

Members of the Board of Retirement

CHAIR Les Robbins Appointed by the Board of Supervisors Term expires 12-31-05	MEMBER Brian C. Brooks Elected by General Members Term expires 12-31-05
VICE CHAIR William R. Pryor Elected by Safety Members Term expires 12-31-07	MEMBER Simon Frumkin Appointed by the Board of Supervisors Term expires 12-31-04*
SECRETARY William de la Garza Elected by Retired Members Term expires 12-31-05	MEMBER Armando Macias (Alternate Member) Elected by Safety Members Term expires 12-31-07
MEMBER Mark J. Saladino Treasurer and Tax Collector Ex-officio Member	MEMBER Simon S. Russin Elected by General Members Term expires 12-31-06
MEMBER Sadonya Antebi Appointed by the Board of Supervisors Term expires 12-31-05	MEMBER Richard R. Wirth Appointed by the Board of Supervisors Term expires 12-31-06
MEMBER Ed Morris (Alternate Retired Member)	

Members of the Board of Investments

CHAIR Sandra J. Anderson Elected by Retired Members Term expires 12-31-05	MEMBER Herman Santos Elected by General Members Term expires 12-31-06
VICE CHAIR Estevan Valenzuela Appointed by the Board of Supervisors Term expires 12-31-05	MEMBER Michael Schneider Appointed by the Board of Supervisors Term expires 12-31-07
SECRETARY Bruce Perelman Elected by General Members Term expires 12-31-05	MEMBER Larkin Teasley Appointed by the Board of Supervisors Term expires 12-31-05
MEMBER Mark J. Saladino Treasurer and Tax Collector Ex-officio Member	MEMBER Leonard Unger Appointed by the Board of Supervisors Term expires 12-31-06
MEMBER William R. Pryor Elected by Safety Members Term expires 12-31-07	

Financial Report Issued by:

Marsha D. Richter
Chief Executive Officer

Gregg Rademacher
Assistant Executive Officer

Robert R. Hill
Assistant Executive Officer

LACERA
300 N. Lake Avenue
Pasadena, CA 91101
626-564-6132
1-800-786-6464
www.lacera.com

**A new appointee has not yet been named by the Board of Supervisors; therefore, Mr. Frumkin continues to serve on the Board.*

LACERA Popular Annual Financial Report (PAFR)

This LACERA Popular Annual Financial Report (PAFR) summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The PAFR is presented in conformity with generally accepted accounting principles and provides only an abbreviated version of some of the note disclosures that are included in the CAFR.* The PAFR is published to provide you with a general understanding of LACERA's overall financial condition and enhanced services. This report does not replace the CAFR. For more detailed information, please refer to the CAFR, which is available at LACERA and online at www.lacera.com.

Service Efforts and Accomplishments for Fiscal Year 2004-2005

Administrative Services Division

- Conducted an audit of LACERA's archives and overall record management system and constructed a new, secure filing system in compliance with best practices.
- Scanned and indexed over 180,000 documents, amounting to 450,000 pages of member information, with same-day processing.

Claims Processing Division

- Increased claims processing overall accuracy from 93% to 97%.
- Created and implemented the Unmodified+Plus Option, which allows a member to provide an increased benefit (up to 100%) to an eligible survivor.

Communications Division

- Launched a multifaceted outreach initiative, including the LACERA-Gram to L.A. County Human Resources personnel, the 2005 LACERA Resource Conference, and informational advertisements to LACERA members.
- Created and/or modified 427 web pages and 272 web site documents, including a new RFP & Career Opportunities section.

Disability Division

- Presented 20 educational seminars regarding the disability retirement application process to County personnel in various departments.
- Drafted new panel physician guidelines which were adopted by the Board of Retirement.

Human Resources Division

- Implemented an online recruitment management system, Career Opportunities, on lacera.com.
- Partnered with Legal Services and Communications to develop Board Resources web site.

Internal Audit Division

- Underwent peer review and was certified as generally complying with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Legal Services Division

- Collected more than \$2 million in settlement claims from securities litigation.

Member Services Division

- Answered 144,102 telephone inquiries from members; approximately 87% of calls were answered within 30 seconds.
- Served 11,496 members at our public service counter, with an average wait time of less than eight minutes to see a counselor.
- Began offering a number of pre-set counseling appointments.
- Presented 725 workshops at LACERA, County departmental locations, and other facilities.

Quality Assurance and Metrics Division

- Performed quality audit and beta test of online calculators and "My LACERA" web feature.
- Audited 10,335 members' transactions by applying accuracy metrics covering 22 business processes, an increase of 21% over the prior year.

Retiree Health Care Division

- Provided medical and dental/vision benefits to retirees/survivors and their eligible dependents through LACERA's Health Care Benefits Program. Approximately 38,000 received medical benefits and 37,000 received dental/vision benefits.
- Conducted LACERA's 14th annual Health Fair for retirees.

Systems Division

- Conducted massive, system-wide testing of all LACERA online programs and performed system setup in conjunction with the 2005 DB2 conversion.
- Released "My LACERA" in association with the Communications Division. This new web feature allows members secure online access to their personal membership information.

Award for Outstanding Achievement in Popular Annual Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to LACERA for its Popular Annual Financial Report for the fiscal year ended June 30, 2004. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. LACERA has received a Popular Award for the last seven consecutive years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA for consideration.

* The CAFR was prepared by LACERA in conformity with generally accepted accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board.

PAFR

Popular Annual Financial Report for the fiscal year ended June 30, 2005

Additions and Deductions 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. For fiscal year 2005, Total Additions amounted to \$4.21 billion, primarily due to positive investment performance with a total fund return of 11.0% for the fiscal year.

The primary uses of LACERA's assets include the payment of benefits to members and their beneficiaries, the refund of contributions to terminated employees, the funding of the 401(h) portion of the Retiree Health Care Program, and the cost of administering the Plan. These deductions for fiscal year 2005 totaled \$1.67 billion and are largely due to the steady growth in the number of retired members and their beneficiaries.

The Boards of Retirement and Investments jointly approve the annual budget, which controls administrative expenses and represents approximately 0.13% of total Plan assets.

As of June 30, 2005, LACERA's market value is \$32 billion. LACERA has finally recovered from the investment losses experienced several years ago, and has exceeded its highest record market value of \$31.6 billion from fiscal year 2000.

Additions and Deductions to Plan Net Assets

For the Fiscal Years Ended June 30, 2005 and 2004:
(Dollars in millions)

	2005	2004
Net Investment Income	\$ 3,396	\$ 4,118
Contributions and Miscellaneous Income	817	661
Total Additions	4,213	4,779
Benefit Payments and Refunds	1,563	1,448
Retiree Health Care Program	62	59
Administrative and Miscellaneous Expense	43	39
Total Deductions	1,668	1,546
Net Increase During the Year	2,545	3,233
Net Assets at Beginning of Year	29,481	26,248
Net Assets at End of Year	\$32,026	\$29,481

STAR Program

The Supplemental Targeted Adjustment for Retirees (STAR) Program 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. The Board of Retirement made permanent the 2001 through 2004 STAR Program at an 80% level as authorized in the California Government Code. A permanent STAR benefit becomes part of the member's retirement allowance and is payable for life. There were no new retirees or beneficiaries entitled to additional STAR benefits for Program Year 2005 because the CPI percentage increased slightly and all eligible members had cost-of-living adjustment accumulation accounts below the 20% threshold for providing STAR benefits. The STAR Program benefit cost for calendar year 2004 was \$34.5 million, and is anticipated to be similar for calendar year 2005. Currently, over 12,000 retirees receive this benefit.

Investments

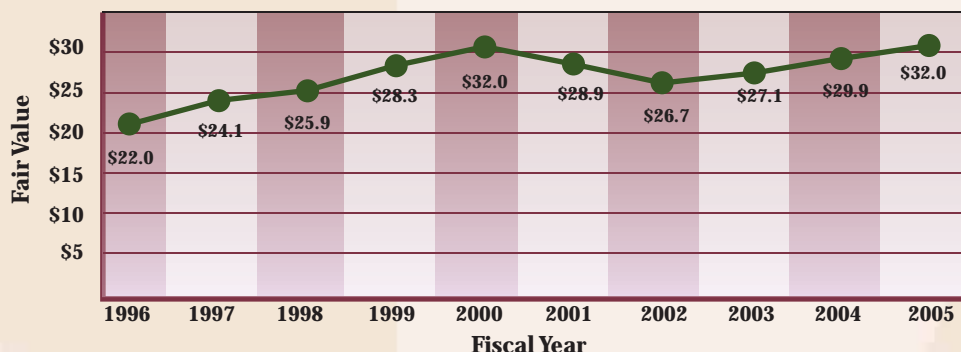
LACERA's primary investment objective is to efficiently allocate and manage the assets dedicated to the payment of future benefit payments. While recognizing the importance of the "preservation of capital," LACERA also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long run. LACERA's assets are exclusively managed by external, professional investment management firms. It is through prudent management and oversight by the LACERA Boards and staff that LACERA has become the strong \$32 billion retirement association it is today.*

For the third consecutive year, LACERA achieved positive performance with a total fund return of 11.0% for the fiscal year. The five-year annualized return of 3.7%, while improving, has not completely recovered from the recent bear market.

*\$32 billion = Net Assets (Total Assets minus Total Liabilities)

Growth of Investments

Ten Years Ending June 30, 2005:
(Dollars in billions)

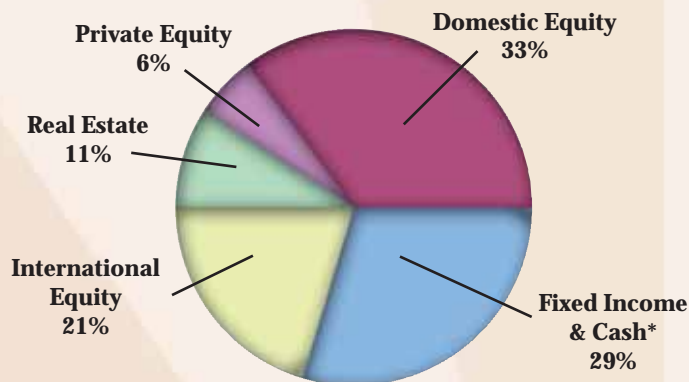


The assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully-funded status for the pension fund. Prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner that serves the best interests of LACERA's members and their beneficiaries.

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.

Actual Asset Allocation

For the Year Ending June 30, 2005:



Funding Status

Milliman, Inc., LACERA's independent actuary, performed the June 30, 2004 actuarial valuation. It determined LACERA's funding status to be 82.8%, which decreased from the prior year's funded status of 87.2%. Most of the decrease in the funding ratio is attributable to the recognition of recent investment losses on the actuarial value of assets. A smaller decrease in the funding ratio was caused by changes in actuarial assumptions adopted for the most recent valuation. It is the actuary's opinion that LACERA continues in sound financial condition as of June 30, 2004.

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

LACERA Membership

The following is a summary of LACERA's membership as of June 30, 2005:

	2005	2004	2003	2002
Active Members	86,384	86,237	87,760	89,252
Inactive (Deferred) Members	6,980	6,559	6,394	6,008
Unclaimed Accounts	1,216	1,259	1,348	1,141
Service Retirement	33,721	32,465	31,562	30,769
Disability Retirement	8,995	8,896	8,764	8,643
Survivors	7,137	6,971	6,906	6,830