

**PRODUCE
PROTECT
AND
PROVIDE
THE
PROMISED
BENEFITS**

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

Words to Work by

Popular Annual Financial Report
for the year ended June 30, 2009

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, 2009. The financial data presented in the PAFR is derived from the CAFR and consistent with Generally Accepted Accounting Principles (GAAP).^{*} 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, refer to the CAFR online at lacera.com.^{**}

PRODUCE

The keystones of our mission can be summarized by two elements:
investments and customer service.

Notable LACERA Accomplishments for Fiscal Year 2008-2009

Administrative Services Division:

- Administrative Services' Document Processing Center (DPC) scanned, indexed, and provided same-day processing on approximately 200,000 documents, which amounted to over 600,000 pages of member information.
- DPC processed approximately 335,000 mail pieces, including more than 130,000 responses to member inquiries.
- The Budget Unit worked with management to develop a spending plan to support a ten percent association-wide expenditure reduction over the previous year.
- Our Facilities Management team completed renovation of new work areas for the Disability Retirement Services and Retiree Health Care divisions. The renovation meets additional workspace requirements and provides enhanced security for sensitive information.

^{*}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.

^{**}The CAFR will be available on lacera.com in January.

Claims Processing Division:

- Processed 90 percent of active member requests within 21 days.
- Maintained a 97.71 percent accuracy level on overall benefit processing.
- Processed 2,399 new retirees and survivors; 98.67 percent were paid within one payroll cycle.

Communications Division:

- Created new Summary Plan Description Books for all LACERA retirement plans and developed a Plan Book section on lacera.com that will be updated regularly.
- Expanded My LACERA, the member section of lacera.com, from a single web page to a 20+ page web site.
- Created and held the fifth annual Countywide LACERA Resource Conference for Human Resource (HR) Professionals.
- Expanded and updated the association's web sites: lacera.com, employee intranet, board web site, HR Professionals site, and KBase internal online knowledge source.
- Developed newsletter and web content for Staying Healthy Together: Focus on Wellness.
- Produced quarterly newsletters, *Spotlight* and *PostScript*.

Disability Retirement Services Division:

- Processed and presented 383 disability applications and referee recommendations to the Board of Retirement (BOR).
- Assisted County departments in placing disability retirement applicants in permanently modified assignments and presented 15 Salary Supplement Allowance disability retirement applications to the BOR.
- Participated in 62 interactive meetings between County return-to-work coordinators and their disabled employees.
- Presented disability retirement material at 18 County educational and training seminars.
- Served as presenters at LACERA's Resource Conference for County HR professionals.

- Provided disability retirement information to 319 members at LACERA's Public Counter.
- Relocation of the division to a more secure area.
- Recruitment for disability retirement hearing officers (180 applicants).

Human Resources:

- Researched, coordinated, and managed enrollment for offsite skill-building workshops for 100 staff members; contracted and managed enrollment of onsite training for 251 staff members.
- Developed first LACERA Management Academy in which 25 members of LACERA management participated.
- Conducted 23 recruitments, yielding 19 new hires including LACERA's new Chief Counsel, and 10 promotions.
- Orchestrated Mentoring Program — voluntary one-on-one sessions where seasoned professionals coach less experienced staff on professional development; 57 staff members participated.
- Promoted LACERA as a premier employer at local college recruitment fairs. Provided one-on-one career coaching services to college students.
- Implemented an Employee Commute Reduction Plan in compliance with South Coast Air Quality Management District (AQMD) Rule 2202.
- Enhanced LACERA's RideShare Program, adding two new vanpool groups bringing the total vanpool routes to eight.
- Earned Metro Rideshare Diamond Award from L.A. County Metropolitan Transportation Authority for the third year.

Internal Audit:

- Completed 95 percent of the audit projects included in the FY 2008-2009 Annual Audit Plan.
- Completed an organization-wide risk and control assessment.
- Completed 76 audit projects, resulting in the enhancement of LACERA's risk-control processes.

Legal Office:

- Welcomed Robert Van Der Volgen as LACERA's new Chief Counsel.
- Joined other public pension systems as a named plaintiff in a class action securities fraud lawsuit against Merrill Lynch and other defendants. The case is pending in U.S. District Court, Southern District of New York.
- Joined other institutional investors in an amicus curiae (friend of the court) brief in Merck & Co., Inc., v. Reynolds, a case pending before the U.S. Supreme Court. The case involves the statute of limitations in a suit claiming federal securities fraud.

PROTECT

We continue to employ solid investment and business strategies designed to serve the best interests of our members and their beneficiaries.

Member Services Division:

- Answered over 124,500 telephone inquiries from members.
- Provided one-on-one counseling to 13,799 members at our Public Counter.
- Presented 431 workshops serving 9,773 people at 197 County locations.
- Processed and/or replied to 1,823 emails and 1,982 letters.
- Introduced a new staff evaluation program as part of our continuing focus on quality assurance.
- Initiated a veteran staff retraining program. Our Correspondence Unit is the first to successfully complete this extensive refresher course on LACERA processes and procedures.
- Implemented a Call Center recording system. The recordings become a permanent part of a member's records. The system also enhances quality control.

Quality Assurance & Metrics Division:

- Audited 9,670 Claims Processing and Members Services Divisions transactions to monitor accuracy, timeliness, and volume of services provided to members.
- Delivered 956 hours of training to staff on business processes and changes in the retirement law.
- Continued to update the business process procedures available to LACERA staff on the organization's intranet.
- Began a special project to resolve 6,400 cases; 1,200 were resolved.

PROVIDE

Our services begin the moment a new hire becomes a LACERA member and continue throughout the member's career to retirement... and beyond.

Retiree Health Care Division:

- Administered a Health Care Benefits Program which provides medical and dental/vision benefits for more than 40,000 retirees/survivors and their eligible dependents. Additionally, LACERA sponsors a Long-Term Care Program for the same population.
- Implemented premium rate changes for 2009 plan year, mailed the annual letter and insurance rate booklet, along with Notice of Creditable Coverage to more than 40,000 members.
- Continued facilitation of the Medicare Part D Retiree Drug Subsidy (RDS) for the LACERA-administered Health Care Benefits Program, including the completion of applications and reconciliation with the Centers for Medicare & Medicaid Services.
- Maintained LACERA's retiree wellness program, Staying Healthy Together: Focus on Wellness, by providing a series of health-related print and web campaigns, along with half-day workshops.
- Implemented 2009 plan year premium rate changes for the Local 1014 medical plan.
- Continued actuarial reporting of post-employment benefits within the LACERA-administered Health Care Benefits Program,

in accordance with the Governmental Accounting Standard Boards (GASB) Statements No. 43 and 45.

Systems Division:

- Expanded the capabilities of My LACERA on lacera.com to:
 - Allow members to access a broader scope of their LACERA account data.
 - Expand access to include survivors and deferred members, in addition to retirees and active members.
 - Provide retiree and survivor access to images of their Direct Deposit Automatic Deposit Receipts and Form 1099-Rs.
 - Include new self-service feature to allow retirees and survivors to adjust and submit their federal and California State tax withholding elections online.
- Built and implemented a new application to generate Additional Retirement Credit (ARC) cost estimates based on member data on file.
- Designed new program to identify compensation adjustments not included in scheduled earnings, recalculate final compensation, compute back deductions owed, and generate written notice to the member.



Additions and Deductions to Pension Plan Net Assets

The primary sources which finance the retirement benefits LACERA provides are investment income and the collection of member (employee) and employer retirement contributions. For fiscal year 2009, Total Additions amounted to a decline of \$6.16 billion, primarily due to negative investment performance with a total fund loss of 18.3 percent, net of fees, for the fiscal year.

The primary uses of LACERA's assets include the payment of benefits to members and their beneficiaries, the refund of contributions to terminated employees, and the cost of administering the Plan. These deductions for fiscal year 2009 totaled \$2.07 billion.

The Boards of Retirement and Investments jointly approve the annual budget, which controls administrative expenses and represents approximately 0.16 percent of total Pension Plan Net Assets.

As of June 30, 2009, Net Assets Held in Trust for Pension Benefits total \$30.5 billion, a decrease of \$8.23 billion, or 21.2 percent from the prior year.

Additions and Deductions to Pension Plan Net Assets

For the Fiscal Years Ended June 30, 2009 and 2008

(Dollars in Millions)

	2009	2008
Net Investment Income/(Loss)	\$ (7,408)	\$(1,426)
Contributions and Miscellaneous Income	1,248	1,205
Total Additions/(Declines)	(6,160)	(221)
Benefit Payments and Refunds	(2,016)	(1,914)
Administrative and Miscellaneous Expense	(50)	(48)
Total Deductions	(2,066)	(1,962)
Net Increase/(Decrease) During the Year	(8,226)	(2,183)
Pension Plan Net Assets at Beginning of Year	38,725	40,908
Pension Plan Net Assets at End of Year	\$30,499	\$38,725

STAR Program

The Board of Retirement (BOR), together with the Board of Investments (BOI), has unanimously supported the Supplemental Targeted Adjustment for Retirees (STAR) Program, a supplemental cost-of-living benefit for retirees or their survivors who have lost 20 percent or more of the purchasing power of their original retirement benefit.

Except for Program Year 2005, the BOR made permanent the 2001 through 2009 STAR Programs at an 80 percent level as authorized in the California Government Code Section 31874.3. There were no new retirees or beneficiaries entitled to additional STAR benefits for Program Year 2005 due to the modest Consumer Price Index (CPI) percentage increase and all eligible members had cost-of-living accumulation accounts below the 20 percent threshold for providing STAR benefits. Permanent STAR benefits become part of the member's retirement allowance and are payable for life.

The STAR Program benefit cost for calendar year 2008 was \$28.6 million and is anticipated to be similar for calendar year 2009. Currently, about 7,700 retirees receive this benefit.

PROMISED BENEFITS

In 1937, a promise was made to County employees;
we exist to uphold that promise.



Investments

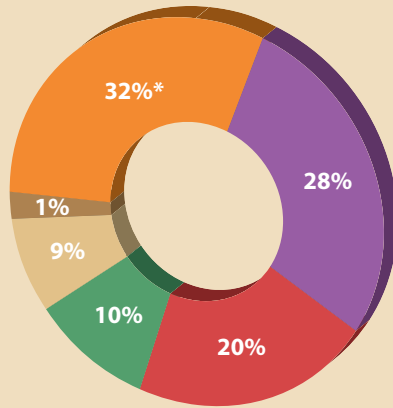
LACERA's investment program objective is to provide LACERA participants with retirement benefits, as required by the County Employees Retirement Law of 1937. The BOI has exclusive control of all retirement system investments. There are a total of nine BOI members: two are elected by active members and two by retired members, and four are appointed by the Los Angeles County Board of Supervisors. The County Treasurer and Tax Collector serves as an ex-officio member.

The BOI 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 BOI, investment staff, investment managers, master custodian, and consultants.

Actual Asset Allocation

As of June 30, 2009

- Fixed Income & Cash*
- Domestic Equity
- International Equity
- Real Estate
- Private Equity
- Commodities



*Cash may include Corporate and Government Bonds, Certificates of Deposit, and Overnight Deposits.

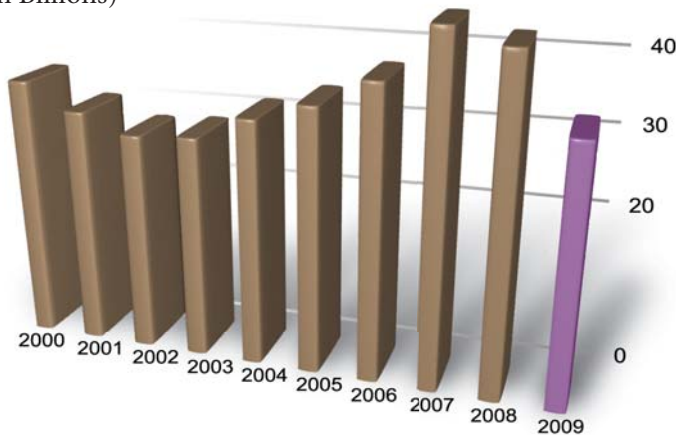
A pension fund’s strategic asset allocation policy is generally recognized to have the most impact on a fund’s investment performance. The BOI implements the asset allocation plan by hiring investment managers to invest assets on LACERA’s behalf, subject to investment guidelines incorporated into each firm’s investment management contract.

This fiscal year witnessed a financial crisis that was dramatic and widespread. LACERA was not immune and realized a second year of negative investment returns. The total fund returned a negative 18.3 percent (net of fees) for this fiscal year. However, LACERA's five-year and seven-year annualized returns are still a positive 3.6 percent and 5.2 percent respectively (net of fees).

Growth of Investments

Last Ten Fiscal Years

(Dollars in Billions)



Funding Status

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

liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the members and by the County of Los Angeles are needed to pay all expected future benefits.

LACERA’s independent actuary, Milliman, Inc., performed an actuarial valuation as of June 30, 2008 and determined the funded ratio of the actuarial assets to the actuarial accrued liability is 94.5 percent. LACERA’s investment returns were significantly less than the assumed rate of 7.75 percent. These investment losses for 2008 were offset by deferred gains from 2006 and 2007 resulting in a relatively small net gain on actuarial assets. Additional investment losses that occurred in the second half of 2008, but are not included in the 2008 actuarial valuation, are likely to have a significant effect on future actuarial valuations. It is the actuary’s opinion that LACERA continues in sound financial condition as of the June 30, 2008 actuarial valuation.

Valuation Date	Funded Ratio
June 30, 2004	82.8%
June 30, 2005	85.8%
June 30, 2006	90.5%
June 30, 2007	93.8%
June 30, 2008	94.5%



LACERA Membership

Last Five Fiscal Years

	2009	2008	2007
Service Retirement	36,437	35,868	34,965
Disability Retirement	8,996	9,018	9,045
Survivors	7,636	7,464	7,382
Total Retired Members	53,069	52,350	51,392
Active Members	95,788	94,492	92,096
Terminated Vested/Deferred	8,051	11,834	7,911
Total Membership	156,908	158,676	151,399

	2006	2005
Service Retirement	34,594	33,721
Disability Retirement	9,064	8,995
Survivors	7,200	7,137
Total Retired Members	50,858	49,853
Active Members	88,631	86,384
Terminated Vested/Deferred	7,459	6,980
Total Membership	146,948	143,217

Words to Work by

To produce, protect, and provide the promised benefits.

These eight simple words fully explain why we exist and what we do. They are the words we work by. That’s why we’ve highlighted them throughout this report and presented them graphically. The County Employees Retirement Law of 1937 promises Los Angeles County employees and their beneficiaries certain benefits and mandates LACERA to pay them. We exist to uphold that promise. The benefits we diligently provide carry more than just monetary value; they represent security and a promise fulfilled. We are the guardians of our members’ futures.

Award for Outstanding Achievement in Popular Annual Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to LACERA for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2008. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious international 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 Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. LACERA's PAFR has received a GFOA Award for the last eleven 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.



Mixed Sources

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This book is printed on Newport paper made with recycled fibers.

Members of the Board of Retirement

CHAIR

William de la Garza

Elected by Retired Members
Term expires 12-31-11

MEMBER

Mark J. Saladino

Treasurer and Tax Collector
Ex-officio Member

MEMBER

Simon Frumkin*

Appointed by the
Board of Supervisors

MEMBER

William R. Pryor

Elected by Safety Members
Term expires 12-31-10

VICE CHAIR

Simon S. Russin

Elected by General Members
Term expires 12-31-09

MEMBER

Sadonya Antebi

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

MEMBER

J.P. Harris

Alternate Member
Elected by Safety Members
Term expires 12-31-10

MEMBER

Les Robbins**

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

SECRETARY

Yves Chery

Elected by General Members
Term expires 12-31-11

MEMBER

Edward L. Blecksmith

Appointed by the
Board of Supervisors
Term expires 12-31-10

MEMBER

Edward C. Morris

Alternate Member
Elected by Retired Members
Term expires 12-31-11

**Mr. Frumkin died in May 2009
during his term.*

***Mr. Robbins continues to serve
on the Board until the Board of
Supervisors makes an appointment.*

Members of the Board of Investments

CHAIR

William R. Pryor

Elected by Safety Members
Term expires 12-31-10

MEMBER

Mark J. Saladino

Treasurer and Tax Collector
Ex-officio Member

MEMBER

Simon S. Russin

Elected by General Members
Term expires 12-31-11

VICE CHAIR

Herman Santos

Elected by General Members
Term expires 12-31-09

MEMBER

John M. Barger

Appointed by the
Board of Supervisors
Term expires 12-31-11

MEMBER

Michael S. Schneider

Appointed by the
Board of Supervisors
Term expires 12-31-11

SECRETARY

Diane A. Sandoval

Elected by Retired Members
Term expires 12-31-11

MEMBER

Paul C. Hudson

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

MEMBER

Leonard Unger

Appointed by the
Board of Supervisors
Term expires 12-31-10

Financial Report Issued by:

Gregg Rademacher

CHIEF EXECUTIVE OFFICER

Janice Golden

ASSISTANT EXECUTIVE OFFICER

Robert R. Hill

ASSISTANT EXECUTIVE OFFICER

The 2009 Annual Report was designed by
LACERA's Communications Division.

