

It's About Progress

Popular Annual Financial Report for the year ended June 30, 2003



Los Angeles County Employees Retirement Association at June 30, 2003

Members of the Board of Retirement

CHAIR**Simon S. Russin**Elected by
General members
Term expires 12-31-03**VICE CHAIR****Edgar H. Twine**Appointed by the
Board of Supervisors
Term expires 12-31-03**SECRETARY****Les Robbins**Elected by
Safety members
Term expires 12-31-04**MEMBER****Mark J. Saladino**Treasurer and Tax Collector
Ex-officio member**MEMBER****Sadonya Antebi**Appointed by the
Board of Supervisors
Term expires 12-31-02**MEMBER****Warren Bennett**Appointed by the
Board of Supervisors
Term expires 12-31-05**MEMBER****Brian C. Brooks**Elected by
General members
Term expires 12-31-05**MEMBER****William de la Garza**Elected by
Retired members
Term expires 12-31-05**MEMBER****Simon Frumkin**Appointed by the
Board of Supervisors
Term expires 12-31-04**MEMBER****William Pryor**(Alternate member)
Elected by
Safety members
Term expires 12-31-04

Members of the Board of Investments

CHAIR**Sandra J. Anderson**Elected by
Retired members
Term expires 12-31-05**VICE CHAIR****Mark J. Saladino**Treasurer and Tax Collector
Ex-officio member**SECRETARY****Brian C. Brooks**Elected by
General members
Term expires 12-31-03**MEMBER****Cody Ferguson**Appointed by the
Board of Supervisors
Term expires 12-31-03**MEMBER****Bruce Perelman**Elected by
General members
Term expires 12-31-05**MEMBER****Les Robbins**Elected by
Safety members
Term expires 12-31-04**MEMBER****Sol Soteras**Appointed by the
Board of Supervisors
Term expires 12-31-04**MEMBER****Larkin Teasley**Appointed by the
Board of Supervisors
Term expires 12-31-05**MEMBER****Estevan Valenzuela**Appointed by the
Board of Supervisors
Term expires 12-31-05

Financial Report Issued by:

Marsha D. Richter
Chief Executive Officer**Gregg Rademacher**
Assistant Executive Officer**Robert R. Hill**
Assistant Executive Officer**LACERA**300 N. Lake Avenue
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This LACERA Popular Annual Financial Report (PAFR) summarizes the Comprehensive Annual Financial Report (CAFR) for fiscal years ended June 30, 2003 and 2002.* It is published to provide you with an understanding of LACERA's overall financial condition and enhanced services. This report does not replace the CAFR. A copy of the CAFR is available at LACERA for your review and at www.lacera.com.

Service Efforts and Accomplishments for Fiscal Year 2002-2003

Service and Educational Efforts — In our continuing efforts to better serve our members, LACERA staff provided information and education in person, on the phone, and online.

- Presented over 900 workshops at LACERA, County department locations, and other facilities.
- Served over 12,000 members at our public service counter and conducted 20 in-home or in-hospital counseling sessions.
- Answered over 165,000 telephone inquiries from members.
- Created 165 new web pages, a Plan Transfer Calculator, and a Member Home Loan Program section for www.lacera.com.
- Responded to over 1,200 email inquiries.

Benefit Enhancements and Process Improvements

- The County-negotiated benefit enhancements requiring major implementation by all LACERA divisions. Numerous estimates and contracts were processed for members interested in plan transfers or purchasing service credit.
- The Seamless Death Process has expedited survivor payments for the spouse of a deceased retiree and prevents the delay of this important income.

Quality Assurance — The new Quality Assurance & Metrics Division has been critical in achieving the current level of consistency and quality in the delivery of member services. The division audited over 16,000 work objects for accuracy, evaluated multiple workflow processes for efficiency, and documented detailed procedures.

Corporate Governance Reform — The Board of Investments is active in pursuing corporate governance reform to reduce the opportunities for corporate fraud and maximize shareholder value. This fiscal year, a Corporate Governance Committee was formed to advise the Board on corporate governance issues and initiatives. The Board adopted Corporate Governance Principles and updated LACERA's Proxy Voting Guidelines.

Privacy, Confidentiality and Data Security

LACERA is committed to protecting the privacy of its members. This fiscal year, in compliance with the Health Information Portability and Accountability Act (HIPAA), LACERA developed and implemented its Privacy Policy, which ensures the confidentiality of personal information as well as protected health information in any format. We also ensured that our members' information remains confidential by incorporating data encryption into the processing of all outgoing data file exchanges with our service providers. In addition, LACERA developed a business continuity plan and disaster recovery plan to ensure operations would run smoothly in the future, even in the event of a disaster.

Health Care Benefits Program

- Provided medical and dental/vision plans for over 69,000 retirees or survivors and their eligible dependents, and a Long Term Care Program for nearly 3,000 participants.
- Implemented a Health Insurance Call Center in April, solely dedicated to responding to members' health insurance related phone inquiries, and answered over 9,000 telephone inquiries.
- Conducted LACERA's 11th Annual Retiree Health Fair with more than 1,600 retired members in attendance.
- Produced the annual renewal letter and insurance rate booklet, mailed to 37,000 members, and implemented the new rate tables.

Award for Outstanding Achievement in Popular Annual Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to LACERA for its Popular Annual Financial Report for the fiscal year ended June 30, 2002. The Popular Award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. LACERA has received a Popular Award for the last five consecutive years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



*The CAFR was prepared by LACERA in conformity with generally accepted accounting principles and reporting guidelines as set forth by the Government Accounting Standards Board.

Additions and Deductions to Plan Net Assets

Additions

The primary sources which finance the retirement benefits LACERA provides are accumulated through income on investments and through the collection of member (employee) and employer retirement contributions. For fiscal year 2003, primarily due to positive investment returns and steady contributions, total additions amounted to \$1,635 million. This turn in investment income was due to a slow economic recovery.

As of June 30, 2003, LACERA's market value is \$26,248 million. Although it slightly increased from the prior year, it represents a decrease of 6.4% from the prior five years. The overall slow recovery within the last five-year period is due to steady contributions by plan participants plus the portfolio's current rebound from two years of negative investment performance.

Additions to Plan Net Assets

For the Fiscal Years Ended June 30, 2003, and 2002

(Dollars in millions)

	2003	2002
Net Investment Income/(Loss)	\$ 925	\$ (1,534)
Contributions and Miscellaneous Income	710	564
Total	\$1,635	\$ (970)

Deductions

The primary uses of LACERA's assets include the payment of benefits to members and their beneficiaries, refund of contributions to terminated employees, funding the Retiree Health Care Program, and the cost of administering the Plan. These deductions for fiscal year 2003 totaled \$1,434 million and are largely due to the growth in the average amount of benefits paid to members and their beneficiaries.

The Boards of Retirement and Investments jointly approve the annual budget, which the law limits administrative expenses and represents less than 0.12% of total Plan assets.

Deductions from Plan Net Assets

For the Fiscal Years Ended June 30, 2003, and 2002

(Dollars in millions)

	2003	2002
Benefits and Refunds	\$ 1,339	\$ 1,240
Administrative and Miscellaneous Expenses	42	38
Retiree Health Care Program	53	58
Total	\$ 1,434	\$ 1,336

STAR Program

The Supplemental Targeted Adjustment for Retirees (STAR) Program is a supplemental cost-of-living benefit for retirees or their survivors who have lost 20% or more of the purchasing power of their original retirement benefit. The Board of Retirement, together with the Board of Investments, has unanimously supported the STAR Program through their annual program approval and fund appropriations. In November 2002, the Board of Retirement voted to make the 2003 STAR Program permanent at an 80% level as authorized in the California Government Code at a cost of \$18,000. A permanent STAR benefit becomes part of the member's retirement allowance and is payable for life. The STAR Program benefit costs for calendar year 2002 were \$40.1 million. Currently, over 12,000 retirees receive this benefit.

It's about progress — At LACERA, we are always conscious of improving customer service. We are aware of changing trends and times, and revise our work processes and services accordingly. This fiscal year we created new divisions and positions, implemented new processes, and expanded our services.

Investments

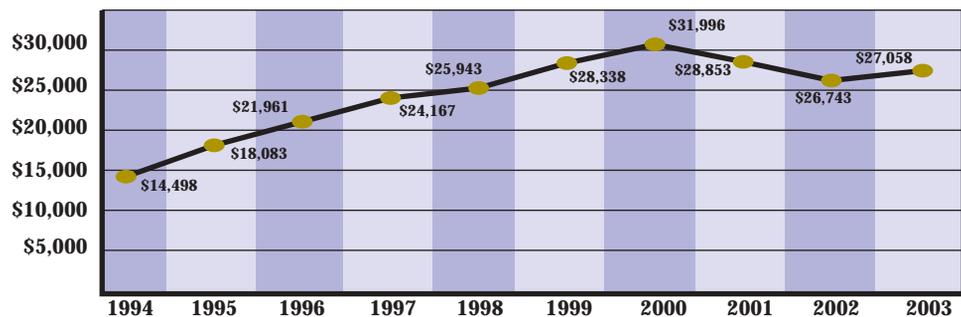
LACERA's primary investment objective is to efficiently allocate and manage the assets dedicated to the payment of future benefits. While recognizing the importance of the "preservation of capital," LACERA also adheres to the principle that degrees of investment risk are generally rewarded with compensating returns in the long run. LACERA's assets are exclusively managed by external, professional investment management firms. It is through prudent management and oversight by the LACERA Boards and staff that LACERA has become the strong \$26.2 billion, well-funded retirement association it is today.*

LACERA rebounded from two years of negative performance with a total fund return of 3.6% for the fiscal year. During the first and third quarters of the fiscal year, stocks continued their poor performance. However, a strong second quarter and superlative fourth quarter offset this underperformance. The five-year annualized return is still in positive territory with a return of 3.8%.

*\$26.2 billion = Net Assets (Total Assets minus Total Liabilities)

Growth of Investments

Ten Years Ending June 30, 2003
(Dollars in millions)

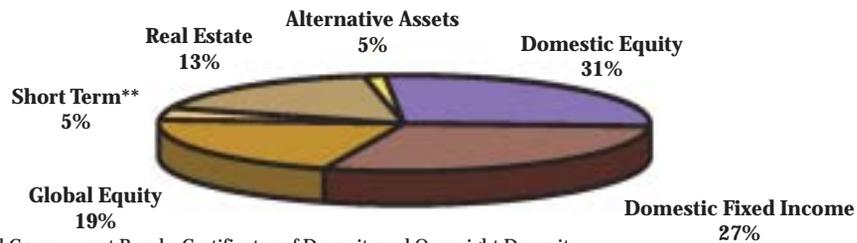


The total portfolio return, over the long term, is directed toward maintaining a fully funded status for the pension fund. Prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner that serves the best interests of LACERA's members and their beneficiaries.

In fiscal year 1997, LACERA's Board of Investments established a new set of comprehensive investment guidelines for the fund and each asset class. These guidelines, which are periodically modified, now serve as the guidepost for management of the fund.

Actual Asset Allocation

For the Year Ending June 30, 2003



**Short Term Investments may include Corporate and Government Bonds, Certificates of Deposit, and Overnight Deposits.

Funding Status

The funding status of LACERA continues to be in sound condition. The June 30, 2002 actuarial valuation determined LACERA's funding status to be 99.4%.

LACERA Membership

The following is a summary of LACERA's membership as of June 30:

	2000	2001	2002	2003
Active Members	83,204	87,069	89,252	87,760
Deferred Members	5,238	5,504	6,008	6,399
Unclaimed Accounts	19	1,239	1,141	1,348
Service Retirement	29,777	30,211	30,767	31,563
Disability Retirement	8,320	8,486	8,643	8,764
Survivors	6,531	6,699	6,830	6,906