LACERA

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

It All ADDS UP

1998 2002 2006 2010 2014

2018 ANNUAL REPORT

80 YEARS OF SERVICE

Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2018 and 2017

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

*For **80 years**, LACERA has been proudly fulfilling our mission to produce, protect, and provide the promised benefits of L.A. County employees and retirees. To achieve that, everything we do at LACERA is based on numbers—from rating customer service to analyzing fund performance to making long-term financial projections. While metrics are vital to our daily work, at LACERA we never lose sight of what it all adds up to: the financial security of our members, who have dedicated their careers to public service.*

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Los Angeles County Employees Retirement Association

300 N. Lake Avenue
Pasadena, CA 91101
626-564-6000
lacera.com

Lou Lazatin
Chief Executive Officer

Robert R. Hill
Assistant Executive Officer

JJ Popowich
Assistant Executive Officer

1938-2018

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 **28th consecutive year,** LACERA has earned this prestigious award for its CAFR. 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 2018 Award, in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards. The Public Pension Standards are intended to reflect minimum expectations for public retirement systems management and administration, and serve as a benchmark by which all defined benefit public plans should be measured. LACERA is a **16-time recipient** of this important award.

*A confederation of NASRA, NCPERS, and NCTR.

THE PENSION AND HEALTHCARE FUNDS OUTPERFORMED THEIR POLICY BENCHMARKS AND ASSUMED RATES OF RETURN, ADDING TO THE FINANCIAL STRENGTH OF BOTH.

Lou Lazatin
Chief Executive Officer

171,000+ members

64,000+ benefit recipients

December 3, 2018

Los Angeles County Employees Retirement Association
Board of Retirement and 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, 2018. 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 over 171,000 members, which includes over 64,000 benefit recipients.

It All Adds Up

For the last 80 years, LACERA's operations have revolved around numbers, and how well we apply them on a daily basis. Whether it's rating our customer service, analyzing fund performance, or making long-term financial projections, our 15 divisions are dedicated to accuracy and continued improvement in all of our specialty areas.

Getting the numbers right is tremendously important, because we value the trust placed in us. We understand that every business decision we make impacts not just our organization, but the futures of our thousands of members and their families—and as pension stakeholders ourselves, we take safeguarding the growth and stability of the fund very personally.

As the largest county pension system in the U.S., getting the numbers right is also important for upholding our influence and reputation. We know that maintaining integrity and the highest standards in our own operations is imperative when we act on our members' behalf—including assuring that their economic interests are being promoted at the companies in which we invest. Doing our research and advocating for practices and policies that build sustainable, long-term value through our corporate governance work are an integral part of diligently and proactively managing the fund.

As Los Angeles County and our organization continue to grow and evolve, one thing will remain constant. The objective behind our metrics will always add up to this: ensuring the ongoing financial well-being of our members, who have dedicated their careers to serving the community.

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

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

Financial Information

Internal Control

The financial attest audit performed by Plante Moran Certified Public Accountants (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 that 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 that 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)

Robert R. Hill
Assistant Executive Officer

9.0%
2018 total pension plan return

8.5%
5-year annualized return

preceding the financial statements. This transmittal letter, when taken into consideration with the MD&A, provides an enhanced picture of the organization's activities.

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 of Investments, 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 Pension Plan's long-term investment horizon and the illiquidity of certain asset classes, such as Private Equity and Real Estate.

The total Pension Plan returned 9.0 percent (net of fees), which was 120 basis points above its Policy Benchmark, which returned 7.8 percent. Over the five-year period ended June 30, 2018, the total Pension Plan's annualized return was 8.5 percent (net of fees).

Actuarial Funding Status

Pursuant to provisions in the CERL, LACERA engages an independent actuarial firm to perform annual actuarial valuations. A system experience study is performed every three years. The economic and non-economic assumptions are updated at the time each experience study is performed. Experience studies 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 experience study. The latest experience study was conducted as of June 30, 2016.

JJ Popowich
Assistant Executive Officer

79.9% **funded ratio**

26,000+ **PEPRA members**

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).

PEPRA
PUBLIC EMPLOYEES' PENSION REFORM ACT

Provisions of the 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, 2017 valuation, determining the funded ratio to be 79.9 percent, recognized an Unfunded Actuarial Accrued Liability (UAAL) of $13.1 billion. The Los Angeles County contribution rate was therefore set equal to 11.1 percent of payroll for the amortization of the UAAL over a closed 30-year layered period, plus the normal cost rate of 9.9 percent, for a total contribution rate of 21.0 percent of payroll.

It All ADDS UP

In December 2016, the Board of Investments adopted a decrease in the investment return assumption to 7.25 percent, a decrease in the wage growth assumption to 3.25 percent, a decrease in the CPI assumption to 2.75 percent, and an increase in life expectancies. All assumption changes were adopted effective June 30, 2016, although the impact on the employer contribution rate is being phased in over three years.

Summary of Accomplishments for Fiscal Year 2017–2018

During the last fiscal year, Member Services answered nearly 117,000 phone inquiries. Administrative Services processed 355,988 pieces of mail and scanned/indexed an impressive 896,023 member documents. Over in Retiree Healthcare, specialists answered 55,609 calls, mailed 50,919 annual healthcare packets, and processed 6,911 enrollment forms.

One-on-one counseling was provided to 20,732 members in our offices and at various locations in Los Angeles County, and our specialists educated 19,606 attendees at nearly 500 workshops and benefit fairs. In response to increased call volumes, event attendance, and high demand for individual counseling, the Board of Retirement approved an increase in Member Services staffing, and LACERA is diligently recruiting and training more Retirement Benefits Specialists. In addition, we continue to expand the Neighborhood Workshop Program offering pre-retirement seminars and counseling.

LACERA's Benefits Division put 3,060 new retirees and survivors on the retiree payroll. They also ensured that 66,463 retirement allowances were paid on time each month. Meanwhile, our Benefit Protection Unit investigated 727 high-risk cases, which included instances of fraud, lost contact, and elder abuse.

Our Systems Division continued to expand the capabilities of My LACERA to provide members 24/7 access to their retirement information as well as more automated services, including a pension verification letter feature for retirees that deployed in August 2018, followed by an amount in fund letter feature for active members in October. For the fiscal year, there were 73,260 members registered on My LACERA, with a total of 183,489 visits.

Awards and Recognition

For the 28th 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, 2017.

LACERA is a recipient also of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting, for the 20th year running. We received this honor for our Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2017.

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, 2018. LACERA is a 16-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.

Acknowledgments

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,

Lou Lazatin

Lou Lazatin
Chief Executive Officer

80 Years of Expertise

In 1937, Los Angeles County established a pension trust fund to provide defined retirement and death benefits to eligible County employees. In 1938, the Los Angeles County Employees Retirement Association (LACERA) was introduced to administer it, and the Board of Retirement was established to oversee the organization. In the decades since, LACERA has dedicated itself to serving the needs of its growing membership by providing additional benefits and strategically managing the fund.

Growth and Diversification

From the end of LACERA's first year—when the organization had 12,200 members and about $6 million in assets—to today (with over 171,000 members and a fund value of over $56 billion), managing the organization and fund has required expert leadership, planning, and execution.

Since its start, LACERA has striven to ensure that those who have dedicated themselves to public service are taken care of when they are no longer working, and over the years added disability retirement, cost-of-living increases, retiree healthcare, and other benefits. This has required the creation of specialized divisions to administer programs on the member services side, in addition to in-house financial professionals on the investments side.

As the fund grew over the decades, diversification became more important, and the Board of Investments was established in 1971 to spearhead LACERA's increasingly sophisticated strategies and achieve its long-term funding goals. As an example of how LACERA's investment approach has changed, in 1938, over three-quarters of the fund's investments were in bonds, and the rest in cash, short-term investments, and receivables. Now, based on expert analysis and Board policy, assets are allocated in the most advantageous percentages of fixed income and cash, equities, real estate, commodities, and hedge funds. LACERA's Board takes an active role in corporate governance at the companies in which it invests, and continues to fine tune its policies to minimize losses and maximize returns over the long term—ensuring that benefits are properly funded now and into the future.

Specialized Staff

LACERA's dedicated employees work in 15 divisions, providing a full range of services and program support.

1. Accounting
2. Administrative Services
3. Benefits
4. Communications
5. Disability Litigation
6. Disability Retirement
7. Executive Office
8. Human Resources
9. Internal Audit
10. Investments
11. Legal
12. Member Services
13. Quality Assurance and Metrics
14. Retiree Healthcare
15. Systems

80 Years of Leadership

Board of Retirement

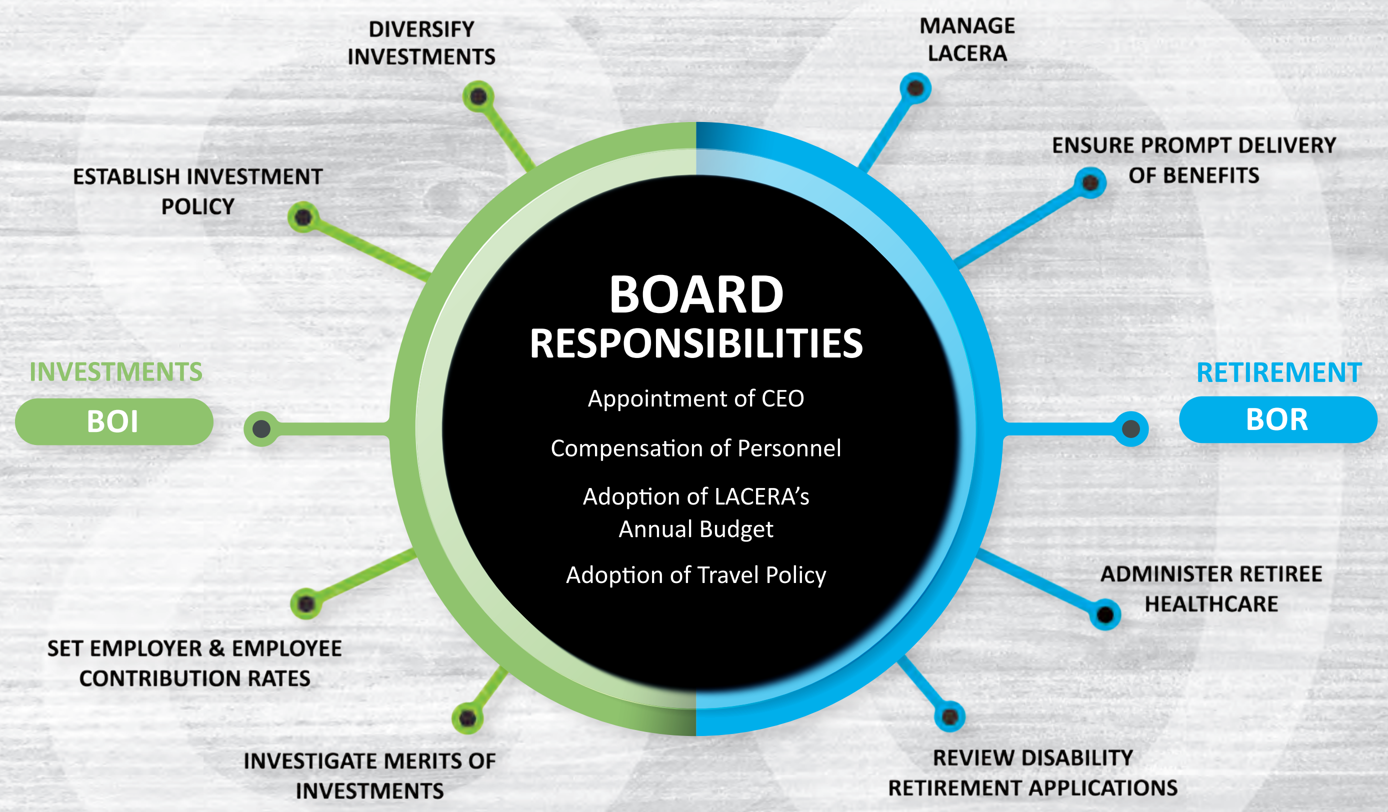
Established: 1938

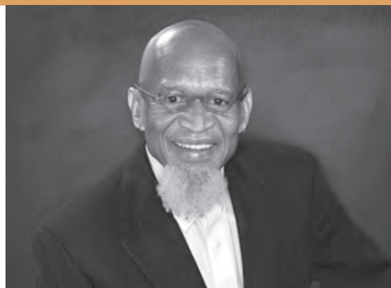
The Board of Retirement (BOR) is responsible for the administration of the retirement system, the retiree healthcare program, and the review and processing of disability retirement applications. The Board is composed of 11 members. Six members are elected: two are elected by active General Members; retired members elect one member and one alternate member; Safety Members elect one member and also have an alternate member. Four of its members are appointed by the Los Angeles County Board of Supervisors, and the law requires the County Treasurer and Tax Collector to serve as an ex-officio member.

Board of Investments

Established: 1971

The Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising authority and control over the investment management of the Fund. The Board is composed of nine members. Four members are elected: two are elected by active General Members; retired members elect one member, as do Safety Members. Four of its members are appointed by the Los Angeles County Board of Supervisors, and the law requires the County Treasurer and Tax Collector to serve as an ex-officio member.





MARVIN ADAMS
Secretary
Board of Retirement
Appointed by Board of Supervisors
Term expires 2018

ALAN J. BERNSTEIN
Board of Retirement
Appointed by Board of Supervisors
Term expires 2019

VIVIAN H. GRAY
Chair
Board of Retirement
Elected by General Members
Term expires 2018

DAVID GREEN
Chair
Board of Investments
Elected by General Members
Term expires 2020

JAMES P. HARRIS
Board of Retirement
Alternate Member
Elected by Retired Members
Term expires 2020

SHAWN R. KEHOE
Vice Chair
Board of Retirement
Board of Investments
Elected by Safety Members
Term expires 2019

JOSEPH KELLY
Board of Retirement
Board of Investments
County Treasurer and Tax Collector
Ex-Officio Member

KEITH KNOX
Board of Retirement
Board of Investments
Chief Deputy County Treasurer and Tax Collector, Alternate Ex-Officio Member

WAYNE MOORE
Secretary
Board of Investments
Appointed by Board of Supervisors
Term expires 2020

DAVID L. MUIR
Board of Investments
Elected by Retired Members
Term expires 2020

RONALD A. OKUM
Board of Investments
Appointed by Board of Supervisors
Term expires 2019

WILLIAM R. PRYOR
Board of Retirement
Alternate Member
Elected by Safety Members
Term expires 2019

LES ROBBINS
Board of Retirement
Elected by Retired Members
Term expires 2020

GINA V. SANCHEZ
Board of Investments
Appointed by Board of Supervisors
Term expires 2020

HERMAN B. SANTOS
Vice Chair
Board of Retirement
Term Expires 2020
Board of Investments
Term Expires 2018
Elected by General Members

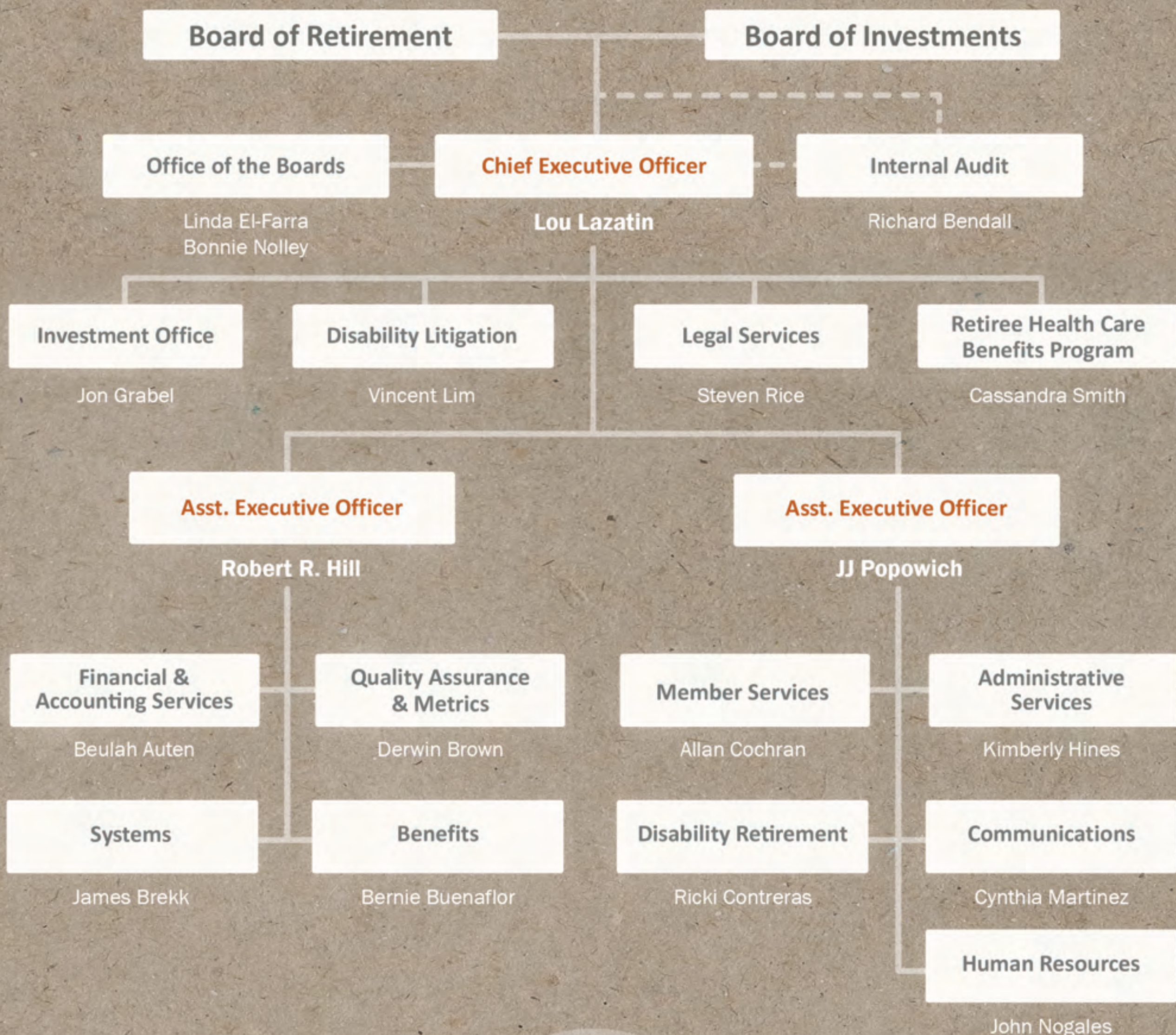
MICHAEL SCHNEIDER
Board of Investments
Appointed by Board of Supervisors
Term expires 2018

THOMAS WALSH
Board of Retirement
Appointed by Board of Supervisors
Term Expires 2020

GINA ZAPANTA-MURPHY
Board of Retirement
Appointed by Board of Supervisors
Term Expires 2020

It All ADDS UP

Organizational Chart



ItAllADDSUP

Consulting Actuary
Milliman

Auditing Actuary
Cavanaugh Macdonald

Financial Auditor
Plante Moran

Commercial Banking and Custodian
State Street Bank and Trust Company

Active Member Payroll Data Processing
Los Angeles County Internal Services Department

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

Investment Consultants
CGM Customized Fund Investments Group LP
Meketa Investment Group
Pavillion Alternatives Group LLC
Stepstone Group LP
The Townsend Group

Mortgage Loan Custodians
Deutsche Bank National Trust Company

Retiree Healthcare Consultant and Claims Auditor
Segal Consulting

Medicare Part D Retiree Drug Subsidy Auditor
Mercer

Legal Consultants
Alston & Bird LLP
Andrews Kurth LLP
Bernstein Litowitz Berger & Grossman LLP
Bleichmar Fonti & Auld LLP
Chapman & Cutler LLP
Cohen Milstein Sellers & Toll PLLC
Cox, Castle & Nicholson LLP
DLA Piper LLP
Foley & Lardner LLP
Foster Pepper PLLC
Glaser Weil Fink Jacobs Howard Avchen & Shapiro LLP
Goldstein & Russell PC
Gordon Rees Scully Mansukhani LLP
Greenberg Traurig LLP
Greines Martin Stein & Richland LLP
Groom Law Group, Chartered
Gutierrez Preciado & House LLP
Jackson Walker LLP
Kessler Topaz Meltzer & Check LLP
Labaton Sucharow LLP
Larson O’Brien LLP
Latham & Watkins LLP
Liebert Cassidy Whitmore
Lieff Cabraser Heimann & Bernstein LLP
Nora Ann Quinn
Nossaman LLP
Olson Hagel & Fishburn LLP
Orrick, Harrington & Sutcliffe LLP
Pillsbury Winthrop Shaw Pittman LLP
Quinn Emanuel Urquhart & Sullivan LLP
Reddock Law Group
Reed Smith LLP
Robbins Geller Rudman & Dowd LLP
Seyfarth Shaw LLP
Sheppard, Mullin, Richter & Hampton LLP
Spector Roseman Kodroff & Willis PC
Steptoe & Johnson LLP
Vivian Shultz
Winet Patrick Gayer Creighton & Hanes

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

FULFILLING OUR PROMISES

Throughout their careers, members entrust us with their hard-earned contributions with the expectation that we will act responsibly and transparently in managing the fund. We measure success by members' satisfaction with our work as well as their ability to thrive in retirement.

1938 Fund Value:
$5.8 MILLION

2018 Fund Value:

$56.3 BILLION

It All ADDS UP

Plante & Moran, PLLC.
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P.O. Box 307
Southfield, MI 48037-0307
Tel: 248-352-2500
Fax: 248-352-0018
plantemoran.com

To the Boards of Retirement and Investments
Los Angeles County Employees Retirement Association

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles County Employees Retirement Association (LACERA) as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise LACERA's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Los Angeles County Employees Retirement Association as of June 30, 2018 and 2017 and the changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note P, the financial statements include investments valued at $13,991,093,000 (25 percent of net assets) at June 30, 2018 and $12,628,199,000 (24 percent of net assets) at June 30, 2017, whose fair values have been estimated by management in the absence of readily determinable market values. Given that publicly listed prices are not available, management uses alternative sources of information, including audited financial statements, unaudited interim reports, independent appraisals, and other similar sources of information, to determine the fair value of investments. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis and required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Los Angeles County Employees Retirement Association's basic financial statements. The other supplementary information, as identified in the table of contents, and the introductory, investment, actuarial, and statistical sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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, as identified in the table of contents, 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 12, 2018 on our consideration of the Los Angeles County Employees Retirement Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Los Angeles County Employees Retirement Association's internal control over financial reporting and compliance.

Plante & Moran PLLC
October 12, 2018

Plante & Moran, PLLC

Beulah Auten
Chief Financial Officer

INTRODUCTION

Management is pleased to provide this discussion and analysis (MD&A) of the financial activities of the Los Angeles County Employees Retirement Association (LACERA) for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information included in the Letter of Transmittal found in the Introductory Section of the Comprehensive Annual Financial Report (CAFR) and with the Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Pension Plan

- Net Position Restricted for Benefits, as reported in the Statement of Fiduciary Net Position, totaled $56.3 billion, an increase of $3.6 billion or 6.7 percent from the prior year.
- Total Additions, as reflected in the Statement of Changes in Fiduciary Net Position, were $6.8 billion. This was primarily due to positive investment earnings and increases in member and employer contributions. Although Total Additions increased in 2018 such increase equaled $1.2 billion or 14.5 percent less than the amounts realized in 2017.
- Total Deductions, as reflected in the Statement of Changes in Fiduciary Net Position, totaled $3.3 billion, an increase of $185 million or 6.0 percent from the prior year. The increase was primarily attributable to an increase in pension benefits paid to retired members.
- Milliman, LACERA's independent consulting actuary, completed the latest actuarial valuation as of June 30, 2017, and determined the funded status of the Pension Plan (the ratio of actuarial value of assets to actuarial accrued liabilities) to be 79.9 percent versus 79.4 percent as of June 30, 2016.
- The Net Pension Liability, provided in accordance with Governmental Accounting Standards Board Statement Number 67 (GASB Statement No. 67), was $10.8 billion for the fiscal year ended June 30, 2018. This represents a decrease of $0.5 billion from June 30, 2017, when the liability was $11.3 billion. As of June 30, 2018, the most recent measurement date, the Pension Plan's Fiduciary Net Position was 84.0 percent of the Total Pension Liability, an increase from 82.4 percent as measured for the previous fiscal year ended 2017.

Other Post-Employment Benefits (OPEB) Program

- The OPEB Trust Net Position Restricted for Benefits, as reported in the Statement of Fiduciary Net Position, totaled $941.0 million, an increase of $198.0 million or 26.6 percent from the prior year. The increase is primarily attributable to the OPEB Trust participating employers providing contributions throughout the year to prefund retiree healthcare costs, and the investment portfolio realizing positive results.
- The Total OPEB Liability was $25.7 billion for the fiscal year ended June 30, 2018; $1.5 billion lower than the $27.2 billion calculated by the actuary and reported as of June 30, 2017. Factors contributing to the decrease in Total OPEB Liability are lower retiree medical claim costs, reduced medical premium rates, and a favorable medical cost trend projection.

- As of June 30, 2018, the Net OPEB Liability, which was calculated in conformity with GASB Statement No. 74, was $24.7 billion. This represents a decrease of $1.8 billion from the prior year Net OPEB Liability of $26.5 billion. The Fiduciary Net Position increased, which offsets the Total OPEB Liability, resulting in a decrease in the Net OPEB Liability.
- As of June 30, 2018, the OPEB Program's Fiduciary Net Position was 3.7 percent of the Total OPEB Liability, which increased from 2.7 percent as measured in the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A serves as an introduction to the LACERA Basic Financial Statements, which include the following components: the Statement of Fiduciary Net Position; the Statement of Changes in Fiduciary Net Position; and the Notes to the Basic Financial Statements. The Basic Financial Statements are prepared in compliance with the accounting principles and reporting guidelines as set forth by the GASB, utilizing the accrual basis of accounting as prescribed by Generally Accepted Accounting Principles of the United States (GAAP). Separate statements are provided for the Pension Plan, OPEB Trust, and OPEB Agency Fund, which are distinct from each other and report the results of the annual financial activities in their respective statements.

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, reduced by any current liabilities owed as of the report date. The Net Position Restricted for Benefits, which is the assets less the liabilities, or net position, reflects the funds available for future use.

The California Constitution, the County Employees Retirement Law of 1937 (CERL), and the California Public Employees' Pension Reform Act of 2013 (PEPRA) direct LACERA to administer a defined benefit retirement plan (Pension Plan) for the employees of the County of Los Angeles (County), the Los Angeles Superior Court (Court), and four Outside Districts. The Pension Plan is presented separately in the Statement of Fiduciary Net Position as an irrevocable trust fund. LACERA collects contributions from employers and active members and earns income on invested assets so the Pension Plan balances accumulate over the long term, such that promised benefits can be paid to retirees now and in future years.

The County, LACERA, and the Court participate in the irrevocable Other Post-Employment Benefits Trust Fund (OPEB Trust), which excludes the four Outside Districts. The purpose of this fund is for plan sponsors to set aside assets to offset the OPEB, or retiree healthcare liability. The OPEB Trust is presented separately in the OPEB Trust's Statement of Fiduciary Net Position. The LACERA Board of Investments manages the OPEB Trust for the County, LACERA, and the Court, and utilizes separate Investment Policy Statements to diversify OPEB Trust investments. The OPEB Trust's Net Position Restricted for Benefits at year-end serves as a funding gauge for paying future expenses associated with other post-employment benefits such as those options provided for in the Retiree Healthcare Program. The OPEB Trust is also presented separately in the OPEB Trust's Statement of Changes in Fiduciary Net Position.

The OPEB Agency Fund reflects the activity of the OPEB plan for all participating employers (i.e., County, Court, and LACERA), including those that have not yet established any advanced funding in the OPEB Trust (i.e., Outside Districts). The assets and liabilities related to OPEB operational activities are reported in this manner as the OPEB Agency Fund, which was established as a revocable fund. The funds received and payments made from the OPEB Agency Fund are presented as additions and deductions to the balances. Plan sponsors and members provide monthly funding using a "pay-as-you-go" methodology, which is used to pay medical care premiums including administrative fees, as well as other healthcare benefits provided by the OPEB Program. LACERA acts as a custodian for these funds on behalf of the plan sponsors and participants. Since assets are retained in the OPEB Agency Fund instead of a qualifying trust, only assets and liabilities are reported to reflect that LACERA is holding these assets in an agency capacity.

The *Statement of Changes in Fiduciary Net Position* reflects all the financial transactions that occurred during the fiscal year and the impact of those additions and deductions on the Net Position Restricted for Benefits. The additions versus deductions trend indicates the financial condition over time for, separately, the Pension Plan and the OPEB Trust.

The *Notes to the Basic Financial Statements* (Notes) are an integral part of the financial statements. The Notes provide a detailed discussion of key policies, programs, and activities that occurred during the year. Other information to supplement LACERA's Basic Financial Statements is provided as follows:

Required Supplementary Information (RSI) presents historical trend information based on GASB Statement Nos. 67 and 74 requirements and contributes to the understanding of the changes in the Net Pension Liability and the Net OPEB Liability of participating employers.

Other Supplementary Information (OSI) includes the schedules of Administrative Expenses, Investment Expenses, Payments to Consultants, and the OPEB Agency Fund's Statement of Assets and Liabilities. The OSI is presented immediately following the RSI section of this CAFR.

FINANCIAL ANALYSIS — PENSION PLAN

Net Position Restricted for Benefits

The Pension Plan's Total Net Position Restricted for Benefits represents funds available for future promised benefits. As of June 30, 2018, LACERA had $56.3 billion in Net Position Restricted for Benefits, where the Total Assets of $59.4 billion exceeded Total Liabilities of $3.1 billion. This increase of $3.6 billion or 6.7 percent from the prior year was due primarily to favorable investment market performance. As of June 30, 2017, LACERA had $52.7 billion in Net Position Restricted for Benefits as a result of $55.8 billion in Total Assets which exceeded Total Liabilities of $3.1 billion.

Net Position Restricted for Benefits — Pension Plan

As of June 30, 2018, 2017, and 2016

(Dollars in Millions)

	2018	2017	2016	2018-2017 % Change	2017-2016 % Change
Investments	**$55,443**	$52,225	$47,899	6.2%	9.0%
Other Assets	**3,925**	3,594	2,997	9.2%	19.9%
Total Assets	**$59,368**	$55,819	50,896	6.4%	9.7%
Total Liabilities	**(3,068)**	(3,075)	(3,049)	(0.2)%	0.9%
Net Position Restricted for Benefits	**$56,300**	**$52,744**	**$47,847**	**6.7%**	**10.2%**

Additions and Deductions to Net Position Restricted for Benefits

The primary sources that finance the promised pension benefits LACERA provides to members and their beneficiaries are the collection of member and employer retirement contributions and realized investment income. For fiscal years ended 2018 and 2017, Total Additions amounted to $6.8 billion and $8.0 billion, respectively, and were due primarily to LACERA's diverse investment strategy producing positive investment performance.

The net investment gain for fiscal year 2018 was $4.7 billion, a decrease of $1.4 billion from the 2017 fiscal year when the net investment gain was $6.1 billion. This fiscal year's time-weighted investment returns of 9.0 percent (net of fees) exceeded the actuarial assumed investment earnings rate of 7.25 percent. The investment gains and losses experienced will continue to impact the actuarial funded ratio over time as they are recognized in the future through the actuarial asset-smoothing process.

To finance employer contributions that are due to LACERA, the County makes cash payments that coincide with the employee payroll cycle. For the fiscal years ended June 30, 2018 and June 30, 2017, the County paid all of its employer contributions due to LACERA.

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 Pension Plan. These deductions totaled $3.3 billion for fiscal year 2018, an increase of $185 million or 6.0 percent from the prior year. The increase in deductions is partly attributable to an increase in the number of LACERA retirees and related increase in pension payments for the fiscal year ended June 30, 2018. For fiscal year 2017, these deductions totaled $3.1 billion, an increase of $141 million or 4.8 percent from fiscal year 2016. Miscellaneous expenses increased 17.9 percent from the fiscal year ended 2017 to 2018 primarily due to office expansions and renovations, and equipment purchases to accommodate the related increase in organizational staffing. Additional staffing will allow LACERA to continue to serve the needs of its membership into the future.

Additions and Deductions in Fiduciary Net Position — Pension Plan

For the Fiscal Years Ended June 30, 2018, 2017, and 2016

(Dollars in Millions)

				2018-2017		2017-2016	
	2018	2017	2016	Difference	% Change	Difference	% Change
Contributions	**$2,116**	$1,858	$1,902	$258	13.9%	$(44)	(2.3)%
Net Investment Income/(Loss)	**4,722**	6,136	83	(1,414)	(23.0)%	6,053	7,292.8%
Total Additions/ (Declines)	**$6,838**	**$7,994**	**$1,985**	**$(1,156)**	**(14.5)%**	**$6,009**	**302.7%**
Benefits and Refunds	**$(3,203)**	$(3,030)	$(2,889)	$(173)	5.7%	$(141)	4.9%
Administrative Expenses and Miscellaneous	**(79)**	(67)	(67)	(12)	17.9%	(0)	0.0%
Total Deductions	**$(3,282)**	**$(3,097)**	**$(2,956)**	**$(185)**	**6.0%**	**$(141)**	**4.8%**
Net Increase/(Decrease)	**$3,556**	$4,897	$(971)	$(1,341)	(27.4)%	$5,868	604.3%
Fiduciary Net Position Beginning of Year	**52,744**	47,847	48,818	4,897	10.2%	(971)	(2.0)%
Fiduciary Net Position at End of Year	**$56,300**	**$52,744**	**$47,847**	**$3,556**	**6.7%**	**$4,897**	**10.2%**

Pension Liabilities

As GASB Statement No. 67 requires, LACERA reports the Total Pension Liability and the Net Pension Liability as calculated by LACERA's actuary. These liabilities, which are the employers' responsibilities, are solely calculated for financial reporting purposes and are *not* intended to provide information about the employers' funding of such liabilities. The actuarial valuation of retirement benefits provides Pension Plan funding metrics and related information.

The Total Pension Liability as of June 30, 2018, was $67.0 billion or an increase of 4.7 percent from the Total Pension Liability of $64.0 billion as of June 30, 2017. The Net Pension Liability as of June 30, 2018, was $10.8 billion, representing a decrease of 4.7 percent from the Net Pension Liability of $11.3 billion as of June 30, 2017. Because LACERA experienced a $3.6 billion increase in the Fiduciary Net Position, which was greater than the $3.0 billion increase in Total Pension Liability, the resulting Net Pension Liability decreased by $531 million.

GASB Statement No. 67 requires the presentation of the Fiduciary Net Position as a percentage of the Total Pension Liability. For the fiscal years ended June 30, 2018 and 2017, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 84.0 percent and 82.4 percent, respectively. This slight increase is due to an offsetting effect of growth in the Total Pension Liability of $3.0 billion compared to an increase in LACERA's Fiduciary Net Position of $3.6 billion.

Net Pension Liability

As of June 30, 2018 , 2017, and 2016

(Dollars in Millions)

				2018 - 2017		2017 - 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Total Pension Liability	**$67,057**	$64,032	$58,529	$3,025	4.7%	$5,503	9.4%
Less: Fiduciary Net Position	**(56,300)**	(52,744)	(47,847)	(3,556)	6.7%	(4,897)	10.2%
Net Pension Liability	**$10,757**	**$11,288**	**$10,682**	**$(531)**	**(4.7)%**	**$606**	**5.7%**
Fiduciary Net Position as a Percentage of Total Pension Liability	**84.0%**	**82.4%**	**81.7%**	**N/A**	**N/A**	**N/A**	**N/A**

FINANCIAL ANALYSIS – OPEB TRUST

As reflected in the Statement of Changes in Fiduciary Net Position, OPEB Trust additions included net investment income of $78.7 million and deductions of $0.2 million for redemptions, administrative expenses, as well as payments of custodial and investment management fees. The total Net Position Restricted for Benefits for the OPEB Trust as of the fiscal year ended June 30, 2018, was $941.0 million. As of June 30, 2017, the OPEB Trust total Net Position Restricted for Benefits was $743.0 million, after earning $94.5 million in net investment income and deducting $0.4 million for total administrative expenses.

Information related to the OPEB Trust is included in the Financial Section and other CAFR sections to meet financial reporting requirements.

OPEB Liabilities

GASB Statement No. 74 requires LACERA to report the Total OPEB Liability and the Net OPEB Liability as calculated by LACERA's actuary. These liabilities, which are the employers' responsibilities, are solely calculated for financial reporting purposes and are *not* intended to provide information about the employers' funding of such liabilities. The OPEB Program actuarial valuation report provides funding metrics and related information.

The Total OPEB Liability as of June 30, 2018, was $25.7 billion or a decrease of 5.7 percent from the Total OPEB Liability of $27.2 billion as of June 30, 2017. The Net OPEB Liability as of June 30, 2018, was $24.7 billion, representing a decrease of 6.6 percent from the Net OPEB Liability of $26.5 billion as of June 30, 2017. This $1.74 billion decrease in Net OPEB Liability was primarily due to the increase in the OPEB Trust's Fiduciary Net Position which is used to offset the Total OPEB Liability.

GASB Statement No. 74 requires the Fiduciary Net Position to be presented as a percentage of the Total OPEB Liability. For the fiscal years ended June 30, 2018 and June 30, 2017, respectively, the Fiduciary Net Position as a percentage of the Total OPEB Liability is reported as 3.7 percent and 2.7 percent. This change is due to a decrease in the Total OPEB Liability of $1.54 billion, offset by a $198 million increase in Fiduciary Net Position. The Total OPEB Liability decreased due to an increase in OPEB Trust assets as a result of ongoing plan sponsor contributions and positive investment market performance.

These OPEB liabilities are calculated separately from the Pension Plan liabilities and are presented for financial statement reporting purposes. OPEB liabilities calculated to determine funding metrics and for the employer-plan sponsors to make funding decisions are presented in the Actuarial Section of this CAFR.

Net OPEB Liability

As of June 30, 2018, 2017, and 2016

(Dollars in Millions)

				2018-2017		2017-2016	
	2018	**2017**	**2016**	**$ Change**	**% Change**	**$ Change**	**% Change**
Total OPEB Liability	**$25,671**	$27,212	$27,216	$(1,541)	(5.66)%	$(4)	0.01%
Less: Fiduciary Net Position	**(941)**	(743)	(561)	(198)	26.65%	(182)	32.44%
Net OPEB Liability	**$24,730**	**$26,469**	**$26,655**	**$(1,739)**	**(6.57)%**	**$(186)**	**0.70%**
Fiduciary Net Position as a Percentage of Total OPEB Liability	**3.67%**	**2.73%**	**2.06%**	**N/A**	**N/A**	**N/A**	**N/A**

Benefit Provisions — OPEB Program

In June 2014, the County Board of Supervisors authorized, and the LACERA Boards of Retirement and Investments approved, the County's request to modify the existing Agreement then between the County and LACERA in order to lower future retiree healthcare costs. Such modification created a new retiree healthcare benefit program. Structurally, the County segregated all then-current employees and retirees, who will be entitled to future benefits, into the Tier 1 LACERA-administered Retiree Healthcare Benefits Program (Tier 1). New employees hired after June 30, 2014, are entitled to benefits under the new Tier 2 Los Angeles County Retiree Healthcare Benefits Program (Tier 2). Recent implementation of these benefit program changes has not yet caused the County to realize significant impacts to the liability and funding requirements of the OPEB Program for retiree healthcare.

PLAN ADMINISTRATION

LACERA Membership

The following table provides comparative LACERA membership data for the last two fiscal years. The County hired nearly 1,400 new employees for the fiscal year ended June 30, 2018, as evidenced by the 1.3 percent increase in active members from the prior year. There was an increase of 1,586 or 2.5 percent of new retirees when comparing the two fiscal years ended June 30, 2018 and June 30, 2017.

LACERA Membership

As of June 30, 2018 and 2017

	2018	2017	2018-2017 Difference	2018-2017 % Change
Active Members	**106,943**	105,562	1,381	1.3%
Retired Members	**64,881**	63,295	1,586	2.5%
Total Membership	**171,824**	**168,857**	**2,967**	**1.8%**

ADMINISTRATIVE EXPENSES

The LACERA Boards of Retirement and Investments jointly approve the annual operating budget, which controls administrative expenses and represents approximately 0.14 percent and 0.13 percent of the Net Position Restricted for Benefits for the fiscal years ended June 30, 2018 and 2017, respectively. The slight increase is attributable to the growth in the organization as LACERA hires additional staff and procures additional external services.

The CERL governing the LACERA Pension Plan requires the annual budget for administrative expenses may not exceed twenty-one hundredths of one percent (0.21 percent) of the Actuarial Accrued Liability (AAL) as of the prior fiscal year. CERL provides allowances for other administrative costs such as legal representation and expenditures for information technology projects; LACERA includes such costs in the administrative expense allocation.

The table below provides a comparison of the actual administrative expenses for the fiscal years ended 2018 and 2017. The AAL was used to calculate the statutory budget amount. For both years, LACERA's administrative expenditures were well below the limit imposed by law.

Budget-to-Actual Analysis of Administrative Expenses

As of June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Administrative Expenses	**$78,181**	$66,830
Basis for Budget Calculation (Actuarial Accrued Liability)	**62,199,214**	56,819,215
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.13%**	**0.12%**
Administrative Expense Budget Limit per CERL	**0.21%**	0.21%
Net Position Restricted for Benefits	**$56,299,982**	$52,743,651
Administrative Expenses as a Percentage of Net Position Restricted for Benefits	**0.14%**	0.13%

ACTUARIAL FUNDING VALUATIONS

In order to determine whether the Net Position Restricted for Benefits will be sufficient to meet the Pension Plan's 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 promised 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 employers (plan sponsors) are needed to pay all promised future benefits.

In December 2009, the LACERA Board of Investments adopted a revised Retirement Benefit Funding Policy (Funding Policy). In February 2013, the Funding Policy was further amended to conform to the new PEPRA provisions. In addition, beginning with the June 30, 2012 valuation and on a prospective basis, the LACERA Board of Investments approved inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve balance. As such, the actuary includes the STAR Reserve as part of actuarial assets available for funding retirement benefits.

Provisions in the Funding Policy impacted the 2016 valuation, including the implementation of a smoothing calculation on actuarial gains and losses. This smoothing process recognizes an equal proportion of each year's investment gains and losses over a five-year period in order to minimize substantial variations in funding ratios. Variances between the actual market value and the actuarially computed expected market value from investment performance at the actuarially determined assumed rate of return are smoothed or recognized over a five-year period.

The consulting actuary calculates contributions required to fund the benefits plan. The difference between the present value of all future obligations and the present value of future normal cost contributions is referred to as the Actuarial Accrued Liability (AAL). The AAL is then compared to the value of assets available to fund benefits, and the difference is referred to as the Unfunded Actuarial Accrued Liability (UAAL).The Funding Policy provides an approach for managing the UAAL. LACERA utilizes what is referred to as a closed 30-year layered amortization method. For each fiscal year, gains or losses on the UAAL are calculated and then amortized over the period defined. This process establishes a payoff schedule of the UAAL and helps dampen volatility in the required amortization payments which in turn, provides some volatility mitigation in employer contribution rates.

In December 2016, the LACERA Board of Investments adopted a decrease in the investment return and other economic assumptions. The investment return assumption was reduced from 7.50 to 7.25 percent for the June 30, 2016 actuarial valuation. The LACERA Board of Investments adopted corresponding decreases in the price and wage inflation assumptions to be made at the same time as each decrease in the investment return assumption.

The funded ratio is a measurement of the funded status of the Pension Plan. It is calculated by dividing the Valuation Assets by the AAL. Valuation Assets are the value of cash, investments, and other property belonging to the Pension Plan, as used by the actuary for the purpose of preparing the actuarial valuation. Positive investment returns, which have varied over the last three years, typically increase Valuation Assets. The LACERA Board of Investments reduced the assumed rate of return (as described above and in the Actuarial Section of this CAFR). As a result of applying actuarial asset smoothing, the actuarial funded ratio increased from fiscal year ended 2016 to 2017.

FUNDED RATIO, RATES OF RETURN AND FAIR VALUE

LACERA's independent consulting actuary, Milliman, performed the latest actuarial valuation as of June 30, 2017 and determined that the Pension Plan's Funded Ratio of the actuarial assets to the AAL increased to 79.9 percent, as compared to 79.4 percent as of the June 30, 2016 valuation.

The positive 12.7 percent investment return on a market basis for 2017, which exceeded the actuarial assumed investment earnings rate, resulted in a 0.5 percent increase in the Funded Ratio using the five-year actuarial asset smoothing method. For the 2016 and 2017 fiscal year end valuations, respectively, the Pension Plan returned 0.8 percent and 12.7 percent (both net of fees), on a market basis, which was less than the assumed rate of 7.25 percent in 2016 and more than the assumed rate of 7.25 percent in 2017. In total, there was a $2.6 billion gain on market assets relative to the assumed rate of return. However, the recognition of net asset losses from prior years partially offset this gain resulting in a return on actuarial assets of 8.2 percent for the fiscal year ended June 30, 2017, which was $421 million above the expected return on actuarial assets.

The table below provides a three-year history of investment and actuarial returns and the actuarial funded ratios. As required by GASB Statement Nos. 67 and 74, 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, 2018, the annual money-weighted rate of return on Pension Plan investments was 9.0 percent (net of fees).

Total Investment Rates of Return — Pension Plan

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 (net of fees)[1]	Total Fund Money-Weighted Return (net of fees)	Return on Smoothed Valuation Assets (net of fees)[2]	Actuarial Assumed Rate of Return	Actuarial Funded Ratio
2016	$47,898,667	0.8%	0.7%	6.5%	7.25%	79.4%
2017	52,225,457	12.7%	12.7%	8.2%	7.25%	79.9%
2018[3]	**55,443,060**	**9.0%**	**9.0%**	**—**	**—**	**—**

[1]The returns are presented net of investment management fees.
[2]Returns calculated using the money-weighted rate of return method.
[3]Actuarial valuation report for June 30, 2018 not available at CAFR publication.

The annual money-weighted rate of return on OPEB Trust investments, net of OPEB Trust investment expenses as of the fiscal years ended June 30, 2018 and 2017, were 10.0 percent and 16.0 percent, respectively. As determined for the July 1, 2017 OPEB valuation, the OPEB Program's Funded Ratio of the actuarial assets to the AAL increased to 2.8 percent, as compared to 2.2 percent reported in the July 1, 2016 valuation. The County, Superior Court, and LACERA continued to provide OPEB Trust contributions, which increased prefunding assets and offset the AAL.

OPEB TRUST

Establishment

Pursuant to the California Government Code, Los Angeles County established an irrevocable, tax-exempt OPEB Trust for the purpose of holding and investing assets to prefund the OPEB (or retiree healthcare) Program, which LACERA administers.

In May 2012, the County negotiated a Trust and Investment Services Agreement with the LACERA Board of Investments to manage and invest the OPEB Trust assets. The participating employers provide contributions to and administrative cost payments are made from the County OPEB Trust. There are two participating employers in the County OPEB Trust: the County and LACERA.

The Superior Court (Court) considered prefunding its OPEB obligations through a Court OPEB Trust to be effective and initially funded as of June 30, 2016. After discussions and negotiations between the County, the Court, and LACERA, it was determined that a separate OPEB Trust would be established for the Court. A Trust and Investment Services Agreement was negotiated between LACERA and the Court setting forth the terms under which the LACERA Board of Investments serves as Trustee of the Court OPEB Trust. The Court Agreement was submitted and approved by the Court's Judicial Council in April 2016 and executed in June 2016.

Investment Structure

In June 2016, the LACERA Board of Investments approved the use of a unitized fund structure for the investment of the County and Court OPEB Trust funds. This structure created an OPEB Master Trust allowing for unitization of investments at the asset composite level while retaining individual net asset values for each participating employer. The OPEB Master Trust accommodates commingling and co-investing of the County and Court OPEB Trust funds. LACERA and its custodian completed the implementation process. As used in this report, OPEB Trust refers to the OPEB Master Trust and the County and Court Trusts.

Asset Allocation

During the fiscal year, Meketa Investment Group (Meketa), LACERA's general investment consultant, conducted an in-depth asset allocation review and analysis of potential asset allocation models for the OPEB Trust. The existing structure is reviewed on a regular basis to determine an appropriate allocation consistent with the economic environment, considering model assumptions and constraints. In September 2017, the LACERA Board of Investments approved Meketa's capital market assumptions in the new asset allocation models which have more attractive return/risk quotients than the current portfolio and reflect greater diversification, potentially resulting in higher market performance throughout a full market cycle.

In October 2017, the LACERA Board of Investments approved the use of a "functional" framework for the inclusion of a broader group of investments. The traditional asset classes were reassigned and expanded in these new functional asset categories, labeled as Growth, Credit, Real Assets, Inflation Hedges, and Risk Reducing and Mitigating. In December 2017, Meketa presented three allocation policy options for consideration to the LACERA Board of Investments, which reviewed and selected a new OPEB Trust asset allocation model.

During the following six months, LACERA staff worked together internally and closely with its external service providers to implement the new functional asset allocation strategy. By June 30, 2018, the new model was fully transitioned having completed the re-categorization of OPEB Trust assets, repositioned assets where necessary, and updated communications to the LACERA Board of Investments pertinent to the new strategy.

NEW ACCOUNTING AND FINANCIAL REPORTING STANDARDS

LACERA OPEB Reporting

The GASB issued Statement No. 85 Omnibus 2017 to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pension and OPEB reporting. As of June 30, 2018, LACERA implemented the provisions which apply to its financial statements. The payroll-related measures presented in the RSI were updated as they applied to the OPEB Program disclosures. LACERA's OPEB Program does not require contributions which are oftentimes based on a measure of pay; therefore, payroll related metrics for the OPEB disclosures were eliminated in the plan disclosures. In the RSI section, the information was updated last year to include the required 10-year schedules as a result of implementing GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. LACERA will provide its plan sponsors with relevant information required to implement this new standard.

Plan Sponsor OPEB Reporting

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires plan sponsors, relative to their financial reporting requirements, to report a liability on the face of the financial statements for the OPEB that plan sponsors provide. In addition, plan sponsors that are responsible only for OPEB liabilities related to their own employees and that provide post-employment benefits through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a Net OPEB Liability, which is the difference between the Total OPEB Liability and assets accumulated held in trust restricted to making benefit payments. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI information includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. For Los Angeles County, Court, and the other participating Outside Districts, who sponsor the OPEB Program, the new financial reporting provisions are effective for their fiscal year ended June 30, 2018.

GASB Task Force

LACERA established the GASB 74/75 Task Force (Task Force)—composed of key stakeholders from the County, Court, Outside Districts, other interested groups, and external professional service providers—to discuss and agree upon the requirements to implement the GASB Statement No. 75 reporting standards in 2018. Implementation was dependent on the successful rollout of new GASB No. 74 standards in 2017. As the new GASB Statement No. 75 provision applied to plan sponsors, the Task Force provided the opportunity to keep the lines of communication open among the parties involved and work toward meeting established timelines and executing implementation decisions. During this time when OPEB financial reporting has undergone significant fundamental changes, the Task Force proved to be a valuable resource for LACERA to assist the plan sponsors in successfully obtaining the required information in implementing GASB Statement No. 75. With implementation successfully completed, LACERA concluded the Task Force this year.

REQUESTS FOR INFORMATION

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

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, 2018 and 2017

(Dollars in Thousands)

	2018			2017		
	Pension Plan	**OPEB Trust**	**OPEB Agency Fund**	**Pension Plan**	**OPEB Trust**	**OPEB Agency Fund**
Assets						
Cash and Short-Term Investments	**$1,786,940**	**$14,150**	**$80,915**	$1,523,990	$83,492	$85,228
Cash Collateral on Loaned Securities	**1,191,235**	**—**	**—**	922,584	—	—
Receivables						
Contributions Receivable	**89,181**	**—**	**—**	76,587	—	—
Accounts Receivable - Sale of Investments	**707,665**	**—**	**—**	931,020	1,211	—
Accrued Interest and Dividends	**102,733**	**132**	**454**	106,074	370	364
Accounts Receivable - Other	**47,090**	**—**	**52,611**	33,278	—	48,585
Total Receivables	**946,669**	**132**	**53,065**	**1,146,959**	**1,581**	**48,949**
Investments at Fair Value						
Equity	**25,661,003**	**456,824**	**—**	25,471,070	607,593	—
Fixed Income	**15,934,587**	**372,962**	**107,394**	14,126,188	54,323	76,625
Private Equity	**5,929,098**	**—**	**—**	5,050,442	—	—
Real Estate	**6,326,246**	**97,073**	**—**	6,139,832	—	—
Hedge Funds	**1,592,126**	**—**	**—**	1,437,925	—	—
Total Investments at Fair Value	**55,443,060**	**926,859**	**107,394**	**52,225,457**	**661,916**	**76,625**
Total Assets	**59,367,904**	**941,141**	**241,374**	**55,818,990**	**746,989**	**210,802**
Liabilities						
Accounts Payable - Purchase of Investments	**1,803,897**	**—**	**14**	2,074,419	4,020	21
Retiree Payroll and Other Payables	**912**	**—**	**179**	1,149	—	150
Accrued Expenses	**35,831**	**134**	**209**	38,780	86	257
Tax Withholding Payable	**32,848**	**—**	**—**	34,914	—	—
Obligations under Securities Lending Program	**1,191,235**	**—**	**—**	922,584	—	—
Accounts Payable - Other	**3,199**	**—**	**121,450**	3,493	—	115,137
Due to Employers	**—**	**—**	**119,522**	—	—	95,237
Total Liabilities	**3,067,922**	**134**	**241,374**	**3,075,339**	**4,106**	**210,802**
Fiduciary Net Position Restricted for Benefits	**$56,299,982**	**$941,007**	**$—**	**$52,743,651**	**$742,883**	**$—**

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

Statement of Changes in Fiduciary Net Position

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	2018		2017	
	Pension Plan	OPEB Trust	Pension Plan	OPEB Trust
Additions				
Contributions				
Employer[1]	**$1,524,823**	**$706,709**	$1,331,359	$645,381
Member	**591,262**	**—**	526,579	—
Total Contributions	**2,116,085**	**706,709**	**1,857,938**	**645,381**
Investment Income				
From Investing Activities:				
Net Appreciation/(Depreciation) in Fair Value of Investments	**974,529**	**15,991**	3,600,948	42,613
Investment Income/(Loss)	**3,925,181**	**63,235**	2,672,282	52,278
Total Investing Activity Income	**4,899,710**	**79,226**	**6,273,230**	**94,891**
Less Expenses from Investing Activities	**(188,753)**	**(480)**	(150,350)	(386)
Net Investing Activity Income	**4,710,957**	**78,746**	**6,122,880**	**94,505**
From Securities Lending Activities:				
Securities Lending Income	**18,796**	**—**	11,597	—
Less Expenses from Securities Lending Activities:				
Borrower Rebates	**(11,787)**	**—**	(3,710)	—
Management Fees	**(1,326)**	**—**	(1,467)	—
Total Expenses from Securities Lending Activities	**(13,113)**	**—**	(5,177)	—
Net Securities Lending Income	**5,683**	**—**	**6,420**	**—**
Total Net Investment Income	**4,716,640**	**78,746**	**6,129,300**	**94,505**
Miscellaneous	**5,613**	**—**	6,370	2
Total Additions	**6,838,338**	**785,455**	**7,993,608**	**739,888**
Deductions				
Retiree Payroll	**3,177,726**	**—**	3,002,930	—
Service Benefits[1]	**—**	**583,406**	—	557,381
Administrative Expenses	**78,181**	**190**	66,830	374
Refunds	**23,221**	**—**	24,452	—
Lump Sum Death Benefits	**2,428**	**—**	2,251	—
Redemptions	**—**	**3,735**	—	—
Miscellaneous	**451**	**—**	188	—
Total Deductions	**3,282,007**	**587,331**	**3,096,651**	**557,755**
Net Increase/(Decrease) in Fiduciary Net Position	**3,556,331**	**198,124**	**4,896,957**	**182,133**
Fiduciary Net Position Restricted for Benefits				
Beginning of Year	**52,743,651**	**742,883**	**47,846,694**	**560,750**
End of Year	**$56,299,982**	**$941,007**	**$52,743,651**	**$742,883**

[1]Employer Contributions are adjusted to reflect pre-funded contributions made to the OPEB Trust as well as additions to Fiduciary Net Position including amounts for OPEB, as the benefits become due that would be unreimbursed to the employers using OPEB Trust assets. Correspondingly, Service Benefits amounts were increased to reflect all benefit payments made through the OPEB Trust or by employers as OPEB payments became due (paragraphs 28a and 31 of GASB Statement No.74). Please see Note Q for OPEB Trust contributions.

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), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures, and policies adopted by the LACERA Board of Retirement and the LACERA 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, LACERA and the Los Angeles 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.

Governance

The LACERA Board of Retirement is responsible for the administration of the retirement system, the retiree healthcare program (which is also referred to as the OPEB Program), and the review and processing of disability retirement applications. The Board is composed of nine Members, plus two alternate members. Six Members are elected: Two are elected by active general members; retired members elect one Member and one alternate Member; safety members elect one Member and one alternate Member. Four Members are appointed by the Los Angeles County Board of Supervisors. The law requires the County Treasurer and Tax Collector to serve as an Ex Officio Member.

The LACERA Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising authority and control over the investment management of the Trust Funds. The Board is composed of nine Members. Four Members are elected: two are elected by active general members; retired members elect one Member, as do safety members. Four Members are appointed by the Los Angeles County Board of Supervisors. The law requires the County Treasurer and Tax Collector to serve as an Ex Officio Member.

Membership

LACERA provides retirement, disability, and death benefits to its active safety and general members and administers the plan sponsors' Retiree Healthcare Benefits (or OPEB) 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 Pension 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, 2018 and 2017

	2018	2017
Active Members		
Vested	**72,020**	72,037
Non-Vested	**26,464**	25,184
Terminated Vested (Deferred)	**8,459**	8,341
Total Active Members	**106,943**	**105,562**
Retired Members		
Service	**46,296**	45,009
Disability	**9,707**	9,489
Survivors	**8,878**	8,797
Total Retired Members	**64,881**	**63,295**
Total Membership	**171,824**	**168,857**

Investments

Pension Plan: Assets in the Pension Plan are derived from three sources: employer contributions; employee contributions (including those made by the employer on behalf of employees pursuant to §414(h)(2) of the Internal Revenue Code); and realized investment earnings. Assets of the Pension Plan are held separate from any other assets, including the separate OPEB Trust and OPEB Agency Fund, and are invested pursuant to policies and procedures adopted by the LACERA Board of Investments. Pension Plan gross income is exempt from federal income taxation under §115 of the Internal Revenue Code.

OPEB Trust: The County and LACERA, as participating employers, established an OPEB Trust for the purpose of holding and investing assets to pre-fund the Retiree Healthcare Benefits Program administered by LACERA for eligible retired members and eligible dependents and survivors of LACERA members. The Superior Court also started making OPEB pre-funding contributions into the Court OPEB Trust as of June 2016. The OPEB Trusts do not modify the participating employer benefit programs. The assets held within the OPEB Trusts meet the definition of a qualifying trust under GASB 74.

The County and Superior Court entered into separate Trust and Investment Services Agreements with the LACERA Board of Investments to serve as Trustee with sole and exclusive authority, control over, and responsibility for directing the investment and management of the respective employers' OPEB Trust assets. The County and Court OPEB Trust documentation and structure are substantively similar. The LACERA Board of Investments serves as Trustee for the two OPEB Trusts, exercising similar authority for each employer's OPEB Trust assets. The two trusts are collectively referred to as the OPEB Trust.

The LACERA Board of Investments adopted an Investment Policy Statement establishing the 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 employer's discretion.

The LACERA Board of Investments approved formation of an OPEB Master Trust for the purpose of commingling funds of the County OPEB Trust and the Court OPEB Trust for investment purposes. The OPEB Master Trust Declaration was made on July 13, 2016. The LACERA Board of Investments serves as Trustee of the Master Trust assets. Gross income from all OPEB Trusts above is exempt from federal income taxation under §115 of the Internal Revenue Code (IRC). LACERA obtained letter rulings from the Internal Revenue Service to this effect.

OPEB Agency Fund: The County, the Superior Court, LACERA and participating Outside District employers provide a health insurance program and death benefits (OPEB Program) for retired employees and their dependents, which LACERA administers. Pursuant to an administrative agreement between the County and LACERA, and certain County ordinances, the County subsidizes, either in whole or in part, insurance premiums covering certain program participants.

LACERA maintains two investment accounts under the OPEB Agency Fund: the OPEB Operating Account and OPEB Reserve Account. The County, Superior Court, LACERA and participating Outside District employers own the funds in these accounts, which LACERA reports and invests separately from Pension Plan assets. The funds held within the OPEB agency investment accounts do not meet the definition of a qualifying OPEB Trust under GASB 74 and are not used to reduce the employers' Total OPEB Liability. External managers invest funds in both accounts pursuant to policies and procedures approved by the LACERA Board of Investments. In addition, 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, LACERA, Superior Court, and Outside Districts, 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. In 2013, the LACERA Board of Retirement adopted a policy that established a reserve account balance target of 20 percent of the total annual premium cost by plan for indemnity medical and dental/ vision plans.

Benefit Provisions

Vesting occurs when a member accumulates five years of creditable service under contributory plans or accumulates 10 years of creditable service under the general service non-contributory plan. Depending on the plan, benefits, according to applicable statutory formula, are based upon 12 or 36 months of average compensation, age at retirement, and length of service as of the retirement date. 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. 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. A Summary of Major Program Provisions for the Pension Plan is available upon request from LACERA.

Cost-of-Living Adjustment (COLA)

Each year, the LACERA 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. The 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-Long Beach-Anaheim 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 geographic region during the past year.

If the CPI has increased, the LACERA Board of Retirement grants a Cost-of-Living Adjustment (COLA) increase for monthly allowances. If the CPI has decreased, it is possible for the LACERA Board of Retirement 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 that year's COLA increase. The increase begins with the April 30 monthly allowance. 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 are also eligible for a 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. The portion of the full increase not awarded may be purchased by the member.

Supplemental Targeted Adjustment for Retirees (STAR) Program

In addition to cost-of-living increases, the CERL also provides the LACERA Board of Retirement the authority to grant supplemental cost-of-living increases. Under this program, known as the STAR Program, excess earnings have been used to restore retirement allowances to 80 percent of the purchasing power held by retirees at the time of retirement. 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 percentage increase is effective annually on January 1.

Future ad hoc increases in the current STAR Program will be subject to approval by the LACERA Board of Retirement on an annual basis, provided sufficient excess earnings are available as determined by the LACERA 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.

Except for Program Years 2005 and 2010 through 2017, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR Program benefits at an 80 percent level as authorized in the CERL. There were no new retirees or beneficiaries entitled to additional STAR benefits for Program Year 2018 due to the modest CPI percentage increase. Thus, all eligible members had COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

From the inception of the STAR Program in 1990 to the present, the STAR Program received $1.5 billion in funding. Except for Program Years 2005 and 2010 through 2017, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR Program benefits, which totaled $353 million. As of June 30, 2018, there is $614 million available in the STAR Program reserve to fund future benefits. Total STAR Program costs since inception equaled $997 million.

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

NOTE B — Summary of Significant Accounting Policies

Reporting Entity

LACERA, with its own two governing Boards, is an independent governmental entity separate and distinct from the County of Los Angeles (County). Due to the nature of the relationship between LACERA and the County, LACERA's Pension Plan and OPEB Trust funds are reflected as fiduciary funds within the County's basic financial statements. LACERA's operations are heavily dependent upon County funding, and the operational results are advantageous to the County, as well as LACERA members. Maintaining appropriate controls and preparing the financial statements are the responsibility of LACERA Management. The LACERA Audit Committee assists the LACERA Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the organization's financial reporting process, the system of internal controls, the audit processes, and the organization's method for monitoring compliance with laws and regulations.

Method of Reporting

LACERA follows the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB).

The financial statements are prepared using the accrual basis of accounting to reflect LACERA's overall operations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Member and employer contributions are recognized in the period in which the contributions are due, pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of each benefit plan.

Capital Assets (Including Intangible Assets)

Capital Assets are items that benefit the organization for more than one fiscal year. LACERA's potential Capital Assets are largely in information technology. Due to continuous upgrading of information technology systems, LACERA treats these items as expenses, as they are immaterial to LACERA's financial statements. Management reviewed and considered all expenses that could be capitalized as capital or 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, 2018 and 2017, were $3.5 million and $3.1 million, respectively.

Cash and Short-Term Investments

Cash includes deposits with various financial institutions, the County, and non-U.S. currency holdings translated to U.S. dollars using the exchange rates in effect at June 30, 2018 and 2017.

LACERA classifies fixed income securities with a maturity of 12 months or less as short-term investments. Pending foreign exchange contracts are also included in the category.

Real Estate Investments

LACERA's real estate investments utilize several different types of Special Purpose Entities (SPE), including Title Holding Corporations (THCs) and Limited Liability Companies (LLCs). The THCs are nonprofit corporations under §501(c)(25) and §501(c)(2) of the Internal Revenue Code (IRC). The LLCs do not have tax-exempt status, but their income is excludable from taxation under IRC §115. Both THCs and LLCs invest in real estate assets located throughout the United States. Under GASB 72, *Fair Value Measurement and Application*, the THCs and LLCs meet GASB's definition of an investment and therefore are included in the accompanying financial statements as investments at fair value.

Fair Value

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

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, 2018 and 2017.
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 Bloomberg Barclays mortgage-backed securities index.
Real Estate Equity Funds*	Fair value as provided by real estate fund managers, 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: Special Purpose Entities, including Title Holding Corporations and Limited Liability Companies	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 investment managers 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.

Investments	Source
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 managers. 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. Valuation of the fund of funds portfolios is provided by third-party administrators and by the General Partner for the portfolios held in limited partnership vehicles.

*These assets are reported by LACERA based on the practical expedient allowed under GAAP.
Note: The fair value hierarchy is provided in Note P – Fair Value.

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 — Pension Plan

Investment Policy: The allocation of investment assets within the LACERA Defined Benefit Pension Plan (Pension Plan) investment portfolio is approved by the LACERA Board of Investments, as outlined in the LACERA Investment Policy Statement. Pension 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 Pension Plan. The Investment Policy Statement calls for an asset liability study to be conducted no later than every three to five years.

Target Allocation: The LACERA Board of Investments approved the current target allocation as a result of the Asset Liability Study completed by Wilshire Consulting in August 2015 and updated by Meketa Investment Group (Meketa) in May 2016. At the time, the Board adopted the targets to provide for diversification of assets in an effort to meet LACERA's actuarial rate of return, consistent with market conditions and risk control.

In May 2018, the LACERA Board of Investments approved a new asset allocation model and asset allocation policy ranges based upon a review completed by Meketa. It is anticipated that the asset allocation policy will be fully implemented over a period of time.

The LACERA Board of Investments and internal staff implement asset allocation targets through the use of external managers who manage portfolios using active and passive investment strategies.

Weighted Average Long-Term Expected Real Rate of Return: The long-term expected real rate of return on Pension Plan investments was determined using a building-block approach, in which a median (or expected) geometric real rate of return is developed for each major asset class. The median rates are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentages. Estimates of the median geometric real rates of return for each major asset class are shown in the table below. The long-term expected rate of return assumptions are presented on a real basis, after the effects of inflation. All assumptions incorporate a base inflation rate assumption of 2.75 percent, as amended in December 2016, when applying the results of the 2016 Investigation of Experience.

Discount Rate: GASB Statement No. 67 requires determination of whether the Pension 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 7.38 percent. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.25 percent, net of all expenses, increased by 0.13 percent, gross of administrative expenses.

The projection of cash flows used to determine the discount rate assumed that Pension Plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be sufficient to pay projected benefit payments in all future years. 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: The annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expenses as of the fiscal years ended June 30, 2018 and 2017, were 9.0 percent and 12.7 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Historical returns are presented in the Schedule of Investment Returns – Pension Plan in the Required Supplementary Information section of this report.

Time-Weighted Rate of Return: The annual time-weighted rate of return on Pension Plan investments as of the fiscal years ended June 30, 2018 and 2017, were 9.0 percent and 12.7 percent, respectively. The time-weighted rate of return expresses investment performance, net of

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

For the Fiscal Year Ended June 30, 2018

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (After Expected 2.75% Inflation Rate) (Geometric)
Global Equity	43.4%	5.7%
Fixed Income	26.6%	2.6%
Real Estate	11.0%	4.6%
Private Equity	10.0%	6.9%
Commodities	2.8%	1.6%
Hedge Funds	4.2%	3.1%
Other Opportunities	0.0%	4.5%
Cash	2.0%	-0.2%

investment expense, while offsetting the effects of investment inflows and outflows. Historical returns are presented in the Investments Results Based on Fair Value – Pension Plan in the Investment Section.

Use of Estimates

The preparation of LACERA's financial statements in conformity with 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 may differ from these estimates.

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.

Upcoming GASB Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes uniform criteria for identifying, classifying and reporting fiduciary activities of all state and local governments. Included in the requirements, the standard eliminates the use of the agency funds and in most cases, these activities will be accounted for in custodial funds. This standard will also require a Statement of Changes in Fiduciary Position for custodial funds. LACERA is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for LACERA's financial statements for the year ending June 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. LACERA is currently evaluating the impact this standard will have on the financial statements, when adopted. The provisions of this statement are effective for LACERA's fiscal year ending June 30, 2021 financial statements.

NOTE C — Pension Plan Contributions

In December 2009, the LACERA Board of Investments adopted a revised Retirement Benefit Funding Policy (Funding Policy). The Funding Policy was amended in February 2013 to conform to the new standards mandated in the California Public Employees' Pension Reform Act of 2013 (PEPRA).

Members and employers contribute to LACERA based on unisex rates recommended by an independent consulting actuary and adopted by the LACERA Board of Investments and the Los Angeles County Board of Supervisors. Contributory plan members are required to contribute between approximately 5 percent and 16 percent of their annual covered salary. Member and employer contributions received from the Outside Districts constitute 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 contributory plan members who entered the Pension Plan prior to January 1, 2013, are based upon age at entry to the plan and plan-type enrollment. As of January 1, 2013, the PEPRA mandated retirement plan contributions are based on a single flat-rate percentage and are structured in accordance with the required 50/50 cost sharing.

Both member rate methodologies are actuarially designed for the employees, as a group, to make contributions into the Pension Plan, which when combined with employer contributions and investment earnings, provide sufficient funding. As a result of collective bargaining, actual member contribution rates for various Plan Types 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. As required by GASB Statement No. 67, member contributions paid by the employer are included in the member contribution amounts.

The normal cost is the theoretical contribution rate that will meet the ongoing costs of a group of average new employees. The latest actuarial valuation as of June 30, 2017, decreased the Employer normal cost rate from 9.97 percent to 9.94 percent and decreased the Employers' required contribution rate to finance the UAAL over a layered 30-year period from 11.24 percent to 11.06 percent. The change in the Employer contribution rates was primarily due to the recognition of investment gains. Member contribution rates increased for General Plan G and decreased for Safety Plan C members effective with the 2017 actuarial valuation with no change in rates for other Plans.

The Employer contribution rate increased 0.34 percent from the previous valuation as of June 30, 2016 (from 19.70 percent to 20.04 percent). The 20.04 percent reflects two-thirds of the three-year phase-in of the increase in the Employer contribution rate due to the new assumptions adopted prior to the 2016 valuation. The cost impact of the assumption changes will be fully phased into the Employer contribution rate with the next valuation as of June 30, 2019.

The most significant factor causing the increase was the additional year phase-in of the cost impact of the 2016 assumption changes which resulted in a 0.55 percent increase in the Employer contribution rate. This increase was partially offset by typical year-to-year fluctuations, including the impact of strong investment returns which caused a 0.32 percent decrease with all other factors accounting for a 0.11 percent increase.

For fiscal year ended June 30, 2018, Los Angeles County, including the Superior Court, and the Outside Districts paid their employer and employee contributions due to LACERA in the form of cash payments. For fiscal year ended June 30, 2017, while the other plan sponsors remitted cash for their contributions, the Superior Court dispensed its employer contributions due LACERA in two ways: (1) it fully utilized its proportionate share of the County Contribution Credit Reserve totaling $21.9 million, which equaled 10 months of contributions; and (2) it remitted cash for the remaining two months of contributions. For the fiscal years ended June 30, 2018 and June 30, 2017, employer contributions totaled $1.52 billion and $1.33 billion, respectively, and employee contributions totaled $591 million and $527 million, respectively.

Pension Plan Contributions

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	2018	2017
Employers		
Los Angeles County	**$1,466,411**	$1,300,709
Superior Court[1]	**58,291**	30,547
Local Agency Formation Commission	**106**	84
South Coast Air Quality Management District	**8**	11
Little Lake Cemetery District	**7**	6
Los Angeles County Office of Education[2]	**—**	—
Total Employer Contributions	**1,524,823**	1,331,357
Non-Employer Contributing Entity		
Metropolitan Transportation Authority[3]	**—**	2
Total Employer and Non-Employer Contributions	**1,524,823**	1,331,359
Employee Contributions	**591,262**	526,579
Total Contributions	**$2,116,085**	$1,857,938

[1]For the Fiscal Year Ended June 30, 2017, additional employer contributions in the amount of $21.9 million were book transfers from the County Contribution Credit Reserve.

[2]Los Angeles County Office of Education has no participants contributing to the Pension System for the fiscal years ended 2018 and 2017.

[3]Contributions received on behalf of LACERA members' participation in the Metropolitan Transportation Authority's (MTA) governing board meetings.

NOTE D — Pension Plan Reserves

LACERA includes reserve accounts within its financial records for various operating purposes as outlined in LACERA's reserves accounting policies. Reserves are established from member and employer contributions and the accumulation of realized investment income after satisfying investment and administrative expenses. With the exception of the reserves required by CERL §31592, reserves are neither required nor recognized under accounting principles generally accepted in the United States of America (i.e., GAAP). They are not shown separately on the Statement of Fiduciary Net Position, as the sum of these reserves equals the Net Position Restricted for Benefits. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirement and other benefits as they become due. The balances contained within the Net Position Restricted for Benefits are used to satisfy member retirement benefits.

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 or Court authorizes, for current and future employer contributions due to LACERA. For the fiscal year ended June 30, 2017, the Court used its proportionate share as partial payment for its current employer contributions, which depleted and closed the CCCR.

Supplemental Targeted Adjustment for Retirees (STAR) Reserve represents the balance of transfers from the Contingency Reserve for future supplemental cost-of-living adjustment (COLA) increases. Twenty-five percent (25%) of excess earnings in fiscal years 1995-1999 were credited to the STAR Reserve pursuant to the 1994 Retirement System Funding Agreement between LACERA and the County. Additions include transfers from the Contingency Reserve. Deductions include STAR Program payments to retirees and funding for permanent benefits. Except for Program Years 2005 and 2010 through 2017, the LACERA 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 Year 2018 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 LACERA 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, in priority order, to the extent that realized earnings are available for the six-month period, as defined in the 2009 Retirement Benefit Funding Policy (Funding Policy) amended in 2013, approved by the LACERA Board of Investments; and funding of the STAR Reserve when excess earnings are available and authorized by the LACERA Board of Retirement. For the fiscal years ended June 30, 2018 and 2017, the net investment earnings were applied as interest credits to some of the reserves in accordance with the Funding Policy, leaving no available credits for the Contingency Reserve.

Pension Plan Reserves

As of June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Member Reserves	**$21,438,278**	$20,380,431
Employer Reserves	**22,610,763**	21,086,809
County Contribution Credit Reserve	**—**	—
STAR Reserve	**614,011**	614,011
Contingency Reserve	**—**	—
Total Reserves at Book Value	**44,663,052**	42,081,251
Unrealized Investment Portfolio Appreciation	**11,636,930**	10,662,400
Total Reserves at Fair Value	**$56,299,982**	$52,743,651

NOTE E — Pension Plan Liabilities

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 Pension 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 and employee contribution rates for new retirement plans established under the California Public Employees' Pension Reform Act of 2013 (PEPRA), may be updated each year as a result of the valuation.

Actuarial standards guide the frequency with 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 completed. The experience study and corresponding annual valuation serve as the basis for changes in employer and member contribution rates for both PEPRA and legacy retirement plans, necessary to properly fund the Pension Plan.

The LACERA Board of Investments adopted new assumptions beginning with the June 30, 2013 and June 30, 2016 actuarial valuations, based on the results of the 2013 and 2016 triennial experience studies. The most recent changes in assumptions occurred in December 2016 when the LACERA Board of Investments adopted decreases in the investment return, price inflation, and a corresponding reduction in the wage inflation assumptions.

Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the 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 adopted assumptions and actual demographics of the Pension Plan and include the types of benefits provided at the time of each valuation.

The Total Pension Liability at June 30, 2018, was determined by completing a projected-forward calculation based on an actuarial valuation conducted as of June 30, 2017, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 67. All actuarial methods and assumptions used for this GASB analysis were the same as those used for the June 30, 2017 funding valuation, except where differences are noted. Key methods and assumptions used to calculate the Total Pension Liability are presented as follows.

Actuarial Methods and Significant Assumptions

Description	Method
Actuarial Cost Method	Individual Entry Age Normal*
Discount Rate	7.38 percent, net of pension plan investment expense, including inflation. This rate was adopted beginning with the June 30, 2016 valuation.
Price Inflation	2.75 percent. This rate was adopted beginning with the June 30, 2016 valuation.
General Wage Growth And Projected Salary Increases	General wage growth: 3.25 percent. This rate was adopted beginning with the June 30, 2016 valuation. Projected salary increases: 3.51 percent to 11.51 percent. The total expected increase in salary includes both merit and the general wage increase assumption of 3.25 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, 2016 valuation.
Cost-of-Living Adjustments	Post-retirement benefit increases of either 2.75 percent or 2.0 percent per year (a pro-rata portion for Plan E) are assumed. This assumption was adopted with the June 30, 2016 valuation. The LACERA Funding Policy calls for the inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve 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. Additional COLA and STAR COLA information is in Note A – Plan Description of this CAFR.
Mortality	Various rates based on the RP-2014 Healthy and Disabled Annuitant mortality tables and including projection for expected future mortality improvement using the MP-2014 Ultimate Projection Scale. This assumption was adopted with the June 30, 2016 valuation report.

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

Discount Rate

The long-term expected rate of return was determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Milliman's December 2016 Investigation of Experience analysis was used to develop the 7.38 percent assumption used for the current reporting date. This is equal to the 7.25 percent long-term investment return assumption adopted by the Board (net of investment and administrative expenses), plus 0.13 percent assumed administrative expenses.

The plan's projected Fiduciary Net Position, after reflecting employee and employer made contributions, was expected to be sufficient to make all future benefit payments of current active and inactive (deferred) employees. Therefore, the discount rate for calculating the Total Pension Liability is equal to the long-term expected rate of return, gross of administrative expenses.

Other Key Assumptions

Other key actuarial assumptions used to calculate the Total Pension Liability as of the June 30, 2018 measurement date are the same as used to determine the June 30, 2017 actuarial funding valuation. For the determination of the Total Pension Liability as of the June 30, 2017 measurement date, other key actuarial assumptions were the same as used in the June 30, 2016 actuarial funding valuation.

Net Pension Liability

GASB Statement No. 67 requires public pension plans to provide the calculation of 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 funded status of the Plan is calculated separately by the consulting actuary and the results of which are included in the actuarial valuation report. The components of LACERA's (the Pension Plan's) Net Pension Liability at fiscal year end June 30, 2018 and fiscal year end June 30, 2017, were as follows:

Sensitivity Analysis

In accordance with GASB 67, sensitivity of the

Schedule of Net Pension Liability

For the Fiscal Years Ended June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Total Pension Liability	**$67,057,218**	$64,031,677
Less: Fiduciary Net Position	**(56,299,982)**	(52,743,651)
Net Pension Liability	**$10,757,236**	$11,288,026
Fiduciary Net Position as a Percentage of Total Pension Liability	**83.96%**	82.37%

Financial

Net Pension Liability to changes in the discount rate must be reported. The following presents the Net Pension Liability, calculated for the fiscal year ended June 30, 2018 using the discount rate of 7.38 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 (6.38 percent) or 1 percentage point higher (8.38 percent) than the current rate (7.38 percent). A corresponding calculation is presented for the fiscal year ended June 30, 2017 based on the discount rate in effect for that year:

Sensitivity Analysis

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	2018			2017		
	1% Decrease [6.38%]	**Current Discount Rate [7.38%]**	**1% Increase [8.38%]**	**1% Decrease [6.38%]**	**Current Discount Rate [7.38%]**	**1% Increase [8.38%]**
Total Pension Liability	$76,111,825	$67,057,218	$59,571,811	$72,707,046	$64,031,677	$56,859,822
Less: Fiduciary Net Position	(56,299,982)	(56,299,982)	(56,299,982)	(52,743,651)	(52,743,651)	(52,743,651)
Net Pension Liability	**$19,811,843**	**$10,757,236**	**$3,271,829**	**$19,963,395**	**$11,288,026**	**$4,116,171**

NOTE F — Partial Annuitization of Pension Benefit Payments

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

LACERA is responsible for any difference in pension benefit payments payable to covered members which are unreimbursed by the insurance companies. The reimbursements received are netted against the pension and annuity payments in LACERA's financial statements. For the fiscal year ended June 30, 2018, LACERA paid $15.3 million to covered members and received $12.6 million in related reimbursements. For the fiscal year ended June 30, 2017, LACERA paid $17.1 million to covered members and received $14.1 million in related reimbursements. As the monthly annuity reimbursement from the annuity providers is allocated to covered members' pension payments, the fair value of contracts was excluded from pension plan assets and actuarially determined amounts.

NOTE G — Deposit and Investment Risks

The County Employees Retirement Law of 1937 (CERL) vests the LACERA Board of Investments with exclusive control over LACERA's investment portfolio. The LACERA Board of Investments established Investment Policy Statements for the management of the LACERA defined benefit retirement plan (Pension Plan) and the LACERA Other Post-Employment Benefit Trust Fund (OPEB Trust). The LACERA Board of Investments exercises authority and control over the management of LACERA's Net Position Restricted for Benefits by setting a policy that the Investments staff executes either internally or through the use of prudent external experts.

The Investment Policy Statement for the Pension Plan 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 Policy and Principles
- Derivatives Investment Policy
- Emerging Manager Policy
- Manager Monitoring and Review Policy
- Securities Lending Policy
- Placement Agent Policy
- Hedge Fund Investment Policy

Outlined below are the Deposit and Investment Risks as they relate to fixed income investments.

Credit Risk

Credit Risk is the risk that an issuer or a counterparty to an investment transaction will not fulfill its obligations, causing the investment to decline in value. LACERA seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the Pension Plan 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 that, 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 and Opportunistic 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 that, in the judgment of the Investment Manager, they would not violate LACERA's minimum credit criteria.

LACERA's Opportunistic Credit portfolios allow for the assumption of more credit risk than other fixed income portfolios by investing in securities that include unrated bonds, bonds rated below investment grade issued by corporations undergoing financial stress or distress, junior tranches of structured securities backed by residential and commercial mortgages, and bank loans. LACERA utilizes specific investment guidelines for these portfolios that limit maximum exposure by issuer, industry, and sector, which result in well-diversified portfolios.

The following is a schedule for the year ended June 30, 2018 of the credit quality ratings by Moody's, a nationally recognized statistical rating organization, of investments in fixed income securities. Whole loan mortgages included in the Pension Plan portfolio of $33 million are excluded from this presentation.

Credit Quality Ratings of Investments in Fixed Income Securities — Pension Plan

As of June 30, 2018
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	U.S. Govt. Agencies	Municipals	Corporate Debt/Credit Securities	Pooled Funds	Non-U.S. Fixed Income	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$1,708,192	$1,837,787	$10,219	$604,685	$—	$22,367	$318,025	$4,501,275	28%
Aa	—	—	24,870	328,302	318,126	3,984	89,899	765,181	5%
A	—	—	8,548	785,183	—	42,360	312,151	1,148,242	7%
Baa	—	2,629	22,215	1,340,291	39,344	3,496	384,078	1,792,053	11%
Ba	—	—	—	555,357	—	22,016	228,823	806,196	5%
Bbb	—	—	—	13,752	—	374	22,990	37,116	0%
Bb	—	—	—	14,231	—	—	26,626	40,857	0%
B	—	—	90	642,681	30,624	30,367	416,897	1,120,659	7%
Caa	—	—	—	235,942	—	6,787	104,431	347,160	2%
Ca	—	—	—	37,970	—	—	845	38,815	0%
Ccc	—	—	—	4,527	—	—	504	5,031	0%
Cc	—	—	—	1,999	—	—	—	1,999	0%
C	—	—	1,272	156	—	—	195	1,623	0%
D	—	—	—	187	—	—	1,039	1,226	0%
Not Rated	—	1,743	7,144	205,137	4,913,260	5,843	161,177	5,294,304	33%
Total	**$1,708,192**	**$1,842,159**	**$74,358**	**$4,770,400**	**$5,301,354**	**$137,594**	**$2,067,680**	**$15,901,737**	**100%**

The following is a schedule for the year ended June 30, 2017 of the credit quality ratings by Moody's, a nationally recognized statistical rating organization, of investments in fixed income securities. Whole loan mortgages included in the Pension Plan portfolio of $36 million are excluded from this presentation.

Credit Quality Ratings of Investments in Fixed Income Securities — Pension Plan

As of June 30, 2017
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	U.S. Govt. Agencies	Municipals	Corporate Debt/Credit Securities	Pooled Funds	Non-U.S. Fixed Income	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$2,229,347	$2,297,738	$876	$324,134	$—	$234	$244,342	$5,096,671	36%
Aa	—	—	29,547	226,205	315,536	1,073	61,115	633,476	4%
A	—	—	8,907	944,815	—	40,495	291,383	1,285,600	9%
Baa	—	2,533	21,681	1,514,842	14,883	5,679	365,703	1,925,321	14%
Ba	—	—	—	561,566	—	19,718	238,352	819,636	6%
B	—	—	88	631,948	30,962	12,889	383,030	1,058,917	8%
Caa	—	—	4,344	230,454	—	772	121,249	356,819	3%
Ca	—	—	—	40,075	—	—	9,942	50,017	0%
C	—	—	1,129	270	—	—	329	1,728	0%
Not Rated	—	15,163	4,583	393,395	2,152,036	16,743	279,916	2,861,836	20%
Total	**$2,229,347**	**$2,315,434**	**$71,155**	**$4,867,704**	**$2,513,417**	**$97,603**	**$1,995,361**	**$14,090,021**	**100%**

Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Trust

As of June 30, 2018
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Corporate Debt/ Credit Securities	Pooled Investments	Total	Percentage of Portfolio
Aaa	$991	$983	$—	$1,974	1%
Aa	—	1,563	—	1,563	0%
A	—	6,827	—	6,827	2%
Not Rated	—	444	362,154	362,598	97%
Total	**$991**	**$9,817**	**$362,154**	**$372,962**	**100%**

Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Trust

As of June 30, 2017
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Corporate Debt/ Credit Securities	Pooled Investments	Total	Percentage of Portfolio
Aaa	$9,001	$8,028	$—	$17,029	32%
Aa	—	7,268	—	7,268	13%
A	—	30,026	—	30,026	55%
Total	**$9,001**	**$45,322**	**$—**	**$54,323**	**100%**

Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Agency Fund

As of June 30, 2018
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Corporate Debt/ Credit Securities	Pooled Investments	Total	Percentage of Portfolio
Aaa	$58,525	$8,780	$—	$67,305	62%
Aa	—	10,559	—	10,559	10%
A	—	26,227	—	26,227	24%
Baa	—	587	—	587	1%
Not Rated	—	2,716	—	2,716	3%
Total	**$58,525**	**$48,869**	**$—**	**$107,394**	**100%**

Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Agency Fund

As of June 30, 2017
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Corporate Debt/Credit Securities	Pooled Investments	Total	Percentage of Portfolio
Aaa	$41,585	$7,183	$—	$48,768	63%
Aa	—	8,264	—	8,264	11%
A	—	19,593	—	19,593	26%
Total	**$41,585**	**$35,040**	**$—**	**$76,625**	**100%**

Custodial Credit Risk

LACERA's contract with its primary custodian State Street Bank and Trust (Bank) provides that the Bank may hold LACERA's securities registered in the Bank's or its agent's nominee name, in bearer form, in book-entry form, with a clearing house corporation, or with 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 those overnight 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" 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 would 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, some of LACERA's assets are invested in investment managers' pooled vehicles. The securities in these vehicles may be held by a different custodian other than State Street Bank & Trust.

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. LACERA and its managers seek to minimize risk of loss from its counterparties by diversifying the number of counterparties, periodically reviewing their credit quality and seeking to structure agreements so that collateral is posted on accrued gains if they reach certain size thresholds.

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 approved commingled funds.

As of June 30, 2018, LACERA did not hold any investments in any one issuer that would represent 5 percent or more of the Pension Plan Fiduciary Net Position. 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 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 Duration in Fixed Income Securities – Pension Plan schedule for the year ended June 30, 2018 presents the duration by investment type. Whole loan mortgages included in the Pension Plan portfolio of $33 million are excluded from this presentation.

Duration in Fixed Income Securities — Pension Plan

As of June 30, 2018
(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration*
U.S. Treasury, U.S. Government Agency, and Municipal Instruments:		
U.S. Treasury	$1,708,192	7.18
U.S. Government Agency	1,842,159	0.19
Municipal/Revenue Bonds	74,358	9.06
Subtotal U.S. Treasury, U.S. Government Agency, and Municipal Instruments	**$3,624,709**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$416,958	0.73
Commercial Mortgage-Backed Securities	261,819	2.89
Corporate and Other Credit	4,083,686	0.46
Fixed Income Swaps and Options	7,936	N/A
Pooled Funds	5,301,355	N/A
Subtotal Corporate Bonds and Credit Securities	**$10,071,754**	
Non-U.S. Fixed Income	$137,594	3.65
Private Placement Fixed Income	2,067,680	3.47
Subtotal Non-U.S. and Private Placement Securities	**$2,205,274**	
Total Fixed Income Securities	**$15,901,737**	

*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.

The Duration in Fixed Income Securities – Pension Plan schedule for the year ended June 30, 2017 presents the duration by investment type. Whole loan mortgages included in the Pension Plan portfolio of $36 million are excluded from this presentation.

Duration in Fixed Income Securities — Pension Plan

As of June 30, 2017
(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration*
U.S. Treasury, U.S. Government Agency, and Municipal Instruments:		
U.S. Treasury	$2,229,347	7.74
U.S. Government Agency	2,315,434	2.89
Municipal/Revenue Bonds	71,155	7.92
Subtotal U.S. Treasury, U.S. Government Agency, and Municipal Instruments	**$4,615,936**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$387,503	0.73
Commercial Mortgage-Backed Securities	373,618	2.92
Corporate and Other Credit	4,100,817	4.20
Fixed Income Swaps	5,766	N/A
Pooled Investments	2,513,417	N/A
Subtotal Corporate Bonds and Credit Securities	**$7,381,121**	
Non-U.S. Fixed Income	$97,603	5.07
Private Placement Fixed Income	1,995,361	3.61
Subtotal Non-U.S. and Private Placement Securities	**$2,092,964**	
Total Fixed Income Securities	**$14,090,021**	

*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.

Duration in Fixed Income Securities — OPEB Trust

As of June 30, 2018

(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration*
U.S. Treasury and U.S. Government Agency Instruments:		
U.S. Treasury	$991	0.55
Subtotal U.S. Treasury and U.S. Government Agency Instruments	**$991**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$1,427	0.24
Corporate and Other Credit	8,390	3.16
Pooled Investments	362,154	N/A
Subtotal Corporate Bonds and Credit Securities	**$371,971**	
Total Fixed Income Securities	**$372,962**	

*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.

Duration in Fixed Income Securities — OPEB Trust

As of June 30, 2017

(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration*
U.S. Treasury and U.S. Government Agency Instruments:		
U.S. Treasury	$9,001	0.59
Subtotal U.S. Treasury and U.S. Government Agency Instruments	**$9,001**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$5,755	0.19
Corporate and Other Credit	39,567	0.49
Subtotal Corporate Bonds and Credit Securities	**$45,322**	
Total Fixed Income Securities	**$54,323**	

*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.

Duration in Fixed Income Securities — OPEB Agency Fund

As of June 30, 2018
(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration*
U.S. Treasury	$58,525	9.97
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	10,646	1.56
Corporate and Other Credit	38,223	7.58
Subtotal Corporate Bonds and Credit Securities	**$48,869**	
Total Fixed Income Securities	**$107,394**	

*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.

Duration in Fixed Income Securities — OPEB Agency Fund

As of June 30, 2017
(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration*
U.S. Treasury	$41,585	2.18
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	6,562	1.57
Corporate and Other Credit	28,478	1.73
Subtotal Corporate Bonds and Credit Securities	**$35,040**	
Total Fixed Income Securities	**$76,625**	

*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 implemented a passive currency hedging program, which hedges into U.S. dollars approximately 50 percent of LACERA's foreign currency exposure for developed market 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 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 — Pension Plan

As of June 30, 2018
(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contracts	Total
AFRICA							
Ghana New Cedi	$2,402	$—	$—	$—	$—	$—	**$2,402**
Kenyan Shilling	3,586	—	—	—	—	—	**3,586**
Moroccan Dirham	3,390	—	—	—	—	—	**3,390**
Nigerian Naira	16,818	—	—	—	—	—	**16,818**
South African Rand	206,894	—	153	—	—	—	**207,047**
AMERICAS							
Argentine Peso	1,721	2,136	428	—	—	26	**4,311**
Brazilian Real	173,126	(34)	81	—	—	—	**173,173**
Canadian Dollar	839,897	555	(111)	—	—	10,729	**851,070**
Chilean Peso	30,462	—	—	—	—	—	**30,462**
Colombian Peso	13,625	—	1	—	—	—	**13,626**
Mexican Peso	94,675	39,999	2,419	—	—	55	**137,148**
Peruvian New Sol	12,401	—	—	—	—	—	**12,401**
Uruguayan Peso	—	3,406	—	—	—	—	**3,406**
ASIA							
Australian Dollar	567,221	3,714	4,015	—	—	11,930	**586,880**
Chinese Renminbi	122,583	—	—	—	—	—	**122,583**
Hong Kong Dollar	1,016,518	—	2,952	—	—	219	**1,019,689**
Indian Rupee	315,667	—	—	—	—	—	**315,667**
Indonesian Rupiah	52,087	—	20	—	—	—	**52,107**
Japanese Yen	2,046,373	423	16,857	—	—	37,477	**2,101,130**
Malaysian Ringgit	58,547	—	296	—	—	—	**58,843**
New Taiwan Dollar	272,839	—	—	—	—	—	**272,839**
New Zealand Dollar	18,189	227	56	—	—	609	**19,081**
Pakistan Rupee	1,851	—	—	—	—	—	**1,851**
Philippine Peso	21,580	—	1	—	—	—	**21,581**
Singapore Dollar	176,918	—	3,783	—	—	2,380	**183,081**
South Korean Won	502,754	—	515	—	—	—	**503,269**
Thai Baht	85,664	—	9	—	—	—	**85,673**
Vietnamese Dong	32,888	—	—		—	—	**32,888**

Non-U.S. Investment Securities at Fair Value continued — Pension Plan

As of June 30, 2018

(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contracts	Total
EUROPE							
British Pound Sterling	1,671,247	13,646	2,260	1,899	25,792	45,412	**1,760,256**
Czech Republic Koruna	2,213	—	—	—	—	—	**2,213**
Danish Krone	148,938	22,140	—	—	—	4,866	**175,944**
Euro	2,765,040	47,163	6,485	191,811	278,346	35,273	**3,324,118**
Hungarian Forint	11,197	—	—	—	—	—	**11,197**
Norwegian Krone	85,919	—	5	—	—	1,584	**87,508**
Polish Zloty	25,529	—	233	—	—	—	**25,762**
Romanian New Leu	8,686	—	—	—	—	—	**8,686**
Russian Ruble	83,826	5,578	42	—	—	—	**89,446**
Swedish Krona	281,171	—	30	—	—	10,158	**291,359**
Swiss Franc	641,643	—	—	—	—	8,361	**650,004**
MIDDLE EAST							
Egyptian Pound	7,509	—	—	—	—	—	**7,509**
Israeli New Shekel	59,323	—	—	—	—	828	**60,151**
Lebanese Pound	1,124	—	—	—	—	—	**1,124**
Qatari Rial	12,422	—	31	—	—	—	**12,453**
Saudi Riyal	4,058	—	—	—	—	—	**4,058**
Turkish Lira	59,738	—	248	—	—	—	**59,986**
UAE Dirham	11,966	—	—	—	—	—	**11,966**
Total Investment Securities Subject to Foreign Currency Risk	**$12,572,225**	**$138,953**	**$40,809**	**$193,710**	**$304,138**	**$169,907**	**$13,419,742**

Non-U.S. Investment Securities at Fair Value — Pension Plan

As of June 30, 2017
(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contracts	Total
AFRICA							
CFA Franc (W. African)	$1,151	$—	$—	$—	$—	$—	**$1,151**
Ghana New Cedi	1,914	—	—	—	—	—	**1,914**
GSC	26	—	—	—	—	—	**26**
Kenyan Shilling	3,024	—	—	—	—	—	**3,024**
Moroccan Dirham	3,086	—	—	—	—	—	**3,086**
Nigerian Naira	10,639	—	—	—	—	—	**10,639**
South African Rand	212,212	—	772	—	—	—	**212,984**
Tunisian Dinar	1,409	—	—	—	—	—	**1,409**
AMERICAS							
Argentine Peso	204	—	—	—	—	(5,253)	**(5,049)**
Bermudan Dollar	9,354	—	—	—	—	—	**9,354**
Brazilian Real	166,376	—	40	—	—	—	**166,416**
Canadian Dollar	899,858	581	360	—	—	(14,912)	**885,887**
Chilean Peso	22,608	—	—	—	—	—	**22,608**
Columbian Peso	9,196	—	—	—	—	—	**9,196**
Mexican Peso	109,196	40,436	1,783	—	—	(60)	**151,355**
Peruvian New Sol	15,769	—	—	—	—	—	**15,769**
Uruguayan Peso	—	1,139	—	—	—	—	**1,139**
ASIA							
Australian Dollar	576,788	—	3,731	—	—	—	**580,519**
Chinese Renminbi	65,469	—	—	—	—	—	**65,469**
Hong Kong Dollar	980,759	—	9,976	—	—	685	**991,420**
Indian Rupee	316,121	—	—	—	—	—	**316,121**
Indonesian Rupiah	57,956	—	19	—	—	—	**57,975**
Japanese Yen	2,049,184	1,350	1,976	—	—	21,625	**2,074,135**
Malaysian Ringgit	56,348	—	112	—	—	—	**56,460**
New Taiwan Dollar	302,870	—	1,565	—	—	—	**304,435**
New Zealand Dollar	20,153	234	355	—	—	(626)	**20,116**
Pakistan Rupee	2,874	—	—	—	—	—	**2,874**
Philippine Peso	26,606	—	—	—	—	—	**26,606**
Singapore Dollar	164,277	—	5,104	—	—	(790)	**168,591**
South Korean Won	469,837	—	38	—	—	—	**469,875**
Thai Baht	84,470	—	10	—	—	—	**84,480**
Vietnamese Dong	23,553	—	—	—	—	—	**23,553**

Non-U.S. Investment Securities at Fair Value continued — Pension Plan

As of June 30, 2017
(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contracts	Total
EUROPE							
British Pound Sterling	1,729,802	11,224	4,924	2,020	22,057	(16,314)	**1,753,713**
Czech Republic Koruna	2,208	—	—	—	—	—	**2,208**
Danish Krone	189,600	892	37	—	—	(3,050)	**187,479**
Euro	2,860,597	36,109	13,170	180,545	262,137	(52,238)	**3,300,320**
Hungarian Forint	9,252	—	—	—	—	—	**9,252**
Norwegian Krone	68,322	—	90	—	—	(482)	**67,930**
Polish Zloty	33,480	—	—	—	—	—	**33,480**
Romanian New Leu	5,945	—	—	—	—	—	**5,945**
Russian Ruble	95,323	5,638	402	—	—	—	**101,363**
Swedish Krona	321,249	—	—	—	—	(6,805)	**314,444**
Swiss Franc	720,515	—	33	—	—	(9,267)	**711,281**
MIDDLE EAST							
Egyptian Pound	4,543	—	—	—	—	—	**4,543**
Israeli New Shekel	62,533	—	18	—	—	(678)	**61,873**
Lebanese Pound	1,062	—	—	—	—	—	**1,062**
Qatari Rial	10,605	—	31	—	—	—	**10,636**
Turkish Lira	70,687	—	2	—	—	—	**70,689**
UAE Dirham	11,511	—	—	—	—	—	**11,511**
Total Investment Securities Subject to Foreign Currency Risk	**$12,860,521**	**$97,603**	**$44,548**	**$182,565**	**$284,194**	**$(88,165)**	**$13,381,266**

Non-U.S. Investment Securities at Fair Value — OPEB Trust

As of June 30, 2018
(Dollars in Thousands)

Currency	Equity
AFRICA	
South African Rand	$3,334
AMERICAS	
Brazilian Real	2,969
Canadian Dollar	14,114
Chilean Peso	594
Colombian Peso	228
Mexican Peso	1,553
Peruvian New Sol	183
ASIA	
Australian Dollar	10,095
Chinese Renminbi	15,941
Hong Kong Dollar	4,933
Indian Rupee	4,887
Indonesian Rupiah	1,005
Japanese Yen	36,587
Malaysian Ringgit	1,279
New Taiwan Dollar	6,532
New Zealand Dollar	457
Pakistan Rupee	91
Philippine Peso	503
Singapore Dollar	1,918
South Korean Won	7,856
Thai Baht	1,188
EUROPE	
British Pound Sterling	26,355
Czech Republic Koruna	91
Danish Krone	2,512
Euro	45,905
Hungarian Forint	137
Norwegian Krone	1,325
Polish Zloty	594
Russian Ruble	1,690
Swedish Krona	4,339
Swiss Franc	10,551

Currency	Equity
MIDDLE EAST	
Egyptian Pound	137
Israeli New Shekel	1,051
Qatari Rial	411
Turkish Lira	411
UAE Dirham	320
Total Investment Securities Subject to Foreign Currency Risk	**$212,076**

Non-U.S. Investment Securities at Fair Value — OPEB Trust

As of June 30, 2017

(Dollars in Thousands)

Currency	Equity
AFRICA	
South African Rand	$4,374
AMERICAS	
Brazilian Real	4,314
Canadian Dollar	19,198
Chilean Peso	790
Colombian Peso	304
Mexican Peso	2,491
Peruvian New Sol	243
ASIA	
Australian Dollar	13,974
Chinese Renminbi	18,348
Hong Kong Dollar	6,805
Indian Rupee	6,501
Indonesian Rupiah	1,701
Japanese Yen	49,454
Malaysian Ringgit	1,701
New Taiwan Dollar	9,052
New Zealand Dollar	608
Pakistan Rupee	182
Philippine Peso	790
Singapore Dollar	2,734
South Korean Won	10,693
Thai Baht	1,458
EUROPE	
British Pound Sterling	36,028
Czech Republic Koruna	122
Danish Krone	3,645
Euro	63,549
Hungarian Forint	182
Norwegian Krone	1,519
Polish Zloty	911
Russian Ruble	1,944
Swedish Krona	6,683
Swiss Franc	16,221
MIDDLE EAST	
Egyptian Pound	122
Israeli New Shekel	1,640
Qatari Rial	486
Turkish Lira	790
UAE Dirham	486
Total Investment Securities Subject to Foreign Currency Risk	**$290,043**

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, and U.S. Agency securities. GSAL lends LACERA's U.S. equities and corporate bonds. Collateralization is set on non-U.S. loans at 105 percent and on U.S. loans at 102 percent of the market value of securities on loan.

State Street Global Advisors invests the collateral received from both lending programs. The collateral is invested in short-term highly liquid instruments. The maturities of the investments made with cash collateral typically do not match the maturities of their securities loans. Loans are marked-to-market daily, so that if the market value of a security on loan rises, LACERA receives additional collateral. Conversely, if the market value of a security on loan declines, then the borrower receives a partial return of the collateral. Earnings generated in excess of the interest paid to the borrowers represent net income. LACERA shares this net income with the two lending agents 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. LACERA does not have the ability to pledge assets received as collateral without a borrower default. In the event the purchase price of replacement securities exceeds the amount of collateral, the lending agent is liable to LACERA for the difference, plus interest. Either LACERA or the borrower of the security can terminate a loan on demand.

At fiscal year-end, LACERA had no credit risk exposure to borrowers, because the amount of collateral received exceeded the value of securities on loan. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the fiscal years ended June 30, 2018 and 2017.

As of June 30, 2018, the fair value of securities on loan was $1.6 billion, with a value of cash collateral received of $1.2 billion and non-cash collateral of $426 million. As of June 30, 2017, the fair value of securities on loan was $1.4 billion, with a value of cash collateral received of $923 million and non-cash collateral of $495 million. LACERA's income, net of expenses from securities lending, was $5.7 million and $6.4 million for the fiscal years ended June 30, 2018 and 2017, respectively.

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

Securities Lending

As of June 30, 2018 and 2017

(Dollars in Thousands)

	2018			2017		
Securities on Loan	**Fair Value of Securities on Loan**	**Cash Collateral Received**	**Non-Cash Collateral Received**	**Fair Value of Securities on Loan**	**Cash Collateral Received**	**Non-Cash Collateral Received**
U.S. Equities	$255,378	$262,055	$—	$297,066	$303,905	$—
U.S. Fixed Income	1,230,315	913,980	369,603	974,874	599,557	428,428
Non-U.S. Equities	66,789	15,200	56,016	80,056	19,122	67,028
Total	**$1,552,482**	**$1,191,235**	**$425,619**	**$1,351,996**	**$922,584**	**$495,456**

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. Gains and losses from derivatives are included in net investment income. The following types of derivatives are permitted: futures, currency forwards, options, and swaps. 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 which are discussed in Note O - Hedge Fund Investments.

Futures

Futures are financial agreements to buy or sell an underlying asset at a specified future date and price. Futures are standardized instruments traded on organized exchanges, and they are marked-to-market daily. The futures exchange reduces counterparty credit risk by acting as a central counterparty. It does this by collecting a daily margin payment from one trade participant and crediting it to the other, based on price changes in the underlying asset.

Currency Forwards

Similar to futures agreements, forwards represent an agreement to buy or sell an underlying asset at a specified future date and price. However, forwards are non-standardized agreements tailored to each specific transaction. Payment for the transaction is generally delayed until the settlement or expiration date. Forward contracts are privately negotiated and do not trade on a centralized exchange; therefore, they are considered "over the counter" instruments. Currency forward contracts are used to manage currency exposure, implement the passive currency hedge, and facilitate the settlement of international security purchases and sales.

Currency Forwards Analysis

As of June 30, 2018
(Dollars in Thousands)

Currency Name	Options	Currency Forward Contracts: Net Receivables	Currency Forward Contracts: Net Payables	Swaps	Total Exposure
Argentine Peso	$—	$4	$22	$—	**$26**
Australian Dollar	—	59	11,871	—	**11,930**
Brazilian Real	—	—	—	(34)	**(34)**
British Pound Sterling	—	(136)	45,549	(499)	**44,914**
Canadian Dollar	—	938	9,790	—	**10,728**
Danish Krone	—	109	4,758	—	**4,867**
Euro	113	1,563	33,710	(992)	**34,394**
Hong Kong Dollar	—	(3)	222	—	**219**
Israeli New Shekel	—	(119)	947	—	**828**
Japanese Yen	—	(2,121)	39,598	423	**37,900**
Mexican Peso	—	(4)	59	(1,351)	**(1,296)**
New Zealand Dollar	—	(57)	666	—	**609**
Norwegian Krone	—	19	1,565	—	**1,584**
Singapore Dollar	—	(81)	2,461	—	**2,380**
Swedish Krona	—	(304)	10,462	—	**10,158**
Swiss Franc	—	128	8,233	—	**8,361**
Total	**$113**	**$(5)**	**$169,913**	**$(2,453)**	**$167,568**

Options

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.

Swaps

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 exchanged by the counterparties 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 since the prior mark-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 year ended June 30, 2018, classified by type.

Investment Derivatives

As of June 30, 2018

(Dollars in Thousands)

Derivative Type	Net Appreciation/ (Depreciation) in Fair Value for the Fiscal Year Ended June 30, 2018	Fair Value at June 30, 2018	Notional Value (Dollars)	Notional Shares (Units)
Commodity Futures Long	$171,765	$—	$—	457,843
Commodity Futures Short	(101,354)	—	—	(45,014)
Credit Default Swaps Bought	1,468	(8,310)	132,245	—
Credit Default Swaps Written	135	1,018	41,146	—
Equity Options Bought	(410)	—	—	—
Fixed Income Futures Long	(20,259)	—	—	1,421,312
Fixed Income Futures Short	1,151	—	—	(528,379)
Fixed Income Options Bought	(893)	4,326	—	539,280
Fixed Income Options Written	519	(5,136)	—	(451,027)
Foreign Currency Options Bought	(673)	—	—	—
Foreign Currency Options Written	662	—	—	—
Futures Options Bought	(9,324)	1,063	—	8,118
Futures Options Written	6,473	(1,607)	—	(9,540)
FX Forwards	51,297	169,907	8,320,628	—
Pay Fixed Interest Rate Swaps	27,468	20,169	900,285	—
Receive Fixed Interest Rate Swaps	(3,185)	(2,523)	204,058	—
Rights	(12)	159	370	—
Total Return Swaps Bond	(2,373)	519	64,670	—
Total Return Swaps Equity	36,071	(1,671)	(519,127)	—
Warrants	(25)	14	6,181	—
Total	**$158,501**	**$177,928**	**$9,150,456**	**1,392,593**

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 custodian bank, State Street Bank and Trust.

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 certain swap agreements. To minimize counterparty credit risk exposure, LACERA's investment managers continually monitor credit ratings of counterparties. In addition, collateral provided by the counterparty reduces LACERA's counterparty credit risk exposure. Should there be a counterparty failure, LACERA would be exposed to the loss of the fair value of derivatives that have unrealized gains and any collateral provided to the counterparty, net 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.

Financial

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, 2018

(Dollars in Thousands)

Counterparty Name	Total Fair Value	S&P Rating	Fitch Rating	Moody's Rating
Bank Of America	$128	A-	A+	A3
Bank Of America CME	112	A-	A+	A3
Bank Of America ICE	2	A-	A+	A3
Bank Of America LCH	337	A-	A+	A3
Bank Of America, N.A.	176	A+	AA-	Aa3
Barclays Bank LDN ICE Europe	875	BBB	A	Baa3
Barclays Bank PLC Wholesale	140	A	A	A2
BNP Paribas SA	1,790	A	A+	Aa3
Citi	16	BBB+	A	Baa1
Citibank N.A.	294	A+	A+	A1
Citigroup Global Markets CME	1,554	BBB+	A	Baa1
Citigroup Global Markets ICE	98	A	NR	A+
Citigroup Global Markets LCH	3,432	BBB+	A	Baa1
Credit Suisse FOB CME	8,996	A	A	A1
Credit Suisse FOB ICE	133	A	A	A1
Credit Suisse FOB LCH	6,249	A	A	A1
Credit Suisse International	28,584	A	A	A1
Credit Suisse Securities (USA) LLC	15	A	A	A1
Deutsche Bank AG	43,905	BBB+	BBB+	Baa2
Goldman Sachs Bank USA	286	BBB+	A	A3
Goldman Sachs CME	155	BBB+	A	A3
Goldman Sachs International	20,365	A+	A	A1
JP Morgan	254	A-	AA-	A3
JP Morgan Chase Bank	852	A+	AA	Aa3
JP Morgan Chase Bank N.A.	100	A+	AA	Aa3
Macquarie Bank Limited	49	A	A	A2
Morgan Stanley Bank, N.A.	43	A+	A+	A1
Morgan Stanley Capital Services Inc.	31	BBB+	A	A3
Royal Bank Of Scotland PLC	20,921	BBB+	BBB+	Baa2
State Street Bank And Trust Company	866	AA-	AA	Aa3
UBS AG	5	A+	AA-	Aa3
UBS AG London	29,296	A+	AA-	Aa3
UBS CME	19	A+	AA-	Aa3
Westpac Banking Corporation	31,142	AA-	AA-	Aa3
Total	**$201,220**			

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. These investments are disclosed in the following table:

Interest Rate Risk Analysis

As of June 30, 2018

(Dollars in Thousands)

				Investments Maturity (in Years)				
Investment Type	**Notional Value**	**Notional Shares (Units)**	**Fair Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More than 10**	**No Maturity**
Credit Default Swaps Bought	$132,245	—	$(8,310)	$—	$(8,310)	$—	$—	$—
Credit Default Swaps Written	41,146	—	1,018	(1)	989	28	2	—
Fixed Income Futures Long	—	1,421,312	—	—	—	—	—	—
Fixed Income Futures Short	—	(528,379)	—	—	—	—	—	—
Fixed Income Options Bought	—	539,280	4,326	1,354	2,972	—	—	—
Fixed Income Options Written	—	(451,027)	(5,136)	(1,472)	(3,654)	—	(10)	—
Pay Fixed Interest Rate Swaps	900,285	—	20,169	—	7,044	9,209	3,916	—
Receive Fixed Interest Rate Swaps	204,058	—	(2,523)	—	(2,430)	(81)	(12)	—
Total Return Swaps Bond	64,670	—	519	519	—	—	—	—
Total Return Swaps Equity	(519,127)	—	(1,671)	(1,796)	125	—	—	—
Total	**$823,277**	**981,186**	**$8,392**	**$(1,396)**	**$(3,264)**	**$9,156**	**$3,896**	**$—**

NOTE J — Special Purpose Entities

LACERA uses several different types of Special Purpose Entities (SPEs) in its investment portfolio.

As of June 30, 2018, the LACERA real estate portfolio utilized various SPEs including 70 Title Holding Corporations (THCs) and 54 Limited Liability Companies (LLCs). As of June 30, 2017, the portfolio included 86 THCs and 53 LLCs.

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

Title Holding Corporations and Limited Liability Companies Financial Position

As of June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Assets	**$8,243,751**	$7,289,187
Less: Liabilities	**(2,971,880)**	(2,497,737)
Net Assets	**$5,271,871**	$4,791,450
Net Income	**$248,282**	$259,927

In March 2011, the LACERA Board of Investments approved allocating $200 million to each of two managers for investment in commercial real estate debt. The managers were Cornerstone Real Estate Advisors (now known as Barings Real Estate Advisors, the real estate investment unit of Barings LLC) and Quadrant Real Estate Advisors LLC. In July 2012 and June 2013, additional allocations of $200 million and $100 million were provided to the Barings account, bringing the total investable equity commitment to $500 million. Furthermore, in July 2012, an additional allocation of $100 million was made to the Quadrant account, bringing the total investable equity commitment to $300 million. In September 2014, a $250 million commitment was added to the Barings account for the purpose of backstopping a subscription facility, though this equity is not considered investable.

Portfolio net assets increase when new loans are originated from LACERA's portfolio and such assets decrease when loans are paid back by the borrower.

The following is a summary of the Debt Program's financial position.

Debt Program Financial Position

As of June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Assets	**$230,190**	$833,734
Less: Liabilities	**(111,878)**	(434,476)
Net Assets	**$118,312**	$399,258
Net Income	**$25,548**	$34,852

NOTE K — Related Party Transactions

Office Lease

In 1991, LACERA, as the sole shareholder, formed a Title Holding Corporation (THC) to acquire Gateway Plaza, which serves as the LACERA headquarters. At that time, LACERA entered into its original lease agreement with the THC to occupy approximately 85,000 square feet of office space. 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 operating costs and property taxes as defined in the lease agreement.

Several lease agreement amendments were executed which adjusted the rentable square footage and lease expiration dates. The latest is the Fourteenth Amendment to the Office Lease, dated June 16, 2017, which increased the total rentable space from 121,286 to 126,157 square feet and maintained the lease's existing expiration date of December 31, 2020.

Total operating expenses charged to LACERA were approximately $2.2 million and $2.1 million for the fiscal years ended June 30, 2018 and 2017, respectively.

Notes Receivable

LACERA had a notes receivable balance of approximately $22.5 million from one of its THCs for each of the fiscal years ended June 30, 2018 and 2017. This amount is reflected in the Statement of Fiduciary Net Position as part of the Accounts Receivable-Other balance for both years.

NOTE L — Administrative Expenses

The LACERA Board of Retirement and Board of Investments annually adopt the operating budget for the administration of LACERA. The administrative expenses are charged against the investment earnings of the Pension Plan.

Beginning in fiscal year 2012, LACERA implemented a provision of the CERL which shifted the administrative budget limitation 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 benefits plan may not exceed twenty-one hundredths of one percent (0.21 percent) of the actuarial accrued liability of the plan.

Expenses for computer software, hardware, and computer technology consulting services relating to such expenditures are included in the cost of administration. Pursuant to the CERL, the cost of legal representation is not to exceed one-hundredth of one percent (0.01 percent) of retirement benefits plan assets in any budget year. LACERA's costs for legal representation is within the statutory limit 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, 2018 and June 30, 2017, which were prepared based upon the twenty-one hundredths of one percent (0.21 percent) CERL limit.

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, 2018 and 2017

(Dollars in Thousands)

	2018	2017
Basis for Budget Calculation, Actuarial Accrued Liability[1]	**$62,199,214**	**$56,819,215**
Maximum Allowable for Administrative Expenses	**130,618**	119,320
Total Statutory Budget Appropriation	**130,618**	**119,320**
Operating Budget Request	**83,555**	76,829
Administrative Expenses	**(78,181)**	(66,830)
Underexpended Operating Budget	**5,374**	**9,999**
Administrative Expenses	**78,181**	66,830
Basis for Budget Calculation	**62,199,214**	56,819,215
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.13%**	**0.12%**
Limit per CERL	**0.21%**	0.21%

Administrative Expenses	**78,181**	66,830
Net Position Restricted for Benefits	**$56,299,982**	$52,743,651
Administrative Expenses as a Percentage of Net Position Restricted for Benefits	**0.14%**	**0.13%**

[1]The 2018 and 2017 budget calculations are based on the actuarial accrued liability as of June 30, 2016, and June 30, 2015, respectively.

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 LACERA Board of Investments adopted a Securities Litigation Policy in response to 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 2010, 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. Therefore, the LACERA 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 LACERA Board of Investments determines is in the best interest of the fund.

Compliance with the Securities Litigation Policy is part of the efforts of the LACERA Board of Investments, with the assistance of the LACERA Legal Office, to protect the financial interests of LACERA and its members.

Leases

Equipment: 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 $292,000 and $300,000 in fiscal years 2018 and 2017, respectively.

Office Lease: The LACERA office space lease agreement was originally entered in January 1991. Subsequent amendments were made with the latest one dated June 16, 2017. LACERA agreed to lease additional space, while maintaining the existing lease expiration date of December 31, 2020.

LACERA's lease agreement is also discussed in Note K — Related Party Transactions. The total operating expenses for leasing the building premises are $2.2 million and $2.1 million in fiscal years 2018 and 2017, respectively.

Capital Commitments

LACERA real estate, private equity, and activist investment managers identify and acquire investments on a discretionary basis. Investment activity is approved by the LACERA Board of Investments and controlled by investment management agreements which identify limitations on each investment manager's discretion. Such investment activities are further restricted by the amount of capital allocated or committed to each manager.

As of June 30, 2018, outstanding capital commitments to the various investment managers, as approved by the LACERA Board of Investments, totaled $4.8 billion.

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

For the year ended June 30, 2017, LACERA first adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. As a result of adopting this standard, the financial statement disclosures related to the OPEB Program in this Note and in the Required Supplementary Information section were updated during fiscal year 2017. Additional information for the program description can be found in Note A.

Program Description

In April 1982, the County adopted an ordinance pursuant to the County Employees Retirement Law of 1937 (CERL) that provided for a retiree health insurance program and death/burial benefits for retired employees and their eligible dependents. In 1982, the County and LACERA entered into an Agreement whereby LACERA would administer the program subject to the terms and conditions of the Agreement. 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 Board of Retirement approved the County's request to modify the agreement to create a new retiree healthcare benefit program in order to lower its costs. Structurally, the County segregated all current retirees and current employees into LACERA-Administered Retiree Healthcare Benefits Program (Tier 1) and placed all employees hired after June 30, 2014 into Los Angeles County Retiree Healthcare Benefits Program (Tier 2).

A significant difference included in this modification concerns LACERA's administrative responsibility for the Retiree Healthcare Program. Under Tier 1, LACERA will continue its agreed-upon role as Program Administrator for retiree healthcare benefits as governed by the 1982 Agreement. Under Tier 2, LACERA is responsible for administering this 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 Los Angeles County Board of Supervisors adopted changes to Los Angeles County Code Title 5 – Personnel, which established the Benefit Provisions for 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 deceased retired members and qualifying survivors of deceased active employees who were eligible to retire at the time of death. Eligibility to receive 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. A summary of the OPEB Plan Provisions is available upon request.

LACERA Membership — OPEB Medical and Dental/Vision Benefits

As of June 30, 2018 and 2017

	2018		2017	
	Medical	Dental/ Vision	Medical	Dental/ Vision
Retired Participants				
Retired Members and Survivors	50,052	51,225	48,812	49,980
Spouses and Dependents	25,343	28,935	24,539	27,850
Total Retired	**75,395**	**80,160**	**73,351**	**77,830**
Inactive Members - Vested	8,459	8,459	8,341	8,341
Active Members - Vested[1]	72,020	72,020	72,037	72,037
Total Membership	**155,874**	**160,639**	**153,729**	**158,208**

LACERA Membership — OPEB Death Benefits

As of June 30, 2018 and 2017

	2018	2017
Paid Death Benefits	**2,640**	1,638
Inactive with Eligibility for Death Benefits	**56,003**	54,498
Active Members - Vested[1]	**72,020**	72,037
Total Membership	**130,663**	128,173

[1]Active member counts exclude non-vested active members that are ineligible for OPEB benefits.

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 preexisting medical conditions. Under Tier 2, retirees who are eligible for Medicare are 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 under Tier 2.

Medical and Dental/Vision: Program benefits are provided through third party insurance carriers with the participant's cost for medical and dental/vision insurance varying according to the years of retirement service credit with LACERA, the plan selected, and the number of persons covered. The County contribution subsidizing the participant's cost starts at 10 years of service credit in the amount of 40 percent of the lesser of the benchmark plan rate or the premium of the plan in which the retiree is enrolled. For each year of retirement service credit earned beyond 10 years, the County contributes four percent per year, up to a maximum of 100 percent for a member with 25 years of service credit. The County contribution can never exceed the premium of the benchmark plans. Members are responsible for premium amounts above the benchmark plans, including those with 25 or more years of service credit.

Under Tier 1, the County subsidy is based on the coverage elected by the retiree. The benchmark plans are Anthem Blue Cross Plans I and II for medical and Cigna Indemnity Dental/Vision for dental and vision. Under Tier 2, the County subsidy is based on retiree-only coverage. Tier 2 medical 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 plans.

Medicare Part B: The County reimburses the member's Medicare Part B Standard rate premiums paid by member to Social Security for Part B coverage, 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 enrolled in a LACERA-administered Medicare HMO Plan or Medicare Supplement Plan and meet all of the qualifications. Under Tier 2, the County reimburses for Medicare Part B (at the 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 percent of the benchmark plan rate or the premium of the plan in which the retiree is enrolled. Under Tier 2, the benchmark plan rate is based on retiree-only premiums. A member with 13 years of service credit receives a 52 percent subsidy. This percentage increases 4 percent for each additional completed year of service, up to a maximum of 100 percent.

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, reimbursed to LACERA 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.

Healthcare Reform

In March 2010, President Obama signed into law the Affordable Care Act (ACA). The ACA impacts the County's future healthcare liabilities. Estimated ACA fees are included in the OPEB liabilities. 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

Other provisions of the ACA may or may not impact the Retiree Healthcare Benefits Program as these provisions and any governing regulations are clarified and implemented.

Eligible Dependent Child Age Limit Increased to Age 26: The plan sponsor, the County of Los Angeles, approved an extension of the dependent children age limit to age 26 under the Retiree Healthcare Program, regardless of a dependent child's marital or student status. This is a result of Senate Bill (SB) 1088.

Until July 1, 2014, SB 1088 exempted retiree-only plans, such as LACERA's. It required health plan carriers to offer the coverage to dependents up to age 26 but does not obligate the plan sponsor, the County of Los Angeles, to pay for coverage up to age 26. However, in March 2015, the County determined that it will pay for dependent coverage up to age 26 under the contribution method described above.

Summary of Significant Accounting Policies — OPEB Program

Basis of Presentation: OPEB activity is reported within two distinct funds at LACERA, in accordance with GASB Statement No. 74.

The OPEB Agency Fund accounts for assets held as an agent on behalf of others. The funds held within the OPEB Agency Fund do not meet the definition of a qualifying OPEB Trust under GASB Statement No. 74 and are not used to reduce the employers' Total OPEB Liability. However, the ownership of the OPEB Agency Fund belongs to the County, Court and the participating

Outside District employers. 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.

The OPEB Trust accounts for assets held in qualifying OPEB trusts, as defined by GASB Statement No. 74. As such, the OPEB Trust Fiduciary Net Position is used to reduce the Total OPEB Liability, resulting in a Net OPEB Liability to the participants within the OPEB Program. See further discussion of the OPEB Trust within Note Q.

See Note B for additional disclosures of significant accounting policies pertaining to LACERA.

Investment Valuation: Investments are carried at fair value, which are derived from quoted market prices. For publicly traded securities 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 certain 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, Tier 2, for all employees hired after June 30, 2014. LACERA agreed not to change retired members' contributions toward insurance premiums or modify medical benefit levels without the County's prior consent.

Premium Payments: During the fiscal years ended June 30, 2018 and June 30, 2017, respectively, premium payments of $557.8 million and $538.0 million were made to insurance carriers. These premiums were funded by employer subsidy payments of $513.0 million and participant payments of $44.8 million for the fiscal year ended 2018. The employer subsidy payments for the fiscal year ended 2017 were $493.5 million with participant payments of $44.5 million.

In addition, the County paid $61.7 million and $8.7 million for Medicare Part B reimbursements and death/burial benefits, respectively, for the fiscal year ended June 30, 2018 and $56.2 million and $7.4 million for these benefits, respectively, during the fiscal year ended June 30, 2017.

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 also pay their share of the monthly premiums. There was no Premium Holiday during fiscal year 2018.

Excise Tax: The ACA originally contained provisions to assess an excise tax in 2018 on employer-provided health insurance benefits that the ACA determined to be an excess benefit. The Consolidated Appropriations Act of 2016 was signed into law in December 2015, delaying the assessment of the Excise Tax until 2020. While the tax was originally non-tax deductible, the December 2015 changes made it tax deductible for employers who pay it. Additional legislation passed in January 2018 further delayed the excise tax until 2022.

Milliman estimated the impact of the Excise Tax on the projection of benefits in the measurement of the County's OPEB Actuarial Accrued Liability for funding purposes as of July 1, 2017 to be approximately $1.40 billion. For the OPEB Program, this increases the Unfunded

Actuarial Accrued Liabilities from $25.56 billion to $26.96 billion and equates to a corresponding increase in the Annual Required Contribution as a percentage of payroll from 25.57 percent to 27.42 percent. LACERA and the County are evaluating a process of allocating such potential liabilities among the various OPEB Program stakeholders.

The actuarial information prepared in accordance with GASB Statement No. 74 also incorporates the impact of this Excise Tax.

Actuarial Methods and Significant Assumptions — GASB Statement No. 74

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the 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 OPEB Program and include the types of benefits provided at the time of each valuation.

Where applicable, the same actuarial methods and assumptions used for the LACERA retirement benefits plan (Pension Plan) are used for the LACERA-administered OPEB Program. The table at right summarizes the primary GASB Statement No. 74 OPEB-related assumptions. The retirement benefits-related demographic and economic assumptions are based on those developed for the June 30, 2016 experience study of the Pension Plan. Economic and demographic assumptions from the Retirement Benefit Investigation of Experience are integrated into the OPEB Investigation of Experience. The OPEB demographic assumptions are based on the results of the 2016 OPEB Investigation of Experience, dated July 21, 2017. OPEB-specific assumptions that have been updated since the 2016 OPEB Investigation of Experience include healthcare cost trend rates updated with information from the July 1, 2018 renewals, the long term expected rate of return, and carrier ACA Health Insurer Fee details and claim costs.

The Total OPEB Liability as of June 30, 2018, was determined by completing a roll-forward calculation based on an actuarial valuation conducted as of July 1, 2017, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 74. Key methods and significant assumptions used to calculate the Total OPEB Liability are presented on the following page.

Financial

Key Methods and Significant Assumptions

Actuarial Cost Method	Individual Entry Age Normal, Level Percent of Pay
Long Term Rate of Return	See Note Q — Other Post-Employment Benefits Trust.
Discount Rate	5.11 percent as of June 30, 2018 and 4.69 percent as of June 30, 2017.
Mortality	Various rates based on the RP-2014 Healthy and Disabled Annuitant mortality tables and including projection for expected future mortality improvement using the MP-2014 Ultimate Projection Scale. This assumption was adopted with the June 30, 2016 valuation report. Before 2016, assumption was RP-2000 Combined Mortality Tables for Males and Females, projected to 2025 using Projection Scale AA, with various age setbacks depending upon Plan type.
Administrative Expenses	Pursuant to GASB Statement No. 74, the operational administration costs, currently based on $8 Per Member, Per Plan, Per Month, are not included in the projected liabilities, service cost, or benefit payments.
ACA Excise Tax	The OPEB liability figures include the Excise Tax. This is based on the requirements of the Affordable Care Act (ACA) and The Consolidated Appropriations Act of 2016. Additional legislation passed in January 2018 further delayed the excise tax until 2022.
Basis of Contribution Requirements	The Actuarially Determined Contribution (ADC) is a combination of the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) under the Projected Unit Credit (PUC) actuarial cost method with Excise Tax as determined in the July 1, 2017 OPEB Valuation Report. The UAAL is the AAL net of assets. The UAAL is amortized over 30 years as a level percent of payroll.
Inflation Rate	2.75 percent per annum. This rate was adopted beginning with the July 1, 2016 OPEB valuation.

Healthcare Cost Trend Rates (with Excise Tax)

	FY 2018 to FY 2019	FY 2019 to FY 2020	Ultimate
LACERA Medical Under 65	5.80%	6.30%	4.50%
LACERA Medical Over 65	6.00%	6.00%	4.50%
Part B Premiums	9.25%	1.85%	4.35%
Dental/Vision	0.00%	3.00%	3.70%
Weighted Average Trend	5.85%	5.42%	4.47%

Probability of Initial Enrollment Upon Retirement

Years of Service	Medical Plan and Medicare Part B	Dental/Vision
<10	8%	11%
10-14	44%	49%
15-19	61%	64%
20-24	81%	82%
25+	95%	95%
Disabled	95%	94%

Key Methods and Significant Assumptions continued

	Non-Firefighter 1014*				Firefighter 1014
	<65 Male	<65 Female	65+ Male	65+ Female	All
Medical Spouse/Dependent Enrollment Probability	77.5%	50.0%	66.0%	32.0%	93.0%

	Male	Female
Dental/Vision Spouse/Dependent Enrollment Probability	76%	45%

* Members covered by the Firefighters Local 1014 medical plan while actively employed by Los Angeles County may continue this coverage after retirement. Retired Local 1014 non-Firefighter members are eligible for the Local 1014 Firefighters' retiree medical plan.

The actuarial assumptions used in the July 1, 2017 OPEB actuarial valuation were based on the results of the actuarial experience study for the period July 1, 2013 to June 30, 2016. LACERA's actuary has performed an experience study every three years.

Net OPEB Liability

GASB Statement No. 74 requires public pension plans to provide the calculation of a Net OPEB Liability. The Net OPEB Liability is measured as the Total OPEB Liability less the amount of the OPEB Trust's Fiduciary Net Position.

The Net OPEB Liability is an accounting measurement for financial statement reporting purposes. The OPEB Program funded status is calculated separately by the consulting actuary and the results of which are included in the actuarial valuation report. The components of the OPEB Program's Net OPEB Liability at June 30, 2018 and June 30, 2017, were as follows:

Schedule of Net OPEB Liability

For the Fiscal Years Ended June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Total OPEB Liability	**$25,671,307**	$27,212,073
Less: Fiduciary Net Position	**(941,007)**	(742,883)
Net OPEB Liability	**$24,730,300**	$26,469,190
Fiduciary Net Position as a Percentage of Total OPEB Liability	**3.67%**	2.73%

Discount Rate

GASB Statement No. 74 requires determination of whether the OPEB Trust's Fiduciary Net Position is projected to be sufficient to make projected benefit payments. The discount rate was developed using a depletion date projection, which included the following assumptions:

- The employers contribute the amount necessary to pay the current year benefits and the planned contribution amounts to the OPEB Trust from the Los Angeles County June 22, 2015 plan.
- Benefit payments are projected based on the actuarial assumptions and the current plan provisions.
- Members are assumed to terminate, retire, become disabled, and so forth according to the actuarial assumptions used for the July 1, 2017 OPEB valuation.
- All cash flows are assumed to occur on average halfway through the year.
- The long-term expected rate of return on plan investment is 6.30 percent as of June 30, 2018 and 6.66 percent as of June 30, 2017.
- The 20-year tax-exempt municipal bond index rate is 3.87 percent as of June 30,

2018 and 3.58 percent as of June 30, 2017.

- The funding policy used to determine actuarially determined contributions did not change. This GASB 74 report includes the ACA Excise Tax in the liabilities. The funding policy will include Excise Tax for the purposes of these GASB 74 calculations.
- The plan provisions did not change and there are no material future changes as of the measurement date.

The result of this process is a discount rate of 5.11 percent as of June 30, 2018 and 4.69 percent as of June 30, 2017. Actual results at each point in time will yield different values, reflecting the actual experience of the plan membership and assets.

Sensitivity Analysis — Discount Rate

In accordance with GASB Statement No. 74, sensitivity of the Net OPEB Liability to changes in the discount rate must be reported. The following presents the Net OPEB Liability, calculated using the discount rate of 5.11 percent, as well as what the Net OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.11 percent) or 1 percentage point higher (6.11 percent) than the current rate (5.11 percent):

Sensitivity Analysis — Changes in Discount Rate

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	2018			2017		
	1% Decrease [4.11%]	Current Discount Rate [5.11%]	1% Increase [6.11%]	1% Decrease [3.69%]	Current Discount Rate [4.69%]	1% Increase [5.69%]
Total OPEB Liability	$30,569,575	$25,671,307	$21,807,925	$32,674,042	$27,212,073	$22,933,384
Less: Fiduciary Net Position	(941,007)	(941,007)	(941,007)	(742,883)	(742,883)	(742,883)
Net OPEB Liability	**$29,628,568**	**$24,730,300**	**$20,866,918**	**$31,931,159**	**$26,469,190**	**$22,190,501**

Sensitivity Analysis — Healthcare Cost Trend Rates

In accordance with GASB Statement No. 74, sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates must be reported. The following presents the Net OPEB Liability, calculated using the healthcare cost trend rates as reported in the July 1, 2016 OPEB Actuarial Valuation Health Cost Trend Assumptions with Excise Tax table, as well as what the Net OPEB Liability would be if it were calculated using the healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates:

Sensitivity Analysis — Changes in Healthcare Cost Trend Rates

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	2018			2017		
	1% Decrease	Current Healthcare Cost Trend Rates[1]	1% Increase	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	$21,106,685	$25,671,307	$31,728,783	$22,163,942	$27,212,073	$33,972,173
Less: Fiduciary Net Position	(941,007)	(941,007)	(941,007)	(742,883)	(742,883)	(742,883)
Net OPEB Liability	**$20,165,678**	**$24,730,300**	**$30,787,776**	**$21,421,059**	**$26,469,190**	**$33,229,290**

[1] See July 1, 2017 OPEB Actuarial Valuation, Health Cost Trend Assumptions with Excise Tax table for current medical trend rates and trends table in appendix for current Part B and dental/vision trend rates.

NOTE O — Hedge Fund Investments

The hedge fund category of investments is not a separate asset class but is composed of strategies that may: 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 two hedge fund of funds managers, Grosvenor Capital Management (GCM) and Goldman Sachs Asset Management (GSAM), with specialized knowledge and expertise to construct four hedge fund portfolios. The hedge fund of funds managers identify, select, implement, and monitor these investment strategies in the portfolios consistent with LACERA's stated objectives, constraints, and Investment Policy Statements.

In September 2011, LACERA began investing in hedge funds with a goal of reducing the volatility of the Pension Plan without materially decreasing Pension Plan returns. This initial investment consisted of a portfolio of hedge funds invested in a diversified strategy managed by GCM.

In December 2012, LACERA began investing in a second portfolio focused on opportunistic credit strategies, also managed by GCM.

In April 2015, LACERA began investing in a third portfolio, managed in a diversified strategy by GSAM. Within this portfolio, LACERA directly invests in underlying fund vehicles, while GSAM maintains discretion over fund selection and overall portfolio development.

In January 2016, LACERA began investing in a fourth portfolio, also focused on opportunistic credit strategies and managed by GCM.

In March 2018, LACERA began investing in a fifth portfolio. This portfolio is identified as the Direct Portfolio because LACERA invests directly in funds that have been approved by LACERA's Board of Investments rather than delegating manager selection to a fund of funds manager.

The three hedge fund portfolios managed by GCM are each structured as a limited partnership in which LACERA is the sole limited partner, and each was created to hold the interests in the underlying hedge funds. GCM serves as General Partner and owns a 0.01 percent stake in each partnership.

Each underlying investment in the entire hedge fund program is in an entity legally structured to limit liability for each investor to the capital invested by that investor.

The investment performance for this strategy is measured separately from other asset classes. The fair values of assets invested in hedge funds as of June 30, 2018 and June 30, 2017, were $1.6 billion and $1.4 billion, respectively.

NOTE P — Fair Value

For the fiscal year ended June 30, 2016, LACERA adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 was issued to address accounting and financial reporting issues related to fair value measurements and disclosures. LACERA categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles in the United States of America (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the securities and assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Certain investments held by LACERA are valued at net asset value (NAV) per share when an investment does not have a readily determined fair value, provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with the requirements of GAAP.

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is unobservable by the marketplace; many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by LACERA's custodian bank.

Hedge Fund, Private Equity, and Real Estate Funds

Investments in Hedge Fund, Private Equity, and Real Estate funds are valued at estimated fair value, as determined in good faith by the General Partner ("GP") in accordance with fair value principles in accordance with GAAP. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results, and other factors deemed relevant by the GP. These assets are reported by LACERA based on the practical expedient allowed under GAAP.

Real Estate Investments

Investments in Real Estate are valued at estimated fair value, as determined in good faith by the Investment Manager. These investments are initially valued at cost with subsequent adjustments that reflect third-party transactions, financial operating results, and other factors deemed relevant by the Investment Manager. Properties are subject to independent third-party appraisals every three years.

LACERA has the following recurring fair value measurements as of June 30, 2018 and 2017:

Investments and Derivatives Measured at Fair Value — Pension Plan

As of June 30, 2018

(Dollars in Thousands)

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
Asset-Backed Securities	$416,958	$—	$416,958	$—
Commercial Mortgage-Backed Securities	261,819	—	261,819	—
Corporate and Other Credit	4,083,686	—	4,078,272	5,414
Municipal / Revenue Bonds	74,358	—	74,358	—
Non-U.S. Fixed Income	137,594	—	137,594	—
Private Placement Fixed Income	2,067,680	1,104	2,062,720	3,856
U.S. Government Agency	1,842,159	—	1,841,828	331
U.S. Treasury	1,708,192	—	1,708,192	—
Whole Loan Mortgages	32,850	—	—	32,850
Total Fixed Income Securities	**10,625,296**	**1,104**	**10,581,741**	**42,451**
Equity Securities				
Non-U.S. Equity	2,074,878	2,074,457	—	421
Pooled Investments	295,080	295,080	—	—
U.S. Equity	13,130,228	13,122,685	3,865	3,678
Total Equity Securities	**15,500,186**	**15,492,222**	**3,865**	**4,099**
Real Estate	**5,498,415**	**—**	—	5,498,415
Collateral from Securities Lending	**1,191,235**	**—**	**1,191,235**	**—**
Total Investments by Fair Value Level	**$32,815,132**	**$15,493,326**	**$11,776,841**	**$5,544,965**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$5,301,354			
Equity	10,160,905			
Hedge Funds	1,592,126			
Private Equity	5,929,098			
Real Estate	827,831			
Total Investments Measured at NAV	**23,811,314**			
Total Investments	**$56,626,446**			
Derivatives				
Foreign Exchange Contracts	$169,907	$—	$169,907	$—
Foreign Fixed Income Derivatives	(2,735)	(251)	(2,484)	—
U.S. Equity Derivatives	(88)	49	(137)	—
U.S. Fixed Income Derivatives	10,672	(7,477)	18,149	—
Total Derivatives	**$177,756**	**$(7,679)**	**$185,435**	**$—**

Investments Measured at the Net Asset Value — Pension Plan

As of June 30, 2018
(Dollars in Thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Fixed Income Funds[1]	$5,301,354	$—	Daily, Monthly or Not Eligible	1-60 days or N/A
Commingled Equity Funds[2]	10,160,905	43,431	Daily, Monthly or Not Eligible	1-60 days or N/A
Hedge Funds [3]	1,592,126	—	Daily, Monthly, Quarterly, Semi-Annual, Annual; Self-Liquidating	5-180 days
Private Equity [4]	5,929,098	3,762,043	Not Eligible	N/A
Real Estate [4]	827,831	335,408	Not Eligible	N/A
Total Investments Measured at NAV	**$23,811,314**			

[1]**Commingled Fixed Income Funds:** Five fixed income funds are considered commingled in nature. They are valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; two of the funds representing 7 percent of Commingled Fixed Income assets have liquidity available at the end of the fund terms which range from three to seven years.

[2]**Commingled Equity Funds:** 13 equity funds are considered commingled in nature. They are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; three of the funds representing 5 percent of Commingled Equity assets have liquidity available subject to lock-up periods that limit or prohibit redemptions for the next three to four years.

[3]**Hedge Funds:** LACERA's Hedge Funds portfolio consists of 90 funds. Hedge Fund investments are valued at NAV per share. When considering liquidity terms, 77 percent of the fund assets are available within 12 months; these funds provide daily, monthly, quarterly, semi-annual, or annual liquidity. Some of these funds are subject to redemption notices that extend the time frame to receive redemptions beyond the next 12 months. The remaining 23 percent of fund assets are in self-liquidating funds which do not permit voluntary redemption/withdrawals or in funds that offer periodic liquidity that extends beyond the next 12 months.

LACERA's Hedge Funds portfolio invests in the following strategies:

(a) Macro and Tactical Trading: This strategy makes investments based on analyses and forecasts of macroeconomic trends, including governmental and central bank policies, fiscal trends, trade imbalances, interest rate trends, inter-country relations, and economic and technical analysis.
(b) Equity Long/Short: This strategy purchases and/or sells equities based on fundamental and/or quantitative analysis and other factors.
(c) Credit: This strategy includes long-biased credit, long/short credit, structured credit, and mortgage credit.
(d) Relative Value: This strategy's main focus is to benefit from valuation discrepancies that may be present in related financial instruments by purchasing and/or shorting these instruments.
(e) Multi-Strategy: This strategy aims to pursue varying strategies in order to diversify risks and reduce volatility.
(f) Event Driven: This strategy seeks to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event.
(g) Commodities: This strategy invests across the global commodity markets based on an analysis of factors, including supply and demand, legislative and environmental policies, trends in growth rates and resource consumption, global monetary and trade policy, geopolitical events and technical factors.

[4]**Private Equity and Real Estate Funds:** LACERA's Private Equity portfolio consists of 250 funds, investing primarily in Buyout Funds, with some exposure to Venture Capital, Special Situations. The Real Estate portfolio, composed of 15 commingled funds, invests in both U.S. and Non-U.S. commercial real estate. The fair values of these funds have been determined using net assets valued at the end of the period and net assets valued one quarter in arrears plus current quarter cash flows. 13 out of 15 funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to 10 years.

Investments and Derivatives Measured at Fair Value — Pension Plan

As of June 30, 2017

(Dollars in Thousands)

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
Asset-Backed Securities	$387,503	$—	$387,503	$—
Commercial Mortgage-Backed Securities	373,618	—	373,618	—
Corporate and Other Credit	4,100,816	19	4,095,607	5,190
Municipal / Revenue Bonds	71,155	—	71,155	—
Non-U.S. Fixed Income	97,603	—	97,603	—
Pooled Investments	37	37	—	—
Private Placement Fixed Income	1,995,362	924	1,989,137	5,301
U.S. Government Agency	2,315,433	—	2,315,076	357
U.S. Treasury	2,229,347	—	2,229,347	—
Whole Loan Mortgages	36,167	—	—	36,167
Total Fixed Income Securities	**11,607,041**	**980**	**11,559,046**	**47,015**
Equity Securities				
Non-U.S. Equity	1,844,424	1,844,009	—	415
Pooled Investments	261,997	261,997	—	—
U.S. Equity	3,266,281	3,261,231	3,827	1,223
Total Equity Securities	**5,372,702**	**5,367,237**	**3,827**	**1,638**
Real Estate	5,296,802	—	—	5,296,802
Collateral from Securities Lending	922,584	—	922,584	—
Total Investments by Fair Value Level	**$23,199,129**	**$5,368,217**	**$12,485,457**	**$5,345,455**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$2,513,380			
Equity	20,098,859			
Hedge Funds	1,437,925			
Private Equity	5,050,442			
Real Estate	843,030			
Total Investments Measured at NAV	**29,943,636**			
Total Investments	**$53,142,765**			
Derivatives				
Foreign Exchange Contracts	$(88,164)	$—	$(88,164)	$—
Foreign Fixed Income Derivatives	255	—	255	—
U.S. Equity Derivatives	(490)	(308)	(182)	—
U.S. Fixed Income Derivatives	5,511	1,358	4,153	—
Total Derivatives	**$(82,888)**	**$1,050**	**$(83,938)**	**$—**

Investments Measured at the Net Asset Value — Pension Plan

As of June 30, 2017
(Dollars in Thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Fixed Income Funds[1]	$2,513,380	$—	Daily, Monthly or Not Eligible	1-30 days or N/A
Commingled Equity Funds[2]	20,098,859	28,809	Daily, Monthly or Not Eligible	1-60 days or N/A
Hedge Funds[3]	1,437,925	—	Daily, Monthly, Quarterly, Semi-Annual, Annual; Self-Liquidating	5-180 days
Private Equity[4]	5,050,442	3,861,117	Not Eligible	N/A
Real Estate[4]	843,030	213,663	Not Eligible	N/A
Total Investments Measured at NAV	**$29,943,636**			

[1]**Commingled Fixed Income Funds:** 14 fixed income funds are considered commingled in nature. They are valued at the net asset value (NAV) of units held at the end the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; two of the funds representing 7 percent of Commingled Fixed Income assets have liquidity available at the end of the fund terms which range from three to seven years.

[2]**Commingled Equity Funds:** 15 equity funds are considered commingled in nature. They are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; three of the funds representing 3 percent of Commingled Equity assets have liquidity available subject to lock-up periods that limit or prohibit redemptions for the next three to four years.

[3]**Hedge Funds:** LACERA's Hedge Funds portfolio consists of 90 funds. Hedge Fund investments are valued at NAV per share. When considering liquidity terms, 77 percent of the fund assets are available within 12 months; these funds provide daily, monthly, quarterly, semi-annual, or annual liquidity. Some of these funds are subject to redemption notices that extend the time frame to receive redemptions beyond the next 12 months. The remaining 23 percent of fund assets are in self-liquidating funds which do not permit voluntary redemption/withdrawals or in funds that offer periodic liquidity that extends beyond the next 12 months.

LACERA's Hedge Funds portfolio invests in the following strategies:

(a) Macro and Tactical Trading: This strategy makes investments based on analyses and forecasts of macroeconomic trends, including governmental and central bank policies, fiscal trends, trade imbalances, interest rate trends, inter-country relations, and economic and technical analysis.
(b) Equity Long/Short: This strategy purchases and/or sells equities based on fundamental and/or quantitative analysis and other factors.
(c) Credit: This strategy includes long-biased credit, long/short credit, structured credit, and mortgage credit.
(d) Relative Value: This strategy's main focus is to benefit from valuation discrepancies that may be present in related financial instruments by purchasing and/or shorting these instruments.
(e) Multi-Strategy: This strategy aims to pursue varying strategies in order to diversify risks and reduce volatility.
(f) Event Driven: This strategy seeks to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event.
(g) Commodities: This strategy invests across the global commodity markets based on an analysis of factors, including supply and demand, legislative and environmental policies, trends in growth rates and resource consumption, global monetary and trade policy, geopolitical events and technical factors.

[4]**Private Equity and Real Estate Funds:** LACERA's Private Equity portfolio consists of 245 funds, investing primarily in Buyout Funds, with some exposure to Venture Capital, Special Situations, and Non-U.S. Funds. The Real Estate portfolio, composed of 22 funds, invests in both U.S. and non-U.S. commercial real estate. The fair values of these funds have been determined using net assets valued one quarter in arrears plus current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to 10 years.

Investments Measured at Fair Value — OPEB Trust

As of June 30, 2018

(Dollars in Thousands)

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
Asset-Backed Securities	$1,427	$—	$1,427	$—
Corporate and Other Credit	8,390	—	8,390	—
Pooled Investments	94,866	94,866	—	—
U.S. Treasury	991	—	991	—
Total Fixed Income Securities	**105,674**	**94,866**	**10,808**	**—**
Equity Securities				
Pooled Investments	456,824	456,824	—	—
Total Equity Securities	**456,824**	**456,824**	**—**	**—**
Total Investments by Fair Value Level	**$562,498**	**$551,690**	**$10,808**	**$—**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$267,288			
Real Estate Investment Trust (REIT)	97,073			
Total Investments Measured at NAV	**364,361**			
Total Investments	**$926,859**			

Investments Measured at Net Asset Value — OPEB Trust

As of June 30, 2018

(Dollars in Thousands)

Investments by Fair Value Level	Fair Value	Unfunded Commitments[2]	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Fixed Income Securities				
Commingled Fixed Income Funds	$267,288	$—	Daily, Monthly	1-30 days or N/A
Real Estate Investment Trust (REIT)	97,073	—	Daily, Monthly	1-30 days or N/A
Total Investments Measured at NAV [1]	**$364,361**			

[1]**Commingled Index Funds:** The OPEB Master Trust is invested in eight funds that are considered commingled in nature. They are valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month.

[2]There are no unfunded commitments in the OPEB Trust. As of June 30, 2018 there was $1.5 million uninvested cash in the OPEB Trust, which was deposited into the OPEB cash account and then subsequently invested after month end.

Investments Measured at Fair Value — OPEB Trust

As of June 30, 2017

(Dollars in Thousands)

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
Asset-Backed Securities	$5,755	$—	$5,755	$—
Corporate and Other Credit	39,567	—	39,567	—
U.S. Treasury	9,001	—	9,001	—
Total Fixed Income Securities	**54,323**	**—**	**54,323**	**—**
Equity Securities				
Pooled Investments	607,593	607,593	—	—
Total Equity Securities	**607,593**	**607,593**	**—**	**—**
Total Investments by Fair Value Level	**$661,916**	**$607,593**	**$54,323**	**$—**

Investments Measured at Fair Value — OPEB Agency Fund

As of June 30, 2018

(Dollars in Thousands)

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
Asset-Backed Securities	$10,646	$—	$10,646	$—
Corporate and Other Credit	38,223	—	38,223	—
U.S. Treasury	58,525	—	58,525	—
Total Fixed Income Securities	**107,394**	**—**	**107,394**	**—**
Total Investments by Fair Value Level	**$107,394**	**$—**	**$107,394**	**$—**

Investments Measured at Fair Value — OPEB Agency Fund

As of June 30, 2017

(Dollars in Thousands)

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
Asset-Backed Securities	$6,561	$—	$6,561	$—
Corporate and Other Credit	28,478	—	28,478	—
U.S. Treasury	41,586	—	41,586	—
Total Fixed Income Securities	**76,625**	**—**	**76,625**	**—**
Total Investments by Fair Value Level	**$76,625**	**$—**	**$76,625**	**$—**

NOTE Q — Other Post-Employment Benefits (OPEB) Trust

Establishment of Los Angeles County (County) OPEB Trust

Pursuant to the California Government Code, the County established an irrevocable, tax exempt OPEB Trust for the purpose of holding and investing assets to pre-fund the Retiree Healthcare 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 as trustee and investment manager.

The County OPEB Trust was the County's first step to reduce its OPEB unfunded liability. It provides a framework where the County contributes to the Trust and transitions, over time, from funding post-retirement benefits as a pay-as-you-go model to a prefunding model. The County OPEB Trust does not modify the participating employers' existing benefit programs.

The County OPEB Trust serves as a funding tool for the participating employers to hold and invest assets used to pay expenses associated with future OPEB benefits, such as medical, dental and vision provided by the Retiree Healthcare Program including retiree death/ burial benefit. The participating employers will be responsible for and have full discretion over the timing and use of those assets. There are only two participating employers in the County OPEB Trust: Los Angeles County and LACERA.

Establishment of Los Angeles Superior Court (Court) OPEB Trust

Similar to the OPEB Trust established by the County, the Court followed the County's lead and established a separate OPEB Trust Fund, the Court OPEB Trust, to begin prefunding its own OPEB unfunded liability.

Pursuant to the California Government Code, the Court established an irrevocable OPEB Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Program, which LACERA administers. In April 2016, the Judicial Council of California approved the Court's request to establish a qualified irrevocable Trust, as well as use LACERA's Board of Investments as trustee and investment services provider for the prefunding of the Court's OPEB liabilities.

In May 2016, to conform the language of the County OPEB Trust agreement to the language of the Court's OPEB Trust agreement, the Board of Supervisors approved the First Amendment to the *Trust and Investment Services Agreement for the County of Los Angeles OPEB Program* between the County and LACERA. This amendment permits the pooling of County and Court OPEB Trust assets solely for investment purposes and updates the fiduciary duty provisions due to the addition of the Court's OPEB Trust agreement.

In June 2016, similar to the County, the Court entered into a Trust and Investment Services Agreement with the LACERA Board of Investments.

OPEB Master Trust

In July 2016, LACERA's Board of Investments adopted the OPEB Master Trust Declaration and unitization of OPEB Trust investments. As trustee of the separate OPEB Trusts established by the County and the Court, the Board of Investments has sole and exclusive authority, control over, and responsibility for directing the investment and management of the Master Trust assets.

A unitized fund structure may allow for synergy from the shared economy and leveraged investment opportunities for greater diversification of assets. Unitization also provides participants the ability to pool assets and resources while retaining total fund and functional category values and reporting for each participant. This approach can offer administrative efficiency, potential cost savings, and permit flexibility in asset allocation.

Funding Policy

In June 2015, the Board of Supervisors approved the countywide budget with a dedicated funding promise for the OPEB liability using a multi-year approach to enhance the County's OPEB Trust funding in a consistent manner.

Under the County OPEB Trust, LACERA is defined as a "Contributing Employer." Separate accounts are maintained for the contributions and expense obligations of the County and LACERA. Since inception, LACERA participated in lock step funding with the County. LACERA's budget includes provisions for its pro rata share of OPEB Trust contributions. In December 2015, the LACERA Boards adopted the LACERA OPEB Funding Policy allowing LACERA to prefund its portion of retiree healthcare benefits in sync with the County, while also allowing LACERA to prefund its portion of the liability separately. LACERA is not legally obligated, under the Trust or otherwise, to match the County's funding practices, but such a course of action, which has been followed in the past, reduces LACERA's share of the unfunded liability.

The Court continues to pay its OPEB liability on a pay-as-you-go basis. Although the Court has not adopted a formal OPEB funding policy, when surplus funds are available at fiscal year end, the Court may earmark such excess funds as OPEB Trust contributions.

Target Allocation: The Board's revised asset allocation policy divides the Trust into four broad functional categories and contain asset classes that align with the purpose of each function. The Board has approved target weights at both the functional category and asset class level. The functional categories have target weights of 50.0 percent in Growth, 20.0 percent in Credit, 10.0 percent in Risk Reduction and Mitigation, and 20.0 percent in Inflation Hedges, respectively.

Expected Long-Term Real Rate of Return: The long-term expected rate of return on OPEB Trust investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of geometric real rates of return, reduced by expected inflation as of June 30, 2018 for each major asset class are included in the table below.

The investment rate of return GASB 74 assumption for the fiscal year ended June 30, 2018 was 6.30 percent. This represented a change from the investment rate of return used for the fiscal year ended June 30, 2017, which was 6.66 percent.

Investment Concentrations: At June 30, 2018, the OPEB Master Trust held approximately 48.6 percent in Growth, 20.1 percent in Credit, 10.8 percent in Risk Reduction and Mitigation, and 20.5 percent in Inflation Hedges. In addition, the Superior Court contributed $1.5 million on June 30, 2018 which was deposited into the OPEB cash account and then subsequently invested after month-end.

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

As of June 30, 2018

Asset Class	Target Allocation		Weighted Average Long-Term Expected Real Rate of Return (After Expected 2.75% Inflation Rate) (Geometric)	
Growth	**50.0%**		**4.7%**	
Global Equity		50.0%		4.7%
Credit	**20.0%**		**2.4%**	
High Yield Bonds		6.0%		2.6%
Bank Loans		10.0%		2.2%
EM Local Currency Bonds		4.0%		2.6%
Risk Reduction & Mitigation	**10.0%**		**0.7%**	
Cash Equivalents		2.0%		0.1%
Investment Grade Bonds		8.0%		0.8%
Inflation Hedges	**20.0%**		**2.5%**	
Treasury Inflation-Protected Securities (TIPS)		6.0%		0.5%
Real Estate (REITs)		10.0%		3.9%
Commodities		4.0%		1.8%

Money-Weighted Rate of Return: For the fiscal year ended June 30, 2018, the annual money-weighted rate of return on OPEB Trust investments, net of OPEB Trust investment expense, was 10.0 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Historical returns will be presented as they become available, and are presented in the Schedule of Investment Returns – OPEB Program in the Required Supplementary Information section of this report.

Contributions: The participating employers historically discharged their premium subsidy obligations on a pay-as-you-go basis. LACERA bills the healthcare premiums to the participating employers and members on a monthly basis. The County, Superior Court and LACERA have now begun to pre-fund these obligations, depositing monies into the irrevocable OPEB Trust. Plan members are required to pay the difference between the employer-paid subsidy and the actual premium cost.

During fiscal years ended June 30, 2018 and 2017, the County, Superior Court, and LACERA made total pre-funding contributions to the OPEB Trust of $123.3 million and $88.0 million respectively, in excess of the pay-as-you-go amounts, both of which are recorded as revenue within the OPEB Trust.

Beginning in March 2018, the Court redeemed $3.7 million from the OPEB Trust to pay a portion of the ongoing pay-as-you-go costs. The redemption occurred over three consecutive months, during which time the Court funded the remaining balances of the ongoing costs. There were no other redemptions during the year.

Administration: The OPEB Trust administration costs include payments for investment management fees, custodial fees, and overhead charged by LACERA for administering the OPEB Trust Fund. Expenses totaled $0.7 million and $0.8 million for fiscal years ended June 30, 2018 and 2017, respectively. For purposes of the GASB 74 actuarial valuation, the actuary reclassified approximately $8.7 million of costs from benefit payments to administrative expenses. These costs are paid with premiums, but represent a flat administrative charge of $8 per contract per month. Through this reclassification, the projected benefit payments and the actuarial determined Total OPEB Liability under GASB 74 properly excludes these administrative costs.

Contributions — OPEB Trust

For the Fiscal Years Ended June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Los Angeles County	**$120,796**	$61,145
LACERA	**491**	243
Superior Court	**2,016**	26,612
Total Contributions*	**$123,303**	$88,000

*Contributions are limited to OPEB Trust prefunding and exclude pay-as-you-go contributions as included in OPEB Trust employer contributions in the Statement of Changes in Fiduciary Net Position.

Expenses — OPEB Trust

For the Fiscal Years Ended June 30, 2018 and 2017

	2018				
	Management Fees	Custodial Fees	Consultant Fees	Administrative Expenses	Total
Los Angeles County	$328,028	$75,994	$52,338	$130,371	$586,731
LACERA	1,254	290	200	14,600	16,344
Superior Court	15,595	3,571	2,462	44,984	66,612
Total Expenses	**$344,877**	**$79,855**	**$55,000**	**$189,955**	**$669,687**

	2017				
	Management Fees	Custodial Fees	Consultant Fees	Administrative Expenses	Total
Los Angeles County	$229,448	$69,475	$76,088	$138,734	$513,745
LACERA	877	266	292	33,381	34,816
Superior Court	6,314	2,088	995	201,608	211,005
Total Expenses	**$236,639**	**$71,829**	**$77,375**	**$373,723**	**$759,566**

Fund Values: OPEB Trust Fund additions include contributions from participating employers and investment income. Deductions include redemptions, investments, and administrative expenses. The combined OPEB Trust Fund values were as follows:

Fund Values — OPEB Trust

As of June 30, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Los Angeles County	**$814,047**	$633,697
LACERA	**3,111**	2,407
Superior Court	**35,463**	34,384
Total Balance at Book Value	**852,621**	670,488
Unrealized Investment Portfolio Appreciation	**88,386**	72,395
Total Balance at Fair Value	**$941,007**	$742,883

NOTE R — Subsequent Events

Management reviewed and identified subsequent events, up to the date of the Independent Auditor's Report - October 12, 2018. One item is described below.

OPEB Program Structure Change

Since 1982, LACERA has maintained administrative responsibility for the Retiree Healthcare Program, also referred to as the Other Post-Employment Benefits (OPEB) Program. Healthcare, vision, dental and death benefits are provided to LACERA eligible retirees of the County and other participating employers (i.e., Outside Districts) through the OPEB Program, which was established and maintained as a cost-sharing multiple employer defined benefit OPEB plan (cost-sharing OPEB plan).

Beginning July 1, 2018, at the County's request, LACERA changed the financial reporting structure from a cost-sharing OPEB plan to an agent multiple-employer defined benefit OPEB plan (agent OPEB plan). In the new agent OPEB plan model, the employers' assets are pooled for investment purposes within the OPEB Trust, but separate accounts will be maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its retired employees.

This structural change does *not* change OPEB Program benefits. The OPEB Program will continue to provide the existing benefits for all current participating employers: Los Angeles County, Los Angeles Superior Court, LACERA, South Coast Air Quality Management District, Local Agency Formation Commission, Los Angeles County Office of Education, and Little Lake Cemetery District. As part of the agent plan transition, for the three employers that have prefunded OPEB liabilities through the OPEB Trust fund (Los Angeles County, Los Angeles Superior Court, and LACERA), the employers' costs will be separately tracked, enhancing the ability to identify and manage OPEB-related expenses.

To ensure the completeness and integrity of the transition, LACERA's external auditor, Plante Moran, will perform a separate audit of the OPEB Trust's Schedule of Changes in Fiduciary Net Position for the fiscal year ending June 30, 2019.

Schedule of Net Pension Liability[1]

For the Fiscal Years Ended June 30

(Dollars in Thousands)

	2018	2017	2016	2015	2014
Total Pension Liability	**$67,057,218**	$64,031,677	$58,528,457	$56,570,520	$54,977,021
Less: Fiduciary Net Position	**(56,299,982)**	(52,743,651)	(47,846,694)	(48,818,350)	(47,722,277)
Net Pension Liability	**$10,757,236**	$11,288,026	$10,681,763	$7,752,170	$7,254,744
Fiduciary Net Position as a Percentage of Total Pension Liability	**83.96%**	82.37%	81.75%	86.30%	86.80%
Covered Payroll[2]	**$7,957,981**	$7,637,032	$7,279,777	$6,949,420	$6,672,886
Net Pension Liability as a Percentage of Covered Payroll	**135.18%**	147.81%	146.73%	111.55%	108.72%

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 methods and assumptions 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 Statement No. 67.

Discount Rate

	2018	2017	2016	2015	2014
Discount Rate	**7.38%**	7.38%	7.63%	7.63%	7.63%
Long-Term Expected Rate of Return, Net of Expenses	**7.25%**	7.25%	7.50%	7.50%	7.50%
Municipal Bond Rate	**N/A**	N/A	N/A	N/A	N/A

The long-term expected rate of return was determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Milliman's December 2016 Investigation of Experience analysis was used to develop the 7.38 percent assumption used for the current reporting date. This is equal to the 7.25 percent long-term investment return assumption adopted by the Board of Investments (net of investment and administrative expenses), plus 0.13 percent assumed administrative expenses.

The plan's projected Fiduciary Net Position, after reflecting employee and employer made contributions, was expected to be sufficient to make all future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total Pension Liability is equal to the long-term expected rate of return, gross of administrative expenses.

Other Key Actuarial Assumptions

The actuarial assumptions used to calculate the Total Pension Liability as of the June 30, 2018 measurement date are the same as those used in the June 30, 2016 experience study and the June 30, 2017 actuarial funding valuation.

Valuation Date	**June 30, 2017**	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	**June 30, 2018**	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

For Other Actuarial Methods and Assumptions, see Notes to the Required Supplementary Information.

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

[2]In accordance with GASB Statement No. 82, Covered Payroll is the payroll on which contributions are based.

Schedule of Net OPEB Liability[1]

For the Fiscal Years Ended June 30
(Dollars in Thousands)

	2018	2017	2016
Total OPEB Liability	**$25,671,307**	$27,212,073	$27,216,178
Less: Fiduciary Net Position	**(941,007)**	(742,883)	(560,750)
Net OPEB Liability	**$24,730,300**	$26,469,190	$26,655,428
Fiduciary Net Position as a Percentage of Total OPEB Liability	**3.67%**	2.73%	2.06%

Total OPEB Liability

The Total OPEB Liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial methods and assumptions noted below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB Statement No. 74.

Discount Rate

	2018	2017	2016
Discount Rate	**5.11%**	4.69%	4.34%
Long-Term Expected Rate of Return, Net of Investment Expenses	**6.30%**	6.66%	6.72%
Municipal Bond Rate	**3.87%**	3.58%	2.85%

The plan's Fiduciary Net Position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's Fiduciary Net Position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's Fiduciary Net Position is not projected to be sufficient. Based upon the depletion date projections, the discount rate applied represents a “blended rate.”

Other Key Actuarial Assumptions

The actuarial assumptions that determined the Total OPEB Liability as of June 30, 2018 were based on the results of an actuarial experience study as of July 1, 2016 and an actuarial funding valuation dated July 1, 2017. The long-term expected rate of return was updated for the July 1, 2017 actuarial funding valuation and the calculation of the Total OPEB Liability due to a change in the OPEB Trust asset allocation model implemented during the fiscal year ended June 30, 2018.

	2018	2017	2016
Valuation Date	**July 1, 2017**	July 1, 2016	July 1, 2014
Measurement Date	**June 30, 2018**	June 30, 2017	June 30, 2016

For Other Actuarial Methods and Assumptions, see Notes to the Required Supplementary Information.

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

Schedule of Changes in Net Pension Liability and Related Ratios[1]

For the Fiscal Years Ended June 30

(Dollars in Thousands)

	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	**$1,220,274**	$1,106,755	$1,069,328	$1,024,288	$1,009,834
Interest on Total Pension Liability	**4,699,493**	4,393,712	4,214,834	4,073,299	3,957,030
Effect of Plan Changes	**—**	—	—	—	—
Effect of Assumption Changes or Inputs	**—**	3,079,892	—	—	—
Effect of Economic/Demographic (Gains) or Losses	**309,149**	(47,506)	(437,039)	(736,010)	—
CalPERS Transfer	**—**	—	—	332	—
Benefit Payments and Refund of Contributions	**(3,203,375)**	(3,029,633)	(2,889,186)	(2,768,410)	(2,662,401)
Net Change in Total Pension Liability	**$3,025,541**	$5,503,220	$1,957,937	$1,593,499	$2,304,463
Total Pension Liability — Beginning	**64,031,677**	58,528,457	56,570,520	54,977,021	52,672,558
Total Pension Liability — Ending (a)	**$67,057,218**	$64,031,677	$58,528,457	$56,570,520	$54,977,021
Fiduciary Net Position					
Contributions — Employer[2]	**$1,524,823**	$1,331,357	$1,403,709	$1,455,718	$1,281,795
Contributions — Metropolitan Transportation Authority	**—**	2	3	25	—
CalPERS Transfer	**—**	—	—	332	—
Contributions — Member[2]	**591,262**	526,579	498,083	480,158	477,648
Net Investment Income	**4,705,949**	6,129,300	80,588	1,989,358	6,910,439
Net Miscellaneous Income	**5,163**	6,182	2,792	1,483	—
Benefit Payments	**(3,203,375)**	(3,029,633)	(2,889,186)	(2,768,410)	(2,662,401)
Administrative Expenses	**(67,491)**	(66,830)	(67,645)	(62,591)	(58,723)
Net Change in Fiduciary Net Position	**$3,556,331**	$4,896,957	$(971,656)	$1,096,073	$5,948,758
Fiduciary Net Position — Beginning	**52,743,651**	47,846,694	48,818,350	47,722,277	41,773,519
Fiduciary Net Position — Ending (b)	**$56,299,982**	$52,743,651	$47,846,694	$48,818,350	$47,722,277
Net Pension Liability — Ending (a) — (b)	**$10,757,236**	$11,288,026	$10,681,763	$7,752,170	$7,254,744
Fiduciary Net Position as a Percentage of Total Pension Liability	**83.96%**	82.37%	81.75%	86.30%	86.80%
Covered Payroll[3]	**$7,957,981**	$7,637,032	$7,279,777	$6,949,420	$6,672,886
Net Pension Liability as a Percentage of Covered Payroll	**135.18%**	147.81%	146.73%	111.55%	108.72%

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.
[2]In accordance with GASB Statement No. 82, employer pick-up contributions are classified as Member Contributions.
[3]In accordance with GASB Statement No. 82, Covered Payroll is the payroll on which contributions are based.

Changes in Pension Plan Assumptions:
In addition to the annual valuations, LACERA requires its actuary to review the reasonableness of the economic and demographic actuarial assumptions every three years. An experience study was performed by the consulting actuary for the three-year period ended June 30, 2016. 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 actual Pension Plan history, the actuary determines whether changing the assumptions or methodology will better project benefit liabilities and asset growth. At the December 2016 Board of Investments meeting, the Board adopted new valuation assumptions with the 2016 Investigation of Experience Report.

2016 Assumption Changes:
The Board adopted a decrease in the investment return assumption to 7.38 percent, a decrease in the CPI assumption to 2.75 percent, and a corresponding decrease in the general wage growth assumption to 3.25 percent.

An increase in life expectancies was adopted. Various rates based on the RP-2014 Healthy and Disabled Annuitant mortality tables and including projection for expected future mortality improvement using 100 percent of the MP-2014 Ultimate Projection Scale.

Schedule of Changes in Net OPEB Liability and Related Ratios[1]

For the Fiscal Years ended June 30

(Dollars in Thousands)

	2018	2017
Total OPEB Liability[2]		
Service Cost	**$1,021,264**	$1,087,211
Interest on Total OPEB Liability	**1,310,736**	1,216,588
Effect of Plan Changes	**—**	—
Effect of Assumption Changes or Inputs	**(1,913,958)**	(1,759,274)
Effect of Economic/Demographic (Gains) or Losses	**(1,380,405)**	—
Benefit Payments	**(578,403)**	(548,630)
Net Change in Total OPEB Liability	**$(1,540,766)**	$(4,105)
Total OPEB Liability — Beginning	**27,212,073**	27,216,178
Total OPEB Liability — Ending (a)	**$25,671,307**	$27,212,073
Fiduciary Net Position		
Contributions — Employer	**$706,709**	$645,381
Net Investment Income	**78,695**	94,506
Benefit Payments	**(578,403)**	(548,630)
Administrative Expenses	**(8,877)**	(9,124)
Net Change in Fiduciary Net Position	**$198,124**	$182,133
Fiduciary Net Position — Beginning	**742,883**	560,750
Fiduciary Net Position — Ending (b)	**$941,007**	$742,883
Net OPEB Liability — Ending (a) — (b)	**$24,730,300**	$26,469,190
Fiduciary Net Position as a Percentage of Total OPEB Liability	**3.67%**	2.73%

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

[2]For purposes of the GASB 74 actuarial valuation, the actuary reclassified approximately $9.5 million of LACERA costs from benefit payments to administrative expenses. These costs are paid with premiums, but represent a flat administrative charge of $8 per contract per month. Through this reclassification, the projected benefit payments and the actuarial determined total OPEB liability under GASB 74 properly excludes these administrative costs.

Changes in OPEB Program Assumptions:
In addition to the annual valuations, LACERA requires its actuary to review the reasonableness of the economic and demographic actuarial assumptions every three years. An experience study was performed by the consulting actuary for the three-year period ended July 1, 2016. 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 actual OPEB Program history, the actuary determines whether changing the assumptions or methodology will better project benefit liabilities and asset growth. In August 2017, the Board of Retirement reviewed actuarial funding valuation assumptions presented in the 2016 Investigation of Experience Report.

2018 Assumption Changes:
During the fiscal year, the Board of Investments adopted and implemented a new asset allocation model for the OPEB Trust. The existing asset classes were reassigned, additional asset classes were added, and all of the assets were re-grouped by functional categories including: growth, credit, risk reduction and mitigation, and inflation hedges.

Based on the OPEB Trust investment performance projections under the new asset allocation model, the long term rate of return was changed to 6.30 percent for fiscal year 2018, from 6.66 percent for fiscal year 2017.

Schedule of Contributions History — Pension Plan

Last 10 Fiscal Years

(Dollars in Thousands)

	2018	**2017***	**2016**	**2015**	**2014**
Actuarially Determined Contributions	**$1,564,285**	$1,392,812	$1,403,712	$1,494,975	$1,320,442
Contributions in Relation to the Actuarially Determined Contributions	**1,564,285**	1,392,812	1,403,712	1,494,975	1,320,442
Contribution Deficiency/(Excess)	**$—**	$—	$—	$—	$—
Covered Payroll	**$7,957,981**	$7,637,032	$7,279,777	$6,949,420	$6,672,886
Contributions as a Percentage of Covered Payroll	**19.66%**	18.24%	19.28%	21.51%	19.79%

	2013*	**2012**	**2011**	**2010**	**2009**
Actuarially Determined Contributions	$1,172,014	$1,078,929	$944,174	$843,704	$847,172
Contributions in Relation to the Actuarially Determined Contribution	1,172,014	1,078,929	944,174	843,704	847,172
Contribution Deficiency/(Excess)	$—	$—	$—	$—	$—
Covered Payroll	$6,595,902	$6,619,816	$6,650,674	$6,695,439	$6,547,616
Contributions as a Percentage of Covered Payroll	17.77%	16.30%	14.20%	12.60%	12.94%

*Portion of contributions fulfilled by transfers from County Contribution Credit Reserve: $448,819 (FYE 2013, County) and $21,891 (FYE 2017, Superior Court).

See Notes to Required Supplementary Information for funding valuation assumptions.

Schedule of Contributions History — OPEB Program

Last 10 Fiscal Years
(Dollars in Thousands)

	2018	2017	2016	2015	2014
Actuarially Determined Contributions*	**$2,123,400**	$2,092,300	$2,152,300	$2,152,300	$2,126,100
Contributions in Relation to the Actuarially Determined Contributions	**706,709**	645,381	530,320	470,185	466,788
Contribution Deficiency/(Excess)	**$1,416,691**	$1,446,919	$1,621,980	$1,682,115	$1,659,312
Actuarially Determined Contributions Ratio	**33.28%**	30.85%	24.64%	21.85%	21.96%

	2013	2012	2011	2010	2009
Actuarially Determined Contributions*	$2,126,100	$1,938,400	$1,938,400	$1,737,000	$1,737,000
Contributions in Relation to the Actuarially Determined Contributions	460,331	442,099	423,032	400,686	381,612
Contribution Deficiency/(Excess)	$1,665,769	$1,496,301	$1,515,368	$1,336,314	$1,355,388
Actuarially Determined Contributions Ratio	21.65%	22.81%	21.82%	23.07%	21.97%

*Amounts prior to 2017 exclude the impact of the Affordable Care Act (ACA) Excise Tax.

See Notes to Required Supplementary Information for funding valuation assumptions.

Schedule of Investment Returns — Pension Plan

For the Fiscal Years Ended June 30

	2018	2017	2016	2015	2014
Annual Money-Weighted Rate of Return (Net of Investment Expenses)	**9.0%**	12.7%	0.7%	4.1%	17.2%

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 10 years. Additional years will be displayed as they become available prospectively.

Schedule of Investment Returns — OPEB Program

For the Fiscal Years Ended June 30

	2018	2017
Annual Money-Weighted Rate of Return (Net of Investment Expenses)	**10.0%**	16.0%

Money-Weighted Rate of Return is calculated as the internal rate of return on OPEB investments, net of investment expenses.

Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

Notes to Required Supplementary Information — Pension Plan

Actuarial Methods and Significant Assumptions

The actuarial assumptions used to determine the Plan liabilities, and employer and employee contributions, are based on the results of the 2016 triennial investigation of experience (experience study). The June 30, 2017 actuarial valuation prepared by the consulting actuary reflects all assumptions adopted by the LACERA Board of Investments in December 2016. The LACERA Board of Investments approved a three-year phase-in of the changes to employer contribution rates.

The following are key methods and assumptions used to determine contribution rates:

Key Methods and Significant Assumptions

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	Entry Age Normal.
Investment Rate of Return[1]	Future investment earnings are assumed to accrue at an annual rate of 7.25 percent, compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2016 valuation.
Consumer Price Index	Increase of 2.75 percent per annum. This rate was adopted beginning with the June 30, 2016 valuation.
General Wage Increases	3.25 percent. Rates of annual salary increases assumed for the purpose of the valuation range from 3.51 percent to 11.51 percent. In addition to increases in salary due to promotions and longevity, the increases include an assumed 3.25 percent per annum rate of increase in the general wage level of membership.
Asset Valuation Method	Assets are valued using a five-year smoothed method based on the difference between expected market value and actual market value. The recognition method is non-asymptotic, and there is no minimum or maximum corridor applied.
Amortization Method	The Unfunded Actuarial Accrued Liability (UAAL) is amortized as a level percentage of pay. The UAAL as of June 30, 2009 is amortized over a 30-year closed period. Each year thereafter, that year's UAAL is amortized over a new 30-year closed period. This is referred to as a "layered" amortization. The UAAL contribution rate calculated in the June 30, 2017 funding valuation included nine layers.

[1]Assumptions applied to funding valuation calculations vary with those applied to GASB 67 calculations.

Key Methods and Significant Assumptions

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 Retirement Probability of Occurrence tables in the Actuarial Section of this report.
Cost-of-Living Adjustments (COLA)	Post-retirement benefit increases of either 2.75 percent or 2.0 percent per year are assumed for the valuation in accordance with the benefits provided. This rate was adopted beginning with the June 30, 2016 valuation. As noted in the June 30, 2016 actuarial valuation report, with one modification: Supplemental Targeted Adjustment for Retirees (STAR) 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 Program benefits.[2]
Mortality	Various rates based on RP-2014 mortality tables and using MP-2014 Ultimate Projection Scale. See June 30, 2017 actuarial valuation for details.
Recognition of Inflows/Outflows	
Gains or Losses	
Investment	Straight-line amortization over five years.
Economic/Demographic	Straight-line amortization over expected working life.
Assumption Changes or Inputs	Straight-line amortization over expected working life.

[2]Differs from actuarial valuation due to inclusion of future liability for STAR Program benefits.

Notes to Required Supplementary Information — OPEB Program

Actuarial Methods and Significant Assumptions

Where applicable, the same actuarial methods and assumptions used for the LACERA retirement benefits plan (Pension Plan) are used for the LACERA-administered OPEB Program. The table below summarizes the primary OPEB-related assumptions that were approved and used to conduct the July 1, 2017 OPEB actuarial valuation. The retirement benefits-related demographic and economic assumptions are based on those developed for the June 30, 2016 valuation of the Pension Plan. Economic and demographic assumptions from the Retirement Benefit Investigation of Experience are integrated into the OPEB Investigation of Experience. The OPEB demographic assumptions are based on the results of the 2016 OPEB Investigation of Experience, dated July 21, 2017. OPEB-specific assumptions that have been updated since the 2016 OPEB Investigation of Experience include healthcare cost trend rates updated with information from the July 1, 2018 renewals and carrier ACA Health Insurer Fee details and claim costs.

Key Methods and Significant Assumptions

Actuarial Cost Method[1]	Projected Unit Credit. The actuarial present value of the projected benefits of each individual included in the valuation is allocated pro rata to each year of service between entry age and assumed exit. For members who transferred between plans, entry age is based on original entry into LACERA Retirement Benefits Plan. This assumption was adopted for GASB 43 and 45 reporting beginning with the July 1, 2006 OPEB valuation.
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.
Asset Valuation Method	Market Value.
Inflation	2.75 percent per annum. This rate was adopted beginning with the July 1, 2016 OPEB valuation.

[1]Assumptions applied to funding valuation calculations vary with those applied to GASB 74 calculations.

Healthcare Cost Trend Rates (without Excise Tax)[1]		FY 2018 to FY 2019	FY 2019 to FY 2020	Ultimate
	LACERA Medical Under 65	5.80%	6.30%	4.40%
	LACERA Medical Over 65	6.00%	6.00%	4.40%
	Part B Premiums	9.25%	1.85%	4.35%
	Dental/Vision	0.00%	3.00%	3.70%
	Weighted Average Trend	5.85%	5.42%	4.38%

Salary Increases Including Inflation

3.25 percent.

The general wage increase assumption is 3.25 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 members' OPEB benefit. This rate was adopted June 30, 2016.

Investment Rate of Return[1]

4.50 percent.

Since LACERA-administered OPEB program is a partially funded plan, a blend of the expected return on the County's general funds and the OPEB Trust return is used. Based on the expected return on the County's general funds, the contributions to the OPEB Trust, and the expected investment return from the OPEB Trust, a discount rate of 4.50 percent was selected and applied in the July 1, 2017 OPEB valuation.

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.

Mortality

Various rates based on the RP-2014 Healthy and Disabled Annuitant mortality tables and including projection for expected future mortality improvement using the MP-2014 Ultimate Projection Scale. See July 1, 2017 OPEB actuarial valuation for details.

[1] Assumptions applied to funding valuation calculations vary with those applied to GASB 74 calculations.

Administrative Expenses — Pension Plan

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	2018	2017
Personnel Services		
Salaries and Wages	**$37,478**	$32,719
Employee Benefits	**21,312**	18,304
Total Personnel Services	**58,790**	51,023
Consultant & Professional Services		
County Department Services	**188**	216
External Audit Fees	**212**	131
Legal Consultants	**850**	832
Professional Services	**444**	467
Temporary Personnel Services	**2,595**	1,783
Total Consultant & Professional Services	**4,289**	3,429
Operating & Equipment Expenses		
Administrative Support	**211**	219
General Expenses	**942**	995
Computer Software	**1,857**	1,409
Disability Medical Service Fees	**1,985**	1,728
Educational Expenses	**1,020**	848
Equipment	**1,636**	1,043
Facilities Operations	**3,755**	2,744
Insurance	**475**	550
Printing	**745**	606
Postage	**1,000**	902
Telecommunications	**602**	412
Transportation & Travel	**874**	922
Total Operating & Equipment Expenses	**15,102**	12,378
Total Administrative Expenses	**$78,181**	$66,830

Schedule of Investment Expenses

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	Pension Trust Fund		OPEB Trust Fund		OPEB Agency Fund	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Investment Management Fees						
Cash and Short-Term	**$864**	$771	**$79**	$53	**$18**	$15
Commodity	**4,240**	3,517	**—**	—	**—**	
Equity						
U.S. Equity	**16,819**	17,094	**243**	184	**—**	—
Non-U.S. Equity	**35,663**	28,274	**—**	—	**—**	—
Fixed Income	**32,399**	31,270	**21**	—	**62**	52
Hedge Funds	**46,944**	51,223	**—**	—	**—**	—
Private Equity	**100,639**	75,910	**—**	—	**—**	—
Real Estate	**49,218**	49,059	**2**	—	**—**	—
Total Investment Management Fees[1]	**286,786**	257,118	**345**	237	**80**	67
Other Investment Expenses						
Consultants	**2,014**	3,010	**55**	77	**—**	—
Custodian	**3,003**	3,095	**80**	72	**30**	27
Legal Counsel	**979**	416	**—**	—	**—**	—
Other	**7,633**	6,089	**—**	—	**—**	—
Total Other Investment Expenses	**13,629**	12,610	**135**	149	**30**	27
Total Fees & Other Investment Expenses	**$300,415**	$269,728	**$480**	$386	**$110**	$94

[1] Difference in management fee expense from the Statement of Changes in Fiduciary Net Position are due to the inclusion of incentive fees and carry allocations in the schedule above. These incentive fees and carry allocations are deducted from investment income in the Statement of Changes in Fiduciary Net Position.

Schedule of Payments to Consultants — Pension Plan

For the Fiscal Years Ended June 30, 2018 and 2017

(Dollars in Thousands)

	2018	2017
Actuarial		
Valuation and Consulting Services	**$451**	$303
Audit		
External Audit Services	**212**	131
Legal		
Investment Legal Counsel	**979**	416
Legislative Consulting	**144**	136
Other Legal Services	**705**	695
Total Legal	**1,828**	1,247
Management		
Management and Human Resources	**154**	100
Information Technology Consulting	**40**	51
Total Management	**194**	151
Total Payments to Consultants	**$2,685**	$1,832

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 Fiscal Year Ended June 30, 2018

(Dollars in Thousands)

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Assets				
Cash and Short-Term Investments	$85,229	$659,891	$664,205	$80,915
Accounts Receivable–Sale of Investments	—	5,385	5,385	—
Accrued Interest and Dividends	363	405	314	454
Accounts Receivable–Other	48,585	642,671	638,645	52,611
Fixed Income	76,625	47,357	16,588	107,394
Total Assets	**$210,802**	**$1,355,709**	**$1,325,137**	**$241,374**
Liabilities				
Accounts Payable–Purchase of Investments	$21	$10,044	$10,051	$14
Retiree Payroll and Other Payables	150	46,032	46,003	179
Accrued Expenses	257	209	257	209
Accounts Payable–Other	115,137	568,882	562,569	121,450
Due to Employers	95,237	26,479	2,194	119,522
Total Liabilities	**$210,802**	**$651,646**	**$621,074**	**$241,374**

UNDERSTANDING VALUE

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We take seriously our commitment to provide for those who have invested their careers with the County of Los Angeles, so our investment strategy is designed to ensure that the fund is robust. To minimize the risk of loss and maximize the rate of return, we are well-diversified, investing across eight asset classes.

Pension Plan
Policy Benchmark Return for 2018:

7.8%

Pension Plan
2018 Return:

9.0%

It All ADDS UP

September 19, 2018

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

Dear Board Members:

Meketa Investment Group (“Meketa”), investment consultant to the Board of Investments of the Los Angeles County Employees Retirement Association (LACERA) since January 2016, is pleased to present this review of LACERA’s investment performance over the past fiscal year, which ended June 30, 2018.

FISCAL YEAR ENDING JUNE 30, 2018 RECAP

The fiscal year was largely a story of two environments. In 2017, we saw synchronized global growth, low volatility, tax cuts in the U.S. at year-end, and a weak U.S. dollar. During the last two quarters of 2017, most asset classes were up, particularly riskier ones. Emerging markets led the way in Q3 (+7.9 percent) and Q4 (+7.4 percent). U.S. and international developed markets equities also posted strong returns over both quarters, while fixed income assets were largely up but with more modest returns in the risk-on environment.

The trends of 2017 persisted into the first few weeks of 2018, but the environment quickly changed. In 2018, volatility increased from very low levels, as did interest rates and inflation; the U.S. dollar rebounded; and trade tensions between the U.S. and others heated up. In this environment, U.S. equities were one of the few asset classes to perform, while international equities and most fixed income asset classes fell. High yield bonds did post a modest gain (+0.2 percent) in the first two quarters of 2018, however.

The net result of the two environments on the fiscal year returns ending June 2018 was that equities increased, particularly in the U.S., while in fixed income TIPS and high yield bonds posted relatively modest returns, while the broad U.S. bond market slightly declined.

FISCAL YEAR 2018 MARKET RETURNS

For the fiscal year, U.S. equities, as represented by the Russell 3000, rose +14.8 percent. The trend of U.S. growth stocks outperforming value stocks persisted and small capitalization stocks (+17.6 percent) outperformed large capitalization (+14.5 percent) and mid-capitalization (+12.3 percent) stocks. The MSCI EAFE, representing foreign developed markets, increased at less than half the rate of U.S. equities, up +6.8 percent. Emerging market equities’ strong returns in 2017 were balanced by an -8.0 percent decline in the second quarter of 2018 as a stronger dollar and trade tensions weighed on results. The MSCI Emerging Markets Equity index gained +8.2 percent for the full fiscal year.

Within fixed income, positive returns in the final two quarters of 2017 moved to concerns over rising interest rates and inflation creating headwinds in 2018. In the U.S., the Federal Reserve increased interest rates for the seventh time in June to a range of 1.75 percent to 2.00 percent and continued to reduce its balance sheet. The rate increases contributed to the flattening of the U.S. yield curve during the fiscal year. Over the trailing year, TIPS (+2.1 percent) and high yield bonds (+2.6 percent) increased, while the broad U.S. bond market, represented by the Barclays Aggregate Index, fell -0.4 percent. Similar to emerging market equities, returns for emerging market bonds in the second quarter of 2018 weighed on the fiscal year results—in this case, more dramatically as the -10.4 percent decline in the second quarter for emerging market bonds (as represented by JPM GBI-EM Global Diversified—Local Currency) led to a -2.3 percent return for the trailing year.

Within other asset classes, natural resource stocks (S&P Global Natural Resources Index) rose +24.8 percent, commodities (Bloomberg Commodity Index) gained +7.4 percent, and REITS (MSCI U.S. REIT Index) gained +3.6 percent. Oil prices finished the fiscal year at over $60/barrel, representing a dramatic increase from their recent lows. Cuts from OPEC and strong growth globally contributed to the rise in oil prices.

FISCAL YEAR 2019 OUTLOOK

Looking forward, there are several issues that we continue to monitor. First, is the potential for major central banks to tighten monetary policy at the same time. Second, in the U.S., equity markets remain extended and the latest economic cycle has been long. Also in the U.S., trade policy remains another key issue. Next, is the declining growth in China and the impact of trade tensions with the U.S. Finally, political uncertainty and ongoing structural issues remain a concern in Europe.

After an extended period of monetary support through low interest rates and bond purchases from banks (i.e., quantitative easing), we could be moving into a period where central banks pull back support at the same time. The U.S. is further along in that process with the Federal Reserve increasing interest rates and reducing its balance sheet. It is also largely expected that the European Central Bank (ECB) will end its quantitative easing by year-end. If central banks begin pulling back support, this could put further upward pressure on rates, weigh on economic growth, and tighten liquidity.

The U.S. economy and equity markets have experienced a long period of growth since the Global Financial Crisis due in part to central bank support. Late cycle dynamics of low unemployment and rising inflation are in place, and valuations are stretched for equites. It is inevitable that growth will eventually slow and equity markets will pull back, but the question is when. Other key issues in the U.S. include policy uncertainty related to tariffs, immigration, and strategic alliances.

China has the second-largest economy behind the U.S. After a long period of growth through government investment, it continues to manage a repositioning of its economy to one of consumption. This has led to a slowing of its economy and has hurt countries that depend on its trade. The recent trade tariffs between the U.S. and China are another key issue, which could have a disproportionately negative impact on China, as the U.S. is one of their largest export destinations. Another key issue in China remains the high debt levels, particularly in the corporate sector.

Europe continues to have the structural issue of having a single currency and central bank with fiscal policy resting with each individual country. Consequently, countries that are experiencing financial difficulties are unable to use the traditional tools of lowering interest rates and devaluing their currency to stimulate growth. This has caused tensions within the Eurozone as highlighted by the recent elections in Italy and the prior elections in Germany, as well as the on-going issues in Greece. Given the size of Italy's bond market and economy within the euro area, a sovereign debt crisis or departure from the euro would have significant consequences.

We will continue to monitor these issues and others.

LACERA INVESTMENT RESULTS

Los Angeles County Employees Retirement Association (LACERA) provides defined retirement plan benefits and other post-employment benefits for employees of the County of Los Angeles (County), the Los Angeles Superior Court (Court), and various outside districts. LACERA is responsible for the administration and investment of two separate funds (Funds): the LACERA defined benefit retirement plan (Pension Plan or Plan), whose assets provide retirement benefits for employees of the County and outside districts, and the LACERA Other Post-Employment Benefit Trust Fund (OPEB Trust), whose assets provide other post-employment benefits such as retiree healthcare for employees of the County, LACERA, and the Court.

LACERA had approximately $56.0 billion in assets at the end of the 2018 fiscal year. For the fiscal year, LACERA returned 9.0 percent, net of fees, outperforming the Policy Benchmark return of 7.8 percent, and its assumed actuarial rate of return of 7.25 percent. This relative result is largely attributable to outperformance (versus respective targets) by its Non-U.S. Equity, Fixed Income, Real Estate, Private Equity, and Commodity composites. Private Equity and U.S. Equity had the highest absolute performance, returning 21.2 percent and 14.1 percent, respectively.

The OPEB Master Trust had approximately $941.0 million in assets at the end of June 2018. The Los Angeles County, LACERA, and Superior Court trusts returned 10.3 percent, 10.4 percent, and 9.8 percent for the 2018 fiscal year, net of fees, respectively. The Global Equity allocation returned 11.4 percent, net of fees, outperforming the MSCI ACWI IMI by approximately 30 basis points.

SUMMARY

For the 2018 fiscal year, LACERA outperformed the assumed actuarial rate of return as well as its policy benchmark. We believe that the Pension Plan's portfolio is well diversified. Our key priority for the current year is to begin implementing the Pension Plan's new strategic asset allocation. We look forward to continuing our work with the Board and Staff to help LACERA meet its mission of producing, protecting, and providing the promised benefits.

Sincerely,

Leandro Festino, CFA, CAIA
Managing Principal

Stephen P. McCourt, CFA
Managing Principal

MEKETA INVESTMENT GROUP
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Jonathan Grabel

Chief Investment Officer

Dear LACERA members:

It is a privilege as the Chief Investment Officer to review the Investment Section of the fiscal year 2018 Los Angeles County Employees Retirement Association (LACERA) Comprehensive Annual Financial Report. LACERA recognizes the importance of its mandate to produce, protect, and provide promised retirement benefits and, accordingly, this letter offers an overview of the LACERA investment portfolios, a performance discussion, and a summary of significant initiatives.

LACERA is responsible for the administration and investment of two separate funds (Fund or Funds): the County of Los Angeles (County) defined benefit retirement plan (Pension Plan or Plan), whose assets provide retirement benefits for employees of the County and outside districts, and the LACERA Other Post-Employment Benefit Trust (OPEB Trust or Trust), whose assets provide post-employment benefits such as retiree healthcare for employees of the County, LACERA, and the Superior Court of California, County of Los Angeles (Court).

For the fiscal year ending June 30, 2018, the Pension Plan returned 9.0 percent, outperforming its policy benchmark return and actuarial investment return assumption of 7.8 percent and 7.25 percent, respectively. The OPEB Trust gained 10.1 percent for the period, outperforming its policy benchmark return of 9.2 percent. All returns are net of fees. Historical performance for the Pension Plan and the OPEB Trust for the fiscal year ended June 30, 2018 is presented below.

Annualized Total Returns (Net of Fees)

Fiscal Year Ended June 30, 2018

	1 Year	3 Years	5 Years	7 Years	10 Years
Pension Plan	9.0%	7.4%	8.5%	7.7%	6.3%
Policy Benchmark	7.8%	7.0%	8.1%	7.5%	6.3%
OPEB Trust*	10.1%	7.6%	6.3%	n/a	n/a
Policy Benchmark	9.2%	6.9%	5.8%	n/a	n/a

* Performance inception date: February 1, 2013

As detailed in the table above, the Pension Plan's investment portfolio outperformed its custom benchmark on an annualized basis in the one-, three-, five-, and seven-year periods ended June 30, 2018 and matched its benchmark in the 10-year period. The OPEB Trust surpassed its benchmark over the one-, three-, and five-year annualized periods. LACERA's goal is to meet or slightly exceed each Fund's policy benchmark over a full market cycle and, with respect to the Pension Plan, achieve its actuarial expected return assumption of 7.25 percent in the long term.

Portfolio Structure

LACERA's Board of Investments (Board) is responsible for establishing investment policies and objectives for both Funds. In its role as a fiduciary, the Board adopts Investment Policy Statements (IPS) to establish frameworks for the governance and management of the Pension Plan and OPEB Trust assets. Each IPS identifies an asset allocation mix suitable for the specific objectives of its respective Fund and defines the duties of the Board, investment staff, and external service providers including the master custodian, consultants, and investment managers. A fundamental principle that serves as the cornerstone of each Fund's IPS and implementation approach is that the Funds are managed for the sole benefit of LACERA's members.

The Pension Plan's IPS states that strategic asset allocation, which apportions investment dollars among multiple investment strategies, is expected to be the major determinant of investment performance over time. Accordingly, LACERA's Board determines asset allocation policies (Policy or Policies) for each Fund which embrace a strategic, long-term perspective of diversified portfolio construction while providing for the liquidity necessary to meet current obligations. These Policies are intended to maximize each Fund's total return while remaining cognizant of its objectives, current market conditions, and portfolio characteristics such as liquidity, diversification, and risk. The Policies are reviewed periodically, and target allocation ranges for asset categories are adjusted to reflect updated information.

The Board conducted a strategic asset allocation analysis for both Funds during the 2018 fiscal year. As part of this exercise, the Board approved updated investment return assumptions, additional investment strategies (e.g., Treasury Inflation Protected Securities (TIPS), natural resources, and infrastructure) that will supplement existing asset classes, and a new asset allocation overlay that will utilize functional categories to apportion investment dollars for each portfolio. Specifically, the use of a functional overlay, which assigns asset classes to functional categories based on common performance drivers, is expected to enhance the focus on risk management across both portfolios. This methodology is a portfolio and risk management tool and not the basis for this year's financial statement presentation.

The table below presents the existing and recently approved asset class sub-strategies organized according to the functional asset category overlay. When fully implemented, the new strategic asset allocations are expected to increase portfolio diversification while maintaining expected returns.

Functional Categories	Growth	Credit	Real Assets and Inflation Hedges	Risk Reducing and Mitigating
Investment Strategies	Global Equity	High Yield	Core and Value Added Real Estate	Investment Grade Bonds
	Private Equity	Bank Loans	Natural Resources and Commodities	Diversified Hedge Funds
	Opportunistic Real Estate	Emerging Market Debt	Infrastructure	Cash
		Illiquid Credit	TIPS	

The charts on the next page depict the Pension Plan's actual asset allocation as of June 30, 2018 as well as its new target allocation, both shown through the lens of the recently approved functional overlay. The Pension Plan's new Policy will be implemented in stages, with an expected time frame of 18 to 24 months for the portfolio to be transitioned in full.

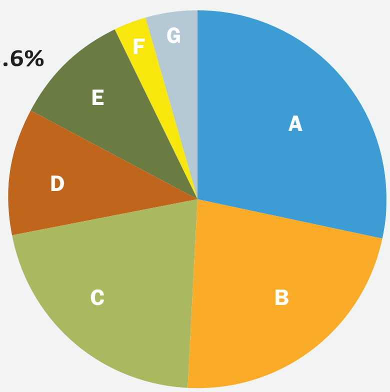
As illustrated, the Pension Plan's new strategic asset allocation calls for a more balanced risk exposure through a reduced allocation to growth assets (primarily global public equities) and larger allocations to real assets such as infrastructure and natural resources. An increased allocation to diversifying hedge funds and investment grade bonds is expected to provide further insulation in the event of an economic downturn. The higher level of current income generated through a larger credit allocation should dampen the volatility of returns while maintaining the potential for incremental upside.

LACERA utilizes a separate IPS to govern the investment of the OPEB Trust. Given a liquidity profile and funding status distinct from that of the Pension Plan, the Trust's Policy has historically called for $100 million of assets to be held in cash, with the balance invested in instruments characterized by a higher level of risk. As of May 31, 2018, prior to the implementation of the new strategic asset allocation, the Trust had an 81 percent allocation to global equities invested in the MSCI All Country World Investable Market Index and a 19 percent allocation to cash invested in high quality, short-term debt instruments. The first of the charts below presents the Trust's asset allocation prior to the implementation of the new Policy, while the second depicts the Trust's target asset allocation policy, again, shown through the lens of the new functional overlay.

Pension Plan Allocations*

As of June 30, 2018

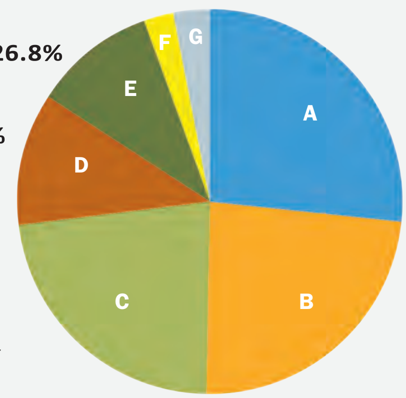
- A Fixed Income & Cash **28.6%**
- B U.S. Equity **22.4%**
- C Non-U.S. Equity **21.0%**
- D Real Estate **11.0%**
- E Private Equity **10.0%**
- F Commodities **2.8%**
- G Hedge Funds **4.2%**



Target Asset Allocation

- A Fixed Income & Cash **26.8%**
- B U.S. Equity **23.5%**
- C Non-U.S. Equity **22.8%**
- D Real Estate **11.2%**
- E Private Equity **10.3%**
- F Commodities **2.5%**
- G Hedge Funds **2.9%**

**Asset allocation based on Investment Manager classifications.*

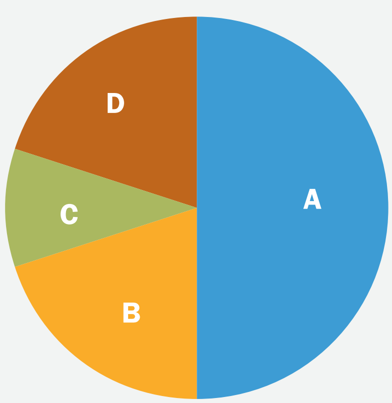


Actual Asset Allocation

OPEB Trust Allocations

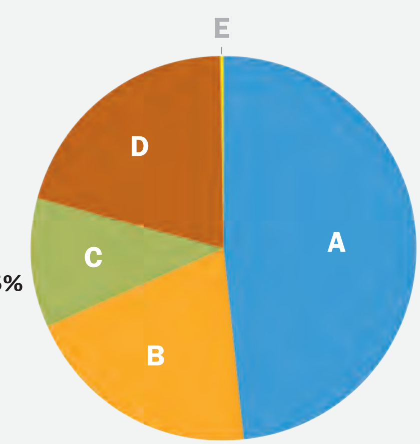
As of June 30, 2018

- A Growth **50.0%**
- B Credit **20.0%**
- C Risk Reduction & Mitigation **10.0%**
- D Inflation Hedges **20.0%**



Target Asset Allocation

- A Growth **48.5%**
- B Credit **20.1%**
- C Risk Reduction & Mitigation **10.7%**
- D Inflation Hedges **20.5%**
- E Cash **0.2%**



Actual Asset Allocation

The new asset allocation for the Pension Plan was adopted in May 2018. Policy adjustments, including the glide path to new allocation ranges, had yet to be established by the end of the fiscal year. As such, the previous asset allocation targets and ranges were in effect. Both Funds were in compliance with their effective Policy target allocation ranges at fiscal year-end.

Economic and Market Review

The broad economic strength witnessed in fiscal 2017 persisted into the fiscal year ended June 30, 2018. World output, as measured by global gross domestic product (GDP), accelerated throughout calendar 2017 and grew at an annualized 3.7 percent pace for the year according to the International Monetary Fund, the highest rate reported since the beginning of the decade. Although global GDP is forecast to grow slightly faster in calendar 2018, many economists note that more recent data indicate that the global expansion has become less evenly distributed and risks to the downside have increased.

In the U.S., an anticipated acceleration in economic growth materialized as low unemployment and the recently implemented tax reform gave a boost to consumer spending. Importantly, the current expansion has so far been accompanied by relatively modest core inflation. Despite incremental tightening by the Federal Reserve, monetary policy remained accommodative with a federal funds interest rate range of 1.75 to 2 percent at fiscal year-end. This is a low level by historical standards and indicative of an environment where corporations and consumers can readily finance growth and consumption. The resultant expectation for a higher level of growth accompanied by still modest inflation propelled equity markets to new highs despite intermittent warnings that protectionist policies may be implemented.

Internationally, most central banks remained accommodative as developed nations continued to trail the U.S. in attaining similar levels of sustainable growth. At the outset of the fiscal year, the financial markets of resource-rich emerging economies outperformed those of their more mature counterparts, though returns for both emerging and developed markets became more muted, in general, as political issues and the threat of tariffs weighed on growth expectations.

Despite the emergence of uncertainty, economic strength combined with a continuation of central bank accommodation outside the U.S. pushed prices of riskier assets higher throughout the fiscal year. Accordingly, high yield bonds outperformed safer instruments such as sovereign debt, and emerging market equities outpaced their developed market counterparts. Nevertheless, a bifurcation in stock returns between companies with and without internal growth prospects re-emerged with some force, corresponding to the intensification of protectionist rhetoric and accompanying equity market volatility at the beginning of calendar 2018. The broad-based, but increasingly technology-heavy Russell 3000 Index of U.S. companies advanced 14.8 percent (10.5 percent excluding technology stocks), while the MSCI World ex-U.S. IMI Index, representative of equity market performance in developed countries outside the U.S., and the MSCI Emerging Markets IMI Index, representative of equity market performance in developing countries, returned 7.8 percent and 7.9 percent, respectively.

As noted above, the returns of more defensive asset classes such as investment grade fixed income lagged those of their riskier counterparts, a phenomenon particularly pronounced in the U.S. as bond yields increased in concert with rising short-term interest rates. In response, fixed income investors sought out riskier issues to realize their required rates of return. Consequently, the Bloomberg Barclays U.S. Aggregate Index, a broad-based benchmark that measures the performance of U.S. investment grade securities, declined 0.4 percent during the period, while its more aggressive counterpart, the Bloomberg Barclays U.S. Corporate High Yield Index, gained 2.6 percent. The Bloomberg Barclays Global Aggregate Index, a measure of global investment grade debt in 24 markets, returned 1.4 percent.

Benefitting from the appreciation that comes with modest inflation, core real estate, as represented by the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index, returned 7.2 percent. This performance was similar to that experienced in fiscal 2017 but represented a slight deceleration from stronger performance in the previous several years.

While the synchronized expansion witnessed in recent years may persist, risks to the pace of growth appear to be mounting. Restrictive trade measures announced by the U.S. and its trading partners could depress growth due to less efficient resource allocation and productivity losses, while geopolitical instability may result in lower overall investment. While central banks remain vigilant in their assessment of risks, financial market values may not fully reflect the potential headwinds such as a slowdown in lending, increased trade tensions, or an unanticipated acceleration in inflation. Medium-term, structural issues in developed economies, such as declining productivity and unfavorable demographic trends, represent secular impediments to achieving the growth rates necessary for the higher levels of investment performance recently realized.

Performance Overview

The Pension Plan's investment portfolio realized a 9.0 percent return for the fiscal year versus 7.8 percent for its policy benchmark, outperforming the index by 1.2 percent or 120 basis points. The best performing asset categories were private equity, U.S. public equity, and commodities, which gained 21.2 percent, 14.1 percent, and 10.0 percent, respectively. Six of the portfolio's eight asset classes exceeded their respective benchmarks. Outperformance was led by private equity, which surpassed its benchmark by 750 basis points, followed by commodities and fixed income, which exceeded their benchmarks by 270 and 110 basis points, respectively.

At the Master Trust level, the OPEB Trust's investment portfolio gained 10.1 percent for the fiscal year versus 9.2 percent for its policy benchmark, outperforming the index by 0.9 percent or 90 basis points. The Trust's global equity and enhanced cash portfolios returned 11.4 and 1.5 percent, respectively, for the period versus 11.1 and 1.4 percent for their MSCI ACWI IMI Net and FTSE 6 Month Treasury Bill benchmark indices. The County of Los Angeles trust returned 10.3 percent for the fiscal year, while the LACERA and Superior Court trusts gained 10.4 percent and 9.8 percent, respectively. The dispersion in individual trust returns is due to a difference in funding dates.

Performance by Asset Class

The following discussion is presented using traditional financial statement classifications rather than a functional framework as the new strategic asset allocation was adopted but not yet implemented as of fiscal year-end.

The fiscal year ended June 30, 2018 was characterized by solid absolute returns for all of the Pension Plan's asset class composites with the exception of fixed income, an area that nevertheless realized a modest gain despite a negative return for its benchmark. Further, the majority of asset categories continued to outperform LACERA's medium- to long-term market expectations, with the riskier, more volatile asset categories, including public and private equities, outpacing their more defensive counterparts such as investment grade bonds.

The Pension Plan's public equity portfolio, valued at $25.9 billion or 46.3 percent of total assets as of June 30, 2018, is segmented into two sub-categories, U.S. and non-U.S. equities. Given LACERA's belief that public equity markets are largely efficient, both the U.S. and non-U.S. equity portfolios are heavily weighted towards passive investment strategies with differentiated, actively managed portfolios employed to provide incremental risk-adjusted returns.

The Plan's U.S. equity portfolio returned 14.1 percent for the year versus 14.8 percent for the broad market Russell 3000 Index, while the unhedged non-U.S. equity portfolio returned 8.3 percent versus 7.8 percent for its MSCI All Country World ex-U.S. IMI benchmark during the same period. In order to reduce the risk from currency exposure, LACERA employs a passive currency hedge on 50 percent of the portfolio's non-U.S. developed market equities. The portfolio's currency hedge realized a gain of 0.5 percent during the 2018 fiscal period.

The Plan's fixed income portfolio was valued at $15.0 billion or 26.8 percent of the total assets as of June 30, 2018. This category consists of government bonds, corporate bonds, loans, and securities backed by collateral such as residential mortgages, commercial mortgages, auto loans, and credit-card receivables. The Plan's bond portfolio returned 0.8 percent for the year and outperformed the Bloomberg Barclays U.S. Universal Bond Index, a broader index than its investment grade Aggregate counterpart, by 110 basis points. In general, non-government debt outperformed safer Treasury securities and non-investment grade corporate bonds outperformed the group as a whole, as expected given the stronger relative gains realized by other risky asset classes. Performance by sector was mixed as mortgage- and asset-backed securities outperformed, while investment-grade corporate bonds matched, Treasury instruments of similar maturity.

The Pension Plan's less liquid asset classes, private equity and real estate, focus on longer-term investments with holding periods that could span a decade. Accordingly, while the group generated positive performance for the fiscal year based on interim valuation measures, final returns for these investments will be known with certainty only as assets are sold. The Plan's private equity portfolio, with a value of $5.8 billion or 10.3 percent of total assets as of June 30, 2018, returned 21.2 percent, 752 basis points above its benchmark return, for the fiscal year (private market returns are reported with a one-quarter lag). The Plan's $6.3 billion real estate portfolio, comprising 11.2 percent of total assets as of June 30, 2018, is primarily invested in relatively more stable core properties, 95 percent of which are located within the U.S. For the one-year period ended March 31, 2018, the real estate portfolio gained 8.2 percent, 70 basis points above its benchmark return.

The Pension Plan's hedge fund portfolio, which reduces the portfolio's risk exposure to equity markets by targeting returns from alternative investment sources, represented $1.6 billion or 2.9 percent of total assets as of June 30, 2018. For the one-year period ended May 31, 2018, the hedge fund portfolio returned 5.6 percent net of all fees and expenses versus 6.3 percent for its benchmark (the portfolio's return is reported with a one-month lag). Finally, for diversification and inflation mitigation purposes, LACERA invests a portion of the Plan's portfolio in commodities, such as agriculture, energy, and metals. This portfolio, valued at $1.4 billion or 2.5 percent of total assets as of June 30, 2018, returned 10.0 percent for the year versus 7.4 percent for the Bloomberg Commodity Index.

Significant Initiatives

The principal responsibility of the Investments division is to implement the Board's strategic investment directives. Accordingly, the Investments division will work with the Board to optimize the implementation of the new strategic asset allocations. Other ongoing activities include the recommendation of portfolio enhancements to best configure each asset category within policy portfolio constraints; due diligence, monitoring, and compliance activities as they relate to LACERA's external investment managers; effective portfolio rebalancing; and liquidity management.

Additional initiatives are currently underway to gain deeper insights into the underlying exposures across the entire portfolio, specifically sources of return and risk. To this end, a risk management system has been deployed, which provides a view of risk at both the total fund and asset category levels. Longer term, a more robust application of enhanced portfolio analytics; environmental, social, and governance (ESG) metrics; and risk budgeting techniques should provide additional information to further assist the Board in making decisions that maximize risk-adjusted returns across market cycles.

Finally, and consistent with the goal of implementing the Funds' strategic asset allocations in a liquidity- and risk-aware manner, LACERA is exploring additional options to further improve performance, including the implementation of systematic rebalancing and cash equitization programs to more precisely mirror each Fund's Policy. Additional value-added measures include the conversion of higher fee vehicles to lower fee structures as well as the transition of fund-of-fund relationships to direct mandates. A focus on best practices will include a review of policies and procedures. Selection criteria and due diligence standards will be revised to more fully reflect LACERA's belief in the value of diversity and inclusion.

Conclusion

The solid investment performance enjoyed by both the Pension Plan and OPEB Trust portfolios over the most recent fiscal year has had a positive impact on the financial position of both Funds. The implementation of LACERA's new strategic asset allocation policies and risk management initiatives should further position the Funds to better meet changing market environments. Recognizing the importance of its role in providing retirement benefits today and into the future, LACERA's Investments division will continue to strive for further improvement in the investment process and work diligently on behalf of all LACERA members.

Respectfully submitted,

Jonathan Grabel

Jonathan Grabel
Chief Investment Officer

Investments

Investment Summary — Pension Plan[1 2]

For the Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
Cash and Cash Equivalents	$1,030,697	1.8%
Fixed Income	13,981,580	25.0%
Subtotal Fixed Income and Cash	**15,012,277**	**26.8%**
U.S. Equity	13,152,906	23.5%
Non-U.S. Equity	12,734,415	22.8%
Subtotal Equities	**25,887,321**	**46.3%**
Commodities	1,410,505	2.5%
Private Equity	5,758,339	10.3%
Real Estate	6,273,668	11.2%
Hedge Funds	1,611,185	2.9%
Total Investments — Pension Plan	**$55,953,295**	**100.0%**

Investment Summary — OPEB Trust[1]

For the Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

Type of Investment[3]	Fair Value	Percent of Total Fair Value
Growth		
Global Equity	$456,766	48.5%
Credit		
High Yield Bonds	56,711	6.0%
Bank Loans	94,849	10.1%
EM Local Currency Bonds	37,765	4.0%
Risk Reduction & Mitigation		
Cash Equivalents	23,505	2.5%
Investment Grade Bonds	76,933	8.2%
Inflation Hedges		
TIPS	57,622	6.1%
Real Estate (REITs)	97,072	10.3%
Commodities	38,254	4.1%
Cash	1,545	0.2%
Total Investments — OPEB Trust	**$941,022**	**100.0%**

Investment Summary — OPEB Agency Fund[1]

For the Fiscal Year Ended June 30, 2018
(Dollars in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
Cash and Cash Equivalents	$11,690	9.8%
Fixed Income	107,846	90.2%
Total Investments — OPEB Agency Fund	**$119,536**	**100.0%**

[1]Differences between fair values in the Statement of Fiduciary Net Position and this schedule are due to the utilization of investment manager asset classifications and their fair values.
[2]Asset allocation categories that were in effect at fiscal year-end which are consistent with the financial statement classification as presented in the Financial Section.
[3]Type of Investment by revised asset allocation that divides the Trust into four broad functional categories.

Investment Results Based on Fair Value[1] — Pension Plan*

As of June 30, 2018

	Annualized			
	Current Year	**Three-year**	**Five-year**	**10-year**
U.S. Equity	14.1%	11.1%	13.1%	10.1%
Benchmark: Russell 3000 Index	14.8%	11.6%	13.3%	10.2%
Non-U.S. Equity, 50% Developed Markets Hedge	8.8%	6.7%	8.1%	3.9%
Benchmark: Custom MSCI ACWI Ex US IMI N 50%H[2]	8.2%	6.1%	7.7%	3.7%
Fixed Income[3]	0.8%	3.1%	3.4%	5.2%
Benchmark: BBG Barclays U.S. Universal Index[4]	(0.3)%	2.1%	2.6%	4.1%
Real Estate[5]	8.2%	9.3%	9.5%	3.3%
Benchmark: Real Estate Target Return[6]	7.5%	9.4%	10.7%	6.3%
Private Equity[5]	21.2%	13.3%	15.2%	11.4%
Benchmark: Private Equity Target Return[7]	13.7%	13.1%	13.3%	10.6%
Commodities	10.0%	(2.8)%	(5.0)%	(7.6)%
Benchmark: Bloomberg Commodity Index Total Return	7.3%	(4.5)%	(6.4)%	(9.0)%
Hedge Funds[8]	5.6%	2.6%	3.8%	—
Benchmark: Hedge Fund Custom Index[9]	6.3%	5.6%	5.4%	—
Cash	1.4%	1.0%	0.7%	0.8%
Benchmark: Citigroup 6-Month T-Bill Index	1.3%	0.7%	0.5%	0.4%
Total Fund (Net of Fees)[10]	**9.0%**	**7.4%**	**8.5%**	**6.3%**
Total Fund Policy Benchmark	**7.8%**	**7.0%**	**8.1%**	**6.3%**

*Asset allocation categories that were in effect at fiscal year-end which are consistent with the financial statement classification as presented in the Financial Section.

1 Asset class returns are calculated based on time-weighted rates of return, net of manager fees; Total Fund performance is calculated based on the weighted average returns of the asset classes, net of manager fees. Prior year returns are restated to enhance comparability to the current year.
2 The Non-U.S. Equity benchmark is Custom MSCI ACWI Ex US IMI (Net) with 50 percent Hedged Developed Markets. From 8/31/08 to 7/31/10, the benchmark was MSCI ACWI Ex US IMI (Net), and for the period prior to 8/31/08 was MSCI ACWI Ex US (Net).
3 The performance of two opportunistic portfolios are reported with a one-month lag.
4 The benchmark is the Bloomberg Barclays U.S. Universal Index. For the period in this table prior to 3/31/09, the benchmark was a custom benchmark weighted 93 percent Bloomberg Barclays U.S. Aggregate Bond Index and 7 percent Bloomberg Barclays U.S. High Yield Ba/B Index.
5 One quarter in arrears. Preliminary returns.
6 The benchmark is the 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.
7 Rolling 10-year return of the Russell 3000 Index plus 500 basis points.
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 6-Month T-Bill Index.
10 Total Fund gross of fee returns for the one-year, three-year, five-year and 10-year periods are 9.3 percent, 7.7 percent, 8.8 percent and 6.5 percent, respectively.

Total Investment Rates of Return — Pension Plan

For the Last 10 Fiscal Years Ended June 30
(Dollars in Thousands)

Fiscal Year-End	Total Investment Portfolio Fair Value	Total Fund Time-Weighted Return (net 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]
2009	$30,918,057	(18.3)%	—	1.5%	7.75%	88.9%
2010	33,760,695	11.6%	—	0.5%	7.75%	83.3%
2011	39,770,032	20.2%	—	3.3%	7.70%	80.6%
2012	38,627,163	0.0%	—	1.8%	7.60%	76.8%
2013	42,285,906	11.9%	—	5.4%	7.50%	75.0%
2014	49,033,365	16.5%	17.5%	11.8%	7.50%	79.5%
2015	47,990,447	4.1%	4.1%	10.5%	7.50%	83.3%
2016	47,898,667	0.8%	0.7%	6.5%	7.25%	79.4%
2017	52,225,457	12.7%	12.7%	8.2%	7.25%	79.9%
2018[6]	**55,443,060**	**9.0%**	**9.0%**	**—**	**—**	**—**

[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 net 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. The returns are presented net of investment management fees.
[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.
[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 7.25 percent as adopted by the Board of Investments based on the results of the Actuarial Investigation of Experience completed in December 2016. For Fiscal Year 2017-2018, interest crediting and operating tables applied the 7.25 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.
[6]Actuarial Valuation report for June 30, 2018 not available at CAFR publication.

Largest Equity Holdings — Pension Plan

As of June 30, 2018
(Dollars in Thousands)

Shares	Description	Fair Value
259,900	Apple Inc	$48,110
2,330,398	DBS Group Holdings Ltd	45,480
639,262	Rio Tinto Ltd	39,410
226,600	Murata Manufacturing Co Ltd	38,092
370,300	Microsoft Corp	36,515
221,400	Nidec Corp	33,230
908,894	Royal Dutch Shell Plc A Shs	31,591
18,200	Amazon.com Inc	30,936
1,200,000	BHP Billiton Limited	30,065
168,200	Daito Trust Construct Co Ltd	27,349

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

Largest Fixed Income Holdings — Pension Plan

As of June 30, 2018
(Dollars in Thousands)

Par	Description	Fair Value
242,400,000	U.S. Treasury Note 2.500% 08/15/2023	$239,550
153,323,000	Federal National Mortgage Association TBA 3.500% 08/13/2048	152,410
105,526,000	U.S. Treasury Note 2.250% 08/15/2027	100,435
101,326,000	Federal National Mortgage Association TBA 3.000% 08/13/2048	98,061
56,330,813	U.S. Treasury Inflation Indexed Bonds 1.000% 02/15/2046	58,016
51,411,000	U.S. Treasury Note 1.875% 07/31/2022	49,770
48,400,000	U.S. Treasury Floating Rate Note 1.000% 04/30/2020	48,391
37,351,000	U.S. Treasury Note 4.500% 05/15/2038	46,299
48,835,000	U.S. Treasury Note 2.500% 02/15/2045	44,526
41,927,000	Federal National Mortgage Association TBA 3.500% 07/12/2048	41,730

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

Schedule of Investment Management Fees

For the Fiscal Years Ended June 30, 2018 and 2017
(Dollars in Thousands)

	Pension Plan		OPEB Trust		OPEB Agency Fund	
Investment Managers	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Cash and Short-Term	$864	$771	$79	$53	$18	$15
Commodities	4,240	3,517	—	—	—	—
Equity						
U.S. Equity	16,819	17,094	243	184	—	—
Non-U.S. Equity	35,663	28,274	—	—	—	—
Fixed Income	32,399	31,270	21	—	62	52
Hedge Funds	46,944	51,223	—	—	—	—
Private Equity	100,639	75,910	—	—	—	—
Real Estate	49,218	49,059	2	—	—	—
Total Investment Management Fees*	**$286,786**	**$257,118**	**$345**	**$237**	**$80**	**$67**

*Difference in expenses from investing activities in the Statement of Changes in Fiduciary Net Position is due to the inclusion of incentive fees and carry allocations in the above schedule. These incentive fees and carry allocations are deducted from investment income in the Statement of Changes in Fiduciary Net Position.

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

Equities — U.S.
BlackRock Institutional Trust Company NA
Cramer Rosenthal & McGlynn LLC
Eagle Asset Management Inc
FIS Group Inc
Frontier Capital Management Company LLC
INTECH Investment Management LLC
JANA Partners LLC
Northern Trust Global Advisors Inc
Quantitative Management Associates LLC
Relational Investors LLC
Systematic Financial Management LP
Twin Capital Management Inc
Westwood Management Corporation

Equities — Non-U.S.
Acadian Asset Management LLC
AQR Capital Management LLC
BlackRock Institutional Trust Company NA
Capital Group
Cevian Capital
GAM International Management Ltd
Genesis Investment Management LLP
Lazard Asset Management LLC
Symphony Financial Partners

Fixed Income
Aberdeen Asset Management Inc
Ashmore Investment Management Limited
Bain Capital Credit LP
Beach Point Capital
Brigade Capital Management LP
Crescent Capital Group LP
Dodge & Cox
Dolan McEniry Capital Management LLC
DoubleLine Capital LP
Loomis, Sayles & Company LP
Oaktree Capital Management LP
Pacific Investment Management Company (PIMCO)
PENN Capital Management Company Inc
Principal Global Investors LLC
Pugh Capital Management Inc
TCW Asset Management Company
Tennenbaum Capital Partners LLC
Wells Capital Management
Western Asset Management Company

Hedge Funds
Goldman Sachs Hedge Fund Strategies LLC
Grosvenor Capital Management LP
AQR Capital Management
Davidson Kempner Institutional Partners LP
HBK Investments LP

Private Equity
J.P. Morgan Investment Management Inc
Morgan Stanley Alternative Investments LLC
Pathway Capital Management LP

Real Estate
Barings Real Estate Advisers LLC
Capri Capital Advisors LLC
CBRE Global Investors
CityView
Clarion Partners
Deutsche Asset & Wealth Management
Europa Capital
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
Van Barton Group

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 Manager (Index Fund)
BlackRock Institutional Trust Company NA

Securities Lending Program
Goldman Sachs Agency Lending (GSAL)
State Street Bank & Trust Company
State Street Global Advisors

Health Reserve Program
Standish Mellon Asset Management Company LLC

Other Post-Employment Benefits Trust
BlackRock Institutional Trust Company NA
J.P. Morgan Asset Management

TAKING *Care* of the Community

As the County of Los Angeles has grown, so have the needs of the population and the number of County departments and employees required to provide those services. Operating in 34 departments ranging from arts and culture to public safety, today's L.A. County workforce constitutes a small city unto itself.

12,200

LACERA members in 1938


171,000+
LACERA members in 2018
ItAllAddsUp

Introduction

The actuarial process at the Los Angeles County Employees Retirement Association (LACERA) is governed by provisions in the County Employees Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The regulatory provision requires LACERA to obtain an actuarial valuation of the Pension Plan at least once every three years. It further requires the LACERA Board of Investments to transmit its recommendations related to contribution rates to the County Board of Supervisors. The County Board of Supervisors adopts and adjusts contribution rates in accordance with LACERA's recommendations.

LACERA engages an independent actuarial consulting firm to perform the Pension Plan valuation annually, exceeding the regulatory requirements. In addition to the annual valuation, the consulting actuary performs the triennial investigation of experience study (experience study). On a triennial basis, an auditing actuary audits the annual valuation and experience study.

Valuation Policy

In December 2009, the LACERA Board of Investments adopted a new Retirement Benefit Funding Policy (Funding Policy). The Funding Policy was amended in February 2013 to conform to the new standards mandated in PEPRA. In addition, the LACERA Board of Investments approved inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve as part of the valuation assets 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 LACERA Board of Investments maintains the Retirement Benefit Funding Policy, which requires annual adjustment of the employer contribution rates based on the actuary's annual valuation. Milliman, the Pension Plan consulting actuary, reviewed the adequacy of the Plan Sponsor funding policies in accordance with Actuarial Standards of Practice (ASOP). Milliman performed the most recent actuarial valuation as of June 30, 2017, and recommended changes to the employer and employee contribution rates. At its January 2018 meeting, the LACERA Board of Investments adopted Milliman's June 30, 2017 actuarial valuation report.

In addition to the annual valuations, LACERA requires its actuary to review the reasonableness of the economic and demographic actuarial assumptions every three years. This review, commonly referred to as the 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 LACERA Board of Investments adopts, possibly with modification, the recommended methods and assumptions to be used in future valuations. At its December 2016 meeting, the LACERA Board of Investments adopted Milliman's recommendations based on the 2016 Investigation of Experience for Retirement Benefit Assumptions report with a modification to the mortality improvement scale recommendation. The LACERA Board of Investments also adopted a phase-in of the changes in employer contribution rates over a three-year period.

Employee Contributions

As part of the experience study, the Pension Plan actuary recommends adjustments to employee contribution rates, if necessary, due to changes in the underlying assumptions and methodologies used in calculating employee rates for age-based contributory Plans (General Plans A, B, C, and D, and Safety Plans A and B). Therefore, it is expected that the age-based employee rates will change no more frequently than every three years, when the actuary reviews the assumptions and methodologies. As such, based on the June 30, 2017 valuation, the actuary did not recommend any changes to employee contribution rates for these plans.

For the Plans that use single-rate employee contribution rates (General Plan G and Safety Plan C), the Pension Plan actuary is required to recommend rates that are one-half the normal cost rate. As such, it is expected that employee contribution rates for these plans may change annually. Based on the June 30, 2017 valuation, the actuary recommended new employee contribution rates effective July 1, 2018 for General Plan G (an increase from 8.31 percent to 8.43 percent) and Safety Plan C (a decrease from 14.00 percent to 13.87 percent).

Employer Contributions

The consulting actuary reviews employer contribution rates each year, and recommends changes if necessary. 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 employers are also responsible for contributions to eliminate 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 rate.

Based on the June 30, 2017 valuation, the actuary recommended new employer normal cost contribution rates for all Plans and a new UAAL contribution rate, effective July 1, 2018. Based on the 2017 valuation, the employer normal cost rate decreased from 9.97 percent to 9.94 percent, and the employers' required contribution rate to finance the UAAL over a layered 30-year period decreased from 11.24 percent to 11.06 percent. The decrease in the calculated employer contribution rate, from 21.21 percent to 21.00 percent of payroll before reflecting the phase-in of contribution rate changes from the 2016 experience study, is primarily due to the recognition of investment gains, COLA increases smaller than assumed, and salary and payroll increases greater than assumed. Reflecting the phase-in, the calculated employer contribution rate increased from 19.70 percent to 20.04 percent of payroll.

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 for future costs.

Audits

The LACERA Board of Investments valuation policy requires actuarial audits of retirement benefit valuations and experience studies at regular intervals in the same cycle as LACERA's triennial experience study and valuation. Segal Consulting (Segal) performed the most recent audit of Milliman's experience study and valuation report as of June 30, 2016. The Board of Investments engaged Cavanaugh McDonald to perform the next audit of the valuation and experience study for the June 30, 2019 valuation and experience study cycle.

In regard to the most recent audit of the experience study, 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 LACERA Board of Investments, are reasonable for use in LACERA's actuarial valuation." The audit of Milliman's valuation report, according to Segal, "confirms that the actuarial calculations as of June 30, 2016 are reasonable and based on generally accepted actuarial principles and practices."

Other Actuarial Information

Actuarially Determined Contributions: The Schedule of Contributions History – Pension Plan included in the Required Supplementary Information Section provides 10 years of actuarially determined contributions in relation to the actual contributions provided to the Pension Plan.

Actuarial Methods and Assumptions: A description of the actuarial methods and assumptions for the Pension Plan valuation used by the Pension Plan actuary is included in this Actuarial Section. In addition, the Financial Section provides a summary of the actuarial methods and significant assumptions used to prepare the Pension Plan (Retirement Benefits) valuation report, which determines the Pension Plan's funding requirements. The Financial Section also discusses the actuarial methods and significant assumptions used for financial reporting and required Governmental Accounting Standards Board (GASB) Statement No. 67 disclosures. Any differences between these assumptions used for actuarial funding and those applied for financial reporting purposes are noted.

The following additional information is included in this section:

- Actuary's Certification Letter – Pension Plan
- Summary of Actuarial Methods and Assumptions – Pension Plan
- Schedule of Funding Progress – Pension Plan
- Active Member Valuation Data – Pension Plan
- Retirants and Beneficiaries Added to and Removed from Retiree Payroll – Pension Plan
- Actuary Solvency Test – Pension Plan
- Actuarial Analysis of Financial Experience – Pension Plan
- Probability of Occurrence

A Summary of Major Pension Plan Provisions is available upon request.

See Note A in the Financial Section for plan description information.

September 14, 2018

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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 which fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members[1]. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

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

Valuation Date: June 30, 2015	**Funded Ratio:** 83.3%
Valuation Date: June 30, 2016	**Funded Ratio:** 79.4%
Valuation Date: June 30, 2017	**Funded Ratio:** 79.9%

It is our opinion that LACERA continues in sound financial condition as of June 30, 2017. Most of this year's increase in the Funded Ratio is due to investment performance. Using the market value of assets on June 30, 2017, the Funded Ratio would be 80.0 percent. Currently, a net asset gain is being deferred.

LACERA's funding policy provides that the County's contributions are 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 when the Funded Ratio is less than 100 percent. The amortization of the UAAL uses a layered 30-year approach, under which 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 amortized over a new closed 30-year period. Surplus Funding occurs when the Funded Ratio is greater than 120 percent. If the Funded Ratio exceeds 120 percent and all conditions in California Government Code Section 7522.52(b) are satisfied, then the Surplus Funding 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. The STAR Reserve is 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, 2017 would decrease to 78.9 percent.

In preparing the June 30, 2017 valuation report, we relied, without audit, on information (some oral and some in writing) supplied by LACERA. This information includes, but is not limited to, statutory provisions, employee data, and financial information. In our examination of this data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have

[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.

not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

The valuation is also based on our understanding of LACERA's current benefit provisions and the actuarial assumptions, which were reviewed and adopted by the Board of Investments. The funding assumptions were based on the triennial investigation of experience study report as of June 30, 2016 and adopted at the December 14, 2016 Board of Investments meeting. The assumptions and methods used for financial reporting under GASB 67 are the same as the funding assumptions and methods with the following exceptions:

1. The discount rate of 7.38% 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;
3. The individual entry age normal cost method is used without modification; and
4. The Fiduciary Net Position is equal to the market value of assets minus liabilities.

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 and reasonable for their intended purpose.

Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report and GASB 67 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.

Milliman's work is 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.

No third party recipient of Milliman's work product who desires professional guidance should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their 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.

Milliman prepared the following information for the actuarial section:

1. Retirees and Beneficiaries Added to and Removed from Benefits – Pension Plan
2. Actuarial Analysis of Financial Experience – Pension Plan
3. Actuary Solvency Test – Pension Plan
4. Schedule of Funding Progress – Pension Plan

In addition, for the Note E of the financial section, Milliman prepared the Schedule of Net Pension Liability, and Sensitivity Analysis.

Except as noted above, LACERA staff prepared the information in Note E of the financial section and the Required Supplementary Information, based on information supplied in prior actuarial reports, our June 30, 2017 actuarial valuation, and our June 30, 2018 GASB 67 disclosure report. Milliman has reviewed the information in Note E for accuracy.

We certify that the assumptions and methods used for funding and financial reporting purposes in the June 30, 2017 funding valuation meet the parameters set by Actuarial Standards of Practice promulgated by the Actuarial Standards Board (ASB). We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Mark C. Olleman, FSA, EA, MAAA
Principal and Consulting Actuary
MCO/NJC/nlo

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

Actuarial Methods and Assumptions	Recommended by Milliman, the consulting actuary, and adopted by the LACERA Board of Investments. The actuarial assumptions used to determine the liabilities are based on the results of the 2016 experience study. In December 2016, the LACERA Board of Investments adopted a decrease in the price inflation rate and other economic assumptions. In 2009, the Board of Investments adopted a new 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 (STAR) Reserve should be included as a valuation asset 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, 2016 valuation, the LACERA Board of Investments approved including the STAR Reserve as part of the 2016 valuation assets. The inclusion of the STAR Reserve in the valuation assets was formalized for 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 employer contribution rates 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 120 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. For the June 30, 2017 valuation, nine amortization layers were used to calculate the total amortization payment beginning July 1, 2018.

Projected Salary Increases

Rates of annual salary increases assumed for the purpose of the valuation range from 3.51 percent to 11.51 percent. In addition to increases in salary due to promotions and longevity, the increases include an assumed 3.25 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, 2016 valuation.

Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 7.25 percent, compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2016 valuation.

Post-Retirement Benefit Increases

Post-retirement benefit increases of either 2.75 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 no greater than the expected increase in the CPI of 2.75 percent per year.

Plan E members receive a prorated post-retirement benefit increase of 2.0 percent for service credit earned on and after June 4, 2002. The portion payable is based on a ratio of the member’s years of service earned on and after June 4, 2002, to the member's total years of service. The portion of the full 2.0 percent increase not provided for may be purchased by the member. COLA adjustments for members with service credit earned prior to June 4, 2002, are based on a ratio of months of service earned on and after June 4, 2002, divided by the total months of service.

Consumer Price Index (CPI)

Increase of 2.75 percent per annum. This rate was adopted beginning with the June 30, 2016 valuation.

Rates of Separation From Employment

Various rates dependent upon member’s age, gender, years of service, and retirement plan. Each rate represents the probability that a member will separate from service at each age (or service duration) due to the particular cause. These rates of separation from active service were adopted beginning with the June 30, 2016 valuation. The Probability of Occurrence schedule included in this Actuarial Section includes a summary of probability of retirement and withdrawal for sample ages.

Expectation of Life After Retirement	The same post-retirement mortality rates are used in the valuation for deferred inactive members, members retired from service, and beneficiaries. Beneficiaries are assumed to have the same mortality as a general member of the opposite sex. **Males:** **General Members:** RP-2014 Healthy Annuitant Mortality Table for Males multiplied by 105 percent, with MP-2014 Ultimate Projection Scale. **Safety Members:** RP-2014 Healthy Annuitant Mortality Table for Males multiplied by 95 percent, with MP-2014 Ultimate Projection Scale. **Females:** **General Members:** RP-2014 Healthy Annuitant Mortality Table for Females, with MP-2014 Ultimate Projection Scale. **Safety Members:** RP-2014 Healthy Annuitant Mortality Table for Females, with MP-2014 Ultimate Projection Scale. These rates were adopted effective June 30, 2016.
Expectation of Life After Disability	**Males:** **General Members:** Average of RP-2014 Healthy Annuitant Mortality Table for Males multiplied by 105 percent and RP-2014 Disabled Annuitant Mortality Table for Males, both projected with MP-2014 Ultimate Projection Scale. **Safety Members:** RP-2014 Healthy Annuitant Mortality Table for Males, with MP-2014 Ultimate Projection Scale. **Females:** **General Members:** Average of RP-2014 Healthy Annuitant Mortality Table for Females multiplied by 100 percent and RP-2014 Disabled Annuitant Mortality Table for Males, both projected with MP-2014 Ultimate Projection Scale. **Safety Members:** RP-2014 Healthy Annuitant Mortality Table for Females, with MP-2014 Ultimate Projection Scale. These rates were adopted effective June 30, 2016.

Recent Changes and Their Financial Impact

An experience study was performed by the consulting actuary for the three-year period ended June 30, 2016. The LACERA Board of Investments adopted the demographic assumptions recommended in that report with a modification to the mortality improvement scale, and with a three-year phase-in of the impact of the change on employer contribution rates. In addition, the Board of Investments adopted reductions in the economic assumptions. Changes to those assumptions and other financial impacts are discussed below.

STAR Reserve: The STAR Reserve is included in the 2017 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.

2016 Assumption Changes: At the December 2016 LACERA Board of Investments meeting, the Board adopted new assumptions with the 2016 Investigation of Experience report. The adopted assumptions included a decrease in the investment return assumption to 7.25 percent, a decrease in the wage growth assumption to 3.25 percent, a decrease in the CPI assumption to 2.75 percent, and an increase in life expectancies. All assumption changes have been reflected in the June 30, 2017 actuarial valuation, although the impact on the employer contribution rate is being phased in over three years.

Employer Contributions: The total required employer contribution rate calculated in the 2017 valuation increased over the prior year by 0.34 percent of payroll. The increase is primarily due to the additional year of phase-in of the cost impact of the 2016 assumption changes (0.55 percent of payroll) adopted by the LACERA Board of Investments effective June 30, 2016.

Member Contributions: New member contribution rates for two plans were implemented effective July 1, 2018 based on the new normal cost rates calculated in the 2017 actuarial valuation: General Plan G (increase from 8.31 percent to 8.43 percent) and Safety Plan C (decrease from 14.0 percent to 13.87 percent). No changes in member rates were implemented for the other plans.

Funding: The Funded Ratio increased from 79.4 percent to 79.9 percent primarily due to the recognition of current and prior year asset gains, which caused a 0.5 percent increase.

Schedule of Funding Progress — Pension Plan

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Valuation Assets (a)	Actuarial Accrued Liability (AAL)[1] (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll[2] (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
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%
June 30, 2014	43,654,462	54,942,453	11,287,991	79.5%	6,672,228	169.2%
June 30, 2015	47,328,270	56,819,215	9,490,945	83.3%	6,948,738	136.6%
June 30, 2016	49,357,847	62,199,214	12,841,367	79.4%	7,279,091	176.4%
June 30, 2017	**52,166,307**	**65,310,803**	**13,144,496**	**79.9%**	**7,637,032**	**172.1%**

[1]Using the Entry Age Normal actuarial cost method.
[2]Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

Active Member Valuation Data — Pension Plan

Valuation Date	Plan Type	Member Count	Annual Salary[1]	Average Annual Salary	Percentage Increase/ (Decrease) in Average Salary
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%
June 30, 2014	General	79,943	$5,487,670,164	$68,645	3.24%
	Safety	12,523	1,252,867,272	100,045	1.58%
	Total	92,466	$6,740,537,436	$72,897	2.86%
June 30, 2015	General	81,228	$5,706,302,532	$70,250	2.34%
	Safety	12,446	1,299,621,108	104,421	4.37%
	Total	93,674	$7,005,923,640	$74,790	2.60%
June 30, 2016	General	82,916	$5,949,587,940	$71,754	2.14%
	Safety	12,528	1,342,684,620	107,175	2.64%
	Total	95,444	$7,292,272,560	$76,404	2.16%
June 30, 2017	**General**	**84,513**	**$6,290,061,336**	**$74,427**	**3.73%**
	Safety	**12,698**	**1,388,190,600**	**109,324**	**2.01%**
	Total	**97,211**	**$7,678,251,936**	**$78,985**	**3.38%**

[1]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.

Actuarial

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

(Dollars in Thousands)

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Valuation Date	Member Count	Annual Allowance	Member Count	Annual Allowance	Member Count	Annual Allowance[1]	Percentage Increase in Retiree Allowance	Average Annual Allowance
June 30, 2008	2,759	$167,753[2]	(1,801)	$(47,103)	52,350	$1,978,875	6.49%	$38
June 30, 2009	2,505	157,469[2]	(1,786)	(50,619)	53,069	2,085,725	5.40%	39
June 30, 2010	2,947	188,724[2]	(1,820)	(54,105)	54,196[3]	2,220,344	6.45%	41
June 30, 2011	3,134	185,204[2]	(1,959)	(62,923)	55,371	2,342,625	5.51%	42
June 30, 2012	3,194	193,865[2]	(1,795)	(61,588)	56,770[3]	2,474,902	5.65%	44
June 30, 2013	3,373	205,659[2]	(2,057)	(69,494)	58,086[3]	2,611,067	5.50%	45
June 30, 2014	3,128	172,743[2]	(1,985)	(71,730)	59,229[3]	2,712,080	3.87%	46
June 30, 2015	3,501	180,549[2]	(2,124)	(80,028)	60,606[3]	2,812,601	3.71%	46
June 30, 2016	3,479	220,632[2]	(2,171)	(80,881)	61,914[3]	2,952,352	4.97%	48
June 30, 2017	**3,721**	**245,915[2]**	**(2,311)**	**(89,624)**	**63,324[3]**	**3,108,643**	**5.29%**	**49**

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

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

[3]For the actuarial valuation year, Member Count includes retirees who, due to timing at year end, are not yet included in the total Retired Members count disclosed in Note A - Plan Description.

Actuary Solvency Test — Pension Plan

(Dollars in Millions)

Actuarial Valuation Date	Actuarial Value of Valuation Assets	Actuarial Accrued Liability (AAL) for (A) Active Member Contributions	(B) Retirees and Beneficiaries[1]	(C) Active Members Employer Financed Portion	Portion of (AAL) Covered by Assets (A) Active	(B) Retired	(C) Employer
June 30, 2008	$39,662	$5,279	$23,730	$12,966	100%	100%	82%
June 30, 2009	39,542	5,795	24,692	13,982	100%	100%	65%
June 30, 2010	38,839	6,278	26,220	14,148	100%	100%	45%
June 30, 2011	39,194	6,529	27,559	14,511	100%	100%	35%
June 30, 2012	39,039	6,961	29,118	14,730	100%	100%	20%
June 30, 2013	39,932	7,837	30,980	14,430	100%	100%	8%
June 30, 2014	43,654	8,354	31,882	14,706	100%	100%	23%
June 30, 2015	47,328	8,805	32,734	15,280	100%	100%	38%
June 30, 2016	49,358	8,767	35,316	18,116	100%	100%	29%
June 30, 2017	**52,166**	**9,482**	**37,077**	**18,752**	**100%**	**100%**	**30%**

[1]Includes vested and non-vested former members.

Actuarial Analysis of Financial Experience — Pension Plan

(Dollars in Millions)

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

	Valuation as of June 30				
	2013	**2014**	**2015**	**2016**	**2017**
Unfunded Actuarial Accrued Liability	$11,770	$13,315	$11,288	$9,491	**$12,841**
Expected Increase/(Decrease) from Prior Valuation	1,380	338	(54)	2,820	**320**
Salary Increases Greater/(Less) than Expected	(563)	(291)	79	162	**277**
CPI Less than Expected	(190)	(427)	(570)	(191)	**(139)**
Asset Return Less/(Greater) than Expected	893	(1,664)	(1,263)	496	**(421)**
All Other Experience	25	17	11	63	**267**
Recognition of Liabilities due to Court Cases	—	—	—	—	**—**
Ending Unfunded Actuarial Accrued Liability	**$13,315**	**$11,288**	**$9,491**	**$12,841**	**$13,145**

Plans A, B, and C General Members

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Other Terminations
Male						
20	0.0000	0.0002	0.0001	N/A	0.0003	0.0050
30	0.0000	0.0002	0.0001	N/A	0.0004	0.0050
40	0.0300	0.0006	0.0002	N/A	0.0006	0.0050
50	0.0300	0.0011	0.0004	N/A	0.0014	0.0050
60	0.2600	0.0045	0.0010	N/A	0.0038	0.0050
70	0.2800	0.0045	0.0025	N/A	0.0113	0.0050
75	1.0000	0.0000	0.0000	N/A	0.0189	0.0000
Female						
20	0.0000	0.0002	0.0001	N/A	0.0002	0.0050
30	0.0000	0.0002	0.0001	N/A	0.0002	0.0050
40	0.0300	0.0005	0.0002	N/A	0.0004	0.0050
50	0.0300	0.0013	0.0004	N/A	0.0011	0.0050
60	0.2600	0.0025	0.0010	N/A	0.0024	0.0050
70	0.2800	0.0030	0.0025	N/A	0.0063	0.0050
75	1.0000	0.0000	0.0000	N/A	0.0108	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	0.0003	5	0.0233
30	0.0000	0.0002	0.0001	N/A	0.0004	10	0.0170
40	0.0150	0.0006	0.0002	N/A	0.0006	15	0.0120
50	0.0150	0.0011	0.0004	N/A	0.0014	20	0.0076
60	0.0600	0.0045	0.0010	N/A	0.0038	25	0.0048
70	0.2000	0.0045	0.0025	N/A	0.0113	30 & up	0.0000
75	1.0000	0.0000	0.0000	N/A	0.0189		
Female							
20	0.0000	0.0002	0.0001	N/A	0.0002	5	0.0233
30	0.0000	0.0002	0.0001	N/A	0.0002	10	0.0170
40	0.0150	0.0005	0.0002	N/A	0.0004	15	0.0120
50	0.0150	0.0013	0.0004	N/A	0.0011	20	0.0076
60	0.0600	0.0025	0.0010	N/A	0.0024	25	0.0048
70	0.2000	0.0030	0.0025	N/A	0.0063	30 & up	0.0000
75	1.0000	0.0000	0.0000	N/A	0.0108		

Actuarial

Plan E General Members

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
Male							
20	0.0000	N/A	N/A	N/A	0.0003	5	0.0310
30	0.0000	N/A	N/A	N/A	0.0004	10	0.0200
40	0.0000	N/A	N/A	N/A	0.0006	15	0.0144
50	0.0000	N/A	N/A	N/A	0.0014	20	0.0108
60	0.0400	N/A	N/A	N/A	0.0038	25	0.0100
70	0.2000	N/A	N/A	N/A	0.0113	30 & up	0.0100
75	1.0000	N/A	N/A	N/A	0.0189		
Female							
20	0.0000	N/A	N/A	N/A	0.0002	5	0.0310
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	0.0144
50	0.0000	N/A	N/A	N/A	0.0011	20	0.0108
60	0.0400	N/A	N/A	N/A	0.0024	25	0.0100
70	0.2000	N/A	N/A	N/A	0.0063	30 & up	0.0100
75	1.0000	N/A	N/A	N/A	0.0108		

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	0.0020	0.0000	0.0001	0.0002	5	0.0113
30	0.0000	0.0020	0.0000	0.0001	0.0005	10	0.0076
40	0.0100	0.0028	0.0000	0.0001	0.0005	15	0.0042
50	0.0100	0.0100	0.0000	0.0001	0.0009	20 & up	0.0000
60	0.3000	0.1000	0.0000	0.0001	0.0025		
Female							
20	0.0000	0.0030	0.0000	0.0001	0.0002	5	0.0113
30	0.0000	0.0042	0.0000	0.0001	0.0002	10	0.0076
40	0.0100	0.0092	0.0000	0.0001	0.0004	15	0.0042
50	0.0100	0.0180	0.0000	0.0001	0.0011	20 & up	0.0000
60	0.3000	0.0800	0.0000	0.0000	0.0024		

Introduction
The actuarial valuation of the retiree medical, dental/vision, and death benefits promised to retired Los Angeles County (County) workers who also participate in the LACERA retirement benefits plan is governed by provisions in the LACERA Other Post-Employment Benefits (OPEB) Actuarial Valuation and Audit Policy (OPEB Policy), which the LACERA Board of Retirement establishes and adopts. The OPEB Policy is subject to periodic reviews to identify and incorporate necessary updates and revisions. In October 2017, the OPEB Policy (as discussed below) was revised and now parallels the policy applicable to the retirement benefits actuarial valuation and related audit.

Historically, the OPEB actuarial valuations are performed at the County's request to satisfy financial statement reporting guidelines that apply to sponsoring employers, such as the County, and those organizations who administer OPEB benefit programs, such as LACERA.

Funding Policy and Contributions
The County 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. In June 2015, the County Board of Supervisors approved the countywide budget with a dedicated funding promise for the OPEB liability, using the multiyear approach to enhance the County's OPEB Trust in a consistent manner. This funding commitment provides prefunding goals and indicates that the County has placed a priority on making OPEB contributions. The County, Superior Court, and LACERA have begun to prefund these obligations, depositing monies into an irrevocable OPEB Trust. Plan members are required to pay the difference between the employer-paid subsidy and the actual premium cost. Milliman reviewed the adequacy of the Plan Sponsor funding policies in accordance with Actuarial Standards of Practice (ASOP).

Valuation and Audit OPEB Policy
LACERA will periodically perform all OPEB actuarial projects to:
- Establish the actuarially determined values of the County's OPEB program liabilities.
- Validate that such an appraisal reflects actual experiences and appropriate assumptions.
- Certify that the appraisal is determined in accordance with all legislative, regulatory and professional standards.

OPEB Policy Objectives
The objectives that provide the guiding principles in the development and implementation of the OPEB Policy include the following:
- Comply with the financial reporting requirements mandated by the Governmental Accounting Standards Board (GASB).
- Ensure data and assumptions used in the valuation are, when appropriate, consistent with those used in the valuation of retirement benefits.
- Promote operating effectiveness and optimize cost efficiencies where possible.
- Mirror the policy and principles guiding the retirement benefits actuarial projects.
- Coordinate consistently and efficiently with external audits of LACERA's financial statements when appropriate.

Types and Frequency of OPEB Actuarial Projects
Valuation: A calculation of the actuarial values in accordance with all relevant legislative, regulatory, and professional requirements and standards.
- Required by: GASB
- Performed by: OPEB Consulting Actuary
- Frequency: Every year (annual)

- Rationale:
  - GASB requires the net OPEB liability measured as the total OPEB liability, less the amount of the OPEB program's fiduciary net position.
  - The total OPEB liability and other OPEB cost related items are generally required to be determined through an actuarial valuation.
  - Actuarial valuations of the total OPEB liability must be performed at least every two years, with more frequent valuations encouraged.
  - All assumptions underlying the determination of the total OPEB liability must conform to the guidance in Actuarial Standards of Practice issued by the Actuarial Standards Board.
  - To ensure data and assumptions used in the OPEB valuation are consistent with the retirement benefits valuation, the OPEB Policy requires each annual OPEB valuation immediately after the annual retirement benefits valuation for the same fiscal year ending.
  - The OPEB Policy promotes operating efficiency by leveraging the efforts of the consulting actuary to complete two projects with each mobilization.

Experience and Assumption Study: An investigation of the experience and review of the assumptions used in the valuation.

- Required by: OPEB Policy
- Performed by: OPEB Consulting Actuary
- Frequency: Every three years (triennial)
- Rationale:
  - The County Employees Retirement Law of 1937 (1937 Act) requires an investigation of experience and assumption study (experience study) on LACERA retirement benefit assumptions performed triennially (every three years) to reset member contribution rates as appropriate. Certain experience data and assumptions from the retirement benefits valuation provide essential input variables to the experience study for the OPEB program.
  - To ensure data and assumptions common to both experience studies are used consistently, the Policy requires an experience study for the OPEB program to follow each experience study for the retirement benefits plan.
  - The OPEB Policy promotes operating efficiency by leveraging the efforts of the consulting actuary to complete two projects with each mobilization.

Audit of Valuation: A triennial audit of the OPEB valuation, including a parallel valuation (i.e., an independent reproduction of the detailed valuation results).

- Required by: OPEB Policy
- Performed by: OPEB Audit Actuary
- Frequency: Every three years (triennial)
- Rationale:
  - The 1937 Act requires the LACERA retirement benefits valuation be performed triennially. The Retirement Benefit Funding Policy (dated February 13, 2013 as amended) is currently in effect between the County and LACERA, which requires the retirement benefits valuation to be performed annually.
  - As a recognized leader in public pension plan administration, LACERA has long implemented the prudent policy and practice of performing triennial audits of the retirement benefits valuation.
  - Governmental Finance Officers Association (GFOA) best practices recommend a comprehensive audit performed by an independent actuary of a pension plan's actuarial valuations at least once every five years.
  - Consistent with policy and practice of the retirement benefits valuation and audit cycle, this Policy requires an audit of OPEB valuation performed triennially. This Policy is consistent with GFOA best practices regarding actuarial audits.

Audit of Experience and Assumption Study: An audit of the experience study is performed in conjunction with the audit of the OPEB valuation.

- Required by: OPEB Policy
- Performed by: OPEB Audit Actuary
- Frequency: Every three years (triennial)
- Rationale:
  - The 1937 Act requires an experience study performed triennially for the LACERA retirement benefits plan.
  - As a recognized leader in public pension plan administration, LACERA has long implemented the prudent policy and practice of performing an audit of each triennial experience study for the retirement benefits plan.
  - Consistent with policy and practice of the retirement benefits valuation and audit cycle, and for cost-benefit optimization, the OPEB Policy requires an audit of the experience study performed each time a triennial experience study is completed (see the previous section thereof).
  - Promoting operating efficiency by leveraging the efforts of the audit actuary teams in completing two projects with each mobilization, the OPEB Policy requires an audit of the OPEB valuation immediately after an audit of the experience study.

Actuarial Cost Method

The projected unit credit actuarial cost method is used for funding requirements and was adopted by LACERA beginning with the July 1, 2006 OPEB valuation. At that time, the County and LACERA worked together with a stakeholder group and selected projected unit credit as the cost method which best reflected the liabilities. Under the projected unit credit method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated pro rata to each year of service between entry age and assumed exit. For members who transferred between plans, entry age is based on original entry into the LACERA retirement benefits plan.

The entry age normal level percent of payroll actuarial cost method is used for financial reporting purposes as required by GASB Statement No. 74 and was implemented for the July 1, 2018 OPEB valuation. The entry age normal method allocates costs to each future year as a level percentage of payroll, which is ideal for employers to budget for future costs.

Recent Financial Reporting Standards

In June 2015, the GASB issued Statement No. 74 and Statement No. 75, which govern new accounting and financial reporting standards for public sector post-retirement benefit programs and the employers that sponsor them. GASB 74 and 75 superseded GASB 43 and 45. GASB Statements 74 and 75 reflect a fundamental overhaul in the standards for accounting and financial reporting for post-employment benefits other than pensions (OPEB). The information required to be noted and disclosed as a result of GASB 74 is a foundational basis for the information required by GASB 75.

GASB 74 is for OPEB plans (LACERA) and is effective beginning for the plan fiscal year ended as of June 30, 2017[1]. GASB 75 is for employers that sponsor OPEB plans and is effective beginning for the employer fiscal year ended as of June 30, 2018[2]. The data, assumptions, program provisions, and funding goals described in the OPEB valuation report serve as a basis for the GASB 74 and 75 disclosure reports, which the actuary prepares separately. GASB sets forth specific financial reporting requirements for LACERA and the County, which result in different computations and data—including discount rates and actuarial cost methodology—than the information provided in the OPEB valuation report. The GASB reporting guidelines are intended to improve OPEB program cost disclosures and do not require any funding arrangements.

[1]LACERA implemented GASB 74 as of June 30, 2017.
[2]The LACERA participating employers implemented GASB 75 as of June 30, 2018.

The implementation of these complex GASB statements required a high degree of coordination and alignment between the plan administrator (LACERA) and the employers (i.e., County, LACERA, Superior Court, and Outside Districts). As such, in February 2016, LACERA established a GASB 74/75 Task Force (Task Force) composed of LACERA staff, key stakeholders from the employer groups, and external professional service providers to collectively discuss LACERA's and the employers' requirements for implementing their respective new GASB standards. This strategic partnership provided the opportunity to open the lines of communication among the parties involved and collectively worked towards establishing timelines and a framework for implementation decisions.

Prior to October 2017, the OPEB actuarial valuation was performed biennially and the related experience study was performed triennially. The associated independent audit of the actuarial valuation, as well as the audit of the experience study were conducted every six years. With the advent of GASB 75, the Task Force needed to revisit the timing of these reporting requirements.

GASB 75 requires the reporting date to be a maximum of 30 months and one day after the actuarial valuation date. The Task Force believed this requirement, coupled with the one-year lag period stipulated by the County's GASB 75 implementation schedule, imposes a tight timeline that leaves no room for unforeseen issues or adversity for all parties concerned. Increasing the OPEB valuation schedule from every other year (biennial) to every year (annual) effectively eliminated this critical risk and highly improved compliance with GASB 75 firm reporting requirements, including the ability to conduct audits of the OPEB information which will be included in the County's financial statements. Similarly, improved OPEB actuarial valuation frequency equated to enhanced timing of the associated OPEB audits (i.e., every six years to every three years). More frequent updates provide more recent information to decision-makers, plan sponsors, and program administrators.

Timing of OPEB Actuarial Projects

Milliman, the OPEB Program consulting actuary, performed the most recent actuarial valuation as of July 1, 2017, using the 2016 experience study actuarial assumptions. This OPEB valuation report is the first annual valuation prepared in accordance with the revised OPEB Policy to meet timelines associated with LACERA's and the plan sponsors' financial statement reporting requirements.

Based upon the previous OPEB Policy, the most recent actuarial projects (i.e., experience study, valuation audit, and experience study audit) were completed as of July 1, 2016. As a result of the current OPEB Policy's increased valuation and audit frequency and for consistency with the retirement benefits valuation and audit requirements, the timing of these actuarial projects were adjusted to promote operational efficiency. Specifically, the experience study, valuation audit, and experience study audit as of July 1, 2018 and as of July 1, 2020 are catch-up two-year cycles to efficiently use the experience study during the four-year gap between the current and prior OPEB Policies. The first three-year cycle for the experience study, valuation audit, and experience study audit will be performed as of July 1, 2023.

Latest Actuarial Audit Results

The most recent actuarial audits of the OPEB valuation and OPEB experience study were conducted based on the previous OPEB Policy. The OPEB Program audit actuary, Segal Consulting (Segal), performed audits of Milliman's OPEB experience study and valuation as of June 30, 2016.

In regard to the audit of the OPEB experience study, Segal concluded, "Milliman has employed generally accepted actuarial practices and principles in studying plan experience, selecting assumptions, and presenting the results of their work. We believe that the actuarial assumptions as recommended by Milliman are reasonable for use in the LACERA OPEB Program actuarial valuation." Segal's audit of Milliman's OPEB valuation determined, "Our overall assessment of Milliman's actuarial work for LACERA is that after reflecting the changes recommended as part of the concurrent audit, all major actuarial functions are being appropriately addressed. Milliman has employed generally accepted actuarial practices and principles in computing actuarial liabilities and costs, and in presenting the results of their work."

Other Actuarial Information

The Schedule of Contributions History – OPEB Program included in the Required Supplementary Information Section will prospectively provide 10 years of actuarially determined contributions in relation to the actual contributions provided to the OPEB Program.

Actuarial Methods and Assumptions: A description of the actuarial methods and assumptions for the OPEB valuation used by the OPEB Program actuary are included in this Actuarial Section. In addition, the Financial Section provides a summary of the actuarial methods and significant assumptions used to prepare the OPEB valuation report, which determines the OPEB Program's funding requirements. The Financial Section also discusses the actuarial methods and significant assumptions used for financial reporting and required GASB Statement No. 74 disclosures. Any differences between these assumptions used for actuarial funding and those applied for financial reporting purposes are noted.

The following additional information is included in this section:

- Actuary's Certification Letter – OPEB Program
- Summary of Actuarial Methods and Assumptions – OPEB Program
- Schedule of Funding Progress – OPEB Program
- Active Member Valuation Data – OPEB Program
- Retirants and Beneficiaries Added to and Removed from Rolls – OPEB Program
- Actuary Solvency Test – OPEB Program
- Actuarial Analysis of Financial Experience – OPEB Program

A Summary of Major OPEB Program Provisions is available upon request.

See Note N – OPEB Program for details on the plan description.

September 14, 2018

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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 death/burial insurance benefits to the retired Los Angeles County (County) workers who also participate in the Los Angeles County Employees Retirement Association (LACERA) retirement benefits program. These healthcare related benefits are called the Los Angeles County OPEB Program, or the "Program." The Program provides these benefits on a "pay-as-you-go" basis. Biennial actuarial valuations provided the required financial disclosures for the Program through July 1, 2016. Effective July 1, 2017, OPEB actuarial funding valuations are performed annually. The next valuation is expected as of July 1, 2018.

A summary of the results of the past three actuarial valuations is shown below. All dollar amounts are in billions:

Valuation Date	Actuarial Accrued Liability	Assets	Unfunded Actuarial Accrued Liability	ARC* as a Percentage of Payroll
July 1, 2014	$28.55	$0.48	$28.07	31.82%
July 1, 2016	$25.91	$0.56	$25.35	27.03%
July 1, 2017	$26.30	$0.74	$25.56	25.57%

*Annual Required Contribution (ARC) based on GASB 43/45 methodology.

The County's Board of Supervisors affirmed their support for prefunding 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 funding policy provides for steady increases in contributions each year with the ultimate goal of making contributions equal to the ARC. The July 1, 2014; July 1, 2016; and July 1, 2017 OPEB valuations include assets invested in the OPEB Trust.

In preparing the July 1, 2017 OPEB valuation report, we relied, without audit, on information (some oral and some in writing) supplied by Los Angeles County, LACERA, Aon Hewitt, and Segal. This information includes, but is not limited to, benefit descriptions, membership data, and financial information. We found this information to be reasonably consistent and comparable with data used for other purposes. The valuation results depend on the integrity of this information. In some cases, where the data was incomplete, we made assumptions as noted in Table C-12 of our July 1, 2017 valuation report. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

The valuation is also based on our understanding of the Program's current benefit provisions and the actuarial assumptions, which were reviewed and adopted by the Board of Retirement. The retirement benefit related demographic and economic assumptions were based on those developed for the June 30, 2017 valuation of the LACERA 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, 2017 OPEB valuation. Assumptions unique to OPEB were identified and evaluated in Milliman's 2016 OPEB investigation of experience study report as of June 30, 2016, approved by LACERA's Board of Retirement. The assumptions and methods used for financial reporting under GASB 74 are the same as the funding assumptions and methods used in the July 1, 2017 OPEB valuation report, with the following exceptions:

1. The GASB 74 discount rate is determined using depletion date methodology, and it changes on each measurement date.

2. The GASB 74 reporting uses the entry age normal actuarial cost method.
3. The GASB 74 liabilities have LACERA operational administrative expenses removed.

The actuarial computations presented in the July 1, 2017 OPEB valuation and the June 30, 2018 GASB 74 disclosure reports are for purposes of fulfilling financial accounting requirements for LACERA. The liabilities in the GASB 74 disclosure report are determined by using the entry age normal actuarial cost method. The assets are recognized at market value. 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. 74 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 and the GASB 74 disclosure 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.

Milliman's work is 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.

No third party recipient of Milliman's work product who desires professional guidance should 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 employee benefit 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.

Milliman prepared the following information for the actuarial section:

1. Schedule of Funding Progress – OPEB Program
2. Retirees and Beneficiaries Added to and Removed from Benefits – OPEB Program
3. Actuary Solvency Test – OPEB Program
4. Actuarial Analysis of Financial Experience – OPEB Program

LACERA staff prepared the information in Note N of the financial section and the Required Supplementary Information, based on information supplied in prior actuarial reports, our July 1, 2017 actuarial valuation, and our June 30, 2018 GASB 74 disclosure report. Milliman has reviewed the information in Note N for accuracy.

We certify that the assumptions and methods used for funding and financial reporting purposes in the July 1, 2017 funding valuation meet the parameters set by Actuarial Standards of Practice promulgated by the Actuarial Standards Board (ASB). We are members of the American Academy of Actuaries and have experience in performing valuations for public OPEB programs.

Sincerely,

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

Janet O. Jennings, ASA, MAAA
Associate Actuary

RLS/bh

Actuarial Methods and Assumptions

The OPEB actuarial methods and assumptions are recommended by the consulting actuary and adopted by the Board of Retirement. The actuarial assumptions used to determine the liabilities are based on the results of the 2016 Pension Plan and OPEB Program separate triennial Investigation of Experience Studies. Where applicable, the same assumptions are used for the OPEB Program as for the Pension Plan. The assumptions that overlap with the Pension Plan assumptions were reviewed and changed June 30, 2016, as a result of the 2016 Pension Plan triennial Investigation of Experience Study, approved by the Board of Investments in December 2016. The general wage increase, investment earnings, and implied inflation assumptions were also evaluated.

The consulting actuary also recommended an OPEB specific investment earnings assumption since investment earnings for the OPEB valuation are based on a blend of the expected return from the general assets and the expected return from the OPEB Trust. These are invested with different asset allocations than the one used for the Pension Plan. The OPEB specific assumptions other than premiums, claim costs, and aging were reviewed and changed as a result of the 2016 OPEB Investigation of Experience Study the LACERA Board of Retirement adopted in September 2017. The premiums, claim costs, aging, and trend used for this valuation are updated as of July 1, 2017.

Where applicable, the same assumptions are used for the LACERA post-employment health and death benefit program as for the LACERA retirement benefits. The assumptions that overlap with the LACERA retirement benefits plan assumptions were reviewed and changed June 30, 2016, as a result of the 2016 triennial Retirement Benefit Investigation of Experience Study, approved by the Board of Investments in December 2016.

See the schedule titled Active Member Valuation Data – Pension Plan for active member valuation purposes.

Actuarial Cost Method

The actuarial valuation is prepared under the Projected Unit Credit (PUC) actuarial cost method. Under the principles of the PUC method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated pro rata to each year of service between entry age and assumed exit.

	For members who transferred between plans, entry age is based on original entry into the LACERA retirement benefits plan. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. The portion of this actuarial present value not provided for at a valuation date by the sum of the actuarial value of the assets (if the benefits are funded), and the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is amortized as a level percentage of the projected salaries of the active members, both present and future, covered by the LACERA retirement benefits plan over a 30-year period from the valuation date. This is commonly referred to as a "rolling 30-year amortization method." This method does not cover interest on the UAAL. GASB 74 and 75 reporting requires use of the Individual Entry Age Normal Level Percent of Pay actuarial cost method. Under this method, the normal cost is calculated as a percent of pay from each member's date of entry into the plan through their assumed age of exit. The sum of normal costs attributable to all years of service prior to the valuation date is the actuarial accrued liability.
Actuarial Asset Valuation Method	Market Value.
Investment Return	Since LACERA is a partially funded plan, a blend of the expected return on the County's general funds and the OPEB Trust return is used. Based on the expected return on the County's general funds, the contributions to the OPEB Trust, and the expected investment return from the OPEB Trust, a discount rate of 4.50 percent was selected for use in the July 1, 2017 OPEB valuation.
Inflation Rate	2.75 percent per annum. This rate was adopted beginning with the July 1, 2016 OPEB valuation.
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.

Healthcare Cost Trend Rates (without Excise Tax)

	FY 2018 to FY 2019	FY 2019 to FY 2020	Ultimate (grading from June 30, 2018 to June 30, 2103)
LACERA Medical Under 65	5.80%	6.30%	4.40%
LACERA Medical Over 65	6.00%	6.00%	4.40%
Part B Premiums	9.25%	1.85%	4.35%
Dental/Vision	0.00%	3.00%	3.70%
Weighted Average Trend	5.85%	5.42%	4.38%

Retirement

Members in General Plans A–D may retire at age 50 with 10 years of service, or any age with 30 years of service, or age 70 regardless of the number of years of service. General Plan G members are eligible to retire at age 52 with five years of service, or age 70 regardless of the number of years of service. Non-contributory Plan E members may retire at age 55 with 10 years of service. Members of Safety Plans A and B may retire at age 50 with 10 years of service, or any age with 20 years of service. Safety Plan C members are eligible to retire at age 50 with five years of County service.

Expectation of Life After Retirement

The same postretirement mortality rates are used in the valuation for active members after termination, members retired for service, and beneficiaries. Future beneficiaries are assumed to have the same mortality as a general member of the opposite gender.

Males:
General Members: RP-2014 Healthy Annuitant Mortality Table for Males multiplied by 105 percent, with MP-2014 Ultimate Projection Scale.
Safety Members: RP-2014 Healthy Annuitant Mortality Table for Males multiplied by 95 percent, with MP-2014 Ultimate Projection Scale.

Females:
General Members: RP-2014 Healthy Annuitant Mortality Table for Females, with MP-2014 Ultimate Projection Scale.

Safety Members: RP-2014 Healthy Annuitant Mortality Table for Females, with MP-2014 Ultimate Projection Scale.

These rates were adopted June 30, 2016.

Expectation of Life After Disability	For disabled members, the mortality rates used in the valuation rates are illustrated in Table A-3 of the July 1, 2016 OPEB Valuation Report. These rates were adopted June 30, 2016. **Males:** **General Members:** Average of RP-2014 Healthy Annuitant Mortality Table for Males multiplied by 105 percent and RP-2014 Disabled Annuitant Mortality Table for Males, both projected with MP-2014 Ultimate Projection Scale. **Safety Members:** RP-2014 Healthy Annuitant Mortality Table for Males, with MP-2014 Ultimate Projection Scale. **Females:** **General Members:** Average of RP-2014 Healthy Annuitant Mortality Table for Females and RP-2014 Disabled Annuitant Mortality Table for Females, both projected with MP-2014 Ultimate Projection Scale. **Safety Members:** RP-2014 Healthy Annuitant Mortality Table for Females, with MP-2014 Ultimate Projection Scale.
Retiree Medical and Dental/Vision Eligibility and Enrollment Assumptions	Any retired or vested terminated members who have not yet elected a refund of their member contributions and will receive a pension benefit other than a refund are eligible for retiree medical and dental/vision enrollment.
Other Employment Terminations	Terminating employees may withdraw their contributions immediately upon termination of employment and forfeit the right to further retirement, medical, dental/vision and death benefits, or they may leave their contributions with LACERA. Former contributing members whose contributions are on deposit may later elect to receive a refund, may return to work, or may remain inactive until becoming eligible to receive a retirement benefit under either LACERA or a reciprocal retirement plan. All terminating members who are not eligible for vested benefits are assumed to withdraw their contributions immediately. All terminating members are assumed not to be rehired. The Probability of Occurrence schedule included in this Actuarial Section provides a summary of probability of retirement and withdrawal for sample ages. Although these assumptions were developed for the Pension Plan, they apply to the OPEB Program participant population.

Schedule of Funding Progress — OPEB 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 Employee Payroll (c)	UAAL as a Percentage of Covered Employee Payroll [(b-a)/c]
July 1, 2006	$—	$21,215,800	$21,215,800	0.0%	N/A	N/A
July 1, 2008	—	21,863,600	21,863,600	0.0%	N/A	N/A
July 1, 2010	—	24,031,000	24,031,000	0.0%	N/A	N/A
July 1, 2012	—	26,952,700	26,952,700	0.0%	N/A	N/A
July 1, 2014	483,800	28,546,600	28,062,800	1.7%	N/A	N/A
July 1, 2016	560,800	25,912,600	25,351,800	2.2%	N/A	N/A
July 1, 2017	**742,900**	**26,300,800**	**25,557,900**	**2.8%**	**8,544,140**	**299.1%**

*Using the Projected Unit Credit actuarial cost method.

Active Member Valuation Data — OPEB Program

Valuation Date	Plan Type	Member Count	Annual Salary	Average Annual Salary	Percentage Increase/ (Decrease) in Average Salary
July 1, 2008	General	81,596	$5,011,903,716	$61,423	11.08%
	Safety	12,819	1,186,746,816	92,577	9.49%
	Total	**94,415**	**$6,198,650,532**	**$65,653**	**11.12%**
July 1, 2010	General	81,352	$5,313,595,764	$65,316	6.34%
	Safety	12,991	1,256,733,372	96,739	4.50%
	Total	**94,343**	**$6,570,329,136**	**$69,643**	**6.08%**
July 1, 2012	General	79,416	$5,267,863,044	$66,333	1.56%
	Safety	12,482	1,229,551,596	98,506	1.83%
	Total	**91,898**	**$6,497,414,640**	**$70,702**	**1.52%**
July 1, 2014	General	79,878	$5,482,792,752	$68,640	3.48%
	Safety	12,515	1,251,582,744	100,007	1.52%
	Total	**92,393**	**$6,734,375,496**	**$72,888**	**3.09%**
July 1, 2016	General	82,780	$5,938,289,628	$71,736	4.51%
	Safety	12,515	1,340,879,628	107,142	7.13%
	Total	**95,295**	**$7,279,169,256**	**$76,386**	**4.80%**
July 1, 2017*	**General**	**84,454**	**$6,284,503,344**	**$74,413**	**3.73%**
	Safety	**12,695**	**1,387,680,972**	**109,309**	**2.02%**
	Total	**97,149**	**$7,672,184,316**	**$78,973**	**3.39%**

*The resulting OPEB valuation report was the first annual (versus biennial) valuation prepared in accordance with the revised OPEB Actuarial Valuation and Audit Policy Statement, which the LACERA Board of Investments approved in October 2017, to meet the plan sponsors' GASB 75 reporting deadlines.

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

(Dollars in Thousands)

	Added to Rolls		Removed From Rolls		Rolls at End of Year			
Valuation Date[1]	Member Count	Annual Allowance[2]	Member Count	Annual Allowance	Member Count	Annual Allowance	Percentage Increase in Retiree Allowance	Average Annual Allowance
July 1, 2010	—	$—	—	$—	43,936	$391,979	0.00%	$9
July 1, 2012	5,336	56,982	(3,070)	(25,497)	46,202	423,464	8.03%	9
July 1, 2014	5,335	89,205	(3,369)	(29,925)	48,168	482,744	14.00%	10
July 1, 2016	5,710	103,373	(3,514)	(30,745)	50,364	555,372	15.04%	11
July 1, 2017	**3,229**	**41,266**	**(1,839)**	**(18,052)**	**51,754**	**578,586**	**4.18%**	**11**

[1] Schedule is intended to show information for six years.
[2]Includes changes for continuing retirees and beneficiaries.

Actuary Solvency Test — OPEB Program[1]

(Dollars in Millions)

	Actuarial Accrued Liability (AAL) for				Portion of Actuarial Accrued Liability		
Actuarial Valuation Date	(A) Active Member Contributions	(B) Retirees and Beneficiaries[2]	(C) Active Members (Employer-Financed Portion)	Actuarial Value of Valuation Assets	(A) Active	(B) Retired	(C) Employer
July 1, 2012	$—	$10,681	$16,272	$—	N/A	0%	0%
July 1, 2014	—	11,791	16,756	484	N/A	4%	0%
July 1, 2016	—	11,365	14,548	561	N/A	5%	0%
July 1, 2017[3]	**—**	**11,640**	**14,661**	**743**	**N/A**	**6%**	**0%**

[1]Trend information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.
[2]Includes vested former members.
[3]The resulting OPEB valuation report was the first annual valuation prepared in accordance with the revised OPEB Actuarial Valuation and Audit Policy Statement, which the LACERA Board of Investments approved in October 2017, to meet the plan sponsors' GASB 75 reporting deadlines

Actuarial Analysis of Financial Experience — OPEB Program

(Dollars in Millions)

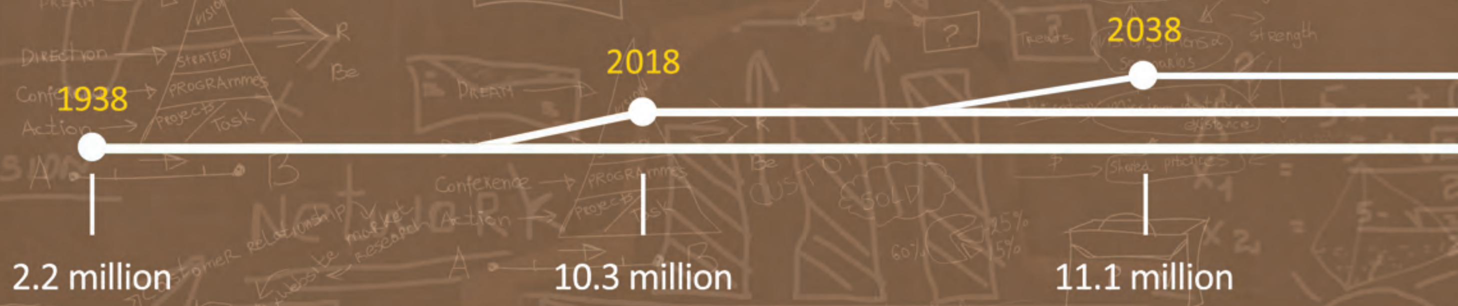
	2008	2010	2012	2014	2016	2017
Prior Unfunded Actuarial Accrued Liability	$21,216	$21,864	$24,031	$26,953	$28,063	$25,352
Expected Increase/(Decrease) from Prior Valuation	3,341	3,478	3,771	3,873	3,240	1,462
Claim Costs Greater/(Less) than Expected[1]	(3,131)	(1,267)	(3,864)	(5,471)	(2,322)	(1,213)
Change in Assumptions[2]	536	287	3,423	3,238	(3,385)	-
Asset Return Less/(Greater) than Expected		N/A	N/A	(484)	78	(54)
All Other Experience	(98)	(331)	(408)	(46)	(322)	11
Ending Unfunded Actuarial Accrued Liability	**$21,864**	**$24,031**	**$26,953**	**$28,063**	**$25,352**	**$25,558**

[1]Includes the trend assumption change.
[2]In 2016, this amount includes the impact from the Tier 2 benefits provisions.

As we look back on our 80-year history, we remain focused on the future of our organization and that of Los Angeles County. By listening to our members and implementing technology, we will continue to expand our services, and through strategic investments, we will continue to grow the fund.

L.A. County's population is projected to keep growing steadily, and with it the demand for talented, dedicated public employees. Just as they will be there to take care of the community, we will be there to take care of them by staying true to our vision of excellence, commitment, trust, and service.

Continued growth



Los Angeles County population

Source: California Department of Finance

LACERA's Vision

It All ADDS UP

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 the status of the Pension Plan and OPEB Program administered by LACERA as of the fiscal year-end. Statistical data is maintained in the Member Workspace (Workspace). Workspace is a sophisticated in-house data management system in which LACERA actively maintains member-specific information, comprehensive plan membership records, and related member-specific documents. This section reports the most current membership status information for each type of member (active, retired, etc.).

The statistical information provided here is divided into 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 (e.g., Service and Disability Retirement from General and Safety Plans).

Operating Information provides 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 Members* provides membership statistics for active vested and non-vested members as well as for deferred vested members.
- *Retired Members by Type of Pension Benefit* and *Retired Members by Type of OPEB Benefit* present benefit information for the current year by benefit type and dollar level.
- *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.
- *Employer Contribution Rates* are provided as additional information.
- The *Supplemental Targeted Adjustment for Retirees (STAR) Program Costs* schedule trends the Program's costs through the current calendar year-end.

Changes in Fiduciary Net Position — Pension Plan

Last 10 Years
(Dollars in Thousands)

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

	2014	2015	2016	2017	2018
Additions					
Employer Contributions	$1,320,442	$1,494,975	$1,403,712	$1,331,359	$1,524,823
Member Contributions	439,001	441,258	498,083	526,579	591,262
Net Investment Income/(Loss)	6,908,412	1,989,358	80,588	6,129,300	4,716,640
Miscellaneous	2,256	1,695	2,781	6,370	5,613
Total Additions/(Declines)	**8,670,111**	**3,927,286**	**1,985,164**	**7,993,608**	**6,838,338**
Deductions					
Total Benefit Expenses[1]	2,662,401	2,768,410	2,889,186	3,029,633	3,203,375
Administrative Expenses	58,723	62,591	67,645	66,830	78,181
Miscellaneous	229	212	(11)	188	451
Total Deductions	**2,721,353**	**2,831,213**	**2,956,820**	**3,096,651**	**3,282,007**
Net Increase/(Decrease) in Fiduciary Net Position	**$5,948,758**	**$1,096,073**	**$(971,656)**	**$4,896,957**	**$3,556,331**

[1]See Pension Benefit Expenses by Type in this Statistical Section.

Statistical

Changes in Fiduciary Net Position — OPEB Trust

Last Six Years[1]
(Dollars in Thousands)

	2013	2014	2015
Additions			
Employer Contributions[2]	$448,819	$—	$—
Net Investment Income/(Loss)	209	35,113	4,688
Miscellaneous	—	—	—
Total Additions	449,028	35,113	4,688
Deductions			
Administrative Expense	173	144	153
Benefit Payments[2]	—	—	—
Redemptions	—	—	—
Total Deductions	173	144	153
Net Increase in Fiduciary Net Position	**$448,855**	**$34,969**	**$4,535**

	2016	2017	2018
Additions			
Employer Contributions[2]	$615,275	$645,381	**$706,709**
Net Investment Income/(Loss)	(8,095)	94,505	**78,746**
Miscellaneous	—	2	**–**
Total Additions	607,180	739,888	**785,455**
Deductions			
Administrative Expense	192	374	**190**
Benefit Payments[2]	534,597	557,381	**583,406**
Redemptions	—	—	**3,735**
Total Deductions	534,789	557,755	**587,331**
Net Increase in Fiduciary Net Position	**$72,391**	**$182,133**	**$198,124**

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.
[2]Beginning in 2016, the Trust is now reflecting both pre-funding contributions actually made to the OPEB Trust as well as additions to Fiduciary Net Position including amounts for OPEB as the benefits come due that will not be reimbursed to the employers using OPEB plan assets. Correspondingly, deductions to Fiduciary Net Position, starting in 2016, now reflect all benefit payments whether made through the Trust or by employers as OPEB comes due (paragraph 28a and 31 of GASB Statement No. 74).

Pension Benefit Expenses by Type

For the Fiscal Years Ended June 30

(Dollars in Thousands)

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

	2014	2015	2016	2017	2018
Service Retiree Payroll					
General	$1,631,285	$1,692,558	$1,762,274	$1,845,791	**$1,946,614**
Safety	384,248	397,962	419,092	445,473	**478,802**
Total	**2,015,533**	**2,090,520**	**2,181,366**	**2,291,264**	**2,425,416**
Disability Retiree Payroll					
General	162,338	165,543	169,821	173,550	**177,879**
Safety	459,311	484,907	507,824	538,116	**574,431**
Total	**621,649**	**650,450**	**677,645**	**711,666**	**752,310**
Total Retiree Payroll					
General	1,793,623	1,858,101	1,932,095	2,019,341	**2,124,493**
Safety	843,559	882,869	926,916	983,589	**1,053,233**
Total	**2,637,182**	**2,740,970**	**2,859,011**	**3,002,930**	**3,177,726**
Refunds					
General	18,994	22,050	23,470	21,970	**20,782**
Safety	4,534	3,361	3,622	2,482	**2,439**
Total	**23,528**	**25,411**	**27,092**	**24,452**	**23,221**
Lump-Sum Death Benefits	**1,691**	**2,029**	**3,083**	**2,251**	**2,428**
Total Benefit Expenses	**$2,662,401**	**$2,768,410**	**$2,889,186**	**$3,029,633**	**$3,203,375**

Statistical

Active Members

For the Fiscal Years Ended June 30

	2009	2010	2011	2012	2013
Active Vested					
General	54,729	56,162	59,055	61,433	62,803
Safety	9,761	9,916	10,054	10,663	11,177
Subtotal	64,490	66,078	69,109	72,096	73,980
Active Non-Vested					
General	28,149	25,251	21,090	18,034	16,203
Safety	3,149	3,081	2,587	1,822	1,362
Subtotal	31,298	28,332	23,677	19,856	17,565
Deferred Vested					
General	7,589	7,478	7,423	7,379	7,462
Safety	462	460	465	480	497
Sub Total	**8,051**	**7,938**	**7,888**	**7,859**	**7,959**
Total Active Members					
General	90,467	88,891	87,568	86,846	86,468
Safety	13,372	13,457	13,106	12,965	13,036
Total	**103,839**	**102,348**	**100,674**	**99,811**	**99,504**

	2014	2015	2016	2017	2018
Active Vested					
General	63,301	62,532	61,820	61,608	**61,734**
Safety	11,188	11,024	10,743	10,429	**10,286**
Subtotal	74,489	73,556	72,563	72,037	**72,020**
Active Non-Vested					
General	16,642	18,696	21,096	22,915	**23,975**
Safety	1,335	1,422	1,785	2,269	**2,489**
Subtotal	17,977	20,118	22,881	25,184	**26,464**
Deferred Vested					
General	7,550	7,623	7,665	7,752	**7,856**
Safety	540	563	573	589	**603**
Sub Total	**8,090**	**8,186**	**8,238**	**8,341**	**8,459**
Total Active Members					
General	87,493	88,851	90,581	92,275	**93,565**
Safety	13,063	13,009	13,101	13,287	**13,378**
Total	**100,556**	**101,860**	**103,682**	**105,562**	**106,943**

Retired Members by Type of Pension Benefit

As of June 30, 2018

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3
$1 — $1,000	14,293	8,996	1,269	4,028
$1,001 — $2,000	14,206	9,717	1,980	2,509
$2,001 — $3,000	10,675	7,893	1,743	1,039
$3,001 — $4,000	7,300	5,595	1,155	550
$4,001 — $5,000	5,133	4,126	708	299
$5,001 — $6,000	3,644	2,889	568	187
$6,001 — $7,000	2,617	2,041	478	98
> $7,000	7,013	5,039	1,806	168
Total	**64,881**	**46,296**	**9,707**	**8,878**

Amount of Monthly Benefit	Retirement Option Selected** Unmodified	Unmodified+Plus	Option 1	Option 2	Option 3	Option 4
$1 — $1,000	12,758	681	126	452	93	183
$1,001 — $2,000	12,535	925	141	328	100	177
$2,001 — $3,000	9,376	828	96	159	57	159
$3,001 — $4,000	6,391	608	51	90	29	131
$4,001 — $5,000	4,391	507	44	53	32	106
$5,001 — $6,000	3,103	407	24	28	7	75
$6,001 — $7,000	2,122	378	13	23	6	75
> $7,000	5,187	1,494	27	24	27	254
Total	**55,863**	**5,828**	**522**	**1,157**	**351**	**1,160**

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

**Retirement Option Selected:
Unmodified — For Plans A-D, and G, beneficiary receives 65 percent of the member's allowance (60 percent if the member retired before June 4, 2002); for Plan E, beneficiary receives 55 percent of member's allowance (50 percent if the member retired before June 4, 2002).

The following options reduce the member's monthly benefit:
Unmodified+Plus — For all Plans (A-G), 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 percent of member's reduced monthly benefit.
Option 3 - Beneficiary receives 50 percent 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, 2018

	Medical Benefit/Premium Amounts					Total Member Count
	$1- $500	$501- $1,000	$1,001- $1,500	$1,501- $2,000	> $2,000	
Medical Plans by Plan Type						
Anthem Blue Cross I	4	–	798	20	346	1,168
Anthem Blue Cross II	1	–	2,144	156	2,534	4,835
Anthem Blue Cross III	6,587	3,891	1,122	124	–	11,724
Anthem Blue Cross Prudent Buyer Plan	1	658	35	345	91	1,130
Cigna-HealthSpring Preferred Rx	29	14	1	9	2	55
Cigna Network Model Plan	–	–	–	350	158	508
Kaiser - California	–	–	3,317	1,906	903	6,126
Kaiser - Senior Advantage	10,438	5,314	1,898	–	–	17,650
Kaiser - Colorado	30	12	1	–	4	47
Kaiser - Georgia	60	29	18	11	4	122
Kaiser - Hawaii	32	13	10	4	–	59
Kaiser - Oregon-Washington	77	46	8	10	2	143
Firefighters Local 1014	–	–	476	–	1,382	1,858
SCAN/SmartCare Health Plan	300	105	–	–	–	405
UnitedHealthcare	1	–	459	–	738	1,198
UnitedHealthcare Medicare Advantage (HMO)	1,647	971	–	406	–	3,024
Total Medical by Plan Type	**19,207**	**11,053**	**10,287**	**3,341**	**6,164**	**50,052**
Medical Plans by Retirement Type						
Service Retirees	14,016	9,251	7,395	2,394	3,886	36,942
Disability Retirees	1,513	1,512	1,455	694	2,206	7,380
Survivors	3,678	290	1,437	253	72	5,730
Total Medical by Retirement Type	**19,207**	**11,053**	**10,287**	**3,341**	**6,164**	**50,052**

	Dental/Vision Benefit Premium Amounts
	$1 - $500
Dental/Vision Plans by Plan Type	
CIGNA Indemnity Dental/Vision	45,627
CIGNA HMO Dental/Vision	5,598
Total Dental/Vision by Plan Type	**51,225**
Dental/Vision Plans by Retirement Type	
Service Retirees	37,624
Disability Retirees	7,729
Survivors	5,872
Total Dental/Vision by Retirement Type	**51,225**

Schedule of Average Pension Benefit Payments

Last 10 Years

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
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

Statistical

Last 10 Years

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
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 10 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 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 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 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 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 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 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 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 Salary	$6,377	$6,249	$5,830	$6,874	$6,772	$7,309
Number of Active Survivors	2	8	6	6	15	22

Last 10 Years

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
7/1/14 to 6/30/15						
Retirants						
General Members						
Average Monthly Benefit	$1,422	$1,716	$2,202	$3,106	$3,360	$5,017
Average Final Salary	$5,939	$5,543	$5,903	$6,731	$6,294	$6,970
Number of Active Retirants	126	331	280	308	436	784
Safety Members						
Average Monthly Benefit	$2,917	$5,412	$5,374	$6,477	$7,082	$9,923
Average Final Salary	$7,015	$9,261	$9,810	$10,748	$10,400	$11,847
Number of Active Retirants	20	19	21	28	116	215
Survivors						
General Members						
Average Monthly Benefit	$903	$1,021	$1,342	$1,854	$1,799	$2,741
Average Final Salary	$4,076	$4,471	$5,243	$5,464	$4,814	$5,525
Number of Active Survivors	32	53	40	52	71	126
Safety Members						
Average Monthly Benefit	$2,101	$2,054	$1,768	$2,911	$4,530	$6,206
Average Final Salary	$5,564	$6,518	$4,737	$6,552	$6,815	$8,367
Number of Active Survivors	6	4	9	12	16	29
7/1/15 to 6/30/16						
Retirants						
General Members						
Average Monthly Benefit	$1,619	$1,809	$2,265	$2,893	$3,462	$5,163
Average Final Salary	$6,022	$5,607	$6,020	$6,414	$6,440	$7,372
Number of Active Retirants	118	331	273	274	471	837
Safety Members						
Average Monthly Benefit	$3,134	$3,776	$5,743	$6,290	$7,540	$10,730
Average Final Salary	$7,077	$9,355	$10,057	$10,613	$11,062	$12,654
Number of Active Retirants	24	16	27	22	109	205
Survivors						
General Members						
Average Monthly Benefit	$929	$752	$957	$1,174	$1,745	$2,470
Average Final Salary	$6,444	$4,670	$3,996	$4,367	$4,825	$5,339
Number of Active Survivors	30	55	50	51	69	143
Safety Members						
Average Monthly Benefit	$1,446	$3,207	$3,071	$3,053	$4,468	$5,611
Average Final Salary	$5,927	$6,777	$6,628	$6,941	$6,825	$7,529
Number of Active Survivors	6	6	8	9	16	33

Last 10 Years

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
7/1/16 to 6/30/17						
Retirants						
General Members						
Average Monthly Benefit	$1,416	$1,858	$2,364	$3,425	$3,730	$5,149
Average Final Salary	$5,917	$5,860	$6,367	$7,202	$6,791	$7,441
Number of Active Retirants	142	338	328	209	507	856
Safety Members						
Average Monthly Benefit	$2,987	$3,087	$6,412	$6,885	$7,888	$11,358
Average Final Salary	$7,651	$8,870	$10,320	$11,308	$11,362	$13,288
Number of Active Retirants	24	25	50	36	153	248
Survivors						
General Members						
Average Monthly Benefit	$833	$786	$1,392	$1,577	$1,898	$2,942
Average Final Salary	$5,469	$4,190	$4,959	$5,059	$5,175	$6,105
Number of Active Survivors	29	52	63	41	72	136
Safety Members						
Average Monthly Benefit	$3,522	$4,150	$2,131	$3,715	$4,316	$6,581
Average Final Salary	$6,792	$7,451	$7,234	$6,906	$7,400	$8,411
Number of Active Survivors	3	5	9	7	16	36
7/1/17 to 6/30/18						
Retirants						
General Members						
Average Monthly Benefit	$1,639	$1,752	$2,482	$3,609	$3,907	$5,275
Average Final Salary	$7,147	$5,725	$6,223	$7,627	$7,071	$7,605
Number of Active Retirants	99	339	323	255	470	883
Safety Members						
Average Monthly Benefit	$3,140	$4,015	$5,714	$6,482	$8,329	$11,650
Average Final Salary	$7,739	$9,039	$10,242	$11,266	$11,835	$13,559
Number of Active Retirants	22	21	36	32	126	241
Survivors						
General Members						
Average Monthly Benefit	$681	$1,112	$1,345	$1,503	$2,179	$2,888
Average Final Salary	$4,138	$5,668	$5,145	$5,071	$5,596	$6,179
Number of Active Survivors	17	50	47	38	80	133
Safety Members						
Average Monthly Benefit	$2,815	$3,252	$3,528	$3,200	$3,603	$5,479
Average Final Salary	$7,817	$7,192	$6,670	$6,327	$6,905	$7,833
Number of Active Survivors	7	8	5	7	18	31

Active Members and Participating Pension Employers

For the Last 10 Years Ended June 30

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%**

*Active Membership excludes terminated vested (deferred) members.

For the Last 10 Years Ended June 30

County of Los Angeles	2013 Covered Members	2013 Percentage of Total Covered Members	2014 Covered Members	2014 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%**

County of Los Angeles	2015 Covered Members	2015 Percentage of Total Covered Members	2016 Covered Members	2016 Percentage of Total Covered Members
General Members	81,219	86.704%	82,907	86.865%
Safety Members	12,446	13.286%	12,528	13.126%
Total	**93,665**	**99.990%**	**95,435**	**99.991%**
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	0.007%
Total Participating Agencies	**9**	**0.010%**	**9**	**0.009%**
Total Active Membership*				
General Members	81,228	86.714%	82,916	86.874%
Safety Members	12,446	13.286%	12,528	13.126%
Total	**93,674**	**100.000%**	**95,444**	**100.000%**

*Active Membership excludes terminated vested (deferred) members.

Statistical

For the Last 10 Years Ended June 30

	2017		2018	
County of Los Angeles	**Covered Members**	**Percentage of Total Covered Members**	**Covered Members**	**Percentage of Total Covered Members**
General Members	84,515	86.931%	**85,701**	**87.020%**
Safety Members	12,698	13.061%	**12,775**	**12.972%**
Total	**97,213**	**99.992%**	**98,476**	**99.992%**
Participating Agencies (General Membership)				
South Coast Air Quality Mgmt. District	1	0.001%	**—**	**0.000%**
Los Angeles County Office of Education	—	0.000%	**—**	**0.000%**
Little Lake Cemetery District	1	0.001%	**1**	**0.001%**
Local Agency Formation Commission	6	0.006%	**7**	**0.007%**
Total Participating Agencies	**8**	**0.008%**	**8**	**0.008%**
Total Active Membership*				
General Members	84,523	86.939%	**85,709**	**87.028%**
Safety Members	12,698	13.061%	**12,775**	**12.972%**
Total	**97,221**	**100.000%**	**98,484**	**100.000%**

*Active Membership excludes terminated vested (deferred) members.

Retired Members of Participating OPEB Employers

For the Fiscal Years Ended June 30

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

2014 to 2018	2014	2015	2016	2017	**2018**
Los Angeles County and Participating Agencies					
Medical	45,576	46,567	47,653	48,812	**50,052**
Dental/Vision	46,383	47,486	48,671	49,890	**51,225**

Statistical

Employer Contribution Rates: County of Los Angeles

Last 10 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***
7/1/2008 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%
10/1/2014 to 6/30/2015	26.99%	19.49%	19.01%	19.74%	20.95%	19.53%	35.91%	29.26%	25.29%
7/1/2015 to 6/30/2016	25.13%	17.45%	16.90%	17.70%	18.97%	17.66%	34.64%	27.50%	23.46%
7/1/2016 to 9/30/2017	24.11%	15.94%	15.32%	16.19%	17.49%	16.07%	32.25%	25.94%	21.93%
10/1/2017 to 9/30/2018	**26.06%**	**17.50%**	**16.80%**	**18.17%**	**19.57%**	**18.04%**	**34.45%**	**27.75%**	**23.73%**

*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 10 Years

	General Members			
Effective Date	**Plan A**	**Plan D**	**Plan E**	**Plan G[4]**
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%
10/1/2014 to 6/30/2015	—	19.74%	20.95%	19.53%
7/1/2015 to 6/30/2016	—	17.70%	18.97%	17.66%
7/1/2016 to 9/30/2017	—	16.19%	17.49%	16.07%
10/1/2017 to 9/30/2018	**—**	**18.17%**	**—**	**18.04%**

[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. As of November 2016, there were no participating members under Plan E.
[3]Rates applicable to the Los Angeles County Office of Education are limited to Plan A. As of June 2012, there were no participating members.
[4]Rates effective January 1, 2013, were a result of PEPRA implementation.

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

Last 10 Years

	General Members	
Effective Date	**Plan A[2]**	**Plan B**
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%
10/1/2014 to 6/30/2015	—	25.38%
7/1/2015 to 6/30/2016	—	21.24%
7/1/2016 to 6/30/2017	—	17.62%
7/1/2017 to 9/30/2017	—	15.94%
10/1/2017 to 9/30/2018	**—**	**17.50%**

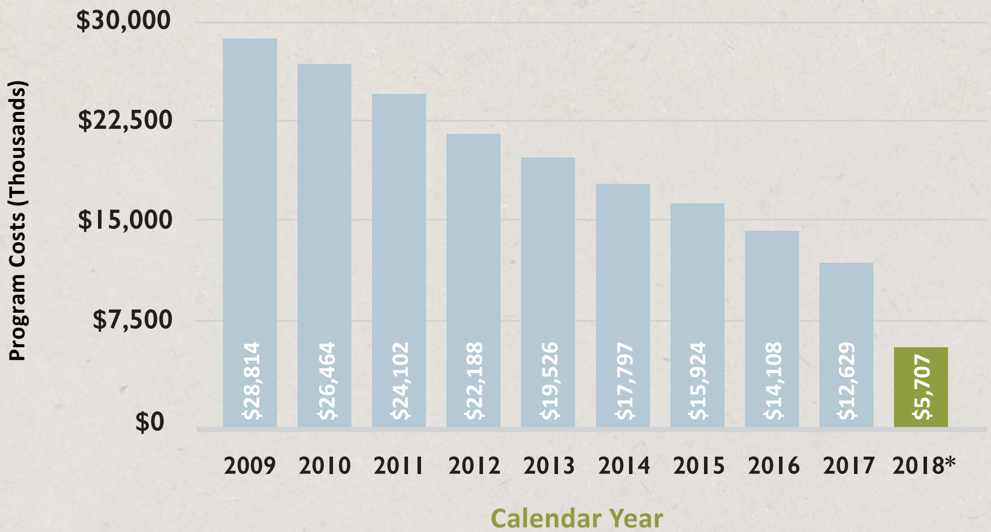
[1]South Coast Air Quality Management District recalculates its employer contribution rates to pick up a portion of its employee rates, in accordance with its labor contract. As of July 1, 2017, per memorandum of agreement, South Coast Air Quality Management District will no longer pick up a portion of employee's contribution and will use LACERA's contribution rates with no pick-up adjustment.
[2]Effective March 31, 2011, participating member in Plan A retired, leaving no active members in Plan A.

Supplemental Targeted Adjustment for Retirees (STAR) Program Costs — Pension Plan

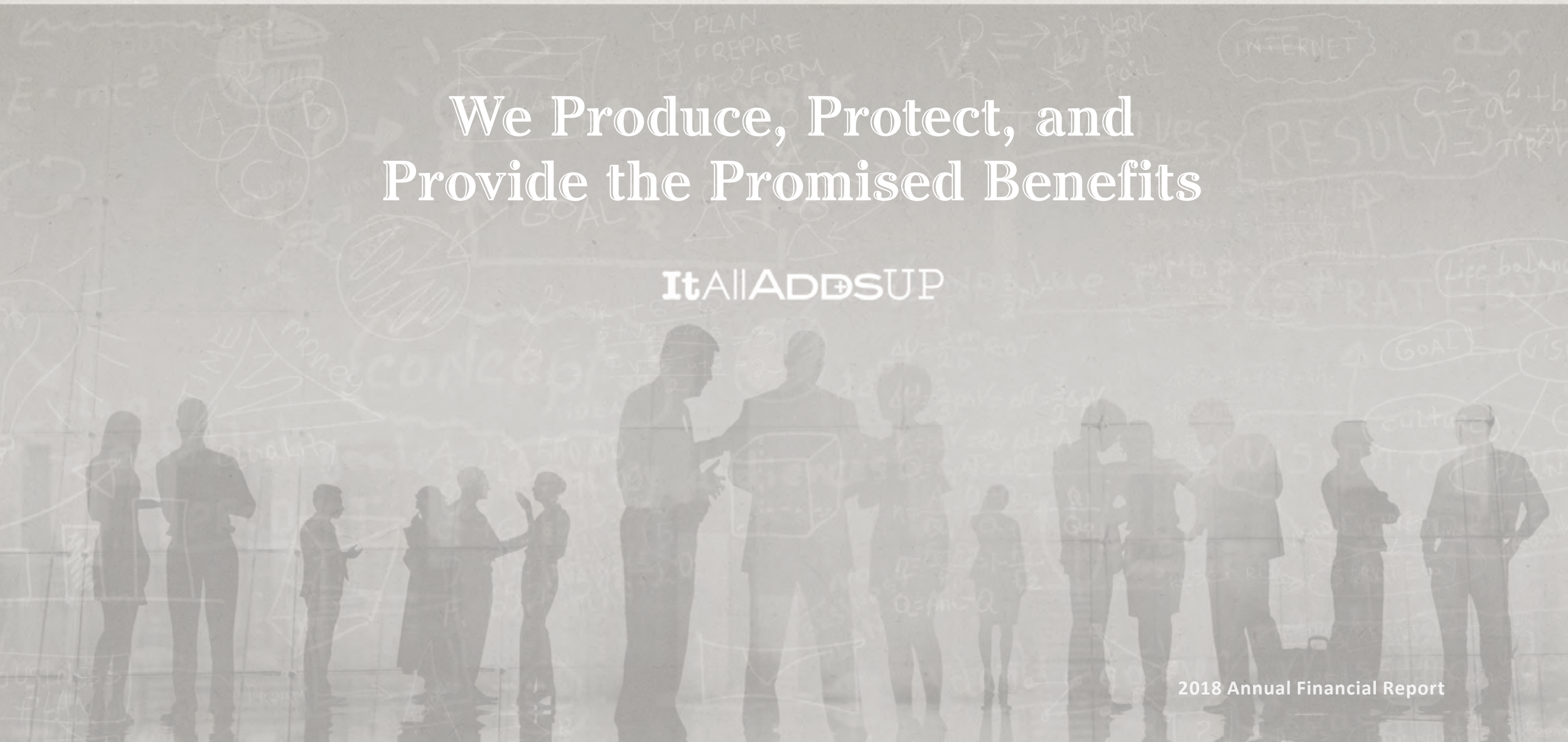
The STAR Program is administered on a calendar-year basis. The chart below represents the STAR Program costs for the last 10 years.

LACERA STAR Program Costs

As of June 2018



*Represents partial year through June 30.



Organizational developments and the introduction of new member benefits mark our successes in our 80-year history.

80 Years of LACERA History

Timeline of Significant Developments

1938
Beginning of the Codified Plan
Board of Retirement (BOR) established

1945
Disability Retirement Benefits created

1965
Cost-of-Living Benefits created

1971
Board of Investments (BOI) established
Retiree Healthcare Program created by BOR

1977
General and Safety Plan B created

1978
General Plan C created

1979
General Plan D created

1982
General Plan E created

1986
LACERA becomes separate entity from L.A. County

1988
LACERA marks 50 years of service

1989
STAR COLA created

1991
LACERA moves from Hall of Administration to Gateway Plaza, Pasadena
Outreach and Call Center created

1994
Electronic systems re-engineering project

2000
lacera.com created

2002
Official Mission Statement created

2005
My LACERA created

2008
Microfiche conversion project

2012
PEPRA legislation passed
LACERA hired to manage OPEB Trust

2013
Plans G and Safety C created

2016
Redesigned My LACERA launched
Benefit Protection Unit formed
OPEB Trust divided into County, LACERA, and Superior Court portions

2018
LACERA marks 80 years of service

We Produce, Protect, and Provide the Promised Benefit$.

1938 1942 1946 1950 1954 1958 1962 1966 1970 1974 1978 1982 1986 1990 1994

LACERA
Los Angeles County Employees Retirement Association

2018 Comprehensive Annual Financial Report
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