

LAGERS

Thirty-eighth Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2006

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Actuary's Certification Letter

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August 25, 2006

The Board of Trustees
Missouri Local Government
Employees Retirement System
Jefferson City, Missouri 65102

The fundamental financial objective of LAGERS is to establish and receive contributions which:

- when expressed as percents of active member payroll, will remain approximately level from generation to generation of local citizens, and
- when combined with present assets and future investment return will be sufficient to meet the financial obligations of LAGERS to present and future retirees and beneficiaries.

To test how well the fundamental objective is being achieved, annual actuarial valuations are made. These valuations adjust employer contribution rates, up or down as the case may be, for differences in the past year between assumed financial experiences and actual financial experiences. In addition, these valuations determine the reserve strength of each employer group.

Using data as of February 28, 2006, separate actuarial valuations were made for 865 employer groups. The data was reviewed in the aggregate by the actuary for internal and year to year consistency and reasonableness prior to use in the actuarial valuation process. It was also summarized and tabulated in order to analyze trends. Summary information about the resulting new employer contribution rates is shown in the Comprehensive Annual Financial Report.

Assumptions concerning future experience are needed for computing employer contribution rates. As time passes and actual experience develops, assumed and actual experience is compared. From time to time one or more of the assumptions about the future are changed by the Board after consulting with the actuary. The last major changes were in economic assumptions, and these were first used in the 2001 valuations. Minor changes were made to the non-economic assumptions for use in the 2006 valuations, based on the 2000-2005 study of LAGERS experience. The assumptions comply with the requirements of Statement 25 of the Governmental Accounting Standards Board.

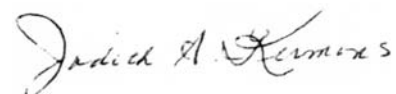
The current benefit structure is outlined in the actuarial section of the Comprehensive Annual Financial Report. We provided the information used in the supporting schedules in the actuarial section and the Schedule of Funding Progress in the financial section, as well as the employer contribution rates that were the basis for the annual required contributions shown in the Schedule of Employer Contributions in the financial section.

On the basis of the 2006 valuations, it is our opinion that LAGERS continues in sound condition in accordance with actuarial principles of level cost financing.

Respectfully submitted,



Mita D. Drazilov, A.S.A



Judith A. Kermans, E.A.

Summary of Actuarial Assumptions

1. The investment return rate used in making the valuations was 7.5% per year, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the portion of total investment return which is more than the wage inflation rate. Considering wage inflation recognition of 4%, the 7.5% investment return rate translates to an assumed real rate of return of 3.5%. Adopted 2001.
2. The mortality table used to evaluate mortality among active members was the RP-2000 Combined Healthy Table. It was assumed that 50% of pre-retirement deaths would be duty related. Adopted 2006.
3. The mortality table used in evaluating allowances to be paid was the 1971 Group Annuity Mortality Table projected to 2000, set back 1 year for men and 7 years for women. The disability post-retirement rates were equal to the standard rates set forward 10 years. Adopted 2001.
4. The probabilities of withdrawal from service, together with individual pay increase assumptions, are shown in Schedule 1. Adopted 2006.
5. The probabilities of retirement with an age and service allowance are shown in Schedule 2. Adopted 2006.
6. Total active member payroll is assumed to increase 4% a year, which is the portion of the individual pay increase assumptions attributable to wage inflation. In effect, this assumes no change in the number of active members per employer. Adopted 1987.
7. An individual entry-age normal cost method of valuation was used in determining age and service allowance normal costs and the allocation of actuarial present values between service rendered before and after the valuation date. Actuarial gains and losses reduce or increase the unfunded liability and are amortized over the remaining amortization period. Adopted 1987.
8. Present assets (cash and investments at 2-28-06) are valued using smoothing techniques of market value over a five-year period. Funding value is not permitted to deviate from market value by more than 20%. Adopted 2003.
9. The data about persons now covered and about present assets were furnished by the system's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
10. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

SCHEDULE 1

Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions

Sample Ages	Years of Service	Percent of Active Members Separating Within Next Year				Percent Increase In Individual's Pay During Next Year [#]
		General Members		Police	Fire	
		Men	Women			
All	0	19.0%	21.0%	18.5%	8.0%	
	1	16.0	19.0	16.5	7.0	
	2	12.0	15.0	14.5	6.0	
	3	10.0	12.0	12.5	6.0	
	4	8.0	11.0	11.0	5.0	
25	5 & Over	7.7	11.0	10.7	4.4	7.3%
30		6.8	9.6	9.0	3.8	6.5
35		5.4	7.9	6.9	3.1	6.0
40		4.2	6.6	5.5	2.5	5.5
45		3.5	5.0	4.4	1.8	5.0
50		3.0	4.3	3.5	1.0	4.6
55		2.3	3.0	1.0	0.5	4.4
60	1.2	1.4	0.0	0.0	4.3	
65	0.0	0.0	0.0	0.0	4.0	

*Pay increase rates for fire employees differ slightly.

[#]Individual pay increase rates relate to all years of service.

Summary of Actuarial Assumptions

continued

SCHEDULE 2

Percent of Eligible Active Members Retiring Within Next Year Without Rule of 80 Eligibility

Retirement Ages	General Members		Retirement Ages	Police*	Fire*
	Men	Women			
55	2%	3%	50	3%	3%
56	2	3	51	3	3
57	2	3	52	3	3
58	2	3	53	3	3
59	2	3	54	3	3
60	10	10	55	10	20
61	10	10	56	10	20
62	25	20	57	10	10
63	25	20	58	10	10
64	20	15	59	10	15
65	25	20	60	10	20
66	25	20	61	10	15
67	20	20	62	30	30
68	20	20	63	15	25
69	20	15	64	20	30
70	100	100	65	100	100

Percent of Eligible Active Members Retiring Within Next Year With Rule of 80 Eligibility

Retirement Ages	Men	Women	Police	Fire
50	20%	20%	25%	25%
51	15	20	25	25
52	15	20	20	25
53	15	20	20	25
54	15	20	20	25
55	15	20	20	25
56	15	15	20	25
57	15	15	10	10
58	15	15	25	15
59	15	15	20	10
60	20	25	30	20
61	20	20	25	15
62	35	20	30	45
63	35	20	25	35
64	35	20	50	70
65	35	30	100	100
66	35	35		
67	35	30		
68	25	25		
69	35	35		
70	100	100		

Actuarial Valuation Data

Participating Employers and Active Members

Valuation Date	Number of		Active Members				Inflation Increase % (CPI)
	Participating Employers	Valuation Groups	Number	Annual Payroll	Average Pay	% Increase	
2-28-01	463	777	26,423	\$ 808,959,105	\$ 30,616	4.0%	3.5%
2-28-02	477	791	27,328	875,061,292	32,021	4.6	1.1
2-28-03	486	803	27,809	932,953,679	33,549	4.8	2.1
2-29-04	499	828	28,761	989,446,058	34,402	2.5	1.7
2-28-05	514	846	29,281	1,031,415,223	35,225	2.4	3.8
2-28-06	527	865	29,940	1,082,349,535	36,151	2.6	3.6

Retirant and Beneficiary Data

Year Ended	Added to Rolls		Removed from Rolls		Rolls End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances*	No.	Annual Allowances	No.	Annual Allowances		
2-28-01	816	\$ 8,094,550	330	\$2,026,823	9,180	\$57,989,017	11.7%	\$ 6,317
2-28-02	806	9,203,832	385	2,191,355	9,601	65,001,494	12.1	6,770
2-28-03	870	9,313,332	364	2,545,321	10,107	71,769,505	10.4	7,101
2-29-04	898	10,540,515	399	2,844,252	10,606	79,465,768	10.7	7,493
2-28-05	1,073	11,939,122	447	3,449,898	11,232	87,954,992	10.7	7,831
2-28-06	976	12,115,168	421	2,810,718	11,787	97,259,442	10.6	8,251

*Includes post-retirement adjustments.

Each employer participating in the system is financially responsible for its own liabilities. Accordingly, the aggregate numbers presented on this and the following page are indicative only of the overall condition of the system and are not indicative of the status of any one employer.

Actuarial Valuation Data

continued

Short Condition Test

The LAGERS funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the system are level in concept and soundly executed, the system will pay all promised benefits when due — the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short condition test is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the obligations for future benefits to present retired lives; (3) the obligations for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the obligations for active member contributions on deposit (obligation 1) and the obligations for future benefits to present retired lives (obligation 2) will be fully covered by present assets (except in rare circumstances). In addition, the obligations for service already rendered by active members (obligation 3) will be at least partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of obligation 3 will increase over time.

The schedule below illustrates the history of obligation 3 of the system and is indicative of the LAGERS policy of following the discipline of level percent of payroll financing.

Valuation Date	Entry Age Accrued Liability For			Actuarial Value of Assets	Portion of Accrued Liability Covered by Assets		
	(1) Active Member Contributions	(2) Retirants and Beneficiaries*	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
2-28-01	\$ 59,548,771	\$ 916,644,950	\$ 1,326,622,909	\$ 2,395,912,598	100%	100%	107%
2-28-02	62,603,672	1,010,156,078	1,540,327,987	2,623,610,917	100	100	101
2-28-03	66,742,613	926,249,428	1,707,206,578	2,603,872,640	100	100	94
2-29-04	70,562,031	1,026,668,962	1,831,940,786	2,808,907,263	100	100	93
2-28-05	72,252,574	1,098,286,478	1,968,721,191	2,984,489,211	100	100	92
2-28-06	75,835,009	1,199,273,243	2,108,044,685	3,224,173,714	100	100	92

*Includes reserve for future benefit increases.

Employer Contribution Rate Changes

Annual actuarial valuations are conducted by the system to determine employer contribution rates for the ensuing fiscal year of the employer. As of February 28, 2006, there were 865 separate contribution rates determined for the 527 participating political subdivisions in the system. Of these new employer contribution rates, 198 were increases over the previous year and 640 were decreases from the previous year's rate. A six year comparative schedule of contribution rate adjustments is shown below:

Valuation Date	Decreases	Increases	Unchanged	Total*
2-28-01	605	75	97	777
2-28-02	326	308	157	791
2-28-03	202	462	139	803
2-29-04	314	378	136	828
2-28-05	300	418	128	846
2-28-06	640	198	27	865

* There are twenty-five groups presently without active members for which dollar contribution rates were computed. They are not included in the totals.

Employer Contribution Rates

Life Benefit Programs

	Number of Valuation Groups								Totals*
	Contributory Groups				Non-Contributory Groups				
	Under 2.00%	2.00- 4.99%	5.00- 7.99%	Over 8.00%	Under 4.00%	4.00- 6.99%	7.00- 9.99%	Over 10.00%	
Benefit Program L-1									
General	14	19	19	11	13	11	17	15	119
Police	6	8	9	2	12	8	4	5	54
Fire	0	0	0	2	3	0	0	1	6
Total:	20	27	28	15	28	19	21	21	179
Benefit Program L-3									
General	8	7	16	11	13	8	11	14	88
Police	4	6	6	1	8	3	3	7	38
Fire	0	1	2	1	0	1	0	2	7
Total:	12	14	24	13	21	12	14	23	133
Benefit Program L-6									
General	2	3	5	11	1	0	4	37	63
Police	4	2	4	4	2	1	0	19	36
Fire	1	0	0	1	1	0	0	6	9
Total:	7	5	9	16	4	1	4	62	108
Benefit Program L-7									
General	6	9	13	11	7	23	30	37	136
Police	8	4	2	3	11	14	17	11	70
Fire	0	0	0	1	3	3	3	3	13
Total:	14	13	15	15	21	40	50	51	219
Benefit Program L-9									
General	3	4	2	2	3	2	6	13	35
Police	2	1	0	0	2	3	5	6	19
Fire	0	0	0	0	1	0	1	1	3
Total:	5	5	2	2	6	5	12	20	57
Benefit Program L-11									
General	0	0	0	0	0	0	0	1	1
Police	0	0	0	0	0	0	0	0	0
Fire	0	0	0	0	0	0	0	1	1
Total:	0	0	0	0	0	0	0	2	2
Benefit Program L-12									
General	0	1	0	1	0	0	1	3	6
Police	1	0	1	0	1	1	0	1	5
Fire	0	0	0	1	1	0	0	0	2
Total:	1	1	1	2	2	1	1	4	13
Totals*	59	65	79	63	82	78	102	183	711

* There are twenty-five groups presently without active members for which dollar contribution rates were computed. They are not included in the totals.

Employer Contribution Rates

continued

Life and Temporary Benefit Programs

Number of Valuation Groups

	Contributory Groups				Non-Contributory Groups				Totals*
	Under 2.00%	2.00- 4.99%	5.00- 7.99%	Over 8.00%	Under 4.00%	4.00- 6.99%	7.00- 9.99%	Over 10.00%	
Benefit Program LT-4(65)									
General	0	0	0	1	0	0	0	1	2
Police	0	0	0	0	0	0	0	1	1
Fire	0	0	0	0	0	0	0	0	0
Total:	0	0	0	1	0	0	0	2	3
Benefit Program LT-5(62)									
General	0	0	0	0	0	1	2	1	4
Police	0	0	0	0	1	1	0	1	3
Fire	0	0	0	0	0	1	0	0	1
Total:	0	0	0	0	1	3	2	2	8
Benefit Program LT-5(65)									
General	1	1	0	0	1	4	1	1	9
Police	0	0	1	1	3	0	2	0	7
Fire	0	0	0	2	2	0	0	2	6
Total:	1	1	1	3	6	4	3	3	22
Benefit Program LT-8(62)									
General	1	1	1	0	0	2	0	2	7
Police	2	0	0	0	0	1	0	1	4
Fire	0	0	0	0	0	0	1	2	3
Total:	3	1	1	0	0	3	1	5	14
Benefit Program LT-8(65)									
General	0	3	0	3	0	2	13	17	38
Police	0	1	1	0	1	5	6	9	23
Fire	0	0	0	0	1	1	3	6	11
Total:	0	4	1	3	2	8	22	32	72
Benefit Program LT-10(65)									
General	0	0	1	2	1	1	1	9	15
Police	0	0	1	0	2	0	0	4	7
Fire	0	0	0	0	0	0	0	3	3
Total:	0	0	2	2	3	1	1	16	25
Benefit Program LT-14(65)									
General	0	0	0	1	0	0	3	2	6
Police	0	1	0	0	1	0	0	1	3
Fire	0	0	0	0	0	0	0	1	1
Total:	0	1	0	1	1	0	3	4	10
Totals*	4	7	5	10	13	19	32	64	154

* There are twenty-five groups presently without active members for which dollar contribution rates were computed. They are not included in the totals.

Summary of Plan Provisions

PURPOSE

The Missouri Local Government Employees Retirement System (LAGERS) is a body corporate created and governed by the State of Missouri to provide retirement, survivors and disability benefits to the state's local government employees in the most efficient and economical manner possible. As such, LAGERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the General Assembly and bears a fiduciary obligation to the State of Missouri, the taxpayers and the public employees who are its beneficiaries.

This summary of LAGERS plan provisions is included for informational purposes only. System eligibility requirements and benefits provisions are determined pursuant to Chapter 70, RSMo. and LAGERS Administrative Rules, 16 CSR 20. Accordingly, members, retirees, beneficiaries, and participating political subdivisions are urged to contact LAGERS before making any decisions related to matters included in the following summary.

ADMINISTRATION

The statutes provide that the administration of LAGERS be vested in a seven member Board of Trustees. Three of these trustees are "Member Trustees" who must be participating members of the system. Three members of the Board are "Employer Trustees" who must be members of the governing body of a member subdivision, but who do not personally participate in LAGERS. The statutes which govern LAGERS require that an Annual Meeting be held in the last calendar quarter of each year. Each participating political subdivision is to conduct a secret ballot election allowing each member in that subdivision to vote to elect a "member" delegate to the Annual Meeting. The governing body may then select one of their own, or another person acting in their behalf, to serve as "employer" delegate for the subdivision. All Member and Employer Trustees are elected by their respective delegates at the LAGERS Annual Meeting. The remaining Board member is a "Citizen Trustee" appointed by the governor, who can be neither a member nor employer. A complete listing of the current Board of Trustees is included on page 9.

The management of LAGERS is vested in an Executive Secretary who is appointed by the Board and serves at their pleasure. The Executive Secretary acts as advisor to the Board on all matters pertaining to the system and, with the approval of the Board, contracts for professional services and employs the remaining staff needed to operate the system. A listing of the LAGERS staff and advisors is included on page 3.

NORMAL RETIREMENT

A member may retire with an age and service allowance after completing: 1.) at least 5 years of credited service, and 2.) attaining his minimum service retirement age. This minimum service retirement age is 60 for general members and 55 for law enforcement or fire personnel.

A participating LAGERS subdivision may, by a majority vote of the governing body, select an alternate unreduced retirement for employees whose age and service total 80 or more. This provision also requires 5 years of credited service.

FINAL AVERAGE SALARY

Final average salary is the average of a member's monthly pay during the period of 60 consecutive months of credited service producing the highest monthly average, which is contained within the 120 consecutive months of credited service immediately preceding retirement. For most members, this is the last 5 years of employment.

A participating LAGERS subdivision may, by majority vote of the governing body, elect to have their future retirants' benefits calculated using a 36 month final average salary period.

CREDITED SERVICE

Credited service is a combination of the prior service a member accrued prior to his employer joining LAGERS and the membership service he accrues after that date. Because LAGERS is a state-wide retirement system with hundreds of member subdivisions, credited service can be a combination of service with several employers.

AGE AND SERVICE ALLOWANCE

This is the normal retirement benefit and is payable monthly for the lifetime of a member. It equals a specified percent of a member's final average salary multiplied by his number of years of credited service. Each employer elects the percent applicable to his members from ten available programs: L-1 (1% for life); L-3 (1.25% for life); LT-4(65) (1% for life, 1% to age 65); LT-5(65) (1.25% for life, .75% to age 65); L-6 (2% for life); L-7 (1.5% for life); LT-8(65) (1.5% for life, .5% to age 65); L-12 (1.75% for life); LT-14(65) (1.75% for life, .25% to age 65); and L-11 (2.5% for life – non-OASDI coverage only). All LT programs denoted LT(62) extend temporary benefits to age 62, rather than age 65. These benefit programs can be changed by majority vote of the subdivision's governing body, but not more often than biennially.

Summary of Plan Provisions

continued

EARLY RETIREMENT

A member in service may retire with an early retirement benefit after completing: 1.) at least 5 years of credited service, and 2.) attaining age 55 if a general member or age 50 for a law enforcement or fire member. The early retirement benefit is computed in the same manner as an age and service allowance but reduced by $\frac{1}{2}$ of 1% for each month the retirant is younger than his minimum service retirement age.

DEFERRED RETIREMENT

If a member leaves LAGERS covered employment before attaining his early retirement age, but after completing 5 or more years of service, he becomes eligible for a deferred allowance; provided he lives to his early retirement age and does not withdraw his accumulated contributions, if applicable. Deferred members with less than 10 years of credited service and greater than 10 years until their minimum service retirement age may be eligible for a lump-sum payment. Any deferred benefit paid prior to the member attaining his minimum service retirement age will be reduced $\frac{1}{2}$ of 1% for each month the retirant is younger than his minimum service retirement age.

NON-DUTY DISABILITY BENEFIT

A member with 5 or more years of credited service who becomes totally and permanently disabled from performing his job from other than duty connected causes is eligible for a non-duty disability benefit computed in the same manner as an age and service allowance, based upon his service and salary to time of disability.

DUTY DISABILITY BENEFIT

A member who becomes totally and permanently disabled from performing his job from a duty related injury or disease is eligible for a duty disability benefit computed in the same manner as an age and service allowance, but based upon the years of service the member would have completed had he continued in LAGERS covered employment to age 60. Continuing medical examinations are required to confirm the disability once per year for the first 5 years and once every 3 years thereafter until reaching the minimum service retirement age.

SURVIVORS BENEFIT, NON-DUTY DEATH

Upon the death of a member who had completed at least 5 years of credited service, his eligible surviving dependents receive the following benefits: 1.) the surviving spouse receives an allowance equal to the Option A allowance (joint and 75% survivor benefits) computed upon the deceased member's service and salary to time of death. If no spouse benefit is payable, the dependent children under age 18 (23 if they are full-time students) each receive an equal share of 60% of an age and service allowance computed upon the deceased member's service and salary to time of death.

SURVIVORS BENEFIT, DUTY DEATH

If a member's death was the natural and proximate result of a personal injury or disease arising out of and in the course of his actual performance of duty as an employee, the spouse is eligible for a duty death benefit computed in the same manner as an age and service allowance, but based upon the years of service the member would have completed had he continued in LAGERS covered employment to age 60. The surviving spouse receives an allowance equal to the Option A allowance (joint and 75% survivor benefits). If no spouse benefit is payable, the dependent children under age 18 (23 if they are full-time students) each receive an equal share of 60% of the life allowance computed for the deceased.

POST RETIREMENT ADJUSTMENT

All retired members are eligible for an annual post retirement adjustment beginning the October first twelve months after the effective date of their allowance. The adjustment is based on the increase in the Consumer Price Index and is limited to 4% per year. The Board of Trustees determines annually the amount of the post retirement adjustment subject to the 4% maximum or the increase in the Consumer Price Index.

OPTIONAL FORMS OF PAYMENT

When a LAGERS member makes application for retirement, his benefits are calculated in several optional forms and he selects the one that best fits his retirement needs. This election of an optional form of payment is made immediately prior to the receipt of the first benefit check and once the election is made, it is irrevocable. The options are as follows:

LIFE OPTION: This is the largest payment available to a retirant. Upon the death of the retirant monthly payments cease. If the member has not withdrawn at least his accumulated contributions before death, a refund of the balance of his account is made to his beneficiary of record.

OPTION A: This is a continuing spouse option which allows the retirant to receive less (85% if spouse age is the same) of the Life Option with the provision that the surviving spouse will receive 75% of the member's benefit for the remainder of his or her lifetime.

OPTION B: This option is also a continuing spouse option similar to Option A except the percentages are slightly changed. Under Option B, the retirant would receive a higher benefit (90% of the Life Option if spouse is the same age) with the surviving spouse receiving 50% of the member's benefit for the remainder of his or her lifetime.

OPTION C: The final of the four options is referred to as a "ten-year certain" option. As with the other options, the benefit (95% of the Life Option) is payable for the lifetime of the member but with an added provision that the system will make at least 120 monthly payments. If the employee lives over 10 years after retirement, monthly payments will cease upon his death.

PARTIAL LUMP SUM FEATURE (PLUS): This feature provides the option to elect a partial lump sum distribution of the monthly retirement benefit, coupled with a reduced future monthly benefit. The lump sum distribution would be equal to 24 monthly payments of the life allowance amount (does not include any temporary allowance payable under a Life and Temporary plan) at time of retirement. The lump sum payment would result in a reduction (approximately 16 percent) of the retiree's future monthly benefit adjusted for age. All the current options (Life, Option A, Option B and Option C) still apply and may be elected with or without the partial lump sum feature.

MEMBER CONTRIBUTIONS

Political subdivisions may participate in LAGERS under either a contributory or non-contributory plan. If the subdivision participates under the contributory plan, each member contributes 4% of his gross salary, beginning after he has completed sufficient employment for 6 months of credited service. If a member leaves LAGERS covered employment before an allowance is payable upon his behalf, his accumulated contributions are refunded to him. If he dies prior to accruing 5 or more years of credited service, his accumulated contributions are refunded to his designated beneficiary(s) unless a duty-related death benefit is payable. If the subdivision participates under the non-contributory plan, the employing political subdivision pays the entire cost, while the members make no contributions.

Local governments participating in LAGERS are permitted, if the governing body elects, to grant refunds of members' contributions after two years of participation in the system under the non-contributory option. The cost of this option would be borne by the governmental unit.

EMPLOYER CONTRIBUTIONS

The statutes require each employer to contribute the remaining amounts above that contributed by their members to finance the benefits that political subdivision has promised their employees through their participation in LAGERS. These employer contributions are determined annually by the system's retained actuary and are based upon level-percent-of-payroll funding principles so that the contribution rates do not have to increase over decades of time. A chart showing the employer contribution rates for all LAGERS employers is included on pages 37-38 of this report.

LEAVE OF ABSENCE

In the event a member is given a leave of absence by his LAGERS employer for the purpose of continuing education, this leave is considered as credited service provided the leave is certified in writing to the system and does not exceed two years.

For a member who enters the U.S. Armed Forces during a period of compulsory military service, the service actually required can be counted as service credit provided the individual again becomes a member of the system within one year after receiving an honorable discharge. During all leaves, the member's account is credited with the regular rate of interest where applicable.

In the event a member becomes totally, but not permanently disabled from performing his job because of a job-related injury and begins receiving worker's compensation, the member will also receive credited service toward the LAGERS benefit while so disabled.

REDEPOSITS

When a member chooses to take a refund of the accumulated contributions, the member forfeits the credited service standing to his account with the system for which the member was required to make contributions. If the member is reemployed in a position covered by the system within ten years from the time membership last terminated, the member has the option to repay to the system the amount refunded, plus any regular interest thereon, and reinstate the service previously forfeited.

Change in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Additions:					
Member contributions	\$ 7,189,700	\$ 8,298,846	\$ 7,786,865	\$ 7,265,502	\$ 6,584,052
Employee contributions	115,550,424	104,282,742	94,205,597	84,574,502	85,712,344
Net investment income	<u>223,849,051</u>	<u>342,286,798</u>	<u>395,664,373</u>	<u>39,384,943</u>	<u>(122,127,213)</u>
Total additions to plan net assets	<u>\$396,589,175</u>	<u>\$454,868,386</u>	<u>\$497,656,835</u>	<u>\$131,224,947</u>	<u>\$(29,830,817)</u>
Deductions:					
Benefits	\$111,023,777	\$100,540,484	\$ 87,054,856	\$ 73,193,238	\$ 65,506,362
Refunds	2,289,098	3,967,389	3,361,153	2,186,992	1,730,345
Administrative expenses	<u>2,759,577</u>	<u>2,466,270</u>	<u>2,750,653</u>	<u>2,176,278</u>	<u>1,936,418</u>
Total deductions from plan net assets	<u>\$116,072,452</u>	<u>\$106,974,143</u>	<u>\$ 93,166,662</u>	<u>\$ 77,556,508</u>	<u>\$ 69,173,125</u>
Change in net assets	<u>\$280,516,723</u>	<u>\$347,894,243</u>	<u>\$404,490,173</u>	<u>\$ 53,668,439</u>	<u>\$(99,003,942)</u>
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Additions:					
Member contributions	\$ 5,586,937	\$ 5,700,921	\$ 5,360,440	\$ 5,000,924	\$ 4,727,745
Employee contributions	82,716,566	78,070,076	76,488,624	85,069,153	60,032,669
Net investment income	<u>(117,944,880)</u>	<u>335,913,087</u>	<u>209,219,790</u>	<u>293,840,936</u>	<u>242,932,530</u>
Total additions to plan net assets	<u>\$(29,641,377)</u>	<u>\$419,684,084</u>	<u>\$291,068,854</u>	<u>\$383,911,013</u>	<u>\$307,692,944</u>
Deductions:					
Benefits	\$ 59,301,632	\$ 56,708,986	\$ 47,357,928	41,429,429	\$ 37,142,864
Refunds	2,318,561	2,785,828	3,187,642	4,174,861	4,848,467
Administrative expenses	<u>1,700,087</u>	<u>1,565,544</u>	<u>1,598,870</u>	<u>1,599,502</u>	<u>1,509,482</u>
Total deductions from plan net assets	<u>\$ 63,320,280</u>	<u>\$ 61,060,358</u>	<u>\$ 52,144,440</u>	<u>\$ 47,203,792</u>	<u>\$ 43,500,813</u>
Change in net assets	<u>\$(92,961,657)</u>	<u>\$358,623,726</u>	<u>\$238,924,414</u>	<u>\$336,707,221</u>	<u>\$264,192,131</u>

Interest Credits to Reserve Accounts

A retirement system acquires and invests assets as the result of following the financial objective of level contribution rates. The Board of Trustees of LAGERS has the responsibility for seeing that the assets are invested effectively and within the limits imposed by law. The Board retains professional money managers to assist in the investment process and reviews their activities throughout the year. The Board retains other professional firms to provide measurements of investment performance and their reports are also reviewed regularly.

The investment process continues to be volatile because of major disturbances in the economic environment.

Following is a table showing investment credits to the various reserves of the system for the last 10 years.

Rates of Investment Return Allocated to LAGERS Reserve Accounts

Investment Credits as a Percent of Fund Balance

<u>Year Ended June 30</u>	<u>Casualty Reserve</u>	<u>Benefit Reserve</u>	<u>Member Reserve</u>	<u>Employer Reserve</u>	<u>Inflation Percent (CPI)</u>
	(A)	(B)	(C)	(D)	
2006	7.5 %	15.3 %	4.0 %	15.9 %	4.3 %
2005	7.5	7.5	4.0	7.7	2.5
2004	7.5	11.4	4.0	11.8	3.2
2003	7.5	(5.4)	4.0	(5.9)	2.1
2002	7.5	(15.6)	4.0	0.0	1.1
2001	7.0	3.1	4.0	5.8	3.3
2000	7.0	14.4	4.0	30.5	3.7
1999	7.0	5.6	4.0	15.6	2.0
1998	7.0	17.0	4.0	18.0	1.7
1997	7.0	11.4	4.0	12.0	2.3

- (A) Casualty Reserve assets are for the non-accrued service portion of disability benefits to future retired lives. The investment percent is the rate set for actuarial purposes.
- (B) Benefit Reserve assets are for benefits to present retired lives. The investment credit is the remainder of net investment return after crediting the Casualty Reserve assets. This revised allocation of investment credits is intended to provide the resources for additional benefit increases after retirement.
- (C) Member Deposit assets are the contributions of present members. The investment percent, set by the Board, affects amounts payable to members who request a refund. The percent does not affect the monthly benefit of a retiring member.
- (D) Employer Reserve assets are for benefits to future retired lives including the accrued service portion of disability benefits. The investment credit is the remainder of the net investment return after crediting the Casualty Reserve assets, followed by a further adjustment for the investment credit to the Member Deposit assets. The Employer Reserve is responsible for covering liability increases resulting from inflation losses. The percentages shown include net realized capital gains on sale of investments.

Retired Member Data

Amount of Monthly Benefit	Employee Classification			*Type of Retirement								*Option Selected			
	General	Police	Fire	#40	#60	#71	#72	#73	#81	#82	#83	Life	Opt. A	Opt. B	Opt. C
DEFERRED	767	150	26	943											
\$ 1 - \$ 100	907	208	35	108	21	21	21	476	345	158	539	359	99	153	
\$ 101 - \$ 200	1,609	301	21	136	12	63	35	945	528	212	966	553	147	265	
\$ 201 - \$ 300	1,251	212	31	97	16	67	42	851	275	146	774	408	138	174	
\$ 301 - \$ 400	900	197	28	68	24	45	28	638	209	113	582	292	146	105	
\$ 401 - \$ 500	756	135	40	51	25	42	17	540	167	89	488	233	100	110	
\$ 501 - \$ 600	608	107	27	29	18	40	11	479	110	55	403	165	88	86	
\$ 601 - \$ 700	522	91	36	25	19	31	6	440	83	45	331	164	74	80	
\$ 701 - \$ 800	403	57	31	19	33	27	10	314	69	19	260	111	74	46	
\$ 801 - \$ 900	358	46	33	12	34	21	2	291	49	28	230	102	63	42	
\$ 901 - \$ 1000	304	48	31	8	37	17	5	241	52	23	192	94	65	32	
\$1001 - \$ 1100	248	36	22	8	20	15	1	214	38	10	159	77	40	30	
\$1101 - \$ 1200	211	26	31	2	26	13	0	189	28	10	122	67	57	22	
\$1201 - \$ 1300	198	32	20	3	20	4	1	182	29	11	121	53	54	22	
\$1301 - \$ 1400	165	33	21	7	13	7	0	156	28	8	110	53	39	17	
\$1401 - \$ 1500	138	39	16	3	15	9	0	143	16	7	92	54	36	11	
\$1501 - \$ 1600	122	22	22	1	17	3	1	120	18	6	74	44	32	16	
\$1601 - \$ 1700	128	22	20	2	16	6	0	123	18	5	78	47	37	8	
\$1701 - \$ 1800	94	15	24	2	7	5	1	100	17	1	62	31	26	14	
\$1801 - \$ 1900	82	17	12	0	8	1	0	90	11	1	55	21	25	10	
\$1901 - \$ 2000	58	13	3	0	4	1	0	60	7	2	32	16	21	5	
OVER \$ 2000	560	110	101	5	38	6	2	647	68	5	376	175	157	63	
SUBTOTALS	10,389	1,917	631	943	586	423	444	183	7,239	2,165	954	6,046	3,119	1,518	1,311
TOTALS	12,937			12,937								11,994			

*See Summary of Plan Provisions for description of retirement and benefit options.

#40—Deferred Retirement

#73—Survivor Payment-Disability Retirement

#60—Deceased & Monthly Benefit Payable

#81—Normal Retirement

#71—Duty Disability Retirement

#82—Early Retirement

#72—Non-Duty Disability Retirement

#83—Survivor Payment-Normal Retirement

Benefit Expenses by Type

Benefit Expenses by Type:	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Normal benefits	\$106,002,170	\$ 93,500,004	\$ 82,837,171	\$ 69,461,738	\$ 62,209,449
Survivor benefits	<u>5,021,607</u>	<u>7,040,480</u>	<u>4,217,685</u>	<u>3,731,500</u>	<u>3,296,913</u>
Total benefits	<u>\$111,023,777</u>	<u>\$100,540,484</u>	<u>\$ 87,054,856</u>	<u>\$ 73,193,238</u>	<u>\$ 65,506,362</u>
Total refunds	<u>\$ 2,289,098</u>	<u>\$ 3,967,389</u>	<u>\$ 3,361,153</u>	<u>\$ 2,186,992</u>	<u>\$ 1,730,345</u>

Benefit Expenses by Type:	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Normal benefits	\$ 56,363,449	\$ 54,135,063	\$ 45,063,218	\$ 39,409,695	\$ 35,329,424
Survivor benefits	<u>2,983,183</u>	<u>2,573,923</u>	<u>2,294,710</u>	<u>2,019,734</u>	<u>1,813,440</u>
Total benefits	<u>\$ 59,346,632</u>	<u>\$ 56,708,986</u>	<u>\$ 47,357,928</u>	<u>\$ 41,429,429</u>	<u>\$ 37,142,864</u>
Total refunds	<u>\$ 2,318,561</u>	<u>\$ 2,785,828</u>	<u>\$ 3,187,642</u>	<u>\$ 4,174,861</u>	<u>\$ 4,848,467</u>

Average Monthly Benefit Payments

RETIREMENT EFFECTIVE DATES	YEARS OF CREDITED SERVICE BY CATEGORY					
	For Fiscal Years Ended June 30:	5-10	10-15	15-20	20-25	25-30
2006 Average Monthly Benefit	\$ 244	\$ 517	\$ 797	\$ 1,121	\$ 1,857	\$ 2,078
Average Final Average Salary.....	2,534	2,787	3,170	3,386	4,277	4,062
Number of Active Retirants.....	300	114	112	123	111	105
2005 Average Monthly Benefit	\$ 198	\$ 465	\$ 755	\$ 1,012	\$ 1,677	\$ 2,137
Average Final Average Salary.....	2,422	2,693	2,963	3,118	4,094	4,115
Number of Active Retirants.....	315	155	124	113	105	90
2004 Average Monthly Benefit	\$ 217	\$ 453	\$ 703	\$ 1,222	\$ 1,699	\$ 2,466
Average Final Average Salary.....	2,219	2,494	2,852	3,496	3,890	4,224
Number of Active Retirants.....	303	124	103	91	108	97
2003 Average Monthly Benefit	\$ 217	\$ 504	\$ 804	\$ 1,281	\$ 1,787	\$ 2,205
Average Final Average Salary.....	2,536	2,375	2,771	3,220	3,594	3,600
Number of Active Retirants.....	253	120	109	111	84	104
2002 Average Monthly Benefit	\$ 257	\$ 472	\$ 697	\$ 1,140	\$ 1,701	\$ 2,238
Average Final Average Salary.....	2,092	2,376	2,432	2,934	3,512	3,723
Number of Active Retirants.....	207	125	104	118	76	93
2001 Average Monthly Benefit	\$ 301	\$ 463	\$ 711	\$ 956	\$ 1,413	\$ 1,796
Average Final Average Salary.....	2,171	2,249	2,478	2,727	3,079	3,103
Number of Active Retirants.....	238	130	100	101	76	70
2000 Average Monthly Benefit	\$ 240	\$ 406	\$ 769	\$ 1,042	\$ 1,397	\$ 2,036
Average Final Average Salary.....	2,230	2,279	2,649	2,828	3,046	3,528
Number of Active Retirants.....	154	98	96	95	84	77
1999 Average Monthly Benefit	\$ 212	\$ 421	\$ 697	\$ 958	\$ 1,430	\$ 2,012
Average Final Average Salary.....	1,914	1,980	2,364	2,616	3,011	3,428
Number of Active Retirants.....	156	134	109	107	61	80
1998 Average Monthly Benefit	\$ 211	\$ 387	\$ 683	\$ 910	\$ 1,490	\$ 2,004
Average Final Average Salary.....	2,040	1,922	2,302	2,400	3,171	3,174
Number of Active Retirants.....	165	110	96	79	50	56
1997 Average Monthly Benefit	\$ 215	\$ 417	\$ 600	\$ 837	\$ 1,406	\$ 2,213
Average Final Average Salary.....	1,770	1,952	1,995	2,268	2,891	3,294
Number of Active Retirants.....	159	113	98	86	61	85
From July 1, 1996 through June 30, 2006						
Average Monthly Benefit.....	\$ 231	\$ 452	\$ 724	\$ 1,057	\$ 1,614	\$ 2,136
Average Final Average Salary	2,243	2,322	2,614	2,929	3,556	3,673
Number of Active Retirants	2,250	1,223	1,051	1,024	816	857

Participants by Classification

POLITICAL SUBDIVISIONS

<u>Year</u>	<u>Cities</u>	<u>Counties</u>	<u>Health Agencies</u>	<u>Special Districts</u>	<u>Libraries</u>	<u>Total</u>
2006	254	60	56	122	39	531
2005	250	60	53	117	37	517
2004	249	60	51	110	36	506
2003	243	60	50	105	35	493
2002	236	60	50	102	34	482
2001	231	60	48	95	33	467
2000	227	60	46	84	32	449
1999	223	60	43	75	31	432
1998	214	60	41	70	31	416
1997	207	60	39	64	31	401

EMPLOYEE MEMBERS

<u>Year</u>	<u>Cities</u>	<u>Counties</u>	<u>Health Agencies</u>	<u>Special Districts</u>	<u>Libraries</u>	<u>Total</u>
2006	18,918	9,620	1,879	2,851	904	34,172
2005	18,722	9,282	1,625	2,743	885	33,257
2004	18,327	9,278	1,546	2,547	870	32,568
2003	17,746	8,878	1,485	2,323	848	31,280
2002	17,266	8,623	1,473	2,365	777	30,504
2001	16,821	8,262	1,438	2,250	758	29,529
2000	16,055	8,123	1,529	2,056	728	28,491
1999	15,701	7,963	1,502	2,030	724	27,920
1998	15,170	7,776	1,547	1,864	707	27,064
1997	14,632	7,320	1,441	1,840	682	25,915