Los Angeles County Employees Retirement Association

Schedule of Employer Allocations and
Schedule of Pension Amounts by Employer
As of and for the Year Ended June 30, 2019
With Independent Auditor's Report

Member Reporting Period: June 30, 2020

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Independent Auditor's Report

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

We have audited the accompanying schedule of employer allocations of Los Angeles County Employees Retirement Association (LACERA) as of and for the year ended June 30, 2019 and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources (excluding contributions made subsequent to June 30, 2019), total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of LACERA as of and for the year ended June 30, 2019 and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities in the Los Angeles County Employees Retirement Association defined benefit pension plan as of and for the year ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note (2) to the schedules, the schedules include investments that are part of the calculation of the net pension liability, which are valued at $14,145,366,000 (24 percent of net position) at June 30, 2019, 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.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of LACERA as of and for the year ended June 30, 2019, and our report thereon, dated October 11, 2019, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of LACERA's management, the boards of retirement and investments, LACERA employers, and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

Southfield, Michigan
May 15, 2020

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Defined Benefit Pension Plan

Schedule of Employer Allocations

As of and for the year ended June 30, 2019

Amounts rounded to nearest thousand

	Measurement Date June 30, 2019				
Employer	Actual Employer Contribution (1)	Employer Contribution Percentage	Adjusted Contribution Percentage	Employer Proportion	Employer Net Pension Liability
Los Angeles County	$ 1,605,150,000	96.22331%	96.22331%	96.22331%	$ 11,560,668,000
Los Angeles County Superior Court	62,875,000	3.76914%	3.76914%	3.76914%	452,840,000
South Coast Air Quality Management District	-	0.00000%	0.00000%	0.00000%	-
Los Angeles County Office of Education	-	0.00000%	0.00000%	0.00000%	-
Local Agency Formation Commission	119,000	0.00713%	0.00713%	0.00713%	857,000
Little Lake Cemetery District	7,000	0.00042%	0.00042%	0.00042%	50,000
Total	$ 1,668,151,000	100%	100%	100%	$ 12,014,415,000

(1) Employer contributions exclude any pickup contributions and include contributions from the Metropolitan Transportation Authority (MTA). Our understanding is that the MTA is a nonemployer contributing entity that is not in a special funding situation. We have considered contributions from the MTA as a county contribution in the above table.

See accompanying Notes to the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Schedule of Pension Amounts by Employer

As of and for the year ended June 30, 2019

Amounts rounded to nearest thousand

		Deferred Outflows of Resources				Deferred Inflows of Resources				Pension Expense Excluding That Attributable to Employer-Paid Member Contributions		
Employer Name	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Changes of Assumptions	Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences between Expected and Actual Economic Experience	Differences Between Projected and Actual Plan Investment Earnings	Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Allocable Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	Total Pension Expense Excluding That Attributable to Employer-Paid Member Contributions
Los Angeles County	$ 11,560,668,000	$ 646,597,000	$ 1,852,233,000	$ 36,818,000	$ 2,535,648,000	$ 504,419,000	$ 42,135,000	$ -	$ 546,554,000	$ 2,275,656,000	$ 10,295,000	$ 2,285,951,000
Los Angeles County Superior Court	452,840,000	25,328,000	72,553,000	-	97,881,000	19,758,000	1,650,000	36,848,000	58,256,000	89,139,000	(10,312,000)	78,827,000
South Coast Air Quality Management District	-	-	-	25,000	25,000	-	-	-	-	-	8,000	8,000
Los Angeles County Office of Education	-	-	-	-	-	-	-	-	-	-	-	-
Local Agency Formation Commission	857,000	48,000	137,000	133,000	318,000	37,000	3,000	146,000	186,000	169,000	3,000	172,000
Little Lake Cemetery District	50,000	3,000	8,000	21,000	32,000	2,000	-	3,000	5,000	10,000	6,000	16,000
Total for All Employers	$ 12,014,415,000	$ 671,976,000	$ 1,924,931,000	$ 36,997,000	$ 2,633,904,000	$ 524,216,000	$ 43,788,000	$ 36,997,000	$ 605,001,000	$ 2,364,974,000	$ -	$ 2,364,974,000

See accompanying Notes to the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer.

Amounts rounded to nearest thousand

(1) Plan Description

Los Angeles County Employees Retirement Association (LACERA) administers a cost-sharing multiple-employer defined benefit pension plan for Los Angeles County and its affiliated 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. For additional information, please refer to the Comprehensive Annual Financial Report, which can be found on LACERA's website at www.LACERA.com.

Plan benefits are specified in and provided to members based on the California Constitution, the County Employees Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act (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. Benefits are provided to members of the plan based on the provisions of PEPRA.

(2) Basis of Presentation and Significant Accounting Principles

The Schedule of Employer Allocations and Schedule of Pension Amounts by Employer presents amounts that are elements of the financial statements of the plan or of its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the plan or its participating employers. The accompanying schedules were prepared in accordance with the full accrual basis of accounting under accounting principles generally accepted in the United States of America. 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.

The preparation of these schedules requires management of LACERA to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

The plan net position, which is part of the calculation of the net pension liability (per Note (4)), includes investments valued at $14,145,366,000 (24 percent of net position) at June 30, 2019, 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.

(3) Allocation Methodology

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in the plan to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The employer allocation percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer are based on the ratio of each employer's contribution to the plan's total employer contributions during the measurement period July 1, 2018 through June 30, 2019.

(3) Allocation Methodology (Continued)

Total contribution per the Schedule of Employer Allocations and per the LACERA audited financial statements for the year ended June 30, 2019 is $1,668,151,000.

(4) Collective Net Pension Liability

The components of the collective net pension liability of the participating employers at June 30, 2019 are as follows:

Total pension liability	$ 70,309,252,000
Plan fiduciary net position	(58,294,837,000)
Net pension liability	$ 12,014,415,000

Actuarial Assumptions

The collective net pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2018, with updated procedures used to roll forward the total pension liability to June 30, 2019. This actuarial valuation used the following actuarial assumptions:

Inflation	2.75 percent
General wage growth	3.25 percent
Projected salary increases	3.51 percent to 11.51 percent
Projected COLAs	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. 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.
Investment rate of return	7.38 percent, compounded annually, net of investment expense

Mortality rates were based on the RP-2014 Healthy and Disabled Annuitant mortality tables and included projection for expected future mortality improvement using the MP-2014 Ultimate Projection Scale.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2016.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) 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 and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table. The asset class return assumptions are presented on a real basis, after the effects of inflation, and all assumptions incorporate a base inflation rate assumption of 2.75 percent.

(4) Collective Net Pension Liability (Continued)

Long-term Expected Rate of Return (Continued)

Asset Class	Target Allocation		Weighted Average Long-Term Expected Real Rate of Return (After Expected 2.75% Inflation Rate) (Geometric)	
Growth	**47.0%**		**6.5%**	
Global Equity		35.0%		5.7%
Private Equity		10.0%		7.1%
Opportunistic Real Estate		2.0%		6.2%
Credit	**12.0%**		**3.4%**	
High Yield Bonds		3.0%		3.6%
Bank Loans		4.0%		3.3%
Emerging Market Bonds (Local)		2.0%		2.5%
Illiquid Credit		3.0%		3.2%
Real Assets and Inflatio	**17.0%**		**3.8%**	
Core and Value Added Real Estate		7.0%		3.2%
Natural Resource and Commodities		4.0%		4.4%
Infrastructure		3.0%		4.1%
TIPS		3.0%		0.8%
Risk Reduction & Mitig	**24.0%**		**1.4%**	
Investment Grade Bonds		19.0%		1.1%
Diversified Hedge Fund Portfolio		4.0%		2.8%
Cash Equivalents		1.0%		0.1%

Single Discount Rate

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 .13 percent, gross of administrative expenses.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability calculated using a discount rate of 7.38 percent, as well as what the collective 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:

	1% Decrease (6.38%)	Current Discount Rate (7.38%)	1% Increase (8.38%)
Collective net pension liability	$21,470,992,000	$ 12,014,415,000	$ 4,195,027,000

(5) Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2019:

	Year of Deferral	Amortization Period (years)	Beginning of Year Balance	Additions	Deductions	End of Year Balance
Deferred Outflow of Resources:						
Difference between expected and actual experience	2019	8	$ -	$ 502,989,000	$ 62,874,000	$ 440,115,000
	2018	8	270,505,000	-	38,644,000	231,861,000
Subtotal			270,505,000	502,989,000	101,518,000	671,976,000
Difference between projected and actual earnings on pension plan investments	2019	5	-	948,757,000	189,751,000	759,006,000
	2016	5	1,440,780,000	-	720,390,000	720,390,000
	2015	5	323,373,000	-	323,373,000	-
Subtotal			1,764,153,000	948,757,000	1,233,514,000	1,479,396,000
Changes of assumptions	2017	8	2,309,918,000	-	384,987,000	1,924,931,000
Subtotal			2,309,918,000	-	384,987,000	1,924,931,000
Total Deferred Outflows of Resources			$ 4,344,576,000	$ 1,451,746,000	$ 1,720,019,000	$ 4,076,303,000
Deferred Inflows of Resources						
Difference between expected and actual experience	2017	8	$ 35,630,000	$ -	$ 5,938,000	$ 29,692,000
	2016	8	273,149,000	-	54,630,000	218,519,000
	2015	8	368,006,000	-	92,001,000	276,005,000
Subtotal			676,785,000	-	152,569,000	524,216,000
Difference between projected and actual earnings on pension plan investments	2018	5	684,257,000	-	171,064,000	513,193,000
	2017	5	1,514,987,000	-	504,996,000	1,009,991,000
Subtotal			2,199,244,000	-	676,060,000	1,523,184,000
Total Deferred Inflows of Resources			$ 2,876,029,000	$ -	$ 828,629,000	$ 2,047,400,000

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized (amortized) in pension expense as follows:

Years Ending June 30		
2020	$	568,017,000
2021		(152,372,000)
2022		352,620,000
2023		615,691,000
2024		480,561,000
Thereafter		164,386,000
Total	$	2,028,903,000

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is eight years for the 2019, 2018, 2017, 2016, 2015, and 2014 amounts.

(6) Pension Expense

The components of allocable pension expense for the year ended June 30, 2019 (excluding employer specific pension expense for changes in proportion) are as follows:

Service cost	$ 1,239,396,000
Interest on the total pension liability	4,916,804,000
Member contributions	(635,415,000)
Projected earnings of plan investments	(4,112,375,000)
Net miscellaneous income	(5,626,000)
Administrative expense	70,800,000
(Amortization) recognition of deferred outflows and inflows of resources:	
Difference between expected and actual experience	(51,051,000)
Difference between projected and actual earnings on pension plan investments	557,454,000
Changes of assumptions	384,987,000
Total	$ 2,364,974,000

(7) Subsequent Events

Subsequent to year-end, LACERA's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.