



**Los Angeles County Employees Retirement Association**

# LIFE CYCLES

A Pension Trust Fund of the County of Los Angeles, California  
 Popular Annual Financial Report for the year ended June 30, 2006

## MEMBERS OF THE BOARD OF RETIREMENT

### CHAIR

**Les Robbins**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-08

### VICE CHAIR

**Simon S. Russin**  
 Elected by  
 General Members  
 Term expires 12-31-06

### SECRETARY

**William de la Garza**  
 Elected by  
 Retired Members  
 Term expires 12-31-08

### MEMBER

**Mark J. Saladino**  
 Treasurer and Tax Collector  
 Ex-officio Member

### MEMBER

**Yves Chery**  
 Elected by  
 General Members  
 Term expires 12-31-08

### MEMBER

**Simon Frumkin**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-08

### MEMBER

**Armando Macias**  
 Alternate Member  
 Elected by  
 Safety Members  
 Term expires 12-31-07

### MEMBER

**Edward C. Morris**  
 Alternate Member  
 Elected by  
 Retired Members  
 Term expires 12-31-08

### MEMBER

**William R. Pryor**  
 Elected by  
 Safety Members  
 Term expires 12-31-07

### MEMBER

**Walta M. Smith**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-07

### MEMBER

**Richard R. Wirth**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-06

## FINANCIAL REPORT ISSUED BY:

**Marsha D. Richter**  
 Chief Executive Officer\*

**Gregg Rademacher**  
 Assistant Executive Officer

**Robert R. Hill**  
 Assistant Executive Officer

**LACERA**  
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 Pasadena, CA 91101  
 626-564-6132  
 1-800-786-6464  
 www.lacera.com

## MEMBERS OF THE BOARD OF INVESTMENTS

### CHAIR

**Estevan Valenzuela**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-08

### VICE CHAIR

**Herman Santos**  
 Elected by  
 General Members  
 Term expires 12-31-06

### SECRETARY

**Simon S. Russin**  
 Elected by  
 General Members  
 Term expires 12-31-08

### MEMBER

**Mark J. Saladino**  
 Treasurer and Tax Collector  
 Ex-officio Member

### MEMBER

**Diane A. Sandoval**  
 Elected by  
 Retired Members  
 Term expires 12-31-08

### MEMBER

**William R. Pryor**  
 Elected by  
 Safety Members  
 Term expires 12-31-07

### MEMBER

**Michael Schneider**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-07

### MEMBER

**Robert L. Spare**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-08

### MEMBER

**Leonard Unger**  
 Appointed by the  
 Board of Supervisors  
 Term expires 12-31-06

# LACERA POPULAR ANNUAL FINANCIAL REPORT (PAFR)

This LACERA Popular Annual Financial Report summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. The financial data presented in the PAFR is derived from the CAFR and consistent with generally accepted accounting principles.\* 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. For more detailed information, refer to the CAFR online at [www.lacera.com](http://www.lacera.com).

## SERVICE EFFORTS AND ACCOMPLISHMENTS FOR FISCAL YEAR 2005-2006

### Claims Processing Division

- Paid 99 percent of retirees within one payroll cycle of their retirement date during the annual March "rush."
- Placed 99 percent of survivors on payroll within one payroll cycle.
- Assisted with implementing the Ventura Decision, which enhanced benefits of over 24,000 retired members.

### Communications Division

- Introduced an innovative *New Member Guide* Package, which simplifies a new hire's retirement plan selection.
- Expanded and updated two quarterly newsletters, [lacera.com](http://lacera.com), employee intranet, and board web site.
- Collaborated with Member Services, Claims Processing, Disability, and HR on the 2006 LACERA Resource Conference.

### Disability Division

- Appointed legal advisor to assist with interpretation of disability retirement investigative process.
- Presented 20 educational seminars to County personnel and eight to Return-to-Work Coordinator Training Academies.
- Facilitated placement of 50 disability retirement applicants on permanent modified assignments, pursuant to the Salary Supplemental Allowance, resulting in applicants staying in County service.

### Internal Audit Division

- Improved operational effectiveness and efficiency.
- Increased protection of member information and enhanced protection of LACERA's assets.

### Legal Services Division

- Continued to review securities class actions to determine whether LACERA should become involved in the litigation.
- Filed an independent action in the WorldCom securities litigation and recovered \$18.7 million, more than double the recovery that would have resulted if we had remained in the class action.

### Member Services Division

- Served 13,144 members at our public counter, answered over 160,000 telephone inquiries, presented 800 workshops, and replied to 6,400 member emails and letters.
- Introduced monthly Saturday appointments for retirement counseling, monthly Saturday Pre-Retirement Workshops, and quarterly Saturday Pre-Retirement Workshops at offsite locations.

### Quality Assurance and Metrics Division

- Audited 10,742 Claims Processing and Members Services Divisions transactions.
- Trained 129 new and existing employees; presented 610 hours of classroom training.

### Retiree Health Care Division

- Under an agreement with the County of Los Angeles, LACERA administers a Health Care Benefits Program that provides medical and dental/vision benefits for more than 78,000 retirees/survivors and their eligible dependents, and a Long-Term Care Program for close to 4,200 participants.
- Mailed Medicare Part D Creditable Coverage Notice to 39,000 members.

### Systems Division

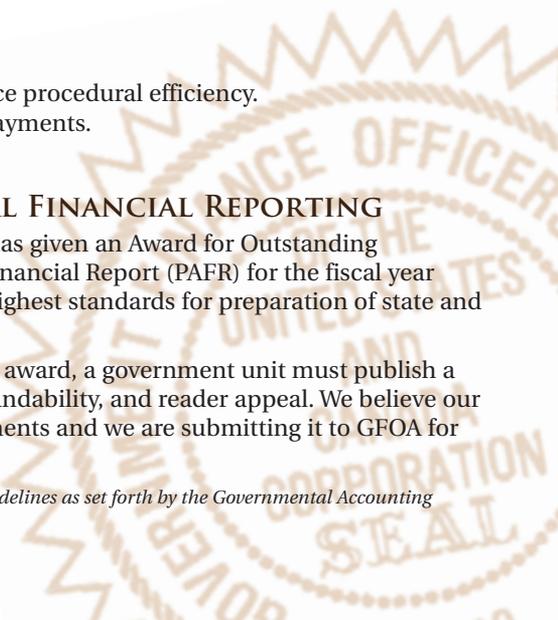
- Updated programs to increase security of sensitive member information and enhance procedural efficiency.
- Developed programs to update members' Ventura II benefits and issue lump-sum payments.

## 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 (PAFR) for the fiscal year ended June 30, 2005. This prestigious national award recognizes conformance with the highest standards for preparation of state and local government popular reports and is valid for one year.

LACERA has received a Popular Award for the last eight consecutive years. To receive this award, a government unit must publish a PAFR whose contents conform to program standards of creativity, presentation, understandability, and reader appeal. 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.





## ADDITIONS AND DEDUCTIONS TO PLAN NET ASSETS

The primary sources which finance the retirement benefits LACERA provides are investment income and the collection of member (employee) and employer retirement contributions. For fiscal year 2006, Total Additions amounted to \$5.07 billion, primarily due to positive investment performance with a total fund return of 13.0% 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 Healthcare Program, and the cost of administering the Plan. These deductions for fiscal year 2006 totaled \$1.91 billion and are largely due to the steady growth in the number of retired members and their beneficiaries. In addition, fiscal year 2006 reflects retroactive benefit payments made to members as a result of the settlement of the Ventura Litigation.

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, 2006, Net Assets Held in Trust for Pension Benefits total \$35.2 billion, an increase of \$3.16 billion, or 9.9% from the prior year.

## ADDITIONS AND DEDUCTIONS TO PLAN NET ASSETS

*For the Fiscal Years Ended June 30, 2006 and 2005:*

(Dollars in millions)

	2006	2005
Net Investment Income/(Loss)	\$ 4,092	\$ 3,396
Contributions and Miscellaneous Income	977	817
<b>Total Additions/(Declines)</b>	<b>5,069</b>	<b>4,213</b>
Benefit Payments and Refunds	(1,798)	(1,563)
Retiree Health Care Program	(66)	(62)
Administrative and Miscellaneous Expense	(45)	(43)
<b>Total Deductions</b>	<b>(1,909)</b>	<b>(1,668)</b>
<b>Net Increase/(Decrease) During the Year</b>	<b>3,160</b>	<b>2,545</b>
<b>Net Assets at Beginning of Year</b>	<b>32,026</b>	<b>29,481</b>
<b>Net Assets at End of Year</b>	<b>\$35,186</b>	<b>\$32,026</b>

## STAR PROGRAM

The Board of Retirement, together with the Board of Investments, has unanimously supported the Supplemental Targeted Adjustment for Retirees (STAR) Program, 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 made permanent the 2001 through 2004 and 2006 STAR Programs at an 80% level as authorized in the California Government Code. There were no retirees or beneficiaries entitled to additional STAR benefits for Program Year 2005 since the Consumer Price Index percentage increase was less than the statutory cost-of-living adjustment granted to contributory members and all eligible members had cost-of-living adjustment accumulation accounts below the 20% threshold for providing STAR benefits. 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 2005 was \$31.9 million, and is anticipated to be similar for calendar year 2006. Currently, about 9,000 retirees receive this benefit.

## INVESTMENTS

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

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



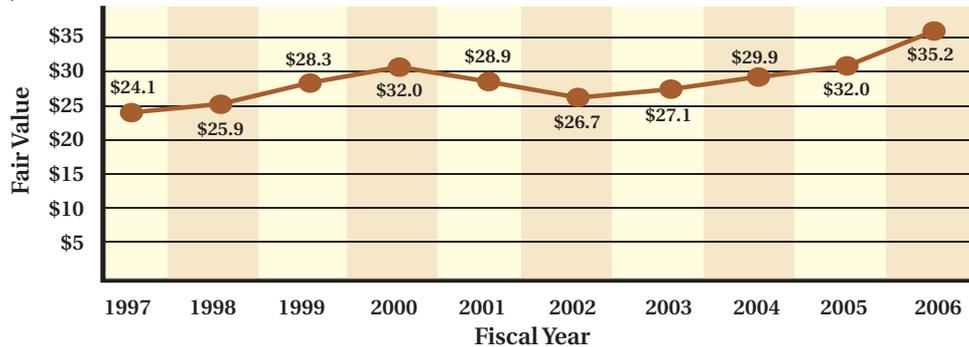
A pension fund's strategic asset allocation policy is generally recognized to have the most impact on a fund's investment performance. The Board implements the asset allocation policy plan by hiring passive and active investment managers to invest assets on LACERA's behalf, subject to investment guidelines incorporated into each firm's investment management contract.

Overall, favorable market conditions enabled LACERA to generate a 13.0% return for the fiscal year ended June 30, 2006. This was the fourth consecutive fiscal year in which LACERA's total fund generated a positive return, subsequent to the market correction experienced earlier this decade. Against this backdrop, LACERA's ten-year return remains strong at 9.1%.

## GROWTH OF INVESTMENTS

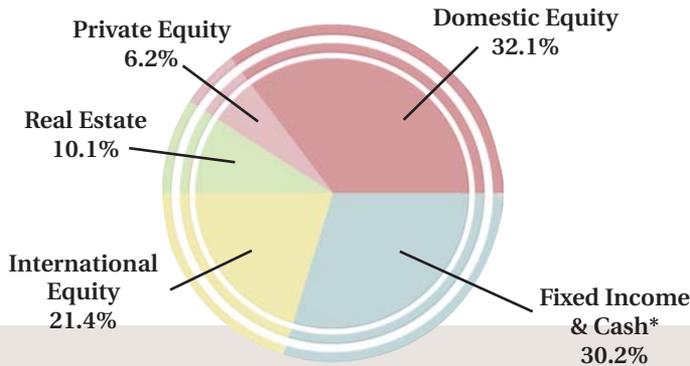
Ten Years Ending June 30, 2006:

(Dollars in billions)



## ACTUAL ASSET ALLOCATION

As of June 30, 2006:



## FUNDING STATUS

LACERA's independent actuary, Milliman, Inc., performed an actuarial valuation as of June 30, 2005 and determined that LACERA's funding ratio of actuarial assets to the actuarial accrued liability is 85.8%, which increased from the prior year's funded status of 82.8%. LACERA's investment returns have exceeded the assumed rate of 7.75% over the past two years. These investment gains led to an improvement in the system's funding status and a reduction in the required County contribution rate. It is the actuary's opinion that LACERA continues in sound financial condition as of June 30, 2005.

\*Cash may include short term investments such as Corporate and Government Bonds, Certificates of Deposits, and Overnight Deposits.

## LACERA MEMBERSHIP

The following is a summary of LACERA's membership as of June 30, 2006:

	2006	2005	2004	2003
Active Members	88,631	86,384	86,235	87,760
Inactive (Deferred) Members	7,459	6,980	6,559	6,394
Unclaimed Accounts	1,152	1,216	1,259	1,348
Service Retirement	34,594	33,721	32,465	31,562
Disability Retirement	9,064	8,995	8,896	8,764
Survivors	7,200	7,137	6,971	6,906