

Derivative Type	Adjusted Moody's Credit Rating				Total Fair Value
	Aaa	Aa	A	Baa	
Currency Forward Contracts	\$17,303	\$28,568	\$11,697	\$(38)	\$57,530
Swap Agreements	—	1,030	(8,713)	(4,405)	(12,088)
Total	\$17,303	\$29,598	\$2,984	\$(4,443)	\$45,442

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest Rate Swaps are an example of an investment that has a fair value that is highly

sensitive to interest rate changes. LIBOR refers to the London Interbank Offered Rate. These investments are disclosed in the following table:

Interest Rate Risk Analysis

As of June 30, 2013
(Dollars in Thousands)

Derivative Type	Notional Amount	Total Fair Value
LIBOR Interest Rate Swaps*	\$147,600	\$7,769
Non-LIBOR Interest Rate Swaps**	64,892	(1,339)
Total	\$212,492	\$6,430

*LACERA's payment to or receipt from counterparty based on daily interest rates for LIBOR.

**LACERA's payment to or receipt from the counterparty is based on changes in Mexican and Brazilian reference rates, U.S. CPI, and Federal Funds rate.

Foreign Currency Risk

For futures contracts and swap agreements that are not U.S. dollar-denominated, there is exposure to foreign currency risk. Currency forward contracts represent foreign exchange contracts that are used

to control currency exposure and facilitate the settlement of non-U.S. security purchase and sale transactions.

The Net Exposure column of the schedule below indicates LACERA's net foreign currency risk related to derivatives. A negative value indicates a reduction in foreign currency exposure.

Foreign Currency Risk Analysis

As of June 30, 2013

(Dollars in Thousands)

Currency	Futures Contracts	Currency Forward Contracts	Swap Agreements	Net Exposure
Australian Dollar	—	\$(299,677)	—	\$(299,677)
Brazil Real	—	2,791	12,630	15,421
Canadian Dollar	(4,147)	(424,765)	—	(428,912)
Danish Krone	—	(46,815)	—	(46,815)
Euro Currency Unit	52,434	(1,079,664)	(7,929)	(1,035,159)
Hong Kong Dollar	—	(115,188)	—	(115,188)
Indonesian Rupiah	—	(7)	—	(7)
Israeli Shekel	—	(21,990)	—	(21,990)
Japanese Yen	—	(860,480)	—	(860,480)
Mexican New Peso	—	1,670	3,761	5,431
New Zealand Dollar	—	(8,561)	—	(8,561)
Norwegian Krone	—	(38,212)	—	(38,212)
British Pound Sterling	(674)	(860,543)	—	(861,217)
Singapore Dollar	—	(67,802)	—	(67,802)
Swedish Krona	—	(121,660)	—	(121,660)
Swiss Franc	—	(324,274)	—	(324,274)
Total	\$47,613	\$(4,265,177)	\$8,462	\$(4,209,102)

The values shown are for positions that LACERA holds directly. LACERA may also have indirect exposure to derivatives via its investments in commingled funds. LACERA owns units of the

commingled fund, and the fund holds the actual positions. Indirect exposures via these types of investments are not shown here.

NOTE J — Title Holding Corporations, Limited Liability Companies and Special Purpose Entities

As of June 30, 2013, the LACERA real estate portfolio included 84 Title Holding Corporations (THCs) and 16 Limited Liability Companies (LLCs).

As of June 30, 2012, the portfolio included 79 THCs and 14 LLCs.

The following is a summary of the THCs' and LLCs' financial position.

Title Holding Corporations and Limited Liability Companies — Financial Position

As of June 30, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Assets	\$5,045,841	\$3,920,403
Less: Liabilities	1,880,448	807,022
Net Assets	\$3,165,393	\$3,113,381
Net Income	\$162,373	\$187,827

In March 2011, the LACERA Board of Investments approved to allocate up to \$400 million for a commercial real estate debt investment mandate. A method of managing the risk in the debt investment program is to utilize special purpose entities (SPEs) to limit the fund's exposure. SPEs limit the fund's exposure to the dollar amount capitalizing each

entity, rather than all of LACERA's assets. In January 2012, a new SPE was organized under Gateway REL, LLC. Three mortgage notes were transferred to Gateway REL, LLC on May 9, 2012. The total assets and liabilities of this SPE as of June 30, 2013 were \$388 million and \$98 million, respectively, with a net income of \$13.54 million.

NOTE K — Related Party Transactions**Office Lease**

LACERA, as the sole shareholder, formed a Title Holding Corporation (THC) to acquire Gateway Plaza. In January 1991, LACERA entered into its original lease agreement with the THC to occupy approximately 85,000 square feet. Under the terms of the agreement, LACERA's base rent is abated via a base rent credit. However, LACERA is required to pay its proportionate share of the building's taxes and operating costs as defined in the lease.

Subsequent to the original lease agreement, several amendments have been entered into that adjusted the rentable square footage and lease expiration dates. The latest is the Eleventh Amendment to the Office Lease, dated March 14, 2013, leasing a total close to 107,000 rentable square feet of space and maintaining the lease's existing expiration date of December 31, 2015. LACERA has one five-year option to further extend the terms of the lease. Additionally, LACERA will lease approximately 3,000 rentable square feet of space on August 6, 2013 with terms expiring December 31, 2020.

Total operating expenses charged to LACERA were approximately \$1.2 million and \$1.1 million for the years ended June 30, 2013 and June 30, 2012, respectively.

The aggregate principal balance of the unsecured line of credit outstanding was \$300 million, as follows:

Unsecured Line of Credit

As of June 30, 2013

(Dollars in Thousands)

Line of Credit	Date of Maturity	Interest Rate
\$200,000	October 31, 2013	LIBOR plus a spread
100,000	October 19, 2013	LIBOR plus a spread
\$300,000		

Notes Receivable

LACERA had notes receivable of approximately \$22.5 million and \$43.0 million from one of its THCs for the years ended June 30, 2013 and 2012, respectively. These amounts are reflected in the Accounts Receivable-Other balance for both years.

Guaranty of Unsecured Line of Credit

LACERA invests in a housing program called TriPacific Residential Investors-One, LLC (TRIO), which provides mezzanine financing to builders of single-family housing. TRIO is the successor to Lowe Enterprises Residential Investors (LERI). LACERA is a 99.0 percent investor in TRIO; the 1.0 percent managing member is TriPacific Capital Advisors. TRIO/LERI has unsecured lines of credit with various lenders. LACERA guaranteed up to \$300 million of TRIO/LERI's unsecured line of credit debt. The fair market value of LACERA's real estate portfolio is adjusted to reflect this guaranty. On October 9, 2013, LACERA's Board of Investments authorized a contribution of \$300 million to the housing program, which will retire the line of credit.

NOTE L — Administrative Expenses

The Boards of Retirement and Investments annually adopt the operating budget for the administration of LACERA. The administrative expenses are charged against the earnings of the retirement fund.

Beginning in fiscal year 2012, LACERA implemented §31580.2 of the County Employees Retirement Law of 1937 (CERL), which provided administrative budget limitation relief to LACERA by shifting from an asset-based cap to a more stable liability-based cap. This CERL provision states that the annual budget for administrative expenses of a CERL retirement system may not exceed twenty-one hundredths of one percent (0.21 percent) of the actuarial accrued liability of the retirement system. Expenses for computer software, hardware, and computer technology consulting services relating

to those expenditures are not to be considered a cost of administration subject to the budget limit. The cost of legal representation is not to exceed one-hundredth of one percent (0.01 percent) of system assets in any budget year, pursuant to §31529.1 of CERL. LACERA's appropriation for legal representation was included in the administrative expense allocation.

Under applicable sections of the CERL, the LACERA Boards approved the operating budgets for fiscal years ended June 30, 2013 and June 30, 2012, which were prepared based upon twenty-one hundredths of one percent (0.21 percent).

The following budget-to-actual analysis of administrative expenses schedule is based upon the budget, as approved by the LACERA governing boards, in comparison to actual administrative expenses.

Budget-to-Actual Analysis of Administrative Expenses

As of June 30, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Basis for Budget Calculation (Actuarial Accrued Liability)	\$48,598,166	\$46,646,838
Maximum Allowable for Administrative Expense*	102,056	97,958
Total Statutory Budget Appropriation	102,056	97,958
Operating Budget Request	56,849	52,826
Administrative Expenses	(53,863)	(50,218)
Underexpended Operating Budget	2,986	2,608
Administrative Expenses	53,863	50,218
Basis for Budget Calculation	48,598,166	46,646,838
Administrative Expenses as a Percentage of Basis for Budget Calculation	0.11%	0.11%
Limit per CERL	0.21%	0.21%
Administrative Expenses	53,863	50,218
Net Position Restricted for Benefits	\$41,773,519	\$38,306,756
Administrative Expenses as a Percentage of Net Position Restricted for Benefits	0.13%	0.13%
Limit per CERL	0.21%	0.21%

*LACERA's appropriation for legal representation was included in administrative expense.

NOTE M — Commitments and Contingencies

Litigation

LACERA is a defendant in various lawsuits and other claims arising in the ordinary course of its operations. LACERA's management and legal counsel estimate the ultimate outcome of such litigation will not have a material effect on LACERA's financial statements.

Securities Litigation

In 2001, the Board of Investments (BOI) adopted a Securities Litigation Policy in response to increasing incidents of corporate corruption and fraud. The policy requires LACERA's Legal Office to monitor securities fraud class actions and to actively pursue recovery of LACERA's losses in accordance with the policy.

In 2011, after the U.S. Supreme Court held that certain fraud provisions of the U.S. securities laws could not be applied to securities purchased outside the U.S., the BOI adopted a global policy to ensure that LACERA continues to meet its fiduciary duty by identifying, monitoring, and evaluating securities actions in which the fund/has an interest both foreign and domestic and pursuing such claims when and in a manner the BOI determines is in the best interest of the fund.

Compliance with the Securities Litigation Policy assures that the BOI, with the assistance of the LACERA Legal Office, will continue to aggressively protect the financial interests of LACERA and its members.

Guaranty of Unsecured Line of Credit

As the BOI authorized, LACERA guaranteed up to \$300 million of a real estate investment manager's unsecured lines of credit. The fair market value of LACERA's real estate portfolio is adjusted to reflect this guaranty. On October 9, 2013, LACERA's Board of Investments authorized a contribution of \$300 million to the housing program, which will retire the line of credit. Note K – Related Party/ Transactions discusses this guaranty.

Leases

LACERA leases equipment under lease agreements that expire over the next five years. The annual commitments under such equipment leases were approximately \$200,000 and \$205,000 in fiscal years 2013 and 2012, respectively. The building space lease agreement entered in January 1991 and subsequently amended to include additional rentable square footage and termed to expire on December 31, 2015 requires LACERA to pay a portion of the building's operating expenses based on square footage occupied as discussed in Note K — Related Party Transactions. Total rent expense for all leases were \$1.39 million and \$1.37 million in fiscal years 2013 and 2012, respectively.

Capital Commitments

LACERA real estate, private equity, and activist investment managers identify and acquire investments on a discretionary basis. Each manager's investment activity is controlled by the LACERA Manager Investment Plan, which identifies the limitations on each manager's discretion. Such investment activities are further restricted by the amount of capital allocated or committed to each manager. Both the Manager Investment Plan and capital commitments are subject to approval by the BOI and may be updated as often as necessary to reflect LACERA investment preferences, as well as changes in market conditions.

As of June 30, 2013, outstanding capital commitments to the various investment managers, as approved by the BOI, totaled \$3.02 billion. Subsequent to June 30, 2013, LACERA funded \$160 million of these capital commitments.

Note N — Other Post-Employment Benefits (OPEB) Program

Program Description

In April 1982, the County of Los Angeles (County) adopted an ordinance pursuant to the County Employees Retirement Law of 1937 (CERL) that provided for a health insurance program and death/burial benefits for retired employees and their eligible dependents. In 1994, the County amended the agreement to continue to support LACERA's retiree insurance benefits program, regardless of the status of the active member insurance.

LACERA administers a cost-sharing multiple-employer Other Post-Employment Benefits (OPEB or Retiree Healthcare) Program on behalf of the County, its affiliated Superior Court, and four outside districts. The outside districts include: Little Lake Cemetery District, Local Agency Formation Commission, Los Angeles County Office of Education, and the South Coast Air Quality

Management District. This OPEB Program is presented in the Statement of Fiduciary Net Position as the OPEB Agency Fund.

Membership

Employees are eligible for the OPEB Program if they are members of LACERA and retire from the County of Los Angeles, the Superior Court, or a participating outside district. Healthcare benefits are also offered to qualifying survivors of: (a) deceased retired members and (b) deceased active employees who are eligible to retire at the time of death. Receipt of a pension benefit is a prerequisite for retiree healthcare and death benefits; therefore, eligibility and qualifications applicable to retiree healthcare and death/burial benefits are substantially similar to pension benefits.

Summary of Participating Retired Members, Spouses, and Dependents

OPEB Actuarial Valuation — July 1, 2012

Plan Type	Retirees and Survivors	Spouses and Dependents
Medical	43,897	21,853
Dental/Vision	44,509	23,180
Death Benefit	48,379	N/A

Benefit Provisions

The OPEB Program offers members an extensive choice of medical plans as well as two dental/vision plans. The medical plans are either HMOs or indemnity plans, and some are designed to work with Medicare benefits, such as the Medicare supplement or Medicare HMO plans. Coverage is available regardless of pre-existing medical conditions.

Medical/Dental/Vision — The participant's cost for medical and dental/vision insurance varies according to the years of retirement service credit with LACERA, the plan selected, and number

of persons covered. The County contribution subsidizing the participant's cost starts at 40.0 percent of the lesser of the benchmark plan rate (Anthem Blue Cross Plans I and II) or the premium of the plan in which the retiree is enrolled for 10 years of service credit. For each year of retirement service credit beyond 10 years, the County contributes an additional 4.0 percent per year, up to a maximum of 100.0 percent for a member with 25 years of service credit. The County contribution can never exceed the premium of the benchmark plan.

Medicare Part B — The member's base rate premiums paid to Social Security for Part B coverage are reimbursed by the County, subject to annual approval by the County Board of Supervisors. Eligible members must be enrolled in both Medicare Part A and Medicare Part B and in a LACERA-administered Medicare HMO Plan or Medicare Supplement Plan.

Disability — If a member is granted a service-connected disability retirement and has less than 13 years of service, the County contributes the lesser of 50.0 percent of the benchmark plan rate or the premium of the plan in which the retiree is enrolled. A member with 13 years of service credit receives a 52.0 percent subsidy. This percentage increases 4.0 percent for each additional completed year of service.

Death/Burial Benefit — There is a one-time lump-sum \$5,000 death/burial benefit payable to the designated beneficiary upon the death of a retiree. Active and vested terminated (deferred) members are eligible for this benefit once they retire. Spouses and dependents are not eligible for this death benefit upon their death.

Healthcare Reform

In March 2010, President Barack Obama signed into law the Affordable Care Act (ACA). ACA will have an impact on the County's future healthcare liabilities. Estimated ACA fees are included in the OPEB trend assumptions. As potential impacts become clearer, they will be reflected in the OPEB assumptions. However, as a "retiree only" group plan, LACERA is exempt from many of the provisions implemented thus far, including those significant provisions identified below:

- Dependent Coverage for Adult Children up to Age 26
- Elimination of Lifetime Limits
- No Cost-Sharing for Approved Preventive Services

Early Retiree Reinsurance Program

This is a temporary program that partially reimburses participating plans for the costs of health benefits provided to Medicare-ineligible retirees age 55-64 and their eligible

dependents. LACERA applied and was approved to participate in this program. The program ends in 2014 or when allocated funds are fully exhausted. To date, LACERA has received approximately \$12.1 million in reimbursements, which will be used to offset healthcare premium increases. No adjustment has been made to the OPEB assumptions for the Early Retiree Reinsurance Program.

Summary of Significant Accounting Policies

Basis of Presentation — The OPEB Agency Fund is presented according to the principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). This OPEB Agency Fund accounts for assets held as an agent on behalf of others. This fund is custodial in nature and does not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting. Receivables include contributions due as of the reporting date. Payables include premium payments and refunds due to members and accrued investment and administrative expenses.

Investment Valuation — Investments are carried at fair value. Fair values for investments are derived from quoted market prices. For publicly traded stocks and bonds and issues of the United States Government and its agencies, the most recent sales price as of fiscal year-end is used.

Contributions Authority — Pursuant to the 1982 and 1994 Agreements between the County and LACERA, the parties agreed to the continuation of the health insurance benefits then in existence. The County agreed to subsidize a portion of the insurance premiums of the retired members and their eligible dependents based on the member's length of service. The County further agreed to maintain the status quo of existing benefits provided to participants. LACERA agreed not to lower retired members' contributions toward insurance premiums or modify medical benefit levels only with the County's prior consent.

Funding Policy and Contributions — During fiscal year ended June 30, 1997, the County and LACERA entered into an agreement establishing a healthcare

funding account pursuant to §401(h) of the Internal Revenue Code. §401(h) permits the establishment of a separate account (a “401(h) Account”) to fund retiree healthcare benefits and limits contributions to the 401(h) Account to 25.0 percent of aggregate contributions to LACERA.

The County has historically discharged its premium subsidy obligations on a pay-as-you-go basis. LACERA bills the healthcare premiums to the County and members on a monthly basis. An administrative fee to cover the costs of administering the OPEB Program is added to the monthly premium. Internal cost allocations among the participating outside districts, including the Superior Court, have historically been based on the number of active employees.

Premium Holiday

A Premium Holiday is a temporary period in which the monthly premium costs for both the Program Sponsor (County) and affected members are waived. Affected members are those retirees enrolled in certain medical benefit plans who are also paying their share of the monthly premiums.

During the fiscal year 2013, the County did not grant Premium Holidays. For fiscal year ended 2012, the County directed LACERA to implement three Premium Holiday months affecting the LACERA-administered Anthem Blue Cross Plans I, II, III; Prudent Buyer Plans; and CIGNA Indemnity Dental/Vision Plan. The funding for the Premium Holiday was drawn from the accumulated surplus, which results from the difference between premiums received and the healthcare costs incurred. The total cost of the Premium Holiday was \$51.3 million.

During fiscal year ended June 30, 2013, premium payments of \$451.4 million were made to insurance carriers. These payments were funded by employer subsidy payments of \$411.0 million, \$40.4 million by the participants. In addition, the County

paid \$41.7 million in Medicare Part B reimbursements and \$7.6 million in death/burial benefits.

Establishment of OPEB Trust

Pursuant to the California Government Code, the County established an irrevocable Other Post-Employment Benefits (OPEB) Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Benefits Program, which LACERA administers. On May 15, 2012, the Los Angeles County Board of Supervisors approved entering into a trust and investment services agreement with the LACERA Board of Investments to act as trustee and investment manager.

The OPEB Trust was the County’s first step to reduce its OPEB unfunded liability. It provides a framework where the Board of Supervisors can make contributions to the trust and transition, over time, from pay-as-you-go to prefunding. The OPEB Trust does not modify the participating employers’ benefit programs.

The OPEB Trust will serve as a funding tool for the participating employers to hold and invest assets for paying expenses associated for OPEB benefits, such as the Retiree Healthcare Benefits Program and retiree death benefit. The participating employers will be responsible for and have full discretion over contributions to and withdrawals from the OPEB Trust. At this time, there are only two participating employers in the trust: Los Angeles County and LACERA. During fiscal year ended June 30, 2013, both employers funded contributions to the OPEB Trust of \$448.8 million. The LACERA Board of Investments is responsible for setting the investment policy and investing any contributions transferred into the trust from the participating employers.

Employer Disclosures

Participating employers, upon their implementation of the related GASB Statement Number 45, are required to disclose additional information in their financial statements with regard to funding policy; the employer’s annual OPEB Program costs and contributions made; the funded status and funding progress of the employer’s individual plan; and

Note N continued

actuarial assumptions and methods used to prepare the actuarial valuation.

OPEB Actuarial Valuation

The Los Angeles County OPEB actuarial valuation was conducted by Milliman as of July 1, 2012. The valuation was performed in accordance with GASB Statement Numbers 43 and 45 requirements at the County's request to satisfy financial statement reporting guidelines that apply to the sponsoring

employers and the pension plans that administer the benefits program. The reporting guidelines are intended to improve cost disclosures and do not require any funding arrangements. The valuations are conducted at least every two years using the projected unit credit actuarial cost method. The next OPEB actuarial valuation will be conducted as of July 1, 2014.

Funded Status — OPEB Program as of the Most Recent Actuarial Valuation Date

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Valuation Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded Actuarial Liabilities (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll* (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2012	—	\$26,952,700	\$26,952,700	0%	\$6,619,816	407.2%

*Covered Payroll is consistent with the pension plan's covered payroll.

Excise Tax – The ACA currently contains provisions to assess an excise tax in 2018 on employer-provided health insurance benefits that are determined by the ACA to be an excess benefit. Milliman has estimated the impact on the projection of benefits in the measurement of Los Angeles County's OPEB Actuarial Accrued Liability as of July 1, 2012 to be approximately \$1.66 billion. This would increase the Actuarial Accrued Liabilities from \$26.95 billion to \$28.61 billion along with a corresponding increase of the Annual Required Contribution as a percentage of payroll from 32.07 percent to 34.67 percent. Los Angeles County is evaluating a process of allocating such potential liabilities among the various OPEB Program stakeholders.

Disclosure of Information about Actuarial Assumptions and Methods

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

The required Schedule of Funding Progress – OPEB Program immediately following the Notes to the Basic Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the cost-sharing pattern between the employer and plan members to that point.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the cost-sharing pattern between the employer and plan members that may be adopted in the future.

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

Actuarial Assumptions and Methods

Where applicable, the same actuarial assumptions used for the LACERA retirement benefit plan (Pension Plan) are used for the LACERA-administered Los Angeles County OPEB Program. The table below summarizes the primary OPEB-related assumptions that were approved and used to conduct the July 1, 2012 OPEB actuarial valuation. The retirement benefit-related demographic and economic assumptions are based on those developed for the June 30, 2012 valuation of the LACERA Pension Plan. Economic and demographic assumptions from the retirement benefit investigation of experience are integrated into the OPEB investigation of experience. The OPEB demographic and economic assumptions are based on the results of the 2010 OPEB investigation of experience, dated January 28, 2011. OPEB-specific assumptions that have been updated since the 2010 OPEB investigation of experience include health cost trend rates, claim costs, and economic assumptions.

Actuarial Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Not applicable
Inflation Rate	3.35 percent per annum
Investment Return	4.35 percent. This assumption was adopted beginning with the July 1, 2012 OPEB valuation.
Projected Salary Increases	3.85 percent The general wage increase assumption is 3.85 percent per annum, which is used for projecting the total future payroll. The amortization of the Unfunded Actuarial Accrued Liability (UAAL) is determined as a level percentage of payroll. General wage increases and individual salary increases due to promotion and longevity do not affect the amount of the Program's OPEB benefit.

Healthcare Cost Trend Rates*	FY	FY	Ultimate**
	2013	2014	
LACERA Medical Under 65	0.30%	9.05%	5.10%
LACERA Medical Over 65	0.59%	9.75%	5.10%
Firefighters Local 1014 (all)	7.00%	9.05%	5.10%
Part B Premiums	5.90%	6.85%	5.10%
Dental (all)	3.13%	4.40%	3.40%
Weighted Average Trend	1.56%	8.84%	5.09%

Amortization Method	Level percentage of projected salaries of the active members, both present and future, over a "rolling" 30-year amortization period. This assumption was adopted beginning with the July 1, 2006 OPEB valuation.
----------------------------	--

Probability of Initial Enrollment Upon Retirement	Years of Service	Medical	Dental/Vision
	<10	11%	13%
10-14	46%	50%	
15-19	70%	70%	
20-24	84%	83%	
25+, Disabled	100%	100%	

*The first-year trend rates for LACERA's medical non-firefighter Local 1014 and dental/vision plans have been adjusted to reflect premium increases effective July 1, 2013. Healthcare Reform Fees including Transitional Reinsurance Fee and Insurer Fee are also included in the medical and dental/vision trends.

**For the Healthcare Cost Trend Ultimate Rates, the grading period used ranges from June 30, 2012 to June 30, 2084, or 72 years.

Actuarial Assumptions and Methods continued

Medical Spouse/Dependent Enrollment Probability	Non-Firefighter 1014				Firefighter 1014
	<65 Male	<65 Female	65+ Male	65+ Female	All
	75%	44%	60%	29%	90%
Dental/Vision Spouse/Dependent Enrollment Probability	Male		Female		
	73%		42%		

NOTE O — Hedge Funds

The hedge fund category of investments is not a separate asset class but is comprised of strategies that: 1) invest in securities within LACERA's existing asset classes or across multiple asset classes; 2) have an absolute return objective; and 3) include the ability to use specialized techniques such as leverage and short-selling, and instruments such as derivatives.

LACERA employs a hedge fund of funds manager with specialized knowledge and expertise to construct two hedge fund portfolios. The hedge fund of funds manager identifies, selects, implements, and monitors these investment strategies in the portfolios consistent with LACERA's stated objectives, constraints, and Investment Policy.

In October 2011, LACERA deployed capital into a diversified portfolio of hedge funds with a goal of reducing the volatility of the Pension Fund without materially decreasing Pension Fund returns.

In December 2012, LACERA began investing in a second portfolio of hedge funds focused on opportunistic credit strategies.

The general framework for the investment structure of the hedge fund program is that LACERA is the sole limited partner in each of two limited partnerships, which were created to hold the interests in the underlying hedge funds. The fund of funds manager serves as General Partner and owns a 0.01 percent stake in each partnership. Each underlying fund investment is in a legal entity designed to limit liability for each fund's investment to the capital invested with that fund.

The investment performance for this strategy is measured separately from other asset classes. The market values of assets invested in hedge funds as of June 30, 2013 and June 30, 2012 were \$494 million and \$252 million, respectively.

NOTE P — Subsequent Event

Management reviewed and identified, up to the date of the Independent Auditor's Report - October 9, 2013, the subsequent event described below.

Custodial Bank and Commercial Banking Services Provider Change

At its March 2013 meeting, the Board of Investments selected a new bank to provide custodial and commercial banking services to LACERA. This transition took effect July 1, 2013,

when all custodied assets were transferred and all custodial and commercial banking services commenced with the new bank. To ensure the completeness and integrity of the transition, an independent accounting firm was hired to perform the separate audit of the investment portfolio transition from the prior custodian to the new custodian.

Schedule of Funding Progress — Pension Plan

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2007	\$37,041,832	\$39,502,456	\$2,460,624	93.8%	\$5,615,736	43.8%
June 30, 2008	39,662,361	41,975,631	2,313,270	94.5%	6,123,888	37.8%
June 30, 2009	39,541,865	44,468,636	4,926,771	88.9%	6,547,616	75.2%
June 30, 2010	38,839,392	46,646,838	7,807,446	83.3%	6,695,439	116.6%
June 30, 2011	39,193,627	48,598,166	9,404,539	80.6%	6,650,674	141.4%
June 30, 2012	\$39,039,364	\$50,809,425	\$11,770,061	76.8%	\$6,619,816	177.8%

*Using the Entry Age Normal actuarial cost method.

Schedule of Employer Contributions — Pension Plan

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution (ARC)	Actual Employer Contributions			Percentage of ARC Contributed
		Cash Payment	Transfers from Reserve	Total	
2008	\$827,911	\$788,029	\$40,601	\$828,630*	100%
2009	847,172	831,672	15,500	847,172	100%
2010	843,704	843,704	—	843,704	100%
2011	944,174	944,174	—	944,174	100%
2012	1,078,929	1,078,929	—	1,078,929	100%
2013	\$1,172,014	\$723,195	\$448,819	\$1,172,014	100%

*Total actual employer contributions differ from the Annual Required Contribution due to transfers from California Public Employees' Retirement System (CalPERS).

Schedule of Funding Progress — Other Post-Employment Benefits Program

(Dollars in Thousands)

Los Angeles County and Participating Agencies

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2008	—	\$21,863,600	\$21,863,600	0.0%	\$6,123,888	357.0%
July 1, 2010	—	24,031,000	24,031,000	0.0%	6,695,439	358.9%
July 1, 2012	—	\$ 26,952,700	\$26,952,700	0.0%	\$6,619,816	407.2%

*Using the Projected Unit Credit actuarial cost method.

Schedule of Employer Contributions — Other Post-Employment Benefits Program

(Dollars in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Actual Employer Contributions	Percentage of ARC Contributed
2011	\$1,938,400	\$423,032	22%
2012	1,938,400	442,099	23%
2013	\$2,126,100 ¹	\$460,331	22%

NOTE: Los Angeles County implemented GASB Statement No. 45 for its fiscal year ended June 30, 2008.

¹ARC determined by most recent OPEB Actuarial Valuation conducted as of July 1, 2012.

Administrative Expenses

For the Years Ended June 30, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Personnel Services		
Salaries and Wages	\$26,570	\$25,920
Employee Benefits	13,518	12,149
Total Personnel Services	40,088	38,069
Consultant & Professional Services		
County Department Services	221	206
External Audit Fees	178	108
Legal Consultants	209	294
Professional Services	282	306
Temporary Personnel Services	1,391	652
Total Consultant & Professional Services	2,281	1,566
Operating Expenses & Equipment		
Administrative Support	125	123
General Expenses	618	582
Computer Software	1,799	1,744
Disabilities Medical Service Fees	1,326	1,200
Educational Expenses	647	647
Equipment	1,516	1,118
Facilities Operations	2,341	2,393
Insurance	540	456
Printing	645	626
Postage	839	793
Telecommunications	604	448
Transportation & Travel	494	453
Total Operating Expenses & Equipment	11,494	10,583
Total Administrative Expenses	\$53,863	\$50,218

Schedule of Investment Expenses*For the Years Ended June 30, 2013 and 2012*

(Dollars in Thousands)

	2013	2012
Investment Management Fees		
Cash and Short-Term Managers	\$831	\$649
Commodity Managers	3,846	2,619
Equity Managers		
U.S. Equity	13,140	12,128
Non-U.S. Equity	20,355	17,607
Fixed Income Managers	17,084	15,637
Mortgage Loan Servicers	348	339
Private Equity Managers	3,852	4,081
Real Estate Managers	20,082	16,737
Total Investment Management Fees	79,538	69,797
Other Investment Expenses		
Consultants	978	981
Custodian	1,684	1,568
Legal Counsel	489	266
Other	7,570	2,604
Total Other Investment Expenses	10,721	5,419
Total Management Fees & Other Investment Expenses*	\$90,259	\$75,216

*OPEB Trust included for fiscal year-end 2013.

Schedule of Payments to Consultants

For the Years Ended June 30, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Actuarial		
Actuarial Valuations and Consulting Fees	\$193	\$157
Audit		
External Audit Services	178	108
Legal		
Investment Legal Counsel	490	266
Legislative Consulting	53	46
Other Legal Services	156	248
Total	699	560
Management		
Management and Human Resources	121	151
Total Payments to Consultants	\$1,191	\$976

NOTE: For fees paid to Investment Professionals, refer to Schedule of Investment Management Fees in the Investment Section.

Statement of Changes in Assets and Liabilities — OPEB Agency Fund

For the Year Ended June 30, 2013

(Dollars in Thousands)

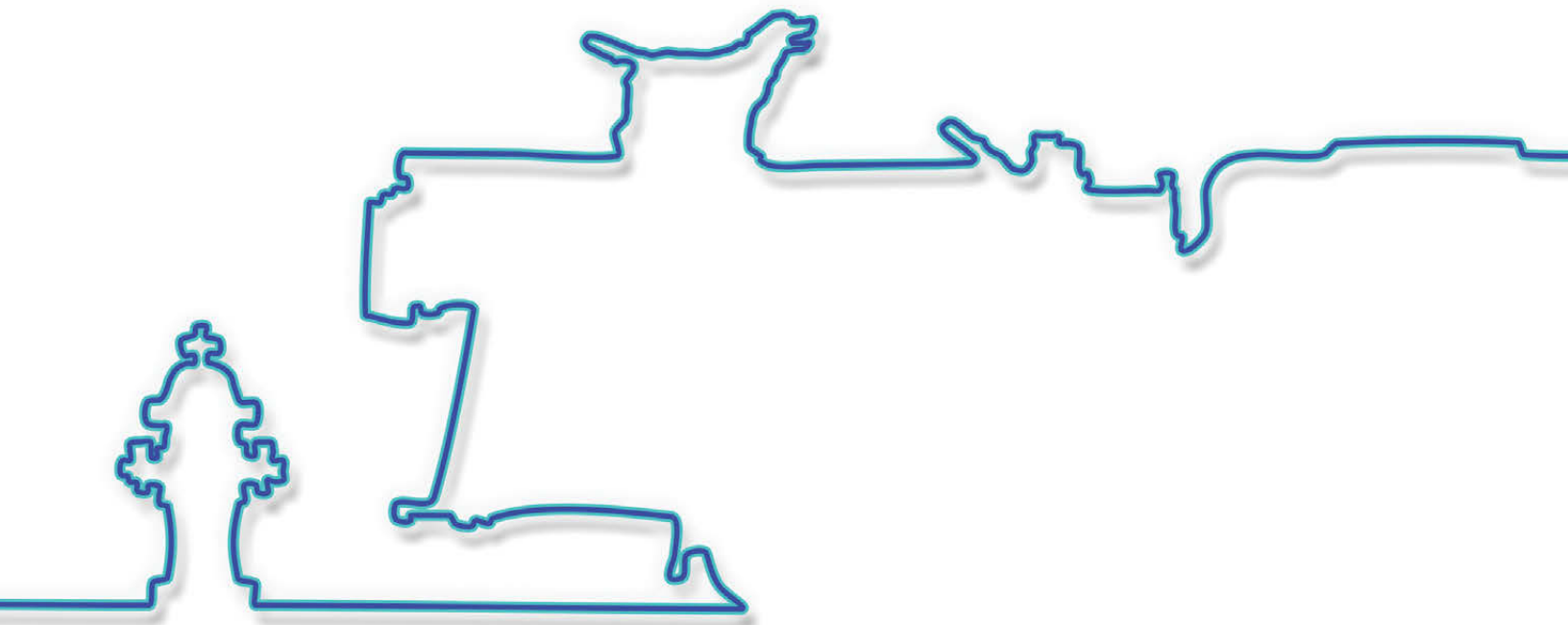
	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Assets				
Cash	\$435	\$468,636	\$468,381	\$690
Accounts Receivable - Other	38,517	465,014	464,535	38,996
Fixed Income	114,404	1,495,737	1,479,609	130,532
Total Assets	\$153,356	\$2,429,387	\$2,412,525	\$170,218
Liabilities				
Retiree Payroll and Other Payables	\$157	\$42,362	\$42,321	\$198
Accrued Expenses	126	387	126	387
Accounts Payable - Other	38,669	457,333	456,901	39,101
Due to Employers	114,404	1,495,737	1,479,609	130,532
Total Liabilities	\$153,356	\$1,995,819	\$1,978,957	\$170,218



Investment Section

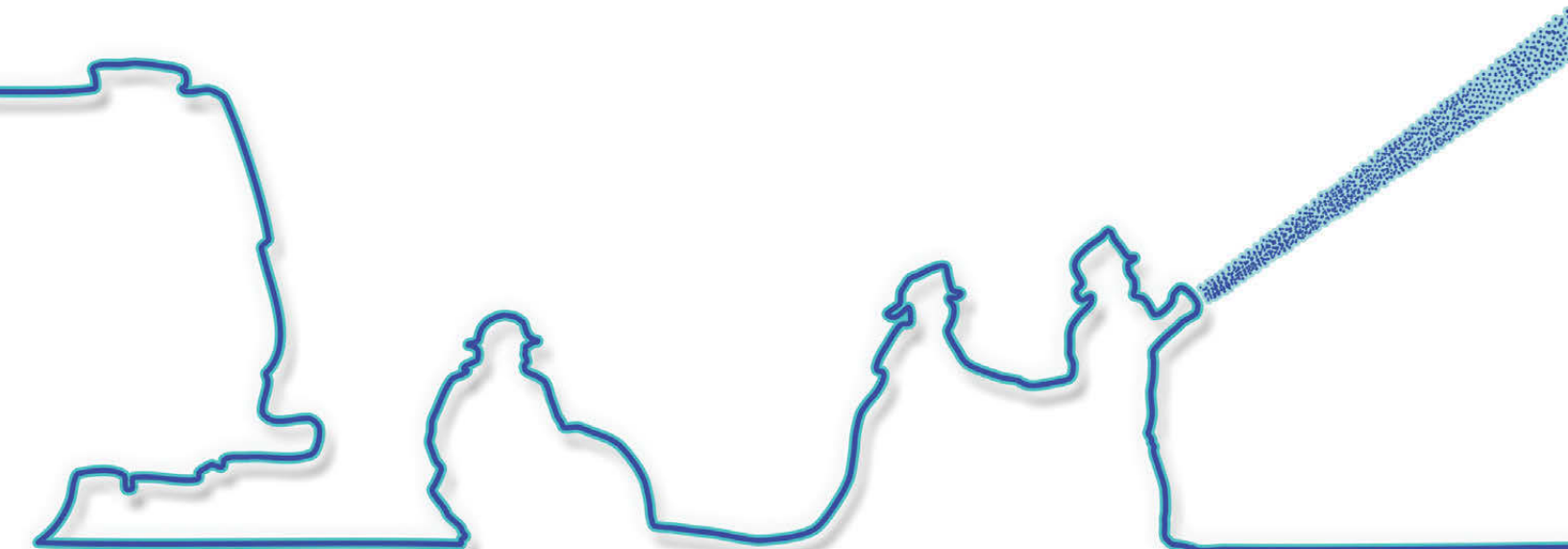


Investment Team





In the course of performing his duties, a **County firefighter** often faces a number of uncertainties. *Is anyone trapped in the fire? Is the wind shifting? Is the fire contained?* As far as his LACERA retirement benefits, however, there is no uncertainty. His promised benefits are secure, thanks in part to the efforts and expertise of the financial and market analysts in our Investment Division and the careful guidance of our Board of Investments. Our highly trained personnel regularly monitor and review the performance of Fund investments to ensure they comply with the Board's Investment Policy Statement and to ensure the Fund remains well-positioned to pay the promised benefits now and in the future. *After all, a firefighter has enough to worry about.*



September 25, 2013

Board of Investments
 Los Angeles County Employees Retirement Association
 Gateway Plaza
 300 North Lake Avenue, Suite 850
 Pasadena, CA 91101

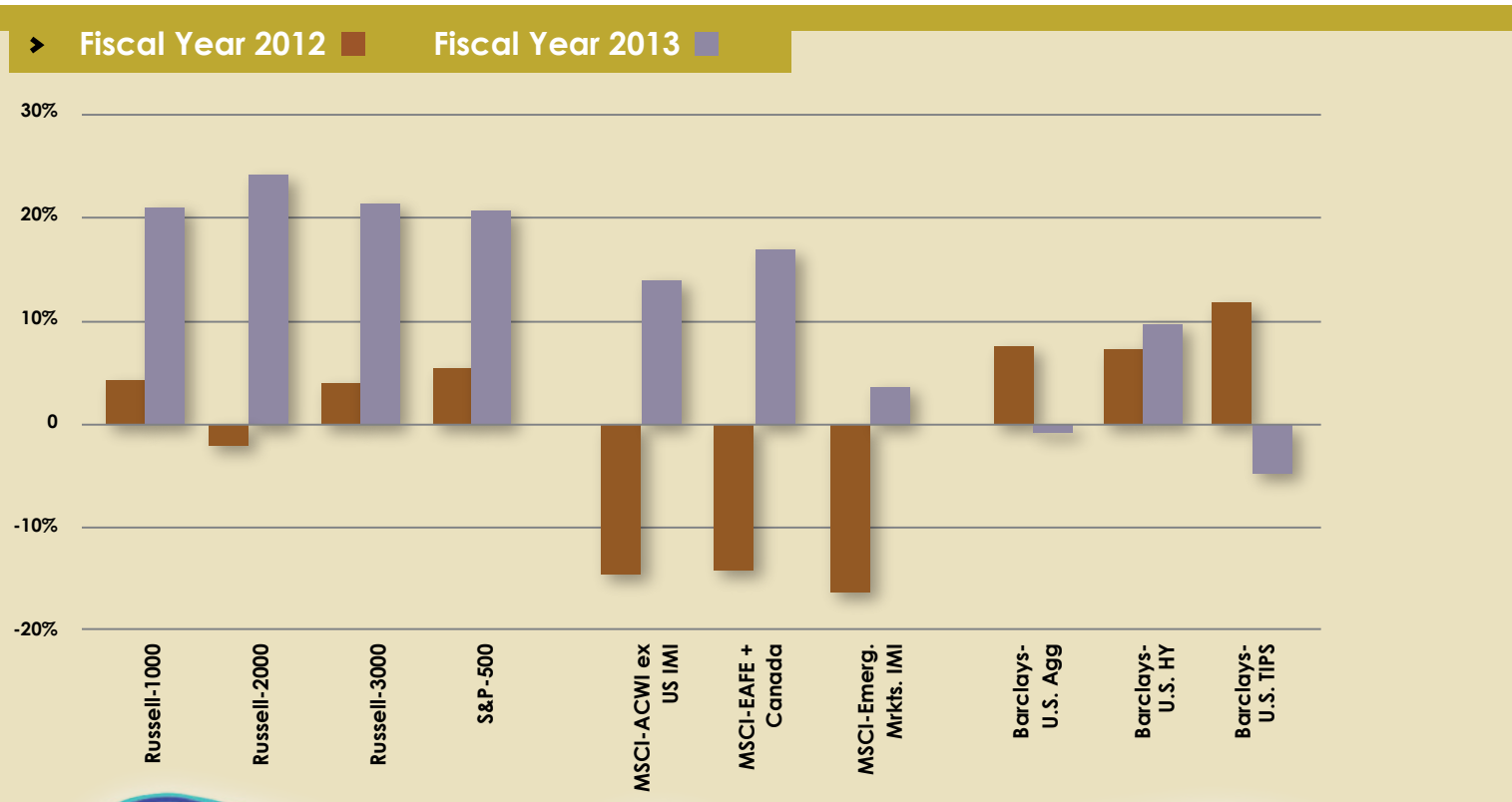


Dear Board Members:

Wilshire Associates Incorporated (“Wilshire”), investment consultant to the Board of Investments of the Los Angeles County Employees Retirement Association (“LACERA”), is pleased to present this review of LACERA’s investment performance over the past year (period ending June 30, 2013).

The fiscal year ending June 30, 2013 posted double-digit gains in the U.S. equity market. The U.S. equity market has benefited from the “easy-money” policies implemented by the Federal Reserve Bank (Fed) following the credit crisis. However, the markets are now reassessing the Fed’s ability to execute a well-timed and smooth exit from an extended period of monetary stimulus. The global equity markets rebounded from their poor returns in the prior year, despite continued socioeconomic concerns in a few peripheral Eurozone countries, slowing economic growth in China and political unrest in the Middle East. Investors were motivated to seek returns within equities and high-yield bonds, given the low yields and disappointing risk premiums in the investment-grade fixed income markets. Improvements in economic indicators led to comments from the Fed regarding a possible reduction in stimulus. These comments prompted yields to climb sharply higher in the final quarter of the fiscal year. The graph below illustrates the capital market results for the past two fiscal years.

Market Index Return



Annual Consultant Review

LACERA's 2013 fiscal year Total Fund return performance and ranking within Wilshire's Total Public Fund's Plan Sponsor Universe are displayed in the table below. Percentile rankings are shown to the right of the return and range from 1st (best) to 100th (worst). Differences in returns between plans in the universe are most often driven by differences in asset allocation policies. LACERA has implemented a broadly diversified allocation to both public and private assets, which has achieved top quartile performance over the long-term. The LACERA Total Fund ranked in the 14th percentile over the Ten-Year period, while the LACERA Policy ranked in the 18th percentile. LACERA tends to have a lower U.S. Equity policy allocation than many other plans in the universe since LACERA's U.S. Equity allocation is based on the weight of the Global Equity opportunity set. Since U.S. Equity performed well relative to non-U.S. Equity over the One- and Five-Year periods, LACERA has ranked lower in the universe over these periods.

2013 Fiscal Year Total Fund Performance¹

(Gross of Fees)

	One Year	Rank	Five Years	Rank	Ten Years	Rank
Total Fund	12.12	58	4.36	73	7.85	14
Policy	11.37	72	4.60	67	7.59	18
Over/(Under) Policy	0.75		-0.24		0.26	
Universe Median	12.43		5.36		6.95	

¹As of June 30, 2013 Number of Funds.

99

90

74

During fiscal year 2013, the LACERA investment staff and Wilshire have worked cooperatively to address goals and implement ideas designed to improve the efficiency of the investment program. Among the projects completed or currently underway are:

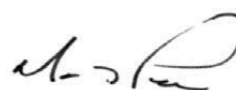
- Asset/Liability Analysis
- Fixed Income Structure Review
- U.S. Equity Investment Structure Review
- OPEB Trust Review
- Opportunistic Credit Fixed Income Search
- Emerging Markets Equity Search
- Hedge Fund of Funds Search

We look forward to the successful accomplishment of the ongoing implementation plans of LACERA.

Sincerely,



William G. Bensur, Jr., CFA
Managing Director



Marlin D. Pease, CFA
Managing Director

WILSHIRE ASSOCIATES

210 Sixth Avenue, Suite 3720, Pittsburgh, PA 15222

TEL 412.434.1580 FAX 412.434.1584 www.wilshire.com

Investment Policy

LACERA's investment program objective is to provide Association participants with retirement benefits as required by the County Employees Retirement Law of 1937. The Board of Investments (BOI) has exclusive control of all retirement system investments. There are nine BOI members: four are elected by the active and retired members, four are appointed by the Los Angeles County Board of Supervisors. The County Treasurer-Tax Collector serves as an ex-officio member.

The BOI has adopted an Investment Policy Statement which provides a framework for the management of LACERA's investments. This Statement establishes LACERA's investment policies and objectives and defines the principal duties of the BOI, investment staff, investment managers, master custodian, and consultants.

The assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the pension fund. LACERA employs Modern Portfolio Theory principles that recognize that higher levels of investment risk are expected to be rewarded with higher returns in the long run. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner that serves the best interests of LACERA's members.

Asset Allocation

A pension fund's strategic asset allocation policy is generally recognized to have the most impact on a fund's investment performance. The asset allocation policy determines a fund's optimal long-term asset class mix (target allocation). This policy is expected to achieve a specific set of investment goals, such as risk and return objectives. The policy also establishes ranges around the optimal target asset class mix which act as a trigger for reallocating assets to ensure adherence to target weights.



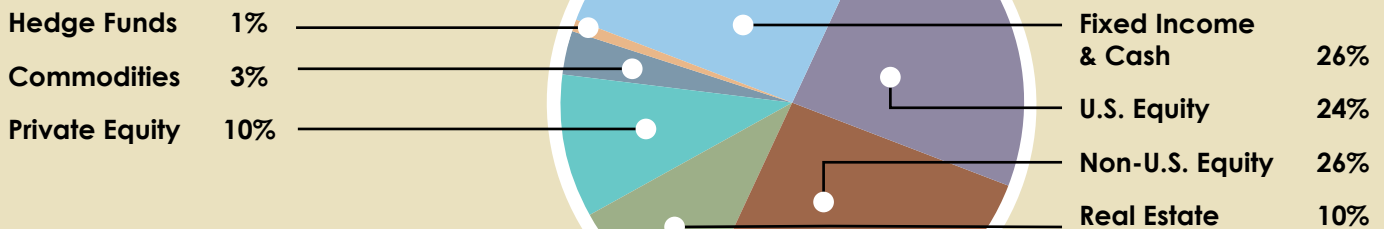
David Kushner
Chief Financial Officer

The BOI reviews the Fund's Asset Allocation Policy (the Policy) every three to five years. In August 2012, the BOI adopted a new Policy. The following factors were considered in establishing this Policy:

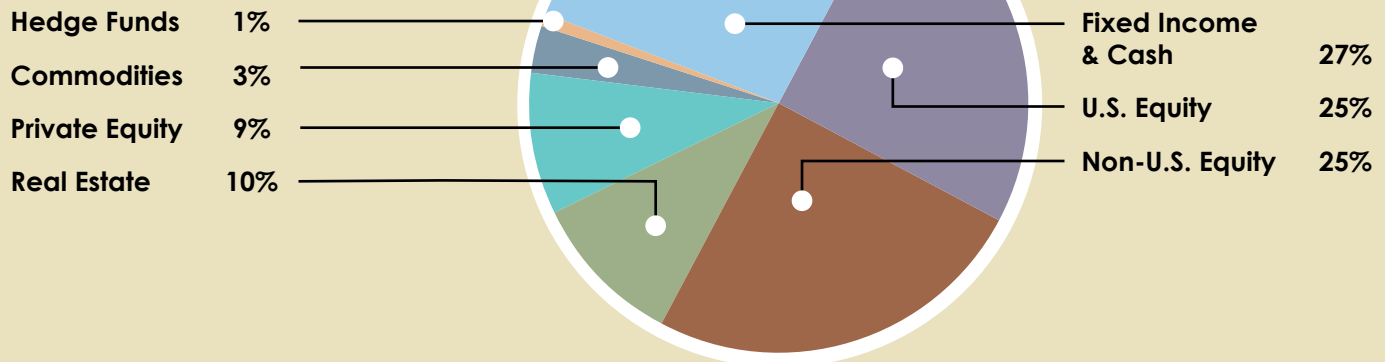
- Projected actuarial assets, liabilities, benefit payments, and contributions
- Expected long-term capital market risk and return targets
- Expected future economic conditions, including inflation and interest rate levels
- LACERA's current and projected funding status

The following graphs display LACERA's target and actual asset allocations as of June 30, 2013.

> 2013 Target Asset Allocation



► 2013 Actual Asset Allocation



The BOI implements the asset allocation plan by hiring investment managers to invest assets on LACERA's behalf, subject to investment guidelines. LACERA's investment staff closely monitors manager activities and assists the BOI with the implementation of investment policies and long-term investment strategies.

Economic and Market Review

The 2013 fiscal year experienced relatively attractive performance as some of the fears about global economic, fiscal, and monetary conditions that took hold in the prior fiscal year failed to materialize. Out of the last four fiscal years since the credit crisis of 2008/2009, this was the third in which LACERA's investment program experienced positive double-digit returns.

Among major world economies, economic conditions appeared most attractive in the U.S. during the fiscal year, as modest Gross Domestic Product (GDP) growth of 2.5 percent exceeded low expectations, unemployment rates declined to 7.6 percent by the end of the fiscal year, and housing prices experienced their largest increase since the credit crisis. Fears of the fiscal cliff at calendar year-end were averted, and the effects of the government spending "sequestration" did not threaten to derail the recovery. The Russell 3000 Index, a broad-based measure of the U.S. stock market, returned 21.5 percent for the year ended June 30, 2013 and hit a record high in mid-May. Cumulative return of this index has been more than 145 percent from the recent low point in February 2009 through fiscal year-end 2013. The fiscal year began with the Federal Reserve expressing concerns about growth through a third round of "quantitative easing" intended to keep rates low through mid-2015. The year ended with positive economic indicators leading the Fed to suggest that it would be scaling back its monthly bond purchases in the near future. However, market concerns about the Fed's reducing liquidity led to a spike in interest rates and raised uncertainty levels worldwide.

Outside the U.S., there were mixed conditions leading to volatility in market segments, all of which had returns lower than the U.S. market. The Morgan Stanley Capital International (MSCI) All Country World Investable Market Index excluding the United States, a broad-based world equity benchmark, was up 13.9 percent for the year. Returns overseas were hurt in part by a generally stronger U.S. dollar against most currencies. LACERA's 50 percent passive currency hedge program helped to mitigate these losses.

European markets began the year with a strong rally, as the European Central Bank eased any concerns about the viability of the Euro with a promise to support the sovereign debt of faltering Eurozone countries on its periphery and as those countries demonstrated willingness to accept austerity measures. It ended the fiscal year with negative sentiment, as the Cyprus crisis renewed Eurozone instability fears and already recessionary

conditions on the continent worsened. The MSCI Europe Index grew 18.9 percent during the fiscal year. In Asian developed markets, weakness in Japan at the start was quickly reversed when a Japanese stimulus program weakened the yen substantially and made exports more competitive. The MSCI Pacific Index gained 18.5 percent during the year.

Emerging market countries began the year on a rally fueled by fresh U.S. and Euro stimulus promises and signs that China growth was set to rise again. However, most of these gains were wiped out as more difficult conditions arose. Export-oriented economies faced renewed competitive pressures from Japan, China growth gains did not materialize, and populist uprisings in Brazil and Turkey raised investor concerns. Emerging markets, as measured by the MSCI Emerging Markets Index, were up only 2.9 percent for the year.

Bond markets experienced a major interest rate shock beginning in May when the Fed comments about the beginning of the end of stimulus drove market yields of government and agency bonds sharply higher, thus reducing their value. The broadest U.S. bond benchmark, the Barclays Capital U.S. Universal Index, gained only 0.2 percent in the year, the third-worst fiscal year performance of that index in its 23-year history. On the other hand, the more credit-focused, less interest-rate sensitive, high-yield segment delivered solid returns as investors, faced with low treasury yields, sought out riskier bonds to earn higher yields. The Barclays High Yield Ba/B Index grew 8.5 percent in the year.

Commodities began the year well on the strength of economic stimulus but once lower global growth, especially from emerging markets, was recognized, markets fell for most of the year with precious metals, industrial metals, and agriculture sectors performing poorest. The Dow Jones-UBS Commodities Index was down 8.0 percent during the fiscal year.

A cautious outlook is still necessary despite the recent experience of strong returns in three of the past four years. Markets can move into crisis mode quickly if perceptions arise that political solutions to current fiscal imbalances in the U.S. cannot be brokered in a timely manner when needed. A U.S. housing recovery, which had been showing signs of life and contributing to GDP growth, may be derailed by higher interest rates. Other developed and emerging markets around the globe face increasingly negative outlooks. And geopolitical risk, especially in the Middle East, has been a continued source of tension.

As we enter the new fiscal year, we continue to look for a number of signals indicating more positive investment conditions: sustained economic growth in the U.S. that is not threatened by the new higher interest rate environment, the Fed's ability to successfully manage the reversal of unprecedented monetary policy measures put in place in recent years without damaging the economy or the dollar, and the ability of other developed and emerging market nations to manage their economies in a lower growth world.

Summary of Performance

LACERA's Fund returned 12.1 percent for the fiscal year ended June 30, 2013, which was 70 basis points (bps) above the 11.4 percent return of its Policy benchmark. Outperformance relative to policy benchmarks was evident in a number of asset classes including fixed income, hedge funds, global equities, commodities, and cash. Private equity and real estate lagged their respective benchmarks. The year was marked by continued volatility, but there was a general improvement in market sentiment from the prior year.

Though volatile, the U.S. and other developed country equity markets performed well. LACERA's U.S. equity portfolio returned 21.8 percent, 30 bps above its Russell 3000 benchmark. The non-U.S. equity portfolio ended the year up 16.9 percent, 80 bps above its customized hedged benchmark, as most active managers performed well. This benchmark hedges 50 percent of the currency exposure from developed markets countries. Both of LACERA's equity portfolios are structured to have a low level of risk relative to their respective benchmarks.

LACERA's fixed income portfolio returned 2.6 percent. The portfolio performance exceeded its benchmark, the Barclays U.S. Universal Index, by 240 bps as a result of the portfolio's higher weight to credit sectors.

LACERA's two other public markets portfolios, commodities and cash, both exceeded their benchmarks. Commodities had weak absolute performance, down 5.5 percent, though this exceeded the -8.0 percent return of the Dow Jones-UBS Commodity Index by 250 bps. Cash, used to fund benefit payments and other obligations, had low absolute performance of 0.5 percent but good relative performance versus the 0.1 percent return of the Citigroup 6-month Treasury Bill Index. LACERA's hedge fund program had its first full fiscal year of performance, returning 13.5 percent, with a one-month lag in reported performance. This was 840 bps above the 5.1 percent absolute return benchmark and reflected a tactical exposure to credit-oriented strategies.

LACERA's private market asset classes, real estate and private equity, focus on longer term, less liquid investments. Private market valuations lag public market results by one quarter. Both asset classes experienced positive performance during the fiscal year. Though these returns are indicative of overall market direction, final returns can only be known with certainty when assets are sold.

The real estate portfolio continued its third consecutive year of positive performance, ending the fiscal year up 8.7 percent. Stable core properties have been able to generate attractive yields and modest capital appreciation. Private equity also had positive performance, up 10.9 percent, due to an environment which was generally favorable for new issues and private valuations helped by strength in the consumer and industrials sectors.

LACERA's custodian at the end of the fiscal year, Bank of New York Mellon Trust Company, N.A., calculated the Fund's public market, hedge fund, and Total Fund returns. LACERA's consultants for real estate (The Townsend Group) and private equity (Credit Suisse Customized Fund Investment Group) calculated their respective private market returns. The asset class performance figures are time-weighted rates of return. Total Fund performance is based on the weighted average returns of the asset classes.

Consistent with its fiduciary duty, the BOI continues to evaluate and adopt new investment strategies, when appropriate. Key items completed during the year included:

- Adoption of new asset allocation policy
- Review and update to the Fund's Investment Policy Statement
- Creation of OPEB investment trust and approval of Investment Policy Statement
- Selection of new custody bank, State Street Bank and Trust, and successful conversion from prior bank, Bank of New York Mellon
- Revision of Corporate Governance Committee Policy Statement and Corporate Governance Principals
- Collaboration with Harvard Law School Shareholders Rights Project, which encourages companies to adopt annual elections of boards of directors
- Revision to U.S. and non-U.S. equity proxy voting guidelines
- Review of U.S. equity composite structure
- Selection of two new emerging markets equity managers
- Review of fixed income composite structure
- Creation of hedge fund investment plan, including search for additional fund of funds manager and expansion into a direct program
- Implementation of new opportunistic credit hedge fund of funds portfolio
- Review of private equity objectives, policies, and procedures, and annual investment plan; commitment of over \$1 billion to a number of private equity partnerships
- Addition of three new separate account real estate equity managers
- Invested in a number of commingled real estate funds, including some non-U.S. funds
- Review of revised real estate investment objectives, policies, and procedures and annual investment plan

Conclusion

LACERA's investment staff remains diligent when evaluating new investment opportunities and carefully considers the potential risks associated with these strategies. On behalf of the investment staff, I appreciate the opportunity to continue serving the BOI and the Association's participants by prudently investing the Fund's assets to ensure the Plan's long-term success.

Respectfully submitted,

David Kushner

David Kushner, CFA
Chief Investment Officer

Investment Summary — Pension Plan

For the Year Ended June 30, 2013

(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
U.S. Equity and Convertibles	\$10,609,291	25.1%
Non-U.S. Equity	10,795,175	25.5%
Total Equities & Convertibles	21,404,466	50.6%
Short-Term Investments	1,680,701	4.0%
Mortgages	104,771	0.2%
Subtotal Short-Term and Mortgages	1,785,472	4.2%
U.S. Government and Agency Instruments	3,321,064	7.9%
U.S. Corporate Fixed Income	4,932,604	11.7%
Non-U.S. Fixed Income	147,238	0.3%
Private Placement Fixed Income	1,167,792	2.8%
Subtotal U.S. Instruments and Fixed Income	9,568,698	22.7%
Total Fixed Income	11,354,170	26.9%
Private Equity	3,730,991	8.8%
Real Estate	4,108,198	9.7%
Commodities	1,194,331	2.8%
Hedge Funds	493,750	1.2%
Total Investments — Pension Plan	\$42,285,906	100.0%

Investment Summary — OPEB Agency Fund

For the Year Ended June 30, 2013

(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
Short-Term Investments	\$3,560	2.7%
U.S. Government and Agency Instruments	83,407	63.9%
U.S. Corporate Fixed Income	43,565	33.4%
Subtotal U.S. Instruments and Fixed Income	126,972	97.3%
Total Investments — OPEB Agency Fund	\$130,532	100.0%

Investment Summary — OPEB Trust

For the Year Ended June 30, 2013

(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
Short-Term Investments	\$147,403	33.0%
U.S. Government and Agency Instruments	165,646	37.0%
U.S. Corporate Fixed Income	134,264	30.0%
Subtotal U.S. Instruments and Fixed Income	299,910	67.0%
Total Investments — OPEB Trust	\$447,313	100.0%

Investment Results Based on Fair Value*

As of June 30, 2013

	Annualized		
	Current Year	Three-year	Five-year
U.S. Equity	21.8%	18.7%	7.4%
Benchmark: Russell 3000 Index	21.5	18.6	7.2
Non-U.S. Equity, 50% Developing Markets Hedge ¹	16.9	8.8	—
Benchmark: Non-U.S. Equity Custom Hedged Index ²	16.1	8.5	-0.2
Fixed Income	2.6	5.8	7.2
Benchmark: Fixed Income Custom Index ³	0.2	4.1	5.7
Benchmark: Barclays U.S. Universal Index	0.2	4.1	5.5
Real Estate ⁴	8.7	9.1	-2.1
Benchmark: NPI minus 25 bps ⁵	10.2	13.0	2.1
Private Equity ⁴	10.9	14.2	7.6
Benchmark: Private Equity Target Return ⁶	14.2	14.2	14.2
Commodities	-5.5	2.4	-9.6
Benchmark: DJ-UBS Commodity Index	-8.0	-0.3	-11.6
Hedge Funds ⁷	13.5	—	—
Benchmark: Hedge Fund Custom Index ⁸	5.1	—	—
Cash	0.5	0.8	0.9
Benchmark: Citigroup 6-Month T-Bill Index	0.1	0.1	0.4
Total Fund (Gross of Fees)	12.1	10.6	4.4
Total Fund (Net of Fees)	11.9	10.4	4.2
Total Fund Policy Benchmark	11.4	10.1	4.6

*Asset class returns are calculated based on time-weighted rates of return; Total Fund performance is calculated based on the weighted average returns of the asset classes.

Prior year returns have been restated to enhance comparability to the current year.

¹Passive 50% developed markets hedge implemented 7/30/10.

²The Non-U.S. Equity benchmark is MSCI ACWI X U.S. IMI (Net) with 50% hedged Developed Markets from 7/31/10 to present. From 8/31/08 to 7/31/10 it was MSCI ACWI X U.S. IMI (Net); From inception to 8/31/08 it was MSCI ACWI X U.S. (Net)

³The Fixed Income benchmark is the Barclays U.S. Universal Index from 3/31/09 to the present. For the period from 9/30/06 through 3/31/09, the benchmark was a combination of 93% Barclays U.S. Aggregate Bond Index and 7% Barclays U.S. High Yield Ba/B index.

⁴One Quarter in arrears. Preliminary returns.

⁵From 6/30/09 to the present, the Real Estate benchmark is the NCREIF Property Index (NPI) minus 25 basis points (bps). For the period in this table prior to 6/30/09, the benchmark was the rolling five-year return of the Consumer Price Index plus 500 bps.

⁶Rolling 10-year return of the Russell 3000 Index plus 500 bps.

⁷Portfolio and benchmark are one month in arrears. Performance included in Total Fund beginning 10/31/11.

⁸The Hedge Fund benchmark is the Citigroup 3-month T-Bill Index plus 500 basis points annually.

Total Pension Investment Rates of Return

For the Last 10 Fiscal Years Ended June 30

(Dollars in Thousands)

Fiscal Year-End	Total Investment Portfolio Fair Value	Total Fund Return ¹	Return on Smoothed Valuation Assets ²	Actuarial Assumed Rate of Return ³	Funded Ratio ⁴
2004	\$29,887,087	16.4%	5.3%	7.75%	82.8%
2005	31,974,324	11.0	12.1	7.75	85.8
2006	35,190,995	13.4	14.5	7.75	90.5
2007	41,329,424	19.1	14.5	7.75	93.8
2008	39,472,905	-1.4	9.0	7.75	94.5
2009	30,918,057	-18.2	1.5	7.75	88.9
2010	33,760,695	11.8	0.5	7.75	83.3
2011	39,770,032	20.4	3.3	7.70	80.6
2012	38,627,163	0.3	1.8	7.60	76.8
2013*	\$42,285,906	12.1	—	—	—

¹Total Fund Return is the aggregate increase or decrease in the value of the portfolio resulting from the net appreciation or depreciation of the principal of the fund, plus or minus the net income or loss experienced by the fund during the period. The returns are presented gross of investment management fees.

²Return on Smoothed Valuation Assets consists of annual investment income in excess or shortfall of the expected rate of return on a valuation (actuarial) basis smoothed over a specified period with a portion of the year's asset gains or losses being recognized each year beginning with the current year. The money-weighted rate of return is presented, net of investment management fees.

³Actuarial Assumed Rate of Return is the future investment earnings of the assets which are assumed to accrue at an annual rate, compounded annually, net of both investment and administrative expenses. The Actuarial Assumed Rate of Return is implemented effective on July 1 following the Board of Investments approval of the Actuarial Valuation. For Fiscal Year 2012-2013, interest crediting and operating tables applied the 7.70 percent Actuarial Assumed Rate of Return.

⁴Funded Ratio is a measurement of the funded status of the fund calculated by dividing the valuation assets by the actuarial accrued liability.

*Actuarial Valuation report for June 30, 2013 not available at CAFR publication.

Largest Equity Holdings (by Fair Value)

As of June 30, 2013

(Dollars in Thousands)

Shares	Description	Fair Value
2,659,983	DBS Hldgs Sgd1	\$32,508
321,102	Exxon Mobil Corporation	29,012
772,952	Jardine Strategic Hldgs Ord	28,058
68,844	Apple, Inc.	27,299
412,400	Toyota Motor Corporation Npv	24,868
295,400	Murata Manufacturing Co Npv	22,452
222,800	Daito Trust Construction Y50	20,971
343,495	Jardine Matheson Holdings Ord	20,781
81,883	Roche Holdings AG Genusscheine Npv	20,338
159,026	Chevron Corporation	18,819

NOTE: A complete list of portfolio holdings is available upon request.

Largest Fixed Income Holdings (by Fair Value)

As of June 30, 2013

(Dollars in Thousands)

Par	Description	Fair Value
73,949,000	U.S. Treasury Note 0.500% 06/15/2016	\$73,637
68,638,200	U.S. Treasury Note 1.375% 06/30/2018	68,600
66,004,000	U.S. Treasury Note 0.375% 06/30/2015	66,030
64,100,000	U.S. Treasury Note 2.000% 02/15/2023	61,691
54,000,000	Commit To Purchase FNMA SF MTG 4.000% 08/01/2043	56,137
50,086,000	U.S. Treasury Note 0.250% 02/28/2015	50,049
45,000,000	U.S. Treasury Note 0.250% 04/15/2016	44,568
36,510,776	Federal National Mortgage Association 6.000% 05/01/2041	39,635
45,140,000	U.S. Treasury Bond 2.750% 08/15/2042	38,962
32,321,630	U.S. Treasury Inflation Indexed Bond 2.375% 01/15/2025	38,503

NOTE: A complete list of portfolio holdings is available upon request.

Schedule of Investment Management Fees

For the Fiscal Years Ended June 30, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Equity Managers		
U.S. Equity	\$13,140	\$12,128
Non-U.S. Equity	20,355	17,607
Fixed Income Managers	17,084	15,637
Cash and Short-Term Managers	831	649
Mortgage Loan Servicers	348	339
Private Equity Managers	3,852	4,081
Real Estate Managers	20,082	16,737
Commodity Managers	3,846	2,619
Total Investment Management Fees*	\$79,538	\$69,797

*OPEB Trust included for fiscal year-end 2013.

Cash & Short-Term

J.P. Morgan Asset Management

Equities — U.S.

BlackRock Institutional Trust Company, N.A.

Cramer Rosenthal & McGlynn, LLC

Delta Asset Management

Eagle Asset Management, Inc.

FIS Group, Inc.

Frontier Capital Management Company, LLC

INTECH Investment Management, LLC

Northern Trust Global Advisors, Inc.

Relational Investors, LLC

Twin Capital Management, Inc.

Westwood Management Corporation

Equities — Non-U.S.

Acadian Asset Management, LLC

Batterymarch Financial Management, Inc.

BlackRock Institutional Trust Company, N.A.

Capital Guardian Trust Company

GAM International Management, Ltd.

Genesis Investment Management, LLP

Lazard Asset Management, LLC

Putnam Advisory Company, LLC

Fixed Income

BlackRock Financial Management, Inc.

BlackRock Institutional Trust Company, N.A.

Brigade Capital Management, LLC

Dodge & Cox

Dolan McEniry Capital Management, LLC

GW Capital, Inc.

Harch Capital Management, LLC

LM Capital Group, LLC

Loomis, Sayles & Company, LP

Oaktree Capital Management, LLC

Pacific Investment Management Company (PIMCO)

PENN Capital Management Company, Inc.

Post Advisory Group, LLC

Principal Global Investors, LLC

Pugh Capital Management, Inc.

Standish Mellon Asset Management, LLC

Wells Capital Management, Inc.

Western Asset Management Company

Hedge Funds

Grosvenor Capital Management, LP

Private Equity

Gateway Private Equity Fund

GTB Capital Partners, LP

J.P. Morgan EMP

Real Estate

Capri Capital Advisors, LLC

CBRE Global Investors

CityView

Clarion Partners

Cornerstone Real Estate Advisers, LLC

EII Capital Management, Inc.

Emmes Asset Management Company, LLC

Europa Capital

Heitman Capital Management, LLC

Hunt Investment Management

Invesco Institutional (N.A.), Inc.

LaSalle Investment Management, Inc.

Phoenix Realty Group, LLC

Quadrant Real Estate Advisors, LLC

Realty Associates Advisors, LLC (TA)

RREEF America, LLC

Starwood Capital Group

Stockbridge Capital Group

The Carlyle Group

TriPacific Enterprises Residential Advisors (LOWE)

UrbanAmerica Advisors

Mortgage Loan Servicer

Ocwen Loan Servicing, LLC

Commodities

Credit Suisse Asset Management, LLC

Gresham Investment Management, LLC

Neuberger Berman Alternative Fund Management, LLC

Pacific Investment Management Company (PIMCO)

Passive Currency Hedge

BlackRock Institutional Trust Company, N.A.

Securities Lending Program

BNY Mellon Cash Investment Strategies

BNY Mellon Global Securities Lending

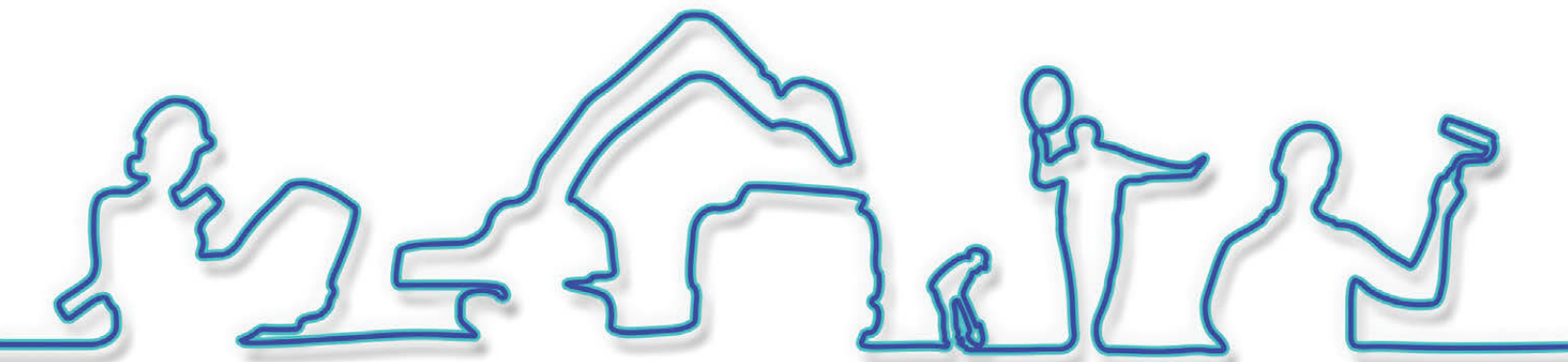
Goldman Sachs Agency Lending (GSAL)



Actuarial Section



Claims Processing Team





Folks sitting at desks may claim they "work in the trenches," but this man really does. As a laborer for the **Department of Public Works**, he constructs trenches, maintains sewers and bridges, and operates heavy equipment. Although it's grueling physical work, he's confident he'll eventually be able to retire with dignity and collect the lifetime benefits promised under his LACERA retirement plan. When it's finally time to climb out of the trenches and enjoy the fruits of his extensive labor, our Claims Processing staff will ensure our laborer transitions seamlessly to retirement and receives his first allowance check without delay. *After all, he waited long enough to retire; he shouldn't have to wait to collect his hard-earned benefit.*



September 5, 2013



Board of Investments
 Los Angeles County Employees Retirement Association
 300 North Lake Avenue, Suite 820
 Pasadena, CA 91101-4199

1301 Fifth Avenue, Suite 3800
 Seattle, WA 98101-2605 USA
 Tel +1 206 624 7940
 Fax +1 206 623 3485
 milliman.com

Dear Members of the Board:

The basic financial goal of LACERA is to establish contributions that fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members.¹ Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

LACERA measures its funding status as the Funded Ratio, which is equal to the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date: June 30, 2010	Funded Ratio: 83.3%
Valuation Date: June 30, 2011	Funded Ratio: 80.6%
Valuation Date: June 30, 2012	Funded Ratio: 76.8%

It is our opinion that LACERA continues in sound financial condition as of June 30, 2012. However, it should be noted that the 2012 valuation results do not fully reflect the significant market loss on assets that occurred in the fiscal year ending June 30, 2009. Thus, the Funded Ratio is expected to be lower once that market loss is fully reflected in the next valuation. Almost all of this year's decrease in the Funded Ratio is due to the recognition of a portion of the deferred asset losses. Using the market value of assets on June 30, 2012, the Funded Ratio would be 73.7 percent.

LACERA's funding policy provides that the County's contributions are set equal to the normal cost rate, net of member contributions, plus the amortization payment of any Unfunded Actuarial Accrued Liability (UAAL) or minus the amortization of any Surplus Funding. A UAAL occurs if the Funded Ratio is less than 100 percent. Surplus Funding occurs when the Funded Ratio is greater than 100 percent. The amortization of the UAAL uses a layered 30-year approach. Under this approach, the UAAL, as of June 30, 2009, is amortized over a closed 30-year period. Each year, thereafter, any increase or decrease in the UAAL is also amortized over a new 30-year closed period. If the Funded Ratio exceeds 100 percent, then any Surplus is amortized over an open 30-year period.

The current funding policy requires LACERA to consider all of the funds in the Contingency Reserve in excess of 1 percent of the market value of assets as part of the valuation assets. For the plan year beginning July 1, 2012, the STAR Reserve was also considered part of the valuation assets. The Board's policy does not include any corresponding liability for future STAR benefits in the valuation. Note that if all of the STAR Reserve funds were excluded from the valuation assets for funding purposes, the Funded Ratio on June 30, 2012 would decrease to 75.6 percent.

The June 30, 2012 valuation results are based on the membership data and the asset information provided by LACERA. In our examination of these data, we have found them to be reasonably consistent and comparable

¹A further goal is to minimize employer contributions, consistent with the requirements of Article XVI, Section 17 of the California Constitution and Section 31595 of the California Government Code.

Offices in Principal Cities Worldwide

with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is also based on our understanding of LACERA's current benefit provisions and the actuarial assumptions which were reviewed and adopted by the Board of Investments. It does not reflect any changes in benefit provisions due to recent pension legislation. The demographic assumptions were based on the triennial investigation of experience study report as of June 30, 2010 and adopted at the December 8, 2010 Board of Investments meeting. The economic assumptions were adopted at the October 12, 2011 Board of Investments meeting. Assumptions will be reviewed again in the fall of 2013.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for LACERA consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a five-year smoothed recognition method of asset gains and losses, determined as the difference of the actual market value to the expected market value. We believe the actuarial assumptions and methods are internally consistent, reasonable, and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to such factors as the following: experience differing from that anticipated by the economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in the program provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for LACERA for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning LACERA's operations and uses LACERA's data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product but should engage qualified professionals for advice appropriate to its own specific needs.

LACERA staff prepared the supporting schedules in this section and the trend tables in the financial section, based on information supplied in prior actuarial reports, as well as our June 30, 2012 actuarial valuation report.

We certify that the June 30, 2012 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,



Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary



Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

MCO/NJC/nlo

September 5, 2013



Board of Retirement
 Los Angeles County Employees Retirement Association
 300 North Lake Avenue, Suite 820
 Pasadena, CA 91101-4199

1301 Fifth Avenue, Suite 3800
 Seattle, WA 98101-2605 USA
 Tel +1 206 624 7940
 Fax +1 206 623 3485
 milliman.com

Dear Members of the Board:

Los Angeles County provides Other Post-Employment Benefits (OPEB): retiree medical, dental/vision, and life insurance benefits to the retired Los Angeles County (County) workers who also participate in the Los Angeles County Employees Retirement Association (LACERA) retirement benefit program. These benefits are called the Los Angeles County OPEB Benefits Program, (Program). The Program provides these benefits on a “pay-as-you-go” basis. Biennial actuarial valuations provide the required financial disclosures for the Program.

A summary of the results of the past three actuarial valuations is shown below:

Valuation Date	Actuarial Accrued Liability (\$ billions)	ARC as a Percentage of Payroll
July 1, 2008	\$21.86	27.75%
July 1, 2010	\$24.03	28.79%
July 1, 2012	\$26.95	32.07%

The County’s Board of Supervisors affirmed its support for prefunding its OPEB liabilities by providing specific initial appropriations to the OPEB Trust Fund. Details of a long-term funding policy have not yet been finalized.

Biennial actuarial valuations are expected. The first four valuations were as of July 1, 2006; July 1, 2008; July 1, 2010; and July 1, 2012. The next valuation is expected as of July 1, 2014.

In preparing the July 1, 2012 OPEB valuation report, we relied, without audit, on information (some oral and some in writing) supplied by Los Angeles County, LACERA, and Aon Hewitt. This information includes, but is not limited to, benefit descriptions, membership data, and financial information. We found this information to be reasonably consistent and comparable with data used for other purposes. The valuation results depend on the integrity of this information. In some cases, where the data was incomplete, we made assumptions as noted in Table C-11 of our valuation report. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

The valuation is also based on our understanding of the Program’s current benefit provisions and the actuarial assumptions, which were last reviewed and adopted by the County in April 2013. The retirement benefit-related demographic and economic assumptions were based on those developed for the July 1, 2012 valuation of the LACERA’s retirement benefit program. The OPEB demographic and economic assumptions were based on the results of our 2010 OPEB investigation of experience study report as of June 30, 2010. Both the retirement and OPEB assumptions will be reviewed again in 2013.

Offices in Principal Cities Worldwide

The actuarial computations presented in the valuation report are for purposes of fulfilling financial accounting requirements for LACERA. The liabilities are determined by using the projected unit credit actuarial cost method. We consider the actuarial assumptions and methods to be internally consistent, to represent a long-term perspective, and to be reasonable. We believe they also meet the parameters of Governmental Accounting Standards Board Statement No. 43 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements presented in the valuation report due to such factors as the following: OPEB program experience differing from that anticipated by the economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in OPEB program provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared solely for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning LACERA's operations, and uses LACERA's data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

LACERA staff prepared the supporting schedules in this section and the financial section based on information supplied in our prior OPEB valuation reports as well as our July 1, 2012 actuarial valuation report.

I certify that the July 1, 2012 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. I am a member of the American Academy of Actuaries and have experience in performing valuations for public OPEB programs.

Sincerely,



Robert L. Schmidt, FSA, EA, MAAA
Consulting Actuary

RLS/nlo

Actuarial Assumptions and Methods Recommended by the Consulting Actuary and adopted by the Board of Investments (BOI). The actuarial assumptions used to determine the liabilities are based on the results of the 2010 triennial investigation of experience study (experience study). In October 2011, the BOI adopted a decrease in the investment return and other economic assumptions, to be phased in over a period of three years.

In 2009, the BOI adopted a new Retirement Benefit Funding Policy (Funding Policy). Under the Funding Policy, modifications to the asset valuation and amortization methods were adopted beginning with the June 30, 2009 actuarial valuation. The Funding Policy was amended in February 2013 to conform with the new standards mandated in the California Public Employees’ Pension Reform Act of 2013 and to specify that the STAR Reserve should be included with the valuation assets on an ongoing basis.

Actuarial Cost Method Entry Age Normal.

Actuarial Asset Valuation Method Five-year smoothed method based on the difference between expected and actual market value of assets as of the valuation date. The expected market value is the prior year’s market value increased with the net cash flow of funds, both adjusted to reflect expected investment returns during the past fiscal year at the investment rate assumption. The five-year smoothing valuation basis for all assets was adopted beginning with the June 30, 2009 valuation.

For the June 30, 2012 valuation, the BOI approved including the STAR Reserve as part of the 2012 Valuation Assets, which is subject to periodic review; the liability for STAR benefits that may be granted in the future is not included in the valuation.

Amortization of Unfunded Actuarial Accrued Liability (UAAL) or Funding Surplus In accordance with LACERA’s Funding Policy, the County’s contributions are set equal to the normal cost rate, net of expected member contributions for the next year, plus amortization of any UAAL or Surplus Funding. A UAAL occurs if the Funded Ratio is less than 100 percent. Surplus Funding occurs if the Funded Ratio is greater than 100 percent.

The amortization of the UAAL beginning with the June 30, 2009 valuation is funded over a closed 30-year period. Any future unanticipated changes in the UAAL, such as assumption changes or actuarial gains and losses, are amortized over new closed 30-year periods beginning with the June 30, 2010 valuation. This approach is often referred to as a “layered amortization method.” The Employer contribution rate is not allowed to be less than the rate if LACERA amortized the total UAAL over a 30-year period. If the Funded Ratio is greater than 100 percent in future valuations, the amortization of any Surplus Funding is funded over an open or “rolling” 30-year period.

Amortization of Gains and Losses Actuarial gains and losses are reflected in the UAAL or Surplus Funding. The original UAAL beginning with the June 30, 2009 valuation is amortized over a closed 30-year period. Future gains and losses are amortized over new closed 30-year periods which are referred to as layered amortization, as described above. For the June 20, 2012 valuation, four amortization layers were used to calculate the total amortization payment beginning July 1, 2013.

Investment Rate of Return Future investment earnings are assumed to accrue at an annual rate of 7.60 percent, compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2012, valuation.

Projected Salary Increases Rates of annual salary increases assumed for the purpose of the valuation range from 4.11 percent to 10.08 percent. In addition to increases in salary due to promotions and longevity, the increases include an assumed 3.85 percent per annum rate of increase in the general wage level of membership. Increases are assumed to occur mid-year (i.e., January 1st) and apply only to base salary, excluding Megaflex compensation. The mid-year timing reflects that salary increases occur throughout the year, or on average mid-year. These rates were adopted beginning with the June 30, 2012 valuation.

Post-Retirement Benefit Increases Post-retirement benefit increases of either 3.0 percent or 2.0 percent per year are assumed for the valuation in accordance with the benefits provided. These adjustments, which are based on the Consumer Price Index (CPI), are assumed payable each year in the future, as they are less than the expected increase in the CPI of 3.35 percent per year. This rate was adopted beginning with the June 30, 2012 valuation.

Plan E members receive a prorated post-retirement benefit increase of 2.0 percent for service credit earned after June 4, 2002. The portion payable is based on a ratio of the member's years of service earned after June 4, 2002 to his/her total years of service. The portion of the full 2.0 percent increase not provided for may be purchased by the member.

Consumer Price Index Increase of 3.35 percent per annum. This rate was adopted beginning with the June 30, 2012 valuation.

Rates of Separation From Employment Various rates dependent upon member's age, sex, and retirement plan. These rates of separation from active service were adopted beginning with the June 30, 2010 valuation.

Expectation of Life After Retirement The same post-retirement mortality rates are used in the valuation for active members, members retired for service, and beneficiaries. Current beneficiary mortality is assumed to be the same as healthy members of the same sex. Future beneficiaries are assumed to be of the opposite sex and have the same mortality as general members.

Males

General Members: RP-2000 Combined Mortality Table for Males, projected to 2020 using Projection Scale AA, with ages set back one year.

Safety Members: RP-2000 Combined Mortality Table for Males, projected to 2020 using Projection Scale AA, with ages set back two years.

Females

General Members: General members: RP-2000 Combined Mortality Table for Females, projected to 2020 using Projection Scale AA, with ages set back one year.

Safety Members: RP-2000 Combined Mortality Table for Females, projected to 2020 using Projection Scale AA, with ages set back one year.

These rates were adopted beginning with the June 30, 2010 valuation.

Expectation of Life After Disability**Males**

General Members: Average of RP-2000 Combined and Disabled Mortality Tables for Males, projected to 2020 using Projection Scale AA, with ages set back one year.
Safety Members: RP-2000 Combined Mortality Table for Males, projected to 2020 using Projection Scale AA, with no age adjustment.

Females

General Members: Average of RP-2000 Combined Mortality Table for Females, projected to 2020 using Projection Scale AA, with ages set back one year.
Safety Members: RP-2000 Combined Mortality Table for Females, projected to 2020 using Projection Scale AA, with no age adjustment.

These rates were adopted for the June 30, 2010 valuation.

Recent Changes and Their Financial Impact

An Experience Study was performed by the Consulting Actuary for the three-year period ended June 30, 2010. The BOI adopted the demographic assumptions as recommended in that report. Changes to those assumptions and other financial impacts are discussed below.

2012 Assumption Changes: At the October 2011 Board of Investments meeting, the Board adopted a decrease in the investment return assumption, to be phased in over a period of three years. The investment return assumption in effect for the 2012 actuarial valuation is 7.60 percent. The assumption that is scheduled to be in effect for the 2013 actuarial valuations is 7.50 percent. A corresponding decrease in the price and wage inflation assumptions is also scheduled to be made for the 2013 actuarial valuation.

STAR Reserve: The STAR Reserve of \$614 million was included in the 2012 valuation assets. There is no corresponding liability for future potential STAR benefits included in the valuation.

Employer Contributions: The total required employer contribution rate increased from the 2012 valuation by 2.28 percent. The most significant factor causing this increase was the recognition of current and prior investment losses, which resulted in a 1.92 percent increase. Additionally, the change in investment return assumption to 7.60 percent caused a 0.54 percent increase. All other factors caused an offsetting 0.18 percent decrease.

Member Contributions: New member contribution rates were implemented based on the new investment return assumption of 7.60 percent and the new wage growth assumption of 3.85 percent, included for the 2012 actuarial valuation. The average contribution rate for members of contributory plans increased from 8.00 percent to 8.05 percent effective for July 1, 2013.

Funding: Recognition of current and deferred investment losses caused a 4.6 percent decrease in the Funded Ratio, as reflected in the June 30, 2012 actuarial valuation. This was somewhat offset by the salary increase being less than assumed for the fiscal year ended 2012, which caused a 1.07 percent increase in the Funded Ratio. In total, the Funded Ratio decreased from 80.6 percent in the June 30, 2011, valuation to 76.8 percent in the June 30, 2012, valuation due to these changes and other smaller experience gains and losses.

**Recent Changes and Their
Financial Impact
continued**

Assembly Bill (AB) 340: AB 340, which contains the Public Employees' Pension Reform Act of 2013 (PEPRA), will change the benefits for most members of LACERA who enter on or after January 1, 2013. These members will join either General Plan G or Safety Plan C. Since there are no members as of June 30, 2012 impacted by PEPRA, there are no members in either of these plans reflected in the actuarial valuation; however, the required contribution rates effective July of 2013 for these plans and updated UAAL contribution rates have been included in the June 30, 2012 valuation based on a study of expected costs.

See Note N — Other Post-Employment Benefits (OPEB) Program in the Financial Section for a Summary of Actuarial Assumptions and Methods for the OPEB Program.

Active Member Valuation Data

Valuation Date	Plan Type	Member Count	Annual Salary ¹	Average Annual Salary	% Increase in Average Salary
June 30, 2007	General	79,829	\$4,673,126,964	\$58,539	5.86%
	Safety	12,267	1,103,924,952	89,991	6.42%
	Total	92,096	\$5,777,051,916	\$62,729	6.17%
June 30, 2008	General	81,664	\$5,016,720,948	\$61,431	4.94%
	Safety	12,828	1,187,406,768	92,564	2.86%
	Total	94,492	\$6,204,127,716	\$65,658	4.67%
June 30, 2009	General	82,878	\$5,347,558,596	\$64,523	5.03%
	Safety	12,910	1,239,655,092	96,023	3.74%
	Total	95,788	\$6,587,213,688	\$68,769	4.74%
June 30, 2010	General	81,413	\$5,318,137,692	\$65,323	1.24%
	Safety	12,997	1,257,305,532	96,738	0.75%
	Total	94,410	\$6,575,443,224	\$69,648	1.28%
June 30, 2011	General	80,145	\$5,295,354,528	\$66,072	1.15%
	Safety	12,641	1,239,553,116	98,058	1.36%
	Total	92,786	\$6,534,907,644	\$70,430	1.12%
June 30, 2012	General	79,467	\$5,271,580,728	\$66,337	0.40%
	Safety	12,485	1,229,922,420	98,512	0.46%
	Total	91,952	\$6,501,503,148	\$70,705	0.39%

¹Active Member Valuation Annual Salary is an annualized compensation of only those members who were active on the actuarial valuation date. Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

Retirees and Beneficiaries Added to and Removed from Retiree Payroll — Pension Plan

Fiscal Year	Added to Rolls		Removed from Rolls		Rolls at End of Year		% Increase in Retiree Allowance	Average Annual Allowance
	Member Count	Annual Allowance (in 000s)	Member Count	Annual Allowance (in 000s)	Member Count ³	Annual Allowance ¹ (in 000s)		
2007	2,015	\$79,955	(1,615)	\$(35,054)	51,392	\$1,858,225	5.06%	\$36,158
2008	2,759	167,753 ²	(1,801)	(47,103)	52,350	1,978,875	6.49%	37,801
2009	2,505	157,469 ²	(1,786)	(50,619)	53,069	2,085,725	5.40%	39,302
2010	2,947	188,724 ²	(1,820)	(54,105)	54,196	2,220,344	6.45%	40,969
2011	3,134	185,204 ²	(1,959)	(62,923)	55,371	2,342,625	5.51%	42,308
2012	3,194	\$193,865²	(1,795)	\$(61,588)	56,770	\$2,474,902	5.65%	\$43,595

¹Annual allowance is the monthly benefit allowance annualized for those members counted as of June 30.

²Includes COLAs that occurred during the fiscal year and therefore were not included in the previous years' Annual Allowance totals.

³If the Member Counts in this schedule are different from the Member Counts disclosed elsewhere in this report, the differences are due to data edits conducted for the actuarial valuation by the consulting actuary. Data in Management's Discussion and Analysis and Note A — Plan Description includes only Retired Members at year-end.

Actuary Solvency Test — Pension Plan

(Dollars in Millions)

Valuation Date	Actuarial Accrued Liability (AAL)			Actuarial Value of Assets	Percentage of AAL Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired/Vested Members	Employer Financed Portion		Active	Retired	Employer
June 30, 2007	\$4,852	\$22,398	\$12,253	\$37,042	100%	100%	80%
June 30, 2008	5,279	23,730	12,966	39,662	100%	100%	82%
June 30, 2009	5,795	24,692	13,982	39,542	100%	100%	65%
June 30, 2010	6,278	26,220	14,148	38,839	100%	100%	45%
June 30, 2011	6,529	27,559	14,511	39,194	100%	100%	35%
June 30, 2012	\$6,961	\$29,118	\$14,730	\$39,039	100%	100%	20%

Actuarial Analysis of Financial Experience — Pension Plan

(Dollars in Millions)

	Valuation as of June 30					
	2007	2008	2009	2010	2011	2012
Prior Valuation Unfunded Actuarial						
Accrued Liability	\$3,439	\$2,461	\$2,313	\$4,927	\$7,807	\$9,405
Expected Increase (Decrease) from						
Prior Valuation	(109)	(68)	(78)	333	565	772
Salary Increases Greater (Less) than Expected	673	298	380	(353)	(579)	(629)
CPI Less than Expected	—	—	(4)	(29)	(215)	(181)
Change in Assumptions	515	—	—	—	—	—
Asset Return Less (Greater) than Expected	(2,187)	(429)	2,465	2,879	1,761	2,337
All Other Experience	130	36	(149)	50	66	66
Recognition of Liabilities due to Court Cases	—	15	—	—	—	—
Ending Unfunded Actuarial						
Accrued Liability	\$2,461	\$2,313	\$4,927	\$7,807	\$9,405	\$11,770

Actuarial Analysis of Financial Experience — OPEB Program

(Dollars in Billions)

	Valuation as of July 1		
	2008	2010	2012
Prior Valuation Unfunded Actuarial			
Accrued Liability	\$21.22	\$21.86	\$24.03
Expected Increase (Decrease) from			
Prior Valuation	3.34	3.48	3.77
Claim Costs Greater (Less) than Expected*	(3.13)	(1.27)	(4.60)
Change in Assumptions	0.53	0.29	4.15
All Other Experience	(0.10)	(0.33)	(0.40)
Ending Unfunded Actuarial			
Accrued Liability	\$21.86	\$24.03	\$26.95

*Includes the trend assumption change.

Plans A, B, and C General Members

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Other Terminations
Male						
20	0.0000	0.0002	0.0001	N/A	0.0003	0.0050
30	0.0000	0.0002	0.0001	N/A	0.0006	0.0050
40	0.0300	0.0006	0.0002	N/A	0.0010	0.0050
50	0.0300	0.0016	0.0004	N/A	0.0017	0.0050
60	0.2200	0.0040	0.0010	N/A	0.0049	0.0050
70	0.2400	0.0047	0.0025	N/A	0.0091	0.0050
75	1.0000	0.0047	0.0000	N/A	0.0164	0.0000
Female						
20	0.0000	0.0002	0.0001	N/A	0.0001	0.0050
30	0.0000	0.0002	0.0001	N/A	0.0002	0.0050
40	0.0300	0.0005	0.0002	N/A	0.0005	0.0050
50	0.0300	0.0013	0.0004	N/A	0.0011	0.0050
60	0.2200	0.0027	0.0010	N/A	0.0033	0.0050
70	0.2400	0.0058	0.0025	N/A	0.0066	0.0050
75	1.0000	0.0000	0.0000	N/A	0.0089	0.0000

Plan D General Members

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
Male							
20	0.0000	0.0002	0.0001	N/A	0.0003	5	0.0233
30	0.0000	0.0002	0.0001	N/A	0.0006	10	0.0170
40	0.0200	0.0006	0.0002	N/A	0.0010	15	0.0120
50	0.0200	0.0016	0.0004	N/A	0.0017	20	0.0076
60	0.0600	0.0040	0.0010	N/A	0.0049	25	0.0048
70	0.2000	0.0047	0.0025	N/A	0.0091	30 & up	0.0000
75	1.0000	0.0047	0.0000	N/A	0.0164	—	—
Female							
20	0.0000	0.0002	0.0001	N/A	0.0001	5	0.0233
30	0.0000	0.0002	0.0001	N/A	0.0002	10	0.0170
40	0.0200	0.0005	0.0002	N/A	0.0005	15	0.0120
50	0.0200	0.0013	0.0004	N/A	0.0011	20	0.0076
60	0.0600	0.0027	0.0010	N/A	0.0033	25	0.0048
70	0.2000	0.0058	0.0025	N/A	0.0066	30 & up	0.0000
75	1.0000	0.0000	0.0000	N/A	0.0089	—	—

Plan E General Members

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
Male							
20	0.0000	N/A	N/A	N/A	0.0003	5	0.0325
30	0.0000	N/A	N/A	N/A	0.0006	10	0.0236
40	0.0000	N/A	N/A	N/A	0.0010	15	0.0180
50	0.0000	N/A	N/A	N/A	0.0017	20	0.0148
60	0.0450	N/A	N/A	N/A	0.0049	25	0.0128
70	0.2000	N/A	N/A	N/A	0.0091	30 & up	0.0120
75	1.0000	N/A	N/A	N/A	0.0164	—	—
Female							
20	0.0000	N/A	N/A	N/A	0.0001	5	0.0325
30	0.0000	N/A	N/A	N/A	0.0002	10	0.0236
40	0.0000	N/A	N/A	N/A	0.0005	15	0.0180
50	0.0000	N/A	N/A	N/A	0.0011	20	0.0148
60	0.0450	N/A	N/A	N/A	0.0033	25	0.0128
70	0.2000	N/A	N/A	N/A	0.0066	30 & up	0.0120
75	1.0000	N/A	N/A	N/A	0.0089	—	—

Plans A and B Safety Members

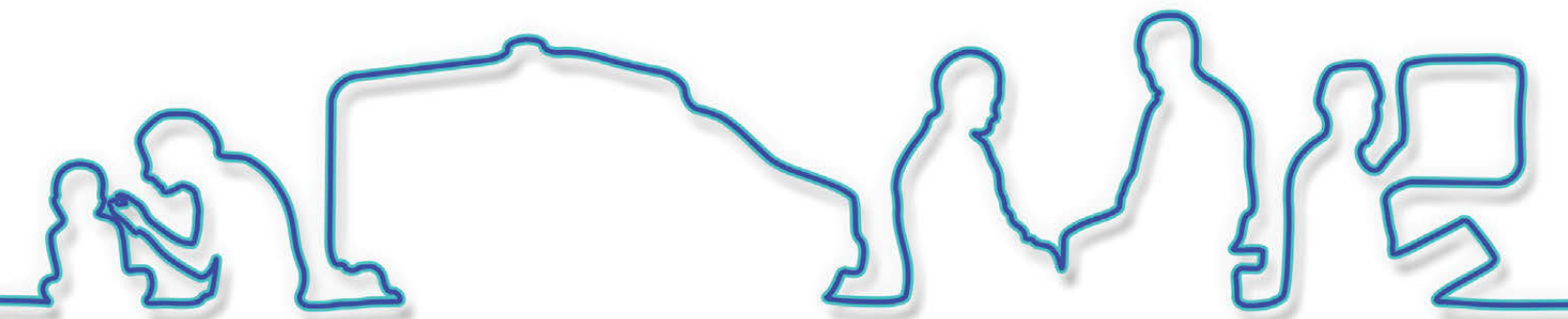
Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
Male							
20	0.0000	0.0030	0.0002	0.0001	0.0002	5	0.0133
30	0.0000	0.0030	0.0002	0.0001	0.0003	10	0.0076
40	0.0100	0.0046	0.0003	0.0001	0.0008	15	0.0042
50	0.0100	0.0100	0.0005	0.0001	0.0012	20 & up	0.0000
60	1.0000	0.0000	0.0000	0.0000	0.0023	—	—
Female							
20	0.0000	0.0037	0.0005	0.0001	0.0001	5	0.0133
30	0.0000	0.0051	0.0005	0.0001	0.0002	10	0.0076
40	0.0100	0.0105	0.0007	0.0001	0.0005	15	0.0042
50	0.0100	0.0225	0.0018	0.0001	0.0011	20 & up	0.0000
60	1.0000	0.0000	0.0000	0.0000	0.0033	—	—



Statistical Section

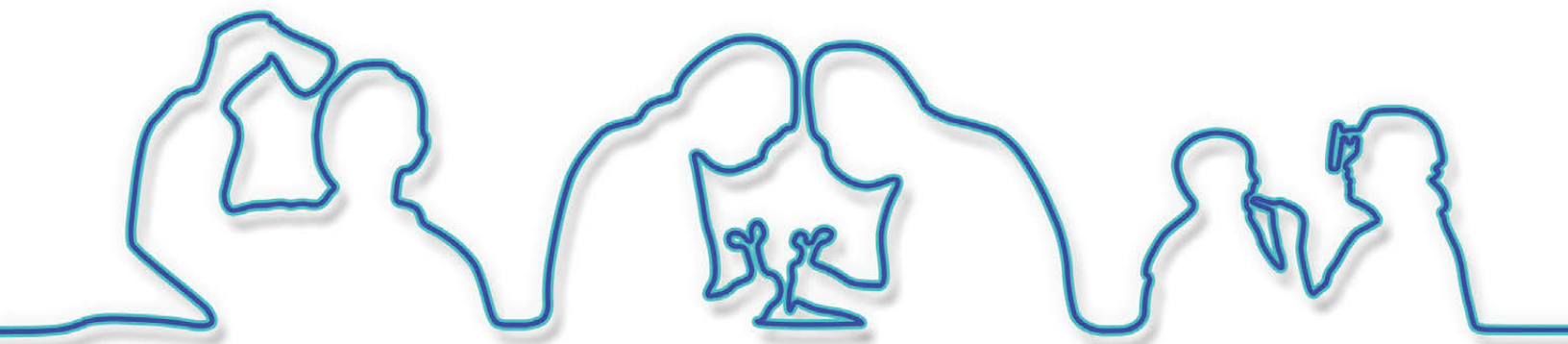


Retiree Healthcare Team





After a long and satisfying career helping patients rehabilitate from disabling injuries and conditions, this **physical therapist** is looking forward to her upcoming retirement. As a health professional, this woman recognizes the importance of good medical insurance in maintaining an active lifestyle during retirement. That's why she's eager to review the materials explaining the LACERA-administered Retiree Healthcare Benefits Program. If she has a question, she can always call a LACERA Retiree Healthcare Benefits Specialist for assistance. *After all, this woman spent a career providing personalized service to others; now it's her time.*



The objective of the Statistical Section is to provide historical perspective, context, and detail to assist in utilizing the Basic Financial Statements, Notes to the Basic Financial Statements, and Required Supplementary Information to understand and assess LACERA's economic condition. The information is presented in two main categories: Financial Trends Information and Operating Information.

Financial Trends Information is intended to assist readers in understanding how LACERA's financial position has changed over time. The *Changes in Fiduciary Net Position - Pension Plan* and *Changes in Fiduciary Net Position - OPEB Trust* present additions by source, deductions by type, and the total change in fiduciary net position for each year. The *Pension Benefit Expenses by Type* presents benefit and refund deductions by type of benefit, such as Service Retiree and Disability Retiree, as well as by General and Safety benefits.

Operating Information is intended to provide contextual information about LACERA's operations and membership to assist readers in using financial statement information to comprehend and evaluate LACERA's fiscal condition. The *Active and Deferred Members* provides membership statistics for active vested and non-vested members as well as for deferred members. *Retired Members by Type of Pension Benefit* and the *Retired Members by Type of OPEB Benefit* present benefit information for the current year by benefit type and dollar levels. The *Schedule of Average Pension Benefit Payments* presents the average monthly benefit, average final salary, and number of retired members, organized in five-year increments of credited service. The *Active Members and Participating Pension Employers* presents the employers and their corresponding covered employees. The *Retired Members of Participating OPEB Employers* presents the number of covered members by medical or dental/ vision benefits. The *Employer Contribution Rates* to the Pension Plan are also provided as additional information. Finally, the *Supplemental Targeted Adjustment for Retirees Cost-of-Living Adjustment (STAR COLA) Program Cost* schedule trends the Program's cost through June 30, 2013.

Changes in Fiduciary Net Position — Pension Plan

Last Ten Fiscal Years

(Dollars in Thousands)

	2004	2005	2006*	2007*	2008
Additions					
Employer Contributions	\$395,109	\$527,810	\$676,667	\$751,928	\$788,029
Member Contributions	262,699	286,096	296,176	347,701	414,752
Net Investment Income/(Loss)	4,118,500	3,396,193	4,092,410	6,487,184	(1,426,117)
Miscellaneous	2,605	3,222	1,582	1,803	1,767
Total Additions/(Declines)	4,778,913	4,213,321	5,066,835	7,588,616	(221,569)
Deductions					
Total Benefit Expenses (see Pension Benefit Expenses by Type)	1,447,511	1,562,363	1,798,463	1,792,654	1,913,272
Administrative Expense	38,684	43,182	42,469	43,880	48,223
Retiree Healthcare Program	59,054	62,318	—	—	—
Miscellaneous	287	536	75	197	371
Total Deductions	1,545,536	1,668,399	1,841,007	1,836,731	1,961,866
Transfer to OPEB Agency Fund	—	—	66,344	29,368	—
Net Increase/(Decrease) in Fiduciary Net Position	\$3,233,377	\$2,544,922	\$3,159,484	\$5,722,517	\$(2,183,435)

	2009	2010	2011	2012	2013
Additions					
Employer Contributions	\$831,671	\$843,704	\$944,174	\$1,078,929	\$723,195
Member Contributions	415,545	429,612	463,743	506,758	679,572
Net Investment Income/(Loss)	(7,407,790)	3,840,401	6,930,358	(291,009)	4,659,015
Miscellaneous	1,221	868	591	1,004	385
Total Additions/(Declines)	(6,159,353)	5,114,585	8,338,866	1,295,682	6,062,167
Deductions					
Total Benefit Expenses (see Pension Benefit Expenses by Type)	2,016,364	2,130,738	2,269,791	2,390,598	2,541,351
Administrative Expense	49,730	48,892	50,605	50,218	53,863
Retiree Healthcare Program	—	—	—	—	—
Miscellaneous	243	48	347	121	190
Total Deductions	2,066,337	2,179,678	2,320,743	2,440,937	2,595,404
Transfer to OPEB Agency Fund	—	—	—	—	—
Net Increase/(Decrease) in Fiduciary Net Position	\$(8,225,690)	\$2,934,907	\$6,018,123	\$(1,145,255)	\$3,466,763

*Reclassified to reflect GASB Statement No. 43 implementation.

Changes in Fiduciary Net Position — OPEB Trust

(Dollars in Thousands)

	2013
Additions	
Employer Contributions	\$448,819
Net Investment Income	209
<hr/>	
Total Additions	449,028
Deductions	
Administrative Expense	173
<hr/>	
Total Deductions	173
<hr/>	
Net Increase in Fiduciary Net Position	\$448,855

NOTE: This schedule was implemented effective with initial funding of the OPEB Trust in fiscal year-end June 30, 2013.

Pension Benefit Expenses by Type

Last Ten Fiscal Years

(Dollars in Thousands)

	2004	2005	2006	2007	2008
Service Retiree Payroll					
General	\$867,715	\$942,997	\$1,072,193	\$1,087,908	\$1,162,474
Safety	178,829	192,093	234,565	228,779	242,948
Total	1,046,544	1,135,090	1,306,758	1,316,687	1,405,422
Disability Retiree Payroll					
General	117,964	123,297	135,397	133,361	139,390
Safety	262,436	283,700	335,226	322,979	341,158
Total	380,400	406,997	470,623	456,340	480,548
Total Retiree Payroll					
General	985,679	1,066,294	1,207,590	1,221,269	1,301,864
Safety	441,265	475,793	569,791	551,758	584,106
Total	1,426,944	1,542,087	1,777,381	1,773,027	1,885,970
Refunds*					
General	—	—	16,889	15,682	20,894
Safety	—	—	2,842	2,356	4,694
Total	18,088	18,630	19,731	18,038	25,588
Lump-Sum Death Benefits	2,479	1,646	1,351	1,589	1,714
Total Benefit Expenses	\$1,447,511	\$1,562,363	\$1,798,463	\$1,792,654	\$1,913,272

	2009	2010	2011	2012	2013
Service Retiree Payroll					
General	\$1,221,671	\$1,295,574	\$1,383,478	\$1,465,218	\$1,556,814
Safety	269,893	291,796	315,745	340,177	367,471
Total	1,491,564	1,587,370	1,699,223	1,805,395	1,924,285
Disability Retiree Payroll					
General	141,821	144,861	150,585	152,698	157,406
Safety	361,235	377,429	395,197	413,300	432,405
Total	503,056	522,290	545,782	565,998	589,811
Total Retiree Payroll					
General	1,363,492	1,440,435	1,534,063	1,617,916	1,714,220
Safety	631,128	669,225	710,942	753,477	799,876
Total	1,994,620	2,109,660	2,245,005	2,371,393	2,514,096
Refunds*					
General	16,743	13,041	17,498	14,523	19,406
Safety	3,613	5,863	5,220	3,098	5,606
Total	20,356	18,904	22,718	17,621	25,012
Lump-Sum Death/Burial Benefits	1,388	2,174	2,068	1,584	2,243
Total Benefit Expenses	\$2,016,364	\$2,130,738	\$2,269,791	\$2,390,598	\$2,541,351

*Detail of Refunds available beginning in fiscal year-end 2006.

Active and Deferred Members

Last Ten Fiscal Years

	2004	2005	2006	2007	2008
Active Vested					
General	50,235	52,113	53,280	53,918	53,884
Safety	9,295	9,269	9,860	10,061	9,876
Subtotal	59,530	61,382	63,140	63,979	63,760
Active Non-Vested					
General	24,591	23,054	23,887	25,911	27,780
Safety	2,114	1,948	1,604	2,206	2,952
Subtotal	26,705	25,002	25,491	28,117	30,732
Total Active Members					
General	74,826	75,167	77,167	79,829	81,664
Safety	11,409	11,217	11,464	12,267	12,828
Total	86,235	86,384	88,631	92,096	94,492
Deferred Members					
General	6,260	6,591	7,021	7,441	11,149
Safety	299	389	438	470	685
Total	6,559	6,980	7,459	7,911	11,834

	2009	2010	2011	2012	2013
Active Vested					
General	54,729	56,162	59,055	61,433	62,803
Safety	9,761	9,916	10,054	10,663	11,177
Subtotal	64,490	66,078	69,109	72,096	73,980
Active Non-Vested					
General	28,149	25,251	21,090	18,034	16,203
Safety	3,149	3,081	2,587	1,822	1,362
Subtotal	31,298	28,332	23,677	19,856	17,565
Total Active Members					
General	82,878	81,413	80,145	79,467	79,006
Safety	12,910	12,997	12,641	12,485	12,539
Total	95,788	94,410	92,786	91,952	91,545
Deferred Members					
General	7,589	7,478	7,423	7,379	7,462
Safety	462	460	465	480	497
Total	8,051	7,938	7,888	7,859	7,959

Retired Members by Type of Pension Benefit

As of June 30, 2013

Amount of Monthly Benefit			Number of Retired Members	Type of Retirement*		
				1	2	3
\$1	—	\$1,000	16,194	9,962	1,665	4,567
\$1,001	—	\$2,000	13,912	9,587	2,147	2,178
\$2,001	—	\$3,000	8,908	6,467	1,688	753
\$3,001	—	\$4,000	5,818	4,438	1,004	376
\$4,001	—	\$5,000	3,985	3,194	599	192
\$5,001	—	\$6,000	2,830	2,221	503	106
\$6,001	—	\$7,000	1,999	1,546	401	52
	>	\$7,000	4,421	3,389	953	79
			58,067	40,804	8,960	8,303

Amount of Monthly Benefit			Retirement Option Selected**					
			Unmodified	Unmod+Plus	Option 1	Option 2	Option 3	Option 4
\$1	—	\$1,000	14,951	442	194	458	79	70
\$1,001	—	\$2,000	12,718	572	162	302	75	83
\$2,001	—	\$3,000	8,099	451	97	158	44	59
\$3,001	—	\$4,000	5,243	355	57	84	27	52
\$4,001	—	\$5,000	3,504	316	48	50	19	48
\$5,001	—	\$6,000	2,474	264	24	29	5	34
\$6,001	—	\$7,000	1,658	263	11	22	6	39
	>	\$7,000	3,370	880	23	24	18	106
			52,017	3,543	616	1,127	273	491

*Type of Retirement:

- 1 - Service Retiree
- 2 - Disability Retiree
- 3 - Beneficiary/Continuant/Survivor

**Retirement Option Selected:

Unmodified - For Plans A-D, beneficiary receives 65% of member's allowance (60% if the member retired before June 4, 2002); for Plan E, beneficiary receives 55% of member's allowance (50% if the member retired before June 4, 2002).

The following options reduce the member's monthly benefit:

- Unmodified+Plus - For all Plans (A-E), member's allowance is reduced to pay an increased continuing allowance to an eligible surviving spouse/partner.
- Option 1 - Beneficiary receives lump sum of member's unused contributions.
- Option 2 - Beneficiary receives 100% of member's reduced monthly benefit.
- Option 3 - Beneficiary receives 50% of member's reduced monthly benefit.
- Option 4 - Beneficiary(ies) receives percentage of member's reduced monthly benefit as designated by member.

Retired Members by Type of OPEB Benefit

As of June 30, 2013

	Medical Benefit/Premium Amounts					Total Member Count
	\$1-\$500	\$501-\$1,000	\$1,001-\$1,500	\$1,501-\$2,000	> \$2,000	
Medical Plans by Plan Type						
Blue Cross I	4	1,173	20	560	—	1,757
Blue Cross II	3	2,054	86	2,465	—	4,608
Blue Cross III	5,662	3,332	1,247	—	—	10,241
Blue Cross Prudent Buyer Plan	1	965	672	—	—	1,638
CIGNA Healthcare for Seniors	19	13	12	1	—	45
CIGNA Network Model Plan	2	—	507	29	328	866
Kaiser - California	—	3,204	228	2,787	76	6,295
Kaiser - Senior Advantage	12,080	—	1,901	—	—	13,981
Kaiser - Colorado	22	19	2	1	2	46
Kaiser - Georgia	47	43	16	8	—	114
Kaiser - Hawaii	27	21	5	5	—	58
Kaiser - Oregon-Washington	75	47	14	7	1	144
Firefighters Local 1014	—	417	—	1,165	—	1,582
Pacificare	—	424	—	482	—	906
Scan/Smart Care Health Plan	278	91	—	—	—	369
Secure Horizons - Pacificare	1,144	639	320	—	—	2,103
Total Medical by Plan Type	19,364	12,442	5,030	7,510	407	44,753
Medical Plans by Retirement Type						
Service Retirees	14,470	8,675	3,850	5,349	306	32,650
Disability Retirees	1,758	1,906	966	2,040	95	6,765
Survivors	3,136	1,861	214	121	6	5,338
Total Medical by Retirement Type	19,364	12,442	5,030	7,510	407	44,753
						Dental/Vision Benefit Premium Amount \$1 - \$500
Dental/Vision Plans by Plan Type						
CIGNA Indemnity Dental/Vision (Provident)						40,413
CIGNA HMO Dental/Vision						5,072
Total Dental/Vision by Plan Type						45,485
Dental/Vision Plans by Retirement Type						
Service Retirees						32,998
Disability Retirees						7,048
Survivors						5,439
Total by Retirement Type						45,485

Schedule of Average Pension Benefit Payments

Last Ten Fiscal Years

Retirement Effective Dates	Years of Credited Service					
	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
7/1/03 to 6/30/04						
Retirants						
General Members						
Average Monthly Benefit	\$944	\$951	\$1,403	\$1,974	\$2,718	\$4,459
Average Final Compensation	\$4,159	\$3,976	\$4,274	\$4,546	\$4,814	\$5,851
Number of Active Retirants	64	217	234	151	358	856
Safety Members						
Average Monthly Benefit	\$3,451	\$3,298	\$3,459	\$3,274	\$5,341	\$7,452
Average Final Compensation	\$6,015	\$5,825	\$7,011	\$6,572	\$7,805	\$8,569
Number of Active Retirants	35	25	12	29	80	181
Survivors						
General Members						
Average Monthly Benefit	\$653	\$839	\$639	\$1,068	\$1,364	\$2,306
Average Final Compensation	\$2,938	\$4,014	\$1,778	\$3,006	\$3,254	\$4,327
Number of Active Survivors	20	29	20	28	25	40
Safety Members						
Average Monthly Benefit	\$695	\$2,707	\$1,819	\$1,402	\$4,020	\$3,702
Average Final Compensation	\$6,264	\$5,413	\$6,146	\$4,093	\$6,249	\$3,563
Number of Active Survivors	3	2	3	4	8	15
7/1/04 to 6/30/05						
Retirants						
General Members						
Average Monthly Benefit	\$788	\$964	\$1,301	\$1,843	\$2,543	\$4,210
Average Final Compensation	\$4,079	\$4,049	\$4,024	\$4,481	\$4,737	\$5,490
Number of Active Retirants	68	250	249	172	310	890
Safety Members						
Average Monthly Benefit	\$3,784	\$2,538	\$3,144	\$3,755	\$5,168	\$7,387
Average Final Compensation	\$6,543	\$5,494	\$6,614	\$6,798	\$7,362	\$8,486
Number of Active Retirants	32	24	18	33	61	162
Survivors						
General Members						
Average Monthly Benefit	\$510	\$623	\$788	\$1,349	\$1,463	\$2,287
Average Final Compensation	\$3,112	\$2,669	\$3,525	\$4,219	\$3,265	\$4,481
Number of Active Survivors	11	27	27	20	37	51
Safety Members						
Average Monthly Benefit	—	\$2,851	\$2,816	\$2,511	\$3,125	\$3,887
Average Final Compensation	—	\$5,701	\$5,619	\$5,006	\$4,229	\$4,913
Number of Active Survivors	—	1	1	6	6	19

Schedule of Average Pension Benefit Payments continued

Last Ten Fiscal Years

Retirement Effective Dates	Years of Credited Service					
	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
7/1/05 to 6/30/06						
Retirants						
General Members						
Average Monthly Benefit	\$754	\$1,001	\$1,491	\$2,351	\$3,652	\$4,207
Average Final Compensation	\$4,402	\$4,291	\$4,521	\$5,550	\$7,178	\$5,771
Number of Active Retirants	75	268	277	180	235	908
Safety Members						
Average Monthly Benefit	\$4,625	\$3,843	\$3,408	\$3,612	\$5,977	\$7,646
Average Final Compensation	\$6,858	\$6,458	\$6,994	\$7,454	\$8,461	\$9,032
Number of Active Retirants	29	19	13	29	58	110
Survivors						
General Members						
Average Monthly Benefit	\$611	\$635	\$726	\$1,132	\$1,793	\$2,434
Average Final Compensation	\$2,962	\$3,500	\$3,397	\$3,707	\$4,519	\$4,518
Number of Active Survivors	19	52	31	30	37	71
Safety Members						
Average Monthly Benefit	\$487	\$1,608	\$2,449	\$2,693	\$3,358	\$5,707
Average Final Compensation	\$5,061	\$5,254	\$6,059	\$4,501	\$5,950	\$7,384
Number of Active Survivors	1	4	3	6	6	21
7/1/06 to 6/30/07						
Retirants						
General Members						
Average Monthly Benefit	\$1,011	\$955	\$1,445	\$1,927	\$2,325	\$4,068
Average Final Compensation	\$4,398	\$4,201	\$4,775	\$5,224	\$5,070	\$5,749
Number of Active Retirants	74	219	246	177	266	624
Safety Members						
Average Monthly Benefit	\$2,714	\$3,414	\$3,433	\$3,837	\$5,903	\$8,093
Average Final Compensation	\$6,093	\$7,083	\$6,906	\$7,498	\$8,622	\$10,050
Number of Active Retirants	25	19	20	14	62	88
Survivors						
General Members						
Average Monthly Benefit	\$600	\$480	\$917	\$951	\$1,565	\$2,210
Average Final Compensation	\$2,436	\$3,462	\$4,165	\$3,246	\$4,171	\$4,832
Number of Active Survivors	15	31	31	34	27	61
Safety Members						
Average Monthly Benefit	\$3,432	\$2,960	\$2,549	\$2,138	\$2,939	\$4,493
Average Final Compensation	\$6,863	\$3,735	\$6,591	\$4,149	\$5,347	\$6,656
Number of Active Survivors	2	1	4	3	8	15

Schedule of Average Pension Benefit Payments continued

Last Ten Fiscal Years

Retirement Effective Dates	Years of Credited Service					
	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
7/1/07 to 6/30/08						
Retirants						
General Members						
Average Monthly Benefit	\$1,247	\$894	\$1,681	\$2,198	\$2,575	\$4,603
Average Final Compensation	\$5,160	\$4,425	\$5,095	\$5,394	\$5,352	\$6,151
Number of Active Retirants	109	206	256	195	264	778
Safety Members						
Average Monthly Benefit	\$4,264	\$3,995	\$3,534	\$4,785	\$6,170	\$9,478
Average Final Compensation	\$7,234	\$7,344	\$8,061	\$8,923	\$9,252	\$11,067
Number of Active Retirants	25	17	13	20	92	188
Survivors						
General Members						
Average Monthly Benefit	\$1,026	\$738	\$906	\$1,101	\$1,690	\$2,506
Average Final Compensation	\$5,729	\$4,095	\$4,409	\$3,937	\$4,441	\$5,113
Number of Active Survivors	18	37	28	29	37	56
Safety Members						
Average Monthly Benefit	\$1,574	\$3,661	\$1,555	\$2,964	\$3,638	\$4,723
Average Final Compensation	\$5,295	\$4,838	\$4,379	\$5,534	\$6,619	\$7,088
Number of Active Survivors	2	1	5	5	10	9
7/1/08 to 6/30/09						
Retirants						
General Members						
Average Monthly Benefit	\$1,462	\$1,018	\$1,793	\$2,284	\$2,916	\$4,917
Average Final Compensation	\$5,224	\$4,233	\$5,054	\$5,478	\$5,711	\$6,387
Number of Active Retirants	116	232	195	172	182	669
Safety Members						
Average Monthly Benefit	\$4,959	\$4,185	\$4,593	\$4,719	\$7,000	\$10,042
Average Final Compensation	\$8,344	\$7,798	\$8,425	\$9,120	\$10,131	\$11,838
Number of Active Retirants	22	13	17	22	76	127
Survivors						
General Members						
Average Monthly Benefit	\$755	\$688	\$999	\$1,204	\$1,819	\$2,363
Average Final Compensation	\$4,243	\$3,810	\$4,450	\$3,939	\$4,563	\$4,987
Number of Active Survivors	14	31	39	43	52	67
Safety Members						
Average Monthly Benefit	\$3,045	\$3,267	\$2,136	\$2,535	\$3,272	\$4,931
Average Final Compensation	\$5,765	\$5,497	\$4,271	\$5,996	\$6,153	\$7,238
Number of Active Survivors	4	2	2	5	14	22

Schedule of Average Pension Benefit Payments continued

Last Ten Fiscal Years

Retirement Effective Dates	Years of Credited Service					
	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
7/1/09 to 6/30/10						
Retirants						
General Members						
Average Monthly Benefit	\$1,242	\$1,204	\$1,782	\$2,559	\$3,418	\$5,319
Average Final Compensation	\$4,984	\$4,790	\$5,072	\$5,888	\$6,525	\$6,923
Number of Active Retirants	116	242	251	210	258	888
Safety Members						
Average Monthly Benefit	\$4,656	\$3,461	\$3,008	\$4,840	\$7,055	\$10,450
Average Final Compensation	\$8,092	\$7,848	\$8,377	\$8,519	\$10,104	\$12,206
Number of Active Retirants	14	22	10	11	85	157
Survivors						
General Members						
Average Monthly Benefit	\$737	\$825	\$1,077	\$1,201	\$1,336	\$2,528
Average Final Compensation	\$4,738	\$4,069	\$4,592	\$3,875	\$3,732	\$4,926
Number of Active Survivors	19	31	33	40	59	89
Safety Members						
Average Monthly Benefit	\$5,467	\$1,895	\$3,210	\$3,413	\$3,884	\$5,653
Average Final Compensation	\$8,746	\$7,268	\$8,850	\$7,809	\$7,374	\$7,554
Number of Active Survivors	1	3	6	7	11	10
7/1/10 to 6/30/11						
Retirants						
General Members						
Average Monthly Benefit	\$1,721	\$1,249	\$1,810	\$2,784	\$3,418	\$5,082
Average Final Compensation	\$5,702	\$5,064	\$5,296	\$6,286	\$6,576	\$6,820
Number of Active Retirants	127	238	269	284	258	922
Safety Members						
Average Monthly Benefit	\$2,336	\$4,135	\$5,198	\$5,308	\$7,347	\$9,667
Average Final Compensation	\$6,862	\$9,057	\$9,158	\$9,679	\$10,365	\$11,617
Number of Active Retirants	10	28	21	30	91	152
Survivors						
General Members						
Average Monthly Benefit	\$629	\$786	\$871	\$1,654	\$1,325	\$2,485
Average Final Compensation	\$3,677	\$3,698	\$3,359	\$5,351	\$3,678	\$5,238
Number of Active Survivors	24	36	43	44	60	93
Safety Members						
Average Monthly Benefit	\$3,187	\$1,715	\$2,386	\$3,499	\$3,788	\$5,461
Average Final Compensation	\$6,572	\$5,766	\$5,589	\$6,862	\$6,768	\$6,929
Number of Active Survivors	3	2	8	4	10	25

Schedule of Average Pension Benefit Payments continued

Last Ten Fiscal Years

Retirement Effective Dates	Years of Credited Service					
	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
7/1/11 to 6/30/12						
Retirants						
General Members						
Average Monthly Benefit	\$1,793	\$1,362	\$2,082	\$2,567	\$3,525	\$4,956
Average Final Compensation	\$5,624	\$5,141	\$5,683	\$5,686	\$6,711	\$6,830
Number of Active Retirants	141	291	234	278	297	918
Safety Members						
Average Monthly Benefit	\$2,203	\$4,924	\$6,474	\$4,417	\$7,372	\$9,750
Average Final Compensation	\$6,307	\$8,948	\$9,929	\$9,108	\$10,380	\$11,587
Number of Active Retirants	8	29	13	33	103	183
Survivors						
General Members						
Average Monthly Benefit	\$1,055	\$691	\$965	\$1,770	\$1,643	\$2,736
Average Final Compensation	\$4,661	\$3,821	\$3,766	\$5,244	\$4,301	\$5,662
Number of Active Survivors	21	46	26	43	57	94
Safety Members						
Average Monthly Benefit	\$2,786	\$2,352	\$2,789	\$3,271	\$3,221	\$5,580
Average Final Compensation	\$5,771	\$6,466	\$7,785	\$7,019	\$6,127	\$7,824
Number of Active Survivors	5	5	5	7	8	23
7/1/12 to 6/30/13						
Retirants						
General Members						
Average Monthly Benefit	\$1,825	\$1,562	\$2,116	\$2,663	\$3,570	\$5,043
Average Final Compensation	\$6,046	\$5,405	\$6,042	\$6,009	\$6,758	\$6,888
Number of Active Retirants	112	324	233	271	338	897
Safety Members						
Average Monthly Benefit	\$2,233	\$5,909	\$6,416	\$5,507	\$7,360	\$10,046
Average Final Compensation	\$7,299	\$9,266	\$9,611	\$9,843	\$10,481	\$11,921
Number of Active Retirants	12	29	20	33	118	191
Survivors						
General Members						
Average Monthly Benefit	\$861	\$804	\$1,097	\$1,403	\$1,889	\$2,496
Average Final Compensation	\$4,743	\$4,020	\$3,961	\$4,451	\$4,930	\$5,611
Number of Active Survivors	22	54	39	70	60	103
Safety Members						
Average Monthly Benefit	\$989	\$1,523	\$2,523	\$3,378	\$4,137	\$5,460
Average Final Compensation	\$4,454	\$4,896	\$5,990	\$8,242	\$7,055	\$7,468
Number of Active Survivors	6	7	10	5	20	31

Active Members and Participating Pension Employers

Last Ten Fiscal Years

	2004	2005	2006	2007	2008
County of Los Angeles					
General Members	74,811	75,154	77,153	79,816	81,650
Safety Members	11,409	11,217	11,464	12,267	12,828
Total	86,220	86,371	88,617	92,083	94,478
Participating Agencies (General Membership)					
South Coast Air Quality Mgmt. District	2	2	2	2	2
Los Angeles County Office of Education	3	3	3	3	3
Little Lake Cemetery District	2	—	1	1	1
Local Agency Formation Commission	8	8	8	7	8
Total	15	13	14	13	14
Total Active Membership					
General Members	74,826	75,167	77,167	79,829	81,664
Safety Members	11,409	11,217	11,464	12,267	12,828
Total	86,235	86,384	88,631	92,096	94,492

	2009	2010	2011	2012	2013
County of Los Angeles					
General Members	82,865	81,400	80,133	79,459	78,997
Safety Members	12,910	12,997	12,641	12,485	12,539
Total	95,775	94,397	92,774	91,944	91,536
Participating Agencies (General Membership)					
South Coast Air Quality Mgmt. District	2	2	1	1	1
Los Angeles County Office of Education	3	3	3	—	—
Little Lake Cemetery District	1	1	1	1	1
Local Agency Formation Commission	7	7	7	6	7
Total	13	13	12	8	9
Total Active Membership					
General Members	82,878	81,413	80,145	79,467	79,006
Safety Members	12,910	12,997	12,641	12,485	12,539
Total	95,788	94,410	92,786	91,952	91,545

Retired Members of Participating OPEB Employers

Last Ten Fiscal Years¹

	2007	2008	2009	2010	2011	2012	2013
Los Angeles County and Participating Agencies							
Medical	40,807	40,444	40,868	41,676	42,627	43,746	44,753
Dental/Vision	40,172	40,628	41,175	42,045	43,114	44,344	45,485

¹This schedule was implemented effective with GASB Statement No. 43 reporting in fiscal year-end June 30, 2007.

If the OPEB counts in this schedule are different from the counts in Note N - Other Post-Employment Benefits (OPEB) Program in the Financial Section, the differences are due to data edits conducted for the actuarial valuation by the consulting actuary. Data in Note N includes members who retired on or before July 1 but did not enroll for insurance coverage until after July 1.

Employer Contribution Rates: County of Los Angeles

Last Ten Fiscal Years

Effective Date	General Members							Safety Members		
	Plan A	Plan B	Plan C	Plan D	Plan E	Plan G*	Plan A	Plan B	Plan C*	
7/1/2003 to 6/30/2004	15.31%	8.59%	8.21%	8.31%	7.70%	—	22.32%	18.75%	—	
7/1/2004 to 6/30/2005	20.02%	13.07%	12.67%	12.72%	12.38%	—	26.84%	23.20%	—	
7/1/2005 to 6/30/2006	21.42%	14.53%	14.16%	14.25%	14.33%	—	28.21%	23.65%	—	
7/1/2006 to 6/30/2007	20.17%	13.31%	13.02%	13.16%	13.32%	—	28.05%	22.70%	—	
7/1/2007 to 6/30/2008	18.14%	11.44%	11.14%	11.33%	11.29%	—	26.89%	20.93%	—	
7/1/2008 to 6/30/2009	17.64%	10.79%	10.22%	10.79%	10.67%	—	28.16%	20.54%	—	
7/1/2009 to 9/30/2010	17.28%	10.62%	9.88%	10.48%	10.45%	—	27.83%	20.35%	—	
10/1/2010 to 9/30/2011	19.40%	12.74%	12.23%	12.65%	12.67%	—	29.46%	22.69%	—	
10/1/2011 to 9/30/2012	21.59%	15.00%	14.51%	14.80%	15.30%	—	30.38%	24.10%	—	
10/1/2012 to 9/30/2013	22.65%	15.55%	15.35%	16.00%	16.77%	—	31.55%	25.37%	—	
1/1/2013 to 9/30/2013	—	—	—	—	—	15.61%	—	—	20.98%	

*As a result of PEPRA implementation effective January 1, 2013.

Employer Contribution Rates: Los Angeles County Office of Education, Little Lake Cemetery District, and Local Agency Formation Commission

Last Ten Fiscal Years

Effective Date	General			
	Plan A	Plan D	Plan E	Plan G*
7/1/2003 to 6/30/2004	15.31%	8.31%	7.70%	—
7/1/2004 to 6/30/2005	20.02%	12.72%	12.38%	—
7/1/2005 to 6/30/2006	21.42%	14.25%	14.33%	—
7/1/2006 to 6/30/2007	20.17%	13.16%	13.32%	—
7/1/2007 to 6/30/2008	18.14%	11.33%	11.29%	—
7/1/2008 to 6/30/2009	17.64%	10.79%	10.67%	—
7/1/2009 to 9/30/2010	17.28%	10.48%	10.45%	—
10/1/2010 to 9/30/2011	19.40%	12.65%	12.67%	—
10/1/2011 to 9/30/2012	21.59%	14.80%	15.30%	—
10/1/2012 to 9/30/2013	22.65%	16.00%	16.77%	—
1/1/2013 to 9/30/2013	—	—	—	15.61%

Rates applicable to the Los Angeles County Office of Education are limited to Plan A.

Rates applicable to Little Lake Cemetery District are limited to Plan D.

Rates applicable to the Local Agency Formation Commission are limited to Plans D, E and G.

*As a result of PEPRA implementation effective January 1, 2013.

Employer Contribution Rates: South Coast Air Quality Management District (SCAQMD)

Last Ten Fiscal Years

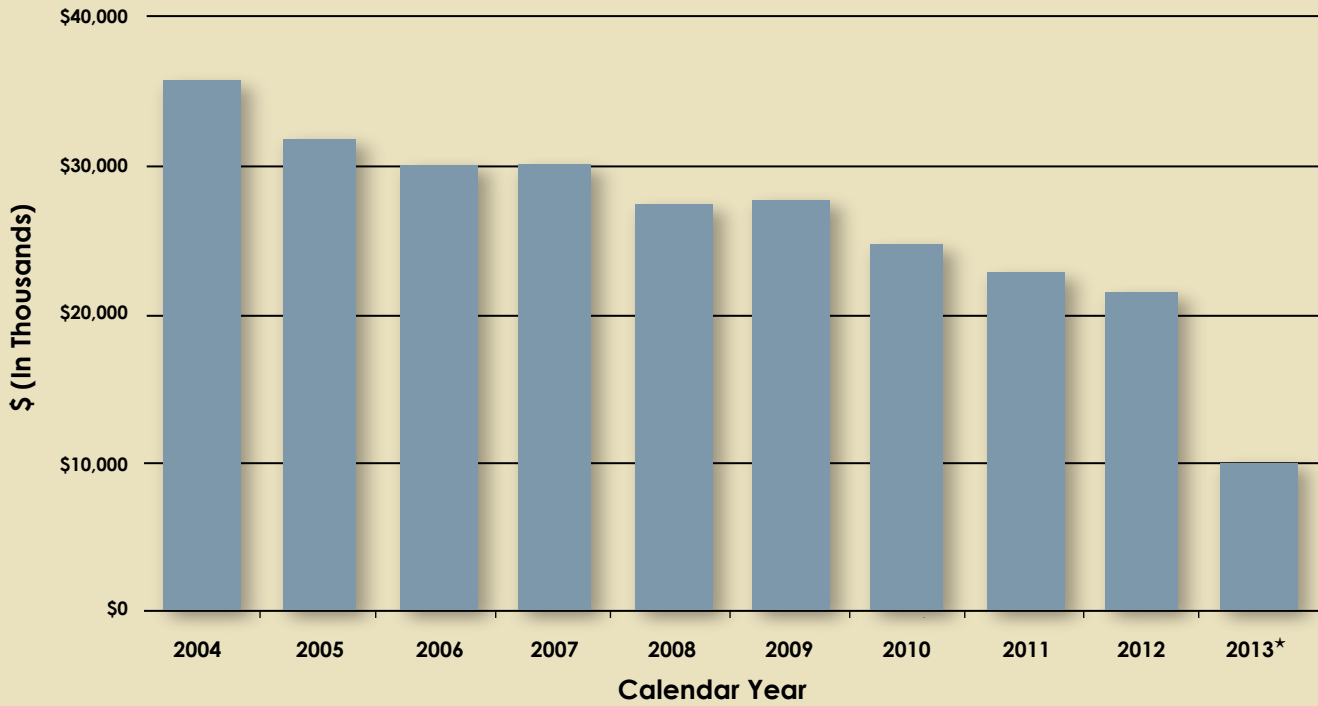
Effective Date	General		
	Plan A	Plan B	Plan C
7/1/2003 to 6/30/2004	—	11.44%	11.09%
7/1/2004 to 6/30/2005	—	15.93%	15.56%
7/1/2005 to 6/30/2006	—	20.39%	18.80%
7/1/2006 to 6/30/2007	—	19.18%	18.91%
7/1/2007 to 6/30/2008	24.04%	17.31%	17.04%
7/1/2008 to 6/30/2009*	22.38%	16.67%	—
7/1/2009 to 9/30/2010	22.02%	16.51%	—
10/1/2010 to 9/30/2011	24.14%	18.64%	—
10/1/2011 to 9/30/2012	—	20.90%	—
10/1/2012 to 9/30/2013	—	21.45%	—

SCAQMD recalculates its employer contribution rates to pick up a portion of its employee rates, in accordance with its labor contract.

*Member changed from Plan C to Plan A effective November 2007, leaving no active members in Plan C.

Supplemental Targeted Adjustment for Retirees Cost-of-Living Adjustment (STAR COLA)

➤ LACERA STAR COLA PROGRAM COSTS AS OF JUNE 2013



*Represents Program year through June 30.

The STAR COLA Program is administered on a calendar-year basis. The above represents the STAR COLA Program cost for the last 10 years.

We Produce
Protect
& Provide the
Promised
Benefits.



