2017 ANNUAL REPORT

LAFPP

LOS ANGELES FIRE AND POLICE PENSIONS

LAFPP

TO SERVE THOSE WHO PROTECT

LAFPP

MISSION

TO ADVANCE THE HEALTH AND RETIREMENT SECURITY OF THOSE WHO DEDICATE THEIR CAREERS AND RISK THEIR LIVES TO PROTECT THE PEOPLE OF LOS ANGELES

VISION

TO BE A LEADER AND INNOVATOR IN THE PUBLIC PENSION INDUSTRY THROUGH AN UNCOMPROMISING DEDICATION TO EXCELLENCE, CUSTOMER SERVICE, TRANSPARENCY, AND EDUCATION

VALUES

COLLABORATION

We value teamwork to achieve success and encourage staff at all levels to share ideas and offer suggestions for improving operations. We are enriched by our engagement with the Board, our members, and our stakeholders.

RESPECT

We treat each other and our members with kindness and dignity. We promote a fair environment and support each other by sharing information and knowledge to ensure we deliver quality services.

ETHICS

We preserve the public trust by adhering to the ethical standards established by the State, the City, and our Board Policies.

ACCOUNTABILITY

We recognize our responsibility to our members to deliver promised pension benefits. We ensure appropriate oversight to achieve excellence in service, operational and investment decision making.

TRANSPARENCY

We strive to always provide clear, accurate, and complete information, and transact business decisions in an open manner so that our members, the City, and the public can trust that our decisions are fair, honest, and ethical.

EFFICIENCY

We continually search for ways to deliver quality services and reduce administrative expenses. We promote innovation throughout the organization and use performance measurement to drive decisions.

FRONT COVER: PORT OFFICER (COURTESY OF LA PORT); LAFD/LAPD (STEPHEN BAYUTAS)

2017

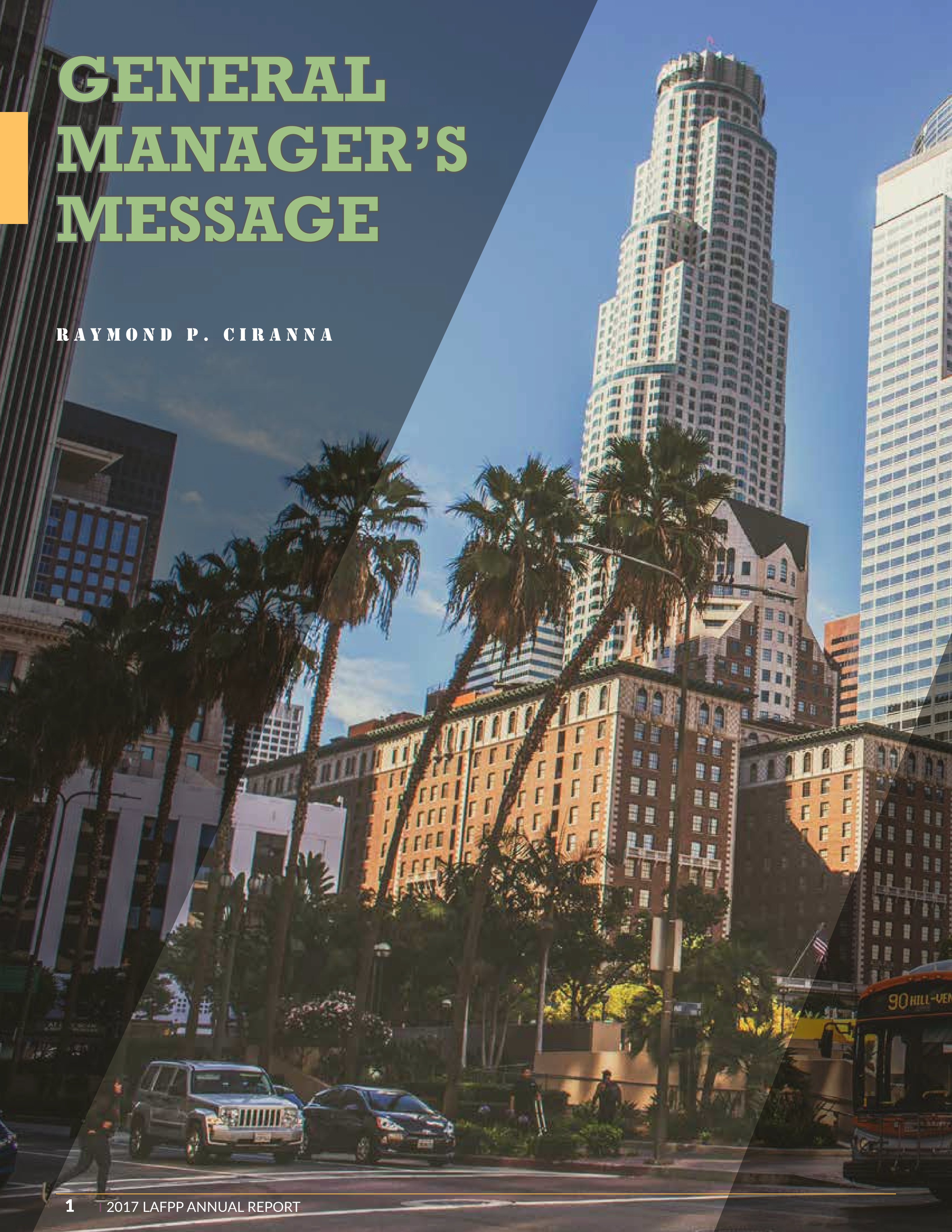
LAFPP ANNUAL REPORT

ISSUED BY:
RAYMOND P. CIRANNA
GENERAL MANAGER

DATA FOR JULY 1, 2016 THROUGH JUNE 30, 2017

GENERAL MANAGER'S MESSAGE

RAYMOND P. CIRANNA



TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

JUNE 30, 2017

After two years of tepid growth, fund assets grew 13.27% in 2016-17, propelling Plan assets to over $20.6 billion. The strong returns were primarily due to the stock market, specifically, growth in the domestic and international equity portfolios of 19.3% and 22.9%, respectively. While the U.S. economy is in the midst of the third longest expansion on record (as of the date of this writing), the Plan has implemented a new asset allocation to mitigate investment risk, and adopted new actuarial assumptions to prepare for potential lower growth in the future.

Service Efforts and Accomplishments

In fiscal year 2016-17, we continued with the second year of implementation for our new pension administration system. As you may recall, the Board awarded a contract to Xerox (now known as Conduent) in May 2015 to replace our aging pension administration system. Implementation began shortly thereafter in July 2015 and staff has been diligently working to develop and test system functionality, and to perform data conversion. With the first phase of the project expected to “go live” in June 2018, we are looking forward to increasing our operational efficiency and providing additional functionality to members.

During 2016-17, the Board spent considerable time reviewing and developing a new asset allocation plan with the assistance of the Plan’s general investment consultant, RVK, Inc. A new asset allocation plan is normally developed every three to five years and is critical to managing risk and achieving desired investment returns by refining the investments of System assets in stocks, bonds, real estate and other asset classes.

Additionally, one of our goals was to provide the Board with education regarding current industry practices and trends concerning actuarial assumptions and funding policies. This education was timely as the Board reviewed its existing funding policy and adopted new actuarial assumptions, as recommended by the System's actuary. The most noteworthy assumption changes were the reduction in the assumed rate of investment return from 7.5% to 7.25%, and adoption of updated mortality tables to account for members living longer. The Board also amended its funding policy by decreasing the amortization period for actuarial assumption changes from 25 years to 20 years.

Staff continues to work on enhancing our business continuity plan to secure member data and provide member services during uncontrolled events such as hardware failures, earthquakes, or other natural disasters. We recognize the need for continuous testing and preparation for these uncontrolled events to secure retirement benefits. As such, we conducted two simulations in the past year to assist staff in preparing for an emergency.

During 2016-17, the Board and staff continued researching new medical and dental insurance options for a small group of members who previously had coverage through LACERS. In March 2017, the City Council adopted an ordinance that required all sworn retirees to enroll in a health or dental plan provided by LAFPP, except for those pensioners retired before 1999. This ordinance change prompted the Board to review the health program to ensure all retirees have access to suitable health coverage options. Some members shared their concern with the Board. The Board worked with the relief associations and unions to open their medical and dental plans to those current and future members who did not previously have access to those medical and/or dental plans.

Over the past several years, staff has been expanding the number of outreach events and seminars to members. 2016-17 was no different as we conducted the highest number of outreach events ever. In fact, over 70 such events were held and/or attended by staff.

Staff also completed several other notable Business Plan projects during 2016-17. These projects included:

- Providing the Board with information on LAFPP's local and sustainable investments
- Conducting a peer review of our Internal Audit function
- Employing new technology and other enhancements to quickly route information to members and provide tools to help educate members and stakeholders
- Updating our internal department-wide procedures and enhancing employee development, recruitment and training efforts

LAFPP continues to grow as an organization as we strive to be a leader and innovator in the public pension industry. The Board and staff continue to utilize prudent and sound investment strategies to grow and protect Plan assets over the long-term to secure the retirement benefits of our members.

As always, I am deeply honored to serve the safety members of our City and I thank the Board and staff for their dedication, diligence, and commitment to the Los Angeles Fire and Police Pension System. I also thank our active and retired members for the service they have provided to the residents of Los Angeles.

Sincerely,

Raymond P. Ciranna
General Manager

YEAR IN REVIEW

20.6B
CURRENT LAFPP PLAN ASSETS IN DOLLARS

$2.11
1-YR TOTAL ASSET INCREASE IN BILLIONS

$4.89
5-YR TOTAL ASSET INCREASE IN BILLIONS

PENSION BENEFITS FUNDING STATUS
91.5%

13.27%
1-YR INVESTMENT RETURN

5-YR ANNUALIZED RATE OF RETURN
9.71
PERCENT

TOTAL NUMBER OF RETIRED MEMBERSHIP
10,404

7.25%
ACTUARIAL ASSUMED RATE OF RETURN

2,675
MEMBERS REACHED THROUGH VARIOUS OUTREACH EVENTS

12
BENEFITS PRESENTATION

16
RECRUIT TALKS

19
FINANCIAL PLANNING SEMINARS

NUMBER OF PARTICIPANTS WHO EXITED DROP
263

NUMBER OF ACTIVE MEMBERS INCLUDING DROP
13,327

9,900 Police | 3,309 Fire | 118 Harbor

SERVICE CONNECTED DISABILITY PENSIONS GRANTED
8

SERVICE PENSIONS GRANTED
71

STRATEGIC GOALS

FY 16-17

GOAL 1
ENSURE A FINANCIALLY SOUND RETIREMENT SYSTEM

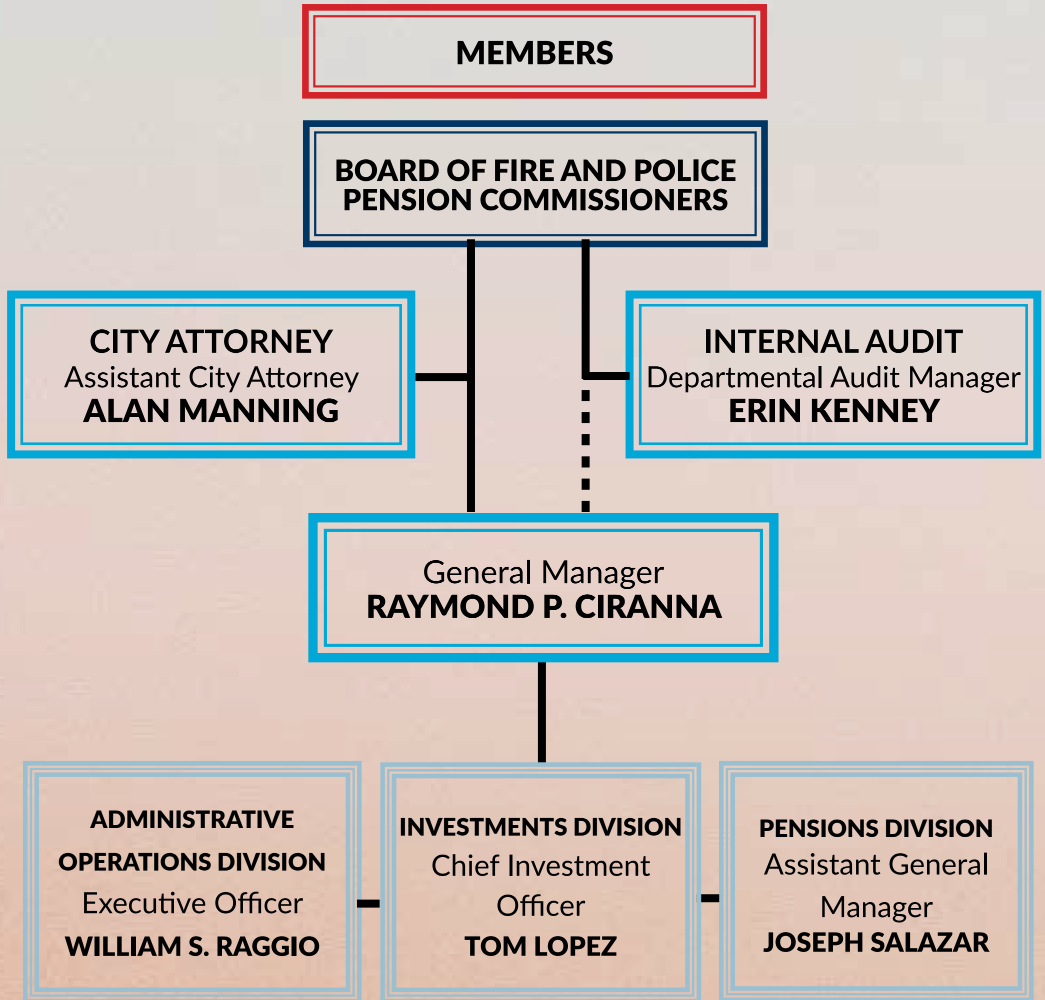
GOAL 2
MANAGE RISK THROUGHOUT THE ORGANIZATION

GOAL 3
ENHANCE CUSTOMER SERVICE TO OUR MEMBERS

GOAL 4
PURSUE OPERATIONAL EFFICIENCIES

GOAL 5
ENHANCE COMMUNICATION EFFORTS AND OUTREACH

ORGANIZATIONAL CHART



SYSTEM ADMINISTRATION

The Fire and Police Pension System is administered by a Board of nine commissioners: five appointed by the Mayor and four elected by members. Fire and Police sworn employees each elect one active member, and Fire and Police retirees each elect one retired member. The Board administers the System in accordance with the City Charter and the State Constitution. Article XVI, Section 17 (a) of the State Constitution provides the Board "sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17 (b) further provides that "members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

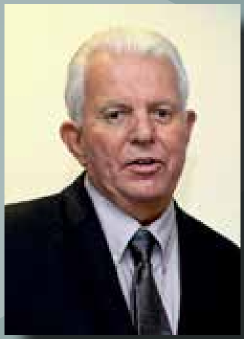
BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

Pedram Salimpour, MD
President
Appointed by the Mayor

Ruben Navarro
Vice-President
Elected by Active Fire Members

George V. Aliano
Elected by Retired Police Members

Corinne T. Babcock
Appointed by the Mayor



Sam Diannitto
Elected by Retired Fire Members

Adam Nathanson
Appointed by the Mayor

Brian Pendleton
Appointed by the Mayor

Belinda M. Vega
Appointed by the Mayor

Robert von Voigt
Elected by Active Police Members

The Board meets on the first and third Thursdays of the month at 8:30 a.m. Most meetings, including special meetings, are from one to four hours in duration. The Board's current directory and meeting information are available on the Department website at: www.lafpp.com/board.

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2017

Presented to

Los Angeles Fire & Police Pensions

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

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PART 2

FINANCIAL STATEMENTS

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

S&S

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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www.simpsonandsimpsoncpas.com

SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Fire and Police Pension Commissioners
Los Angeles Fire and Police Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2017 and 2016, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 opinions on the respective financial statements for each plan, based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

The CPA. Never Underestimate The Value.℠

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2017 and 2016, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, 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 audits 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective July 1, 2016, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the System'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 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 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 System's internal control over financial reporting and compliance.

Simpson & Simpson

Los Angeles, California
November 20, 2017

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

FINANCIAL HIGHLIGHTS

- Net position at the close of the fiscal year ended June 30, 2017, was $19.0 billion and $1.7 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.

- Net position increase by $1.9 billion or 11.1% and increased by $230.3 million or 16% for the Pension Plan and Health Subsidy Plan, respectively.

- As of June 30, 2017, the date of the most recent actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 91.5% and 49.3%, respectively.

- Additions to the Pension Plan's net position increased by $2.1 billion or 270.5% from $767.4 million to $2.8 billion, due primarily to the net appreciation in the fair value of investments in fiscal year 2017.

- Deductions from the Pension Plan's net position decreased by $60.5 million or 6.0% over fiscal year 2016 from $1.0 billion to $949.2 million.

- Additions to the Health Subsidy Plan's net position increased by $191.5 million or 117.4% from $163.1 million to $354.6 million, due to the net appreciation in the fair value of investments in fiscal year 2017.

- Deductions from the Health Subsidy Plan's net position increased by $6.1 million or 5.2% over fiscal year 2016 from $118.1 million to 124.3 million in the fiscal year 2017.

- The total pension liability for the Pension Plan at June 30, 2017, was $20.8 billion, and the fiduciary net position was $19.0 billion. Thus, the net pension liability for the Pension Plan was $1.8 billion, and the fiduciary net position as a percentage of the total pension liability was 91.27%.

- The total Other Post-Employment Benefits (OPEB) liability for the Health Subsidy Plan at June 30, 2017, was $3.4 billion, and the fiduciary net position was $1.7 billion. Thus, the net pension liability for the Pension Plan was $1.7 billion, and the fiduciary net position as a percentage of the total pension liability was 49.61%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the financial statements of the System, which are:

1. Statement of Fiduciary Net Position
2. Statement of Changes in Fiduciary Net Position
3. Notes to the Financial Statements

The Statement of Fiduciary Net Position is a snapshot of account balances at year-end. It indicates the amount of assets available for payment to retirees, beneficiaries, and any current liabilities owed at year-end.

The Statement of Changes in Fiduciary Net Position reports additions to and deductions from the fiduciary net position during the year.

The above statements are on a full accrual basis of accounting. Investment gains and losses are shown at trade date, and account balances are based on fair values recognizing both realized and unrealized gains and losses on investments.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 14 to 53 of this report.

The *Required Supplementary Information* (RSI) section includes the following six schedules:

Pension Plan:
- Schedule of Changes in Net Pension Liability and Related Ratio
- Schedule of Employer Contributions
- Notes to Schedule of Employer Contribution
- Schedule of Investment Returns
- Schedule of Employer's Net Pension Liability

Health Subsidy Plan:
- Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios
- Schedule of Employer Contributions
- Schedule of Investment Returns
- Schedule of Employer's Net Other Postemployment Benefits Liability

FINANCIAL ANALYSIS

Pension Plan

Fiduciary Net Position

A summary of the Pension Plan's net position and changes in net position is presented below:

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Cash	$ 1,468	$ 2,024	$ (556)	-27.5%
Receivables/Prepayments	186,266	122,778	63,488	51.7%
Investments	20,616,058	18,775,169	1,840,889	9.8%
Capital Assets	24,540	21,873	2,667	12.2%
Total Assets	20,828,332	18,921,844	1,906,488	10.1%
Liabilities	1,829,929	1,817,568	12,361	0.7%
Net Position	$ 18,998,403	$ 17,104,276	$ 1,894,127	11.1%

Net position increased by $1.9 billion (11.1%) to $19.0 billion from fiscal year 2016. Assets increased in value by $1.9 billion when compared with the prior fiscal year 2016, attributable to appreciation of investments due to favorable market conditions.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2016	2015	Change	% Change
Cash	$ 2,024	$ 955	$ 1,069	111.9%
Receivables/Prepayments	122,778	237,392	(114,614)	-48.3%
Investments	18,775,169	18,916,665	(141,496)	-0.7%
Capital Assets	21,873	12,613	9,260	73.4%
Total Assets	18,921,844	19,167,625	(245,781)	-1.3%
Liabilities	1,817,568	1,821,071	(3,503)	-0.2%
Net Position	$ 17,104,276	$ 17,346,554	$ (242,278)	-1.4%

Net position decreased by $241.3 million (1.4%) to $17.1 billion from fiscal year 2016. Assets decreased in value by $244.8 million when compared with fiscal year 2016, attributable to depreciation of investments due to unfavorable market conditions.

Pension Plan (Continued)

Changes in Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Additions				
Employer Contributions	$ 454,309	$ 478,385	$ (24,076)	-5.0%
Member Contributions	128,900	129,734	(834)	-0.6%
Net Investment Income	2,256,694	156,205	2,100,489	1344.7%
Other Income	3,436	3,108	328	10.6%
Total Additions	2,843,339	767,432	2,075,907	270.5%
Deductions				
Pension Benefits	925,903	987,296	(61,393)	-6.2%
Refund of Contributions	4,175	3,067	1,108	36.1%
Administrative Expenses	19,134	19,347	(213)	-1.1%
Total Deductions	949,212	1,009,710	(60,498)	-6.0%
Net Increase (Decrease)	1,894,127	(242,278)	2,136,405	-881.8%
Net Position, Beginning of Year	17,104,276	17,346,554	(242,278)	-1.4%
Net Position	$ 18,998,403	$ 17,104,276	$ 1,894,127	11.1%

Additions to Fiduciary Net Position

Additions needed to fund benefit payments are accumulated through employer and member contributions, and from income generated from the Plan's investing activities.

Contributions for fiscal year 2017 totaled $583.2 million, down by $24.9 million or 4.1% over fiscal year 2016. The decrease in employer's contributions was due to the decrease in required contribution in fiscal year 2017. The employer's contribution for fiscal year 2017 was $454.3 million compared to $478.4 million for fiscal year 2016.

Net investment income amounted to $2.3 billion, an increase in net investment income of $2.1 billion or 1344.7% when compared with $156.2 million from fiscal year 2016. Investment income increased in fiscal year 2017 due to favorable market conditions.

Deductions from Fiduciary Net Position

Costs associated with the Pension Plan include benefit payments to members, refund of contributions due to termination and member death, and administrative expenses.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Deductions for the fiscal year ended June 30, 2017, totaled $949.2 million, a decrease of $60.5 million over fiscal year 2016. The decrease was due primarily to the decrease in retiree benefit payments resulting from a decrease in the number of Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2016.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2016	2015	Change	% Change
Additions				
Employer Contributions	$ 478,385	$ 480,332	$ (1,947)	-0.4%
Member Contributions	129,734	126,771	2,963	2.3%
Net Investment Income	156,205	669,668	(513,463)	-76.7%
Other Income	3,108	4,849	(1,741)	-35.9%
Total Additions	767,432	1,281,620	(514,188)	-40.1%
Deductions				
Pension Benefits	987,296	915,163	72,133	7.9%
Refund of Contributions	3,067	3,746	(679)	-18.1%
Administrative Expenses	19,347	17,814	1,533	8.6%
Total Deductions	1,009,710	936,723	72,987	7.8%
Net Increase (Decrease)	(242,278)	344,897	(587,175)	-170.2%
Net Position, Beginning of Year	17,346,554	17,001,657	344,897	2.0%
Net Position	$ 17,104,276	$ 17,346,554	$ (242,278)	-1.4%

Additions to Fiduciary Net Position

Additions needed to fund benefit payments are accumulated through employer and member contributions, and from income generated from the Plan's investing activities.

Contributions for fiscal year 2016 totaled $608.1 million, up by $1.0 million or 0.2% over fiscal year 2015. The increase in members' contributions was due to an increase in membership in Tier 6. The members' contribution for fiscal year 2016 was $129.7 million compared to $126.8 million for fiscal year 2015.

Net investment income amounted to $156.2 million, a decrease in net investment income of $513.5 million or 76.7% when compared with $669.7 million from fiscal year 2015. Investment income decreased in fiscal year 2016 due to unfavorable market conditions.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Deductions from Fiduciary Net Position

Costs associated with the Pension Plan include benefit payments to members, refund of contributions due to termination and member death, and administrative expenses.

Deductions for the fiscal year ended June 30, 2016, totaled $1.0 billion, an increase of $73.0 million or 7.8% over fiscal year 2015. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries.

Health Subsidy Plan

A summary of the Health Subsidy Plan's net position and changes in net position is presented below:

Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Cash	$ 128	$ 169	$ (41)	-24.3%
Receivables/Prepayments	25,604	18,763	6,841	36.5%
Investments	1,797,379	1,564,177	233,202	14.9%
Capital Assets	2,134	1,822	312	17.1%
Total Assets	1,825,245	1,584,931	240,314	15.2%
Liabilities	159,419	149,527	9,892	6.6%
Net Position	$ 1,665,826	$ 1,435,404	$ 230,422	16.1%

Net position increased by $230.4 million 16.1% to $1.7 billion when compared to fiscal year 2016 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2016	2015	Change	% Change
Cash	$ 169	$ 76	$ 93	122.4%
Receivables/Prepayments	18,763	27,294	(8,531)	-31.3%
Investments	1,564,177	1,505,961	58,216	3.9%
Capital Assets	1,822	1,004	818	81.5%
Total Assets	1,584,931	1,534,335	50,596	3.3%
Liabilities	149,527	143,788	5,739	4.0%
Net Position	$ 1,435,404	$ 1,390,547	$ 44,857	3.2%

Net position increased by $44.9 million (3.2%) to $1.4 billion when compared to fiscal year 2016 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy.

Changes in Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Additions				
Contributions	$ 165,170	$ 150,315	$ 14,855	9.9%
Net Investment Income	189,381	12,522	176,859	1412.4%
Other Income	39	249	(210)	-84.3%
Total Additions	354,590	163,086	191,504	117.4%
Deductions				
Benefits Payment	122,562	116,678	5,884	5.0%
Administrative Expenses	1,606	1,551	55	3.5%
Total Deductions	124,168	118,229	5,939	5.0%
Net Increase	230,422	44,857	185,565	413.7%
Net Position, Beginning of Year	1,435,404	1,390,547	44,857	3.2%
Net Position	$ 1,665,826	$ 1,435,404	$ 230,422	16.1%

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Additions to Fiduciary Net Position

Total additions to net position increased by $191.5 million compared to fiscal year 2016. This is due primarily to an increase in net investment income by $176.9 million, mostly attributed to favorable market conditions, and an increase in contributions of $14.9 million or 9.9% over fiscal year 2016. For fiscal year 2017, employer contribution was $165.2 million compared to $150.3 million in fiscal year 2016 due to an increase in required employer's contribution.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were $124.2 million, $5.9 million or 5.0% more than the total deductions of fiscal year 2016. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2016	2015	Change	% Change
Additions				
Contributions	$ 150,315	$ 148,477	$ 1,838	1.2%
Net Investment Income	12,522	51,291	(38,769)	-75.6%
Other Income	249	371	(122)	-32.9%
Total Additions	163,086	200,139	(37,053)	-18.5%
Deductions				
Benefits Payment	116,678	110,411	6,267	5.7%
Administrative Expenses	1,551	1,364	187	13.7%
Total Deductions	118,229	111,775	6,454	5.8%
Net Increase	44,857	88,364	(43,507)	-49.2%
Net Position, Beginning of Year	1,390,547	1,302,183	88,364	6.8%
Net Position	$ 1,435,404	$ 1,390,547	$ 44,857	3.2%

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Additions to Fiduciary Net Position

Total additions to net position decreased by $37.1 million compared to fiscal year 2015. This is due primarily to a decrease in net investment income by $38.8 million, mostly attributed to unfavorable market conditions, offset by an increase in contributions of $1.8 million or 1.2% over fiscal year 2015. For fiscal year 2016, employer contribution was $150.3 million compared to $148.5 million in fiscal year 2015 due to an increase in covered payroll.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were $118.2 million or 5.8% more than the total deductions of fiscal year 2015. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

Current Year Changes

GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, in June 2015. This statement replaces Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, as amended and Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. This statement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The System, through its professional organizations, management, and consultants, worked to evaluate and implement the new requirements as prescribed within the required time frame.

REQUEST FOR INFORMATION

This financial report is designed to provide the Board of Fire and Police Pension Commissioners, members, investment managers, and creditors with a general overview of LAFPP's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Raymond P. Ciranna, General Manager
Los Angeles Fire and Police Pension System
701 E. Third Street, Suite 200
Los Angeles, CA 90013

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2017 AND 2016

	2017			2016		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	$ 1,467,868	$ 127,974	$ 1,595,842	$ 2,023,847	$ 168,609	$ 2,192,456
Receivables						
Accrued Interest and Dividends	53,577,921	4,671,108	58,249,029	51,966,161	4,329,351	56,295,512
Contributions	2,945,722	-	2,945,722	7,499,627		7,499,627
Due from Brokers	129,740,348	11,311,212	141,051,560	63,304,733	5,273,978	68,578,711
Total Receivables	186,263,991	15,982,320	202,246,311	122,770,521	9,603,329	132,373,850
Prepaid Health Subsidy	2,612	9,622,248	9,624,860	7,376	9,159,638	9,167,014
Investments at Fair Value						
Temporary	1,034,325,371	90,176,061	1,124,501,432	929,116,882	77,405,622	1,006,522,504
U.S. Government Obligations	2,192,318,765	191,133,928	2,383,452,693	2,080,871,205	173,359,386	2,254,230,591
Corporate Bonds	1,595,889,017	139,135,121	1,735,024,138	1,656,749,063	138,025,361	1,794,774,424
Foreign Bonds	3,478,909	303,303	3,782,212	6,711,342	559,128	7,270,470
Domestic Stocks	7,266,875,297	633,551,307	7,900,426,604	6,412,878,444	534,263,081	6,947,141,525
Foreign Stocks	3,790,112,806	330,435,135	4,120,547,941	3,186,510,937	265,471,296	3,451,982,233
Real Estate	1,388,035,599	121,013,742	1,509,049,341	1,392,083,051	115,975,780	1,508,058,831
Alternative Investments	1,957,356,291	170,649,087	2,128,005,378	1,739,350,013	144,906,925	1,884,256,938
Total Investments	19,228,392,055	1,676,397,684	20,904,789,739	17,404,270,937	1,449,966,579	18,854,237,516
Capital Assets	24,540,357	2,134,022	26,674,379	21,873,006	1,822,261	23,695,267
Securities Lending Collateral	1,387,666,262	120,981,541	1,508,647,803	1,370,898,246	114,210,854	1,485,109,100
TOTAL ASSETS	20,828,333,145	1,825,245,789	22,653,578,934	18,921,843,933	1,584,931,270	20,506,775,203
LIABILITIES						
Accounts Payable and Accrued Expenses	10,340,953	869,950	11,210,903	11,998,804	953,252	12,952,056
Benefits in Process of Payment	11,043,094	874,149	11,917,243	31,977,504	814,774	32,792,278
Due to Brokers	232,403,127	20,261,708	252,664,835	233,799,426	19,478,055	253,277,481
Mortgage Payable	188,452,481	16,429,939	204,882,420	168,869,885	14,068,713	182,938,598
Security Deposit	23,648	2,062	25,710	23,733	1,977	25,710
Securities Lending Collateral	1,387,666,262	120,981,541	1,508,647,803	1,370,898,246	114,210,854	1,485,109,100
TOTAL LIABILITIES	1,829,929,565	159,419,349	1,989,348,914	1,817,567,598	149,527,625	1,967,095,223
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	$ 18,998,403,580	$ 1,665,826,440	$ 20,664,230,020	$ 17,104,276,335	$ 1,435,403,645	$ 18,539,679,980

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

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2017 AND 2016

	2017			2016		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	$ 454,308,852	$ 165,170,422	$ 619,479,274	$ 478,385,438	$ 150,315,374	$ 628,700,812
Member Contributions	128,900,736	-	128,900,736	129,733,559	-	129,733,559
Total Contributions	583,209,588	165,170,422	748,380,010	608,118,997	150,315,374	758,434,371
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	1,882,904,793	158,012,564	2,040,917,357	(221,126,477)	(17,726,095)	(238,852,572)
Interest	116,309,376	9,760,633	126,070,009	117,592,847	9,426,560	127,019,407
Dividends	233,045,202	19,557,054	252,602,256	226,490,236	18,156,069	244,646,305
Net Real Estate Income	56,818,584	4,768,191	61,586,775	76,412,712	6,125,449	82,538,161
Income from Alternative Investments	18,696,615	1,569,012	20,265,627	24,137,732	1,934,946	26,072,678
Securities Lending Income	8,677,850	728,241	9,406,091	8,202,075	657,500	8,859,575
Less: Securities Lending Expense	(1,096,682)	(92,033)	(1,188,715)	(818,709)	(65,629)	(884,338)
Other Income	19,722,827	1,655,131	21,377,958	(3,132,218)	(251,087)	(3,383,305)
Subtotal	2,335,078,565	195,958,793	2,531,037,358	227,758,198	18,257,713	246,015,911
Less: Investment Manager Expense	(78,384,510)	(6,577,994)	(84,962,504)	(71,553,142)	(5,735,893)	(77,289,035)
Net Investment Income	2,256,694,055	189,380,799	2,446,074,854	156,205,056	12,521,820	168,726,876
Other Income						
Miscellaneous	3,435,838	38,946	3,474,784	3,107,832	249,132	3,356,964
Total Other Income	3,435,838	38,946	3,474,784	3,107,832	249,132	3,356,964
TOTAL ADDITIONS	2,843,339,481	354,590,167	3,197,929,648	767,431,885	163,086,326	930,518,211
DEDUCTIONS						
Pension Benefits	925,903,130	-	925,903,130	987,296,111	-	987,296,111
Payment of Health Subsidy	-	112,744,840	112,744,840	-	107,064,398	107,064,398
Payment of Medicare Reimbursement	-	9,816,800	9,816,800	-	9,614,045	9,614,045
Refund of Contributions	4,174,935	-	4,174,935	3,067,069	-	3,067,069
Administrative Expenses	19,134,171	1,605,732	20,739,903	19,346,446	1,550,864	20,897,310
TOTAL DEDUCTIONS	949,212,236	124,167,372	1,073,379,608	1,009,709,626	118,229,307	1,127,938,933
NET INCREASE (DECREASE)	1,894,127,245	230,422,795	2,124,550,040	(242,277,741)	44,857,019	(197,420,722)
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	17,104,276,335	1,435,403,645	18,539,679,980	17,346,554,076	1,390,546,626	18,737,100,702
End of Year	$ 18,998,403,580	$ 1,665,826,440	$ 20,664,230,020	$ 17,104,276,335	$ 1,435,403,645	$ 18,539,679,980

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – DESCRIPTION OF THE PLANS

The Los Angeles Fire and Police Pension System (the System or LAFPP) was established by the City of Los Angeles (the City) in 1899 and operates under the provisions of the City Charter and Administrative Code. The System is a single employer public employee retirement system whose main function is to provide retirement benefits to the safety members employed by the City.

The System is administered by a Board of Fire and Police Pension Commissioners (Board) composed of five commissioners who are appointed by the Mayor, two commissioners elected by Police members of the System and two commissioners elected by Fire members of the System. Under the provisions of the City Charter and Administrative Code and the State Constitution, the Board has the responsibility to administer the Pension Plan and Health Subsidy Plan.

Pension Plan

The System's Pension Plan is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain Harbor Port Police and Airport police officers of the City of Los Angeles. The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ended June 30, 1983, or have since been hired. The System is composed of six tiers. Effective July 1, 2011, a new pension tier, Tier 6, was added. Benefits are based on the member's pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997, and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of August 6, 1999. Tier 4 includes members hired from July 1, 1997 through December 31, 2001, and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 includes members hired from January 1, 2002 through June 30, 2011, and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 5 was the tier for all Harbor Port police officers hired on or after January 8, 2006 through June 30, 2011. Harbor Port police officers hired before January 8, 2006, who were members of LACERS, and were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 to January 5, 2007.

Tier 6 was established for all firefighters, police and Harbor Port police officers hired on or after July 1, 2011. Tier 6 includes sworn officers from the Department of General Services who transferred to Los Angeles Police Department (LAPD) classifications and elected to opt out of LACERS by the December 12, 2014 deadline. Effective January 7, 2018, Tier 6 will also include all new Airport police officers as well as any current Airport police officers who elect to transfer to Tier 6 from LACERS at their own expense. The inclusion of Airport police officers in Tier 6 was pursuant to a City Charter amendment approved by the voters at the November 8, 2016 Special Election.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

Tier 1 members hired prior to January 17, 1927, with 20 years of service are entitled to annual pension benefits equal to 50%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 members hired on or after January 17, 1927, with 20 or more years of service are entitled to annual pension benefits equal to 40%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 has no minimum age requirement and provides for unlimited post-employment cost-of-living adjustments (COLA) based on the Consumer Price Index (CPI). Tier 1 members who were active as of July 1, 1982, and who terminated their employment after July 1, 1982, were entitled to a refund of contributions plus Board-approved interest if they did not qualify for a pension or if they waived their pension entitlements.

Tier 2 members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 2 has no minimum age requirement and provides for unlimited post-employment COLAs based on the CPI. Tier 2 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982, are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 3 members must be at least age 50 with 10 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 20% of the monthly average of a member's salary during any 12 consecutive months of service as a Plan member (one-year average compensation), increasing for each year of service over 10 years, to a maximum of 70% for 30 years. Tier 3 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The Los Angeles City Council (City Council) may grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 4 members must have at least 20 years of service to be entitled to a service pension. There is no minimum age requirement. Annual pension benefits are equal to 40% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 4 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The City Council may grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment before they are eligible for pension benefits do not receive a refund of contributions.

Tier 5 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 6 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter; Section 4.2018 of the Administrative Code; and related ordinances. Members who retire from the System with at least 10 years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60.

For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55. Tier 6 members who retire on service-connected disability pension are eligible for a minimum health subsidy at age 55 if they have fewer than 10 years of service.

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. The maximum monthly subsidy for fiscal years 2017 and 2016 was $1,535.59 and $1,438.49, respectively. The System also reimburses Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

Health subsidy benefits are available to members and their covered dependents (e.g. spouses/domestic partners, children) on disability and service retirement. Effective January 1, 2000, qualified surviving spouses/domestic partners are eligible for health subsidy benefits.

The System began pre-funding the health subsidy benefits effective with the 1989-1990 plan year. Full funding was phased in over four years.

Effective July 1, 2008, actual employer contributions and benefit payments relating to health subsidy benefits are separately accounted for in order to comply with Internal Revenue Code Section 401 (h).

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Health Insurance Premium Reimbursement Program

Effective January 1, 2001, members of the System are entitled to post-employment health insurance premium reimbursements under Section 4.1163 of the Administrative Code.

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The pensioner (whether living or deceased) must meet minimum age requirements and service requirements for a health subsidy. The pensioner or qualified surviving spouse/domestic partner must reside either outside California or in the State of California but not within a Board-approved health plan zip code service area. They may not be enrolled in a Board-approved plan. Effective April 6, 2017, pensioners or qualified surviving spouses/domestic partners may reside anywhere and be eligible to participate in this program.

The reimbursement paid is a percentage of the maximum subsidy for health care. The System also reimburses basic Medicare Part B premiums for any pensioner or qualified surviving spouse/domestic partner eligible to receive a subsidy and enrolled in Medicare Parts A and B.

Dental Subsidy Plan

Members who retire from the System with at least 10 years of service, are age 55 years or older, and are enrolled in a Board-approved dental plan, are eligible for dental subsidy benefits. Surviving spouses, domestic partners, and dependents are not covered by this subsidy.

The benefit paid is a percentage of a maximum subsidy for dental care based on the lower of the dental subsidy in effect for LACERS (civilian retirees) or active Safety Members. The maximum monthly subsidy for calendar years 2017 and 2016 was $44.60 and $43.24 respectively. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the maximum.

Deferred Retirement Option Plan

Effective May 1, 2002, members of the System have the option to enroll in the Deferred Retirement Option Plan (DROP) under Section 4.2100 of the Administrative Code. Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3, 5, and 6 who have at least 25 years of service and who are at least age 50 are eligible for DROP.

Members who enroll continue to work and receive their active salary for up to five years. Enrolled members continue to contribute to the System until they have completed the maximum number of years required for their tier but cease to earn additional retirement service and salary credits. Monthly pension benefits that would have been paid to enrolled members are credited to their DROP accounts. DROP account balances earn interest at an annual rate of 5%.

Once the DROP participation period ends, enrolled members must terminate active employment. They then receive the proceeds from their DROP account and a monthly benefit based on their service and salary at the beginning date of their DROP participation, plus applicable COLAs.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Deferred Retirement Option Plan (Continued)

At June 30, 2017 and 2016, 1,303 and 1,243 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately $266,979,075 and $239,562,356, respectively.

Two Percent Opt-In

On July 15, 2011, the City Council adopted an ordinance to permanently freeze the retiree health subsidies and reimbursements for members of the System who retired or entered DROP on or after July 15, 2011. This ordinance added language to the Los Angeles Administrative Code to freeze the maximum monthly non-Medicare subsidy at the July 1, 2011, rate of $1,097.41 per month, and freeze the maximum monthly Medicare subsidy as of the January 1, 2011, rate of $480.41 per month. However, the ordinance also provided that members may make an irrevocable election to contribute towards vesting increases in the maximum medical subsidy, as allowed by an applicable Memorandum of Understanding.

Members who opted-in to make the additional two percent pension contributions are entitled to the current maximum medical subsidy benefit and all future subsidy increases once they retire and become eligible to receive a subsidy. The opt-in period for the majority of the members began August 15, 2011, and closed September 29, 2011.

SINCE THE PENSION PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE LEGAL TEXT OF THE CITY CHARTER AND LOS ANGELES CITY ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan Membership

The components of the System's Pension Plan membership at June 30, 2017 and 2016, are as follows:

	2017	2016
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	-
Tier 4	175	178
Tier 5	6,093	6,588
Tier 6	2,399	1,781
	8,667	8,547
Active Vested:		
Tier 1	-	-
Tier 2	10	12
Tier 3	759	799
Tier 4	110	121
Tier 5	3,781	3,571
Tier 6	-	-
	4,660	4,503
Pensioners and Beneficiaries:		
Tier 1	349	403
Tier 2	7,519	7,738
Tier 3	639	594
Tier 4	289	275
Tier 5	4,039	3,809
Tier 6	1	-
	12,836	12,819
Vested Terminated		
Tier 3	44	44
Tier 5	213	47
Tier 6	117	37
	374	128
	26,537	25,997

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Financial Reporting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as outlined by the Governmental Accounting Standards Board (GASB).

Investments and Method Used to Value Investments

Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, U.S. Treasury bills, and repurchase agreements along with bonds, stocks, and alternative investments, are reported at fair value. Pooled temporary investments represent funds invested in a custodian-managed discretionary short-term investment fund. This fund invests in a variety of U.S. and foreign securities rated A1 or P-1 by Moody's Investors Service and Standard & Poor's, respectively, or equivalent quality as determined by the custodian.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the System's year-end. Resulting gains or losses are included in the System's Statements of Changes in Fiduciary Net Position.

The category of alternative investments includes private equity and hedge funds. Private equity investments are composed predominantly of limited partnerships that invest mainly in privately-owned companies. Hedge funds are pooled investment programs that invest in a wide variety of asset classes and use a wide variety of approaches. The use of leverage and short selling is a common characteristic.

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 the accrual basis of accounting. The corresponding proceeds due from sales are reported on the Statements of Fiduciary Net Position as receivables and labeled due from brokers, and amounts payable for purchases are reported as liabilities and labeled due to brokers. Dividend income is recorded on ex-dividend date and interest income is accrued as earned.

Investments are carried at fair value. The fair value of securities investments is generally based on published market prices or quotations from major investment dealers. Investments for which market quotations are not readily available are valued at their estimated fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net position valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the investment managers of investee limited partnerships.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Method Used to Value Investments (Continued)

The sole hedge fund investment is valued by the fund manager based upon the information received from individual hedge funds in which monies are invested. Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by a periodic external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers with periodic external valuations.

Cash

Cash consists primarily of an undivided interest in the cash held by the City Treasurer. These monies are pooled with the monies of other City agencies and invested by the City Treasurer's office.

Capital Assets

Capital assets include land, building, improvements, computer/software, furniture and fixtures that are used in operation. Assets with an individual cost of at least $5,000 and an estimated useful life of more than one year are capitalized. Capital assets are valued at acquisition cost plus the cost of improvements. Depreciation is computed using the straight-line method over the estimated useful lives of the building and improvements (20-year), computer/software (10-year) and furniture and fixtures (5-year). The System acquired the Neptune Building in fiscal year 2013 and occupied as the headquarters in fiscal year 2016. Recorded values of land and building were assigned based on a ratio obtained from the November 2016 independent appraisal report. Depreciation expense for fiscal year 2017 represents 15-month period from the time the building was occupied on March 21, 2016 to June 30, 2017.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

Implementation of New Accounting Pronouncements

The System adopted Governmental Accounting Standard Board (GASB) Statement No. 74 (GASB 74), Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, effective at the beginning of fiscal year 2017. This Statement provides guidance for financial reporting and disclosures requirements for the postemployment benefit plans other than pension plans.

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of the Tier 5 required contribution rate contingent on the System remaining at least 100% actuarially funded for pension benefits. Since July 1, 2006, Tier 5 members have been required to contribute 9% of salary because the System has remained less than 100% actuarially funded for pension benefits as determined by the System's actuary. Tier 6 members are required to contribute 9% of salary for regular pension contributions. Tier 6 members are also required to make an additional pension contribution of 2% of salary to support the City's ability to fund retiree health benefits. Airport police officers who transfer to Tier 6 from LACERS are required to contribute to the System at their same LACERS contribution rates until they retire.

The City Charter specifies that the City will make the following contributions each year:

A. An amount equal to the City's share of defined entry age normal costs.

B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4, and 5, any "unfunded liability" resulting from plan amendments shall be amortized over a 25-year period, and actuarial experience gains and losses shall be amortized over a 20-year period. For Tier 6, the unfunded liabilities shall be funded in accordance with the actuarial funding method adopted by the Board upon the advice of the consulting actuary. Charter Amendment G, effective April 8, 2011, now provides that with the advice of the consulting actuary, the Board shall establish amortization policies for unfunded actuarial accrued liabilities and surpluses for all Tiers.

C. An amount to provide for the Health Subsidy Plan.

Accordingly, the City's contributions as determined by the System's actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2017 and 2016, were as follows ($ in thousands):

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

Fiscal Year Ended June 30, 2017

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry Age Cost	$ -	$ 768	$15,509	$ 6,399	$221,606	$13,543	$ 2,454	$ 153
Unfunded Supplemental Present Value amount	15,019	10,793	32,102	16,189	98,825	7,338	828	68
Pension Administrative Expenses	-	28	850	335	10,592	786	114	9
Health Subsidy Entry Age Cos	-	108	4,118	1,550	48,772	5,782	705	61
Health Subsidy Unfunded Actuarial Accrued Liability	1,846	57,008	4,704	2,768	34,222	2,541	136	11
Health Administrative Expenses	-	2	56	22	698	52	8	1
Total	$16,865	$68,707	$57,339	$27,263	$414,715	$30,042	$ 4,245	$ 303

During fiscal year 2017, total contributions of $619,479,274 from the employer and $128,900,736 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2015. For the Pension Plan, fiscal year 2017 employer contributions included $268.0 million for entry age normal cost, $180.1 million for the unfunded supplemental present value annual amount, $13.2 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2017 employer contributions consisted of $67.9 million for entry age normal cost and $109.5 million for the unfunded actuarial accrued liability annual amount, and $0.9 million for health administrative expense.

Fiscal Year Ended June 30, 2016

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry Age Cost	$ -	$ 1,688	$15,613	$ 6,756	$220,890	$ 7,314	$ 2,337	$ 38
Unfunded Supplemental Present Value amount	15,482	28,132	24,783	12,994	122,491	4,979	956	20
Pension Administrative Expenses	-	61	853	354	10,496	427	109	2
Health Subsidy Entry Age Co	-	221	3,882	1,523	44,982	3,409	610	19
Health Subsidy Unfunded Actuarial Accrued Liability	1,878	50,905	4,555	2,813	33,218	1,350	136	3
Health Administrative Expenses	-	4	56	23	692	28	7	-
Total	$17,360	$81,011	$49,742	$24,463	$432,769	$17,507	$ 4,155	$ 82

During fiscal year 2016, total contributions of $628,700,812 from the employer and $129,733,559 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2014. For the Pension Plan, fiscal year 2016 employer contributions included $254.6 million for

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

entry age normal cost, $209.8 million for the unfunded supplemental present value annual amount, $12.3 million for pension administrative expense and $1.6 million transfer from LACERS for sworn officers who opted to transfer from the Department of General Services. For the Health Subsidy Plan, fiscal year 2016 employer contributions consisted of $54.6 million for entry age normal cost and $94.9 million for the unfunded actuarial accrued liability annual amount, and $0.8 million for health administrative expense.

NOTE 4 – NET PENSION LIABILITY

The components of the System's net pension liability (NPL) at June 30, 2017 and 2016, were as follows:

	2017	2016
Total Pension Liability	$ 20,814,044,544	$ 19,565,408,718
Less: Fiduciary Net Position	18,998,403,580	17,104,276,335
Net Pension Liability	$ 1,815,640,964	$ 2,461,132,383
Fiduciary Net Position as a Percentage of the Total Pension Liability	91.28% `	87.42%

The NPL was measured as of June 30, 2017 and June 30, 2016 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2016 and 2015 respectively.

Actuarial Assumptions

The TPL as of June 30, 2017 that was determined by actuarial valuations as of June 30, 2016, was remeasured as of June 30, 2017 to reflect the actuarial assumptions that the Board has approved for use in the pension funding valuation as of June 30, 2017. Those actuarial assumptions were based on the result of an experience study for the period from July 1, 2013 through June 30, 2016 with the exception of the mortality assumption where the Board adopted the base mortality table recommended but with a static projection with increased margin. They are the same as the assumptions used in the June 30, 2017 funding actuarial valuation for the Pension Plan. The following actuarial assumptions were applied to all periods included in the measurement:

Inflation Rate	3.00%
Projected Salary Increase	Ranges from 4.30% to 12.00% based on years of service, including inflation.
Investment Return Rate	7.25%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.50%

NOTE 4 – NET PENSION LIABILITY (Continued)

Actuarial Assumptions (continued)

Cost of Living Adjustments (COLAs)	3.00% of Tiers 1, 2, 3, and 4 retirement income and 3.00% maximum of Tiers 5 and 6 retirement income.
Mortality	Healthy: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set back one year for members. Headcount-Weighted RP-2014 Health Annuitant Mortality Table projected 20 years with two-dimensional Scale MP 2016, set forward one year for beneficiaries. Disabled: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year.

The TPL as of June 30, 2016 was determined by an actuarial valuation as of June 30, 2015. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study for the period from July 1, 2010 through June 30, 2013. They are the same as the assumptions used in the June 30, 2016 funding actuarial valuation for the Pension Plan. The following actuarial assumptions were applied to all periods included in the measurement:

Inflation Rate	3.25%
Projected Salary Increase	Ranges from 4.75 to 11.50% based on years of service, including inflation.
Investment Return Rate	7.50%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.75%
Cost of Living Adjustments (COLAs)	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table (separate for males and females) projected to 2022 with scale BB set back one year for members. RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year for beneficiaries. Disabled: RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year.

NOTE 4 – NET PENSION LIABILITY (Continued)

Investment Return Rate

The long-term expected rate of return on Pension 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 deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2017 and 2016 are summarized in the following table:

Asset Class	Target Allocation Percantage	Long Term Expected Real Rate of Return 2017	Long Term Expected Real Rate of Return 2016
Large Cap U.S. Equity	23.00%	5.61%	6.03%
Small Cap U.S. Equity	6.00%	6.37%	6.71%
Developed International Equity	16.00%	6.96%	6.71%
Emerging Markets Equity	5.00%	9.28%	8.02%
U.S. Core Fixed Income	14.00%	1.06%	0.52%
High Yield Bonds	3.00%	3.65%	2.81%
Real Estate	10.00%	4.37%	4.73%
Treasury Inflation Protected Securities (TIPS)	5.00%	0.94%	0.43%
Commodities	5.00%	3.76%	4.67%
Cash	1.00%	-0.17%	-0.19%
Unconstrained Fixed Income	2.00%	2.50%	2.50%
Private Equity	10.00%	7.50%	9.25%
Total Portfolio	100.00%	5.11%	5.12%

Discount Rate

The discount rate used to measure the TPL was 7.25% as of June 30, 2017 and 7.50% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2017 and 2016.

NOTE 4 – NET PENSION LIABILITY (Continued)

Sensitivity Analysis

The following presents the NPL of the System as of June 30, 2017 and 2016, calculated using the discount rate of 7.25% for 2017 and 7.50% for 2016, as well as what the System's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NPL as of June 30, 2017	$ 4,660,690,819	$ 1,815,640,964	$ (509,824,651)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
NPL as of June 30, 2016	$ 5,059,215,255	$ 2,461,132,383	$ 325,047,115

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY

The components of the System's net Other Postemployment Benefits (OPEB) liability at June 30, 2017 and 2016, were as follows:

	2017	2016
Total OPEB Liability	$ 3,357,827,513	$ 3,079,669,517
Less: Fiduciary Net Position	1,665,826,440	1,435,403,645
Net OPEB Liability	$ 1,692,001,073	$ 1,644,265,872
Fiduciary Net Position as a Percentage of the Total OPEB Liability	49.61%	46.61%

The Net OPEB Liability (NOL) was measured as of June 30, 2017 and June 30, 2016. The Health Subsidy's Net Position was valued as of the measurement date, while the Total OPEB Liability (TOL) was determined based upon the results of the funding actuarial valuation as of June 30, 2017 and 2016, respectively. The NOL as of June 30, 2017 reflects the impact of the excise tax imposed in 2020 by Affordable Care Act (ACA).

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Actuarial Assumptions

The TOL as of June 30, 2017 that was determined by actuarial valuations as of June 30, 2017. The actuarial assumptions were based on the results of an experience study for the period from July 1, 2013 through June 30, 2016 with the exception of the mortality assumption where the Board adopted the base mortality table recommended but with a static projection with increased margin. They are the same as the assumptions used in the June 30, 2017 funding actuarial valuation for OPEB of the Health Subsidy Plan.

The following actuarial assumptions were applied to all periods included in the measurement:

Inflation Rate	3.00%
Projected Salary Increase	Ranges from 4.30 to 12.00% based on years of service, including inflation.
Investment Return Rate	7.25%, including inflation but net of investment expenses.
Real Across-the Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	3.00% of Tiers 1, 2, 3, and 4 retirement income and 3.00% maximum of Tiers 5 and 6 retirement income.
Mortality	Healthy: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set back one year for members. Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year for beneficiaries Disabled: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Actuarial Assumptions (Continued)

The TOL as of June 30, 2016 was determined by an actuarial valuation as of June 30, 2016. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study for the period from July 1, 2010 through June 30, 2013, and a review of economic actuarial assumptions for the June 30, 2014 actuarial valuations. The following actuarial assumptions were applied to all periods included in the measurement:

Inflation Rate	3.25%
Projected Salary Increase	Ranges from 4.75 to 11.50% based on service.
Investment Return Rate	7.50%, including inflation but net of investment expenses
Real Across-the-Board Salary Increase	0.75%
Cost-of-living adjustments (COLAs)	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table (separate for males and females) projected to 2022 with scale BB set back one year for members. RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year for beneficiaries. Disabled: RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year.

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Investment Return Rate

The long-term expected rate of return on Pension 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 deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2017 and 2016 are summarized in the following table:

Asset Class	Target Allocation Percantage	Long Term Expected Real Rate of Return 2017	Long Term Expected Real Rate of Return 2016
Large Cap U.S. Equity	23.00%	5.61%	6.03%
Small Cap U.S. Equity	6.00%	6.37%	6.71%
Developed International Equity	16.00%	6.96%	6.71%
Emerging Markets Equity	5.00%	9.28%	8.02%
U.S. Core Fixed Income	14.00%	1.06%	0.52%
High Yield Bonds	3.00%	3.65%	2.81%
Real Estate	10.00%	4.37%	4.73%
Treasury Inflation Protected Securities (TIPS)	5.00%	0.94%	0.43%
Commodities	5.00%	3.76%	4.67%
Cash	1.00%	-0.17%	-0.19%
Unconstrained Fixed Income	2.00%	2.50%	2.50%
Private Equity	10.00%	7.50%	9.25%
Total Portfolio	100.00%	5.11%	5.12%

Discount Rate

The discount rates used to measure the TOL was 7.25% as of June 30, 2017 and 7.50% as of June 30, 2016. As contributions that are required to be made by the City to amortize the unfunded Actuarial Accrued Liability in the funding valuation are determined on an actuarial basis, the future Actuarially Determined Contributions and current Plan assets, when projected in accordance with the method prescribed by GASB 74, are expected to be sufficient to make all benefit payments to current members.

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Sensitivity Analysis

The following presents the NOL of the System as of June 30, 2017, calculated using the discount rate of 7.25%, as well as what the System's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NOL as of June 30, 2017	2,187,404,248	1,692,001,073	1,288,489,584

Sensitivity Analysis to Changes in Trend Rate

The following presents the NOL of the Health Subsidy Plan of the System as of June 30, 2017, as well as what the System's NOL would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Current Discount	1% Increase
NOL as of June 30, 2017	1,251,151,237	1,692,001,073	2,287,799,178

Current trend rates: 7.00% graded down to 4.50% over 10 years for Non-Medicare medical plan costs; 6.50% graded down to 4.50% over 8 years for Medicare medical plan costs and 4.50% for all years for Dental and Medicare Part B subsidy cost.

Additional information as of the most recent actuarial valuation is as follows:

Health Care Cost Trend Rate:	
Medical	Non-Medicare: 7.00% in 2017-2018, then decreasing by 0.25% for each year for ten years until it reaches an ultimate rate of 4.50%. Medicare: 6.50% in 2017-2018, then decreasing by 0.25% for each year for eight years until it reaches an ultimate rate of 5.00%.
Dental	4.50% for all years
Medicare Part B Premium	4.50% for all years
Medical Subsidy Trend	For employees not subject to freeze: For all non-Medicare retirees, increase at lesser of 7% or medical trend. For Medicare retirees with single-party premium, increase with medical trend. For Medicare retirees with 2-party premium less than or equal to the maximum subsidy as of July 1, 2017 (e.g., Fire Kaiser) increase with medical trend. For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2017 (e.g., Fire Blue Cross PPO), increase with lesser of 7% or medical trend.

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

The following assumptions were adopted by the Board based on the July 1, 2013 through June 30, 2016 actuarial experience study and the economic assumptions study for June 30, 2017 actuarial valuation:

Actuarial Cost Method — Entry age normal, level percent of pay.

Administrative Expenses — Out of the total of 1.25% of payroll in administrative expense, 0.09% of payroll payable bi-weekly is allocated to the Retiree Health Plan. This is equal to 0.09% of payroll payable at the beginning of the year.

Spouse Age Difference — Male retirees are assumed to be 3 years older than wives. Female retirees are assumed to be 2 years younger than husbands.

Participation

Service Range (Years)	Participation for Future Retirees Under 65 (Percentage)	Participation for Future Retirees Over 65 (Percentage)	Participation for Current Retirees Age 55-64 Without Subsid Upon Attaining Age 6 (Percentage)
14-Oct	45	80	63.64
15-19	60	85	52.50
20-24	75	90	60.00
25 and over	95	95	0.00

Medicare Coverage — 100% of future retirees are assumed to elect Medicare Parts A and B.

Dental Coverage — 85% of future retirees are assumed to elect dental coverage.

Spousal Coverage — Of future retirees receiving a medical subsidy, 80% are assumed to elect coverage for married and surviving spouses or domestic partners. For those retired on valuation date with a subsidy, spousal/domestic partner coverage is based on census data.

Implicit Subsidy — No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums.

Other actuarial assumptions on mortality rates, termination rates, retirement rates, net investment return, and future benefit accruals are the same as for Pension Plan benefits.

The per capita cost assumptions were based on premium, subsidy, and census data provided by the System and are summarized as follows:

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

For Participants under Age 65:

		Maximum Subsidies		
Plan	Assumed Election Percentage	Single	Married	Surviving Spouse
Fire Medical	80	$ 1,627.73	$ 1,627.73	$ 826.43
Fire Kaiser	10	1,627.73	1,627.73	826.43
Fire Blue Cross	5	1,627.73	1,627.73	826.43
Fire California Care	5	1,627.73	1,627.73	826.43
Fire Vivity Value	0	1,627.73	1,627.73	826.43
Police Blue Cross PPO	65	1,627.73	1,627.73	826.43
Police Blue Cross HMO	15	1,627.73	1,627.73	826.43
Police Kaiser	20	1,627.73	1,627.73	826.43
Dental	85	44.60	44.60	-

For Participants Age 65 and Over:

		Maximum Subsidies		
Plan	Assumed Election Percentage	Single	Married	Surviving Spouse
Fire Medical	85	$ 505.93	$ 818.13	$ 505.93
Fire Kaiser	15	505.93	496.36	253.18
Fire Blue Cross	0	505.93	1,485.70	505.93
Fire California Care	0	505.93	1,475.69	505.93
Fire Vivity Value	0	505.93	1,502.10	505.93
Police Blue Cross PPO	75	505.93	1,187.12	505.93
Police Blue Cross HMO	10	505.93	1,151.64	505.93
Police Kaiser	15	505.93	405.50	205.26
Dental	85	44.60	44.60	-
Medicare	100	134.00	134.00	134.00

Note: The System pays the lower of the member's subsidy or member's medical plan premium.

Beginning January 1, 2018, the Harbor Port Police and Airport Police officers, upon reaching eligibility to retire, have a choice of retiree medical plans through either the Los Angeles Police Relief Association (LAPRA) or United Firefighters of Los Angeles City. In order to estimate the liability in the June 30, 2017 valuation, the actuary assumed that, effective January 1, 2018 Harbor Port Police retirees previously assumed to enroll in a LACERS plan will enroll in LAPRA retiree health plans in proportion to those assumed for future System Police retirees.

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2017 and 2016, are as follows:

	2017	2016
Retired Members	9,145	8,970
Beneficiaries	1,687	1,678
Vested Terminated Members	882	1,010
Active Members	13,327	13,050
	25,041	24,708

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2017, cash and temporary investments consisted of $ 1,594,842 cash held by the City Treasurer's office and $1,124,501,432 in collective short-term investment funds (STIF). At June 30, 2016, cash and temporary investments consisted of $2,192,456 cash held by the City Treasurer's office and $1,006,522,504 in collective STIF. Cash held by the City Treasurer's office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

The System measures and categorizes its investments using fair value measurements guidelines established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The levels of valuation inputs are as follows:

Level 1 – Quoted prices for identical assets or liabilities in an active market
Level 2 – Observable inputs other than quoted market prices; and,
Level 3 – Unobservable inputs.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Fair Value of Investments (continued)

At June 30, 2017, the System has the following recurring fair value measurements ($ in thousands):

	June 30, 2017	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 1,848,037	$ -	$ 1,848,037	$ -
U.S. Agencies	534,992	-	534,992	-
Municipal/Provincial Bonds	19,988	-	19,988	-
Collateralized Debt Obligations	145,620	-	142,478	3,142
Commercial Paper	7,498	-	7,498	-
Corporate Bonds	1,547,639	-	1,547,639	-
Total Debt Securities	4,103,774	-	4,100,632	3,142
Equity Securities				
Common Stock	11,950,882	11,933,333	14,481	3,068
Preferred Stock	69,947	69,856	-	91
Other	145	83	1	61
Total Equity Securities	12,020,974	12,003,272	14,482	3,220
Real Estate	746,965	194,092	-	552,873
Total Investments by Fair Value Level	$ 16,871,713	$12,197,364	$ 4,115,114	$ 559,235

Investment Measured at the Net Asset value (NAV)	
Private Equity Partnerships	$ 2,029,593
Commingled Real Estate Funds	762,084
Global Macro Strategy Hedge Funds	98,169
Asset/Mortgage-Backed Securty Funds	18,061
Commercial Mortgages	424
Other	244
Total Investments Measured at NAV	$ 2,908,575

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities such as U.S. Treasuries, U.S. Agencies, municipal bonds, collateralized debt obligations, commercial paper, corporate bonds and other equity securities are classified in Level 2. They are valued using quoted prices for identical securities in markets that are not active. The value prices observed used market-based inputs.

Debt securities, namely collateralized debt obligations and corporate bonds, classified in Level 3 are valued using unobservable inputs which can be extrapolated data, proprietary models or indicative quotes. Other equity securities classified in Level 3 are valued using uncorroborated indicative quotes.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Fair Value of Investments (continued)

Real estate corporate accounts investments are valued based on an independent appraisal or other methods using various techniques including models. Real estate corporate accounts are scheduled for independent appraisal on a rolling 3-year period. Real estate Level 1 are independently appraised during the current fiscal year while Level 3 shows the valuation based upon internal valuation methods applied by the real estate managers.

The System's investments such as private equity partnerships, real estate, hedge funds, asset/mortgage-backed security funds and commercial mortgages are valued using the net asset value (NAV). Real estate pooled investments are valued based on an independent appraisal or other methods using various techniques including models. Hedge funds generally do not have readily obtainable market values and take the form of limited partnerships. Valuation is either based on the partnerships audited financial statements or from the most recently available internal valuation.

Investment measured at the NAV ($ in thousands):

Investment Strategy	Fair value	Unfunded Commitments	Frequency (if currently eligible)	Redemption Notice Period
Private Equity Partnerships	$ 2,029,593	$ 1,233,900	N/A	-
Real Estate [1]	762,084	146,498	Quarterly	90-179 days
Hedge Funds	98,169	-	Quarterly	90 days
Corporate Debt Securities	18,061	-	Anytime	-
U.S. Agencies Debt Securities	424	-	N/A	-
Other	244			
Total Investments Measured at NAV	$ 2,908,575	$ 1,380,398		

(1) This type of investment includes $270 million of comingled real estate committed and funded that can be redeemed quarterly with 90 to 179 days redemption notice period.

The System has unfunded commitments of $1.2 billion in private equity partnerships and $ 146.5 million in real estate. The System's investments in hedge funds can be redeemed quarterly with 90 days redemption notice period.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Investment Policy

The Board is responsible for adopting an investment policy using the "prudent person standard" per Article XI, Section 1106 (c) of the City Charter. Investments are made with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims.

The Board's adopted allocation policy effective during fiscal years 2017 and 2016 was as follow:

Asset Class	Target Allocation
Large Cap U.S. Equity	23.00%
Small Cap U.S. Equity	6.00%
Developed International Equity	16.00%
Emerging Markets Equity	5.00%
U.S. Core Fixed Income	14.00%
High Yield Bonds	3.00%
Real Estate	10.00%
TIPS	5.00%
Commodities	5.00%
Cash	1.00%
Unconstrained Fixed Income	2.00%
Private Equity	10.00%
Total Portfolio	100.00%

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or a counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class.

As of June 30, 2017, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	$ 1,848,640,044	52.25%
AA	81,536,954	2.30%
A	358,403,106	10.13%
BBB	510,072,726	14.42%
BB	226,984,235	6.42%
B	262,679,682	7.42%
CCC	60,665,888	1.71%
CC	8,076,644	0.23%
C	4,548,013	0.13%
Not Rated	176,255,461	4.98%
Subtotal	3,537,862,753	100.00%
U.S. Government Issued or Guaranteed Securities	584,396,290	
Total Fixed Income Investments	$ 4,122,259,043	

As of June 30, 2016, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	$ 2,007,917,033	56.11%
AA	78,875,356	2.20%
A	169,680,320	4.74%
BBB	527,733,053	14.75%
BB	283,612,585	7.93%
B	239,760,978	6.70%
CCC	89,472,791	2.50%
CC	9,208,526	0.26%
C	4,697,756	0.13%
Not Rated	167,317,312	4.68%
Subtotal	3,578,275,710	100.00%
U.S. Government Issued or Guaranteed Securities	477,999,775	
Total Fixed Income Investments	$ 4,056,275,485	

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2017 and 2016, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to $15,831,287 and $20,990,095, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2017 and 2016, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2017 and 2016, the System's sole hedge fund investment of $98,169,432 and $89,884,101, private equity of $2,029,592,446 and $1,794,372,836, and commingled real estate funds of $762,084,031 and $811,271,154, were exposed to custodial credit risk, respectively.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2017 and 2016, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

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 the System manages its exposure to interest rate risk is by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Bloomberg Barclays US Aggregate Bond Index for core fixed income investments, (2) the Bloomberg Barclays US Government/Credit Long-Term Bond Index for long duration investments, and (3) the B of A ML High Yield Master II Index for high yield investments. The longer the duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the System's investments to interest rate fluctuations is provided in the following table that shows the weighted average effective duration of the System's fixed income investments by investment type.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Interest Rate Risk (Continued)

Fiscal Year 2017

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	$ 75,273,558	11.93
Bank Loans	7,497,881	4.74
Collateralized Bonds	790,000	9.05
Commercial Mortgage-Backed	15,823,773	23.65
Corporate Bonds	1,482,014,086	10.98
Corporate Convertible Bonds	8,176,084	5.84
Government Agencies Bonds	47,387,823	9.33
Government Bonds	1,041,980,438	10.6
Government Mortgage-Backed Securities	355,182,920	20.48
Government Issued Commercial Mortgage-Backed	50,357,242	5.32
Index Linked Government Bonds	842,495,185	9.40
Municipal/Provincial Bonds	21,566,034	57.96
Non-Government Backed Collateralized Mortgage Obligations	55,716,015	22.00
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	117,998,004	N/A
	$ 4,122,259,043	

Fiscal Year 2016

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	$ 62,061,565	12.85
Bank Loans	13,477,834	4.24
Collateralized Bonds	722,823	11.20
Commercial Mortgage-Backed	32,793,101	27.00
Corporate Bonds	1,517,554,082	11.72
Corporate Convertible Bonds	4,060,104	5.53
Government Agencies Bonds	61,351,121	10.62
Government Bonds	998,976,584	9.51
Government Mortgage-Backed Securities	333,801,710	21.47
Government Issued Commercial Mortgage-Backed	50,471,494	5.21
Index Linked Government Bonds	847,475,962	9.68
Municipal/Provincial Bonds	27,759,497	51.24
Non-Government Backed Collateralized Mortgage Obligations	63,997,544	17.97
Short Term Bills and Notes	17,150,711	0.37
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	24,621,353	N/A
	$ 4,056,275,485	

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Interest Rate Risk (Continued)

Highly sensitive investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. The following are asset-backed investments by investment type:

Fiscal Year 2017

Investment Type	Fair Value
Asset-Backed Securities	$ 75,273,558
Commercial Mortgages	15,823,773
Government Agencies Bonds	47,387,823
Government Mortgage-Backed Securities	405,540,162
Index Linked Government Bonds	842,495,185
Non-Government Backed Collateralized Mortgage Obligations	55,716,015
Total Asset-Backed Investments	$ 1,442,236,516

Fiscal Year 2016

Investment Type	Fair Value
Asset-Backed Securities	$ 62,061,565
Commercial Mortgages	32,793,101
Government Agencies Bonds	61,351,121
Government Mortgage-Backed Securities	384,273,204
Index Linked Government Bonds	847,475,962
Non-Government Backed Collateralized Mortgage Obligations	63,997,544
Total Asset-Backed Investments	$ 1,451,952,497

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 16% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks.

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2017 and 2016 are as follows:

Foreign Currency Type	2017	2016
United Arab Emirates Dirham	$ 4,667,428	$ -
Australian Dollar	153,550,821	136,172,755
Brazilian Real	68,477,971	68,770,576
British Pound Sterling	641,371,528	597,966,881
Canadian Dollar	89,248,266	76,165,978
Chilean Peso	5,304,906	4,678,345
Colombian Peso	2,042,929	1,759,088
Czech Koruna	5,544,309	4,442,975
Danish Krone	61,314,852	56,954,764
Euro	1,047,711,691	791,132,861
Hong Kong Dollar	279,778,439	236,032,336
Hungarian Forint	8,109,594	5,532,415
Indian Rupee	98,508,669	89,443,923
Indonesian Rupiah	35,735,098	29,573,588
Japanese Yen	645,191,555	561,044,186
Kenyan Shilling	3,851,280	1,519,664
Malaysian Ringgit	16,756,158	16,935,085
Mexican Peso	41,589,434	29,379,649
New Israeli Shekel	7,856,209	9,079,602
New Taiwan Dollar	153,555,393	114,052,533
New Zealand Dollar	5,853,269	9,731,784
Norwegian Krone	21,020,804	16,240,107
Philippine Peso	10,028,309	10,572,734
Polish Zloty	14,821,022	11,439,909
Qatari Rial	223,372	392,632

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Foreign Currency Risk (Continued)

Foreign Currency Type	2017	2016
Singapore Dollar	37,316,830	30,147,446
South African Rand	80,135,644	72,386,323
South Korean Won	217,709,310	161,046,026
Swedish Krona	101,368,041	84,596,007
Swiss Franc	230,820,366	200,569,904
Thai Baht	20,784,062	18,400,211
Turkish Lira	14,082,594	13,092,416
	$ 4,124,330,153	$ 3,459,252,703

Note: The foreign currency total comprises foreign stocks, foreign bonds, and currency holdings.

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on Pension Plan investments, gross of Pension Plan investment expense, for the years ended June 30, 2017 and 2016, was 13.27% and 1.04%, respectively. The source for the rate of return was the June 30, 2017 and 2016 Investment Hierarchy provided by the custodian bank, Northern Trust.

NOTE 7 – SECURITIES LENDING

The System has entered into various short-term arrangements with its custodian, whereby investments are loaned to various brokers, as selected by the custodian. The lending arrangements are collateralized by cash, letters of credit, and marketable securities held on the System's behalf by the custodian. These agreements provide for the return of the investments and for a payment of: a) a fee when the collateral is marketable securities or letters of credit, or b) interest earned when the collateral is cash on deposit.

Upon direction of the Board, the custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions, as it deems advisable. Collateral for the securities on loan will be maintained at a level of at least 102 percent of their fair value plus any accrued interest for U.S. securities lending and 105 percent of the fair value plus any accrued interest for non-U.S. securities lending. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The borrower has all incidents of ownership with respect to the borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System 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 the System as a result of the custodian's failure to: (1) make a reasonable 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 Examinations Council Supervisory Policy on Securities Lending.

These agreements provide the return of the securities and revenue determined by the type of collateral received (from which the custodian's fee is deducted). The securities on loan to brokers are shown at their fair value on the System's Statements of Fiduciary Net Position.

As required by GASB, cash received as collateral on securities lending transactions is reported as an asset, and the liabilities from these transactions are reported in the Statements of Fiduciary Net Position. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

As of June 30, 2017 and 2016, the fair value of securities on loan was $1,621,094,413 and $1,620,830,719, respectively, and the fair value of collateral received was $1,663,433,717 and $1,655,817,773, respectively. Of the $1,663,433,717 collateral received as of June 30, 2017, $1,508,647,803 was cash collateral and $154,785,914 represented the fair value of non-cash collateral; and of the $1,655,817,773 collateral received as of June 30, 2016, $1,485,109,100 was cash collateral and $170,708,673 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

NOTE 7 – SECURITIES LENDING (Continued)

The following represents the balances relating to the securities lending transactions as of June 30, 2017 and 2016:

Fair value of collateral received for loaned securities as of June 30, 2017:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 250,922,055	$ 2,055,821	$ 252,977,876
Domestic Corporate Fixed Income Securities	162,630,952	16,136,630	178,767,582
Domestic Equities	1,011,071,296	75,346,640	1,086,417,936
International Fixed Income Securities	490,784	-	490,784
International Equities	83,532,716	61,246,823	144,779,539
	$ 1,508,647,803	$ 154,785,914	$ 1,663,433,717

Fair value of loaned securities as of June 30, 2017:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 245,138,671	$ 2,010,764	$ 247,149,435
Domestic Corporate Fixed Income Securities	158,879,808	15,836,532	174,716,340
Domestic Equities	988,431,758	73,828,131	1,062,259,889
International Fixed Income Securities	452,264	-	452,264
International Equities	79,070,230	57,446,255	136,516,485
	$ 1,471,972,731	$ 149,121,682	$ 1,621,094,413

NOTE 7 – SECURITIES LENDING (Continued)

Fair value of collateral received for loaned securities as of June 30, 2016:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 221,562,890	$ 2,414,668	$ 223,977,558
Domestic Corporate Fixed Income Securities	143,884,301	7,282,071	151,166,372
Domestic Equities	1,018,524,744	19,041,552	1,037,566,296
International Equities	101,137,165	141,970,382	243,107,547
	$ 1,485,109,100	$ 170,708,673	$ 1,655,817,773

Fair value of loaned securities as of June 30, 2016:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 217,546,807	$ 2,374,683	$ 219,921,490
Domestic Corporate Fixed Income Securities	141,521,564	7,195,126	148,716,690
Domestic Equities	1,003,855,259	18,771,465	1,022,626,724
International Equities	96,394,432	133,171,383	229,565,815
	$ 1,459,318,062	$ 161,512,657	$ 1,620,830,719

For the fiscal years ended June 30, 2017 and 2016, securities lending income amounted to $9,406,091 and $8,859,575, respectively, while securities lending expenses amounted to $1,188,715 and $884,338, respectively.

NOTE 8 – DERIVATIVE INSTRUMENTS

The System, through its outside investment managers, holds investments in swaps, options, rights, and warrants and enters into futures and forward foreign currency contracts to manage portfolio risk or use them as substitutes for owning securities. Forward contracts are subject to credit risk if the counter-parties to the contracts are unable to meet the terms of the contract. Futures contracts have little credit risk, as organized exchanges are the guarantors. Due to the level of risk associated with derivative investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amount reported in the financial statements.

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period. For options, swaps, rights, and warrants pricing would come from the exchange they are traded on if they are exchange traded securities.

NOTE 8 – DERIVATIVE INSTRUMENTS (Continued)

They can also trade as over the counter securities and the market values would then be determined by the value of a reference security or value that would typically be publicly priced. For assets traded over the counter and held at the custodian bank an independent pricing service is involved in calculating the price of the derivative security using the value of the reference security or reference value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2017 financial statements are as follows ($ in thousands):

	Changes in Fair Value		Fair Value at June 30, 2017		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts	-	$ -	Investment	$ -	$ (29,396)
Futures - Longs	Investment Loss	(2,506)	Investment	-	86,343
Forwards	Investment Loss	805	Investment	(28)	-
Options	Investment Loss	(1,199)	Investment	66	
Rights/Warrants	Investment Revenue	227	Investment	145	-
Swaps	Investment Revenue	(8,130)	Investment	243	

At June 30, 2017, the System held futures – shorts and futures – longs with a notional value of $(29,396,013) and $86,342,930, respectively, with a realized loss of $2,505,665 for the fiscal year. The System held forwards with a fair value of $(27,628), options with a fair value of $65,977, rights and warrants with a fair value of $145,027, and swaps with the fair value of $243,498. Losses of $1,199,008 were reported for the fiscal year for options and $8,130,361 for swaps, and earnings of $805,302 were reported for forwards and $226,370 for rights and warrants for the fiscal year.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows ($ in thousands):

	Changes in Fair Value		Fair Value at June 30, 2016		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts	-	$ -	Investment	$ -	$ (54,023)
Futures - Longs	Investment Loss	(6,584)	Investment	-	108,426
Forwards	Investment Loss	(653)	Investment	171	-
Options	Investment Loss	(312)	Investment	45	
Rights/Warrants	Investment Revenue	679	Investment	209	-
Swaps	Investment Revenue	2,995	Investment	(705)	

NOTE 8 – DERIVATIVE INSTRUMENTS (Continued)

At June 30, 2016, the System held futures – shorts and futures – longs with a notional value of $(54,022,816) and $108,426,473, respectively, with a realized loss of $6,583,622 for the fiscal year. The System held forwards with a fair value of $171,434, options with a fair value of $44,836, rights and warrants with a fair value of $208,834, and swaps with the fair value of $(705,375). Losses of $652,641 were reported for the fiscal year for forwards and $312,451 for options, and earnings of $678,584 were reported for rights and warrants and $2,995,085 for swaps for the fiscal year.

NOTE 9 – CAPITAL ASSETS

The System's capital assets include land, building, computer/software, and furniture and fixtures. The land and building were acquired in July 2013 for $12,735,689, additional land for parking was purchased in December 2015 for $3,825,000, and capital improvements totaled $8,474,949 as of June 30, 2017. This building is the System's headquarters that will provide long-term control over its future space needs and lease costs. The headquarters was occupied in March 2016. Furniture and fixtures were acquired in fiscal year 2016. Computer/software represents the cost in developing the System's Pension and Retirement Information System (PARIS). PARIS project started in July 2016 and expected to be in use in 2018.

The following is a summary of the System's capital assets at June 30, 2017 and 2016:

	2017	2016
Capital Assets Not Depreciated/Amortized		
Land	$ 6,465,660	$ 6,465,660
Computer/Software under Development	1,823,424	-
Total Capital Assets Not Depreciated/Amortized	8,289,084	6,465,660
Capital Assets Depreciated/Amortized		
Building	18,569,978	15,997,444
Furniture and Fixtures	1,297,014	1,297,014
Total Capital Assets Depreciated/Amortized	19,866,992	17,294,458
Less: Accumulated Depreciation/Amortization		
Building	(1,157,444)	-
Furniture and Fixtures	(324,253)	(64,851)
Total Accumulated Depreciation/Amortization	(1,481,697)	(64,851)
Total Capital Assets Depreciated/Amortized, Net	18,385,295	17,229,607
Total Capital Assets, Net	$ 26,674,379	$ 23,695,267

NOTE 10 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2017, interest rates range from 2.90% to 7.50% per annum. The average monthly principal and interest payments range from $14,595 to $358,881. For fiscal year 2016, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from $7,438 to $189,798.

The mortgages mature from May 2019 to September 2027. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

Year Ending	Principal	Interest	Total
2018	$ 2,878,745	$ 7,409,711	$ 10,288,456
2019	35,250,319	6,658,139	41,908,458
2020	2,384,916	4,898,548	7,283,464
2021	25,372,732	4,241,749	29,614,481
2022	71,844,085	3,477,843	75,321,928
2023-2027	67,151,623	2,573,646	69,725,269
	$ 204,882,420	$ 29,259,636	$ 234,142,056

The mortgages are secured by real estate that was purchased with the funds.

The following is a summary of mortgage payable activities for the years ended June 30, 2017 and 2016:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Mortgage Payable	$ 182,938,598	$ 26,000,000	$ 4,056,178	$ 204,882,420

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Mortgage Payable	$ 206,202,145	$ -	$ 23,263,547	$ 182,938,598

NOTE 11 – OPERATING LEASE

The System leased office space under an operating lease that was discontinued with appropriate notice to the building management. The annual lease payments for the fiscal years ended June 30, 2017 and 2016, were $0 and $655,521, respectively. There are no minimum lease commitments for future fiscal years.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were $1,864,093,970 and $1,768,610,823 as of June 30, 2017 and 2016, respectively.

The City Charter and the Administrative Code provide that member contributions as of June 30 and December 31 of each year earn interest at a rate based on investment earnings, exclusive of gains and losses on principal resulting from sales of securities.

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1,380,398,000 and $1,265,535,468 at June 30, 2017 and 2016, respectively.

The Patient Protection and Affordable Care Act (PPACA) of 2010

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018; subsequent legislation has since postponed this provision until 2020. If there is no change in the law or the System plan provisions between now and 2020, and if the current medical cost trend stays substantially the same during the same period, some of the System post-employment health care plans will be subject to the excise tax in 2020.

GASB 74 requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments. The June 30, 2017 OPEB liabilities under GASB 74 reflect the excise tax from the Affordable Care Act (ACA) and related statutes.

Retiree Health Subsidy Freeze Litigation

Fry, et al. v. City of Los Angeles (the "Fry Action") concerns the City's ordinance freezing the retiree health subsidy benefit by the City for those active LAFPP members who retired or entered DROP on or after July 15, 2011, and who did not elect to contribute an extra 2% of their salary. At that time, approximately 30% of the active membership did not choose to contribute the extra 2% of salary. The petitioners sued the City and argued that the City's "freeze ordinance" illegally impaired their vested rights to a retiree health subsidy that would increase over time.

On July 28, 2014, the Court ruled that the petitioners have a vested right to a "non-frozen" health subsidy in retirement. The Court ruled that petitioners had a right to the Board exercising its discretion in setting the subsidy rate, but not a right to any particular amount of subsidy. However, the ruling did not address: 1) whether members who elected to contribute the additional 2% would be entitled to a refund, or 2) whether retirees who had to make up the difference in premiums in excess of the 2011 subsidy level would be entitled to a refund.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

On September 5, 2014, the Los Angeles County Superior Court issued an official Writ restoring the Board's authority to provide the current "non-frozen" subsidy to pensioners who were impacted by the City's "freeze" ordinance. Accordingly, on the October 31st pension payments, the System provided the current "non-frozen" subsidy to pensioners who were impacted by the freeze. Subsequently, the City filed a Notice of Appeal on October 29, 2014, and a Verified Petition for Writ of Mandate and Request for Immediate Stay on November 3, 2014.

On November 12, 2014, the Court of Appeal granted a stay on the Writ issued by the trial court on September 5th. As a result of the stay, beginning with the November 30, 2014 pension payments, LAFPP again provided a frozen subsidy to those pensioners and to any future retirees who did not elect to contribute the additional 2% of their salary.

On March 7, 2016, the California Second District Court of Appeal reversed the September 5, 2014 Writ of Mandate issued by the Los Angeles County Superior Court authorizing the Board "to exercise its discretion, previously delegated to it by the City in an ordinance, to set the maximum subsidy…without regard to later City ordinances 'freezing' the subsidy…" The Court of Appeal agreed with the City's position that there was not a vested right to a LAFPP Board-determined subsidy. The Court of Appeal found that the City Council continued to retain the final decision authority over the subsidy even while delegating to the LAFPP Board determination of subsidy increases. On March 25, 2016, the Second Appellate Court denied the plaintiffs' petition for rehearing.

On April 14, 2016, the plaintiffs filed a Petition for Review with the California Supreme Court, which was later denied in June 2016. The matter was remanded to the trial court to resolve the remaining issues in accordance with the Court of Appeal's opinion. The trial court instructed the parties to complete a mandatory settlement conference by February 23, 2017. The two parties subsequently met as instructed and reached agreement on the remaining issues in early February 2017. The stipulations outlined in the settlement agreement are:

- Plaintiffs acknowledge that the Court of Appeal held that the City Council had the authority, under the City Charter, to enact the Freeze Ordinance and freeze the amount of the medical premium subsidy.
- The City acknowledges that the City Administrative Officer stated to the City Council and the Mayor that the "current retiree healthcare subsidy is a vested benefit, but the discretionary adjustment that increases the medical subsidy is not vested."
- The parties understand and agree that nothing in the Agreement shall be construed to preclude a party from proffering any evidence adduced in discovery in the Action in any future proceeding, subject to objections.
- The City also agreed to reimburse Plaintiffs in the amount of $13,000 for litigation expenses. The settlement is considered a "no fault" settlement and the Plaintiffs release the City from liabilities, claims, and causes which relate to this action.

Based on this final ruling, the "freeze" ordinance stands and the Plan will continue to provide a frozen subsidy to current and future pensioners who chose not to contribute the additional 2% of their salaries

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

In addition to the Fry Action, certain representative bargaining units filed a second action (the "LAPPL Action I") that challenged what the additional 2% salary contribution guaranteed to members who make the contribution. Specifically, the Plaintiffs in the LAPPL Action sought confirmation that what the members were to receive for their additional contributions was the lesser of the medical trend rate or a 7% per annum increase in the subsidy, with no discretion reserved to the Board to grant anything lower.

In the LAPPL Action I, the trial court originally dismissed the action on February 11, 2013. The plaintiffs successfully appealed the adverse judgment, and the case was remanded to the trial court for further proceedings on the merits. On November 1, 2016, the trial court granted declaratory relief in favor of the plaintiffs, ruling that employees paying the additional 2% contributions had a vested right to receive the health subsidy in effect as of the effective date of the Letter of Agreement and annual health subsidy increases equal to the lesser of the medical trend rate or 7% without the Board's discretion to set the subsidy any lower. Before the trial court's ruling, LAFPP reached agreement to be dismissed from the lawsuit, but agreed to be bound by the final judgment of the courts, which includes the final judgment of the appellate courts.

The City appealed the trial court's ruling and the parties are currently briefing the matter on appeal. Because the second action is still pending on appeal, there is no final judgment from the courts, and consequently LAFPP continues to set and implement the retiree health insurance premium subsidy increases in the same manner as it did prior to the 2011 Freeze Ordinance, for members who opted-in to pay the 2% contribution. This means that LAFPP continues to exercise its discretion provided under the Los Angeles Administrative Code to set the subsidy up to and including the medical trend rate or 7%, whichever is lower, until the courts render final judgment.

The LAPPL Action I does not seek monetary relief from the System.

While the LAPPL Action I is pending on appeal, the unions filed a third action ("LAPPL Action II"). In LAPPL Action II, the unions filed a writ petition seeking essentially the same relief as in their declaratory action in the LAPPL Action I. However, the LAPPL Action II also asserts a new breach of fiduciary duty claim, which preserves the unions' rights to challenge LAFPP's 2017 discretionary action to set the subsidy should the unions lose in the appellate proceeding in the LAPPL Action I. Given the similarities between the two LAPPL Actions and the dispositive effect of the first action on the second, the trial court has stayed the LAPPL Action II pending the final judgment of the LAPPL Action I.

NOTE 13 – DONATIONS

From 1999 to 2002, the System received donations of non-voting common stock of non-public corporations, pursuant to repurchase agreements between the System and the donors, structured entirely by the donors' tax advisers. Under the terms of the agreements, the System, although the owner of the donated common stock, acknowledged that: the non-voting common shares have not been registered under the Federal Securities Act of 1933 or qualified under the California Corporate Securities Law of 1968; that no public market exists with respect to the non-voting common shares; and that the common shares are subject to a right of first refusal prohibiting the System from selling or otherwise disposing of any common shares without first offering to sell them to the donor.

The shares are recorded at carry and market values of zero for the following reasons: (1) there is no public market for the shares, (2) the System does not have the right to sell or otherwise dispose of the shares until the agreed upon future date, and (3) the shares were received as a donation for no consideration. Donation income is only recorded if cash dividends are received from the stock while in the possession of the System or when the stock is sold.

As previously reported in fiscal year ending June 30, 2005, the System has been informed that the Internal Revenue Service is disputing the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System.

The last donation of private equity accepted by the System was in 2002. The System has sold or returned the majority of donated private equity since August 2005. The System has received the following income from these donations: $2,685,000 in 2002; $2,918,066 in 2003; $14,402,308 in 2004; $7,791,262 in 2005; none in 2006; $864,281 in 2007; $67,568 in 2008; $50,676 in 2009; and no dividends in 2010, 2011, 2012, 2013, 2014, 2015 or 2016. The System sold the remaining donated stocks in February 2017 for a total of $21,185,000 and received cash of $10,299,250 and promissory notes of $10,885,750.

NOTE 14 – RISKS AND UNCERTAINTIES

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statements of Fiduciary Net Position.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 20, 2017, which is the date the financial statements were issued. There were no additional subsequent events to disclose.

REQUIRED SUPPLEMENTARY INFORMATION

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABLITY AND RELATED RATIO
($ in Thousands)
(Unaudited)

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability:				
Service Cost	$ 367,600	$ 365,956	$ 368,700	$ 368,018
Interest	1,436,068	1,399,576	1,384,527	1,392,552
Benefit Payments	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	-	-	-	-
Experience Losses (Gains)	(320,404)	(595,188)	(310,882)	(234,638)
Assumption Changes	695,450	-	-	(69,482)
Benefit Changes	-	-	-	-
Net Change	1,248,636	179,981	523,436	597,464
Total Pension Liability at Beginning of Year	19,565,409	19,385,428	18,861,992	18,264,528
Total Pension Liability at End of Year (a)	$ 20,814,045	$ 19,565,409	$ 19,385,428	$18,861,992
Fiduciary Net Position:				
Employer Contributions	$ 454,309	$ 478,385	$ 480,332	$ 440,698
Member Contributions	128,900	129,734	126,771	124,395
Net Investment Income	2,260,130	159,313	686,470	2,617,090
Benefit Payments	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	(20,816)	(19,346)	(17,815)	(13,865)
Net Change	1,892,445	(242,277)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	17,104,277	17,346,554	16,989,705	14,680,373
Fiduciary Net Position at End of Year (b)	$ 18,996,722	$ 17,104,277	$ 17,346,554	$16,989,705
Net Pension Liability/(Asset) (a)-(b)	$ 1,817,323	$ 2,461,132	$ 2,038,874	$ 1,872,287
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.27%	87.42%	89.48%	90.07%
Covered Employee Payroll	$ 1,397,245	$ 1,351,788	$ 1,316,969	$ 1,308,149
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	130.06%	182.06%	154.82%	143.12%

Notes to Schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
($ in Thousands)
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Employee Payroll	Contribution as % of Payroll [2]
6/30/2017	$ 454,309	$ 454,309		$ 1,397,245	32.5%
6/30/2016	478,385	478,385	-	1,351,788	35.4%
6/30/2015	480,332	480,332	-	1,316,969	36.5%
6/30/2014	440,698	440,698	-	1,308,149	33.7%
6/30/2013	375,448	375,448	-	1,277,031	29.4%
6/30/2012	321,593	321,593	-	1,213,396	26.5%
6/30/2011	277,092	277,092	-	1,289,857	21.5%
6/30/2010	250,517	250,517	-	1,266,312	19.8%
6/30/2009	238,698	238,698	-	1,253,659	19.0%
6/30/2008[1]	261,635	261,635	-	1,188,972	22.0%

Notes to Schedule:

[1] Figures include amounts transferred and contributed during the fiscal year that were related to the transfer of certain Harbor Port Police members from the Los Angeles City Employees' Retirement System.

[2] Contribution rate as a percentage of covered employee payroll reflects discount applied when the employer prepays its contributions. This rate has been "backed" into by dividing the actual contributions by the budgeted covered payroll.

See accompanying independent auditor's report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

Methods and assumptions used to establish “actuarially determined contribution” (ADC) rates:

The assumptions used in establishing the ADC for the year ended June 30, 2017 were based on the June 30, 2015 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions:	
June 30, 2015 valuation	
Investment rate of return	7.50%, net of investment expenses
Inflation rate	3.25%
Administrative Expenses:	Out of the total 1.00% of payroll in administrative expense, 0.94% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 0.91% of payroll payable at beginning of the year.
Real across-the-board salary	0.75%
Projected salary increases	Ranges from 4.75% to 11.50% based on years of service
Cost of living adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

See accompanying independent auditor’s report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
(Unaudited)

	2017	2016	2015	2014
Annual money-weighted rate of return, gross of investment expense	13.27%	1.04%	4.14%	18%

Notes to schedule:
GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2017, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

See accompanying independent auditor's report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY
($ in Thousands)
(Unaudited)

Date	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)	Net Pension Liability (NPL)	Funded Status (FNP/TPL)	Covered Employee Payroll	NPL % Pay
6/30/2017	7.25%	$20,814,045	$ 18,996,722	$ 1,817,323	91.3%	$ 1,397,245	130.1%
6/30/2016	7.50%	19,565,409	17,104,277	2,461,132	87.4%	1,351,788	182.1%
6/30/2015	7.50%	19,385,428	17,346,554	2,038,874	89.5%	1,316,969	154.8%
6/30/2014	7.50%	18,861,992	16,989,705	1,872,287	90.1%	1,308,149	143.1%
6/30/2013	7.75%	16,989,705	14,680,373	3,584,155	86.4%	1,277,031	280.7%

Notes to schedule:
GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS
LIABLITY AND RELATED RATIO
($ in Thousands)
(Unaudited)

	June 30, 2017	June 30, 2016
Total OPEB Liability:		
Service Cost	$ 65,407	$ 61,292
Interest	231,285	222,424
Benefit Payments	(122,561)	(116,678)
Experience Losses (Gains)	(144,022)	(50,071)
Assumption Changes	248,049	-
Net Change in total OPEB liablity	278,158	116,967
Total OPEB Liability at Beginning of Year	3,079,670	2,962,703
Total OPEB Liability at End of Year (a)	$ 3,357,828	$ 3,079,670
Fiduciary Net Position:		
Employer Contributions	$ 165,170	$ 150,315
Net Investment Income	189,420	12,771
Benefit Payments	(122,561)	(116,678)
Administrative Expenses	(1,747)	(1,551)
Net Change	230,282	44,857
Fiduciary Net Position at Beginning of Year	1,435,404	1,390,547
Fiduciary Net Position at End of Year (b)	$ 1,665,686	$ 1,435,404
Net OPEB Liability (a)-(b)	$ 1,692,142	$ 1,644,266
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	49.61%	46.61%
Covered Employee Payroll	$ 1,397,245	$ 1,351,788
Plan OPEB Liability as a Percentage of Covered Employee Payroll	121.11%	121.64%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF EMPLOYER CONTRIBUTION
($ in Thousands)
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Employee Payroll	Contribution as % of Payroll (2)
6/30/2017	$ 165,170	$ 165,170	$ -	$ 1,397,245	11.8%
6/30/2016	150,315	150,315	-	1,351,788	11.1%
6/30/2015	148,477	148,477	-	1,316,969	11.3%
6/30/2014	138,107	138,107	-	1,308,149	10.6%
6/30/2013	132,939	132,939	-	1,277,031	10.4%
6/30/2012	122,972	122,972	-	1,213,396	10.1%
6/30/2011	111,681	111,681	-	1,289,857	8.7%
6/30/2010	106,648	106,648	-	1,266,312	8.4%
6/30/2009	98,445	88,179	10,266	1,253,659	7.9%
6/30/2008 (1)	98,033	78,257	19,776	1,188,972	8.2%

Notes to schedule:

(1) Based on the beginning of year contribution rate of 8.15% of compensation calculated in the June 30, 2006 valuation before the phase-in, the Annual Required Contribution dollar amount has been approximated by applying the ratio of the contribution before the phase-in to the contribution after the phase-in as determined in the June 30, 2006 valuation to the actual contributions made during 2007-2008.

(2) Based on the beginning of year contribution rate of 7.89% of compensation calculated in the June 30, 2007 valuation before phase-in. The Annual Required Contribution has been approximated by applying the ratio of the contribution before phase-in to the contribution after the phase-in made during 2008-2009 as determined in the June 30, 2007 valuation to the actual contributions.

See accompanying independent auditor’s report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

Methods and assumptions used to establish "actuarially determined contribution" (ADC) rates:

The assumptions used in establishing the ADC for the year ended June 30, 2017 were based on the June 30, 2015 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions:	
June 30, 2015 valuation	
Investment rate of return	7.50%, net of investment expenses
Inflation rate	3.25%
Administrative Expenses:	Out of the total 1.00% of payroll in administrative expense, 0.94% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 0.91% of payroll payable at beginning of the year.
Real across-the-board salary	0.75%
Projected salary increases	Ranges from 4.75% to 11.50% based on years of service
Cost of living adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

See accompanying independent auditor's report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF INVESTMENT RETURNS
(Unaudited)

	2017	2016
Annual money-weighted rate of return, gross of investment expense	13.27%	1.04%

Notes to schedule:
GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2016 and 2017, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

See accompanying independent auditor's report

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF EMPLOYER'S NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY
($ in Thousands)
(Unaudited)

Date	Discount Rate	Total OPEB Liability (TOL)	Fiduciary Net Position (FNP)	Net OPEB Liability (NOL)	Funded Status (FNP/TPL)	Covered Employee Payroll	NOL % Pay
6/30/2017	7.25%	$ 3,357,828	$ 1,665,686	$ 1,692,142	49.6%	$ 1,397,245	121.1%
6/30/2016	7.50%	3,079,670	1,435,404	1,644,266	46.6%	1,351,788	121.6%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Fire and Police Pension Commissioners
Los Angeles Fire and Police Pension System

We have audited, in accordance with the 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, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2017, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated November 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Simpson & Simpson

Los Angeles, California
November 20, 2017

DEPARTMENT BUDGET PART 3

Summary of Receipts

The Department receives revenue primarily from three sources: Employer Contributions (City and Harbor), Member Contributions, and Investment Earnings. In 2016-17, the Department received total revenue of $2.16 billion, an increase of $478.03 million, or 28.34 percent, from 2015-16. The change was primarily due to an increase in Investment Earnings.

Employer Contributions
Employer Contributions are based on the application of the actuary's computed rates for each tier with the budgeted sworn payroll. It is comprised of the City's General Fund contribution, the Special Fund (Harbor Department) contribution, and the City's Excess Benefit Plan payment. In 2016-17, Employer Contributions totaled $620.78 million, a decrease of $8.48 million, or 1.35 percent, from 2015-16.

Member Contributions
Member Contributions are calculated based on the member's contribution rate for his or her tier. These rates range from 7 to 9 percent of salaries for members in Tiers 2 through 5, while members in Tier 6 contribute 11 percent of salary. In 2016-17, revenue received from Member Contributions was $128.90 million, a decrease of $0.83 million, or 0.64 percent, from 2015-16.

Receipts

	Budgeted FY 2016-17	Actual FY 2016-17[4]
City Contribution	614,931,398	614,931,398
Special Fund (Harbor)	4,547,876	4,547,876
Excess Benefit Plan[1]	1,303,600	1,303,600
Member Contributions	142,160,559	128,900,736
Earnings on Investments	325,000,000	490,120,000
Gain (Loss) on Sale of Investments[2]	————	921,673,886
Miscellaneous[3]	2,000,000	3,474,784
Total Receipts	1,089,943,433	2,164,952,280

1 Represents the City of Los Angeles General Fund earmarked to pay excess benefits, including administrative costs in compliance with IRC Section 415(b).

2 This amount does not include a $1,119,243,471 unrealized increase in the value of investments as a result of the current market conditions. If included, it would match the amount shown in the Systems' audited financial report of $2,040,917,357 as Net Appreciation in Fair Value of Investment including Gain and Loss on Sales.

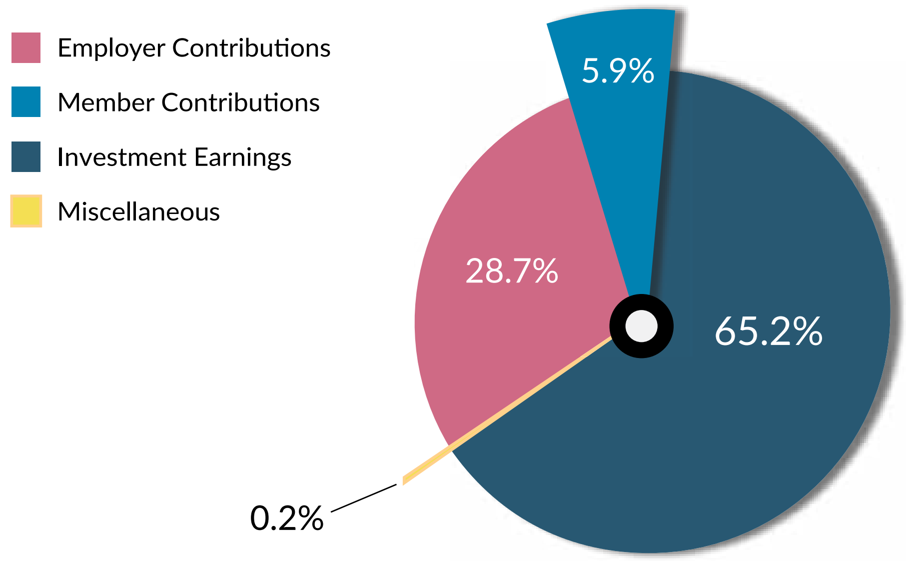
3 Represents receipts from members for purchases of prior years' pension buybacks or overpayments.

4 Audited Financial Statements are accrual basis versus General Manager Monthly Reports are cash-basis.

Expenditures

	Budgeted FY 2016-17	Actual FY 2016-17
Service Pensions	590,000,000	611,420,718
Service Pensions – DROP Payout	105,000,000	79,079,249
Disability Pensions	120,000,000	111,470,775
Surviving Spouse/Domestic Partner Pensions	121,000,000	121,499,558
Minor/Dependent Pensions	2,500,000	2,432,830
Refund of Member Contributions	3,500,000	4,174,935
Health Insurance Premium Subsidy	113,000,000	107,639,953
Dental Insurance Premium Subsidy	4,100,000	4,062,109
Medicare Reimbursement	11,500,000	9,816,800
Health Insurance Premium Reimbursement	1,300,000	1,042,778
Investment Management Expense	91,152,419	84,962,504
Administrative Expense	23,270,652	20,739,903
Total Expenditures	1,186,323,071	1,158,342,112
Increase (Decrease) in Fund Balance	(96,379,638)	1,006,610,168

2016-17 Budget - Receipts

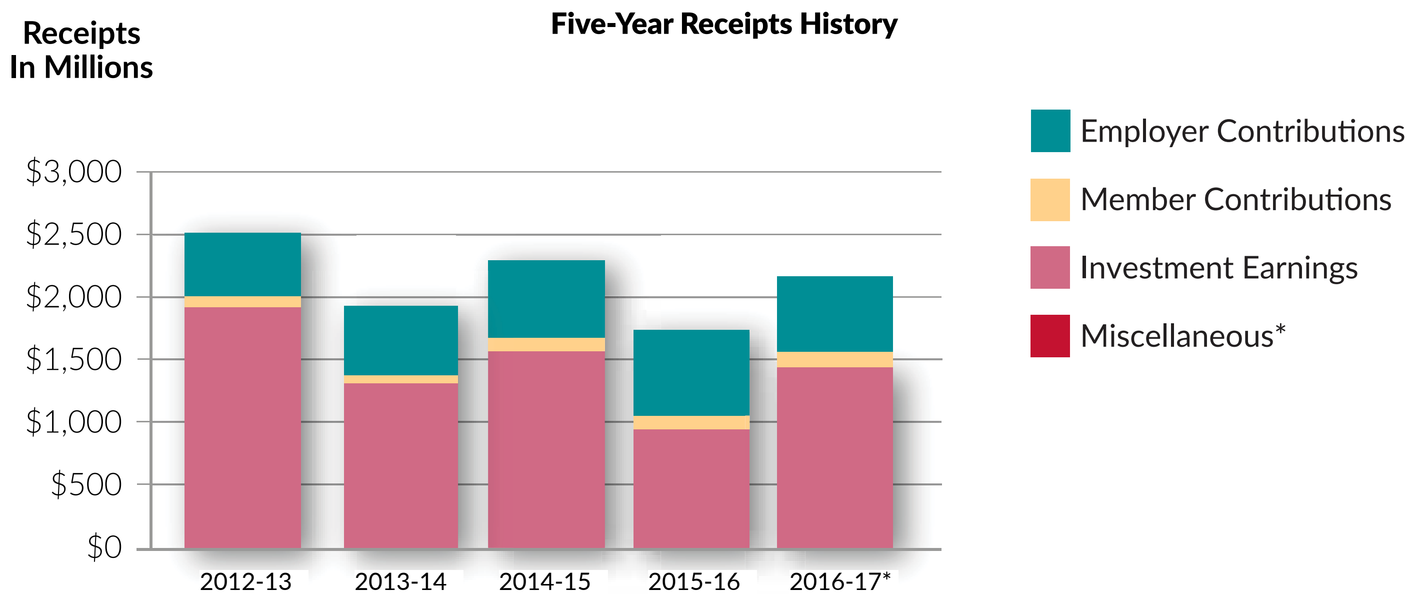


Investment Earnings
Investment Earnings consist of 'Earnings on Investments' and 'Gain (Loss) on Sale of Investments'. In 2016-17, the Department received investment earnings of $1.41 billion, an increase of $487.22 million, or 52.70 percent, from 2015-16.

- Earnings on Investments – includes real estate and private equity net cash, interest and dividends, and miscellaneous income. Earnings on Investments in 2016-17 were $490.12 million, an increase of $5.25 million, or 1.08 percent, from 2015-16.

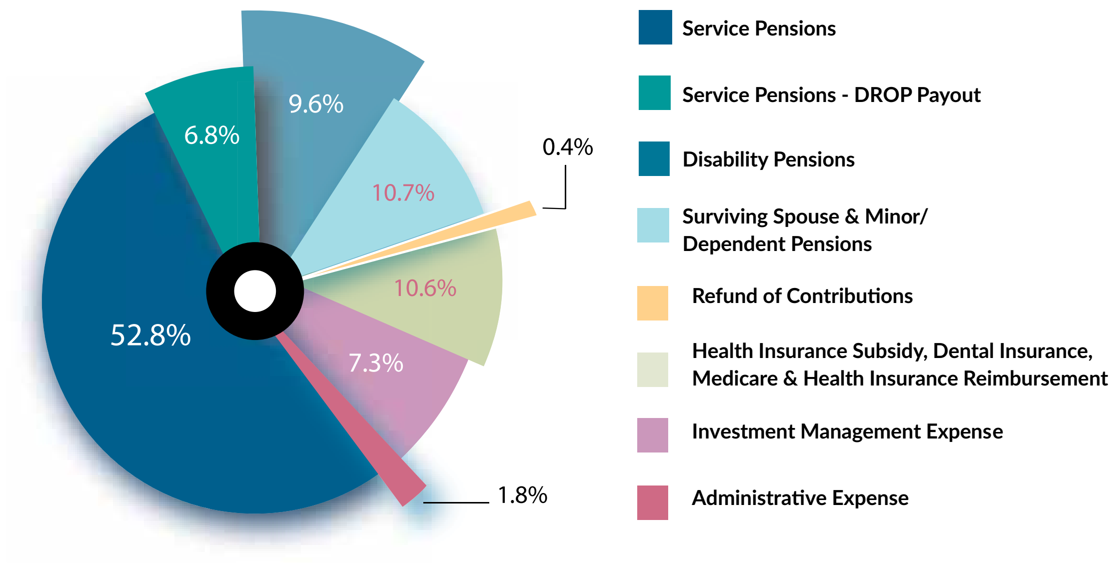
- Gain (Loss) on Sale of Investments – includes actual cash receipts to the System on the sale of investments. Gains or losses on the sale of investments are a function of how many transactions are performed by our investment advisors. In 2016-17, the Department received $921.67 million in cash through these transactions, an increase of $481.97 million, or 109.61 percent, from 2015-16.

Five-Year Receipts History



* *Miscellaneous receipts in 2016-17 were $3.5 million or 0.2 percent of the Total Receipts.*

2016-17 Budget - Expenditures



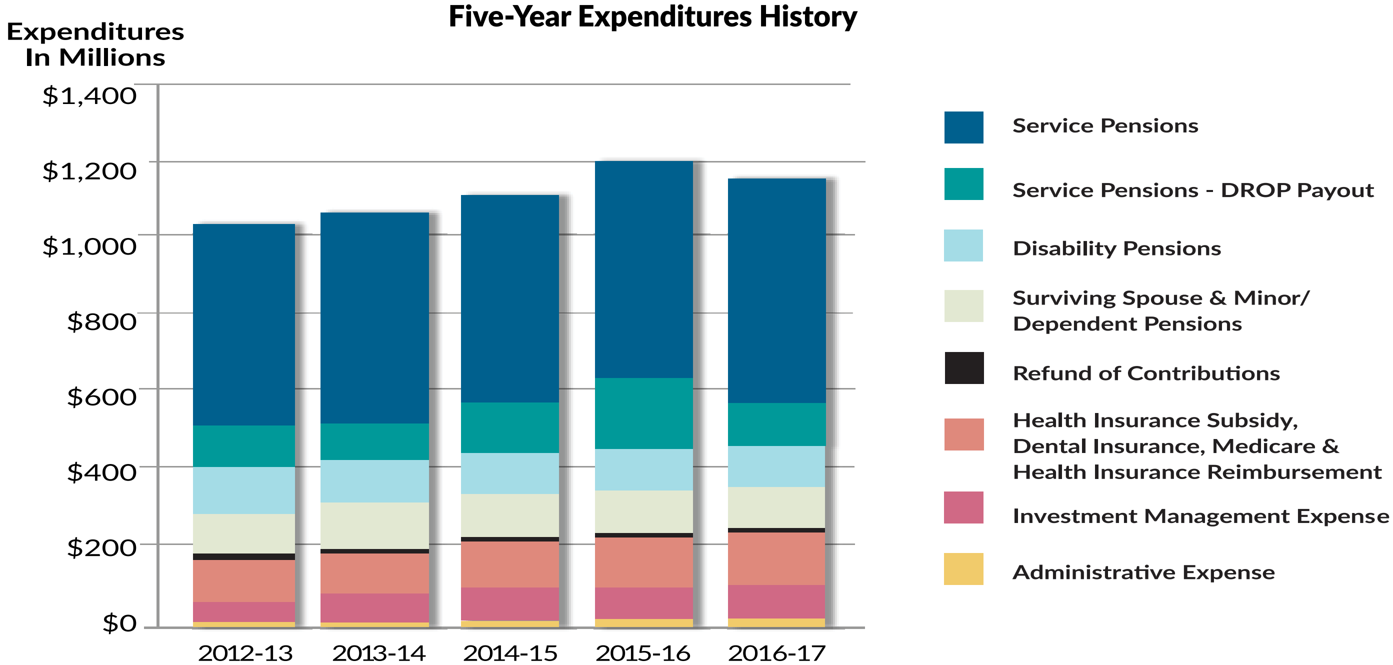
Summary of Expenditures

The Department's expenses can be divided into three categories: Pensions and Benefit Expenses, Investment Management Expense, and Administrative Expense. Expenses for 2016-17 totaled $1.16 billion, a decrease of $46.89 million, or 3.89 percent, from 2015-16. There was an increase in Investment Management Expenses, but Pensions and Benefit Expenses experienced a comparatively larger decrease, resulting in the overall drop.

Pensions and Benefit Expenses

The Department's Pensions and Benefit Expenses include Service Pensions, Deferred Retirement Option Plan (DROP) Payout, Disability Pensions, Surviving Spouse/ Domestic Partner Pensions, Minor/Dependent Pensions, Refund of Member Contributions, and health-related expenses. In 2016-17, Pensions and Benefit Expenses were $1.05 billion, which represent 90.88 percent of total expenses and a decrease of $54.40 million, or 4.91 percent, from 2015-16. The decrease in Pensions and

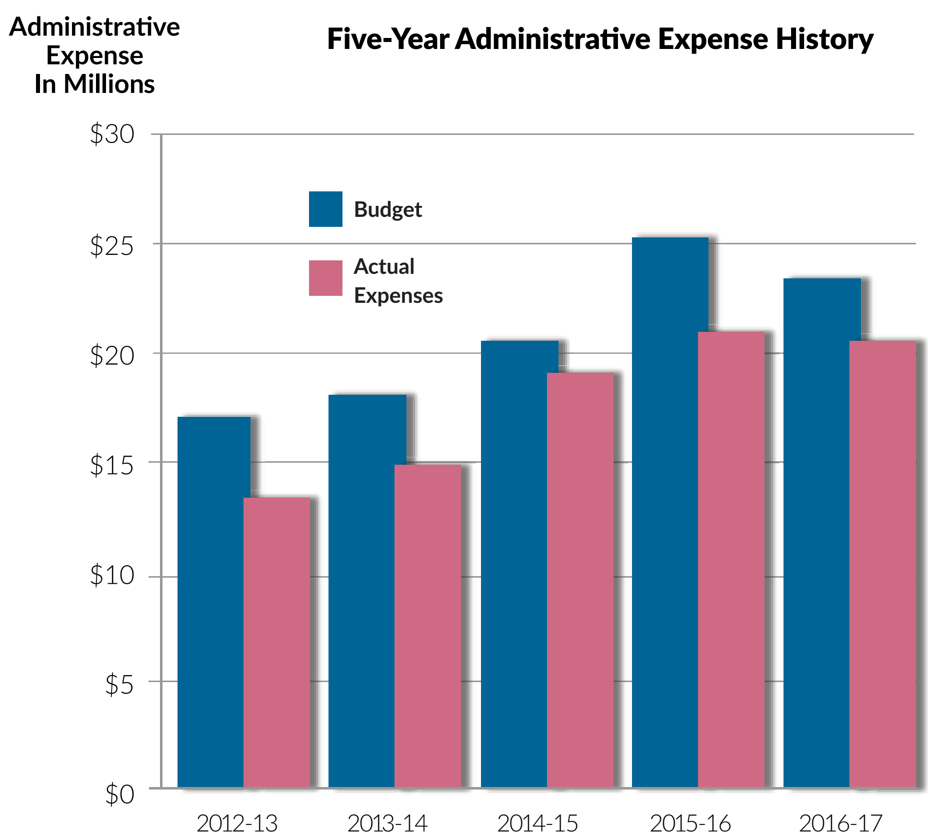
Five-Year Expenditures History



Benefit Expenses was primarily due to a significant decrease in DROP Payouts compared to the prior year.

Investment Management Expense
Investment Management Expense was $84.96 million, which represents 7.33 percent of total expenses and an increase of $7.67 million, or 9.93 percent, from 2015-16. Actual payments to investment managers depend on the amount of assets under management, portfolio performance, the period in which the fee is calculated, and the terms and conditions of the individual contracts as approved by the Board.

Administrative Expense
Administrative Expense includes staff salaries and benefits, operating costs, and the unappropriated balance. The Department's Administrative Expense was $20.74 million, which represents 1.79 percent of the total expenses and a decrease of $0.16 million, or 0.75 percent, from 2015-16. A Detail of Administrative Expense is provided below.



Detail of Administrative Expense

Administrative Expense includes staff salaries and related costs, operating costs, and the unappropriated balance.

Salaries and Related Costs
Salaries and related costs comprise 75.73 percent of the total Administrative Expense. In 2016-17, salaries and related costs totaled $15.71 million, an increase of $0.65 million, or 4.29 percent, from 2015-16. Most of the increase was a result of the mandatory staff salary increases bargained by the City and labor unions, salary step increases, and expected retirement and sick leave payouts.

Operating Costs
Operating costs comprise 24.27 percent of the total Administrative Expense. In 2016-17, operating costs totaled $5.03 million, a decrease of $0.80 million, or 13.76 percent, from 2015-16. The change was primarily due to a decrease in contractual expenses.

Unappropriated Balance
The unappropriated balance (UB) includes funds set aside for designated contingencies. Appropriations of these funds are subject to Board approval. In 2016-17, the UB budget totaled $253,000, of which $40,000 was appropriated to Furniture, Office, and Technical Equipment.


CLASS 1
FIRE DEPARTMENT
CITY
OF
LOS ANGELES

INVESTMENTS

PART 4

Investment Statement

The overall goal of the Los Angeles Fire and Police Pension Plan's (System, Fund or Plan) investment program is to manage the System's assets to be able to provide the retirement benefits promised to the System's participants and their beneficiaries. The Charter of the City of Los Angeles created the System, and it delegates control and management of the System to the Board of Fire and Police Pension Commissioners (Board). Article XI, Section 1106 of the City Charter grants the Board sole and exclusive responsibility for administering the System and specifies the Board's powers and duties, which includes the power to adopt any rules, regulations or forms necessary to carry out its administration of the System and the assets under its control.

To assist and guide it in managing the System's assets, the Board has adopted Investment Policies. The Investment Policies assist the Board in effectively supervising and monitoring the System's investments by: providing the goals of the investment program, the policies and procedures for the management of the investments, specific asset allocations and minimum diversification requirements, performance objectives and criteria for investment performance evaluation, and the parties responsible for carrying out the Investment Policies. The Investment Polices are reviewed by the Board at least annually and are revised as needed. The Policies are available at www.lafpp.com/investments/board-investment-policies.

For the five-year period ended June 30, 2017, the System's total assets increased $4.89 billion to $20.64 billion.

For the one-year period ended June 30, 2017, the System's total assets increased by $2.11 billion.

Investment Environment

For the fiscal year ended June 30, 2017, the United States economy continued to improve as the national unemployment rate decreased from 4.9% in July 2016 to 4.4% in June 2017. The real Gross Domestic Product (GDP) for this period increased 2.2% while the Consumer Price Index (CPI) rose 1.6%. The Federal Reserve raised the federal funds target rate three times during this twelve-month period, 25 basis points in December 2016, 25 basis points in March 2017 and 25 basis points in June 2017, due to the strengthening of the labor market and the growth in economic activity. The federal funds target rate ended in a range of 1.00% to 1.25% in June 2017.

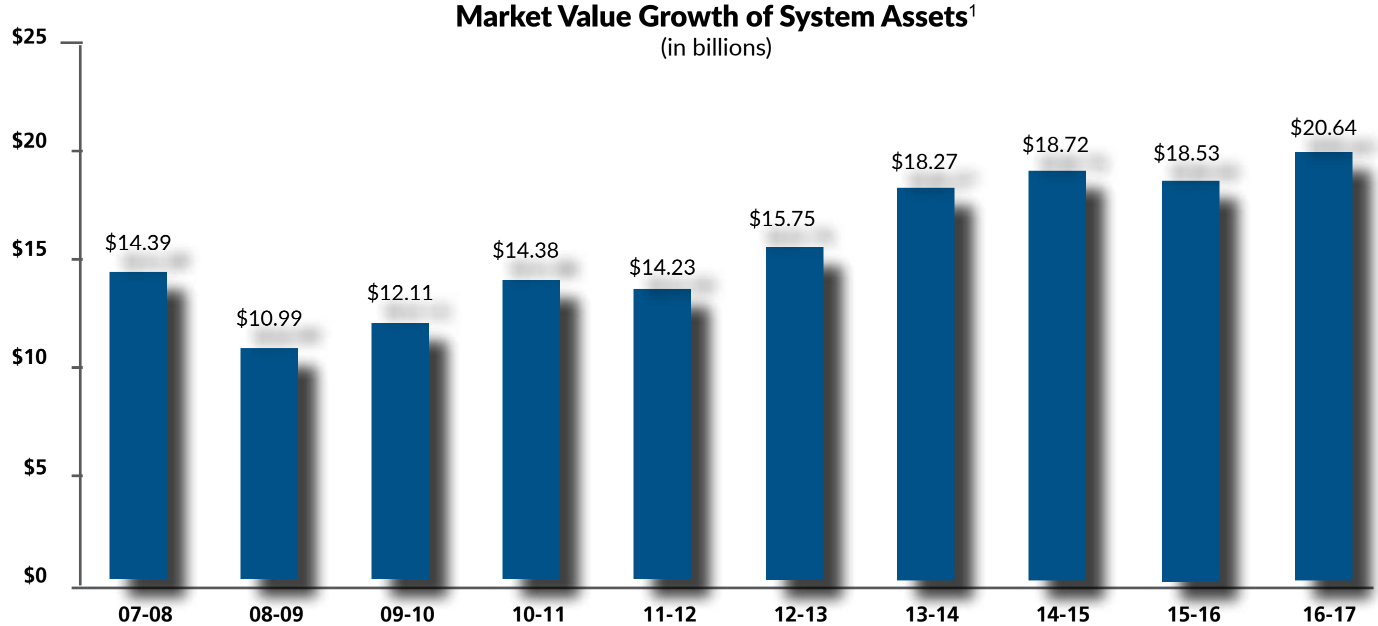
With the increases in the federal fund rate, the 6-month Treasury bill rate, a measure of short term interest rates, increased from 0.37% in July 2016 to 1.14% in June 2017. The U.S. 10-year Treasury yield, which was impacted by other factors such as unexpected election results in both the U.S. and Europe, tensions in North Korea, and valuations in the global equity and bond markets, fluctuated between 1.37% in July 2016 and 2.62% in March 2017, ending at 2.31% in June 2017.

Equity markets throughout the world did exceedingly well during this period. The Standard & Poor's (S&P) 500 index recorded a return of 17.90% while the MSCI EAFE (Europe, Australasia and Far East) index returned 20.83%. The strong performance was driven by favorable expectations of the U.S. fiscal policy and improvements in global economic growth and corporate fundamentals.

Despite the federal funds rate being raised three times during this period, the U.S. bond market (Bloomberg US Universal Bond Index) managed to record a positive return of 0.91%. The positive return was largely attributed to favorable pricing in corporate bonds. The return of the real estate market as measured by the NCREIF (National Council of Real Estate Investment Fiduciaries) Property Index was 6.97%.

The single most important decision the Board can make in the management of the investment program is the determination of the System's asset allocation. The allocation of the System's assets among various asset classes influences both the expected investment return and the amount of investment risk undertaken. The current asset allocation was approved by the Board on June 16, 2016. It is available in Appendix 1 of Section 1 of the Investment Policies; it is also illustrated and discussed in the *Investments - Asset Allocation Decisions* section of this Annual Report.

Market Value Growth of System Assets[1]
(in billions)

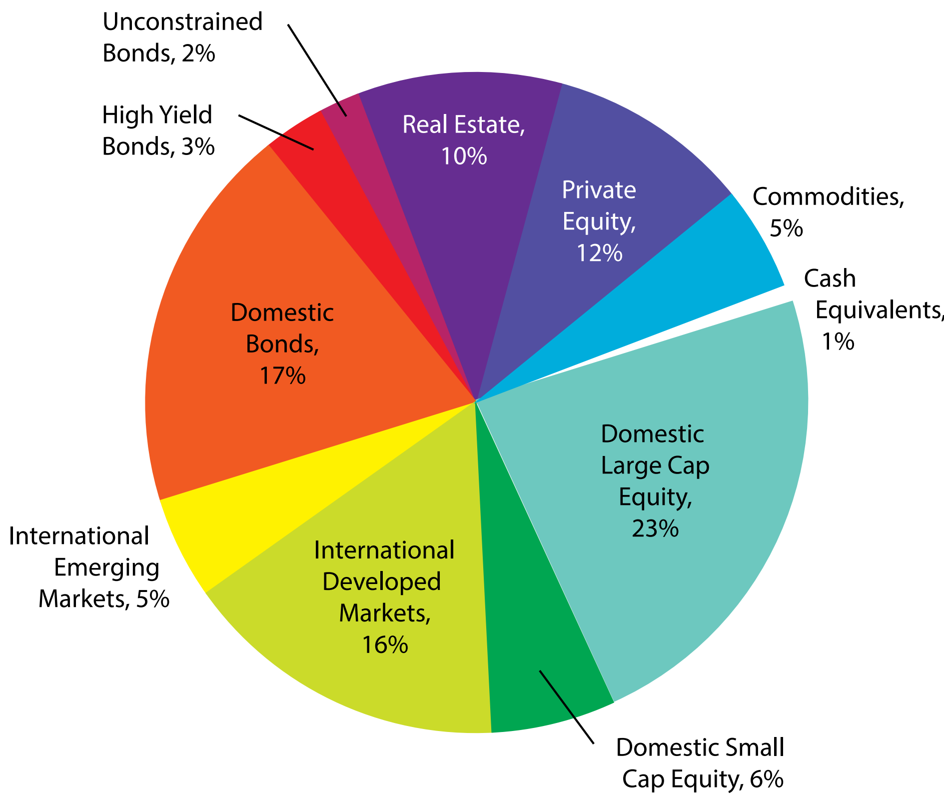


[1] *Based on the most recent final valuations of each fiscal year and supersedes earlier annual report exhibits.*

Asset Allocation Decisions

Our asset allocation plan establishes the blueprint for investing the System's assets in stocks, bonds, real estate, and cash equivalents over a three- to five-year period. This plan is the single most important factor in managing risk and achieving the investment returns necessary to fund benefits. The actual asset class percentages of the System will vary from target allocations due to inflows (such as employer and member contributions), outflows (such as pension payments), and the movements of the securities markets. Assets are periodically rebalanced to adjust for these movements.

The Board's Asset Allocation Targets as of June 30, 2017



Investment Activities

During the year the Fund implemented the Board's decision to restructure its domestic large cap portfolio, resulting in some turnover among its investment managers. The contracts with Research Affiliates and Chicago Equity Partners, both active large cap domestic equity managers, were terminated. AllianceBernstein LP and Northern Trust Investment Inc., both existing passive equity managers, were assigned additional contracts to manage several new domestic large cap equity alternative index accounts. The Fund also hired an additional private equity manager, Fairview Capital Partners, Inc. Several of the Fund's existing managers were renewed. Managers that were rehired included:

- AllianceBernstein LLC, a domestic public equity index manager;
- Boston Partners, an active domestic public equity manager;
- Harding Loevner, an active international public equity manager; and
- Principal Real Estate Investors, an active domestic and international public REIT manager;

The System's assets are managed by both active and passive investment managers. The active managers are hired to outperform a market index. The passive managers are hired to replicate the performance of certain investment indices, and they include the domestic large cap public equity S&P 500 index and the Russell 1000 Growth index, the international public equity MSCI EAFE index and the MSCI EAFE small cap index, the fixed income Bloomberg U.S. Aggregate index and the Bloomberg US Government Inflation Linked Bond index, the commodity related public equity S&P Global Natural Resources index and three other related indices, and the FTSE EPRA/NAREIT Developed index, a real estate investment trust index. A list of the System's managers is provided at the end of this section.

Net Asset Values as of June 30, 2017

Asset Class	Market Value (in millions)	Percent
Stocks	$ 11,035	53.47%
Bonds	4,221	20.45%
Real Estate	2,008	9.73%
Private Equity	1,930	9.35%
Commodities	857	4.15%
Cash Equivalents	586	2.84%
Total	$ 20,637	100.00%

Total Fund Returns as of June 30, 2017

1 Year	13.27%
3 Years	6.08%
5 Years	9.71%
10 Years	5.55%
15 Years	7.85%
20 Years	7.28%
25 Years	8.46%
30 Years	8.54%

Investment Performance

Assumed Rate vs. Actual Rate of Return*: Last Ten Years

Fiscal Year	Assumed Rate	Actual Rate*
07-08	8.00%	-4.65%
08-09	8.00%	-19.97%
09-10	7.75%	13.72%
10-11	7.75%	22.09%
11-12	7.75%	1.89%
12-13	7.75%	13.01%
13-14	7.50%	17.85%
14-15	7.50%	4.15%
15-16	7.50%	1.18%
16-17	7.25%	13.27%

*Based on the most recent final valuations of each fiscal year and supersedes earlier annual report exhibits.

The investment objective of the total Fund over a full market cycle (usually five to seven years) is to earn a return on investments matching or exceeding the actuarial assumed rate of return of 7.25% and investment performance above the median of a sampling of public funds.

Over the past five years the System's annualized return of 9.71% exceeded the actuarial rate of return and surpassed the RVK Public Funds' median return of 8.95%. For the one- and three-year periods, the System's overall investment returns were 13.27% and 6.08%, respectively.

The Fund was ranked in the 26th percentile of the RVK Public Fund universe for the one-year period, the 20th percentile for the three-year period, the 21st percentile for the five-year period, and the 20th percentile for the seven-year period ending June 30, 2017.

The System's top performers during this past year were its domestic and international equity portfolios which generated returns of 19.30% and 22.90% respectively. The bond portfolio was the Fund's worst performer but still generated a positive return of 2.09%.

Emerging Managers

The Board devoted considerable time during the past few years reviewing and refining the System's emerging manager program. Emerging managers are defined as investment management firms that are either too small or too new to normally be considered as candidates for an investment management contract with a large institutional investor like LAFPP. However, the Board believes that newer and/or smaller firms may be able to produce competitive investment returns for the System. The emerging manager program seeks to remove unnecessary barriers to the hiring of successful emerging managers.

The System has had an emerging manager program since the early 1990's. Examples of firms originally hired as emerging managers that are now considered institutional level include Daruma Capital Management, LLC (a small cap value domestic equity manager first hired by the Board in 1998) and LM Capital Group, LLC (an opportunistic fixed income manager first hired in 1997). Both firms "graduated" long ago from emerging manager status and each continues to manage money for the System. The current program includes one international equity manager of managers (i.e., a manager that oversees a number of emerging managers), two direct fixed income emerging managers and five direct domestic equity emerging managers.

Proxy Voting

The System votes all domestic proxy ballots, while the international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines. The System votes affirmatively on preemptive rights, cumulative voting, and confidential voting; opposes anti-takeover measures and generally abstains on issues of a social, political, or environmental nature unless they are required by law or have potential adverse economic impact on the System's assets. However, the System votes affirmatively on proposals encouraging firms to refrain from manufacturing or merchandising firearms illegal for sale in California. The System votes affirmatively on executive compensation bonus plans if the corporation's stock performance in the past year exceeded the returns of both the S&P 500 Index and an appropriate peer group index. The System supports the nomination of and directs an affirmative vote for the appointment of independent directors to the Board of Directors along with shareholder proposals to increase Board diversity. The System votes affirmatively on measures that propose to place independent directors on compensation committees and directs an affirmative vote on shareholder proposals that request management to report on information related to climate change.

Investment Advisors

Stock Managers
AllianceBernstein
Boston Partners
Channing Capital Management
Daruma Asset Management
Frontier Capital Management
Granite Investment Partners
Los Angeles Capital Management
Northern Trust Investments
Oakbrook Investments
PHOCAS Financial
Redwood Investments

International Stock Managers
Baillie Gifford
BlackRock
Boston Common Asset Management
Brandes Investment Partners
Dimensional Fund Advisors
Fisher Asset Management
Harding Loevner
Northern Trust Investments

Bond Managers
Bridgewater Associates
GIA Partners
LM Capital Group
Loomis Sayles & Company
MacKay Shields
Northern Trust Investments
Payden & Rygel
Reams Asset Management
Semper Capital Management

Separate Account Real Estate Managers
Heitman Capital Management
Sentinel Real Estate Corporation

REIT Managers
AllianceBernstein
Principal Global Investors

Commodities Managers
AllianceBernstein
Goldman Sachs Asset Management
Gresham Investment Management
Kleinwort Benson Investors
Mellon Capital
Portfolio Advisors

Private Equity Managers
Fairview Capital Partners, Inc.
Portfolio Advisors

Real Estate Consultant
The Townsend Group

General Consultant
RVK, Inc.

Annual Rates of Return[1]: Last Ten Years

Fiscal Year	Domestic Equities	International Equities	Fixed Income	Real Estate	Private Equity	Hedge Funds	Commodities	Total Fund[2]	CPI[3]
07-08	-11.93%	-7.50%	6.50%	-1.20%	10.17%	0.65%	–	-4.65%	5.02%
08-09	-24.47%	-33.60%	4.20%	-31.98%	-21.22%	-13.02%	–	-19.97%	-1.43%
09-10	16.58%	9.78%	15.15%	3.73%	25.69%	7.18%	–	13.72%	1.05%
10-11	33.23%	29.92%	7.07%	13.79%	24.66%	7.00%	–	22.09%	3.56%
11-12	2.19%	-14.81%	12.32%	12.32%	5.18%	-1.83%	–	1.89%	1.70%
12-13	23.06%	14.64%	0.18%	11.00%	13.79%	9.47%	–	13.01%	1.80%
13-14	24.76%	22.78%	6.80%	12.93%	21.92%	–	–	17.85%	2.10%
14-15	7.36%	-2.14%	1.20%	11.41%	12.51%	–	-13.19%	4.15%	0.12%
15-16	-0.32%	-8.54%	6.40%	13.80%	5.31%	–	-6.19%	1.18%	1.01%
16-17	19.30%	22.90%	2.09%	5.19%	16.52%	–	7.99%	13.27%	1.60%

1 Based on the most recent final valuations of each fiscal year and supersedes earlier annual report exhibits.
2 Total Fund includes Short-Term Investments.
3 CPI is for the U.S. for the year ending June 30.

Changes in Asset Mix: Last Ten Years

Fiscal Year	Stocks	Bonds	Real Estate	Private Equity	Hedge Funds	Commodities	Short-Term Investments
07-08	60.6%	22.9%	8.4%	4.2%	3.2%	–	0.7%
08-09	55.2%	25.7%	7.6%	5.5%	4.6%	–	1.4%
09-10	54.2%	25.5%	7.4%	6.8%	4.4%	–	1.7%
10-11	58.3%	21.8%	7.6%	7.4%	4.0%	–	0.8%
11-12	53.1%	23.4%	8.9%	8.5%	4.0%	–	2.1%
12-13	57.3%	20.6%	8.3%	8.3%	3.5%	–	2.0%
13-14	57.9%	19.7%	9.8%	8.2%	–	1.0%	3.4%
14-15	54.8%	21.7%	10.3%	8.7%	–	2.8%	1.7%
15-16	51.3%	22.9%	10.8%	9.3%	–	3.9%	1.8%
16-17	53.5%	20.4%	9.7%	9.4%	–	4.2%	2.8%

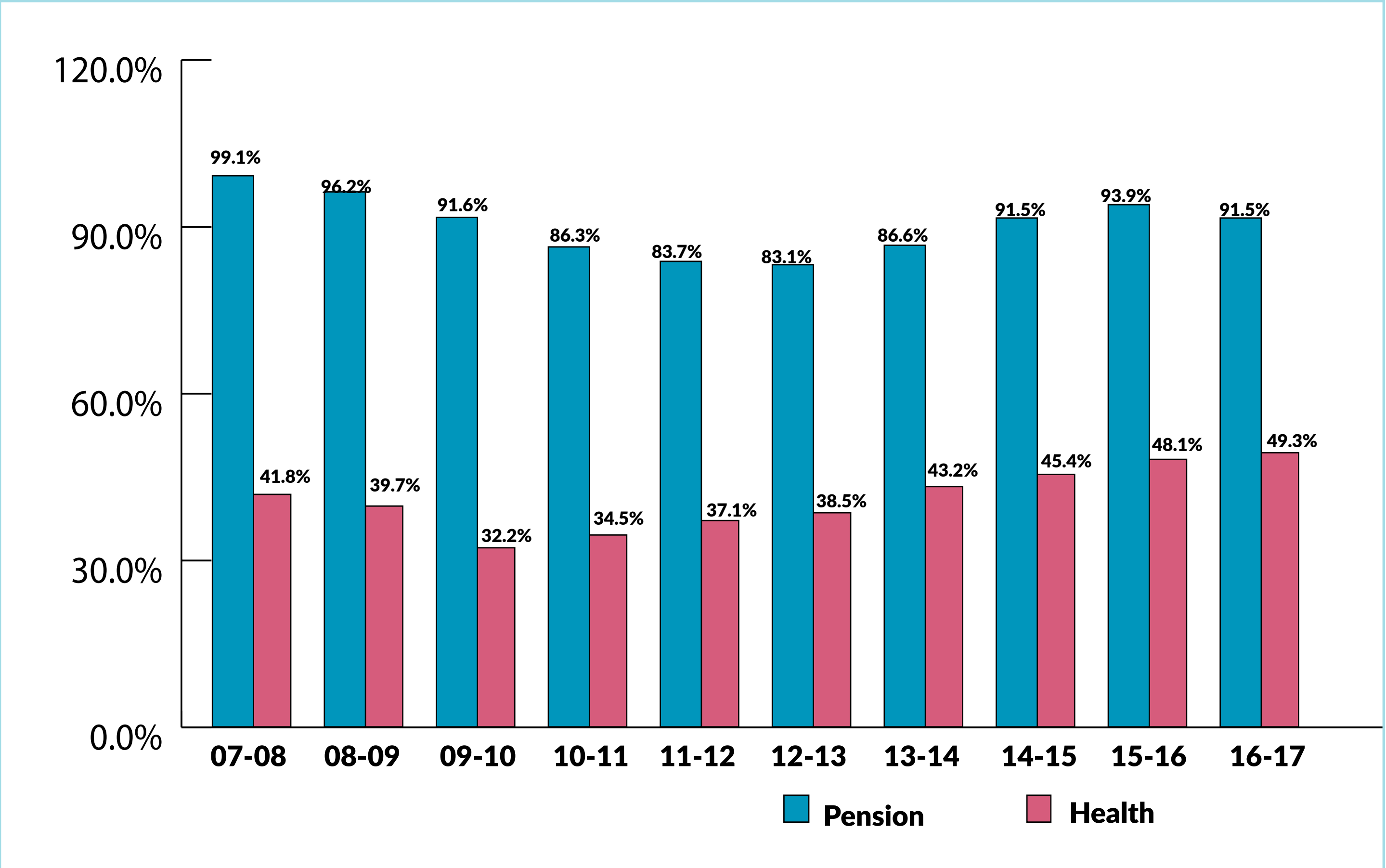

VELASCO
LOS ANGELES
POLICE
FILM
FILM

ACTUARIAL

PART 5

The purpose of an actuarial valuation is to determine the funding progress and the contribution requirements of a retirement plan at a specific moment in time. The System conducts two studies annually for the fiscal year ending June 30: one study evaluates the ratio of assets to liabilities for pension benefits for members and their beneficiaries; the other study evaluates the same ratio for health insurance premium subsidy benefits for qualified retired members and their survivors. The ratios establish the funding status of the System and determine the annual contribution requirements to fund the benefits.

Funded Status - Pension and Health Benefits



Funding Status

The funded status of the System is examined over a span of several years to determine if progress is made. When the assets equal or exceed the liabilities, the Plan is funded at 100 percent or more and is considered fully funded; otherwise it is underfunded.

Pension Benefits

A 10-year history of the System's funded status for pension benefits is provided above. Although the funding ratios declined over several years due to the investment losses sustained in the 2008-2009 Great Recession, the results of the last few actuarial studies reflect improved funding progress.

As of June 30, 2017, the funded status for pension benefits is 91.5 percent, a decrease of 2.4 percent from the prior year. The decrease in the funded ratio was primarily the result of changes in the actuarial assumptions, higher than expected salary increases for continuing active members, partially offset by a higher than expected return on the valuation value of assets (after smoothing), and lower than expected cost of living increases during the year for pensioners and DROP members. Details on the determination of the actuarial value of assets for the year are available in Section 2, Chart 7 of the June 30, 2017 Actuarial Valuation and Review of Retirement Benefits.

Health Insurance Premium Subsidy Benefits

The System began pre-funding health insurance premium subsidy benefits in 1989. A 10-year history of the System's funded status for health benefits is included in the chart above. As of June 30, 2017, the funding status of health benefits increased from 48.1 to 49.3 percent, an increase of 1.2 percent. Details on the factors which contributed to the increased funding status are available in Section 2, Chart 2 of the June 30, 2017 Actuarial Valuation and Review of Other Postemployment Benefits.

How a Valuation is Conducted

In accordance with §1210 of the City Charter, the Entry Age Normal Cost is the actuarial funding method used to determine the contribution requirements to fund the benefits. To determine the cost of benefits, an actuarial valuation takes into consideration the Plan's provisions, participant data, and various actuarial assumptions.

Actuarial Assumptions

The System's actuary recommends assumptions – both demographic and economic – based on the Plan's experience, economic forecasts, and other factors. The Board adopts these assumptions in consultation with the actuary. Demographic assumptions explore the probabilities of when and how long members will receive the various types of benefits, e.g., the likelihood of retirement, disability, and death. Economic assumptions are based on factors that affect the value of benefits or the value of a plan's assets, e.g., inflation rate, rate of salary increases, and assumed investment return.

Every three years, the assumptions are examined to determine if any adjustments are necessary for future valuations. Examples of assumptions used for the valuation period ending June 30, 2017 are provided below.

Average Life Expectancy for Retirees (Age = 65)

Service Retiree
21.3 years*

Disabled Retiree
19.7 years*

Surviving Spouse
21.8 years**

*The average is calculated based on a proportion of 95 percent male and 5 percent female in the current retiree population.

**The average is calculated based on a proportion of 5 percent male and 95 percent female.

Investment Rate of Return

Inflation	3.00%
Plus Portfolio Real Rate of Return	5.11%
Less Expense Adjustment	(0.40%)
Less Risk Adjustment	(0.46%)
Net Investment Return*	**7.25%**

* Net of Investment Expenses Only

The investment return assumption is comprised of two primary components: inflation and real rate of investment return, adjusted for expenses and risk.

Rate of Inflation

Annual increase in the Consumer Price Index	3.00%

Rate of Salary Increases

Inflation: 3.00% per year; plus 0.50% "across the board" increases; plus the following Merit and Promotional increases based on years of service.

Years of Service	Additional Salary Increase
0	8.50%
1	7.50%
2	6.00%
3	5.50%
4	4.00%
5	2.75%
6	2.50%
7	2.00%
8	1.75%
9	1.75%
10	1.25%
11	1.00%
12	1.00%
13	1.00%
14	1.00%
15 & over	0.80%

Pension Benefit Balance Sheet

Cost of living and individual salary assumptions are used to project the dollar amount of benefits to be paid. The total liability is then reduced to today's dollar terms using the investment rate of return assumption. Once the liabilities of the System are computed, the valuation study projects the member and employer contributions expected to be received using the individual salary increase assumptions. The contributions are then reduced to today's dollar terms using the investment rate of return assumption.

The projected future contributions are considered assets of the System, along with assets currently invested by the System. For purposes of determining the contributions to the System, any investment gains and losses established after July 1, 2008 will be recognized over a seven-year period and the actuarial value of assets will be further adjusted, if necessary, to be within 40 percent of the market value of assets.

The Actuarial Balance Sheet comparing the System's assets and liabilities as of June 30, 2017 is available below:

Actuarial Balance Sheet – June 30, 2017

Present Resources and Expected Future Resources

Assets	Pension	Health	Total
1. Valuation value of assets	$18,679,220,993	$1,637,845,956	$20,317,066,949
2. Present value of future normal costs:			
Member	$1,455,119,289		$1,455,119,289
Employer	$2,899,744,196	$728,363,471	$3,628,107,667
Total	$4,354,863,485	$728,363,471	$5,083,226,956
3. Unfunded actuarial accrued liability	$1,731,803,309	$1,684,899,981	$3,416,703,290
4. Present value of current and future assets	$24,765,887,787	$4,051,109,408	$28,816,997,195

Present Value of Expected Future Benefit Payments and Reserve

Liabilities	Pension	Health	Total
5. Present value of future benefits:			
Retired members and beneficiaries	$11,437,424,193	$1,827,498,663	$13,264,922,856
Inactive members with vested rights	$35,400,518	$120,601,907	$156,002,425
Active members	$13,293,063,076	$2,103,008,838	$15,396,071,914
6. Total present value of expected future benefit payments	$24,765,887,787	$4,051,109,408	$28,816,997,195

Employer Contribution Requirements Calculation

The City and the Harbor Department's contributions to the System are composed of two parts: (1) the Entry Age Normal Cost; and (2) the contribution to amortize the unfunded liability.

Entry Age Normal Cost
The Entry Age Normal Cost contribution is the amount the employer would contribute for a hypothetical new entrant into the System. This amount would theoretically be sufficient to fully fund a member's retirement benefit on the date of retirement if all assumptions were realized and no benefit changes were made.

Amortization of the UAAL
In September 2012, the Board adopted an amortization policy for the valuation period ending June 30, 2012 and for use in subsequent valuations. (Prior to voter approval of a March 2011 Charter amendment, the amortization policy was prescribed in the City Charter.) The Board has amended its funding policy since it was first adopted in 2012.

Under the current policy, the unfunded liability for Tier 1 is amortized as a level dollar amount and is scheduled to end on June 30, 2037. For all other tiers, it is amortized as a level percent of payroll. Specifically, for Tiers 2 - 4, the unfunded liability is amortized as a percentage of the total City sworn covered payroll. For Tiers 5 and 6, it is amortized as a percentage of the combined payroll of these tiers from the respective employer – the City or Harbor Department. Actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 20 years, and Plan amendments are amortized over 15 years. In the event of an actuarial surplus, 30-year amortization is used.

With this information, the actuary computes the employer contribution requirements for pension benefits.

Unfunded Liability Contribution Requirements Recommended 2018-19*

Tier 1	$14,731,272
Tier 2	1.15% of total payroll of Tiers 2 – 6**
Tier 3	1.75% of total payroll of Tiers 2 – 6**
Tier 4	1.18% of total payroll of Tiers 2 – 6**
Tier 5	9.87% of Tier 5 payroll**
Tier 6	9.87% of Tier 6 payroll**
Harbor Port Police – Tier 5	6.45% of Tier 5 payroll***
Harbor Port Police – Tier 6	6.45% of Tier 6 payroll***

*Contributions to be made on July 15, 2018.
**Excluding the Harbor Department.
***Excluding the City.

Entry Age Normal Cost Contribution Requirements Recommended 2018-19* (as a percentage of Plan members' salaries)

Tier 1	N/A
Tier 2	24.75%
Tier 3	16.93%
Tier 4	18.29%
Tier 5	19.53%
Tier 6	16.15%
Harbor Port Police – Tier 5	19.95%
Harbor Port Police – Tier 6	15.73%

*Contributions to be made on July 15, 2018.

Unfunded Actuarial Accrued Liability

An unfunded actuarial accrued liability (UAAL) of a retirement system occurs when a system's actuarial liability is greater than the actuarial value of its assets, yielding a funded ratio less than 100 percent. As of June 30, 2017, the Actuarial Balance Sheet on page 93 shows the UAAL for pension benefits for all tiers to be approximately $1.7 billion. The UAAL for health insurance premium subsidy benefits for all tiers is approximately $1.7 billion.

Numerous variables, including pension benefit increases and actuarial losses, generate or increase the UAAL. Actuarial gains or losses arise from differences between the actual experience of a pension system and the actuarial assumptions used to project the system's funding requirements. An example would be if combined members' salaries increased more than what was assumed.

The gains and losses reflected in the UAAL must be amortized over a period of time in accordance with the Board's Actuarial Funding Policy and are a key component in determining the employer's required contribution to the System.

Administrative Expenses

Beginning with the June 30, 2014 valuation, the Plan's assumed investment rate of return excludes administrative expenses. This change was made in order to implement new Governmental Accounting Standards Board (GASB) financial reporting requirements (GASB Statements 67 and 68) so that the same investment return assumption can be used for both funding and financial reporting purposes. The actuary now recommends an explicit assumption to account for the Plan's administrative expenses.

Contribution Amount Allocated for Administrative Expenses*

Pension	1.12%
Health	0.09%

**Percent of total payroll*

Health Insurance Premium Subsidy Valuation

The health insurance premium subsidy valuation utilizes the same actuarial assumptions as the valuation of pension benefits, with the addition of a medical inflation assumption. Medical costs continue to increase at a faster pace than inflation. Assumptions in the June 30, 2017 actuarial valuation included medical trend rate increases of 7.00 percent for non-Medicare premiums and 6.50 percent for Medicare premiums in Fiscal Year 2017-18, then decreasing by 0.25 percent each year for ten years for non-Medicare premiums and eight years for Medicare premiums, until they both reach an ultimate rate of 4.50 percent. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health insurance premium subsidy benefits is shown on page 93. The contributions recommended to fund the health insurance premium subsidy benefits are:

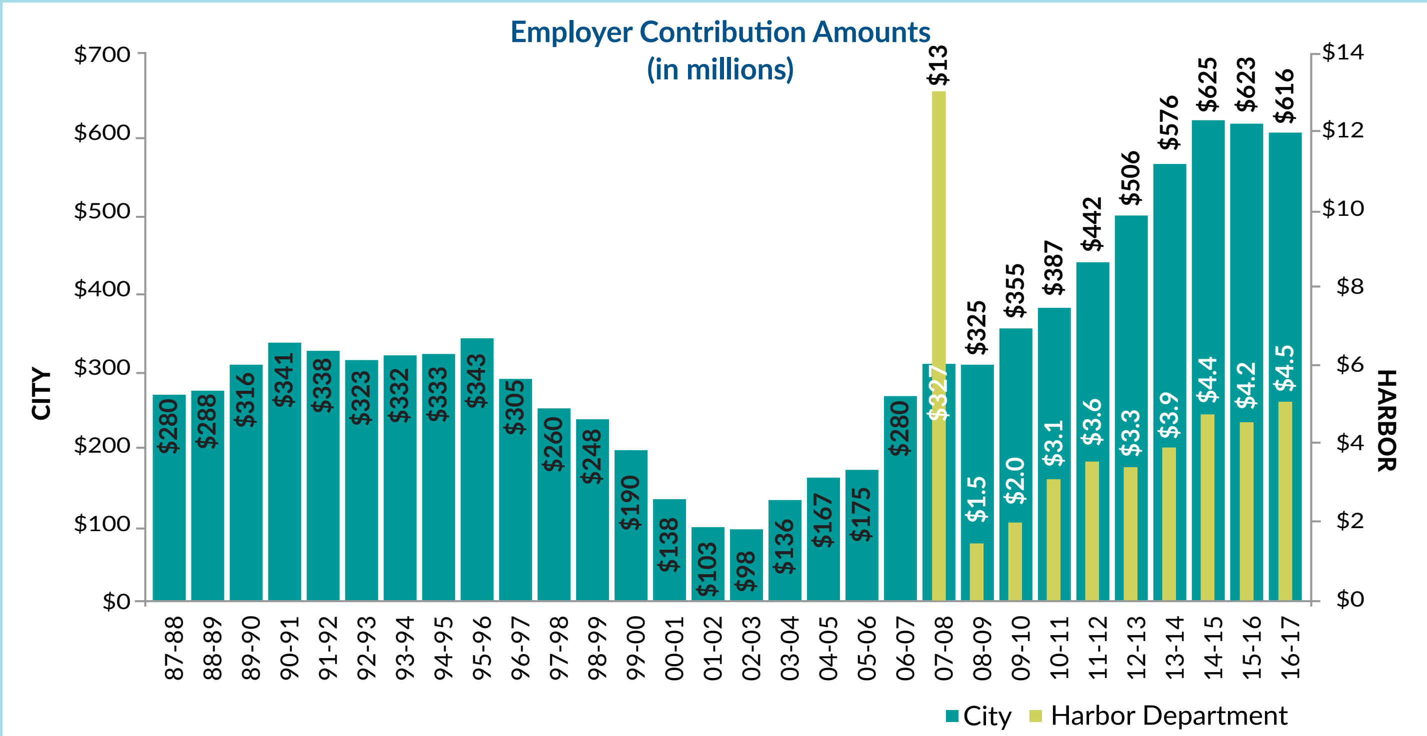
Health Insurance Premium Subsidy Contribution Rates Recommended 2018-19*
(as a percentage of Plan members' salaries)

Tier 1	$1,654,195
Tier 2	7.57%
Tier 3	4.90%
Tier 4	4.60%
Tier 5	7.55%
Tier 6	9.95%
Harbor Port Police – Tier 5	6.98%
Harbor Port Police – Tier 6	7.15%

*Contributions to be made on July 15, 2018.

Health Insurance Premium Cost Trend Rates
(applied to calculate following year's premium)

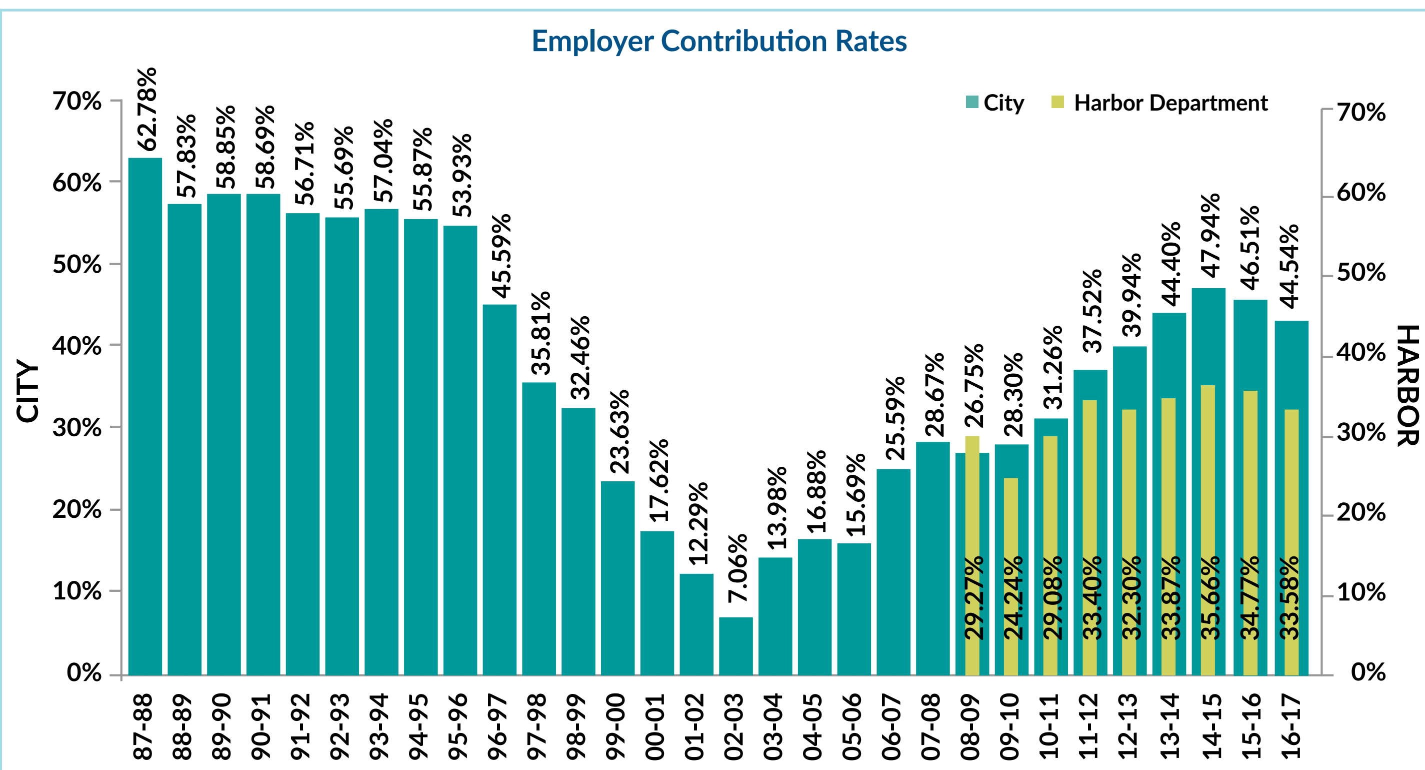
Fiscal Year	Non-Medicare	Medicare
2017-2018	7.00%	6.50%
2018-2019	6.75%	6.25%
2019-2020	6.50%	6.00%
2020-2021	6.25%	5.75%
2021-2022	6.00%	5.50%
2022-2023	5.75%	5.25%
2023-2024	5.50%	5.00%
2024-2025	5.25%	4.75%
2025-2026	5.00%	4.50%
2026-2027	4.75%	4.50%
2027 and later	4.50%	4.50%



Employer Contribution History

A history of employer contributions is illustrated in the charts above and below. Over the last two decades, the City's contribution for pension and health benefits to the System has grown, although there were periods when the contribution amount was decreased due to the System's actuarial surplus status.

After the inclusion of Harbor Port Police in January 2006, the Harbor Department began making contributions to the System in Fiscal Year 2007-08. Since its first-year contribution, subsequent contributions have been quite stable as well.



PART 6
STATISTICAL

Membership Statistics

Fire and Police Pension Plans
As of June 30, 2017, the System is composed of seven tiers. Benefits are based on the member's pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Members hired pursuant to the provisions of Article XI 1/2 of the 1925 Charter are known as "fluctuators." Fluctuator pensioners receive 50 percent of the current salary received by the classification they retired from. Such beneficiaries are included in Tier 1 for purposes of our actuarial valuations.

Members hired from July 1, 1925 to January 28, 1967 participate in Tier 1 (formerly Article XVII). Tier 2 (formerly Article XVIII) includes members hired from January 29, 1967 through December 7, 1980, and Tier 1 members who elected to transfer during an enrollment period.

Tier 3 (formerly Article XXXV, Plan 1) consists of members hired from December 8, 1980 to June 30, 1997. Members hired from July 1, 1997 to December 31, 2001 are in Tier 4 (formerly Article XXXV, Plan 2). Tier 4 also includes members who elected to transfer from Tier 3 during an enrollment period. Additionally, Tier 4 members hired from July 1, 1997 through December 31, 1997 were given the opportunity to transfer to Tier 3 during an enrollment period.

Tier 5 includes members hired from January 1, 2002 through June 30, 2011. Active members in Tiers 2 – 4 were allowed to transfer to Tier 5 during an enrollment period.

Additionally, all eligible sworn members of the Harbor Department hired on or after January 8, 2006 automatically become members of the Fire and Police Pension System. Members hired from January 8, 2006 through June 30, 2011 are in Tier 5. Those hired prior to January 8, 2006 were provided the option to transfer to Tier 5 from the Los Angeles City Employees' Retirement System (LACERS) from January 8, 2006 to January 5, 2007.

Tier 6 consists of all new members hired on or after July 1, 2011. On July 1, 2012, the Department of General Services, Office of Public Safety (OPS) was consolidated into the Los Angeles Police Department (LAPD). As a result, OPS employees who successfully transitioned to a regular LAPD sworn classification could make an election to opt out of LACERS and become a Tier 6 member of the Fire and Police Pension System. The opt-out election period expired on December 12, 2014.

Deferred Retirement Option Plan
Effective May 1, 2002, the System began administering a Deferred Retirement Option Plan (DROP). DROP is a voluntary program whereby a member with a minimum of 25 years of service (members of Tiers 3, 5 and 6 must also be at least age 50) may file for a service pension but continue to work and earn salary and receive benefits as an active employee. The monthly service pension benefit is deposited into an interest-bearing account (5 percent per annum), payable upon exiting DROP. Participation in DROP is limited to a maximum of five years.

All eligible members of the Fire and Police Pension System, except the Fire and Police Chiefs, may elect to participate in DROP. The intent of the program was to retain police officers and lengthen their careers due to significant challenges faced by the City in police retention and recruitment. In addition, DROP must be cost neutral with regard to plan funding. As such, Administrative Code §4.2100 requires the City to conduct an actuarial study at least every five years to determine whether the program is maintaining cost neutrality and/or meeting the City's goal of retaining sworn personnel.

AT A GLANCE

9,874
Members in Tier 5 (Largest Membership)

29
Average Years of Service at DROP Entry

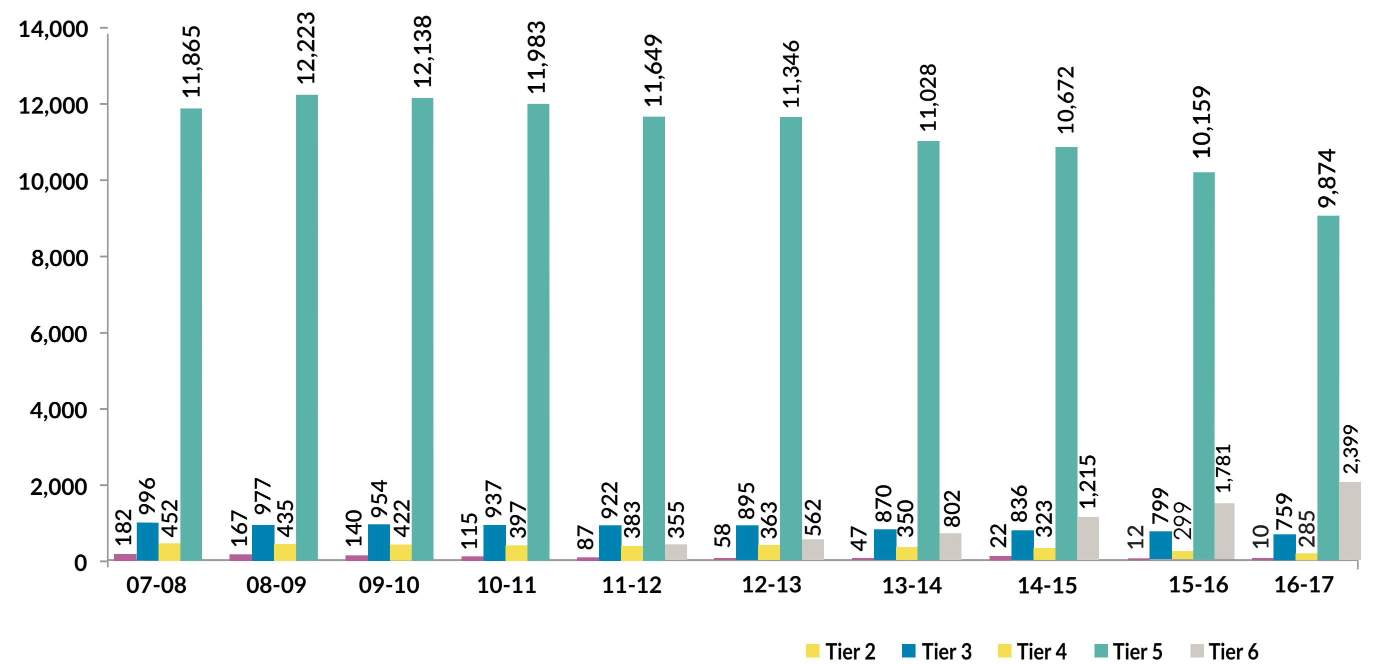
54
Average Age of Member Entering DROP

1,303
Total Members Currently in DROP

$6,265
Average Monthly Service Pension Benefit

70
Average Age of Service Pensioner

Active Membership[1]



Active Membership as of June 30, 2017

Tier	Fire	Police	Harbor	Total
Tier 2	5	5	---	10
Tier 3	19	740	---	759
Tier 4	50	235	---	285
Tier 5	2,626	7,149	99	9,874
Tier 6	609	1,771	19	2,399
Total	**3,309** *	**9,900** **	**118** ***	**13,327**

* *Includes 402 DROP participants.*
** *Includes 900 DROP participants.*
*** *Includes 1 DROP participant.*

Refunds of Member Contributions

	12-13	13-14	14-15	15-16	16-17
Fire:					
Tier 2	0	0	0	0	0
Tier 3	0	0	0	0	0
Tier 4	0	0	0	0	0
Tier 5	13	7	6	4	6
Tier 6	0	0	1	0	0
Police:					
Tier 2	0	0	0	0	0
Tier 3	4	6	0	2	1
Tier 4	0	0	0	0	0
Tier 5	52	65	53	50	40
Tier 6	2	17	17	18	33
Harbor:					
Tier 5	0	0	3	0	3
Tier 6	0	1	0	0	0
Total	**71**	**96**	**80**	**74**	**84**

[1] *Total Active Membership includes recruit trainees.*

Active Fire Membership
Age and Years of Service

	Years of Service							
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**Total**
-25	107	0	0	0	0	0	0	107
25-29	286	7	0	0	0	0	0	293
30-34	157	203	105	0	0	0	0	465
35-39	48	125	284	62	0	0	0	519
40-44	8	40	188	242	7	0	0	485
45-49	2	11	86	194	82	56	2	433
50-54	1	3	15	71	80	231	124	525
55-59	1	0	4	21	28	137	220	411
60-64	0	0	0	2	0	14	49	65
65+	0	0	0	0	0	1	5	6
Total	**610**	**389**	**682**	**592**	**197**	**439**	**400**	**3,309**

Active Police Membership
Age and Years of Service

	Years of Service							
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**Total**
-25	353	0	0	0	0	0	0	353
25-29	786	125	0	0	0	0	0	911
30-34	320	830	197	0	0	0	0	1,347
35-39	98	456	721	116	0	0	0	1,391
40-44	23	189	447	663	327	0	0	1,649
45-49	12	76	185	490	1,011	183	0	1,957
50-54	3	23	60	137	472	785	89	1,569
55-59	1	4	10	39	128	286	112	580
60-64	1	0	1	10	33	56	26	127
65+	0	0	0	2	3	5	6	16
Total	**1,597**	**1,703**	**1,621**	**1,457**	**1,974**	**1,315**	**233**	**9,900**

Active Harbor Membership
Age and Years of Service

	Years of Service							
Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
-25	3	0	0	0	0	0	0	3
25-29	10	0	0	0	0	0	0	10
30-34	2	11	2	0	0	0	0	15
35-39	1	25	19	0	0	0	0	45
40-44	0	9	11	0	0	0	0	20
45-49	0	3	3	3	0	0	0	9
50-54	0	1	2	5	1	0	1	10
55-59	1	1	0	1	1	0	0	4
60-64	1	0	0	1	0	0	0	2
65+	0	0	0	0	0	0	0	0
Total	**18**	**50**	**37**	**10**	**2**	**0**	**1**	**118**

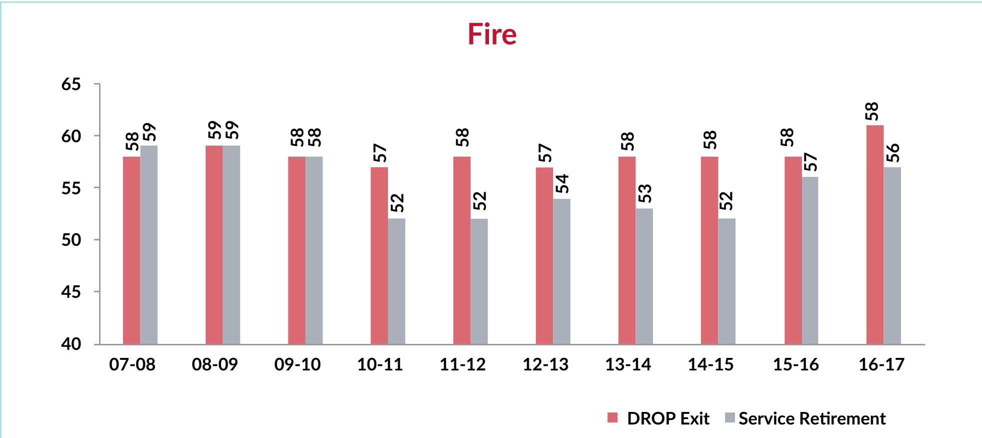
DROP Membership

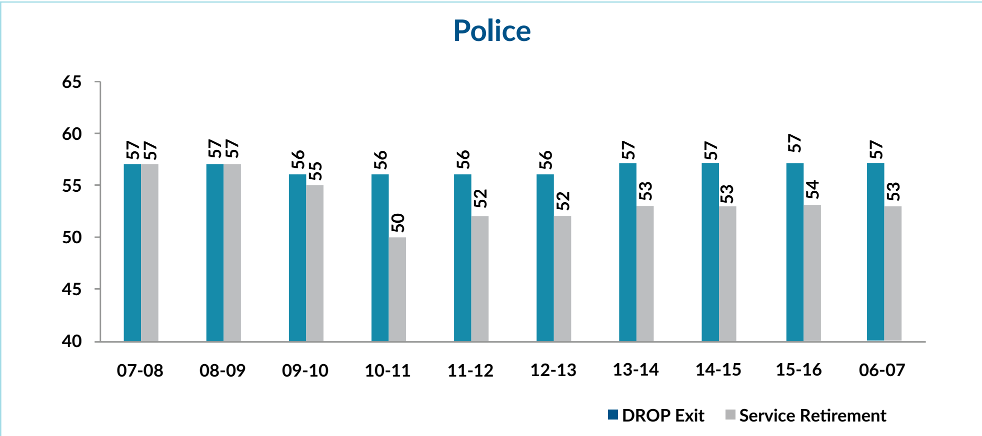
DROP Program Summary of Participation

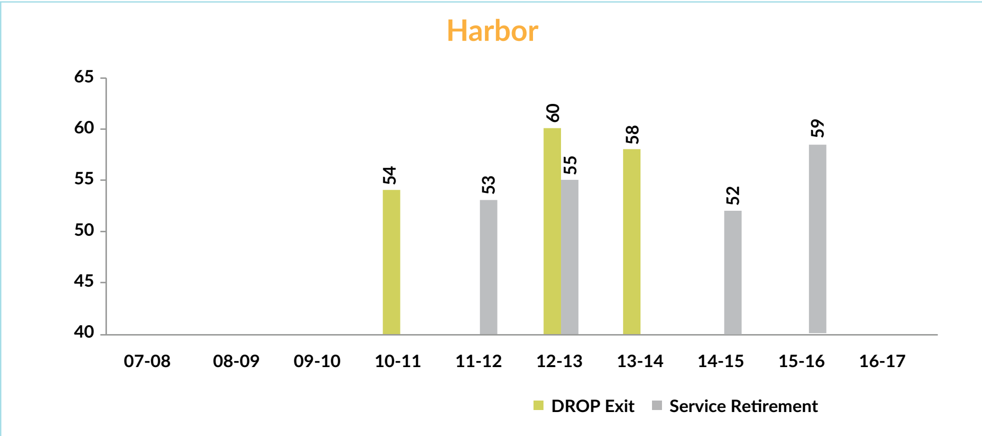
Fiscal Year	Average Participation per Month			Total Entries			Average Age at Entry			Average Years of Service at Entry			Total Exits		
	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD
07-08	524	627	1	100	125	1	53	52	57	29	27	31	112	199	0
08-09	479	574	3	65	122	2	53	52	54	29	27	26	116	168	0
09-10	481	552	5	131	159	1	53	52	52	29	27	28	99	129	0
10-11	502	578	4	180	166	1	53	53	55	29	28	25	105	123	2
11-12	565	657	4	82	166	0	53	53	0	28	27	0	115	140	0
12-13	512	644	3	73	166	1	53	53	58	28	27	25	100	143	3
13-14	506	681	1	101	218	1	54	53	50	29	26	27	72	146	2
14-15	524	775	1	99	275	0	54	53	0	29	26	0	121	173	0
15-16	492	890	1	86	235	0	54	52	0	28	27	0	194	193	0
16-17	402	886	1	70	204	0	54	53	0	29	28	0	76	187	0

Retired Membership

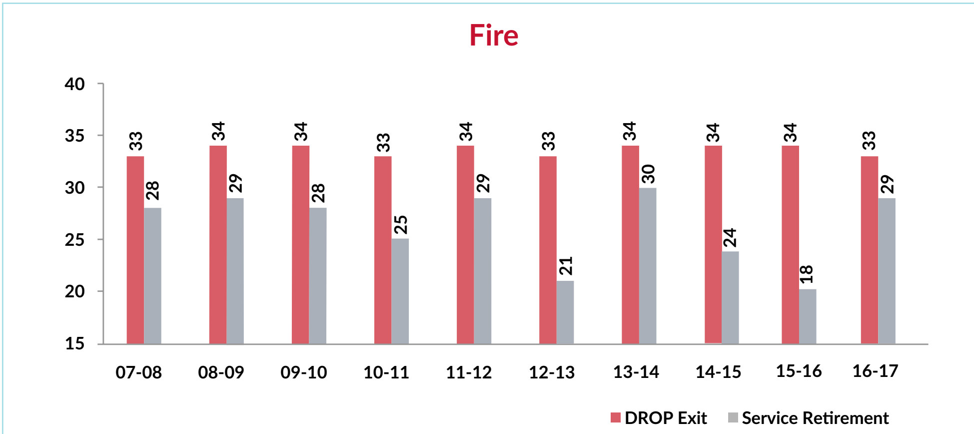
DROP vs. Service Retirement
Average Age

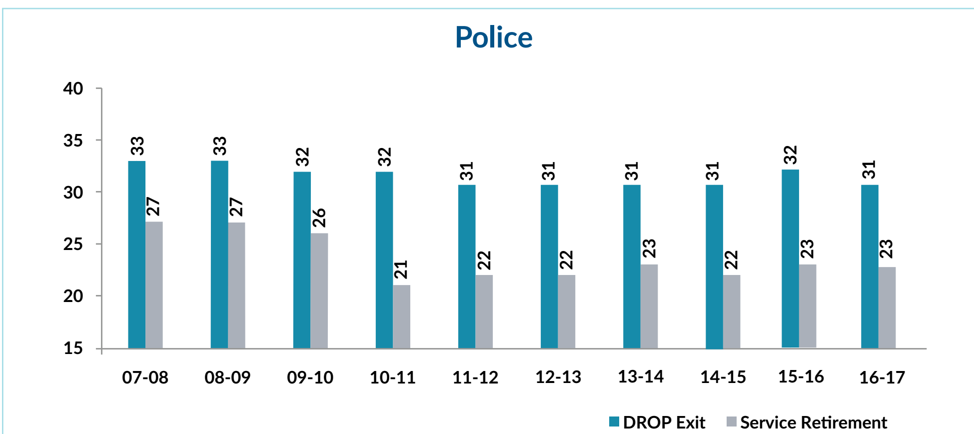


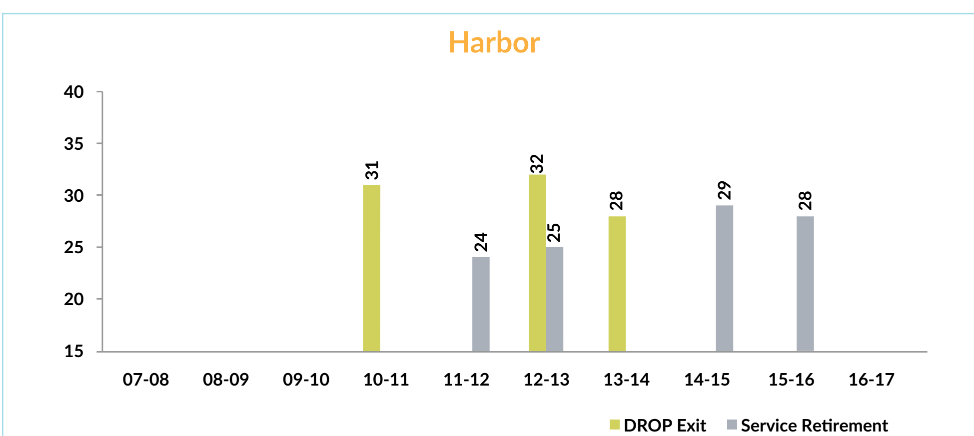




DROP vs. Service Retirement
Average Years of Service

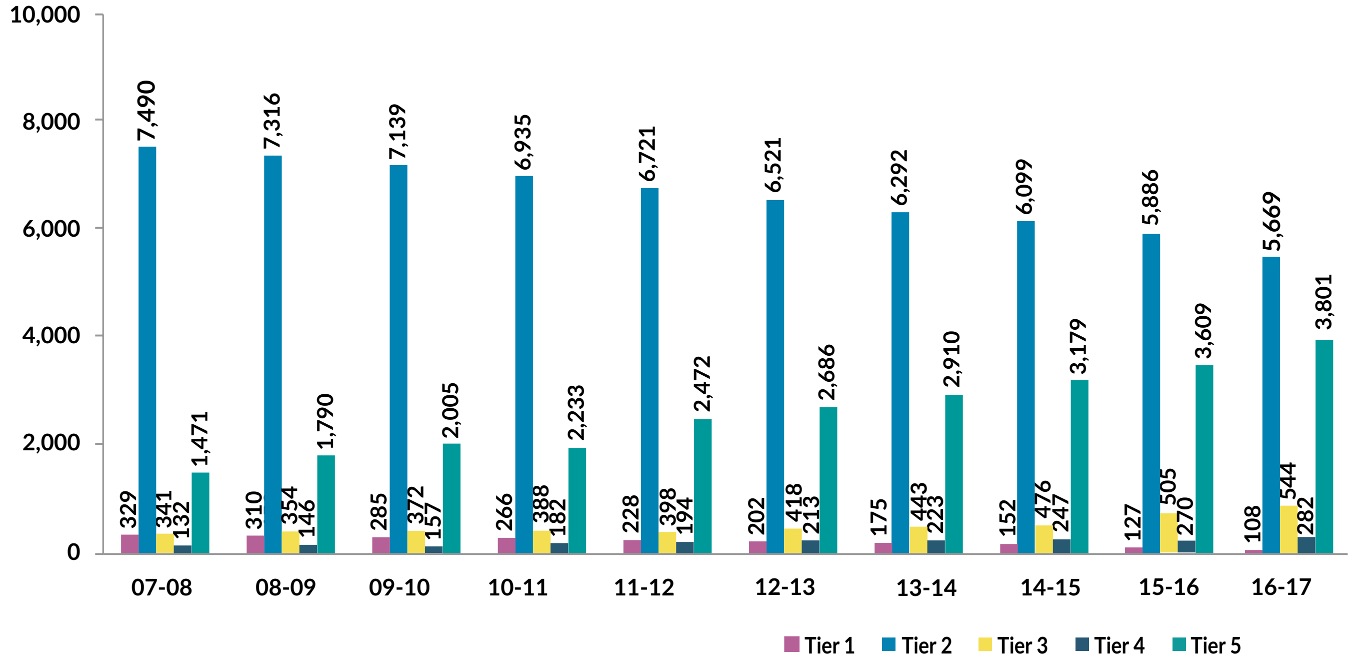






Retired Membership by Tier

Excludes survivor pensioners.



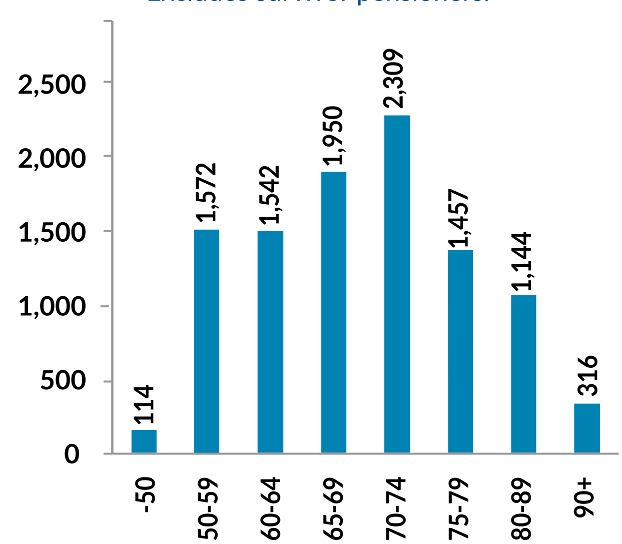
Retired Membership as of June 30, 2017

Excludes survivor pensioners.

Tier	Fire	Police	Harbor	Total
Tier 1	15	93	0	108
Tier 2	1,296	4,372	1	5,669
Tier 3	85	459	0	544
Tier 4	20	262	0	282
Tier 5	1,389	2,397	15	3,801
Tier 6	0	0	0	0
Total	**2,805**	**7,583**	**16**	**10,404**

Retired Membership by Age

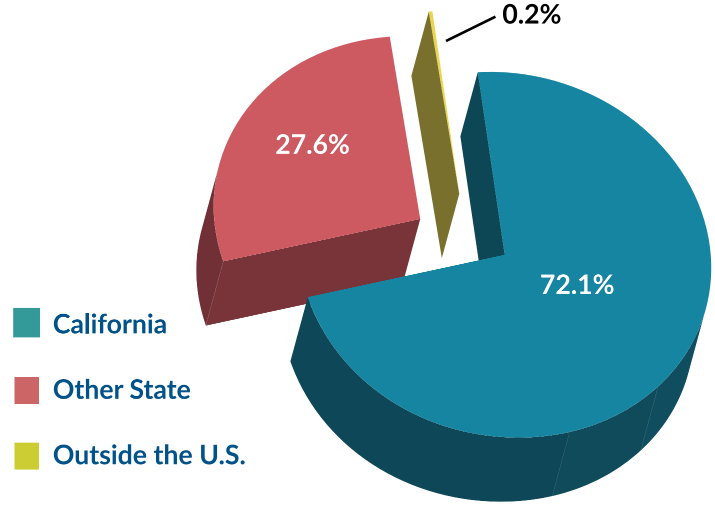
Excludes survivor pensioners.



Service Pensioners

Number in Pay Status:	8,462
Average Age at Retirement:	51.9
Average Age:	69.8
Average Monthly Benefit:	$6,265

Residency of Pensioners



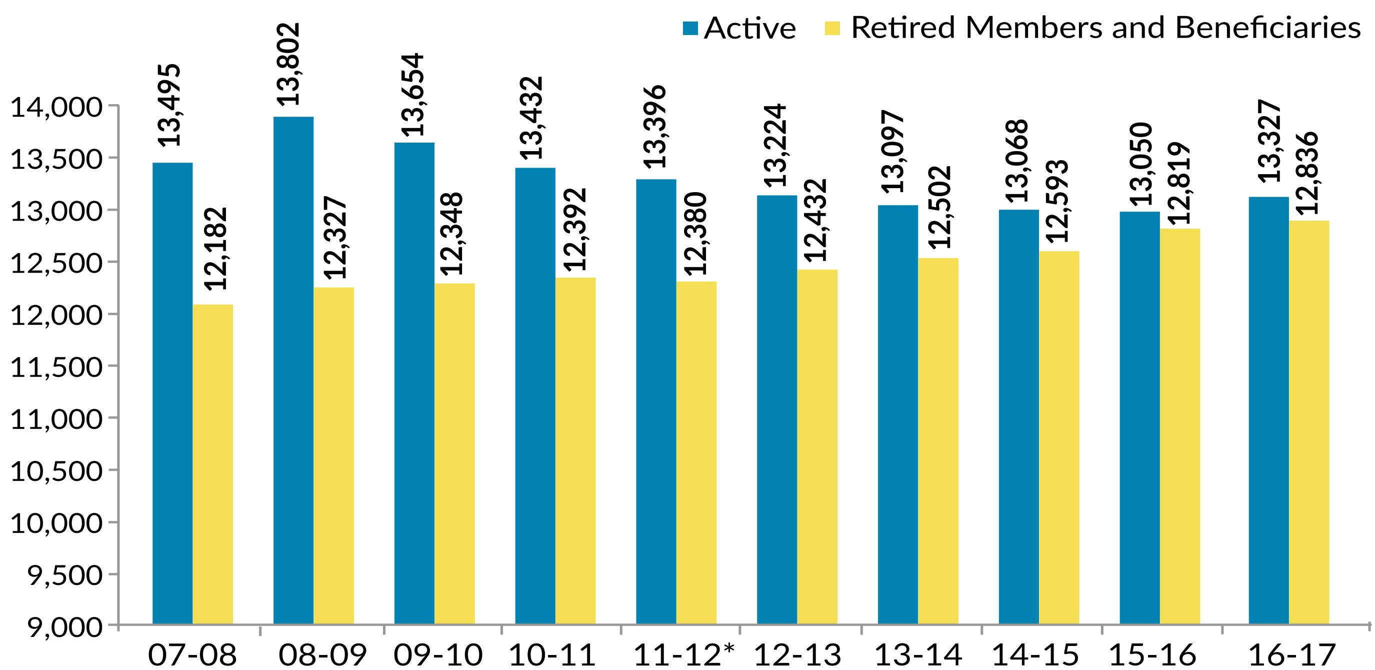
Disability Pensioners

Number in Pay Status:	1,942
Average Age at Retirement:	43.9
Average Age:	70.6
Average Monthly Benefit:	$4,859

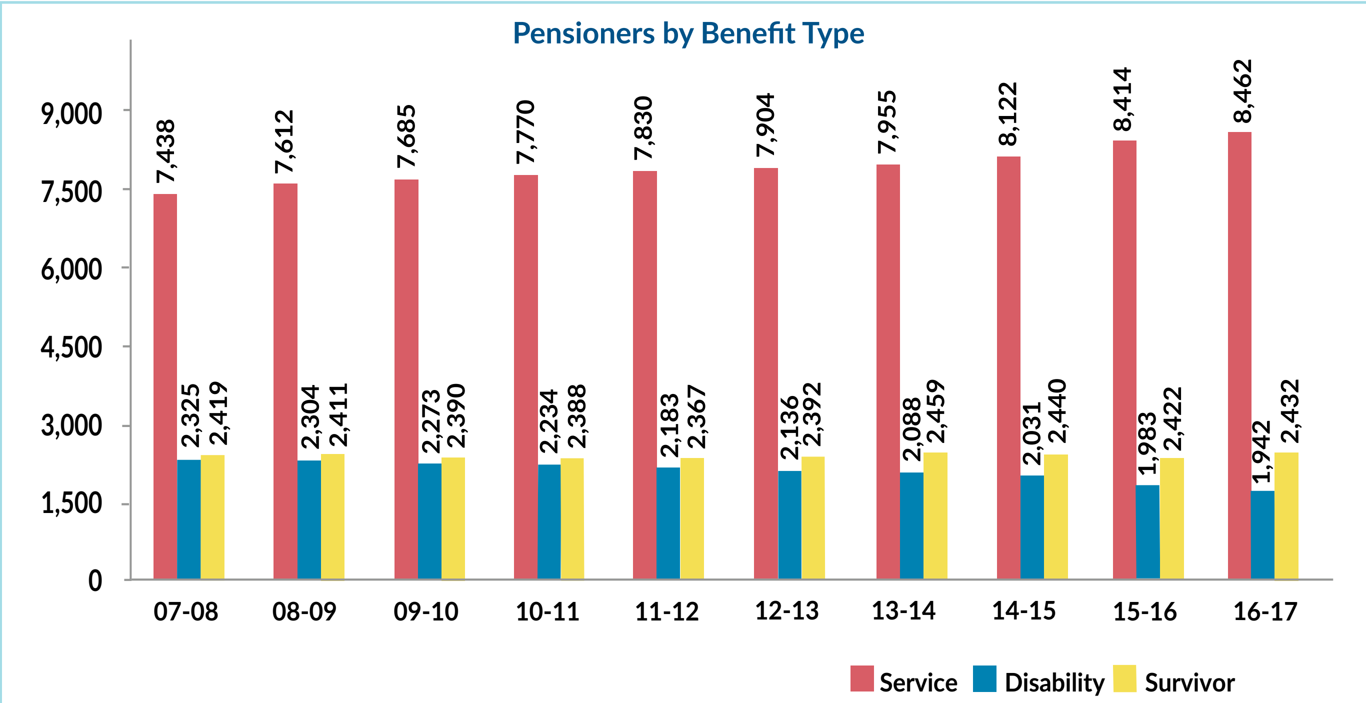
Survivor Pensioners

Number in Pay Status:	2,432
Average Age:	76.4
Average Monthly Benefit:	$4,333

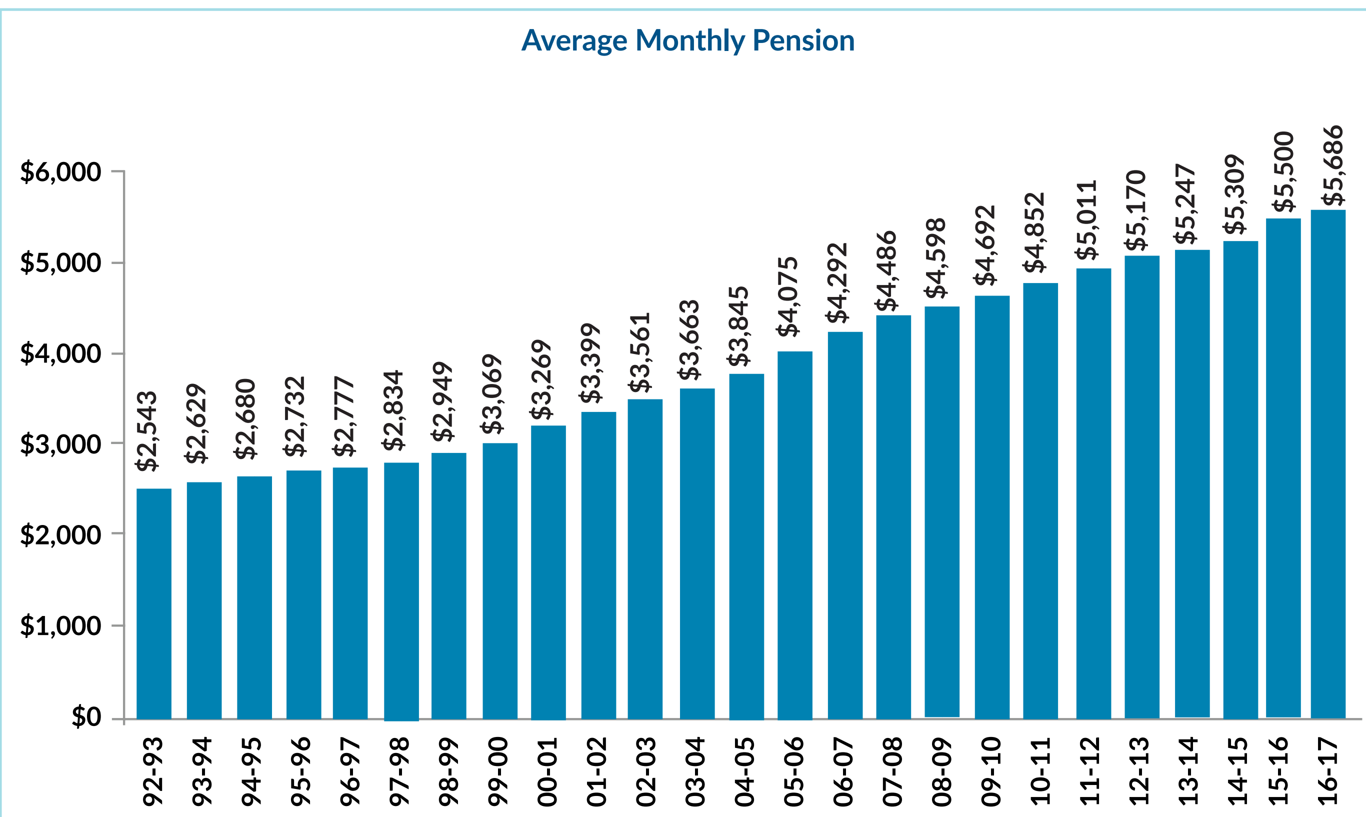
Active vs. Retired Members



*2011 Retired membership includes 13 new retirees during the period July 1, 2011 to July 14, 2011.



Pensioners by Benefit Type
9,000
7,500
6,000
4,500
3,000
1,500
0
7,438
2,325
2,419
7,612
2,304
2,411
7,685
2,273
2,390
7,770
2,234
2,388
7,830
2,183
2,367
7,904
2,136
2,392
7,955
2,088
2,459
8,122
2,031
2,440
8,414
1,983
2,422
8,462
1,942
2,432
07-08
08-09
09-10
10-11
11-12
12-13
13-14
14-15
15-16
16-17
Service
Disability
Survivor



Average Monthly Pension
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$2,543
$2,629
$2,680
$2,732
$2,777
$2,834
$2,949
$3,069
$3,269
$3,399
$3,561
$3,663
$3,845
$4,075
$4,292
$4,486
$4,598
$4,692
$4,852
$5,011
$5,170
$5,247
$5,309
$5,500
$5,686
92-93
93-94
94-95
95-96
96-97
97-98
98-99
99-00
00-01
01-02
02-03
03-04
04-05
05-06
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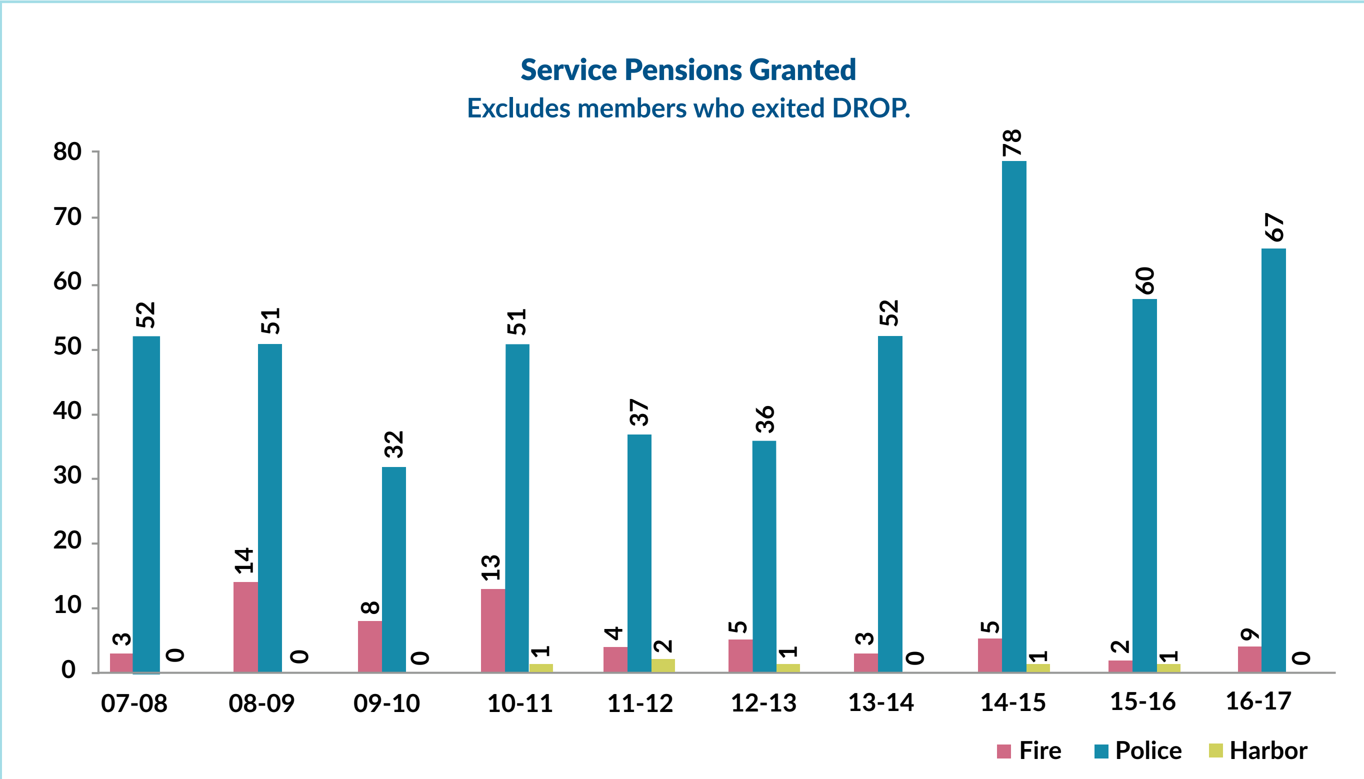
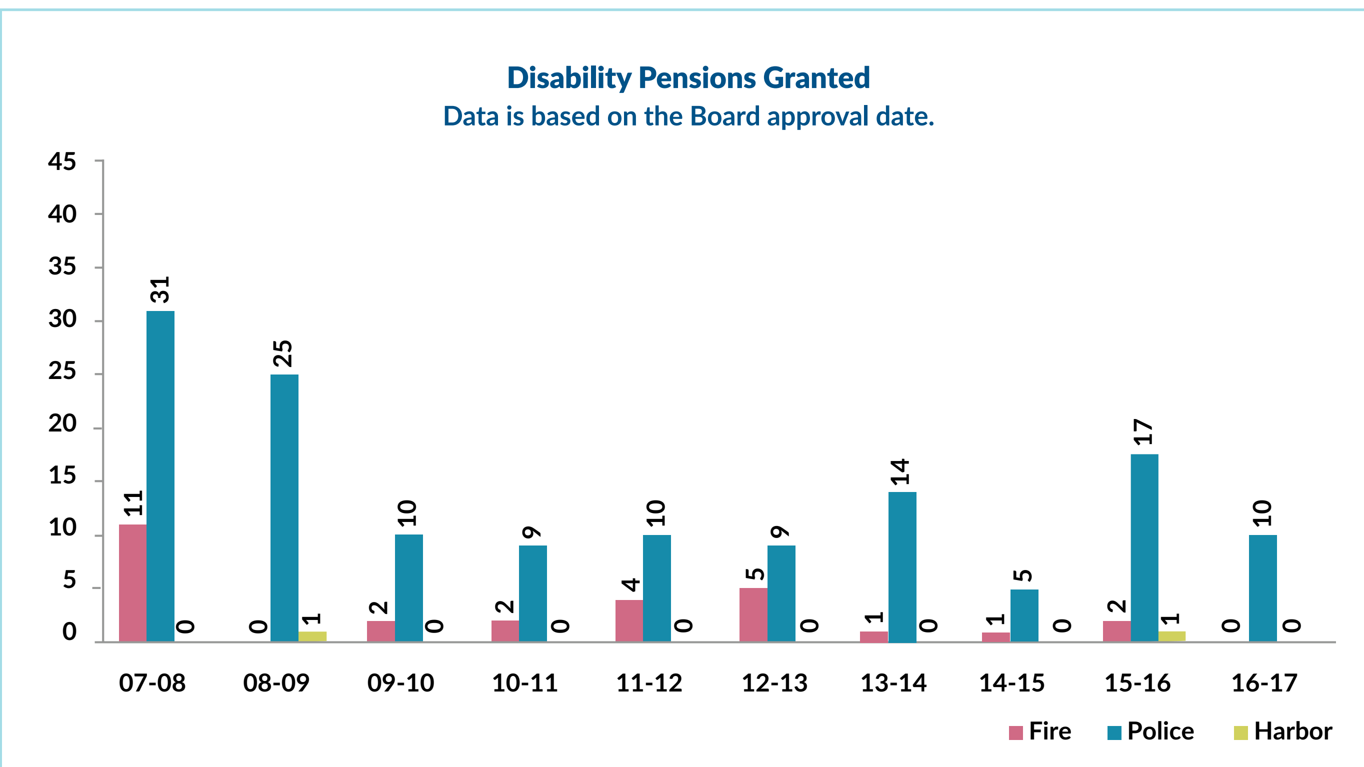
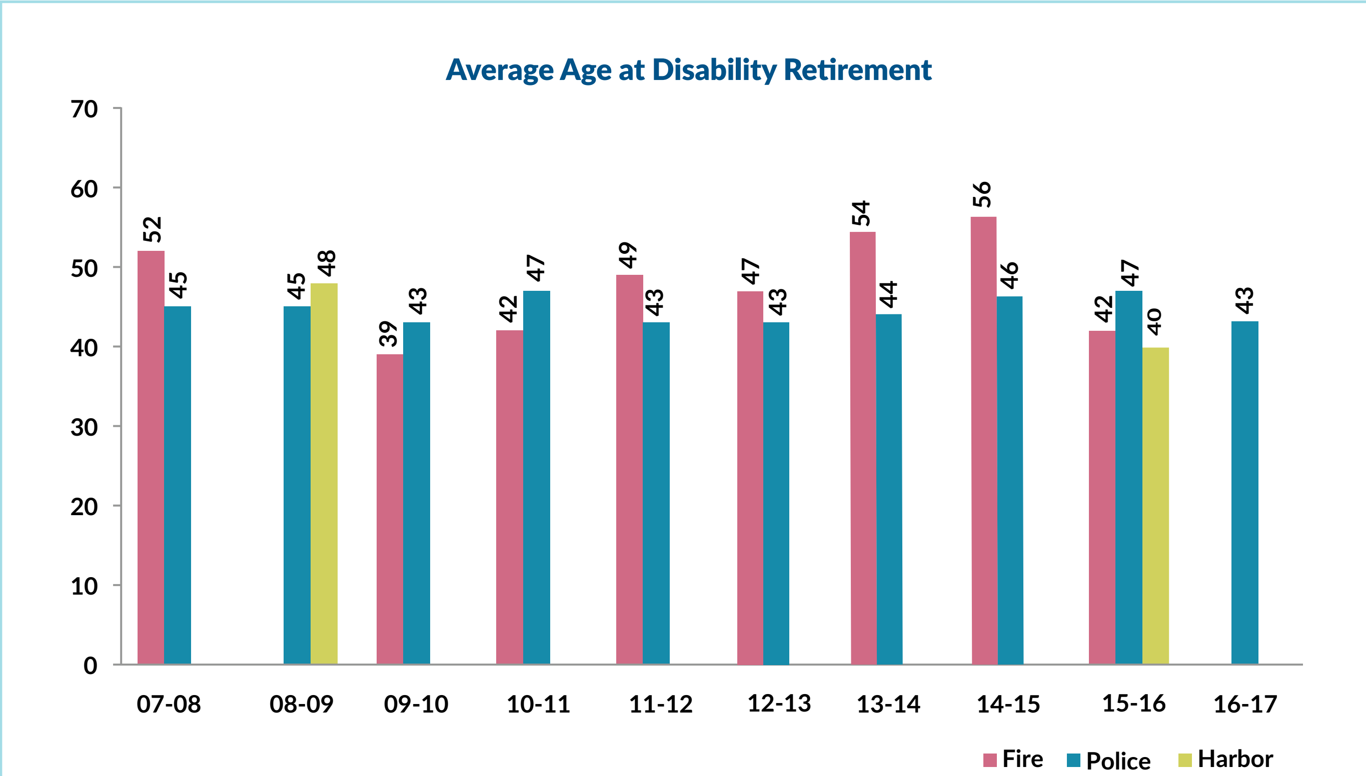
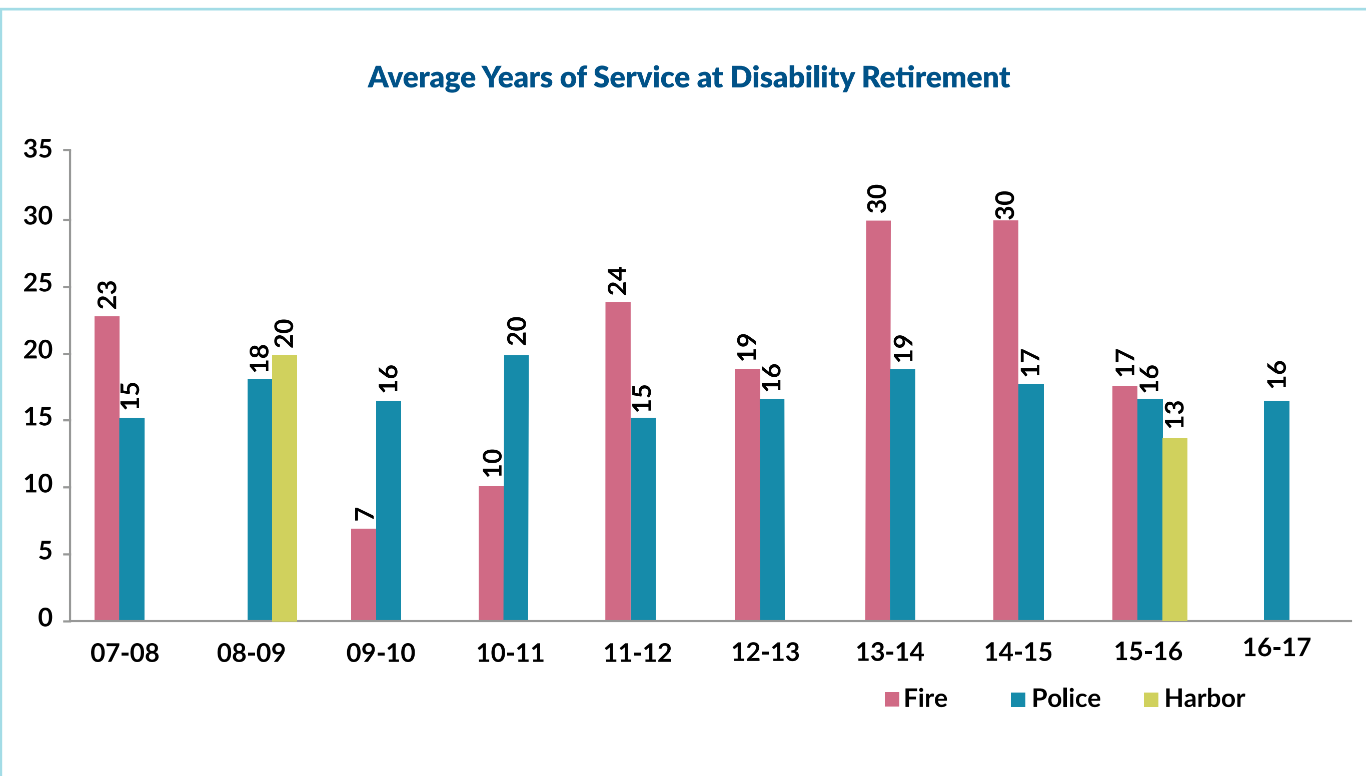
11-12
12-13
13-14
14-15
15-16
16-17


Service Pensions Granted
Excludes members who exited DROP.
80
70
60
50
40
30
20
10
0
07-08
08-09
09-10
10-11
11-12
12-13
13-14
14-15
15-16
16-17
Fire
Police
Harbor


Disability Pensions Granted
Data is based on the Board approval date.
45
40
35
30
25
20
15
10
5
0
07-08
08-09
09-10
10-11
11-12
12-13
13-14
14-15
15-16
16-17
Fire
Police
Harbor


Average Age at Disability Retirement
70
60
50
40
30
20
10
0
52
45
45
48
39
43
42
47
49
43
47
43
54
44
56
46
42
47
40
43
07-08
08-09
09-10
10-11
11-12
12-13
13-14
14-15
15-16
16-17
Fire
Police
Harbor


Average Years of Service at Disability Retirement
35
30
25
20
15
10
5
0
23
15
18
20
7
16
10
20
24
15
19
16
30
19
30
17
17
16
13
16
07-08
08-09
09-10
10-11
11-12
12-13
13-14
14-15
15-16
16-17
Fire
Police
Harbor

Service-Connected Disability Pensions by Type and Department*

Disability Pensions Granted	Fiscal Year 12-13			Fiscal Year 13-14			Fiscal Year 14-15			Fiscal Year 15-16				Fiscal Year 16-17			
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	HD	Total	FD	PD	HD	Total
Physical Only	3	7	10	1	10	11	1	4	5	2	10	1	13	0	8	0	8
Physical/ Psychiatric	2	1	3	0	1	1	0	0	0	0	2	0	2	0	0	0	0
Psychiatric Only	0	1	1	0	0	0	0	0	0	0	1	0	1	0	0	0	0
Total	**5**	**9**	**14**	**1**	**11**	**12**	**1**	**4**	**5**	**2**	**13**	**1**	**16**	**0**	**8**	**0**	**8**

Types of Claims**	Fiscal Year 12-13			Fiscal Year 13-14			Fiscal Year 14-15			Fiscal Year 15-16				Fiscal Year 16-17			
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	HD	Total	FD	PD	HD	Total
Back	4	5	9	1	6	7	1	3	4	1	4	0	5	0	6	0	6
Neck	2	0	2	1	5	6	1	2	3	0	5	1	6	0	2	0	2
Knees	2	2	4	1	1	2	0	1	1	1	3	0	4	0	3	0	3
Other Orthopedic	3	2	5	0	7	7	1	2	3	1	7	1	9	0	8	0	8
Cardiovascular	4	4	8	0	1	1	0	0	0	0	0	0	0	0	0	0	0
Ulcer	1	1	2	0	1	1	0	0	0	0	0	0	0	0	0	0	0
Hypertension	3	5	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pulmonary	1	0	1	0	0	0	0	0	0	0	1	0	1	0	0	0	0
Cancer	0	0	0	0	1	1	0	0	0	0	1	0	1	0	1	0	1
Gun Shot Wound	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	1	0	0	1	0	1	0	1

** Data is based on disability pensions approved by the Board during each fiscal year.*

*** Total claims will not equal the total number of disability pensions granted due to multiple claimed disabilities.*

Service- and Nonservice-Connected Disability Pensions by Department and Rank*

Fire	Fiscal Year 12-13	Fiscal Year 13-14	Fiscal Year 14-15	Fiscal Year 15-16	Fiscal Year 16-17
Firefighter	3	0	0	1	0
Apparatus Operator	0	1	0	1	0
Engineer	1	0	1	0	0
Inspector	0	0	0	0	0
Captain	1	0	0	0	0
Battalion Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Total	**5**	**1**	**1**	**2**	**0**

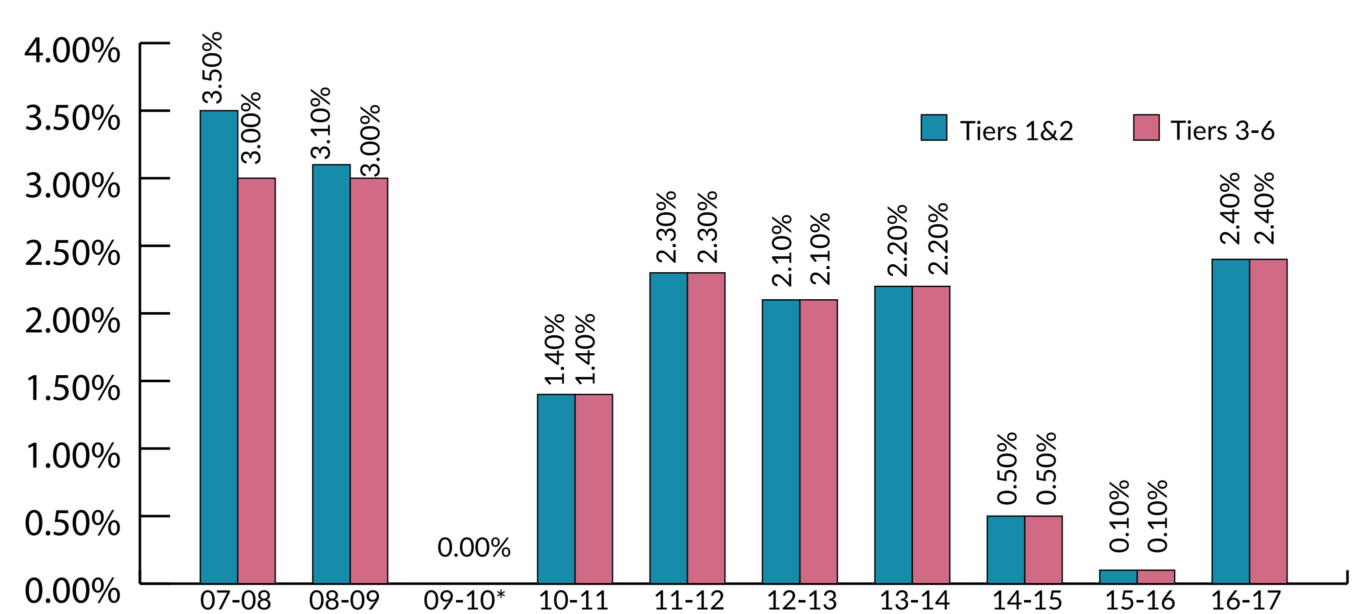
Police	Fiscal Year 12-13	Fiscal Year 13-14	Fiscal Year 14-15	Fiscal Year 15-16	Fiscal Year 16-17
Police Officer	7	10	2	12	6
Sergeant	1	1	2	3	3
Detective	1	3	1	2	1
Lieutenant	0	0	0	0	0
Captain	0	0	0	0	0
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
Total	**9**	**14**	**5**	**17**	**10**

Harbor	Fiscal Year 12-13	Fiscal Year 13-14	Fiscal Year 14-15	Fiscal Year 15-16	Fiscal Year 16-17
Sergeant	0	0	0	1	0
Total	**0**	**0**	**0**	**1**	**0**

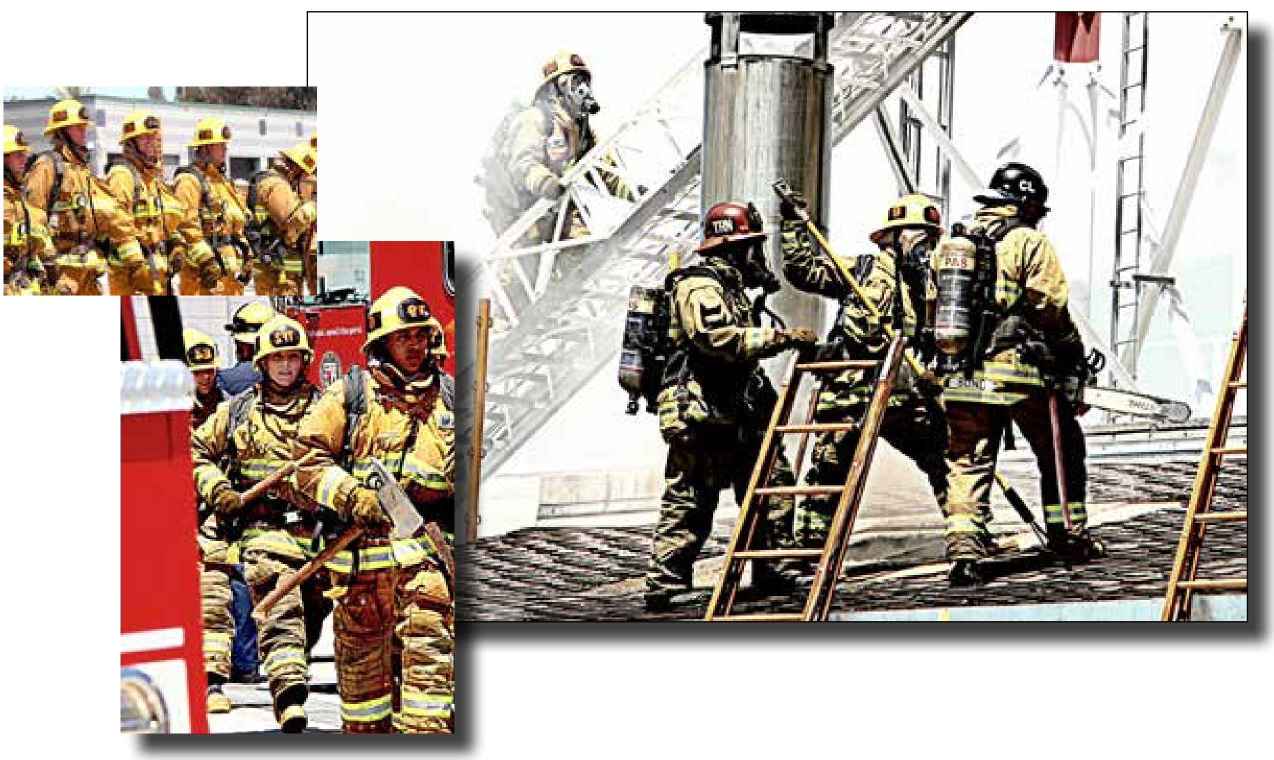
* Data is based on disability pensions approved by the Board during each fiscal year.

Cost of Living Adjustments – Effective July 1

The size of any year's Cost of Living Adjustment (COLA) is based on the Los Angeles-Riverside-Orange County Area Consumer Price Index (CPI) for All Urban Consumers as published by the Bureau of Labor Statistics for the previous one-year period ending March 1. Tiers 1 and 2 members have an uncapped COLA, while members in Tiers 3 – 6 have a 3 percent maximum COLA. However, Tiers 5 and 6 members have a COLA bank to "store" amounts above the 3 percent cap.



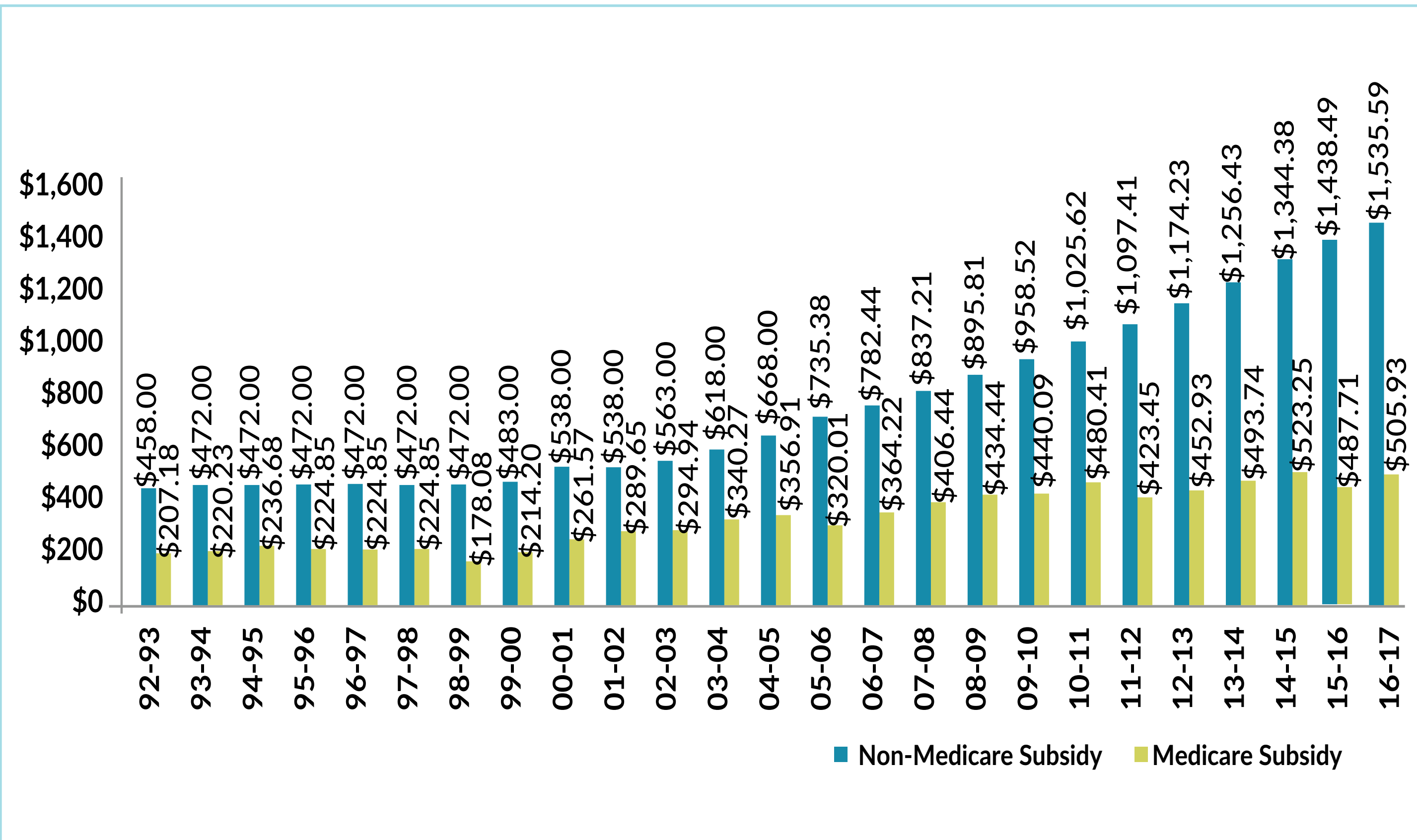
** The CPI yielded a flat COLA for July 1, 2009. However, eligible Tier 5 pensioners, including Tier 5 DROP participants, received an increase of up to 3 percent, based on the accumulation in their COLA Bank.*



Maximum Health Insurance Premium Subsidy Benefit for Retired Members

In 1974, voters approved a Charter amendment to provide a health insurance premium subsidy benefit for pensioners. Effective July 1, 2005, the Los Angeles Administrative Code § 4.1154(e) grants the Board of Fire and Police Pension Commissioners the authority to raise the maximum non-Medicare health insurance premium subsidy for retired members on an annual basis. The Board may raise the subsidy up to the lesser of 7 percent or the approved actuarially assumed rate for medical inflation for pre-65 health benefits for the fiscal year. Per the City Charter, the subsidy was previously linked to the subsidy for active members and retired civilians.

The maximum Medicare health insurance premium subsidy for retired members is equivalent to the highest single-party Medicare plan premium offered by the Los Angeles City Employees' Retirement System.



Member Outreach

One of the Plan's fundamental duties is to communicate benefits information to members and other stakeholders. Information is disseminated through written communications such as Summary Plan Descriptions (SPDs), benefits handbooks, newsletters, annual reports, and the Department's online resources (e.g., website, social media).

Staff also provides benefits education by phone, in-person counseling sessions, and by attending various outreach events with members and their beneficiaries. During the 2016-17 fiscal year, staff interacted with approximately 2,675 members at 73 events. Our attendance at various events provides an opportunity to speak directly with members to help them understand their retirement benefits. As part of our strategic goals, we are committed to enhancing our customer service, communications efforts and outreach to our members. A summary of the events conducted over the last two fiscal years is provided below.

Outreach Events	Fiscal Year 15-16		Fiscal Year 16-17	
	Number of Events	Members Reached	Number of Events	Members Reached
New Recruit Talks Staff develops and conducts presentations specifically for new hires of the Fire, Police, and Harbor Departments.	17	599	16	569
Benefits Presentations Staff conducts benefit presentations at fire stations, roll-calls, and training days for members in various tiers and/or stages of their careers, and in-house focus groups.	2	15	12	288
Financial Planning Education Seminars Together with the Financial Planning Education Consultant, staff holds full-day seminars to assist members at specific stages of retirement planning with their total financial plan.	15	666	19	746
Other Outreach Events Staff participates at various outreach events sponsored by the sworn departments and associations for active and retired members.	21	835	26	1,072
Total	**55**	**2,115**	**73**	**2,675**

Financial

This section provides historical perspective, context, and detail to assist in utilizing the Financial Statements, Notes to the Financial Statements, and Required Supplementary Information, to understand and assess the System's economic condition.

The statistical information provided here is divided into two main categories: Financial Trends Information and Operating Information.

Financial Trends Information is intended to assist readers in understanding how the System's financial position has changed over time. The "Changes in Fiduciary Net Position – Pension Plan" and "Changes in Fiduciary Net Position – Health Subsidy Plan" present additions by source, deductions by type, and the total change in fiduciary net position for the last ten fiscal years. The "Pension Benefit Expenses by Type" presents a ten-year history of the total benefit amounts for service, disability, and survivor pensioners.

Operating Information is intended to provide contextual information about the System's operations and membership, and to assist readers in using financial statement information to understand and evaluate the System's fiscal condition. "Retired Members by Type of Pension Benefit" and the "Retired Members by Type of Health Subsidy Benefit" present the dollar levels for each benefit as of June 30, 2017.

Financial Trends Information

Schedule of Additions by Source – Pension Plan (in thousands)						
	Employer Contributions					
Fiscal Year	Dollars	% of Annual Covered Payroll	Member Contributions	Net Investment Income (Loss)*	Other Income (Loss)	Total
07-08	$ 261,636	22%	$ 98,074	$ (730,673)	$ 2,709	$ (368,254)
08-09	238,698	19%	103,685	(2,808,259)	3,962	(2,461,914)
09-10	250,517	20%	106,480	1,449,498	1,545	1,808,040
10-11	277,092	21%	105,535	2,538,155	2,124	2,922,906
11-12	321,593	27%	120,099	225,458	1,877	669,027
12-13	375,448	29%	121,778	1,705,251	2,525	2,205,002
13-14	440,698	34%	124,395	2,626,144	2,899	3,194,136
14-15	480,332	36%	126,771	669,668	4,849	1,281,620
15-16	478,385	35%	129,734	156,205	3,108	767,432
16-17	454,309	33%	128,900	2,256,964	3,436	2,843,339

* *Includes change in unrealized gain and loss of investment.*

Schedule of Deductions by Type – Pension Plan (in thousands)				
Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total
07-08	$ 754,312	$ 2,768	$ 11,801	$ 768,881
08-09	762,205	2,858	12,675	777,738
09-10	768,114	2,946	12,824	783,884
10-11	786,861	3,145	12,662	802,668
11-12	831,191	1,338	13,611	846,140
12-13	856,237	3,267	12,200	871,704
13-14	856,036	2,950	13,865	872,851
14-15	915,163	3,746	17,814	936,723
15-16	987,296	3,067	19,347	1,009,710
16-17	925,903	4,175	19,134	949,212

Schedule of Additions by Source – Health Subsidy Plan (in thousands)					
	Employer Contributions				
Fiscal Year	Dollars	% of Annual Covered Payroll	Net Investment Income (Loss)*	Other Income (Loss)	Total
07-08	$ 78,257	7%	$ (35,454)	$ 132	$ 42,935
08-09	88,179	7%	(152,315)	215	(63,921)
09-10	106,648	8%	83,310	89	190,047
10-11	111,681	9%	156,461	131	268,273
11-12	122,972	10%	14,690	122	137,784
12-13	132,939	10%	118,124	175	251,238
13-14	138,107	11%	192,600	212	330,919
14-15	148,477	11%	51,291	371	200,139
15-16	150,315	11%	12,522	249	163,086
16-17	165,170	12%	189,381	39	354,590

* *Includes change in unrealized gain and loss of investment.*

Schedule of Deductions by Type – Health Subsidy Plan (in thousands)			
Fiscal Year	Benefit Payments	Administrative Expenses	Total
07-08	$ 70,879	$ 573	$ 71,452
08-09	77,502	687	78,189
09-10	82,911	737	83,648
10-11	89,271	781	90,052
11-12	93,536	887	94,423
12-13	98,306	845	99,151
13-14	104,371	1,017	105,388
14-15	110,411	1,364	111,775
15-16	116,678	1,551	118,229
16-17	122,562	1,606	124,168

Changes in Plan Net Position – Pension Plan (in thousands)										
	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Additions:										
Employer Contributions	$ 261,636	$ 238,698	$ 250,517	$ 277,092	$ 321,593	$ 375,448	$ 440,698	$ 480,332	$478,385	$ 454,309
Member Contributions	98,074	103,685	106,480	105,535	120,099	121,778	124,395	126,771	129,734	128,900
Net Investment Income (Loss)	(730,673)	(2,808,259)	1,449,498	2,538,155	225,458	1,705,251	2,626,144	669,668	156,205	2,256,694
Other Income (Loss)	2,709	3,962	1,545	2,124	1,877	2,525	2,899	4,849	3,108	3,436
Total Additions	(368,254)	(2,461,914)	1,808,040	2,922,906	669,027	2,205,002	3,194,136	1,281,620	767,432	2,843,339
Deductions:										
Benefit Payments	754,312	762,205	768,114	786,861	831,191	856,237	856,036	915,163	987,296	925,903
Refunds of Contributions	2,768	2,858	2,946	3,145	1,338	3,267	2,950	3,746	3,067	4,175
Administrative Expenses	11,801	12,675	12,824	12,662	13,611	12,200	13,865	17,814	19,347	19,134
Total Deductions	768,881	777,738	783,884	802,668	846,140	871,704	872,851	936,723	1,009,710	949,212
Changes in Plan Net Position	$(1,137,135)	$(3,239,652)	$1,024,156	2,120,238	$(177,113)	$1,333,298	$2,321,285	$ 344,897	$ (242,278)	$ 1,894,127

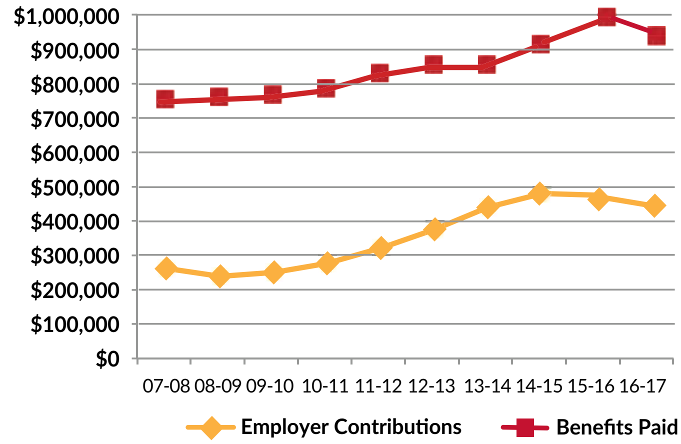
Changes in Plan Net Position – Health Subsidy Plan (in thousands)										
	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Additions:										
Employer Contributions	$ 78,257	$ 88,179	$ 106,648	$ 111,681	$ 122,972	$ 132,939	$ 138,107	$148,477	$150,315	$ 165,170
Net Investment Income (Loss)	(35,454)	(152,315)	83,310	156,461	14,690	118,124	192,600	51,291	12,522	189,381
Other Income (Loss)	132	215	89	131	122	175	212	371	249	39
Total Additions	42,935	(63,921)	190,047	268,273	137,784	251,238	330,919	200,139	163,086	354,590
Deductions:										
Benefit Payments	70,879	77,502	82,911	89,271	93,536	98,306	104,371	110,411	116,678	122,562
Administrative Expenses	573	687	737	781	887	845	1,017	1,364	1,551	1,606
Total Deductions	71,452	78,189	83,648	90,052	94,423	99,151	105,388	111,775	118,229	124,168
Changes in Plan Net Position	$ (28,517)	$(142,110)	$106,399	$178,221	$ 43,361	$152,087	$225,531	$ 88,364	$ 44,857	$ 230,422

Schedule of Benefit Expenses by Type – Pension Plan (in thousands)										
	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Type of Benefit										
Service/ DROP	$ 538,891	$ 539,177	$ 547,254	$ 563,023	$ 604,220	$ 625,443	$ 620,845	$ 681,484	$ 755,237	$ 690,500
Disability	115,348	118,182	115,811	115,960	116,390	117,217	117,601	114,429	112,097	111,471
Surviving Spouse	98,143	102,836	102,734	105,633	108,774	111,722	115,726	116,935	117,554	121,499
Minors	1,930	2,010	2,314	2,245	1,807	1,855	1,864	2,315	2,408	2,433
Total Benefits Paid	$ 754,312	$ 762,205	$ 768,113	$ 786,861	$ 831,191	$ 856,237	$ 856,036	$ 915,163	$ 987,296	$ 925,903

Schedule of Benefit Expenses by Type – Health Subsidy Plan (in thousands)										
	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Type of Benefit										
Medicare	$ 6,796	$ 7,153	$ 7,497	$ 7,871	$ 8,232	$ 8,855	$ 9,295	$ 9,477	$ 9,614	$9,817
Health Subsidy	60,737	66,742	71,765	77,509	81,030	84,870	90,462	96,198	102,172	107,640
Dental Subsidy	2,605	2,742	2,734	2,839	3,236	3,591	3,631	3,729	3,861	4,062
Health Insurance Reimbursement	741	865	954	1,052	1,039	990	983	1,006	1,031	1,043
Total Benefits Paid	$ 70,879	$ 77,502	$ 82,950	$ 89,271	$ 93,537	$ 98,306	$ 104,371	$ 110,410	$116,678	$ 122,562

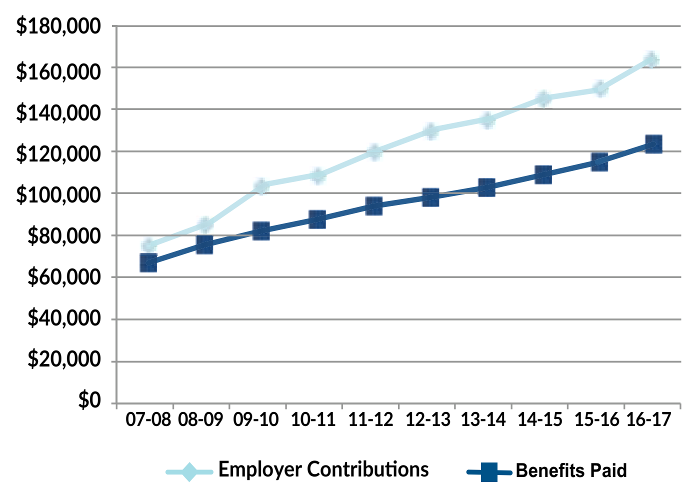
Employer Contributions vs. Benefits Paid – Pension Plan
(in thousands)

Fiscal Year	Employer Contributions	Benefits Paid
07-08	$ 261,636	$ 754,312
08-09	238,698	762,205
09-10	250,517	768,113
10-11	277,092	786,861
11-12	321,593	831,191
12-13	375,448	856,237
13-14	440,698	856,036
14-15	480,332	915,163
15-16	478,385	987,296
16-17	454,309	925,903



Employer Contributions vs. Benefits Paid – Health Subsidy Plan
(in thousands)

Fiscal Year	Employer Contributions	Benefits Paid
07-08	$ 78,257	$ 70,879
08-09	88,179	77,502
09-10	106,648	82,950
10-11	111,681	89,271
11-12	122,972	93,537
12-13	132,939	98,306
13-14	138,107	104,371
14-15	148,477	110,411
15-16	150,315	116,678
16-17	165,170	122,562



Operating Information

Schedule of Retired Membership by Type of Benefits – Pension Plan				
	Type of Benefits			
Monthly Benefit	Number of Pensioners	Service	Disability	Survivor
$ 1 to $ 1,000	27	3	0	24
1,001 to 2,000	160	82	23	55
2,001 to 3,000	1,276	596	156	524
3,001 to 4,000	1,508	765	407	336
4,001 to 5,000	2,170	844	592	734
5,001 to 6,000	2,406	1,514	367	525
6,001 to 7,000	1,995	1,682	205	108
7,001 to 8,000	1,615	1,422	128	65
8,001 to 9,000	841	774	31	36
9,001 to 10,000	433	404	16	13
Over $10,000	405	376	17	12
Total	12,836	8,462	1,942	2,432

Schedule of Retired Membership by Type of Benefits – Health Subsidy Plan				
	Type of Benefits			
Monthly Benefit	Number of Pensioners	Service	Disability	Survivor
Health:				
Not receiving subsidy	1,674	785	306	583
$ 1 to $ 200	108	45	34	29
201 to 400	720	255	157	308
401 to 600	3,292	1,736	326	1,230
601 to 800	342	211	97	34
801 to 1,000	1,714	1,271	357	86
1,001 to 1,200	2,198	1,982	216	0
1,201 to 1,300	200	179	21	0
1,301 to 1,627.73*	2,066	1,998	68	0
Total	12,314	8,462	1,582	2,270
Dental:				
Not receiving subsidy	2,221	1,371	850	
$ 1 to $ 10	0	0	0	
11 to 20	63	4	59	
21 to 30	467	189	278	
31 to 44.60**	7,653	6,898	755	
Total	10,404	8,462	1,942	

* *Maximum health subsidy effective July 1, 2017.*
** *Maximum dental subsidy for Plan year 2017.*

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LEGAL PART 7

Under City Attorney Mike Feuer, the Retirement Benefits Division of the Los Angeles City Attorney's Office, led by Managing Assistant City Attorney Alan Manning, along with Deputy City Attorneys John Blair, Anya Freedman, Joshua Geller, and Jim Napier, and assisted by Legal Secretary Julie Cruz, provided day-to-day assistance on legal issues affecting the Department and the members and beneficiaries of the Plan.

As legal counsel to the Board of Fire and Police Pension Commissioners and the Department, the City Attorney's Office provided advice on a variety of subjects ranging from Brown Act issues and public record requests, to pension benefit and Deferred Retirement Option Plan (DROP) issues, compliance with tax regulations, state and municipal ethics laws and regulations, legal review of investments, and disability pension applications. The City Attorney's Office also represented the Department in Superior Court cases.

Additionally, the City Attorney's Office assisted members and their beneficiaries in understanding the effects of dissolution proceedings on pension and DROP benefits, and provided representation for the Board and the Department in all legal matters.

Outside counsel are called upon to assist the City Attorney's Office in providing the Department with advice and representation in specialized areas, such as federal and state tax regulations, legal review of investments, and fiduciary law, as well as occasional representation in litigation.

The City Attorney's Office also provides legal counsel to the Boards of the Los Angeles City Employees' Retirement System and the Water and Power Employees' Retirement Plan.

Pending Litigation

In 2016-2017, three actions involving the retiree health insurance premium subsidy program were pending before the courts. The first action (the "Fry Action") was brought by members and LARFPA, and the case concerned the validity and meaning of the City's 2011 "Freeze Ordinance," which "froze" the retiree health insurance premium subsidies at 2011 levels for certain members and their beneficiaries. The City and LAFPP were named as respondents. After a trial court ruling in favor of the members, the City appealed and the Second District Court of Appeal held that the City Council retained the authority under the Los Angeles City Charter to set the retiree health insurance premium subsidy increases, which included the power to freeze the subsidy, and that the Freeze Ordinance did not violate any contractual vested rights of the members. In April 2016, the plaintiffs unsuccessfully filed a Petition for Review with the California Supreme Court. The Fry Action was remanded to the trial court to resolve the case's remaining issues in accordance with the Second District Court of Appeal's opinion.

On remand, the parties reached a settlement agreement on the remaining issues in early February 2017.

Accordingly, the Freeze Ordinance has been judicially determined as valid and LAFPP will continue to provide a subsidy frozen at the 2011 levels to current and future

retired members who chose not to "opt-in" and contribute an additional 2% of their salaries in order to avoid the consequences of the Freeze Ordinance.

In addition to the Fry Action, certain representative bargaining units filed a second action (the "LAPPL Action I") that challenged what the additional 2% salary contribution guaranteed to members who make the contribution. Specifically, the Plaintiffs in the LAPPL Action sought confirmation that what the members were to receive for their additional contributions was the lesser of the medical trend rate or a 7% per annum increase in the subsidy, with no discretion reserved to the Board to grant anything lower.

In the LAPPL Action I, the trial court originally dismissed the action on February 11, 2013. The plaintiffs successfully appealed the adverse judgment, and the case was remanded to the trial court for further proceedings on the merits. On November 1, 2016, the trial court granted declaratory relief in favor of the plaintiffs, ruling that employees paying the additional 2% contributions had a vested right to receive the health subsidy in effect as of the effective date of the Letter of Agreement and annual health subsidy increases equal to the lesser of the medical trend rate or 7% without the Board's discretion to set the subsidy any lower. Before the trial court's ruling, LAFPP reached agreement to be dismissed from the lawsuit, but agreed to be bound by the final judgment of the courts, which includes the final judgment of the appellate courts.

The City appealed the trial court's ruling and the parties are currently briefing the matter on appeal. Because the second action is still pending on appeal, there is no final judgment from the courts, and consequently LAFPP continues to set and implement the retiree health insurance premium subsidy increases in the same manner as it did prior to the 2011 Freeze Ordinance, for members who opted-in to pay the 2% contribution. This means that LAFPP continues to exercise its discretion provided under the Los Angeles Administrative Code to set the subsidy up to and including the medical trend rate or 7%, whichever is lower, until the courts render final judgment.

The LAPPL Action I does not seek monetary relief from the System.

While the LAPPL Action I is pending on appeal, the unions filed a third action ("LAPPL Action II"). In LAPPL Action II, the unions filed a writ petition seeking essentially the same relief as in their declaratory action in the LAPPL Action I. However, the LAPPL Action II also asserts a new breach of fiduciary duty claim, which preserves the unions' rights to challenge LAFPP's 2017 discretionary action to set the subsidy should the unions lose in the appellate proceeding in the LAPPL Action I. Given the similarities between the two LAPPL Actions and the dispositive effect of the first action on the second, the trial court has stayed the LAPPL Action II pending the final judgment of the LAPPL Action I.

SUMMARY OF PLAN PROVISIONS

PART 8

Fire and Police Pension Plans
Pension Benefit Provisions
Miscellaneous Benefit Provisions
Health and Dental Insurance Premium Subsidy

FIRE AND POLICE PENSION PLANS

Tier 1
(Formerly Article XVII)
July 1, 1925 – January 28, 1967

Tier 2
(Formerly Article XVIII)
January 29, 1967 – December 7, 1980

Tier 3
(Formerly Article XXXV, Plan 1)
December 8, 1980 – June 30, 1997

Tier 4
(Formerly Article XXXV, Plan 2)
July 1, 1997 – December 31, 2001

Tier 5
January 1, 2002 – June 30, 2011

Tier 6
Effective July 1, 2011

<table>
<tr><th colspan="6">Pension Benefit Provisions</th></tr>
<tr><th></th><th>Tier 1</th><th>Tier 2</th><th>Tiers 3 and 4</th><th>Tier 5</th><th>Tier 6</th></tr>
<tr><td colspan="6">1. Service Retirement</td></tr>
<tr><td>a. Eligibility</td><td colspan="2">20 years of service</td><td>Tier 3: Age 50 with 10 years of service
Tier 4: 20 years of service</td><td colspan="2">Age 50 with 20 years of service</td></tr>
<tr><td>b. Salary Base</td><td colspan="2">Normal Pension Base
(Final monthly salary rate)</td><td colspan="2">Final Average Salary
(One-year average monthly salary)</td><td>Final Average Salary
(Two-year average monthly salary)</td></tr>
<tr><td>c. Pension As a Percentage of Salary Base</td><td>40% at 20 years of service, plus 2% for each additional year up to 25 years of service, plus 1-2/3% for each additional year between 25 and 35 years of service
Maximum of 66-2/3% for 35 or more years of service</td><td>40% at 20 years of service, plus 2% for each additional year up to 25 years of service. 55% at 25 years of service, plus 3% for each additional year between 25 and 30 years of service
Maximum of 70% for 30 or more years of service</td><td>2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service
Maximum of 70% for 30 or more years of service</td><td>50% at 20 years of service, plus 3% for each additional year (except 4% at 30 years of service)
Maximum of 90% for 33 or more years of service</td><td>40% at 20 years of service, plus 3% per year for years 21 through 25, 4% per year for years 26 through 30, and 5% per year for years 31 through 33
Maximum of 90% for 33 or more years of service</td></tr>
<tr><td colspan="6">2. Service-Connected Disability</td></tr>
<tr><td>a. Eligibility</td><td colspan="5">Work related
No age or service requirements</td></tr>
<tr><td>b. Salary Base</td><td colspan="2">Normal Pension Base
(Final monthly salary rate)</td><td colspan="2">Final Average Salary
(One-year average monthly salary)</td><td>Final Average Salary
(Two-year average monthly salary)</td></tr>
<tr><td>c. Pension As a Percentage of Salary Base</td><td colspan="2">50% to 90% depending on severity of disability, with a minimum of member's Service Pension percentage rate</td><td colspan="3">30% to 90% depending on severity of disability, with a minimum pension equal to the greater of 2% per year of service or 30%</td></tr>
<tr><td colspan="6">3. Nonservice-Connected Disability</td></tr>
<tr><td>a. Eligibility</td><td colspan="5">Not work related
Five years of service</td></tr>
<tr><td>b. Salary Base</td><td colspan="2">Nonservice-Connected Pension Base
(Highest monthly salary as of member's retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)</td><td colspan="2">Final Average Salary
(One-year average monthly salary)</td><td>Final Average Salary
(Two-year average monthly salary)</td></tr>
<tr><td>c. Pension As a Percentage of Salary Base</td><td colspan="2">40%</td><td colspan="3">30% to 50% depending on severity of disability</td></tr>
</table>

<table>
<tr><th colspan="6">Pension Benefit Provisions (continued)</th></tr>
<tr><th></th><th>Tier 1</th><th>Tier 2</th><th>Tiers 3 and 4</th><th>Tier 5</th><th>Tier 6</th></tr>
<tr><td colspan="6">4. Service-Connected Death or Death After Service-Connected Disability</td></tr>
<tr><td>a. Eligibility</td><td colspan="5">Work related
No age or service requirements</td></tr>
<tr><td>b. Salary Base</td><td colspan="2">Normal Pension Base
(Final monthly salary rate)</td><td>Final Average Salary
(One-year average monthly salary)</td><td>Final Average Salary
(One-year average monthly salary)
Except as noted for former Tier 2 members</td><td>Final Average Salary
(Two-year average monthly salary)</td></tr>
<tr><td>c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit As a Percentage of Member's Salary Base</td><td>50% of Normal Pension Base</td><td>50% of Normal Pension Base
OR
55% of Normal Pension Base with 25 years of service</td><td>SERVICE-CONNECTED DEATH
75% of Final Average Salary
DEATH AFTER SERVICE-CONNECTED DISABILITY
75% of Final Average Salary if the death is due to service-connected cause(s) and occurs within 3 years after the effective date of the Service-Connected Disability Pension
Otherwise, 60% of the member's Service-Connected Disability Pension</td><td>SERVICE-CONNECTED DEATH
Former Tier 2:
75% of Normal Pension Base
All Other Tier 5:
75% of Final Average Salary
DEATH AFTER SERVICE-CONNECTED DISABILITY
Former Tier 2:
Same benefit as Tier 2
All Other Tier 5: 75% of Final Average Salary if the death is due to service-connected cause(s) and occurs within 3 years after the effective date of the Service-Connected Disability Pension
Otherwise, 60% of the member's Service-Connected Disability Pension</td><td>SERVICE-CONNECTED DEATH
80% of Final Average Salary
DEATH AFTER SERVICE-CONNECTED DISABILITY
80% of Final Average Salary if the death is due to service-connected cause(s) and occurs within 3 years after the effective date of the Service-Connected Disability Pension
Otherwise, 80% of the member's Service-Connected Disability Pension</td></tr>
<tr><td>d. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit</td><td>If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive
Otherwise:
• 25% for one child
• 40% for two children
• 50% for three or more children
Pension not payable after child reaches age 18 unless child is disabled before age 21</td><td>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive
Otherwise:
• 25% for one child
• 40% for two children
• 50% for three or more children
Pension not payable after child reaches age 18 unless child is disabled before age 21</td><td colspan="3">If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive
Otherwise:
• 25% for one child
• 40% for two children
• 50% for three or more children
Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</td></tr>
</table>

Pension Benefit Provisions (continued)					
	Tier 1	**Tier 2**	**Tiers 3 and 4**	**Tier 5**	**Tier 6**
4. Service-Connected Death or Death After Service-Connected Disability (continued)					
e. Eligible Dependent Parent's Benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			
5. Death While Eligible to Receive a Service Pension on Account of Years of Service					
a. Eligibility	20 years of service		***Tier 3*:** 10 years of service ***Tier 4*:** 20 years of service	20 years of service	
b. Salary Base	Normal Pension Base (Final monthly salary rate)		Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) Except as noted for former Tier 2 members	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit As a Percentage of Member's Salary Base	100% of accrued service retirement the member would have received, not to exceed 50% of Normal Pension Base	100% of accrued service retirement the member would have received, not to exceed 55% of Normal Pension Base	80% of service retirement the member would have received, not to exceed 40% of Final Average Salary	***Former Tier 2*:** Same benefit as Tier 2 ***All Other Tier 5*:** 40% of Final Average Salary	50% of Final Average Salary
d. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21		

Pension Benefit Provisions (continued)					
	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
5. Death While Eligible to Receive a Service Pension on Account of Years of Service (continued)					
e. Eligible Dependent Parent Benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			
6. Death After Service Retirement					
a. Eligibility	Member was receiving a Service Pension				
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	Same as the member's pension percentage, not to exceed 50% of the member's Normal Pension Base	Same as the member's pension percentage, not to exceed 55% of the member's Normal Pension Base	60% of the member's pension benefit	***Former Tier 2:*** Same benefit as Tier 2 ***All Other Tier 5:*** 60% of the member's pension benefit	70% of the member's pension benefit
c. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21		
d. Eligible Dependent Parent Benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			

Pension Benefit Provisions (continued)					
	Tier 1	**Tier 2**	**Tiers 3 and 4**	**Tier 5**	**Tier 6**
7. Nonservice-Connected Death or Death After Nonservice-Connected Disability					
a. Eligibility	Five years of service				
b. Salary Base	Nonservice-Connected Pension Base (Highest monthly salary as of member's death or retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)		Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) *Except as noted for former Tier 2 members*	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit As a Percentage of Member's Salary Base	40% of the member's Nonservice-Connected Pension Base		NONSERVICE-CONNECTED DEATH 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received, not to exceed 40% of Final Average Salary DEATH AFTER NONSERVICE-CONNECTED DISABILITY 60% of the member's pension benefit	NONSERVICE-CONNECTED DEATH ***Former Tier 2:*** Same benefit as Tier 2 ***All Other Tier 5:*** 30% of Final Average Salary or, if eligible to retire based on years of service, 40% of Final Average Salary DEATH AFTER NONSERVICE-CONNECTED DISABILITY ***Former Tier 2:*** Same benefit as Tier 2 ***All Other Tier 5:*** 60% of the member's pension benefit	NONSERVICE-CONNECTED DEATH 50% of Final Average Salary ***Note:*** If the member's death occurs while on military leave and is a result of his/her military duties, 50% of Final Average Salary DEATH AFTER NONSERVICE-CONNECTED DISABILITY 70% of the member's pension benefit
d. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21		

<table>
<tr><th colspan="6">Pension Benefit Provisions (continued)</th></tr>
<tr><th></th><th>Tier 1</th><th>Tier 2</th><th>Tiers 3 and 4</th><th>Tier 5</th><th>Tier 6</th></tr>
<tr><td colspan="6">7. Nonservice-Connected Death or Death After Nonservice-Connected Disability (continued)</td></tr>
<tr><td>e. Eligible Dependent Parent Benefit</td><td>If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive</td><td colspan="4">If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</td></tr>
<tr><td colspan="6">8. Cost of Living Adjustments (COLA)</td></tr>
<tr><td>a. Generally Applicable Provisions</td><td colspan="2">Full annual COLA increase or decrease

COLAs compound and are based upon the Consumer Price Index for local urban consumers

Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death</td><td>Annual COLA increase or decrease up to 3%

COLAs compound and are based upon the Consumer Price Index for local urban consumers

Pro rata adjustment in the first year of retirement

City Council may grant discretionary COLA increases once every three years

Survivor's pension includes the percentage of COLAs applied to the member's pension prior to death</td><td colspan="2">Annual COLA increase or decrease not to exceed 3%

Amounts above 3% are banked to be credited during years when the Consumer Price Index is below 3%

COLAs compound and are based upon the Consumer Price Index for local urban consumers

Pro rata adjustment in the first year of retirement

City Council may grant discretionary COLA increases once every three years - member's COLA Bank is reduced

Survivor's pension includes the percentage of COLAs applied to the member's pension prior to death</td></tr>
<tr><td>b. Effective Date of COLA:

i. Service Retirement</td><td>Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have been age 55</td><td>Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service</td><td colspan="3">Annual adjustments commence on the July 1 following the effective date</td></tr>
<tr><td>ii. Service-Connected Disability, Service-Connected Death</td><td colspan="5">Annual adjustments commence on the July 1 following the effective date</td></tr>
</table>

Pension Benefit Provisions (continued)					
	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
8. Cost of Living Adjustments (COLA) (continued)					
iii. Nonservice-Connected Disability, Death After Nonservice-Connected Disability	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier	Annual adjustments commence on the July 1 following the date the member would have completed 25 years of service or 5 years after the effective date of the member's pension, if earlier	Annual adjustments commence on the July 1 following the effective date		
iv. Nonservice-Connected Death	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier	While Eligible for Service Retirement - Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service While Not Eligible for Service Retirement - Annual adjustments commence on the July 1 following the date the member would have completed 26 years of service or 5 years after the effective date of the survivor's pension, if earlier	Annual adjustments commence on the July 1 following the effective date		
v. Death After Service-Connected Disability	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier	Annual adjustments commence on the July 1 following the effective date			
9. Member Contributions As a Percentage of Pay					
	6% No member contributions required after 30 years of service	6% plus 1/2 cost of cost-of-living benefit up to 1% No member contributions required after 30 years of service	8% No member contributions required after 30 years of service	9% City pays 1% of the 9% if the Plan is at least 100% actuarially funded for pension benefits No member contributions required after 33 years of service	11% 2% of the 11% supports the funding of the retiree health subsidy benefits. This portion will cease once the member attains 25 years of service No member contributions required after 33 years of service

Pension Benefit Provisions (continued)

<table>
<tr><th></th><th>Tier 1</th><th>Tier 2</th><th>Tiers 3 and 4</th><th>Tier 5</th><th>Tier 6</th></tr>
<tr><td colspan="6">10. Qualified Survivors</td></tr>
<tr><td>a. Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP) Eligibility Requirements:
i. Nonservice-Connected Death</td><td>Married to spouse at least one year prior to the date of the nonservice-connected death and as of the date of death</td><td colspan="4">Married to spouse or declared/registered domestic partner at least one year prior to the date of the nonservice-connected death and as of the date of death</td></tr>
<tr><td>ii. Service-Connected Death</td><td>Married to spouse as of the date of the service-connected death</td><td colspan="4">Married to spouse or declared/registered domestic partner as of the date of the service-connected death</td></tr>
<tr><td>iii. Death After Service Retirement</td><td>Married to spouse at least one year prior to the effective date of the Service Pension and as of the date of death</td><td colspan="4">Married to spouse or declared/registered domestic partner at least one year prior to the effective date of the Service Pension/ DROP entry and as of the date of death</td></tr>
<tr><td>iv. Death After Nonservice-Connected Disability</td><td>Married to spouse at least one year prior to the effective date of the Nonservice-Connected Disability Pension and as of the date of death</td><td colspan="4">Married to spouse or declared/registered domestic partner at least one year prior to the effective date of the Nonservice-Connected Disability Pension and as of the date of death</td></tr>
<tr><td>v. Death After Service-Connected Disability</td><td>Dependent upon the member's retirement status and cause of death</td><td colspan="4">Married to spouse or declared/registered domestic partner as of the effective date of the Service-Connected Disability Pension and as of the date of death</td></tr>
<tr><td>b. Minor Child Eligibility Requirements</td><td colspan="2">Legitimate or adopted child of the deceased member, until age 18 or marries, whichever occurs first</td><td colspan="3">Child or adopted child of the deceased member, until age 18 (22 if in school full time) or marries, whichever occurs first</td></tr>
<tr><td>c. Dependent Child Eligibility Requirements</td><td colspan="2">Legitimate or adopted child of the deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood</td><td colspan="3">Child of the deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood</td></tr>
<tr><td>d. Dependent Parent Eligibility Requirements</td><td colspan="2">Natural parent of the deceased member who had at least one-half of his/her necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay his/her necessary living expenses without the pension</td><td colspan="3">Parent of the deceased member who had at least one-half of his/her necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay his/her necessary living expenses without the pension</td></tr>
</table>

Miscellaneous Benefit Provisions

11. Basic Death Benefit

Applicable to Tiers 3 - 6
Beneficiary receives a refund of contributions with interest. In addition, if the member had at least one year of service, the Qualified Survivor receives a limited pension payable in monthly installments as follows: for each year of service completed by the member, the Qualified Survivor receives two payments equal to one-half of the member's Final Average Salary, not to exceed 12 monthly payments for six or more years of service.

12. Deferred Pension Option

Applicable to Tiers 3, 5, and 6
Tier 3: Upon termination, the member can elect the Deferred Pension option if he/she has at least 10 years of service and leaves his/her contributions in the Fund. At age 50, the member is entitled to receive a Service Pension.

Tiers 5 and 6: Upon termination, the member can elect the Deferred Pension option if he/she has at least 20 years of service and leaves his/her contributions in the Fund. At age 50, the member is entitled to receive a Service Pension using the Tier 3 Service Pension percentages.

13. Deferred Retirement Option Plan (DROP)

Not applicable to Tier 1
Tiers 2 and 4: At least 25 years of service
Tiers 3, 5, and 6: At least 25 years of service and at least age 50

The member must be on an active duty/working status at the time of DROP entry.
While in DROP, the member's monthly pension, including any applicable cost of living adjustments, is posted to a nominal account that is credited with a guaranteed annual interest rate of 5%.
The member may participate for a maximum of five years, after which he/she is required to terminate sworn employment and exit DROP.

Death of a DROP Member
For the purpose of survivor benefits, DROP members are considered retired. Qualified survivors receive the benefits outlined in *Section 6 - Death After Service Retirement,* while the proceeds in the member's DROP account are paid to the named DROP beneficiary.

In the event of a service-connected death, the Qualified Surviving Spouse/Domestic Partner has the option to forfeit the member's DROP account and collect a monthly benefit as outlined in *Section 4 - Service-Connected Death.*

14. Optional Form of Benefit for Qualified Surviving Spouse (QSS) / Qualified Surviving Domestic Partner (QSDP)

Applicable to Tiers 3 - 6
At any time prior to the first payment of a Service or Disability Pension, or entering DROP, the member may elect a higher QSS/QSDP benefit with a corresponding actuarial reduction in his/her retirement benefit.

15. Public Service Purchase (PSP) Program

Not applicable to Tier 1
Members may purchase service credit for time served in the military or with other public agencies, subject to requirements and limitations established by the City Council.

Purchased service must be for a minimum of six months, but no more than four years of full-time, uninterrupted service.

Purchased service will only count toward increasing the member's monthly pension allowance and any survivorship benefits.

Purchases must be initiated and finalized prior to entering DROP or retiring, whichever occurs first.

Miscellaneous Benefit Provisions (continued)

16. Return of Contributions with Interest

Tiers 1 and 2: On termination or death if no other benefits are payable.

Tiers 3, 5, and 6: On termination or death if no other benefits are payable (except Basic Death Benefit).

Tier 4: Upon death if no other benefits payable, (except Basic Death Benefit). No refund upon termination.

17. Survivor Benefit Purchase Program

A retired member may make a one-time, irrevocable election to purchase a survivor benefit for a spouse married in retirement or a domestic partner declared/registered in retirement by taking an actuarial reduction in his/her retirement benefit.

18. Opt-In Contribution

Applicable to Tiers 2 - 5

Members in Tiers 2 - 5 who: (1) enter DROP or retire on or after July 15, 2011 and (2) elected to make the additional 2% opt-in contribution will receive a non-frozen health subsidy benefit in retirement. The additional pension contribution supports the funding of the retiree health benefits and will cease once the member contributes for 25 years or retires.

Health and Dental Insurance Premium Subsidy

19. Health Subsidy	Member	Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)
a. Age	If the retirement date is: 1. On or after 7/1/1998 – at least age 55 2. Prior to 7/1/1998 – at least age 60	Member (retired sworn officer) must be at least age 55, if he/she was still alive If the member died in the line of duty, medical benefits are provided by the Personnel Department
b. Years of Service	At least 10 years of service (YOS), except for a Tier 6 member who retires on a Service-Connected Disability Pension	Member (retired sworn officer) must have had at least 10 years of service (YOS)
c. Pension Type	Service or Disability Pension	QSS/QSDP Pension
d. Eligible Plans	Medical subsidies may be applied to one of the following: 1. A Board-approved association plan: – United Firefighters of Los Angeles City – Los Angeles Firemen's Relief Association – Los Angeles Police Relief Association – LACERS plans offered to a closed group of retirees 2. Any state-regulated medical insurance plan with proof of payment approved through the Health Insurance Reimbursement Program	Medical subsidies may be applied to one of the following: 1. A Board-approved association plan: – United Firefighters of Los Angeles City – Los Angeles Firemen's Relief Association – Los Angeles Police Relief Association – LACERS plans offered to a closed group of retirees 2. Any state-regulated medical insurance plan with proof of payment approved through the Health Insurance Reimbursement Program

Health and Dental Insurance Premium Subsidy (continued)		
19. Health Subsidy (continued)	**Member**	**Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)**
e. Medicare Requirements	Most retirees and their covered dependents qualify for Medicare at age 65 May qualify for Medicare prior to age 65 due to disability Enrollment in: – Medicare Part A: Required only if the retiree or covered dependent is eligible for Part A free of charge – Medicare Part B: Required	Most QSS/QSDPs qualify for Medicare at age 65 May qualify for Medicare prior to age 65 due to disability Enrollment in: – Medicare Part A: Required only if the QSS/QSDP is eligible for Part A free of charge – Medicare Part B: Required
f. Non-Medicare, Medicare Part B Only Subsidy Formula	4% per YOS, up to a maximum of 25 YOS Subsidy may not exceed the health insurance plan premium ***Note:*** Members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011	4% per YOS, up to a maximum of 25 YOS Subsidy may not exceed the single-party health insurance plan premium ***Note:*** QSS/QSDPs of members in Tiers 2-5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011
g. Medicare Subsidy Formula	10-14 YOS – 75% of maximum subsidy 15-19 YOS – 90% of maximum subsidy 20+ YOS – 100% of maximum subsidy Subsidy may not exceed the health insurance plan premium Dependent subsidy may apply Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse the standard Medicare Part B premium ***Note:*** Members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011	10-14 YOS – 75% of maximum subsidy 15-19 YOS – 90% of maximum subsidy 20+ YOS – 100% of maximum subsidy Subsidy may not exceed the health insurance plan premium Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse the standard Medicare Part B premium ***Note:*** QSS/QSDPs of members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011
h. Dependent Coverage	The member subsidy may be used to cover spouses, domestic partners and children Children may be covered until age 26	The QSS/QSDP may cover eligible dependents on his/her health plan. However, the subsidy may not exceed the single-party health insurance plan premium

Health and Dental Insurance Premium Subsidy (continued)		
20. Dental Subsidy	**Member**	**Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)**
a. Age	At least age 55	QSS/QSDPs are not eligible to receive a dental subsidy
b. Years of Service	At least 10 years of service (YOS)	N/A
c. Pension Type	Service or Disability	N/A
d. Eligible Plans	Dental subsidies may only be applied to one of the following Board-approved plans: – United Firefighters of Los Angeles City – Los Angeles Police Protective League – Los Angeles Police Relief Association – LACERS plans offered to a closed group of retirees	Not eligible for a subsidy. However, QSS/QSDP may enroll in one of the following Board-approved association plans: – United Firefighters of Los Angeles City – Los Angeles Police Protective League – Los Angeles Police Relief Association – LACERS plans offered to a closed group of retirees
e. Dental Subsidy Formula	4% per YOS up to a maximum of 25 YOS Subsidy may not exceed the single-party dental insurance plan premium	N/A

Reciprocity
21. Reciprocity
There are no reciprocity agreements between outside agencies and Los Angeles Fire and Police Pension Plan. RECIPROCITY is: -an agreement between public retirement systems to allow members to move from one public employer to another -within a specific time limit -without losing some valuable retirement and benefit rights

Disclaimer

The “Summary of Plan Provisions” describes in informal language, the provisions of Tiers 1 - 6. The intent is to summarize legal texts in a clear and concise manner. If there is a difference between this guide and the legal text outlined in the City Charter, the Los Angeles Administrative Code, the Internal Revenue Code, or other laws, the legal text prevails.

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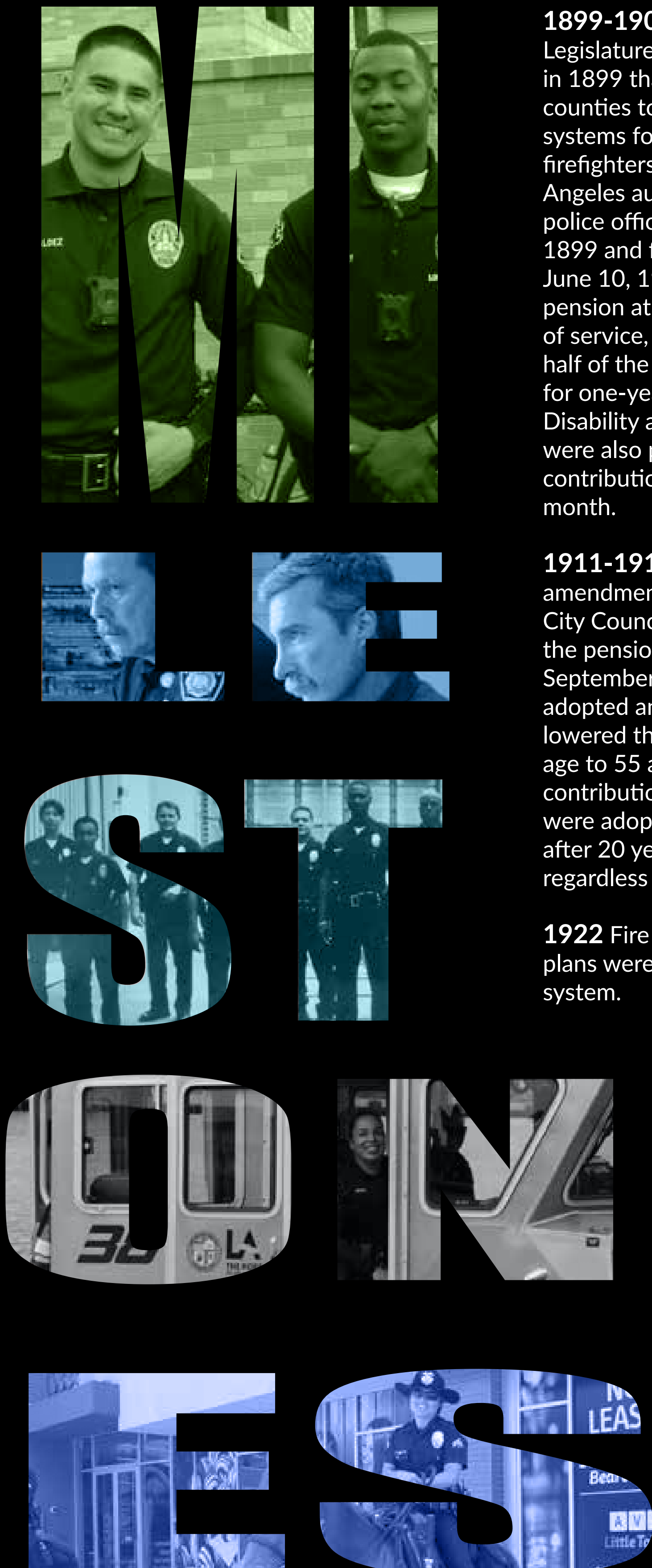


1899-1901 The California State Legislature enacted legislation in 1899 that enabled cities and counties to establish pension systems for police officers and firefighters. The City of Los Angeles authorized a system for police officers effective June 7, 1899 and for firefighters effective June 10, 1901. It provided for a pension at age 60 after 20 years of service, at an amount of one-half of the salary of the rank held for one-year preceding retirement. Disability and survivor benefits were also provided. Member contributions were set at $2 per month.

1911-1919 In 1911, a Charter amendment empowered the City Council to make changes in the pension systems. Effective September 16, 1913, the Council adopted an ordinance that lowered the minimum retirement age to 55 and eliminated member contributions. In 1919, ordinances were adopted allowing retirement after 20 years of service regardless of age.

1922 Fire and police pension plans were merged into one system.

1923-1925 The System began funding pension benefits on an actuarial basis effective January 29, 1923 and a provision was added to increase pensions for members with more than 20 years of service based on a formula of 1-2/3 percent for each year of service over 20, up to two-thirds of the salary of the rank held at retirement. The new City Charter that became effective July 1, 1925 added a provision that Service and Disability Pensions would remain fixed amounts.

1927 Members entering service after January 17, 1927 would receive a pension after 25 years of service equal to 50 percent of the average salary during the three years preceding retirement, plus 1-2/3 percent for each of the next 10 years of service. A monthly limit of $1,800 for Service Pensions was established. Member contributions to the System were set at 4 percent of salary. Pensions for widows were made fixed amounts.

1933 The actuarial funding requirements were eliminated and the System was placed on a "pay-as-you-go" basis effective May 15, 1933.

1947 Members hired after January 17, 1947 could retire after 20 years of service with a pension equal to 40 percent of the average salary of the last three years of service, plus an additional 2 percent for each of the next five years of service, and 1-1/3 percent for each of the next 10 years of service. A maximum pension of two-thirds of the average salary was retained, with a cap based on the salary level of a Fire Battalion Chief or Police Captain. Member contributions were increased from 4 percent to 6 percent of salary.

FIRE AND POLICE PENSION PLANS

TIER 1	JULY 1, 1925 - JANUARY 28, 1967
TIER 2	JANUARY 29, 1967 - DECEMBER 7, 1980
TIER 3	DECEMBER 8, 1980 - JUNE 30, 1997
TIER 4	JULY 1, 1997 - DECEMBER 31, 2001
TIER 5	JANUARY 1, 2002 - JUNE 30, 2011
TIER 6	EFFECTIVE JULY 1, 2011

Effective June 16, 1947, a Charter amendment created a Nonservice-Connected Disability Pension of 40 percent of the highest salary attached to the rank of firefighter or police officer; an equal amount was to be paid to any surviving spouse, with additional percentages allowed for unmarried minor children under the age of 18.

1957 The maximum limit attached to rank for Service Pensions was removed effective April 18, 1957.

1958 The California Supreme Court ruled that the 1925 Charter provisions for fixed pensions did not apply to members employed prior to July 1, 1925, nor to surviving spouses of members employed prior to January 17, 1927.

1959 Effective May 6, 1959, the System was again funded on an actuarial basis with a 50-year amortization period for the unfunded liabilities.

Investment provisions were changed to permit investment of up to 35 percent of fund assets in common stocks.

1961 A one-time cost of living increase was provided for all member and surviving spouse pensions based on service-connected disability or death.

1967 Tier 1 (formerly Article XVII) was extensively amended, and a new Tier 2 pension plan (formerly Article XVIII) was adopted effective January 29, 1967, providing:

1. A pension equal to 55 percent of the final monthly salary rate at retirement with 25 years of service, plus an additional 3 percent for each year of service over 25, up to a maximum pension of 70 percent of salary at retirement with 30 years of service;
2. A two percent cap on the annual cost of living adjustment to all member and surviving spouse pensions that were based on length of service; and
3. A minimum pension of $250 per month to be adjusted each year by the cost of living formula.

Other changes included the extension of the amortization period for the unfunded liabilities to 70 years and changes to the investment authority to provide for mortgage investments and public improvement financing.

1968 Overtime compensation was excluded from the computation of contributions and benefits under Tiers 1 and 2.

1969 Amendments to Tiers 1 and 2 effective May 2, 1969 applied cost of living adjustments to Disability and Survivor Pensions. Service Pensioners were allowed to apply for return-to-active duty under certain conditions and restrictions.

The authorized limit for common stock investments was raised to 50 percent of fund assets.

1971 Tiers 1 and 2 were amended effective July 1, 1971 to remove the 2 percent per year cost of living ceiling from all eligible pensions and pegged increases to the Consumer Price Index; to increase the minimum pension to $350 per month; to grant pension credit for partial years of service; and to add two elected employee members to the Board of Pension Commissioners.

1974 Tier 1 and 2 amendments enabled the City Council to adopt ordinances providing health insurance premium subsidy benefits and other programs for eligible pensioners.

1975 Amendments to Tiers 1 and 2 allowed cost of living adjustments for Service-Connected Disability Pensions on the July 1 following the date of retirement. Certain waiting periods for those eligible to receive this adjustment were eliminated.

The health insurance subsidy for retired members was paid for the first time this year beginning with the April 30, 1975 pension roll. Approximately $61,000 was expended for this purpose.

1976 LAFPP began providing health insurance premium subsidies to eligible retired members for their dependent's health insurance coverage.

1977 The mandatory retirement age provision of Tier 1 was eliminated effective April 15, 1977.

1980 A new Tier 3 Safety Members' pension plan, (formerly Article XXXV, Plan 1) was created effective December 8, 1980. It provides for a pension at age 50 with 10 years of service based on a formula of 2 percent per year of service up to 20 years and 3 percent for each additional year of service, up to a maximum pension of 70 percent of a 12-month Final Average Salary. Member contributions to the System are 8 percent of salary and are refunded with interest upon termination. Pensions for surviving spouses are equal to 60 percent of the member's pension.

1981 Extensive revisions to the investment provisions of the Charter provided for:

1. The investment of up to 70 percent of fund assets in common stock and up to 25 percent of the 70 percent without dividend record and registration on a national securities exchange;
2. The investment of 35 percent of fund assets in short-term securities;
3. The appointment of a securities custodian bank;
4. A requirement to retain investment advisors registered under the Investment Advisor Act;
5. The selling and repurchasing of covered call options; and
6. Authority to conduct transactions and exchanges of securities without specific prior approval from the Board of Pension Commissioners, within established guidelines.

1982 Significant revisions to Tiers 1 and 2 provided a 3 percent cap on the cost of living adjustment for all future service earned by active members and a refund of member contributions upon termination.

Cost of living adjustments were prorated for the first year of retirement.

Paramedics and civilian ambulance drivers were transferred from the Los Angeles City Employees' Retirement System to Tier 3.

1983 Tier 1 and 2 active members were no longer required to contribute to the Pension System upon completion of 30 years of service.

1984 The City Charter was amended to permit banks and insurance companies to act as investment advisors to the System.

1985 Authority was extended to include investment in real estate by all City of Los Angeles pension systems.

1989 The System began pre-funding the health insurance premium subsidy benefits.

On April 26, 1989, in the case of the United Firefighters of Los Angeles City vs. the City of Los Angeles, the California Court of Appeals upheld the Los Angeles County Superior Court's judgment for the plaintiffs. As a result, the 3 percent cap on cost of living increases instituted in 1982 for Tier 1 and 2 members was lifted.

1990 A series of measures were enacted that allow the City to protect the integrity of the System in response to new tax code regulations. The waiting period was removed for cost of living adjustments for surviving spouses of members hired before December 8, 1980 who die in the line of duty.

1992 California Proposition 162, or the California Pension Protection Act of 1992, was on the November 3, 1992 ballot as an initiated constitutional amendment, where it was approved.

Proposition 162 made several changes to California's constitution relating to public retirement systems:

1. It gave the board of each public pension system complete authority for administration of the system's assets and for the actuarial function.
2. Each board is required to continue to provide benefits to members of the system and their beneficiaries, minimize employer contributions, and pay reasonable administrative costs. Proposition 162, however, specified that each board is to give highest priority to providing benefits to members and their beneficiaries.

3. Prop 162 specified that the Legislature cannot change terms and conditions of board membership, for boards with elected employee members, unless a majority of the persons registered to vote in the jurisdiction of the retirement system approves the change. For example, a change in a county retirement system's board membership would require a countywide vote.

1993 The Board of Pension Commissioners was given authority to increase investments under the "prudent person" provisions of the Charter from 25 percent to 50 percent of the stock portfolio.

Retired Tier 2 members may be recalled for up to one year after retirement.

1995 The amount of salary to be used to calculate pension benefits was capped at $150,000 (adjusted annually) for members hired on or after July 1, 1996.

The City Council was authorized to enact ordinances required to maintain the tax-qualified status of Tier 3 under federal law.

1996 In January 1996, a new federal law prohibited states from taxing retirement income of nonresidents.

Effective December 5, 1996, pension benefits to the qualified surviving spouse of a deceased firefighter or police officer continue even if the spouse remarries.

The City implemented an Internal Revenue Code provision that required the System to collect member contributions on a pre-tax basis. Previously, member pension contributions were collected after-tax from July 1, 1982 to December 21, 1996; and pre-tax before July 1, 1982.

1997 A new Tier 4 pension plan (formerly Article XXXV, Plan 2) was established effective July 1, 1997. All Tier 3 members hired between December 8, 1980 and June 30, 1997 were given until June 30, 1998 to make an irrevocable transfer to Tier 4. Tier 4 provides retirement benefits at any age after 20 years of service based on a formula of 2 percent per year of service up to 20 years, plus 3 percent for each additional year of service, up to a maximum pension of 70 percent of a 12-month Final Average Salary. Members contribute 8 percent of salary to the System and are not refunded upon termination. Deferred retirement is not an option.

Tier 3 and 4 members retiring on or after July 1, 2000 at a rank no higher than Fire Captain or Police Lieutenant shall receive credit for prior hazard pay if no hazard pay was received during the 12-month period used to determine Final Average Salary for pension purposes.

The Charter was also amended to allow, at the discretion of the City Council, administrative expenses, which shall include investment management expenses, to be paid from fund assets.

The City Council approved an ordinance lowering the eligibility age to 55 for the health insurance premium subsidy for members retiring on or after July 1, 1998 with at least 10 years of service.

1999 The City Council was given authority to establish, by ordinance, survivor benefits for domestic partners and pension benefits for sworn employees brought into City employment by merger or contract for fire or police services.

A provision was established so that members hired July 1, 1997 through December 31, 1997 could irrevocably elect to transfer from Tier 4 to Tier 3. The provision allowed the Metropolitan Transportation Authority officers who merged into the Police Department to join either Tier 3 or Tier 4. A delay in the merger made it necessary to add this provision so that negotiated benefits could be provided.

2000 Effective January 17, 2000, domestic partners became eligible to receive survivor benefits under the same eligibility requirements as surviving spouses after filing a Declaration of Domestic Partnership with the Board of Fire and Police

Pension Commissioners. Surviving spouses and domestic partners became eligible to receive a health insurance premium subsidy upon the member's death, subject to eligibility requirements.

The new City Charter became effective July 1, 2000. The primary changes affecting the System provided:

1. The official department name became the "Department of Fire and Police Pensions."
2. The plans were reorganized under a new Charter Article number. Articles XVII, XVIII, XXXV Plan 1, and XXXV Plan 2 are referred to as Tiers 1, 2, 3, and 4, respectively.
3. The Board of Fire and Police Pension Commissioners (Board) was expanded from seven to nine members to include an elected retired fire member and an elected retired police member.
4. The Board selects the General Manager, subject to confirmation by the Mayor and Council, and may remove the General Manager, subject to confirmation by the Mayor.
5. Assistant General Manager positions are appointed on an exempt basis.
6. The powers, duties, and responsibilities of the Board are more expressly recognized and include:

   A. Language consistent with the provisions of California Constitution Article XVI, Section 17;
   B. The prudent person investment standard;
   C. Sole and exclusive power to provide actuarial services;
   D. Control over litigation and settlement of litigation that involves policies and funds under Board control; and
   E. Deletion of the Council's right to veto any Board decisions.

7. The definition of dependent parent was revised so that United States residency at the time of the member's death is no longer a requirement.

2001 Charter changes were approved to:

1. Enable the City Council to establish by ordinance a Deferred Retirement Option Plan (DROP).
2. Combine all tiers into a single plan for funding purposes.
3. Require the City Council to create, by ordinance, a new Tier 5 pension plan effective January 1, 2002.
4. Allow surviving spouses who remarried prior to December 5, 1996 to collect survivorship benefits.
5. Enable the City Council to provide by ordinance a dental subsidy for retirees.

2002 By Council ordinance, a new Tier 5 pension plan became effective January 1. Active members of existing tiers could elect to irrevocably transfer to Tier 5 during the period from January 2, 2002 to December 31, 2002. Tier 5 members are eligible to retire at age 50 with 20 years of service and receive a pension benefit of 50 percent of a 12-month Final Average Salary, plus 3 percent for each additional year of service (except 4 percent for the 30th year), up to a maximum of 90 percent for 33 or more years of service. Members contribute 9 percent of salary to the System; 8 percent if Plan assets meet or exceed the 100 percent funding level.

The Deferred Retirement Option Plan (DROP) became effective May 1, 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service (members of Tiers 3 and 5 must also be at least age 50) may file for a Service Pension but continue to work and earn salary and benefits as an active member. The monthly Service Pension benefit is deposited into a DROP account that earns a 5 percent per annum return, payable upon exiting DROP. Participation in DROP is limited to a maximum of 5 years.

A dental subsidy for retirees became effective January 1, 2002. To qualify, a member must be age 55 with a minimum of 10 years of service. For

each year of service, a member earns 4 percent of the maximum available subsidy.

Effective January 1, 2001, retirees and surviving spouses/domestic partners not able to enroll in a Board-approved health plan because they live out of state or outside the service area of a Board-approved HMO became eligible to receive a health insurance premium reimbursement. Administration of the program began in 2002, retroactive to the effective date.

The first payment under the Excess Benefit Plan was made. This plan was first authorized in 1990 to supplement the benefits to certain employees to the extent such benefits are reduced by the limitations on benefits imposed by Section 415 of the Internal Revenue Code of 1986, as amended. This plan is nonqualified under the Internal Revenue Code.

2003 Annual active member statements of service credit and recorded contributions were issued to members for the first time since 1985.

Based on recent federal and state legislation, active members may use funds from deferred compensation to purchase service credit.

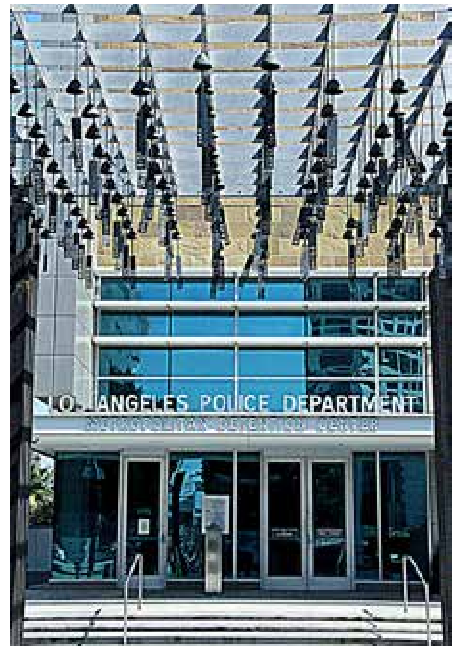
2005 On January 20, 2005, an ordinance was enacted allowing former Tier 2 members who had prior service as paramedics or civilian ambulance personnel under the Los Angeles City Employees' Retirement System to purchase this period of service.

In the March 2005 election, the voters approved two Charter amendments. The first amendment authorized the Council to adopt an ordinance to transfer the sworn Port Police Officers to Tier 5 of Fire and Police Pensions.

The second amendment provided the following:

1. Instituted return-to-duty provisions similar to those in Tier 2 to members in Tiers 3, 4, and 5.

2. Authorized the Council to allow a City Defrayal of Employee Contributions by Ordinance. This means the City may pay a portion of the employee contributions to Tiers 3, 4, and 5, not to exceed 2 percent of the required contributions in lieu of a salary increase or a portion of an increase. This provision is to be used during Memorandum of Understanding negotiations as part of a total economic package and the cost will be evaluated at that time.
3. Authorized the City Council to set the maximum sworn retiree health insurance premium subsidy by ordinance. Prior to this change, the Charter limited the maximum sworn retiree health insurance premium subsidy to the lesser of the maximum active sworn member health subsidy or the



maximum civilian retiree health subsidy. The Council can delegate authority for setting sworn retiree subsidies to the Board of Fire and Police Pension Commissioners.

2006 An ordinance was effective January 4, 2006, which gave current Port Police Officers the choice of transferring to Tier 5 or remaining in the Los Angeles City Employees' Retirement System. Persons appointed on or after January 8, 2006, as specified in the ordinance, become members of Tier 5 upon graduation from academy training required by the Harbor Department.

The actuarial valuation of 2005 found the Plan less than 100% funded for pension benefits. As required by Administrative Code Section 4.2014, Tier 5 member contributions were increased to 9 percent effective July 1, 2006.

2007 The election period for sworn Port Police Officers to transfer to Tier 5 closed on January 5, 2007, with 40 Port Police Officers electing membership in Tier 5.

On February 1, 2007, the Board of Fire and Police Pension Commissioners (Board) created an Audit Committee, followed by the creation of an Internal Audit function within the System.

On March 6, 2007, voters passed a Charter amendment giving the City Council authority to establish, by ordinance, a voluntary Public Service Purchase Program. The program is to provide a means for Plan membership to purchase eligible full-time service with the military and/or with other public agencies for the purpose of increasing pension credits. The member must assume the full actuarial cost of the purchase.

The Deferred Retirement Option Plan (DROP) completed its fifth year on April 30, 2007. Participants who enrolled in DROP from its inception, May 1, 2002, were required to exit the program by April 30, 2007. There were approximately 200 mandatory exits processed in April and May 2007.

The City Council approved an extension of DROP, commencing May 1, 2007 and ending April 30, 2012, and excluded participation by the Chief Engineer of the Fire Department and the Chief of the Police Department.

In July 2007, the System began audits of the retiree medical and dental plans offered by the Los Angeles Firemen's Relief Association, the Los Angeles Police Protective League, the Los Angeles Police Relief Association, and the United Firefighters of Los Angeles City. The principal focus of the audits were eligibility, benefits, administrative, and financial analysis.

On September 6, 2007, the Board voted to revise its proxy voting guidelines to vote "FOR" shareholder proposals that request management to report on climate change. This change was in light of survey results released by an advocacy group

known as the Carbon Disclosure Project (CDP). The study determined that 80 percent of U.S. companies believe that climate change poses commercial risks for their businesses. As a result, investors are encouraging more environmental disclosure from companies. The Supreme Court had ruled in April 2007 that greenhouse gases are a pollutant that may be regulated by the Environmental Protection Agency.

The first management audit of the System was conducted by Independent Fiduciary Services with the results released on December 3, 2007. Charter Section 1112 requires the City Controller, the Office of the Mayor, and the Los Angeles City Council to complete a management audit once every five years to be conducted by an independent, qualified management auditing firm. The purpose of the audit was to examine whether the System operates in the most efficient and economical manner. The audit found that the System was generally operating efficiently and in accordance with industry best practices, providing good investment returns overall, utilizing reasonable actuarial assumptions and methods, and pre-funding health insurance premium subsidy benefits.

2008 The Public Service Purchase (PSP) ordinance was adopted by the City Council on April 8, 2008 and became effective April 22, 2008. On June 1, 2008, a PSP calculator was made available online to eligible members to perform cost estimates for the purchase of service. The first purchase was completed in June.

The City Council adopted the following amendments to the Deferred Retirement Option Plan (DROP):

1. July 3, 2008 - A DROP member who is subsequently appointed Fire or Police Chief prior to exiting DROP shall be allowed to rescind his/her DROP election.
2. November 4, 2008 - A definitive ending date for DROP was removed, and a member must be on an active duty/working status at the time of entry into the program.

2009 On March 3, 2009, voters passed two Charter amendments:

1. The first measure established a

Survivor Benefit Purchase Program that allows retired members of the Plan to purchase, at their own expense, a survivor benefit for a spouse or domestic partner. The retiree's monthly benefit is actuarially reduced to cover the cost of providing this survivor benefit.
2. The second measure modified the Dependent (Disabled) Children Survivor Benefits provided by the Plan. Dependent Children may now marry or be adopted without losing the right to Dependent Child benefits. Additional payment options, which do not increase the amount of benefits payable, were also authorized. The Board of Fire and Police Pension Commissioners (Board) was granted the authority to pay Dependent Child benefits to a Special Needs Trust for the benefit of the disabled child.

On May 7, 2009, the Board terminated its contract with private equity consultant, Aldus Equity Partners. The termination was based in part on "pay-to-play" complaints filed against Aldus by the State of New York and the Securities and Exchange Commission. One of the founders of Aldus later pleaded guilty to felony securities fraud in the New York attorney general's pension fund corruption probe. In addition, two appointed commissioners resigned

from the Board on this day.

On July 23, 2009, the Board adopted a "Contractor Disclosure Policy" to regulate the System's contractors and fine or terminate those who violate the policy. The policy complies with the provisions of Assembly Bill 1584 (later enacted into law on October 11, 2009), requiring the disclosure of gifts, campaign contributions, and meetings with the System's investment managers, consultants, and other contractors, to provide transparency and help avoid conflicts and the appearance of conflicts.

2010 On April 1, 2010, the Board retained Northern Trust Benefit Payment Services as the issuer for monthly pension payments. The Northern Trust Benefit Payment Participant Web Passport System replaced the outdated mainframe-based Retirement and Pension Payment System operated and maintained by the City of Los Angeles Office of the Controller and Information Technology Agency. In October 2010, the Plan issued pension payments utilizing the new benefit payment system for the first time. As a result of this transition, pensioners received 13 pension payments for Tax Year 2010, instead of the usual 12.

2011 On March 8, 2011, voters approved Charter Amendment G which:

1. Established a Tier 6 for new members effective July 1, 2011. As a result of pension reform, Tier 6 participants will be required to contribute 11 percent, 2 percent more than the Tier 5 maximum 9 percent contribution. The additional 2 percent will be contributed in exchange for the retiree health benefits provided to members of other tiers who were retired as of April 8, 2011. Tier 6 members are eligible to retire at age 50 with 20 years of service and receive a pension based on a formula of 40 percent of a 24-month Final Average Salary, plus 3 percent per year of service for years 21 through 25; 4 percent per year for years 26 through 30; and 5 percent per year thereafter, up to a maximum of 90 percent for 33 or more years of service.
2. Removed the System's amortization policies from the Charter and the Administrative Code. Instead, these policies shall be adopted by the Board of Fire and Police Pension Commissioners upon the advice of its consulting actuary.

On July 15, 2011, the City Council adopted an ordinance to permanently freeze the retiree non-Medicare and Medicare health insurance premium subsidy benefits at the rates in effect on July 1, 2011 for members who enter DROP or retire on or after

July 15, 2011. The ordinance also provided, per letters of agreement signed by each labor organization, an election period whereby the affected members could elect to unfreeze their retiree medical subsidy by making additional 2 percent "opt-in" contributions. The freeze does not apply to Tier 6 members, as they are required to contribute the additional 2 percent.

2012 On May 15, 2012, the City Council approved a City Administrative Officer report that recommended consolidating the Department of General Services, Office of Public Safety (OPS), into the Police Department (LAPD). The consolidation was adopted with an effective date of July 1, 2012. OPS employees who successfully transition to a regular LAPD sworn classification had two years to make an irrevocable election to opt out of the Los Angeles City Employees' Retirement System and become a member of the Fire and Police Pension System. The opt-out election must have been made no later than December 12, 2014.

2013-2014 On June 27, 2013 and January 8, 2014, the City issued Management Audit Interim and Final Reports, constituting the second Charter-mandated audit of the System. The two audit reports determined that, overall, the System is generally operating in an effective manner. Specifically, the reports found that the processes to monitor investment performance are sound, investment manager fees are reasonable, and the System's procedures for long-term planning and monitoring of its financial condition are proper.

On August 8, 2014, the City Council adopted an ordinance to add Deferred Retirement Option Plan (DROP) provisions for Tier 6 members. Tier 6 members must have a minimum of 25 years of service and be at least age 50 in order to enter the DROP program.

By December 12, 2014, a total of 22 former Office of Public Safety (OPS) employees who transitioned to regular sworn classifications with the Police Department opted out of the Los Angeles City Employees' Retirement System (LACERS) and became members of Tier 6 of the Fire and Police Pension System.

2015 The Board of Fire and Police Pension Commissioners engaged Segal Consulting to perform an Internal Revenue Code operational compliance audit of the System. The purpose of the audit was to perform an independent review of the administrative operations and practices of the System to determine whether it meets the standards set forth in the Plan documents and is compliant with applicable federal tax laws. The audit concluded that the Plan is substantially in compliance with the requirements under the Internal Revenue Code, related Treasury Regulations and other applicable federal laws.

2016 In March 2016, after nearly 30

years of leasing office space in Little Tokyo, LAFPP relocated to a new headquarters facility located in the Los Angeles Downtown Arts District. The Board approved the purchase of the building in December 2012. For approximately two years, the building underwent major renovations and features an energy efficient and environmental design; enhanced security; larger counseling rooms; and ergonomic workstations for staff.

On February 18, 2016, the Board's Specialized Private Equity Investment Manager Program was modified to include for the first time, Lesbian, Gay, Bisexual and Transgender (LGBT) owned or disabled veteran owned funds. By adding these ownership groups to the specialized program, LAFPP provides the LGBT and disabled veteran communities access to institutional investment capital. Additionally, LAFPP was recognized as one of the first pension systems in the country to provide this access to the LGBT community.

On May 19, 2016, the Board approved disbanding standing committees (Audit, Benefits, and Governance) due to active engagement and attendance by all Board Members. The Board also decided to re-assess this governance structure after 24 months.

On November 8, 2016, voters approved a Charter amendment which would: 1) Enroll new Airport peace officers hired on or after January 7, 2018, into Tier 6 of the Fire and Police Pension System; 2) Allow Airport peace officers hired prior to January 7, 2018, to transfer into Tier 6 from LACERS at their own expense; and 3) Permit new Airport Police Chiefs to transfer into LACERS rather than participate in Tier 6.

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