



LA/CERA

Los Angeles County Employees Retirement Association



Retirement - The Big Picture



2007

POPULAR ANNUAL FINANCIAL REPORT

**A Pension Trust Fund of the County of Los Angeles, California
Popular Annual Financial Report for the year ended June 30, 2007**

This LACERA Popular Annual Financial Report (PAFR) summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. The financial data presented in the PAFR is derived from the CAFR and is consistent with generally accepted accounting principles.* The PAFR is published to provide 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.

Service Efforts and Accomplishments for Fiscal Year 2006-2007

Administrative Services Division:

- Administrative Services Document Processing Center (DPC) scanned, indexed, and provided same-day processing on 200,000 documents (500,000 pages of member information).
- DPC processed 375,000 mail pieces, including 120,000 responses to member inquiries.
- Implemented the MIR3 Emergency Notification System to maintain business continuity during a disaster or other business disruption.

Claims Processing Division:

- Processed 52,566 member requests covering membership enrollment, retirement benefit enhancements, prior service credit purchases, retirement estimates, pension allowance, and survivor benefits.
- Initiated Phase 1 of the special Board of Retirement - approved project to correct and update membership date and service credit for certain Plan E accounts initiated between 1982 and 1991.
- Implemented new payment options for service credit purchases under the Pension Protection Act of 2006 (PPA) and processed an additional 3,527 requests to purchase service credit.
- Processed 2,323 members to the retiree payroll and paid 98% of them within one payroll cycle.

Communications Division:

- Produced quarterly newsletters; *Spotlight on Retirement*, and *PostScript* for active members, and specialized mailings: PPA: PSO, Bugh, and Talbot.



- Originated a web site for County HR Professionals and continued to expand our other web sites: lacera.com, intranet, board, and KBase online help.
- Created a new *Pre-Retirement Guide*, detailing strategies for maximizing retirement benefits and the process of retirement.
- Collaborated with Member Services, Claims Processing, Disability, and Human Resources (HR) to present the third annual Countywide LACERA Resource Conference for HR Professionals.

Disability Division:

- Processed and presented 371 disability applications to the Board of Retirement.
- Presented 20 educational and training seminars to County personnel on procedures for processing disability retirement applications.
- Appeared as presenters at 15 County Return-to-Work Coordinator Training Academies sponsored by the County Chief Executive Office.
- Facilitated the placement of 25 disability retirement applicants on permanent modified assignments, pursuant to the Salary Supplement Allowance.

Internal Audit:

- Provided recommendations which resulted in:
 - Improved operational effectiveness and efficiency.
 - Increased protection of member information.
 - Reduced exposure to losses.
- Implemented a revised risk assessment process to assist in evaluating risks and determine the allocation of audit resources to the organization.

Legal Office:

- The Legal Office continues to aggressively pursue the recovery of losses suffered as a result of incidents of corporate corruption and fraud.
- As a result of our earlier strategy to opt out of the WorldCom class action and pursue an individual action on behalf of the retirement fund, we recently obtained additional recoveries of approximately \$1 million from the WorldCom Victims' Trust Fund and \$31,000 from former WorldCom CEO, Bernard Ebbers. This brings LACERA's total WorldCom recovery to





date to nearly \$20 million, more than double the amount the fund would have recovered by participating in the class action.

- The Legal Office continues to prosecute independent securities fraud cases involving Adelphia Communications, Motorola, and Scientific-Atlanta.

Member Services Division:

- Served 12,564 members at our public counter.
- Answered approximately 130,000 telephone inquiries from members.
- Presented over 800 workshops serving over 22,000 people at more than 281 different locations throughout the County.
- Processed and/or replied to approximately 5,300 member emails and letters.
- Added additional Spanish bilingual support to our Call Center.
- Created a new Member Services Academy training program for new hires.
- Rolled out the new PPA: Public Safety Officer \$3,000 Health Care Tax Benefit for eligible retirees in conjunction with other divisions.

Quality Assurance & Metrics Division:

- Audit of 10,098 Claims Processing and Members Services Divisions transactions.
- Addition of six business process procedures posted on the LACERA Intranet.
- Retirement benefits training of 28 new, and existing employees; 1,095 total hours of classroom and computer instruction.

Retiree Health Care Division:

- Administered a Health Care Benefits Program that provided medical and dental/vision benefits for over 40,000 retirees/survivors and their eligible dependents.
- Mailed the annual letter and insurance rate booklet, and the Medicare Part D Creditable Coverage Notice to over 40,000 members.
- Implemented the Medicare Part D Retiree Subsidy Program for the LACERA-administered Health Care Benefits Program.
- Presented LACERA's 16th Annual Retiree Health Fair.
- Implemented the actuarial reporting of post-employment benefits within the LACERA-administered Health Care Benefits Program, in accordance with the Governmental Accounting Standard Board (GASB) Statements No. 43 and 45.

Systems Division:

- Instituted Social Security Number (SSN) barcode encryption to comply with HIPPA regulations and safeguard member privacy.
- Prepared numerous data files for LACERA's outside actuary, in compliance with GASB standards.
- Began development of online Plan E ARC calculator to coincide with July 1, 2007 introduction of Plan E ARC.
- Created web application to allow registered users of "My LACERA" to generate their own online Retirement Benefit Estimates.

*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 Pension 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 2007, Total Additions amounted to \$7.59 billion, primarily due to positive investment performance with a total fund return of 19.1% 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, and the cost of administering the Plan. These deductions for fiscal year 2007 totaled \$1.84 billion.

In fiscal year 2007, \$29 million in pension assets were transferred to the Other Post-Employment Benefit (OPEB) Agency Fund. This transfer was \$37 million less than the prior year, or a decrease of 56.1%.

The Boards of Retirement and Investments jointly approve the annual budget, which controls administrative expenses and represents approximately 0.11% of total Plan assets.

As of June 30, 2007, Net Assets Held in Trust for Pension Benefits total \$40.9 billion, an increase of \$5.72 billion, or 16.3% over the prior year.

Additions and Deductions to Pension Plan Net Assets

For the Fiscal Years Ended June 30, 2007 and 2006:

(Dollars in millions)

	2007	2006
Net Investment Income/(Loss)	\$ 6,487	\$ 4,092
Contributions and Miscellaneous Income	1,101	975
Total Additions/(Declines)	7,588	5,067
Benefit Payments and Refunds	(1,793)	(1,798)
Administrative and Miscellaneous Expense	(44)	(43)
Total Deductions	(1,837)	(1,841)
Transfer to OPEB Agency Fund	(29)	(66)
Net Increase/(Decrease) During the Year	5,722	3,160
Pension Plan Net Assets at Beginning of Year	35,186	32,026
Pension Plan Net Assets at End of Year	\$40,908	\$35,186





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 2007 STAR Programs, except for Program Year 2005, at an 80% level as authorized in the California Government Code. There were no new retirees or beneficiaries entitled to additional STAR benefits for Program Year 2005 due to the modest Consumer Price Index percentage increase. In addition, all eligible members had cost-of-living adjustment accumulation accounts below the 20% threshold for providing STAR benefits for that program year. 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 2006 was \$29.9 million and is anticipated to be similar for calendar year 2007. 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 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.

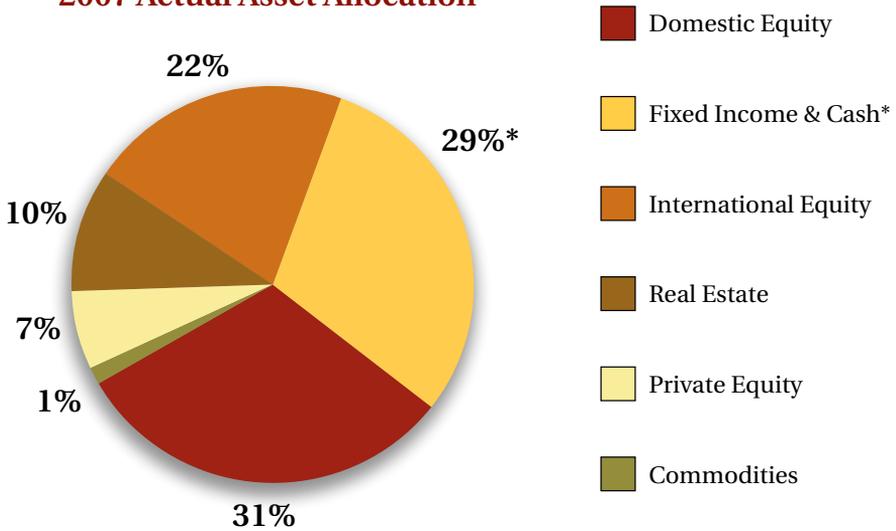
The Board has adopted an Investment Policy Statement which provides a framework for the management of LACERA's investments. This Statement



establishes LACERA's investment policies and objectives and defines the principal duties of the Board, investment staff, investment managers, master custodian, and consultants.

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 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.

2007 Actual Asset Allocation

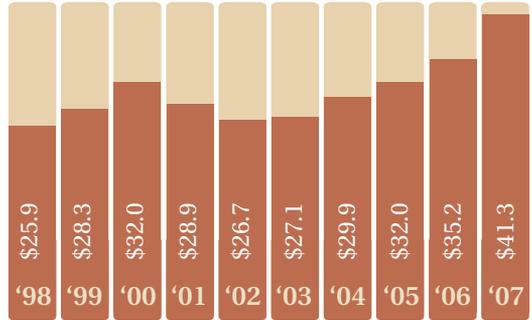


*Cash may include short-term investments such as Corporate and Government Bonds, Certificates of Deposit, and Overnight Deposits.

Both public and private markets performed well during the fiscal year ended June 30, 2007. As a result, LACERA's total fund generated a 19.1% gross of fee return for this period. This was the fifth consecutive fiscal year in which LACERA's total fund generated a positive return, subsequent to the market correction experienced earlier this decade. As a result, LACERA's ten-year return remains strong at 8.4%.

Growth of Investments

Ten Years Ending June 30, 2007:
(Dollars in billions)



Funding Status

In order to determine whether Pension Plan Net Assets will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are 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 members and the County of Los Angeles are needed to pay all expected future benefits.

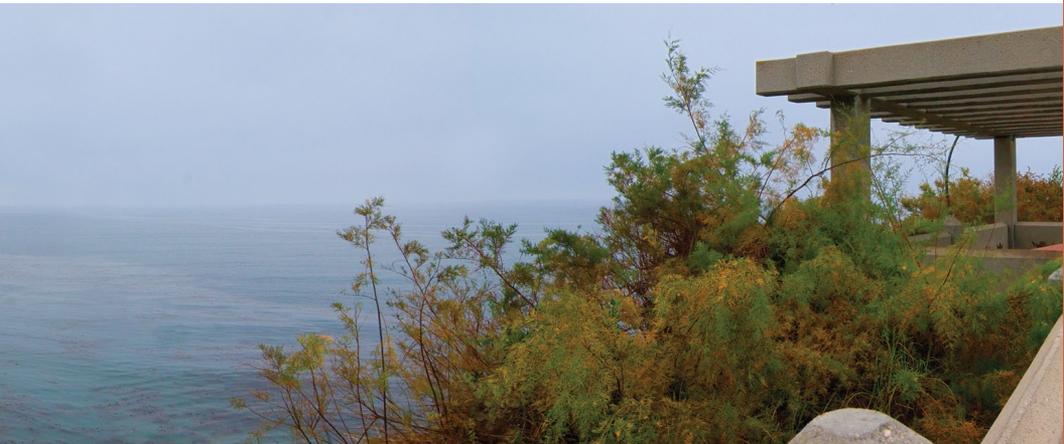


LACERA's independent actuary, Milliman, Inc., performed an actuarial valuation as of June 30, 2006 and determined LACERA's funding ratio of actuarial assets to the actuarial accrued liability is 90.5%, an increase over the prior year's funded status of 85.8%. LACERA's investment returns have exceeded the assumed rate of 7.75% over the past three 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, 2006.

LACERA Membership

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

	2007	2006	2005	2004
Service Retirement	34,965	34,594	33,721	32,465
Disability Retirement	9,045	9,064	8,995	8,896
Survivors	7,382	7,200	7,137	6,971
Total Retired Members	51,392	50,858	49,853	48,332
Active Members	92,096	88,631	86,384	86,235
Terminated Vested/Deferred	7,911	7,459	6,980	6,559
Total Membership	151,399	146,948	143,217	141,126
Unclaimed Accounts	1,129	1,152	1,216	1,259



Retirement—The Big Picture

We all have a unique vision of retirement - start a new business venture, indulge hobbies, further education, travel the world, spend more time with family or just slow down and enjoy life. The big picture of retirement can be a fluid goal. However, in discussions of retirement goals, one constant emerges - the need for security. LACERA is in business to fulfill that need; it is our duty to insure our members receive the lifetime benefits promised in their LACERA defined benefit retirement plans.



Gregg Rademacher
Chief Executive Officer

We assist members throughout their careers in solidifying their vision of retirement and identifying the most advantageous strategies available to maximize their retirement. Our extensive program of educational services includes New Member, Mid-Career, and Pre-Retirement Workshops and personal counseling with LACERA Retirement Benefits Specialists. We also provide a wealth of informative print and web materials.

Many teams of professionals contribute to our success. 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.

Please review our fiscal year 2006-2007 accomplishments.

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, 2006. 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 nine 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.

Members of the Board of Retirement

CHAIR

Les Robbins

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

MEMBER

Mark J. Saladino

Treasurer and Tax Collector
Ex-officio Member

MEMBER

Armando Macias

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

MEMBER

Walta M. Smith

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

VICE CHAIR

Simon S. Russin

Elected by General Members
Term expires 12-31-09

MEMBER

Yves Chery

Elected by General Members
Term expires 12-31-08

MEMBER

Edward C. Morris

Alternate Member
Elected by Retired Members
Term expires 12-31-08

MEMBER

Sadonya Antebi

Appointed by the
Board of Supervisors
Term expires 12-31-09

SECRETARY

William de la Garza

Elected by Retired Members
Term expires 12-31-08

MEMBER

Simon Frumkin

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

MEMBER

William R. Pryor

Elected by Safety Members
Term expires 12-31-07

Members of the Board of Investments

CHAIR

Michael Schneider

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

MEMBER

Mark J. Saladino

Treasurer and Tax Collector
Ex-officio Member

MEMBER

Herman Santos

Elected by General Members
Term expires 12-31-09

VICE CHAIR

William R. Pryor

Elected by Safety Members
Term expires 12-31-07

MEMBER

Paul C. Hudson

Appointed by the
Board of Supervisors
Term expires 12-31-09

MEMBER

Robert L. Spare

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

SECRETARY

Simon S. Russin

Elected by General Members
Term expires 12-31-08

MEMBER

Diane A. Sandoval

Elected by Retired Members
Term expires 12-31-08

MEMBER

Estevan Valenzuela

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

Financial Report Issued by:

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ASSISTANT EXECUTIVE OFFICER

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ASSISTANT EXECUTIVE OFFICER

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