LACERA

Los Angeles County Employees Retirement Association

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

Comprehensive Annual Financial Report for the year ended June 30, 2002

resilience:

an ability to recover from or adjust easily to misfortune or change

The Table of Contents page contains direct links to each topic.

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Issued by:

Marsha D. Richter
Chief Executive Officer

Gregg Rademacher
Assistant Executive Officer

Robert R. Hill
Assistant Executive Officer

300 N. Lake Avenue Pasadena, CA 91101 626-564-6000 www.lacera.com

This fiscal year has had its ups and downs for LA County, and the rest of the country. But Los Angeles County Employees Retirement Association (LACERA) is still standing strong. We are a fully funded retirement association with a $26 billion fund. Through modern technology and hard work we are able to further refine and improve our member services. All in all we have made positive progress this year.

The word **resilience** comes to mind.

Resilience = an ability to recover from or adjust easily to misfortune or change

We have expressed the essence of resilience in this annual report through some of the familiar faces of LA County including Department of Parks & Recreation, LAC+USC Medical Center, LACERA, Firefighters, and Los Angeles County Museum of Art (LACMA).

LACERA's Mission Statement:

We produce, protect, and provide the promised benefits.

INTRODUCTORY SECTION

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The Table of Contents page contains direct links to each topic.

Introductory Section

During the fiscal year, LACERA staff assisted 10,500 members at our public service counter and answered 156,000 telephone inquiries from members. We also held 580 workshops for new hires, mid-career, pre-retirement, and post-retirement members. We have over 300 permanent and temporary employees.

www.lacera.com

LACERA staff is here to guide your retirement decisions and administer retirement benefits for all LA County employees, from the "set-the-world-on-fire" new hires to the seasoned professionals. The knowledgeable, well-trained staff is happy to assist you and provide the answers you seek. Our primary directive is twofold: provide accurate information with excellent customer service, and safeguard the retirement fund through prudent diversified investments. As technology advances and laws change, we are resilient in our efforts to maintain a level of excellence in all our services.

We are a friendly diverse group of professional individuals. We enjoy a sense of personal satisfaction in performing our jobs to the best of our abilities. Thank you, LA County, for your trust in us.

INTRODUCTORY SECTION

October 16, 2002

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

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, 2002 and 2001. The report is intended to provide users extensive and reliable information for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of LACERA.

We are proud of the achievements accomplished during the year and our continued focus to provide accurate and timely service to over 140,000 members including 46,000 benefit recipients. During this fiscal year, our service enhancement initiatives strongly reflect our goal of improving member services until 100% of members making inquiries receive courteous, professional, accurate answers with just one call. We continue to search for new and innovative methods to deliver the highest quality customer service to our members. Our Vision is the driving force of our Association because our members deserve the best. We have clarified our Mission Statement so that all who read it will understand LACERA's purpose and why we exist:

"TO PRODUCE, PROTECT, AND PROVIDE THE PROMISED BENEFITS."

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. The annual 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 2002. This section contains this Letter of Transmittal, the Certificate of Achievement for Excellence in Financial Reporting, a listing of the Members of the Boards of Retirement and Investments, an overview of LACERA's administrative organization, and a list of non-investment professional consultants LACERA utilizes.

The **Financial Section** presents the financial condition and funding status of LACERA. This section contains the opinion of the independent certified public accountants, PriceWaterhouseCoopers, LLP, Management's Discussion and Analysis, the financial statements, and the related supplementary financial information.

Marsha D. Richter
Chief Executive Officer

INTRODUCTORY SECTION

The **Investment Section** provides an overview of LACERA's investment program. This section contains the investment consultant's letter reviewing the investment activity results, the Chief Investment Officer's Report, investment performance results, a list of the external 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 certification of the consulting actuary, Milliman USA, Inc., 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

On January 1, 1938, LACERA was established to provide retirement allowances and other benefits to the safety and general members employed by Los Angeles County. Subsequently, LACERA expanded its membership program to include four other agencies, namely:

- 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 LACERA's 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. The Board of Investments is responsible for determining LACERA's investment objectives, strategies, and policies. Both Boards appoint a Chief Executive Officer, who is delegated the responsibility for the day-to-day management of LACERA.

Financial Information

Internal Control

The accounting firm of PriceWaterhouseCoopers, LLP provides both financial statement audit services, and specified 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 specified procedures review examines LACERA's processes, procedures, and internal controls in selected operational areas each year. Maintaining appropriate internal controls and the financial statement presentation are the responsibility of management, with oversight by LACERA's Internal Audit Services staff.

Analysis

An overview of LACERA's fiscal operations is presented in the Management's Discussion and Analysis (MD&A) preceding the financial statements. This transmittal letter when taken in consideration with the MD&A provides an enhanced picture of the activities of the organization.

Investment Activities

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

A pension fund's strategic asset allocation policy, 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. LACERA's strategic 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.

LACERA restructured its Securities Lending Program (Program) this fiscal year with goals to maximize the value of LACERA's Securities Lending Program and to enhance Program flexibility and reduce the risk of having a single provider of securities lending services. The Program is managed by one principal borrower, and two agent lenders. The principal borrower borrows domestic equities and corporate bonds. The two agent lenders lend LACERA's domestic treasury, agency, mortgage-backed securities and international equities.

Due primarily to declining stock markets, the total fund return was a negative 5.6% for the fiscal year. This result, while disappointing, was not unexpected after the string of very good years. The five-year annualized return is still a positive number at 6.2%, but is down from last year.

Actuarial Funding Status

Milliman USA, Consultants and Actuaries (Milliman USA), LACERA's independent actuary, performed the 2001 Investigation of Experience study during fiscal year 2001-2002. The investigative study on plan experience assesses the reasonableness of LACERA's actuarial assumptions and methodology by comparing actual experience during the preceding three years to what was expected to happen according to actuarial assumptions. As a result of the investigative study, the Board of Investments adopted several changes in the actuarial assumptions. The new assumptions were used in preparing the June 30, 2001 triennial valuation.

LACERA measures its funding level based on actuarial accrued liabilities determined using the entry age normal funding method and an actuarial value of assets which smoothes the recognition of gains and losses over a three-year period. Under the Interim Funding Policy adopted by the Board of Investments on February 14, 2001, a portion of the Contingency Reserve was recognized as valuation assets for funding purposes. Thus, the actuarial value of plan assets equals the actuarial accrued liability on June 30, 2001, resulting in a funding ratio of 100%.

Prior to 1990, LACERA obtained valuations every three years as required by the County Employees Retirement Law of 1937. In 1990, LACERA's Board of Investments adopted a valuation policy requiring annual valuations. These valuations are used to review the funding progress being made by the System. Although each valuation contains recommended contribution rates, the Board of Investments has generally continued its pre-1990 policy of authorizing new contribution rates only on the basis of the triennial valuation. As a result of the June 30, 2001 triennial valuation, new member and employer rates were recommended.

LACERA is funded by both member and employer contributions. Member normal contributions are those required to fund a specific annuity at a specified age. Member contribution rates vary according to the member's age at first membership. The County Employees Retirement Law also requires members to pay half the contributions required to fund the cost of living benefit, which are affected by changes in both economic and non-economic assumptions. Since the valuation includes several changes to the actuarial assumptions, new member contribution rates were recommended.

Liabilities not funded through the member contribution rates are the responsibility of the employer. Change in any of the economic and non-economic assumptions impact employer contribution rates. The employer is responsible for contributing the cost of benefits expected to be accrued in the future and half of the cost-of-living benefit. These are called normal cost contributions. The employer is also responsible for contributing the cost for funding liabilities that have accrued in the past, which is known as the unfunded actuarial liability.

Under the terms of the 1994 Retirement System Funding Agreement, contributions to retire an unfunded actuarial liability are required to be paid using a five-year amortization period should the funding ratio drop below 100%. As the funding ratio as of June 30, 2001 is 100%, no employer contribution for unfunded liability is required. In addition, on June 4, 2002, the Retirement System Funding Agreement was amended to extend the unfunded actuarial liability amortization period to 30 years. This amendment will apply to future valuations beginning with the June 30, 2002 annual valuation.

Service Efforts and Accomplishments

Fiscal year 2001-2002 was eventful and productive for LACERA. During this fiscal year, the following significant accomplishments were achieved:

In order to better serve our membership, LACERA's Retirement Services Division underwent a major reorganization. The result was the creation of three new divisions: Member Services, Claims Processing, and Quality Assurance & Metrics. These divisions are the direct service providers to our members. The transition occurred with minimal interruption to our members. The reorganization reduced bureaucracy, increased accountability over each process, and now allows for greater accuracy and monitoring of the quality of service we provide.

Because of the confidential and sensitive nature of member information, LACERA focused on improving the security over our operations during this last year, especially since the terrorist attacks emphasized the need to be prepared for any eventuality. We successfully tested all technology platforms at our disaster recovery hotsite, including recovery of business-specific information and programs. We altered mailroom procedures and equipment in order to mitigate potential biohazard or biological warfare risk. We purchased major equipment that is critical to network and end-user upgrades, and heightened network security by instituting bio-logons (fingerprint readers) on all employees' computers.

Communication external to LACERA improved with the additions made to LACERA's website on the Internet. The Retirement Calculator was updated and improved. The Retirement Calculator is an interactive tool for members to get an idea of what their retirement allowance could be, based on various scenarios they enter. The Plan Transfer Calculator was developed as an interactive tool to estimate the cost of transferring prospectively from Plan E to Plan D, and for Traditional Open Window transfers. In addition, vendors and business associ-

Gregg Rademacher
Assistant Executive Officer

ates may now access Requests For Proposals (RFPs) through our website. The Real Estate Section was added to the website so that the public may view LACERA's property acquisitions by region and property type.

Communication within LACERA also improved with the launching of the Intranet, which will be the repository for all the latest policies and procedures. The Intranet also fosters teamwork among the divisions by sharing information in an efficient and convenient electronic format.

Over 10,500 members were assisted at our public service counter and over 156,000 telephone inquiries were addressed. In our continuing efforts to help members better understand their retirement benefits, staff conducted close to 580 workshops at LACERA, County departmental locations, and other facilities. These outreach presentations included sessions covering members' careers (i.e., new membership, mid-career, pre-retirement, and post-retirement). To provide members with easy access to retirement information, staff established a regular and ongoing presence at various County facilities by bringing LACERA directly to the members at their job sites. Staff conducted 28 in-home counseling sessions, which is an ongoing service provided to terminally ill members and their families in order to assist them in making retirement decisions.

Staff improved upon the use of the enterprise-wide integrated financial application that incorporates LACERA's various finance related functions. Staff fully implemented the direct download of investment transactions from the custodian bank into the general ledger. Staff also exported administrative check data directly from the integrated financial system to the commercial banking system. The integrated financial system was used to streamline the disability payment process as well. These improvements protect the integrity of our data by reducing human error, speeding our processing time, and ensuring our financial records are complete and accurate.

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 20% or more of the purchasing power of their original retirement benefit. The Board of Retirement, together with the Board of Investments, has unanimously supported the STAR program through their annual program approval and fund appropriations. In December 2001, the Board of Retirement voted to vest the 2002 STAR program at an 80% level as authorized in the California Government Code at a cost of $12.7 million. It ensures permanent continuation of the program for "vested participants" at their "vested benefit level" and requires the STAR Program benefit to become a part of the base allowance upon which future Cost of Living Adjustment (COLA) program increases will be calculated. The STAR program benefit costs for calendar year 2001 were $41.4 million, and are anticipated to be similar for calendar year 2002. Currently, over 13,000 retirees receive this benefit.

Healthcare Benefits Program

Under an agreement with the County of Los Angeles, LACERA administers a Healthcare Benefits Program which includes medical and dental/vision plans for over 69,000 retirees/survivors and their eligible dependents, and a Long Term Care Program for nearly 3,000 participants.

Robert R. Hill
Assistant Executive Officer

During fiscal year 2001-2002, in our continued effort to provide a health care benefits program of the highest quality, staff accomplished the following:

- Implemented Caremark's "CarePatterns" disease management program for LACERA retirees and
dependents enrolled in the Blue Cross Plans I, II and III effective April 1, 2002.
- Conducted LACERA's 10th annual Health Fair, which is sponsored by participating healthcare providers and organizations. More than 1,500 members attended the Health Fair.
- Conducted the mailing of the annual letter and insurance rate booklet to 33,000 members in May 2002, and implemented the new rate tables for a July 1, 2001 effective date.

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, 2001. This was the 12th consecutive year that LACERA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable 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 to determine its eligibility for another certificate.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report on a timely basis is made possible by the dedicated teamwork of LACERA staff under the leadership, dedication, and support of the LACERA Boards. I would like to express my sincere gratitude to the LACERA Boards and staff, as well as to all our professional service providers, who performed so diligently to ensure the successful operation and financial soundness of LACERA.

Respectfully submitted,

Marsha D. Richter

Marsha D. Richter
Chief Executive Officer

2002 Board of Retirement

Member (not pictured)
Sadonya Antebi
Appointed by the Board of Supervisors
Term expires 12-31-02

Member
Vacant
Appointed by the Board of Supervisors

Top (L-R)	**Member** Mark J. Saladino Treasurer and Tax Collector Ex-Officio member	**Vice Chairman** Edgar H. Twine Appointed by the Board of Supervisors Term expires 12-31-03	**Member** John F. Fleming Elected by Retired members Term expires 12-31-02	**Chairman** Les Robbins Elected by Safety members Term expires 12-31-04
Bottom (L-R)	**Member** Bruce Perelman Elected by General members Term expires 12-31-02	**Member** Richard R. Wirth Appointed by the Board of Supervisors Term expires 12-31-02	**Member** William R. Pryor (Alternate member) Elected by Safety members Term expires 12-31-04	**Secretary** Simon S. Russin Elected by General members Term expires 12-31-03

2002 Board of Investments

Vice Chairman (not pictured)
Daniel R. Cohen
Appointed by the Board of Supervisors
Term expires 12-31-02

Member
Vacant
Appointed by the Board of Supervisors

Top (L-R)

Member
Larkin Teasley
Appointed by the Board of Supervisors
Term expires 12-31-02

Member
Simon S. Russin
Elected by General members
Term expires 12-31-02

Member
Les Robbins
Elected by Safety members
Term expires 12-31-04

Bottom (L-R)

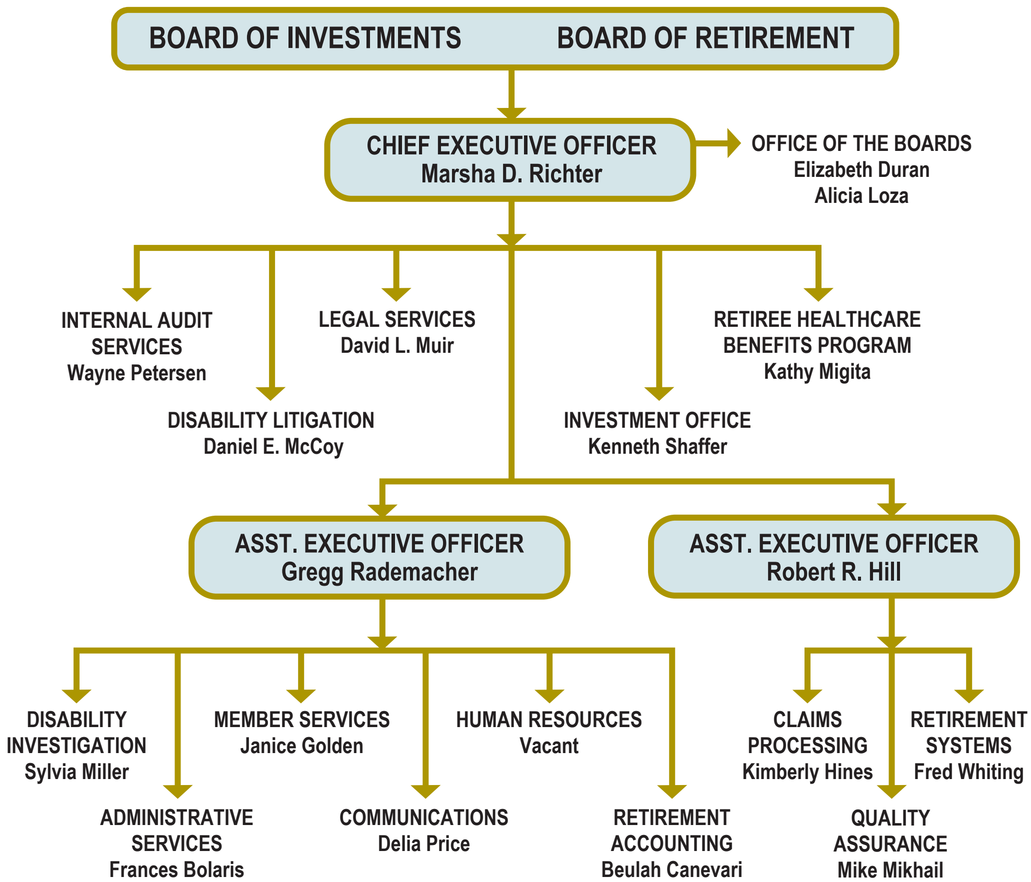
Secretary
Brian C. Brooks
Elected by General members
Term expires 12-31-03

Chairman
Sandra J. Anderson
Elected by Retired members
Term expires 12-31-02

Member
Mark J. Saladino
Treasurer and Tax Collector
Ex-Officio member

Member
Cody Ferguson
Appointed by the Board of Supervisors
Term expires 12-31-03

2002 Organizational Chart



List of Professional Consultants

Actuary
Milliman USA

Auditors
Financial Control Systems, Inc.
PriceWaterhouseCoopers, L.L.P.
The Segal Company

Commercial Banking
Mellon Global Cash Management

Custodian
Mellon Trust

Data Processing
Los Angeles County
Internal Services Department

Governance Consultant
Institutional Shareholder Services, Inc.

Investment Consultants
Frank Russell Company
The Townsend Group

Legal Counsel
Cox, Castle & Nicholson, L.L.P.
Christensen, Miller, Fink, Jacobs, Glaser
Weil & Shapiro, L.L.P.
D'Ancona & Pflaum
Graves, Roberson & Bourassa
Jones, Day, Reavis & Pogue
Morrison & Foerster, L.L.P
Orrick, Herrington & Sutcliffe, L.L.P.
Paul, Hastings, Janofsky & Walker, L.L.P.
Latham & Watkins
Bannan, Green, Frank & Terzian, L.L.P.
Groom Law Group, Chartered
Berman, DeValerio, Pease, Tabacco, Burt & Pucillo,
Bernstein, Litowitz, Berger & Grossmann,
Girard, Gibbs & DeBartolomeo,
Grant & Eisenhofer

Mortgage Loan Custodian
Bankers Trust Company
Chase Manhattan Bank

Certificate of Achievement
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 each year. For the 12th year in a row, LACERA has been awarded this prestigious Certificate of Achievement.

Financial Section

LAC+USC Medical Center services over 50,000 inpatients and 750,000 outpatients annually. It has a state-of-the-art burn center, neonatal intensive care unit, trauma service, a clinical research center, and an HIV/AIDS outpatient center. The center is among the largest teaching hospitals in the country. www.dhs.co.la.ca.us

Section

From 911 emergencies to basic preventive medicine, all services are efficiently administered within LA County's various medical centers. Day and night, the hallways buzz with the energy of nurses and doctors performing their urgent life-sustaining tasks. Good health is everything. There is a certain peace of mind in knowing we can count on LA County's medical professionals to handle our personal medical needs.

We applaud these unsung heroes, the dedicated caregivers who provide for our physical and mental well being.

Report of Independent Accountants

PriceWaterhouseCoopers LLP
400 South Hope Street
Los Angeles, CA 90071-2889
Telephone (213) 236-3000
Facsimile (213) 622-9062

Boards of Retirement and Investments

Los Angeles County Employees Retirement Association

In our opinion, the accompanying statement of plan net assets and the related statement 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, 2002 and 2001, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles in the United States of America. 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 audits of these statements in accordance with generally accepted auditing standards in the United States of America 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.

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2001, LACERA adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

The Management's Discussion and Analysis on pages 17 through 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 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.

In accordance with **Government Auditing Standards**, we have also issued our report dated October 3, 2002 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. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

PriceWaterhouseCoopers LLP

October 3, 2002

FINANCIAL SECTION

Management's Discussion and Analysis as of June 30, 2002

This Management's Discussion and Analysis of the financial activities of LACERA is an overview of its fiscal operations for the year ended June 30, 2002. Readers are encouraged to consider the information presented in conjunction with the Financial Statements.

Financial Highlights

(Dollars in thousands)

- Net Assets Held in Trust for Pension Benefits, as reported in the Statement of Plan Net Assets, totals $26,047,240, a decrease of $2,306,022 or 8.1% from the prior year. Economic factors are discussed further in the body of this Management's Discussion and Analysis.
- Total Additions as reflected in the Statement of Changes in Plan Net Assets are ($969,991) primarily as a result of the depreciation in the fair value of investments and reduced investment returns due to unstable financial market conditions. This represents less of a loss from the prior year by $999,638, or a change of 50.8%.
- Total Deductions as reflected in the Statement of Changes in Plan Net Assets totals $1,336,031, an increase of $93,574 or 7.5% from the prior year.
- LACERA engaged Milliman USA to serve as its independent actuary. The latest actuarial valuation completed was as of June 30, 2001 and determined the funding status (the ratio of system assets to system liabilities) to be 100%.

Overview of Financial Statements

This Management's Discussion and Analysis serves as an introduction to the basic financial statements. LACERA has two basic financial statements, the notes to the financial statements, and two required supplementary schedules of historical trend information. The basic financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

The first basic financial report is the Statement of Plan Net Assets. This is a snapshot of account balances at fiscal year end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of fiscal year end. The net assets, which are the assets less the liabilities, reflect the funds available for future use.

The second financial report is the Statement of Changes in Plan Net Assets. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as Additions or Deductions to the plan. The trend of additions versus deductions to the plan will indicate whether LACERA's financial position is improving or deteriorating over time.

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs and activities that occurred during the year.

The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information about the actuarially funded status of the plan, and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedule, the Schedule of Employer Contributions, presents historical trend information about the annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

Financial Analysis

(Dollars in thousands)

Assets and Funding Ratio

As of June 30, 2002, LACERA has $26,047,240 in net assets, which means that Total Assets of $28,985,700 exceed Total Liabilities of $2,938,460. The net assets represent funds available for future payments. However, of importance, is the fact that, unlike private pension funds, public pension funds are not required to disclose the future liability of obligations owed to retirees. Only current liabilities are reported on the Statement of Plan Net Assets.

Plan Net Assets
As of June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentages
Current Assets	$ 2,242,186	$ 1,973,575	$ 268,611	13.6%
Investments	$ 26,743,379	$ 28,853,194	$ (2,109,815)	-7.3%
Fixed Assets	$ 135	$ 330	$ (195)	-59.1%
Total Assets	$ 28,985,700	$ 30,827,099	$ (1,841,399)	-6.0%
Total Liabilities	$ 2,938,460	$ 2,473,837	$ 464,623	18.8%
Total Plan Net Assets	**$26,047,240**	**$28,353,262**	**$(2,306,022)**	**-8.1%**

In order to determine whether the $26,047,240 will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. LACERA's independent actuary, Milliman USA, performed an actuarial valuation as of June 30, 2001 and determined that the funding ratio of the actuarial assets to the actuarial accrued liability is 100%. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member. The purpose of the valuation is to determine what future contributions by the members and the County are needed to pay all expected future benefits. This ratio means that LACERA has approximately $1.00 available for each $1.00 of anticipated future liability.

Additions to Plan Net Assets

The primary sources to finance the retirement benefits LACERA provides are accumulated through income on investments and through the collection of member (employee) and employer retirement contributions. Due to volatile financial markets, weak asset returns, and low interest rates, net investment losses are greater than contributions by $969,991. These investment losses are consistent with the overall market.

Employer contributions reflect only cash payments from the employer. The employer contributions increased from the prior year because the County of Los Angeles paid approximately eight months of contributions in cash in 2002 versus six months in 2001. The County's contributions for the approximate remaining four and six months for fiscal years ending June 30, 2002 and 2001, respectively, were made through transfers from excess earnings (i.e. County Contribution Credit Reserve).

Net investment loss is $1,533,625 this fiscal year, an increase in performance of $848,923 or 35.6% from the prior year. Due primarily to declining stock markets, the total fund return was -5.6% for the fiscal year. This result, while disappointing, was not unexpected after the string of very good years. The five-year annualized return is still a positive number at 6.2%, but is down from last year.

Additions to Plan Net Assets

As of June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentages
Employer Contributions	$ 297,928	$ 193,650	$ 104,278	53.8%
Member Contributions	$ 265,573	$ 216,297	$ 49,276	22.8%
Net Investment Income/(Loss)	$(1,533,625)	$(2,382,548)	$ 848,923	-35.6%
Miscellaneous	$ 133	$ 2,972	$ (2,839)	-95.5%
Total Additions	**$ (969,991)**	**$(1,969,629)**	**$ 999,638**	**-50.8%**

<u>Deductions from Plan Net Assets</u>

The primary uses of LACERA's assets include the payment of benefits to members and their beneficiaries, refund of contributions to terminated employees, and the cost of administering the plan. These deductions total $1,336,031, an increase of 7.5% from prior year, and are largely due to the growth in the number and average amount of benefits paid to members and their beneficiaries.

Deductions in Plan Net Assets
As of June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentages
Benefits	$ 1,224,112	$ 1,138,030	$ 86,082	7.6%
Administrative Expenses	$ 37,402	$ 33,417	$ 3,985	11.9%
Refunds	$ 16,259	$ 17,640	$ (1,381)	-7.8%
Retiree Healthcare Program	$ 57,654	$ 52,717	$ 4,937	9.4%
Other	$ 604	$ 653	$ (49)	-7.5%
Total Deductions	**$1,336,031**	**$1,242,457**	**$ 93,574**	**7.5%**

The Boards of Retirement and Investments jointly approve the annual budget, which restricts administrative expenses and represents less than 0.12% of total plan assets. The California Government Code Section 31580.2 limits the annual administrative expense to eighteen one hundreds of one percent (0.18%) of the total assets of the retirement system. It is the intent of the Boards to remain within the appropriation limit established in the Government Code, which the Boards have historically done.

<u>Overall Analysis</u>

As of June 30, 2002, LACERA's market value is $26 billion, representing an increase of 2.2% over the past five years, although it has decreased from the prior year. The overall slow growth within the last five year period is due to steady contributions by plan participants negated by the disappointing market returns in the overall investment portfolio.

Economic and Market Review

While the fiscal year began with market turbulence, the events of September 11, 2001 added an entirely new variable into the investment equation: terrorism. Investors, not fond of uncertainty, sent the markets reeling once market activity resumed on September 17, 2001. Overall, market sentiment remained negative during the fiscal year.

The Russell 3000, a broad-based equity benchmark measuring large and small capitalization securities, returned a -17.2% during this period. Despite respectable economic growth during the fiscal year, investor concerns about earnings, corporate governance and terrorism weighed heavily on investor sentiment. Technology stocks, which reached unprecedented highs during the bull market, continued correcting during this period, returning a -40%, as calculated in the Russell 3000 index.

International equity markets provided equity investors with no solace during the fiscal year returning a -8.2% in dollars as measured by the Morgan Stanley Capital International (MSCI) All Country World excluding United States benchmark. In dollars, European markets declined -7.7% during the period while Pacific Basin returned -13.5% as measured by MSCI. A depreciating dollar against both major currencies, the Euro and the Yen, increased U.S. investor returns during the fiscal year.

Contrasted with the equity markets, fixed income investments provided investors with solid returns, with the Lehman Brothers Aggregate index returning 8.6%. Risk free government securities outperformed corporate bonds as investor concerns about economic uncertainty and corporate governance issues mounted. High Yield bonds, the highest risk segment of the domestic bond market, were the poorest performing bonds returning a -3.6% as measured by Lehman Brothers.

Requests for Information

This financial report is designed to provide the Boards of Retirement and Investments, our membership, taxpayers, and investment managers with a general overview of LACERA's finances and to show accountability for the money it receives. Questions about this report, or requests for additional financial information should be addressed as follows:

Beulah S. Canevari, Manager
Retirement Accounting Division
Los Angeles County Employees Retirement Association
300 N. Lake Ave., Suite 720
Pasadena, CA 91101-4199

Respectfully submitted,

Beulah S. Canevari, CPA, CGFM
Manager, Retirement Accounting Division

Beulah S. Canevari, CPA, CGFM
Manager, Retirement Accounting Division

Statement of Plan Net Assets

As of June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001
Assets		
Cash	$ 26,361	$ 52,620
Collateral on Loaned Securities	1,775,499	1,403,546
Receivables		
Accounts Receivable - Sale of Investments	220,075	324,573
Accrued Interest and Dividends	115,530	122,805
Accounts Receivable - Other	104,721	70,031
Total Receivables	440,326	517,409
Investments at Fair Value - Note M		
Stocks	13,047,752	14,266,086
Bonds	7,705,426	7,766,774
Short Term Investments	1,345,595	1,638,688
Real Estate	3,099,180	3,494,232
Alternative Assets	1,277,040	1,485,588
Mortgages	268,386	201,826
Total Investments	26,743,379	28,853,194
Fixed Assets Net of Depreciation	135	330
Total Assets	**28,985,700**	**30,827,099**
Liabilities		
Accounts Payable - Purchase of Investments	1,097,055	1,013,021
Retiree Payroll and Other Payables	79	51
Accrued Expenses	24,313	20,191
Tax Withholding Payable	12,170	11,848
Obligations under Securities Lending Program	1,775,499	1,403,546
Accounts Payable - Other	29,344	25,180
Total Liabilities	**2,938,460**	**2,473,837**
Net Assets Held in Trust for Pension Benefits	**$26,047,240**	**$28,353,262**

(A Schedule of Funding Progress is presented in the Required Supplementary Information in this Section.)

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

Statement of Changes in Plan Net Assets

For the Years Ended June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001
Additions		
Contributions		
Employer	$ 297,928	$ 193,650
Member	265,573	216,297
Total Contributions	563,501	409,947
Investment Income		
From Investing Activities		
Net (Depreciation) in Fair Value of Investments	(2,214,241)	(3,948,686)
Investment Income	734,949	1,644,455
Total Investing Activity (Loss)	(1,479,292)	(2,304,231)
Less Expenses From Investing Activities	(60,282)	(85,296)
Net Investing Activity (Loss)	(1,539,574)	(2,389,527)
From Securities Lending Activities		
Securities Lending Income	39,159	88,546
Less Expenses From Securities Lending Activities	(33,210)	(81,567)
Net Securities Lending Income	5,949	6,979
Total Net Investment (Loss)	(1,533,625)	(2,382,548)
Miscellaneous	133	2,972
Total Additions/(Declines)	**(969,991)**	**(1,969,629)**
Deductions		
Retiree Payroll	1,222,657	1,136,296
Administrative Expense - Note B	37,402	33,417
Refunds	16,259	17,640
Lump Sum Death Benefits	1,455	1,734
Retiree Healthcare Program	57,654	52,717
Miscellaneous	604	653
Total Deductions	**1,336,031**	**1,242,457**
Net (Decrease)	(2,306,022)	(3,212,086)
Net Assets Held in Trust for Pension Benefits Beginning of Year	28,353,262	31,565,348
End of Year	**$ 26,047,240**	**$ 28,353,262**

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.

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), firefighting, 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 in the Actuarial Section of this report.

At June 30, 2002 and 2001, LACERA membership consisted of:

	2002	2001
Active Members:		
Vested	56,795	55,923
NonVested	32,455	31,146
Total Active Members	89,250	87,069
Retired Members	46,240	45,396
Terminated Vested (Deferred)	6,008	5,504
Total Membership	141,498	137,969

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 formula. Service connected disability benefits may be granted regardless of length of service consideration. Five years of service is required for non-service connected disability eligibility according to applicable statutory formula. Members of the noncontributory plan, who are covered under separate long-term disability provisions not administered by LACERA, are not eligible for disability benefits provided by LACERA.

Cost-of-Living Adjustment (COLA)

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. Plan E members will receive cost-of-living increases for service credit earned subsequent to June 4, 2002.

STAR Program

In addition to cost-of-living increases, the California Government Code also provides the Board 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 80% of the purchasing power held by retirees at the time of retirement. In December 2001, the Board of Retirement voted to vest the 2002 STAR Program at an 80% level as authorized in the California Government Code Section 31874.3. Although the 2002 STAR Program is a vested benefit, future supplemental cost-of-living increases based on future increases in the consumer price index will be 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.

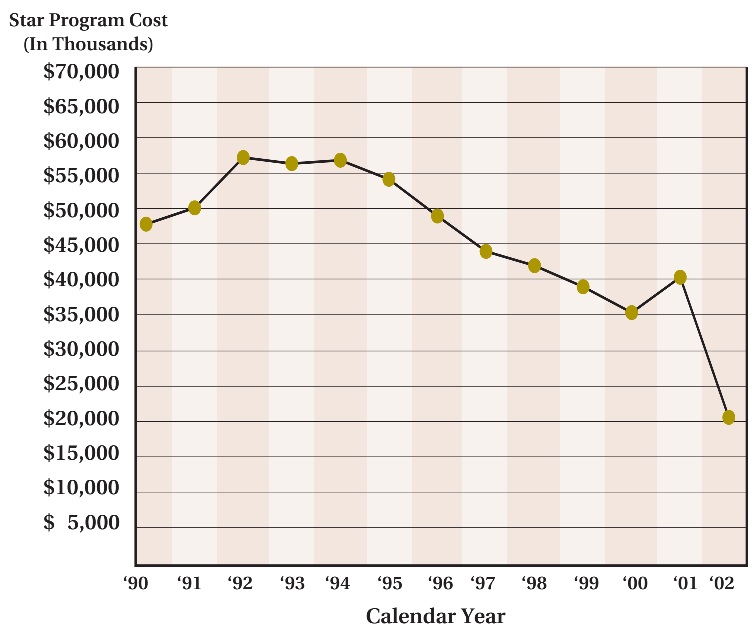
Since the inception of the STAR Program in 1990 to present, the Program received $1.5 billion in funding. The STAR Program funded approximately $310 million for the vesting of the 2001 and 2002 STAR Program benefits. As of June 30, 2002, there is $657 million available in the STAR Program Reserve to fund future benefits.

The STAR program is administered on a calendar year basis. The following represents the STAR Program cost from inception through June 30, 2002 (Dollars in thousands):

LACERA STAR Program Cost as of June 2002

Year	Star Program Cost (In Thousands)
1990	$ 47,411
1991	50,994
1992	57,776
1993	56,542
1994	56,895
1995	54,905
1996	49,571
1997	44,349
1998	42,225
1999	39,232
2000	35,397
2001	41,430
2002	20,398*
Total	**$597,125**

*Represents Program Year through June 30, 2002.



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 (County). LACERA's Annual Financial Statements are included in the County's Annual Financial Report as a pension trust fund. Maintaining appropriate controls and preparing the financial statements are the responsibility of management, with oversight by LACERA's Internal Audit staff.

LACERA wholly owns numerous Title Holding Corporations (THCs) and four Limited Liability Companies (LLCs). The THCs are nonprofit corporations under Section 501 (c)(25) of the Internal Revenue Code. The LLCs do not have tax-exempt status, but their income is excludable from taxation under Internal Revenue Code Section 115. The THCs invest in commercial properties located throughout the United States and the LLCs invest in hotels and office buildings. The financial activities of the THCs and LLCs are included in the accompanying financial statements as investments at fair value. Additional detailed information for these entities can be obtained from LACERA's Retirement Accounting Division, 300 North Lake Avenue, Suite 720, Pasadena, CA 91101.

Method of Reporting

LACERA follows the accounting principles and reporting guidelines as set forth by 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 of total system assets 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, 2001 at fair value	$ 31,295,547
Maximum Allowable for Administrative Expense (.0018 x $31,295,547)	56,332
Operating Budget for Fiscal Year 2001-2002	43,544
Actual Administrative Expenses for the Fiscal Year ended June 30, 2002	37,402
Underexpended Operating Budget	**$ 6,142**

Fixed Assets

In Fiscal Year 1999-2000, LACERA changed its policy on fixed assets whereby new fixed asset acquisitions are expensed instead of being capitalized. Fixed assets acquired prior to Fiscal Year 1999-2000 are carried at cost, less accumulated depreciation. These assets are depreciated over their remaining useful lives. Depreciation is calculated using the straight-line method with five-year useful lives for equipment and ten years for furniture, structures, and leasehold improvements.

The cost and accumulated depreciation of fixed assets as of June 30, 2002 and 2001 were as follows (Dollars in thousands):

	2002	2001
Furniture and Equipment	$4,278	$ 4,278
Structures and Improvements	2,829	2,829
Total Fixed Assets (at cost)	7,107	7,107
Less: Accumulated Depreciation		
Furniture and Equipment	4,143	3,949
Structures and Improvements	2,829	2,828
Total Accumulated Depreciation	6,972	6,777
Total Fixed Assets Net of Depreciation	**$ 135**	**$ 330**

Accrued Vacation and Sick Leave

Employees who resign or retire from active employment 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, 2002 and 2001 were $1.8 million and $1.7 million, respectively.

Cash

Cash includes deposits with various financial institutions, the County trust fund, and international currency holdings translated to U.S. dollars using the exchange rates in effect at June 30, 2002 and 2001, which have original maturities of less than 90 days.

Investments

Investments are carried at fair value. Fair values for investments are derived by various methods as indicated in the following table:

Investments	Source
Publicly traded stocks and bonds, and issues of the U.S. 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, 2002 and 2001.
Mortgages	Equivalent pricing to comparable GNMA.
Real estate equity funds	Fair value as provided by real estate fund manager.
Real estate title holding corporations and limited liability companies	Fair value of the investment as provided by property managers.
Alternative assets	Fair value as provided by the investment manager and reviewed by LACERA's alternative asset consultant.
Private placement bonds	Face value of the security subject to designated conditions such as sales restrictions or limited marketability.

There are certain market risks, credit risks, foreign currency exchange risks, liquidity risks, or event risks which may subject LACERA to economic changes occurring in certain industries, sectors, or geographies.

Dividend income is recorded on the ex-dividend date. Other investment income is recorded as earned on the accrual basis.

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

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.

New Accounting Pronouncements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and subsequently in June 2001, issued Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. GASB Statements No. 34 and No. 37 provide a financial reporting model for governmental entities that addresses four basic reporting elements: management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements, and required supplementary information. LACERA adopted GASB Statement No. 34 for the year ending June 30, 2002, which requires that LACERA include Management's Discussion and Analysis (MD&A), which is considered to be required supplementary information and precedes the financial statements. The adoption of GASB Statement No. 34 did not have an impact on the net assets of LACERA's funds.

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 15% 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.

Due to new collective bargaining agreements, the County will assume additional surcharge rates for Plan B Safety members, effective July 1, 2002. Member and employer contributions received from the participating agencies are considered part of LACERA's plan as a whole.

Through February of fiscal year 2001-2002, the County paid its employer contributions due to LACERA in the form of monthly cash payments. As part of the Retirement System Funding Agreement (Agreement) between LACERA and the County, the County's contributions for the approximate remaining four and six months for the fiscal years ending June 30, 2002 and 2001, respectively, were made through transfers from excess earnings (i.e. County Contribution Credit Reserve) as defined in the Agreement.

NOTE D — Reserves

The reserves represent the components of LACERA's net 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.

For fiscal year 2001-2002, the County paid its employer contributions using a combination of cash and transfers from its portion of excess earnings (i.e. County Contribution Credit Reserve). On June 30, 2002, the County pre-funded approximately $217 million, a portion of its employer contributions due LACERA for the two fiscal years ended June 30, 2003 and 2004, from the County Contribution Credit Reserve.

County Contribution Credit Reserve was created pursuant to the Retirement System Funding Agreement between LACERA and the County. Seventy-five percent (75%) of excess earnings in fiscal years 1995-1999 were deposited into the reserve. Deductions include payments, as the County authorizes, for future employer contributions due LACERA and for funding the Retiree Healthcare Account. The Retiree Healthcare Account is used to subsidize a portion of the Retiree Healthcare Program under the provisions of Internal Revenue Code Section 401(h).

STAR Reserve represents the balance of transfers from Contingency Reserve for future supplemental cost-of-living increases. Additions include transfers from Contingency Reserve. In December 2001, the Board of Retirement voted to vest the 2002 STAR Program at an 80% level as authorized in the California Government Code Section 31874.3. Future increases not vested in the current STAR program will be 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. Deductions include COLA payments to retirees and vesting of benefits.

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, and funding of the STAR Reserve when excess earnings are available and authorized by LACERA's Boards. The Contingency Reserve is used to satisfy the California Government Code requirement for LACERA to reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies. The California Government Code and the Board's Actuarial Funding Policy provides the ideal reserve be set at 1% of net assets. The balance of the Contingency Reserve of $243 million and $1.3 billion represent 0.9% and 4.7% of the Net Assets Held in Trust for Pension Benefits for fiscal years ended June 30, 2002 and 2001, respectively.

Reserves as of June 30, 2002 and 2001 are as follows
(Dollars in thousands):

	2002	2001
Member Reserves	$ 8,819,576	$ 8,210,126
Employer Reserves		
Actual Employer Contributions	13,543,051	12,935,367
Advanced Employer Contributions (FY 2003 & 2004)	216,775	164,716
Total Employer Reserves	13,759,826	13,100,083
County Contribution Credit Reserve	1,221,256	1,486,792
STAR Reserve	657,055	669,775
Contingency Reserve	242,593	1,325,312
Total Reserves at Book Value	24,700,306	24,792,088
Unrealized Investment Portfolio Appreciation	1,346,934	3,561,174
Total Reserves at Fair Value	**$26,047,240**	**$28,353,262**

NOTE E — Actuarial Valuations

Pursuant to provisions in the County Employees Retirement Law of 1937, LACERA engages an independent actuarial firm to perform an annual actuarial valuation. A system actuarial valuation is performed 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. LACERA also hires an independent actuarial firm to audit the results of each triennial valuation. In addition, LACERA's valuation policy requires annual valuations to monitor the funding status of the system.

During fiscal year 2001-2002, LACERA engaged Milliman USA, Actuaries & Consultants, to serve as its independent actuary. Milliman USA completed the triennial valuation as of June 30, 2001 and determined the funding status (the ratio of system assets to system liabilities) to be 100%. The funding status was established based on the entry age normal actuarial cost method, an assumed 8% investment return, an assumed 4% annual total payroll growth rate (annual individual salary increases, which vary by service, range from 10.24% to 4.78%), an inflation rate of 4%, and an actuarial value of assets using a three-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date.

In August 1994, LACERA and the County entered into a Retirement System Funding Agreement. Under this Agreement, the County fully funded the retirement system by issuing pension obligation bonds and transferring the proceeds to LACERA. The Agreement provides that the County must discharge any remaining unfunded actuarial accrued liability (UAAL) component identified in the June 30, 2000 through June 30, 2008 actuarial valuations by making annual contributions to LACERA over a 5-year period, to maintain a 100% funded status. Since the June 30, 2001 valuation determined the funding ratio to be 100%, no County contribution for an unfunded actuarial accrued liability is required at this time. On June 4, 2002, the Retirement System Funding Agreement was amended to extend the UAAL amortization period to 30 years. This amendment will apply to future valuations beginning with the June 30, 2002 annual 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 continues to administer benefit payments to affected members, and is reimbursed monthly by the carriers for the gross amount of benefits disbursed. LACERA received $43.1 million and $44.0 million in related reimbursements during each of the years ended June 30, 2002 and 2001, respectively. Such amounts are netted in 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, LACERA administers a Healthcare Benefits Program (HBP) for retired members and their eligible dependents. The County-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, the Medicare supplement or Medicare HMO plans. The Board reserves the right to amend or revise these plans and programs at any time.

The participant's 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 subsidizing the participant's cost ranges from

40% of the benchmark plan for 10 years of service up to 100% of the benchmark plan with 25 years of service. Beginning in fiscal year 1997, the County and LACERA entered into an agreement establishing a healthcare funding account pursuant to Section 401(h) of the Internal Revenue Code. Section 401(h) permits the establishment of a separate account (a "401(h) Account") to fund retiree healthcare benefits, and limits contributions to the 401(h) Account to 25% of aggregate contributions to LACERA after the 401(h) Account is established.

Funding the HBP through a 401(h) Account allows the County to direct LACERA to use a portion of excess earnings from the County Contribution Credit Reserve to replace County retirement fund contributions to the 401(h) Account.

Plan net assets are not held in trust for postemployment healthcare benefits. The HBP is billed to and paid by the County and members on a monthly basis. During fiscal year ending June 20, 2002, $182 million in premium payments were made to insurance carriers. These payments were funded by employer contributions of $159 million, of which $58 million was paid through transfers from the County Contribution Credit Reserve, and $23 million by the participants. During fiscal year ending June 30, 2001, $182 million in premium payments were made to insurance carriers. These payments were funded by employer and participant contributions of $160 million, of which $53 million was paid through transfers from the County Contribution Credit Reserve, and $22 million, by the participants.

A summary of HBP participants is as follows:

	2002	2001
Medical Plans	34,912	33,636
Dental/Vision Plans	34,377	33,600
Total	**69,289**	**67,236**

NOTE H — Summary of Investment Policies

The County Employees Retirement Law of 1937 (Law) vests 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 — Portfolio Concentration

LACERA's Investment Portfolio contained no concentration of investments in any one organization (other than those issued or guaranteed by the U.S. government) that represented 5% or more of the total investment portfolio. The Board of Investments' policy and guidelines mandate that LACERA's domestic equity composite be well diversified when measured against the broad based Russell 3000 benchmark. As of June 30, 2002, LACERA's largest industry concentration occurred in Banking comprising approximately 8.3% of the domestic equity composite compared with 8.4% in the Russell 3000 benchmark.

NOTE J — Securities Lending Program

The Board's policies authorize LACERA to participate in a securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction in which a security is used as collateral. Securities are lent to brokers and dealers (borrower) and in turn, LACERA receives cash as collateral. LACERA pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Earnings generated above and beyond the interest paid to the borrower represents the net income to LACERA from the transaction.

LACERA's securities lending program is managed by one principal borrower, Goldman Sachs and two agent lenders, Mellon Global Securities Lending and Metropolitan West Securities. Goldman Sachs borrows domestic equities and corporate bonds. Under this exclusive borrowing arrangement, Goldman Sachs' loans are secured by collateral with a market value of at least 102% of the borrowed securities. Mellon Bond Associates invests collateral received from Goldman Sachs in short-term debt and money market instruments. Metropolitan West lends LACERA's domestic treasury, agency and mortgage-backed securities and Mellon Global Securities Lending lends LACERA's international equities. Domestic loans are collateralized at 102% of the loan market value, whereas international loans are 105% collateralized and collateral is marked to market on a daily basis. Metropolitan West invests the collateral they receive on loans in short-term highly liquid instruments, while Mellon Global Securities Lending collateral is reinvested in their commingled fund. The income earned from these investments is split between LACERA and the lending agent based on contractual agreements.

At year-end, LACERA had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. As of June 30, 2002, there were no violations of legal or contractual provisions. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2002 and 2001.

Under the terms of their lending agreements, Mellon Global Securities Lending and Metropolitan West have agreed to hold LACERA harmless for borrower default from the loss of securities or income, or from any litigation arising from these loans. The terms of Goldman Sachs' lending agreement entitle LACERA to terminate all loans upon the occurrence of default and purchase a like amount of "replacement securities". In the event that the purchase price of replacement securities exceeds the amount of collateral, Goldman Sachs shall be liable to LACERA for the amount of such excess together with interest. Either LACERA or the borrower can terminate all loans on securities on demand.

As of June 30, 2002 and 2001 the fair value of securities on loan were $1.707 billion and $1.404 billion, respectively. For the years ended June 30, 2002 and 2001, the value of cash collateral received for the securities on loan was $1.775 billion and $1.404 billion, respectively. LACERA's income net of expenses from securities lending was $5.949 million and $6.979 million for the years ended June 30, 2002 and 2001, respectively.

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 2002 was $33 million. The net foreign currency loss in fiscal year 2001 was $215 million. At June 30, 2002, forward currency contracts receivable and payable totaled $270 million and $272 million, respectively. At June 30, 2001, forward currency contracts receivable and payable totaled $891 million and $890 million, respectively.

NOTE L — Title Holding Corporations and Limited Liability Companies

The LACERA real estate portfolio includes 72 Title Holding Corporations (THCs) and four Limited Liability Companies (LLCs) as of June 30, 2002. The real estate portfolio had 71 THCs and four LLCs as of June 30, 2001.

The following is a summary of the THCs' financial position as of June 30, 2002 and 2001
(Dollars in thousands):

	2002	2001
Assets	$ 3,151,285	$ 3,396,705
Less: Liabilities	225,018	160,678
Net Assets	**$2,926,267**	**$3,236,027**
Net Income	$ 268,228	$ 263,534

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.)

Deposits and Investments

Based on these criteria, LACERA's deposits and investments as of June 30, 2002 and 2001 are classified as follows (Dollars in thousands):

			June 30, 2002	June 30, 2001
	Category 1 Bank Balance	Category 3 Bank Balance	Total Bank Balance	Total Bank Balance
Deposits				
Cash	$ 6,579	$ 13,310	$ 19,889	$ 49,589
Total Categorized Deposits	6,579	13,310	19,889	49,589
	Fair Value		**Fair Value**	**Fair Value**
Investments				
U.S. Government and Agency Instruments:				
Not on Securities Loan	2,489,468		2,489,468	2,051,980
On Securities Loan for Securities Collateral				41,774
Domestic Corporate Bonds	3,729,554		3,729,554	3,980,353
Global Bonds	74,664		74,664	55,306
Private Placement Bonds	382,238		382,238	539,981
Total Bonds	6,675,924		6,675,924	6,669,394
Domestic Stocks	7,287,559		7,287,559	9,242,763
Domestic Convertibles	26,351		26,351	
Global Stocks:				
Not on Securities Loan	5,054,011		5,054,011	4,754,178
Global Convertible Debentures	2,167		2,167	4,245
Total Stocks & Convertibles	12,370,088		12,370,088	14,001,186
Corporate and Government	1,345,595		1,345,595	1,638,688
Total Short Term Investments	1,345,595		1,345,595	1,638,688
Total Categorized Investments	20,391,607		20,391,607	22,309,268

Investments not considered securities for purposes of custodial risk classification are as follows:

Real Estate & Title Holdings	3,099,180	3,494,232
Alternative Assets	1,277,040	1,485,588
Mortgages	268,386	201,826
LA County Treasurer Investment Pool	6,472	3,031

Investments held by broker-dealer under securities loans with cash collateral:				
Stocks			677,664	264,900
Government Bonds			678,241	732,028
Corporate Bonds			351,261	365,352
Securities Lending Cash Collateral Invested in Short-term Investments			1,775,499	1,403,546
Total Uncategorized Investments			8,133,743	7,950,503
Total Deposits and Investments	**$20,398,186**	**$13,310**	**$28,545,239**	**$30,309,360**

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

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 operating expenses as defined in the lease. The agreement included a $4 million lease incentive, which LACERA used for build-out and other occupancy costs. These costs were capitalized and were depreciated over the life of the lease, which expired on December 31, 2000. The lease incentive liability was recognized over the life of the lease as a reduction to rent expense.

In January 2001, the original lease was extended for an additional five years, expiring December 31, 2005. The original lease was amended to include an additional 1,230 square feet of office space. A new Tenant Improvement Allowance was provided for structural improvements in the amount of $1.428 million over the 5-year lease term. As with the original lease, base rent for LACERA is abated, but LACERA is required to pay its proportionate share of the building operating expenses.

In January 2002, the lease was amended to include an additional 2,723 square feet of office space. The space was rented "As Is" and no additional tenant improvement allowance was offered. All other provisions of the original lease still apply.

Total operating expenses charged to LACERA were $833,542 and $671,330 for the years ended June 30, 2002 and 2001, respectively.

LACERA has notes receivables of approximately $59 million and $36 million from three of their Title Holding Corporations, as of fiscal year end June 30, 2002 and 2001, respectively. These amounts are reflected in the Accounts Receivable-Other balance.

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.

LACERA has implemented the Ventura decision on a prospective basis, commencing October 1, 1997, the date the Court's decision became final. Current litigation seeks to require LACERA to apply the Ventura decision retroactively to persons already retired, and to include in the calculation of final compensation, (1) the cash-out of accrued benefits at the time of termination (“termination pay”), (2) flexible benefit plan payments for insurance benefits, and (3) employer payment of member-required contributions to LACERA.

These cases have been consolidated and coordinated with a number of similar cases filed in other California counties. On July 20, 2000 the trial court ruled that inclusion in final compensation of the three items mentioned above was not required. On August 30, 2001, the trial court ruled that the Ventura decision must be implemented retroactively, “for the period beginning three years prior to the filing of the appropriate complaint…, or for any longer period to which the parties may have agreed.” The court further ruled that the Board of Retirement has discretion (but is not required) to assess arrears contributions for the period prior to October 1, 1997, which period may include more than three years prior to the filing of the claim for arrears contributions.

A trial court judgment incorporating the foregoing rulings was entered and the case is now on appeal. The County of Los Angeles has appealed that portion of the judgment that requires LACERA to apply the Ventura decision retroactively. The plaintiffs have appealed those portions of the judgment that bar recovery under the statute of limitations for the period October 1994 to May 1995, deny pension treatment for the three items mentioned above, and give the Board of Retirement discretion to assess arrears contributions.

Our most current estimate of the cost to implement the trial court decision retroactively is $190 million. That cost estimate assumes that benefits paid on and after October 1, 1994 would be adjusted and that arrears contributions would not be collected from members or the County.

Of the three items mentioned above, “termination pay” would most likely require pension treatment for only that portion of termination pay accrued during a member’s final compensation period. LACERA’s actuary estimated the liability in that event to be $1.908 billion. The financial impact of providing pension treatment for the other two items in question has not been determined.

LACERA began including flexible benefit plan contributions in pensionable compensation effective January 1, 1991. A petitioner seeks an order requiring LACERA to include such contributions in pensionable compensation commencing in approximately 1985, when the flexible benefit plan was initiated. It appears recovery would be limited by a three (3) year statute of limitations, requiring adjustment to pension payments made on and after February 8, 1996. The cost of a judgment in favor of the petitioner has not been determined.

Any unfunded actuarial accrued liability (UAAL) resulting from resolving these cases would be recovered by assessing the employer additional contributions over an amortization period not to exceed 30 years.

Leases

LACERA leases equipment and property under lease agreements that expire over the next five years. The annual commitments under such leases were approximately $739,000 and $946,000 in fiscal years 2002 and 2001, respectively. The building space lease agreement entered in January 1991, and extended in January 2001 for an additional five years, 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 leases, prior to the recognition of the lease incentive, was $1.572 million and $1.617 million in fiscal years 2002 and 2001, respectively. There was no lease incentive recognized in fiscal year 2002. The lease incentive recognized in fiscal year 2001, as a reduction in rent expense, was approximately $209,000. The lease incentive was fully amortized as of December 31, 2000, which ended the life of the original lease term.

Capital Commitments

LACERA equity real estate and alternative investment managers identify and acquire investments on a discretionary basis. Each manager’s investment activity is controlled by the Manager Investment Plan, which identifies the

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-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%
30-Jun-98	20,851,133	20,959,946	108,813	99.5%	3,562,416	3.1%
30-Jun-99	23,536,116	22,784,706	(751,410)[1]	103.3%	3,858,090	-19.5%
30-Jun-00	25,426,507	24,720,380	(706,127)[1]	102.9%	4,107,964	-17.2%
30-Jun-01	26,490,000	26,489,976	(24)[1]	100.0%	4,398,443	0.0%

* An actuarial audit of the actuarial valuation as of June 30, 1996 that was completed in the Spring of 1998 and a subsequent investigation conducted by LACERA disclosed that actuarial accrued liabilities reported in the formal actuarial valuation reports as of June 30 for the years 1977 through 1996 were understated as a result of calculation errors, and that the reported funding ratios for those years were overstated.
[1] Denotes overfunded Actuarial Accrued Liability.

Schedule of Employer Contributions

(Dollars in thousands)

Year Ended June 30	Annual Required Contribution (ARC)	Actual Employer Contributions: Cash Payment	Actual Employer Contributions: Transfer from Reserve Account	Actual Employer Contributions: Total	Percentage of ARC Contributed
1997	$277,929	$ 1,168	$277,151	$278,319	100%
1998	243,489	9,420	239,777	249,197	102%
1999	317,285	84,226	248,403	332,629	105%
2000	342,060	130,319	211,832	342,151	100%
2001	390,679	193,650	197,029	390,679	100%
2002	414,708	258,884	155,824	414,708	100%

Notes to Required Supplementary Schedules

For Fiscal Year Ended June 30, 2002

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, 2001 is as follows:

Actuarial Cost Method	Entry Age Normal Cost Funding Method.
Asset Valuation Method	Three-year smoothed method based on the difference between the expected market value and the actual market value of assets as of the valuation date. The expected market value, with three-year smoothing valuation basis for all assets, was adopted effective June 30, 2000.
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	Under the Retirement System Funding Agreement, the County of Los Angeles (County) agreed that if the funding status of LACERA fell below a certain level, the County would make prescribed UAAL payments to achieve the required funding status. The UAAL payments are in addition to the annual Normal Cost contribution payments to LACERA. For valuation years 1999-2008, the level is a 100% funding ratio. For the valuation year 2001, the County was not required to make UAAL payments because the required funding level was achieved. Each incremental positive amount of UAAL that should occur for the 2002-2008 valuations was to be separately amortized over five years. On June 4, 2002, the Retirement System Funding Agreement was amended to extend the UAAL amortization period to 30 years. This amendment will apply to future valuations beginning with the June 30, 2002 annual valuation.
Amortization Period	Open.
Amortization of Gains and Losses	Actuarial gains and losses are reflected in the unfunded actuarial accrued liability and amortized over the same period. Under the Interim Funding Policy adopted February 14, 2001, the Board recognized a portion of the Contingency Reserve for funding purposes as valuation assets. Thus, the actuarial value of plan assets equals the actuarial accrued liability on June 30, 2001, the date of the most recent valuation, resulting in a funding ratio of 100.0%. Therefore, there is no UAAL to be amortized.
Investment Rate of Return	Future investment earnings are assumed to accrue at an annual rate of 8.00%, compounded annually, exclusive of both investment and administrative expenses.
Projected Salary Increases	Rates of annual salary increases assumed for the purpose of the valuation range from 10.24% to 4.78%. In addition to increases in salary due to promotions and longevity, the scale includes an assumed 4.0% per annum rate of increases in the general wage level of membership. These rates were adopted June 30, 2001.
Post-retirement Benefit Increases	Post-retirement benefit increases of either 3% or 2% per year are assumed for the valuation in accordance with the benefits provided. These adjustments, which are based on the Consumer Price Index, are assumed payable each year in the future as they are less than the expected increase in the Consumer Price Index of 4% per year. Plan E members do not receive post retirement benefit increases for service credit earned prior to June 4, 2002.
Consumer Price Index	Increase of 4% per annum.

Administrative Expenses

For the Years Ended June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001
Personnel Services		
Salaries and Wages	$ 14,849	$ 12,706
Employee Benefits	5,794	4,914
Total Personnel Services	20,643	17,620
Professional Services		
Network System Consulting Fees	5	22
Computer Software Services and Support	2,690	2,460
External Audit Fees	202	156
Investment Audit Services	350	350
Disability Medical Fees	761	745
Disability Hearing Officer Fees	53	90
Disability Stenographic Fees	15	36
Disability Attorney Fees	86	1
Temporary Personnel Services	4,074	3,848
Legislative and Other Legal Services	341	333
Other Professional Services	1,276	1,074
Total Professional Services	9,853	9,115
Communication		
Postage	523	637
Telecommunications	495	327
Transportation and Travel	361	444
Total Communications	1,379	1,408
Rentals		
Rents and Leases	1,577	1,408
Total Rentals	1,577	1,408
Miscellaneous		
Computer Equipment & Supplies	368	449
Office Furniture	344	570
Stationery and Forms	483	406
Other Office Expenses	188	168
Maintenance	680	580
Educational Expenses	707	474
Parking Fees	234	253
Other County Department Charges	104	97
Insurance	287	202
Administrative Support	135	127
Other Service Charges	224	120
Total Miscellaneous	3,754	3,446
Depreciation-Fixed Assets	196	420

Fees and Other Investment Expenses

For the Years Ended June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001
Investment Activity		
Investment Management Fees		
Stock Managers		
Domestic	$ 8,198	$ 10,672
International	6,649	7,318
Bond Managers		
Domestic	14,228	14,091
International	(383)	2,773
Alternative Assets Managers	7,214	6,054
Real Estate Managers	17,583	40,991
Cash and Short Term Managers	1,130	836
Mortgage Loan Servicers	517	451
Total From Investment Activity	55,136	83,186
Securities Lending Activity		
Securities Lending Program Expense	33,210	81,567
Total From Securities Lending Activity	33,210	81,567
Total Investment Management Fees	88,346	164,753
Other Investment Expenses		
Consultants	796	671
Custodian	344	297
Legal Counsel	430	454
Other	3,576	688
Total Other Investment Expenses	5,146	2,110
Total Fees and Other Investment Expenses	**$93,492**	**$166,863**

Schedule of Payments to Consultants

For the Years Ended June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001
Audit		
External Audit Services	$ 202	$ 156
Investment Audit Services	350	350
Contract Systems Audits	11	46
Total	563	552
Legal		
Investment Legal Counsel	431	454
Disability Attorney Fees	86	1
Other Legal Services	277	297
Total	794	752
Actuarial		
Actuarial Valuations and Consulting Fees	593	592
Total	593	592
Management		
Legislative Consulting	64	36
Management and Human Resources Consulting	57	53
Network Consulting Fees	5	22
Other Software Consulting	224	456
Total	350	567
Total Payments to Consultants	**$2,300**	**$2,463**

For fees paid to Investment Professionals, refer to Fees and Other Investment Expenses in this Section.

Investment Section

The County of Los Angeles Department of Parks and Recreation oversees 63,000 acres of parks, gardens, lakes, trails, natural areas, and the world's largest public golf course system.

www.parks.co.la.ca.us

Section

LA County is a beautiful place to live, surrounded by mountains, rivers, and valleys filled with native trees, picturesque parks, and world-famous gardens, all flanked by the sea. The individuals of the Department of Parks and Recreation work hard to enhance, and preserve our natural settings.

Hats off to these hardworking people. The scenic beauty they create and maintain enriches our lives.

September 5, 2002

Board of Investments
Los Angeles County Employees Retirement Association
Gateway Plaza
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Pasadena, CA 91101-4199

Russell Investment Group
909 A Street
Tacoma, Washington 98402-5120
253-572-9500
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Annual Consultants Review

The fiscal year ended June 30, 2002 was a difficult investment market. However, LACERA's returns were competitive with peers due to broad diversification and sound fund management within asset classes. The fund returned -5.6% for the year ending June 30, 2002, with annualized returns over the three- and five-year periods ending June 30, 2002 of 1.1% and 6.2%, respectively.

All major asset classes—domestic equity, non-U.S. equity, domestic fixed income, alternative assets, and real estate—earned returns superior to the relevant benchmarks over the long-term (5-year) period. Over the recent one-year period, only alternative assets and fixed income underperformed the target or benchmark return.

On an ongoing basis, Russell has worked to identify opportunities for improving the fund's performance and processes. Throughout the fiscal year, manager review and monitoring, regular reviews of asset class strategies, and ad hoc projects were completed. Specific projects that Russell worked with Board of Investments and staff on during the year included:

1. A review of the U.S. equity structure, which led to further scrutiny, and ultimate termination of Putnam as a mid to small market capitalization manager, followed by the search for a replacement. This resulted in the hiring of two new small capitalization growth equity managers, Frontier Capital and Mazama Capital.
2. The completion of the search for emerging fixed income managers which resulted in the hiring of GW Capital, Hughes Capital, LM Capital, and MW Post.
3. An analysis of the appropriate performance time frames and decision rules when considering termination of a manager.
4. Participation in the January offsite for the Board. Russell worked closely with the Board's actuary in preparing for the session. We also led discussions around two topics: forecasting asset class returns, and liquidity needs of the fund.
5. Began a review of the Loomis, Sayles & Company fixed income portfolio, which led to the issuance of an RFI. We expect this project to be completed in the current fiscal year.

Russell's goal is to add value to the fund's investment performance and processes. We look forward to working closely with the Board of Investments and staff on the fund's investment program over the coming year.

Best regards,

Monica Butler
Director, Consulting

John Osborn, CFA
Senior Consultant

Russell

TACOMA · LONDON · AUKLAND
NEW YORK · PARIS · SINGAPORE
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INVESTMENT SECTION
Chief Investment Officer's Report

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

Due primarily to declining stock markets, the total fund return was a negative 5.6% for the fiscal year. This result, while disappointing, was not unexpected after the string of very good years. The five-year annualized return is still a positive number at 6.2%, but is down from last year. The performance information in this report is fully consistent with the AIMR Performance Presentation Standards.

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.

INVESTMENT SECTION

Chief Investment Officer's Report — continued

The following factors were evaluated to determine LACERA's asset allocation adopted in Fiscal Year 2000-2001:

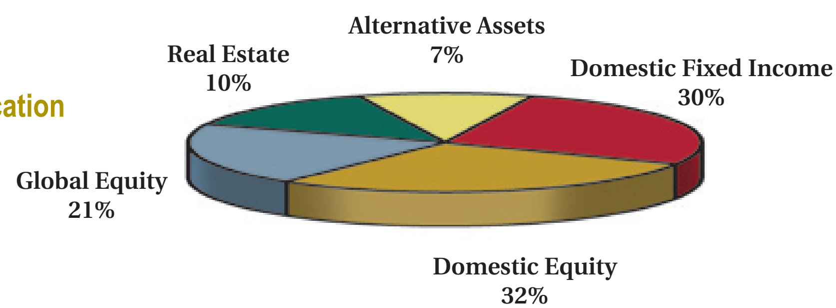
- Projected actuarial assets, liabilities, benefit payments, and contributions.
- Historical and expected long-term capital market risk and return behavior.
- Future economic conditions, including inflation and interest rate levels.
- LACERA's current and projected funding status.

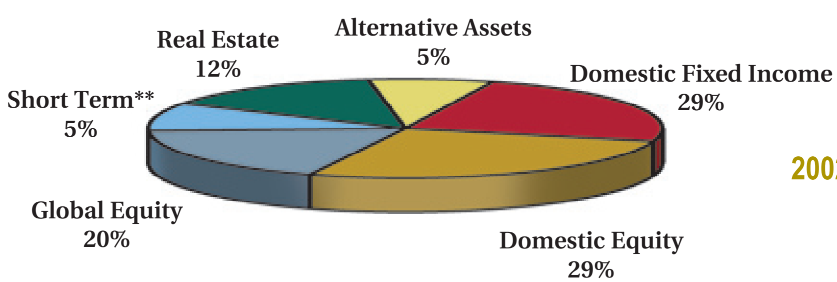
LACERA's asset allocation targets are long-term by design because of the illiquidity of certain asset classes such as Alternative Assets and Real Estate. Therefore, the implementation process is planned over a five-year horizon. As a result, the actual allocation should not be expected to match the target allocation during the implementation period. Illustrated below are the 2002 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 firm's investment management contract. LACERA's investment staff closely monitors manager activities and assists the Board with the implementation of investment policies and long-term investment strategies.

2002 Target and Actual Asset Allocation

2002 Target Asset Allocation





2002 Actual Asset Allocation*

* The 2002 Actual Asset Allocation is based upon the Investment Summary in this Section.
** Short Term Investments may include Corporate and Government Bonds, Certificates of Deposits, and Overnight Deposits.

INVESTMENT SECTION

Investment Summary

For the Year Ended June 30, 2002

(Dollars in thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
U.S. Government and Agency Instruments	$ 3,167,709	11.85%
Domestic Corporate Bonds	4,080,815	15.26%
Global Bonds	74,664	0.28%
Private Placement Bonds	382,238	1.43%
Total Bonds	7,705,426	28.82%
Domestic Stocks	7,713,705	28.84%
Domestic Convertible	26,351	0.10%
Global Stocks	5,305,529	19.84%
Global Convertible Debentures	2,167	0.01%
Total Stocks & Convertibles	13,047,752	48.79%
Corporate and Government	1,345,595	5.03%
Total Short Term Investments	1,345,595	5.03%
Real Estate & Title Holdings	3,099,180	11.59%
Alternative Assets	1,277,040	4.78%
Mortgages	268,386	1.00%
Total Uncategorized Investments	4,644,606	17.37%
Total Investments	**$26,743,379**	**100%**

INVESTMENT SECTION

Investment Results Based on Fair Value*

As of June 30, 2002

	Current Year	Annualized 3-year	Annualized 5-year
Total Fund	-5.6%	1.1%	6.2%
Benchmark: Total Fund	-3.3	0.6	5.7
Domestic Equity[1]	-16.7	-6.7	4.7
Benchmark: Russell 3000	-17.2	-7.9	3.8
International Equity	-8.0	-4.6	-0.3
Benchmark: MSCI All Country World X U.S.	-8.2	-6.2	-1.7
Domestic Fixed Income[2]	6.0	6.8	6.8
Benchmark: Domestic Fixed Income Custom Index[3]	6.8	6.6	6.6
Real Estate[4]	7.9	10.7	12.8
Benchmark: Real Estate Target Return[5]	8.2	8.2	8.2
Alternative Assets[6]	-21.6	19.8	26.1
Benchmark: Alternative Asset Target Return[7]	17.6	17.6	17.6

[1] Includes Cash Equitization.
[2] Does not include Member Home Loan Program (MHLP) or Whole Loan Program (WLP).
[3] Lehman Aggregate (100%) through June 30, 1997; Lehman Aggregate (95%) and Lehman High Yield (5%) from July 1, 1997 to June 30, 1998; Lehman Aggregate (90%) and Lehman High Yield (10%) from July 1, 1998 to June 30, 1999; Lehman Aggregate (85%) and Lehman High Yield (15%) thereafter.
[4] One quarter in arrears.
[5] Rolling five-year return of Consumer Price Index (CPI) plus 600 basis points.
[6] Two quarters in arrears.
[7] Rolling ten year return of Russell 3000 plus 500 basis points.
* Using time-weighted rate of return based on the market rate of return.

INVESTMENT SECTION

Largest Stock Holdings

As of June 30, 2002
(Dollars in thousands)

Shares	Stocks	Fair Value
2,122,092	Pfizer Inc Com Stk	$74,273
1,635,330	Citigroup Inc Com	63,369
754,003	American Intl Group Inc Com	51,446
2,436,400	Applied Matls Inc Com	46,340
1,207,600	Maxim Integrated Prods Inc Com	46,287
3,231,576	Cisco Sys Inc Com	45,080
806,100	Microsoft Corp Com	44,094
1,142,710	MBNA Corp Com	37,789
1,197,000	Linear Technology Corp Com	37,622
27,356,715	Vodafone Group PLC Ord	37,530

Largest Bond Holdings

As of June 30, 2002
(Dollars in thousands)

Par	Bonds	Fair Value
233,700,000	Commit to Pur GNMA SF Mtg 6.500% 07/15/2032	$238,374
171,590,000	Commit to Pur FNMA SF Mtg 7.000% 07/01/2032	177,703
103,000,000	Commit to Pur FHLMC Gold SF 6.500% 07/01/2032	105,092
74,205,000	US Treasury Notes 3.250% 05/31/2004 DD 05/31/2002	74,785
50,560,000	US Treasury Bonds 8.125% 08/15/2019 DD 08/15/1989	64,764
56,322,729	US Treasury Inflation Index NT 3.625% 04/15/2028	60,829
56,545,000	Commit to Pur FNMA SF Mtg 6.000% 07/01/2032	56,359
45,920,000	Commit to Pur FNMA SF Mtg 6.500% 08/01/2032	46,630
44,045,000	Germany (Fed Rep) Bds 4.000% 02/16/2007	42,598
36,732,553	FHLMC Pool #E7-8398 6.500% 07/01/2014 DD 08/01/1999	38,144

A complete list of portfolio holdings is available upon request.

INVESTMENT SECTION

Schedule of Investment Management Fees

For the Years Ended June 30, 2002 and 2001

(Dollars in thousands)

	2002	2001
Investment Activity		
Stock Managers		
Domestic	$ 8,199	$ 10,672
International	6,649	7,318
Subtotal	14,848	17,990
Bond Managers		
Domestic	14,228	14,091
International	(383)	2,773
Subtotal	13,845	16,864
Alternative Asset Managers	7,214	6,054
Real Estate Managers	17,582	40,991
Cash and Short Term Managers	1,130	836
Mortgage Loan Servicers	517	451
Total Fees from Investment Activity	55,136	83,186
Securities Lending Activity		
Management Fee	2,418	2,991
Borrower Rebate	30,792	78,576

INVESTMENT SECTION
Investment Managers

Alternative Assets
Adams Street Partners, Inc.
Harbourvest International
Private Equity Partners
Invesco Private Capital, Inc.
Knightsbridge Advisors, Inc.
Pathway Capital Management, L.L.C.
Solera Partners, L.P.

Cash & Short-Term
Barclays Global Investors
Western Asset Management Company

Equity-Domestic
Barclays Global Investors
Capital Guardian Trust Company
Delta Asset Management
Frontier Capital Management Company, L.L.C.
ICM Asset Management, Inc.
Mazama Capital Management, Inc.
Northern Trust Global Advisors
Oak Associates
Progress Investment Management Company
Putnam Investment Management

Equity-International
Barclays Global Investors
Capital Guardian Trust Company
Fidelity Management Trust Company
GAM International Management, Ltd.
Schroder Capital Management Intl., Ltd

Fixed Income-Domestic
American Express Asset
Management Group, Inc.
Barclays Global Investors
BlackRock Financial Management, Inc.
Dodge & Cox
GW Capital, Inc.
Hughes Capital Management, Inc.
J.P. Morgan Fleming Asset Management, Inc.
LM Capital Management, Inc.
Loomis, Sayles & Company, L.P.
Morgan Stanley Dean Witter
MW Post Advisory Group, L.L.C.
Oaktree Capital Management, L.L.C
Western Asset Management Company
W.R. Huff Asset Management Co. L.L.C.

Mortgage Loan Servicer
Atlantic Mortgage & Investment Corporation
Chase Manhattan Mortgage Company
GMAC Mortgage Corporation
GMAC Commercial Mortgage Corp.
U.S. Mortgage

Real Estate
Capri Capital Advisors
Emmes
Heitman/JMB Advisory Corporation
Henderson Investors North America, Inc.
Insignia/ESG, Inc.
Invesco Realty Advisors
Lend Lease R.E. Investments, Inc.
Lowe Enterprise Residential Partners
RREEF America Partners
TA Associates Realty
Urban America, L.P.

Securities Lending Program
Goldman, Sachs & Co.
Mellon Bond Associates
Mellon Trust
Metropolitan West Securities, L.L.C.

Actuarial Section

The Los Angeles County Fire Department is a leader among America's fire services, and is the nations second largest fire protection agency. LACoFD created the nation's first 911 Emergency Calling System, and its second Fire Fighter Paramedic Program.

www.lacofd.org.

Section

There is a powerful spirit amongst our LA County Firefighters. They protect us as they battle nature—a challenging foe. These men and women put their lives on the line for the public. Their resilience is apparent time and again as they bravely file into rank, facing danger, relentlessly fighting to save the lives and property of LA County residents.

August 26, 2002

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

A MILLMAN GLOBAL FIRM
Milliman USA
Consultants and Actuaries

1301 Fifth Avenue, Suite 3800, Seattle, Washington 98101-2605
Telephone: 206/624-7940 Fax: 206/623-3485
www.milliman.com

Dear Members of the Board:

LACERA's basic financial goal is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members.[1] Annual actuarial valuations measure the progress toward this goal as well as test the adequacy of the contribution rates.

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 Retirement System Funding Agreement required the County to maintain the funding level of LACERA at certain levels during the period of the Agreement, and commencing July 1, 2000, to maintain at least a 100% funded status. Any additional UAAL identified in the June 30, 2000 through June 30, 2008 actuarial valuations was required to be discharged by making additional contributions to LACERA over a rolling five-year amortization period. Based on the funding status for LACERA, no UAAL payments by the County have been required under the Funding Agreement.

Valuation Date	Funded Status
June 30, 1999	103.3%
June 30, 2000	102.9
June 30, 2001	100.0

LACERA measures its funding level based on actuarial accrued liabilities determined using the entry age normal funding method and an actuarial value of assets which smoothes the recognition of asset gains and losses over a three year period. Under the Interim Funding Policy adopted February 14, 2001, the Board recognized a portion of the Contingency Reserve as valuation assets for funding purposes. Thus, the actuarial value of plan assets equals the actuarial accrued liability on June 30, 2001, the date of the most recent valuation, resulting in a funding ratio of 100.0%.

As a result of the 2001 Investigation of Experience study, which we performed in late 2001, the Board adopted several changes in the actuarial assumptions. The new assumptions were used in preparing the June 30, 2001 valuation. The valuation results are based on the membership data and the asset information provided by LACERA, our understanding of LACERA's benefit provisions and the actuarial assumptions. We reviewed the data provided to us for reasonableness.

We believe the actuarial assumptions are internally consistent and reasonable. We also believe the assumptions and actuarial methods meet the Governmental Accounting Standards Board Statement No. 25.

LACERA staff prepared the supporting schedules in this section and the trend tables in the financial section based on information supplied in the prior actuarial reports, as well as our June 30, 2001 report.

Following the completion of the 2001 valuation, LACERA and the County adopted the Retirement Benefits Enhancement Agreement which provides for a revised funding policy and for increased benefits. The Agreement will impact future actuarial valuations.

We certify that the June 30, 2001 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. I am a Member of the American Academy of Actuaries and have experience in performing valuations for public retirement systems. It is our opinion that LACERA continues in sound financial condition as of June 30, 2001. However, emerging costs will vary from those presented in the valuation to the extent that actual experience differs from that projected by the assumptions.

Sincerely,

Karen I. Steffen, F.S.A., M.A.A.A.
Consulting Actuary
KIS/cdc

[1] A further goal is to minimize employer contributions, consistent with the requirements of Article XVI, Section 17 of the California Constitution and Section 31595 of the California Government Code.

Summary of Actuarial Assumptions and Methods

Actuarial Assumptions and Methods	Recommended by the Actuary and adopted by the Board of Investments. The actuarial assumptions used to determine the liabilities are based on the results of the 2001 Investigation of Experience Report. New assumptions were adopted by the Board effective June 30, 2001.
Actuarial Cost Method	Entry Age Normal Cost Funding Method The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level percentage of the projected salaries of present and future members of LACERA over specified fixed periods of time. The current Funding Agreement requires a rolling five-year amortization period. On June 4, 2002, the Retirement System Funding Agreement was amended to extend the UAAL amortization period to 30 years. This amendment will apply to future valuations beginning with the June 30, 2002 annual valuation.
Actuarial Asset Valuation Method	Three-year smoothed method based on the difference between expected and actual market value of assets as of the valuation date. The expected market value, with three-year smoothing valuation basis for all assets, was adopted effective June 30, 2000.
Amortization of Gains and Losses	Actuarial gains and losses are reflected in the unfunded actuarial accrued liability and amortized over the same period. Under the Interim Funding Policy adopted February 14, 2001, the Board recognized a portion of the Contingency Reserve for funding purposes as valuation assets. Thus, the actuarial value of plan assets equals the actuarial accrued liability on June 30, 2001, the date of the most recent valuation, resulting in a funding ratio of 100.0%. Therefore, there is no UAAL to be amortized.
Investment Rate of Return	Future investment earnings are assumed to accrue at an annual rate of 8.00%, compounded annually, exclusive of both investment and administrative expenses.
Projected Salary Increases	Rates of annual salary increases assumed for the purpose of the valuation range from 10.24% to 4.78%. In addition to increases in salary due to promotions and longevity, the scale includes an assumed 4.0% per annum rate of increases in the general wage level of membership. These rates were adopted June 30, 2001.
Rates of Separation from Employment	Various rates dependent upon member's age, sex, and retirement plan. All terminating members are assumed to not be rehired. These rates were revised June 30, 2001.
Post-retirement Benefit Increases	Post-retirement benefit increases of either 3% or 2% per year are assumed for the valuation in accordance with the benefits provided. These adjustments, which are based on the Consumer Price Index, are assumed payable each year in the future as they are less than the expected increase in the Consumer Price Index of 4% per year. Plan E members do not receive post retirement benefit increases for service credit earned prior to June 4, 2002.
Expectation of Life After Retirement	1983 Group Annuity Mortality Table with rates multiplied by 85% for male General members, 95% for female General members, 80% for male Safety members and 95% for female Safety members.

Expectation of Life after Disability

RP-2000 Combined Mortality Table for Males, for male General members with ages set forward three years, and for male Safety members with no age adjustment. RP-2000 Combined Table for Females, for female General members with ages set forward one year, and for female Safety members with ages set forward three years. Rates were adopted June 30, 2001.

Recent Changes and Their Financial Impact

The following assumptions were changed effective June 30, 2001.

MERIT SALARY INCREASE
New table with larger increases for members with less than 10 years of service and smaller increases thereafter.

DEATH WHILE ACTIVE
Conversion to a standard mortality table and extend General member assumptions to age 75.

SERVICE RETIREMENT
New tables with fairly minor revisions and extends General member assumptions to age 75.

DISABILITY
Small changes for the service-connected rates for male General members and for the nonservice-connected rates for all plans. Extend General member assumptions to age 75.

TERMINATION
(1.) Change the assumptions for General Plan D and E members to be based on years of service rather than attained age. (2.) Adopt lower rates for the older closed General Plans A-C. (3.) Lower the rates for Safety members in both Plans A and B, but keep the age related rates. (4.) Extend General member assumptions to age 75.

RETIREE MORTALITY
For Disability retirees, adopt a new table with lower rates of mortality for all plans.

FINANCIAL IMPACT
Overall, the financial impact of the assumption changes is fairly small, as compared to the total liabilities.

Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Salary
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%**
30-Jun-98	General	65,754	$ 2,837,360,292	$ 43,151	3.02%
	Safety	10,947	725,055,588	66,233	5.23%
	Total	**76,701**	**$3,562,415,880**	**$46,445**	**3.37%**
30-Jun-99	General	68,652	$ 3,104,617,260	$ 45,223	4.80%
	Safety	11,024	753,472,872	68,348	3.19%
	Total	**79,676**	**$3,858,090,132**	**$48,422**	**4.26%**
30-Jun-00	General	71,940	$ 3,352,863,984	$ 46,606	3.06%
	Safety	11,264	790,635,384	70,191	2.70%
	Total	**83,204**	**$4,143,499,368**	**$49,799**	**2.84%**
30-Jun-01	General	75,048	$ 3,608,061,804	$ 48,077	3.16%
	Safety	12,021	860,802,108	71,608	2.02%
	Total	**87,069**	**$4,468,863,912**	**$51,326**	**3.07%**

Actuary Solvency Test

(Dollars in millions)

	Actuarial Accrued Liability (AAL)				Percentage of AAL Covered by Assets		
Valuation Date	(1) Active Members	(2) Retired/ Vested Members	(3) Employer Financed Portion	Actuarial Value of Assets	(1) Active	(2) Retired	(3) Employer
30-Jun-96*	$2,214	$ 9,737	$5,327	$17,725	100%	100%	108%
30-Jun-97	2,397	10,549	6,438	19,642	100%	100%	104%
30-Jun-98	2,642	11,268	7,050	20,851	100%	100%	98%
30-Jun-99	2,710	11,863	8,211	23,536	100%	100%	109%
30-Jun-00	3,190	12,922	8,609	25,427	100%	100%	108%
30-Jun-01	3,320	14,368	8,802	26,490	100%	100%	100%

Actuarial Analysis of Financial Experience

(Dollars in millions)

	1996*	1997	1998	1999	2000	2001
Prior Valuation Unfunded Actuarial Accrued Liability	($112)	($447)	($259)	$109	($751)	($706)
Expected Increase (Decrease) from Prior Valuation	103	59		9	(192)	128
Salary Increases Greater (Less) than Expected	(339)	(353)	(116)	241	(20)	40
Change in Assumptions			(245)			(239)
Adjustment from Actuarial Audit		1,130	260			
Asset Return Less (Greater) than Expected	(443)	(955)	(494)	(492)	(697)	690
All Other Experience	344	307	963	(78)	211	87
Change in Procedural Applications				515[1]	457[2]	
Change in Actuarial Asset Method				(1,055)		
Change in Application of Actuarial Asset Method					286	
Ending Unfunded Actuarial Accrued Liability (Surplus)	**($447)**	**($259)**	**$109**	**($751)**	**($706)**	**$0**

* An actuarial audit of the actuarial valuation as of June 30, 1996 that was completed in the Spring of 1998 and a subsequent investigation conducted by LACERA disclosed that actuarial accrued liabilities reported in the formal actuarial valuation reports as of June 30 for the years 1977 through 1996 were understated as a result of calculation errors, and that the reported funding ratios for those years were overstated.

[1] Estimated increase due to change in retained actuary and their proprietary valuation procedures, based on 1998 audit report.

[2] Reflects change in procedures to project member salaries:
- Full-year compensation used for Plan A members; in prior years a monthly rate was annualized.
- Timing of when salary increases occur changed.

Probability of Occurrence

Age	Service Retirement	Withdrawal	Service Disability	Ordinary Disability	Service Death	Ordinary Death
Plans A, B, and C General Members - Male						
20	0.0000	0.0050	0.0003	0.0002	N/A	0.0004
30	0.0000	0.0050	0.0004	0.0002	N/A	0.0006
40	0.0300	0.0050	0.0011	0.0003	N/A	0.0012
50	0.0300	0.0050	0.0027	0.0009	N/A	0.0024
60	0.1800	0.0050	0.0057	0.0026	N/A	0.0059
70	0.2500	0.0050	0.0071	0.0039	N/A	0.0112
75	1.0000	0.0000	0.0000	0.0000	N/A	0.0000
Plans A, B, and C General Members - Female						
20	0.0000	0.0050	0.0001	0.0001	N/A	0.0002
30	0.0000	0.0050	0.0004	0.0001	N/A	0.0003
40	0.0300	0.0050	0.0008	0.0002	N/A	0.0007
50	0.0300	0.0050	0.0017	0.0008	N/A	0.0017
60	0.1600	0.0050	0.0033	0.0024	N/A	0.0039
70	0.2400	0.0050	0.0094	0.0038	N/A	0.0076
75	1.0000	0.0000	0.0000	0.0000	N/A	0.0000

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Withdrawal
Plan D General Members - Male							
20	0.0000	0.0003	0.0002	N/A	0.0004	5	0.0340
30	0.0000	0.0004	0.0002	N/A	0.0006	10	0.0292
40	0.0300	0.0011	0.0003	N/A	0.0012	15	0.0280
50	0.0300	0.0027	0.0009	N/A	0.0024	20 & up	0.0280
60	0.0700	0.0057	0.0026	N/A	0.0059		
70	0.2500	0.0071	0.0039	N/A	0.0112		
75	1.0000	0.0000	0.0000	N/A	0.0000		
Plan D General Members - Female							
20	0.0000	0.0001	0.0001	N/A	0.0002	5	0.0340
30	0.0000	0.0004	0.0001	N/A	0.0003	10	0.0292
40	0.0200	0.0008	0.0002	N/A	0.0007	15	0.0280
50	0.0200	0.0017	0.0008	N/A	0.0017	20 & up	0.0280
60	0.0500	0.0033	0.0024	N/A	0.0039		
70	0.2500	0.0094	0.0038	N/A	0.0076		
75	1.0000	0.0000	0.0000	N/A	0.0000		

Probability of Occurrence — continued

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Withdrawal
Plan E General Members - Male							
20	0.0000	N/A	N/A	N/A	0.0004	5	0.0400
30	0.0000	N/A	N/A	N/A	0.0007	10	0.0292
40	0.0000	N/A	N/A	N/A	0.0014	15	0.0250
50	0.0000	N/A	N/A	N/A	0.0028	20 & up	0.0250
60	0.0300	N/A	N/A	N/A	0.0070		
70	0.2500	N/A	N/A	N/A	0.0137		
75	1.0000	N/A	N/A	N/A	0.0000		
Plan E General Members - Female							
20	0.0000	N/A	N/A	N/A	0.0002	5	0.0400
30	0.0000	N/A	N/A	N/A	0.0003	10	0.0292
40	0.0000	N/A	N/A	N/A	0.0009	15	0.0250
50	0.0000	N/A	N/A	N/A	0.0020	20 & up	0.0250
60	0.0400	N/A	N/A	N/A	0.0047		
70	0.2500	N/A	N/A	N/A	0.0085		
75	1.0000	N/A	N/A	N/A	0.0000		

Age	Service Retirement	Withdrawal	Service Disability	Ordinary Disability	Service Death	Ordinary Death
Plans A and B Safety Members - Male						
20	0.0000	0.0150	0.0050	0.0003	0.0001	0.0003
30	0.0000	0.0140	0.0060	0.0003	0.0001	0.0004
40	0.0100	0.0050	0.0140	0.0005	0.0001	0.0005
50	0.0100	0.0050	0.0190	0.0011	0.0001	0.0011
60	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Plans A and B Safety Members - Female						
20	0.0000	0.0200	0.0050	0.0003	0.0001	0.0002
30	0.0000	0.0190	0.0060	0.0003	0.0001	0.0003
40	0.0100	0.0090	0.0140	0.0005	0.0001	0.0007
50	0.0100	0.0050	0.0190	0.0011	0.0001	0.0017
60	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Government Code Sections or Board of Retirement Bylaws

Management of the Retirement System

Except as delegated to the Board of Investments and except for the statutory duties of the County Treasurer, the management of the retirement system is vested in the nine-member (plus one alternate) Board of Retirement (hereinafter referred to as "Board.") (31520.1)

LACERA also has a nine-member Board of Investments that is responsible for all investments of the retirement system. (31520.2)

Members of each Board serve for three-year terms; specified members receive compensation for not more than five meetings a month. (31520, 31520.2, 31521)

The official duties of all elected Board members who are employees of the County or a District are included as part of their County or District employment and their Board duties normally take precedence over any other duties. (31522)

Both the Board of Retirement and the Board of Investments may appoint such administrative, technical, and clerical staff personnel as are required to accomplish the necessary work of the Boards. (31522.1)

The Board of Retirement and the Board of Investments that have elected to appoint personnel pursuant to Section 31522.1, may appoint an administrator. (31522.2)

(31525)

The Boards may make regulations (Bylaws) not inconsistent with the retirement law.

The Boards have numerous duties that are specified throughout the retirement law.

Contributory Plans A, B, C, and D

ANNUAL BUDGET

(31580.2)

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.

MEMBERSHIP

Eligibility: (31551, 31552, Bylaws)

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

(31558)

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.

(31493, 31493.5, 31493.6, Bylaws)

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

Government Code Sections or Board of Retirement Bylaws

either Plan D or Plan E, depending on the law in effect at that time. (31553, 31562)

Elective officers become members on the first day of the month after filing a declaration with the Board of Retirement (Board). (31494.1, 31494.3)

General members in Plan E may transfer all their Plan E service credit to Plan D during an approved Traditional Open Window 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. (31494.5)

As an alternative to transferring all their service credit, general members in Plan E may, effective June 4, 2002, transfer prospectively to Plan D and make contributions beginning as of the effective date of transfer. These members may also purchase some or all of their Plan E service earned prior to the transfer to Plan D, as Plan D service. They will retain credit for their Plan E service and will receive a combined retirement allowance from both plans when they retire. Once the transfer is effective, a member is not eligible to make an election back to Plan E until three years from the effective date of transfer to Plan D. (31494.2)

General members in Plan D may, effective June 4, 2002, transfer prospectively to Plan E and make no further contributions as of the effective date of transfer. They will retain credit for their Plan D service and will receive a combined retirement allowance from both plans when they retire. Once the transfer is effective, a member is not eligible to make an election back to Plan D until three years from the effective date of transfer to Plan E.

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) 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

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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. [Note: Age at entry for a person who enters LACERA within 90 days (or six months depending on date of entry) of last performing service in a reciprocal retirement system, and who retains membership in that system, is the age at entry into the first other system. If a member enters LACERA from the Public Employee's Retirement System (PERS) after withdrawing contributions but redeposits those contributions and otherwise meets the requirements of reciprocity with PERS, the member's entry age is the age at entry into PERS commencing with the pay period immediately following receipt of confirmation from PERS that withdrawn contributions have been redeposited.] 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, 31461.3, 31461.4, 31461.45, 31510.2, 31510.4, 31620, 31639.1 , 31833, 31833.1) (31812)

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. (31625)

Contributions are deducted monthly from wage warrants and are credited to each individual member's account. (31625.2, 31836.1)

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. (31652, Bylaws)

Former members who return to service may redeposit their withdrawn accumulated contributions plus interest from date of withdrawal. Redeposit may be by lump sum or installment payments over a 10-year period. Membership is the same as if unbroken except that current contributions are based on nearest age at reentry. (31680.4, 31680.5, 31733)

Members who were retired for disability and return to membership after a determination they are no longer disabled, or return to membership following

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a service retirement and elect Plan D, make contributions based on their nearest age at reentry. (31591, 31700)

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. (Note: The total of member contributions and credited interest is called "accumulated contributions.") 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.

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).) (31628, 31629)

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, (10 years if first employed before January 1, 1976), the unclaimed funds become a part of the Employer Reserves.

(31453, 31454, 31581)

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. (31453.6, 31454.5, 31454.6)

The County or district may also make additional appropriations to fund any deficit or to amortize unfunded accrued actuarial obligations. (31641, Bylaws)

SERVICE AND BREAKS IN SERVICE

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

(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. (31642)

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

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

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(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. (31652)

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. (31640.5)

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. (31641.5)

Members may purchase service credit to increase their retirement benefits for the following types of service:

Temporary or Permanent Time (31652)

Redeposit of Withdrawn Contributions (31646)

Sick Without Pay (31641.1, 31641.2(a), Board of Supervisors Resolution)

Federal/Military (31641.1, 31641.2(c), Board of Supervisors Resolution)

Other Public Agency (31643, 31644, Bylaws)

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 (31639.75)

General to Safety Service (31485.8)

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.

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SERVICE RETIREMENT ALLOWANCE

Compensation Limit: (31671)
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 U.S. Code. (31664.65)

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. (31494.2, 31494.5)

Combined General Plan D and Plan E Service:
Members who transfer prospectively from Plan D to Plan E or from Plan E to Plan D and earn service credit under both plans will receive a combined retirement allowance after retirement. The benefits for each plan will be added together to determine the total retirement allowance payable. In addition, the aggregate service credited under both retirement plans is used for the purpose of determining eligibility for and vesting of benefits under each plan. (31452.6, 31590)

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.

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: (31672)
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. (31662.4, 31662.6, 31663.25)

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. (31676.14)

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.

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(31808)

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. (31462.1)

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. (31664)

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.

(31462, 31462.3, 31664, 31676.11)

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 retires before June 4, 2002 and 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. (31462.3)

However, for both general and safety Plan B members who retire on or after June 4, 2002, 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, 31462.3)

PLAN C

Retirement Eligibility/Allowance:

Same eligibility and allowance formula as general Plan A, except general Plan C factors are different. Final compensation period is three years as in Plan B for members who retire before June 4, 2002, and one year for members who retire on or after June 4, 2002.

(31462, 31462.3)

PLAN D

Retirement Eligibility/Allowance:

Same eligibility and allowance formula as general Plan A, except $350 figure is replaced by $1,050. Plan D age factors are the same as Plan C age factors. Final compensation period is three years as in Plan B for members who retire before June 4, 2002, and one year for members who retire on or after June 4, 2002.

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UNMODIFIED AND OPTIONAL RETIREMENT ALLOWANCES

Unmodified Retirement Allowance: (31760.1, 31760.12, 31785, 31785.4)

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 if the member died before June 4, 2002, or 65% if the member dies on or after June 4, 2002. To receive this continuance the spouse must have been married to the member at least one year prior to retirement.

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. (31786)

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 have been married to the member prior to retirement. (31780.1)

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. (31760)

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% (or 65% if eligible) 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: (31761)

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. (31762)

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. (31763)

Option 3 50% of member's reduced allowance is payable to a surviving

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spouse or beneficiary having an insurable interest in the life of the member. (31764)

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. (31782)

A member may not revoke and name another beneficiary if the member elects Option 2, 3, or 4. (31810, 31811)

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% (or 65% if eligible) 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. (31600)

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.

SERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE

(31720, 31720.5, 31720.6, 31720.7)

Eligibility/Definition of Disability:
Any age or years of service; member must be permanently incapacitated for the performance of duty as a result of injury or disease arising out of and in the course of employment and employment must contribute substantially to the incapacity. In addition, if a safety member (or other specified member) who has completed five or more years of service develops heart trouble, cancer, or a blood-borne infections disease, such heart trouble, cancer, or disease is presumed to arise out of, and in the course of, employment. The presumption for the latter two is extended following termination of service. (31494.5)

A general member in Plan E who transfers prospectively to Plan D may apply for a service-connected disability retirement after he or she has either completed two years of continuous service or earned five years of service, as an active Plan D member after the most recent date of transfer. If the member is granted a disability retirement under Plan D, the member may not retire under Plan E. (31722)

Application:
Application must be made while the member is in service, within four months after discontinuance of service, within four months after the expiration of any period during which a presumption is extended beyond the discontinuance of service, or while, from the discontinuance of service to the time of application, the member is continuously incapacitated to perform duties.

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Monthly Allowance: (31724)
The allowance begins from the date of application but not earlier than the day following the last day of regular compensation. (31727.4)

The monthly allowance is equal to 50% of final compensation or, if the member is eligible to retire, the service retirement allowance, if greater. (31760, 31786)

Upon the death of a member while receiving a service-connected disability retirement allowance, 100% of the allowance continues to a surviving spouse who was married to the member prior to retirement (or eligible children) unless the member elected an optional allowance.

NONSERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE

Eligibility/Definition of Disability: (31720)
Any age with five years of County service or combination of County and reciprocal service; member must be permanently incapacitated for the performance of duty. (31494.5)

A general member in Plan E who transfers prospectively to Plan D may apply for a nonservice-connected disability retirement after he or she has either completed two years of continuous service or earned five years of service, as an active Plan D member after the most recent date of transfer. Note that the member must have a minimum of five years of combined service in order to be eligible for nonservice-connected disability retirement. If the member is granted a disability retirement under Plan D, the member may not retire under Plan E. (31722)

Application:
Application must be made while the member is in service, within four months after discontinuance of service, or while, from the discontinuance of service to the time of application, the member is continuously incapacitated to perform duties. (31724)

Monthly Allowance:
The allowance begins from the date of application but not earlier than the day following the last day of regular compensation. (31726, 31726.5)

The monthly allowance is equal to a service retirement allowance if the member is eligible to retire, otherwise allowance equals (a) or (b) where: (31727(a))

(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(b))

(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.) (31727.2)

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For safety members 1/60 is replaced by 1/50 and age 65 is replaced by age 55 in (a) and (b) above.

Upon the death of a member while receiving a nonservice-connected disability retirement allowance, 60% of the allowance continues to a surviving spouse who was married to the member one year prior to retirement (or eligible children), if member died before June 4, 2002, or 65% if the member dies on or after June 4, 2002 unless the member elected an optional allowance. (31760, 31760.1, 31760.12, 31785, 31785.4)

CHANGE OF POSITION IN LIEU OF DISABILITY RETIREMENT ALLOWANCE

(31725, 31725.5)

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.

(31787)

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. (31781)

Death Benefit (Lump Sum):

The member's normal contributions and interest, plus 1/12 of the compensation earnable in preceding 12 months times the number of completed years of service (benefit not to exceed 50% of the 12 months' compensation) is payable to the named beneficiary. (31787)

Monthly Allowance:

An optional death allowance is payable monthly to the surviving spouse (or eligible children) equal to the monthly retirement allowance to which the member would have been entitled if the member had retired or been retired by reason of a service-connected disability as of the date of death. (31781.3)

Optional Combined Benefit:

In lieu of the monthly allowance above, a surviving spouse may elect:

(a) A lump sum equal to 1/12 of the compensation earnable 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 50% of the member's final compensation,

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reduced by a monthly amount which is the actuarial equivalent of (a) above based on the age of surviving spouse. (31787.5)

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, there is an additional benefit payable to surviving spouse. The benefit is equal to 25% of the optional death allowance provided in Section 31787 (whether or not the monthly allowance or combined benefit is chosen) for one child, 40% for two children, and 50% for three or more children. If the surviving spouse does not have legal custody of the children, the additional benefit is payable to legal guardian. (31787.6)

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.

(31780)

NONSERVICE-CONNECTED DEATH BENEFITS

Eligibility:
Active members who die while in service or while physically or mentally incapacitated for the performance of duty. (31781)

Death Benefit (Lump Sum):
The member's normal contributions and interest, plus 1/12 of the compensation earnable 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.

In lieu of the lump-sum death benefit, the following death benefits are available: (31781.1, 31781.12)

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 the member died before June 4, 2002, or 65% if the member dies on or after June 4, 2002. 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.

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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. (31765.2, 31781.2)

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), if the member died before June 4, 2002, or 65% if the member dies on or after June 4, 2002. (31781.3)

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:

(a) A lump sum equal to 1/12 of the compensation earnable in the preceding 12 months x the number of completed years of service (benefit not to exceed 50% of the 12 months' compensation), plus (31781.1, 31781.12)

(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, if the member died before June 4, 2002, or 65% if the member dies on or after June 4, 2002. (31765.1, 31765.2)

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, if the member died before June 4, 2002, or 65% if the member dies on or after June 4, 2002. (31765)

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. (31784)

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. (31452.7)

Payment of Earned Allowance after Member's or Survivor's Death:
After retirement, any allowance earned but not yet paid to a member or to any

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person receiving a survivor's allowance shall be paid to the member's or to the survivor's designated beneficiary upon the death of the member or survivor.

(31700)

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. (31836)

Years of service for determining eligibility for retirement include reciprocal service with all reciprocal agencies. (31703, 31704, 31705)

Monthly Allowance: (31700)

The allowance is calculated according to the applicable service retirement formula at the time of retirement.

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. (31702)

If a terminated member dies before the effective date of the deferred retirement allowance, the member's accumulated contributions are paid to the estate or to the named beneficiary. (31706)

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. (31830, 31840.2, 31840.4, 31840.8)

Reciprocity:

Career public service is encouraged by granting reciprocal benefits to members who are entitled to retirement benefits from two or more county retirement systems established under the CERL or from a county retirement system and the Public Employees' Retirement System (PERS), the State Teachers' Retirement System (STRS), the Judge's Retirement System or Judge's Retirement System II, or a retirement system of any other public agency of the state that has established reciprocity with PERS subject to specified conditions. (31461.3, 31835)

Final compensation may be based on service with PERS, another county retirement system, STRS, the Judge's Retirement System or Judge's Retirement System II, or a retirement system of any other public agency of the state that has established reciprocity with PERS provided: (1) the period between active memberships in the respective systems does not exceed 90 days prior to January 1, 1976, or six months if on or after January 1, 1976; and (2) the member retires concurrently under both systems. The 90-day or six-month period

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does not include any time during which the member was precluded by law from becoming a member of the system of another county. (31836)

Deferred members may include CalPERS service and service in another county retirement system for benefit eligibility if compensation for such service constitutes compensation earnable. (31837, 31838, 31838.5)

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. (31839, 31840)

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. (31657)

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. (31870, 31870.1)

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)

A decrease in the CPI may not reduce the allowance below the amount being

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received by the member (or beneficiary) on the effective date of the allowance or when the cost-of-living provisions were implemented. (31874.3(b))

Members who have a COLA Accumulation of more than 20% 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). (31789.1, 31789.3)

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 if the member died before June 4, 2002, or $5,000 if the member dies on or after June 4, 2002. This is in addition to any other death or survivor benefits. The amount is currently paid by the County based on agreement with LACERA. (31680.1)

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. (31680.2, 31680.6)

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. (31680.4, 31680.5)

A member, retired from 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. (31730, 31733)

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 mem-

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ber'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. (31783.5)

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. (31693.3, 31696.1, 31696.2, 31696.4, 31696.5)

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. (31487, Bylaws)

Noncontributory Plan E

MEMBERSHIP

Eligibility: (31487, 31493, 31493.5, 31493.6, Bylaws)

Plan E is a noncontributory retirement plan which is only available to permanent employees of Los Angeles County (County) and participating districts who work 3/4 time or more and are eligible for general membership in the LACERA. (31487, 31494)

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. (31494.2)

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.

General members in Plan D may, effective June 4, 2002, transfer prospectively to Plan E and make no further contributions as of the effective date of transfer. They will retain credit for their Plan D service and will receive a combined retirement allowance from both plans when they retire. Once the transfer is effective, a member is not eligible to make an election back to Plan D until three years from the effective date of transfer to Plan E. (31494.5)

General members in Plan E may, effective June 4, 2002, transfer prospectively to Plan D and make contributions beginning as of the effective date of transfer.

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These members may also purchase some or all of their Plan E service earned prior to the transfer to Plan D, as Plan D service. They will retain credit for their Plan E service and will receive a combined retirement allowance from both plans when they retire. Once the transfer is effective, a member is not eligible to make an election back to Plan E until three years from the effective date of transfer to Plan D. (31489) (31495)

MEMBER CONTRIBUTIONS

There are no general member retirement contributions under Plan E. (31488)

EMPLOYER CONTRIBUTIONS

The employer is required to make contributions to finance Plan E based on the recommendation of the actuary. (31488)

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. (31490) (31490)

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. (31490)

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. (31488, 31494)

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.

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.

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. (31671)

Note: The option to transfer to Plan E was discontinued by the County in January 1993. (31494.2, 31494.5)

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,

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shall not exceed the dollar limitations in Section 401(a)(17) of Title 26 of the U.S. Code. (31452.6, 31590)

Combined General Plan E and Plan D Service:
Members who transfer prospectively from Plan D to Plan E or from Plan E to Plan D and earn service credit under both plans will receive a combined retirement allowance after retirement. The benefits for each plan will be added together to determine the total retirement allowance payable. (31491, 31491.3) In addition, the aggregate service credited under both retirement plans is used for the purpose of determining eligibility for and vesting of benefits under each plan. (31491, 31491.3)

Payment of Allowance:
A retired member's retirement allowance may be paid by check or the retired member may authorize the allowance to be directly deposited by electronic fund transfer into the member's financial institution.

Eligibility - Normal Retirement:
Age 65 with 10 years of service. (31488)

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, 31491.3) (31491, 31491.3)

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. (31491, 31491.3)

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:

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

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

(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 (31491, 31491.3)

(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 (31491, 31491.3)

(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 calcu-

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lation of the estimated PIA.

Adjustments will be made for members receiving a normal retirement allowance upon presentation of the actual PIA. (31491, 31491.3)

Maximum Normal Monthly Retirement Allowance: (31491, 31491.3)
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. (31492, 31492.1)

Eligibility - Early Retirement:
Age 55 with 10 years of service.

Early Monthly Retirement Allowance:
An early retirement allowance is the actuarial equivalent of the normal retirement allowance. (31492)

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, if the member died before June 4, 2002, or 55% if the member dies on or after June 4, 2002. 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 under the age of 18 (under 22 if unmarried and full-time students in an accredited school). (31487)

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. (31487) (31487) (31487)

SERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE

A service-connected disability retirement allowance is not available under Plan E. (31491, 31491.3)

NONSERVICE-CONNECTED DISABILITY RETIREMENT ALLOWANCE

A nonservice-connected disability retirement allowance is not available under Plan E. (31491, 31491.3)

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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.

VESTED BENEFITS

Vested members or vested former members may elect to retire at any time after they have completed 10 years of County service and are at least age 55. Members are 0% vested with fewer than 10 years of County service and 100% vested with 10 or more years of County service. (31487, 31495.5)

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

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.

COST-OF-LIVING INCREASES

Every retirement allowance or death allowance payable on or after June 4, 2002, shall, as of April 1 each year, be increased or decreased by the member's automatic COLA. The automatic COLA is an amount equal to the allowance being received multiplied by a percentage (rounded to the nearest 1/10 of 1%) derived by: taking the number of months of service the member earned on and after June 4, 2002, dividing by the member's total months of service, and multiplying by a percentage equal to the lesser of 2% or the percentage determined by the Board to approximate to the nearest 1/2 of 1% the percentage of annual increase or decrease in the cost of living as of January 1 of each year as shown by the then current Consumer Price Index (CPI), as adjusted for the amount applied from a prior year. 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. Members may elect to purchase by lump-sum payment or payroll deductions an elective COLA for some or all of their Plan E service earned before becoming eligible for the automatic COLA. The cost-of-living increase for the elective COLA is calculated in a similar manner as the automatic COLA. (31495.5) (31495.5) (31789.3)

When the CPI exceeds 2%, 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%.

A decrease in the CPI may not reduce the allowance below the amount being received by the member (or beneficiary) on June 4, 2002.

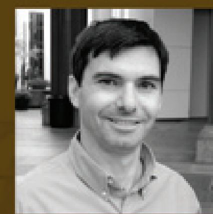
POST-RETIREMENT DEATH BENEFIT

A one-time lump-sum benefit of $5,000 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 survivor benefits.

Statistical Section

LACMA is the premier visual arts museum in the Western United States. The exhibits include 110,000 works spanning the history of art from ancient times to the present. LACMA offers film and music programs, tours, classes, lectures, a visual resource center, and special support for teachers. www.lacma.org

Section



The sign of an advanced civilization is a refined sense of culture. LA County exemplifies this by treasuring and preserving art from around the world. The Los Angeles County Museum of Art (LACMA) provides the opportunity for us to experience art created by ancient cultures, Renaissance paintings, Asian watercolors, Americana, European etchings, black and white photography, sculptures, and other artistic wonders.

The professionals associated with LACMA provide and protect artistic endeavors and keep alive the expression of creativity. We commend your efforts.

Revenues by Source and Expenses by Type

(Dollars in thousands)

Revenues by Source

Fiscal Year	Employer Contributions	Member Contributions	Net Investment Income/(Loss)	Miscellaneous Revenues	Total
1997	$ 1,168	$171,014	$ 3,442,851	$ 589	$ 3,615,622
1998	9,420	179,476	3,460,959	1,223	3,651,078
1999	85,576	202,062	3,342,362	2,563	3,632,563
2000	130,319	198,618	4,335,941	2,536	4,667,414
2001	193,650	216,297	(2,382,548)	2,972	(1,969,629)
2002	$297,928	$265,573	$(1,533,625)	$ 133	$ (969,991)

Expenses by Type

Fiscal Year	Benefits	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
1997	$ 872,134	$23,417	$14,973	$44,041[1]	$ 954,565
1998	927,204	24,904	16,391	45,070[1]	1,013,569
1999	981,886	27,562	16,295	55,692[1]	1,081,435
2000	1,048,015	29,401	17,250	50,707[1]	1,145,373
2001	1,138,030	33,417	17,640	53,370[1]	1,242,457
2002	$1,224,112	$37,402	$16,259	$58,258[1]	$1,336,031

[1] Includes Retiree Healthcare Program.

Active/Deferred Members and Unclaimed Accounts

	1997	1998	1999	2000	2001	2002
Active Vested						
General	42,461	43,444	44,436	46,366	46,886	47,765
Safety	9,269	9,005	8,795	8,789	9,037	9,030
Sub-Total	51,730	52,449	53,231	55,155	55,923	56,795
Active Nonvested						
General	21,759	22,334	24,216	25,574	28,162	29,295
Safety	1,590	1,942	2,229	2,475	2,984	3,160
Sub-Total	23,349	24,276	26,445	28,049	31,146	32,455
Total Active Members						
General	64,220	65,778	68,652	71,940	75,048	77,060
Safety	10,859	10,947	11,024	11,264	12,021	12,190
Total	**75,079**	**76,725**	**79,676**	**83,204**	**87,069**	**89,250**
Deferred Members						
General	4,101	4,624	4,859	5,076	5,325	5,799
Safety	154	152	160	162	179	209
Total	**4,255**	**4,776**	**5,019**	**5,238**	**5,504**	**6,008**
Unclaimed Accounts						

STATISTICAL SECTION

Retired Members by Type of Retirement

	1997	1998	1999	2000	2001	2002
Service						
General	25,717	26,204	26,492	27,099	27,456	27,937
Safety	2,404	2,641	2,704	2,678	2,755	2,830
Total	**28,121**	**28,845**	**29,196**	**29,777**	**30,211**	**30,767**
Disability						
General	4,076	4,074	4,074	4,119	4,119	4,087
Safety	3,542	3,697	3,859	4,201	4,367	4,556
Total	**7,618**	**7,771**	**7,933**	**8,320**	**8,486**	**8,643**
Survivors						
General	5,079	5,184	5,271	5,378	5,502	5,600
Safety	1,055	1,088	1,111	1,153	1,197	1,230
Total	**6,134**	**6,272**	**6,382**	**6,531**	**6,699**	**6,830**
Total Retired Members						
General	34,872	35,462	35,837	36,596	37,077	37,624
Safety	7,001	7,426	7,674	8,032	8,319	8,616
Total	**41,873**	**42,888**	**43,511**	**44,628**	**45,396**	**46,240**

Benefit Expenses by Type

(Dollars in thousands)

	1997	1998	1999	2000	2001	2002
Service Retiree Payroll						
General	$556,639	$588,036	$614,824	$ 650,584	$ 702,400	$ 751,892
Safety	86,450	95,183	104,465	115,813	128,635	141,541
Total	**643,089**	**683,219**	**719,289**	**766,397**	**831,035**	**893,433**
Disability Retiree Payroll						
General	96,182	99,261	103,262	106,416	111,707	116,791
Safety	131,866	143,927	157,484	173,989	193,554	212,433
Total	**228,048**	**243,188**	**260,746**	**280,405**	**305,261**	**329,224**
Total Retiree Payroll						
General	652,821	687,297	718,086	757,000	814,107	868,683
Safety	218,316	239,110	261,949	289,802	322,189	353,974
Total	**871,137**	**926,407**	**980,035**	**1,046,802**	**1,136,296**	**1,222,657**
Lump Sum Death Benefits						
General	820	577	1,805	1,158	1,503	1,299
Safety	177	220	46	55	231	156
Total	**997**	**797**	**1,851**	**1,213**	**1,734**	**1,455**

Schedule of Average Benefit Payments

	Years of Credited Service					
Retirement Effective Dates	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

Schedule of Average Benefit Payments

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

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
7/1/98 to 6/30/99						
Retirants						
General Members						
Average Monthly Benefit	$ 886	$ 853	$ 1,058	$ 1,631	$ 2,297	$ 3,591
Average Final Average Salary	$ 3,828	$ 3,688	$ 3,324	$ 3,726	$ 4,037	$ 4,808
Number of Active Retirants	74	197	159	173	293	334
Safety Members						
Average Monthly Benefit	$ 2,277	$ 2,439	$ 2,884	$ 3,172	$ 4,418	$ 6,236
Average Final Average Salary	$ 4,935	$ 4,965	$ 5,867	$ 5,913	$ 6,338	$ 7,279
Number of Active Retirants	32	23	17	19	57	173
Survivors						
General Members						
Average Monthly Benefit	$ 767	$ 619	$ 972	$ 1,150	$ 1,599	$ 2,647
Average Final Average Salary	$ 4,746	$ 3,787	$ 2,700	$ 3,320	$ 3,790	$ 4,647
Number of Active Survivors	6	13	13	21	30	30
Safety Members						
Average Monthly Benefit	$ 964		$ 1,957		$ 2,252	$ 5,491
Average Final Average Salary	$ 4,818		$ 5,459		$ 3,481	$ 8,111
Number of Active Survivors	1		2		4	7
7/1/99 to 6/30/00						
Retirants						
General Members						
Average Monthly Benefit	$ 739	$ 802	$ 1,127	$ 1,837	$ 2,317	$ 3,377
Average Final Average Salary	$ 3,524	$ 3,480	$ 3,685	$ 4,001	$ 4,154	$ 4,596
Number of Active Retirants	27	72	62	65	153	164
Safety Members						
Average Monthly Benefit	$ 2,279	$ 2,264	$ 2,956	$ 3,547	$ 4,521	$ 6,102
Average Final Average Salary	$ 4,883	$ 4,973	$ 5,637	$ 6,410	$ 6,729	$ 7,256
Number of Active Retirants	33	51	27	18	37	70
Survivors						

Schedule of Average Benefit Payments — continued

General Members						
Average Monthly Benefit	$ 522	$ 508	$ 894	$ 928	$ 934	$ 2,448
Average Final Average Salary	$ 2,942	$ 2,664	$ 2,142	$ 3,242	$ 2,908	$ 3,077
Number of Active Survivors	6	13	4	7	9	13
Safety Members						
Average Monthly Benefit				$ 3,802	$ 2,965	$ 3,965
Average Final Average Salary				$ 7,290	$ 7,865	$ 5,566
Number of Active Survivors				2	2	2

	Years of Credited Service					
Retirement Effective Dates	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30+**
7/1/00 to 6/30/01						
Retirants						
General Members						
Average Monthly Benefit	$ 883	$ 983	$1,225	$1,978	$2,514	$4,176
Average Final Average Salary	$3,963	$4,142	$3,801	$4,574	$4,352	$5,485
Number of Active Retirants	58	181	111	163	316	531
Safety Members						
Average Monthly Benefit	$3,459	$2,845	$2,909	$3,650	$4,775	$6,860
Average Final Average Salary	$5,439	$5,599	$5,909	$6,687	$6,966	$8,088
Number of Active Retirants	14	30	14	14	79	203
Survivors						
General Members						
Average Monthly Benefit	$ 712	$ 404	$ 568	$ 814	$1,524	$2,227
Average Final Average Salary	$2,438	$1,661	$1,186	$1,633	$2,583	$3,655
Number of Active Survivors	17	19	17	25	26	33
Safety Members						
Average Monthly Benefit	$1,059	$1,962	$2,532	$1,529	$2,279	$3,369
Average Final Average Salary	$5,134	$1,822	$4,893	$3,658	$3,023	$3,905
Number of Active Survivors	2	3	3	6	7	10
7/1/01 to 6/30/02						
Retirants						
General Members						
Average Monthly Benefit	$ 770	$ 915	$1,421	$1,932	$2,753	$4,368
Average Final Average Salary	$4,072	$3,815	$4,468	$4,531	$4,734	$5,748
Number of Active Retirants	65	214	147	163	283	631
Safety Members						
Average Monthly Benefit	$4,052	$2,961	$3,454	$3,318	$5,092	$7,066
Average Final Average Salary	$6,733	$5,899	$6,394	$6,701	$7,216	$8,122
Number of Active Retirants	19	29	26	23	48	221
Survivors						
General Members						
Average Monthly Benefit	$ 399	$ 555	$ 748	$1,227	$1,567	$2,669
Average Final Average Salary	$2,385	$3,764	$1,965	$3,648	$3,610	$4,587
Number of Active Survivors	15	20	25	24	38	35

Participating Employers and Active Members

	1997	1998	1999	2000	2001	2002
County of Los Angeles						
General Members	64,193	65,753	68,631	71,940	75,034	77,046
Safety Members	10,859	10,947	11,024	11,264	12,021	12,190
Total	**75,052**	**76,700**	**79,655**	**83,204**	**87,055**	**89,236**
Participating Agencies (General Membership)						
South Coast Air Quality Management District	8	7	6	8	3	3
Los Angeles County Office of Education	11	10	8	8	5	5
Little Lake Cemetery District	3	3	3	2	2	2
Local Agency Formation Commission	5	5	4	5	4	4
Total	**27**	**25**	**21**	**23**	**14**	**14**
Total Active Membership						
General Members	64,220	65,778	68,652	71,963	75,048	77,060
Safety Members	10,859	10,947	11,024	11,264	12,021	12,190
Total	**75,079**	**76,725**	**79,676**	**83,227**	**87,069**	**89,250**

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 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 Sep 98	9.64%	6.03%	5.69%	5.90%	6.48%	16.73%	9.29%
1 Oct 98 to 30 Jun 99	9.77%	6.46%	6.20%	6.84%	6.50%	20.42%	13.51%
1 Jul 99 to 30 Jun 02	11.69%	7.01%	6.47%	6.95%	6.00%	22.27%	14.38%

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 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 Sep 98	8.95%	6.02%	5.90%
1 Oct 98 to 30 Jun 99	9.08%	6.45%	6.84%
1 Jul 99 to 30 Jun 02	10.96%		6.95%

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 93 to 30 Sep 94	17.32%	14.89%	14.61%
1 Oct 94 to 30 Jun 95	14.32%	11.89%	11.61%

Presented throughout our annual report are ideas that represent our Mission statement and LA County's resilience.

We produce, protect, and provide the promised benefits.

LACERA is steadfast in our dedication to:

- **Produce** the highest quality of service for our members and sponsors
- **Protect** the promised benefits through prudent investments and conservation of plan assets
- **Provide** the promised benefits

All photos in this book are of actual LA County employees.
This year's annual report was designed by LACERA's Communications staff.

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