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February 17, 2022

The Honorable City Council
City of Los Angeles
City Hall Room 395
Los Angeles, CA 90012

LACERS POSTEMPLOYMENT HEALTHCARE (115 TRUST) AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2021 (CF# 18-0931)

On November 9, 2018, the City Council approved Ordinance No. 185829 to establish the LACERS Health Care Fund (115 Trust or Fund) for the sole purpose of funding the retiree healthcare benefits for eligible LACERS' retirees and beneficiaries, including to help stabilize premium rates over time. While the 115 Trust account is currently being used primarily to account for LACERS Self-Funded Dental Plan, it ultimately will fund all health care benefits upon depletion of the existing 401(h) Health Care Coverage Account.

The ordinance provides that LACERS Board serves as the trustee of the Fund and requires the Board and the City to enter into an agreement to administer the Fund. In December 2018, the City and the Board entered into a trust agreement to formalize the roles and responsibilities of each party with respect to the administration and investment of the Fund, consistent with Charter Section 1106 and Section 17 of Article XVI of the California Constitution. The trust agreement between LACERS and the City requires LACERS to provide an annual financial report of 115 Trust activities.

Fiduciary Net Position – LACERS 115 Trust

As of June 30, 2021, LACERS 115 Trust Fiduciary Net Position was \$304.8 million, compared to \$121.2 million as of June 30, 2020. The Net Position includes the City's contribution to LACERS Health Care Plan, transactions related to Self-Funded Dental Insurance premiums and claims, Members' insurance premium reserve and investment activity. For the fiscal year ended June 30, 2021, total additions was \$193.1 million and total deductions was \$9.5 million. The 115 Trust Net Position increased by \$183.6 million or 151% as compared with the prior fiscal year. The increase was due primarily to positive investment performance. The following table summarizes the activities and transactions recorded in the 115 Trust during Fiscal Year 2020-21.

Additions and Deductions in Fiduciary Net Position – LACERS 115 Trust HealthCare Fund
For the Fiscal Year Ended June 30, 2021 and 2020.

	2021	2020	\$ Change	% Change
Contributions	\$103,454,114	\$112,136,429	(\$8,682,315)	(8%)
Self-Funded Insurance Premium	10,923,779	10,364,071	559,708	5%
Health Insurance Premium Reserve	918,708	2,136,806	(1,218,098)	(57%)
Net Investment Income/(Loss)	77,746,215	2,362,460	75,383,755	3,191%
Building Lease & Other Income	9,390	6,249	3,141	50%
Total Additions	\$193,052,206	\$127,006,015	\$66,046,191	52%
Self-Funded Dental Insurance Claims	(\$8,232,476)	(\$7,029,444)	(\$1,203,032)	17%
Administrative Expenses	(1,238,790)	(964,524)	(272,266)	28%
Total Deductions	(\$9,471,266)	(\$7,993,968)	\$1,477,298)	18%
Net Increase/(Decrease)	\$183,580,940	\$119,012,047	\$64,568,893	54%
Fiduciary Net Position Beginning of Year	\$121,200,984	\$2,188,937	\$119,012,047	5,437%
Fiduciary Net Position End of Year	\$304,781,924	\$121,200,984	\$183,580,940	151%

As discussed in my April 1, 2021 letter, starting this fiscal year, 115 Trust and 401(h) financial account data are presented in separate columns along with the Retirement Plan in the LACERS' overall financial statements. This eliminates the need for separate trust financial statements. Having all financial information related to 115 Trust, 401(h) and the Retirement Plan delineated within a single document will help avoid any confusion that may potentially be created by presenting different financial data related to LACERS' health care benefits in different documents.

Please refer to pages 13 to 16 of the attached LACERS audited financial statements showing the separate columns for 115 Trust, 401(h) and the Retirement Plans. LACERS' current external auditor, Moss Adams, audited and issued an unmodified opinion (clean opinion) on the overall financial statements. The attached LACERS overall financial statements along with the auditors' reports are hereby transmitted to the City pursuant to the trust agreement.

If there are any questions, please contact Rahoof "Wally" Oyewole, Departmental Chief Accountant, at (213) 292-8340 or at rahoof.oyewole@lacers.org.

Sincerely,



NEIL M. GUGLIELMO, General Manager
Los Angeles City Employees' Retirement System

NG:TB:RO

Attachment 1: LACERS' Audited Financial Statements for Fiscal Year Ended June 30, 2021

c: Matthew W. Szabo, City Administrative Officer

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(A DEPARTMENT OF THE MUNICIPALITY OF
THE CITY OF LOS ANGELES, CALIFORNIA)**

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(A DEPARTMENT OF THE MUNICIPALITY OF THE CITY OF LOS ANGELES, CALIFORNIA)

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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Report of Independent Auditors

Board of Administration
Los Angeles City Employees' Retirement System
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying total columns of the retirement plan and the postemployment health care plan in the statements of fiduciary net position of Los Angeles City Employees' Retirement System (LACERS), a department of the Municipality of the City of Los Angeles, California, as of June 30, 2021, and the related total columns of the retirement plan and the postemployment health care plan in the statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective total columns of the statements of the fiduciary net position of the retirement plan and the postemployment health care plan of the Los Angeles City Employees' Retirement System as of June 30, 2021, and the related total columns of the respective changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of LACERS present the fiduciary net position and changes in fiduciary net position of the Municipality of the City of Los Angeles, California, that are attributable to the transactions of LACERS. The financial statements do not present fairly the financial position of the entire Municipality of the City of Los Angeles, California, as of June 30, 2021 and 2020, the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

We have previously audited LACER's 2020 financial statements, and we expressed unmodified opinions on the respective total columns of the retirement plan and the postemployment health care plan in our report dated November 30, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that accompanying management's discussion and analysis; the retirement plan's schedule of net pension liability, schedule of changes in net pension liability and related ratios, schedule of contribution history, and schedule of investment returns; and the postemployment health care plan's schedule of net OPEB liability, schedule of changes in net OPEB liability and related ratios, schedule of contribution history, and schedule of investment returns (collectively, the required supplementary information) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedules

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LACERS's basic financial statements. The schedule of administrative expenses and schedule of investment fees and expenses (collectively, the supplemental schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2021 on our consideration of LACERS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LACERS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERS's internal control over financial reporting and compliance.

Mess Adams LLP

Los Angeles, California
December 1, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Financial Highlights

- The Los Angeles City Employees' Retirement System (LACERS or the System) fiduciary net position as of June 30, 2021 was \$22,805,340,000, an increase of \$4,942,016,000 or 27.7% over the prior fiscal year.
- The total additions to the fiduciary net position of LACERS, from employer contributions made by the City of Los Angeles (the City), Member contributions, self-funded dental insurance premium, Members' portion of premium reserve, building lease and other income, and net investment income were \$6,218,960,000, a 375.4% increase from the prior fiscal year.
- The employer contributions to the Retirement Plan represented 100% of the Actuarially Determined Contribution of the employer as defined by the Governmental Accounting Standards Board (GASB) Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*.
- The employer contributions to the Postemployment Health Care Plan represented 100% of the Actuarially Determined Contribution of the employer as defined by GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.
- Net investment income for this fiscal year was \$5,288,787,000, representing a 1,347.0% increase compared with an investment income of \$365,492,000 for the previous fiscal year.
- The total deductions from the fiduciary net position were \$1,276,944,000, a 10.8% increase from the prior fiscal year, for the payment of retirement and postemployment health care benefits, refunds of Member contributions, and administrative expenses.
- The System's Net Pension Liability (NPL) for the Retirement Plan was \$4,363,757,000 as of June 30, 2021. NPL, a measure required by GASB Statement No. 67 to disclose in the financial notes of a pension plan, is the difference between the Total Pension Liability (TPL) and the plan fiduciary net position. As the plan fiduciary net position is equal to the fair value of the plan's assets, NPL is determined on a fair value basis. Compared with the previous fiscal year, the NPL decreased by \$3,231,034,000.
- The System's Net Other Postemployment Benefits (OPEB) Plan Asset for the postemployment health care benefits was \$261,574,000 as of June 30, 2021. Net OPEB Asset/Liability is a measure required by GASB Statement No. 74. Net OPEB Asset/Liability is determined on a fair value basis and is the difference between the Total OPEB Liability (TOL) and the plan fiduciary net position. As compared with the previous fiscal year, the Net OPEB Liability decreased by \$896,900,000 and is a Net OPEB Asset as of June 30, 2021.
- The plan fiduciary net position as a percentage of TPL for the Retirement Plan, another required disclosure of GASB Statement No. 67, was 81.3%, which is the same as the funded ratio on a fair value basis reported in the actuarial valuation for the retirement benefits.
- The plan fiduciary net position as a percentage of TOL for the Postemployment Health Care Plan, another required disclosure of GASB Statement No. 74, was 107.4%, which is the same as the funded ratio on a fair value basis reported in the actuarial valuation for the postemployment health care benefits.

Management's Discussion and Analysis

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to LACERS financial statements and the accompanying notes thereto. The required supplementary information and supplemental schedules provide additional financial data on LACERS operations.

Financial Statements

There are two financial statements presented by LACERS. The Statement of Fiduciary Net Position on pages 13-14 gives a snapshot of the account balances at year-end and shows the amount of the fiduciary net position (the difference between the assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources) available to pay future benefits. Over time, increases or decreases in fiduciary net position may serve as a useful indicator of whether the fiduciary net position of LACERS is improving or deteriorating. The Statement of Changes in Fiduciary Net Position on pages 15-16 provides a view of current year additions to, and deductions from, the fiduciary net position.

Notes to the Basic Financial Statements

The notes to the basic financial statements (Notes) provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 17 - 41 of this report.

Required Supplementary Information

In addition to the Management's Discussion and Analysis, other required supplementary information consists of the Schedule of Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns for the Retirement Plan, and the Schedule of Net OPEB (Asset) Liability, Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns for the Postemployment Health Care Plan. These schedules and notes primarily present multi-year information as required by the applicable financial reporting standards of GASB Statements No. 67 and No. 74. This required supplementary information can be found on pages 42 - 53 of this report.

Supplemental Schedules

The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Fees and Expenses, are presented to provide additional financial information on LACERS operations for the current year. These can be found on pages 54 and 55 of this report.

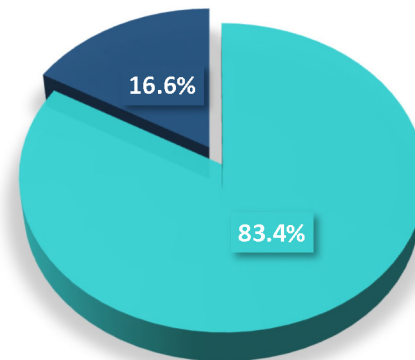
Management's Discussion and Analysis

Financial Analysis

Allocation of Fiduciary Net Position

Fiduciary net position may serve as a useful indicator of a plan's financial position. The total fiduciary net position is allocated between the Retirement Plan and Postemployment Health Care Plan, as required by the existing reporting standards. The following information provides a brief description of the asset allocation between the Retirement Plan and the Postemployment Health Care Plan as of June 30, 2021 (dollars in thousands):

	Fiduciary Net Position	Percent
Retirement Plan	\$ 19,023,688	83.4%
Postemployment Health Care Plan	3,781,652	16.6
Fiduciary Net Position	<u>\$ 22,805,340</u>	<u>100.0%</u>



■ Retirement Plan ■ Postemployment Health Care Plan

Fiduciary Net Position

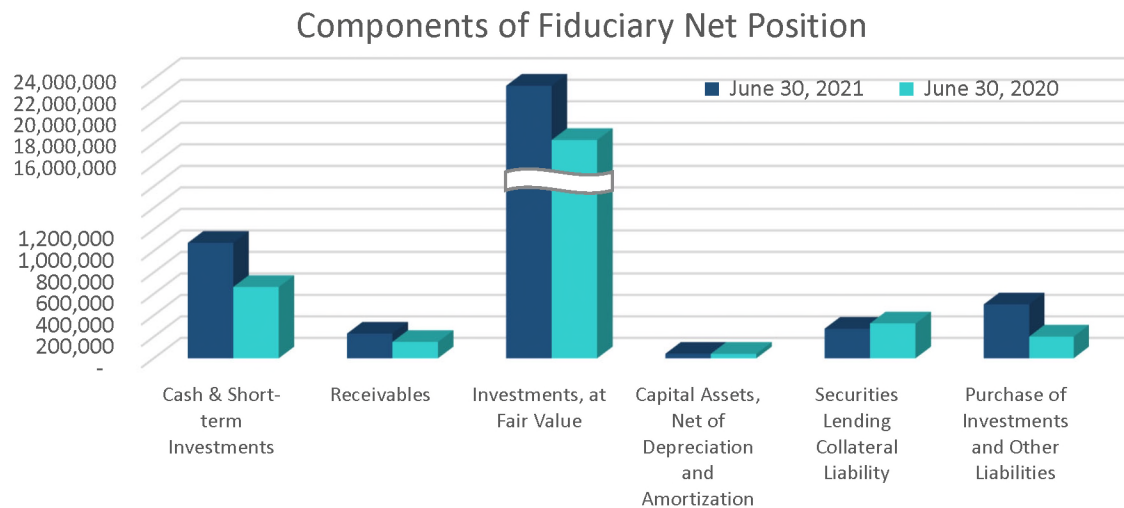
The following table and graph detail the components of the fiduciary net position of LACERS as of June 30, 2021 and 2020 (dollars in thousands):

	June 30, 2021	June 30, 2020	Change	
Cash and Short-Term Investments	\$ 1,075,484	\$ 665,048	\$ 410,436	61.7 %
Receivables	230,735	153,263	77,472	50.5
Investments, at Fair Value	22,235,243	17,530,909	4,704,334	26.8
Capital Assets, Net of Depreciation and Amortization	<u>42,869</u>	<u>42,359</u>	<u>510</u>	1.2
Total Assets	<u>23,584,331</u>	<u>18,391,579</u>	<u>5,192,752</u>	28.2
Securities Lending Collateral Liability	275,940	325,263	(49,323)	(15.2)
Purchase of Investments and Other Liabilities	<u>503,051</u>	<u>202,992</u>	<u>300,059</u>	147.8
Total Liabilities	<u>778,991</u>	<u>528,255</u>	<u>250,736</u>	47.5
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	<u>\$ 22,805,340</u>	<u>\$ 17,863,324</u>	<u>\$ 4,942,016</u>	27.7 %

Management's Discussion and Analysis

Financial Analysis (Continued)

Fiduciary Net Position (Continued)



The majority of LACERS fiduciary net position is contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, real estate, private equity and other asset classes. Fiduciary net position increased by \$4,942,016,000, or 27.7%, during this fiscal year.

Net Increase in Fiduciary Net Position

The increase in fiduciary net position during the reporting period was the net effect of factors that either added to or deducted from the fiduciary net position. The following table summarizes the changes in fiduciary net position during the report year, as compared with the prior year (dollars in thousands):

	June 30, 2021	June 30, 2020	Change	
Additions	\$ 6,218,960	\$ 1,308,079	\$ 4,910,881	375.4 %
Deductions	1,276,944	1,152,665	124,279	10.8
Net Increase in Fiduciary Net Position	4,942,016	155,414	4,786,602	3,079.9
Fiduciary Net Position				
Beginning of Year	17,863,324	17,707,910	155,414	0.9
End of Year	<u>\$ 22,805,340</u>	<u>\$ 17,863,324</u>	<u>\$ 4,942,016</u>	27.7 %

Management's Discussion and Analysis

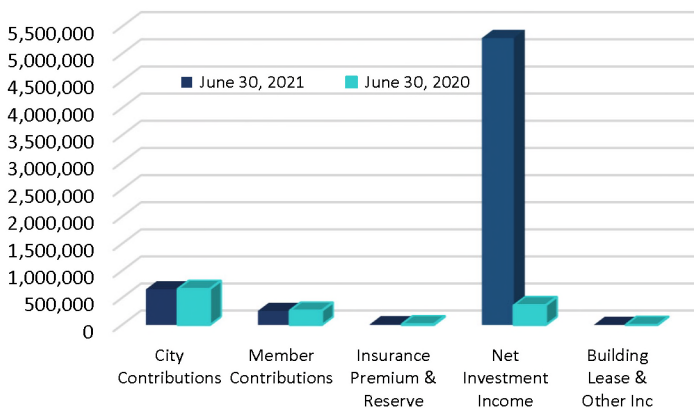
Financial Analysis (Continued)

Net Increase in Fiduciary Net Position – Additions to Fiduciary Net Position

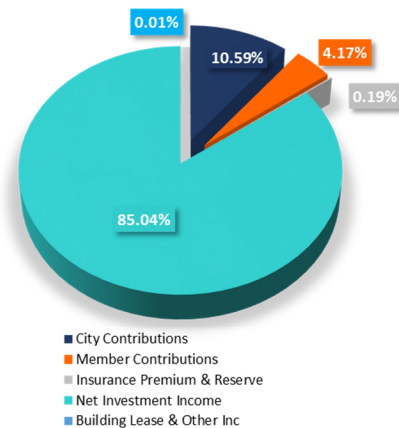
The following table and graph represent the components that make up the additions to fiduciary net position for LACERS for the fiscal years ended June 30, 2021 and 2020 (dollars in thousands):

	June 30, 2021	June 30, 2020	Change
City Contributions	\$ 658,408	\$ 665,358	(1.0) %
Member Contributions	259,285	263,936	(1.8)
Health Insurance Premium and Reserve	11,843	12,501	(5.3)
Net Investment Income	5,288,787	365,492	1,347.0
Building Lease & Other Income	637	792	(19.6)
Additions to Fiduciary Net Position	<u>\$ 6,218,960</u>	<u>\$ 1,308,079</u>	375.4 %

Additions to Fiduciary Net Position



Allocation of Total Additions



The additions to LACERS fiduciary net position that primarily constitute the funding sources of LACERS benefits are City Contributions, Member Contributions, Health Insurance Premium and Reserve, and Net Investment Income.

City contributions to the Retirement Plan, the Postemployment Health Care Plan, and the Family Death Benefit Plan were \$658,408,000 during the fiscal year. The total contributions decreased by \$6,950,000 or 1.0% lower than the prior fiscal year, mainly was due to the lower contribution rate, notwithstanding, a slightly higher payroll base (approximately 0.25% increase in payroll) for the reporting year. The total City contributions include a \$34,089,000 true-up credit adjustment, a reduction from the City's advanced contribution payment, to reconcile the difference of the City's contributions based on projected payroll against actual payroll. This true-up amount, which included accrued interest at 7.25%, was recognized as liability as of the end of the reporting period. After reflecting the true-up adjustment, the aggregate employer contribution rate for this fiscal year was 28.91% (24.37% for the Retirement Plan and 4.54% for the Postemployment Health Care Plan), which is 0.39% lower than the prior fiscal year at 29.30%. Actual contribution of \$554,856,000 to the Retirement Plan was equal to 100% of the Actuarially Determined Contribution (ADC) of the employer, as defined by GASB Statement No. 67. \$103,454,000 of actual contribution to the Postemployment Health Care Plan was equal to 100% of the ADC, as defined by GASB Statement No. 74.

Management's Discussion and Analysis

Financial Analysis (Continued)

Net Increase in Fiduciary Net Position – Additions to Fiduciary Net Position (Continued)

In fiscal year 2020-21, Member contributions were \$259,285,000, which was \$4,651,000 or 1.8% lower than the prior fiscal year. The decrease in Member contributions was due primarily to the decrease in the number of Members (and corresponding salaries) as a result of the Separation Incentive Programs (SIP) implemented by the City and the Los Angeles World Airports (LAWA). During the fiscal year, 1,372 City employees as well as 334 LAWA employees retired under their respective SIP program. It also should be noted that Member contributions in fiscal year 2019-20 was higher than expected due to higher payroll base as a result of retroactive salary payouts during that year.

LACERS Postemployment Health Care 115 Trust fund recognized revenue of \$10,924,000 representing monthly dental insurance premium under the Delta Dental PPO self-funded plan and \$919,000 of Member's portion from health insurance premium reserve.

The net investment income was \$5,288,787,000, which included \$5,013,637,000 of net appreciation in the fair value of investments. This is discussed in more detail in the next section.

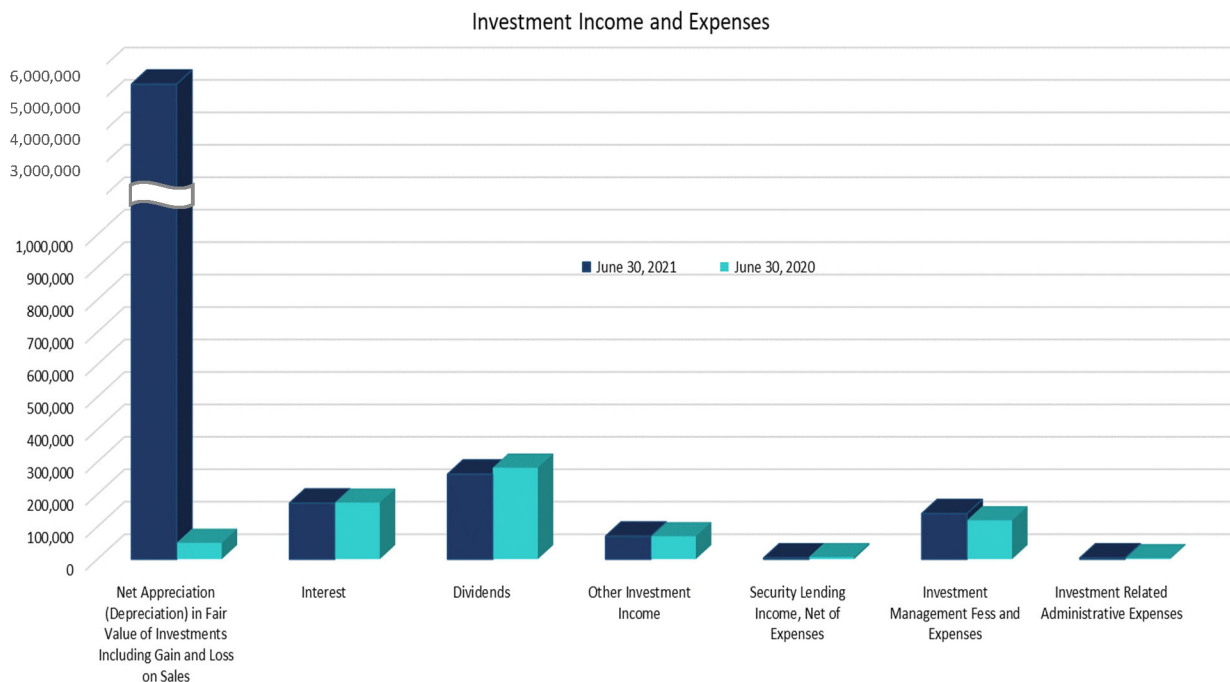
Investment Income

The following table and graph present the detail of investment income, net of investment management fees and expenses for the fiscal years ended June 30, 2021 and 2020 (dollars in thousands)

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Change</u>
Net Appreciation in Fair Value of Investments,			
Including Gain and Loss on Sales	\$ 5,013,637	\$ 50,201	9,887.1 %
Interest	122,453	124,053	(1.3)
Dividends	201,809	221,790	(9.0)
Other Investment Income	50,802	50,668	0.3
Securities Lending Income, Net of Expense	<u>3,566</u>	<u>6,310</u>	(43.5)
Sub-Total	5,392,267	453,022	1,090.3
Less: Investment Management Fees and Expenses	(100,225)	(84,571)	18.5
Investment Related Administrative Expenses	<u>(3,255)</u>	<u>(2,959)</u>	10.0
Net Investment Income	<u>\$ 5,288,787</u>	<u>\$ 365,492</u>	1,347.0 %

Management's Discussion and Analysis

Investment Income (Continued)



The net investment income for the current fiscal year was \$5,288,787,000, as compared with the income of \$365,492,000 for the previous fiscal year. This increase was due primarily to a higher net appreciation in the fair value of investments of \$5,013,637,000, compared with the previous fiscal year's amount of \$50,201,000. The substantial increase in the fair value of investments is largely attributed to a strong recovery in public equity markets following the initial shock caused by the COVID-19 pandemic in the previous fiscal year. The Russell 3000 Index, which tracks U.S. broad market equities, returned 44.2% compared with 6.5% for the previous year. The MSCI All Country World ex-U.S. Index, which tracks non-U.S. equities in developed and emerging markets, returned 35.7% compared with -4.8% for the previous year. Fixed income markets, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, experienced a drop in performance during the current fiscal year, returning -0.3% compared with 8.7% for the previous year.

Interest income derived from fixed income securities decreased by 1.3%, or \$1,600,000. The average coupon rate of LACERS' fixed income portfolio decreased as yields continued to remain low, largely due to the Federal Reserve's action to maintain the fed funds rate near zero during the COVID-19 pandemic. Dividend income derived from public equities decreased by 9.0%, or \$19,981,000, due to a routine LACERS portfolio rebalancing that shifted assets away from the domestic equity asset class and into the credit opportunities and public real assets asset classes. Additionally, some public companies held within the portfolio cut or suspended dividends until the health of the economy improved from the distress caused by the pandemic.

Other investment income, primarily derived from private equity and private real estate partnership investments, slightly increased by 0.3%, or \$134,000 as private equity activity increased alongside the strong public equity markets during the fiscal year.

LACERS earns additional investment income by lending its securities to borrowers through its custodian bank. To earn income for LACERS, the custodian bank invests cash collateral pledged by borrowers on behalf of LACERS in short-term fixed income securities. LACERS also generates income from fees paid by borrowers that pledge non-cash collateral. In the current fiscal year, securities lending income (net of expense) decreased by 43.5%, or \$2,744,000 from a year ago. As a risk reduction measure, LACERS implemented stricter collateral guidelines at the onset of the pandemic. These guidelines limit cash collateral investments to higher quality, lower yielding securities and have led to a decrease in overall lending volume and income. Total investment management fees, expenses, and investment related administrative expenses increased by 18.2%, or \$15,950,000, from the prior year. This increase corresponded with the significant increase in the fair value of LACERS' investments over the fiscal year.

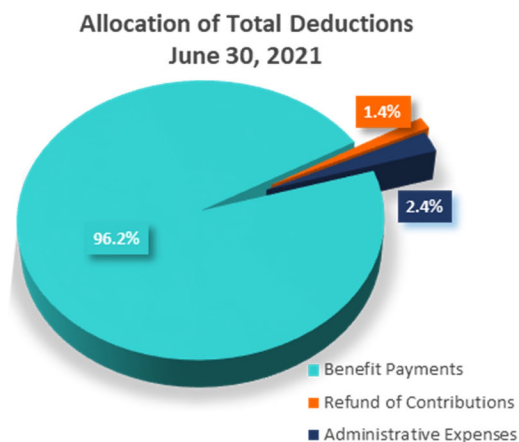
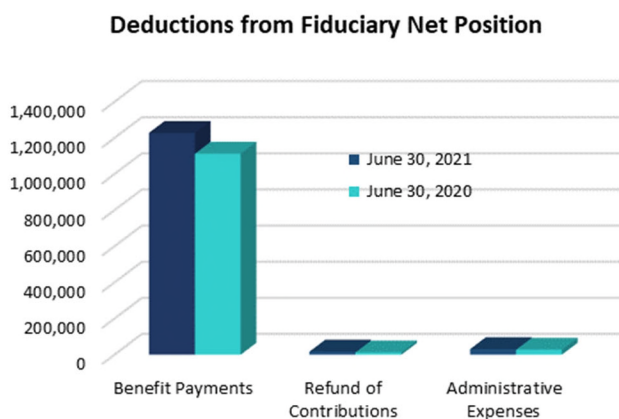
Management's Discussion and Analysis

Financial Analysis (Continued)

Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position

The following table and graphs provide information related to the deductions from fiduciary net position for the fiscal years ended June 30, 2021 and 2020 (dollars in thousands):

	June 30, 2021	June 30, 2020	Change
Benefit Payments	\$ 1,228,276	\$ 1,112,911	10.4%
Refunds of Contributions	17,584	12,332	42.6
Administrative Expenses	31,084	27,422	13.4
Deductions from Fiduciary Net Position	\$ 1,276,944	\$ 1,152,665	10.8%



LACERS' deductions from fiduciary net position in this reporting period can be summarized as Benefit Payments, Refunds of Contributions, and Administrative Expenses. These deductions represent the types of benefit delivery operations undertaken by LACERS and the costs associated with them. Total deductions increased by \$124,279,000 or 10.8% from the prior fiscal year.

Compared to the prior fiscal year, benefit payments increased by \$115,365,000 or 10.4%. The benefit payments for the Retirement Plan increased by \$94,134,000 or 9.7% mainly due to the annual cost of living adjustments (COLA) (approximately 3.0% increase on average); larger than normal increase in the number of retirees due to SIP as well as increased in beneficiaries; and the average retirement allowance of newly retired Members being higher than those of the deceased Members who were removed from the retirement payroll. Payments for Postemployment Health Care Plan benefits increased by \$21,231,000 or 15.2%. This increase was mainly due to the increased in healthcare cost due to the significant increased in number of retirees and their dependents eligible for medical subsidy, mainly due to SIP; increased reimbursement of Medicare Part B premium; and increased in dental benefit claims paid for the Self-Funded Plan.

The Refunds of Member contributions increased by \$5,252,000 or 42.6% from the prior fiscal year's \$12,332,000, due primarily to the increase in death refunds as well as survivor contributions refunds to eligible Members upon retirement that included members who retired under SIP during the fiscal year.

Management's Discussion and Analysis

Financial Analysis (Continued)

Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position (Continued)

LACERS' administrative expenses increased by \$3,662,000 or 13.4% from the prior fiscal year. The increase was mainly due to additional costs incurred by the System related to processing the City and LAWA's separation incentive programs during the fiscal year, which included increased personnel cost from hiring additional part-time employees and temporary staff loaned from other City departments; increased in the related employee health and retirement costs as well as additional expenses incurred to provide workspace, office equipment, technology and supplies to staff.

Requests for Information

This financial report is designed to provide a general overview of LACERS finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

LACERS
Fiscal Management Division
PO Box 512218
Los Angeles, CA 90051-0218

BASIC FINANCIAL STATEMENTS

Statement of Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
As of June 30, 2021, with Comparative Totals
(In Thousands)

	Retirement Plan			Postemployment Health Care Plan		
	Pension	FDBP & LA	Total	401(h)	115 Trust	Total
Assets						
Cash and Short-Term Investments	\$ 892,166	\$ 4,978	\$ 897,144	\$ 163,787	\$ 14,553	\$ 178,340
Receivables						
Accrued Investment Income	58,677	327	59,004	10,772	957	11,729
Proceeds from Sales of Investments	125,179	698	125,877	22,981	2,042	25,023
Other	7,550	42	7,592	330	1,180	1,510
Total Receivables	191,406	1,067	192,473	34,083	4,179	38,262
Investments, at Fair Value						
US Government Obligations	1,788,350	9,978	1,798,328	328,312	29,171	357,483
Municipal Bonds	10,017	56	10,073	1,839	163	2,002
Domestic Corporate Bonds	851,921	4,753	856,674	156,399	13,896	170,295
International Bonds	966,585	5,393	971,978	177,450	15,767	193,217
Other Fixed Income	916,234	5,112	921,346	168,206	14,945	183,151
Bank Loans	72,619	405	73,024	13,332	1,185	14,517
Opportunistic Debts	210,781	1,176	211,957	38,696	3,438	42,134
Domestic Stocks	5,041,976	28,131	5,070,107	925,626	82,243	1,007,869
International Stocks	4,499,162	25,103	4,524,265	825,974	73,388	899,362
Mortgages	374,573	2,090	376,663	68,766	6,110	74,876
Government Agencies	749	4	753	137	12	149
Derivative Instruments	2,440	14	2,454	448	40	488
Real Estate	746,309	4,164	750,473	137,010	12,173	149,183
Private Equity	2,734,592	15,258	2,749,850	502,027	44,605	546,632
Security Lending Collateral	228,906	1,277	230,183	42,023	3,734	45,757
Total Investments	18,445,214	102,914	18,548,128	3,386,245	300,870	3,687,115
Capital Assets						
Land	3,337	19	3,356	613	54	667
Building	25,501	142	25,643	4,682	416	5,098
Furniture, Computer Hardware & Software (Net of Depreciation and Amortization)	6,723	38	6,761	1,234	110	1,344
Total Capital Assets	35,561	199	35,760	6,529	580	7,109
Total Assets	19,564,347	109,158	19,673,505	3,590,644	320,182	3,910,826
Liabilities						
Accounts Payable and Accrued Expenses	(47,850)	(267)	(48,117)	(3,925)	(5,640)	(9,565)
Accrued Investment Expense	(11,419)	(64)	(11,483)	(2,096)	(186)	(2,282)
Purchases of Investments	(358,036)	(1,998)	(360,034)	(65,730)	(5,840)	(71,570)
Security Lending Collateral	(228,906)	(1,277)	(230,183)	(42,023)	(3,734)	(45,757)
Total Liabilities	(646,211)	(3,606)	(649,817)	(113,774)	(15,400)	(129,174)
Fiduciary Net Position Restricted For Pension Benefits and Postemployment Health Care Benefits	\$ 18,918,136	\$ 105,552	\$ 19,023,688	\$ 3,476,870	\$ 304,782	\$ 3,781,652

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

Statement of Fiduciary Net Position (Continued)
Retirement Plan and Postemployment Health Care Plan
As of June 30, 2021, with Comparative Totals
(In Thousands)

	TOTAL FUND	
	2021	2020
Assets		
Cash and Short-Term Investments	\$ 1,075,484	\$ 665,048
Receivables		
Accrued Investment Income	70,733	60,958
Proceeds from Sales of Investments	150,900	73,532
Other	9,102	18,773
Total Receivables	230,735	153,263
Investments, at Fair Value		
US Government Obligations	2,155,811	1,598,246
Municipal Bonds	12,075	-
Domestic Corporate Bonds	1,026,969	1,082,238
International Bonds	1,165,195	651,920
Other Fixed Income	1,104,497	522,272
Bank Loans	87,541	4,206
Opportunistic Debts	254,091	223,375
Domestic Stocks	6,077,976	4,552,817
International Stocks	5,423,627	4,974,516
Mortgages	451,539	564,851
Government Agencies	902	37,568
Derivative Instruments	2,942	2,124
Real Estate	899,656	748,934
Private Equity	3,296,482	2,242,579
Security Lending Collateral	275,940	325,263
Total Investments	22,235,243	17,530,909
Capital Assets		
Land	4,023	4,023
Building	30,741	30,052
Furniture, Computer Hardware & Software (Net of Depreciation and Amortization)	8,105	8,284
Total Capital Assets	42,869	42,359
Total Assets	23,584,331	18,391,579
Liabilities		
Accounts Payable and Accrued Expenses	(57,682)	(65,278)
Accrued Investment Expense	(13,765)	(12,118)
Purchases of Investments	(431,604)	(125,596)
Security Lending Collateral	(275,940)	(325,263)
Total Liabilities	(778,991)	(528,255)
Fiduciary Net Position Restricted For Pension Benefits and Postemployment Health Care Benefits	\$ 22,805,340	\$ 17,863,324

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

Statement of Changes in Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
For the Fiscal Year Ended June 30, 2021, with Comparative Totals
(In Thousands)

	Retirement Plan			Postemployment Health Care Plan		
	Pension	FDB & LA	Total	401(h)	115 Trust	Total
Additions						
Contributions						
City Contributions	\$ 554,856	\$ 98	\$ 554,954	\$ -	\$ 103,454	\$ 103,454
Member Contributions	252,123	7,162	259,285	-	-	-
Total Contributions	806,979	7,260	814,239	-	103,454	103,454
Self Funded Insurance Premium	-	-	-	-	10,924	10,924
Health Insurance Premium Reserve	-	-	-	-	919	919
Investment Income						
Net Appreciation in Fair Value of Investments,						
Including Gain and Loss on Sales	4,056,489	23,529	4,080,018	859,763	73,856	933,619
Interest	99,380	935	100,315	20,387	1,751	22,138
Dividends	163,783	1,542	165,325	33,598	2,886	36,484
Other Investment Income	41,230	388	41,618	8,458	726	9,184
Security Lending Income	3,404	32	3,436	698	60	758
Less: Security Lending Expense	(508)	(3)	(511)	(108)	(9)	(117)
Sub-total	4,363,778	26,423	4,390,201	922,796	79,270	1,002,066
Less: Investment Management Fees and Expenses	(81,092)	(470)	(81,562)	(17,187)	(1,476)	(18,663)
Investment Related Administrative Expenses	(2,634)	(15)	(2,649)	(558)	(48)	(606)
Net Investment Income	4,280,052	25,938	4,305,990	905,051	77,746	982,797
Building Lease and Other Income	516	3	519	109	9	118
Total Additions	5,087,547	33,201	5,120,748	905,160	193,052	1,098,212
Deductions						
Benefit Payments	(1,061,599)	(5,732)	(1,067,331)	(152,713)	(8,232)	(160,945)
Refunds of Contributions	(16,092)	(1,492)	(17,584)	-	-	-
Administrative Expenses	(24,124)	(140)	(24,264)	(5,581)	(1,239)	(6,820)
Total Deductions	(1,101,815)	(7,364)	(1,109,179)	(158,294)	(9,471)	(167,765)
Net Increase in Fiduciary Net Position	3,985,732	25,837	4,011,569	746,866	183,581	930,447
Fiduciary Net Position Restricted for Pension and Postemployment Health Care Benefits						
Beginning of year	14,932,404	79,715	15,012,119	2,730,004	121,201	2,851,205
End of year	\$ 18,918,136	\$ 105,552	\$ 19,023,688	\$ 3,476,870	\$ 304,782	\$ 3,781,652

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

Statement of Changes in Fiduciary Net Position (Continued)
Retirement Plan and Postemployment Health Care Plan
For the Fiscal Year Ended June 30, 2021, with Comparative Totals
(In Thousands)

	TOTAL FUND	
	2021	2020
Additions		
Contributions		
City Contributions	\$ 658,408	\$ 665,358
Member Contributions	259,285	263,936
Total Contributions	917,693	929,294
Self Funded Insurance Premium	10,924	10,364
Health Insurance Premium Reserve	919	2,137
Investment Income		
Net Appreciation in Fair Value of Investments,		
Including Gain and Loss on Sales	5,013,637	50,201
Interest	122,453	124,053
Dividends	201,809	221,790
Other Investment Income	50,802	50,668
Security Lending Income	4,194	7,421
Less: Security Lending Expense	(628)	(1,111)
Sub-total	5,392,267	453,022
Less: Investment Management Fees and Expenses	(100,225)	(84,571)
Investment Related Administrative Expenses	(3,255)	(2,959)
Net Investment Income	5,288,787	365,492
Building Lease and Other Income	637	792
Total Additions	6,218,960	1,308,079
Deductions		
Benefit Payments	(1,228,276)	(1,112,911)
Refunds of Contributions	(17,584)	(12,332)
Administrative Expenses	(31,084)	(27,422)
Total Deductions	(1,276,944)	(1,152,665)
Net Increase in Fiduciary Net Position	4,942,016	155,414
Fiduciary Net Position Restricted for Pension		
and Postemployment Health Care Benefits		
Beginning of year	17,863,324	17,707,910
End of year	\$ 22,805,340	\$ 17,863,324

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

1. Description of LACERS and Significant Accounting Policies

General Description

The Los Angeles City Employees' Retirement System (LACERS or the System) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. The Board has seven members. Four members, one of whom shall be a retired Member of the System, shall be appointed by the Mayor subject to the approval of the City Council. Two members shall be active employee Members of the System elected by active employee Members. One shall be a retired Member of the System elected by retired Members of the System. Elected Board members serve five-year terms in office, with no term limits. The System is a Department of the Municipality of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles Annual Comprehensive Financial Report as a pension trust fund.

The System operates a single-employer defined benefit plan (the Retirement Plan) and a single-employer Postemployment Health Care Plan. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor. A description of each plan is located in Note 2 and Note 3 on pages 22 - 32 of this report. All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

Basis of Accounting and Presentation

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP) as outlined by the Governmental Accounting Standards Board (GASB). The financial statements are maintained on the accrual basis of accounting. Contributions from the employer and Members were recognized when due pursuant to formal commitments and contractual requirements. Benefits, refunds, and other expenses are recognized when due and payable. The accompanying financial statements include information from the prior year summarized for comparative purpose only. Such information does not include sufficient detail to constitute a presentation in accordance with US GAAP.

Investments

Investment policies

Funds of the System are invested pursuant to the System's investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private credit, private equity, and short-term investments. During the reporting period, there were no significant investment policy changes.

As of June 30, 2021, the Board's target asset allocation policy was as follows:

Asset Class	Target Allocation
Domestic and International Equities	47.00%
Domestic and International Bonds	11.25
Private Equity	16.00
Real Assets	12.00
Short-Term Investments	1.00
Credit Opportunities	12.75
Total	100.00%

Fair Value of Investments

Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, bank loans, stocks, and private equities are reported at fair value. The fair values of real estate investment funds are provided by the individual real estate fund managers based on periodic appraisals, in the form of either annual in-house appraisals or longer-term appraisals by outside professionals, in accordance with industry practice. The fair value determined as such is also reviewed and evaluated by the Board's real estate consultant. The private equity funds ("partnership investment"), which are managed by third party investment managers, are valued on a quarterly and/or annual basis at their net asset value as reported by the investment managers under US GAAP. US GAAP requires that assets be reported at fair value in accordance with GASB Statement No. 72 – *Fair Value Measurement and Application*. The fair values of derivative instruments are determined using available market information.

Notes to the Basic Financial Statements

1. Description of LACERS and Significant Accounting Policies (Continued)

Investments (Continued)

Fair Value of Investments (Continued)

Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. LACERS investment strategy, as it relates to the debt portfolio, is mainly to achieve market appreciation and not to hold bonds to their maturities.

The provisions of the GASB Statement No. 72, *Fair Value Measurement and Application*, require investments to be measured at fair value as well as to classify the inputs used to determine fair value based on a three-level fair value hierarchy.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the Statement of Fiduciary Net Position under Receivables and labeled as Proceeds from Sales of Investments and amounts payable for purchases are reported under Liabilities and labeled as Purchases of Investments. Dividend income is recorded on the ex-dividend date. Interest income is reported at the stated interest rate as earned, and any premiums or discounts on debt securities are not amortized. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of LACERS pension plan investment. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

For the future contracts, an initial margin is required to open a position and maintain the collateral requirement until the position is closed. LACERS reports the collateral for the future contracts in the short-term investments.

Concentrations

The investment portfolio as of June 30, 2021, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Rate of Return on Investments

For the fiscal year ended June 30, 2021, the aggregate annual money-weighted rate of return for the Retirement Plan and the Postemployment Health Care Plan on LACERS investments, net of investment expenses, was 28.46%. The money-weighted rate of return is a measure of the performance of an

investment calculated by finding the rate of return that will set the present values of all cash flows equal to the value of the initial investment. It expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. Separate schedules for the money-weighted rate of return for Retirement Plan and Postemployment Health Care Plan are presented in the Required Supplementary Information (RSI).

Receivables

As of June 30, 2021, LACERS held no long-term contracts for contributions receivable from the City.

Capital Assets

Purchases of capital assets are capitalized upon acquisition if the cost of purchase was \$5,000 or more and depreciated over five years using the straight-line method.

Certain costs to develop LACERS Pension Administration System (PAS), a customized software solution critical to LACERS core operations was capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The total capitalized cost of \$9,413,000 is being amortized starting March 1, 2018, over 15 years using the straight-line method.

On October 9, 2019, LACERS Board approved the purchase of a commercial office building and underground parking structure located at 977 N. Broadway in Los Angeles, California to serve as LACERS future headquarters building. The purchase was settled at \$33,750,000 on October 23, 2019. The purchase price was allocated to Land valued at \$4,023,000 and Building valued at \$29,727,000, based on the assessment performed on the fair value of acquired assets. Acquisition costs of \$236,000 was also capitalized as part of the building cost.

In addition, as of June 30, 2021, LACERS has capitalized \$778,000 of subsequent building improvements, of which \$689,000 were incurred during the fiscal year. Major capital improvements are still in progress to prepare the building for occupancy. The project has been impacted by the ongoing supply-chain delays for construction materials and supplies. Once the building is put into use, the System will begin to record depreciation expense of the headquarter.

Administrative Expenses

All administrative expenses are funded from LACERS fiduciary net position, which represents accumulated investment earnings and contributions from the City and the Members net of payments.

Notes to the Basic Financial Statements

1. Description of LACERS and Significant Accounting Policies (Continued)

Reserves

As provided in the Los Angeles City Charter, LACERS is maintained on a reserve basis, determined in accordance with recognized actuarial methods. The Los Angeles City Charter establishes reserves for the following:

Reserves for the Retirement Plan

Member Contributions (Mandatory) – To provide for individual accounts of Members consisting of Active Member mandatory contributions to the Retirement Plan and interest credited to Members accounts, less refunds of Members contributions and transfers to the Annuity reserve.

Member Contributions (Voluntary) – To provide for individual accounts of Members participating in the larger annuity program of Active Member voluntary contributions and interest/investment return credited to Members' accounts, less refunds of Member contributions (voluntary) and transfers to the Larger Annuity reserve.

Basic Pensions – To provide for the City's guaranteed portion of retirement benefits consisting of City contributions; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to retired Members and beneficiaries, and allocated investment and administrative expenses.

Annuity – To provide for the Members' share of retirement benefits consisting of Members' mandatory contribution balances transferred at retirement; investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments; less payments to retired Members and beneficiaries.

Larger Annuity – To provide for the Larger Annuity benefit consisting of Members' voluntary contribution balances transferred at retirement including Internal Revenue Service (IRS) Section 457 deferred compensation and other rollovers; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to participating retired Members and beneficiaries, and allocated investment and administrative expenses.

Family Death Benefit Plan (FDBP) – To pay benefits under the Family Death Benefit Plan administered by LACERS consisting of Active Member voluntary contributions; matching City of

Los Angeles contributions; and investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to beneficiaries and allocated investment and administrative expenses.

Reserves for the Postemployment Health Care Plan

401(h) Account - To provide health care benefits for retirees consisting of City contributions received until fiscal year 2019; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments to insurance providers, including payment to the 115 Trust fund for the self-funded dental insurance premium and Members' portion of insurance premium reserve.

115 Trust Account – This Health Care fund is currently limited to pay the benefit claims from LACERS self-funded Dental Plan, but ultimately will fund all health care benefits for retirees upon depletion of the existing 401(h) account reserves. The 115 Trust account currently consists of City Contributions received starting fiscal year 2020, dental plan premium and prepayment; certain retired Members' health insurance premium deductions; investment earnings (losses) including net appreciation (depreciation) in fair value of investments; less payments of the self-funded dental plan claims and related third party administration fees; and certain direct and allocated administrative expenses.

Reserve balances as of June 30, 2021, were as follows (in thousands):

Reserve for the Retirement Plan

Member Contributions:	
-Mandatory	\$ 2,489,218
-Voluntary	8,187
Basic Pensions	15,597,767
Annuity	831,151
Larger Annuity	76,715
FDBP	20,650
	<u>\$ 19,023,688</u>

Reserve for the Postemployment

Health Care Plan	
401(h) Account	\$ 3,476,870
115 Trust Account	304,782
	<u>3,781,652</u>

Total \$ 22,805,340

1. Description of LACERS and Significant Accounting Policies (Continued)

Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Changes in economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ from those estimates materially.

Comparative Totals

The basic financial statements include certain prior year summarized comparative data in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with LACERS' financial statements for the year ended June 30, 2020, from which the summarized data were derived.

Risk and Uncertainty That May Impact Financial Operations and Performance

In March 2020, the World Health Organization declared Coronavirus COVID-19 a global pandemic. The Coronavirus outbreak caused tremendous human and economic hardship both globally and throughout the United States. The measures taken to protect public health had an adverse impact, disrupted economic activity and created a surge in job losses resulting in significant market losses. While the global economic activity and financial markets have largely rebounded from their March 2020 losses, it is unclear how the current global supply-chain disruptions and a surge in inflation would impact future market performance.

Additionally, the total pension liabilities, net pension liabilities, total OPEB and Net OPEB (asset) liability disclosed in Notes 2 and 3 to the Basic Financial Statements are measured based on certain assumptions, including the long-term rate of return on investments, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions described in this section, it is at least reasonably possible that changes in these estimates and assumptions in the near term may have material impact on the financial statements.

LACERS Board and management continue to closely monitor the financial market. LACERS' investment strategy is to maintain a well-diversified portfolio to

mitigate the risk of market uncertainty.

Adoption of New Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities*, & Implementation Guide No. 2019-2, *Fiduciary Activities*. Statement 84 established criteria for identifying fiduciary activities for financial reporting. The requirements of this Statement became effective for financial statements with the fiscal year that ended June 30, 2021. The statement has no material impact on LACERS' financial statements.

GASB Statement No. 90, "Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61." This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization, and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement became effective for financial statements the fiscal year that ended June 30, 2021. The Statement has no material impact on LACERS' financial statements.

Implementation Guide No. 2019-1, "Implementation Guidance Update—2019." This Implementation Guide provides guidance that clarifies, explains, or elaborates on other GASB statements. The requirements of this Implementation Guide became effective starting with financial statements with fiscal year ending June 30, 2021. LACERS implemented this guide with no material impact.

Recent GASB Pronouncements for Future Adoption

LACERS is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following recent GASB Statements:

1. Statement No. 87, "Leases." requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement takes effect starting with fiscal year ending June 30, 2022.

1. Description of LACERS and Significant Accounting Policies (Continued)

Recent GASB Pronouncements for Future Adoption (Continued)

2. Implementation Guide No. 2019-3, "Leases." The requirements of this Implementation Guide will take effect for financial statements starting with the fiscal year ending June 30, 2022.
3. Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." The requirements of this Statement will take effect starting with fiscal year ending June 30, 2021.
4. Statement No. 91, "Conduit Debt Obligations." The requirements of this Statement takes effect for financial statements starting with the fiscal year ending June 30, 2022.
5. Statement 92, "Omnibus 2020." The requirements of this Statement takes effect for financial statements starting with fiscal year ending June 30, 2022.
6. Statement 93, "Replacement of Interbank Offered Rates." The requirement in paragraph 11b will take effect for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 will take effect for financial statements starting with the fiscal year ending June 30, 2022.
7. Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." The requirements of this Statement will take starting with the fiscal year ending June 30, 2023.
8. Statement No. 96, "Subscription-Based Information Technology Arrangements." The requirements of this Statement will take effect starting with the fiscal year that ends June 30, 2023.
9. Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2022.

2. Retirement Plan Description

Plan Administration and Membership

LACERS administers a defined benefit pension plan that provides for service and disability retirement benefits, as well as death benefits.

The Retirement Plan covers all full-time personnel and department-certified part-time employees of the City, except for sworn employees of the Fire and Police departments, Department of Water and Power employees, elected officials who elected to participate in an alternative Defined Contribution Plan, certain Port Police officers of the Harbor, and certain Airport Peace Officers of the Airports who elected to opt out of LACERS. Upon transferring all active Tier 2 Members to Tier 1 as of February 21, 2016, Membership to Tier 1 is now closed to new entrants unless a Member meets one of the exceptions allowed in the Ordinance (No. 184134). Eligible employees hired on or after February 21, 2016, become Members of Tier 3.

Plan Members have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, Members are eligible for future retirement benefits, which increase with length of service. If a Member who has five or more years of continuous City service terminates employment, the Member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

As of June 30, 2021, the components of LACERS membership in both tiers (Tier 1 and Tier 3) were as follows:

Active:	
Vested	16,684
Non-vested	8,492
	<u>25,176</u>
Inactive:	
Non-vested	7,124
Terminated Entitled to Benefits,	
Not Yet Receiving Benefits	2,523
Retired	<u>22,012</u>
Total	<u><u>56,835</u></u>

Eligibility Requirement and Benefits Provided

Tier 1

Plan Members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Plan Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the Member's average monthly pensionable salary during the Member's last 12 months of service, or during any other 12 consecutive months of service designated by the Member, multiplied by the Member's years of service credit.

Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a \$2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

Tier 1 – Enhanced Benefits

On March 28, 2017, the City Council adopted an ordinance (No. 184853) to amend the Los Angeles Administrative Code (LAAC) authorizing certain sworn Airport Peace Officers (APO) at LACERS to elect to transfer into Tier 6 of LAFPP Plan or to remain in LACERS Plan with enhanced benefits. All new APO hired after that date would be enrolled in LAFPP Tier 6. Under the ordinance, APO Members who elect to remain in LACERS would be Tier 1 Members and be eligible for enhanced benefits including more favorable disability benefits, death benefits, and a higher retirement factor of 2.30% (versus 2.16% for all other Tier 1 Members), contingent upon a mandatory additional contribution payment of \$5,700 required by LAAC Section 4.1002(e)(2) to LACERS before January 8, 2019, or prior to the Member's retirement date, whichever is earlier. Among 503 APO Members who elected to remain Members of LACERS on January 7, 2018, 469 APO Members, inclusive of 43 APO Members who retired with the enhanced benefits, paid their mandatory additional contribution.

2. Retirement Plan Description (Continued)

Eligibility Requirement and Benefits Provided (Continued)

Tier 3

Plan Members are eligible to retire with unreduced benefits if they have at least 10 or more years of City service at age 60 or at least 30 years of City service at age 55, provided that five years of service must be continuous. Full unreduced retirement benefits at age 60 with 10 years of City service are determined with a 1.5% retirement factor. Plan Members also are eligible to retire with an age-based reduced benefit before reaching age 60 with 30 or more years of City service with a retirement factor of 2.0%. If the Member is age 55 or older with 30 years of service at the time of retirement, his or her retirement allowance will not be subject to reduction on account of age. However, if the Member is younger than age 55 with 30 years of service at the time of retirement, his or her retirement allowance will be reduced by the applicable early retirement reduction factor. In addition, the System also provides Tier 3 Members enhanced retirement benefits with a 2.0% retirement factor if the Member retires at age 63 with at least 10 years of service, or a retirement factor of 2.1% if the Member retires at age 63 with 30 years of service.

Tier 3 retirement benefits are determined by multiplying the Member's retirement factor (1.5% - 2.1%), with the Member's Final Average Compensation (FAC) based on the Member's pensionable salary for the last 36 months or any other 36 consecutive months designated by the Member, and by the Member's years of service credit (SC) as follows:

Age at Retirement	Required Years of Service	Retirement Benefit ⁽¹⁾
Under 55	30 Years	2.0% x FAC x Yrs. of SC ⁽²⁾
55 and Over	30 Years	2.0% x FAC x Yrs. of SC
60 and Over	10 Years	1.5% x FAC x Yrs. of SC
63 and Over	10 Years	2.0% x FAC x Yrs. of SC
63 and Over	30 Years	2.1% x FAC x Yrs. of SC

(1) Retirement allowance may not exceed 80% of final compensation except when benefit is based solely on the annuity component funded by the Member's contributions.

(2) A reduction factor will be applied based on age at retirement.

Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a \$2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

There were no Tier 3 Members who retired during this reporting period.

Cost of Living Adjustment

Retirement allowances are indexed annually for inflation. The Board has authority to determine, no later than May 1st of each year, the average annual percentage change in the Consumer Price Index (CPI) for the purpose of providing a Cost of Living Adjustment (COLA) to the benefits of eligible Members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 Members or 2.0% for Tier 3 Members. For Tier 1 Members, the COLA percentage greater than 3.0% is banked for future use.

Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 provide for periodic actuarially-determined employer contribution rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. For the fiscal year ended June 30, 2021, the actuarially-determined aggregate employer contribution rate to the Retirement Plan by the City was 24.63% of projected payroll, based on the June 30, 2019 actuarial valuation.

2. Retirement Plan Description (Continued)

Employer Contributions (Continued)

Upon closing the fiscal year 2020-21, LACERS recalculated the employer contribution rate using actual payroll incurred during the fiscal year, which was smaller than projected covered payroll used by the City to make the advance payment on July 15, 2020. As a result, employer contributions received for the Retirement Plan were \$29,989,000 more than required, and this amount was credited towards employer contributions for fiscal year 2021-22. Based on actual payroll, the effective rate of employer contribution for Retirement Plan was 24.37% for fiscal year 2020-21.

Member Contributions

Tier 1 and Tier 1 Enhanced

The current contribution rate for Tier 1 and Tier 1 Enhanced Members is 11% of their pensionable salary including a 1% increase in the Member contribution rate pursuant to 2009 Early Retirement Incentive Program (ERIP) ordinance for all employees for a period of 15 years (or until the ERIP Cost obligation is fully recovered, whichever comes first). Contribution rates for Tier 1 and Tier 1 Enhanced Members is expected to decrease by 1% once ERIP obligation is fully paid.

Tier 3

The contribution rate for Tier 3 Members is 11% of their pensionable salary. Unlike Tier 1, Tier 3 Members do not pay ERIP contribution, therefore, Tier 3 Members' contribution rate will not drop down when Tier 1 Members cease to pay the 1% ERIP contribution.

Notes to the Basic Financial Statements

2. Retirement Plan Description (Continued)

Net Pension Liability

As of June 30, 2021, the components of the net pension liability were as follows (in thousands):

Total Pension Liability	\$ 23,281,893
<u>Less</u> Plan Fiduciary Net Position	<u>(18,918,136)</u>
Plan's Net Pension Liability	<u>\$ 4,363,757</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	81.3%

Significant Assumptions

Projections of benefits for financial reporting purposes are based on the types of benefits provided to active, inactive, and retired Members at the time of each valuation, including expected future COLAs. The attribution method and significant assumptions used in the valuation year of June 30, 2021, are summarized below:

Valuation Date	June 30, 2021
Actuarial Cost Method	Entry Age Cost Method (individual basis).
Amortization Method	Level Percent of Payroll
Actuarial Assumptions:	
Date of Experience Study	June 30, 2019 (July 1, 2016 through June 30, 2019)
Long-Term Expected Rate of Return	7.00%
Inflation	2.75%
Real Across-the-Board Salary Increase	0.50%
Projected Salary Increases	Ranges from 4.25% to 9.95% based on years of service, including inflation assumption at 2.75% and the real across-the-board salary increase assumption of 0.50%.
Annual COLAs	2.75% maximum for Tier 1 and 2.00% maximum for Tier 3.
Mortality Table for Healthy Retirees	Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Disabled Retirees	Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Beneficiaries	Pub-2010 Contingent Survivor Amount-Weighted Above Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Percent Married / Domestic Partner	76% of male participants and 52% of female participants are assumed to be married or have a qualified domestic partner.
Spouse Age Difference	Male retirees are assumed to be three years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.

2. Retirement Plan Description (Continued)

Net Pension Liability (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2021 and June 30, 2020.

The projection of cash flows used to determine the discount rate assumed Plan Member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current Plan Members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future Plan Members and their beneficiaries, as well as projected contributions from future Plan Members, are not included.

Based on those assumptions, the retirement plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability as of both June 30, 2021 and June 30, 2020.

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption that was used in the actuarial valuation as of June 30, 2021. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in 2022.

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	15.01%	5.54%
U.S. Small Cap Equity	3.99	6.25
Developed Int'l Large Cap Equity	17.01	6.61
Developed Int'l Small Cap Equity	2.97	6.90
Emerging Int'l Large Cap Equity	5.67	8.74
Emerging Int'l Small Cap Equity	1.35	10.63
Core Bonds	13.75	1.19
High Yield Bonds	2.00	3.14
Bank Loans	2.00	3.70
Emerging Market Debt (External)	2.25	3.55
Emerging Market Debt (Local)	2.25	4.75
Private Debt	3.75	6.00
Core Real Estate	4.20	4.60
Real Estate Investment Trust (REIT)	1.00	5.98
Treasury Inflation Protected Securities (TIPS)	4.00	0.86
Commodities	1.00	3.33
Non-Core Real Assets	2.80	5.76
Private Equity	14.00	8.97
Cash	1.00	0.03
Total	100.00%	5.50%

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

The following presents the net pension liability of LACERS as of June 30, 2021, calculated using the discount rate of 7.00%, as well as what LACERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (dollar in thousands):

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$7,470,721	\$4,363,757	\$1,793,938

3. Postemployment Health Care Plan Description

Plan Administration and Membership

LACERS administers and provides single-employer postemployment healthcare benefits to eligible retirees and their eligible spouses/domestic partners who participate in the Retirement Plan regardless of their membership tiers. These benefits consist of subsidies which may also apply to the coverage of other eligible dependent(s).

On November 9, 2018, the City Council approved Ordinance No. 185829 to amend Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code to establish the LACERS Health Care Fund (115 Trust Account) for the sole purpose of funding the retiree healthcare benefits for eligible LACERS retirees and beneficiaries as well as to help stabilize premium rates over time.

The City and the Board of LACERS entered into a written trust agreement for the LACERS Health Care Fund which shall provide an alternative funding mechanism, in addition to or in lieu of the existing 401(h) account described in LAAC Section 4.1102 for funding benefits under the health and welfare programs. The LACERS Health Care Fund is intended to qualify for federal tax exemption under Section 115 of the Internal Revenue Code. Because health benefits paid out of the LACERS Health Care Fund are not required to be subordinate to the Plan retirement benefits, the LACERS Health Care Fund would not become taxable if the Plan health benefits surpass the 25% threshold. Second, the LACERS Health Care Fund gives LACERS more flexibility to invest premium surpluses to provide for smoothing should healthcare premiums increased considerably in the future. Currently, the Health Care Coverage Account (401(h) account) cannot receive full refunds of excess premiums from insurance providers. However, the LACERS Health Care Fund can receive full premium surplus refunds from insurance providers; therefore, the System can invest these funds at a higher rate of return than the insurance providers' reserve account interest rate.

Effective January 1, 2019, LACERS fully-insured Delta Dental PPO Plan was replaced with LACERS self-funded Delta Dental PPO Plan. Although Delta continues to administer the plan for a fee, LACERS sets and collects premiums from enrolled Members and pays billed claims to Delta. With this arrangement, LACERS bears financial risk if claims cost exceed collected premiums. This change does not affect the maximum dental subsidy amount to the eligible retired Members.

As of June 30, 2021, the components of Membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows:

Retired Members/Surviving Spouses ⁽¹⁾	17,500
Vested terminated Members entitled to, but not yet receiving benefits ⁽²⁾	1,554
Retired Members and surviving spouses not yet eligible for health benefits	141
Active Members	25,176
Total	44,371

- (1) Total participants including married dependents and dependent children currently receiving benefits are 23,579.
- (2) Includes terminated Members due a refund of employee contributions.

Eligibility Requirement and Benefits Provided

To be eligible for LACERS postemployment healthcare benefits, Member must: 1) be at least age 55; 2) have at least 10 whole years of service with LACERS; and 3) be enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). Retirees and surviving spouses/domestic partners can choose from the health plans that are available, which include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. Retirees and surviving spouses/domestic partners receive medical subsidies based on service years and service credit. The dental subsidies are provided to the retirees only, based on service years and service credit.

The maximum subsidies are set annually by the Board. Effective February 21, 2016, healthcare benefit eligibility requirements have changed for the Members who have periods of part-time service. Such Members are now eligible to participate in the LACERS retiree medical programs with 10 whole years of service, even if some or all that service was part-time, provided that the Member meets the eligibility requirements. Both Tier 1 and Tier 3 Members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and eligible Members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service. Eligible spouses/domestic partners of Plan Members are entitled to the System's postemployment healthcare benefits after the retired Member's death.

3. Postemployment Health Care Plan Description (Continued)

Eligibility Requirement and Benefits Provided (Continued)

During the 2011 fiscal year, the City adopted an ordinance (“Subsidy Cap Ordinance”) to limit the maximum medical subsidy at \$1,190 for those Members who retire on or after July 1, 2011; however, Members who at any time prior to retirement made additional contributions are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2021, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 require periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2021, was 4.49% of projected payroll, based on the June 30, 2019 actuarial valuation.

Upon closing the fiscal year 2020-21, LACERS recalculated employer contribution rate using actual payroll incurred during the fiscal year which was smaller than projected covered payroll used by the City to make the advance payment on July 15, 2020. As a result, employer contributions for Postemployment Health Care Plan were \$4,101,000 more than required, and this amount was credited towards employer contribution for fiscal year 2021-22. While the total actual payroll was lower than projected, actual payroll for Tier 3 Members was higher than projected. Because the employer contribution rate for Postemployment Health Care Plan for Tier 3 Members was higher than the rate for Tier 1 Members, the overall effective rate of employer contribution for Postemployment Health Care Plan, based on actual payroll, was 4.54%, a slightly higher rate than 4.49% originally projected.

3. Postemployment Health Care Plan Description (Continued)

Net OPEB (Asset) Liability

As of June 30, 2021, the components of the net OPEB (asset) liability were as follows (in thousands):

Total OPEB Liability	\$ 3,520,078
<u>Less: Plan Fiduciary Net Position</u>	<u>(3,781,652)</u>
Plan's Net OPEB (Asset) Liability	<u>\$ (261,574)</u>

Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	107.4%
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Significant Assumptions

The total OPEB liability as of June 30, 2021 was determined by actuarial valuation as of June 30, 2021. The attribution method and significant assumptions used to measure the total OPEB liability, including assumptions about inflation, and healthcare cost trend rates in the valuation year of June 30, 2021, are summarized below:

Valuation Date	June 30, 2021
Actuarial Cost Method	Entry Age Cost Method – level percent of salary.
Amortization Method:	Level Percent of Payroll – assuming a 3.25% increase in total covered payroll.
Actuarial Assumptions:	
Date of Experience Study	June 30, 2019 (July 1, 2016 through June 30, 2019)
Long-Term Expected Rate of Return	7.00%
Inflation	2.75%
Salary Increase	Range from 4.25% to 9.95% based on years of service, including inflation assumption at 2.75%.
Mortality Table for Retirees	Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Disabled Retirees	Pub-2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Table for Beneficiaries	Pub-2010 Contingent Survivor Headcount-Weighted Above Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Marital Status	60% of male and 35% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.
Surviving Spouse Coverage	With regard to Members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.

3. Postemployment Health Care Plan Description (Continued)

Net OPEB (Asset) Liability (Continued)

Significant Assumptions (Continued)

Healthcare Cost Trend Rates

Medical Premium Trend Rates to be applied in the following fiscal years, to all health plans. Trend Rate is to be applied to the premium for shown fiscal year to calculate next fiscal year's projected premium.

Medical Premium Trend Rates to be applied to fiscal year 2021-2022 and later years are:

First Fiscal Year (July 1, 2021 through June 30, 2022)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	6.52%	3.25%
Anthem Blue Cross HMO	3.72%	N/A
Anthem Blue Cross PPO	6.06%	-3.60%
UHC Medicare HMO	N/A	3.99%

Approximate Trend Rate (%) Fiscal Year 2021 - 2022 and later		
Fiscal Year	Non-Medicare	Medicare
2022 - 2023	7.37%	6.37%
2023 - 2024	7.12%	6.12%
2024 - 2025	6.87%	5.87%
2025 - 2026	6.62%	5.62%
2026 - 2027	6.37%	5.37%
2027 - 2028	6.12%	5.12%
2028 - 2029	5.87%	4.87%
2029 - 2030	5.62%	4.62%
2030 - 2031	5.37%	4.50%
2031 - 2032	5.12%	4.50%
2032 - 2033	4.87%	4.50%
2033 - 2034	4.62%	4.50%
2034 - 2035 and later	4.50%	4.50%

Dental Premium Trend to be applied is 4.00% for all years.

Medicare Part B Premium Trend is 4.50% for all years.

Notes to the Basic Financial Statements

3. Postemployment Health Care Plan Description (Continued)

Net OPEB (Asset) Liability (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2021 and June 30, 2020.

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, employer contributions that are intended to fund benefits only for current Plan Members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future Plan Members and their beneficiaries, as well as projected contributions from future Plan Members, are not included.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan Members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability as of June 30, 2021 and June 30, 2020.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption for the actuarial valuation as of June 30, 2021. This information is subject to change every three years based on the actuarial experience study. The last experience study was for July 1, 2016 through June 30, 2019. The next experience study will be conducted in 2022.

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	15.01%	5.54%
U.S. Small Cap Equity	3.99	6.25
Developed Int'l Large Cap Equity	17.01	6.61
Developed Int'l Small Cap Equity	2.97	6.90
Emerging Int'l Large Cap Equity	5.67	8.74
Emerging Int'l Small Cap Equity	1.35	10.63
Core Bonds	13.75	1.19
High Yield Bonds	2.00	3.14
Bank Loans	2.00	3.70
Emerging Market Debt (External)	2.25	3.55
Emerging Market Debt (Local)	2.25	4.75
Private Debt	3.75	6.00
Core Real Estate	4.20	4.60
Real Estate Investment Trust (REIT)	1.00	5.98
Treasury Inflation Protected Securities (TIPS)	4.00	0.86
Commodities	1.00	3.33
Non-Core Real Assets	2.80	5.76
Private Equity	14.00	8.97
Cash	1.00	0.03
Total	100.00%	5.50%

Sensitivity of the Net OPEB (Asset) Liability to Changes in the Discount Rate

The following presents the net OPEB (asset) liability of LACERS as of June 30, 2021, calculated using the discount rate of 7.00%, as well as what LACERS net OPEB (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (dollar in thousands):

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 231,310	\$ (261,574)	\$ (665,963)

3. Postemployment Health Care Plan Description (Continued)

Net OPEB (Asset) Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB (asset) liability of LACERS as of June 30, 2021, calculated using the healthcare cost trend rates as well as what LACERS net OPEB (asset) liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current rates (dollar in thousands):

1% Decrease	Current Healthcare Cost Trend Rates ⁽¹⁾	1% Increase
(\$ 704,100)	(\$ 261,574)	\$ 289,705

- (1) Current healthcare cost trend rates: 7.37% graded down to 4.50% over 12 years for Non-Medicare medical plan costs, and 6.37% graded down to 4.50% over 8 years for Medicare medical plan costs. 4.00% for all years for Dental and 4.50% for all years for Medicare Part B subsidy cost.

4. Contributions Required and Contributions Made

LACERS uses the Entry Age cost method to determine the required annual contribution amount for the Retirement Plan and the Postemployment Health Care Plan. The required annual contribution amount is composed of two components: normal cost, which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the Unfunded Actuarial Accrued Liability (UAAL) which is the difference between LACERS actuarial liabilities and actuarial assets. The components of the UAAL are amortized as a level percent of pay. Based on LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 years, except that healthcare cost trend and premium assumption changes are amortized over 15 years. Plan changes and experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period of 30 years for all layers combined. The amortization periods are “closed” as each layer of the UAAL is systematically amortized over a “fixed” period.

The total contributions to LACERS for the fiscal year ended June 30, 2021, in the amount of \$917,693,000 (\$814,239,000 for the Retirement Plan and \$103,454,000 for the Postemployment Health Care Plan), consisted of the following (in thousands):

	Retirement Plan	Postemployment Health Care Plan
City Contributions:		
Initial Contributions ⁽¹⁾	\$ 584,845	\$ 107,555
True-up Adjustments ⁽²⁾	(29,989)	(4,101)
Required Contributions	\$ 554,856	\$ 103,454
FDBP	98	-
Total City Contributions	554,954	103,454
Member Contributions	259,285	-
Total Contributions	\$ 814,239	\$ 103,454

- (1) The initial City contributions made on July 15, 2020, were based on applying actuarially-determined contributions rates to projected payroll for the fiscal year.
- (2) At the end of the fiscal year, LACERS recalculated required contributions based on actual payroll, resulting in these true-up adjustments.

The City contributions made for the Retirement Plan under the Required Contributions category in the amount of \$554,856,000 were equal to 100% of the actuarially determined contribution of the employer. The City contributions made for the Postemployment Health Care Plan, in the amount of \$103,454,000, represents 100% of the actuarially determined contribution of the employer as defined by GASB Statement No. 74. Member contributions in the amount of \$259,285,000 were made toward the Retirement Plan, the voluntary Larger Annuity Plan and Family Death Benefit Plan.

5. Historical Trend Information

Historical trend information, designed to provide information about LACERS progress made in accumulating sufficient assets to pay benefits when due, is presented on pages 42 - 47 for the Retirement Plan and pages 48 - 53 for the Postemployment Health Care Plan.

Notes to the Basic Financial Statements

6. Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of LACERS funds, and should discharge its duties 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, as prescribed by Article XI Section 1106(c) of the City Charter.

LACERS considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2021, for the Retirement Plan and Postemployment Health Care Plan included approximately \$3,377,000 held in LACERS general operating accounts with the City Treasurer and short-term investments funds (STIF) of \$1,072,107,000 for a total of \$1,075,484,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable. At June 30, 2021, short-term investments included collective STIF of \$655,393,000, international STIF of \$297,145,000, and future contracts initial margin and collaterals of \$119,569,000.

The fair value of derivative instruments, including equity index, commodity, currency, and interest rate future contracts, currency forward contracts and options, rights and warrants and swaps, are recorded in the Statement of Fiduciary Net Position with a net value of \$2,941,000. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Fiduciary Net Position as Investment Income. LACERS enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of LACERS derivatives for the current and previous fiscal years are classified as investment derivatives.

The notional amount and the fair value of derivative instruments as of June 30, 2021, are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Commodities	\$ -	\$ -	\$ (2,076)
Equity Index	24,081	(87)	(160)
Foreign Exchange	-	-	(1)
Interest Rate	(43,446)	(337)	(508)
Currency Forward Contracts	776,583	3,144	3,732
Currency Options	N/A	(138)	(138)
Right / Warrants	N/A	69	(169)
Swaps-Interest Rate	N/A	(750)	(901)
Swaps-Credit			
Contracts	N/A	1,040	1,040
Total Value		<u>\$2,941</u>	<u>\$ 819</u>

6. Cash and Short-Term Investments and Investments (Continued)

Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LACERS seeks to maintain a diversified portfolio of fixed income instruments to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by Standard and Poor's (S&P), a nationally-recognized statistical rating organization, as of June 30, 2021, are as follows (dollars in thousands):

<u>S & P Ratings</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 38,524	2.03 %
AA+	4,110	0.22
AA	17,632	0.93
AA-	35,223	1.86
A+	42,684	2.25
A	53,793	2.83
A-	142,120	7.49
BBB+	259,209	13.66
BBB	234,991	12.38
BBB-	207,076	10.91
BB+	90,443	4.77
BB	105,939	5.58
BB-	152,923	8.06
B+	99,192	5.23
B	126,539	6.67
B-	129,091	6.80
CCC+	104,785	5.52
CCC	42,831	2.26
CCC-	5,726	0.30
C	142	0.01
D	4,567	0.24
	<u>\$ 1,897,540</u>	<u>100.00%</u>
U.S. Government Guaranteed Securities ⁽¹⁾	<u>4,361,080</u>	
Total Fixed Income Securities	<u>\$ 6,258,620</u>	

⁽¹⁾ Consists of U.S. Government Bonds and GNMA Mortgage-Backed Securities which had the AA+ rating.

Credit Risk – Derivatives

Derivatives are subject to credit risk that the counterparty to a contract will default. LACERS is exposed to credit risk on reported assets of the investment derivatives that are traded over the counter. The credit risk of exchange traded derivatives for future contracts is considered minimal because the exchange clearing house is the counterparty and guarantees the performance.

LACERS permits investment managers, under the terms of individual guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. It is the responsibility of these investment managers to actively monitor counterparties on their financial safety and ensure compliance with the investment restrictions. LACERS has no general investment policy with respect to netting arrangements or collateral requirements. However, these individual investment managers have set up the arrangements with the counterparties to net off the positive and negative contracts with the same counterparty in case of the counterparty's default.

As of June 30, 2021, without respect to netting arrangements, LACERS maximum income on derivative instruments subject to credit risk, namely currency forward contracts, is \$9,154,000. All counterparties of these investment derivatives had the credit rating of "A" or "AA" assigned by S&P.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, LACERS would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2021, LACERS has exposure to such risk in the amount of \$43,998,000 or 0.6% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 18 different investment managers, and held outside of LACERS custodial bank. LACERS policy requires each individual publicly traded equities investment manager to hold no more than 10% of their portfolios in the form of cash. LACERS is in compliance with the policy.

Notes to the Basic Financial Statements

6. Cash and Short-Term Investments and Investments (Continued)

Custodial Credit Risk (Continued)

Investment securities are exposed to custodial credit risk if the securities are not insured, are not registered in LACERS name, and are held by the counterparty, or the counterparty's trust department or agent but not in LACERS name. As of June 30, 2021, LACERS investments were not exposed to custodial credit risk because all securities were registered in the name of the System.

Concentration of Credit Risk

The investment portfolio as of June 30, 2021, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways LACERS manages its exposure to interest rate risk is by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the BC U.S. High Yield 2% Capped Index, the BC Intermediate Government Credit Index, the BC Aggregate Bond Index, or the J.P. Morgan EMBI Global Diversified Index, depending on the Board's mandates. The effective duration is a measure, in years, of interest-rate sensitivity in debt investments. The longer the effective duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the fair values of LACERS investments to market interest rate fluctuations as of June 30, 2021 is provided by the following table that shows the weighted average effective duration of LACERS fixed income securities by investment type (dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	\$ 36,468	1.27
Bank Loans	87,540	1.64
Commercial Mortgage-Backed Securities	87,767	4.14
Corporate Bonds	1,369,706	6.21
Government Agencies	71,808	7.98
Government Bonds	1,716,255	7.44
Government Mortgage-Backed Securities	363,772	3.69
Index Linked Government Bonds	1,146,089	4.99
Municipal/Provincial Bonds	13,591	6.75
Non-Government Backed Collateralized Mortgage Obligations (C.M.O.s)	7,034	3.97
Opportunistic Debts	254,092	0.30
Other Fixed Income (Funds)	1,104,498	6.59
Derivative Instruments	(337)	9.04
Total Fixed Income Securities	\$ 6,258,283	

Highly-Sensitive Investments

Highly-sensitive investments are certain debt investments whose terms may cause their fair value to be highly-sensitive to market interest rate changes. Terms include embedded options, coupon multipliers, benchmark indexes, and reset dates. LACERS asset-backed investments have embedded prepayment options that will typically cause prepayments by the obligees of the underlying investments when interest rates fall. Prepayments eliminate the stream of future interest payments and, therefore, diminish the fair value of the asset-backed investment. The following table shows the fair value of LACERS asset-backed investments by investment type (in thousands):

Investment Type	Fair Value
Asset-Backed Securities	\$ 36,468
Commercial Mortgage-Backed Securities	87,767
Government Agencies	71,808
Government Mortgage-Backed Securities	363,772
Non-Government Backed C.M.O.s	7,034
Total Asset-Backed Investments	\$ 566,849

Notes to the Basic Financial Statements

6. Cash and Short-Term Investments and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. LACERS Asset Allocation policy sets a target of 26% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and private equity managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts are permitted primarily to reduce the foreign currency risk.

LACERS non-U.S. currency investment holdings as of June 30, 2021, which represent 26.5% of the fair value of total investments, are as follows (in thousands):

Foreign Currency Type	Cash and Adjustments to Cash	Equity	Fixed Income	Derivatives Instruments	Other Investments	Total Fair Value in USD
Australian dollar	(3,814)	161,205	-	255	-	157,646
Brazilian real	35,435	58,329	16,393	(37)	(331)	109,789
British pound sterling	2,411	627,461	-	(15)	-	629,857
Canadian dollar	(3,339)	328,784	-	115	-	325,560
Chilean peso	1,553	2,114	6,206	184	66	10,123
Chinese y uan renminbi	26,404	58,002	29,675	(174)	(251)	113,656
Colombian peso	8,975	603	15,325	318	335	25,556
Czech koruna	9,855	555	14,979	179	(12)	25,556
Danish krone	61	84,969	-	-	-	85,030
Egyptian pound	3,801	7,938	-	-	-	11,739
Euro	(70,721)	1,287,384	93,545	1,996	205,533	1,517,737
Hong Kong dollar	1,570	372,317	-	(7)	-	373,880
Hungarian forint	4,719	4,399	12,236	188	18	21,560
Indian rupee	18,402	180,011	-	85	-	198,498
Indonesian rupiah	10,517	12,746	47,127	93	-	70,483
Israeli new shekel	70	27,778	-	6	-	27,854
Japanese yen	1,375	795,719	-	(19)	-	797,075
Kazakhstan tenge	976	-	-	-	-	976
Malaysian ringgit	5,685	7,109	13,905	-	-	26,699
Mexican peso	28,643	58,625	26,547	(547)	(562)	112,706
New Romanian Leu	11,398	-	5,653	-	-	17,051
New Taiwan dollar	(1,006)	208,462	-	42	-	207,498
New Zealand dollar	(3,795)	6,762	-	98	-	3,065
Norwegian krone	27	30,327	-	-	-	30,354
Peruvian nuevo sol	863	-	6,225	(96)	-	6,992
Philippine peso	2,096	3,308	-	31	-	5,435
Polish zloty	34,386	5,285	15,054	30	6	54,761
Qatari riyal	2	2,601	-	-	-	2,603
Russian ruble	10,648	-	31,952	16	-	42,616
Singapore dollar	1,030	55,784	-	25	-	56,839
South African rand	(19,505)	31,303	48,789	1,242	61	61,890
South Korean won	6,473	186,957	-	(64)	(103)	193,263
Swedish krona	31	155,238	-	-	-	155,269
Swiss franc	148	321,745	-	-	-	321,893
Thai baht	29,143	27,445	17,422	218	25	74,253
Turkish lira	3,526	2,203	4,219	2	-	9,950
United Arab Emirates dirham	2	2,668	-	-	-	2,670
Total Investments Held in						
Foreign Currency	\$ 158,045	\$ 5,116,136	\$ 405,252	\$ 4,164	\$ 204,785	\$ 5,888,382

6. Cash and Short-Term Investments and Investments (Continued)

Fair Value Measurements

LACERS follows GASB Statement No. 72 (GASB 72), *Fair Value Measurements and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements and disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in either a government's principal or the most advantageous market at the measurement date.

The System's investments are measured and reported within the fair value hierarchy established by US GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

Schedule of Investments by Fair Value Hierarchy

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 or 3 of the fair value hierarchy are valued using a matrix pricing technique based on the availability of the market price, the pricing source and type, and the country of incorporation of the securities. The hierarchy levels are determined based on the level of corroborative information obtained from other market sources to assert that the prices provided represent observable data.

The exchange traded Future Contracts classified in Level 1 of the fair value hierarchy are valued using a daily settlement when available or as a daily mark to market. The Foreign Exchange Contracts (liabilities) classified in Level 2 of the fair value hierarchy are valued using independent pricing services including London Close Mid-evaluation, WM/Reuters Company, Bloomberg, and Thomson Reuters.

Real estate funds classified in Level 3 of the fair value hierarchy are valued based on periodic appraisals in accordance with industry practice, or other valuation methods and techniques including models.

The System's remaining investments not categorized under the fair value hierarchy, such as private equity partnerships, real estate comingled funds and other investments which do not have a readily determinable fair value have been valued at the Net Asset Value (NAV). NAV is calculated and used as a practical expedient to estimate fair value of LACERS' interest, unless it is probable that all or a portion of the investments will be sold for an amount different from the NAV. As of June 30, 2021, LACERS had no specific plans to sell investments at amounts different from NAV. These investments are disclosed in the Investments Measured at the NAV on page 39.

Notes to the Basic Financial Statements

6. Cash and Short-Term Investments and Investments (Continued)

Fair Value Measurements (Continued)

Schedule of Investments by Fair Value Hierarchy (Continued)

The System has the following recurring fair value measurements as of June 30, 2021 (in thousands):

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	Total			
Investments by Fair Value Level:				
Debt securities:				
Government Bonds	\$ 2,862,345	\$ -	\$ 2,860,263	\$ 2,082
Government Agencies	71,808	-	50,690	21,118
Municipal/Provincial Bonds	13,591	-	13,591	-
Corporate Bonds	1,413,207	-	1,403,381	9,826
Bank Loans	87,540	-	85,718	1,822
Government Mortgage Bonds	363,772	-	360,763	3,009
Commercial Mortgage Bonds	87,767	-	87,767	-
Opportunistic Debts	15,064	-	-	15,064
Funds – Fixed Income ETF	2,223	2,223	-	-
Total Debt Securities	4,917,317	2,223	4,862,173	52,921
Equity Securities:				
Common Stock:				
Basic Industries	1,407,765	1,399,521	7,692	552
Capital Goods Industries	584,053	584,049	-	4
Consumer & Services	2,820,024	2,818,374	82	1,568
Energy	639,132	639,130	-	2
Financial Services	1,549,959	1,549,641	4	314
Health Care	1,072,356	1,072,125	-	231
Information Technology	1,868,729	1,867,506	-	1,223
Real Estate	730,739	730,711	-	28
Other Funds -Common Stock	747,223	-	747,223	-
Miscellaneous	19,191	13,753	5,438	-
Total Common Stock	11,439,171	10,674,810	760,439	3,922
Preferred Stock	49,641	46,784	2,857	-
Stapled Securities	11,169	11,169	-	-
Unit Trust Equity	1,623	1,623	-	-
Total Equity Securities	11,501,604	10,734,386	763,296	3,922
Real Estate Funds	197,794	-	-	197,794
Total Investments by Fair Value Level	\$ 16,616,715	\$ 10,736,609	\$ 5,625,469	\$ 254,667
Investments Measured at the NAV:				
Common Fund Assets	\$ 1,102,275			
Private Equity Funds	3,296,482			
Real Estate Funds	701,862			
Opportunistic Debts	239,028			
Total Investments Measured at the NAV	5,339,647			
Total Investments Measured at Fair Value ⁽¹⁾	\$ 21,956,362			
Investment Derivative Instruments:				
Future Contracts (liabilities)	\$ (424)	\$ (424)	\$ -	\$ -
Foreign Exchange Contracts (liabilities)	3,144	-	3,144	-
Rights/Warrants/Options/Swaps	221	354	(138)	5
Total Investment Derivative Instruments	\$ 2,941	\$ (70)	\$ 3,006	\$ 5

(1) Excluded \$2,941,000 of investment derivative instruments (shown separately) and \$275,940,000 of securities lending collateral.

6. Cash and Short-Term Investments and Investments (Continued)

Fair Value Measurements (Continued)

Investments Measured at the

NAV:

(in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Fund Assets ⁽¹⁾	\$ 1,102,275	\$ -	Daily	2 days
Private Equity Funds ⁽²⁾	3,296,482	1,467,846	N/A	N/A
Real Estate Funds ⁽³⁾	701,862	130,304	Daily, Quarterly	1-90 days
Opportunistic Debts ⁽⁴⁾	239,028	-	Monthly	30 days
Total Investments Measured at the NAV	<u>\$ 5,339,647</u>	<u>\$ 1,598,150</u>		

- (1) Common fund assets - This investment type includes one fund that primarily invests in U.S. bonds. The fair value of the investment has been determined using a practical expedient based on the investments' NAV per share (or its equivalent). This investment can be redeemed daily, with a two-day advance redemption notice period.
- (2) Private equity funds - This investment type includes 243 closed-end commingled private equity funds that invest primarily in securities of privately held U.S. and non-U.S. companies. The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). These investments are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as the underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 13 years, depending on the vintage year of each fund.
- (3) Real estate funds - This investment type includes 24 commingled real estate funds that invest primarily in U.S. commercial real estate. The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). Nine investments, representing approximately 85.8% of the value of this investment type, are in open-end funds, which may be redeemed according to terms specific to each fund. Redemptions generally are subject to the funds' available cash and redemption queues. One of the open-end funds informed LACERS of an additional restriction above the original investment agreement beginning in January 2020. The fund expects this additional restriction to persist through the end of 2021. LACERS has no intention to redeem any of this investment or the other nine investments in the near future. Fifteen investments, representing approximately 14.2% of the value of this investment type, are in closed-end funds and are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 12 years, depending on the vintage year of each fund.
- (4) Opportunistic debts - This investment type includes two commingled funds: one that invests primarily in senior loans of non-investment grade companies (senior loan fund) and another one invests primarily in the securities and obligations of companies experiencing operational or financial distress (distressed investment fund). The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). The senior loan fund, representing approximately 94% of the value of this investment type, can be redeemed monthly. The distressed investment fund, representing approximately 6% of the value of this investment type, is being dissolved and is no longer making new underlying investments. Distributions from this fund will be received as underlying investments are liquidated by the fund manager. It is expected that this fund will be liquidated fully over the next two years.

7. Securities Lending Agreement

Under authority granted by the City Charter, LACERS has entered into various short-term arrangements with its custodian to lend securities to various brokers. There are no restrictions on the amount of securities that may be lent, and the custodian determines which lenders' accounts to lend securities from by using an impartial sequential system that matches loan requests with various lenders' accounts. All lenders are deemed to have relatively equal opportunity to profit from the lending of securities. Therefore, should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency is allocated pro rata among all lenders.

Minimum collateralization is 102% of the fair value of the borrowed U.S. securities and 107% for international securities. Collateral consists of cash, government and corporate securities, and commercial bank obligations. Cash collateral is invested in a separate account comprised of money market or high-quality short-term investments. It is the responsibility of the custodian to monitor the collateralization on a daily basis. If the collateral is below the minimum collateralization level, additional collateral will be requested from the borrower to meet the requirement. Collateral requested each morning is required to be received on the same day. If the borrower fails to deliver additional collateral, the custodian would notify the borrower that they are in default under the securities lending agreement. If the borrower does not provide the necessary collateral after receiving notification, the legal agreement allows the custodian to close the contract with the borrower and buy-in the securities on behalf of LACERS.

The borrower has all incidents of ownership with respect to borrowed securities and collateral, including the right to vote and transfer or loan borrowed securities to others. LACERS is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify LACERS as a result of the custodian's failure to: 1) make a reasoned determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action; 2) demand adequate collateral; or 3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examination Council Supervisory Policy on Securities Lending.

As of June 30, 2021, the fair value of the securities on loan was \$1,166,409,000. The fair value of associated collateral was \$1,235,009,000 (\$275,940,000 of cash collateral and \$959,069,000 of non-cash collateral).

These agreements provide for the return of the securities and revenue determined by the type of collateral received.

During the reporting period, LACERS had no losses on securities lending transactions resulting from default of a borrower or lending agent. Due to the nature of the securities lending program and the custodian bank's collateralization of loans at amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to LACERS as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program. However, similar to any other investment portfolio, there is risk associated with investing cash collateral in securities. The value of the invested collateral may fall below the value of the cash collateral pledged by the borrowers, and may impair LACERS ability to return cash collateral to the borrowers upon the redemption of loans. If this scenario were to occur, LACERS would be required to make up the deficiency in collateral and would incur a loss.

All securities loans can be terminated on demand by either LACERS or the borrower. Because of this nature, their duration did not generally match the duration of the investment made with the cash collateral. LACERS cannot pledge or sell non-cash collateral unless the borrower defaults.

For loaned securities for which LACERS received cash collateral, the following table represents the fair value of securities on loan, corresponding cash collateral received and cash reinvestment value, as of June 30, 2021 (in thousands):

Securities on Loan	Fair Value of Underlying Securities on Loan	Cash Collateral Received	Collateral Reinvestment Value
U.S. Government & Agency Securities	\$ 56,118	\$ 57,430	\$ 57,430
Domestic Corporate Fixed Income Securities	104,584	107,323	107,323
International Fixed Income Securities	9,289	10,000	10,000
Domestic Stocks	89,333	91,858	91,858
International Stocks	8,690	9,329	9,329
Total	<u>\$ 268,014</u>	<u>\$ 275,940</u>	<u>\$ 275,940</u>

7. Securities Lending Agreement (Continued)

The fair value of cash collateral is reported in the Statement of Fiduciary Net Position. However, the non-cash collateral, which LACERS does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position.

On April 28, 2020, the Board adopted several temporary Security Lending Program risk-reducing strategies to minimize potential losses due to unusual and more volatile market conditions as a result of COVID pandemic. These strategies include (1) temporarily reducing the volume of loans in order to reduce LACERS overall exposure; (2) shorten the duration and maturity of individual investments to 60 days; and (3) require a non-U.S. country to hold a sovereign credit rating of AA- or higher (or the equivalent) by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) in order for non-U.S. government or corporate debt to be eligible for investment. These strategies remained in place through the fiscal year ended June 30, 2021. As a result of these stricter guidelines which limited cash collateral investments to higher quality, low yielding securities, the overall lending volume and income decreased in comparison to prior years.

During fiscal year ended June 30, 2021, LACERS income and expenses related to securities lending were \$4,194,000 and \$628,000, respectively, a decrease of 43.5%, or \$2,743,000 from prior fiscal year's net security lending income (income net of expenses).

8. Future and Forward Contracts

LACERS uses derivative financial instruments, primarily to manage portfolio risk. Future and forward contracts are marked to market and are recorded in the Statement of Fiduciary Net Position at fair value. Future contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions (refer to Note 6 – Credit Risk - Derivatives).

As of June 30, 2021, LACERS had outstanding commodities, equity index, and interest rate future contracts with a negative aggregate notional amount of \$19,365,000. In addition, at June 30, 2021, LACERS had outstanding forward purchase commitments with a notional amount of \$776,583,000 and offsetting forward sales commitments with notional amounts of \$776,583,000, which expire in September 2021. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was \$119,569,000 as of June 30, 2021.

9. Operating Lease

The System leases building facilities under a non-cancelable operating lease that expires in March 2023, at which time a three-year renewal option is available.

The future minimum lease commitments are as follows as of June 30, 2021:

Fiscal Year 2022	\$ 1,043,000
Fiscal Year 2023	<u>813,000</u>
	<u>\$ 1,856,000</u>

10. Commitments and Contingencies

As of June 30, 2021, LACERS was committed to future purchases of real estate and private equity investments at an aggregate cost of approximately \$1,745,117,000, including agreements for acquisition not yet initiated.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

Retirement Plan

The schedules included in the Required Supplementary Information for the Retirement Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, Los Angeles City Employees' Retirement System (LACERS or the System) presented information only for those years for which information is available:

- 1) Schedule of Net Pension Liability
- 2) Schedule of Changes in Net Pension Liability and Related Ratios
- 3) Schedule of Investment Returns

Additional years will be displayed in the future as they become available.

Schedule of Net Pension Liability ⁽¹⁾ As of June 30 (Dollars in Thousands)

Fiscal Year	Total Pension Liability	Plan Fiduciary Net Position	Plan's Net Pension Liability	Plan Fiduciary Net Position as a percentage of the Total Pension Liability
2013	14,881,663	10,154,486	4,727,177	68.2%
2014	16,248,853	11,791,079	4,457,774	72.6%
2015	16,909,996	11,920,570	4,989,426	70.5%
2016	17,424,996	11,809,329	5,615,667	67.8%
2017	18,458,188	13,180,516	5,277,672	71.4%
2018	19,944,578	14,235,230	5,709,348	71.4%
2019	20,793,421	14,815,593	5,977,828	71.3%
2020	22,527,195	14,932,404	7,594,791	66.3%
2021	23,281,893	18,918,136	4,363,757	81.3%

⁽¹⁾ In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position, amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits) were excluded.

Note to Schedule:

Refer to the notes to the Schedule of Changes in Net Pension Liability and Related Ratios.

Required Supplementary Information

Retirement Plan

Schedule of Changes in Net Pension Liability and Related Ratios ⁽¹⁾ For the Fiscal Years Ended June 30 (Dollars in Thousands)

	2021	2020	2019	2018	2017
Total Pension Liability					
Service cost ⁽²⁾	\$ 451,426	\$ 374,967	\$ 370,409	\$ 352,283	\$ 340,759
Interest	1,570,785	1,499,208	1,439,661	1,332,878	1,302,278
Changes of benefit terms	-	-	-	25,173	-
Differences of expected and actual experience	(189,822)	308,184	(46,035)	144,224	(146,474)
Changes of assumptions	-	530,720	-	483,717	340,718
Benefit payments, including refunds of Member contributions	(1,077,691)	(979,305)	(915,192)	(851,885)	(804,089)
Net change in total pension liability	754,698	1,733,774	848,843	1,486,390	1,033,192
Total pension liability-beginning	22,527,195	20,793,421	19,944,578	18,458,188	17,424,996
Total pension liability-ending (a)	\$ 23,281,893	\$ 22,527,195	\$ 20,793,421	\$ 19,944,578	\$ 18,458,188
Plan fiduciary net position					
Contributions-employer	\$ 554,856	\$ 553,118	\$ 478,717	\$ 450,195	\$ 453,356
Contributions-Member	252,123	259,817	237,087	230,757	221,829
Net investment income ⁽⁴⁾	4,283,202	306,712	799,351	1,243,817	1,517,545
Benefit payments, including refunds of Member contributions	(1,077,691)	(979,305)	(915,192)	(851,885)	(804,089)
Administrative expenses	(26,758)	(23,531)	(19,600)	(17,699)	(17,454)
Others ⁽³⁾	-	-	-	(471)	-
Net change in Plan fiduciary net position	3,985,732	116,811	580,363	1,054,714	1,371,187
Plan fiduciary net position-beginning	14,932,404	14,815,593	14,235,230	13,180,516	11,809,329
Plan fiduciary net position-ending (b)	\$ 18,918,136	\$ 14,932,404	\$ 14,815,593	\$ 14,235,230	\$ 13,180,516
Plan's net pension liability-ending (a)-(b)	\$ 4,363,757	\$ 7,594,791	\$ 5,977,828	\$ 5,709,348	\$ 5,277,672
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	81.3%	66.3%	71.3%	71.4%	71.4%
Covered payroll	\$ 2,276,768	\$ 2,271,039	\$ 2,108,171	\$ 2,057,565	\$ 1,973,049
Plan's net pension liability as a percentage of covered payroll	191.7%	334.4%	283.6%	277.5%	267.5%

⁽¹⁾ In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position, amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits) were excluded.

⁽²⁾ The service cost is based on the previous year's valuation.

⁽³⁾ On July 1, 2015, the System segregated Members' voluntary larger annuity contributions into the (non-pension related) Reserve for Larger Annuity Contributions pursuant to a suggestion made by the System's actuarial consultant. The Reserve balance for Larger Annuity Contributions as of June 30, 2015 was \$5,200,000. On July 1, 2017, the System reallocated \$471,000 of interest from the Reserve for Mandatory Member Contributions into the Reserve for Voluntary Member Contributions.

⁽⁴⁾ Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

Required Supplementary Information

Retirement Plan

Schedule of Changes in Net Pension Liability and Related Ratios ⁽¹⁾ (Continued) For the Fiscal Years Ended June 30 (Dollars in Thousands)

	2016	2015	2014	2013
Total Pension Liability				
Service cost ⁽²⁾	\$ 322,574	\$ 322,380	\$ 317,185	\$ 312,372
Interest	1,263,556	1,215,151	1,149,966	1,112,561
Changes of benefit terms	-	-	-	-
Differences of expected and actual experience	(300,813)	(135,821)	(164,247)	(235,829)
Changes of assumptions	-	-	785,439	-
Benefit payments, including refunds of Member contributions	(770,317)	(740,567)	(721,153)	(701,400)
Net change in total pension liability	515,000	661,143	1,367,190	487,704
Total pension liability-beginning	16,909,996	16,248,853	14,881,663	14,393,959
Total pension liability-ending (a)	\$ 17,424,996	\$ 16,909,996	\$ 16,248,853	\$ 14,881,663
Plan fiduciary net position				
Contributions-employer	\$ 440,546	\$ 381,141	\$ 357,649	\$ 346,181
Contributions-Member	206,377	202,463	203,975	197,722
Net investment income ⁽⁴⁾	29,358	306,980	1,810,782	1,268,939
Benefit payments, including refunds of Member contributions	(770,318)	(740,567)	(721,153)	(701,400)
Administrative expenses	(17,204)	(15,860)	(12,372)	(13,281)
Others ⁽³⁾	-	(4,666)	(2,288)	(2,514)
Net change in Plan fiduciary net position	(111,241)	129,491	1,636,593	1,095,647
Plan fiduciary net position-beginning	11,920,570	11,791,079	10,154,486	9,058,839
Plan fiduciary net position-ending (b)	\$ 11,809,329	\$ 11,920,570	\$ 11,791,079	\$ 10,154,486
Plan's net pension liability-ending (a)-(b)	\$ 5,615,667	\$ 4,989,426	\$ 4,457,774	\$ 4,727,177
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	67.8%	70.5%	72.6%	68.2%
Covered payroll	\$ 1,876,946	\$ 1,835,637	\$ 1,802,931	\$ 1,736,113
Plan's net pension liability as a percentage of covered payroll	299.2%	271.8%	247.3%	272.3%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude amounts associated with non-pension related benefits (Family Death and Larger Annuity Benefits).

(2) The service cost is based on the previous year's valuation.

(3) On July 1, 2015, the System segregated Members' voluntary larger annuity contributions into the (non-pension related) Reserve for Larger Annuity Contributions pursuant to a suggestion made by the System's actuarial consultant. The Reserve balance for Larger Annuity Contributions as of June 30, 2015 was \$5,200,000. On July 1, 2017, the System reallocated \$471,000 of interest from the Reserve for Mandatory Member Contributions into the Reserve for Voluntary Member Contributions.

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment-related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

Required Supplementary Information

Retirement Plan

Schedule of Changes in Net Pension Liability and Related Ratios (Continued)

Notes to Schedule:

Changes of Benefit Terms: The June 30, 2018 calculation reflected the newly adopted enhanced benefits for Airport Peace Officers (APO) who elected to stay at LACERS Plan (refer to Note 2 – Retirement Plan Description, Tier 1 – Enhanced Benefits on pages 22). Enhanced benefits became effective as of January 7, 2018.

Change of Assumptions: The June 30, 2014 calculations reflected various assumption changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of total pension liability for fiscal years ended on June 30, 2014 is primarily due to the lowered assumed investment rate of return from 7.75% to 7.50%, and longer assumed life expectancies for Members and beneficiaries while the June 30, 2017 increase is primarily due to the lowered assumed investment rate of return from 7.50% to 7.25%.

The June 30, 2018 calculations reflected changes in the actuarial assumptions adopted by the Board on August 14, 2018 based on the triennial experience study for the period from July 1, 2014 through June 30, 2017, including revising the mortality tables from static to generational to reflect future mortality improvement, contributing to increased total pension liability.

The June 30, 2020 calculations reflected changes in the actuarial assumptions based on the actuarial experience study covering the period from July 1, 2016 to June 30, 2019 and adopted by the Board on June 23, 2020. The changes included lowered assumed investment rate of return from 7.25% to 7.00% along with an Inflation Rate reduction from 3.00% to 2.75%, changes in various demographic assumptions such as adjustments on retirement, termination, disability and mortality rates.

Schedule of Contribution History (Dollars in Thousands)

Fiscal Year	Actuarially Determined Contributions (ADC)	Contributions in Relation to ADC ⁽¹⁾	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2012	\$ 308,540	\$ 308,540	\$ -	\$ 1,715,197	18.0%
2013	346,181	346,181	-	1,736,113	19.9
2014	357,649	357,649	-	1,802,931	19.8
2015	381,141	381,141	-	1,835,637	20.8
2016	440,546	440,546	-	1,876,946	23.5
2017	453,356	453,356	-	1,973,049	23.0
2018	450,195	450,195	-	2,057,565	21.9
2019	478,717	478,717	-	2,108,171	22.7
2020	553,118	553,118	-	2,271,039	24.4
2021	554,856	554,856	-	2,276,768	24.4

Notes to Schedule:

Valuation Date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Actuarial Cost Method (individual basis).
Amortization Method Level Percent of Payroll.

Required Supplementary Information

Retirement Plan

Schedule of Contribution History (Continued)

Notes to Schedule (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued)

Amortization Period	Multiple layers – closed amortization period. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 Early Retirement Incentive Program (ERIP), are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two Governmental Accounting Standards Board (GASB) Statements No. 25/27 layers, were combined and amortized over 30 years.
Asset Valuation Method	Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets.
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Inflation	2.75%
Real Across-the-Board Salary Increase	0.50%
Projected Salary Increases ⁽¹⁾	Ranges from 4.25% to 9.95% based on years of service.
Cost of Living Adjustment ⁽²⁾	Tier 1: 2.75% Tier 3: 2.00%
Mortality	Healthy: Pub-2010 General Health Retiree Amount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019. Disabled: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019. Beneficiaries: Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

⁽¹⁾ Includes inflation at 2.75% as of June 30, 2021, plus across-the-board salary increase of 0.50% plus merit and promotional increases.

⁽²⁾ Actual increases are contingent upon Consumer Price Index (CPI) increases with a 2.75% maximum for Tier 1 and a 2.00% maximum for Tier 3. For Tier 1 members with sufficient COLA bank, withdrawals from the bank can be made to increase retiree COLA up to 3% per year.

Required Supplementary Information

Retirement Plan

Schedule of Investment Returns For the Fiscal Years Ended June 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses	27.5%	2.0%	5.5%	9.3%	12.6%	0.2%	2.6%	18.2%

Note to Schedule:

The rate of investment returns for the fiscal years 2020, 2015 and 2016 were much lower compared to other fiscal years. It reflected the impact of divergent and volatile global markets on LACERS investment portfolio over these reporting periods. For fiscal year 2020, investment return was impacted by the recent spread of COVID-19 which adversely impacted global commercial activity and volatility in the global financial markets. The substantial increase of investment return in fiscal year 2021, is primarily attributed to a strong recovery of the global financial market following the initial shock caused by the COVID-19 pandemic in the previous fiscal year.

Required Supplementary Information

Postemployment Health Care Plan

The schedules included in the Required Supplementary Information for the Postemployment Health Care Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, Los Angeles City Employees' Retirement System (LACERS or the System) presented information only for those years for which information is available:

- 1) Schedule of Net OPEB (Asset) Liability
- 2) Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios
- 3) Schedule of Investment Returns

Additional years will be displayed in the future as they become available.

Schedule of Net OPEB (Asset) Liability

As of June 30
(Dollars in Thousands)

Fiscal Year	Total OPEB Liability	Plan Fiduciary Net Position	Plan's Net OPEB (Asset) Liability	Plan Fiduciary Net Position as a percentage of the Total OPEB Liability
2016	2,793,689	2,134,877	658,812	76.4%
2017	3,005,806	2,438,862	566,944	81.1%
2018	3,256,827	2,676,371	580,456	82.2%
2019	3,334,299	2,812,098	522,201	84.3%
2020	3,486,530	2,851,204	635,326	81.8%
2021	3,520,078	3,781,652	(261,574)	107.4%

Note to Schedule:

Refer to the notes to the Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios.

Required Supplementary Information

Postemployment Health Care Plan

Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios For the Fiscal Years Ended June 30 (Dollars in Thousands)

	2021	2020	2019
Total OPEB Liability			
Service cost ⁽¹⁾	\$ 84,817	\$ 76,423	\$ 74,478
Interest	244,776	242,666	236,678
Changes of benefit terms	-	-	-
Differences between expected and actual experience ⁽²⁾	10,672	(135,720)	(134,053)
Changes of assumptions	(157,614)	96,076	33,940
Benefit payments ⁽³⁾	(149,103)	(127,214)	(133,571)
Net change in total OPEB liability	33,548	152,231	77,472
Total OPEB liability-beginning	3,486,530	3,334,299	3,256,827
Total OPEB liability-ending (a)	\$ 3,520,078	\$ 3,486,530	\$ 3,334,299
Plan fiduciary net position			
Contributions-employer	\$ 103,454	\$ 112,136	\$ 107,927
Net investment income (loss) ⁽⁴⁾	983,522	60,899	166,470
Benefit payments ⁽³⁾	(149,103)	(127,214)	(133,571)
Administrative expense	(7,425)	(6,715)	(5,099)
Net change in Plan fiduciary net position	930,448	39,106	135,727
Plan fiduciary net position-beginning	2,851,204	2,812,098	2,676,371
Plan fiduciary net position-ending (b)	\$ 3,781,652	\$ 2,851,204	\$ 2,812,098
Plan's net OPEB (asset) liability-ending (a)-(b)	\$ (261,574)	\$ 635,326	\$ 522,201
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	107.4%	81.8%	84.3%
Covered payroll	\$ 2,276,768	\$ 2,271,039	\$ 2,108,171
Plan's net OPEB (asset) liability as a percentage of covered payroll	-11.5%	28.0%	24.8%

(1) The service cost is based on the previous year's valuation.

(2) After the GASB Statement No. 74 valuation report was issued for the fiscal year June 30, 2017, the System's consulting actuary reclassified \$12,450,000 of OPEB liability from the *Changes of Assumption* (revised from \$45,962,000 to \$33,512,000) to the *Differences Between Expected and Actual Experience* (revised from \$7,216,000 to \$19,666,000). However, this reclassification did not affect the recommended employer contribution rates or results of the OPEB valuation in total.

(3) Benefit payments associated with the self-funded insurance premium and Member's health insurance premium reserve that were reported as both additions and deductions in fiduciary net position beginning fiscal year 2019 were excluded from the above schedule.

(4) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

Required Supplementary Information

Postemployment Health Care Plan

Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios (Continued)

For the Fiscal Years Ended June 30
(Dollars in Thousands)

	2018	2017	2016
Total OPEB Liability			
Service cost ⁽¹⁾	\$ 74,611	\$ 68,385	\$ 62,360
Interest	218,686	210,170	199,078
Changes of benefit terms	948	-	17,215
Differences between expected and actual experience ⁽²⁾	(7,321)	19,666	(22,013)
Changes of assumptions	92,178	33,512	-
Benefit payments ⁽³⁾	(128,081)	(119,616)	(109,940)
Net change in total OPEB liability	251,021	212,117	146,700
Total OPEB liability-beginning	3,005,806	2,793,689	2,646,989
Total OPEB liability-ending (a)	\$ 3,256,827	\$ 3,005,806	\$ 2,793,689
Plan fiduciary net position			
Contributions-employer	100,909	97,457	105,983
Net investment income (loss) ⁽⁴⁾	269,380	330,708	(344)
Benefit payments ⁽³⁾	(128,081)	(119,616)	(109,940)
Administrative expense	(4,699)	(4,564)	(4,528)
Net change in Plan fiduciary net position	237,509	303,985	(8,829)
Plan fiduciary net position-beginning	2,438,862	2,134,877	2,143,706
Plan fiduciary net position-ending (b)	\$ 2,676,371	\$ 2,438,862	\$ 2,134,877
Plan's net OPEB (asset) liability-ending (a)-(b)	\$ 580,456	\$ 566,944	\$ 658,812
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	82.2%	81.1%	76.4%
Covered payroll	\$ 2,057,565	\$ 1,973,049	\$ 1,876,946
Plan's net OPEB (asset) liability as a percentage of covered payroll	28.2%	28.7%	35.1%

(5) The service cost is based on the previous year's valuation.

(6) After the GASB Statement No. 74 valuation report was issued for the fiscal year June 30, 2017, the System's consulting actuary reclassified \$12,450,000 of OPEB liability from the *Changes of Assumption* (revised from \$45,962,000 to \$33,512,000) to the *Differences Between Expected and Actual Experience* (revised from \$7,216,000 to \$19,666,000). However, this reclassification did not affect the recommended employer contribution rates or results of the OPEB valuation in total.

(7) Benefit payments associated with the self-funded insurance premium and Member's health insurance premium reserve that were reported as both additions and deductions in fiduciary net position beginning fiscal year 2019 were excluded from the above schedule.

(8) Building Lease and Other Income were included in the Net investment income (loss) starting in fiscal year 2020. Investment related administrative expenses is part of Administrative expenses and excluded from Net investment Income.

Required Supplementary Information

Postemployment Health Care Plan

Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios (Continued)

Notes to Schedule:

Changes of Benefit Terms: The OPEB liability from the changes of benefit terms for the fiscal year ended June 30, 2016 is primarily due to providing retiree healthcare benefits to part-time employees who retired with 10 years of service but less than 10 years of service credit (refer to Note 3 – Postemployment Health Care Plan Description, Eligibility Requirement and Benefits Provided on pages 27 - 28) while the June 30, 2018 increase is primarily as a result of the newly adopted enhanced benefits for Airport Peace Officers (APO) who elected to stay at LACERS Plan (refer to Note 2 – Retirement Plan Description, Tier 1 – Enhanced Benefits on page 22) as some APO Members may retire earlier than expected. Enhanced benefits became effective as of January 7, 2018.

Changes of Assumptions: The OPEB liability from the changes of assumptions for the fiscal year ended June 30, 2017 is primarily due to the lowered assumed investment rate of return, from 7.50% to 7.25%, and the June 30, 2018 increase is primarily due to the new actuarial assumptions adopted in the triennial experience study (July 1, 2014 through June 30, 2017), including revising the mortality tables from static to generational. The June 30, 2019 increase is mainly due to the increased Medicare Part B Premium Trend Rate from 4.0% to 4.5% while the June 30, 2020 is due to the new actuarial assumptions adopted as a result of actuarial experience study covering the period July 1, 2016 to June 30, 2019 which included a lowered investment rate of returns from 7.25% to 7.00% as well as using revised mortality tables. The June 30, 2021 decrease is primarily due to the updated trend assumption for projecting medical premiums after fiscal year 2020/21.

Required Supplementary Information

Postemployment Health Care Plan

Schedule of Contribution History (Dollars in Thousands)

Fiscal Year	Actuarially Determined Contributions (ADC)	Contributions in Relation to ADC	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2012	\$ 115,209	\$ 115,209	\$ -	\$ 1,715,197	6.7%
2013	72,916	72,916	-	1,736,113	4.2
2014	97,841	97,841	-	1,802,931	5.4
2015	100,467	100,467	-	1,835,637	5.5
2016	105,983	105,983	-	1,876,946	5.7
2017	97,457	97,457	-	1,973,049	4.9
2018	100,909	100,909	-	2,057,565	4.9
2019	107,927	107,927	-	2,108,171	5.1
2020	112,136	112,136	-	2,271,039	4.9
2021	103,454	103,454	-	2,276,768	4.5

Notes to Schedule:

Valuation Date

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Actuarial Cost Method (level percent of payroll).

Amortization Method Level Percent of Payroll.

Amortization Period Multiple layers – closed amortization period.

The unfunded actuarial accrued liability as of June 30, 2020 is amortized over a fixed period of 21 years beginning June 30, 2021. Actuarial gains/losses are amortized over 15 years. Non-health related assumptions or method changes are amortized over 20 years. Health related assumptions or method changes are amortized over 15 years. Plan changes, including the 2009 Early Retirement Incentive Program (ERIP), are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two Governmental Accounting Standards Board (GASB) Statements No. 25/27 layers, were combined and amortized over 30 years.

Asset Valuation Method Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual and expected returns on a fair value basis and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets.

Actuarial Assumptions:

Investment Rate of Return 7.00%

Inflation 2.75%

Real Across-the-Board Salary Increase 0.50%

Required Supplementary Information

Postemployment Health Care Plan

Schedule of Contribution History (Continued)

Notes to Schedule (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued)

Projected Salary
Increases⁽¹⁾

Ranges from 4.25% to 9.95% based on years of service.

Mortality

Healthy: Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Tables with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019

Disabled: Pub-2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Tables with rates increased by 10% for males and decreased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

Beneficiaries: Pub-2010 Contingent Survivor Headcount-Weighted Above-Median Mortality Tables with rates increased by 10% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

⁽¹⁾ Includes inflation at 2.75% as of June 30, 2021, plus across-the-board salary increase of 0.50% plus merit and promotional increases.

Schedule of Investment Returns For the Fiscal Years Ended June 30

	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expenses	39.9%	2.1%	6.1%	10.8%	15.2%

Note to Schedule:

The required disclosure about factors that significantly affect trends in the money-weighted rate of return is not provided as only five years' rates are available. As additional years' money-weighted rate of return become available, the System will disclose factors that significantly affect trends in the rate of return.

For fiscal year 2020, investment return was impacted by the recent spread of COVID-19 which adversely impacted global commercial activity and volatility in the global financial markets. The substantial increase of investment return in fiscal year 2021, is primarily attributed to a strong recovery of the global financial market following the initial shock caused by the COVID-19 pandemic in the previous fiscal year.

SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 2021
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	Total
Personnel Services:			
Salaries	\$ 13,568	\$ 3,105	\$ 16,673
Employee Benefits and Development	5,397	1,235	6,632
Total Personnel Services	<u>18,965</u>	<u>4,340</u>	<u>23,305</u>
Professional Services:			
Actuarial	216	49	265
Audit	80	18	98
Legal Counsel	666	152	818
Disability Evaluation	110	25	135
Retirees' Health Admin Consulting	-	508	508
Benefit Payroll Processing	192	44	236
Self Funded Plan Administrative Fee	-	759	759
Other Consulting	39	9	48
Total Professional Services	<u>1,303</u>	<u>1,564</u>	<u>2,867</u>
Information Technology:			
Computer Hardware & Software	867	199	1,066
Computer Maintenance & Support	163	37	200
Total Information Technology	<u>1,030</u>	<u>236</u>	<u>1,266</u>
Leases:			
Office Space	982	225	1,207
Office Equipment	27	6	33
Total Leases	<u>1,009</u>	<u>231</u>	<u>1,240</u>
Other Expenses:			
Fiduciary Insurance	27	6	33
Educational and Due Diligence Travel	-	-	-
Office Expenses	593	136	729
Depreciation	599	138	737
Building Operating Exp	738	169	907
Total Other Expenses	<u>1,957</u>	<u>449</u>	<u>2,406</u>
Total Administrative Expenses	<u>\$ 24,264</u>	<u>\$ 6,820</u>	<u>\$ 31,084</u>

Schedule of Investment Fees and Expenses
For the Fiscal Year Ended June 30, 2021
(In Thousands)

	Assets Under Management	Fees and Expenses
<u>Retirement Plan</u>		
Investment Management Fees:		
Fixed Income Managers	\$ 5,220,518	\$ 6,029
Equity Managers	9,597,105	22,993
Subtotal	14,817,623	29,022
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	610
Real Estate Consulting Fees	N/A	175
Other Consulting Fees	N/A	341
Investment Related Administrative Expenses	N/A	2,449
Subtotal	N/A	3,575
<u>Postemployment Health Care Plan</u>		
Investment Management Fees:		
Fixed Income Managers	1,037,767	1,380
Equity Managers	1,907,775	5,260
Subtotal	2,945,542	6,640
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	140
Real Estate Consulting Fees	N/A	40
Other Consulting Fees	N/A	78
Investment Related Administrative Expenses	N/A	805
Subtotal	N/A	1,063
Total Investment Fees and Expenses excluding Private Equity and Real Estate	\$ 17,763,165	\$ 40,300
Private Equity Managers' Fees and Expenses:		
Retirement Plan	\$ 2,749,849	\$ 39,629
Postemployment Health Care Plan	546,633	9,068
Total Private Equity Managers' Fees and Expenses	\$ 3,296,482	\$ 48,697
Real Estate Managers' Fees and Expenses:		
Retirement Plan	\$ 750,472	\$ 11,786
Postemployment Health Care Plan	149,184	2,697
Total Real Estate Managers' Fees and Expenses	\$ 899,656	\$ 14,483
Total Assets Under Management and Fees and Expenses	\$ 21,959,303 ⁽¹⁾	\$ 103,480 ⁽²⁾

(1) Excludes Security Lending Collateral assets of \$275,940,000.

(2) Includes Investment Management Fees and Expenses of \$100,225,000 and Investment-Related Administrative Expenses of \$3,255,000.