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Lita Payne, Executive Officer
Todd Bouey, Assistant General Manager
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March 31, 2021

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, 2020 (CF# 18-0931)

Honorable Members:

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. The 115 Trust is intended to eventually replace 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.

During Fiscal Year 2019-20, the City's contribution to LACERS Health Care Plan was recorded in the 115 Trust. In addition, transactions related to Self-Funded Dental Insurance premiums and claims, as well as Members' insurance premium reserve, were recorded in the Fund. Although 115 Trust financial data were included as part of LACERS' overall Postemployment Health Care Plan financial statements, the trust agreement requires a breakout of the 115 Trust financial condition. To comply with this provision, LACERS prepared statements specifically to capture trust fund activities, and engaged Moss Adams, LACERS' current external auditor, to audit the statements. The attached 115 Trust financial statements along with the auditors' reports are hereby transmitted to the City pursuant to the trust agreement.

Going forward, LACERS will present 115 Trust and 401(h) financial account data in separate columns along with the Retirement Plan in the LACERS' overall financial statements. This would eliminate 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.

If there are any questions, please contact Rahoof "Wally" Oyewole, Departmental Chief Accountant, at (213) 292-8340.

Sincerely,

A handwritten signature in blue ink, appearing to read "Neil M. Guglielmo".

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

NG/TB/RO

Attachment 1: LACERS' 115 Trust Annual Financial Report for Fiscal Year Ended June 30, 2020

c: Richard Llewellyn, City Administrative Officer

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

**POSTEMPLOYMENT HEALTH CARE FUND (115 TRUST)
ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(A DEPARTMENT OF THE MUNICIPALITY OF THE CITY OF LOS ANGELES, CALIFORNIA)
POSTEMPLOYMENT HEALTH CARE FUND (115 TRUST)**

ANNUAL FINANCIAL REPORT

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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 financial statements of the Postemployment Health Care Fund (115 Trust) of Los Angeles City Employees' Retirement System (LACERS), a department of the Municipality of the City of Los Angeles, California, which comprise the statement of fiduciary net position as of June 30, 2020 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the 115 Trust's financial statements as listed in the table of contents.

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 audit. We conducted our audit 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 qualified audit opinion.

Basis for Qualified Opinion

As discussed in Note 3 of the financial statements, the reported total OPEB liability and net OPEB liability in Note 4 and the amounts reported in the schedule of net OPEB liability and schedule of changes in net OPEB liability represent balances and estimates for the entire postemployment health care plan of LACERS, which includes the 115 Trust. We were unable to obtain sufficient appropriate audit evidence for the allocated measurement of these reported balances and estimates to the 115 Trust. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Postemployment Health Care Fund of Los Angeles City Employees' Retirement System as of June 30, 2020, and the changes in financial position for the year 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 the 115 Trust present the fiduciary net position and changes in fiduciary net position of LACERS and the Municipality of the City of Los Angeles, California, that are attributable to the transactions of the 115 Trust. The financial statements do not present fairly the financial position of the entire LACERS or Municipality of the City of Los Angeles, California, as of June 30, 2020, the changes in their financial position and their cash flows for the year 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of net OPEB liability, schedule of changes in net OPEB liability, 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 Schedule

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 115 Trust's basic financial statements. The schedule of administrative expenses and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of administrative expenses is the responsibility of management and was 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 schedule of administrative expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

2019 Financial Statements

The financial statements of the 115 Trust as of and for the year ended June 30, 2019, were audited by other auditors whose report thereon, dated January 6, 2020, expressed an unmodified opinion on the presentation of those financial statements in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2021 on our consideration of the 115 Trust'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 the 115 Trust'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 the 115 Trust's internal control over financial reporting and compliance.

Mess Adams LLP

Los Angeles, California
February 23, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Financial Highlights

Los Angeles City Employees' Retirement System (LACERS) is pleased to provide this overview and analysis of the 115 Trust Fund for the fiscal year ended June 30, 2020. These financial statements present only financial activities related to the Postemployment Health Care Fund (115 Trust). However, Note 4- Postemployment Health Care Plan description, as well as Required Supplementary Information Section provide disclosures related to LACERS healthcare benefits, and Net Other Postemployment Benefit (OPEB) Liability for LACERS' overall Health Care Plan.

For a complete financial details of LACERS Health Care Plan (401h and 115 Trust) and the LACERS' overall financial condition, as of June 30, 2020, we encourage the readers to consult the LACERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2020, along with information presented in the Notes to the Basic Financial Statements and the Required Supplementary Information Section.

- On November 9, 2018, Los Angeles City Employees' Retirement System (LACERS or the System) Postemployment Health Care Fund (115 Trust Fund, 115 Trust or the "Fund") was established upon City Council approval of Ordinance No. 185829 amending Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code, for the sole purpose of funding the retiree healthcare benefits for eligible LACERS retirees and beneficiaries in addition to or in lieu of the LACERS' Health Care Coverage Account (the "401(h)") as well as to help stabilize premium rates over time (refer to Note 1 – Description of LACERS Health Care Fund (115 Trust) on page 11).
- Effective January 1, 2019, LACERS' fully-insured Delta Dental Preferred Provider Organization (PPO) Plan was replaced with LACERS Self-funded Delta Dental PPO Plan under the LACERS 115 Trust Fund.
- The LACERS 115 Trust fiduciary net position as of June 30, 2020 was \$121,200,984.
- The total additions to the fiduciary net position of the Fund, from employer contributions made by the City of Los Angeles (the City), Self-funded Dental insurance premium, Members' portion of premium reserve, and investment income were \$127,006,015.
- The total deductions from the fiduciary net position of the Fund were \$7,993,968, for the payment of Self-Funded Dental insurance claims and third party fee for the administration of the Dental claims and the Fund's share in the System's administrative expenses.

COVID-19 Impact

It is important to note that the ongoing COVID-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in the global financial markets. LACERS Board, management and its consultants are closely monitoring the impact of COVID-19 and are taking necessary actions to safeguard the System's investments.

However, because of the adverse economic conditions that currently exist, it is possible that the estimates and assumptions utilized in preparation of these financial statements could change significantly. Additionally, while the extent of the impact, including the length or the severity, is difficult to assess, the financial and economic market uncertainty could have a significant adverse impact on the System's future financial performance.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to LACERS' 115 Trust financial statements and the accompanying notes thereto. The required supplementary information and supplemental schedule provide additional financial data on the Fund's operations. All notes to the financial statements, additional information in the Required Supplementary Information and Supplemental Schedule apply to 115 Trust only unless indicated otherwise.

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

Financial Statements

There are two financial statements presented by the LACERS' Health Care Fund. The Statement of Fiduciary Net Position on page 9 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 the Fund is improving or deteriorating. The Statement of Changes in Fiduciary Net Position on page 10 provides a view of current year additions to, and deductions from, the fiduciary net position.

Notes to the Financial Statements

The notes to the 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 financial statements can be found on pages 11 – 27 of this report.

Required Supplementary Information

In addition to the Management's Discussion and Analysis, other supplementary information consists of the Schedule of Net OPEB Liability, the Schedule of Changes in Net OPEB Liability and Related Ratios and the Schedule of Investment Returns for the LACERS Health Care Plan (401(h) and 115 Trust), as well as Schedule of Contribution History for 115 Trust. These supplementary information can be found on page 28 - 31 of this report.

Supplemental Schedule

The supplemental schedule consists of a Schedule of Administrative Expenses. This is presented to provide additional financial information on the Fund's operations for the current fiscal year. This schedule can be found on page 32 of this report.

Management's Discussion and Analysis

Financial Analysis

LACERS Postemployment Health Care Fund (115 Trust) was established last fiscal year in November 2018. Comparative information provided in the foregoing analysis and reports shows material variances that are primarily due to comparing last fiscal year's partial year of operations to current fiscal year's full year operations of the fund.

Fiduciary Net Position

The following table details the components of the fiduciary net position of the Fund as of June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019	Change
Cash and Short-Term Investments	\$ 4,491,998	\$ 1,801,302	\$ 2,690,696
Receivables	1,035,716	4,707	1,031,009
Self-Funded Insurance Prepayment	1,056,000	1,056,000	-
Investments, at Fair Value	118,410,818	-	118,410,818
Capital Assets, Net of Depreciation and Amortization	286,107	-	286,107
Total Assets	<u>125,280,639</u>	<u>2,862,009</u>	<u>122,418,630</u>
Securities Lending Collateral Liability	2,196,957	-	2,196,957
Purchase of Investments and Other Liabilities	<u>1,882,698</u>	<u>673,072</u>	<u>1,209,626</u>
Total Liabilities	<u>4,079,655</u>	<u>673,072</u>	<u>3,406,583</u>
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	<u>\$ 121,200,984</u>	<u>\$ 2,188,937</u>	<u>\$ 119,012,047</u>

The majority of the 115 Trust fiduciary net position is contained in LACERS 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 \$119,012,047 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:

	June 30, 2020	June 30, 2019	Change
Additions	\$ 127,006,015	\$ 6,578,797	\$ 120,427,218
Deductions	<u>7,993,968</u>	<u>4,389,860</u>	<u>3,604,108</u>
Net Increase in Fiduciary Net Position	119,012,047	2,188,937	116,823,110
Fiduciary Net Position, Beginning of Year	<u>2,188,937</u>	<u>-</u>	<u>2,188,937</u>
Fiduciary Net Position, End of Year	<u>\$ 121,200,984</u>	<u>\$ 2,188,937</u>	<u>\$ 119,012,047</u>

Management's Discussion and Analysis

Financial Analysis (Continued)

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

The following table represents the components that make up the additions to the Fund's fiduciary net position for the fiscal years ended June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
City Contributions	\$ 112,136,429	\$ -
Self-Funded Dental Insurance Premium	10,364,071	6,090,036
Members' Insurance Premium Reserve	2,136,806	468,153
Net Investment Income	2,362,460	20,608
Building Lease & Other Income	6,249	-
Additions to Fiduciary Net Position	<u>\$ 127,006,015</u>	<u>\$ 6,578,797</u>

The additions to the Fund's net position that primarily constitute the funding sources of 115 Trust health benefits are City Contributions. Self-Funded Dental Insurance Premium, Members' Insurance Premium Reserve and Net Investment Income.

Beginning this fiscal year, City Contributions will be received and reported in the 115 Trust. The Fund received \$112,136,429 representing contributions to LACERS' Postemployment Health Care Plan for the fiscal year 2020. The 115 Trust also recognized revenue of \$10,364,071 from the monthly self-funded dental insurance premium. Additionally, \$2,136,806 of Members' portion from the health insurance premium reserve amount was also received which included \$1,319,511 of Member's portion of the Anthem Premium Stabilization fund transferred to LACERS during the fiscal year.

The net investment income was \$2,362,460 which included \$166,117 of net appreciation in the fair value of investments. This is discussed in more detail in the next section.

Investment Income

The following table present the detail of investment income, net of investment management fees and expenses for the fiscal years ended June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
Net Appreciation in Fair Value of Investments,		
Including Gain and Loss on Sales	\$ 166,117	\$ -
Interest	1,731,869	21,261
Dividends	644,046	-
Other Investment Income	147,134	-
Securities Lending Income, Net of Expense	18,028	-
Sub-Total	<u>2,707,194</u>	<u>21,261</u>
Less: Investment Management Fees and Expenses	(321,385)	(566)
Investment Related Administrative Expenses	<u>(23,349)</u>	<u>(87)</u>
Net Investment Income	<u>\$ 2,362,460</u>	<u>\$ 20,608</u>

During the reporting year, the funds received by 115 Trust from the City Contributions as well as from other sources were started to be invested in LACERS investment portfolio. Therefore, investment earnings including net appreciation and investments expenses were allocated to the Fund accordingly. More detailed analysis are provided in LACERS Annual Financial Report for the fiscal year ended June 30, 2020 related to the System's overall investment performance.

Management's Discussion and Analysis

Financial Analysis (Continued)

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

The following table provides information related to the deductions from the Fund's fiduciary net position for the fiscal years ended June 30, 2020 and 2019:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Self-Funded Dental Insurance Claims	\$ 7,029,444	\$ 4,018,393
Administrative Expenses	<u>964,524</u>	<u>371,467</u>
Deductions from Fiduciary Net Position	<u>\$ 7,993,968</u>	<u>\$ 4,389,860</u>

The deductions from the Fund's fiduciary net position in this reporting period can be summarized as Self-Funded Dental Insurance Claims, and Administrative Expenses. The Fund paid Dental insurance claims of \$7,029,444 representing dental benefit claims paid for the full fiscal year. Administrative expenses included \$751,235 of third party fees charged for the administration of Self-Funded Dental benefit claims as well as audit fee, legal counsel cost and the Fund's share in the overall administrative expenses of LACERS.

Requests for Information

This financial report is designed to provide a general overview of Section 115 Trust' finances. Section 115 Trust along with 401(h) account make up LACERS' Post Employment Health Care Plan. We encourage the readers to consult LACERS' Comprehensive Annual Financial Report (CAFR) for additional information and details on the System's Retirement Plan and Post Employment Health Care Plan. 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

FINANCIAL STATEMENTS

Statement of Fiduciary Net Position
Postemployment Health Care Fund (115 Trust)
As of June 30, 2020

	<u>2020</u>	<u>2019</u>
Assets		
Cash and Short-Term Investments	\$ 4,491,998	\$ 1,801,302
Receivables		
Accrued Investment Income	411,734	4,400
Proceeds from Sales of Investments	496,663	-
Other	127,319	307
Total Receivables	<u>1,035,716</u>	<u>4,707</u>
Self-Funded Insurance Prepayment	1,056,000	1,056,000
Investments, at Fair Value		
U.S. Government Obligations	10,795,195	-
Domestic Corporate Bonds	7,309,877	-
International Bonds	4,403,331	-
Other Fixed Income	3,527,634	-
Bank Loans	28,407	-
Opportunistic Debts	1,508,767	-
Domestic Stocks	30,751,554	-
International Stocks	33,599,881	-
Mortgages	3,815,229	-
Government Agencies	253,754	-
Derivative Instruments	14,347	-
Real Estate	5,058,603	-
Private Equity	15,147,282	-
Securities Lending Collateral	2,196,957	-
Total Investments, at Fair Value	<u>118,410,818</u>	<u>-</u>
Capital Assets, Net of Depreciation and Amortization	286,107	-
Total Assets	<u>125,280,639</u>	<u>2,862,009</u>
Liabilities		
Accounts Payable and Accrued Expenses	952,522	672,952
Accrued Investment Expenses	81,853	120
Purchases of Investments	848,323	-
Securities Lending Collateral	2,196,957	-
Total Liabilities	<u>4,079,655</u>	<u>673,072</u>
Fiduciary Net Position Restricted for Postemployment Health Care Benefits	<u>\$ 121,200,984</u>	<u>\$ 2,188,937</u>

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

**Statement of Changes in Fiduciary Net Position
Postemployment Health Care Fund (115 Trust)
For the Fiscal Year Ended June 30, 2020**

	<u>2020</u>	<u>2019</u>
Additions		
City Contributions	\$ 112,136,429	\$ -
Self-Funded Insurance Premium	10,364,071	6,090,036
Member's Insurance Premium Reserve	2,136,806	468,153
Investment Income		
Net Appreciation in Fair Value of		
Investments, Including Gain and Loss on Sales	166,117	-
Interest	1,731,869	21,261
Dividends	644,046	-
Other Investment Income	147,134	-
Securities Lending Income	21,549	-
Less: Securities Lending Expense	<u>(3,521)</u>	<u>-</u>
Sub-Total	2,707,194	21,261
Less: Investment Management Fees and Expenses	(321,385)	(566)
Investment Related Administrative Expenses	<u>(23,349)</u>	<u>(87)</u>
Net Investment Income	<u>2,362,460</u>	<u>20,608</u>
Building Lease and Other Income	<u>6,249</u>	<u>-</u>
Total Additions	<u>127,006,015</u>	<u>6,578,797</u>
Deductions		
Self-Funded Dental Insurance Claims	7,029,444	4,018,393
Administrative Expenses	<u>964,524</u>	<u>371,467</u>
Total Deductions	<u>7,993,968</u>	<u>4,389,860</u>
Net Increase in Fiduciary Net Position	119,012,047	2,188,937
Fiduciary Net Position Restricted for Postemployment Health Care Benefits		
Beginning of Year	<u>2,188,937</u>	<u>-</u>
End of Year	<u>\$ 121,200,984</u>	<u>\$ 2,188,937</u>

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

Notes to the Financial Statements

1. Description of LACERS Health Care Fund (115 Trust)

General Description

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 (the “115 Trust”) 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. Accordingly, the City and the Board of LACERS entered into a written trust agreement, which designates the Board as the trustee of the LACERS Health Care Fund and established the respective roles and responsibilities of the Board and the City with respect to the administration and investments of LACERS Health Care Fund.

The LACERS Health Care Fund shall provide an alternative funding mechanism, in addition to or in lieu of the existing Health Care Coverage Account (the “401(h)”) 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’s 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. The existing Health Care Coverage Account (the “401(h)”) cannot receive full refunds of excess premiums from insurance providers.

2. Summary of Significant Accounting Policies

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 insurance premiums were recognized when due pursuant to formal commitments and contractual requirements. Insurance claims 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

Pursuant to the LACERS Health Care Fund Trust Agreement, LACERS’ Board as Trustee is authorize to co-invest all or any portion of the assets of the Fund with assets of the Pension Fund, including through a group trust.

Funds of the System including the 115 Trust 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 equity, and short-term investments. During the reporting period, there were no significant investment policy changes.

As of June 30, 2020, the Board’s target asset allocation policy was as follows:

Asset Class	Target Allocation
Domestic and International Equities	46.00%
Domestic and International Bonds	13.75
Private Equity	14.00
Real Assets	13.00
Short-Term Investments	1.00
Credit Opportunities	12.25
Total	<u>100.00%</u>

Fair Value of Investments

The 115 Trust Fund’s investment as of June 30, 2020 are reported in accordance with LACERS’ Fair Value of Investments policies.

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 Financial Statements

2. Summary of Significant Accounting Policies (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

LACERS' investment portfolio as of June 30, 2020, 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, 2020, 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 2.04%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. Separate schedule for the money-weighted rate of return for the Postemployment Health Care Plan is presented in the Required Supplementary Information (RSI).

Receivables

As of June 30, 2020, the 115 Trust held no long-term contracts for contributions receivable from the City.

Capital Assets

LACERS' 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.

Administrative Expenses

All administrative expenses were funded from the 115 Trust fiduciary net position, which represents contributions from the City, investment earnings and premium received from the Dental Plan participating Members net of payments.

Reserves

As provided in the Los Angeles City Charter, LACERS fund is maintained on a reserve basis, determined in accordance with recognized actuarial methods. LACERS' established a separate reserve for the 115 Trust under the System's Postemployment Health Care Plan.

The 115 Trust reserve account is currently limited to paying 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 reserve account currently consists of City contributions, 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 dental plan claims and administration fees to the third party contractor who administered the dental plan claims for the System; and certain allocated administrative expenses

The 115 Trust Reserve balance as of June 30, 2020 was \$121,200,984.

Method of Allocation

Assets and liabilities including investments reported in the LACERS Postemployment Health Care Plan are allocated between the plan's 401 (h) and 115 Trust accounts. The allocation is primarily based on Reserve account balance established and maintained for each account as of the reporting period. The additions and deductions affecting Reserve of 115 Trust are disclosed under the previous section –Reserves, as well as in the Management Discussion and Analysis section on pages 7 and 8.

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Estimates (Continued)

at the date of the financial statements and the reported in amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

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 has caused tremendous human and economic hardship both globally and throughout the United States. The measures taken to protect public health has had an adverse impact, disrupting economic activity and creating a surge in job losses. While the ongoing pandemic poses considerable economic risks, there has been no significant disruption to LACERS' operations. The System has largely been successful in maintaining normal operation remotely. Although the financial markets remain volatile, LACERS' investment strategy is to maintain a well-diversified portfolio in order to mitigate the risk of market uncertainty.

The System is exposed to a risk that the long-term rate of return currently earned on the pension plan assets could be below the actuarially assumed rate of return, which is currently 7.00%. This could impact the plan participant actuarial determined contributions. The System's actuarial valuations use a seven year smoothing method for investment returns; any contribution rate impact from the capital markets depends largely on how deep the future market downturn is, how long it lasts, and how it fits within the fiscal year reporting periods. While the global markets have largely recouped early 2020 losses due to the pandemic, COVID-19 continues to surge globally and in many parts of the United States. LACERS' Board and management will continue to closely monitor any adverse impact on the System's investments.

3. Departure from US GAAP

The 115 Trust has elected not to adopt certain reporting requirements under GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB No. 74).

GASB No. 74 requires OPEB plans to disclose information in the notes to financial statements about the components of the net OPEB liability, including the OPEB plan's fiduciary net position as a percentage of the allocated total OPEB liability, significant assumptions used to measure OPEB liability, and the estimated impact on the OPEB liability due to changes in the assumptions used for discount rate and

healthcare cost trend rate. GASB No. 74 also requires presentation of required supplementary information with allocated comparative measurements of the total OPEB liability, net OPEB liability, and changes in the net OPEB liability, including information about the components of the net OPEB liability and related ratios.

Management has determined that the calculation of the 115 Trust's allocated portion of the total OPEB liability and related disclosures is not practical or beneficial as of June 30, 2020 and 2019. Note 4- Postemployment Health Care Plan Description and required supplementary information to these financial statements contain certain measurements and balances that have been reported for the LACERS Postemployment Health Care Plan, which includes both the 115 Trust and the 401(h) OPEB plan that collectively provide benefits for the members of LACERS.

4. Postemployment Health Care Plan Description

As discussed in Note 3 –Departure from US GAAP, the information and components of the net OPEB liability and related ratios disclosed in this note contain both the 115 Trust and 401(h) OPEB and does not represent specific information of the 115 Trust.

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).

The Postemployment Health Care Plan is funded by LACERS' Health Care Coverage Account (401 (h)) and Health Care Fund (115 Trust). Health care benefit cost, except Self-funded Dental Plan benefit claims and its related administrative cost, shall be paid first from the 401(h) account until it is depleted. Upon depletion of the 401(h), the 115 Trust shall solely fund the health benefit cost.

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.

Notes to the Financial Statements

4. Postemployment Health Care Plan Description (Continued)

Plan Administration and Membership (Continued)

As of June 30, 2020, the components of Membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows:

Retired Members/Surviving Spouses ⁽¹⁾	16,107
Vested terminated Members entitled to, but not yet receiving benefits ⁽²⁾	1,526
Retired Members and surviving spouses not yet eligible for health benefits	142
Active Members	<u>27,490</u>
Total	<u>45,265</u>

- (1) Total participants including married dependents and dependent children currently receiving benefits are 21,572.
- (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 a 10 whole years of service, even if some or all of 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.

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, 2020, 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, 2020, was 4.91% of projected payroll, based on the June 30, 2018 actuarial valuation.

Upon closing the fiscal year 2019-20, 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, 2019. As a result, employer contributions for Postemployment Health Care Plan were \$7,048,000 more than required, and this amount was returned to the employer as a credit toward employer contribution for fiscal year 2020-21. 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 4.94%, a slightly higher rate than 4.91% originally projected.

Notes to the Financial Statements

4. Postemployment Health Care Plan Description (Continued)

Net OPEB Liability

As of June 30, 2020, the components of LACERS Net OPEB liability were as follows (in thousands):

Total OPEB Liability	\$ 3,486,530
Plan Fiduciary Net Position	<u>2,851,204</u>
Plan's Net OPEB Liability	<u>\$ 635,326</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	81.8%

Significant Assumptions

The total OPEB liability as of June 30, 2020 was determined by actuarial valuation as of June 30, 2020. 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, 2020, are summarized below:

Valuation Date	June 30, 2020
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 Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) 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 Meridian 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.

Notes to the Financial Statements

4. Postemployment Health Care Plan Description (Continued)

Net OPEB 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 2020-2021 and later years are:

First Fiscal Year (July 1, 2020 through June 30, 2021)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	3.37%	3.12%
Anthem Blue Cross HMO	4.85%	N/A
Anthem Blue Cross PPO	3.71%	4.45%
UHC Medicare HMO	N/A	3.12%

Fiscal Year 2021 - 2022 and later	
Fiscal Year	Trend (Approx.)
2021 - 2022	6.62%
2022 - 2023	6.37%
2023 - 2024	6.12%
2024 - 2025	5.87%
2025 - 2026	5.62%
2026 - 2027	5.37%
2027 - 2028	5.12%
2028 - 2029	4.87%
2029 - 2030	4.62%
2030 - 2031 and later	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 Financial Statements

4. Postemployment Health Care Plan Description (Continued)

Net OPEB Liability (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2020 and 7.25% as of June 30, 2019.

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, 2020 and June 30, 2019.

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, 2020. 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%	5.5%
U.S. Small Cap Equity	3.99	6.3
Developed Int'l Large Cap Equity	17.01	6.6
Developed Int'l Small Cap Equity	2.97	6.9
Emerging Int'l Large Cap Equity	5.67	8.7
Emerging Int'l Small Cap Equity	1.35	10.6
Core Bonds	13.75	1.2
High Yield Bonds	2.00	3.1
Bank Loans	2.00	3.7
Emerging Market Debt (External)	2.25	3.6
Emerging Market Debt (Local)	2.25	4.8
Private Debt	3.75	6.0
Core Real Estate	4.20	4.6
Real Estate Investment Trust (REIT)	1.00	6.0
Treasury Inflation Protected Securities (TIPS)	4.00	0.9
Commodities	1.00	3.3
Non-Core Real Assets	2.80	5.8
Private Equity	14.00	9.0
Cash	1.00	0.0
Total	100.00%	

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

The following presents the net OPEB liability of LACERS as of June 30, 2020, calculated using the discount rate of 7.00%, as well as what LACERS net OPEB 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%)
\$1,137,842	\$ 635,326	\$ 225,113

Notes to the Financial Statements

4. Postemployment Health Care Plan Description (Continued)

Net OPEB Liability (Continued)

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

The following presents the net OPEB liability of LACERS as of June 30, 2020, calculated using the healthcare cost trend rates as well as what LACERS net OPEB 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):

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates⁽¹⁾</u>	<u>1% Increase</u>
<u>\$ 187,139</u>	<u>\$ 635,326</u>	<u>\$1,195,159</u>

(1) Current healthcare cost trend rates: 6.62% graded down to 4.50% over 9 years for Non-Medicare medical plan costs, and 6.12% graded down to 4.50% over 7 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.

Notes to the Financial Statements

5. Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of LACERS funds including the 115 Trust, 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.

The majority of the 115 Trust funds were invested and pooled to LACERS' investment portfolio. The allocated carrying value of cash and short-term investments was \$4,491,998 and the allocated investments, at fair value reported for the 115 Trust was \$118,410,818, as of the fiscal year ended June 30, 2020.

The allocated 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 \$14,347. 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 115 Trust allocated notional amount and fair value of derivative instruments as of June 30, 2020, are as follows:

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Commodities	\$1,218,423	\$14,024	\$ 20,787
Equity Index	181,623	494	103
Foreign Exchange	15,833	9	25
Interest Rate	(267,068)	1,156	898
Currency Forward Contracts	0	(3,969)	(3,383)
Right / Warrants	N/A	1,609	277
Swaps –Interest Rate	N/A	1,023	1,023
Total Value		<u>\$14,347</u>	<u>\$ 19,730</u>

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 in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The 115 Trust allocated fair value and 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, 2020, are as follows:

S & P Ratings	Fair Value	Percentage
AAA	\$ 348,179	1.99%
AA+	308,611	1.76
AA	3,752,580	21.45
AA-	298,594	1.71
A+	309,828	1.77
A	432,781	2.47
A-	1,172,184	6.70
BBB+	1,638,172	9.36
BBB	1,543,780	8.82
BBB-	1,510,595	8.63
BB+	405,302	2.32
BB	486,814	2.78
BB-	980,292	5.60
B+	437,533	2.50
B	1,892,078	10.82
B-	428,377	2.45
CCC+	162,040	0.93
CCC	43,075	0.25
CCC-	22,210	0.13
CC	37,756	0.22
C	989	0.00
D	57,222	0.33
Not Rated	<u>1,225,681</u>	<u>7.01</u>
	<u>\$ 17,494,671</u>	<u>100.00%</u>
U.S. Government Guaranteed Securities ⁽¹⁾	<u>14,147,521</u>	
Total Fixed Income Securities	<u>\$ 31,642,191</u>	

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

Notes to the Financial Statements

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

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, 2020, without respect to netting arrangements, 115 Trust maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is \$9,849. 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, 2020, 115 Trust allocated exposure to such risk in the amount of \$146,954 or 0.4% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 14 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.

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, 2020, 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, 2020, 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 allocated fair values of 115 Trust investments to market interest rate fluctuations as of June 30, 2020 is provided by the following table that shows the weighted average effective duration of fixed income securities by investment type:

Investment Type	Fair Value (1,000)	Weighted Average Duration (in Years)
Asset-Backed Securities	\$ 192	1.43
Bank Loans	28	1.89
Commercial Mortgage- Backed Securities	547	4.68
Corporate Bonds	9,143	7.09
Government Agencies	473	7.27
Government Bonds	7,145	7.31
Government Mortgage- Backed Securities	3,268	3.09
Index Linked Government Bonds	5,648	5.17
Municipal/Provincial Bonds	22	3.00
Non-Government Backed Collateralized Mortgage Obligations (C.M.O.s)	139	2.46
Opportunistic Debts	1,509	0.42
Other Fixed Income (Funds)	<u>3,528</u>	6.08
Total Fixed Income Securities	<u>\$ 31,642</u>	

Notes to the Financial Statements

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

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 allocated fair value of 115 Trust asset-backed investments by investment type (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Asset-Backed Securities	\$ 192
Commercial Mortgage-Backed Securities	547
Government Agencies	473
Government Mortgage-Backed Securities	3,268
Non-Government Backed C.M.O.s	<u>139</u>
Total Asset-Backed Investments	<u>\$ 4,619</u>

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 27% 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. As of June 30, 2020, allocated fair value of 115 Trust investment held in foreign currency is \$32,339,000, as presented in the table on the following page.

Notes to the Financial Statements

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

Foreign Currency Risk (Continued)

115 Trust allocated fair values of non-U.S. currency investment holdings as of June 30, 2020 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	(17)	1,028	-	(1)	-	1,010
Brazilian real	(8)	437	1	1	-	431
British pound sterling	11	3,401	26	(0)	-	3,438
Canadian dollar	11	1,482	-	0	-	1,493
Chilean peso	(33)	25	-	0	-	(7)
Chinese yuan renminbi	72	310	-	(0)	(1)	381
Colombian peso	(22)	28	-	1	-	7
Czech koruna	6	5	-	(1)	-	10
Danish krone	0	564	-	-	-	564
Egyptian pound	-	2	-	-	-	2
Euro	(30)	7,791	123	(0)	719	8,603
Hong Kong dollar	13	3,177	-	0	-	3,190
Hungarian forint	(6)	34	-	(0)	-	28
Indian rupee	(51)	756	-	(0)	-	704
Indonesian rupiah	11	136	-	0	-	147
Japanese yen	31	5,189	-	0	-	5,220
Malaysian ringgit	1	85	-	-	-	85
Mexican peso	11	237	-	2	2	251
New Israeli shekel	11	130	-	0	-	141
New Taiwan dollar	(19)	1,143	-	(0)	-	1,124
New Zealand dollar	0	41	-	(1)	-	41
Norwegian krone	3	174	-	-	-	177
Peruvian nuevo sol	(26)	-	-	0	-	(25)
Philippine peso	(17)	71	-	(0)	-	53
Polish zloty	8	40	-	(1)	-	46
Qatari riyal	-	12	-	-	-	12
Russian ruble	28	98	-	0	-	126
Singapore dollar	58	286	-	-	-	344
South African rand	(18)	349	5	1	-	337
South Korean won	49	1,122	-	0	-	1,171
Swedish krona	1	802	-	-	-	802
Swiss franc	1	2,269	-	-	-	2,270
Thai baht	45	99	-	-	-	145
Turkish lira	(38)	57	-	(0)	-	19
Total Investments Held in						
Foreign Currency	\$ 86	\$ 31,379	\$ 155	\$ (1)	\$ 720	\$ 32,339

Notes to the Financial Statements

5. 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.

115 Trust investments as part of 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, 2020, LACERS had no specific plans to sell investments at amounts different from NAV. 115 Trust allocated values of these investments are disclosed in the Investments Measured at the NAV on page 25.

Notes to the Financial Statements

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

Fair Value Measurements (Continued)

Schedule of Investments by Fair Value Hierarchy (Continued)

115 Trust has the following recurring allocated fair value measurements as of June 30, 2020 (in thousands):

	Total	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)
Investments by Fair Value Level:				
Debt securities:				
Government Bonds	\$ 12,794	\$ -	\$ 12,794	\$ -
Government Agencies	473	-	473	-
Municipal/Provincial Bonds	22	-	22	-
Corporate Bonds	9,473	-	9,472	1
Bank Loans	29	-	29	-
Government Mortgage Bonds	3,268	-	3,268	-
Commercial Mortgage Bonds	547	-	547	-
Opportunistic Debts	94	-	-	94
Total Debt Securities	<u>26,700</u>	<u>-</u>	<u>26,605</u>	<u>95</u>
Equity Securities:				
Common Stock:				
Basic Industries	7,417	7,416	-	1
Capital Goods Industries	3,415	3,414	1	0
Consumer & Services	17,709	17,703	-	6
Energy	4,047	4,047	-	0
Financial Services	8,366	8,366	-	0
Health Care	7,769	7,767	-	2
Information Technology	11,499	11,472	-	27
Real Estate	3,642	3,637	-	5
Miscellaneous	158	146	-	12
Total Common Stock	<u>64,022</u>	<u>63,968</u>	<u>1</u>	<u>53</u>
Preferred Stock	256	255	-	1
Stapled Securities	73	73	-	-
Unit Trust Equity	1	1	-	-
Total Equity Securities	<u>64,352</u>	<u>64,297</u>	<u>1</u>	<u>54</u>
Real Estate Funds	683	-	-	683
Total Investments by Fair Value Level	<u>\$ 91,735</u>	<u>\$ 64,297</u>	<u>\$ 26,606</u>	<u>\$ 832</u>
Investments Measured at the NAV:				
Common Fund Assets	3,528			
Private Equity Funds	15,147			
Real Estate Funds	4,375			
Opportunistic Debts	1,415			
Total Investments Measured at the NAV	<u>24,465</u>			
Total Investments Measured at Fair Value ⁽¹⁾	<u>\$ 116,200</u>			
Investment Derivative Instruments:				
Future Contracts (liabilities)	\$ 16	\$ 16	\$ -	\$ -
Foreign Exchange Contracts (liabilities)	(4)	-	(4)	-
Rights/Warrants	2	2	-	-
Total Investment Derivative Instruments	<u>\$ 14</u>	<u>\$ 18</u>	<u>\$ (4)</u>	<u>\$ -</u>

(1) Excluded \$14,347 of investment allocated derivative instruments (shown separately) and \$2,196,957 of allocated securities lending collateral.

Notes to the Financial Statements

5. 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⁾	\$ 3,528	\$ -	Daily	2 days
Private Equity Funds ⁽²⁾	15,147	6,697	N/A	N/A
Real Estate Funds ⁽³⁾	4,375	62	Daily, Quarterly	1-90 days
Opportunistic Debts ⁽⁴⁾	1,415	-	Monthly	30 days
Total Investments Measured at the NAV	<u>\$ 24,465</u>	<u>\$ 6,759</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 234 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 37 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). Ten investments, representing approximately 77.1% 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 into calendar year 2021. LACERS has no intention to redeem any of this investment or the other nine investments in the near future. Twenty-seven investments, representing approximately 22.9% 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 96% of the value of this investment type, can be redeemed monthly. The distressed investment fund, representing approximately 4% 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.

Notes to the Financial Statements

6. 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 105% 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, 2020, 115 Trust allocated fair value of the securities on loan was \$7,748,634. The allocated fair value of associated collateral was \$8,124,677 (\$2,196,957 of cash collateral and \$5,927,720 of non-cash collateral).

These agreements provide for the return of the securities and revenue determined by the type of collateral received. The cash collateral values of securities on loan to brokers are shown at their fair values on the Statement of Fiduciary Net Position.

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.

The following table represents the 115 Trust allocated fair value of securities on loan, corresponding cash collateral received and cash reinvestment value, as of June 30, 2020:

Securities on Loan	Fair Value of Underlying Securities on Loan	Cash Collateral Received	Collateral Reinvestment Value
U.S. Government & Agency Securities	\$ 711,570	\$ 727,091	\$ 727,091
Domestic Corporate Fixed Income Securities	352,994	361,077	361,077
International Fixed Income Securities	18,668	18,886	18,886
Domestic Stocks	910,300	927,676	927,676
International Stocks	153,129	162,227	162,227
Total	<u>\$ 2,146,661</u>	<u>\$ 2,196,957</u>	<u>\$ 2,196,957</u>

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. 115 Trust allocated income and expenses related to securities lending were \$21,549 and \$3,521, respectively, for the fiscal year ended June 30, 2020.

6. Securities Lending Agreement (Continued)

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. Because these strategies were implemented closer to the end of this reporting period, they had minimal impact on the program's income and expenses for the reporting period. However, future securities lending income will likely decrease as a result of reduced loan volumes due to more restrictive collateral and investment guidelines.

7. 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 5 – Credit Risk - Derivatives).

As of June 30, 2020, LACERS had outstanding commodities, equity index, and interest rate future contracts with an aggregate notional amount of \$1,132,982, and foreign exchange future contract with a notional amount of \$15,833. In addition, at June 30, 2020, LACERS had outstanding forward purchase commitments with a notional amount of \$1,450,824 and offsetting forward sales commitments with notional amounts of \$1,450,824, which expire in September 2020. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was \$1,257,672 as of June 30, 2020.

8. Subsequent Events

City and LAWA's Separation Incentive Program

From June 2020 to September 2020, the City negotiated with various labor organizations, the implementation of Separation Incentive Program (SIP). The program is intended to address the City's significant financial challenges while minimizing the impact on City services, by incentivizing eligible employees to retire. SIP enrollment was closed on September 22, 2020. As of October 21, 2020, there were 1,379 employees who applied and were approved to retire under the program.

Los Angeles World Airport (LAWA) also offered its own SIP. As of October 21, 2020, there are 333 who applied and were approved to retire under LAWA's SIP program.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

Postemployment Health Care Plan

Net OPEB Liability and related ratios presented in this RSI Section relate to the entire LACERS Postemployment Health Care Plan which comprise 401(h) and 115 Trust accounts. For more information and complete disclosure related to LACERS' Postemployment Health Care Plan, reader is advised to consult LACERS Comprehensive Financial Report available on LACERS website.

The schedules present information for the Postemployment Health Care Plan (401h and 115 Trust) and are intended to show information for 10 years. However, because Section 115 Trust was established in fiscal year 2018-19, 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 the two years the Fund has been in existence:

- 1) Schedule of Net OPEB Liability
- 2) Schedule of Changes in Net OPEB 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 Liability As of June 30 (Dollars in Thousands)

	<u>2020</u>	<u>2019</u>
Total OPEB Liability	\$ 3,486,530	\$ 3,334,299
Plan Fiduciary Net Position	<u>2,851,204</u>	<u>2,812,098</u>
Plan's Net OPEB Liability	<u>\$ 635,326</u>	<u>\$ 522,201</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	81.8%	84.3%

Note to Schedule:

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

Required Supplementary Information
Postemployment Health Care Plan

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

	<u>2020</u>	<u>2019</u>
Total OPEB Liability		
Service cost ⁽¹⁾	\$ 76,423	\$ 74,478
Interest	242,666	236,678
Differences between expected and actual experience	(135,720)	(134,053)
Changes of assumptions	96,076	33,940
Benefit payments ⁽²⁾	<u>(127,214)</u>	<u>(133,571)</u>
Net change in total OPEB liability	152,231	77,472
Total OPEB liability-beginning	<u>3,334,299</u>	<u>3,256,827</u>
Total OPEB liability-ending (a)	<u>\$ 3,486,530</u>	<u>\$ 3,334,299</u>
 Plan fiduciary net position		
Contributions-employer	\$ 112,136	\$ 107,927
Net investment income (loss) ⁽³⁾	60,899	166,470
Benefit payments ⁽²⁾	(127,214)	(133,571)
Administrative expense	<u>(6,715)</u>	<u>(5,099)</u>
Net change in Plan fiduciary net position	39,106	135,727
 Plan fiduciary net position-beginning	<u>2,812,098</u>	<u>2,676,371</u>
Plan fiduciary net position-ending (b)	<u>\$ 2,851,204</u>	<u>\$ 2,812,098</u>
 Plan's net OPEB liability-ending (a)-(b)	<u>\$ 635,326</u>	<u>\$ 522,201</u>
 Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	81.8%	84.3%
 Covered payroll	\$ 2,271,039	\$ 2,108,171
 Plan's net OPEB liability as a percentage of covered payroll	28.0%	24.8%

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

(2) 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.

(3) 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 Liability and Related Ratios (Continued)

Notes to Schedule:

Changes of Assumptions: 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.

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
2019	\$ 107,927	\$ 107,927	-	\$ 2,108,171	5.1
2020	112,136	112,136	-	2,271,039	4.9

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. 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 market return and the expected return on the fair 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 fair 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	<p>Healthy: Pub-2010 General Health Retiree Amount-Weighted Above-Median Mortality Tables (separate tables for males and females) with rates increased by 10% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019</p> <p>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.</p> <p>Beneficiaries: Pub-2010 Contingent Survivor Amount-Weighted Above Meridian Mortality Tables with rates increased by 10% for males and females, projected generationally with the two dimensional mortality improvement scale MP-2019.</p>

- (1) Includes inflation at 2.75% as of June 30, 2020, 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

	2020	2019
Annual money-weighted rate of return, net of investment expenses	2.1%	6.1%

Note Schedule

The required disclosure about factors that significantly affect trends in the money-weighted rate of return is not provided because the fund has data for only two years. As more years become available, any significant factors affecting trends in the rate of return will be disclosed.

SUPPLEMENTAL SCHEDULE

Schedule of Administrative Expenses For the Fiscal Year Ended June 30, 2020

	2020
Personnel Services:	
Salaries	\$ 108,051
Employee Benefits and Development	43,768
Total Personnel Services	151,819
Professional Services:	
Actuarial	3,604
Audit	5,682
Legal Counsel	8,729
Disability Evaluation	1,270
Retirees' Health Admin Consulting	0
Benefit Payroll Processing	1,352
Self-Funded Dental Plan Admin Fees	751,235
Other Consulting	516
Total Professional Services	772,388
Information Technology:	
Computer Hardware and Software	5,531
Computer Maintenance and Support	4,809
Total Information Technology	10,340
Leases:	
Office Space	7,669
Office Equipment	295
Total Leases	7,964
Other Expenses:	
Fiduciary Insurance	263
Educational and Due Diligence Travel	497
Office Expenses	5,156
Building Operating Expense	10,488
Depreciation and Amortization	5,609
Total Other Expenses	22,013
Total Administrative Expenses	\$ 964,524