

**ANNUAL
REPORT**

1998

July 1, 1997 to June 30, 1998

***CITY OF LOS ANGELES
DEPARTMENT OF PENSIONS***

***FIRE AND POLICE
PENSION SYSTEMS***

Department of Pensions

360 East Second Street ■ Suite 600 ■ Los Angeles ■ California ■ 90012

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Web Site: <http://www.cityofla.org/pen/index.htm>

1998 Annual Report

July 1, 1997 to June 30, 1998

Gary Mattingly
General Manager

Edward Griffiths
Assistant Manager, Benefits

Tom Lopez
Chief Investment Officer

Donna Weisz Jones
Assistant City Attorney

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MAYOR
Richard J. Riordan

City Attorney
James Kenneth Hahn

Controller
Rick Tuttle

CITY COUNCIL

John Ferraro, *President*
Joel Wachs, *President Pro Tempore*

Mike Hernandez
First District

Joel Wachs
Second District

Laura Chick
Third District

John Ferraro
Fourth District

Michael Feuer
Fifth District

Ruth Galanter
Sixth District

Richard Alarcon
Seventh District

Mark Ridley-Thomas
Eighth District

Rita Walters
Ninth District

Nate Holden
Tenth District

Cindy Miscikowski
Eleventh District

Hal Bernson
Twelfth District

Jackie Goldberg
Thirteenth District

Richard Alatorre
Fourteenth District

Rudy Svorinich, Jr.
Fifteenth District

BOARD OF PENSION COMMISSIONERS

Gay L. Harwin, President

Steven J. Silberman
Vice President

David H. Kim
Commissioner

Mike Carter
Commissioner

Louis F. Moret
Commissioner

Charles B. Isgar
Commissioner

Fredrick A. Tredy
Commissioner

CITY OF LOS ANGELES

CALIFORNIA

DEPARTMENT OF PENSIONS

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RICHARD J. RIORDAN
MAYOR

June 30, 1998

GARY MATTINGLY
GENERAL MANAGER

D. EDWARD GRIFFITHS
ASSISTANT GENERAL MANAGER—BENEFITS

TOM LOPEZ
CHIEF INVESTMENT OFFICER

The Honorable Richard J. Riordan, Mayor
Honorable Members of the City Council

In accordance with Section 64 of the Los Angeles Charter I am submitting the Annual Report of the Department of Pensions for the fiscal year ended June 30, 1998. This annual report includes the System's financial statements audited by an independent audit firm and the actuarial valuation summary prepared by the System's actuary.

During the 1997-98 fiscal year, the Investment Program gained \$1.516 billion, reflecting an annual rate of return of 17.48%. Total system assets have grown to \$10.076 billion. Favorable investment and actuarial experience increased the funding of pension benefits to 94.2%, a 15.9% improvement. During this same period, the funding of health subsidy benefits increased to 59.3%, an 11.9% improvement. The unfunded liability was reduced by \$1.207 billion.

A 2.7% growth in active membership brought the total to 12,799. Pensioners currently number 11,105, a 0.2% increase. The average monthly benefit paid pensioners rose to \$2834, a 3.2% increase from the previous year.

The first fiduciary audit of the System was completed this year. Board and staff reviewed the findings and evaluated the recommendations made. The latest actuary report addressed all comments and recommendations in that area. Progress continues on the implementation of recommendations in other areas of operation.

The Board hired outside fiduciary counsel to augment the services of the City Attorney staff and provide legal advice in specialized areas where the City Attorney staff does not have experience or expertise.

On the benefits side, Article XXXV, Plan II, will become effective for all new sworn employees hired after July 1, 1998, adding a fourth tier to the system's pension plans. Planned completion of a new active member information system in the fall of 1998 will assist department employees in providing quality service to our members.

A consultant has been selected to review the current asset allocation plan adopted in June 1995. It is anticipated that recommended changes to the asset allocation plan will facilitate the continuing growth of assets to meet the demands of the system.

Respectfully submitted,

GARY MATTINGLY
General Manager

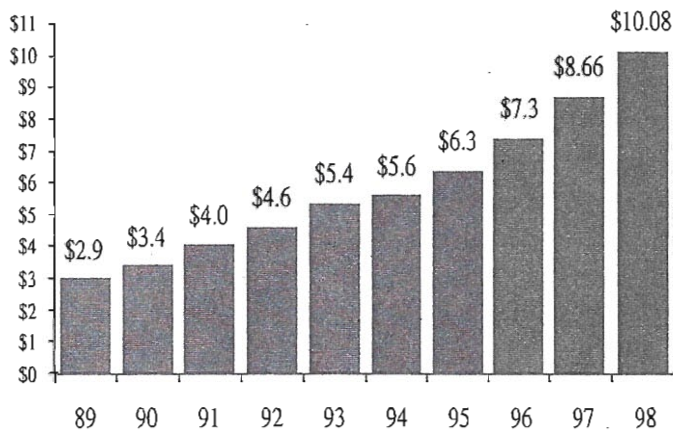
System Investments

Summary of Investment Activities

Introduction

During the past five years, the System's assets have grown from \$5.351 billion to \$10.076 billion. The investment program produced a gain of \$1.516 billion for the year ending June 30, 1998.

MARKET VALUE GROWTH OF SYSTEM ASSETS (In Billions)



Investment Environment

The bond market (*Salomon Bros. Broad Investment Grade Index*) produced a positive return of 10.59 percent for the year ending June 30, 1998. Large capitalization stocks (*S&P 500*) achieved an outstanding 30.21 percent return. Smaller capitalization stocks (*Russell 200 Index*) returned 16.50 percent. International stocks (*Morgan Stanley EAFE Index*) returned far less than the domestic indexes, at 6.09 percent. Real Estate as measured by the *Russell-National Council of Real Estate Investment Fiduciaries Index (NCREIF Classic Property Index)* continued to recover from the real estate recession with a 17.9 percent return.

Investment Performance

The investment objectives of the System, over a full market cycle (usually 3 to 5 years), are a return of at least two percent above the consumer price index per year and above median investment performance for public funds.

For the past five years, the System's annualized return of 13.56 percent was more than five

times the inflation measurement increase of 2.45 percent. For the one year period, the System's overall investment performance was up 17.48 percent and outpaced the Consumer Price Index increase of 1.69 percent.

The System's performance was below median compared with other public funds (Trust Universe Comparison Service [TUCS]) over the past three years. For this past year, the System returned 17.48 percent vs. 17.66 percent for the public funds universe, and returned 16.77 percent for the past 3 years vs 18.10 percent for the public funds universe. Our below median performance this year is mainly attributable to the under-performance of the System's stock managers, which under-performed the S&P 500 Index.

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 superior investment performance in the long term.

The Board adopted the following asset class targets in June 1995:

Domestic Equity	37.6%
U.S. Small Caps	9.4%
International Equity	9%
Domestic Bonds	27%
High Yield Bonds	5%
Real Estate	8%
Alternative Investments	3%
Emerging Markets	1%
Cash Equivalents	0%

The actual asset class percentages of the System will vary from target allocations due to inflows (such as City and member contributions), outflows (such as pension payments) and the movements of the securities markets. Assets are periodically rebalanced to adjust for these movements.

As of June 30, 1998, the asset values were as follows:

ASSET CLASS	MARKET VALUE (In millions)
Stocks	\$ 6,108.0
Bonds	705.9
Real Estate	394.3
Alternative Investments	105.9
Emerging Markets	--
Cash Equivalents	<u>567.1</u>
Total	<u><u>\$10,076.3</u></u>

Investment Activities

The manager changes for the year included the hiring of a small cap manager and four global opportunistic fixed income bond managers, and termination of one real estate manager. Administrative actions included the re-hiring of our performance measurement and search consultants, and the re-hiring of three small cap managers and one long bond manager.

Most of the System's assets are managed by investment managers who try to outperform a market index. The System has one large equity account that is a Standard and Poor's 500 Index fund whose performance matches that Index. A list of our managers is at the end of this section.

The real estate acquisition program proceeded with the purchase of an office portfolio consisting of four buildings and one office site in Phoenix, Arizona, and an office building in Arlington, Virginia. Several properties were sold, including the office building in New York City, the apartments in Atlanta, Georgia, and a shopping center in Katy, Texas.

Prudential returned the balance of the Board's investment in the PRISA commingled real estate fund. Heitman's Apartment Fund and Group Trust IV are in liquidation. Lend Lease (formerly ERE Yarmouth) is returning the Board's commingled real estate investment in the Asset Enhancement Fund and Prime Property Fund as cash is generated from property sales.

Proxy Voting

The System votes all domestic and available international proxy solicitations. Staff voted 813 corporations' proxies and corporate consents in Fiscal Year 1997-98. 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 that have no expected economic impact on the System's assets. The System votes affirmatively on executive compensation bonus plans if the corporation's stock performance in the past year has exceeded the returns of both the Standard & Poor's 500 Index and an appropriate peer group index; supports the nomination of and affirmative vote for the appointment of independent directors to the Board of Directors; and directs an affirmative vote on measures proposed to place independent directors on compensation committees.

CHANGE IN ASSET MIX: LAST TEN YEARS

<u>Fiscal Year</u>	<u>Stocks</u>	<u>Bonds</u>	<u>Real Estate</u>	<u>Alternative Investments</u>	<u>Short Term Investments</u>
1988-89	59.8%	32.7%	1.8%		5.7%
1989-90	52.4%	31.8%	5.9%		9.9%
1990-91	52.0%	32.7%	6.1%		9.2%
1991-92	51.7%	32.2%	5.6%		10.4%
1992-93	59.0%	26.4%	3.2%		11.4%
1993-94	58.6%	24.6%	5.8%		11.0%
1994-95	59.5%	27.9%	6.3%		6.3%
1995-96	59.2%	29.3%	6.9%		4.6%
1996-97	58.8%	30.3%	5.2%		4.9%
1997-98	60.62%	28.79	3.91%	1.05%	5.63%

ANNUAL RATES OF RETURN

<u>Fiscal Year</u>	<u>Domestic Equities</u>	<u>International Equities</u>	<u>Fixed Income</u>	<u>Real Estate</u>	<u>Total Fund*</u>	<u>CPI**</u>
1988-89	20.5%		12.5%		16.0%	3.7%
1989-90	14.9%		5.5%	7.4%	10.5%	4.7%
1990-91	5.2%	-9.90%	10.5%	-3.0%	4.8%	4.3%
1991-92	15.2%	6.16%	17.6%	-3.1%	14.0%	3.1%
1992-93	18.7%	11.81%	17.7%	-15.3%	16.0%	2.8%
1993-94	2.7%	22.11%	0.7%	9.4%	3.5%	2.5%
1994-95	25.6%	-0.37%	14.3%	14.5%	14.5%	3.0%
1995-96	25.3%	14.83%	7.8%	9.5%	14.6%	2.7%
1996-97	27.09%	12.70%	10.43%	13.9%	18.52%	2.30%
1997-98	23.07%	12.42%	11.84%	18.2%	17.48%	1.69%

*Total fund includes short-term investments

**CPI is for the U.S. ending June 30th

INVESTMENT ADVISORS

STOCK MANAGERS

Alliance Capital Management
Amerindo Investment Advisors
Brown Capital Management
CIC Asset Management
Daruma
Delta Asset Management
Frontier Capital Management
Loomis Sayles & Company, L.P.
Target Investors, Inc.

BOND MANAGERS

Capital
GEM Capital Management
GW Capital
HCM Capital Management
LM Capital
Lend Lease
Lincoln Capital Management
Loomis Sayles & Company, L.P.
Magten Asset Management Corporation
Reams
Smith, Graham & Company

INTERNATIONAL STOCK MANAGERS

Clay Finlay, Inc.
Nomura Capital Management, Inc.
Oechsle International Advisors, Ltd.

REAL ESTATE MANAGERS

AEW Capital Management
G.E. Capital Investment Advisors
Heitman Capital Management
Lend Lease
Lowe Enterprises Investment Management
Public Storage Institutional
RREEF
Sentinel Real Estate Corporation

ALTERNATIVE INVESTMENT MANAGERS

Abbott Capital Management
Hamilton Lane Advisors
Oaktree Capital Management
Trust Company of the West

Actuarial Valuation

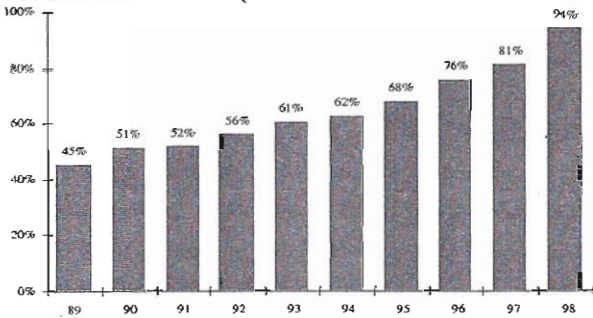
Actuarial Valuation Summary

Actuarial Valuations

Two actuarial valuations of the assets and liabilities of pension benefits are conducted annually. One study examines the pension benefits paid to members and their beneficiaries, the other study examines the health subsidies allocated to qualifying members. These studies evaluate the funding progress of the system and determine the annual contribution requirements.

The funded status of the pension system is examined over a span of several years to determine if funding progress is made. Satisfactory funding progress has occurred over the past ten years.

FUNDED STATUS (Pension Benefits-Actuarial Ratio)



How a Valuation is Conducted

The actuarial funding method used (Entry Age Normal Cost) is required by the Charter under Articles XVII (Sec. 186.2), XVIII (Sec. 190.09), and XXXV (Sec. 528). An actuarial valuation examines the membership of the pension system as currently constituted, then projects future liabilities using various assumptions.

Non-economic actuarial assumptions on mortality of members and spouses, probability of service retirement and disability, probability of termination prior to retirement, and probability of having a surviving beneficiary are created from studies made of the actual experience of the membership of the System. A new study is conducted not less than once every five years.

These assumptions are recommended by an actuary and adopted by the Board of Pension Commissioners. The last study was adopted by the Board in November 1998. This experience study covered the period beginning July 1, 1995 to June 30, 1998. An example of projected mortality is as follows:

Average Life Expectancy for Retirees

Service Retiree (Average Age = 66)	16.9 years
Disabled Retiree (Average Age = 60)	18.5 years
Surviving Spouse (Average Age = 74)	13.8 years

Economic assumptions are also studied, recommended by the actuary, and adopted by the Board. Economic assumptions in effect for this valuation period are:

Economic Assumptions

Annual Increase in the Consumer Price Index	5.0%**
Annual Individual Salary Increase	varies by age

Age	Annual Salary Increase
Under 25	10.00%
25-29	9.00%
30-34	8.00%
35-39	7.00%
40-44	6.00%
45-49	5.75%
50 and over	5.50%

Annual Increases in Total System Payroll	5.0%
Annual Interest	8.5%

(**Article XXXV is capped at 3%)

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 interest assumption.

Once the liabilities of the system are computed, the valuation study projects the member contributions expected to be received, which are reduced to today's dollar terms using the interest assumption. The individual salary assumptions are used to project the total member contributions. The Entry Age Normal Cost contribution, the amount the City would contribute for a hypothetical new entrant into the system, is calculated. This amount would theoretically be sufficient to fully fund a member's retirement on the date of retirement if all assumptions were realized and no benefit changes were made.

These potential future contributions are considered assets of the system, along with assets currently being invested by the Department of Pensions. For purposes of determining the contributions to the System, the current assets are now valued using a method that phases in, over five years, the unrealized and realized appreciation above that which is expected based upon the assumed rate of return.

As can be seen on the Actuarial Pension Benefit Balance Sheet (see p. 12), the balance of \$519

million is considered the unfunded actuarial liability.

Unfunded Actuarial Liability

An unfunded actuarial liability can result from many variables. Often, benefit increases are credited to members while in the middle of their career, or even after they have retired. Since these benefit enhancements did not exist when the funding of the members' benefits began, contributions to fund these increased benefits were not made during all or part of the members' working career. An example of a benefit enhancement that occurred was the lifting of a 2% cap on cost-of-living increases. This applied to all members, active and retired, and created an immediate unfunded liability. The Milestones section of this report contains more examples of benefit changes.

The Entry Age Normal Cost actuarial method normally results in actuarial gains or losses, unless all actuarial assumptions are met each year. These actuarial gains or losses also result in decreases or increases in the unfunded actuarial liability.

Occasionally, the actuarial methodology itself is refined according to accepted actuarial practice. For example, salary increases were not utilized in the computations until the late 1970s. When this practice was included, it created an additional unfunded liability.

Finally, during a period in the history of the Pension System, the funding was on a pay-as-you-go basis, instead of an actuarial basis. When the system shifted to an actuarial basis, an immediate unfunded liability resulted.

Contribution Requirements Calculation

The contribution is comprised of two parts: (1) the Entry Age Normal Cost contribution and (2) the contribution to amortize the unfunded liability. The unfunded liability is amortized over a time period using a methodology prescribed in the Charter for each plan. The amortization period for Articles XVII and XVIII is scheduled to end on June 30, 2037.

Article XVII is amortized as a level dollar amount. Article XVIII is amortized as a level percent of all system members' (Articles XVII, XVIII, and XXXV combined) salaries. Article XXXV's am-

ortization basis is a level percentage of plan members' salaries over a continuous fifteen year cycle. Each year's actuarial gain or loss is amortized for fifteen years. Any gains or losses resulting from benefit changes are amortized over a thirty year period. Changes in the unfunded actuarial liability resulting from benefit changes are amortized over a thirty-year period. With this information, the actuary computes the contribution requirements for the City.

Entry Age Normal Cost Contribution Requirements

Recommended 1999-2000

(As a percentage of plan members' salaries)

Article XVII	20.328%
Article XVIII	21.767%
Article XXXV	14.277%

Unfunded Liability Contribution Requirements

Recommended 1999-2000

Article XVII	\$30,286,940
Article XVIII	2.077% of all system members' salaries
Article XXXV ...	(2.427%) of all Art XXXV members' salaries

Health Subsidy Valuation

The health valuation study utilizes the same actuarial assumptions as the study on pension benefits, with the addition of a medical inflation assumption. Currently, medical costs are increasing at a faster pace than inflation. Assumptions in the June 1998 actuarial valuation included graded medical cost increase rates of 8.25% for pre-65 premiums and 8.0% for post-65 premiums in 1998; both decreasing gradually to 6.5% in 2004 and beyond. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health subsidy benefits is shown on page 12.

The contributions suggested to fund the health subsidy plan are:

Entry Age Normal Cost Contribution Requirements

Recommended 1999-2000

(As a percentage of plan members' salaries)

Article XVII	0.264%
Article XVIII	1.301%
Article XXXV	3.071%

Unfunded Liability Contribution Requirements

Recommended 1999-2000

Article XVII	\$552,614
Article XVIII	1.674% of all system members' salaries
Article XXXV	(0.949%) of Art XXXV members' salaries

Valuation of Pension Benefits

Actuarial Balance Sheet As of June 30, 1998

ASSETS				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets	\$ 1,568,680	\$7,143,580,858	\$1,248,719,147	\$8,393,868,685
2. Present Value of Future Member Contributions	0	71,360,640	507,350,724	578,711,364
3. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	227,132	361,526,846	961,132,878	1,322,886,856
b. Unfunded Actuarial Accrued Liability	327,600,234	348,783,693	(157,717,413)	518,666,514
4. Total Assets	\$329,396,046	\$7,925,252,037	\$2,559,485,336	\$10,814,133,419

LIABILITIES				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
5. Present Value of Benefits Already Granted				
a. Service Retirements	\$ 84,063,704	\$3,408,844,492	\$ 7,271,732	\$3,500,179,928
b. Disability Retirements	88,217,366	1,114,870,696	40,900,019	1,243,988,081
c. Survivors and Dependents	153,694,060	496,189,478	18,746,526	668,630,064
d. Total	<u>\$ 325,975,130</u>	<u>\$5,019,904,666</u>	<u>\$ 66,918,277</u>	<u>\$5,412,798,073</u>
6. Present Value of Benefits to be Granted				
a. Service Retirements	\$ 2,949,008	\$2,393,705,641	\$1,888,589,648	\$4,285,244,297
b. Disability Retirements	458,093	491,142,323	506,426,844	998,027,260
c. Survivors and Dependents	13,464	19,710,303	57,622,405	77,346,172
d. Total	<u>\$ 3,420,565</u>	<u>\$2,904,558,267</u>	<u>\$2,452,638,897</u>	<u>\$5,360,617,729</u>
7. Refund of Employee Contributions	\$ 351	\$ 789,104	\$ 39,928,162	\$ 40,717,617
8. Total Liabilities	\$ 329,396,046	\$7,925,252,037	\$2,559,485,336	\$10,814,133,419

Valuation of Health Subsidy Benefits

Actuarial Balance Sheet As of June 30, 1998

ASSETS				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets	\$ 5,829,966	\$208,105,403	\$ 157,476,044	\$371,411,413
2. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	1,914	15,363,095	176,141,071	191,506,080
b. Unfunded Actuarial Accrued Liability	5,977,376	281,203,271	(31,922,327)	255,258,320
3. Total Assets	\$ 11,809,256	\$504,671,769	\$301,694,788	\$818,175,813

LIABILITIES				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
4. Present Value of Benefits Already Granted	\$11,554,173	\$303,465,699	\$ 2,228,115	\$317,247,987
5. Present Value of Benefits to be Granted				
a. Actives Eligible to Retire	255,083	176,049,351	2,785,935	179,090,369
b. Other Actives	0	25,156,719	296,680,738	321,837,457
c. Total	<u>\$ 255,083</u>	<u>\$201,206,070</u>	<u>\$299,466,673</u>	<u>\$500,927,826</u>
6. Total Liabilities	\$11,809,256	\$504,671,769	\$301,694,788	\$818,175,813

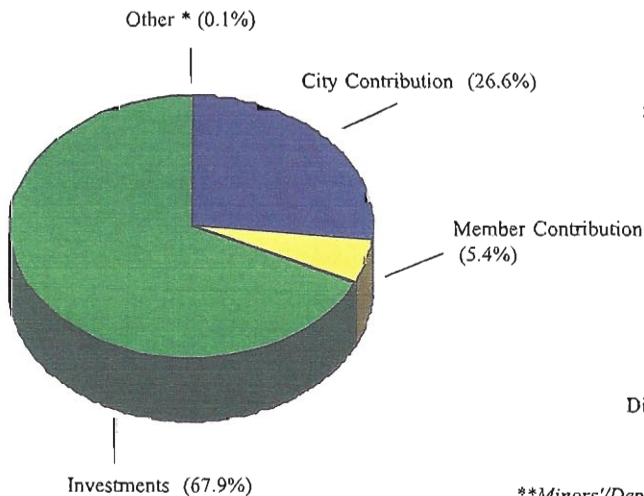
Department Budget

Department Budget

Receipts	Budgeted 1997-98	Actual 1997-98
Balance Available	\$ 803,500	\$ 0
City Contribution	259,386,521	260,256,667
Member Contributions	55,121,870	53,139,136
Earnings on Investments	305,000,000	343,516,644
Gain on Sale of Investments	--	321,052,433
UFLAC Settlement	500,000	500,000
Miscellaneous	650,000	306,252
Total Receipts	<u>\$621,461,891</u>	<u>\$978,771,132</u>

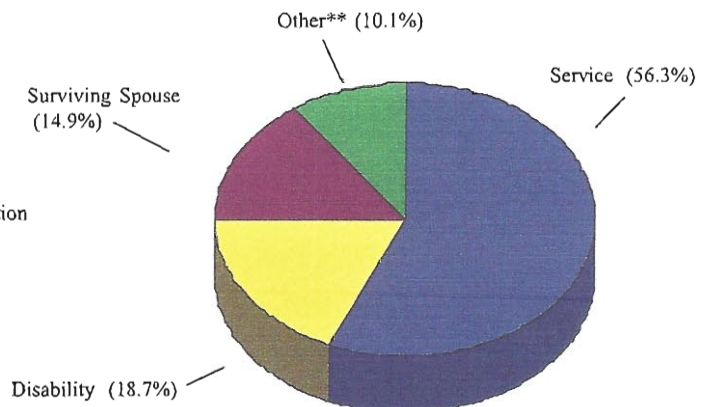
Expenditures	Budgeted 1997-98	Actual 1997-98
Service Pensions	\$264,222,000	\$238,254,388
Disability Pensions	86,751,000	79,368,854
Surviving Spouses' Pensions	67,272,000	63,304,544
Minors'/Dependents' Pensions	1,305,000	1,063,597
Refund of Member Contributions	4,000,000	2,863,890
Health Insurance Subsidy	16,200,000	15,575,636
Medicare	2,160,000	1,816,003
Investment Management Expense	21,591,000	16,399,935
Administrative Expense	6,087,000	4,769,009
Total Expenditures	<u>\$469,588,000</u>	<u>\$423,415,856</u>
Increase in Fund Balance	<u>\$151,873,891</u>	<u>\$555,355,276</u>

RECEIPTS



*UFLAC Settlement and Miscellaneous

EXPENDITURES



**Minors'/Dependents' Pensions, Refund of Member Contributions, Medicare, Health Insurance Subsidy, Investment Management Expense and Administrative Expense

Auditors' Report

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MANNON KAPLAN, C.P.A.
GEORGE NADEL RIVIN, C.P.A.
EDWIN KANEMARU, C.P.A.
KENNETH R. HOLMER, C.P.A.
DOUGLAS S. WAITE, C.P.A.
JAMES E. VEALE, C.P.A.
CHARLES SCHNAID, C.P.A.
DONALD G. GARRETT, C.P.A.
CATHERINE C. GARDNER, C.P.A.
JEFFREY L. GOSS, C.P.A.
JEFFREY S. SLOMIAK, C.P.A.

STANLEY L. MILLER, C.P.A. (1921-1995)
PAUL ARASE, C.P.A.*
JOSEPH C. CAHN, C.P.A.*
*RETIRED



Miller, Kaplan, Arase & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS
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CERTIFIED PUBLIC ACCOUNTANTS
THE CALIFORNIA SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

#05-2036255



Independent Auditors' Report

To the Board of Pension Commissioners of
the City of Los Angeles
Los Angeles, California

Members of the Board:

We have audited the accompanying statement of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 1998 and 1997, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Governmental 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 1998 and 1997, and changes therein for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic 1998 and 1997 general purpose financial statements taken as a whole. The supplemental schedules of funding progress, employer contributions, actuarial methods and assumptions, revenues by source and expenses by type, and administrative expenses are presented for the purpose of additional analysis and are not a required part of the basic general purpose financial statements. These schedules are the responsibility of the System's management. Such schedules for the years ended June 30, 1998 and 1997 have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

Miller, Kaplan, Arase & Co., LLP

MILLER, KAPLAN, ARASE & CO., LLP

December 14, 1998

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

STATEMENT OF PLAN NET ASSETS

June 30, 1998

	Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	<u>Total</u>
ASSETS					
CASH	\$ 338,874	\$ --	\$ 1,019,280	\$ --	\$ 1,358,154
RECEIVABLES					
Accrued Interest and Dividend Income	\$ 43,423,380	\$ --	\$ 8,254,671	\$ --	\$ 51,678,051
Accrued Real Estate Income					--
Contributions	441,034	--	1,317,310	--	1,758,344
Due from Old Pension and New Pension System	--	215,819,305	--	--	215,819,305
Due from Safety Members Pension Plan	--	--	--	167,206,980	167,206,980
Due from Brokers	\$ 20,541,084	\$ --	\$ 4,381,607	\$ --	\$ 24,922,691
TOTAL RECEIVABLES	\$ 64,405,498	\$ 215,819,305	\$ 13,953,588	\$ 167,206,980	\$ 461,385,371
INVESTMENTS AT FAIR VALUE					
Temporary	\$ 402,871,882	\$ --	\$ 154,819,701	\$ --	\$ 557,691,583
U.S. Government Obligations	804,247,078	--	190,791,722	--	995,038,800
Municipal Bonds	90,234,503	--	7,683,600	--	97,918,103
Domestic Corporate Bonds	1,426,243,098	--	322,541,812	--	1,748,784,910
International Bonds	52,343,307	--	6,909,251	--	59,252,558
Domestic Stocks	4,124,043,172	--	620,397,438	--	4,744,440,610
International Stocks	1,331,315,183	--	32,146,302	--	1,363,461,485
Real Estate	143,702,471	--	262,056,706	--	405,759,177
Alternative Investments	\$ 91,299,175	\$ --	\$ 14,628,316	\$ --	\$ 105,927,491
TOTAL INVESTMENTS	\$ 8,466,299,869	\$ --	\$ 1,611,974,848	\$ --	\$ 10,078,274,717
SECURITIES LENDING					
COLLATERAL	\$ 1,074,417,680	--	183,718,903	--	1,258,136,583
TOTAL ASSETS	\$ 9,605,461,921	\$ 215,819,305	\$ 1,810,666,619	\$ 167,206,980	\$ 11,799,154,825
LIABILITIES					
Accounts Payable and Accrued Expenses	\$ 7,149,945	\$ --	\$ 302,706	\$ --	\$ 7,452,651
Benefits in Process of Payment	182,941	--	67,690	--	250,631
Due to Brokers	49,037,170	--	13,564,729	--	62,601,899
Mortgage Payable	--	--	11,418,417	--	11,418,417
Due to Health Plan Subsidy	215,819,305	--	167,206,980	--	383,026,285
Securities Lending Collateral	1,074,417,680	\$ --	\$ 183,718,903	\$ --	\$ 1,258,136,583
TOTAL LIABILITIES	\$ 1,346,607,041	\$ --	\$ 376,279,425	\$ --	\$ 1,722,886,466
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST EMPLOYMENT HEALTHCARE BENEFITS					
<small>(A schedule of funding progress is presented on pages 29 and 30)</small>					
TOTAL PLAN ASSETS	\$ 8,258,854,880	\$ 215,819,305	\$ 1,434,387,194	\$ 167,206,980	\$ 10,076,268,359

June 30, 1997

Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
\$ 922,100	\$ --	\$ 1,340,406	\$ --	\$ 2,262,506
\$ 40,237,180	\$ --	\$ 4,714,856	\$ --	\$ 44,952,036
1,044,291	--	57,426	--	1,101,717
398,667	--	1,049,716	--	1,448,383
--	179,506,967	--	--	179,506,967
--	--	--	136,996,016	136,996,016
\$ 30,373,480	\$ --	\$ 27,444	\$ --	\$ 30,400,924
\$ 72,053,618	\$ 179,506,967	\$ 5,849,442	\$ 136,996,016	\$ 394,406,043
\$ 497,493,663	\$ --	\$ 126,555,843	\$ --	\$ 624,049,506
1,140,827,378	--	174,373,838	--	1,315,201,216
5,187,160	--	--	--	5,187,160
993,941,774	--	85,812,056	--	1,079,753,830
28,930,621	--	4,167,010	--	33,097,631
3,420,984,688	--	545,974,148	--	3,966,958,836
1,111,841,828	--	16,518,931	--	1,128,360,759
141,404,352	--	275,071,696	--	416,476,048
\$ 55,871,093	\$ --	\$ 9,715,319	\$ --	\$ 65,586,412
\$ 7,396,482,557	\$ --	\$ 1,238,188,841	\$ --	\$ 8,634,671,398
650,925,427	--	104,628,060	--	755,553,487
\$ 8,120,383,702	\$ 179,506,967	\$ 1,350,006,749	\$ 136,996,016	\$ 9,786,893,434
\$ 7,895,577	\$ --	\$ --	\$ --	\$ 7,895,577
217,112	--	311,140	--	528,252
38,095,131	--	5,369,207	--	43,464,338
--	--	--	--	--
179,506,967	--	136,996,016	--	316,502,983
\$ 650,925,427	\$ --	\$ 104,628,060	\$ --	\$ 755,553,487
\$ 876,640,214	\$ --	\$ 247,304,423	\$ --	\$ 1,123,944,637
\$ 7,243,743,488	\$ 179,506,967	\$ 1,102,702,326	\$ 136,996,016	\$ 8,662,948,797

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS

June 30, 1998

	Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
ADDITIONS					
Contributions:					
City contributions	\$ 179,527,992	\$ 19,712,441	\$ 51,642,840	\$ 9,873,394	\$ 260,756,667
Member contributions	<u>16,991,363</u>	-	<u>36,147,773</u>	-	<u>53,139,136</u>
TOTAL CONTRIBUTIONS	\$ 196,519,355	\$ 19,712,441	\$ 87,790,613	\$ 9,873,394	\$ 313,895,803
Miscellaneous	<u>254,497</u>	-	<u>51,755</u>	-	<u>306,252</u>
	<u>\$ 196,773,852</u>	<u>\$ 19,712,441</u>	<u>\$ 87,842,368</u>	<u>\$ 9,873,394</u>	<u>\$ 314,202,055</u>
INVESTMENT INCOME					
Net Appreciation in Fair Value of Plan Investments, Including Gain on Sales	\$ 947,021,618	\$ 23,607,849	\$ 196,425,011	\$ 11,962,241	\$ 1,179,016,719
Interest	178,675,298	6,903,532	31,943,474	4,773,163	222,295,467
Dividends	70,532,994	2,725,205	4,529,270	676,788	78,464,257
Net Real Estate Income	14,902,047	575,775	19,244,061	2,875,549	37,597,432
Securities Lending Income	3,137,174	121,212	216,005	32,277	3,506,668
Other Income	<u>1,445,778</u>	<u>55,861</u>	<u>131,527</u>	<u>19,654</u>	<u>1,652,820</u>
SUBTOTAL	\$ 1,215,714,909	\$ 33,989,434	\$ 252,489,348	\$ 20,339,672	\$ 1,522,533,363
Less: Investment Manager Expense	<u>(15,883,019)</u>	-	<u>(516,916)</u>	-	<u>(16,399,935)</u>
Net Investment Income	<u>\$ 1,199,831,890</u>	<u>\$ 33,989,434</u>	<u>\$ 251,972,432</u>	<u>\$ 20,339,672</u>	<u>\$ 1,506,133,428</u>
TOTAL ADDITIONS	<u>\$ 1,396,605,741</u>	<u>\$ 53,701,875</u>	<u>\$ 339,814,801</u>	<u>\$ 30,213,066</u>	<u>\$ 1,820,335,483</u>
DEDUCTIONS					
Pension Benefits	\$ 377,264,087	\$ -	\$ 4,727,296	\$ -	\$ 381,991,383
Payment of Medicare Reimbursement	-	1,813,901	-	2,102	1,816,003
Payment of Health Subsidy	-	15,575,636	-	-	15,575,636
Refund of Contributions	252,811	-	2,611,079	-	2,863,890
Administrative Expenses	<u>\$ 3,977,451</u>	-	<u>791,558</u>	-	<u>\$ 4,769,009</u>
	<u>\$ 381,494,349</u>	<u>\$ 17,389,537</u>	<u>\$ 8,129,933</u>	<u>\$ 2,102</u>	<u>\$ 407,015,921</u>
NET INCREASE	\$ 1,015,111,392	\$ 36,312,338	\$ 331,684,868	\$ 30,210,964	\$ 1,413,319,562
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST EMPLOYMENT HEALTHCARE BENEFITS					
Beginning of Year	<u>7,243,743,488</u>	<u>179,506,967</u>	<u>1,102,702,326</u>	<u>136,996,016</u>	<u>8,662,948,797</u>
End of Year	<u>\$ 8,258,854,880</u>	<u>\$ 215,819,305</u>	<u>\$ 1,434,387,194</u>	<u>\$ 167,206,980</u>	<u>\$ 10,076,268,359</u>

JUNE 30, 1997

Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
\$ 222,862,405	\$ 25,787,383	\$ 43,900,196	\$ 13,129,418	\$ 305,679,402
<u>17,354,453</u>	<u>—</u>	<u>31,419,716</u>	<u>—</u>	<u>48,774,169</u>
\$ 240,216,858	\$ 25,787,383	\$ 75,319,912	\$ 13,129,418	\$ 354,453,571
<u>210,947</u>	<u>—</u>	<u>\$ 39,624</u>	<u>—</u>	<u>\$ 250,571</u>
<u>\$ 240,427,805</u>	<u>\$ 25,787,383</u>	<u>\$ 75,359,536</u>	<u>\$ 13,129,418</u>	<u>\$ 354,704,142</u>
\$ 882,097,359	\$ 22,086,758	\$ 85,219,800	\$ 16,888,411	\$ 1,006,292,328
180,963,713	4,530,617	22,389,828	4,444,319	212,328,477
66,867,237	1,698,982	4,326,838	888,863	73,781,920
29,356,309	—	49,321,832	—	78,678,141
2,238,467	—	101,600	—	2,340,067
<u>1,246,899</u>	<u>—</u>	<u>7,378</u>	<u>—</u>	<u>1,254,277</u>
\$ 1,162,769,984	\$ 28,316,357	\$ 161,367,276	\$ 22,221,593	\$ 1,374,675,210
<u>(13,272,618)</u>	<u>—</u>	<u>(2,342,227)</u>	<u>—</u>	<u>(15,614,845)</u>
<u>\$ 1,149,497,366</u>	<u>\$ 28,316,357</u>	<u>\$ 159,025,049</u>	<u>\$ 22,221,593</u>	<u>\$ 1,359,060,365</u>
\$ 1,389,925,171	\$ 54,103,740	\$ 234,384,585	\$ 35,351,011	\$ 1,713,764,507
\$ 367,525,871	\$ —	\$ 3,704,941	\$ —	\$ 371,230,812
—	1,761,743	—	1,211	1,762,954
—	15,218,587	—	—	15,218,587
241,909	—	1,750,038	—	1,991,947
<u>\$ 4,058,111</u>	<u>—</u>	<u>802,756</u>	<u>—</u>	<u>\$ 4,860,867</u>
<u>\$ 371,825,891</u>	<u>\$ 16,980,330</u>	<u>\$ 6,257,735</u>	<u>\$ 1,211</u>	<u>\$ 395,065,167</u>
\$ 1,018,099,280	\$ 37,123,410	\$ 228,126,850	\$ 35,349,800	\$ 1,318,699,340
<u>6,225,644,208</u>	<u>142,383,557</u>	<u>874,575,476</u>	<u>101,646,216</u>	<u>7,344,249,457</u>
<u>\$ 7,243,743,488</u>	<u>\$ 179,506,967</u>	<u>\$ 1,102,702,326</u>	<u>\$ 136,996,016</u>	<u>\$ 8,662,948,797</u>

City of Los Angeles Fire and Police Pension System

Notes to Financial Statements

June 30, 1998 and 1997

Note 1 -- Description of Plans

The City of Los Angeles Department of Pensions operates under provisions of the City Charter of the City of Los Angeles, which provides that the funding requirements of the City of Los Angeles Fire and Police Pension System (the System or the Plan), based on the results of actuarial valuation, will be satisfied by the City of Los Angeles. In addition, the City of Los Angeles is required to fund the administrative expenses of the System.

Pension System

In general, the System is a defined benefit single-employer pension plan covering all firefighters and police officers of the City of Los Angeles. Benefits are based on members' final compensation and terms of service. In addition, the Plan provides for disability benefits under certain conditions and benefits to eligible survivors. The System is composed of three groups. Those members hired prior to January 26, 1967 participate in the first established Department of Pensions (Old System under Article XVII) unless they requested transfer to the New Pension System (New System under Article XVIII) established for members hired on or after January 26, 1967. Members hired after December 8, 1980 participate in the Safety Members Pension Plan (under Article XXXV) which was established at that time.

The plan also covers those certified paramedics and civilian ambulance employees who transferred from the City Employees' Retirement System during the year ending June 30, 1983, or have since been hired.

Effective July 1, 1998, a new tier was established for Article XXXV. Active Members hired prior to July 1, 1997 could elect to join the new tier, which has eligibility for service retirement requirements similar to Article XVIII, as of July 1, 1998. Members hired after July 1, 1997 will automatically be covered under the new tier, except Members hired between July 1, 1997 and December 31, 1997 who can elect to transfer to the old tier. This valuation is based upon both tiers of Article XXXV, with costs based upon the individual Member's actual tier election.

Members with 20 or more years of service in the Old System and New System 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 66-2/3 % in the Old System and 70% in the New System. There is no minimum age requirement. The Plans provide for unlimited cost-of-living adjustments in benefits. Members who terminate their employment after July 1, 1982 are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements. Members of the Safety Members Pension Plan must be age 50, with ten years of service, to be entitled to a pension. Benefits are equal to 20% of their one-year average compensation, increasing for each year of service over ten years, to a maximum of 70% for 30 years. Benefits are adjusted by the cost-of-living rate, at a maximum of 3% per year. These benefits can be adjusted by the City Council once every three years.

Since the Plan includes detailed provisions for each situation, members should refer to the Plan documents for more complete information.

Health Subsidy Plan

Members of the System are entitled to post-retirement health subsidy benefits under sections 189, 190.50 and 536 of the City Charter, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. Regular benefits begin at age sixty. Temporary subsidies are available to certain groups at earlier stages.

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the City Employees' Retirement System (CERS) and active Safety Members. The City also pays Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Note 1 -- Description of Plans (Continued)

Health Subsidy benefits are available to Members on disability and service retirement. No subsidy is paid to survivors or beneficiaries. Limited spousal and dependent benefits are available during the member's lifetime.

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

Membership

The components of the System's membership were as follows at June 30, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Active nonvested - Old & New Pension System	547	843
Active nonvested - Safety Members Pension Plan	6,216	6,108
Active vested - Old & New Pension System	3,278	3,168
Active vested - Safety Members Pension Plan	2,758	2,349
Pensioners and beneficiaries -		
Old & New Pension System	10,937	10,947
Pensioners and beneficiaries -		
Safety Members Pension Plan	<u>168</u>	<u>139</u>
	<u>23,904</u>	<u>23,554</u>

Note 2 -- Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

B. Financial Reporting

The financial statements have been prepared in accordance with generally accepted accounting principles, as outlined in the Governmental Accounting Standards Board (GASB). In fiscal year 1997, the System adopted the GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*; and GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. GASB No. 25 establishes financial reporting standards for defined benefit pension plans and requires that System investments be reported at fair value at the reporting date. GASB No. 26 establishes financial reporting standards for defined benefit pension plans in reporting healthcare assets and benefits. GASB No. 28 establishes accounting and financial reporting standards for securities lending transactions.

GASB No. 25, *Financial Reporting for Defined Benefit Plans and Notes Disclosures for Defined Contribution Plans*, was adopted by the System on July 1, 1996. GASB 25 supercedes all previous financial reporting standards required for governmental defined benefit pension plans including GASB No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers, Accounting and Reporting by Defined Benefit Pension Plans*, previously relied upon by the System. GASB No. 25 requires a statement of plan net assets, a statement of changes in plan net assets, investments be carried at fair value with unrealized gains and losses included in the statement of changes in plan net assets, and certain footnote disclosures regarding actuarial methods, contribution requirements and funding progress of the System.

GASB No. 26 was adopted by the System on July 1, 1996. GASB No. 26 establishes financial reporting standards for post employment healthcare plans administered by state and local governmental defined benefit pension plans. It is an interim statement pending completion of the GASB's project on accounting and financial reporting of other postemployment benefits by plans and employers.

B. Financial Reporting (Continued)

In addition to the reporting standards, the statement also establishes certain requirements for plans that elect to provide historical trend information about the funded status of the postemployment health plan subsidy and the employer's required contribution to the Plan, either as supplementary information or an additional financial statement or note.

GASB No. 28 was adopted on July 1, 1996. GASB No. 28 established accounting and financial reporting standards for securities lending transactions and requires the System to record cash and certain securities received as collateral under securities lending transactions as assets, and liabilities resulting from these transactions in the statement of plan net assets. Revenues from and cost of securities lending transactions, such as borrowing rebates and agent fees, are reported as investment income and expenditures, respectively, in the statement of changes in plan net assets. Securities lending activity had previously been disclosed in the footnotes to the financial statements.

C. Cash

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

D. Investments

The System adopted the provisions of Statement No. 25 of the Governmental Accounting Standards Board, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, during the fiscal year ending June 30, 1997, and has restated the June 30, 1997 beginning net assets held in trust for pension benefits to reflect retroactively the provisions of this standard. This statement establishes financial reporting standards for defined benefit pension plans and requires that System investments be reported at fair value at the reporting date. The restatement can be summarized as follows:

Net assets at beginning of fiscal year ending June 30, 1997, as previously reported	\$6,003,405,683
Adjustment of investments to fair value	<u>1,340,843,774</u>
Net assets at beginning of fiscal year ending June 30, 1997, as restated	<u>\$ 7,344,249,457</u>

The System is authorized to make temporary investments in instruments rated A-1 by Standard & Poor's Corporation and P-1 by Moody's Commercial Paper Record or the equivalent as determined by the Custodian, Bankers Trust Company.

Short-term investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, Treasury bills and repurchase agreements along with bonds, stocks and alternative investments are reported at fair value in accordance with GASB No. 25.

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 A-1 or P-1, 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 combined pension plan and postemployment health subsidy statement of changes in plan net assets, if material.

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers. Real estate market values are taken from recent appraisals, when available, and from the reports of investment advisors. Market values reflected by reports of advisors are based on recent purchase prices, appraisals and on advisor estimates.

Real estate investments are recorded in the financial statements under the equity method and are carried at lower of cost or market value. The fair values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the System's real estate consultant.

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. The corresponding

D. Investments (Continued)

proceeds due from sales are reported on the statement of plan net assets 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.

The fair values of venture capital and alternative investments are estimated based on audited financial statements provided by the individual fund managers.

E. Income from Investments

The Charter of the City of Los Angeles provides that the rate of return from investments, exclusive of gains and losses, shall be credited to member contribution accounts.

F. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Note 3 -- Funding Policy

As a condition of participation, members are required to contribute a percentage of their salaries to the System. The System's actuaries, in their reports as of June 30, 1997, recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Old System members are required by the City Charter to contribute 6% of salary. Safety Members Pension Plan members are required to contribute 8% of salary.

The Charter of the City of Los Angeles 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 New System members and Old System members, 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 the Safety Members Pension Plan, any "unfunded liability" of that System shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-year period.
- C. An amount to provide for health plan subsidies for retired members.
- D. An amount to provide for administrative expenses.

Accordingly, the actuary for the System has determined the contributions for items A., B. and C. above, for the years ended June 30, 1998 to be as follows:

	<u>Percentage of Member's Salaries</u>		
	<u>Old System</u> <u>(Article XVII)</u>	<u>New System</u> <u>(Article XVIII)</u>	<u>Safety Members</u> <u>Pension Plan</u> <u>(Article XXXV)</u>
Entry-Age Normal Cost Contribution	20.79%	23.24%	13.8%
Amortization of Unfunded Liability	\$34.2M	11.8%	(1.6%)
Health Plan Subsidy	\$.8M*	\$19.6M*	\$10.2M*

*Stated as required dollar amount.

Note 3 -- Funding Policy (Continued)

The actuarially determined unfunded liability of the System is \$773,924,834 and \$1,900,190,533 at June 30, 1998 and 1997, respectively, (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City charter, the amount at June 30, 1998 is to be amortized over the next 39 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

Contributions totaling \$313,895,903 (\$260,756,667 City and \$53,139,136 member) were made during the year ending June 30, 1998 with respect to the pension plan and health plan subsidy, in accordance with actuarially determined contribution requirements determined through an actuarial evaluation performed at June 30, 1998. These contributions consisted, for the aggregate pension plans of approximately \$183,700,000 normal cost and \$100,600,000 amortization of the unfunded actuarial accrued liability. For the health plan subsidy, they consisted of approximately \$17,400,000 normal cost and \$12,200,000 amortization of the unfunded actuarial accrued liability.

Note 4 -- 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.

The City Charter permits the System to use investments of the System to enter into securities lending transactions - loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. 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 market value plus any accrued interest for U.S. securities lending and 105 percent of the market value plus any accrued interest for non U.S. securities lending. At year end, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owed the System.

The borrower has all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. 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 reasoned determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action, (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the *Federal Financial Institutions 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 market value on the Systems' plan net assets.

The System adopted the provisions of Statement No. 28 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Securities Lending Transactions*, in fiscal 1997. This Statement requires that cash received as collateral on securities lending transactions be reported as assets, and that liabilities from these transactions be reported in the statement of plan net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees are netted against securities lending income.

The market value of total securities lent was \$1,222,341,764 and \$1,111,130,674 as of June 30, 1998 and 1997, respectively. The collateralized value of cash and securities was \$1,258,146,583 and \$1,150,055,916 as of June 30, 1998 and 1997, respectively.

Note 5 -- Contingencies

A. 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. The dollar amount of contributions and interest subject to this right was \$456,453,241 and \$438,479,214 as of June 30, 1998 and 1997, respectively.

B. Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$151,200,000 at June 30, 1998.

Note 6 -- Governmental Accounting Standards Board (GASB) Investment Categories

The System's investments in securities, which are held by Bankers Trust Company, the Custodian, are categorized below, in accordance with categories established by the GASB, to give an indication of relative custodial credit risk assumed at year-end. Investments in real estate represent non-categorized investments under GASB guidelines. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, their trust departments or agents, but not in the System's name.

At June 30, 1998, the market value of categorized investments were as follows: (in thousands):

	<u>Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>AMOUNT</u>
Investments - Categorized				
Temporary Investments	\$271,974,010	\$ --	\$285,717,573	\$557,691,583
U.S. Government Obligations	995,038,800	--	--	995,038,800
Municipal Bonds	97,918,103	--	--	97,918,103
Domestic Corporate Bonds	1,748,784,910	--	--	1,748,784,910
International Bonds	59,252,558	--	--	59,252,558
Domestic Stocks	4,744,440,610	--	--	4,744,440,610
International Stocks	1,363,461,485	--	--	1,363,461,485
Alternative Investments	<u>105,927,491</u>	--	--	<u>105,927,491</u>
 Total Categorized Other Investments	 <u>\$9,386,797,967</u>	 \$ --	 <u>\$285,717,573</u>	 <u>\$9,672,515,540</u>
 Investments - Not Categorized				
Investments Held by Broker/Dealer				
Under Securities Loans with Cash Collateral:				
Domestic Stocks				\$578,053,591
Foreign Stocks				237,314,351
Domestic Corporate Bonds				98,771,145
U.S. Government Obligations				308,202,676
Securities Lending Short Term				
Investment Pool				1,258,136,583
Real Estate				<u>405,759,177</u>
				<u>\$2,886,237,523</u>

Investments presented in Category 3 represent the System's investment in a pooled short term investment fund managed by the Custodian, which also performs safekeeping of the pool's securities (Note 2-D).

Note 7 -- Notes Payable

Notes payable consists of the following at June 30, 1998:

Secured by real estate. Interest rate ranges from 7.25% to 9.0% per annum.

Monthly Principal and interest payments range from \$25,357 to \$41,047.

The notes mature July 2002 through October 2008. \$11,418,416

Principal payments due under such notes are as follows for the years ended June 30:

1999	\$ 356,326
2000	386,109
2001	419,111
2002	452,719
2003	491,403
Thereafter	<u>9,312,748</u>
	<u>\$11,418,416</u>

Note 8 -- Operating Lease

The System leases building facilities under a noncancelable operating lease that expires in 2001, at which time a five-year renewal option is available.

The future minimum lease commitments are as follows as of June 30, 1998:

1999	\$ 339,989
2000	339,989
2001	339,989
2002	<u>169,995</u>
	<u>\$1,189,962</u>

Note 9 -- Year 2000 Compliance

The System is now at the remediation stage of addressing the Year 2000 issue (i.e. to recognize between 99 and 00 as one year instead of negative 99 years). During the year ended June 30, 1998, the System completed an assessment and adopted a remedial implementation plan to convert affected computer systems and equipment that are not year 2000 compliant. The execution of the plan included the replacement of existing hardware systems that could have a Year 2000 problem and the review of existing software for compliance. The System is also in the process of testing all new hardware for compliance.

As of June 30, 1998, 80% of the System's computer systems have been converted and tested. Conversion and testing of all other systems is expected to be completed by June 1999.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS - PENSION PLANS

SCHEDULE 1A

ALL PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1993	\$4,846,189,341	\$8,144,652,745	\$3,298,463,404	59.5%	\$562,672,803	586.2%
June 30, 1994	5,111,331,371	8,311,393,751	3,200,062,380	61.5%	554,626,745	577.0%
June 30, 1995	5,602,149,360	8,412,407,080	2,810,257,720	66.6%	608,978,306	461.5%
June 30, 1996	6,558,796,766	8,786,175,771	2,227,379,005	74.6%	688,572,262	323.5%
June 30, 1997	7,406,443,749	9,111,057,591	1,704,613,842	81.3%	749,505,571	227.4%
June 30, 1998	8,393,868,685	8,912,535,199	518,666,514	94.2%	808,807,269	64.1%

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1993	\$4,328,028,411	\$7,686,704,861	\$3,358,676,450	56.3%	\$297,796,256	1127.8%
June 30, 1994	4,527,618,395	7,781,907,008	3,254,288,613	58.2%	269,887,595	1205.8%
June 30, 1995	4,913,393,210	7,813,942,098	2,900,548,888	62.9%	278,097,839	1043.0%
June 30, 1996	5,701,026,050	8,041,068,131	2,340,042,081	70.9%	286,626,330	816.4%
June 30, 1997	6,376,809,995	8,217,516,312	1,840,706,317	77.6%	286,787,233	641.8%
June 30, 1998	7,145,149,538	7,821,533,465	676,383,927	91.4%	287,719,455	235.1%

SAFETY MEMBERS PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1993	\$518,160,930	\$457,947,884	(60,213,046)	113.1%	\$264,876,547	(22.7%)
June 30, 1994	583,712,976	529,486,743	(54,226,233)	110.2%	284,739,150	(19.0%)
June 30, 1995	688,756,150	598,464,982	(90,291,168)	115.1%	330,880,467	(27.3%)
June 30, 1996	857,770,716	745,107,640	(112,663,076)	115.1%	401,945,932	(28.0%)
June 30, 1997	1,029,633,754	893,541,279	(136,092,475)	115.2%	462,718,338	(29.4%)
June 30, 1998	1,248,719,147	1,091,001,734	(157,717,413)	114.5%	521,087,814	(30.3%)

CITY OF LOS ANGELES FIRE AND POLICE PENSION
SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS - HEALTHCARE PLANS

ALL PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1993	\$ 92,738,324	\$686,751,150	\$594,012,826	13.5%	\$562,672,803	105.6%
June 30, 1994	131,848,404	697,230,188	565,381,784	18.9%	554,626,745	101.9%
June 30, 1995	175,792,687	659,805,919	484,013,232	26.6%	608,978,306	79.5%
June 30, 1996	248,228,909	591,777,845	343,548,936	41.9%	688,572,262	49.9%
June 30, 1997	310,852,382	586,429,073	275,576,691	53.0%	749,505,571	36.8%
June 30, 1998	371,411,413	626,669,733	255,258,320	59.3%	808,807,269	31.6%

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1993	\$56,534,866	\$610,111,978	\$553,577,112	9.3%	\$297,796,256	185.9%
June 30, 1994	77,378,107	609,717,517	532,339,410	12.7%	269,887,595	197.2%
June 30, 1995	102,366,307	566,443,155	464,076,848	18.1%	278,097,839	166.9%
June 30, 1996	145,929,451	504,733,828	358,804,377	28.9%	286,626,330	125.2%
June 30, 1997	181,352,489	481,842,685	300,490,196	37.6%	286,787,233	104.8%
June 30, 1998	213,935,369	501,116,016	287,180,647	42.7%	477,926,802	60.1%

SAFETY MEMBERS PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1993	\$36,203,458	\$76,639,172	\$40,435,714	47.2%	\$264,876,547	15.3%
June 30, 1994	54,470,297	87,512,671	33,042,374	62.2%	284,739,150	11.6%
June 30, 1995	73,426,380	93,362,764	19,936,384	78.6%	330,880,467	6.0%
June 30, 1996	102,299,458	87,044,017	(15,255,441)	117.5%	401,945,932	(3.8%)
June 30, 1997	129,499,893	104,586,388	(24,913,505)	123.8%	462,718,338	(5.4%)
June 30, 1998	157,476,044	125,553,717	(31,922,327)	125.4%	330,880,467	(9.6%)

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS -
PENSION PLANS

<u>ALL PLANS</u>	Annual Required	Percent
<u>Fiscal Years Ending</u>	<u>Contribution</u>	<u>Contributed</u>
1993	\$ 277,367,625	100%
1994	281,880,495	100%
1995	287,697,971	100%
1996	296,636,023	100%
1997	265,744,307	100%
1998	231,170,832	100%

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

<u>Fiscal Years Ending</u>		
1993	\$ 237,870,462	100%
1994	246,773,576	100%
1995	250,731,527	100%
1996	253,792,681	100%
1997	222,678,703	100%
1998	179,527,992	100%

SAFETY MEMBERS PENSION PLAN

<u>Fiscal Years Ending</u>		
1993	\$ 39,497,163	100%
1994	35,106,919	100%
1995	36,966,444	100%
1996	42,843,342	100%
1997	43,065,604	100%
1998	51,642,840	100%

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS -
HEALTHCARE PLANS

<u>ALL PLANS</u>	Annual Required	Percent
<u>Fiscal Years Ending</u>	<u>Contribution</u>	<u>Contributed</u>
1993	\$ 45,138,597	100%
1994	49,889,992	100%
1995	45,782,214	100%
1996	46,565,595	100%
1997	39,935,095	100%
1998	29,585,835	100%

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

<u>Fiscal Years Ending</u>		
1993	\$ 29,008,014	100%
1994	32,957,468	100%
1995	31,897,396	100%
1996	32,128,225	100%
1997	26,805,677	100%
1998	19,712,441	100%

SAFETY MEMBERS PENSION PLAN

<u>Fiscal Years Ending</u>		
1993	\$ 16,130,583	100%
1994	16,932,524	100%
1995	13,884,818	100%
1996	14,437,370	100%
1997	13,129,418	100%
1998	9,873,394	100%

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

NOTES TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules for the Pension and Healthcare Plans was determined as part of the actuarial valuations as of June 30, 1998. Additional information as of June 30, 1998 follows:

PENSION PLANS

Funding Method - Entry Age Normal Funding Method

Asset Valuation Method - The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Investment Return: 8.5%

Annual Salary Scale Increase:

Individually (Varies by age)

Age:

Under 25	10.0%
25-29	9.0%
30-34	8.0%
35-39	7.0%
40-44	6.0%
45-49	5.7%
50 and Over	5.5%

Aggregate 5.5%

Annual Cost-of-Living Increase:

Old System and New System Members:

Accrued for All Subsequent

Service (Subject to Any

Applicable Caps) 5.0%

Safety Members Pension Plan Members 3.0%

Mortality among retirees - The valuation for those on service retirement is based upon the 1994 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1984 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Mortality among spouses - The valuation is based upon the 1994 Group Annuity Mortality Table.

Remarriage among spouses - Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.

NOTES TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

(Continued)

HEALTHCARE PLANS

Funding Method - Entry Age Normal Funding Method

Asset Valuation Method - The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Investment Return 8.5%

Annual Salary Scale Increase:

Individually (Varies by age)

Age:

Under 25 10.0%

25-29 9.0%

30-34 8.0%

35-39 7.0%

40-44 6.0%

45-49 5.7%

50 and Over 5.5%

Aggregate 5.5%

Graded Medical Cost Rate Increases:

Pre-65 Premiums 8.25%*

Post-65 Premiums 8.00%*

*Decreasing gradually to 6.5% in 2004 and beyond

Mortality among retirees - The valuation for those on service retirement is based upon the 1994 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1984 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Mortality among spouses - The valuation is based upon the 1994 Group Annuity Mortality Table.

Remarriage among spouses - Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.

*Active and
Retired
Membership*

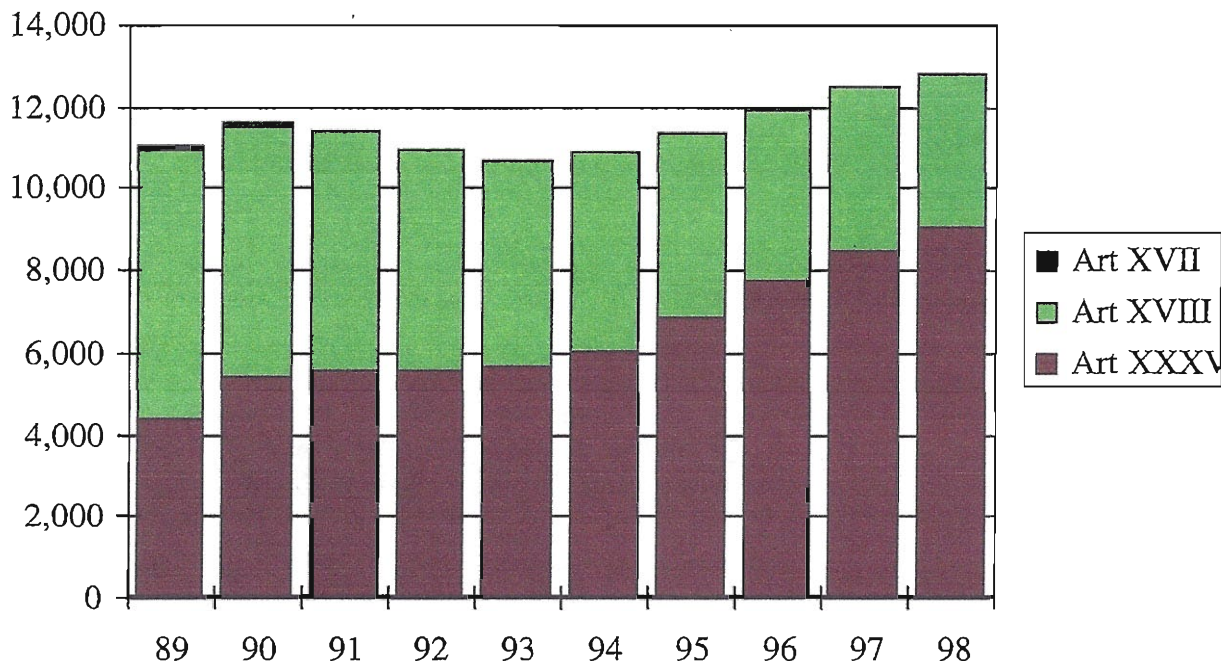
POLICE AND FIRE PENSION SYSTEMS

Three Pension Systems

There are currently three pension systems in operation serving active and retired membership. **The Fire and Police Pension System (Article XVII)** was established under the Charter in 1925. In 1967, this plan was extensively amended, resulting in the creation of **The New Pension System (Article XVIII)**. Members of the Article XVII plan were given the option to transfer into this plan.

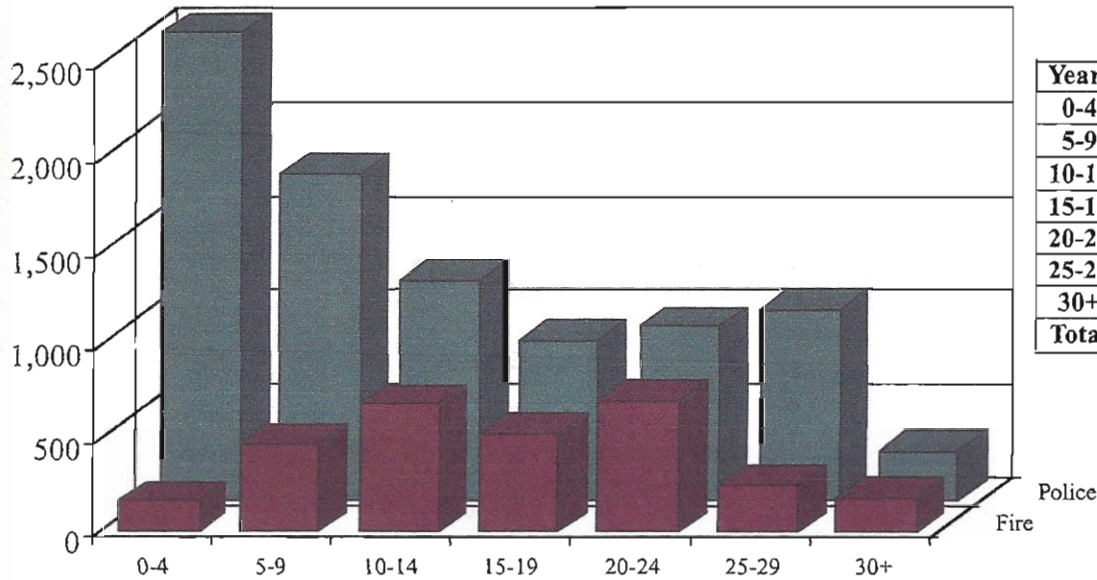
In 1980, the benefits of the system were again extensively revised. This resulted in the creation of **The Safety Members Pension Plan (Article XXXV)**. All members hired on December 8, 1980 and later become members of this plan. All members hired or rehired prior to July 1, 1997 are covered under the provisions of Article XXXV, Plan I. These members had a one time opportunity to transfer into Article XXXV, Plan II. Members hired on or after July 1, 1997 are covered under the provisions of Article XXXV, Plan II. Members hired from July 1, 1997 to December 31, 1997 have a one time opportunity to transfer into Article XXXV, Plan I.

ACTIVE MEMBERSHIP Last Ten Years

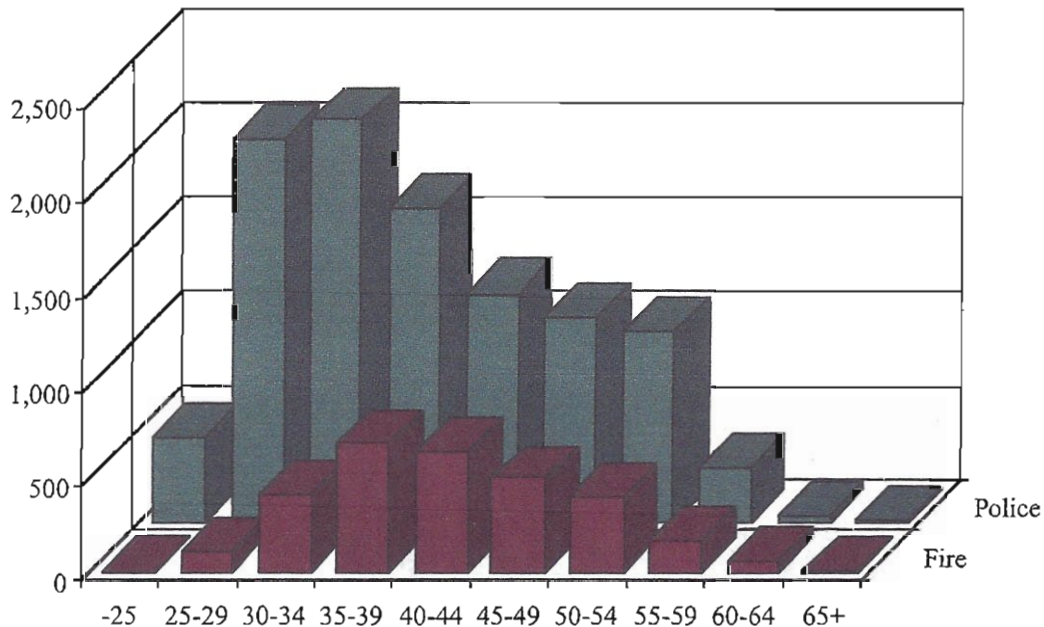


MEMBERSHIP AS OF JUNE 30, 1998			
Article	Fire	Police	Total
XVII	1	4	5
XVIII	1,324	2,496	3,820
XXXV	1,610	7,364	8,974
TOTAL	2,935	9,864	12,799

ACTIVE MEMBERSHIP By Years of Service



ACTIVE MEMBERSHIP By Age Group



REFUNDS OF MEMBER CONTRIBUTIONS

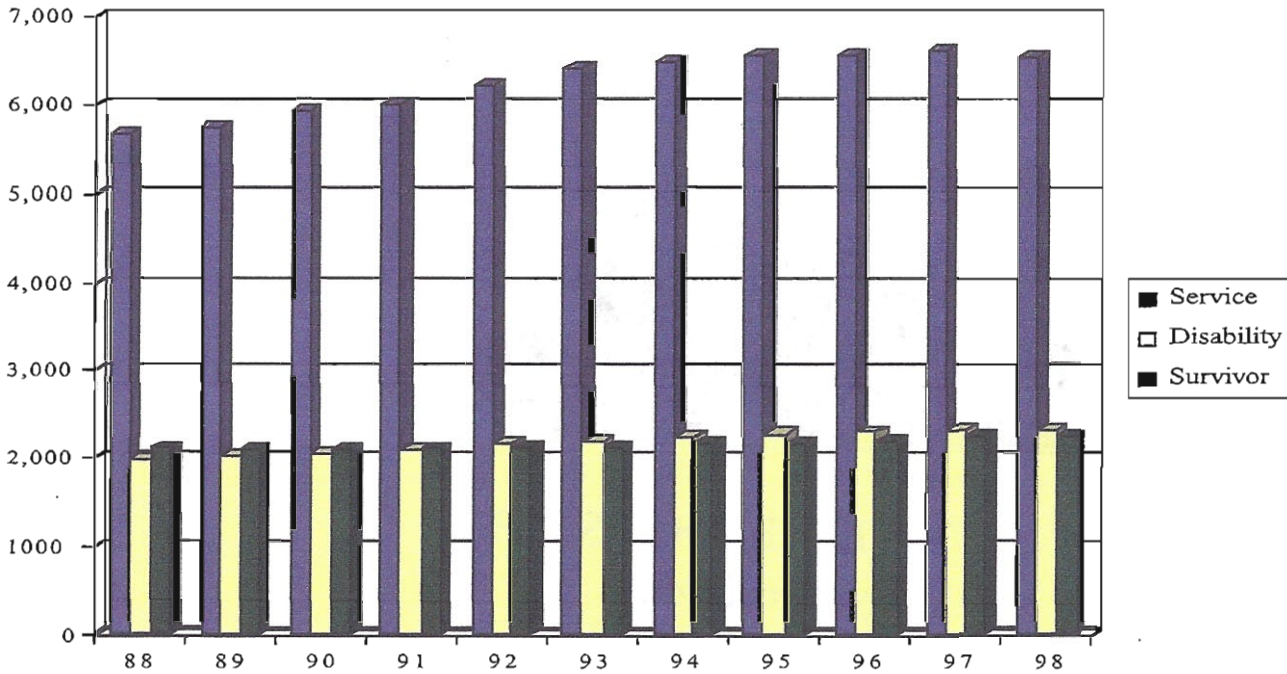
	94-95	95-96	96-97	97-98
FIRE				
Article XVIII	1	0	1	1
Article XXXV	16	23	6	5
POLICE				
Article XVIII	7	4	3	2
Article XXXV	154	144	125	152
TOTAL	178	171	135	160

This chart shows the number of members who have applied for a refund of their Pension contributions.

RETIRED MEMBERSHIP

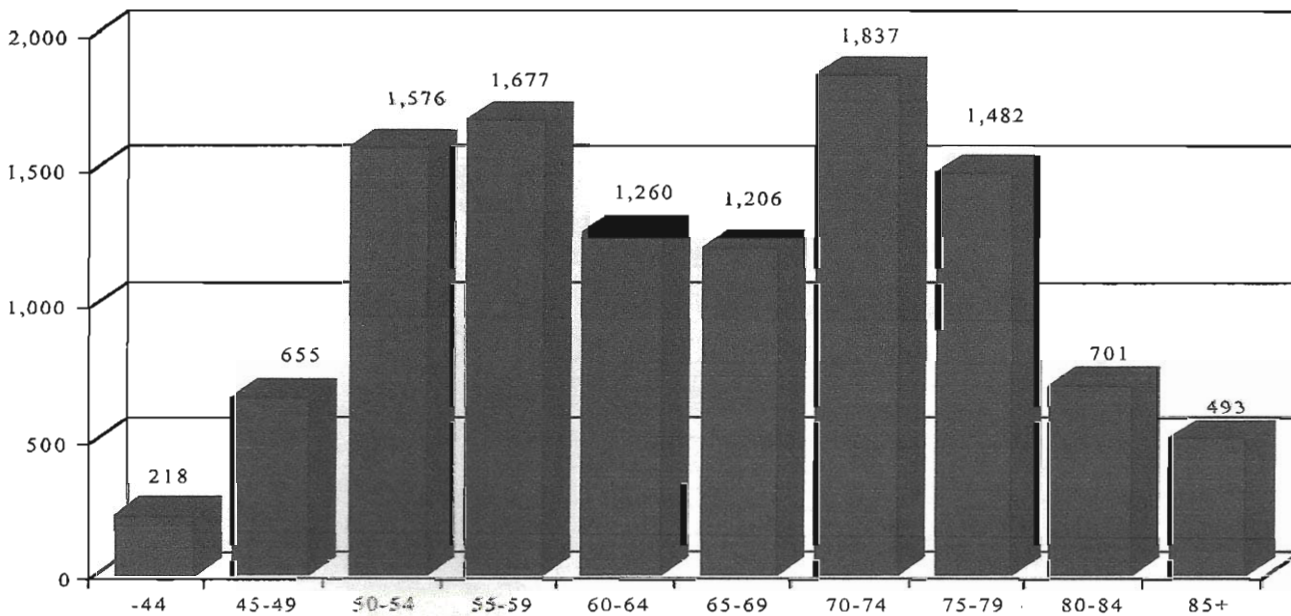
Last Ten Years

AS OF JUNE 30, 1998	
Service Pensions	6,540
Disability Pensions	2,323
Survivor Pensions	2,242
Total	11,105

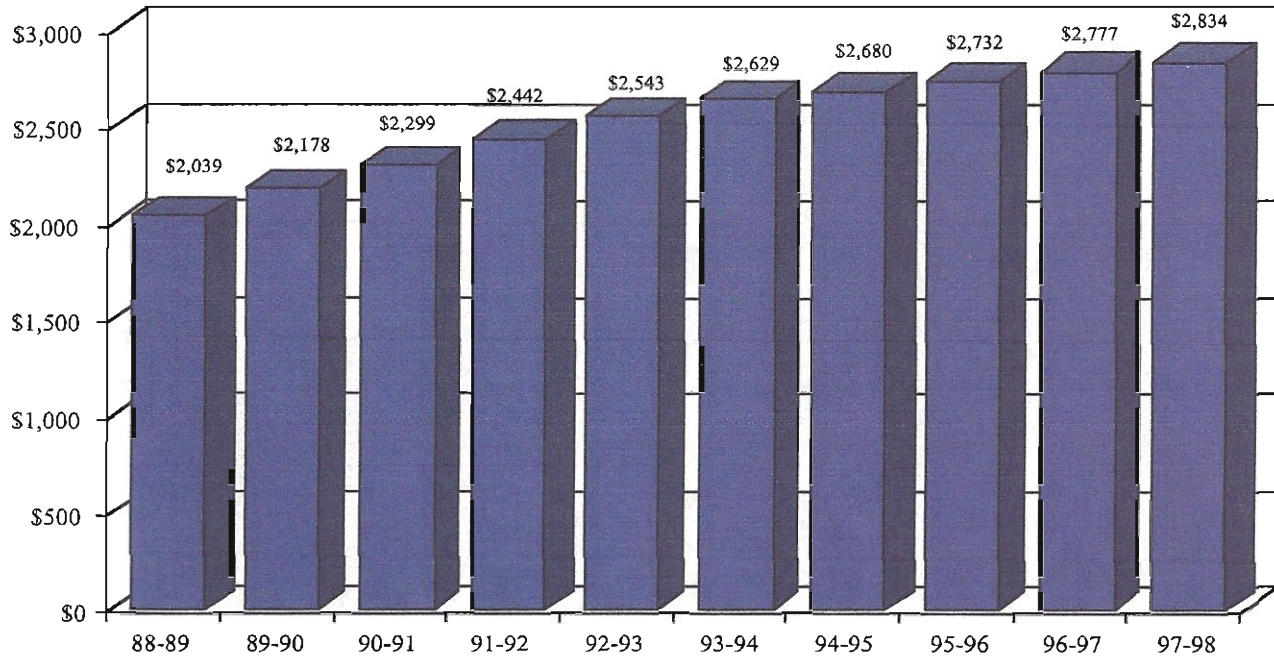


RETIRED MEMBERSHIP

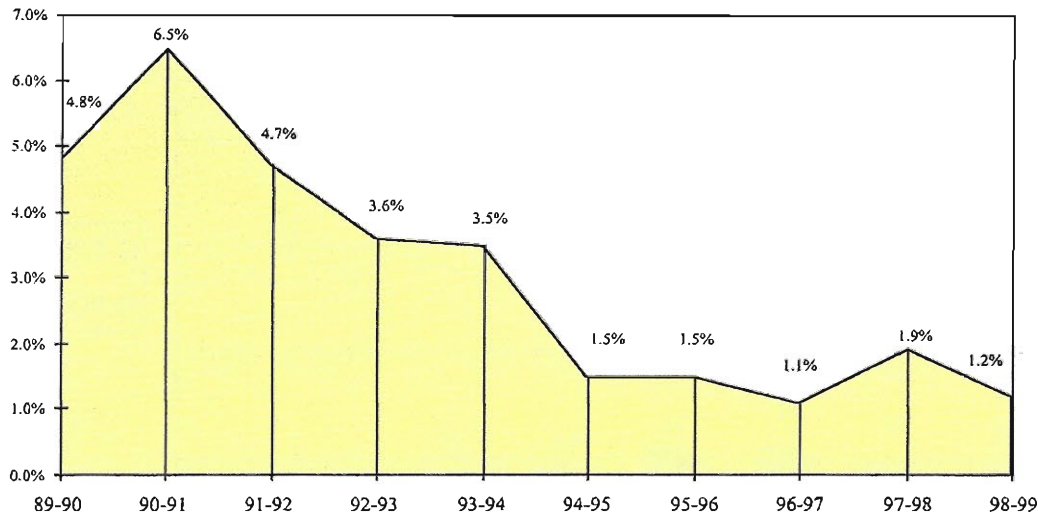
By Age Group



AVERAGE MONTHLY PENSION



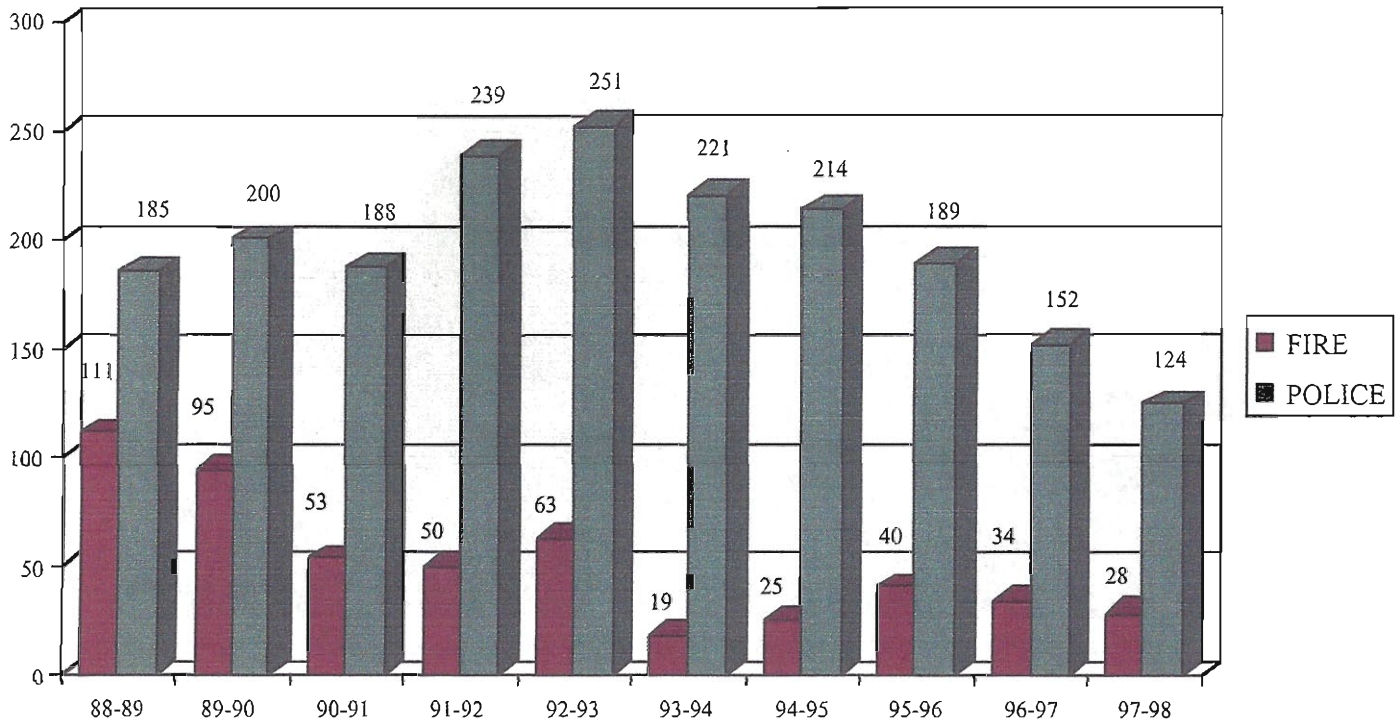
COST OF LIVING ADJUSTMENTS Effective July 1



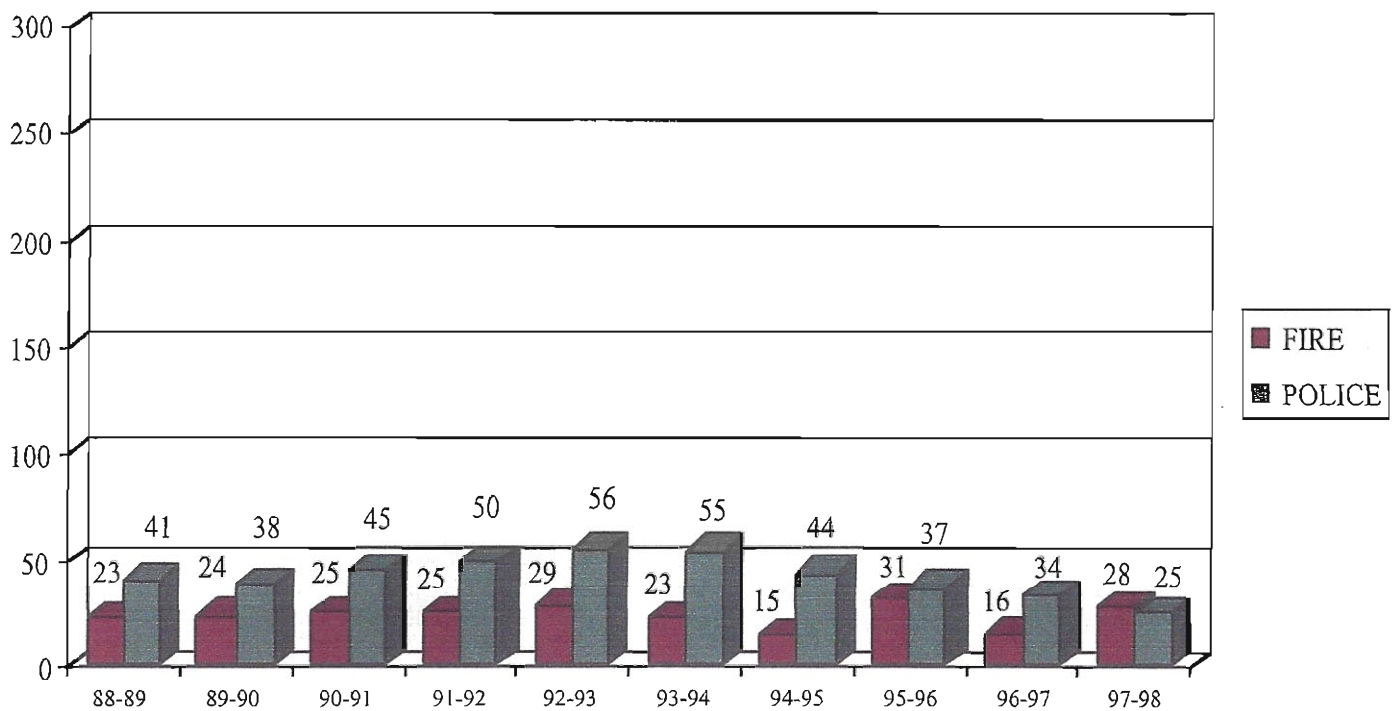
Cost of living adjustments are made to eligible pensions each July 1, based on the movement of the consumer price index for the greater Los Angeles area from March 1 of the preceding year to March 1 of that year. Members of the Safety Members Pension Plan (Article XXXV) have cost of living increases capped at 3%. The City Council can provide for a discretionary cost of living increase above the 3% cap once every 3 years. Members of Articles XVII and XVIII have no cap on their cost of living adjustments.

PENSION STATISTICS: LAST TEN YEARS

SERVICE PENSIONS GRANTED

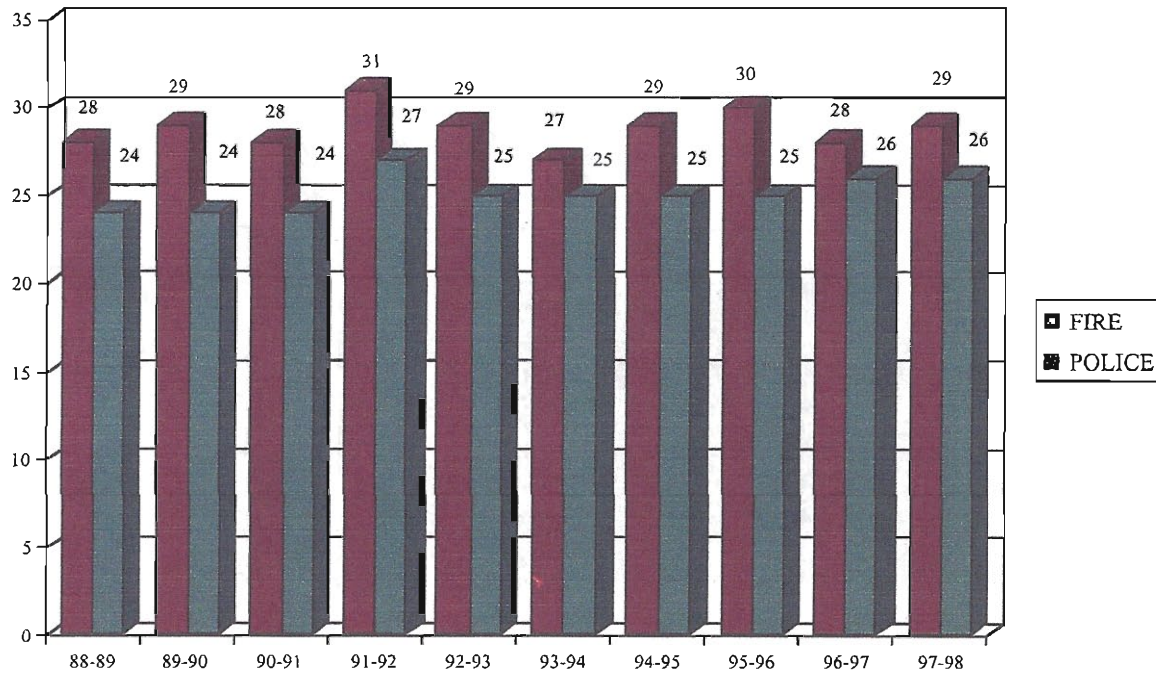


DISABILITY PENSIONS GRANTED

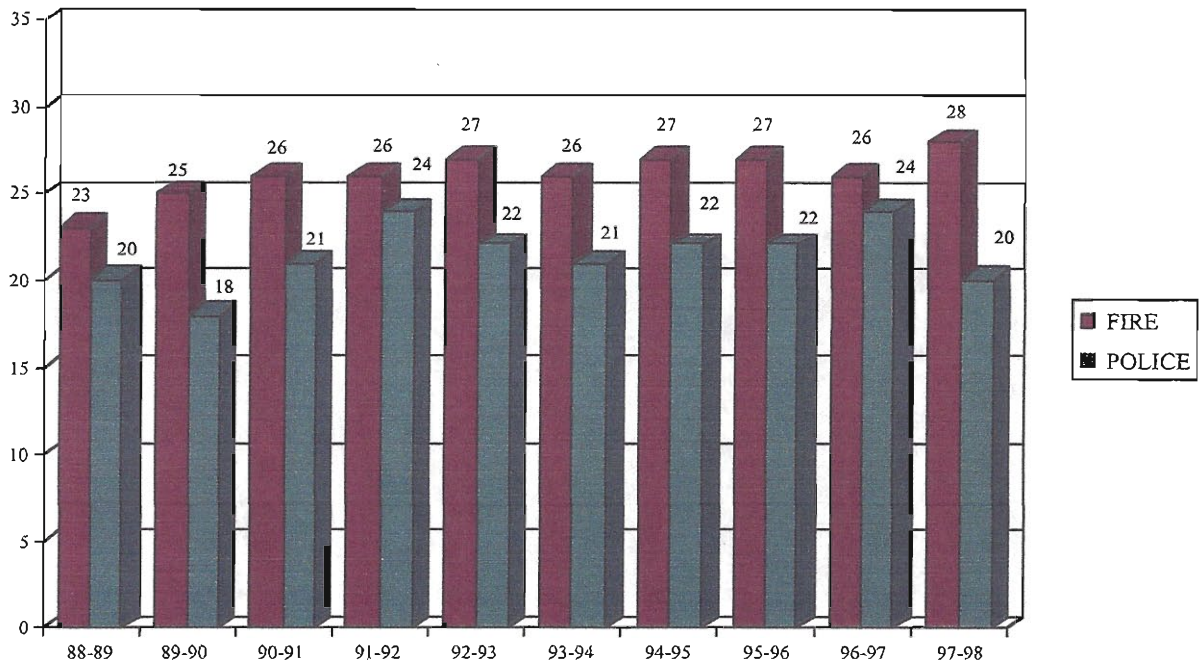


PENSION STATISTICS: LAST TEN YEARS

YEARS OF SERVICE At Service Retirement

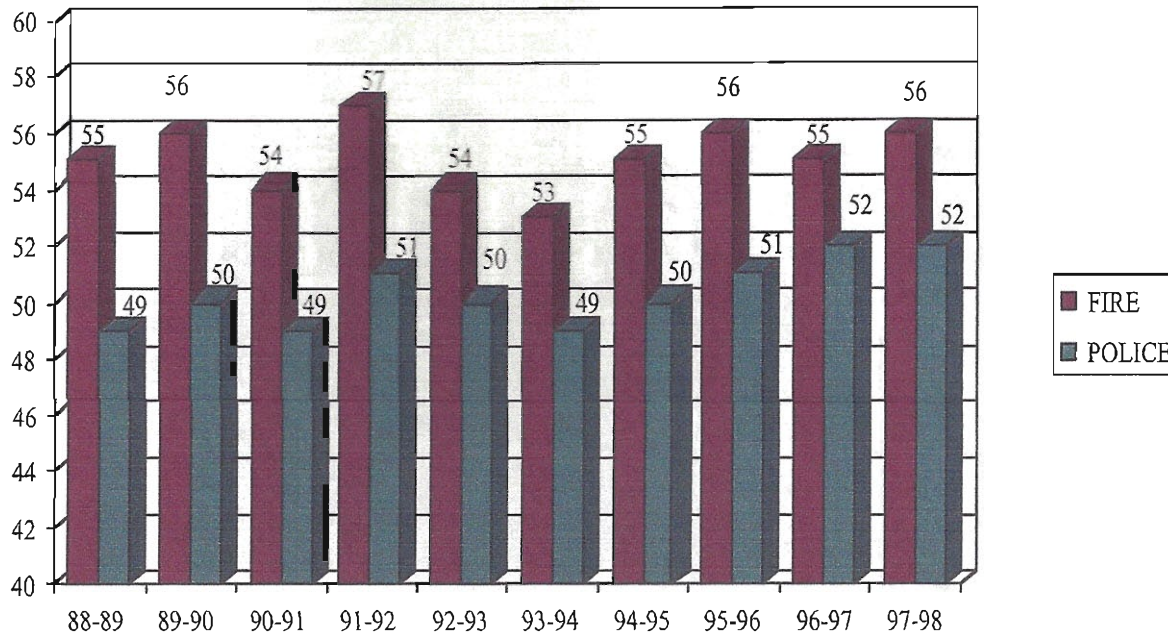


YEARS OF SERVICE At Disability Retirement

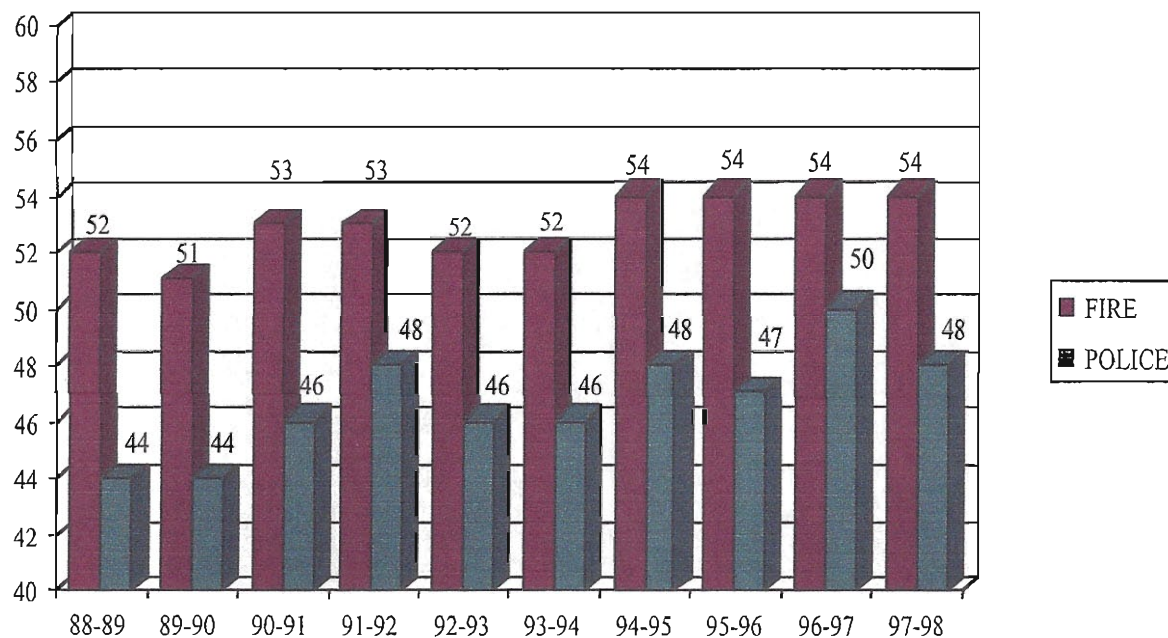


PENSION STATISTICS: LAST TEN YEARS

AVERAGE AGE At Service Retirement



AVERAGE AGE At Disability Retirement



SERVICE-CONNECTED DISABILITY PENSIONS By Type and Department

DISABILITY PENSIONS GRANTED	FISCAL YEAR 1993-94			FISCAL YEAR 1994-95			FISCAL YEAR 1995-96			FISCAL YEAR 1996-97			FISCAL YEAR 1997-98		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Physical Only	23	48	71	12	33	45	29	23	52	15	22	37	25	12	37
Physical/Psychiatric	0	6	6	3	10	13	2	9	11	1	8	9	1	6	7
Psychiatric Only	0	1	1	0	1	1	0	2	2	0	0	0	0	2	2
TOTAL	23	55	78	15	44	59	31	34	65	16	30	46	26	20	46

TYPES OF CLAIMS*	FISCAL YEAR 1993-94			FISCAL YEAR 1994-95			FISCAL YEAR 1995-96			FISCAL YEAR 1996-97			FISCAL YEAR 1997-98		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Back	17	29	46	5	11	16	15	9	24	10	5	15	14	2	16
Neck	3	14	17	1	5	6	5	9	14	6	6	12	6	2	8
Knees	9	9	18	3	5	8	9	5	14	7	4	11	9	2	11
Other Orthopedic	8	17	25	4	16	20	20	9	29	9	15	24	19	9	28
Heart Attack	6	9	15	5	17	22	5	3	8	0	12	12	3	4	7
Ulcer	0	2	2	0	1	1	0	0	0	0	1	1	0	1	1
Hypertension	1	14	15	1	10	11	3	3	6	1	9	10	2	1	3
Pulmonary	2	0	2	2	3	5	1	0	1	1	0	1	2	0	2
Cancer	0	0	0	0	0	0	0	0	0	0	1	1	0	1	1
Gun Shot Wound	0	0	0	0	0	0	0	0	0	0	0	0	0	3	3
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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

SERVICE AND NONSERVICE-CONNECTED DISABILITY RETIREMENTS By Department and Rank

FIRE	93-94	94-95	95-96	96-97	97-98
Firefighter	9	6	7	5	13
Apparatus Operator	1	0	1	0	0
Engineer	1	1	2	4	3
Inspector	0	0	1	1	0
Captain	9	6	15	6	8
Battalion Chief	0	0	5	0	2
Assistant Chief	0	1	0	0	2
Deputy Chief	0	1	0	0	0
TOTAL	20	15	31	16	28

POLICE	93-94	94-95	95-96	96-97	97-98
Police Officer	25	18	22	21	14
Sergeant	8	12	5	3	5
Detective	17	10	9	8	5
Lieutenant	5	3	0	0	1
Captain	0	2	0	2	0
Commander	0	1	0	0	0
Deputy Chief	0	0	1	0	0
Assistant Chief	0	0	0	0	0
TOTAL	55	46	37	34	25

98-9
18
7
7
2
3
0
0
0
37

Legal Summary

SUMMARY OF LEGAL ACTIVITIES

General Pension Litigation in Fiscal Year 1997-1998

The Retirement Benefits Division of the City Attorney's Office, legal counsel to the Department of Pensions and Board of Pensions Commissioners, continued to provide legal advice on a wide range of issues. In addition to handling general legal questions on a daily basis, ranging from real estate to guardianships to the Brown Act, the four attorneys assigned to the Division continued reviewing dissolution judgements and revised a sample domestic relations order to ensure that the Courts issued orders that were compatible with the provisions regarding the pension contained in the City Charter. The Division also represented the Board in Writs of Mandate brought by individual members who sought to challenge the Board's determination of disability pension applications as well as challenges to decisions regarding any denial of benefits.

Summary of Pension Plan Benefits

*Fire and Police Pension Plan (Article XVII)
(Closed January 28, 1967)*

*The New Pension System (Article XVIII)
(Closed December 7, 1980)*

Safety Members Pension Plan (Article XXXV)

SUMMARY OF PENSION PLAN BENEFITS

JUNE 30, 1998

	Article XVII	Article XVIII	Article XXXV
1. SERVICE RETIREMENT			
a. Eligibility	20 years of service.	20 years of service.	Tier 1: Age 50 with 10 years of service. Tier 2: 20 years of service.
b. Salary Base	Final salary rate.	Final salary rate.	One-year average salary.
c. Pension as a percentage of salary base	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.	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.	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.
2. SERVICE-CONNECTED DISABILITY			
a. Eligibility	No age or service conditions.	No age or service conditions.	No age or service conditions.
b. Salary Base	Final salary rate.	Final salary rate.	One-year average salary.
c. Pension as a percentage of salary base	50% to 90% depending on severity of disability, with a minimum of any service pension available.	50% to 90% depending on severity of disability, with a minimum of any service pension available.	30% to 90% depending on severity of disability, with a minimum of 2% per year of service.
3. NONSERVICE-CONNECTED DISABILITY			
a. Eligibility	Five years of service.	Five years of service.	Five years of service.
b. Salary Base	Final salary rate for highest-paid police officer's or firefighter's rank.	Final salary rate for highest-paid police officer's or firefighter's rank.	One-year average of Member's own salary.
c. Pension as a percentage of salary base	40%	40%	30% to 50% depending on severity of disability.
4. SERVICE-CONNECTED DEATH OR DEATH AFTER SERVICE-CONNECTED DISABILITY			
a. Eligibility	No age or service conditions for Member.	No age or service conditions for Member.	No age or service conditions for Member.
b. Salary Base	Final salary rate.	Final salary rate.	One-year average salary.
c. Eligible spouse's benefit as a percentage of salary base	50%	50% with less than 25 years of service. 55% with 25 or more years of service.	75% if service-connected death or disabled less than 3 years; otherwise 60% of Member's disability pension.
d. Eligible children's benefit as a percentage of spouse's benefit	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 (age 22 if in school) unless child is disabled before age 21.
e. Eligible dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	100% if spouse or children not receiving.	100% if spouse or children not receiving.

SUMMARY OF PENSION PLAN BENEFITS

	Article XVII	Article XVIII	Article XXXV
5. DEATH WHILE ELIGIBLE FOR SERVICE RETIREMENT OR DEATH AFTER SERVICE RETIREMENT			
a. Eligibility	20 years of service.	20 years of service.	Age 50 with 10 years of service.
b. Eligible spouse's benefit	100% of Member's accrued service retirement, not to exceed 50% of final salary rate	100% of Member's accrued service retirement, not to exceed 55% of final salary rate.	60% of Member's accrued service retirement.
c. Eligible children's benefit as a percentage of spouse's benefit	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 (age 22 if in school) unless child is disabled before age 21.
d. Eligible dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	100% if spouse or children not receiving.	100% if spouse or children not receiving.
6. NONSERVICE-CONNECTED DEATH OR DEATH AFTER NONSERVICE-CONNECTED DISABILITY			
a. Eligibility	Five years of service.	Five years of service.	Five years of service.
b. Eligible spouse's benefit	40% of final salary rate for highest-paid police officer's or firefighter's rank.	40% of final salary rate for highest-paid police officer's or firefighter's rank.	For nonservice death: 30% of final one-year average salary or, if eligible for service retirement, 80% of accrued service retirement not to exceed 40% of final one-year average salary. For death after nonservice disability: 60% of Member's pension.
c. Eligible children's benefit as a percentage of spouse's benefit	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 unless child is disabled before age 21.	100% if spouse not receiving benefits, otherwise: 25% for one child 40% for two children 50% for three children Pension not payable after child reaches age 18 (age 22 if in school) unless child is disabled before age 21.
d. Eligible dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	100% if spouse or children not receiving.	100% if spouse or children not receiving.

SUMMARY OF PENSION PLAN BENEFITS

	Article XVII	Article XVIII	Article XXXV
7. COST-OF-LIVING			
a. Generally applicable provisions	<p>Current Plan Provision:</p> <p>Full annual cost-of-living adjustment.</p> <p>Cost-of-living adjustments compound, and are based upon the Consumer Price Index for all Urban Consumers.</p> <p>Survivors' pensions include the percentage of cost-of-living adjustments applied to the Member's pension prior to death.</p>	<p>Current Plan Provision:</p> <p>Full annual cost-of-living adjustment.</p> <p>Cost-of-living adjustments compound, and are based upon the Consumer Price Index for all Urban Consumers.</p> <p>Survivors' pensions include the percentage of cost-of-living adjustments applied to the Member's pension prior to death.</p>	<p>Annual cost-of-living increase not to exceed 3%.</p> <p>Cost-of-living adjustments compound, and are based upon the Consumer Price Index for all Urban Consumers.</p> <p>City Council may grant discretionary cost-of-living adjustments once every three years.</p> <p>Survivors' pensions include the percentage of cost-of-living adjustments applied to the Member's pension prior to death.</p> <p>Pro rata adjustment in the first year of retirement.</p>
b. Effective date of cost-of-living adjustments			
i. Service retirement	Annual adjustments commence on the July 1 following the later of the effective date or the date the Member would have been age 55.	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.	Same provisions for all types of pensions. Annual adjustments commence on the July 1 following the effective date.
ii. Service-connected disability, service-connected death	Annual adjustments commence on the July 1 following the effective date.	Annual adjustments commence on the July 1 following the effective date.	
iii. 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 pensions if earlier.	Annual adjustments commence on the July 1 following the date the Member would have had 25 years of service or 5 years after the effective date of the Member's pension if earlier.	
iv. Nonservice-connected death, death while eligible for service retirement	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 had 26 years of service or 5 years after the effective date of the survivors' pension if earlier.	
v. Death after nonservice-connected disability, death after service-connected disability, death after service pension	Annual adjustments commence on the July 1 following the date 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 had 26 years of service or 5 years after the effective date of the Member's pension if earlier.	

SUMMARY OF PENSION PLAN BENEFITS

	Article XVII	Article XVIII	Article XXXV
8. MEMBERS' CONTRIBUTIONS AS AN ANNUAL PERCENTAGE OF PAY			
	6% No Member contributions required after thirty years of service.	6% plus 1/2 cost of cost-of-living benefit up to 1%. No Member contributions required after thirty years of service.	8% No Member contributions required after thirty years of service.
9. MISCELLANEOUS			
a. Vesting of service retirement	No vesting until eligible to retire (20 years of service).	No vesting until eligible to retire (20 years of service).	Tier 1: After 10 years of service. Tier 2: No vesting until retirement (20 years of service).
b. Return of contributions with interest	On termination or death if no other benefits are payable.	On termination or death if no other benefits are payable.	On termination (Tier 1 only) or death if no other benefits are payable (except basic death benefit).
c. Basic death benefit	None.	None.	In addition to return of contributions, qualified survivor receives limited monthly pension up to one year.
d. Optional forms of benefit	None.	None.	At service or disability retirement, Member may elect higher death benefit with corresponding actuarial reduction of the retirement benefit.

Milestones

MILESTONES

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 reduced 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 pension system was placed on an actuarial basis effective January 29, 1923 and a provision was added increasing pensions for members with more than 20 years of service, based on a formula of 1-2/3% for each year of service over 20 up to two-thirds of the salary of the rank held at retirement. The new City Charter which 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% of the average salary during the three years preceding retirement, plus 1-2/3% 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% of salary. Pensions for widows were made fixed amounts.

1933. The actuarial 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% of the average salary of the last three years of service with an additional 2% for each of the next five years of service and 1-1/3% for each of the next ten 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 police captain or fire battalion chief. Member contributions were increased from 4% to 6% of salary. Effective June 16, 1947, a Charter amendment created a non-service disability pension of 40% 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 1928 Charter provisions for fixed pension did not apply to members employed prior to July 1, 1925 or to surviving spouses of members employed prior to January 17, 1927.

1959. Effective May 6, 1959, the system was again placed 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% of the fund assets in common stocks.

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

1967. Article XVII was extensively amended, and a New Pension system (Article XVIII) adopted effective January 29, 1967 provided:

(1) a pension equal to 55% of annual salary at retirement with 25 years of service plus an additional 3% for each year of service over 25 up to a maximum pension of 70% of salary at retirement with 30 years of service;

(2) a 2% cap to the annual cost-of-living adjustment to all member and surviving spouse pensions that were based on length of service;

(3) a minimum pension of \$250 per month to be adjusted each year by the cost-of-living formula;

(4) an extension of the amortization period for the unfunded liability to seventy years; and

(5) changes in the investment authority to provide for mortgage investments and public improvement financing.

1968. Overtime compensation was excluded from computation of contributions and benefits under Articles XVII and XVIII.

1969. Amendments to Articles XVII and XVIII 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% of fund assets.

1971. Articles XVII and XVIII were amended effective July 1, 1971, to remove the 2% 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. Articles XVII and XVIII amendments enabled the City Council to adopt ordinances providing subsidy payments for health insurance and other programs for eligible pensioners.

1975. Amendments to Articles XVII and XVIII allowed cost-of-living adjustments for service-connected disability pensions upon the July 1st following the date of retirement. Certain waiting periods for those eligible to receive this adjustment were eliminated.

1976. The health insurance subsidy ordinance was amended effective September 30, 1976 to include the spouse and dependents of eligible members.

1977. The mandatory retirement age provision of Article XVII was eliminated effective April 15, 1977.

1980. Article XXXV, The Safety Members' Pension Plan, was created effective December 8, 1980. It provided for a pension at age 50 with 10 years of service based on a formula of 2% per year of service up to 20 years and 3% for each additional year up to a maximum pension of 70% of annual salary at retirement; refund of member contributions with interest upon termination; and a surviving spouse pension equal to 60% of member's pension.

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

(1) the investment of up to 70% of fund assets in common stock and up to 25% of the 70% without dividend record and registration on a national securities exchange;

(2) the investment of 35% 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 Board approval, within established guidelines.

1982. Significant revisions to Articles XVII and XVIII provided a 3% 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 City Employees' Retirement System to the Safety Members Pension Plan (Article XXXV).

1983. Article XVII and XVIII active members were no longer required to contribute to the pension system upon completion of thirty years of service.

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

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

1990. A series of measures were enacted which allow the City to protect the integrity of the pension 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.

The 3% cap on cost-of-living increases instituted in 1982 for Article XVII and XVIII members was overturned by court order.

1993. The Board of Pension Commissioners was given authority to increase investments under the "prudent person" provisions of the Charter from 25% to 50%. Retired Article XVIII 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 Article XXXV under federal law.

1996. In January 1996, a new federal law prohibited states from taxing retirement income of nonresidents earned while working or residing in that state.

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

1997. Article XXXV, Plan II was established effective July 1, 1997. All Article XXXV members hired between December 8, 1980 and June 30, 1997 are given until June 30, 1998 to make an irrevocable transfer to Plan II. Plan II offers a "20 and out" provision with retirement benefits at any age after 20 years of service based on a formula of 2% per year of service up to 20 years and 3% for each additional year up to a maximum pension of 70% of Final Average Salary; member contributions are non-refundable; deferred retirement is not an option.

Article XXXV members retiring on or after July 1, 2000 at a rank no higher than Fire Captain or Police Lieutenant shall receive some pension credit for prior hazard pay even if no hazard pay was received during the twelve month period used to determine Final Average Salary for pension purposes.

Effective July 1, 1997, at the discretion of the City Council, administrative expenses which shall include investment management expenses, shall be paid from fund assets.

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

City of Los Angeles



Department of Pensions Fire and Police Pension Systems

