

Securing the Future

Popular Annual Financial Report for the fiscal year ended June 30, 2004

LACERA Popular Annual Financial Report (PAFR)

This LACERA Popular Annual Financial Report (PAFR) summarizes the Comprehensive Annual Financial Report (CAFR) for fiscal years ended June 30, 2004 and 2003.* The PAFR provides only an abbreviated version of some of the note disclosures that are included in the CAFR. The PAFR is published to provide you with a general 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. The CAFR and PAFR are also both available at www.lacera.com.

Service Efforts and Accomplishments for Fiscal Year 2003-2004

PPCC Award

LACERA received the Public Pension Coordinating Council's (PPCC) Public Pension Standards 2003 Award, in recognition of meeting professional standards for plan design and administration.

Administrative Services Division

- With the Systems Division and the Internal Audit Division, successfully tested the Business Continuity Plan, a disaster recovery procedure intended to allow business to carry on in the event of a natural or other disaster.

Claims Processing Division

- During the annual March "rush" of retirements, they paid 99.3% or 798 of 804 retirees within 30 days of their retirement date.
- Developed and implemented AB 55, the Additional Retirement Credit (ARC) process, enabling members to utilize their termination pay to purchase ARC. Staff processed over 1,500 member requests and 400 ARC contracts.

Communications Division

- www.lacera.com has grown to contain over 1,100 pages, with nearly 500 new pages added this year.
- Rewrote and distributed four new 2004 Plan Brochures: Plan A and B Safety, Plan A, B, and C, Plan D, and Plan E. Developed a coordinating page on www.lacera.com to be updated when information in the plan booklets becomes outdated.

Executive Offices

- The Board of Retirement adopted a recommendation delegating authority to LACERA's Chief Executive Officer to administratively grant service retirements, expediting the retiree payroll process.

Member Services Division

- Answered approximately 136,000 telephone inquiries, 80% of which were answered in 30 seconds or less.
- Served over 11,500 members at our Public Service counter with an average wait of less than 8 minutes to see a counselor.
- Presented more than 500 workshops at LACERA, County departmental locations, and other facilities.
- Conducted 24 in-home or in-hospital counseling sessions as a service to terminally-ill members and their families.

Retiree Health Care Division

- LACERA's Health Care Program includes medical and dental/vision plans for over 72,500 retirees and their eligible dependents.
- Conducted LACERA's 12th Annual Retiree Health Fair.
- Conducted a communication program which informed LACERA members about the Medicare Prescription Drug, Improvement and Modernization Act of 2003.
- Initiated the process of extending LACERA's Health Care Benefits Program to eligible domestic partners.

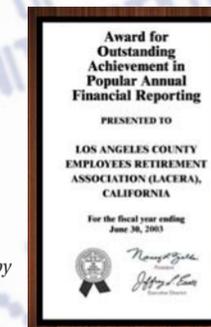
Systems Division

- Made significant updates to programs which improved the security of members' personal information, as well as expediting processes for members.
- Removed beneficiaries' Social Security numbers from Beneficiary Confirmation letters to protect confidential information.
- With the Communications Division, launched an Additional Retirement Credit (ARC) Calculator on the LACERA web site.

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, 2003. This prestigious national award recognizes 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 this award for the last six consecutive years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA for consideration.

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



Members of the Board of Retirement

CHAIR Les Robbins Elected by Safety Members Term expires 12-31-04	MEMBER Brian C. Brooks Elected by General Members Term expires 12-31-05
VICE CHAIR Simon S. Russin Elected by General Members Term expires 12-31-06	MEMBER Simon Frumkin Appointed by the Board of Supervisors Term expires 12-31-04
SECRETARY William de la Garza Elected by Retired Members Term expires 12-31-05	MEMBER William Pryor (Alternate member) Elected by Safety Members Term expires 12-31-04
MEMBER Mark J. Saladino Treasurer and Tax Collector Ex-officio Member	MEMBER Richard R. Wirth Appointed by the Board of Supervisors Term expires 12-31-06
MEMBER Sadonya Antebi Appointed by the Board of Supervisors Term expires 12-31-02*	MEMBER Vacant To be appointed by the Board of Supervisors

Members of the Board of Investments

CHAIR Sandra J. Anderson Elected by Retired Members Term expires 12-31-05	MEMBER Herman Santos Elected by General Members Term expires 12-31-06
VICE CHAIR Estevan Valenzuela Appointed by the Board of Supervisors Term expires 12-31-05	MEMBER Sol Soteras Appointed by the Board of Supervisors Term expires 12-31-04
SECRETARY Bruce Perelman Elected by General Members Term expires 12-31-05	MEMBER Larkin Teasley Appointed by the Board of Supervisors Term expires 12-31-05
MEMBER Mark J. Saladino Treasurer and Tax Collector Ex-officio Member	MEMBER Leonard Unger Appointed by the Board of Supervisors Term expires 12-31-06
MEMBER Les Robbins Elected by Safety Members Term expires 12-31-04	

Financial Report Issued by:

Marsha D. Richter
Chief Executive Officer

Gregg Rademacher
Assistant Executive Officer

Robert R. Hill
Assistant Executive Officer

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*A new appointee has not yet been named by the Board of Supervisors, therefore Ms. Antebi continues to serve on the Board.

Additions and Deductions to Plan Net Assets

The primary sources that 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 2004, total additions amounted to \$4.78 billion, primarily due to positive investment performance with a total fund return of 16.5% for the fiscal year.

The primary uses of LACERA's assets include the payment of benefits to members and their beneficiaries, the refund of contributions to terminated employees, the funding of the 401(h) portion of the Retiree Health Care Program, and the cost of administering the Plan. These deductions for fiscal year 2004 totaled \$1.55 billion and are largely due to the steady growth in the number of retired members and their beneficiaries.

The Boards of Retirement and Investments jointly approve the annual budget, which controls administrative expenses and represents approximately 0.13% of total Plan assets.

As of June 30, 2004, LACERA's market value is \$29.5 billion. Although it increased 12.3% from the prior year, it represents a decrease of 6.6% from the prior five years. The overall slow recovery within the last five year period is due to increased contributions by plan participants plus the investment portfolio's positive performance.

Additions and Deductions to Plan Net Assets

For the Fiscal Years Ended June 30, 2004 and 2003:
(Dollars in millions)

	2004	2003
Net Investment Income	\$ 4,118	\$ 925
Contributions and Miscellaneous Income	661	710
Total Additions	4,779	1,635
Benefit Payments and Refunds	1,448	1,339
Retiree Health Care Program	59	53
Administrative and Miscellaneous Expense	39	42
Total Deductions	1,546	1,434
Net Increase During the Year	3,233	201
Net Assets at Beginning of Year	26,248	26,047
Net Assets at End of Year	\$29,481	\$26,248

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 2003, the Board of Retirement voted to make permanent the 2004 STAR Program at an 80% level as authorized in the California Government Code. A permanent STAR benefit becomes part of the member's retirement allowance and is payable for life. The STAR Program benefit cost for calendar year 2003 was \$37.2 million, and is anticipated to be similar for calendar year 2004. Currently, over 12,000 retirees receive this benefit.

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 varying 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 \$29.5 billion retirement association it is today.*

For the second consecutive year, LACERA achieved positive performance with a total fund return of 16.5% for the fiscal year. The five-year annualized return of 4.5%, while improving, has not completely recovered from the recent bear market.

*\$29.5 billion = Net Assets (Total Assets minus Total Liabilities)

Growth of Investments

Ten Years Ending June 30, 2004:
(Dollars in billions)

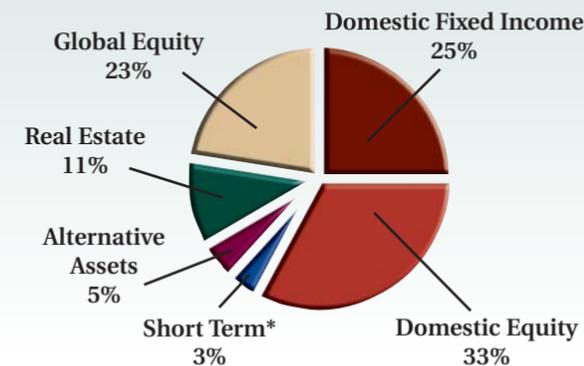


The assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the pension fund. Prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner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

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

Actual Asset Allocation

For the Year Ending June 30, 2004:



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

Funding Status

The June 30, 2003 actuarial valuation determined LACERA's funding status to be 87.2%, which decreased from the prior year's funded status of 99.4%. The decrease in the funding ratio is attributable to the smoothed recognition of recent investment income losses on the actuarial value of assets.

LACERA Membership

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

	2004	2003	2002	2001
Active Members	86,237	87,760	89,252	87,069
Deferred Members	6,559	6,394	6,008	5,504
Unclaimed Accounts	1,259	1,348	1,141	1,239
Service Retirement	32,728	31,562	30,769	30,211
Disability Retirement	8,896	8,764	8,643	8,486
Survivors	6,971	6,906	6,830	6,699