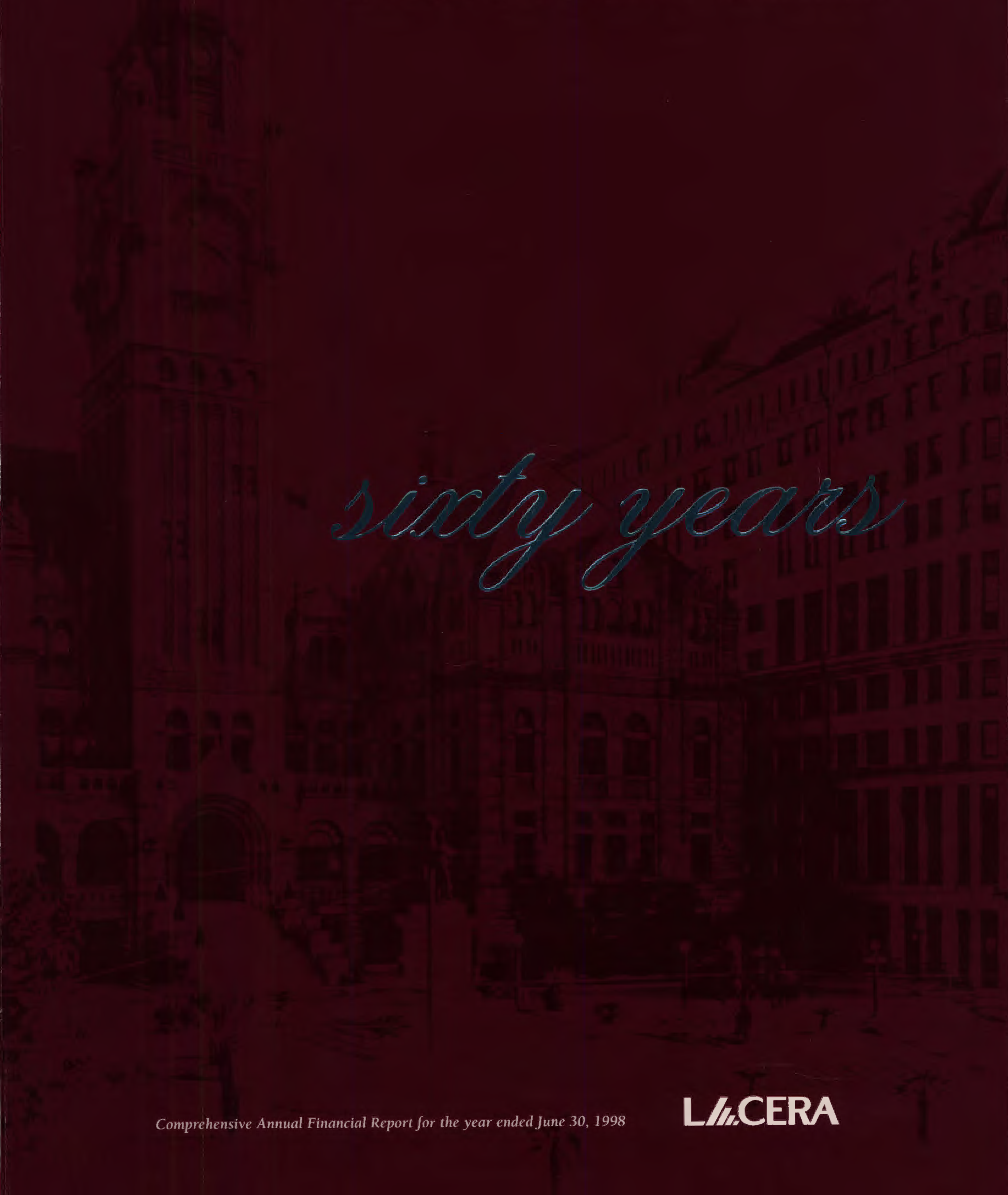
Los Angeles County Employees Retirement Association

A Pension Trust Fund of the County of Los Angeles, California



sixty years

Comprehensive Annual Financial Report for the year ended June 30, 1998

LACERA

LACERA'S MISSION STATEMENT

To promote, enhance and efficiently administer a financially sound program of earned retirement and health benefits for active and retired Association members and beneficiaries, through the prudent investment and conservation of plan assets. LACERA exists for the sole purpose of providing benefits to our members with the goals of maximizing member service, minimizing employer contributions and assisting participating employers in the recruitment and retention of qualified employees.

Cover Photo:
Los Angeles County Courthouse and Hall of Records, 1930s.
Part of the Security Pacific Historical Photo Collection at the Los Angeles Public Library.

Timeline:
Architectural photographs provided by LACERA staff photographer Michael Prihoda.

Los Angeles County Employees
Retirement Association

A Pension Trust Fund of the
County of Los Angeles, California

Comprehensive Annual Financial Report
for the years ended June 30, 1998 and 1997

Issued by:

MARSHA D. RICHTER
Chief Executive Officer

GREGG RADEMACHER
Assistant Executive Officer

300 N. Lake Avenue
Pasadena, CA 91101

Certificate of Achievement

for Excellence in Financial Reporting

Presented to

Los Angeles County Employees Retirement Association, California

For its Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Douglas R Ellsworth

President

Jeffrey L. Esser

Executive Director

Table of Contents

Sixty Years of Progress

Progress. It begins with an idea. Often, a series of events occur which demand that the original idea submit to many changes before its perceived outcome is truly realized. Indeed, it is this series of changes that must take place if an organization is to move forward. This year, LACERA celebrated its 60th birthday. As with any 60-year-old organization, we have experienced many changes. We call it, Progress.

In 1938, LACERA was established as a retirement system under a new state law known as the County Employees Retirement Law of 1937. But even before the 1937 law, there was a retirement organization providing benefits to Los Angeles County employees. In 1925, the organization serviced 3,300 members of which 32 were retirees. The total paid annual benefit was $5,700 (an annual average of $178 per retiree or $15 per month). There were assets of $614,000 on deposit with 97% invested in bonds and the remaining 3% in cash and short-term investments.

One year after being in existence as the Los Angeles County Employees Retirement Association, membership increased to 12,000, with 38 retirees. Even though this was the time of the Great Depression, LACERA paid these 38 retirees $15,000 a year or $400 apiece. Assets were already $6 million with 76% invested in bonds and 24% in cash, short-term investments, and receivables.

In 1958, LACERA membership totaled 32,000 which included 4,000 retirees. As you can see, in that

1938

The Los Angeles County Criminal Courts building (right) was built on the same site as the old County Court House and Hall of Records pictured on the front cover. A new Hall of Records came later in 1962.

US Ninth Circuit Court of Appeals, converted in 1943 to an army hospital by the federal government, was formerly the Vista del Arroyo Hotel, a Pasadena landmark. It was the preferred winter resort for generations of wealthy vacationing easterners.

Los Angeles Memorial Coliseum, site of the 1932 and 1984 Olympics, the first Super Bowl game, and former home stadium to two NFL football teams, still remains the venue of choice for many sell out performances.

1948

twenty-year time span we had grown tremendously. The total paid annual benefit was $7.7 million. Our assets grew to $213 million with 89% invested in bonds, and 11% in cash and real estate.

In 1970, there were 67,000 members and 11,000 retirees with a total of $38 million in paid annual benefits. Assets had reached $1 billion. By this time LACERA investments had been diversified: 2% in cash, 57% in bonds, 12% in stocks, 18% in real estate, and 11% in mortgages. In 1972, LACERA initiated a major expansion in its benefit programs by offering group medical insurance for retirees. Another milestone of 1972 was the establishment of the Board of Investments.

In 1977, the Board of Investments adopted an amortization period of 30 years to pay off LACERA's unfunded liability. The 1977 Actuarial Valuation estimated the unfunded liability to be $2.8 billion. The goal of becoming a fully funded retirement system became a guiding principle for LACERA. Active membership did not increase significantly between 1972 and 1978, but the number of retirees doubled, reaching 21,000. Total benefits paid for the year were $113 million, and our assets climbed to $2.4 billion.

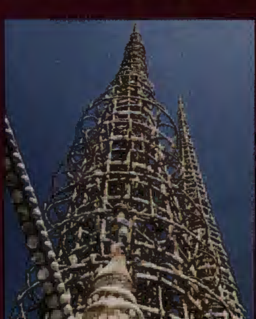
In 1982, the County agreed to subsidize retiree health insurance. Under this agreement, which is still in effect today, retirees with 25 years of service are entitled to a full subsidy of their insurance costs if they are enrolled in the LACERA indemnity medical plan.

1958

The Biltmore Hotel in downtown Los Angeles opened in 1923, resplendent with crystal and gold chandeliers and breathtaking design throughout. Major renovation projects over the years have returned the hotel to its former elegance.

Angels Flight, one of the original people movers of downtown LA, was placed in temporary storage in 1968 to make way for the Bunker Hill expansion. In 1996, a renovated Angels Flight was put in motion just south of its original location, again, making the up-and-down hill commute easier for pedestrians.

The Watts Towers, located in the small community of Watts in LA, was the mastermind of Italian immigrant and folk artist Simon Rodia. Although he began construction on his masterpiece in 1921, Rodia did not consider it complete until 1954.



1968

In 1984, Proposition 21 passed which eliminated statutory limitations on how LACERA could invest the retirement funds. This change allowed an acceleration in the accumulation of assets. One consequence of this change was the liquidation of our investments in County property. We took those assets and invested them in other ways. This was also the year the Board of Investments adopted its first formal investment policy. Clearly, LACERA was on its way to becoming a more sophisticated, self-reliant organization.

In 1986, an independent LACERA was created with the hiring of a Retirement Administrator under whose leadership the Association became accountable to the governing boards of the retirement system, rather than the County Treasurer.

In 1989, the STAR COLA Program (Supplemental Targeted Adjustment for Retirees Cost-of-Living Adjustment) was approved by the Board of Retirement. The STAR COLA program was created to provide essential inflationary relief to eligible retirees who had lost 25% or more of the purchasing power of their original retirement allowance. To date, $440 million in additional benefits has been paid annually to retirees through the STAR COLA program.

In 1991, LACERA moved to its new headquarters located in Pasadena, California. In 1994, LACERA and the County approved the Retirement System Funding Agreement, under which the County paid

Los Angeles County Department of Public Works is housed in this mirrored square building which, depending on one's approach, appears to be placed on a pedestal. It was formerly the Western Regional Headquarters of the Sears & Roebuck Company.

Metropolitan Transit Authority (MTA) no longer needs to lease office space in other downtown buildings. Since moving its headquarters to this 27 story tower adjacent to Union Station in 1995, the hub of LA's transit system is finally complete.

1978

The City of Long Beach, an ongoing work of art with its spectacular shoreline views and eclectic mix of architectural structures, has seen many fast-paced cars race through its downtown streets as it plays host to the annual Long Beach Grand Prix.

LACERA's unfunded liability bringing the Association to a fully funded status.

As of June 30, 1998, LACERA had nearly 124,000 members and beneficiaries, and paid annual benefits of $928 million. Assets totaled $25.9 billion, which were invested 34% in bonds, 50% in stocks, 4% in short-term investments, 9% in real estate, and 3% in alternative assets. All assets are managed on a total return basis with a long-term objective of achieving and maintaining the Association's fully funded status.

Looking back on the history of LACERA, it is apparent that throughout the years the Association has undergone many changes. We have welcomed the tremendous growth in our membership, diversification of our assets, and overall changes to our administrative operations. These changes have greatly impacted the way we conduct business, yet we have managed to strictly adhere to our guiding principles which include prudence and conservatism. It remains our belief that providing better service to our members and beneficiaries is always a good reason for change. Indeed, they are the primary recipients of our progress.

1988

The Citadel, former home of the Samson Tyre & Rubber Company and the Uniroyal Tire & Rubber Company, now serves as a multi-purpose complex. This sprawling replica of an Assyrian palace commands the attention of every motorist traveling the Santa Ana freeway.

The Ritz-Carlton, Huntington Hotel is a recent acquisition to LACERA's real estate investment portfolio. Since its opening in 1907, the "Grand Old Lady," as it has been termed over the years, is still one of the most prestigious hotels in California.

Los Angeles County/USC Medical Center originally built in 1885 is currently the largest acute care hospital and medical teaching facility in the US.

1998

October 5, 1998

Los Angeles County Employees Retirement Association
Board of Retirement
Board of Investments
Gateway Plaza
300 North Lake Avenue, Suite 820
Pasadena, CA 91101

Dear Board Members:

I am pleased to present the Los Angeles County Employees Retirement Association (LACERA) Comprehensive Annual Financial Report for the fiscal years ended June 30, 1998 and 1997. This year, we celebrated an important milestone in the history of LACERA, our 60th birthday! We are proud of the progress we have made and the accomplishments achieved during our 60 years and have provided a brief chronology of some of our major milestones in the beginning of this report.

The accomplishments achieved during this fiscal year continue to reflect LACERA's steadfast commitment to provide accurate, timely, and courteous service; and to promote, enhance, and efficiently administer a financially sound retirement system to nearly 124,000 members, which includes over 42,000 benefit recipients. Continually providing excellent service is what our members and beneficiaries demand and deserve. They are the very foundation of our Vision, our central objective, and thus, permeate every aspect of our organization. You are provided the opportunity to witness how our Vision was implemented this fiscal year on the ensuing pages.

Report Contents

LACERA management is responsible for both the accuracy of the data and the completeness and fairness of the presentation of financial information, including all disclosures. This Comprehensive Annual Financial Report is divided into five sections:

The Introductory Section provides an overview of LACERA and the significant activities and events that occurred during fiscal year 1998. This section contains this Letter of Transmittal, a listing of the Members of the Boards of Retirement and Investments, an overview of LACERA's administrative organization, and a list of the professional consultants LACERA utilizes.

The Financial Section presents the financial condition and funding status of LACERA. This section contains the opinion of the independent public accountants, PricewaterhouseCoopers LLP, the financial statements, and the related supplementary financial information.

The Investment Section provides an overview of LACERA's investment program. This section contains the investment consultant's report reviewing the investment activity results, the Chief Investment Officer's Report, investment performance results, a list of the external investment managers who provide investment services to LACERA, and other portfolio information.

The Actuarial Section communicates the Plan's funding status and presents other actuarial related information. This section contains the certificate of the consulting actuary, Watson Wyatt Worldwide, actuarial statistics, and general plan provisions.

The Statistical Section presents information pertaining to LACERA's operations on a multi-year basis.

LACERA and its Services

LACERA was established on January 1, 1938, to provide retirement allowances and other benefits to the safety and general members employed by Los Angeles County and four other participating agencies. The participating agencies include:

Little Lake Cemetery District
Local Agency Formation Commission
Los Angeles County Office of Education
South Coast Air Quality Management District

LACERA is governed by the California Constitution, the County Employees Retirement Law of 1937, and the bylaws, procedures and policies adopted by the LACERA Boards of Retirement and Investments. The Los Angeles County Board of Supervisors may also adopt resolutions, as permitted by the County Employees Retirement Law of 1937, which may affect benefits of LACERA members.

The Board of Retirement is responsible for the general management of LACERA, and the Board of Investments is responsible for determining the investment objectives, strategies, and policies. The day-to-day management of LACERA is delegated to a Chief Executive Officer appointed by both Boards.

Financial Information

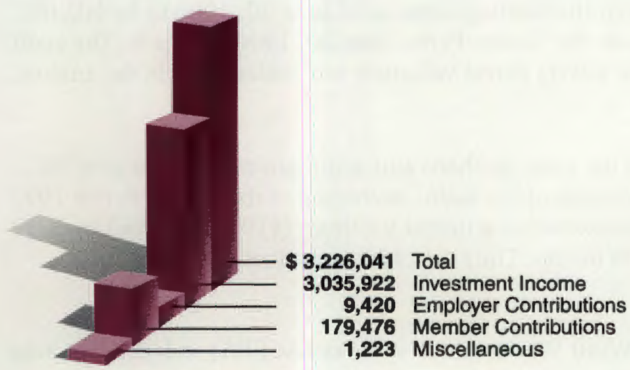
The accounting firm of PricewaterhouseCoopers LLP provides both financial statement audit services and agreed upon procedures accounting services. The financial attest audit states that LACERA's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The agreed upon procedures review examines LACERA's processes, procedures and internal controls in selected areas each year. Maintaining appropriate internal controls and the financial statement presentation are the responsibility of management, with oversight by LACERA Internal Audit Services staff.

Revenues and Expenses

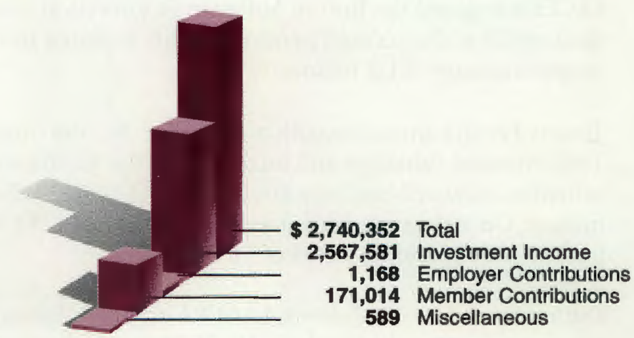
The primary sources to finance the benefits LACERA provides are accumulated through income on investments and through the collection of member (employee) and employer contributions. These income sources for fiscal year 1998 totaled $3.2 billion, an increase of 17.7% over 1997. This increase is principally due to an increase in investment income.

Revenues
For the Years ended June 30, 1998 and 1997
(dollars in thousands):

1998



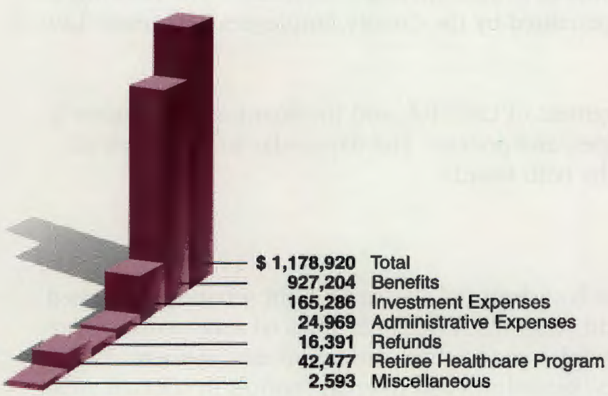
1997



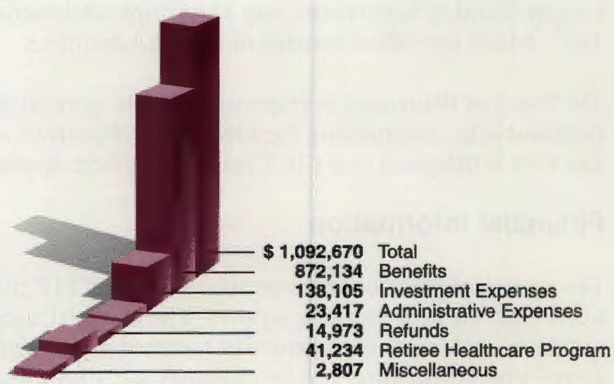
The primary uses of LACERA's assets are in the payment of benefits to retirees and their beneficiaries, refund of contributions to terminated employees, and the cost of administering the system. These expenses for fiscal year 1998 were $1.2 billion, an increase of 7.9% over 1997. This increase is chiefly due to the continued growth in retirement, survivor and disability benefits paid, and a slight increase in the amount of investment related expenses.

Expenses
For the Years ended June 30, 1998 and 1997
(dollars in thousands):

1998



1997



Actuarial Funding Status

Pursuant to provisions in the County Employees Retirement Law of 1937, LACERA engages an independent actuarial firm to perform an actuarial valuation of the system every three (3) years (i.e., triennial valuation). The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. In addition, LACERA's valuation policy requires annual valuations to monitor the funding status of the system.

The last triennial valuation, which was completed by Towers Perrin, was performed as of June 30, 1995, and determined the funding status (the ratio of system assets to system liabilities) to be 100.7%, based on the entry age normal actuarial cost method, market value of assets reduced by a portion of unrealized investment gains and losses over the prior five years, an assumed 8% investment return, and an assumed 5.5% salary growth rate.

Towers Perrin performed the annual valuation as of June 30, 1996 using the same method and assumptions as the June 30, 1995 triennial valuation. Towers Perrin determined the funding status as of June 30, 1996 to be 102.6%. LACERA engaged the firm of Milliman & Robertson to audit the Towers Perrin June 30, 1996 valuation. The audit disclosed that the accrued pension liability reported in the Towers Perrin valuation was understated in the amount of approximately $1.2 billion.

Towers Perrin's annual valuation as of June 30, 1997 used the same methods and assumptions as in the June 30, 1995 triennial valuation and incorporated the recommendations of the audit. According to the Towers Perrin 1997 valuation, adjusted market value of assets ($19.642 billion) exceeded actuarial liabilities ($19.383 billion) by $259 million. On a pure market value basis, the excess is $2.958 billion. Thus, LACERA continues to be very well funded with a funding status of 101.3%.

During fiscal year 1997-1998, LACERA engaged Watson Wyatt Worldwide to serve as LACERA's independent actuary, commencing with the June 30, 1998 triennial valuation.

Service Efforts and Accomplishments

In early 1994, staff analyzed and evaluated the way we conducted business and determined that a complete "Reengineering" of our business processes was necessary in order to improve and enhance the level of service provided to our members. This has required a comprehensive review of existing procedures in order to delete obsolete or unnecessary activities and clearly define the expected results of each procedure. These efforts combined with the implementation of new and sophisticated technologies, have helped streamline and improve many of those business processes.

During fiscal year 1997-1998, the following accomplishments were achieved:

- Received the prestigious Award for Excellence in Technology from the Government Finance Officers Association of the United States and Canada (GFOA). This association recognizes those organizations whose contributions to the field of government are deemed most valuable. LACERA's project, the *Integrated Business Process Information System (IBPIS)*, was judged an outstanding entry in the Technology/Pension Administration category. The IBPIS was designed specifically to enhance member services and enable staff to expeditiously process member requests with greater accuracy utilizing fewer staff resources. By incorporating several new technologies and revising existing business methodology, we were able to convert a fragmented silo-based workflow process into one that is more conducive to meeting the demands of a growing membership.

- Fully implemented the electronic imaging process of daily incoming member documents at LACERA. On a monthly basis, an average of 13,500 member documents were received and successfully imaged.

- Nearly completed the imaging of existing (historical) member records to electronic format, thereby, moving LACERA closer to the full migration from a paper-based storage and retrieval system to an automated electronic document management system. As of June 30, 1998, approximately two million member paper records became electronically and immediately accessible to staff. Internal Audit Services continued to supervise the historical records imaging project at the service provider's worksite. Staff also performed on going quality assurance examinations to verify and validate the quality, accuracy, and completeness of the daily electronic imaging process at LACERA.

- Continued educational efforts to assist members in obtaining a better understanding of their retirement benefits. Retirement Services staff conducted 50 pre-retirement workshops at LACERA, 120 at Departmental locations, and provided information at six member fairs. Over 9,000 members were assisted at our public service counter and nearly 157,000 telephone inquiries were addressed.

Other Programs and Services

Supplemental Targeted Adjustment for Retirees (STAR)

On December 20, 1989, the Board of Retirement approved the STAR program under the authority granted to them by the County Employees Retirement Law of 1937. STAR is a supplemental cost-of-living benefit for retirees or their survivors who have lost 25% 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. The STAR program benefit costs for calendar year 1997 were $44 million, and are anticipated to be similar for calendar year 1998. The benefit, currently being received by approximately 13,900 retirees, is a nonvested entitlement.

Healthcare Benefits Program

Under an agreement with the County of Los Angeles, LACERA administers a Healthcare Benefits Program for approximately 62,200 retirees/survivors and their eligible dependents, and a Long Term Care Program for 1,300 participants.

During fiscal year 1997-1998, in our continued efforts to improve member services, staff accomplished the following:

- Continued the LACERA Medicare Part B Premium Reimbursement Program for the period of July 1997 through December 1998.

- Provided retirees and Los Angeles County seven months of relief from paying insurance premiums. A one-month premium holiday was provided for the Provident medical plan, and a six-month premium holiday for the Blue Cross Prudent Buyer plan, which saved the County $9 million and retirees $2 million, respectively.

- Completed a Request For Proposal for an Indemnity Plan and selected Blue Cross of California as the insurance carrier to underwrite LACERA's Indemnity Medical Plans I, II and III effective October 1, 1998.

Year 2000 Issue

LACERA is aware of the Year 2000 issue facing the computer and information technology fields, specifically as it relates to computer systems and computer-based applications which support ongoing business requirements.

Staff implemented a Year 2000 Compliance Work Plan, which includes assessment, remedial action, testing and implementation, and certification stages. Scheduled completion date for this plan is December 1, 1998, to provide one full year's operation in compliance mode. As of June 30, 1998, management believes LACERA is on schedule with all aspects of the plan and anticipates completion as scheduled. Additionally, LACERA has initiated contingency planning in the event of internal or external failure of critical business processes or services. Additional information on the Year 2000 issue as it impacts LACERA may be found in Note P on page 35.

Economic and Market Review

The LACERA investment portfolio returned a respectable 15.5% for fiscal year 1997-1998. This was the fourth fiscal year in a row LACERA registered double-digit returns (1996-97 = 17.7%; 1995-96 = 16.7%; 1994-95 = 15.2%). The portfolio continues to be driven by the strong performance of two components: domestic equities (+27.3%) and alternative assets (+19.5%).

The domestic economic environment was very favorable for all financial markets. The economy continued to grow at a strong pace (3.5%) while inflation and unemployment rates remained low (1.7% and 4.5% by year-end, respectively). In addition, uncertainty about the impact of the Asian crisis appeared to have little impact on investors' expectations of future US corporate earnings growth. As a result, the US stock market continued its strong upward trend with the S&P 500 Index returning an impressive 30.2% for the year.

The US broad fixed income market, as measured by the Lehman Brothers Aggregate Bond Index, also had a strong year with a 10.5% return. A benign inflationary environment coupled with global investors searching for a "safe haven" out of Asia, pushed up the value of US Treasury bonds. The yield on the US 30-year Treasury bond, which moves in the opposite direction of its price, declined to 5.63% from 6.79% at the beginning of the year. The Federal Reserve did not change short-term interest rates during this time period.

While the US financial markets enjoyed double-digit returns, other markets around the world suffered severe economic problems. This fiscal year will certainly be remembered for the economic collapse of Southeast Asia. All major economies in this region experienced huge currency devaluations resulting in economic turmoil. Their troubles later extended to other parts of the world with "emerging" countries being the most affected.

In Europe, 11 countries expected to participate in the first phase of Economic Monetary Union (EMU) implemented significant fiscal and monetary policy changes to reform their economic infrastructure. These changes enabled them to meet the economic requirements for participating in EMU. As a result, the market efficiently priced bond yields and currencies of the participating countries to reflect the beginning of a single currency, the euro, on January 1, 1999. Monetary policy will be determined by the European Central Bank headquartered in Frankfurt. The countries expected to participate in EMU are: Germany, France, Netherlands, Belgium, Austria, Luxembourg, Spain, Italy, Portugal, Ireland, and Finland.

The Japanese economy continued to perform poorly over the last 12 months, leading investors to believe the country is going into a recession. Nonperforming loans have caused a collapse in their banking system. Consumer confidence has reached historical low levels resulting in a dramatic decrease in consumer spending. Interest rates continued their decline with 10-year Japanese Government Bonds yielding below 1.3%. Relative to the US dollar, the Japanese yen depreciated by 21% over the last year.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LACERA for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. This marks the eighth consecutive year we have been awarded this notable designation.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents must conform to program standards, and satisfy generally accepted accounting principles and other legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA for consideration again this year.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report on a timely basis is made possible by the dedicated teamwork of LACERA staff. Each staff member who contributed to the team effort has my sincerest appreciation. I would like to thank our contract auditor, PricewaterhouseCoopers, LLP, for their professionalism and assistance.

On behalf of LACERA staff, we wish to thank the Board of Retirement and the Board of Investments without whose leadership and support the preparation of this report would not have been possible.

Respectfully submitted,

Marsha D. Richter

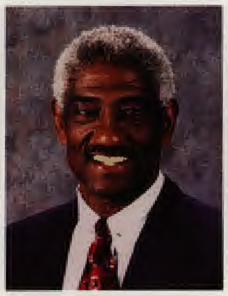
Marsha D. Richter
Chief Executive Officer

MEMBERS OF THE BOARD OF RETIREMENT AT JUNE 30, 1998

Chair/Alternate Member

Cody Ferguson

Los Angeles County Fire Department. Elected by safety members. Present term expires December 31, 1998. Elected Chair of the Board January 7, 1998.



Vice Chair

Edgar H. Twine

Appointed by the Board of Supervisors. Present term expires December 31, 1999. Elected Vice Chair of the Board January 7, 1998.

Secretary

Robert A. Stotelmeyer

Retired. Elected by retired members. Present term expires December 31, 1999. Re-elected Secretary of the Board, January 7, 1998.

Member

Mark J. Saladino

Treasurer and Tax Collector. Ex-officio member.

Member

Sadonya Antebi

Appointed by the Board of Supervisors. Present term expires December 31, 1998.

Member

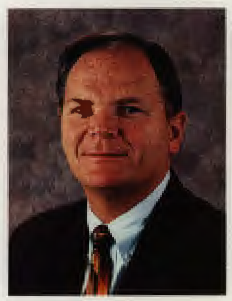
Warren L. Bennett

Appointed by the Board of Supervisors. Present term expired December 31, 1997.

Member

Michael L. Falabrino

Appointed by the Board of Supervisors. Present term expires December 31, 1999.



Member

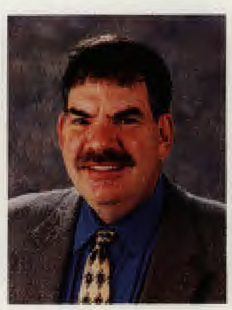
Les Robbins

Sheriff's Department. Elected by safety members. Present term expires December 31, 1998.

Member

Simon S. Russin

Department of Health Services. Elected by general members. Present term expires December 31, 2000.

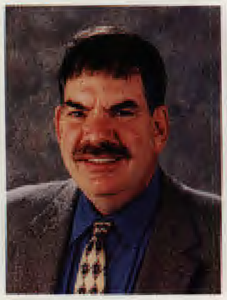


Member

Richard N. Shumsky

Probation Department. Elected by general members. Present term expires December 31, 1999.

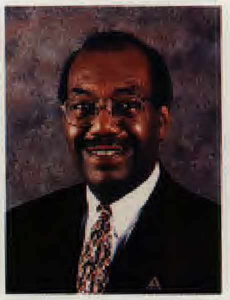
MEMBERS OF THE BOARD OF INVESTMENTS AT JUNE 30, 1998



Chair

Richard N. Shumsky

Probation Department. Elected by general members. Present term expires December 31, 2000. Elected Chair of the Board January 14, 1998.



Vice Chair

Larkin Teasley

Appointed by the Board of Supervisors. Present term expires December 31, 1998. Elected Vice Chair of the Board January 14, 1998.

Secretary

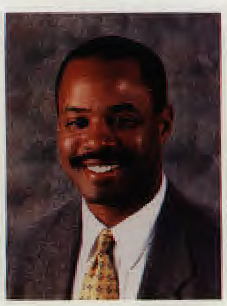
Simon S. Russin

Department of Health Services. Elected by general members. Present term expires December 31, 1999. Elected Secretary of the Board January 14, 1998.

Member

Mark J. Saladino

Treasurer and Tax Collector. Ex-officio member.



Member

Marcus Allen

Appointed by the Board of Supervisors. Present term expires December 31, 1999.

Member

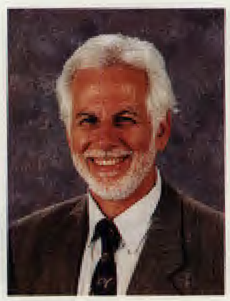
Cody Ferguson

Los Angeles County Fire Department. Elected by safety members. Present term expires December 31, 1998.

Member

Norman S. Johnson

Retired. Elected by retired members. Present term expires December 31, 1999.



Member

Michael Schneider

Appointed by the Board of Supervisors. Present term expires December 31, 1999.

Member

Alex Soteras

Appointed by the Board of Supervisors. Present term expires December 31, 2000.

LACERA ORGANIZATION CHART

- **Board of Retirement**
- **Board of Investments**
  - **Chief Executive Officer**
    Marsha D. Richter
    - **Office of the Boards**
      Brenda Barton, Sec.
      Elizabeth Duran, Sec.
    - **Special Programs Section**
      Robert R. Hill, Mgr.
    - **Retiree Healthcare Services**
      Kathy Migita, Mgr.
    - **Internal Audit Services**
      Wayne Petersen, Mgr.
    - **Disability Litigation Services**
      Daniel E. McCoy, Chief Counsel
    - **Investment Office**
      Kenneth Shaffer
      Chief Investment Officer
    - **Legal Services**
      David L. Muir, Chief Counsel
    - **Assistant Executive Officer**
      Gregg Rademacher
      - **Retirement Systems Division**
        Fred Whiting, Mgr.
      - **Retirement Accounting Division**
        Diane Sandoval, Mgr.
      - **Retirement Services Division**
        Jan Barcus, Mgr.
      - **Disability Investigation Section**
        Sylvia Miller, Mgr.
      - **Publications Section**
        Delia Price, PIO
      - **Administrative Services Division**
        R. Terri Quintero, Mgr.

LIST OF PROFESSIONAL CONSULTANTS

Consulting Services

Actuary
Towers Perrin
Watson Wyatt & Company

Auditors
PricewaterhouseCoopers LLP
Financial Controls Systems, Inc.

Custodian
Chase Manhattan Bank
Mellon Trust

Data Processing
Los Angeles County
Internal Services Department

Governance Consultant
Institutional Shareholder
Services, Inc.

Investment Consultants
Frank Russell Company
Hamilton Lane Advisors
Northern Trust Global Advisors
Progress Investment
Management Company
The Townsend Group

Legal Counsel
Cox, Castle & Nicholson
Christensen, Miller, Fink, Jacobs,
Glaser, Weil & Shapiro, L.L.P.
D'Ancona & Pflaum
Graves, Roberson & Bourassa
Jones, Day, Reavis & Pogue
LeBoeuf, Lamb, Greene & MacRae
Morrison & Foerster, L.L.P.
Orrick, Herrington & Sutcliffe
Paul, Hastings, Janofsky & Walker
Pillsbury, Madison & Sutro
Sidley & Austin

Investment Managers

Alternative Assets
Copley Venture Partners
E.M. Warburg, Pincus Capital
Company, Inc.
GKH Partners
Hamilton Lane Advisors
Media/Communications Partners
Prudential Equity Investors, Inc.
Syndicated Communications, Inc.

Cash & Short-Term
Scudder, Stevens & Clark, Inc.

Equity - Domestic
Bankers Trust Company
Bramwell Capital
Management, Inc.
Capital Guardian Trust Company
Cardinal Capital Management
CIC Asset Management
Delta Asset Management
Evergreen Capital
Management, Inc.
Geneva Capital Management Ltd.
Globalt Inc.
Gries Financial Corporation
GW Capital, Inc.
Hahn Capital Management
Hourglass Capital Management
ICM Asset Management, Inc.
Keeley Asset Management
Loomis, Sayles & Company, L.P.
Marsico Capital Management
Mazama L.L.C.
Capital Management
McKinley Capital Management
Oak Associates
Pilgrim, Baxter & Associates
Putnam Advisory Company, Inc.
Putnam Investment Management
Radnor Capital Management
Rampart Investment Management
Sloate, Weisman,
Murray & Company
SMC Capital, Inc.
Sturdivant & Company, Inc.
The Edgar Lomax Company
Twin Capital Management
Weiss, Peck & Greer
Investments, L.L.C.
Wilke/Thompson Capital
Management, Inc.

Equity - International
Bankers Trust Company
Capital Guardian Trust Company
Emerging Markets
Growth Fund, Inc.
GAM International
Management, Ltd.
Morgan Grenfell
Asset Management
Schroder Capital
Management Intl., Ltd.
UBS Phillips & Drew
Intl. Investment, Ltd.

Fixed Income - Domestic
American Express Asset
Management Group, Inc.
Bankers Trust Company
BlackRock, Inc.
Dodge & Cox
J.P. Morgan
Investment Management, Inc.
Loomis, Sayles & Company, L.P.
Miller Anderson & Sherrerd, LLP
Oaktree Capital
Management, L.L.C.
Western Asset
Management Company

Fixed Income - International
Brinson Partners, Inc.
Capital Guardian Trust Company
J.P. Morgan
Investment Management, Inc.
Morgan Grenfell
Investment Services, Ltd.

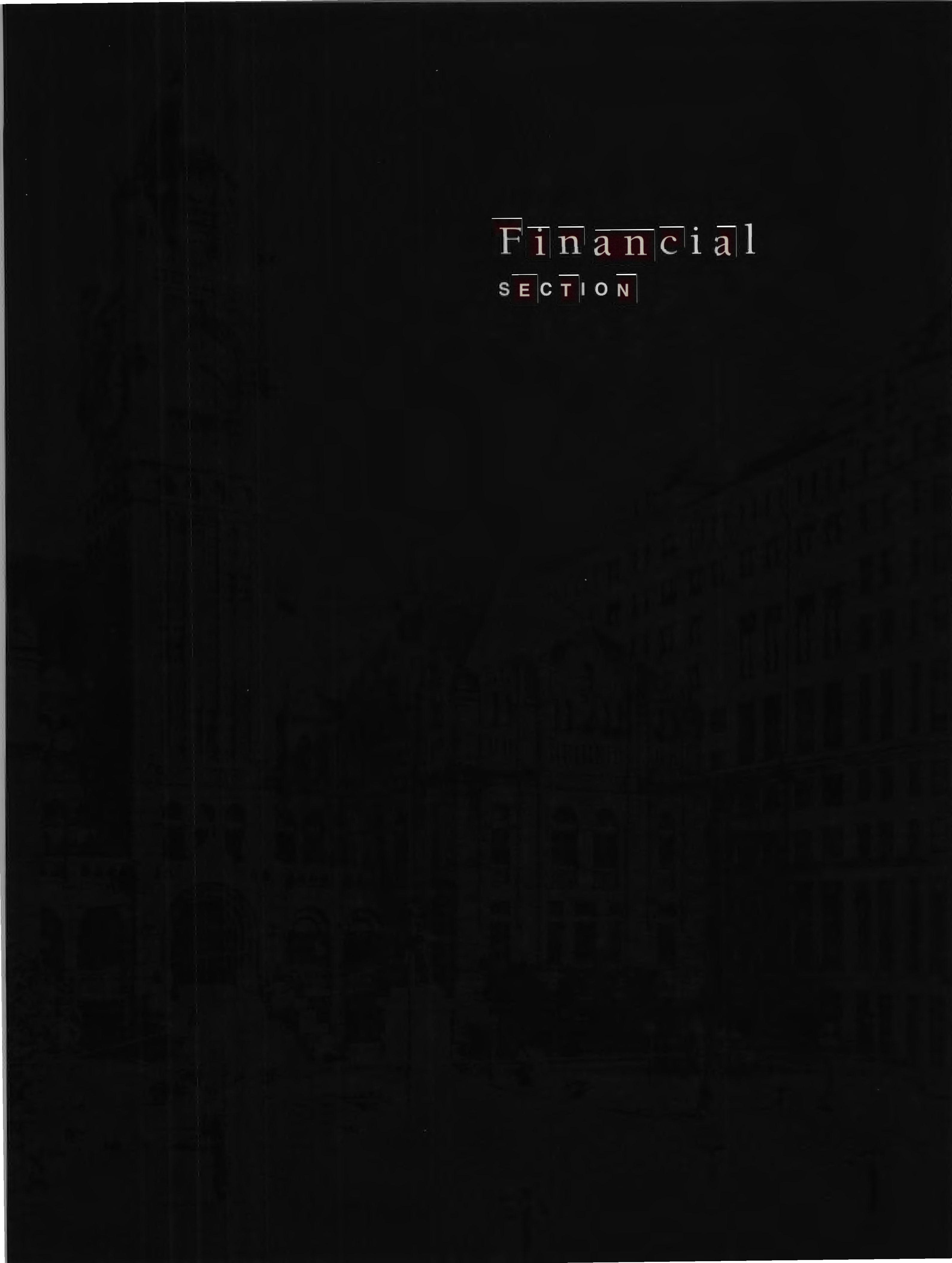
Mortgage Loan Servicer
Atlantic Mortgage &
Investment Corporation
Bank of America
First Nationwide Mortgage
GMAC Mortgage
Great Western Bank
Matrix Financial
Services Corporation
Mellon Mortgage
Wells Fargo Bank
U.S. Mortgage

Real Estate
AMB Institutional Realty
Advisors, Inc.
Clarion Partners
Heitman/JMB
Advisory Corporation
Invesco Realty Advisors
L & B Real Estate Counsel
Lend Lease Real Estate
Investments, Inc.
Lowe Enterprise
Investment Management, Inc.
Lowe Enterprise
Residential Partners
Public Storage, Inc.
RREEF America Partners
Sarofim Realty Advisors
Sentinel Real Estate Corporation
Shurgard, Inc.
TA Associates Realty
TCW Realty Advisors

Securities Lending Program
Mellon Bond Associates

Commercial Banking
Bank of America, NT & SA
Sanwa Bank California

Financial
SECTION



PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071-3405
Telephone (213) 356 6000
Facsimile (213) 356 6363

October 2, 1998

Boards of Directors of Retirement and Investments
Los Angeles County Employees Retirement Association

In our opinion, the accompanying statement of plan net assets and the related statements of changes in plan net assets present fairly, in all material respects, the financial position of the Los Angeles County Employees Retirement Association ("LACERA") as of June 30, 1998 and 1997, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of LACERA's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

In accordance with Government Auditing Standards, we have also issued a report dated October 2, 1998 on our consideration of LACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of LACERA. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audits, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The information included in the Investment, Actuarial and Statistical Sections, as listed in the accompanying table of contents, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on these sections.

PricewaterhouseCoopers LLP

Statement of Plan Net Assets

As of June 30, 1998 and 1997
(dollars in thousands):

	1998	1997
Assets		
Cash	$ 27,520	$ 66,180
Collateral on Loaned Securities	1,412,420	1,288,730
Receivables		
Accounts Receivable - Sale of Investments	137,969	340,216
Accrued Interest and Dividends	140,928	129,083
Contributions Receivable	3,016	2,789
Reimbursable Costs for Retiree Health Insurance and Death Benefits	10,134	9,976
Accounts Receivable - Other	5,477	3,288
Total Receivables	297,524	485,352
Investments at Fair Value - Note M		
Stocks	13,022,486	12,128,472
Bonds	8,839,761	7,403,407
Short Term Investments	927,118	1,025,684
Real Estate	2,242,754	1,627,398
Alternative Assets	715,967	504,782
Mortgages	167,180	122,644
Total Investments	25,915,266	22,812,387
Fixed Assets Net of Depreciation	1,823	1,838
Total Assets	27,654,553	24,654,487
Liabilities		
Accounts Payable - Purchase of Investments	677,864	453,838
Retiree Payroll and Other Warrants Payable	19,921	27,487
Accrued Expenses	30,280	18,395
Leasehold Incentives	1,045	1,463
Tax Withholding Payable	9,077	8,419
Obligations under Securities Lending Program	1,412,420	1,288,730
Accounts Payable - Other	11,767	1,485
Total Liabilities	2,162,374	1,799,817
Net Assets Held in Trust for Pension Benefits	$ 25,492,179	$ 22,854,670

(A Schedule of Funding Progress is presented on page 36.)

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Plan Net Assets

For the Years Ended June 30, 1998 and 1997
(dollars in thousands):

	1998	1997
Additions		
Contributions		
Employer	$ 9,420	$ 1,168
Member	179,476	171,014
Total Contributions	188,896	172,182
Investment Income		
From Investing Activities		
Net Appreciation in Fair Value of Investments	590,388	1,013,375
Investment Income	2,948,729	2,479,918
Total Investing Activity Income	3,539,117	3,493,293
Less Expenses From Investing Activities	(83,967)	(57,727)
Net Investing Activity Income	3,455,150	3,435,566
From Securities Lending Activities		
Securities Lending Income	87,193	87,663
Less Expenses From Securities Lending Activities	(81,319)	(80,378)
Net Securities Lending Income	5,874	7,285
Total Net Investment Income	3,461,024	3,442,851
Miscellaneous	1,223	589
Total Additions	**3,651,143**	**3,615,622**
Deductions		
Retiree Payroll	926,407	871,137
Administrative Expense - Note B	24,969	23,417
Refunds	16,391	14,973
Lump-Sum Death Benefits	797	997
Retiree Healthcare Program	42,477	41,234
Miscellaneous	2,593	2,807
Total Deductions	**1,013,634**	**954,565**
Net Increase	2,637,509	2,661,057
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	22,854,670	20,193,613
End of Year	**$ 25,492,179**	**$ 22,854,670**

The accompanying notes are an integral part of these financial statements.

Note A — Plan Description

On January 1, 1938, the Los Angeles County Employees Retirement Association (LACERA) was established. It is governed by the California Constitution, the County Employees Retirement Law of 1937, and the bylaws, procedures and policies adopted by LACERA's Boards of Retirement and Investments. The Los Angeles County Board of Supervisors may also adopt resolutions, as permitted by the Retirement Law of 1937, which may affect the benefits of LACERA members. LACERA operates as a cost-sharing multi-employer defined benefit plan for Los Angeles County and four participating agencies: Little Lake Cemetery District, Local Agency Formation Commission, Los Angeles County Office of Education and South Coast Air Quality Management District. LACERA does not include nonemployer contributors.

Membership

LACERA provides retirement, disability and death benefits to its active safety and general members, and administers the plan sponsor's retiree health benefit program. Safety membership includes law enforcement (Sheriff and District Attorney Investigators), fire fighting, forester, and lifeguard classifications. General membership is applicable to all other occupational classifications. The retirement benefits within the plan are tiered based on the service entry date. General members may elect membership in a noncontributory plan tier upon entry into service. Additional information regarding the benefit structure is included in the Summary of Plan Provisions located on page 58 in the Actuarial Section of this report.

At June 30, 1998 and 1997, LACERA membership consisted of:

	1998	1997
Active Members:		
Vested	52,449	51,730
Nonvested	24,276	23,349
Total Active Members	76,725	75,079
Retired Members	42,435	41,873
Terminated Vested (Deferred)	4,776	4,255
Total Membership	**123,936**	**121,207**

Benefit Provisions

Vesting occurs when a member accumulates five years creditable service under contributory plans or accumulates 10 years of creditable service under the general service noncontributory plan. Benefits are based upon 12 or 36 months average compensation, depending on the plan; age at retirement and length of service as of the retirement date, according to applicable statutory formulae. Service connected disability benefits may be granted regardless of length of service consideration. Five years of service is required for nonservice connected disability eligibility according to applicable statutory formulae except for members of the noncontributory plan who are covered under separate long-term disability provisions not administered by LACERA.

Note A — Plan Description - *Continued*

Cost-of-Living Adjustment

Under provisions in the California Government Code, the Board of Retirement (Board) shall, before April 1 each year, determine whether there has been an increase or decrease in the cost-of-living, as shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers for the area in which the county seat is situated, as of the preceding January 1. Effective April 1 of each year, the Board must increase or decrease retirement and survivor allowances by a percentage of the total allowance to approximate to the nearest one-half of 1%, the percentage of annual increase or decrease in the cost-of-living as of the preceding January 1 for members and survivors who were retired prior to April 1. Plan A members may receive a 3% maximum increase while Plan B, C, and D members may receive a 2% maximum increase. Any CPI cost-of-living increase or decrease in any year which is not met by the maximum annual change of 3% or 2% in allowances will be accumulated to be met by increases or decreases in allowances for future years. The accumulated percentage carryover is known as the Cost-of-Living Adjustment Bank. There are no provisions for a cost-of-living increase for Plan E members.

STAR Program

In addition to cost-of-living increases, the California Government Code also provides the Board of Retirement the authority to grant supplemental cost-of-living increases. Under this program, known as the Supplemental Targeted Adjustment for Retirees (STAR), excess earnings have been used to restore retirement allowances to 75% of the purchasing power held by retirees at the time of retirement. The STAR program is subject to approval by the Board of Retirement on an annual basis as long as sufficient excess earnings are available as determined by the Board of Investments.

The STAR program is administered on a calendar year basis. The following represents the STAR program experience from inception through June 30, 1998 *(dollars in thousands)*:

	Funding	Costs	Available for Future Benefits
Inception 1990	$ 201,200	($ 47,411)	$ 153,789
Program Year 1991		(50,994)	102,795
Program Year 1992	172,000	(57,776)	217,019
Program Year 1993	51,726	(56,542)	212,203
Program Year 1994		(56,895)	155,308
Program Year 1995	165,815	(54,905)	266,218
Program Year 1996	48,770	(49,571)	265,417
Program Year 1997	269,168	(44,349)	490,236
Program Year 1998 through June 30	267,098	(21,397)	$ 735,937
Total	$ 1,175,777	($ 439,840)	

Note B — Summary of Significant Accounting Policies

Reporting Entity

LACERA, with its own governing boards, is an independent governmental entity separate and distinct from the County of Los Angeles. Annual financial statements are included in the County of Los Angeles' Annual Financial Report as a pension trust fund.

Management prepared the financial statements of LACERA and its component units. Due to the significance of their operational and financial relationships with LACERA, the component units are included as part of the reporting entity.

LACERA wholly owns numerous Title Holding Corporations (THCs). The THCs are nonprofit corporations under Section 501 (c)(25) of the Internal Revenue Code. The THCs invest in commercial properties located throughout the United States. The financial activities of the THCs are included in the accompanying financial statements as blended component units. Additional detailed information for these entities can be obtained from LACERA's Retirement Accounting Division, 300 North Lake Avenue, Pasadena, CA 91101.

Method of Reporting

LACERA follows the accounting principles and reporting guidelines as set forth in Statement 25 of the Governmental Accounting Standards Board. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of LACERA. Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each plan.

Administrative Expenses

The LACERA Boards of Retirement and Investments annually adopt the operating budget for the administration of LACERA. The administrative expenses are charged against investment earnings and are limited to eighteen hundredths of one percent as set forth under Government Code Section 31580.2. The following budget to actual analysis of administrative expenses is based upon the budget, as approved by the governing boards, and reflects actual administrative expenses. *(dollars in thousands):*

Total Projected Asset Base as of December 31, 1997 at fair value	$ 21,849,335
Maximum Allowable for Administrative Expense (.0018 x $21,849,335)	39,329
Operating Budget for Fiscal Year 1997-1998	30,605
Actual Administrative Expenses for the Fiscal Year ended June 30, 1998	24,969
Underexpended Operating Budget	**$ 5,636**

The administrative operating budget includes allocations for fixed assets. Fixed assets are capitalized upon purchase and depreciated over their useful lives.

Note B — Summary of Significant Accounting Policies - *Continued*

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with five-year useful life for equipment and ten-years for furniture, structures, and leasehold improvements.

The cost and accumulated depreciation of fixed assets as of June 30, 1998 and 1997 were as follows *(dollars in thousands)*:

	1998	1997
Furniture and Equipment	$ 4,057	$ 3,396
Structures and Improvements	2,829	2,829
Total Fixed Assets (at cost)	6,886	6,225
Less: Accumulated Depreciation		
Furniture and Equipment	2,943	2,549
Structures and Improvements	2,120	1,837
Total Accumulated Depreciation	5,063	4,386
Total Fixed Assets Net of Depreciation	**$ 1,823**	**$ 1,839**

Accrued Vacation and Sick Leave

Employees who resign or retire are entitled to full compensation for all unused vacation and a percentage of their unused sick leave. The accrued vacation and sick leave for LACERA employees as of June 30, 1998 and 1997 were $1,435,890 and $1,381,312, respectively.

Cash

Cash includes deposits with various financial institutions, the County pooled trust fund, and international currency holdings translated to US dollars using the exchange rates in effect at June 30, 1998 and 1997.

Investments

The cost of stocks and bonds is determined using the average cost method, while the cost for mortgage loans and short-term investments is determined using the specific identification method. Premiums or discounts on long-term bonds are amortized using the constant-yield amortization or straight-line method, depending on the nature of the security. Premiums or discounts on mortgage loans are amortized using the straight-line method over a period of 120 months. Unsettled investment trades as of year end are reported in the financial statements on an accrual basis. The corresponding funds receivable from a sale and funds payable for a purchase are reported in Accounts Receivable - Sale of Investments and Accounts Payable - Purchase of Investments, respectively.

Unrealized investment losses are recognized when they exceed the balance in the Contingency Reserve. Investments are carried at fair value as described on the following page.

Note B — Summary of Significant Accounting Policies - *Continued*

Fair values for investments are derived by various methods as indicated in the following table:

Investments	Source
Stocks, publicly traded bonds, issues of the US Government and its agencies	Most recent sales price as of the fiscal year end. International securities reflect currency exchange rates in effect at June 30, 1998 and 1997.
Mortgages	Equivalent pricing to comparable GNMA.
Real estate equity funds	Provided by real estate fund manager.
Real estate title holding corporations	Fair value of the investment as noted in the audited property financial statements.
Alternative assets	Provided by the fund's valuation committee. LACERA's alternative asset consultant reviews the market value information provided by funds without a valuation committee.
Private placement bonds	Face value of the security subject to adjustment for conditions noted in the respective audited financial statement.

Please refer to Note M, Deposits and Investments, for cost and fair values for fiscal years ended June 30, 1998 and 1997.

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying Statements of Plan Net Assets and Changes in Plan Net Assets. Also, certain accounts presented in the prior year's data have been reclassified in order to be consistent with the current year's presentation.

Note C — Contributions

The employers and members contribute to LACERA based on unisex rates recommended by an independent actuary and adopted by the Board of Investments and Los Angeles County's Board of Supervisors. Contributory plan members are required to contribute between 4% and 14% of their annual covered salary.

Participating employers are required to contribute the remaining amounts necessary to finance the coverage of their employees (members) through monthly or annual prefunded contributions at actuarially determined rates. Member rates for the contributory plan tiers are based upon age at entry to the system and plan enrollment. As a result of collective bargaining, member rates for various plans have been reduced through additional employer contributions, known as a surcharge rate. Member and employer contributions received from the participating agencies are considered part of LACERA's plan as a whole.

As part of the Retirement System Funding Agreement (Agreement) between LACERA and the County, during fiscal year 1997, the County prepaid its employer contributions for the two fiscal years ended June 30, 1997 and 1998 through transfers from surplus earnings as defined in the Agreement. During fiscal year 1998, the County paid the annual installment due LACERA for the Early Separation Program using its proportionate share of the surplus earnings.

Note D — Reserves

The reserves represent the ownership of LACERA assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. LACERA's major classes of reserves are as follows:

Member Reserves represent the balance of member contributions. Additions include member contributions and related earnings. Deductions include annuity payments to retirees, refunds to members, and related expenses.

Employer Reserves represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from employers and related earnings. Deductions include annuity payments to retired members, lump-sum death benefit payments to members' survivor(s), and supplemental disability payments.

County Contribution Credit Reserve represents the balance of the County's proportionate share (i.e., 75%) of surplus earnings as stipulated in the Retirement System Funding Agreement between LACERA and the County. Additions include distributions from surplus earnings, when available. Deductions include payments for future employer contributions due LACERA as the County authorizes.

STAR Reserve represents the balance of transfers from Contingency Reserve for future supplemental cost-of-living increases. Additions include transfers from Contingency Reserve (i.e., subject to approval by the Board of Retirement on an annual basis provided adequate surplus earnings are available as determined by the Board of Investments). Deductions include COLA payments to retirees.

Contingency Reserve represents reserves accumulated for future earning deficiencies, investment losses, and other contingencies. Additions include investment income and other revenues; deductions include investment expenses, administrative expenses, interest allocated to other reserves, funding of the STAR Reserve, and distribution of surplus earnings to the County Contribution Credit Reserve. The Contingency Reserve is used to satisfy the California Government Code requirement for LACERA to reserve 1% of the assets against deficiencies in interest earnings in other years, losses on investments, and other contingencies. The balance of the Contingency Reserve of $1,649 million and $1,296 million represent 6% of the Net Assets Held in Trust for Pension Benefits for fiscal years ended June 30, 1998 and 1997 respectively, and as such, the Contingency Reserve is considered fully funded.

Reserves as of June 30, 1998 and 1997 are as follows *(dollars in thousands)*:

	1998	1997
Member Reserves		
Active Members	$ 6,678,564	$ 6,233,813
Unclaimed Deposits	147	182
Total Member Reserves	$ 6,678,711	$ 6,233,995
Employer Reserves	11,008,547	11,048,591
County Contribution Credit Reserve	1,066,377	
STAR Reserve	735,937	512,216
Contingency Reserve	1,648,743	1,296,392
Total Reserves at Book Value	$ 21,138,315	$ 19,091,194
Unrealized Investment Portfolio Appreciation	4,353,864	3,763,476
Total Reserves at Fair Value	**$ 25,492,179**	**$ 22,854,670**

Note E — Actuarial Valuations

Pursuant to provisions in the County Employees Retirement Law of 1937, LACERA engages an independent actuarial firm to perform an actuarial valuation of the system every three (3) years (i.e., triennial valuation). The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. In addition, LACERA's valuation policy requires annual valuations to monitor the funding status of the system.

The last triennial valuation, which was completed by Towers Perrin, was performed as of June 30, 1995, and determined the funding status (the ratio of system assets to system liabilities) to be 100.7%, based on the entry age normal actuarial cost method, market value of assets reduced by a portion of unrealized investment gains and losses over the prior five years, an assumed 8% investment return, and an assumed 5.5% salary growth rate.

Towers Perrin performed the annual valuation as of June 30, 1996 using the same method and assumptions as the June 30, 1995 triennial valuation. Towers Perrin determined the funding status as of June 30, 1996 to be 102.6%. LACERA engaged the firm of Milliman & Robertson to audit the Towers Perrin June 30, 1996 valuation. The audit disclosed that the accrued pension liability reported in the Towers Perrin valuation was understated in the amount of approximately $1.2 billion.

Towers Perrin's annual valuation as of June 30, 1997 used the same methods and assumptions as in the June 30, 1995 triennial valuation and incorporated the recommendations of the audit. According to Towers Perrin's 1997 valuation, adjusted market value of assets ($19.642 billion) exceeded actuarial liabilities ($19.383 billion) by $259 million. On a pure market value basis, the excess is $2.958 billion. Thus, LACERA continues to be very well funded with a funding status of 101.3%.

During fiscal year 1997-1998, LACERA engaged Watson Wyatt Worldwide to serve as LACERA's independent actuary, commencing with the June 30, 1998 triennial valuation.

Note F — Partial Annuitization of Benefit Payments

In January 1987, LACERA purchased two annuity contracts from insurance carriers to provide benefit payments to a portion of the retired members. Under the terms of the annuity contracts, LACERA will continue to administer benefit payments to affected members, and is reimbursed monthly by the carriers for the gross amount of benefits disbursed. LACERA received $46.3 million and $44.6 million in related reimbursements during each of the years ended June 30, 1998 and 1997, respectively. Such amounts have reduced the pension and annuity payments in the financial statements. There is no effect on covered members. Covered members retain all benefits accorded other LACERA members including rights to continuance of benefits to survivors, insurance subsidies, and cost-of-living increases.

Note G — Postemployment Healthcare Benefits

Under an agreement with the County and participating outside agencies, LACERA administers a Healthcare Benefits Program (HBP) for retired members and their eligible dependents.

The LACERA sponsored HBP offers members an extensive choice of medical plans, as well as, two dental/vision plans. The medical plans are either HMOs or indemnity plans, and some are designed to work with Medicare benefits, such as, Medicare supplement or Medicare risk contract plan. The Board of Retirement reserves the right to amend or revise these plans and programs at any time.

The cost for insurance varies according to the years of retirement service credit with LACERA, the plan selected, and number of persons covered. The County contribution ranges from 40% of the benchmark plan for 10 years of service up to 100% of the benchmark plan with 25 years of service.

Plan net assets are not held in trust for postemployment healthcare benefits. The HBP is funded by the County and members on a pay-as-you-go basis. During fiscal year ending June 30, 1998, $126 million in premium payments were made to insurance carriers. These payments were funded by employer and participant contributions of $110 million and $16 million, respectively. During fiscal year ending June 30, 1997, $130 million in premium payments were made to insurance carriers. These payments were funded by employer and participant contributions of $114 million and $16 million, respectively.

Note G — Postemployment Healthcare Benefits - *Continued*

The County elected to subsidize the premium payments for the HBP through LACERA to the extent permitted by law. Section 401(h) of the Internal Revenue Code permits the establishment of a separate account (a "401(h) Account"), and limits contributions to the 401(h) Account to 25% of aggregate contributions to LACERA after the 401(h) Account is established.

Beginning in fiscal year 1997, the County and LACERA entered into an agreement establishing the healthcare funding account. Funding the HBP through a 401(h) Account allows the County to direct that LACERA use a portion of surplus earnings credited to the County Contribution Credit Reserve to replace County retirement fund contributions designated by the County as a contribution to the 401(h) Account.

A summary of HBP participants is as follows:

	1998	1997
Medical Plans	31,038	31,145
Dental/Vision Plans	31,112	30,422
Total	**62,150**	**61,567**

Note H — Summary of Investment Policies

The County Employees Retirement Law of 1937 (Law) authorizes the Board of Investments (Board) with exclusive control over the investment of LACERA's investment portfolio. The Law allows for the Board to invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board.

Additionally, the Law requires the Board and its officers and employees to discharge their duties with respect to LACERA and the investment portfolio:

- Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

Note I — Industry Concentrations of Portfolio Assets

The Board of Investments (Board) policies and guidelines enable the portfolio to develop into numerous asset classes and to take advantage of professional investment managers with diverse management styles. The result is a well diversified portfolio. The investment portfolio contained no concentration of investments in any one organization (other than those issued or guaranteed by the US government) that represented 5% or more of the total investment portfolio.

An important aspect of the Board's policies and guidelines is for the portfolio to maintain industry diversity. Concentrations of investments within an industry may occur and still remain within a prudent range. The investment portfolio industry concentrations were below 8% and 7% as of June 30, 1998 and 1997, respectively.

Note J — Securities Lending Program

The Board of Investments (Board) policies authorize LACERA to participate in a securities lending program, whereby securities are transferred to an independent broker or dealer with a simultaneous agreement to return the collateral for the same securities in the future. LACERA's custodian, Mellon Bank (Mellon), is the agent for its securities lending program.

Securities on loan must be collateralized with a value of 102%, for US securities, and 105%, for non-US securities, of the fair value of any security loaned, plus any accrued interest. Collateral received may include cash, and US government securities. Collateral is marked to market daily. Securities on loan are maintained in LACERA's financial records and are classified by custodial credit risk in Note M. A corresponding liability is recorded for the fair value of the collateral received.

At year end, LACERA had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. LACERA cannot pledge or sell collateral securities received unless the borrower defaults. As of June 30, 1998, there were no significant violations of legal or contractual provisions. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the year ended June 30, 1998.

Under the terms of the lending agreement, Mellon has agreed to hold LACERA harmless for borrower default from the loss of securities or income, or from any litigation arising from these loans. All loans on securities can be terminated on demand by either LACERA or the borrower.

Cash collateral is reinvested by an investment manager in short-term, highly liquid fixed income instruments. This separately managed portfolio is also subject to the policies and guidelines adopted by the Board. The primary objectives of these guidelines are to preserve capital and to provide sufficient liquidity for the management of the securities lending program. Maturities of investments made with cash collateral are not required to match the maturities of securities on loan.

As of June 30, 1998, the fair values of securities on loan and the collateral received for those securities on loan were $1,459 million and $1,505 million, respectively. LACERA's income net of expenses from securities lending was $6 million for the year ended June 30, 1998. As of June 30, 1997, the fair values of securities on loan and the collateral received for those securities on loan were $1,247 million and $1,289 million, respectively. LACERA's income net of expenses from securities lending was $7 million for the year ended June 30, 1997.

Note K — Forward Currency Contracts and Foreign Currency

Forward currency contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. Included in net investment income are gains and losses from foreign currency transactions. The net foreign currency loss in fiscal year 1998 was $22,528,027. The net foreign currency gain in fiscal year 1997 was $100,701,195. At June 30, 1998, forward currency contracts receivable and payable totaled $2,538,630,020 and $2,508,359,592, respectively. At June 30, 1997, forward currency contracts receivable and payable totaled $2,100,751,170 and $2,092,551,753, respectively.

Note L — Title Holding Corporations

LACERA's real estate portfolio includes 43 and 33 Title Holding Corporations (THCs) as of June 30, 1998 and 1997, respectively. The following is a summary of the THCs financial position as of June 30, 1998 and 1997 *(dollars in thousands)*:

	1998	1997
Assets	$ 1,960,982	$ 1,180,476
Less: Liabilities	105,727	75,863
Net Assets	$ 1,855,255	$ 1,104,613
Increase In Net Assets	$ 405,926	$ 71,084

Note M — Deposits and Investments

Three categories of risk level have been developed by the Government Accounting Standards Board Statement 3 to disclose the various custodial risks associated with the deposits and investments of LACERA:

Deposits

Category 1.
Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2.
Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3.
Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)

Investments

Category 1.
Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2.
Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.

Category 3.
Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any underlying securities.)

Note M — Deposits and Investments - *Continued*

Based on these criteria, LACERA's deposits and investments as of June 30, 1998 are classified as follows *(dollars in thousands)*:

	Category 1		Category 3		Total	
	Cost	Bank Balance	Cost	Bank Balance	Cost	Bank Balance
Deposits						
Cash	$ 7,657	$ 7,657	$ 19,456	$ 19,456	$ 27,113	$ 27,113
Certificates of Deposit	279,938	280,021			279,938	280,021
Total Categorized Deposits	287,595	287,678	19,456	19,456	307,051	307,134
	Cost	Fair Value			Cost	Fair Value
Investments						
US Government and Agency Instruments	2,809,986	2,851,819			2,809,986	2,851,819
Domestic Corporate Bonds	3,608,202	3,858,903			3,608,202	3,858,903
Global Bonds	1,575,004	1,556,523			1,575,004	1,556,523
Private Placement Bonds	573,787	572,516			573,787	572,516
Total Bonds	8,566,979	8,839,761			8,566,979	8,839,761
Domestic Stocks	5,580,197	8,949,490			5,580,197	8,949,490
Global Stocks	3,580,300	4,063,460			3,580,300	4,063,460
Global Convertible Debentures	10,510	9,536			10,510	9,536
Total Stocks & Convertibles	9,171,007	13,022,486			9,171,007	13,022,486
Corporate and Government	646,807	647,097			646,807	647,097
Total Short Term Investments	646,807	647,097			646,807	647,097
Total Categorized Investments	18,384,793	22,509,344			18,384,793	22,509,344
Investments not considered securities for purposes of custodial risk classification are as follows:						
Real Estate					2,179,278	2,242,754
Alternative Assets					564,682	715,967
Mortgages					152,711	167,180
LA County Treasurer Investment Pool					407	407
Investments held by broker-dealer under securities loans with cash collateral:						
Stocks						392,940
Government Bonds						942,403
Corporate Bonds						77,077
Total Uncategorized Investments					2,897,078	4,538,728
Total Deposits and Investments	**$ 18,672,388**	**$ 22,797,022**	**$ 19,456**	**$ 19,456**	**$ 21,588,922**	**$ 27,355,206**

Note: LACERA has no deposits or investments under Category 2.

Note M — Deposits and Investments - *Continued*

Based on these criteria, LACERA's deposits and investments as of June 30, 1997 are classified as follows *(dollars in thousands):*

	Category 1		Category 3		Total	
	Cost	Bank Balance	Cost	Bank Balance	Cost	Bank Balance
Deposits						
Cash	$ 29,093	$ 29,093	$ 30,788	$ 30,788	$ 59,881	$ 59,881
Certificates of Deposit	208,470	208,476			208,470	208,476
Total Categorized Deposits	237,563	237,569	30,788	30,788	268,351	268,357
	Cost	Fair Value			Cost	Fair Value
Investments						
US Government and Agency Instruments	2,576,795	2,586,602			2,576,795	2,586,602
Domestic Corporate Bonds	2,941,312	3,129,339			2,941,312	3,129,339
Global Bonds	1,474,061	1,445,301			1,474,061	1,445,301
Private Placement Bonds	240,868	242,165			240,868	242,165
Total Bonds	7,233,036	7,403,407			7,233,036	7,403,407
Domestic Stocks	5,568,952	8,123,685			5,568,952	8,123,685
Global Stocks	3,139,213	3,986,199			3,139,213	3,986,199
Domestic Convertible Debentures	12,359	11,957			12,359	11,957
Global Convertible Debentures	6,075	6,631			6,075	6,631
Total Stocks & Convertibles	8,726,599	12,128,472			8,726,599	12,128,472
Corporate and Government	816,124	817,208			816,124	817,208
Total Short Term Investments	816,124	817,208			816,124	817,208
Total Categorized Investments	16,775,759	20,349,087			16,775,759	20,349,087
Investments not considered securities for purposes of custodial risk classification are as follows:						
Real Estate					1,552,064	1,627,398
Alternative Assets					392,651	504,782
Mortgages					119,967	122,644
LA County Treasurer Investment Pool					6,299	6,299
Investments held by broker-dealer under securities loans with cash collateral:						
Stocks						469,100
Government Bonds						759,280
Corporate Bonds						60,350
Total Uncategorized Investments					2,070,981	3,549,853
Total Deposits and Investments	$ 17,013,322	$ 20,586,656	$ 30,788	$ 30,788	$ 19,115,091	$ 24,167,297

Note: LACERA has no deposits or investments under Category 2.

Note M — Deposits and Investments - *Continued*

As of June 30, 1998, the ratio of fair value to cost for investments in stocks was approximately 1.42 to 1.00. As of September 30, 1998, this ratio declined to approximately 1.19 to 1.00. Management believes this is a temporary trend due to the recent downturn in the equity markets. Management also believes LACERA's portfolio is adequately diversified to accommodate market fluctuations.

Note N — Related Party Transactions

LACERA, as the sole shareholder, formed a Title Holding Corporation (THC) to acquire Gateway Plaza. In January 1991, LACERA entered into a lease agreement with the THC to occupy approximately 85,000 square feet. Under the terms of the agreement, LACERA's base rent is abated. However, LACERA is required to pay its proportionate share of the building's operating expenses as defined in the lease. The agreement includes a $4 million lease incentive, which LACERA used for build-out and other occupancy costs. These costs were capitalized and are being depreciated over the life of the lease. The lease incentive liability is being recognized over the life of the lease as a reduction to rent expense. Total operating expenses charged to LACERA were $696,478 and $710,317 for the years ended June 30, 1998 and 1997, respectively.

Note O — Commitments and Contingencies

Litigation

LACERA is a defendant in various lawsuits and other claims arising in the ordinary course of its operations. LACERA's management and legal counsel estimate that the ultimate outcome of such litigation will not have a material effect on LACERA's financial statements.

Operating Leases

LACERA leases equipment and property under operating leases, which expire over the next seven years. The annual commitments under such leases were $931,414 and $620,683 in fiscal years 1998 and 1997, respectively. The building space lease agreement entered in January 1991 requires that LACERA pay a portion of the building's operating expenses based on square footage occupied as discussed in related party Note N.

Total rent expense for all operating leases, prior to the recognition of the lease incentive, was $1,627,892 and $1,331,000 in fiscal years 1998 and 1997, respectively. The lease incentive recognized in 1998 and 1997, as a reduction in rent expense, was $418,000.

Capital Commitments

LACERA's equity real estate managers identify and acquire investments on a discretionary basis. Each manager's investment activity is controlled by the Manager Investment Plan, which identifies the limitations on each manager's discretion. Such investment activities are further restricted by the amount of capital allocated or committed to each manager. Both the Manager Investment Plan and capital commitments are subject to approval by LACERA's Board of Investments and may be updated as often as necessary to reflect LACERA's investment preferences, as well as, changes in market conditions. As of June 30, 1998, outstanding capital commitments to the various investment managers, as approved by the Board, totaled $1,539,371,469. Subsequent to June 30, 1998, LACERA funded $76,946,403 of these capital commitments.

Note P — Year 2000

LACERA is aware of the Year 2000 issue facing the computer and information technology fields, specifically as it relates to computer systems and computer-based applications which support LACERA's ongoing business requirements. The anticipated effects and concentration of remedial action have two primary foci: LACERA's internal information technology structure and LACERA's external business relations with public or private entities with whom we exchange information in or derived from automated data processing sources.

The following tables summarize costs incurred as a result of Year 2000 compliance efforts for Fiscal Year 1997-98 and anticipated costs for Fiscal Year 1998-99. Direct Costs indicate those costs incurred solely to remedy Year 2000 deficiencies in equipment or applications. Indirect Costs indicate costs incurred in the course of business to replace outdated equipment or applications where such replacement also resulted in Year 2000 compliance.

Table 1 — FY 1998-99 Incurred Costs

	Direct Costs	Indirect Costs
Hardware		$ 75,000
System Software	$ 40,000	75,000
Application Software		27,000
Internal Staffing	50,000	120,000
External Consulting	172,000	
Total	**$ 262,000**	**$ 297,000**

Table 2 — FY 1998-99 Anticipated Costs

	Direct Costs	Indirect Costs
Hardware		$ 900,000
System Software	$ 40,000	75,000
Application Software	75,000	
Internal Staffing	15,000	
External Consulting	200,000	100,000
Total	**$ 330,000**	**$ 1,075,000**

LACERA maintains a full-function information technology group and data center incorporating mainframe, local area network servers, and workstation-based applications. Applications include proprietary and packaged systems. In general, all development and maintenance is performed in-house, utilizing consultants and/or contract employees where specific skills or additional resources may be required.

LACERA's Year 2000 assessment includes the following components:

- Platforms and architecture
- Systems software and communications
- Application software and data
- Data exchange and external relations

LACERA has incorporated each of these components into a Year 2000 compliance work plan which includes assessment, remedial action, testing and implementation, and certification stages. Scheduled completion date for this plan is December 1, 1998, to provide one full calendar year's operation in compliance mode. As of June 30, 1998, management believes LACERA was on schedule with all aspects of the plan and anticipates completion as scheduled. Additionally, LACERA has initiated contingency planning in the event of internal or external failure of critical business processes or services.

Schedule of Funding Progress

(dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
30-Jun-92	$ 11,698,662	$ 13,663,894	$ 1,965,232	85.6%	$ 3,218,040	61.1%
30-Jun-93	12,721,364	15,048,857	2,327,493	84.5%	3,337,583	69.7%
30-Jun-94	15,542,200	15,573,829	31,629	99.8%	3,391,441	0.9%
30-Jun-95	16,503,672	16,391,833	(111,839)[1]	100.7%	3,442,231	-3.2%
30-Jun-96	17,724,744	17,277,651	(447,093)[1]	102.6%	3,355,551	-13.3%
30-Jun-97	19,642,355	19,383,641	(258,714)[1]	101.3%	3,373,314	-7.7%

[1] Denotes overfunded Actuarial Accrued Liability.

Schedule of Employer Contributions

(dollars in thousands):

		Employer Contributions			
Year Ended June 30	Annual Required Contribution	Cash Contribution	Transfer From Surplus Earnings	Total Contributions	Percentage Contributed
1994	$ 384,848	$ 382,984		$ 382,984	100%
1995	462,698	2,038,252		2,038,252	441%
1996	287,548	132,452	$ 146,309	278,761	97%
1997	277,929	1,168	277,151	278,319	100%
1998	243,489	9,420	239,777	249,197	102%

Notes To Required Supplemental Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation dated June 30, 1997 is as follows:

Actuarial cost method: Entry age normal.

Asset valuation method: Five-year smoothing of fair value.

Amortization of unfunded liability: As part of the Retirement System Funding Agreement, the County agrees to hold the funding level of LACERA at 97.5% through the completion of the June 30, 1999 actuarial valuation. Should LACERA's actuary determine the funded status of LACERA is below 97.5% during this time, the County will make annual contributions to LACERA, in addition to the normal cost, to achieve a 97.5% funded status using a five-year rolling amortization period. For the actuarial valuations June 30, 1999 through June 30, 2008, the County will make additional contributions to bring LACERA to a 97.5% funding status using a five-year rolling amortization period, and will make additional contributions to bring LACERA to a 100% funded status using a ten-year rolling amortization period.

Amortization period: Open.

Amortization of gains and losses: Experience gains and losses are amortized over the same period as the unfunded actuarial accrued liability.

Investment rate of return: 8% per annum, 4% real return and 4% inflation.

Projected salary increases: 5.5% per annum, 1.5% merit increase and 4% inflation.

Cost-of-living adjustments: 0%-3% based on plan maximums tied to the change in the Consumer Price Index. No cost-of-living adjustments for Plan E.

Consumer Price Index: Increase of 4% per annum.

Administrative Expenses

For the Years Ended June 30, 1998 and 1997
(dollars in thousands):

	1998	1997
Personnel Services		
Salaries and Wages	$ 10,376	$ 9,623
Employee Benefits	3,363	3,072
Total Personnel Services	13,739	12,695
Professional Services		
Actuarial Consulting Fees	9	105
Network System Consulting Fees	475	166
Data Center Processing Charges		1,518
Computer Software Services and Support	868	508
External Audit Fees	225	148
Investment Audit Services	350	350
Disability Medical Fees	680	813
Disability Hearing Officer Fees	124	211
Disability Stenographic Fees	47	34
Disability Attorney Fees	6	18
Temporary Personnel Services	1,410	924
Legislative and Other Legal Services	257	101
Other Professional Services	1,020	1,235
Total Professional Services	5,471	6,131
Communication		
Postage	528	364
Telecommunications	178	144
Transportation and Travel	189	202
Total Communications	895	710
Rentals		
Rents and Leases	1,210	913
Total Rentals	1,210	913
Miscellaneous		
Computer Equipment & Supplies	999	701
Office Furniture	24	112
Stationery and Forms	290	276
Other Office Expenses	95	165
Maintenance	405	309
Educational Expenses	348	206
Parking Fees	188	162
Other County Department Charges	175	138
Insurance	209	106
Administrative Support	66	48
Other Service Charges	178	130
Total Miscellaneous	2,977	2,353
Depreciation-Fixed Assets	677	615
Total Administrative Expenses	**$ 24,969**	**$ 23,417**

Fees and Other Investment Expenses

For the Years Ended June 30, 1998 and 1997
(dollars in thousands):

	1998	1997
Investment Activity		
Investment Management Fees		
Stock Managers		
Domestic	$ 10,845	$ 10,873
International	7,795	7,159
Bond Managers		
Domestic	9,103	5,251
International	3,378	3,112
Alternative Assets Managers	5,722	15,617
Real Estate Managers	2,618	3,038
Cash and Short Term Manager	463	436
Mortgage Loan Servicers	332	279
Total From Investment Activity	40,256	45,765
Securities Lending Activity		
Securities Lending Program Expense	81,319	80,378
Total From Securities Lending Activity	81,319	80,378
Total Investment Management Fees	121,574	126,143
Other Investment Expenses		
Consultants	42,481	10,807
Custodian	350	402
Legal Counsel	44	26
Actuarial Valuation	28	77
Other	808	650
Total Other Investment Expenses	43,711	11,962
Total Fees and Other Investment Expenses	**$ 165,286**	**$ 138,105**

Schedule of Payments to Consultants

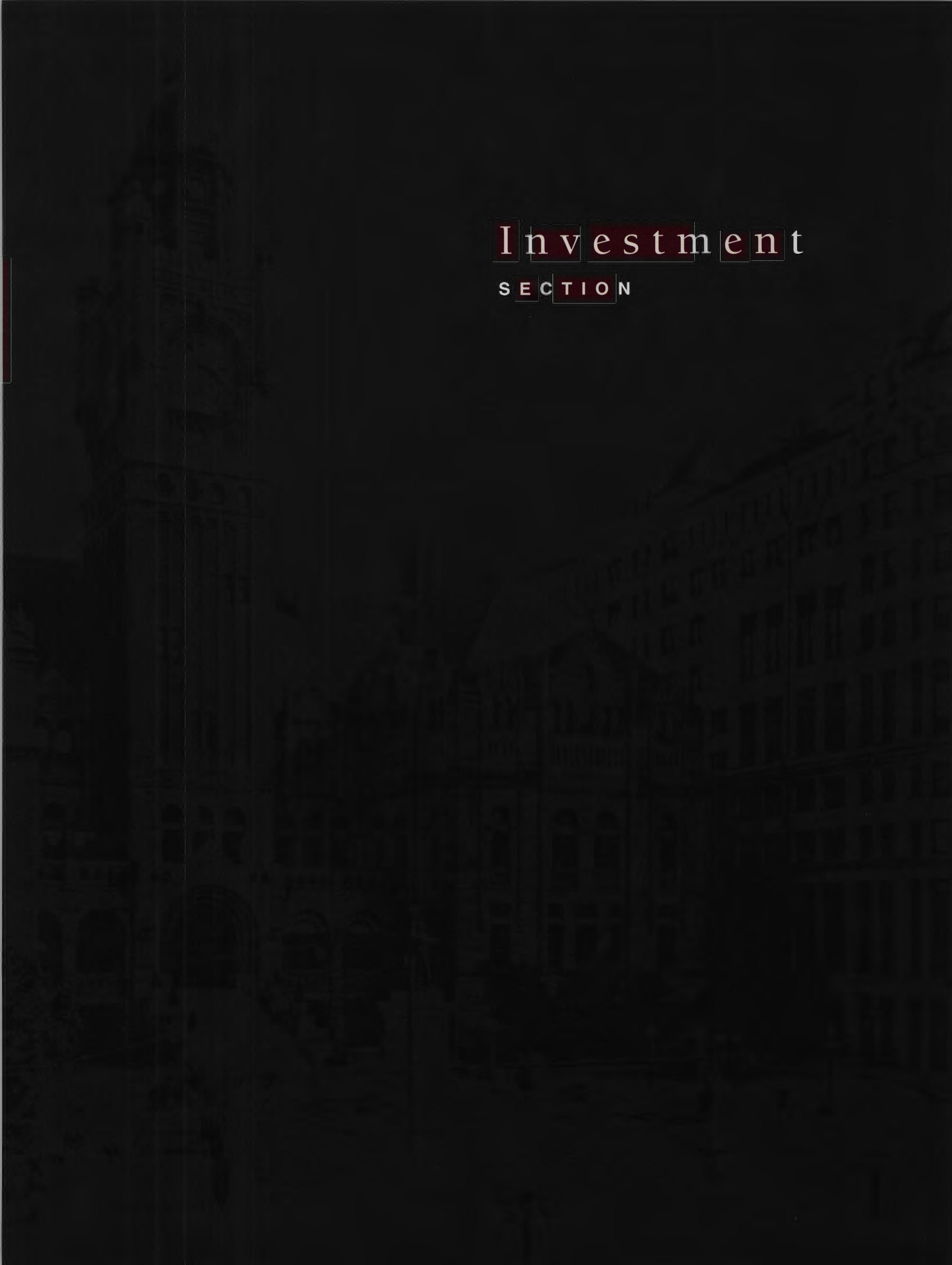
For the Years Ended June 30, 1998 and 1997
(dollars in thousands):

	1998	1997
Audit		
External Auditors	$ 225	$ 148
Investment Audit Services	350	350
Total	575	498
Legal		
Disability Attorney Fees	5	18
Outside Legal Services	238	48
Total	243	66
Actuarial		
Actuarial Consulting Fees	9	105
Management		
Legislative Consulting	19	54
Network Consulting Fees	42	212
Synergy Systems Consulting		43
Filenet Consulting Fees	470	63
Other Software Consulting	52	6
Total	583	378
Total Payments to Consultants	**$ 1,410**	**$ 1,047**

For fees paid to Investment Professionals refer to Fees and Other Investment Expenses, page 39.

Investment

SECTION



Frank Russell Company

909 A Street
Tacoma, Washington 98402-1454
253-572-9500
Fax: 253-591-3495

Investment Consultant's Report

September 9, 1998

The Board of Investments
Los Angeles County Employees Retirement Association
Gateway Plaza
300 North Lake Avenue, Suite 820
Pasadena, CA 91101-4199

In the year ended June 30, 1998, LACERA experienced excellent growth as a result of favorable markets. Assets totaled $25.9 billion as of June 30, 1998, an increase of $2.4 billion during the year due entirely to investment returns in excess of benefit payouts.

The fund returned 15.5% for the year, and the three-year and five-year returns for the periods ending June 30, 1998 were 16.8% and 13.8% respectively. Over the last year, actions have been taken to continue to enhance the investment program. Those actions and other relevant information is summarized below.

1. Consistent with established investment policy and guidelines, the fund was rebalanced back to the target policy asset allocation. These actions were taken in order to control total fund risk in the strong equity markets over the year.

2. Additional changes have been made to U.S. equities at the manager level in order to improve the overall structure and lessen the potential deviation from benchmark. This includes a large allocation to passive management.

3. The domestic and Non-US fixed income programs were restructured to compliment one another to take advantage of investment opportunities in an increasing global fixed income market.

4. Alternative asset investments continued to be implemented in accordance with the investment strategy. During the year, this included commitments to international private equities.

5. It is acknowledged that LACERA's plan performance, calculated and presented by the custodian, has been compiled in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS™).

The total fund and each asset class continue to be examined for opportunities to improve results and diversification. We continue to work closely with the LACERA staff on all aspects of the fund's investment program.

Sincerely,

Gloria Reeg
Managing Director - Consulting

Kelley Fairbank
Senior Consultant

Russell

Tacoma, New York, Toronto, London, Zurich, Paris, Sydney, Auckland, Tokyo

General Information

LACERA's investment program objective is to provide Association participants with retirement benefits as required by the County Employees Retirement Law of 1937. This is accomplished by the implementation of a carefully planned and excuted long-term investment program.

The Board of Investments (Board) has exclusive control of all retirement system investments and is responsible for establishing investment objectives, strategies, and policies. There are a total of nine Board members: the active and retired members elect four members, the Los Angeles County Board of Supervisors appoints four public members and the County Treasurer-Tax Collector serves as an ex-officio member.

The California Constitution and Government Code Sections 31594 and 31595 authorizes the Board to invest in any investment deemed prudent in the Board's opinion. Investment decisions are to be made in the sole interest and exclusive purpose of providing benefits, minimizing employer contributions, and defraying reasonable expenses for administering the system. Investments are to be diversified to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

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. 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. Consequently, 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 beneficiaries.

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

Asset Allocation

A pension fund's strategic asset allocation policy, implemented in a consistent and disciplined manner, is generally recognized to have the most impact on a fund's investment performance. The asset allocation process determines a fund's optimal long-term asset class mix (target allocation) which is expected to achieve a specific set of investment objectives.

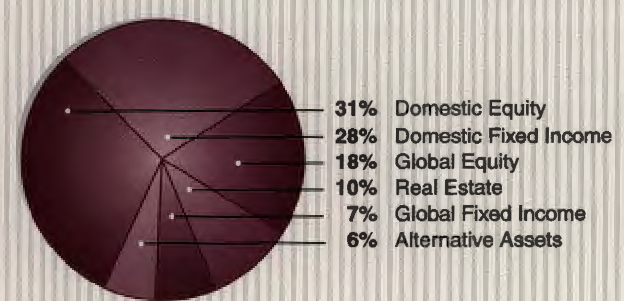
The following factors were evaluated to determine LACERA's asset allocation adopted in November 1995:

- Projected actuarial assets, liabilities, benefit payments and contributions.
- Historical and expected long-term capital market risk and return behavior.
- Future economic conditions, including inflation and interest rate levels.
- LACERA's current and projected funding status.

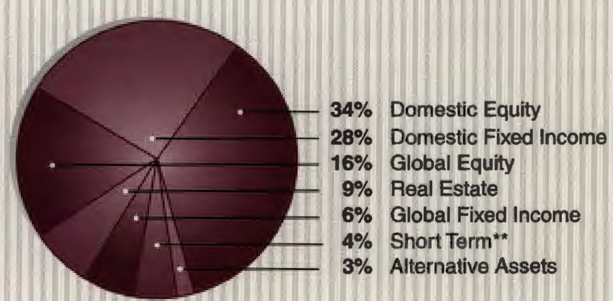
LACERA's asset allocation targets are long-term by design because of the illiquidity of certain asset classes such as Alternative Assets and Real Estate. Therefore, the implementation process is planned over a five-year horizon. As a result, the actual allocation should not be expected to match the target allocation during the implementation period. Illustrated below are the 1998 target and actual asset allocations.

The Board implements the asset allocation plan by hiring passive (index fund) and active investment managers to invest assets on LACERA's behalf, subject to investment guidelines incorporated into each firms investment management contract. LACERA's investment staff closely monitors the manager activities and assists the Board with the implementation of investment policies and long-term investment strategies.

1998 Target Asset Allocation



1998 Actual Asset Allocation*



* The 1998 Actual Asset Allocation is based upon the Investment Summary on page 45.

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

INVESTMENT SUMMARY

For the Year Ended June 30, 1998
(dollars in thousands):

Type of Investment	Fair Value	Percent of Total Fair Value
Investments		
US Government and Agency Instruments	$ 2,851,819	11.00%
Domestic Corporate Bonds	3,858,903	14.89%
Global Bonds	1,556,523	6.01%
Private Placement Bonds	572,516	2.21%
Total Bonds	8,839,761	34.11%
Domestic Stocks	8,949,490	34.53%
Global Stocks	4,063,460	15.68%
Global Convertible Debentures	9,536	0.04%
Total Stocks & Convertibles	13,022,486	50.25%
Corporate and Government	647,097	2.50%
Certificates of Deposits	280,021	1.08%
Total Short Term Investments	927,118	3.58%
Real Estate	2,242,754	8.65%
Alternative Assets	715,967	2.76%
Mortgages	167,180	0.65%
Total Uncategorized Investments	3,125,901	12.06%
Total Investments	$ 25,915,266	100.00%

INVESTMENT RESULTS BASED ON FAIR VALUE*

As of June 30, 1998

		Annualized	
	Current Year	3-Year	5-Year
Total Fund	15.5%	16.6%	13.8%
Benchmark: Total Fund	16.6		
Domestic Equity[1]	27.3	26.5	
Benchmark: Russell 3000	28.8	28.5	21.7
International Equity	-1.3	11.5	11.7
Benchmark: EAFE Net	6.1	10.7	10.0
Domestic Fixed Income[2]	10.9	8.0	6.9
Benchmark: Broad Market Index[3]	10.6	7.9	6.9
International Fixed Income	12.0	12.9	
Benchmark: Soly Non - US Hedged	11.9	12.1	9.9
Real Estate[4]	15.5	13.2	10.4
Benchmark: NCREIF	15.6	11.2	8.5
Alternative Assets[4]	35.2	30.3	28.5

[1] Includes cash equitization
[2] Does not include Member Home Loan Program or Whole Loan Program
[3] Salomon Brothers BIG through 12/31/95; Lehman Aggregate Index thereafter
[4] One Quarter in arrears

*Using time-weighted rate of return based on the market rate.

Largest Stock Holdings

As of June 30, 1998
(dollars in thousands):

Shares	Stocks	Fair Value
601,540	Pfizer Incorporated Com	$ 65,380
659,875	Cisco Sys Incorporated Com	60,750
628,075	General Electric Co Com	57,076
517,000	BankAmerica Corporation Com	44,721
433,630	Mannesman Ag Npv	44,012
320,815	Merck & Co Incorporated Com	42,909
374,835	Microsoft Corporation Com	40,623
252,062	American Intl Group Incorporated Com	36,801
598,600	Wal Mart Stores Incorporated Com	36,365
315,920	Bristol Myers Squibb Co Com	36,311

Largest Bond Holdings

As of June 30, 1998
(dollars in thousands):

Par	Bonds	Fair Value
110,000,000	Commitment To Purchase FGLMC 06.500% due 06-15-2028	$ 109,690
95,350,000	Commitment To Purchase FNMA 06.500% due 06-15-2028	94,962
80,010,000	US Treasury Bonds 06.250% due 08-15-2023	85,660
133,820,000	Germany (Fed Rep) Bonds Dms 1000 06.750% due 04-22-2003	81,568
69,890,000	US Treasury Bonds 06.750% due 08-15-2026	80,013
65,640,000	US Treasury Notes 06.250% due 02-28-2002	67,148
64,520,000	Commitment To Purchase GNMA SF MTG 06.500% due 07-15-2028	64,379
62,273,824	US Treasury Inflation Index Nt 03.375% due 01-15-2007	60,308
57,043,379	US Treasury CPI 03.625% due 01-15-2008	56,384
47,895,000	US Treasury Bonds 06.375% due 08-15-2027	52,594

A complete list of portfolio holdings is available upon request.

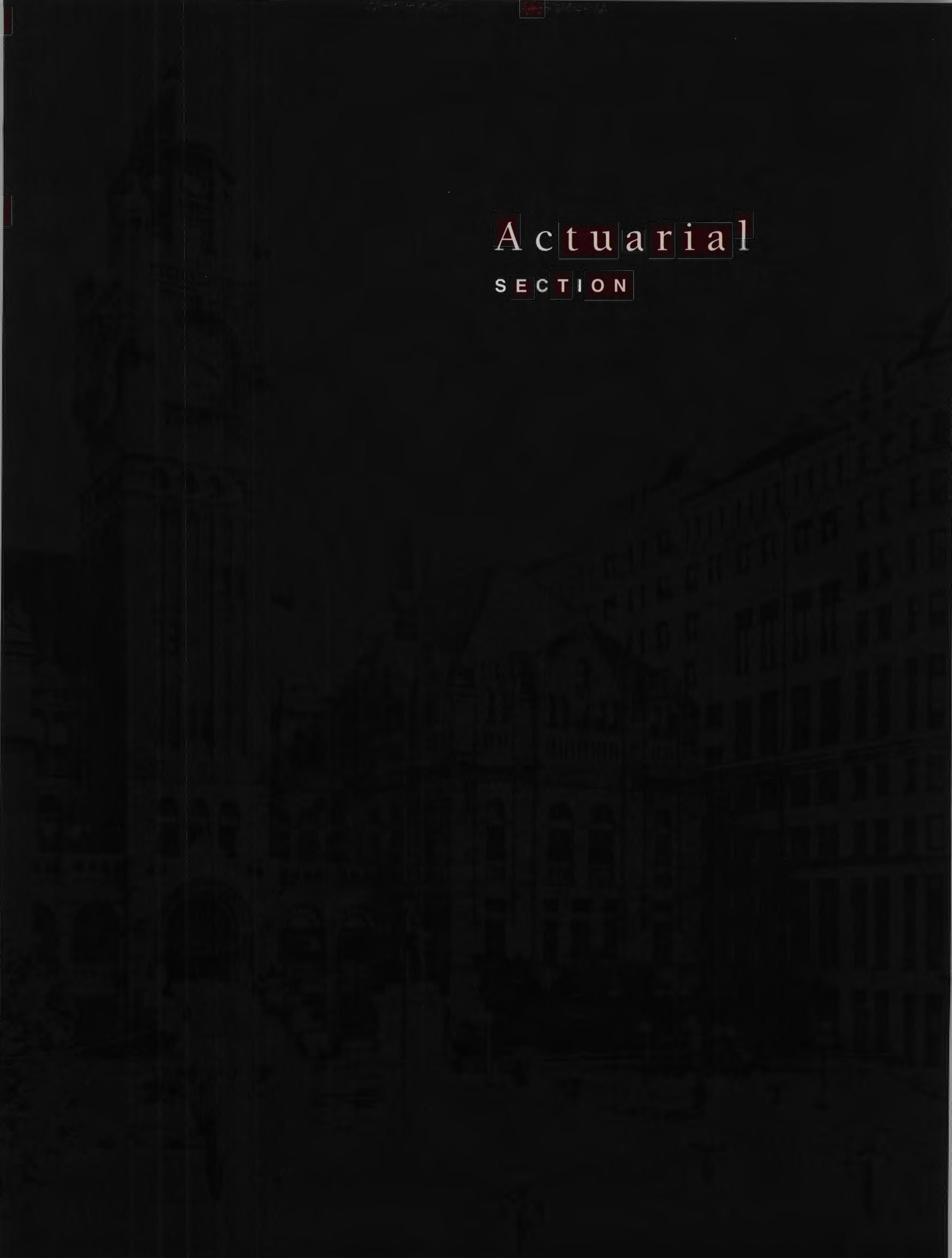
SCHEDULE OF INVESTMENT MANAGEMENT FEES

For the Years Ended June 30, 1998 and 1997
(dollars in thousands):

	1998	1997
Investment Activity		
Stock Managers		
Domestic		
Bankers Trust Co.	$ 639	$ 514
Capital Guardian Trust Co.	945	1,414
Chancellor Capital Management		390
Delta Asset Management	1,140	1,053
Hamilton Lane Advisors	437	213
ICM Asset Management	472	
Invesco Capital Management		443
Loomis, Sayles & Company, L.P.	1,029	1,105
Morgan Stanley Asset Mgt., Inc.		68
Pilgrim Baxter & Associates	553	667
Progress Investment Mgt. Co.	1,037	827
Putnam Investments	1,120	654
RCB International	1,223	930
The Oak Associates, Inc.	568	338
The Putnam Advisory Company, Inc.	1,397	1,167
Weiss, Peck & Greer	285	1,090
Total	10,845	10,873
International		
Bankers Trust Co. (EAFE)	854	979
Capital Guardian Trust Co.	3,259	2,914
Global Asset Management	1,165	1,146
Morgan Grenfell Investment Service Ltd.	694	595
Schroder Capital Management Int'l.	702	704
UBS Asset Management	1,121	821
Total	7,795	7,159
Bond Managers		
Domestic		
American Express	848	
BlackRock, Inc.	1,320	505
Bradford & Marzec, Inc.		179
Brown Brothers Harriman & Co.		437
Capital Guardian Trust Co.		884
Dodge & Cox	956	369
J. P. Morgan Investment Management, Inc.	903	261
Loomis, Sayles & Company, L.P.	1,622	201
Mackay-Shields Financial Corp.		322
Massachusetts Financial Services		159
Miller Anderson & Sherrerd, LLP	1,465	511
Nicholas-Applegate		363
Oaktree Capital Management	988	
TCW Asset Management Co.		354
UBS Asset Management (N.Y.) Inc.		340
Western Asset Management Company	1,001	219
Total	9,103	5,104

For the Years Ended June 30, 1998 and 1997
(dollars in thousands):

	1998	1997
International		
Brinson Partners, Inc.	$ 846	$ 781
Capital Guardian Trust Co.	973	908
J. P. Morgan Investment Mgt., Inc.	774	711
Morgan Grenfell Asset Management	785	712
Total	3,378	3,112
Alternative Assets		
Various Fund Managers	5,722	15,617
Real Estate		
Various Fund Managers	2,618	3,038
Cash and Short Term		
Bankers Trust Co.	35	61
Scudder, Stevens & Clark, Inc.	428	375
Total	463	436
Mortgage Loan Servicers		
Whole Loan Mortgage	52	63
Member Home Loan	280	216
Total	332	279
Total Fees from Investment Activity	40,256	45,618
Securities Lending Activity		
Management Fee	2,517	3,059
Borrower Rebate	78,802	77,319
Total Fees from Securities Lending Activity	81,319	80,378
Total Investment Management Fees	**$ 121,574**	**$ 125,996**



Actuarial

SECTION

Actuarial Certification

Watson Wyatt Worldwide

Watson Wyatt & Company

Suite 700
15303 Ventura Boulevard
Sherman Oaks, CA 91403-3197

Telephone 818 906 2631
Fax 818 906 2097

September 9, 1998

Board of Investments
Los Angeles County Employees Retirement Association
300 North Lake Avenue, Suite 820
Pasadena, CA 91101-4199

Dear Members of the Board:

Based on our review and reproduction of the results of the June 30, 1997 valuation originally completed by Towers Perrin, it is our opinion that LACERA is in sound condition and is being funded in accordance with accepted actuarial principles. The June 30, 1997 actuarial valuation determined the funding status of LACERA to be 101.3% This is based on plan liabilities determined using the entry age normal funding method and by using an actuarial value of assets based on a five-year phase-in of asset gains.

The June 30, 1977 valuation of LACERA reflected an unfunded actuarial accrued liability (UAAL) of approximately $2,797 million and a funding level of 41.7%. Commencing July 1, 1978, the County began making additional payments to LACERA to discharge the UAAL over a 30-year period. As of June 30, 1994, the UAAL had been reduced to approximately $1,997 million, bringing the funding level of LACERA to approximately 87.2%.

LACERA's goal of eliminating the UAAL by June 30, 2007 was achieved early when, during fiscal year 1994-1995, a Retirement System Funding Agreement was negotiated with the County. Under the Agreement, the County issued pension obligation bonds and transferred the proceeds to LACERA. The June 30, 1995 actuarial valuation determined the funding status of LACERA to be 100.7% with a surplus of $112 million.

The Retirement System Funding Agreement requires the County to maintain the funding level of LACERA at 97.5% through the completion of the June 30, 1998 actuarial valuation using a five-year rolling amortization period. For actuarial valuations performed in the period June 30, 1999 through June 30, 2008, the County must discharge any remaining UAAL component identified in the June 30, 1999 actuarial valuation by making annual contributions to LACERA over a 10-year period commencing July 1, 2000 to maintain a 100% funded status. Any additional UAAL identified in the June 30, 1999 through June 30, 2008 actuarial valuations must be discharged by making additional contributions to LACERA over a rolling five-year amortization period.

Actuarial valuations are performed annually to monitor LACERA's funded status. Triennially, an investigation is made of the appropriateness of all economic and non-economic assumptions. Recommendations are presented by the actuary to the Board of Investments for consideration and approval. The data used in the actuarial valuation and investigation were provided by the Board. The last triennial investigation was performed by Towers Perrin as of June 30, 1995. The assumptions used in the June 30, 1997 valuation comply with the requirements of Statement 25 of the Governmental Accounting Standards Board.

LACERA staff prepared the supporting schedules in this section and the trend tables in the financial section based on information supplied in Towers Perrin's report.

Sincerely,

Sharon A. Bronzwaer, FSA
Consulting Actuary

Gene Wickes, FSA
Consulting Actuary

Summary of Actuarial Assumption and Methods

Actuarial Assumptions and Methods: Recommended by the Actuary and adopted by the Board of Investments.

Actuarial Cost Method: Entry age normal.

Actuarial Asset Valuation Method: Five-year smoothing of fair value.

Amortization of Gains and Losses: Experience gains and losses are amortized over the same period as the unfunded actuarial accrued liability.

Investment Rate of Return: 8% per annum, 4% real and 4% inflation.

Projected Salary Increases: 5.5% per annum, 1.5% merit increase and 4% inflation.

Termination of Employment Rates: 0% to 10%.

Cost-of-Living Adjustments: 0%-3% based on plan maximums tied to the change in the Consumer Price Index. No cost-of-living adjustments for Plan E.

Expectation of Life After Retirement: 1983 Group Annuity Mortality.

Expectation of Life After Disability: 1981 Disability Mortality.

Retirants and Beneficiaries Added to and Removed From Retiree Payroll

	Number of Members						
Fiscal Year	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Retiree Payroll (In Thousands)	% Increase in Retiree Payroll	Average Annual Allowance
1993	37,101	3,583	(1,151)	39,533	$ 647,696	14.72%	16,384
1994	39,533	1,590	(1,379)	39,744	719,061	11.02%	18,092
1995	39,744	1,812	(1,275)	40,281	767,425	6.73%	19,052
1996	40,281	3,967	(3,341)	40,907	815,629	6.28%	19,939
1997	40,907	2,096	(1,130)	41,873	871,137	6.81%	20,804
1998	41,873	1,935	(1,373)	42,435	926,407	6.34%	21,831

ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Salary
30-Jun-92	General	67,485	2,565,702,972	38,019	7.03%
	Safety	11,284	652,337,160	57,811	5.88%
	Total	**78,769**	**3,218,040,132**	**40,854**	**6.89%**
30-Jun-93	General	67,073	2,672,622,408	39,846	4.81%
	Safety	10,959	664,961,088	60,677	4.96%
	Total	**78,032**	**3,337,583,496**	**42,772**	**4.69%**
30-Jun-94	General	65,413	2,725,672,524	41,669	4.57%
	Safety	10,527	665,768,796	63,244	4.23%
	Total	**75,940**	**3,391,441,320**	**44,659**	**4.41%**
30-Jun-95	General	66,511	2,769,393,504	41,638	-0.07%
	Safety	10,643	672,837,672	63,219	-0.04%
	Total	**77,154**	**3,442,231,176**	**44,615**	**-0.10%**
30-Jun-96	General	63,857	2,677,870,716	41,935	0.71%
	Safety	10,749	677,680,248	63,046	-0.27%
	Total	**74,606**	**3,355,550,964**	**44,977**	**0.81%**
30-Jun-97	General	64,228	2,690,310,456	41,887	-0.12%
	Safety	10,851	683,003,100	62,944	-0.16%
	Total	**75,079**	**3,373,313,556**	**44,930**	**-0.10%**

Actuary Solvency Test

(dollars in thousands):

	Actuarial Accrued Liability (AAL)					Percentage of AAL Covered by Assets		
Valuation Date	(1) Active Members	(2) Retired/Vested Members	(3) Employer Financed Portion	Total	Actuarial Value of Assets	(1) Active	(2) Retired	(3) Employer
30-Jun-92	$ 1,733,080	$ 6,229,881	$ 5,700,933	$ 13,663,894	$ 11,698,662	100%	100%	66%
30-Jun-93	1,702,809	7,561,981	5,784,067	15,048,857	12,721,364	100%	100%	60%
30-Jun-94	1,859,718	8,348,646	5,365,465	15,573,829	15,542,200	100%	100%	99%
30-Jun-95	2,022,633	9,002,459	5,366,741	16,391,833	16,503,672	100%	100%	102%
30-Jun-96	2,213,761	9,736,641	5,327,248	17,277,650	17,724,744	100%	100%	108%
30-Jun-97	2,396,515	10,549,312	6,437,814	19,383,641	19,642,355	100%	100%	104%

Actuarial Analysis Of Financial Experience

(dollars in millions):

	1992	1993	1994	1995	1996	1997
Prior Valuation Unfunded Actuarial Accrued Liability	$ 1,804	$ 1,965	$ 2,327	$ 32	($ 112)	($ 447)
Expected Increase from Prior Valuation	36	81	96	61	103	59
Salary Increases Greater (Less) than Expected	200	70	(95)	(205)	(339)	(353)
Terminations Fewer (Greater) than Expected		150				
Change in Assumptions	28			(180)		
Transfer of Assets from Undistributed Earnings	(240)					
Adjustment from Actuarial Audit						1,130
Asset Return Less (Greater) than Expected	(17)	(220)	(98)	(42)	(443)	(955)
Retirements Greater (Fewer) than Expected		250	(150)			
Pension Obligation Bond Proceeds			(1,965)			
All Other Experience	154	31	(83)	222	344	307
Ending Unfunded Actuarial Accrued Liability (Surplus)	**$ 1,965**	**$ 2,327**	**$ 32**	**($ 112)**	**($ 447)**	**($ 259)**

PROBABILITY OF OCCURRENCE

As of June 30, 1998

Age Nearest	Ordinary Withdrawal	Vested Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Service Disability	Service Death	DWE Svc. Ret.	DWE Dis. Ret
Plan A General Members - Male									
20	0.0934	0.0000	0.0001	0.0000	0.0000	0.0002	0.0000	0.0000	0.0000
30	0.0686	0.0000	0.0003	0.0000	0.0000	0.0003	0.0000	0.0000	0.0002
40	0.0313	0.0000	0.0003	0.0001	0.0000	0.0017	0.0000	0.0000	0.0006
50	0.0135	0.0000	0.0006	0.0010	0.0300	0.0034	0.0000	0.0000	0.0016
60	0.0118	0.0000	0.0014	0.0028	0.0910	0.0060	0.0000	0.0000	0.0039
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
Plan B General Members - Male									
20	0.0934	0.0000	0.0001	0.0000	0.0000	0.0002	0.0000	0.0000	0.0000
30	0.0686	0.0000	0.0003	0.0000	0.0000	0.0003	0.0000	0.0000	0.0002
40	0.0313	0.0000	0.0003	0.0001	0.0000	0.0017	0.0000	0.0000	0.0006
50	0.0135	0.0000	0.0006	0.0010	0.0150	0.0034	0.0000	0.0000	0.0016
60	0.0118	0.0000	0.0014	0.0028	0.0910	0.0060	0.0000	0.0000	0.0039
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
Plan C and D General Members - Male									
20	0.0934	0.0000	0.0001	0.0000	0.0000	0.0002	0.0000	0.0000	0.0000
30	0.0686	0.0000	0.0003	0.0000	0.0000	0.0003	0.0000	0.0000	0.0002
40	0.0313	0.0000	0.0003	0.0001	0.0000	0.0017	0.0000	0.0000	0.0006
50	0.0135	0.0000	0.0006	0.0010	0.0000	0.0034	0.0000	0.0000	0.0016
60	0.0118	0.0000	0.0014	0.0028	0.0910	0.0060	0.0000	0.0000	0.0039
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
Plan A General Members - Female									
20	0.1031	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.0695	0.0000	0.0001	0.0000	0.0000	0.0004	0.0000	0.0000	0.0000
40	0.0373	0.0000	0.0001	0.0002	0.0000	0.0008	0.0000	0.0000	0.0006
50	0.0232	0.0000	0.0003	0.0007	0.0130	0.0017	0.0000	0.0000	0.0010
60	0.0000	0.0000	0.0006	0.0020	0.0620	0.0033	0.0000	0.0000	0.0016
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
Plan B General Members - Female									
20	0.1031	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.0695	0.0000	0.0001	0.0000	0.0000	0.0004	0.0000	0.0000	0.0000
40	0.0373	0.0000	0.0001	0.0002	0.0000	0.0008	0.0000	0.0000	0.0006
50	0.0232	0.0000	0.0003	0.0007	0.0130	0.0017	0.0000	0.0000	0.0010
60	0.0000	0.0000	0.0006	0.0020	0.0620	0.0033	0.0000	0.0000	0.0016
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
Plan C and D General Members - Female									
20	0.1031	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
30	0.0695	0.0000	0.0001	0.0000	0.0000	0.0004	0.0000	0.0000	0.0000
40	0.0373	0.0000	0.0001	0.0002	0.0000	0.0008	0.0000	0.0000	0.0006
50	0.0232	0.0000	0.0003	0.0007	0.0000	0.0017	0.0000	0.0000	0.0010
60	0.0000	0.0000	0.0006	0.0020	0.0620	0.0033	0.0000	0.0000	0.0016
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000

PROBABILITY OF OCCURRENCE - *Continued*

Age Nearest	Ordinary Withdrawal	Vested Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Service Disability	Service Death	DWE Svc. Ret.	DWE Dis. Ret.
Plan A Safety Members									
20	0.0728	0.0000	0.0001	0.0000	0.0000	0.0002	0.0001	0.0000	0.0000
30	0.0256	0.0000	0.0001	0.0000	0.0000	0.0050	0.0001	0.0000	0.0002
40	0.0112	0.0000	0.0001	0.0006	0.0000	0.0169	0.0001	0.0000	0.0005
50	0.0004	0.0000	0.0002	0.0008	0.0452	0.0328	0.0002	0.0000	0.0008
60	0.0004	0.0000	0.0000	0.0000	1.0000	0.0673	0.0000	0.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
Plan B Safety Members									
20	0.0728	0.0000	0.0001	0.0000	0.0000	0.0002	0.0001	0.0000	0.0000
30	0.0256	0.0000	0.0001	0.0000	0.0000	0.0050	0.0001	0.0000	0.0002
40	0.0112	0.0000	0.0001	0.0006	0.0000	0.0169	0.0001	0.0000	0.0005
50	0.0004	0.0000	0.0002	0.0008	0.0452	0.0328	0.0002	0.0000	0.0008
60	0.0004	0.0000	0.0000	0.0000	1.0000	0.0673	0.0000	0.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000

CONTRIBUTORY PLANS A, B, C, D, AND F

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

ANNUAL BUDGET

The annual budget of the Los Angeles County Employees Retirement Association (LACERA) covering the entire expense of administration of the retirement system is charged against the earnings of the retirement fund. The expense incurred in any year cannot exceed eighteen-hundredths of one percent of the total assets of the retirement system. **(31580.2)**

MEMBERSHIP

Eligibility:

Permanent employees of Los Angeles County and participating districts who work 3/4 time or more are eligible for membership in LACERA. **(31551, 31552, Bylaws)**

Employees eligible for safety membership (law enforcement, fire fighting and lifeguards) become safety members on the first day of the month after date of hire. **(31558)**

All other employees become general members on the first day of the month after date of hire, or the first day of the month after they make an election of either Plan D or Plan E, depending on the law in effect at that time. **(31493, 31493.5, 31493.6, Bylaws)**

Elective officers become members on the first day of the month after filing a declaration with the Board of Retirement (Board). **(31553, 31562)**

General members in Plan E may transfer all their Plan E service credit to Plan D during an approved transfer period by making the required contributions. Transferred members relinquish, waive, and forfeit any and all vested or accrued benefits available under any other retirement plan and are entitled only to the benefits of Plan D. (31494.1, 31494.3)

Retirement Plans and Membership Dates:

The County has established seven defined benefit plans (General Plans A, B, C, D and E and Safety Plans A and B) and two defined contribution plans (General Plan F and Safety Plan F) based on a member's date of entry into LACERA. (Noncontributory Plan E is detailed separately at the end of this section.) The following contributory plans provide retirement, disability and death benefits for members and their beneficiaries:

Plan A: General and safety members - prior to September 1977

Plan B: General members - September 1977 through September 1978
Safety members - September 1977 to present

Plan C: General members - October 1978 through May 1979

Plan D: General members - June 1979 through January 3, 1982; and those hired on or after January 4, 1982 who elect Plan D instead of Plan E

Plan F: General members in Plan D and safety members in Plan B who first became members on or after January 1, 1990, and are subject to the limitations set forth in Section 415 of the Internal Revenue Code of 1986. (31510)

	GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS
MEMBER CONTRIBUTIONS	
Contributions are based on the nearest entry age of each member and are required of all members in Plans A, B, C, and D. (If a member is also in Plan E, a portion of the contribution under General Plan D or Safety Plan B will be credited to Plan E.) Current rates are published in the plan disclosure booklets. The contribution rate is multiplied by the member's compensation earnable to compute the actual contribution. Compensation earnable is the amount of compensation used in calculating retirement contributions for Plan A, B, C, or D members and for computing retirement benefits for all LACERA members.	**(31461, 31461.1, 31510.2, 31510.4, 31620, 31639.1)**
The County withdrew its employees from Social Security effective January 1,1983. General members in Plans A, B, and C who were covered by Social Security as County employees prior to that date, paid only two-thirds of the contribution rate on the first $350 of salary while Plan D members paid only two-thirds of the rate on the first $1,050 of salary. The full rate was applicable on salaries above these amounts.	**(31812)**
Contributions are deducted monthly from wage warrants and are credited to each individual member's account.	**(31625)**
Contributions cease when members are credited with 30 years of service in a contributory plan provided they were members of LACERA or a reciprocal system on March 7, 1973, and continuously thereafter.	**(31625.2, 31836.1)**
Former members who return to service may redeposit withdrawn contributions plus interest from date of withdrawal. Redeposit may be by lump sum or installment payments over a ten-year period. Membership is the same as if unbroken except that current contributions are based on nearest age at reentry.	**(31652, Bylaws)**
Members who were retired for disability and return to membership after a determination they are no longer disabled, or return to membership following a service retirement and elect Plan D, make contributions based on their nearest age at reentry.	**(31680.4, 31680.5, 31733)**
Interest is credited to contributions semiannually on June 30 and December 31 at an interest rate set by the Board of Investments on amounts that have been on deposit for at least six months. No interest is credited after termination of membership except as follows: deferred retirement is elected or is deemed to have been elected; the surviving spouse of a deceased member (or legally appointed guardian of the member's unmarried children under age 18) has elected to leave a death benefit on deposit as provided in Section 31781.2; or the former member, regardless of service, has left his or her contributions on deposit and has not terminated employment.	**(31591, 31700)**
Member contributions made through payroll deductions are considered to be employer contributions for tax purposes only and are made on a before-tax basis. (Effective August 1, 1983, per Internal Revenue Code Section 414(h)(2).)	
Member contributions may be refunded upon termination of employment by filing a withdrawal application. If the money is not claimed within five years, if first employed on or after January 1, 1976, (ten years if first employed before January 1, 1976), the unclaimed funds become a part of the Employer Reserves.	**(31628, 31629)**

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

EMPLOYER CONTRIBUTIONS

In addition to member contributions, the employer (County or district) contributes to the retirement fund a percent of the total compensation provided for all members based on an actuarial investigation, valuation and recommendation of the actuary.

(31453, 31454, 31581)

The County or district may also make additional appropriations to fund any deficit or to amortize unfunded accrued actuarial obligations.

(31453.6, 31454.5, 31454.6)

SERVICE AND BREAKS IN SERVICE

Service means uninterrupted employment of any person appointed or elected for a given period provided:

(31641, Bylaws)

(a) Deductions are made from the member's earnable compensation from the County or district for such service.

(b) Member contributions are made for specific military service authorized by other provisions of the County Employees Retirement Law (CERL).

(c) Credit is received for County service and/or for public service under the provisions of Article 7 (Service) in the CERL.

(d) Credit, as defined in the Bylaws, is allowed for prior service.

The following are not considered as breaking the continuity of service:

(31642)

(a) A temporary layoff because of illness, economy, suspension, or dismissal, followed by reinstatement or reemployment within one year.

(b) A leave of absence followed by reinstatement or reemployment within one year after the termination of the leave of absence.

(c) A resignation to enter, followed by entrance into, the armed forces of the United States, followed by reemployment by the County or district within six months after the termination of such service.

(d) Resignation of a member who has elected in writing to come within the provisions of Article 9 (Deferred Retirement) followed by reemployment before withdrawal of any accumulated contributions.

Note: The withdrawal of accumulated contributions followed by the redeposit of the contributions upon reentrance into service does not constitute a break in the continuity of service.

(31652)

When a member receives credit for temporary, seasonal, intermittent, or part-time service performed either before or during membership, the credit received will be proportionate to the time required to perform the same duties in a full-time position. A "year of service" in a 1/2 time position would mean it would take two years to earn one full year of credit.

(31640.5)

	GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS
SERVICE AND BREAKS IN SERVICE - *Continued*	
Members may purchase service credit to increase their retirement benefits for the following types of service:	
Temporary or Permanent Time	(31641.5)
Redeposit of Withdrawn Contributions	(31652)
Sick Without Pay	(31646)
Federal/Military	(31641.1, 31641.2(a), Board of Supervisors Resolution)
Other Public Agency	(31641.1, 31641.2(c), Board of Supervisors Resolution)
Any Public Entity Located Wholly in the County of Los Angeles	(31643, 31644, Bylaws)
United States of America, State of California or any Public Entity Located Within the State of California	(31643, 31644, Bylaws)
General to Safety Service	(31639.75)
A member who elects to purchase credit under Section 31494.3, 31641.1, 31641.5, 31646, 31652 or under regulations adopted by the Board of Retirement (Bylaws) under Section 31643 or 31644 must complete the purchase within 120 days after the effective date of retirement.	(31485.6)
SERVICE RETIREMENT ALLOWANCE	
Compensation Limit:	
The amount of compensation that is taken into account in computing benefits payable to any person who first becomes a member on or after July 1, 1996, shall not exceed the dollar limitations in Section 401(a)(17) of Title 26 of the US Code.	(31671)
Combined General and Safety Service:	
Members who earn service credit as both a general and safety member will receive a combined retirement allowance after retirement. The benefits for each type of service will be added together to determine the total retirement allowance payable.	(31664.65)
Payment of Allowance:	
A retired member's retirement allowance may be paid by warrant or the retired member may authorize the allowance to be directly deposited by electronic fund transfer into the member's financial institution.	(31452.6, 31590)

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

SERVICE RETIREMENT ALLOWANCE - *Continued*

Retirement Plan Allowances:

Retirement allowances are based on retirement plans which provide different levels of benefits. Two important differences between the plans are the age factors which determine the percent of final compensation per year of service and the final compensation periods: one year versus three years. The plans and their benefits are as follows:

PLAN A

Retirement Eligibility:

General members: Age 50 with 10 years of County service, or any age with 30 years of service or age 70 regardless of the number of years of service. (31672)

Safety members: Age 50 with 10 years of County service, or any age with 20 years of service or age 60 (mandatory retirement age for safety members hired before April 1, 1997), regardless of the number of years of service. There is no mandatory retirement for safety members hired on or after April 1, 1997. (31662.4, 31662.6, 31663.25)

Monthly Allowance:

General members: 1/60 x final compensation x general Plan A age factor x years of service. Allowance may not exceed 100% of final compensation. (31676.14)

For those years of County service in which a member was covered by Social Security prior to January 1, 1983, substitute 1/90 for 1/60 for compensation up to and including $350 per month. Use the formula in the paragraph above for compensation in excess of $350 per month. Service prior to membership is also calculated using the formula in the paragraph above unless it was County service which was covered by Social Security. (31808)

Final compensation is the average monthly compensation earnable for the last one year of service if the member does not elect a different one-year period. (31462.1)

Safety members: 1/50 x final compensation x safety Plan A age factor x years of service. Allowance may not exceed 100% of final compensation. (31664)

Final compensation is the average monthly compensation earnable for the last one year of service if the member does not elect a different one-year period. (31462.1)

PLAN B

Retirement Eligibility/Allowance:

Same eligibility and allowance formula as Plan A, except general Plan B age factors are different than general Plan A; safety Plan B age factors are the same as safety Plan A. For both general and safety Plan B, final compensation is the average monthly compensation earnable for the last three years of service if the member does not elect a different three-year period. If a member has less than three years of service, final compensation is determined by dividing the member's total compensation earnable by the number of credited months of service. (31664, 31676.11)

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

SERVICE RETIREMENT ALLOWANCE - *Continued*

PLAN C

Retirement Eligibility/Allowance:

Same eligibility and allowance formula as general Plan A, except general Plan C age factors are different and final compensation period is three years as in Plan B. **(31676.1)**

PLAN D

Retirement Eligibility/Allowance:

Same eligibility and allowance formula as general Plan A, except $350 figure is replaced by $1,050 and final compensation period is three years as in Plan B. In addition, Plan D age factors are the same as Plan C age factors. **(31676.1, 31808)**

PLAN F

Two defined contribution plans (general Plan F and safety Plan F) are provided for persons who first became members of the retirement system on or after January 1, 1990, and are subject to the limitations set forth in Section 415 of the Internal Revenue Code. These plans, in conjunction with general Plan D and safety Plan B are intended to provide approximately the same level of retirement benefits to persons who became members before January 1, 1990. The actuary determines the portion of the members' contributions which are credited to Plan F. **(31510, 31510.1, 31510.2, 31510.3, 31510.4)**

UNMODIFIED AND OPTIONAL RETIREMENT ALLOWANCES

Unmodified Retirement Allowance:

An Unmodified Retirement Allowance is paid to a retired member throughout the member's life. The continuance of an unmodified service retirement allowance or a nonservice-connected disability retirement allowance to an eligible surviving spouse (or eligible children) is equal to 60% of the member's allowance. To receive this continuance the spouse must be the designated beneficiary and have been married to the member at least one year prior to retirement. **(31760.1, 31785)**

If there is no spouse or the spouse dies before every child attains the age of 18, the continuance is payable to the member's children until they marry or turn 18, or through age 21 if they remain unmarried and are enrolled as full-time students in an accredited school.

The continuance of an unmodified service-connected disability retirement allowance to an eligible surviving spouse (or eligible children) is equal to 100% of the member's allowance. To receive this continuance the spouse must be the designated beneficiary and have been married to the member prior to retirement. **(31786)**

A child eligible to receive a survivor benefit under Section 31760.1, 31781.1, 31786, or 31787 is considered unmarried if the child is not married as of the date the member dies, whether or not the child was previously married. If the child thereafter marries, eligibility for the survivor benefit is terminated, and the benefit is not reinstated if the child subsequently returns to unmarried status. **(31780.1)**

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

UNMODIFIED AND OPTIONAL RETIREMENT ALLOWANCES - *Continued*

Optional Retirement Allowance:

Under an Optional Retirement Allowance a member may elect to have the actuarial equivalent of the service or disability retirement allowance applied to a lesser retirement allowance during the retired member's life in order to provide an optional survivor allowance as shown below. The option must be elected before the first retirement allowance payment is made. If an option is elected, the 60% continuance benefit under a service or nonservice-connected disability retirement or the 100% continuance under a service-connected disability retirement is replaced by the following: (31760)

Option 1 Member's allowance is reduced to pay a cash refund of any unpaid annuity payments (up to the amount of the member's contributions at retirement) to the member's estate or to a beneficiary having an insurable interest in the life of the member. (31761)

Option 2 100% of member's reduced allowance is payable to a surviving spouse or beneficiary having an insurable interest in the life of the member. (31762)

Option 3 50% of member's reduced allowance is payable to a surviving spouse or beneficiary having an insurable interest in the life of the member. (31763)

Option 4 Other % of member's reduced allowance is payable to a surviving spouse or beneficiary(ies) having an insurable interest in the life of the member. (31764)

A member may not revoke and name another beneficiary if the member elects Option 2, 3 or 4. (31782)

Pension Advance Option:

The Pension Advance Option is available to members who are fully insured under Social Security for the purpose of coordinating a member's retirement allowance with benefits receivable from Social Security. It is not available to disability retirees or members who elect Option 2, 3 or 4. The allowance is increased prior to age 62 and then reduced after 62 by amounts which have equivalent actuarial values. The automatic 60% continuance for eligible spouses of members who elect the Pension Advance Option is based on the unmodified allowance the member would have received if the member had not elected the option. (31810, 31811)

All allowances are made on a pro rata basis (based on the number of days in that month) if not in effect for the entire month as in the month of death or the month of retirement. (31600)

SERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE

Eligibility:

Any age or years of service; disability must result from occupational injury or disease. (31720, 31720.5)

Definition Of Disability:

Active members who are permanently incapacitated for the performance of duty; application must be made within four months of separation from service or any time thereafter while continuously incapacitated to perform duties. (31720, 31722)

	GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS
SERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE - *Continued*	
Monthly Allowance:	
The allowance begins from the date of application but not earlier than the day following the last day of regular compensation.	(31724)
The monthly allowance is equal to 50% of final compensation, or if the member is eligible to retire, the service retirement allowance, if greater.	(31727.4)
Upon the death of a member while receiving a service-connected disability retirement allowance, 100% of the allowance continues to a surviving spouse who is designated as beneficiary and who was married to the member prior to retirement (or eligible children) unless the member elected an optional allowance.	(31760, 31786)
NONSERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE	
Eligibility:	
Any age with five years of County service or combination of County and reciprocal service.	(31720, 31836)
Definition Of Disability:	
Active members who are permanently incapacitated for the performance of duty; application must be made within four months of separation from service or any time thereafter while continuously incapacitated to perform duties.	(31720, 31722)
Monthly Allowance:	
The allowance begins from the date of application but not earlier than the day following the last day of regular compensation.	(31724)
The monthly allowance is equal to a service retirement allowance if the member is eligible to retire, otherwise allowance equals (a) or (b) where:	(31726, 31726.5)
(a) is 90% of 1/60 of final compensation x years of service if member must rely on service in another retirement system in order to be eligible to retire, or allowance exceeds 1/3 of final compensation; or	(31727(a))
(b) is 90% of 1/60 of final compensation x years of service projected to age 65 if allowance does not exceed 1/3 of final compensation. (Members are eligible for the amount in (b) only if they are eligible to retire without relying upon service in another retirement system and the allowance computed under (a) does not exceed 1/3 of final compensation.)	(31727(b))
For safety members 1/60 is replaced by 1/50 and age 65 is replaced by age 55 in (a) and (b) above.	(31727.2)
Upon the death of a member while receiving a nonservice-connected disability retirement allowance, 60% of the allowance continues to a surviving spouse who is designated as beneficiary and was married to the member one year prior to retirement (or eligible children) unless the member elected an optional allowance.	(31760, 31760.1, 31785)

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

CHANGE OF POSITION IN LIEU OF DISABILITY RETIREMENT ALLOWANCE

An incapacitated member who is eligible for either a nonservice-connected or service-connected disability retirement allowance under his or her former position may, upon approval by the Board, accept a lower paying position for which he or she is not disabled. In such cases, LACERA pays an amount that equals the difference in salary between the member's current and former position, not to exceed the amount of the disability allowance to which the member would otherwise be entitled. Such payments in lieu of a disability retirement allowance are considered a charge against the Employer Reserves. **(31725, 31725.5)**

SERVICE-CONNECTED DEATH BENEFITS

Eligibility:

Active members who die in service as a result of injury or disease arising out of and in the course of employment. **(31787)**

Death Benefit (Lump Sum):

The member's normal contributions and interest, plus 1/12 of the compensation earned in preceding 12 months x the number of completed years of service (benefit not to exceed 50% of the 12 months' compensation) is payable to the named beneficiary. **(31781)**

Monthly Allowance:

An annual death allowance is payable monthly to an eligible surviving spouse (or eligible children) equal to 50% of the member's final compensation. The spouse to whom the member was married prior to sustaining the service-connected injury or disease (or eligible children) does not have to be designated as beneficiary. The spouse (or eligible children) may elect this death benefit in lieu of the lump-sum death benefit. **(31787)**

Optional Combined Benefit:

In lieu of the monthly allowance above, a surviving spouse may elect: **(31781.3)**

(a) A lump sum equal to 1/12 of the compensation earned in the preceding 12 months x the number of completed years of service (benefit not to exceed 50% of the 12 months' compensation), plus

(b) A monthly payment equal to 100% of the monthly retirement allowance to which the member would have been entitled if the member had retired or been retired for a service-connected disability as of the date of death, reduced by a monthly amount which is the actuarial equivalent of (a) above based on the age of surviving spouse.

Additional Allowance For Children:

If a member is killed in the performance of duty or dies as a result of an accident or an injury caused by external violence or physical force incurred in the performance of duty, the annual death allowance described above is increased by 25% (i.e., to 62-1/2% of final compensation) for one child, by 40% for two children, and by 50% for three or more children. **(31787.5)**

Additional Amount For Spouse of Safety Member:

A surviving spouse of a safety member who is killed in the performance of duty or dies as a result of an accident or an injury caused by external violence or physical force incurred in the performance of duty is also entitled to receive a lump-sum death benefit equal to 12 x monthly rate of compensation at the time of member's death in addition to all other benefits. **(31787.6)**

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

NONSERVICE -CONNECTED DEATH BENEFITS

Eligibility:

Active members who die while in service or while physically or mentally incapacitated for the performance of duty. **(31780)**

Death Benefit (Lump Sum):

The member's normal contributions and interest, plus 1/12 of the compensation earned in preceding 12 months x the number of completed years of service (benefit not to exceed 50% of the 12 months' compensation) is payable to the named beneficiary. **(31781)**

In lieu of the lump-sum death benefit, the following death benefits are available:

First Optional Death Benefit:

If a member who would have been entitled to a nonservice-connected disability retirement allowance dies prior to retirement as a result of such disability, the surviving spouse (or eligible children) may elect to receive an optional death allowance equal to 60% of the monthly retirement allowance to which the member would have been entitled as of the date of death. If there is no spouse or the spouse dies before making an election, the legally appointed guardian makes the election on behalf of the children. The rights of a surviving spouse (or eligible children) to receive the monthly allowance supersede those of any other named beneficiary. **(31781.1)**

Benefits are payable to the children until they marry or turn 18, or through age 21 if they remain unmarried and are enrolled as full-time students in an accredited school.

Second Optional Death Benefit:

If a member dies prior to reaching the minimum retirement age but has 10 or more years of County service, a surviving spouse (or eligible children) may elect to leave the amount of the death benefit on deposit until the earliest date the member could have retired and at that time receive the allowance provided for in Section 31765 (an Option 3 benefit) or 31765.1 (a 60% continuance). **(31781.2)**

Third Optional Death Benefit:

A surviving spouse of a member who dies after five years of County service may elect a combined benefit equal to: **(31781.3)**

(a) A lump sum equal to 1/12 of the compensation earned in the preceding 12 months x the number of completed years of service (benefit not to exceed 50% of the 12 months' compensation), plus

(b) A monthly payment equal to 60% of the monthly retirement allowance to which the member would have been entitled if the member had retired or been retired for a nonservice-connected disability as of the date of death, reduced by a monthly amount which is the actuarial equivalent of (a) above based on the age of surviving spouse.

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

NONSERVICE-CONNECTED DEATH BENEFITS - *Continued*

Fourth Optional Death Benefit:

If a member dies while eligible for a service retirement and the surviving spouse is designated as beneficiary, the spouse (or eligible children) may elect to receive 60% of the monthly retirement allowance to which the member would have been entitled as of the date of death. **(31765.1)**

Fifth Optional Death Benefit:

If a member dies while eligible for a service retirement and the surviving spouse is designated as beneficiary and survives the member by not less than 30 days, the spouse (or eligible children) may elect to receive the same retirement allowance as the spouse would have received had the member retired on the date of death and selected Option 3. **(31765)**

Note: The person to whom any lump-sum death benefit is payable may optionally elect to receive monthly installments over a period not to exceed 10 years plus interest on the unpaid balance. **(31784)**

DEFERRED VESTED BENEFITS

Eligibility:

Vested members may elect to retire at any time they could have retired had they remained in County service in a full-time position. Members are 0% vested with fewer than five years of County service and 100% vested with five or more years of County service. **(31700)**

Years of service for determining eligibility for retirement include reciprocal service with all reciprocal agencies. **(31836)**

Monthly Allowance:

The allowance is calculated according to the applicable service retirement formula at the time of retirement. **(31703, 31704, 31705)**

To receive a deferred retirement allowance, member contributions must be left on deposit and the member must apply for deferred retirement benefits within 180 days of termination. Members who complete five years of service but fail to elect a deferred retirement are deemed to have elected a deferred retirement. **(31700)**

If a terminated member dies before the effective date of the deferred retirement allowance, the death benefit is the normal contributions plus interest of the member. **(31702)**

A member who has attained age 70 and is not in service or in a reciprocal retirement system must be notified that the member is eligible to apply for and shall begin receiving a deferred retirement allowance by April 1 of the year following the year in which the member attains 70-1/2. **(31706)**

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

DEFERRED VESTED BENEFITS - *Continued*

Reciprocity:

Career public service is encouraged by granting reciprocal benefits to members who are entitled to retirement benefits from two or more retirement systems established under the CERL or from a county retirement system and the California Public Employees' Retirement System (CalPERS). To establish reciprocity, a member must terminate employment covered by one retirement system and enter employment covered by a reciprocal retirement system within six months if the reemployment occurs on or after January 1, 1976, (90 days for reemployment which occurs prior to January 1, 1976). **(31830, 31840.3)**

Final compensation may be based on service with CalPERS or other county retirement system, if higher. **(31835)**

Deferred members may include CalPERS service and service in another county retirement system for benefit eligibility if compensation for such service constitutes compensation earnable. **(31836)**

Deferred members are eligible for disability benefits from LACERA if disabled while a member of CalPERS or other county retirement system. In no event will the benefits be larger than if all service was spent with one system. **(31837, 31838, 31838.5)**

Deferred members are eligible for death benefits from LACERA if they die while a member of CalPERS or other county retirement system. The death benefit is a return of normal contributions plus interest only if the death is service-related; if death is nonservice-related, benefit equals accumulated contributions plus amount necessary to bring the total LACERA plus CalPERS benefit up to 50% of the final 12 months' compensation. **(31839, 31840)**

TRANSFERS

Whenever firefighting or law enforcement functions performed by a city or the state subject to the California Public Employees' Retirement Law are transferred to the County, fire authority, or district, employees performing those functions become members of LACERA. LACERA and CalPERS may enter into an agreement whereby the members' service credit plus the members' and the cities' or state's retirement contributions are transferred from CalPERS to LACERA. **(31657)**

COST-OF-LIVING INCREASES

Cost-of-living increases (or decreases) are applied to all retirement allowances (service and disability), optional death allowances, and annual death allowances effective April 1, based on changes in the Consumer Price Index (CPI) from the previous January 1 to the current January 1, to the nearest 1/2 of 1%. The CPI is based on the Bureau of Labor Statistics CPI for All Urban Consumers for the area in which the county seat is situated. **(31870, 31870.1)**

Plan A members (and their beneficiaries) are limited to a maximum 3% cost-of-living increase (or decrease) whereas Plan B, C, and D members (and their beneficiaries) are limited to a maximum 2% cost-of-living increase (or decrease). **(31870, 31870.1)**

When the CPI exceeds 2 or 3%, the difference between the actual CPI and the maximum cost-of-living increase that can be given in any year is credited to the COLA Accumulation and may be used in future years to provide cost-of-living increases when the CPI falls below 2 or 3%, depending on the retirement plan. **(31870, 31870.1)**

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

COST-OF-LIVING INCREASES - *Continued*

A decrease in the CPI may not reduce the allowance below the amount being received by the member (or beneficiary) on the effective date of the allowance or when the cost-of-living provisions were implemented. **(31870, 31870.1)**

Members who have a COLA Accumulation of more than 25% resulting from CPI increases that exceeded the maximum cost-of-living increases that could be granted are eligible for a supplemental cost-of-living increase effective January 1 known as the Supplemental Targeted Adjustment for Retirees Cost-of-Living Adjustment (STAR COLA). **(31874.3(b))**

POST-RETIREMENT DEATH BENEFIT

A one-time lump-sum benefit of $750 is payable to the estate or to the beneficiary designated by the member upon the death of any member while receiving a retirement allowance. This is in addition to any other death or survivor benefits. The amount may be paid from surplus earnings of the retirement system, if any, but is currently paid by the County based on agreement with LACERA. **(31789.1)**

POST-RETIREMENT EMPLOYMENT

A retired member may, without reinstatement from retirement or loss of benefits, serve in various types of post-retirement service such as juror, election officer, field deputy for registration of voters, etc. **(31680.1)**

A retired member may, without reinstatement from retirement or loss of benefits, be employed in a position requiring special skills or knowledge for a period not to exceed 120 days or 960 hours, whichever is greater, in any one fiscal year or any other 12-month period determined by the County or district. **(31680.2, 31680.6)**

A member, retired for service, may be reemployed and again become an active member of the retirement system if the member is determined not to be incapacitated for the duties to be assigned. If the member is returning to general service, the member will be placed in general Plan E or the member may elect general Plan D and pay a contribution rate based on the member's nearest age at the date of reentry into the system; or if the member is returning to safety service, the member will be placed in safety Plan B and pay a contribution rate base on the member's nearest age at the date of reentry into the system. The member's retirement allowance is canceled on the effective date of the member's reemployment and resumed only upon the subsequent termination of the member from employment. The member will receive an additional allowance for the period of reemployment. Other adjustments may be made in the member's allowance. **(31680.4, 31680.5)**

A member, retired for disability, may be reemployed and again become an active member of the retirement system if the member is determined to be no longer incapacitated and reinstatement is offered by the employer. The member's allowance is terminated at reentry into the system and the contribution rate is based on the member's nearest age at the date of reentry. The member's account is credited with an amount which is the actuarial equivalent of the member's annuity at that time. The retirement plan remains the same as it was before retirement for disability. **(31730, 31733)**

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

UNCLAIMED BENEFITS

Whenever a person or estate entitled to payment of a member's contributions or any other benefit fails to claim the payment or cannot be located, the Board shall attempt to locate the claimant through reasonable means and hold the payment of the claimant. If the amounts are not claimed within five years, the amounts become part of the pension reserve fund, but the Board may return the amounts to the claimant upon receipt of information satisfactory to it. **(31783.5)**

LONG-TERM CARE INSURANCE

The Board may provide a long-term care insurance program for retired members and their spouses, their parents, and their spouses' parents. The Board must approve the following: eligibility criteria for enrollment, appropriate underwriting criteria, scope of covered benefits, criteria to receive benefits, and any other standards as needed. Full cost of enrollment is paid by the enrollees. **(31693.3, 31696.1, 31696.2, 31696.4, 31696.5)**

NONCONTRIBUTORY PLAN E

MEMBERSHIP

Eligibility:

Plan E is a noncontributory retirement plan which is only available to permanent employees of Los Angeles County and participating districts who work 3/4 time or more and are eligible for general membership in LACERA. **(31487, Bylaws)**

Persons hired on or after January 4, 1982, become Plan E members on the first day of the month following the date of hire or date of eligibility for membership, unless they elect Plan D; or, the first day of the month following an election of Plan E, depending on the law in effect at that time. **(31487, 31493, 31493.5, 31493.6, Bylaws)**

General members in Plans A, B, C, and D who transferred all their contributory plan service credit to Plan E during an approved transfer period are also members of Plan E. Transferring members relinquish and waive all previously available vested or accrued retirement, survivor, disability and death benefits. **(31487, 31494)**

MEMBER CONTRIBUTIONS

There are no general member retirement contributions under Plan E. **(31489)**

EMPLOYER CONTRIBUTIONS

The employer is required to make contributions to finance Plan E based on the recommendation of the actuary. **(31495)**

SUMMARY OF PLAN PROVISIONS

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

SERVICE AND BREAKS IN SERVICE

Service means the period of uninterrupted employment of a member and the time in which a member or former member (1) is totally disabled, and (2) is receiving or is eligible to receive disability benefits under a disability plan provided by the County. **(31488)**

A member will not be credited with service for any period, in excess of 22 consecutive workdays, in which the member is absent from work without pay. **(31488)**

A member who was in public service prior to becoming a member may not receive credit for that prior public service, except as provided in Section 31494. **(31490)**

Absence from work or termination of employment while an eligible employee or disability beneficiary, under a disability plan provided by the employer, does not break the continuity of service. **(31490)**

An unpaid leave of absence not exceeding one year, or a leave of absence for which an employee receives any benefit which has been approved by the employer, is not considered an interruption of service. The period of unpaid leave in excess of 22 consecutive work days is not considered as service in calculating Plan E benefits. **(31490)**

Service does not include military service or public service other than service with the County, except that members transferring to Plan E will receive credit for public service performed prior to the transfer, including service with the County, military service, and other public service or prior service to which the member would otherwise be eligible. Note: The option to transfer to Plan E was discontinued by the County in January 1993. **(31488, 31494)**

SERVICE RETIREMENT ALLOWANCE

Eligibility - Normal Retirement:

Age 65 with 10 years of service. **(31491)**

Normal Monthly Retirement Allowance:

2% x final compensation x years of service, not to exceed 35 years, plus 1% x final compensation x years of service in excess of 35, not to exceed 10 additional years, reduced by the estimated Primary Insurance Amount (PIA) x a fraction, the numerator of which is the number of years of service with the employer subject to coverage under the federal system not to exceed 35 years, and the denominator of which is 35. **(31491)**

Final compensation is the average monthly compensation earnable during any three years (whether or not consecutive) elected by the member or the three years in which the member last earned compensation before retirement if no election is made. **(31488)**

Estimated PIA is based on the member's age and salary as of the date of retirement or the date of termination of a vested member, provided that: **(31491)**

Prior career earnings shall be assumed to have been subject to the federal system and have increased at a yearly rate equal to the average per worker total wages reported by the Social Security Administration, and **(31491)**

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

SERVICE RETIREMENT ALLOWANCE - *Continued*

For those members who have not attained the normal retirement age under the federal system: (31491)

(a) Future earnings shall be assumed to continue at the pay rate received by the employee from the employer as of the date of retirement or date of termination of a vested member, whichever is applicable, and

(b) Future wage bases, as defined by the federal system, shall be assumed to continue at the wage base in effect in the year of retirement or year of termination of a vested member, whichever is applicable, and

(c) Cost-of-living increases in the year of retirement and delayed retirement credit provided under the federal system shall not be included in the calculation of the estimated PIA.

Adjustments will be made for members receiving a normal retirement allowance upon presentation of the actual PIA. (31491)

Maximum Normal Monthly Retirement Allowance:

The sum of the normal retirement allowance and the estimated PIA cannot exceed 70% of final compensation for a member with 35 or less years of service and cannot exceed 80% of final compensation if service exceeds 35 years. (31491)

Eligibility - Early Retirement:

Age 55 with 10 years of service. (31491)

Early Monthly Retirement Allowance:

An early retirement allowance is the actuarial equivalent of the normal retirement allowance. (31491)

UNMODIFIED AND OPTIONAL RETIREMENT ALLOWANCES

Unmodified Retirement Allowance:

An Unmodified Retirement Allowance is paid to a retired member throughout the member's life. The continuance of an unmodified service retirement allowance to an eligible surviving spouse (or eligible children) is equal to 50% of the member's allowance. To receive this continuance the spouse must have been married to the member at least one year prior to retirement. (31492)

Eligible children are unmarried children below the age of 18 (below 22 if unmarried and full-time students in an accredited school). (31492)

Optional Retirement Allowance:

Under an Optional Retirement Allowance a retired member may elect to have the actuarial equivalent of the member's allowance as of the date of retirement applied to a lesser amount throughout the retired member's life in order to provide an optional survivor allowance for one or more designated beneficiaries who have an insurable interest in the life of the member. Please refer to Option 2, 3 and 4 described in Unmodified and Optional Retirement Allowances shown under the contributory plans for information on this topic. (31492)

GOVERNMENT CODE SECTIONS OR BOARD OF RETIREMENT BYLAWS

SERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE

A service-connected disability retirement allowance is not available under Plan E. (31487)

NONSERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE

A nonservice-connected disability retirement allowance is not available under Plan E. (31487)

SERVICE-CONNECTED DEATH BENEFITS

A service-connected death benefit is not available under Plan E. (31487)

NONSERVICE-CONNECTED DEATH BENEFITS

A nonservice-connected death benefit is not available under Plan E. (31487)

VESTED BENEFITS

Vested members or vested former members may elect to retire at any time after they have completed ten years of County service and are at least age 55. Members are 0% vested with fewer than ten years of County service and 100% vested with ten or more years of County service. (31491)

Vested benefits are payable at normal retirement or in an actuarially equivalent reduced amount at early retirement. (31491)

RECIPROCITY

The provisions of reciprocity are the same as for the contributory plans except those provisions dealing with disability retirement, death benefits and the requirement relating to the deposit of accumulated member contributions. (31487)

COST-OF-LIVING INCREASES

Cost-of-living increases are not available under Plan E. (31487)

POST-RETIREMENT DEATH BENEFIT

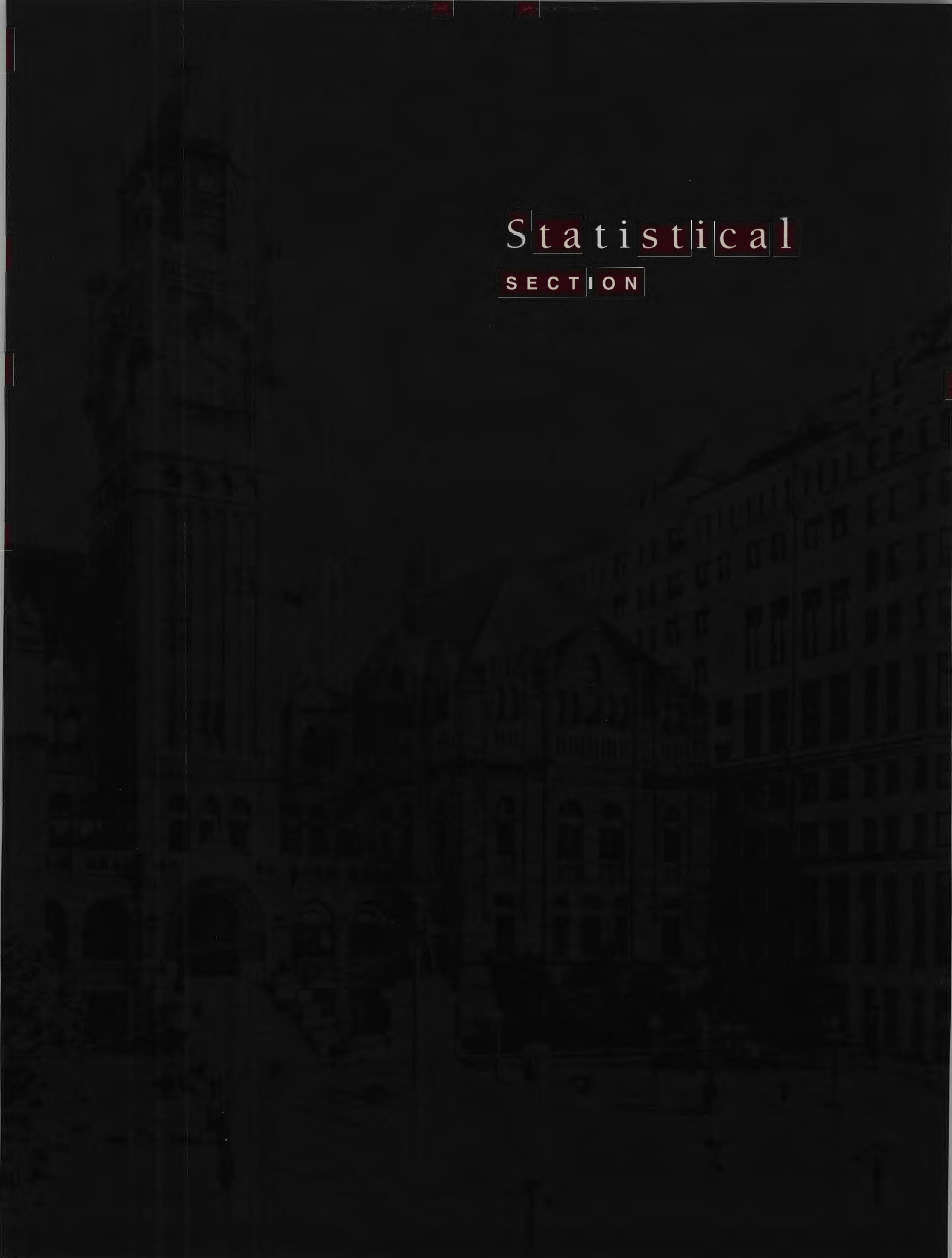
The only death benefits payable after retirement are the continuance allowances described above under Unmodified and Optional Retirement Allowances. There is no $750 lump-sum payment under Plan E. (31492)

POST-RETIREMENT EMPLOYMENT

Please refer to Post-Retirement Employment shown under the contributory plans for information on this topic.

Statistical

SECTION



Revenues By Source

(dollars in thousands):

Fiscal Year	Employer Contributions	Member Contributions	Net Investment Income[1]	Miscellaneous Revenues	Total
1993	$ 379,789	$ 159,406	$ 1,093,850	$ 496	$ 1,633,541
1994	382,984	162,765	1,223,824	422	1,769,995
1995	2,038,253	173,464	1,194,597	618	3,406,932
1996	132,451	183,260	2,338,909		2,654,620
1997	1,168	171,014	2,429,476	589	2,602,247
1998	9,420	179,476	2,870,636	1,223	3,060,755

Expenses By Type

(dollars in thousands):

Fiscal Year	Benefits	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
1993	$ 648,798	$ 18,154	$ 18,746	$ 252	$ 685,950
1994	719,851	19,431	10,349	92	749,723
1995	768,384	19,764	10,389	181	798,718
1996	817,280	21,432	20,109	52	858,873
1997	872,134	23,417	14,973	44,041[2]	954,565
1998	927,204	24,969	16,391	45,070[2]	1,013,634

[1] Excludes net appreciation in fair value of investments.

[2] Includes Retiree Healthcare Program.

Active / Deferred Members, and Unclaimed Accounts

	1993	1994	1995	1996	1997	1998
Active Vested						
General	36,426	36,235	38,128	40,478	42,461	43,444
Safety	7,830	8,248	8,828	8,952	9,269	9,005
Sub-Total	44,256	44,483	46,956	49,430	51,730	52,449
Active Nonvested						
General	30,647	29,178	28,383	23,379	21,759	22,334
Safety	3,129	2,279	1,815	1,797	1,590	1,942
Sub-Total	33,776	31,457	30,198	25,176	23,349	24,276
Total Active Members						
General	67,073	65,413	66,511	63,857	64,220	65,778
Safety	10,959	10,527	10,643	10,749	10,859	10,947
Total	**78,032**	**75,940**	**77,154**	**74,606**	**75,079**	**76,725**
Deferred Members						
General	3,076	3,204	3,314	3,980	4,101	4,624
Safety	74	89	102	150	154	152
Total	**3,150**	**3,293**	**3,416**	**4,130**	**4,255**	**4,776**
Unclaimed Accounts						
General	787	381	310	104	75	35
Safety	35	14	11	4	3	2
Total	**822**	**395**	**321**	**108**	**78**	**37**

Retired Members by Type of Retirement

	1993	1994	1995	1996	1997	1998
Service						
General	24,563	24,582	24,610	25,122	25,717	25,958
Safety	2,256	2,215	2,247	2,316	2,404	2,434
Total	**26,819**	**26,797**	**26,857**	**27,438**	**28,121**	**28,392**
Disability						
General	4,067	4,033	4,047	4,051	4,076	4,074
Safety	3,067	3,128	3,291	3,407	3,542	3,697
Total	**7,134**	**7,161**	**7,338**	**7,458**	**7,618**	**7,771**
Survivors						
General	4,637	4,814	4,775	4,988	5,079	5,184
Safety	943	972	965	1,023	1,055	1,088
Total	**5,580**	**5,786**	**5,740**	**6,011**	**6,134**	**6,272**
Total Retired Members						
General	33,267	33,429	33,432	34,161	34,872	35,216
Safety	6,266	6,315	6,503	6,746	7,001	7,219
Total	**39,533**	**39,744**	**39,935**	**40,907**	**41,873**	**42,435**

Benefit Expenses By Type

(dollars in thousands):

	1993	1994	1995	1996	1997	1998
Service Retiree Payroll						
General	$ 412,314	$ 462,614	$ 489,177	$ 517,034	$ 556,639	$ 588,036
Safety	65,281	73,873	80,061	85,382	86,450	95,183
Total	**477,595**	**536,487**	**569,238**	**602,416**	**643,089**	**683,219**
Disability Retiree Payroll						
General	75,596	77,811	82,304	93,102	96,182	99,261
Safety	94,505	104,763	115,883	120,111	131,866	143,927
Total	**170,101**	**182,574**	**198,187**	**213,213**	**228,048**	**243,188**
Total Retiree Payroll						
General	487,910	540,425	571,481	610,136	652,821	687,297
Safety	159,786	178,636	195,944	205,493	218,316	239,110
Total	**647,696**	**719,061**	**767,425**	**815,629**	**871,137**	**926,407**
Lump-Sum Death Benefits						
General	1,070	715	848	1,219	820	577
Safety	32	75	111	432	177	220
Total	**1,102**	**790**	**959**	**1,651**	**997**	**797**
Total Benefit Expense						
General	488,980	541,140	572,329	611,355	653,641	687,874
Safety	159,818	178,711	196,055	205,925	218,493	239,330
Total	**$ 648,798**	**$ 719,851**	**$ 768,384**	**$ 817,280**	**$ 872,134**	**$ 927,204**

Participating Employers and Active Members

	1993	1994	1995	1996	1997	1998
County of Los Angeles						
General Members	67,031	65,382	66,479	63,830	64,193	65,753
Safety Members	10,959	10,527	10,643	10,749	10,859	10,947
Total	**77,990**	**75,909**	**77,122**	**74,579**	**75,052**	**76,700**
Participating Agencies (General Membership)						
South Coast Air Quality Management District	19	10	10	8	8	7
Los Angeles County Office of Education	14	13	14	14	11	10
Little Lake Cemetery District	4	3	3	3	3	3
Local Agency Formation Commission	5	5	5	2	5	5
Total	**42**	**31**	**32**	**27**	**27**	**25**
Total Active Membership						
General Members	67,073	65,413	66,511	63,857	64,220	65,778
Safety Members	10,959	10,527	10,643	10,749	10,859	10,947
Total	**78,032**	**75,940**	**77,154**	**74,606**	**75,079**	**76,725**

Schedule of Average Benefit Payments

Retirement Effective Dates	Years of Credited Service					
	5-9	10-14	15-19	20-24	25-29	30+
7/1/96 to 6/30/97						
Retirants						
General Members						
Average Monthly Benefit	$ 897	$ 841	$ 1,278	$ 1,780	$ 2,317	$ 3,533
Average Final Average Salary	4,521	3,639	3,793	3,726	4,005	4,679
Number of Active Retirants	79	162	196	246	347	375
Safety Members						
Average Monthly Benefit	$ 2,196	$ 2,336	$ 2,497	$ 2,884	$ 3,968	$ 5,218
Average Final Average Salary	4,742	4,850	5,168	5,362	5,757	6,131
Number of Active Retirants	33	22	12	30	83	130
Survivors						
General Members						
Average Monthly Benefit	$ 621	$ 555	$ 916	$ 974	$ 993	$ 2,487
Average Final Average Salary	4,157	3,367	3,026	3,404	3,235	4,464
Number of Active Survivors	4	10	8	16	13	13
Safety Members						
Average Monthly Benefit	$ 2,230	$ 2,471		$ 2,497	$ 2,828	$ 4,533
Average Final Average Salary	4,460	4,942		4,993	5,593	6,165
Number of Active Survivors	2	1		1	3	4
7/1/97 to 6/30/98						
Retirants						
General Members						
Average Monthly Benefit	$ 666	$ 779	$ 1,099	$ 1,834	$ 2,198	$ 3,485
Average Final Average Salary	3,106	3,452	3,469	3,887	3,988	4,746
Number of Active Retirants	69	169	168	198	306	312
Safety Members						
Average Monthly Benefit	$ 2,271	$ 2,606	$ 2,479	$ 3,280	$ 4,260	$ 5,592
Average Final Average Salary	4,815	5,050	5,009	6,027	6,025	6,446
Number of Active Retirants	21	27	12	29	70	107
Survivors						
General Members						
Average Monthly Benefit	$ 694	$ 380	$ 941	$ 876	$ 1,301	$ 2,439
Average Final Average Salary	3,556	1,404	3,402	2,311	3,120	4,486
Number of Active Survivors	7	20	10	16	27	23
Safety Members						
Average Monthly Benefit	$ 361		$ 1,751	$ 1,452	$ 3,002	$ 3,652
Average Final Average Salary			3,312	3,770	3,492	3,823
Number of Active Survivors	1		3	3	7	6

Employer Contribution Rates
County of Los Angeles and Local Agency Formation Commission

	General					Safety	
Effective Date	Plan A	Plan B	Plan C	Plan D	Plan E	Plan A	Plan B
1 Feb 90 to 30 Jun 92	15.18%	11.59%	11.29%	11.17%	9.82%	21.02%	13.29%
1 Jul 92 to 30 Jun 93	13.76%	10.49%	10.14%	10.36%	9.62%	19.25%	11.73%
1 Jul 93 to 30 Sep 94	13.82%	10.58%	10.11%	10.40%	9.34%	20.86%	13.17%
1 Oct 94 to 30 Jun 95	10.82%	7.58%	7.11%	7.40%	6.34%	19.56%	11.87%
1 Jul 95 to 30 Jun 96	9.73%	6.83%	6.30%	6.85%	5.63%	20.11%	11.53%
1 Jul 96 to 30 Jun 98	9.64%	6.03%	5.69%	5.90%	6.48%	16.73%	9.29%

Rates applicable to the Local Agency Formation Commission are limited to Plans D and E, General.

Employer Contribution Rates
Los Angeles County Office of Education and Little Lake Cemetery District

	General		
Effective Date	Plan A	Plan B	Plan D
1 Sep 87 to 31 Jan 90	17.91%	14.89%	14.63%
1 Feb 90 to 31 Aug 93	14.45%	11.43%	11.17%
1 Sep 93 to 30 Sep 94	13.09%	10.42%	10.40%
1 Oct 94 to 30 Jun 95	10.09%	7.42%	7.40%
1 Jul 95 to 30 Jun 96	9.00%	6.67%	6.85%
1 Jul 96 to 30 Jun 98	8.95%	6.02%	5.90%

Rates applicable to the Los Angeles County Office of Education are limited to Plan A.

Employer Contribution Rates
South Coast Air Quality Management District

	General		
Effective Date	Plan A	Plan B	Plan C
1 Sep 87 to 31 Jan 90	20.87%	19.20%	19.08%
1 Feb 90 to 31 Aug 93	17.41%	15.74%	15.62%
1 Sep 93 to 30 Sep 94	17.32%	14.89%	14.61%
1 Oct 94 to 30 Jun 95	14.32%	11.89%	11.61%
1 Jul 95 to 30 Jun 96	13.23%	11.14%	10.80%
1 Jul 96 to 30 Jun 98	14.56%	12.41%	11.72%

LACERA

300 North Lake Avenue, Pasadena, California 91101