LACERA

Los Angeles County Employees Retirement Association

Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2014 and 2013

Pension and OPEB Trust Funds of the County of Los Angeles, CA

2014
ANNUAL REPORT

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

[pillars]

Accuracy, compassion, service, and security define LACERA. These four pillars are the building blocks of our foundation. These four pillars are our commitment to our members. We built these pillars with 77 years of work in the past. We constructed these pillars to serve our members in the present. And we created these pillars with the goal of reaching tomorrow with our members – together.

Issued by:

Gregg Rademacher
Chief Executive Officer

Robert R. Hill
Assistant Executive Officer

JJ Popowich
Assistant Executive Officer

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 24th consecutive year, LACERA has earned this prestigious award for the 2013 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 2013 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 an eleven-time recipient of this important award.

*A confederation of NASRA, NCPERS, and NCTR.

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LACERA Los Angeles County Employees Retirement Association
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December 3, 2014

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, 2014. 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 160,000 members, including more than 59,000 benefit recipients.

Strength in Numbers

The annual report for fiscal year ended June 30, 2014 is a testament to the professionalism of LACERA's employees. We rely on a wealth of dedicated and talented individuals who serve in 15 diverse divisions. Guided by the watchful eyes of our Board of Retirement and Board of Investments, each one of our employees upholds the four pillars that make up our retirement association: compassion, accuracy, service, and security. Our collective commitment to upholding these pillars supports the continued soundness and stability of the Fund. Our Board of Investments values a diversified portfolio and strategic positioning for long-term growth. Guided by transparency and corporate governance, the Board consistently searches for new investment methods to yield results.

Serving Los Angeles County is a large task, with its 4,084 square miles, over 10 million residents, and citizens from 140 countries speaking 224 languages. At LACERA, the statistic we value first and foremost is our 160,000 members, and our commitment to them, which is stated in our Mission statement: We produce, protect, and provide the promised benefits.

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.

"We provide comprehensive customer service to more than 160,000 members, including more than 59,000 benefit recipients."

Gregg Rademacher | Chief Executive Officer

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 16.8 percent (gross of fees). This represents an overperformance of 150 basis points above its Policy Benchmark, which returned 15.3 percent. Over the five-year period ended June 30, 2014, the total Fund's annualized return was 12 percent (gross of fees).

"After successfully addressing the PEPRA inundation, our Claims Processing queues are now at historic lows."

Robert R. Hill | Assistant Executive Officer

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, 2013.

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 75 percent, recognized an Unfunded Actuarial Accrued Liability (UAAL) of $13.32 billion. The County contribution rate was therefore set equal to 11.9 percent of payroll for the amortization of the UAAL over a closed 30-year layered period, plus the normal cost rate of 9.44 percent, for a total contribution rate of 21.34 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; 2012 actuarial valuation was 7.60 percent; and 7.50 percent 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.

"At LACERA, the statistic we value first and foremost is our 160,000 members."

JJ Popowich | Assistant Executive Officer

Summary of Accomplishments for Fiscal Year 2013 - 2014

One big change experienced at LACERA was preparing for what is commonly referred to as Tier 2. The County introduced this new retiree health insurance program for new employees hired after June 30, 2014. The program, formally entitled the Los Angeles County Retiree Healthcare Benefits Program – Tier 2, offers benefits covering hospital, medical, and dental/vision services to County retirees. However, retiree healthcare benefits did not change for current active, deferred, and retired members, and their eligible survivors (hired before June 30, 2014). Tier 2 came about based on the County's expanding workforce and the ever-increasing costs of healthcare, which gave rise to concerns about the long-term cost and viability of the LACERA-administered Retiree Healthcare Benefits Program, as it was currently structured. These concerns prompted Los Angeles County to investigate some cost-reduction options. A portion of the fiscal year was spent ramping up for the changes Tier 2 would bring; including collaborating and working with the County, mass mailings to members, updating lacera.com, outreach to strategic partners (the HR professionals), programming in our Systems and Retirement Health Care divisions, and creating new marketing materials. All of this was in an effort to better explain how Tier 2 would affect new employees and to ensure current members their benefits would not change.

In addition, LACERA graduated two classes of new hires and two new supervisors through our core training program in Member Services and Claims Processing. To continually improve the program's effectiveness, the Quality Assurance team and human resources training coordinator constantly monitor this program's progress and solicit participant feedback. In addition, LACERA continues to refine and improve the program every chance we get. Under the new organization structure, LACERA also appointed three new section heads in Claims Processing. All of the staff members in each new section adapted to their new roles and developed close working relationships with their new partners. Going forward, this will provide efficient and accurate support for our members.

Another accomplishment LACERA experienced was tackling the continued changes brought on by PEPRA. After successfully addressing the PEPRA inundation, our claims processing queues are now at historic lows. In addition, LACERA's two Boards, our management, and our staff all pursued excellence by continuing their own individual education and training throughout the year in order to better assist our members. Lastly, the new online workshop reservation system has proven to be widely popular with the system being booked out months in advance.

Awards and Recognition

For the 24th 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, 2013.

LACERA is a recipient also of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting, for the 16th year running. We received this honor for our Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2013.

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, 2013. LACERA is an eleven-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

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.

BOR Board of Retirement

BOI Board of Investments

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. He retired after 26 years of public service with the City of Los Angeles, he previously served as a Board Commissioner for the L.A. City Employees Retirement System.

John M. Barger
Chair
(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 the board. His résumé 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
Vice Chair
(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. He has also served as chair of the Family Equality Council.

Yves Chery
Chair
(BOR term expires December 31, 2014)
Our board chair also serves as 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.

David L. Muir
(BOR term expires December 31, 2014)
Mr. Muir has had a distinguished career as a government attorney, first as a member of the Los Angeles County Counsel's Office, and later as Chief Counsel of LACERA. Mr. Muir was also a founding member and past president of National Association of Public Pension Attorneys (NAPPA); and president of Retired Employees of Los Angeles County (RELAC).

Ronald A. Okum
(BOR term expires December 31, 2014)
Mr. Okum has worked as an instructor and keynote speaker in life underwriting. He has been a consistent recipient of the National Association Life Underwriter's National Quality and National Sales achievement award; and the recipient of nearly every service and achievement honor from American United Life and Ohio National Life Insurance Company.

William R. Pryor
(BOR term expires December 31, 2016)
Mr. Pryor has shared his insight and experience with LACERA since his first election to the BOR in 2000. 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 has also served on the BOI.

Les Robbins
(BOR term expires December 31, 2016)
Mr. Robbins's lengthy career with the L.A. County Sheriff's Department is impressive. He has contributed much of his life to active participation within a variety of public offices. His contributions have helped LACERA since 1998, when he first served on the BOR, on which he later served as chair. Mr. Robbins has also served on the BOI.

Mark J. Saladino
County Treasurer & 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 organizations.

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, after 35 years with the Department of Parks and Recreation. He is a past president of the California Retired County Employees Association and the Retired Employees of Los Angeles County.

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's focused on ensuring the fair administration of LACERA's defined benefits plan and protecting employees' benefits. She also served as a deputy sheriff for L.A. County.

David Green
Vice Chair
(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. He is equally dedicated to ensuring the long-term security of LACERA retiree benefits. He has also served as chair of the SEIU Retirement Committee.

Shawn R. Kehoe
Secretary-BOI
(BOI & BOR terms expire December 31, 2016)
Mr. Kehoe is a Sergeant in the County Sheriff's Department. While serving in the Department, he has gained experience in a wide variety of patrol, custody, and administrative assignments. He is actively engaged in his Board position and is focused on issues that impact the retirement system.

Joseph Kelly
Chief Deputy Treasurer & 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, he spent eight years with a high-profile investment bank. His professional certifications include Certified Treasury Professional and Certified Internal Auditor.

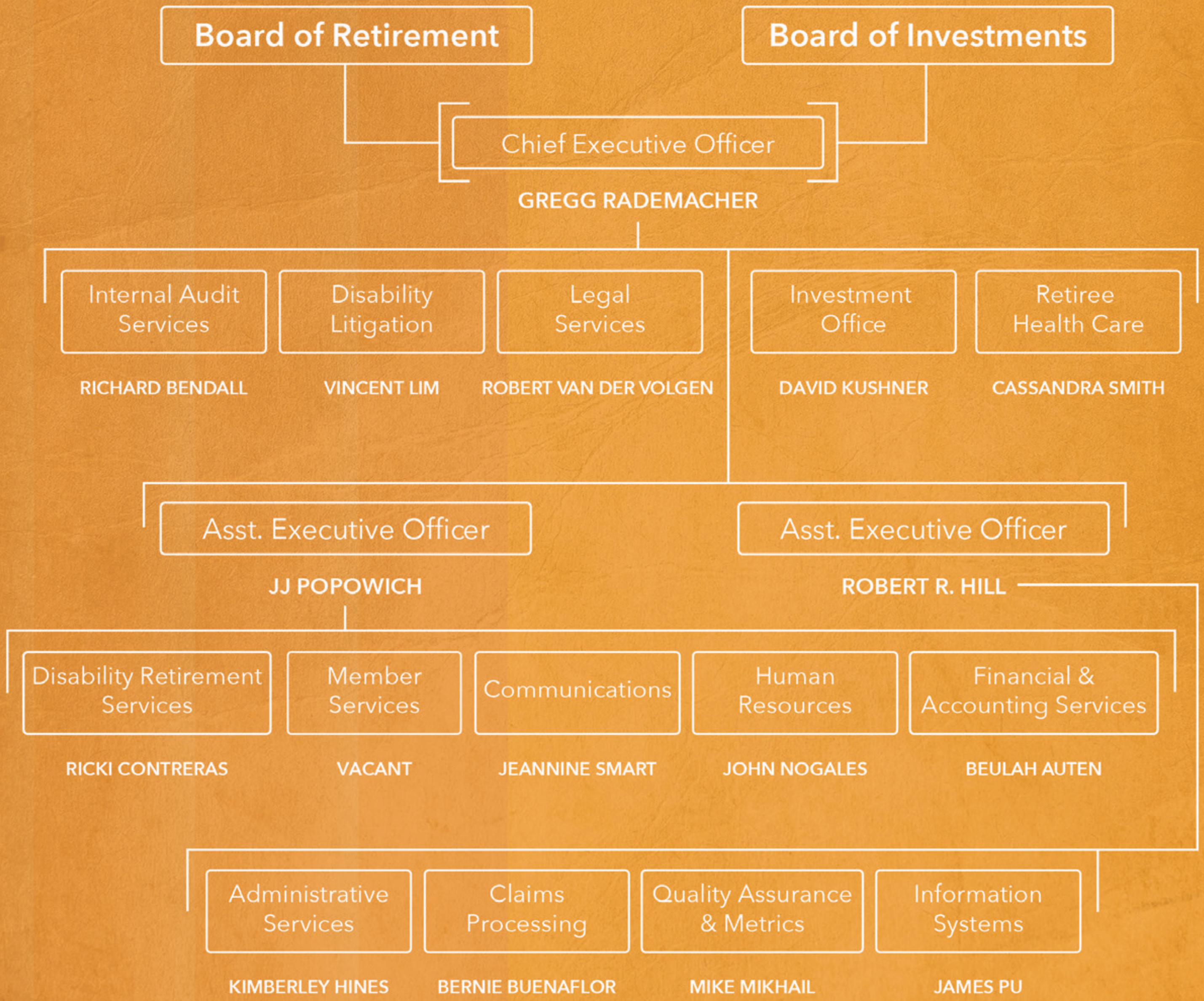
Diane A. Sandoval
(BOI term expires December 31, 2014)
Ms. Sandoval is a retired LACERA employee who first joined the Board in 2006. During her 40-year career, she served in a variety of positions including LACERA Accounting Division Manager. She is also treasurer of the California Retired County Employees Association. Her experience provides keen insight to the Board.

Herman B. Santos
(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, he is the chair and co-creator of the SEIU Local 721 Secure Retirement Committee.

Michael 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, he has served in several capacities, including chair and vice-chair. He is also a former college statistics instructor.

Leonard Unger
(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. He is the recipient of the Thurgood Marshall Award for his pro bono death penalty work.

Estevan R. Valenzuela
(BOI term expires December 31, 2016)
First appointed to the BOI in 1999, Mr. Valenzuela previously held executive positions including chair and vice-chair, and served on the Audit Committee. With more than 25 years of private and public sector experience, he brings a unique perspective to the Board. He is the CEO and CFO of CRA/LA, a Designated Local Authority.


Board of Retirement
Board of Investments
Chief Executive Officer
GREGG RADEMACHER
Internal Audit Services
RICHARD BENDALL
Disability Litigation
VINCENT LIM
Legal Services
ROBERT VAN DER VOLGEN
Investment Office
DAVID KUSHNER
Retiree Health Care
CASSANDRA SMITH
Asst. Executive Officer
JJ POPOWICH
Asst. Executive Officer
ROBERT R. HILL
Disability Retirement Services
RICKI CONTRERAS
Member Services
VACANT
Communications
JEANNINE SMART
Human Resources
JOHN NOGALES
Financial & Accounting Services
BEULAH AUTEN
Administrative Services
KIMBERLEY HINES
Claims Processing
BERNIE BUENAFLOR
Quality Assurance & Metrics
MIKE MIKHAIL
Information Systems
JAMES PU

Consulting Actuary
Milliman

Auditing Actuary
Segal Consulting

Auditors
Brown Armstrong, CPAs

Commercial Banking
State Street Bank and Trust Company

Custodian
State Street Bank and Trust Company

Data Processing
Los Angeles County Internal Services Department

Governance Consultants
Glass, Lewis & Company, LLC
Institutional Shareholder Services, Inc.

Investment Consultants
GCM Customized Fund Investment Group, L.P.
The Townsend Group
Wilshire Associates

Mortgage Loan Custodians
Deutsche Bank National Trust Company

Legal Consultants
Andrews Kurth, LLP
Bradford & Barthel
Bryan Cave, LLP
Cox, Castle & Nicholson, LLP
DLA Piper (U.S.), LLP
Glaser, Weil, Fink, Jacobs, Howard & Shapiro, LLP
Kauff, McClain & McGuire, LLP
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
Reed Smith
Seyfarth Shaw, LLP
Sidley Austin, LLP
Steptoe & Johnson, LLP

Please refer to the Investment Section for a list of Investment Managers and the Schedule of Investment Management Fees.

Accuracy...one of the four pillars of LACERA. When you serve the most populous county in America, it's simply not enough to plan for the future of our members. We must also maintain our members' and the public's trust; **the Fund** is the perfect example of this. Created to withstand the test of time, funded with a diverse investment policy to deliver results, and supported by experts ready to evaluate and make strategic adjustments – the Fund remains an enduring testament to LACERA's commitment to accuracy.

Our members can count on us.

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) and the Other Post Employment Benefits Trust (the OPEB Trust) as of June 30, 2014 and 2013; 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 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, 2014 and 2013 and their changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B to the financial statements, during the year ended June 30, 2014, LACERA implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25*, 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 the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by 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

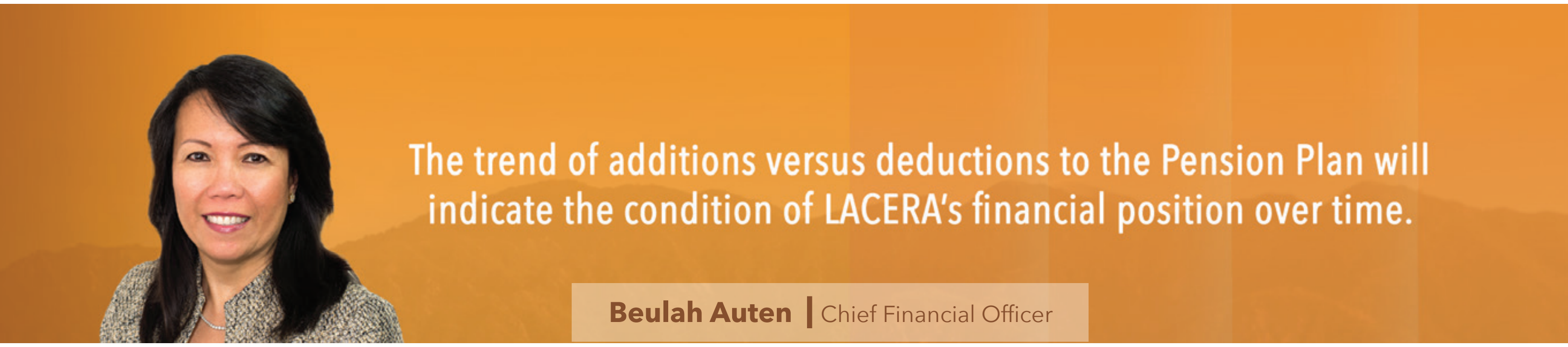
In accordance with Government Auditing Standards, we have also issued our report, dated October 15, 2014, on our consideration of LACERA's and the OPEB Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, 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

Bakersfield, California
October 15, 2014

Management's Discussion and Analysis as of June 30, 2014

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, 2014. 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 — PENSION PLAN

- Net Position Restricted for Benefits, as reported in the *Statement of Fiduciary Net Position*, totaled $47.7 billion, an increase of $5.9 billion or 14.2 percent from the prior year.
- Total Additions, as reflected in the *Statement of Changes in Fiduciary Net Position*, were $8.7 billion. This was primarily due to increases in investment earnings and member and employer contributions. Additions totaled $2.6 billion more than the amounts realized for 2013.
- Total Deductions, as reflected in the *Statement of Changes in Fiduciary Net Position*, totaled $2.7 billion, an increase of $126 million or 4.9 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, 2013, and determined the funded status (the ratio of actuarial value of assets to actuarial accrued liabilities) to be 75.0 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 several 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. 67 (GASB 67) caused an increase in the number of schedules in the Required Supplementary Information section. These new schedules provide a broad scope of financial information, including a pension liability measurement and changes to the liability, historical contributions, money-weighted investment return, and additional actuarial-related disclosures.

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 ended 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 separately in the *Statement of Fiduciary Net Position*. LACERA's Board of Investments, who manages the OPEB Trust investments for the County, recently adopted a new strategy encompassing global equity and cash reserves. 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 OPEB Program (or Retiree Healthcare 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 was not established as 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. 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 separately in the *Statement of Changes in Fiduciary Net Position*. 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*, presented in the Actuarial Section, and the *Schedule of Funding Progress — OPEB Program*, provided as a 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 newly added *Schedule of Net Pension Liability* and *Schedule of Changes in Net Pension Liability and Related Ratios* provide an up-to-date financial indication of the extent to which the total pension liability is covered by the fiduciary net position of the Pension Plan. This information will improve the financial statement users' ability to compare the total pension liability for similar types of pension plans. Another new schedule, the *Schedule of Historical Contributions — Pension Plan*, helps the reader determine if plan sponsors (i.e., County of Los Angeles and outside districts) are meeting the actuarially determined contributions over a period of time. Both employer and employee contributions and, to a larger extent, earnings from invested assets, provide the ability for pension plans to pay benefits. New information about rates of return on pension plan investments, considering monetary flows into and out of the market, is provided. The *Schedule of Investment Returns* includes a money-weighted return performance calculation that factors in expenses to execute a well diversified investment portfolio.

Another Required Supplementary Schedule, the *Schedule of Employer Contributions — OPEB Program*, presents historical trend information about the annual required contributions of the employers or plan sponsors and the actual contributions made. The schedule provides information to help promote understanding of the changes in the actuarial funded status of the Pension Plan and OPEB Program over time.

FINANCIAL ANALYSIS — PENSION PLAN

Net Position Restricted for Benefits

As of June 30, 2014, LACERA's financial position increased $5.9 billion or 14.2 percent from the prior year, due primarily to significantly positive investment returns. For the fiscal year ended 2014, LACERA's portfolio gained 16.5 percent (net of fees), while retiree payroll and other expenses remained relatively consistent with the prior period.

As of June 30, 2014, LACERA had $47.7 billion in Net Position Restricted for Benefits, which means Total Assets of $51.0 billion exceeded Total Liabilities of $3.3 billion. As of June 30, 2013, LACERA had $41.8 billion in Net Position Restricted for Benefits as a result of Total Assets of $43.7 billion exceeding Total Liabilities of $1.9 billion. The Total Net Position Restricted for Benefits represents funds available for future retirement benefit payments.

Net Position Restricted for Benefits

As of June 30, 2014, 2013, and 2012
(Dollars in Millions)

	2014	2013	2012	2014 - 2013 % Change	2013 - 2012 % Change
Investments	**$49,033**	$42,286	$38,627	16.0%	9.5%
Other Assets	**2,034**	1,440	2,580	41.3%	-44.2%
Total Assets	**51,067**	43,726	41,207	16.8%	6.1%
Total Liabilities	**(3,345)**	(1,952)	(2,900)	71.4%	-32.7%
Net Position Restricted for Benefits	**$47,722**	**$41,774**	**$38,307**	**14.2%**	**9.1%**

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 2014, Total Additions amounted to $8.7 billion as a result of strong investment returns in the U.S. equity market. For fiscal year 2013, Total Additions amounted to $6.1 billion, due primarily to positive investment performance returns.

The net investment gain for fiscal year 2014 was $6.9 billion, an increase of $2.2 billion from the 2013 fiscal year net investment gain of $4.7 billion. This fiscal year's investment returns of 16.5 percent (net of fees) exceeded the actuarial assumed investment earnings rate of 7.5 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 makes semimonthly cash payments and/or directs LACERA to transfer funds from the County Contribution Credit Reserve. For the fiscal years ended June 30, 2014 and 2013, the County paid all of its employer contributions due to LACERA in the form of 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 $2.7 billion for fiscal year 2014, an increase of $126 million or 4.9 percent from the prior year. For fiscal year 2013, these deductions totaled $2.6 billion, an increase of $154 million or 6.3 percent from the prior year.

Additions and Deductions in Fiduciary Net Postion

For the Years Ended June 30, 2014, 2013, and 2012
(Dollars in Millions)

	2014	2013	2012	2014 - 2013 % Change	2013 - 2012 % Change
Contributions	**$1,759**	$1,403	$1,587	25.4%	-11.6%
Net Investment Income/(Loss)	**6,911**	4,659	(291)	48.3%	1,701%
Total Additions	**$8,670**	**$6,062**	**$1,296**	**43.0%**	**367.7%**
Benefits and Refunds	**(2,663)**	(2,541)	(2,391)	4.8%	6.3%
Administrative Expenses and Misc.	**(59)**	(54)	(50)	9.3%	8.0%
Total Deductions	**$(2,722)**	**$(2,595)**	**$(2,441)**	**4.9%**	**6.3%**
Net Increase/(Decrease)	**$5,948**	$3,467	$(1,145)	71.6%	402.8%
Net Assets at Beginning of Year	**41,774**	38,307	39,452	9.1%	-2.9%
Ending Net Assets	**$47,722**	**$41,774**	**$38,307**	**14.2%**	**9.1%**

Pension Liabilities

As GASB 67 requires, LACERA reports the Total Pension Liability and the Net Pension Liability as calculated by LACERA's actuary. It is important to note that these liabilities are solely calculated for financial reporting purposes and are not intended to provide information about the funding of LACERA's benefits.

LACERA's Total Pension Liability as of June 30, 2014, was $55.0 billion resulting from an increase of 4.4 percent to $52.7 billion as of June 30, 2013. LACERA's Net Pension Liability as of June 30, 2014, was $7.3 billion, representing a decrease of 33.4 percent from $10.9 billion as of June 30, 2013. This $3.6 billion decrease in liabilities is primarily due to the increase in LACERA's Fiduciary Net Position.

Under GASB 67, the Fiduciary Net Position as a percentage of the Total Pension Liability is required to be presented. For the fiscal years ended June 30, 2014 and 2013, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 86.8 percent and 79.3 percent, respectively. The change is a 9.5 percent increase and is due to the somewhat moderate growth in Total Pension Liability of only $2.3 billion compared to the substantial increase in LACERA's Fiduciary Net Position of $5.9 billion, which results in an improved financial position at June 30, 2014.

Net Pension Liability

As of June 30, 2014 and 2013
(Dollars in Millions)

	2014	2013	$ Change	% Change
Total Pension Liability	**$54,977**	$52,673	$2,304	4.4%
Less: Fiduciary Net Position	**(47,722)**	(41,774)	(5,948)	14.2%
Net Pension Liability	**$7,255**	$10,899	$(3,644)	-33.4%
Fiduciary Net Position as a Percentage of Total Pension Liability	**86.80%**	**79.31%**		**9.5%**

PLAN ADMINISTRATION

LACERA Membership

The table below provides comparative LACERA membership data for the last two fiscal years. Vested members increased 0.7 percent from fiscal years ended 2013 to 2014, 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 2.0 percent, between the two fiscal years ended 2013 and 2014, possibly indicating employees decided to delay retirement from active employment.

LACERA Membership

As of June 30, 2014 and 2013

	2014	2013
Active Members		
Vested	**74,489**	73,980
Non-Vested	**17,977**	17,565
Total Active Members	**92,466**	**91,545**
Retired Members	**59,223**	58,067
Terminated Vested Deferred	**8,090**	7,959
Total Membership	**159,779**	**157,571**

Benefit Provisions — Retiree Healthcare Program

In June 2014, the County Board of Supervisors authorized, and the LACERA Boards approved, the County's request to modify the existing Agreement between the County and LACERA, which created a new retiree healthcare benefit program in order to lower retiree healthcare costs. Structurally, this means the County segregated all current retirees and current employees into the LACERA-administered Retiree Healthcare Benefits Program — Tier 1 (Tier 1). Employees hired after June 30, 2014, are enrolled in the new Los Angeles County Retiree Healthcare Benefits Program — Tier 2 (Tier 2).

A significant difference this modification brings about is LACERA's administrative responsibility for the retiree healthcare program. Regarding Tier 1, LACERA continues its mandated role as program administrator and upholds its fiduciary duty to provide retiree healthcare benefits governed by The 1982 Agreement with the County. Regarding Tier 2, LACERA will be responsible for administering this new program for as long as the County desires. The County may, at any time, choose another organization to administer Tier 2.

On June 17, 2014, the County Board of Supervisors adopted changes to Los Angeles County Code Title 5 - Personnel, which established the benefit provisions for Tier 2. Tier 2 offers the same selection of medical and dental/vision plans and the same County subsidy percentages as those offered by the LACERA-administered Retiree Healthcare Benefits Program. However, the County retiree medical and dental/vision subsidy applies to retiree-only coverage, regardless of whether the retiree includes an eligible dependent on his or her healthcare plan. Additionally, under Tier 2, Medicare-eligible retirees and their eligible dependents are required to enroll in Medicare Parts A and B and in a Medicare HMO plan or Medicare Supplement plan.

ADMINISTRATIVE EXPENSES

The LACERA Boards of Retirement and Investments jointly approve the annual budget, which controls administrative expenses and represents approximately 0.12 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 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 as of the prior fiscal year ended. The cost of legal representation is not to exceed one-hundredth of one percent (0.01 percent) of system assets in any budget year. 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 2014 and 2013. 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, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Actual Administrative Expenses	**$58,723**	$53,863
Basis for Budget Calculation (Actuarial Accrued Liability)	**50,809,425**	48,598,166
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.12%**	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 2013, including the implementation of five-year smoothing on asset gains and losses. The positive investment return for fiscal year ended 2013 was more than offset by large deferred asset losses from prior years. The asset smoothing method has recognized the significant asset loss that occurred in fiscal year ended 2009 as of the June 30, 2013 valuation. 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, 2013 valuation, five amortization layers were used to calculate the total amortization payment.

The Funding Policy was amended in February 2013 to conform to the new provisions mandated by the California Public Employees' Pension Reform Act of 2013 (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 assumptions were in effect for the June 30, 2011, June 30, 2012, and June 30, 2013 actuarial valuations were 7.70 percent, 7.60 percent, and 7.50 percent, respectively. 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, 2013 and determined the Funded Ratio of the actuarial assets to the actuarial accrued liabilities decreased to 75.0 percent, as compared to 76.8 percent as of the June 30, 2012 valuation. The positive investment return for 2013 was offset by recognition of current and deferred asset losses in prior years, resulting in a 1.8 percent decrease in the Funded Ratio under the five-year actuarial asset smoothing method. For the 2012 valuation, 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 2013 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. As required by GASB 67, the money-weighted rate of return is presented as an expression of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments was 17.5 percent. 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 2013 to 2014. Even though investment returns were positive, as mentioned, the actuarial smoothing of losses recognized 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 Time-Weighted Return (gross of fees)	Total Fund Money-Weighted Return (net of fees)	Return on Smoothed Valuation Assets* (net of fees)	Actuarial Assumed Rate of Return	Funded Ratio
2012	$38,627,163	0.3%	—	1.8%	7.60%	76.8%
2013	42,285,906	12.1%	—	5.4%	7.50%	75.0%
2014**	**$42,033,365**	**16.8%**	**17.5%**	—	—	—

*Returns calculated using the money-weighted rate of return method.
**Actuarial valuation report for June 30, 2014 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 2014 was 3.80 percent (i.e., 7.60 percent annual rate). This rate was implemented with the Board's adoption of the June 30, 2012 actuarial valuation. To provide ample time for the County and LACERA to prepare for the rate change implementation, the new 7.60 percent rate became effective July 1, 2013, which was also when corresponding employee contribution rates took effect. The total Fund's positive return provided ample realized earnings, which allowed LACERA to credit the full 3.80 percent semiannual interest for the periods ended December 31, 2013 and June 30, 2014 to certain reserve accounts, according to the CERL provisions.

ECONOMIC FACTORS

The U.S. economy continued to improve steadily with the ongoing easy monetary policy set by the Federal Reserve (Fed) and the declining unemployment rate. The stock market has been nearing all-time highs and corporate balance sheets have progressively improved. Severe weather conditions caused a significant slowdown in consumer spending and housing constructions during the first quarter of 2014, but a strong second quarter growth has positioned the economy back on track to its steady growth pace.

Moving forward, the U.S. economy may see an improvement in the Gross Domestic Product (GDP) growth if consumer confidence picks up and job growth expands. However, the possibility of rising interest rates and declining housing activity may limit GDP growth.

The global economy grew at a modest pace. China slowed down its growth and managed to avoid a hard landing. Europe moved towards a recovery, but there were signs of stagnation in Germany and France in the recent quarter. Russia faced economic sanctions for its role in Ukraine and is at risk of having negative annual growth in the GDP. Economic activity in Japan has cooled after the country absorbed a sales tax increase. Improvement in the global economy is projected but may be restricted due to geopolitical risks.

For the fiscal year ended June 30, 2014, LACERA's total fund return was 16.8 percent, gross of fees. The Fund's return exceeded its Policy benchmark, which returned 15.3 percent.

OPEB TRUST

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

In May 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*, additions included net investment income of $35.1 million and total deductions of $0.1 million for administrative expenses. The total Net Position Restricted for Benefits for the OPEB Trust as of the fiscal year ended June 30, 2014 was $483.8 million.

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

NEW PENSION ACCCOUNTING AND FINANCIAL REPORTING STANDARDS

On June 25, 2012, the 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, GASB 67 replaced the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Benefit Plans,* and also replaced the requirement of GASB Statement

No. 50, *Pension Disclosures*. The most notable change is the distinct separation of actuarial funding from financial reporting. Notes and disclosures provided in LACERA's financial statements are not intended to determine the pension plan's funded status. Reports provided by LACERA's actuary include information to measure and provide the Plan's funding metrics.

These new reporting requirements will provide readers with additional information designed to enhance their ability to make decisions. Financial statement users can now review net pension liability information, contribution history, and the effects of monetary flows on the investment portfolio. The objective of GASB 67 is to improve financial reporting and transparency by state and local government pension plans such as LACERA.

LACERA adopted GASB 67, effective at the beginning of the fiscal year, and has included the new financial information herein. Updates were made to Note B-Summary of Significant Accounting Policies, Note E-Pension Actuarial Valuations, and to the Required Supplementary Information Section. Readers are encouraged to review these sections of the financial statements for required disclosures.

The new standards require the 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 the County and outside districts, the new financial reporting provisions are effective for the fiscal year ending June 30, 2015.

Since April 2013, LACERA has hosted a GASB 67/68 Task Force (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. 68 in late January 2014. The LACERA Board of Retirement and Board of Investments, through our professional organizations, management, and consultants, will work together with our plan sponsors to evaluate and implement these new requirements as prescribed within the required time frame.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Board of Retirement and Board of Investments, our membership, and 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, 2014 and June 30, 2013
(Dollars in Thousands)

	2014			2013		
	Pension Plan	**OPEB Trust**	**OPEB Agency Fund**	**Pension Plan**	**OPEB Trust**	**OPEB Agency Fund**
Assets						
Cash	**$230,254**	**$6,299**	**$48,084**	$184,297	$1	$690
Cash Collateral on Loaned Securities	**998,216**	**—**	**—**	138,273	—	—
Receivables						
Contributions Receivable	**74,412**	**—**	**—**	64,664	—	—
Accounts Receivable - Sale of Investments	**583,816**	**—**	**—**	939,919	—	—
Accrued Interest and Dividends	**120,236**	**206**	**—**	88,242	1,688	—
Accounts Receivable - Other	**27,000**	**—**	**40,574**	24,717	—	38,996
Total Receivables	**805,464**	**206**	**40,574**	**1,117,542**	**1,688**	**38,996**
Investments at Fair Value						
U.S. and Non-U.S. Equities	**25,412,713**	**383,874**	**—**	21,404,466	—	—
Fixed Income	**11,893,851**	**94,524**	**110,884**	11,354,170	447,313	130,532
Private Equity	**4,015,799**	**—**	**—**	3,730,991	—	—
Real Estate	**4,995,446**	**—**	**—**	4,108,198	—	—
Commodities	**2,169,289**	**—**	**—**	1,194,331	—	—
Hedge Funds	**546,267**	**—**	**—**	493,750	—	—
Total Investments	**49,033,365**	**478,398**	**110,884**	**42,285,906**	**447,313**	**130,532**
Total Assets	**51,067,299**	**484,903**	**199,542**	**43,726,018**	**449,002**	**170,218**
Liabilities						
Accounts Payable - Purchase of Investments	**2,283,900**	**1,000**	**—**	1,743,312	—	—
Retiree Payroll and Other Payables	**645**	**—**	**150**	656	—	198
Accrued Expenses	**28,392**	**65**	**364**	29,380	147	387
Tax Withholding Payable	**29,624**	**—**	**—**	28,247	—	—
Obligations under Securities Lending Program	**998,216**	**—**	**—**	138,273	—	—
Accounts Payable - Other	**4,245**	**14**	**88,144**	12,631	—	39,101
Due to Employers	**—**	**—**	**110,884**	—	—	130,532
Total Liabilities	**3,345,022**	**1,079**	**199,542**	**1,952,499**	**147**	**170,218**
Net Position Restricted for						
Pension Plan Benefits	**$47,722,277**	**—**	**—**	**$41,773,519**	**—**	**—**
OPEB Trust Benefits	**—**	**$483,824**	**—**	**—**	**$448,855**	**—**

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

Statement of Changes in Fiduciary Net Position

For the Years Ended June 30, 2014 and 2013

(Dollars in Thousands)

	2014		2013	
	Pension Plan	OPEB Trust	Pension Plan	OPEB Trust
Additions				
Contributions				
Employer	$1,320,442	—	$723,195	$448,819
Member	439,001	—	679,572	—
Total Contributions	1,759,443	—	1,402,767	448,819
Investment Income				
From Investing Activities:				
Net Appreciation/(Depreciation) in Fair Value of Investments	4,699,445	35,516	2,661,499	(1,711)
Investment Income/(Loss)	2,305,690	(223)	2,079,642	2,064
Total Investing Activity Income	7,005,135	35,293	4,741,141	353
Less Expenses from Investing Activities	(101,170)	(180)	(86,815)	(144)
Net Investing Activity Income	6,903,965	35,113	4,654,326	209
From Securities Lending Activities:				
Securities Lending Income	2,896	—	4,286	—
Less Expenses from Securities Lending Activities:				
Borrower Rebates	2,289	—	1,321	—
Management Fees	(738)	—	(918)	—
Total Expenses from Securities Lending Activities	1,551	—	403	—
Net Securities Lending Income	4,447	—	4,689	—
Total Net Investment Income	6,908,412	35,113	4,659,015	209
Miscellaneous	2,256	—	385	—
Total Additions	8,670,111	35,113	6,062,167	449,028
Deductions				
Retiree Payroll	2,637,182	—	2,514,096	—
Administrative Expenses	58,723	144	53,863	173
Refunds	23,528	—	25,012	—
Lump-Sum Death/Burial Benefits	1,691	—	2,243	—
Miscellaneous	229	—	190	—
Total Deductions	2,721,353	144	2,595,404	173
Net Increase in Net Position	5,948,758	34,969	3,466,763	448,855
Net Position Restricted for Benefits				
Beginning of Year	41,773,519	448,855	38,306,756	—
End of Year	$47,722,277	$483,824	$41,773,519	$448,855

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 Board of Retirement and Board of 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 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 Additional Retirement Credit (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 would 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 "entry 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 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.

LACERA Membership

As of June 30, 2014 and 2013

	2014	2013
Active Members		
Vested	**74,489**	73,980
Non-Vested	**17,977**	17,565
Total Active Members	**92,466**	91,545
Retired Members	**59,223**	58,067
Terminated Vested (Deferred)	**8,090**	7,959
Total Membership	**159,779**	157,571

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. Pension Plan gross income is exempt from federal income taxation under §115 of the Internal Revenue Code.

OPEB Agency Fund: The 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.

OPEB Trust: The County established the 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. OPEB Trust gross income is exempt from federal income taxation under §115 of the Internal Revenue Code.

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: the 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)

Each year, the Board of Retirement considers how the change in the cost of living, a measure of inflation, has affected the purchasing power of monthly allowances paid by LACERA. Cost of living is measured by the Bureau of Labor Statistics, which releases the Consumer Price Index (CPI) for all Urban Consumers in the Los Angeles-Anaheim-Riverside area as of January 1 each year. The difference in the current and previous year's CPI shows whether the cost of living has increased or decreased in this area in the past year.

If the CPI has increased, the Board grants a cost-of-living adjustment (COLA) increase for monthly allowances. If the CPI has decreased, it is possible for the Board to decrease monthly allowances; however, a decrease in allowances has never occurred. In any event, a cost-of-living decrease could not reduce a member's allowance to an amount less than the allowance received at the time of retirement.

Supplemental Targeted Adjustment for Retirees (STAR) Program

In addition to cost-of-living increases, the CERL also provides the Board of Retirement the authority to grant supplemental cost-of-living increases. Under this program, known as 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 year 2005, the Board of Retirement 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 2014 due to the modest CPI 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 Board of Retirement on an annual basis, provided sufficient excess earnings are available as determined by the Board of Investments. 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 2014, the STAR Program funded approximately $353 million when the Board of Retirement made permanent the 2001 - 2009 STAR Program benefits. As of June 30, 2014, 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 ten-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, 2014 and 2013 were $2.8 million and $2.9 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, 2014 and 2013.

Investments

Investments are carried at fair value. Fair values for investments are derived by various methods, as indicated below:

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, 2014 and 2013.
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 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	Fair value provided by the investment manager as follows: 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. Public investments — valued based on quoted market prices, less a discount, if appropriate, for restricted securities. Fair values are reviewed by LACERA's private equity consultant.
Public Market Equity and Fixed Income Investments held in Institutional Commingled Fund/Partnership	Fair value is typically provided by third party fund administrator, who performs this service for the fund manager.
Derivatives	Over-the-counter derivatives (other than currency forwards) valuations are provided by the fund manager. Currency forward contracts are valued by the custodian bank.
Hedge Fund of Funds	Valuation of the underlying funds is performed by those funds' general partners. The general partner of the two fund of funds and the third-party administrator provides valuation of the fund of funds partnerships.

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.

Investment Policies

Investment Policy. The allocation of investment assets within the LACERA Defined Benefit Pension Plan (Plan) investment portfolio is approved by the Board of Investments, as outlined in the LACERA Investment Policy Statement. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The Investment Policy Statement calls for an asset liability study to be conducted no later than every three to five years. The following table displays the Board of Investments-approved asset allocation targets for the fiscal year ended June 30, 2014. These asset allocation targets were developed through the latest asset liability valuation study that was conducted in 2012, and the long-term expected rates of return displayed reflect the expectations for the asset classes at that time.

Schedule of Target Allocation and Long-Term Expected Rate of Return

For the Year Ended June 30, 2014

		Weighted Average Long-Term Expected Rate of Return (Geometric)	
Asset Class	**Target Allocation**	**Asset Class**	**Expected Alpha**
Global Equity	49.00%	7.50%	0.10%
Fixed Income	23.00%	3.50%	0.20%
Real Estate	10.00%	6.05%	0.00%
Private Equity	11.00%	9.85%	4.00%
Commodities	3.00%	4.35%	0.75%
Hedge Funds	2.00%	5.50%	0.00%
Cash	2.00%	1.75%	0.25%
Total	**100.00%**	**6.85%**	**0.30%**

Total Fund Long-Term Expected Return Including Alpha 7.15%

Target Allocation. The preceding target allocation was approved by the Board as a result of the Asset Liability Study completed by Wilshire Consulting in August 2012. These asset allocation targets provide for diversification of assets in an effort to maximize the total return of the Plan consistent with market conditions and risk control. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. The Board, and internal staff implement the asset allocation policy through the use of external managers, who manage portfolios using active and passive investment strategies.

Expected Long-Term Rate of Return by Asset Class. The long-term expected rate of return on pension plan investments was determined using a building-block approach in which a median (or expected) geometric rate of return is developed for each major asset class. The median rates are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentages. Estimates of the median geometric rates of return for each major asset class at the time the asset allocation targets were selected are shown in the table. The asset class return assumptions are presented on a nominal basis, and all assumptions incorporate a base inflation rate assumption of 2.35 percent.

Discount Rate. The investment rate of return assumption used for actuarial funding was 7.50 percent for the fiscal year ended June 30, 2014.

GASB 67 requires determination that the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments. The discount rate used to measure the total pension liability was 7.63 percent. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Money-Weighted Rate of Return. For the year ended June 30, 2014, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 17.5 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Concentrations. The Plan does not hold investments in any one organization that represent 5 percent or more of the Plan's Fiduciary Net Position.

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 67 (GASB 67), *Financial Reporting for Pension Plans,* an amendment of GASB Statement No. 25 (GASB 25), effective at the beginning of the fiscal year. GASB 67 replaces the requirements of GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Benefit Plans,* and also replaces the requirement of GASB Statement No. 50, *Pension Disclosures*. The objective of GASB 67 is to improve financial reporting by state and local government pension plans such as LACERA.

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, 2014, Los Angeles County (County) paid its employer contributions due to LACERA in the form of semimonthly cash payments. For fiscal year ended June 30, 2013, the 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.

NOTE D — Reserves

LACERA includes accounts within Net Position Restricted for Benefits as reserve accounts for various operating purposes stipulated in various agreements within the plan sponsor. 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 equals 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:

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. 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.

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 year 2005, the Board of Retirement 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 2014 due to the modest Consumer Price Index (CPI) 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 Board of Retirement on an annual basis, provided sufficient excess earnings are available as determined by the Board of Investments. 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 Board of Investments in 2009; and funding of the STAR Reserve when excess earnings are available and authorized by the Board of Retirement. 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, 2014, the Contingency Reserve balance of $49 million represented 0.1 percent of the Fair Value of Total Investments. 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.

Reserves

As of June 30, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Member Reserves	$17,816,467	$16,866,229
Employer Reserves	20,862,024	20,612,325
County Contribution Credit Reserve	21,891	21,891
STAR Reserve	614,011	614,011
Contingency Reserve	49,376	—
Total Reserves at Book Value	39,363,769	38,114,456
Unrealized Investment Portfolio Appreciation	8,358,508	3,659,063
Total Reserves at Fair Value	$47,722,277	$41,773,519

OPEB Trust

The County hired the LACERA Board of Investments to manage and invest the County's OPEB Trust. During the fiscal year ended June 30, 2013, the County made initial contributions to prefund the growing liability for retiree healthcare benefits. There have been no additional contributions since then. 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, 2014, the Employer Reserves balance was $450 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. 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, 2013 actuarial valuation, based on the results of the 2013 triennial experience study. In December 2013, the BOI adopted a decrease in the investment return and other economic assumptions. The investment return assumption in effect for the 2013 actuarial valuation was 7.50 percent.

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	
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	1,079,929	1,078,929	—	1,078,929	100%
2013	1,172,014	723,195	448,819	1,172,014	100%
2014	1,320,442	1,320,442	—	1,320,442	100%

The information displayed below, presents the funded status as of the previous six years' actuarial valuations. The Schedule of Funding Progress — Pension Plan in the Actuarial 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 — Pension Plan 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, 2013	39,932,416	53,247,776	13,315,360	75.0%	6,595,902	201.9%

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)	3.0 percent. This rate was adopted beginning with the June 30, 2013 valuation.
Investment Return	7.5 percent. Compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2013 valuation.
Projected Salary Increases	3.76 percent to 9.71 percent. The total expected increase in salary includes both merit and the general wage increase assumption of 3.5 percent per annum. The total result is compounded rather than additive. Increases are assumed to occur mid-year (i.e., January 1) 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, 2013 valuation.
Post-Retirement Benefit Increases	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. 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 3.0 percent per year. This rate was adopted beginning with the June 30, 2013 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 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.

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, 2013 valuation, five amortization layers were used to calculate the total amortization payment beginning July 1, 2014. 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 120 percent in future valuations, the amortization of any Surplus Funding is funded over an open or "rolling" 30-year period. If the Funded Ratio is between 100 and 120 percent, only the employer normal cost rate is contributed.

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, 2013 valuation, the BOI approved inclusion of the STAR Reserve as part of valuation assets for 2013 and on an ongoing basis for future valuations; 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, 2013, decreased the County's normal cost rate from 9.73 percent to 9.44 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 with 30 years of service prior to 1973. The County's required contribution rate to finance the UAAL over a layered 30-year period increased from 10.09 percent to 11.90 percent. Additionally, new member contribution rates decreased slightly at most entry ages effective with the 2013 valuation, primarily due to the decreases the wage inflation assumption.

The combined result is a 1.52 percent increase in the total required County contribution rate from the previous valuation (from 19.82 percent to 21.34 percent of payroll). The most significant factor causing the increase was the recognition of asset losses from prior years, which resulted in a 1.01 percent increase in the UAAL rate. Additionally, the changes in assumptions adopted with the 2013 Investment of Experience Study caused a 0.82 percent increase.

Net Pension Liability

GASB 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of LACERA's (the Plan's) net pension liability at June 30, 2014 were as follows:

Schedule of Net Pension Liability

For the Year Ended June 30, 2014
(Dollars in Thousands)

	2014
Total Pension Liability	**$54,977,021**
Less: Fiduciary Net Position	**(47,722,277)**
Net Pension Liability	**$7,254,744**
Fiduciary Net Position as a Percentage of Total Pension Liability	**86.80%**

Actuarial assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employers and members) and include the types of benefits provided at the time of each valuation.

The total pension liability at June 30, 2014 was determined by completing a roll-forward calculation based on an actuarial valuation conducted as of June 30, 2013, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. All actuarial methods and assumptions used for this GASB analysis were the same as those used for the June 30, 2013 funding valuation, except where differences are noted. Key methods and assumptions used to calculate the total pension liability are presented below.

Description	Method
Inflation	3.0 percent.
Salary Increases	3.5 percent, average, including inflation.
Discount Rate	7.63 percent, net of pension plan investment expense, including inflation.
Mortality	Various rates based on the RP-2000 mortality tables and using static projection of improvement to 2025 using Projection Scale AA. See June 30, 2013 valuation report for further details.
Cost-of-Living Adjustments	The LACERA funding policy calls for the inclusion of STAR (Supplemental Targeted Adjustment for Retirees) reserves in the calculation of valuation assets for funding purposes, with no corresponding liability. For the total pension liability, STAR COLA (Cost-of-Living Adjustments) benefits are assumed to be substantively automatic at the 80 percent purchasing power level until the STAR reserve is projected to be insufficient to pay further STAR benefits. This roll-forward calculation includes a future liability for STAR COLA benefits.

The actuarial assumptions used in the June 30, 2013 actuarial valuation were based on the results of the actuarial experience study for the period July 1, 2010 to June 30, 2013. LACERA's actuary performs an experience study every three years.

Cost-Of-Living Adjustments (COLA)

Each year, the Board of Retirement considers how the change in the cost of living, a measure of inflation, has affected the purchasing power of monthly allowances paid by LACERA. Cost of living is measured by the Bureau of Labor Statistics, which releases the Consumer Price Index (CPI) for all Urban Consumers in the Los Angeles-Anaheim-Riverside area as of January 1 each year. The difference in the current and previous year's CPI shows whether the cost of living has increased or decreased in this area in the past year.

If the CPI has increased, the Board grants a cost-of-living adjustment (COLA) increase for monthly allowances. If the CPI has decreased, it is possible for the Board to decrease monthly allowances; however, a decrease in allowances has never occurred. In any event, a cost-of-living decrease could not reduce a member's allowance to an amount less than the allowance received at the time of retirement.

LACERA members may receive more than one type of COLA:

COLA ("April 1st COLA")

The COLA percentage increase is effective annually on April 1. Members who retire prior to April 1, or eligible survivors of members who died prior to April 1, are eligible for COLA. The increase begins with the April 30 monthly allowances. The COLA provision was added to CERL in 1966, and LACERA's first COLA increase was granted July 1, 1967. Until 2002, only contributory members were eligible for COLA.

Plan E COLA

Effective June 4, 2002, Plan E members and their survivors also are eligible for COLA. The portion of the COLA percentage received by each Plan E member is a ratio of the member's service credit earned on and after June 4, 2002 to total service credit.

Supplemental Targeted Adjustment for Retirees (STAR) Program

The STAR percentage increase is effective annually on January 1. STAR is designed to keep the purchasing power of monthly allowances no more than 20 percent behind accumulated cost-of-living adjustments based on the CPI (in other words, to restore at least 80 percent of the original value of the monthly allowance). STAR applies to contributory plans only. Retirees and survivors whose allowances have lost more than 20 percent of their purchasing power are eligible for STAR. The STAR Program became effective January 1, 1990.

COLA Supplement (or Supplemental COLA)

This one-time only, or ad hoc, COLA was granted to retirees and survivors whose allowances had lost more than 25 percent of their purchasing power due to inflation. The one-time, permanent 2 percent increase was effective September 1, 1988.

Sensitivity Analysis. In accordance with GASB 67, changes to the total pension liability and net pension liability must be reported as of June 30, 2014. The net pension liability changes when there are changes in the discount rate. The following presents the net pension liability, calculated using the discount rate of 7.63 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.63 percent) or 1 percentage point higher (8.63 percent) than the current rate (7.63 percent):

Sensitivity Analysis

For the Year Ended June 30, 2014
(Dollars in Thousands)

	1% Decrease [6.63%]	Discount Rate [7.63%]	1% Increase [8.63%]
Total Pension Liability	$62,036,315	$54,977,021	$49,080,209
Less: Fiduciary Net Position	(47,722,277)	(47,722,277)	(47,722,277)
Net Pension Liability	$14,314,038	$7,254,744	$1,357,932

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 to other LACERA members, including rights to continuance of benefits to survivors, health insurance subsidies, and 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, 2014, LACERA paid $25.0 million to covered members and received $20.2 million in related reimbursements. During fiscal year ended June 30, 2013, LACERA paid $28.0 million to covered members and received $22.9 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 use 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 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 $1.6 billion and $0.1 billion, respectively, are excluded from this presentation. Additionally, investment-grade fixed income securities of $44 million (0.4 percent of combined fixed income) and $108 million (1.0 percent of combined fixed income) held in OPEB Trust and OPEB Agency Fund, respectively, are excluded.

Credit Quality Ratings of Investments in Fixed Income Securities

As of June 30, 2014
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	U.S. Govt. Agencies	Municipals	Corporate Debt/Credit Securities	Pooled Funds	Total	% of Portfolio
Aaa	$1,384,050	$1,696,869	$1,046	$352,005	—	$3,433,970	34%
Aa	—	4,623	50,098	348,594	—	403,315	4%
A	—	11,508	51,635	756,860	—	820,003	8%
Baa	—	—	1,319	1,588,452	—	1,589,771	15%
Ba	—	—	7,432	630,121	—	637,553	6%
B	—	—	10,972	896,021	—	906,993	9%
Caa	—	—	—	384,291	—	384,291	4%
Ca	—	—	—	4,803	—	4,803	0%
C	—	—	—	25,387	—	25,387	0%
	—	—	—	—	—	—	0%
Not Rated	—	—	—	615,170	1,396,125	2,011,295	20%
Total Investment in Fixed Income Securities	**$1,384,050**	**$1,713,000**	**$122,502**	**$5,601,704**	**$1,396,125**	**$10,217,381**	**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 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, 2014, 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 $1.6 billion and $0.1 billion, respectively, are excluded from this presentation. Additionally, investment-grade fixed income securities of $44 million (0.4 percent of combined fixed income) and $108 million (1.1 percent of combined fixed income) held in OPEB Trust and OPEB Agency Fund, respectively, were excluded.

Fixed Income Securities — Duration

As of June 30, 2014
(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration*
U.S. Government and Agency Instruments:		
U.S. Treasury	$1,384,050	6.01
U.S. Government Agency	1,713,000	2.59
Municipal/Revenue Bonds	122,502	11.11
Subtotal U.S. Government and Agency Instruments	**$3,219,552**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$257,108	1.01
Commercial Mortgage-Backed Securities	298,529	0.88
Corporate and Other Credit	3,142,664	4.93
Fixed Income Swaps	280,811	N/A
Pooled Investments	1,396,125	N/A
Subtotal Corporate Securities	**$5,375,237**	
Non-U.S. Fixed Income	$186,224	4.21
Private Placement Fixed Income	1,436,368	4.42
Subtotal Non-U.S. and Private Placement Securities	**$1,622,592**	
Total Fixed Income Securities	**$10,217,381**	

*Effective 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 commingled funds, 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, 2014
(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contract	Total
AMERICAS							
Argentine Peso	$2,792	—	—	—	—	—	$2,792
Bermuda Dollar	4,378	—	—	—	—	—	4,378
Brazilian Real	218,776	13,310	—	—	—	61	232,147
Canadian Dollar	1,010,913	5,374	117	—	—	(16,224)	1,000,180
Chilean Peso	23,218	—	—	—	—	—	23,218
Columbian Peso	10,537	—	—	—	—	—	10,537
Mexican Peso	121,058	47,617	585	—	—	6	169,266
Peruvian New Sol	9,786	—	—	—	—	—	9,786
EUROPE							
Euro	2,780,455	70,188	12,096	99,348	364,374	445	3,326,906
British Pound Sterling	1,908,464	39,979	2,883	32,065	81,791	(23,296)	2,041,886
Czech Republic Koruna	1,406	—	—	—	—	—	1,406
Danish Krone	138,142	—	—	—	—	246	138,388
Hungarian Forint	2,922	—	—	—	—	—	2,922
Norwegian Krone	124,657	—	162	—	—	956	125,775
Polish Zloty	24,101	—	11	—	—	—	24,112
Russian Ruble	163,673	—	—	—	—	—	163,673
Swedish Krona	320,356	—	1,895	2,504	—	3,043	327,798
Swiss Franc	770,640	—	5	—	—	65	770,710
PACIFIC							
Australian Dollar	661,060	—	1,085	14,711	—	(8,419)	668,437
Chinese RNB	13,276	—	—	—	—	—	13,276
Japanese Yen	1,752,631	—	4,555	37,428	—	(7,744)	1,786,870
New Zealand Dollar	16,809	4,111	4	—	—	(320)	20,604
South Korean Won	339,515	—	107	—	—	—	339,622
MIDDLE EAST							
Egyptian Pound	3,013	—	—	—	—	—	3,013
Israeli Shekel	39,707	—	—	—	—	(448)	39,259
Lebanese Pound	644	—	—	—	—	—	644
New Turkish Lira	49,819	—	134	—	—	—	49,953
Oman Rial	2,463	—	—	—	—	—	2,463
Qatari Riyal	2,648	—	—	—	—	—	2,648
Saudi Arabian Riyal	6,678	—	—	—	—	—	6,678
UAE Dirham	4,961	—	—	—	—	—	4,961

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

As of June 30, 2014
(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contracts	Total
AFRICA							
CFA Franc (W. African)	1,800	—	—	—	—	—	1,800
Ghana New Cedi	1,403	—	—	—	—	—	1,403
Kenya Shilling	947	—	—	—	—	—	947
Mozambique Metical	131	—	—	—	—	—	131
Nigerian Naira	14,313	—	—	—	—	—	14,313
South African Rand	177,428	—	2	—	—	—	177,430
Tanzanian Shilling	2,545	—	—	—	—	—	2,545
SOUTHEAST ASIA							
Hong Kong Dollar	802,348	—	2,488	30,629	—	16	835,481
Indonesian Rupiah	49,404	—	17	—	—	—	49,421
Malaysian Ringgit	73,185	—	19	—	—	—	73,204
Philippine Peso	15,533	6,598	—	—	—	—	22,131
Singapore Dollar	196,778	—	3,275	11,848	—	(951)	210,950
Taiwan Dollar	250,469	—	22	—	—	—	250,491
Thailand Baht	77,923	—	—	2,848	—	—	80,771
Vietnamese Dong	3,251	—	—	—	—	—	3,251
SOUTH ASIA							
Indian Rupee	248,926	—	—	—	—	—	248,926
Sri Lankan Rupee	283	—	—	—	—	—	283
Total Securities Subject to Foreign Currency Risk	**$12,446,165**	**$187,177**	**$29,462**	**$231,381**	**$446,165**	**$(52,564)**	**$13,287,786**
U.S. Dollar (Securities held by Non-U.S. Managers)	204,839	—	—	4,195	—	—	209,034
Total Non-U.S. Investment Securities	**$12,651,004**	**$187,177**	**$29,462**	**$235,576**	**$446,165**	**$(52,564)**	**$13,496,820**

NOTE H — Securities Lending Program

The Board of Investments' 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.

LACERA's securities lending program is managed by two parties: LACERA's custodian bank, State Street Bank and Trust, and a third-party lending agent, Goldman Sachs Agency Lending (GSAL). State Street Bank and Trust lends LACERA's non-U.S. equities, U.S. Treasury, agency, and mortgage-backed securities. GSAL lends LACERA's U.S. equities and corporate bonds. All non-U.S. loans are collateralized at 105 percent, while the U.S. loans are collateralized at 102 percent of the loan market value.

State Street Global Advisors invests the collateral received from both lending programs. The collateral is invested in short-term, highly liquid instruments. The collateral is marked-to-market daily and if the market value of the securities rises, LACERA receives additional collateral. Earnings generated above and beyond the interest paid to the borrowers represent net income. LACERA shares this net income with the borrowers 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" when loaned securities are not returned. 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, 2014, 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, 2014 and 2013.

As of June 30, 2014, the fair value of securities on loan was $1.66 billion, with a value of cash collateral received of $998 million and non-cash collateral of $707 million. As of June 30, 2013, the fair value of securities on loan was $135 million, with a value of cash collateral received of $138 million. LACERA's income, net of expenses from securities lending, was $4.0 million and $4.7 million, for the years ended June 30, 2014 and 2013, respectively.

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

Securities Lending

As of June 30, 2014

(Dollars in Thousands)

Securities on Loan	Fair Value of Securities on Loan	Cash/Non-Cash Collateral Received
U.S. Equities	$361,271	$369,396
U.S. Fixed Income	1,225,810	1,252,779
Non-U.S. Equities	78,227	83,018
Total	**$1,665,308**	**$1,705,193**

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. Given that hedge fund managers may already have discretion to use derivatives in the funds they manage, LACERA's Derivatives Policy will not apply to Hedge Fund investments.

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. 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, 2014 and 2013, classified by type.

Investment Derivatives

As of June 30, 2014
(Dollars in Thousands)

Derivative Type	2014 Notional Amount	2014 Fair Value	2013 Fair Value	2014 - 2013 Change in Fair Value
Currency Forward Contracts	**$9,054,487**	**($52,564)**	$57,530	($110,094)
Futures Contracts	**422,497**	**—**	(37,041)	37,041
Option Contracts	**(173,610)**	**(223)**	(4,259)	4,036
Swap Agreements	**(23,666)**	**4,377**	(12,088)	16,465
Total	**$9,279,708**	**($48,410)**	$4,142	**($52,552)**

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, 2014, collateral for derivatives was $69.8 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 schedule displays the fair value of investments with each counterparty's S&P, Fitch and Moody's credit rating by counterparty's name alphabetically.

Counterparty Credit Risk Analysis

As of June 30, 2014
(Dollars in Thousands)

Counterparty Name	Total Fair Value	S&P Rating	Fitch Rating	Moody's Rating
Bank of America N.A.	$380	A	A	A2
Bank of New York	1	A+	AA-	A1
Barclays Bank CME	11	A	A	A2
Barclays Bank PLC	29	A	A	A2
Barclays Bank PLC Wholesale	287	A	A	A2
Barclays Capital	2	A	A	A2
Barclays De Zoete Wedd	11	A	A	A2
BNP Paribas SA	175	A+	A+	A1
Citibank N.A.	326	A	A	A2
Citibank N.A. London	17	A	A	A2
Citigroup Global Markets CME	1,965	A-	A	Baa2
Credit Suisse FOB CME	328	A	A	A1
Credit Suisse FOB ICE	505	A	A	A1
Credit Suisse International	4,645	A	A	A1
Deutsche Bank AG London	3,040	A	A+	A2
Deutsche Bank CME	2,853	A	A+	A2
Deutsche Bank Securities Inc.	74	A	A+	A2
Goldman Sachs Co.	32	A-	A	Baa1
Goldman Sachs Capital Markets LP	32	A-	A	Baa1
Goldman Sachs ICE	30	A-	A	Baa1
Goldman Sachs International	4,854	A-	A	Baa1
HSBC Bank USA	27	AA-	AA-	A1
HSBC Sec New York	15	A+	AA-	Aa3
JP Morgan Securities Inc.	16	A	A+	A3
JP Morgan Chase Bank	294	A+	A+	Aa3
JP Morgan Chase Bank N.A.	26	A+	A+	Aa3
Macquariebank Limited	772	A	A	A2
Royal Bank of Canada	24	AA-	AA	Aa3
Royal Bank of Scotland PLC	5,372	A-	A	Baa1
Societe Generale	7	A	A	A2
UBS AG	65	A	A	A2
UBS AG London	1,880	A	A	A2
UBS CME	319	A	A	A2
Westpac Banking Corporation	4,645	AA-	AA-	Aa2
Total	**$33,059**			

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, 2014

(Dollars in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Credit Default Swaps Bought	($962)	$—	($962)	$—	$—
Credit Default Swaps Written	1,388	166	1,162	2	58
Fixed Income Options Bought	267	267	—	0	0
Fixed Income Options Written	(486)	(447)	(16)	(23)	0
Pay Fixed Interest Rate Swaps	1,455	—	(76)	(138)	1,669
Receive Fixed Interest Rate Swaps	(198)	—	(387)	189	—
Total Return Swaps Bond	970	969	1	—	—
Total Return Swaps Equity	1,724	1,858	(134)	—	—
Total	**$4,158**	**$2,813**	**($412)**	**$30**	**$1,727**

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 Total 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, 2014
(Dollars in Thousands)

Currency Name	Options	Currency Forward Contracts: Net Receivables	Currency Forward Contracts: Net Payables	Swaps	Total Exposure
Australian Dollar	$—	$614	$(9,033)	$303	$(8,116)
Brazilian Real	—	105	(44)	(628)	(567)
Canadian Dollar	—	1,618	(17,842)	—	(16,224)
Swiss Franc	—	1,165	(1,100)	—	65
Danish Krone	—	108	138	—	246
Euro Currency	(19)	4,286	(3,841)	176	602
Pound Sterling	—	1,937	(25,233)	—	(23,296)
Hong Kong Dollar	219	—	16	—	235
New Israeli Shekel	—	61	(509)	—	(448)
Japanese Yen	—	3,971	(11,715)	(102)	(7,848)
Mexican Peso	—	20	(14)	17	23
Norwegian Krone	—	4	952	—	956
New Zealand Dollar	—	30	(350)	—	(320)
Swedish Krona	—	289	2,754	—	3,043
Singapore Dollar	—	98	(1,049)	—	(951)
Total	**$200**	**$14,306**	**$(66,870)**	**$(234)**	**$(52,600)**

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, 2014, the LACERA real estate portfolio included 89 THCs and 23 LLCs.

As of June 30, 2013, the portfolio included 84 THCs and 16 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, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Assets	**$5,828,040**	$5,045,841
Less: Liabilities	**(2,025,448)**	(1,880,448)
Net Assets	**$3,802,592**	**$3,165,393**
Net Income	**$115,610**	**$162,373**

In March 2011, the LACERA Board of Investments approved allocating 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, 2014, were $285 million and $117 million, respectively, with a net income of $17.27 million.

NOTE K — Related Party Transactions

Office Lease

LACERA, as the sole shareholder, formed a 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. On August 6, 2013 and March 17, 2014, LACERA leased two additional spaces: one for 3,421 square feet and another with 2,642 square feet of space, respectively, with terms expiring December 31, 2020 for both spaces.

Total operating expenses charged to LACERA were approximately $1.8 million and $1.2 million for the years ended June 30, 2014 and June 30, 2013, respectively.

Notes Receivable

LACERA had a notes receivable balance of approximately $22.5 million from one of its THCs for each of the years ended June 30, 2014 and 2013. This amount is 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 maintained 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. On October 17, 2013, LACERA funded the $300 million unsecured lines of credit plus interest of $157,000 to retire the line of credit.

NOTE L — Administrative Expenses

The Board of Retirement and Board of 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 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 the CERL. LACERA's appropriation for legal representation was included in the administrative expense allocation.

Under applicable sections of the CERL, both LACERA Boards approved the operating budgets for fiscal years ended June 30, 2014 and June 30, 2013, 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, 2014 and 2013

(Dollars in Thousands)

	2014	2013
Basis for Budget Calculation (Actuarial Accrued Liability)	**$50,809,425**	**$48,598,166**
Maximum Allowable for Administrative Expense*	**106,700**	102,056
Total Statutory Budget Appropriation	**106,700**	**102,056**
Operating Budget Request	**62,193**	56,849
Administrative Expenses	**(58,723)**	(53,863)
Underexpended Operating Budget	**3,470**	**2,986**
Administrative Expenses	**58,723**	53,863
Basis for Budget Calculation	**50,809,425**	48,598,166
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.12%**	**0.11%**
Limit per CERL	**0.21%**	0.21%
Administrative Expenses	**58,723**	53,863
Net Position Restricted for Benefits	**$47,722,277**	$41,773,519
Administrative Expenses as a Percentage of Net Position Restricted for Benefits	**0.12%**	**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 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 Board of Investments 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 Board of Investments determines is in the best interest of the fund.

Compliance with the Securities Litigation Policy assures that the Board of Investments, 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 Board of Investments 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. On October 17, 2013, LACERA funded the $300 million unsecured lines of credit plus interest of $157,000 to 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 and operating expenses for such equipment leases were approximately $279,000 and $240,000 in fiscal years 2014 and 2013, respectively.

The building space lease agreement was originally entered in January 1991. Subsequent amendments were made with the latest one dated August 22, 2013. LACERA agreed to lease additional space of which extended lease terms to December 31, 2020. As of fiscal year 2014, a total of 112,756 rentable square feet is leased by LACERA, which requires a proportionate share of taxes, parking facilities, and operating costs applicable to the premises be paid. LACERA's leasing agreements are also discussed in Note K — Related Party Transactions. The total operating expenses for leasing the building premises are $1.80 million and $1.15 million in fiscal years 2014 and 2013, 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 Board of Investments and may be updated as often as necessary to reflect LACERA investment preferences, as well as changes in market conditions.

As of June 30, 2014, outstanding capital commitments to the various investment managers, as approved by the Board of Investments, totaled $3.61 billion. Subsequent to June 30, 2014, LACERA funded $394 million of these capital commitments.

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

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.

Program Description

In April 1982, the County adopted an ordinance pursuant to the CERL that provided for a retiree 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.

In June 2014, the LACERA Boards approved the County's request to modify the Agreement to create a new retiree healthcare benefit program in order to lower its costs. Structurally, this means the County will segregate all current retirees and current employees into LACERA-Administered Retiree Healthcare Benefits Program — Tier 1 (Tier 1) and place all employees hired after June 30, 2014 into Los Angeles County Retiree Healthcare Benefits Program — Tier 2 (Tier 2).

A significant difference included in this modification is LACERA's administrative responsibility for the retire healthcare program. Under Tier 1, LACERA will continue its mandated role as program administrator and uphold its fiduciary duty to provide retiree healthcare benefits governed by the 1982 Agreement. Under Tier 2, LACERA will be responsible for administering this program for as long as the County desires LACERA to administer the program. The County may, at any time, choose another organization to administer the Tier 2 program.

On June 17, 2014, the Los Angeles County Board of Supervisors adopted changes to Los Angeles County Code Title 5 – Personnel, which established the Benefit Provisions for the new Tier 2.

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 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. Under the new Tier 2 program, retirees who are eligible for Medicare will be required to enroll in that program. Medicare-eligible retirees and their covered dependents must enroll in Medicare Parts A and B and in a Medicare HMO plan or Medicare Supplement plan.

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 for medical and Cigna Indemnity Dental/Vision for dental and vision) or the premium of the plan in which the retiree is enrolled for ten years of service credit. Under Tier 2, the County subsidy is based on retiree-only coverage. Tier 2 benchmark plans are: Anthem Blue Cross Plans I and II for Medicare-ineligible members, Anthem Blue Cross Plan III for Medicare-eligible members, and Cigna Indemnity Dental/Vision for dental and vision. For each year of retirement service credit beyond ten 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 and their dependents must be enrolled in both Medicare Part A and Medicare Part B and in a LACERA-administered Medicare HMO Plan or Medicare Supplement Plan. Under Tier 2, the County reimburses for Medicare Part B (standard rate) for eligible members or eligible survivors only.

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. Under RHP Tier 2, the benchmark plan rate will be based on retiree-only premiums. 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, paid directly by the County. 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 Obama signed into law the Affordable Care Act (ACA). The 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 these significant provisions:

- 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 $12.2 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. During the fiscal year, the Centers for Medicare and Medicaid Services (CMS) conducted an audit of the program. At the end of September 2014, LACERA received the final Audit Report. Management will review the findings and develop an action plan to implement the recommendations.

Summary of Significant Accounting Policies

Basis of Presentation — The OPEB Agency Fund is presented according to the principles and reporting guidelines 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, 1994, and 2014 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. As part of the 2014 Agreement, the County modified the existing healthcare benefit plan, which created a new benefit structure for all employees hired after June 30, 2014. 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 — 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 Payments

During fiscal year ended June 30, 2014, premium payments of $454.7 million were made to insurance carriers. These payments were funded by employer subsidy payments of $414.2 million and payments of $40.5 million by the participants. In addition, the County paid $45.2 million in Medicare Part B reimbursements and $7.4 million in death/burial benefits.

The County did not grant Premium Holidays during fiscal years 2014 and 2013. 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.

Establishment of OPEB Trust

Pursuant to the California Government Code, the County established an irrevocable OPEB Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Benefits Program, which LACERA administers. In May 2012, the 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. Both employers funded contributions to the OPEB Trust of $448.8 million during the fiscal year ended June 30, 2013. There have been no additional contributions to the OPEB Trust since the initial funding. 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 No. 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 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 No. 43 and No. 45 requirements 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 Accrued 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. The 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.

Note N continued

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. The 2013 OPEB investigation of experience has been completed and the results will be used for the July 1, 2014 valuation.

Actuarial Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	N/A
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[1]

	FY 2013 to FY 2014	FY 2014 to FY 2015	Ultimate[2]
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%

[1]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.

[2]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, 2014 and June 30, 2013 were $546 million and $494 million, respectively.

NOTE P — Subsequent Event

Subsequent events have been evaluated through October 15, 2014, which is the date the financial statements were issued.

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.

NOTE: The latest OPEB Actuarial Valuation was conducted as of July 1, 2012. The next valuation will be conducted as of July 1, 2014.

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
2009	$1,737,000[1]	381,612	22%
2010	1,737,000[1]	400,686	23%
2011	1,938,400[2]	423,032	22%
2012	1,938,400[2]	442,099	23%
2013	2,126,100[3]	460,331	22%
2014	2,126,10[3]	466,788	22%

NOTE: ARC determined by most recent OPEB Actuarial Valuation conducted as of: [1] July 1, 2008, [2] July 1, 2010, [3] July 1, 2012.
Los Angeles County implemented GASB Statement No. 45 for its fiscal year ended June 30, 2008.

Significant changes to the OPEB Program and trends that may affect the amounts reported here are discussed in Note N - OTHER Post Employment Benefits (OPEB Program).

Schedule of Net Pension Liability

For the Years Ended June 30, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Total Pension Liability	**$54,977,021**	$52,672,558
Less: Fiduciary Net Position	**(47,722,277)**	(41,773,519)
Net Pension Liability	**$7,254,744**	**$10,899,039**
Fiduciary Net Position as a Percentage of Total Pension Liability	**86.80%**	79.31%
Covered Employee Payroll	**$6,672,228**	$6,595,902
Net Position Liability as a Percentage of Covered Employee Payroll	**108.73%**	165.24%

Total Pension Liability

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumption noted below, and was then projected forward to the measurement date taking into account any significant changes between the valuation date and the fiscal year-end as prescribed by GASB 67.

Rates of Return

	2014	2013
Discount Rate	**7.63%**	7.63%
Long-Term Expected Rate of Return, Net of Expenses[1]	**7.50%**	7.50%
Municipal Bond Rate	**N/A**	N/A

Information from the June 30, 2013 Valuation Report and the 2013 Investigation of Experience was used to develop the 7.63 percent discount rate used for the current reporting date.

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. The discount rate is calculated net of investment expenses but does not exclude administrative expenses. Therefore, the discount rate for calculating the total pension liability is slightly higher than the long-term expected rate of return used for funding purposes. The GASB discount rate is equal to 7.63 percent, which is equal to the 7.50 percent long-term investment return assumption as adopted for funding purposes (net of investment and administrative expenses), plus 0.13 percent assumed administrative expenses.

Other Key Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of June 30, 2014 were based on the results of an actuarial experience study for the three-year period July 1, 2010 to June 30, 2013.

	2014	2013
Valuation Date*	**June 30, 2013**	June 30, 2013
Measurement Date	**June 30, 2014**	June 30, 2013

For Other Actuarial Assumptions and Methods — See Notes to the Required Supplementary Information.

*For the initial year of GASB 67 implementation, both the beginning of year (June 30, 2013) measurement and the end of year (June 30, 2014) measurement are based on the June 30, 2013 actuarial valuation.

Trend Information: Schedule will ultimately show information for ten years. Additional years will be displayed as they become available prospectively.

Schedule of Changes in Net Pension Liability and Related Ratios

For the Year Ended June 30, 2014

(Dollars in Thousands)

	2014
Total Pension Liability	
Service Cost	$1,009,834
Interest on Total Pension Liability	3,957,030
Changes in Benefit Terms	—
Differences Between Expected and Actual Experience	—
Changes of Assumptions	—
Benefit Payments	(2,638,873)
Refunds of Contributions	(23,528)
Net Changes in Total Pension Liability	$2,304,463
Total Pension Liability - Beginning	$52,672,558
Total Pension Liability - Ending (a)	$54,977,021
Fiduciary Net Position	
Contributions - Employer	$1,320,442
Contributions - Member	439,001
Net Investment Income	6,910,439
Benefit Payments	(2,638,873)
Refunds of Contributions	(23,528)
Administrative Expenses	(58,723)
Net Change in Fidcuiary Net Position	$5,948,758
Fiduciary Net Position - Beginning	$41,773,519
Fiduciary Net Position - Ending (b)	$47,722,277
Net Pension Liability - Ending (a) - (b)	$7,254,744
Fiduciary Net Position as a Percentage of Total Pension Liability	86.80%
Covered Employee Payroll	$6,672,228
Net Position Liability as a Percentage of Covered Employee Payroll	108.73%

Trend Information: Schedule will ultimately show information for ten years. Additional years will be displayed as they become available prospectively.

Schedule of Contributions History — Pension Plan

Last Ten Fiscal Years
(Dollars in Thousands)
2014 to 2010

	2014	2013	2012	2011	2010
Actuarially Determined Contributions	$1,320,442	$1,172,014	$1,078,929	$944,174	$843,704
Contributions in Relation to the Actuarially Determined Contribution	$1,320,442	$1,172,014	$1,078,929	$944,174	$843,704
Contribution Deficiency/ (Excess)	—	—	—	—	—
Covered Employee Payroll	$6,672,228	$6,595,902	$6,619,816	$6,650,674	$6,695,439
Contributions as a Percentage of Covered Employee Payroll	19.79%	17.77%	16.30%	14.20%	12.60%

2009 to 2005

	2009	2008	2007	2006	2005
Actuarially Determined Contributions	$847,172	$827,911	$863,626	$855,531	$750,352
Contributions in Relation to the Actuarially Determined Contribution	$847,172	$828,630	$863,626	$856,035	$750,352
Contribution Deficiency/ (Excess)	—	$(719)	—	$(504)	—
Covered Employee Payroll	$6,547,616	$6,123,888	$5,615,736	$5,205,804	$4,982,084
Contributions as a Percentage of Covered Employee Payroll	12.94%	13.52%	15.38%	16.43%	15.06%

Schedule of Investment Returns — Pension Plan

For the Year Ended June 30, 2014

	2014
Annual Money-Weighted Rate of Return, Net of Investment Expenses	**17.5%**

NOTE: Money Weighted Rate of Return is calculated as the internal rate of return on pension plan investments, net of investment expenses.
Trend Information: Schedule will ultimately show information for ten years. Additional years will be displayed as they become available prospectively.

Notes to Required Supplementary Information

For the Year Ended June 30, 2014

Changes in Benefit Terms

The California Public Employees' Pension Reform Act of 2013 (PEPRA) changed benefits for most members of LACERA who entered on or after January 2, 2013. These members will join either General Plan G or Safety Plan C. The provisions of PEPRA apply for the current valuation. Due to the limited membership in these plans as of the June 30, 2013 valuation, a hypothetical five-year population has been used to determine the normal cost rate for this group. This methodology was adopted by the Board of Investments at its February 2014 meeting and will apply through the June 30, 2017 valuation, when the actual plan populations are expected to reflect five years of membership.

2013 Changes in Assumptions

In addition to the annual valuations, LACERA requires its actuary to review the reasonableness of the economic and non-economic actuarial assumptions every three years. This review, commonly referred to as the investigation of experience, or experience study, is accomplished by comparing actual experience during the preceding three years to what was expected to happen according to the actuarial assumptions. On the basis of this review, the actuary determines whether changing the assumptions or methodology will better project benefit liabilities and asset growth.

At the December 2013 Board of Investments meeting, the Board adopted new assumptions with the 2013 Investigation of Experience report. The adopted assumptions included a decrease in the investment return assumption from 7.60 percent to 7.50 percent used for the actuarial valuation, a decrease in the wage growth assumption from 3.85 percent to 3.50 percent, and an increase in life expectancies. All assumption changes have been reflected in the June 30, 2013 actuarial valuation.

Actuarial Methods and Assumptions

As required by GASB 67, LACERA's actuary completed a roll forward analysis to calculate the total pension and net pension liability information for financial reporting, as of June 30, 2014. The basis for these calculations was the latest valuation report, prepared for funding purposes. All actuarial methods and assumptions used for this roll forward analysis were the same as those used in the June 30, 2013 valuation report, except as noted below. Please see NOTE E — Pension Actuarial Valuations for the actuarial assumptions and methods used for the June 30, 2013 valuation report.

The following are key assumptions used in GASB 67 roll forward analysis:

Valuation Timing	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Individual Entry Age Normal*
Amortization Method	
Level Percent or Level Dollar	Level Percent
Closed, Open, or Layered Periods	Layered
Amortization Period for Each Layer	30 years
Amortization Growth Rate	3.5 percent
Asset Valuation Method	
Smoothing Period	5 years
Recognition Method	Non-Asymptotic
Corridor	None
Inflation	3.0 percent
Salary Increases Including Inflation	3.5 percent

*Differs slightly from actuarial valuation for groups in existence for less than five years.

Discount Rate	7.63 percent[1]
Retirement Age	A schedule of the probabilities of employment termination based on age due to a particular cause is used. For additional information, see the Probability of Occurrence tables in the Actuarial Section of this report.
Cost-of-Living Adjustments	As noted in the June 30, 2013 valuation report, with one modification: STAR COLA benefits are assumed to be substantively automatic at the 80 percent purchasing power level until the STAR reserve is projected to be insufficient to pay further STAR benefits.[2]
Mortality	Various rates based on RP-2000 mortality tables using static projection of improvement to 2025 using Projection Scale AA. See June 30, 2013 valuation report for further details.
Death Benefit	LACERA members are eligible for a $5,000 death benefit under Government Code §31789.3. This benefit is currently paid by the County via a reimbursement arrangement with LACERA and is therefore not included in the actuarial funding valuation. This benefit has been included for purposes of calculations under GASB 67.

[1] Differs from actuarial valuation due to addition of administrative expense load of 0.13 percent.
[2] Differs from actuarial valuation due to inclusion of future liability for STAR COLA benefits.

Administrative Expenses

For the Years Ended June 30, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Personnel Services		
Salaries and Wages	$27,682	$26,570
Employee Benefits	15,166	13,518
Total Personnel Services	**42,848**	**40,088**
Consultant & Professional Services		
County Department Services	216	221
External Audit Fees	243	178
Legal Consultants	243	209
Professional Services	375	282
Temporary Personnel Services	1,832	1,391
Total Consultant & Professional Services	**2,909**	**2,281**
Operating & Equipment Expenses		
Administrative Support	288	125
General Expenses	783	618
Computer Software	2,255	1,799
Disability Medical Service Fees	1,775	1,326
Educational Expenses	694	647
Equipment	961	1,516
Facilities Operations	2,983	2,341
Insurance	458	540
Printing	692	645
Postage	756	839
Telecommunications	544	604
Transportation & Travel	777	494
Total Operating & Equipment Expenses	**12,966**	**11,494**
Total Administrative Expenses	**$58,723**	**$53,863**

Schedule of Investment Expenses

For the Years Ended June 30, 2014 and 2013
(Dollars in Thousands)

	Pension Trust Fund		OPEB Trust Fund	
	2014	2013	2014	2013
Investment Management Fees				
Cash and Short-Term Managers	$841	$687	$92	$144
Commodity Managers	4,330	3,846	—	—
Equity Managers				
U.S. Equity	15,267	13,140	50	—
Non-U.S. Equity	21,446	20,355	—	—
Fixed Income Managers	18,591	17,084	—	—
Mortgage Loan Servicers	210	348	—	—
Private Equity Managers	4,527	3,852	—	—
Real Estate Managers	24,962	20,082	—	—
Total Investment Management Fees	90,174	79,394	142	144
Other Investment Expenses				
Consultants	739	978	—	—
Custodian	2,324	1,684	38	—
Legal Counsel	523	489	—	—
Other	7,410	4,270	—	—
Total Other Investment Expenses	10,996	7,421	38	—
Total Management Fees & Other Investment Expenses	$101,170	$86,815	$180	$144

Schedule of Payments to Consultants

For the Years Ended June 30, 2014 and 2013
(Dollars in Thousands)

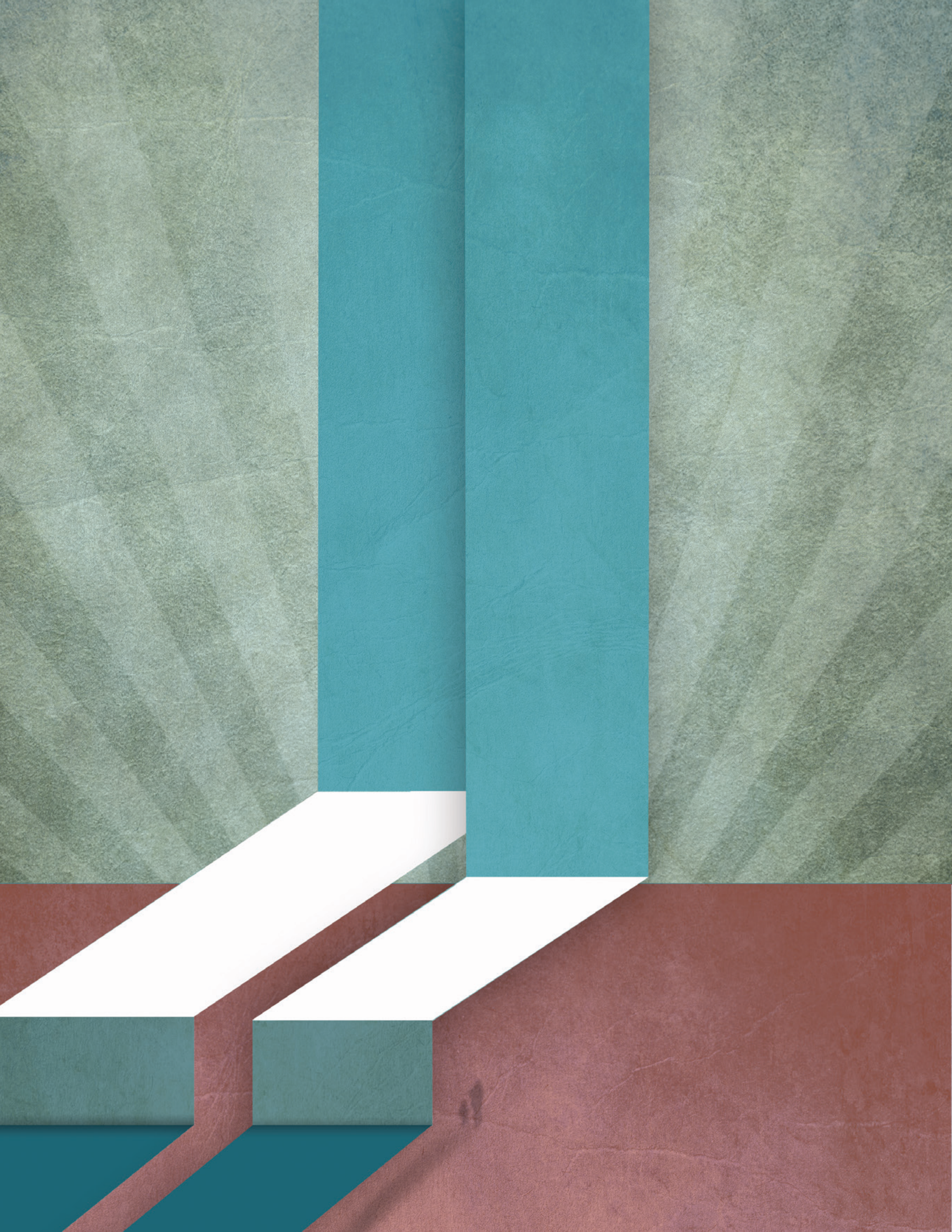
	2014	2013
Actuarial		
Actuarial Valuations and Consulting Fees	**$230**	$193
Audit		
External Audit Services	**243**	178
Legal		
Investment Legal Counsel	**523**	490
Legislative Consulting	**67**	53
Other Legal Services	**175**	156
Total	**765**	699
Management		
Management and Human Resources	**278**	121
Total Payments to Consultants	**$1,516**	$1,191

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, 2014
(Dollars in Thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets				
Cash	$690	$661,486	$614,092	$48,084
Accounts Receivable - Other	38,996	472,324	470,746	40,574
Fixed Income	130,532	1,562,968	1,582,616	110,884
Total Assets	$170,218	$2,696,778	$2,667,454	$199,542
Liabilities				
Retiree Payroll and Other Payables	$198	$42,362	$42,410	$150
Accrued Expenses	387	364	387	364
Accounts Payable - Other	39,101	553,728	504,685	88,144
Due to Employers	130,532	1,562,968	1,582,616	110,884
Total Liabilities	**$170,218**	**$2,159,422**	**$2,130,098**	**$199,542**



Compassion

Compassion...one of our goals is to create a partnership that lasts into our members' retirement and beyond. We not only answer questions, we ask them in return making sure our members' goals remain within their reach. We treat our members exactly how we would want to be treated – with compassion, because their interests are ours. Within the 15 diverse divisions at LACERA and through our excellent **customer service**, we keep our members connected to important information, we keep our members connected to a changing world, and we keep our members connected to their retirement allowance.

Our members can believe in us.

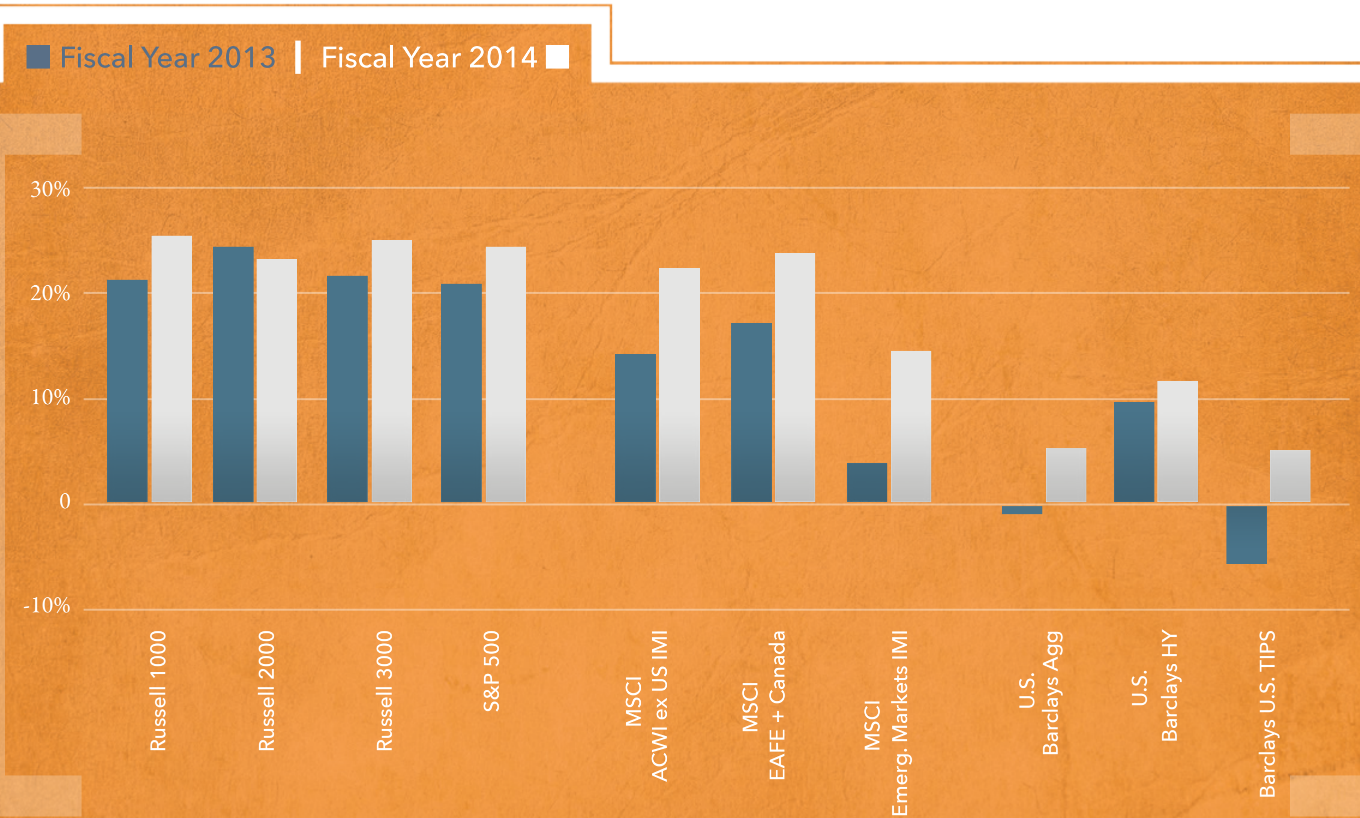
August 27, 2014

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 fiscal year (period ending June 30, 2014).

The U.S. equity market posted double-digit gains for the one-year period ending June 30, 2014. This represents the second consecutive fiscal year of strong U.S. equity returns as the market continues to benefit from the "easy-money" policies implemented by the Federal Reserve Bank ("Fed") following the credit crisis. Generally, company fundamentals (earnings, cash flow, etc.) have been supportive of increased valuations; however, many investors are concerned that stock prices have risen too high too fast. The non-U.S. equity markets also sustained an upward trajectory in fiscal year 2014, as most major economies benefitted from increased central bank support and the efforts on the part of China's government to buoy the nation's economic growth. The investment grade fixed income markets continue to offer disappointing risk premiums, with treasury yields and credit spreads below long-term averages. In this low rate environment, investors have moved out the risk spectrum to other asset classes, such as equities and high yield. The graph below illustrates the capital market results for the past two fiscal years.



Annual Consultant Review

LACERA's 2014 fiscal year Total Fund return performance and ranking within Wilshire's Total Public Fund's Plan Sponsor Universe ("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 asset allocation to both public and private assets, which has achieved top-quartile performance over the long-term. The LACERA Total Fund ranked in the 18th percentile over the ten-year period ending June 30, 2014, while the LACERA Policy ranked in the 33th percentile over the same period. LACERA's Total Fund outperformance over the long-term is due to a combination of asset allocation and strategy/manager implementation decisions. Over more recent periods, LACERA's Fund and Policy have ranked at or below the median observation in the Universe. Over the last five years, the U.S. Equity market has recovered to a greater extent relative to non-U.S. Equity markets. LACERA's U.S. Equity policy allocation eliminates the "Home Country Bias" and reflects the U.S. weight in the global public equity market opportunity set. This results in a lower allocation to U.S. Equity than many other plans in the Universe and has been a detractor to relative performance over shorter time periods.

2014 Fiscal Year Total Fund Performance*

(Gross of Fees)

	One Year	Rank	Five Years	Rank	Ten Years	Rank
Total Fund	**16.83**	52	12.07	68	7.89	18
Policy	**15.28**	76	11.01	83	7.57	33
Over/(Under) Policy	**1.55**		1.06		0.32	
Universe Median	**16.86**		12.69		7.27	
*As of June 30, 2014 Number of Funds.	161		143		116	

During fiscal year 2014, 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:

- Board Offsite Education ("Approaches to Asset Allocation")
- Non-U.S. Equity Investment Structure Review
- Opportunistic Fixed Income (Corporate Credit) Search
- Opportunistic Fixed Income (Structured Credit) Search
- OPEB Trust Asset Allocation Review
- Custody Bank Performance Audit and Migration
- Hedge Fund of Funds Search
- Investment Performance Reporting

We appreciate the partnership we have and look forward to the successful accomplishment of the ongoing implementation plans of LACERA.

Sincerely,

William G. Bensur, Jr., 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 has exclusive control of all retirement system investments. There are nine Board of Investments members: Four are elected by the active and retired members and four are appointed by the Los Angeles County Board of Supervisors. The County Treasurer-Tax Collector serves as an ex-officio member.

The Board of Investments has 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 of Investments, 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 that act as a trigger for reallocating assets to ensure adherence to target weights.

LACERA's investment program generated a return of 16.8 percent for the fiscal year, benefiting from robust performance in all asset classes except cash.

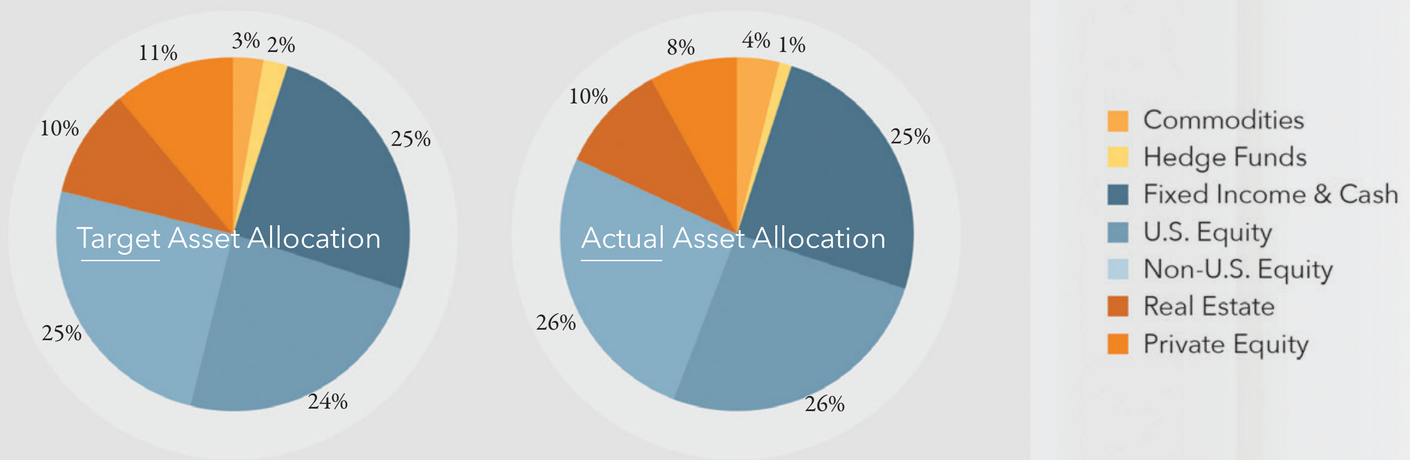
David Kushner | Chief Investment Officer

The Board of Investments reviews the Fund's Asset Allocation Policy (the Policy) every three to five years. In August 2012, the Board of Investments 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, 2014.

2014 Asset Allocations



The Board of Investments 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 Board of Investments with the implementation of investment policies and long-term investment strategies.

In December 2013, the Board of Investments approved a new allocation for the OPEB Trust consisting of a strategic reserve of $100 million in cash and the remainder invested in a global equity index fund. The cash portion consists of high quality, short-term debt instruments such as U.S. Treasury Bills and Notes, commercial paper, and other corporate obligations, certificates of deposit, and asset-backed securities. The global equity fund's allocation between U.S. equity and non-U.S. equity was 49.6 percent and 50.4 percent, respectively, as of June 30, 2014.

Economic and Market Review and Outlook

LACERA's investment program generated a return of 16.8 percent for the fiscal year, benefiting from robust performance in all asset classes except cash. This was the Fund's fourth double-digit return in the past five fiscal years, as markets continue to rebound from the financial crisis of 2007/2008. The strong returns came despite muted global economic growth, doubts about central bank policies, and heightened geopolitical risks. All the uncertainties notwithstanding, volatility in the U.S. equity market reached lows not seen in more than 20 years.

U.S. economic conditions improved significantly during the fiscal year. Gross Domestic Product (GDP) grew 4.2 percent in the final quarter of the fiscal year due to increases in personal consumption and corporate investment. Furthermore, the unemployment rate declined from 7.5 percent to 6.1 percent over the course of the year. The improved health of the U.S. economy gave rise to speculation about when the Federal Reserve (the Fed) would begin withdrawing its monetary stimulus. The speculation was settled in December, when the Fed announced that it would begin reducing ("tapering") its monthly purchases of U.S. Treasury securities and mortgage-backed securities (MBS) by $10 billion per month. This reduction began in earnest just as the Fed was embarking on a change in leadership: Janet Yellen became the Chair of the Fed in January of 2014.

Given the improved U.S. economic outlook, the Russell 3000 Index, a broad-based measure of the U.S. stock market, returned 25.2 percent for the year. This marked the second year in a row that the index gained over 20 percent. The non-U.S. equity market, as measured by the Morgan Stanley Capital International (MSCI) All Country World ex-U.S.

Investable Market Index, a broad-based world equity benchmark, was up 22.3 percent. Over the course of the year, the U.S. dollar depreciated 3.6 percent versus a basket of ten leading currencies.

European markets began the year on a strong note, as data indicated that its combined economy was no longer contracting. Nevertheless, the European Central Bank (ECB) continued to be highly accommodative, cutting its key lending rate three times. By the end of the year, one of the ECB's key interest rates reached an unprecedented level of negative 0.1 percent. Despite concerns over long-term economic growth, equity markets continued to rally strongly, with the MSCI Europe Index returning 29.3 percent for the fiscal year. Within the Asian developed markets, the year started with hopeful anticipation over Japan's monetary stimulus program: "Abenomics." Japanese equities returned 11.1 percent during the year, and other markets in the region also rallied due to stronger economic data. Overall, the MSCI Pacific Index gained 13.1 percent for the year.

Emerging markets started the fiscal year on a positive note as fears of a China hard landing decreased. This rally was short-lived, as muted growth prospects in Latin America, Europe, and Asian sub-regions surfaced; as a result, returns for countries within these regions were mixed. However, towards the end of the fiscal year, emerging market stocks rose due to improved investor sentiment. The MSCI Emerging Markets Index ended the year with a 14.3 percent return.

The fiscal year began with investors fleeing the bond market over fears that yields would increase as the Fed began to scale down its monthly bond purchase program. Although the Fed did begin reducing its quantitative easing program, investors' fears were misplaced as yields declined, particularly for longer-term maturities. As a result, the bond market confounded its skeptics and generated a healthy return. The Barclays U.S. Universal Index gained 5.2 percent for the year, and the Barclays U.S. High Yield Ba/B Index returned 11.3 percent.

Commodities continued to be a volatile asset class. The year began with a slightly positive outlook as improved global economic conditions prompted higher demand. Near the middle of the year, supply disruptions due to drought and escalating tensions between Russia and Ukraine led to a 16.5 percent spike in agriculture prices. The final quarter of the year brought a sharp reversal in agriculture prices, with prices down 10.0 percent as crop forecasts improved. Overall, the broad Bloomberg Commodity Index returned 8.2 percent for the fiscal year.

The markets have provided robust returns over the last five years, and valuations seem stretched in both the equity and fixed income markets; as a result, caution is warranted. In the U.S., the main question is whether the Fed will be able to effectively orchestrate the eventual increase in rates in sync with a growing economy. Overseas, the continued slowdown in emerging markets, especially China, is a major concern, as is the state of the pan-European economy. Finally, geopolitical risks abound in the Middle East, Africa, Asia, South America, and even Europe. As a result, volatility is likely to increase in the equity and fixed income markets.

Summary of Performance

LACERA's 16.8 percent return for the fiscal year ended June 30, 2014 was 150 basis points (bps) above the 15.3 percent return of its Policy benchmark. Outperformance relative to policy benchmarks was evident last year in a number of asset classes, including fixed income, hedge funds, global equities, private equity, commodities, and cash. Real estate was the only asset class to lag its benchmark. Over the past five years, the Fund has generated an average annualized return of 12.0 percent.

Despite global macroeconomic concerns and geopolitical unrest, equity markets in the U.S. and other developed countries performed very well. LACERA's U.S. equity portfolio returned 25.8 percent, 60 bps above its Russell 3000 benchmark. The non-U.S. equity portfolio ended the year up 20.9 percent, 60 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. Because of the slightly weaker dollar, LACERA's 50 percent passive currency hedge program returned -2.3 percent during the year. Both the U.S. and non-U.S. equity portfolios are structured to have a low level of risk relative to their respective benchmarks.

LACERA's fixed income portfolio returned 6.6 percent. The portfolio performance exceeded its benchmark, the Barclays U.S. Universal Index, by 140 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 solid absolute performance, up 10.2 percent, exceeding the 8.2 percent return of the Bloomberg Commodity Index Total Return by 200 bps. Cash, used to fund benefit payments and other obligations, had low absolute performance of 0.4 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 second full fiscal year of performance returning 8.3 percent.[1] This was 330 bps above the 5.0 percent absolute return benchmark and reflected a tactical exposure to credit-oriented strategies. LACERA's private market asset classes, private equity and real estate, focus on longer term, less liquid investments. Both asset classes experienced positive performance during the fiscal year.[2] Though these returns are indicative of overall market direction, final returns can be known with certainty only when assets are sold. Private equity generated a 23.5 percent return due to a favorable environment for exits via initial public offerings and elevated valuations, particularly in the healthcare and technology sectors. LACERA's private equity composite surpassed its target return of 13.3 percent by an impressive 1,020 bps. The real estate portfolio continued its fourth consecutive year of positive performance, ending the fiscal year up 9.1 percent. Real estate, however, trailed its target return of 12.2 percent by 310 bps. Stable core properties have been able to generate attractive yields and modest capital appreciation.

The end of the fiscal year coincided with the one-year anniversary of LACERA's relationship with its new custodian, State Street Bank and Trust. State Street calculated the Fund's public market, hedge fund, and Total Fund returns. LACERA's consultants for real estate (The Townsend Group) and private equity (GCM Grosvenor Private Markets) 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 Board of Investments continues to evaluate and adopt new investment strategies, when appropriate. Key items completed during the year included:

- Transition to new custodian
- Conversion of Securities Lending program
- Conversion to new Fixed Income Analytics provider
- Creation and presentation of Strategic Plan by Asset Class
- Presentation of educational series on private equity
- Review and update Fund's Investment Policy Statement
- Review and update OPEB Trust Investment Policy Statement
- Conduct OPEB Trust asset liability study and revise asset allocation
- Conduct two Opportunistic Fixed Income manager searches
- Deliver presentations to the Board committees of new asset class
- Review private equity objectives, policies & procedures, and annual investment plan
- Review real estate investment objectives, policies & procedures, and annual investment plan
- Revise U.S. and non-U.S. equity proxy voting guidelines
- Review LACERA's Corporate Governance Program
- Complete Hedge Fund of Funds manager search process
- Complete non-U.S. Equity Structure Review
- Hire Emerging Equities Manager

[1]LACERA's hedge fund returns are reported with a one-month lag.
[2]LACERA's private equity and real estate returns are reported with a one-quarter lag.

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 Board of Investments 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, 2014
(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
U.S. Equity and Convertibles	$12,813,319	26.1%
Non-U.S. Equity	12,599,394	25.7%
Total Equities & Convertibles	25,412,713	51.8%
Short-Term Investments	1,593,869	3.3%
Mortgages	82,601	0.2%
Subtotal Short-Term and Mortgages	1,676,470	3.5%
U.S. Government and Agency Instruments	3,219,552	6.6%
U.S. Corporate Fixed Income	5,375,237	10.9%
Non-U.S. Fixed Income	186,224	0.4%
Private Placement Fixed Income	1,436,368	2.9%
Subtotal U.S. Instruments and Fixed Income	10,217,381	20.8%
Total Fixed Income	11,893,851	24.3%
Private Equity	4,015,799	8.2%
Real Estate	4,995,446	10.2%
Commodities	2,169,289	4.4%
Hedge Funds	546,267	1.1%
Total Investments — Pension Plan	**$49,033,365**	**100.0%**

Investment Summary — OPEB Agency Fund

For the Year Ended June 30, 2014
(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
Short-Term Investments	$3,112	2.8%
U.S. Government and Agency Instruments	62,312	56.2%
U.S. Corporate Fixed Income	45,460	41.0%
Subtotal U.S. Instruments and Fixed Income	107,772	97.2%
Total Investments — OPEB Agency Fund	**$110,884**	**100.0%**

Investment Summary — OPEB Trust

For the Year Ended June 30, 2014
(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
U.S. Equity and Convertibles	$383,874	80.2%
Short-Term Investments	50,185	10.5%
U.S. Government and Agency Instruments	18,129	3.8%
U.S. Corporate Fixed Income	19,190	4.0%
Private Placement Fixed Income	7,020	1.5%
Subtotal U.S. Instruments and Fixed Income	44,339	9.3%
Total Investments — OPEB Trust	**$478,398**	**100.0%**

Investment Results Based on Fair Value*

As of June 30, 2014

	Annualized		
	Current Year	Three-year	Five-year
U.S. Equity	25.8%	16.4%	19.5%
Benchmark: Russell 3000 Index	25.2	16.5	19.3
Non-U.S. Equity, 50% Developing Markets Hedge[1]	20.9	7.1	11.8
Benchmark: Non-U.S. Equity Custom Hedged Index[2]	20.3	6.9	11.4
Fixed Income	6.6	5.5	7.7
Benchmark: Fixed Income Custom Index[3]	5.2	4.2	5.6
Benchmark: Barclays U.S. Universal Index	5.2	4.2	5.6
Real Estate[4]	9.1	9.1	3.9
Benchmark: Real Estate Target[5]	12.2	11.9	7.9
Private Equity[4]	23.5	14.7	18.4
Benchmark: Private Equity Target Return[6]	13.3	11.8	9.3
Commodities	10.2	-3.3	4.9
Benchmark: Bloomberg Commodity Index Total Return[7]	8.2	-5.2	2.0
Hedge Funds[8]	8.3	—	—
Benchmark: Hedge Fund Custom Index[9]	5.0	—	—
Cash	0.4	0.5	1.4
Benchmark: Citigroup 6-Month T-Bill Index	0.1	0.1	0.1
Total Fund (Gross of Fees)	**16.8**	**9.5**	**12.0**
Total Fund (Net of Fees)	**16.5**	**9.2**	**11.8**
Total Fund Policy Benchmark	**15.3**	**9.1**	**11.0**

*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.

[1] Passive 50 percent developed markets hedge implemented 7/30/10.
[2] The Non-U.S. Equity benchmark is MSCI ACWI X U.S. IMI (Net) with 50 percent 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).
[3] The Fixed Income benchmark is the Barclays U.S. Universal Index from 3/31/09 to the present.
[4] One Quarter in arrears. Preliminary returns.
[5] From 7/1/13 to the present, Open End Diversified Core Equity (ODCE) Index plus 40 basis points. For the period in this table prior to 6/30/13, the benchmark was NCREIF Property Index (NPI) minus 25 basis points.
[6] Rolling 10-year return of the Russell 3000 Index plus 500 bps.
[7] Formerly known as The DJ-UBS Commodity Index, prior to 7/1/14.
[8] Portfolio and benchmark are one month in arrears. Performance included in Total Fund beginning 10/31/11.
[9] The 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 Ten Fiscal Years Ended June 30

(Dollars in Thousands)

Fiscal Year-End	Total Investment Portfolio Fair Value	Total Fund Time- Weighted Return (gross of fees)[1]	Total Fund Money- Weighted Return (net of fees)[2]	Return on Smoothed Valuation Assets (net of fees)[3]	Actuarial Assumed Rate of Return[4]	Actuarial Funded Ratio[5]
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	—	5.4	7.50	75.0
2014*	49,033,365	16.8	17.5%	—	—	—

[1]**Total Fund - Time-Weighted Rate of 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.

[2]**Total Fund - Money-Weighted Rate of Return** is a measurement of investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

[3]**Return 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.

[4]**Actuarial 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 7.50 percent as adopted by the Board of Investments, based on the results of the Actuarial Investigation of Experience completed in December 2013. For Fiscal Year 2013-2014, interest crediting and operating tables applied the 7.60 percent Actuarial Assumed Rate of Return.

[5]**Actuarial Funded 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, 2014 not available at CAFR publication.

Largest Equity Holdings (by Fair Value)

As of June 30, 2014

(Dollars in Thousands)

Shares	Description	Fair Value
399,063	Apple Inc.	$37,085
2,201,204	DBS Group Holdings Ltd.	29,575
228,800	Daito Trust Construction Company Ltd.	26,899
271,400	Murata Manufacturing Company Ltd.	25,400
702,952	Jardine Strategic Holdings Ltd.	25,116
586,920	Microsoft Corporation	24,475
962,000	Mitsubishi Estate Company Ltd.	23,750
557,752	Royal Dutch Shell PLC A Shares	23,093
224,461	Exxon Mobil Corporation	22,599
376,000	Toyota Motor Corporation	22,581

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

Largest Fixed Income Holdings (by Fair Value)

As of June 30, 2014
(Dollars in Thousands)

Par	Description	Fair Value
163,546,000	U.S. Treasury Note 2.500% 05/15/2024	$163,316
80,400,000	U.S. Treasury Note 0.250% 09/30/2015	80,485
67,700,000	Federal Home Loan 0.085% 09/24/2014	67,687
61,089,000	U.S. Treasury Note 0.375% 03/31/2016	61,101
59,315,000	U.S. Treasury Note 0.875% 06/15/2017	59,338
51,665,000	U.S. Treasury Note 0.500% 06/30/2016	51,709
45,000,000	U.S. Treasury Bill 0.010% 09/04/2014	44,999
43,579,000	U.S. Treasury Note 1.625% 03/31/2019	43,705
38,356,000	U.S. Treasury Note 3.750% 11/15/2043	41,424
40,505,000	U.S. Treasury Note 0.750% 03/15/2017	$40,505

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

Schedule of Investment Management Fees

For the Fiscal Years Ended June 30, 2014 and 2013
(Dollars in Thousands)

	Pension Plan		OPEB Trust	
	2014	2013	2014	2013
Cash and Short-Term Managers	$841	$687	$92	$144
Commodity Managers	4,330	3,846	—	—
Equity Managers				
U.S. Equity	15,267	13,140	50	—
Non-U.S. Equity	21,446	20,355	—	—
Fixed Income Managers	18,591	17,084	—	—
Mortgage Loan Servicers	210	348	—	—
Private Equity Managers	4,527	3,852	—	—
Real Estate Managers	24,962	20,082	—	—
Total Investment Management Fees*	**$90,174**	**$79,394**	**$142**	**$144**

*Total includes investment manager fees only.

Cash & Short-Term
J.P. Morgan Asset Management

Equities — U.S.
BlackRock Institutional Trust Company, N.A.
Cramer Rosenthal & McGlynn, LLC
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
AQR Capital Management, LLC
Batterymarch Financial Management, Inc.
BlackRock Institutional Trust Company, N.A.
Capital Group
GAM International Management, Ltd.
Genesis Investment Management, LLP
Lazard Asset Management, LLC
Putnam Advisory Company, LLC

Fixed Income
Beach Point Capital
BlackRock Financial Management, Inc.
Brigade Capital Management, LP
Crescent Capital Group, LP
Dodge & Cox
Dolan McEniry Capital Management, LLC
GW Capital, Inc.
LM Capital Group, LLC
Loomis, Sayles & Company, LP
Oaktree Capital Management, LLC
Pacific Investment Management Company (PIMCO)
PENN Capital Management Company, Inc.
Principal Global Investors, LLC
Pugh Capital Management, Inc.
Sankaty Advisors, LLC
Wells Capital Management
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
Deutsche Asset & Wealth Management
Emmes Asset Management Company, LLC
Europa Capital
EII Capital Management, Inc.
Heitman Capital Management, LLC
Hunt Investment Management
Invesco Institutional (N.A.), Inc.
LaSalle Investment Management, Inc.
Phoenix Realty Group, LLC
ProLogis
Quadrant Real Estate Advisors, LLC
Realty Associates Advisors, LLC (TA)
Starwood Capital Group
Stockbridge Capital Group
The Carlyle Group
TriPacific Enterprises Residential Advisors (LOWE)
UrbanAmerica Advisors

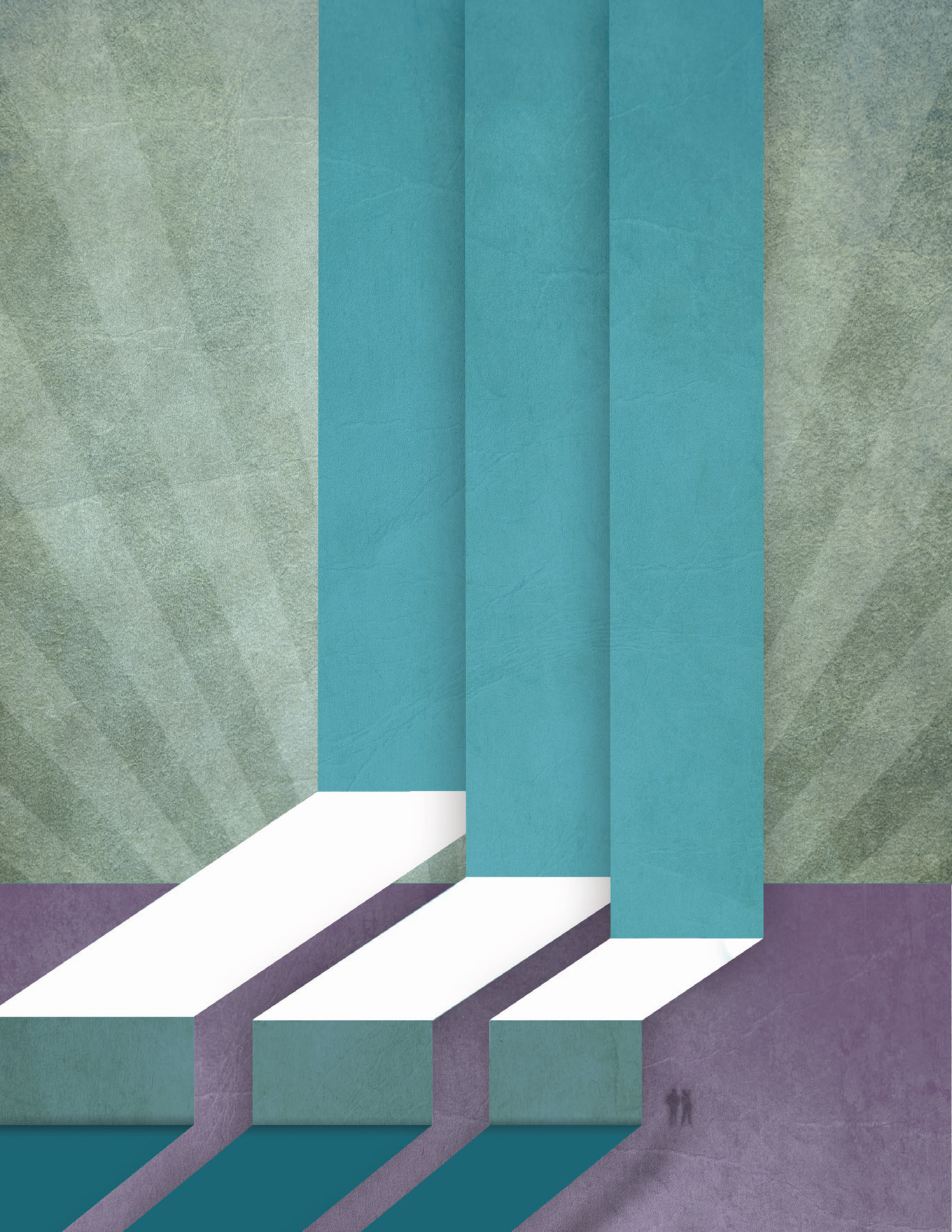
Mortgage Loan Servicer
Ocwen Loan Servicing, LLC

Commodities
Credit Suisse Asset Management, LLC
Gresham Investment Management, LLC
Neuberger Berman Alternative Fund Management, LLC
Pacific Investment Management Company (PIMCO)

Passive (Index Fund) Manager
BlackRock Institutional Trust Company, N.A.

Securities Lending Program
State Street Corporation
State Street Bank & Trust Company of California, N.A.
Goldman Sachs Agency Lending (GSAL)

Health Reserve Program
Standish Mellon Asset Management Company, LLC



Service…LACERA treats our **160,000 members** with the respect and care they deserve. Because our members not only helped make Los Angeles County a great place to live, they made our community the envy of the entire world. Service means our responsibility to our members never wavers. Excellent customer service shines through in all we do for our members – answering their questions via phone and email, our one-to-one counseling sessions, and our time-saving, self-service features on My LACERA. Our members deserve nothing less and we will always do something more to make sure they get it.

Our members can rely on us.

September 5, 2014

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

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

Dear Members of the Board:

The basic financial goal of LACERA is to establish contributions that fully fund the System's liabilities and that 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, 2011	**Funded Ratio:** 80.6%
Valuation Date: June 30, 2012	**Funded Ratio:** 76.8%
Valuation Date: June 30, 2013	**Funded Ratio:** 75.0%

It is our opinion that LACERA continues in sound financial condition as of June 30, 2013. 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, 2013, the Funded Ratio would be 77.6 percent. Currently, a net asset gain is being deferred.

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, 2013, 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, 2013 would decrease to 73.8 percent.

The June 30, 2013 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 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 were found to be materially inaccurate or incomplete, our calculations would need to be revised.

The valuation is based also on our understanding of LACERA's current benefit provisions and the actuarial assumptions reviewed and adopted by the Board of Investments. The funding assumptions were based on the triennial

[1]A 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

investigation of experience study report as of June 30, 2013 and adopted at the December 11, 2013 Board of Investments meeting. The assumptions used for financial reporting under GASB 67 are the same as the funding assumptions, with the following exceptions:

1) The discount rate of 7.63 percent is gross of administrative expenses;
2) The STAR COLA is treated as substantively automatic and is valued to the extent it is projected to be paid in the future; and
3) The individual entry age normal cost method is used without modification.

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 GASB Statement No. 67 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.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

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, 2013 actuarial valuation report.

We certify that the June 30, 2013 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

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September 5, 2014

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

Dear Members of the Board:

Los Angeles County provides Other Postemployment 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)	Annual Required Contribution (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 their support for pre-funding its OPEB liabilities by providing specific initial appropriations to the OPEB Trust Fund. Since the July 1, 2012 valuation, details of a long-term funding policy have been finalized. The July 1, 2014 Valuation is anticipated to include assets invested in the Trust.

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 oral and written information 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 with and comparable to 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 July 1, 2012 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 based also on our understanding of the Program's current benefit provisions and the actuarial assumptions that 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 LACERA's retirement benefit program, approved by LACERA's Board of Investments. Economic and relevant demographic assumptions from the retirement benefit investigation of experience, conducted by Milliman, are included in the July 1, 2012 OPEB valuation. Assumptions unique to OPEB were identified and evaluated in our 2010 OPEB investigation of experience study report as of June 30, 2010, approved by LACERA's Board of Retirement. Both the retirement and OPEB assumptions were reviewed as of July 1, 2013; changes will be reflected in the July 1, 2014 Valuation.

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 and 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/PAP

Introduction

The actuarial process at LACERA is governed by provisions in the County Employees Retirement Law of 1937 (CERL) Section 31453. This section requires LACERA to obtain an actuarial valuation at least once every three years. It further requires the Board of Investments to transmit its recommendation related to assumptions, interest rates, and contributions to the County's Board of Supervisors. The Board of Supervisors adopts and adjusts contribution rates in accordance with LACERA's recommendations.

Valuation Policy

LACERA's Board of Investments adopted the Retirement Benefit Funding Policy that requires annual adjustment of the employer contribution rates based on the annual valuation of LACERA's actuary. Milliman, the Plan actuary, performed the actuarial valuation as of June 30, 2013 and recommended changes to the employer and employee contribution rates.

In addition to the annual valuations, LACERA requires its actuary to review the reasonableness of the economic and non-economic actuarial assumptions every three years. This review, commonly referred to as the investigation of experience or experience study, is accomplished by comparing actual experience during the preceding three years to what was expected to happen according to the actuarial assumptions. Based on this review, the actuary recommends changes in the assumptions or methodology that will better project benefit liabilities and asset growth. The Board of Investments adopts, possibly with modification, the recommended assumptions and methods to be used in future valuations.

Employee Contributions

As part of the experience study, the Plan actuary will recommend adjustments to employee rates, if necessary, due to changes in the underlying assumptions and methodologies used in calculating employee rates for age-based Plan tiers (General Plans A, B, C, and D, and Safety Plans A and B). Therefore, it is expected the age-based employee rates will change no more frequently than every three years, when the actuary reviews the assumptions and methodologies.

For the Plan tiers using single-rate employee contribution rates (new Plan tiers General Plan G and Safety Plan C), the Plan actuary is required to recommend rates that are one-half the normal cost rate. If there is a change in these plans' total normal cost, the actuary will recommend new employee rates.

The experience study conducted with the June 30, 2013 valuation resulted in changes to assumptions. As a result, the actuary recommended new employee contribution rates; adopted by the Board of Investments in December 2013.

Employer Contributions

The members and employers are responsible for contributing to the cost of benefits to be earned each year. These contributions are known as normal cost contributions. The portion not funded by expected member contributions is the responsibility of the employers and is referred to as the employer normal cost. The actuary has recommended new employer normal cost contribution rates for all Plan tiers.

The employers are responsible also for contributing for funding shortfalls related to liabilities accrued in the past; including changes in the economic and non-economic assumptions impacting past service. This portion of the employer's contribution rate is known as the Unfunded Actuarial Accrued Liability (UAAL) contribution.

Actuarial Cost Method

The entry age normal actuarial cost method is used for both funding requirements and financial reporting purposes. This method was approved by LACERA in 1999 as recommended by the consulting actuary. The entry age normal method allocates costs to each future year as a level percentage of payroll, which is ideal for employers to budget future costs.

Audits

The valuation policy requires actuarial audits of retirement benefit valuations at regular intervals in the same cycle as LACERA's triennial experience study and valuation. With 2013 being a year where the triennial valuation and experience study was completed, the Plan audit actuary, The Segal Company (Segal), performed an audit of Milliman's 2013 experience study and valuation reports.

Segal concluded "Milliman has employed generally accepted actuarial practices and principles in studying Plan experience, selecting assumptions, computing employer contribution rates, and presenting the results of their work. We believe that the actuarial assumptions as recommended by Milliman, as well as those approved by the Board of Investments are reasonable for use in LACERA's actuarial valuation" and the audit of Milliman's valuation report "confirms that the actuarial calculations as of June 30, 2013 are reasonable and based on generally accepted actuarial principles and practices."

At their March 2014 meeting, the Board of Investments accepted the June 30, 2013 actuarial valuation report prepared by Milliman. In addition, the Board of Investments received the actuarial audit reports of the experience study and actuarial valuation for June 30, 2013, prepared by Segal.

Other Actuarial Information

Actuarially Determined Contributions: The Schedule of Contributions History–Pension Plan included in the Required Supplementary Information Section provides ten years of actuarially determined contributions in relation to the actual contributions provided to the Plan.

Actuarial Methods and Significant Assumptions: A description of the actuarial assumptions and methods for the Pension Plan Valuation used by the Plan actuary are included in this Actuarial Section. In addition, Note E–Pension Actuarial Valuations provides a summary of the methods and assumptions used to prepare the Pension Plan (Retirement Benefits) Valuation, Report which determines the Plan's funding requirements. The Notes to Required Supplementary Information discusses the actuarial methods and assumptions used for financial reporting and required GASB 67 disclosures. Any differences between the assumptions used for financial reporting and those applied for funding purposes are noted.

Summary of Plan Provisions: A Summary of Plan Provisions for the Retirement Benefits Plan is available upon request from LACERA.

Actuarial Assumptions and Methods	Recommended by the Consulting Actuary and adopted by the Board of Investments. The actuarial assumptions used to determine the liabilities are based on the results of the 2013 triennial investigation of experience study (experience study). In December 2013, the Board of Investments adopted a decrease in the investment return and other economic assumptions. In 2009, the Board of Investments 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 PEPRA and to specify that the Supplemental Targeted Adjustment for Retirees reserve (STAR) should be included with the valuation assets on an ongoing basis.
Actuarial Cost Method	Entry Age Normal.
Actuarial Asset Valuation Method	The assets are valued using a 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, all increased with interest during the past fiscal year at the expected investment return rate assumption. The five-year smoothing valuation basis for all assets was adopted beginning with the June 30, 2009 valuation. For the June 30, 2013 valuation, the Board of Investments approved including the STAR reserve as part of the 2013 valuation assets. The inclusion of the STAR Reserve in the valuation assets was formalized for the current and future actuarial valuations in the February 2013 amendment to LACERA's Funding Policy.
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 120 percent in future valuations, the amortization of any Surplus Funding is funded over an open or "rolling" 30-year period. If the Funded Ratio is between 100 and 120 percent, only the employer normal cost rate is contributed.
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, referred to as layered amortization. For the June 20, 2013 valuation, five amortization layers were used to calculate the total amortization payment beginning July 1, 2014.

Investment Rate of Return	Future investment earnings are assumed to accrue at an annual rate of 7.5 percent, compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2013 valuation.
Projected Salary Increases	Rates of annual salary increases assumed for the purpose of the valuation range from 3.76 percent to 9.71 percent. In addition to increases in salary due to promotions and longevity, the increases include an assumed 3.5 percent per annum rate of increase in the general wage level of membership. Increases are assumed to occur mid-year (i.e., January 1) 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. For plans with a one-year final average compensation period, actual average annual compensation is used. These rates were adopted beginning with the June 30, 2013 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 3.0 percent per year. This rate was adopted beginning with the June 30, 2013 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 3.0 percent per annum. This rate was adopted beginning with the June 30, 2013 valuation.
Rates of Separation From Employment	Various rates dependent upon member's age, sex, and retirement plan. Each rate represents the probability that a member will separate from service at each age due to the particular cause. 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 from 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 2025 using Projection Scale AA, with ages set back one year. **Safety Members:** RP-2000 Combined Mortality Table for Males, projected to 2025 using Projection Scale AA, with ages set back two years. **Females:** **General Members:** RP-2000 Combined Mortality Table for Females, projected to 2025 using Projection Scale AA, with ages set back one year. **Safety Members:** RP-2000 Combined Mortality Table for Females, projected to 2025 using Projection Scale AA, with ages set back one year. These rates were adopted beginning with the June 30, 2013 valuation.

Expectation of Life After Disability

Males:
General Members: Average of RP-2000 Combined and Disabled Mortality Tables for Males, projected to 2025 using Projection Scale AA, with ages set back one year.
Safety Members: RP-2000 Combined Mortality Table for Males, projected to 2025 using Projection Scale AA, with no age adjustment.

Females:
General Members: Average of RP-2000 Combined Mortality Table for Females, projected to 2025 using Projection Scale AA, with ages set back one year.
Safety Members: RP-2000 Combined Mortality Table for Females, projected to 2025 using Projection Scale AA, with no age adjustment.

These rates were adopted for the June 30, 2013 valuation.

Recent Changes and Their Financial Impact

An experience study was performed by the consulting actuary for the three-year period ended June 30, 2013. The Board of Investments adopted the demographic assumptions as recommended in that report, as well as reductions in the economic assumptions. Changes to those assumptions and other financial impacts are discussed below.

2013 Assumption Changes: At the December 2013 Board of Investments meeting, the Board adopted a decrease in the economic assumptions. The investment return assumption in effect for the 2013 actuarial valuation is 7.5 percent, and the price and wage inflation assumptions are 3.0 percent and 3.5 percent, respectively. Additionally, an increase in life expectancies was adopted.

STAR Reserve: The STAR Reserve is included in the 2013 valuation assets. There is no corresponding liability for future potential STAR benefits included in the valuation. The inclusion of the STAR Reserve in the valuation assets was formalized for the current and future actuarial valuations in the February 2013 amendment to LACERA's Funding Policy.

Employer Contributions: The total required employer contribution rate calculated in the 2013 valuation increased over the prior year by 1.52 percent of payroll. The most significant factor causing this increase was the recognition of asset losses from prior years, which resulted in a 1.01 percent increase. Additionally, the change in assumptions adopted with the 2013 investigation of experience study caused a 0.82 percent increase.

Member Contributions: New member contribution rates were implemented based on the new investment return assumption of 7.5 percent and the new wage growth assumption of 3.5 percent, included for the 2013 actuarial valuation. The average contribution rate for members of contributory plans decreased from 8.05 percent to 7.87 percent, effective July 1, 2014.

Funding: The recognition of deferred asset losses from prior year caused a 2.3 percent decrease in the Funded Ratio, and the new assumptions adopted with the 2013 investigation of experience caused a 0.8 percent decrease. This was somewhat offset by the salary increase being less than assumed, which caused a 0.8 percent increase. Additionally, the asset gain for the current year caused a 0.6 percent increase. In total, the Funded Ratio decreased from 76.8 percent in the June 30, 2012 valuation to 75.0 percent in the June 30, 2013 valuation due to these changes.

Recent Changes and Their Financial Impact continued	**PEPRA:** The California Public Employees' Pension Reform Act of 2013 (PEPRA), changed 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. The provisions of PEPRA apply for the current valuation. Due to limited membership in these plans as of the June 30, 2013 valuation, a hypothetical five-year population has been used to determine the normal cost rate for this group. This methodology was adopted by the Board at their February 2014 meeting and will apply through the June 30, 2017 valuation, when the actual plan populations are expected to reflect five years of membership.

See Note N — OPEB Program in the Financial Section for a Summary of Actuarial Assumptions and Methods for the OPEB Program.

Schedule of Funding Progress — Pension Plan

(Dollars in Thousands)

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]
June 30, 2004	$27,089,440	$32,700,505	$5,611,065	82.8%	$4,919,531	114.1%
June 30, 2005	29,497,485	34,375,949	4,878,464	85.8%	4,982,084	97.9%
June 30, 2006	32,819,725	36,258,929	3,439,204	90.5%	5,205,802	66.1%
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%
June 30, 2013	39,932,416	$53,247,776	$13,315,360	75.0%	6,595,902	201.9%

*Using the Entry Age Normal actuarial cost method.

Active Member Valuation Data

Valuation Date	Plan Type	Member Count	Annual Salary*	Average Annual Salary	% Increase in Average Salary
June 30, 2004	General	74,826	$3,967,337,892	$53,021	1.89%
	Safety	11,409	885,426,444	77,608	1.53%
	Total	**86,235**	**$4,852,764,336**	**$56,274**	**1.75%**
June 30, 2005	General	75,167	$4,046,526,732	$53,834	1.53%
	Safety	11,217	904,864,212	80,669	3.94%
	Total	**86,384**	**$4,951,390,944**	**$57,318**	**1.86%**
June 30, 2006	General	77,167	$4,267,148,748	$55,298	2.72%
	Safety	11,464	969,379,404	84,559	4.82%
	Total	**88,631**	**$5,236,528,152**	**$59,082**	**3.08%**
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%**
June 30, 2013	General	79,006	$5,253,152,532	$66,491	0.23%
	Safety	12,539	1,234,902,228	98,485	-0.03%
	Total	**91,545**	**$6,488,054,760**	**$70,873**	**0.24%**

*Active 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.

Retirants and Beneficiaries Added to and Removed From Retiree Payroll — Pension Plan

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Member Count	Annual Allowance[1] (in 000s)	Member Count	Annual Allowance (in 000s)	Member Count	Annual Allowance[2] (in 000s)	% Increase in Retiree Allowance	Average Annual Allowance
June 30, 2004	2,824	$110,106	(1,724)	($17,387)	48,332	$1,536,803	11.11%	$31,797
June 30, 2005	2,855	102,903	(1,418)	(17,465)	49,769	1,645,490	7.07%	33,063
June 30, 2006	3,007	104,405	(1,784)	(33,101)	50,992	1,768,706	7.49%	34,686
June 30, 2007	2,015	79,955	(1,615)	(35,054)	51,392	1,858,225	5.06%	36,158
June 30, 2008	2,759	167,753	(1,801)	(47,103)	52,350	1,978,875	6.49%	37,801
June 30, 2009	2,505	157,469	(1,786)	(50,619)	53,069	2,085,725	5.40%	39,302
June 30, 2010	2,947	188,724	(1,820)	(54,105)	54,196[3]	2,220,344	6.45%	40,969
June 30, 2011	3,134	185,204	(1,959)	(62,923)	55,371	2,342,625	5.51%	42,308
June 30, 2012	3,194	193,865	(1,795)	(61,588)	56,770	2,474,902	5.65%	43,595
June 30, 2013	3,373	$205,659	(2,057)	($69,494)	58,086	$2,611,067	5.50%	$44,952

[1]Includes COLAs that occurred during the fiscal year and therefore were not included in the previous years' Annual Allowance totals.
[2]Annual allowance is the monthly benefit allowance annualized for those members counted as of June 30.
[3]If 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 only includes retired members at year-end.

Retirants and Beneficiaries Added to and Removed From Benefits — OPEB Program

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Member Count	Annual Allowance (in 000s)	Member Count	Annual Allowance* (in 000s)	Member Count	Annual Allowance (in 000s)	% Increase in Retiree Allowance	Average Annual Allowance
2010	—	—	—	—	43,936	$391,979	—	$8,922
2012	5,336	$56,982	(3,070)	($25,497)	46,202	$423,464	8.03%	$9,165

*Includes changes for continuing retirees and beneficiaries.

Trend Information Schedule is intended to show information for six years. Additional years will be displayed as they become available prospectively.

Actuary Solvency Test — Pension Plan

(Dollars in Millions)

	Actuarial Accrued Liability (AAL)				Percentage of AAL Covered by Assets		
Valuation Date	(1) Active Member Contributions	(2) Retired/ Vested Member Contributions	(3) Employer Financed Portion	Actuarial Value of Valuation Assets	(1) Active	(2) Retired	(3) Employer
June 30, 2004	$4,042	$18,857	$9,802	$27,089	100%	100%	43%
June 30, 2005	4,308	20,238	9,829	29,497	100%	100%	50%
June 30, 2006	4,628	21,377	10,254	32,820	100%	100%	66%
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%
June 30, 2013	**$7,837**	**$30,980**	**$14,430**	**$39,932**	**100%**	**100%**	**8%**

Actuarial Analysis of Financial Experience — Pension Plan

(Dollars in Millions)

	Valuation as of June 30					
	2008	2009	2010	2011	2012	2013
Prior Valuation Unfunded Actuarial Accrued Liability	$2,461	$2,313	$4,927	$7,807	$9,405	$11,770
Expected Increase (Decrease) from Prior Valuation	(68)	(78)	333	565	772	1,380
Salary Increases Greater (Less) than Expected	298	380	(353)	(579)	(629)	(563)
CPI Less than Expected	—	(4)	(29)	(215)	(181)	(190)
Change in Assumptions	—	—	—	—	—	—
Asset Return Less (Greater) than Expected	(429)	2,465	2,879	1,761	2,337	893
All Other Experience	36	(149)	50	66	66	25
Recognition of Liabilities due to Court Cases	15	—	—	—	—	—
Ending Unfunded Actuarial Accrued Liability	**$2,313**	**$4,927**	**$7,807**	**$9,405**	**$11,770**	**$13,315**

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	0.0002	0.0050
30	0.0000	0.0002	0.0001	N/A	0.0004	0.0050
40	0.0300	0.0006	0.0002	N/A	0.0009	0.0050
50	0.0300	0.0014	0.0004	N/A	0.0014	0.0050
60	0.2600	0.0036	0.0010	N/A	0.0037	0.0050
70	0.2800	0.0042	0.0025	N/A	0.0071	0.0050
75	1.0000	0.0000	0.0000	N/A	0.0000	0.0000
Female						
20	0.0000	0.0001	0.0001	N/A	0.0001	0.0050
30	0.0000	0.0001	0.0001	N/A	0.0002	0.0050
40	0.0300	0.0005	0.0002	N/A	0.0004	0.0050
50	0.0300	0.0012	0.0004	N/A	0.0009	0.0050
60	0.2600	0.0024	0.0010	N/A	0.0029	0.0050
70	0.2800	0.0052	0.0025	N/A	0.0061	0.0050
75	1.0000	0.0000	0.0000	N/A	0.0078	0.0000

Plans D and G General Members

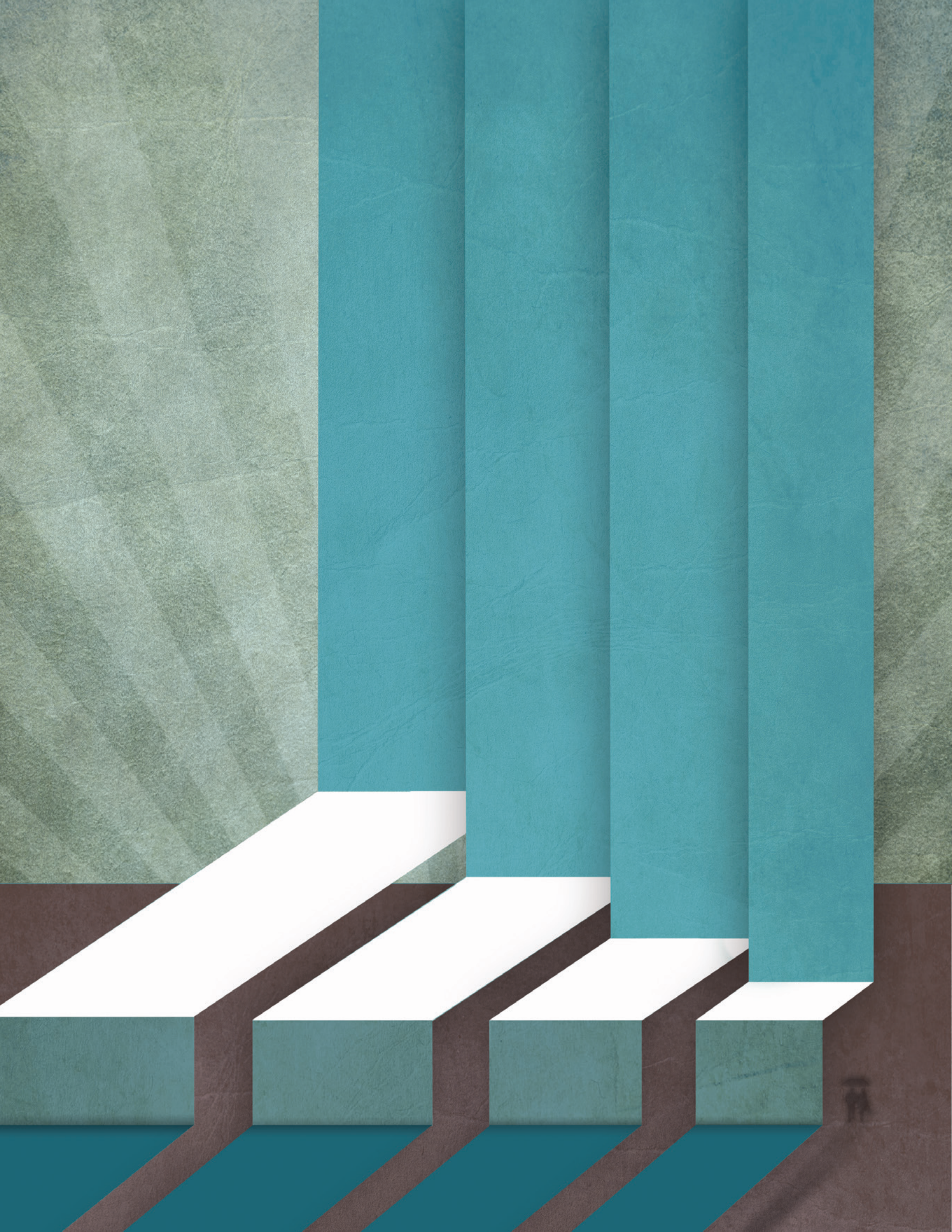
Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
Male							
20	0.0000	0.0002	0.0001	N/A	0.0002	5	0.0233
30	0.0000	0.0002	0.0001	N/A	0.0004	10	0.0170
40	0.0200	0.0006	0.0002	N/A	0.0009	15	0.0120
50	0.0200	0.0014	0.0004	N/A	0.0014	20	0.0076
60	0.0600	0.0036	0.0010	N/A	0.0037	25	0.0048
70	0.2000	0.0042	0.0025	N/A	0.0071	30 & up	0.0000
75	1.0000	0.0042	0.0000	N/A	0.0119	—	—
Female							
20	0.0000	0.0001	0.0001	N/A	0.0001	5	0.0233
30	0.0000	0.0001	0.0001	N/A	0.0002	10	0.0170
40	0.0200	0.0005	0.0002	N/A	0.0004	15	0.0120
50	0.0200	0.0012	0.0004	N/A	0.0009	20	0.0076
60	0.0600	0.0024	0.0010	N/A	0.0029	25	0.0048
70	0.2000	0.0052	0.0025	N/A	0.0061	30 & up	0.0000
75	1.0000	0.0000	0.0000	N/A	0.0078	—	—

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	0.0002	5	0.0277
30	0.0000	N/A	N/A	N/A	0.0004	10	0.0200
40	0.0000	N/A	N/A	N/A	0.0009	15	0.0162
50	0.0000	N/A	N/A	N/A	0.0014	20	0.0132
60	0.0450	N/A	N/A	N/A	0.0037	25	0.0108
70	0.2000	N/A	N/A	N/A	0.0071	30 & up	0.0100
75	1.0000	N/A	N/A	N/A	0.0119	—	—
Female							
20	0.0000	N/A	N/A	N/A	0.0001	5	0.0277
30	0.0000	N/A	N/A	N/A	0.0002	10	0.0200
40	0.0000	N/A	N/A	N/A	0.0004	15	0.0162
50	0.0000	N/A	N/A	N/A	0.0009	20	0.0132
60	0.0450	N/A	N/A	N/A	0.0029	25	0.0108
70	0.2000	N/A	N/A	N/A	0.0061	30 & up	0.0100
75	1.0000	N/A	N/A	N/A	0.0078	—	—

Plans A, B, and C Safety Members

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
Male							
20	0.0000	0.0027	0.0000	0.0001	0.0002	5	0.0113
30	0.0000	0.0027	0.0000	0.0001	0.0003	10	0.0076
40	0.0100	0.0041	0.0000	0.0001	0.0007	15	0.0042
50	0.0100	0.0090	0.0000	0.0001	0.0011	20 & up	0.0000
60	1.0000	0.0000	0.0000	0.0000	0.0019	—	—
Female							
20	0.0000	0.0033	0.0000	0.0001	0.0001	5	0.0113
30	0.0000	0.0046	0.0000	0.0001	0.0002	10	0.0076
40	0.0100	0.0095	0.0000	0.0001	0.0004	15	0.0042
50	0.0100	0.0203	0.0000	0.0001	0.0009	20 & up	0.0000
60	1.0000	0.0000	0.0000	0.0000	0.0029	—	—



[Security]

Security...LACERA has been entrusted with our members' well-deserved retirement, their peace of mind, and their happily ever after for **77 years**. It's a task we relish. It's a job we do not take lightly. It's a privilege we gladly maintain. Because our members' retirement – is our business. We want our members to know their hard-earned retirement is secure as a result of the diligence of staff, management, and the Boards. LACERA has played a significant role in Los Angeles County for three-quarters of a century, and we're confident we will continue to do so in the future.

Our members can trust in us.

Statistical Information Overview

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. Statistical data is maintained by LACERA's in-house member information system, commonly referred to as Member Workspace (Workspace). Workspace is a sophisticated data management system where member-specific information resides and comprehensive plan membership records are actively maintained by LACERA. For the fiscal year-end, membership information is generated and reported so the status of each member (i.e., active, retired, deferred, etc.) is the most current information available to report in this section.

The Statistical Information provided here is divided into 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. *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. *Pension Benefit Expenses by Type* presents retirement benefits, lump-sum death benefits, 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. *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. *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. *Active Members and Participating Pension Employers* presents the employers and their corresponding covered employees. *Retired Members of Participating OPEB Employers* presents the number of covered members by medical or dental/vision benefits. The *Employer Contribution Rates* are 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, 2014.

Changes in Fiduciary Net Position — Pension Plan

Last Ten Fiscal Years

(Dollars in Thousands)

	2005	2006[1]	2007[1]	2008	2009
Additions					
Employer Contributions	$527,810	$676,667	$751,928	$788,029	$831,671
Member Contributions	286,096	296,176	347,701	414,752	415,545
Net Investment Income/(Loss)	3,396,193	4,092,410	6,487,184	(1,426,117)	(7,407,790)
Miscellaneous	3,222	1,582	1,803	1,767	1,221
Total Additions/(Declines)	**4,213,321**	**5,066,835**	**7,588,616**	**(221,569)**	**(6,159,353)**
Deductions					
Total Benefit Expenses[2]	1,562,363	1,798,463	1,792,654	1,913,272	2,016,364
Administrative Expenses	43,182	42,469	43,880	48,223	49,730
Retiree Healthcare Program	62,318	—	—	—	—
Miscellaneous	536	75	197	371	243
Total Deductions	**1,668,399**	**1,841,007**	**1,836,731**	**1,961,866**	**2,066,337**
Transfer to OPEB Agency Fund	—	66,344	29,368	—	—
Net Increase/(Decrease) in Fiduciary Net Position	**$2,544,922**	**$3,159,484**	**$5,722,517**	**$(2,183,435)**	**$(8,225,690)**

	2010	2011	2012	2013	2014
Additions					
Employer Contributions	$843,704	$944,174	$1,078,929	$723,195	**$1,320,442**
Member Contributions	429,612	463,743	506,758	679,572	**439,001**
Net Investment Income/(Loss)	3,840,401	6,930,358	(291,009)	4,659,015	**6,908,412**
Miscellaneous	868	591	1,004	385	**2,256**
Total Additions/(Declines)	**5,114,585**	**8,338,866**	**1,295,682**	**6,062,167**	**8,670,111**
Deductions					
Total Benefit Expenses[2]	2,130,738	2,269,791	2,390,598	2,541,351	**2,662,401**
Administrative Expenses	48,892	50,605	50,218	53,863	**58,723**
Retiree Healthcare Program	—	—	—	—	**—**
Miscellaneous	48	347	121	190	**229**
Total Deductions	**2,179,678**	**2,320,743**	**2,440,937**	**2,595,404**	**2,721,353**
Transfer to OPEB Agency Fund	—	—	—	—	—
Net Increase/(Decrease) in Fiduciary Net Position	**$2,934,907**	**$6,018,123**	**$(1,145,255)**	**$3,466,763**	**$5,948,758**

[1]Reclassified to reflect GASB Statement No. 43 implementation.
[2]See *Pension Benefit Expenses by Type.*

Changes in Fiduciary Net Position — OPEB Trust

(Dollars in Thousands)

	2014	2013
Additions		
Employer Contributions	—	$448,819
Member Contributions	—	—
Net Investment Income	35,113	209
Miscellaneous	—	—
Total Additions	35,113	449,028
Deductions		
Premium Expense	—	—
Administrative Expense	144	173
Miscellaneous	—	—
Total Deductions	144	173
Net Increase in Fiduciary Net Position	**$34,969**	**$448,855**

Trend Information: Schedule will ultimately show information for ten years. Additional years will be displayed as they become available prospectively.

Pension Benefit Expenses by Type

Last Ten Fiscal Years
(Dollars in Thousands)

	2005	2006	2007	2008	2009
Service Retiree Payroll					
General	$942,997	$1,072,193	$1,087,908	$1,162,474	$1,221,671
Safety	192,093	234,565	228,779	242,948	269,893
Total	**1,135,090**	**1,306,758**	**1,316,687**	**1,405,422**	**1,491,564**
Disability Retiree Payroll					
General	123,297	135,397	133,361	139,390	141,821
Safety	283,700	335,226	322,979	341,158	361,235
Total	**406,997**	**470,623**	**456,340**	**480,548**	**503,056**
Total Retiree Payroll					
General	1,066,294	1,207,590	1,221,269	1,301,864	1,363,492
Safety	475,793	569,791	551,758	584,106	631,128
Total	**1,542,087**	**1,777,381**	**1,773,027**	**1,885,970**	**1,994,620**
Refunds*					
General	—	16,889	15,682	20,894	16,743
Safety	—	2,842	2,356	4,694	3,613
Total	**18,630**	**19,731**	**18,038**	**25,588**	**20,356**
Lump-Sum Death/Burial Benefits	**1,646**	**1,351**	**1,589**	**1,714**	**1,388**
Total Benefit Expenses	**$1,562,363**	**$1,798,463**	**$1,792,654**	**$1,913,272**	**$2,016,364**

	2010	2011	2012	2013	2014
Service Retiree Payroll					
General	$1,295,574	$1,383,478	$1,465,218	$1,556,814	**$1,631,285**
Safety	291,796	315,745	340,177	367,471	**384,248**
Total	**1,587,370**	**1,699,223**	**1,805,395**	**1,924,285**	**2,015,533**
Disability Retiree Payroll					
General	144,861	150,585	152,698	157,406	**162,338**
Safety	377,429	395,197	413,300	432,405	**459,311**
Total	**522,290**	**545,782**	**565,998**	**589,811**	**621,649**
Total Retiree Payroll					
General	1,440,435	1,534,063	1,617,916	1,714,220	**1,793,623**
Safety	669,225	710,942	753,477	799,876	**843,559**
Total	**2,109,660**	**2,245,005**	**2,371,393**	**2,514,096**	**2,637,182**
Refunds*					
General	13,041	17,498	14,523	19,406	**18,994**
Safety	5,863	5,220	3,098	5,606	**4,534**
Total	**18,904**	**22,718**	**17,621**	**25,012**	**23,528**
Lump-Sum Death/Burial Benefits	**2,174**	**2,068**	**1,584**	**2,243**	**1,691**
Total Benefit Expenses	**$2,130,738**	**$2,269,791**	**$2,390,598**	**$2,541,351**	**$2,662,401**

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

Active and Deferred Members

Last Ten Fiscal Years

	2005	2006	2007	2008	2009
Active Vested					
General	52,113	53,280	53,918	53,884	54,729
Safety	9,269	9,860	10,061	9,876	9,761
Subtotal	61,382	63,140	63,979	63,760	64,490
Active Non-Vested					
General	23,054	23,887	25,911	27,780	28,149
Safety	1,948	1,604	2,206	2,952	3,149
Subtotal	25,002	25,491	28,117	30,732	31,298
Total Active Members					
General	75,167	77,167	79,829	81,664	82,878
Safety	11,217	11,464	12,267	12,828	12,910
Total	**86,384**	**88,631**	**92,096**	**94,492**	**95,788**
Deferred Members					
General	6,591	7,021	7,441	11,149	7,589
Safety	389	438	470	685	462
Total	**6,980**	**7,459**	**7,911**	**11,834**	**8,051**

	2010	2011	2012	2013	2014
Active Vested					
General	56,162	59,055	61,433	62,803	**63,301**
Safety	9,916	10,054	10,663	11,177	**11,188**
Subtotal	66,078	69,109	72,096	73,980	**74,489**
Active Non-Vested					
General	25,251	21,090	18,034	16,203	**16,642**
Safety	3,081	2,587	1,822	1,362	**1,335**
Subtotal	28,332	23,677	19,856	17,565	**17,977**
Total Active Members					
General	81,413	80,145	79,467	79,006	**79,943**
Safety	12,997	12,641	12,485	12,539	**12,523**
Total	**94,410**	**92,786**	**91,952**	**91,545**	**92,466**
Deferred Members					
General	7,478	7,423	7,379	7,462	**7,550**
Safety	460	465	480	497	**540**
Total	**7,938**	**7,888**	**7,859**	**7,959**	**8,090**

Retired Members by Type of Pension Benefit

As of June 30, 2014

Amount of Monthly Benefit			Number of Retired Members	Type of Retirement[1]		
				1	2	3
$1	—	$1,000	15,831	9,773	1,583	4,475
$1,001	—	$2,000	14,006	9,604	2,147	2,255
$2,001	—	$3,000	9,214	6,696	1,705	813
$3,001	—	$4,000	6,101	4,667	1,023	411
$4,001	—	$5,000	4,186	3,360	615	211
$5,001	—	$6,000	2,972	2,337	512	123
$6,001	—	$7,000	2,078	1,601	421	56
	>	$7,000	4,835	3,621	1,123	91
			59,223	**41,659**	**9,129**	**8,435**

Amount of Monthly Benefit			Retirement Option Selected[2]					
			Unmodified	Unmod.+Plus	Option 1	Option 2	Option 3	Option 4
$1	—	$1,000	14,544	490	174	456	83	84
$1,001	—	$2,000	12,738	628	156	305	79	100
$2,001	—	$3,000	8,319	523	99	158	44	71
$3,001	—	$4,000	5,465	397	55	86	27	71
$4,001	—	$5,000	3,669	352	47	50	19	49
$5,001	—	$6,000	2,586	290	24	29	5	38
$6,001	—	$7,000	1,714	281	12	22	6	43
	>	$7,000	3,643	994	24	24	18	132
			52,678	**3,955**	**591**	**1,130**	**281**	**588**

[1] Type of Retirement:
1 - Service Retiree
2 - Disability Retiree
3 - Beneficiary/Continuant/Survivor

[2] Retirement Option Selected:
Unmodified - For Plans A-D, beneficiary receives 65% of the 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, 2014

	Medical Benefit/Premium Amounts					Total
	$1-$500	$501-$1,000	$1,001-$1,500	$1,501-$2,000	> $2,000	Member Count
Medical Plans by Plan Type						
Blue Cross I	4	1,111	18	486	—	1,619
Blue Cross II	2	2,109	90	2,436	—	4,637
Blue Cross III	5,858	3,402	1,222	—	—	10,482
Blue Cross Prudent Buyer Plan	2	905	626	—	—	1,533
CIGNA Healthcare for Seniors	18	14	11	1	—	44
CIGNA Network Model Plan	1	—	451	23	272	747
Kaiser - California	—	3,202	196	2,738	68	6,204
Kaiser - Senior Advantage	12,872	—	1,884	—	—	14,756
Kaiser - Colorado	23	19	—	—	3	45
Kaiser - Georgia	51	41	18	6	1	117
Kaiser - Hawaii	26	19	8	3	—	56
Kaiser - Oregon-Washington	70	52	11	7	1	141
Firefighters Local 1014	—	419	—	1,199	—	1,618
Pacificare	—	416	—	484	—	900
Scan/Smart Care Health Plan	282	94	—	—	—	376
Secure Horizons - Pacificare	1,283	693	325	—	—	2,301
Total Medical by Plan Type	**20,492**	**12,496**	**4,860**	**7,383**	**345**	**45,576**
Medical Plans by Retirement Type						
Service Retirees	15,391	8,766	3,739	5,149	250	33,295
Disability Retirees	1,840	1,931	921	2,100	90	6,882
Survivors	3,261	1,799	200	134	5	5,399
Total Medical by Retirement Type	**20,492**	**12,496**	**4,860**	**7,383**	**345**	**45,576**

	Dental/Vision Benefit Premium Amount $1 - $500
Dental/Vision Plans by Plan Type	
CIGNA Indemnity Dental/Vision (Provident)	41,223
CIGNA HMO Dental/Vision	5,160
Total Dental/Vision by Plan Type	**46,383**
Dental/Vision Plans by Retirement Type	
Service Retirees	33,708
Disability Retirees	7,177
Survivors	5,498
Total by Retirement Type	**46,383**

Schedule of Average Pension Benefit Payments

Last Ten Fiscal Years

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
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 Salary	$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 Salary	$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 Salary	$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 Salary	—	$5,701	$5,619	$5,006	$4,229	$4,913
Number of Active Survivors	—	1	1	6	6	19
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 Salary	$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 Salary	$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 Salary	$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 Salary	$5,061	$5,254	$6,059	$4,501	$5,950	$7,384
Number of Active Survivors	1	4	3	6	6	21

Last Ten Fiscal Years

Retirement Effective Dates	Years of Credited Service					
	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
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 Salary	$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 Salary	$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 Salary	$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 Salary	$6,863	$3,735	$6,591	$4,149	$5,347	$6,656
Number of Active Survivors	2	1	4	3	8	15
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 Salary	$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 Salary	$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 Salary	$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 Salary	$5,295	$4,838	$4,379	$5,534	$6,619	$7,088
Number of Active Survivors	2	1	5	5	10	9

Last Ten Fiscal Years

Retirement Effective Dates	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
	Years of Credited Service					
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 Salary	$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 Salary	$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 Salary	$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 Salary	$5,765	$5,497	$4,271	$5,996	$6,153	$7,238
Number of Active Survivors	4	2	2	5	14	22
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 Salary	$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 Salary	$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 Salary	$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 Salary	$8,746	$7,268	$8,850	$7,809	$7,374	$7,554
Number of Active Survivors	1	3	6	7	11	10

Last Ten Fiscal Years

Retirement Effective Dates	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
	Years of Credited Service					
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 Salary	$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 Salary	$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 Salary	$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 Salary	$6,572	$5,766	$5,589	$6,862	$6,768	$6,929
Number of Active Survivors	3	2	8	4	10	25
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 Salary	$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 Salary	$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 Salary	$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 Salary	$5,771	$6,466	$7,785	$7,019	$6,127	$7,824
Number of Active Survivors	5	5	5	7	8	23

Last Ten Fiscal Years

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
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 Average Salary	$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 Average Salary	$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 Average Salary	$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 Average Salary	$4,454	$4,896	$5,990	$8,242	$7,055	$7,468
Number of Active Survivors	6	7	10	5	20	31
7/1/13 to 6/30/14						
Retirants						
General Members						
Average Monthly Benefit	$1,913	$1,624	$2,024	$2,722	$3,553	$4,788
Average Final Average Salary	$6,415	$5,241	$5,657	$5,930	$6,724	$6,733
Number of Active Retirants	109	307	240	305	358	726
Safety Members						
Average Monthly Benefit	$1,542	$4,454	$6,018	$5,225	$7,467	$9,719
Average Final Average Salary	$6,452	$8,381	$10,140	$9,414	$10,753	$11,823
Number of Active Retirants	8	31	18	20	83	212
Survivors						
General Members						
Average Monthly Benefit	$1,017	$837	$936	$1,726	$1,888	$2,550
Average Final Average Salary	$4,475	$4,679	$3,794	$4,913	$4,732	$6,064
Number of Active Survivors	29	51	37	41	63	119
Safety Members						
Average Monthly Benefit	$1,031	$1,709	$2,056	$3,132	$3,827	$5,358
Average Final Average Salary	$6,377	$6,249	$5,830	$6,874	$6,772	$7,309
Number of Active Survivors	2	8	6	6	15	22

Active Members and Participating Pension Employers

Last Ten Fiscal Years

	2005		2006	
County of Los Angeles	**Covered Members**	**Percentage of Total Covered Members**	**Covered Members**	**Percentage of Total Covered Members**
General Members	75,154	87.000%	77,153	87.050%
Safety Members	11,217	12.985%	11,464	12.935%
Total	**86,371**	**99.985%**	**88,617**	**99.985%**
Participating Agencies (General Membership)				
South Coast Air Quality Mgmt. District	2	0.002%	2	0.002%
Los Angeles County Office of Education	3	0.003%	3	0.003%
Little Lake Cemetery District	—	0.000%	1	0.001%
Local Agency Formation Commission	8	0.010%	8	0.009%
Total Participating Agencies	**13**	**0.015%**	**14**	**0.015%**
Total Active Membership				
General Members	75,167	87.015%	77,167	87.065%
Safety Members	11,217	12.985%	11,464	12.935%
Total	**86,384**	**100.000%**	**88,631**	**100.000%**

	2007		2008	
County of Los Angeles	**Covered Members**	**Percentage of Total Covered Members**	**Covered Members**	**Percentage of Total Covered Members**
General Members	79,816	86.666%	81,650	86.409%
Safety Members	12,267	13.320%	12,828	13.576%
Total	**92,083**	**99.986%**	**94,478**	**99.985%**
Participating Agencies (General Membership)				
South Coast Air Quality Mgmt. District	2	0.002%	2	0.002%
Los Angeles County Office of Education	3	0.003%	3	0.003%
Little Lake Cemetery District	1	0.001%	1	0.001%
Local Agency Formation Commission	7	0.008%	8	0.009%
Total Participating Agencies	**13**	**0.014%**	**14**	**0.015%**
Total Active Membership				
General Members	79,829	86.680%	81,664	86.424%
Safety Members	12,267	13.320%	12,828	13.576%
Total	**92,096**	**100.000%**	**94,492**	**100.000%**

Last Ten Fiscal Years

County of Los Angeles	2009 Covered Members	2009 Percentage of Total Covered Members	2010 Covered Members	2010 Percentage of Total Covered Members
General Members	82,865	86.509%	81,400	86.220%
Safety Members	12,910	13.478%	12,997	13.767%
Total	**95,775**	**99.987%**	**94,397**	**99.987%**
Participating Agencies (General Membership)				
South Coast Air Quality Mgmt. District	2	0.002%	2	0.002%
Los Angeles County Office of Education	3	0.003%	3	0.003%
Little Lake Cemetery District	1	0.001%	1	0.001%
Local Agency Formation Commission	7	0.007%	7	0.007%
Total Participating Agencies	**13**	**0.013%**	**13**	**0.013%**
Total Active Membership				
General Members	82,878	86.522%	81,413	86.233%
Safety Members	12,910	13.478%	12,997	13.767%
Total	**95,788**	**100.000%**	**94,410**	**100.000%**

County of Los Angeles	2011 Covered Members	2011 Percentage of Total Covered Members	2012 Covered Members	2012 Percentage of Total Covered Members
General Members	80,133	86.363%	79,459	86.413%
Safety Members	12,641	13.624%	12,485	13.578%
Total	**92,774**	**99.987%**	**91,944**	**99.991%**
Participating Agencies (General Membership)				
South Coast Air Quality Mgmt. District	1	0.001%	1	0.001%
Los Angeles County Office of Education	3	0.003%	—	0.000%
Little Lake Cemetery District	1	0.001%	1	0.001%
Local Agency Formation Commission	7	0.008%	6	0.007%
Total Participating Agencies	**12**	**0.013%**	**8**	**0.009%**
Total Active Membership				
General Members	80,145	86.376%	79,467	86.422%
Safety Members	12,641	13.624%	12,485	13.578%
Total	**92,786**	**100.000%**	**91,952**	**100.000%**

Last Ten Fiscal Years

	2013		2014	
County of Los Angeles	**Covered Members**	**Percentage of Total Covered Members**	**Covered Members**	**Percentage of Total Covered Members**
General Members	78,997	86.293%	79,934	86.447%
Safety Members	12,539	13.697%	12,523	13.543%
Total	**91,536**	**99.990%**	**92,457**	**99.990%**
Participating Agencies (General Membership)				
South Coast Air Quality Mgmt. District	1	0.001%	1	0.001%
Los Angeles County Office of Education	—	0.000%	—	0.000%
Little Lake Cemetery District	1	0.001%	1	0.001%
Local Agency Formation Commission	7	0.008%	7	0.008%
Total Participating Agencies	**9**	**0.010%**	**9**	**0.010%**
Total Active Membership				
General Members	79,006	86.303%	79,943	86.457%
Safety Members	12,539	13.697%	12,523	13.543%
Total	**91,545**	**100.000%**	**92,466**	**100.000%**

Retired Members of Participating OPEB Employers

Last Ten Fiscal Years*

2007 to 2010	2007	2008	2009	2010
Los Angeles County and Participating Agencies				
Medical	40,807	40,444	40,868	41,676
Dental/Vision	40,172	40,628	41,175	42,045

2011 to 2014	2011	2012	2013	2014
Los Angeles County and Participating Agencies				
Medical	42,627	43,746	44,753	**45,576**
Dental/Vision	43,114	44,344	45,485	**46,383**

*This 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

	General Members						Safety Members		
Effective Date	Plan A	Plan B	Plan C	Plan D	Plan E	Plan G*	Plan A	Plan B	Plan C*
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%
10/1/2013 to 9/30/2014	25.08%	17.95%	17.54%	18.24%	19.09%	17.81%	34.63%	27.92%	23.18%

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

Employer Contribution Rates: Little Lake Cemetery District[1], Local Agency Formation Commission[2], and Los Angeles County Office of Education[3]

Last Ten Fiscal Years

Effective Date			General			
			Plan A	Plan D	Plan E	Plan G[4]
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	—	16.00%	16.77%	—
1/1/2013	to	9/30/2013	—	—	—	15.61%
10/1/2013	to	9/30/2014	—	18.24%	19.09%	17.81%

[1]Rates applicable to Little Lake Cemetery District are limited to Plan D.
[2]Rates applicable to the Local Agency Formation Commission are limited to Plans D, E, and G.
[3]Rates applicable to the Los Angeles County Office of Education are limited to Plan A. Effective June 30, 2012, all participating members retired, leaving no active members for this agency.
[4]As a result of PEPRA implementation effective January 1, 2013.

Employer Contribution Rates: South Coast Air Quality Management District (SCAQMD)[1]

Last Ten Fiscal Years

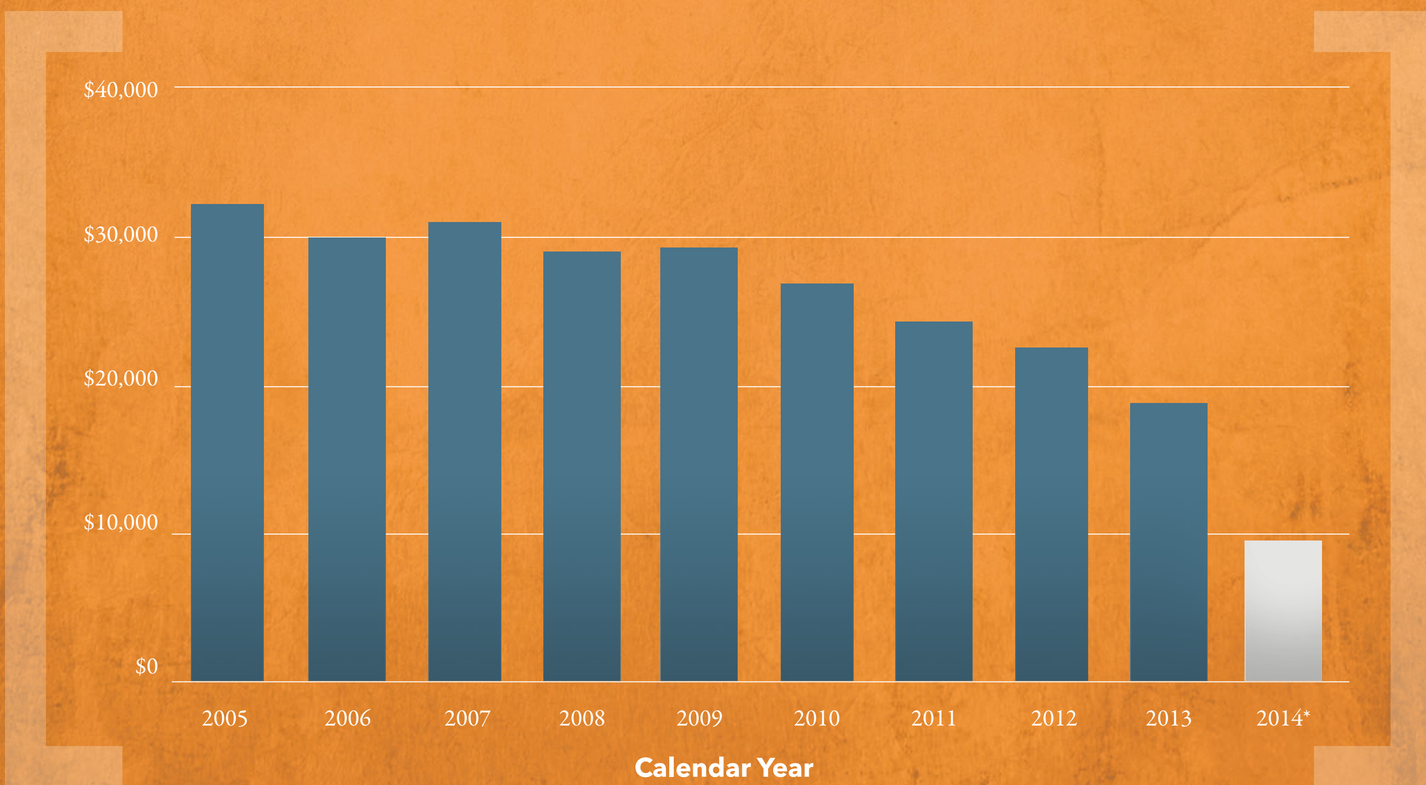
Effective Date			General		
			Plan A[2]	Plan B	Plan C[3]
7/1/2004	to	6/30/2005	—	15.93%	15.56%
7/1/2005	to	6/30/2006	—	20.39%	18.80%
7/1/2006	to	6/30/2007	—	19.18%	18.91%
7/1/2007	to	6/30/2008	24.04%	17.31%	17.04%
7/1/2008	to	6/30/2009	22.38%	16.67%	—
7/1/2009	to	9/30/2010	22.02%	16.51%	—
10/1/2010	to	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%	—
10/1/2013	to	9/30/2014	—	23.87%	—

[1]SCAQMD recalculates its employer contribution rates to pick up a portion of its employee rates, in accordance with its labor contract.
[2]Effective March 31, 2011, participating member in Plan A retired leaving no active members in Plan A.
[3]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)

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

LACERA STAR COLA Program Costs as of June 2014



*Represents Program year through June 30.

Our members dedicated their lives to working for Los Angeles County. LACERA is just as dedicated to ensuring their promised benefits will be there when it's time for them to retire. We strive to deliver high levels of service within every division of our company. And we go above and beyond for all of our members, because we know peace of mind in retirement is the ultimate reward.