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**THE CITY OF LOS ANGELES  
FIRE AND POLICE  
PENSION SYSTEMS**

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*Actuarial Valuation  
As Of June 30, 1999*

February 23, 2000

Board of Pension Commissioners  
City of Los Angeles  
Fire and Police Pension Systems  
360 East Second Street, Suite 600  
Los Angeles, California 90012

Members of the Board:

We are pleased to present our actuarial valuation report as of June 30, 1999 for the following plans:

- The Fire and Police Pension System (Article XVII)
- The New Pension System (Article XVIII), and
- The Safety Members Pension Plan (Article XXXV)

This report is divided into three parts:

- I. Valuation Summary: This section contains an overview of significant valuation results.
- II. Valuation Detail: This section contains more detailed results of the valuation.
- III. Exhibits: This section contains information on plan demographics, plan provisions, and actuarial assumptions used in the valuation.

We appreciate the opportunity to serve the City of Los Angeles and the Board of Pension Commissioners as actuary for the Fire and Police Pension Systems.

Sincerely,



Lawrence B. Di Fiore, FSA  
Consulting Actuary



Michael G. McMahan, EA  
Actuarial Analyst

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

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## **C. EXHIBITS**

- Exhibit I:.....Summary of Retirement Benefits
- Exhibit II:.....Summary of Health Subsidy Benefits
- Exhibit III:.....Summary of Actuarial Assumptions and Methods used For Valuation of Retirement Benefits
- Exhibit IV: .....Summary of Actuarial Assumptions and Methods Used For Valuation of Health Subsidy Benefits
- Exhibit V: .....Rates of Separation from Active Service
- Exhibit VI: .....Age/Service/Salary Distribution for Active Members as of June 30, 1999
- Exhibit VII: .....Age/Benefit Distribution of Pensioners as of June 30, 1999
- Exhibit VIII: .....Age/Health Subsidy Benefit Distribution of Pensioners as of June 30, 1999

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Valuation Summary

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# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS**

## **Actuarial Valuation As Of June 30, 1999**

### **Introduction**

Members of the Los Angeles Fire and Police Department and their beneficiaries are entitled to pension, disability, and survivor's benefits under Articles XVII, XVIII, and XXXV of the Charter of the City of Los Angeles, and post-retirement health subsidy benefits under sections 189, 190.50 and 536 of the City Charter, and by related Ordinance.

Article XVII, the Fire and Police Pension System, covers employees hired before January 29, 1967, except those who elected to transfer to the New Pension System.

Article XVIII, the New Pension System, covers employees hired after January 28, 1967, and before December 8, 1980 (except those who were hired before January 28, 1967 and elected to transfer from the Fire and Police Pension System).

Article XXXV, the Safety Members Pension Plan, covers employees hired on or after December 8, 1980. 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, 1997, 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, 1997. 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.

This report contains the results of the June 30, 1999 valuation of both the Pension and Health Subsidy benefits of the Systems. It contains the results of our calculations of the annual budget of the Systems, as provided in Sections 186.2(1), (2) and (3), 190.09(1), (2) and (3), and 528(1), (2) and (3) of the Charter. It also contains the funded status and disclosure information required under Government Accounting Standards Board (GASB) Statements Number 25, 26 and 27.

The valuation results were based on the demographic and economic assumptions adopted as a result of the study of System experience made as of June 30, 1998.

The following economic assumptions were unchanged since the last valuation.

- 8.5% annual interest,
- 5.0% annual increases in total System payroll,
- 5.0% annual increases in the Consumer Price Index. Where the annual increase in benefits is capped at 3%, for Article XXXV benefits, this cap was reflected in our calculations, and
- individual salary increase assumption, which varies by age, ranging from 10% for Members under age 25, to 5.5% for Members age 50 and over, and averages 6.5% per year over a full 30-year career.

We also assume that future health subsidy benefits paid to retired Members will increase each year at certain rates. These health subsidy benefit increases were unchanged since the last valuation.

We believe these assumptions are appropriate for use in the evaluation of the liabilities of the Fire and Police Pension Systems at June 30, 1999. These assumptions are described in more detail in Exhibits III and IV.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Actuarial Valuation As Of June 30, 1999

Summary of Significant Valuation Results				
		Article XVII	Article XVIII	Article XXXV
I.	Total Membership			
	A. Active Members	5	3,361	9,229
	B. Pensioners			
	• Service Retirement	412	6,345	28
	• Disability Retirement	339	1,879	125
	• Surviving Spouses and Dependents	<u>839</u>	<u>1,356</u>	<u>47</u>
	Total Pensioners	1,590	9,580	200
II.	Annual Salary at June 30, 1999			
	A. Total	\$359,618	\$253,621,692	\$541,883,395
	B. Average	71,924	75,460	58,715
III.	Average Monthly Benefit to Current Pensioners and Beneficiaries at June 30, 1999			
	A. Service Retirement	\$1,587	\$3,226	\$2,596
	B. Disability Retirement	1,828	3,159	2,119
	C. Surviving Spouses and Dependents	1,938	2,764	3,053
IV.	Average Monthly Health Subsidy Benefits to Current Pensioners	\$199	\$293	\$211
V.	Actuarial Value of Assets Available for			
	A. Pension Benefits	\$(2,127,018)	\$8,136,173,417	\$1,503,209,090
	B. Health Subsidy	6,654,518	248,279,303	188,558,349
VI.	Unfunded/(Surplus) Actuarial Accrued Liability			
	A. Pension Benefits	\$311,972,218	\$(525,076,213)	\$(220,515,097)
	B. Health Subsidy	4,587,859	258,538,992	(40,052,410)



**Summary of Significant Valuation Results**

	Article XVII	Article XVIII	Article XXXV
VII. Budget Items			
A. Pension Benefits			
1. Normal Cost as a Percent of Pay	18.488%*	21.748%*	14.189%*
2. Amortization of Unfunded/(Surplus) Actuarial Accrued Liability	\$28,948,703	(3.124%)**	(3.383%)*
B. Health Subsidy Benefits			
1. Normal Cost as a Percent of Pay	0.219%*	1.256%*	2.966%*
2. Amortization of Unfunded/(Surplus) Actuarial Accrued Liability	\$425,623	1.539%**	(1.088%)*
C. Total Contribution (A+B)			
1. Normal Cost as a Percent of Pay	18.707%*	23.004%*	17.154%*
2. Amortization of Unfunded/(Surplus) Actuarial Accrued Liability	\$29,374,422	(1.586%)**	(4.471%)*

\* Applied to payroll for this Article only.

\*\* Applied to payroll for all three Articles.

# CITY OF LOS ANGELES

## FIRE AND POLICE PENSION SYSTEMS

### Budget Requirements

Generally an actuarial cost method assigns a particular level of cost to each year of a Member's service. Each year's cost is called the normal cost and represents the unit of cost allocated to that year. The Entry Age Normal Cost Method produces an annual cost that is level as a percentage of a Member's annual salary.

The concept of "actuarial accrued liability" is the amount of money that should have been accumulated for a Member who has been with the System a period of time. More exactly, the actuarial accrued liability is the amount of funds that would now exist for that Member, if under the cost method being used, the System had always contributed the calculated normal cost each prior year. Stated another way, the actuarial accrued liability for a Member is the accumulated value of all his "normal costs" in previous years.

When the value of the assets (as calculated using the Systems' Asset Valuation Method) is less than the actuarial accrued liability there exists an unfunded actuarial accrued liability (UAAL). If the assets exceed the actuarial accrued liability, a surplus exists.

The Charter of the City of Los Angeles requires that budget amounts for Articles XVII, XVIII, and XXXV be determined using the Entry Age Normal Cost Method. The required contribution is made up of two parts:

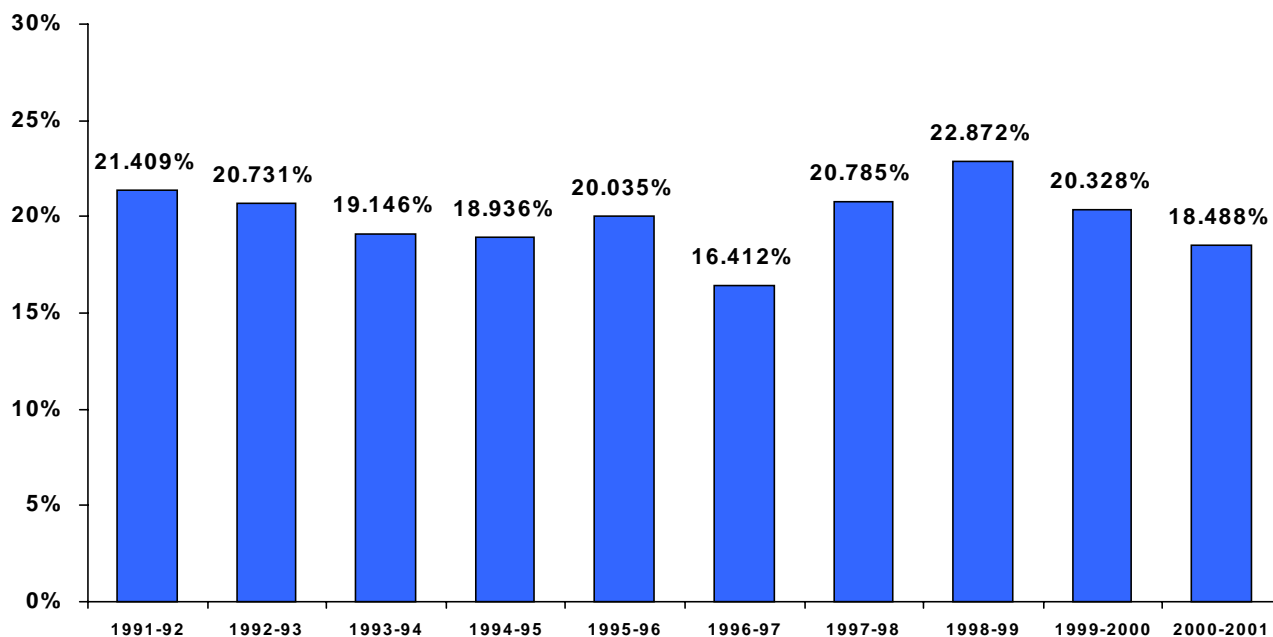
- The Normal Cost, or the level percentage of salary each year necessary to fund participants' plan benefits from date of employment to date of retirement.
- The payment to amortize the Unfunded Actuarial Accrued Liability. The method of amortization varies between Articles.

On the following pages, we present a summary of 2000-2001 budget requirements for Articles XVII, XVIII, and XXXV, along with comparisons to the budget figures for 1999-2000 (from our June 30, 1998 valuation).

An analysis of the change in contributions for each Article can be found in the gain and loss analysis later in this report.

<b>The Fire And Police Pension System (Article XVII) Budget Amounts For Pension Benefits</b>			
	<b>Recommended 2000-2001</b>	<b>Recommended 1999-2000</b>	<b>Percent Change</b>
1. Entry Age Normal Cost Funded by City, as a Percent of Payroll*	18.488%	20.328%	-9.1%
2. Amortization of Unfunded Actuarial Accrued Liability	\$28,948,703	\$30,286,940	-4.4%
<i>*Percentage is applied to Article XVII payroll.</i>			

## ARTICLE XVII NORMAL COST PERCENTAGE PENSION BENEFITS

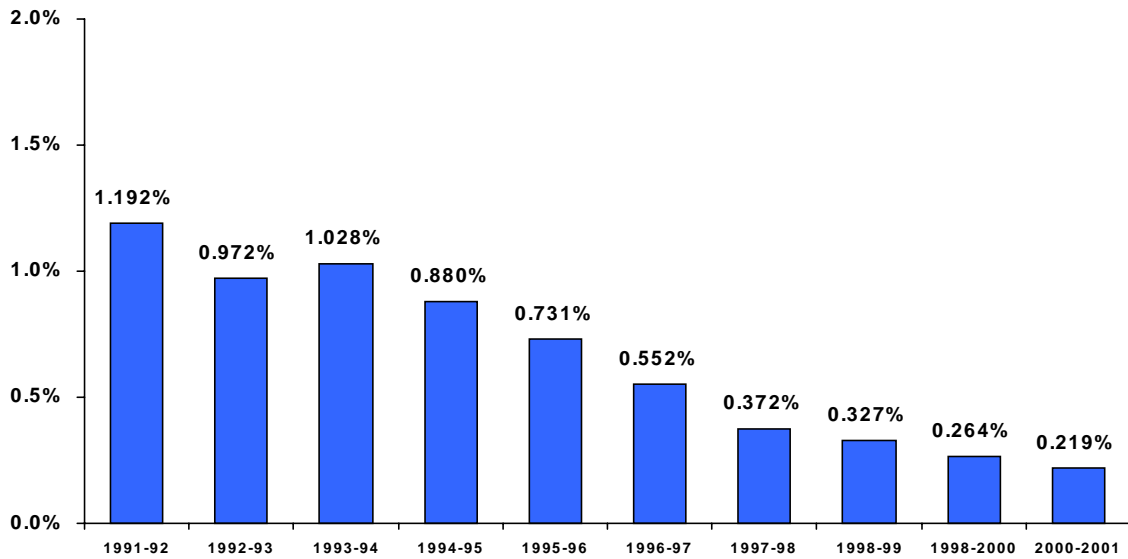


**The Fire and Police Pension System (Article XVII)  
Budget Amounts for Health Subsidy Benefits**

	Recommended 2000-2001	Recommended 1999-2000	Percent Change
1. Entry Age Normal Cost Funded by City, as a Percent of Payroll*	0.219%	0.264%	-17.0%
2. Amortization of Unfunded Actuarial Accrued Liability	\$425,623	\$552,614	-23.0%

*\*Percentage is applied to Article XVII payroll.*

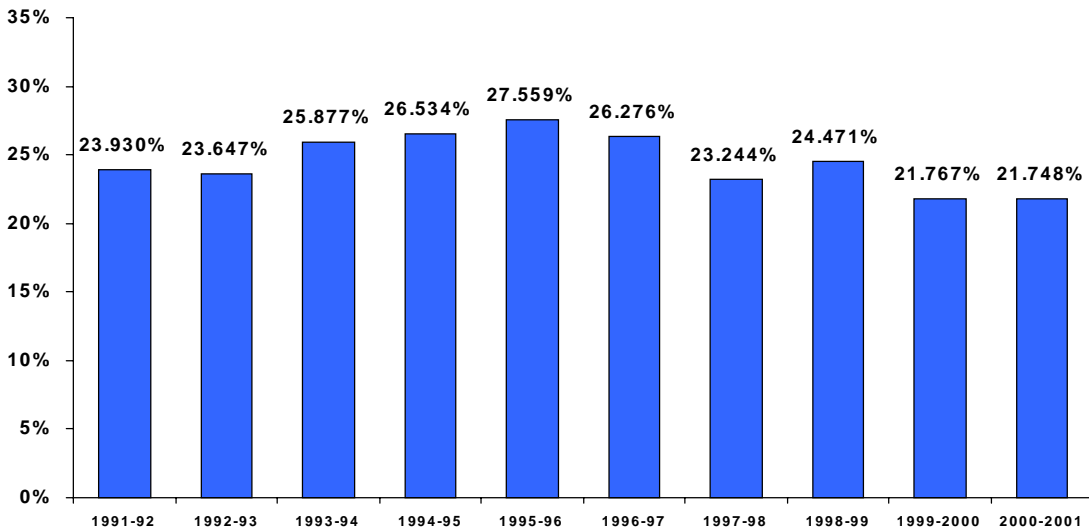
**ARTICLE XVII  
NORMAL COST PERCENTAGE  
HEALTH SUBSIDY BENEFITS**



**The New Pension System (Article XVIII)  
Budget Amounts For Pension Benefits**

	<b>Recommended 2000-2001</b>	<b>Recommended 1999-2000</b>	<b>Percent Change</b>
1. Entry Age Normal Cost Funded by City, as a Percent of Payroll*	21.748%	21.767%	-0.1%
2. Amortization of Unfunded/(Surplus) Actuarial Accrued Liability, as a Percent of Payroll**	(3.124%)	2.077%	-250.5%
* Percentage is applied to Article XVIII payroll only.			
** Percentage is applied to total payroll of Articles XVII, XVIII, and XXXV per 1984 Charter Amendment.			

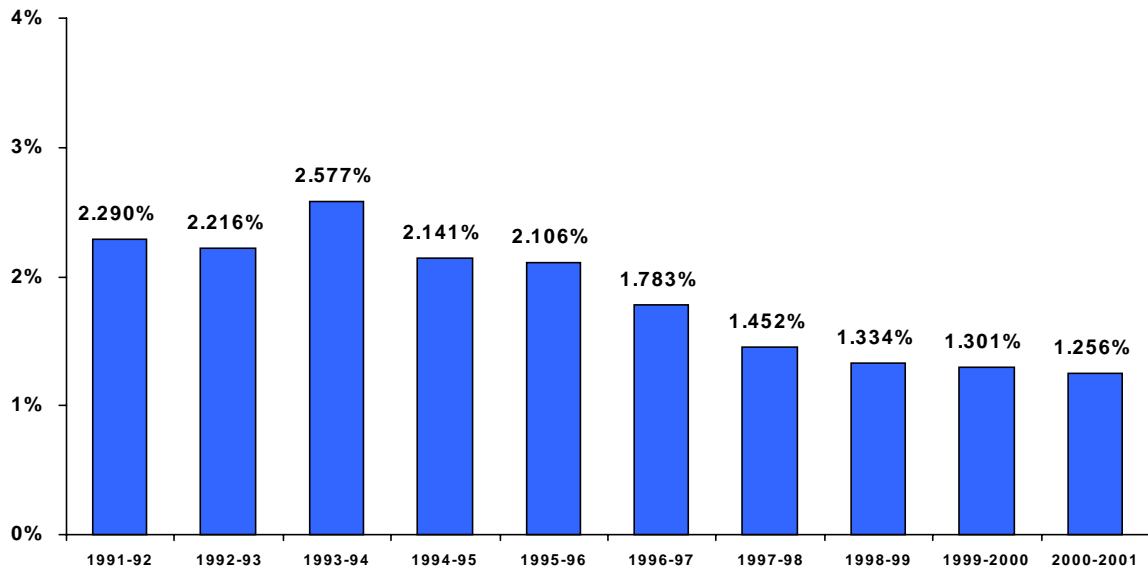
**ARTICLE XVIII  
NORMAL COST PERCENTAGE  
PENSION BENEFITS**



**The New Pension System (Article XVIII)  
Budget Amounts for Health Subsidy Benefits**

	Recommended 2000-2001	Recommended 1999-2000	Percent Change
1. Entry Age Normal Cost Funded by City, as a Percent of Payroll*	1.256%	1.301%	-3.4%
2. Amortization of Unfunded Actuarial Accrued Liability, as a Percent of Payroll**	1.539%	1.674%	-8.1%
* Percentage is applied to Article XVIII payroll only.			
** Percentage is applied to total payroll of Articles XVII, XVIII, and XXXV per 1984 Charter amendment.			

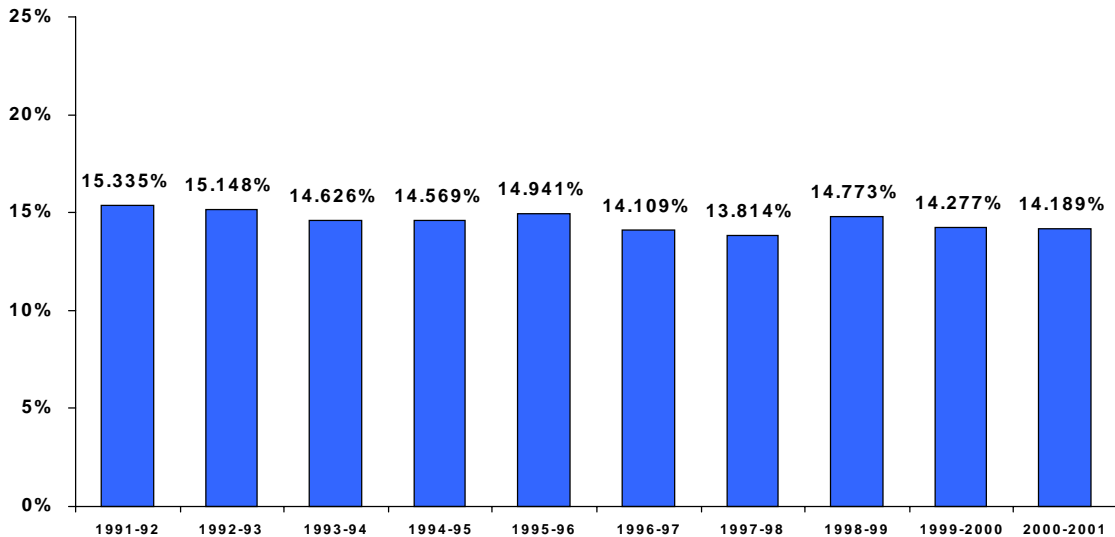
**ARTICLE XVIII  
NORMAL COST PERCENTAGE  
FOR HEALTH SUBSIDY**



**The Safety Members Pension Plan (Article XXXV)  
Budget Amounts For Pension Benefits**

	<b>Recommended 2000-2001</b>	<b>Recommended 1999-2000</b>	<b>Percent Change</b>
1. Entry Age Normal Cost Funded by City, as a Percent of Payroll*	14.189%	14.277%	-0.6%
2. Amortization of Unfunded/(Surplus) Actuarial Accrued Liability, as a Percent of Payroll*	(3.383%)	(2.427%)	-39.4%
3. Total Contributions, as a Percent of Payroll*	10.806%	11.850%	-8.8%
<i>*Percentage is applied to Article XXXV payroll.</i>			

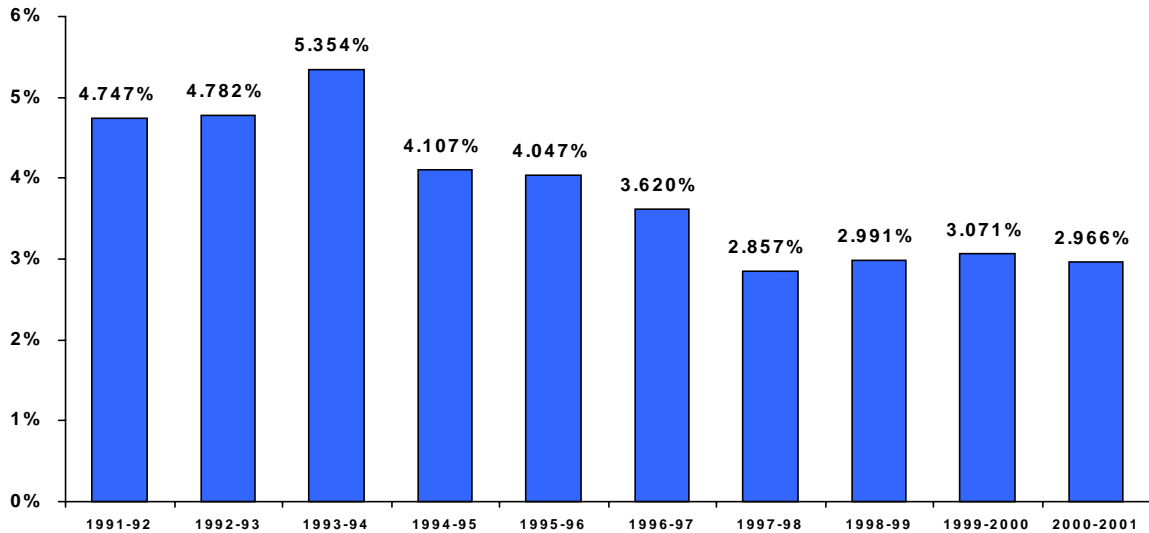
**ARTICLE XXXV  
NORMAL COST PERCENTAGE  
PENSION BENEFITS**



**The Safety Members Pension Plan (Article XXXV)  
Budget Amounts for Health Subsidy Benefits**

	Recommended 2000-2001	Recommended 1999-2000	Percent Change
1. Entry Age Normal Cost Funded by City, as a Percent of Payroll*	2.966%	3.071%	-3.4%
2. Amortization of Unfunded/(Surplus) Actuarial Accrued Liability, as a Percent of Payroll*	(1.088%)	(0.949%)	-14.7%
3. Total Contribution, as a Percent of Payroll*	1.878%	2.122%	-11.5%
<i>*Percentage is applied to Article XXXV payroll.</i>			

**ARTICLE XXXV  
NORMAL COST PERCENTAGE  
HEALTH SUBSIDY BENEFITS**





# CITY OF LOS ANGELES

## FIRE AND POLICE PENSION SYSTEMS

### Funded Status At June 30, 1999

In order to assess the funded status of the Systems, disclosure of a standardized measure of pension liability is required by the Government Accounting Standards Board (GASB). In late 1994, the Board issued GASB Statement No. 25 - *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* effective June 15, 1996, GASB Statement No. 26 - *Financial Reporting for Post Employment Healthcare Plans Administered by Defined Benefit Pension Plans* effective June 15, 1996 and GASB Statement No. 27 - *Account for Pensions by State and Local Government Employees*, effective June 15, 1998. The new statements supersede GASB Statement No. 5. The disclosures under the new statements are presented in this valuation report. Under the new statements, the measure of funded status compares the actuarial accrued liability under the plan's funding method as of June 30, 1998 to the value of accumulated plan assets. For pensioners and beneficiaries, the present value of remaining benefit payments is disclosed. For active members, the actuarial accrued liability as of June 30, 1999 is disclosed.

Under GASB Statement No. 12, *Disclosure of Information on Post Employment Benefits Other Than Pensions by State and Local Government Employers*, issued in November 1989, the expenditures and expenses for the period are the only financial information that needs to be disclosed for postretirement health subsidy benefits. However, the statement encourages more complete disclosures of information, if available. Therefore, we have included a GASB No. 25 figure for the health subsidy benefits of the Systems in this report, as if GASB No. 25 applied to health subsidy benefits.

On the next pages, we present the funded status of Articles XVII, XVIII, and XXXV combined under GASB No. 25, along with a comparison of the Systems' funded status in prior years.

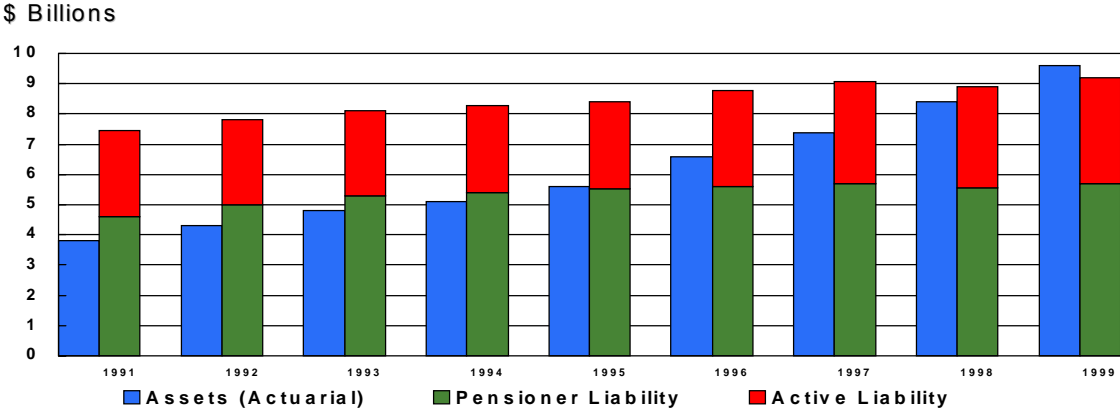
# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

<b>Funded Status Of Pension Benefits</b>			
	<b>June 30, 1999</b>	<b>June 30, 1998</b>	<b>Percent Change</b>
<b>Actuarial Accrued Liability</b>			
· Pensioners and Beneficiaries	\$5,721,761,310	\$5,412,798,073	5.7%
· Active Members	<u>3,481,875,087</u>	<u>3,499,737,126</u>	-0.5%
· Total	\$9,203,636,397	\$8,912,535,199	3.3%
<b>Value of Assets</b>			
<b>Available for Pension Benefits</b>			
Market:	\$11,019,744,221	\$9,690,824,271	13.7%
Actuarial:	\$9,637,255,489	\$8,393,868,685	14.8%
<b>Funding Ratio</b>			
Market:	119.7%	108.7%	10.1%
Actuarial:	104.7%	94.2%	11.2%

The graph on the following page compares assets and liabilities under GASB No. 25 for pension benefits only for the years 1991 to 1999. All liabilities shown below have been calculated under GASB No. 25. The asset values shown on the following graph for 1996 and later have been calculated under GASB No. 25. Prior to 1996 the asset values shown are based upon the asset valuation method in effect for that year.

As of June 30, 1999, both the market value and actuarial value of assets exceeds the total actuarial accrued liability. For all articles combined there is no unfunded actuarial accrued liability (UAAL) of pension benefits, the System is in a surplus position.

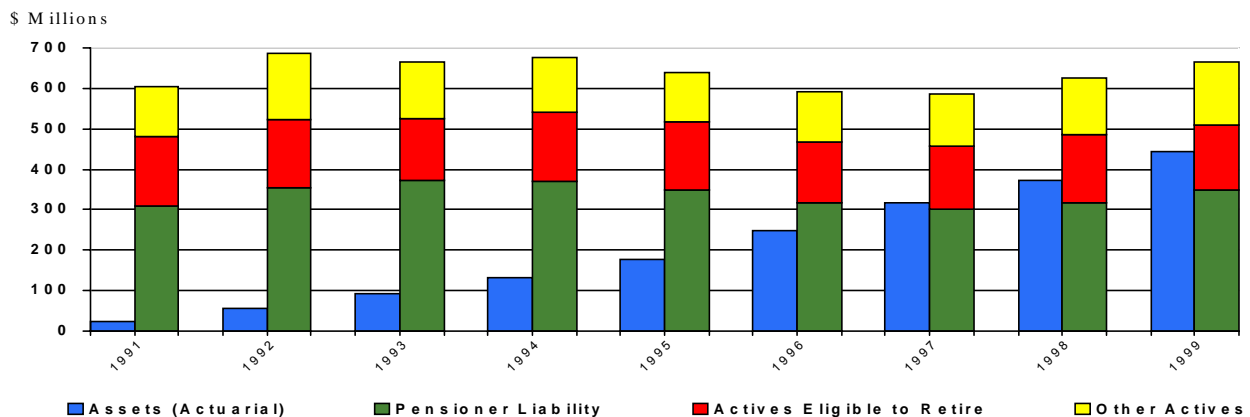
# System Assets Compared to GASB No. 25 Liability Pension Benefits



# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

Funded Status of Health Subsidy Benefits			
	June 30, 1999	June 30, 1998	Percent Change
<b>Actuarial Accrued Liability</b>			
1. Pensioners and Beneficiaries	\$349,119,015	\$317,247,987	10.0%
2. Active Members			
- Eligible to Retire	161,497,199	168,756,766	-4.3%
- Other Actives	<u>155,950,397</u>	<u>140,664,980</u>	10.9%
- Total Actives	317,447,596	309,421,746	2.6%
3. Grand Total	\$666,565,679	\$626,669,733	6.4%
<b>Value of Assets/Health Subsidy:</b>			
Market:	\$445,897,358	\$383,026,285	16.4%
Actuarial:	\$443,492,170	\$371,411,413	19.4%
<b>Funding Ratio:</b>			
Market	66.9%	61.1%	9.4%
Actuarial	66.5%	59.3%	12.3%

## SYSTEM ASSETS COMPARED TO GASB LIABILITY HEALTH SUBSIDY BENEFITS



# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Summary Of System Funding

As of June 30, 1999, the System had assets at actuarial value equal to 104.7% of the actuarial accrued liability of pension benefits, as calculated under GASB No. 25. When compared to the present value of all pension benefits expected to be paid by the System, as shown on the Actuarial Balance Sheet, assets equal 86.6% of liabilities. This remaining unfunded liability is to be funded by future City and Member contributions to the System.

Similarly, the System had assets at actuarial value equal to 66.5% of the actuarial accrued liability of health subsidy benefits under GASB No. 25. When compared to the present value of all health subsidy benefits expected to be paid by the System, assets equal 52.0% of liabilities.

The pattern of these future contributions is defined in sections 186.2, 190.09 and 528(1) of the Charter of the City of Los Angeles. These contributions are made up of two parts:

- Normal Cost Contributions: These contributions are determined as a level percent of covered payroll for each Article. If all assumptions are realized and there are no gains or losses, this percentage will remain level in the future. However, the contributions will increase as a dollar amount as total covered payroll increases.
- Funding of Unfunded Actuarial Accrued Liability (UAAL): The UAAL will be funded as a level dollar amount for Article XVII and will remain level if there are no future gains or losses. For Articles XVIII and XXXV, the UAAL will be funded as a level percent of payroll. If the Article has a surplus instead of an UAAL the contribution will be negative, and offset the normal cost. Again, if all assumptions are realized and if there are no gains or losses, this percentage will not change. However, it will increase as a dollar amount as the total covered payroll increases.

The total contribution will be the sum of the Normal Cost and UAAL contributions.

If there are no future gains or losses, and under the current Charter provisions, the UAAL for Articles XVII and XVIII is expected to be fully funded in the fiscal year 2036-2037. After the UAAL is funded, contributions will consist of the Normal Cost only. As the Membership in Articles XVII and XVIII diminishes, the Normal Cost for the total System will decrease towards the level of the Normal Cost of Article XXXV for pension benefits and increase towards the level of the Normal Cost of Article XXXV, for health subsidy benefits.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Valuation Detail

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# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Actuarial Valuation As Of June 30, 1999

### System Membership

On the following schedules we present a summary of System membership at June 30, 1999 and June 30, 1998. Salary and pension amounts shown are as of June 30 of each year and do not reflect any cost of living increases that may have been effective on July 1 of that year. However, all of these increases were reflected in our valuation calculations.

It was necessary to make assumptions for less than 0.1% of the data records where the information given to us was unreasonable or incomplete. These assumptions did not materially affect the results of our valuation.

The total number of active Members decreased 1.6% since the last valuation. The total number of retired members and their beneficiaries increased 2.4%, while the total average benefit amount increased 4.1%. The following schedule contains a more detailed breakdown of these figures.

The average age and service for Service and Disability Retirements during the past year are shown in the following tables.

#### Average Years of Service

	At Service Retirement	At Disability Retirement
Fire	30.4	29.6
Police	28.4	23.2

#### Average Age

	At Service Retirement	At Disability Retirement
Fire	56.2	56.3
Police	53.5	50.1

More detail on System membership, including breakdowns by age and service categories, can be found in Exhibits VI, VII and VIII of this report.



# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## System Membership

Active Members			
	June 30, 1999	June 30, 1998	Percent Change
<b>1. Article XVII</b>			
A. Number	5	5	0.0%
B. Average Age	57.8	58.2	-0.7%
C. Average Years of Service	34.7	32.0	+8.4%
D. Annual Salary			
i. Total	\$359,618	\$328,436	+9.5%
ii. Average	71,924	65,687	+9.5%
<b>2. Article XVIII</b>			
A. Number	3,361	3,820	-12.0%
B. Average Age	49.9	49.4	+1.0%
C. Average Years of Service	25.2	24.7	+2.0%
D. Annual Salary			
i. Total	\$253,621,692	\$273,690,092	-7.3%
ii. Average	75,460	71,647	+5.3%
<b>3. Article XXXV</b>			
A. Number	9,229	8,974	+2.8%
B. Average Age	34.8	34.2	+1.8%
C. Average Years of Service	7.8	7.1	+9.9%
D. Annual Salary			
i. Total	\$541,883,395	\$496,274,109	+9.2%
ii. Average	58,715	55,301	+6.2%
<b>4. Total</b>			
A. Number	12,595	12,799	-1.6%
B. Average Age	38.8	38.7	+0.3%
C. Average Years of Service	12.4	12.4	+0.0%
D. Annual Salary			
i. Total	\$795,864,706	\$770,292,637	+3.3%
ii. Average	63,189	60,184	+5.0%

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

<b>Pensioners</b>			
	<b>June 30, 1999</b>	<b>June 30, 1998</b>	<b>Percent Change</b>
<b>1. Article XVII</b>			
A. Service Retirement			
i. Number	412	451	-8.6%
ii. Annual Allowance			
Total	\$7,845,523	\$8,456,990	-7.2%
Average Monthly Amount	1,587	1,563	+1.5%
B. Disability Retirement			
i. Number	339	362	-6.4%
ii. Annual Allowance			
Total	\$7,434,702	\$7,788,031	-4.5%
Average Monthly Amount	1,828	1,793	+2.0%
C. Survivors and Dependents			
i. Number	839	880	-4.7%
ii. Annual Allowance			
Total	\$19,507,184	\$20,362,155	-4.2%
Average Monthly Amount	1,938	1,928	+0.5%
<b>2. Article XVIII</b>			
A. Service Retirement			
i. Number	6,345	6,068	+4.6%
ii. Annual Allowance			
Total	\$245,661,455	\$225,648,057	+8.9%
Average Monthly Amount	3,226	3,099	+4.1%
B. Disability Retirement			
i. Number	1,879	1,854	+1.3%
ii. Annual Allowance			
Total	\$71,221,417	\$68,081,103	+4.6%
Average Monthly Amount	3,159	3,060	+3.2%
C. Survivors and Dependents			
i. Number	1,356	1,322	+2.6%
ii. Annual Allowance			
Total	\$44,972,862	\$42,736,494	+5.2%
Average Monthly Amount	2,764	2,694	+2.6%

<b>Pensioners</b>			
	<b>June 30, 1999</b>	<b>June 30, 1998</b>	<b>Percent Change</b>
<b>3. Article XXXV</b>			
A. Service Retirement			
i. Number	28	21	+33.3%
ii. Annual Allowance			
Total	\$872,389	\$534,029	+63.4%
Average Monthly Amount	2,596	2,119	+22.5%
B. Disability Retirement			
i. Number	125	107	+16.8%
ii. Annual Allowance			
Total	\$3,178,781	\$2,650,163	+19.9%
Average Monthly Amount	2,119	2,064	+2.7%
C. Survivors and Dependents			
i. Number	47	40	+17.5%
ii. Annual Allowance			
Total	\$1,721,622	\$1,421,071	+21.1%
Average Monthly Amount	3,053	2,961	+3.1%
<b>4. All Articles Combined</b>			
A. Service Retirement			
i. Number	6,785	6,540	3.7%
ii. Annual Allowance			
Total	\$254,379,367	\$234,639,076	+8.4%
Average Monthly Amount	3,124	2,990	+4.5%
B. Disability Retirement			
i. Number	2,343	2,323	+0.9%
ii. Annual Allowance			
Total	\$81,834,900	\$78,519,297	+4.2%
Average Monthly Amount	2,911	2,817	+3.3%
C. Survivors and Dependents			
i. Number	2,242	2,242	+0.0%
ii. Annual Allowance			
Total	\$66,201,668	\$64,519,720	+2.6%
Average Monthly Amount	2,461	2,398	+2.6%
D. Total - All Pensioners			
i. Number	11,370	11,105	+2.4%
ii. Annual Allowance			
Total	\$402,415,935	\$377,678,093	+6.5%
Average Monthly Amount	2,949	2,834	+4.1%

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## System Assets

The following asset information was provided to us by the Department of Pensions. We have not audited or verified these figures. These assets are at book value and market value for both the current and prior year. The actuarial value as of June 30, 1999 is a market related value, described in detail on page 25, Derivation of Actuarial Value of Assets. These figures represent **both pension and health subsidy** reserves.

Book Value	June 30, 1999	June 30, 1998	Percent Change
Fire and Police Pension System	\$ 3,287,921	\$ 6,518,924	-49.6%
New Pension System	7,154,411,019	6,616,483,798	+8.1%
Safety Members Pension Plan	<u>1,579,935,643</u>	<u>1,312,439,607</u>	+20.4%
Total	\$ 8,737,634,583	\$ 7,935,442,329	+10.1%
<b>Market Value</b>			
Fire and Police Pension System	\$ 3,287,921	\$ 6,518,924	-49.6%
New Pension System	9,668,192,053	8,515,810,355	+13.5%
Safety Members Pension Plan	<u>1,794,161,605</u>	<u>1,551,521,277</u>	+15.6%
Total	\$11,465,641,579	\$10,073,850,556	+13.8%
<b>Actuarial Value</b>			
Fire and Police Pension System	\$ 4,527,500	\$ 7,398,646	-38.8%
New Pension System	8,384,452,720	7,351,686,261	+14.0%
Safety Members Pension Plan	<u>1,691,767,439</u>	<u>1,406,195,191</u>	+20.3%
Total	\$10,080,747,659	\$8,765,280,098	+15.0%

The approximate rates of return on plan assets are shown below, based on the following analysis.

<b>All Articles Combined</b>	<b>Book Value</b>	<b>Market Value</b>	<b>Actuarial Value</b>
<b>Value of Assets at 6/30/98</b>	<b>\$7,935,442,329</b>	<b>\$10,073,850,556</b>	<b>\$8,765,280,098</b>
Contributions:			
City	248,388,667	248,388,667	248,388,667
Members	55,556,643	55,556,643	55,556,643
Benefits Paid to Participants	418,254,182	418,254,182	418,254,182
Expenses Paid	28,385,841	28,385,841	28,385,841
Investment Earnings	944,886,967	1,534,485,736	1,458,162,274
<b>Value of Assets at 6/30/99</b>	<b>\$8,737,634,583</b>	<b>\$11,465,641,579</b>	<b>\$10,080,747,659</b>
<b>RATE OF RETURN</b>	<b>11.83%</b>	<b>15.15%</b>	<b>16.54%</b>

The 16.54% rate of return on the actuarial value of assets is greater than the 8.5% rate assumed for the prior year. This resulted in an actuarial gain, which decreased the budgeted contribution for the Systems. We have also calculated the rates of return on actuarial value separately for each Article, reflecting the benefit payments and contribution made to each Article in the rates. The rates of return were 6.12% for Article XVII, 17.33% for Article XVIII, and 12.79% for Article XXXV.

The System began to prefund post-retirement health subsidy benefits effective with the 1989-1990 plan year. Total assets must be reduced by the reserve which is being accumulated to pay health subsidy benefits in order to arrive at the assets available for pension benefits.

The breakdown of total System assets between those available for pension benefits and those available for health subsidy benefits follows:

<b>Book Value</b>	<b>Assets for Pension Benefits</b>	<b>Assets for Health Subsidy</b>	<b>Total System Assets</b>
Fire and Police Pension System	\$ (1,544,664)	\$ 4,832,585	\$ 3,287,921
New Pension System	6,942,555,548	211,855,471	7,154,411,019
Safety Members Pension Plan	<u>1,403,841,666</u>	<u>176,093,977</u>	<u>1,579,935,643</u>
Total	\$8,344,852,550	\$392,782,033	\$8,737,634,583
<b>Market Value</b>			
Fire and Police Pension System	\$ (1,544,362)	\$ 4,832,283	\$ 3,287,921
New Pension System	9,420,055,716	248,136,337	9,668,192,053
Safety Members Pension Plan	<u>1,601,232,866</u>	<u>192,928,739</u>	<u>1,794,161,605</u>
Total	\$11,019,744,221	\$445,897,358	\$11,465,641,579
<b>Actuarial Value</b>			
Fire and Police Pension System	\$ (2,127,018)	\$ 6,654,518	\$ 4,527,500
New Pension System	8,136,173,417	248,279,303	8,384,452,720
Safety Members Pension Plan	<u>1,503,209,090</u>	<u>188,558,349</u>	<u>1,691,767,439</u>
Total	\$9,637,255,489	\$443,492,170	\$10,080,747,659

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Derivation of Actuarial Value of Assets

	YEAR ENDING				
	June 30, 1999	June 30, 1998	June 30, 1997	June 30, 1996	June 30, 1995
1. Beginning of Year Market Value	\$10,073,850,556	\$8,656,947,050	\$7,386,866,779	\$6,356,684,620	\$5,559,211,000
2. City Contributions	248,388,667	260,756,667	305,679,402	342,701,618	333,480,185
3. Member Contributions	55,556,643	53,139,136	48,774,170	43,813,085	41,125,429
4. Benefit Payments	418,254,182	402,246,954	390,204,300	381,457,318	369,980,272
5. Expenses Paid	28,385,841	20,218,789	18,728,082	19,066,840	11,810,130
6. Expected Return Based on 8.5% Assumption	860,769,290	742,308,435	638,559,701	536,081,586	468,684,355
7. Expected End of Year Market Value (1)+(2)+(3)-(4)-(5)+(6)	10,791,925,133	9,290,685,545	7,970,947,050	6,878,756,751	6,020,710,567
8. Actual End of Year Market Value	11,465,641,579	10,073,850,556	8,656,947,050	7,386,866,779	6,356,684,620
9. Gain/(Loss)	673,716,446	783,165,011	685,999,380	508,110,028	335,974,053

1. Market Value at June 30, 1999	\$11,465,641,579
1999 (Gain)/Loss x 80%	(538,973,157)
1998 (Gain)/Loss x 60%	(469,899,007)
1997 (Gain)/Loss x 40%	(274,399,752)
1996 (Gain)/Loss x 20%	(101,622,006)
2. Actuarial Value at June 30, 1999	10,080,747,657
3. 80% of Market Value at June 30, 1999	9,172,513,263
4. 120% of Market Value at June 30, 1999	13,758,769,895
5. Actuarial Value at June 30, 1999 (2), but no less than (3) and no more than (4)	<b>\$10,080,747,657</b>

# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS**

## **Actuarial Valuation As Of June 30, 1999**

### **GASB No. 25 Disclosure**

The tables on the following pages are required under Government Accounting Standards Board Statement Number 25. They show the Annual Required Contribution (ARC) as computed under GASB No. 25, as well as what portion of this amount was actually received by the System. The current method used for determining System contributions satisfies the GASB requirements. As long as actual contributions are made in accordance with the actuarially recommended rates, the "Percentage Contributed" shown on this table will always be 100%. Otherwise additional financial disclosures will be necessary.



# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Valuation of Pension Benefits

### GASB No. 25 Disclosure Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll as of July 1	UAAL as a % of Total System Payroll
June 30, 1992	\$4,285,642,005	\$7,840,118,795	\$3,554,476,790	54.7%	\$573,922,239	619.3%
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%
June 30, 1999	9,637,255,489	9,203,636,397	(433,619,092)	104.7%	819,740,647	-52.9%

### GASB No. 25 Disclosure Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution	Percent Contributed
1993	\$277,367,625	100%
1994	281,880,495	100%
1995	287,697,971	100%
1996	296,136,023	100%
1997	265,744,307	100%
1998	231,170,833	100%
1999	221,755,064	100%

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Valuation of Health Subsidy Benefits

### GASB No. 25 Disclosure Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Total System Payroll
June 30, 1992	\$54,998,828	\$714,129,035	\$659,130,207	7.7%	\$473,922,239	139.1%
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%
June 30, 1999	443,492,170	666,565,679	223,073,509	66.5%	819,740,647	27.2%

### GASB No. 25 Disclosure Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution	Percent Contributed
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	29,585,834	100%
1999	26,633,603	100%

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF PENSION BENEFITS

## Actuarial Balance Sheet

The purpose of the Actuarial Balance Sheet is to compare System assets with System liabilities in order to define the portion of the liabilities, which need to be funded by the City in the future.

System liabilities equal the present value of all future benefits expected to be paid to current and future pensioners and beneficiaries of the Systems.

System assets are equal to the sum of:

- the assets currently available to pay benefits,
- the present value of future contributions expected to be made by current System Members, and
- the present value of future contributions expected to be made by the City.

The last item, the present value of future City contributions, is made up of two parts:

1. The Present Value of Future City Normal Costs: Using the Entry Age Normal Cost Method, the City budgets a certain percentage of payroll which will be sufficient to fund benefits for System Members from their entry into the System. The Normal Cost is the level percentage of salary each year that is necessary to fund Members' benefits under the current benefit provisions. Normal Cost is funded from a Member's date of employment to the average expected retirement date. An adjustment is made for the deductions which will be made from the future salaries of System Members. For this valuation, the Normal Cost percentages are:

Article XVII	18.488%
Article XVIII	21.748%
Article XXXV	14.189%

The present value of these future City Normal Cost contributions represents one piece of the present value of future City contributions.

2. The Unfunded Actuarial Accrued Liability: The portion of the present value of future City contributions which will not be funded by the future Entry Age Normal Cost contributions is the Unfunded Actuarial Accrued Liability (UAAL). The UAAL arises from prior contributions that were less than the current Normal Cost percentage. This usually results from benefit and assumption changes and the net effect of prior gains and losses. If the City had always contributed the current Normal Cost, if there were no prior benefit or assumption changes and if actual experience exactly matched the actuarial assumptions, the Normal Cost would be sufficient to fund all benefits and there would be no UAAL. This liability is funded based on the provisions of the City Charter, which are described in more detail in the next section.

For the current year, we have determined that the appropriate amounts needed to fund the UAAL are:

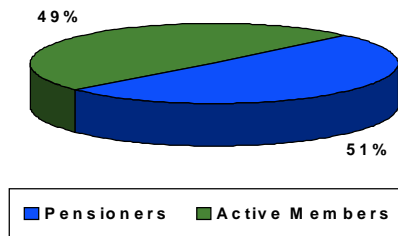
Article	Amount	Funding Pattern
XVII	\$28,948,703	As a level dollar amount through the fiscal year 2036-2037.
XVIII	(3.124%)	As a level percent of total payroll of Articles XVII, XVIII and XXXV through the fiscal year 2036-2037.
XXXV	(3.383%)	As a level percentage of Article XXXV payroll for various periods based on the source of the liability.

For Articles XVIII and XXXV, the negative amounts above indicate the Article has a surplus; the amortization of the surplus serves to reduce future normal cost contributions.

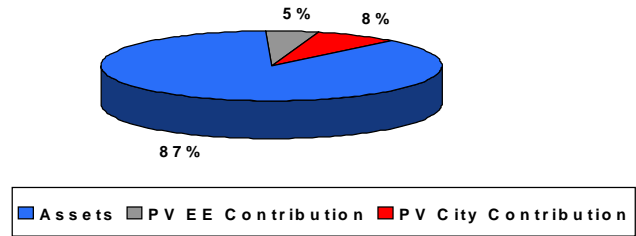
The following chart illustrates the breakdown of Balance Sheet assets and liabilities of the system. It shows that 49% of Systems' liabilities are due to active Members and 51% are due to retired Members and their beneficiaries. About 87% of System assets consist of currently available assets with 13% consisting of future contributions from the City and the Members.

## ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1999

### LIABILITIES



### ASSETS



**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEMS  
VALUATION OF PENSION BENEFITS**

Actuarial Balance Sheet As Of June 30, 1999

<b>Assets</b>				
	<b>Fire &amp; Police Pension System</b>	<b>New Pension System</b>	<b>Safety Members Pension Plan</b>	<b>All Plans Combined</b>
1. Applicable Assets	\$(2,127,018)	\$8,136,173,417	\$1,503,209,090	\$9,637,255,489
2. Present Value of Future Member Contributions	0	61,065,078	532,568,060	593,633,138
3. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	219,762	319,939,866	1,005,046,132	1,325,205,760
b. Unfunded Actuarial Accrued Liability	311,972,218	(525,076,213)	(220,515,097)	(433,619,092)
4. Total Assets	\$310,064,962	\$7,992,102,148	\$2,820,308,185	\$11,122,475,295

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEMS  
VALUATION OF PENSION BENEFITS**

Actuarial Balance Sheet As Of June 30, 1999

<b>Liabilities</b>				
	<b>Fire &amp; Police Pension System</b>	<b>New Pension System</b>	<b>Safety Members Pension Plan</b>	<b>All Plans Combined</b>
5. Present Value of Benefits Already Granted				
a. Service Retirements	\$77,817,132	\$3,668,162,414	\$12,772,283	\$3,758,751,829
b. Disability Retirements	82,403,427	1,145,567,507	51,611,364	1,279,582,298
c. Survivors and Dependents	<u>146,017,399</u>	<u>514,009,946</u>	<u>23,399,838</u>	<u>683,427,183</u>
d. Total	\$306,237,958	\$5,327,739,867	\$87,783,485	\$5,721,761,310
6. Present Value of Benefits to be Granted				
a. Service Retirements	\$ 3,331,826	\$2,181,803,585	\$2,076,286,845	\$4,261,422,256
b. Disability Retirements	480,309	463,916,482	552,552,552	1,016,949,343
c. Survivors and Dependents	<u>14,474</u>	<u>17,683,869</u>	<u>61,177,149</u>	<u>78,875,492</u>
d. Total	\$ 3,826,609	\$2,663,403,936	\$2,690,016,546	\$5,357,247,091
7. Refund of Employee Contributions	\$ 395	\$958,345	\$42,508,154	\$43,466,894
8. Total Liabilities	\$310,064,962	\$7,902,102,148	\$2,820,308,185	\$11,122,475,295

# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF PENSION BENEFITS**

## **Budget And Recommended Contributions**

The actuarial cost method to be used in determining the annual budget for Articles XVII, XVIII and XXXV of the Charter of the City of Los Angeles is given in Sections 186.2(1) and (2), 190.09(1) and (2), and 528(1) and (2), respectively.

The Charter defines the annual budget amount to be the sum of the Entry Age Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL).

The Entry Age Normal Cost is the level percentage of salary necessary to fund each Member's projected future benefits over his or her working career (i.e. from entry age to retirement age). The Normal Cost consists of two parts: the first part, which is funded by Member contributions, is a specified percentage of the Member's pay; the second part, which is funded by the City, is the balance after deducting the Member paid portion from the total Normal Cost percentage.

The amortization of the UAAL is the payment stream required to fund the excess of System liabilities over the sum of the System assets, future Member contributions and future City Normal Cost contributions. (See section on the Actuarial Balance Sheet.) The method of amortization varies from Article to Article and is defined in the Charter.

The following sections discuss the recommended contributions for each Article in more detail.

In our opinion, if these recommended 2000-2001 contributions are adopted, all the Systems will be maintained in compliance with the Charter of the City of Los Angeles and in accordance with the methods and assumptions underlying the calculations.



# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF PENSION BENEFITS

## Budget And Recommended Contributions

### Fire And Police Pension System (Article XVII)

The budgeted contribution for this System is the sum of the Entry Age Normal Cost plus the amount needed to amortize the Unfunded Actuarial Accrued Liability in a level dollar amount for the period ending with the fiscal year 2036-2037.

The results for the current year, along with a comparison with the prior year, follow.

	<b>Recommended 2000-2001</b>	<b>Recommended 1999-2000</b>	<b>Percent Change</b>
1. City's Entry Age Normal Cost as a Percent of Payroll*	18.488%	20.328%	-9.1%
2. Amortization of the UAAL	\$28,948,703	\$30,286,940	-4.4%
<i>*Percentage is applied to Article XVII payroll only</i>			

The effect on the UAAL of gains and losses can be found in the gain and loss analysis in the next section.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF PENSION BENEFITS

## Budget And Recommended Contributions

### New Pension System (Article XVIII)

The budgeted contribution for this System is the sum of the Entry Age Normal Cost plus the amount needed to amortize the Unfunded Actuarial Accrued Liability (UAAL) as a level percent of payroll over the period ending with the fiscal year 2036-2037. The payroll used is the total payroll of Articles XVII, XVIII and XXXV. The payments have been calculated to increase at the same rate as the expected growth in overall System payroll (currently 5.0% per year).

Had the System experienced no actuarial gains in the past, the UAAL would be paid off in fiscal year 2036-2037. However, the System has experienced significant actuarial gains, and as of June 30, 1999, the UAAL has been funded, and the System is in a surplus position.

The combination of length of the amortization period and the increasing payment pattern implies that amortization credits for the surplus in the near future are insufficient to cover growth in the surplus due to interest accruals. Therefore, the surplus can be expected to increase for many years, unless actuarial losses cause an offsetting decrease.

The results for the current year, along with a comparison with the prior year, follow.

	<b>Recommended 2000-2001</b>	<b>Recommended 1999-2000</b>	<b>Percent Change</b>
1. City's Entry Age Normal Cost as a Percent of Payroll*	21.748%	21.767%	-0.1%
2. Amortization of the UAAL/(Surplus) as a Percent of Payroll**	(3.124%)	2.077%	-250.5%
<i>*Applied to Article XVIII payroll only</i>			
<i>**Applied to total payroll of Articles XVII, XVIII and XXXV combined</i>			

The dollar amount of the amortization of the Actuarial Surplus can be expected to increase by 5.0% per year, if all assumptions are realized.

The effect on the UAAL of gains and losses can be found in the gain and loss analysis in the next section.

Currently, System Members under Article XVIII are required to contribute 6% of salary to the System. Section 190.10 of the Charter of the City of Los Angeles requires that an additional 1% of salary be contributed by System Members if one-half of the cost of the cost-of-living benefits provided by Article XVIII exceeds 1% of pay. The normal cost percent for future cost-of-living benefits is approximately 10% of pay. Therefore, we recommend that New Pension System Members continue to contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF PENSION BENEFITS

## Budget And Recommended Contributions

### Safety Members Pension Plan (Article XXXV)

The budgeted contribution for this system is the sum of the Entry Age Normal Cost plus the amount needed to amortize the Unfunded Actuarial Accrued Liability caused by gains and losses as a level percent of pay over 15 years. The cost of any changes to the plan would be amortized over 30 years. Changes in assumptions and funding method are amortized over 30 years.

The results for the current year, along with a comparison with the prior year, follow.

	<b>Recommended 2000-2001</b>	<b>Recommended 1999-2000</b>	<b>Percent Change</b>
1. City's Entry Age Normal Cost as a Percent of Payroll*	14.189%	14.277%	-0.6%
2. Amortization of the UAAL/(Surplus) as a Percent of Payroll*	(3.383%)	(2.427%)	-39.4%
3. Total Contribution as a Percent of Payroll*	10.806%	11.850%	-8.8%
<i>*Percentage is applied to Article XXXV payroll only</i>			

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF PENSION BENEFITS

## Member Contributions

Members contribute to the Pension Systems based on schedules contained in the City Charter. These contribution rates can be found in Exhibit I.

The Member contribution account balances (including interest) that were reported for the June 30, 1999 valuation are:

	<b>Fire Members</b>	<b>Police Members</b>	<b>Total</b>
Article XVII	\$ 105,504	\$ 349,900	\$ 455,404
Article XVIII	159,114,952	279,992,366	439,107,318
Article XXXV	100,002,789	247,934,115	347,936,904
<b>Total</b>	<b>\$259,223,245</b>	<b>\$528,276,381</b>	<b>\$787,499,626</b>

# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF PENSION BENEFITS**

## **Gain And Loss Analysis**

Each year, the contributions to the Systems are determined as a level percent of future System payroll. If actual experience matched all the assumptions used in the valuation, and no changes were made to the Systems, this contribution rate would not change. However, each year there are actuarial gains and losses caused by actual experience which is different than our assumptions. An actuarial gain causes a decrease in contribution levels; an actuarial loss causes an increase.

An analysis of the gains and losses over the past year, and their effect on the Unfunded Accrued Actuarial Liability (UAAL) for each Article, follows.

For Article XXXV, one item which caused an increase in UAAL, is interest on the UAAL. Each year, the UAAL accrues interest at 8.5% (as if it were an unpaid loan). The amortization schedule that applies to this Article is based on an increasing amortization of this unfunded amount. Payments to fund the UAAL increase as payroll increases. The current level of payment is not sufficient to cover the interest that accrues on the UAAL, so the UAAL increases. The increase in the UAAL is due to interest that was not funded. In the future, the amortization payments will increase so that interest and principal will be covered by each annual contribution.

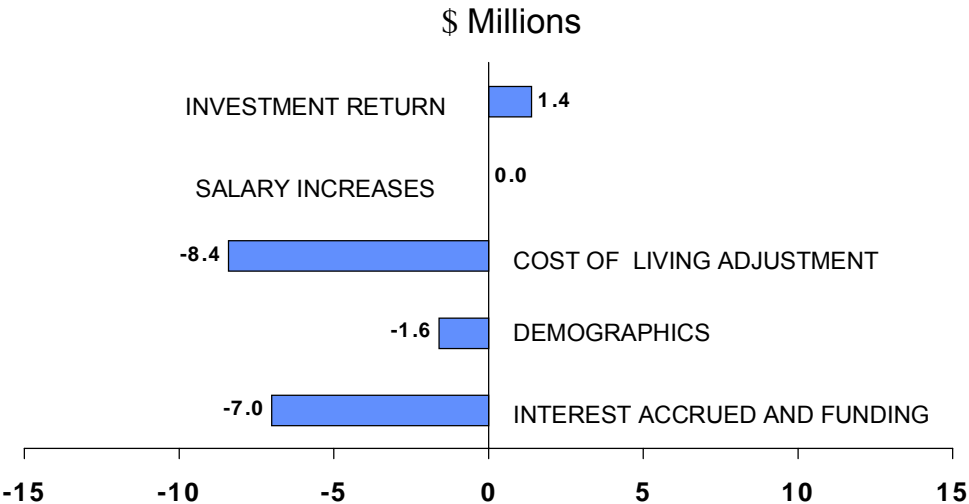
**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEMS  
VALUATION OF PENSION BENEFITS**

The Fire And Police Pension System  
(Article XVII)

<b>(Gain)/Loss Analysis For Plan Year July 1, 1998 To June 30, 1999</b>		
<b>(Gain)/Loss Due To</b>	<b>\$ Million</b>	<b>Percent of UAAL</b>
<b>ECONOMIC RISK AREAS</b>		
Investment Return	\$ 1.4	0.4%
Salary Increases	(0.0)	(0.0%)
Cost-of-Living Adjustment	(8.4)	(2.7%)
<b>NON-ECONOMIC RISK AREAS</b>		
Pre-Retirement Decrements		
Service Retirement	\$ 0.0	0.0%
All Other	0.0	0.0%
Post-Retirement Mortality	(1.6)	(0.5%)
Transfers to Other Articles	0.0	0.0%
<b>Total (Gain)/Loss</b>	<b>\$( 8.6)</b>	<b>(2.8%)</b>
Expected Change In UAAL due to Interest Accrued and Funding	\$ (7.0)	(2.2%)
<b>Total Change In UAAL</b>	<b>\$(15.6)</b>	<b>(5.0%)</b>
<b>Change in UAAL for Plan Year July 1, 1998 to June 30, 1999</b>		
	<b>\$ Million</b>	
UAAL as of June 30, 1998	327.6	
Decrease in UAAL July 1, 1998 to June 30, 1999	(15.6)	
UAAL as of June 30, 1999	312.0	

# ARTICLE XVII

## UAAL DECREASED \$15.6 MILLION





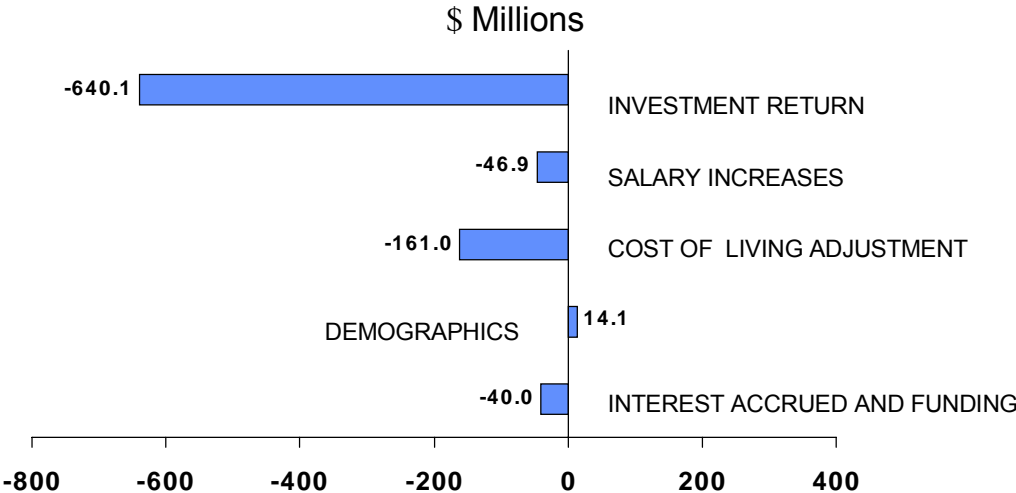
**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEMS  
VALUATION OF PENSION BENEFITS**

**The New Pension System  
(Article XVIII)**

<b>(Gain)/Loss Analysis For Plan Year July 1, 1998 To June 30, 1999</b>		
<b>(Gain)/Loss Due To</b>	<b>\$ Million</b>	<b>Percent of UAAL</b>
<b>ECONOMIC RISK AREAS</b>		
Investment Return	\$(640.1)	121.9%
Salary Increases	(46.9)	8.9%
Cost-of-Living Adjustment	(161.0)	30.7%
<b>NON-ECONOMIC RISK AREAS</b>		
Pre-Retirement Decrements		
Service Retirement	\$ 20.2	(3.8%)
All Other	(15.5)	3.0%
Post-Retirement Mortality	9.4	(1.8%)
Transfers to/from Other Articles	0.0	0.0%
<b>Total (Gain)/Loss</b>	<b>\$(833.9)</b>	<b>(158.8%)</b>
Expected Change In UAAL due to Interest Accrued and Funding	\$ (40.0)	7.6%
<b>Total Change In UAAL</b>	<b>\$(873.9)</b>	<b>166.4%</b>
<b>Change in UAAL for Plan Year July 1, 1998 to June 30, 1999</b>		
	<b>\$ Million</b>	
UAAL as of June 30, 1998	348.8	
Decrease in UAAL July 1, 1998 to June 30, 1999	(873.9)	
Surplus as of June 30, 1999	(525.1)	

# ARTICLE XVIII

## UAAL DECREASED \$873.9 MILLION

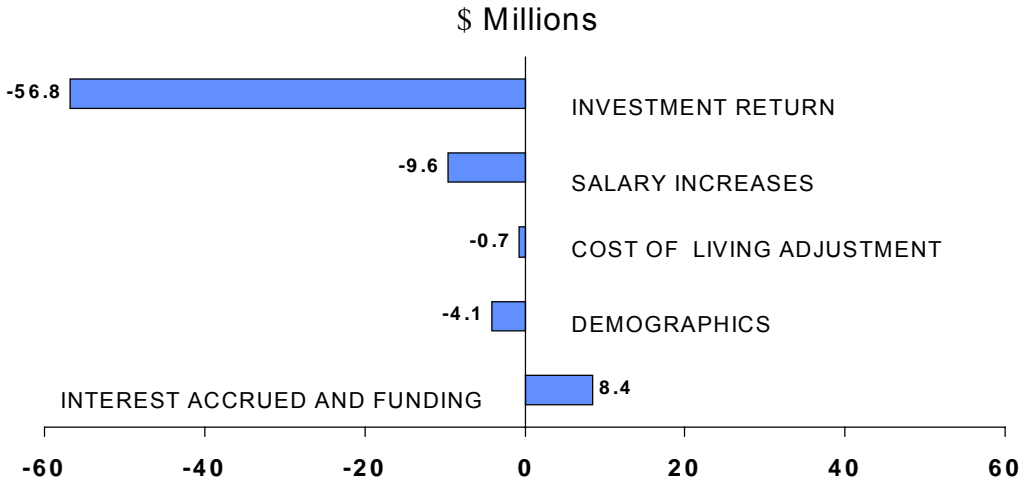


**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEMS  
VALUATION OF PENSION BENEFITS**

**Safety Members Pension Plan  
(Article XXXV)**

<b>(Gain)/Loss Analysis For Plan Year July 1, 1998 To June 30, 1999</b>		
<b>(Gain)/Loss Due To</b>	<b>\$ Million</b>	<b>Percent of UAAL</b>
<b>ECONOMIC RISK AREAS</b>		
Investment Return	\$ (56.8)	25.7%
Salary Increases	(9.6)	4.4%
Cost-of-Living Adjustment	(0.7)	0.3%
<b>NON-ECONOMIC RISK AREAS</b>		
Pre-Retirement Decrements		
Service Retirement	\$ 1.1	(0.5%)
Service Disability	(0.2)	0.1%
Non-Service Disability	(0.1)	0.0%
Service Death	(2.2)	1.0%
Non-Service Death	(0.2)	0.1%
Withdrawals	(19.1)	8.7%
Post-Retirement Mortality	0.2	(0.1%)
New Entrants	16.4	(7.4%)
<b>Total (Gain)/Loss</b>	<b>\$ (71.2)</b>	<b>32.3%</b>
Expected Change In UAAL due to Interest Accrued and Funding	\$ 8.4	(3.8%)
<b>Total Change In UAAL</b>	<b>\$(62.8)</b>	<b>28.5%</b>
<b>Change in Surplus for Plan Year July 1, 1998 to June 30, 1999</b>		
	<b>\$ Million</b>	
Surplus as of June 30, 1998	(157.7)	
Increase in Surplus July 1, 1998 to June 30, 1999	(62.8)	
Surplus as of June 30, 1999	(220.5)	

# ARTICLE XXXV UAAL DECREASED \$62.8 MILLION



# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS**

## **Introduction**

Members of the Los Angeles Fire and Police Department 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 Fire and Police Pension Systems with over 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 ages.

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.

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

For more detail on the health subsidy benefit provisions, please refer to Exhibit II.

This report contains the results of the June 30, 1999 valuation of the post-retirement health subsidy benefits of the Systems. It contains the results of our calculations of the annual budget of the Systems, as provided in Sections 186.2(3), 190.09(3), and 528(3) of the Charter. In determining the budget amounts for post-retirement health subsidy benefits, we have used the same funding method and methods of amortization used in funding the retirement, disability, and death benefits of each Article, as defined in the Charter.

The valuation is based on the economic and demographic assumptions used in the valuation of the retirement, death and disability benefits of the Systems. In addition, special medical trend assumptions were used. A summary of the economic assumptions follows:

- 8.5% annual interest,
- individual salary increase assumption, which varies by age, ranging from 10% for Members under age 25, to 5.5% for Members age 50 and over, and averages 6.5% per year over a full 30-year career,
- 5.0% annual increases in total System, and
- graded medical cost increase rates of 8.00% for pre-65 premiums and 7.75% for post-65 premiums in 1999, both decreasing gradually to 6.5% in 2005 and beyond.

We believe these assumptions are appropriate for use in the evaluation of the health subsidy liabilities of the Fire and Police Pension Systems at June 30, 1999. These assumptions are described in more detail in Exhibit IV.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS

## Health Subsidy Reserve

The Fire and Police Pension Systems began to pre-fund the health subsidy benefits of the Systems beginning with the 1989-1990 plan year. As of June 30, 1999, pre-funding contributions have been made for ten years toward the health subsidy.

The Systems have begun to accumulate a reserve of assets that reflects contributions made, benefits paid out, and estimated investment earnings. Health subsidy liabilities were offset by the actuarial value of these assets held in reserve in the determination of annual budget amounts.

<b>Assets Available For Health Subsidy Reserves at June 30, 1999</b>			
	<b>Article XVII</b>	<b>Article XVIII</b>	<b>Article XXXV</b>
Book Value	\$4,832,585	\$211,855,471	\$176,093,977
Market Value	4,832,283	248,136,337	192,928,739
Actuarial Value	6,654,518	248,279,303	188,558,349

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS

## Actuarial Balance Sheet

The purpose of the Actuarial Balance Sheet is to compare System assets with System liabilities in order to define the portion of the liabilities which need to be funded by the City in the future. We have created a health subsidy balance sheet which corresponds to the balance sheet for retirement, disability, and death benefits shown earlier in this report.

Health subsidy liabilities equal the present value of all future health subsidy benefits expected to be paid to current and future pensioners and beneficiaries of the Systems.

System assets are equal to the sum of:

- the assets currently available to pay health subsidy benefits, and
- the present value of future contributions expected to be made by the City.

There are no Member contributions for health subsidy benefits.

The last item, the present value of future City contributions, is made up of two parts:

1. The Present Value of Future City Normal Costs: Using the Entry Age Normal Cost Method, the City budgets a certain percentage of payroll which will be sufficient to fund health subsidy benefits for System Members from their entry into the System. The Normal Cost is the level percentage of salary each year that is necessary to fund Members' benefits under the current benefit provisions. Normal Cost is funded from a Member's date of employment to the average expected retirement date. For this valuation, these percentages are:

Article XVII	0.219%
Article XVIII	1.256%
Article XXXV	2.966%



The present value of these future City Normal Cost contributions represents one piece of the present value of future City health subsidy contributions.

The Normal Cost percentage is highest for Article XXXV, with the youngest active population, and lowest for Article XVII, with the oldest active population. The Normal Cost spreads the value of a Member's benefit, at entry age, over his future working lifetime. The value of health subsidy benefits at entry age is higher for Article XXXV Members, because the health care benefits paid to them will be more expensive, due to the future increases in the cost of medical care.

2. The Unfunded Actuarial Accrued Liability: The portion of the present value of future City health subsidy contributions which will not be funded by the future Entry Age Normal Cost contributions is the Unfunded Actuarial Accrued Liability (UAAL). The UAAL arises because pre-funding contributions were not made for health subsidy benefits before 1989. If the City had always contributed the current Normal Cost, if there were no prior benefit or assumption changes and if actual experience exactly matched the actuarial assumptions, the Normal Cost would be sufficient to fund all health subsidy benefits and there would be no UAAL. This liability is funded based on the provisions of the City Charter.

For the current year, we have determined that the appropriate amounts needed to fund the health subsidy UAAL are:

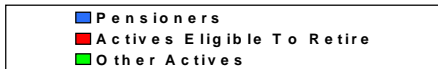
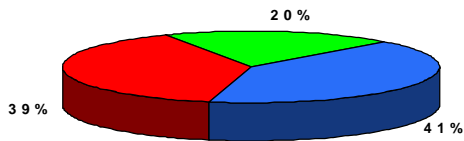
<b>Article</b>	<b>Amount</b>	<b>Funding Pattern</b>
XVII	\$425,623	As a level dollar amount through the fiscal year 2036-2037.
XVIII	1.539%	As a level percent of total payroll of Articles XVII, XVIII and XXXV through the fiscal year 2036-2037.
XXXV	(1.088%)	As a level percentage of Article XXXV payroll for periods of 15 or 30 years.

For Article XXXV, the negative amount above indicates the Article has a surplus; the amortization of the surplus serves to reduce future normal cost contributions.

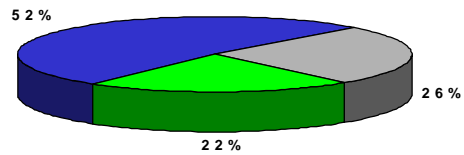
The following chart illustrates the breakdown of Balance Sheet assets and liabilities of the System. It shows that about 41% of the Systems' liabilities are due to current pensioners, 20% due to actives eligible to retire, and 39% due to other actives. About 22% of System assets consist of future Normal Cost contributions and 26% are due to future UAAL contributions. Current health subsidy reserves are approximately 52% of System assets.

## ACTUARIAL BALANCE SHEET AS OF JUNE 30, 1999

**LIABILITIES**



**ASSETS**



**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEMS  
VALUATION OF HEALTH SUBSIDY BENEFITS**

Actuarial Balance Sheet as of June 30, 1999

	<b>Assets</b>			
	<b>Fire &amp; Police Pension System</b>	<b>New Pension System</b>	<b>Safety Members Pension Plan</b>	<b>All Plans Combined</b>
1. Applicable Assets	\$ 6,654,518	\$ 248,279,303	\$188,558,349	\$443,492,170
2. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	1,628	12,945,674	173,355,540	186,302,742
b. Unfunded/(Surplus) Actuarial Accrued Liability	4,586,827	258,538,992	(40,052,410)	223,073,509
3. Total Assets	\$11,242,973	\$519,763,969	\$321,861,479	\$852,868,421

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEMS  
VALUATION OF HEALTH SUBSIDY BENEFITS**

Actuarial Balance Sheet as of June 30, 1999

	<b>Liabilities</b>			
	<b>Fire &amp; Police Pension System</b>	<b>New Pension System</b>	<b>Safety Members Pension Plan</b>	<b>All Plans Combined</b>
4. Present Value of Benefits Already Granted	\$ 10,969,758	\$335,132,017	\$ 3,017,240	\$349,119,015
5. Present Value of Benefits to be Granted				
a. Actives Eligible to Retire	273,215	164,996,790	5,814,781	171,084,786
b. Other Actives	<u>0</u>	<u>19,635,162</u>	<u>313,029,458</u>	<u>332,664,620</u>
c. Total	273,215	184,631,952	318,844,239	503,749,406
6. Total Liabilities	\$ 11,242,973	\$519,763,969	\$321,861,479	\$852,868,421

# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS**

## **Budget and Recommended Contributions**

The actuarial cost method to be used in determining the annual health subsidy budget for Articles XVII, XVIII and XXXV of the Charter of the City of Los Angeles is given in Section 186.2, 190.09, and 528, respectively.

The Charter defines the annual budget amount to be the sum of the Entry Age Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL).

The Entry Age Normal Cost is the level percentage of salary necessary to fund each Member's projected future health subsidy benefits over his or her working career (i.e. from entry age to retirement age).

The amortization of the UAAL is the payment stream required to fund the excess of System health subsidy liabilities over the sum of the System assets and future City Normal Cost contributions. (See section on the Actuarial Balance Sheet.) The method of amortization varies from Article to Article and is defined in the Charter.

The following sections discuss the recommended health subsidy contributions for each Article in more detail.

In our opinion, if these recommended 2000-2001 contribution rates are adopted, all the Systems will be maintained in compliance with the Charter of the City of Los Angeles and in accordance with the methods and assumptions underlying the calculations.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS

## Health Subsidy Budget and Recommended Contributions

### Fire and Police Pension System (Article XVII)

The budgeted health subsidy contribution for this System is the sum of the Entry Age Normal Cost plus the amount needed to amortize the Unfunded Actuarial Accrued Liability in a level dollar amount for the period ending with the fiscal year 2036-2037.

The results for the 2000-2001 fiscal year, along with a comparison with the prior year, follows.

	Recommended 2000-2001	Recommended 1999-2000	Percent Change
1. City Entry Age Normal Cost as a Percent of Payroll*	0.219%	0.264%	-17.0%
2. Amortization of the UAAL	\$425,623	\$552,614	-23.0%
<i>*Percentage is applied to Article XVII payroll.</i>			

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS

## Health Subsidy Budget and Recommended Contributions

### New Pension System (Article XVIII)

The budgeted health subsidy contribution for this System is the sum of the Entry Age Normal Cost plus the amount needed to amortize the Unfunded Actuarial Accrued Liability (UAAL) as a level percent of payroll over the period ending with the fiscal year 2036-2037. The payroll used is the total payroll of Articles XVII, XVIII and XXXV. The payments have been calculated to increase at the same rate as the expected growth in overall System payroll (currently 5.0% per year).

The results for the 2000-2001 fiscal year, along with a comparison with the prior year, follows.

	Recommended 2000-2001	Recommended 1999-2000	Percent Change
1. City Entry Age Normal Cost as a Percent of Payroll*	1.256%	1.301%	-3.4%
2. Amortization of the UAAL as a Percent of Payroll**	1.539%	1.674%	-8.1%
*Applied to Article XVIII payroll only.			
**Applied to total payroll of Articles XVII, XVIII, and XXXV combined.			

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS

## Health Subsidy Budget and Recommended Contributions

### Safety Members Pension Plan (Article XXXV)

The budgeted health subsidy contribution for this System is the sum of the Entry Age Normal Cost plus the amount needed to amortize, as a level percent of pay over 15 years, any increases and decreases in the Unfunded Actuarial Accrued Liability (UAAL) caused by gains and losses. The cost of any changes to the plan or to assumptions are amortized over 30 years. The initial UAAL was amortized over 30 years.

The results for the 2000-2001 fiscal year, along with a comparison with the prior year, follows.

	Recommended 2000-2001	Recommended 1999-2000	Percent Change
1. City Entry Age Normal Cost as a Percent of Payroll*	2.966%	3.071%	-3.4%
2. Amortization of the UAAL/(Surplus) as a Percent of Payroll*	(1.088%)	(0.949%)	-14.7%
3. Total Contribution, as a Percent of Payroll*	1.878%	2.122%	-11.5%
<i>*Percentage is applied to Article XXXV payroll only.</i>			



# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS VALUATION OF HEALTH SUBSIDY BENEFITS

## Assumptions and Methods

The assumptions used in the valuation of health subsidy benefits are very critical. They must anticipate a number of future occurrences, such as:

- Future rate of return on System assets
- Future increases in the cost of medical care
- Future changes in the proportion of medical care costs covered by Medicare
- Future changes in medical care utilization
- Future participation in the health subsidy benefits
- Future participation of System Members in Medicare Parts A and B

These assumptions must be reasonable on their own, and in conjunction with each other. They also must result in a realistic relationship of future medical care costs with the economy as a whole.

We have developed a set of actuarial assumptions for use in this valuation of the health subsidy benefits of the Fire and Police Pension Systems. A detailed outline of these assumptions can be found in Exhibit IV. A summary of the two most critical of these assumptions follows:

1. Investment Return: 8.5%

This rate reflects the expected earnings of the Systems' assets. Currently, health subsidy assets are commingled with the rest of the Systems' assets, and invested in the same manner. Therefore, it is appropriate that this rate of return be the same as that used in the valuation of retirement, disability, and death benefits of the Systems.

2. Medical Trend Rate:

This rate encompasses future changes in medical care prices, utilization and Medicare. The increases we have assumed begin with an 8.00% increase in 2000-2001 for pre-65 premiums and 7.75% for post-65 premiums. These rates decrease slowly until an ultimate rate of 6.5% is reached in 2005 and thereafter.

In order to value future subsidy benefits for Members not yet retired, we must determine the average subsidy amount being paid to current Fire and Police Pension System pensioners. We analyzed current data and determined the average subsidy amount being paid, per year of service. We applied these average subsidy amounts, with the appropriate medical trend increases, to future subsidy recipients in order to determine the present value of future benefits from the Systems.

More detail on these average claim rates can be found in Exhibit IV.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Exhibits

### Table Of Contents

- Exhibit I:** Summary of Retirement Plan Benefits
- Exhibit II:** Summary of Health Subsidy Benefits
- Exhibit III:** Summary of Actuarial Assumptions and Methods used for Valuation of Retirement Benefits
- Exhibit IV:** Summary of Actuarial Assumptions and Methods Used For Valuation of Health Subsidy Benefits
- Exhibit V:** Rates of Separation from Active Service
- Exhibit VI:** Age/Service/Salary Distribution for Active Members as of June 30, 1999
- Exhibit VII:** Age/Benefit Distribution of Pensioners as of June 30, 1999
- Exhibit VIII:** Age/Health Subsidy Benefit Distribution of Pensioners as of June 30, 1999

# CITY OF LOS ANGELES

## FIRE AND POLICE PENSION SYSTEMS

### Summary Of Pension Plan Benefits

	Article XVII	Article XVIII	Article XXXV
<b>1. SERVICE RETIREMENT</b>			
a. Eligibility	20 years of service.	20 years of service.	Tier 1: Age 50 with 10 years of service.  Tier: 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.
<b>2. SERVICE-CONNECTED DISABILITY</b>			
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.
<b>3. NONSERVICE-CONNECTED DISABILITY</b>			
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 fire-fighter's rank.	Final salary rate for highest-paid police officer's or fire-fighter'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.
<b>4. SERVICE-CONNECTED DEATH OR DEATH AFTER SERVICE-CONNECTED DISABILITY</b>			
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.

## CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

### Summary Of Pension Plan Benefits

	<b>Article XVII</b>	<b>Article XVIII</b>	<b>Article XXXV</b>
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. 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.	Same as Article XVII.	Same percentages as Article XVII.  Pension not payable after child reaches age 18 (age 22 if in school) unless child is disabled before age 21.
e. Dependent parent's benefit as a percentage of spouse's benefit	100% if spouse or children not receiving.	Same as Article XVII.	Same as Article XVII.
<b>5. DEATH WHILE ELIGIBLE FOR SERVICE RETIREMENT OR DEATH AFTER SERVICE RETIREMENT</b>			
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. Children's benefit as a percentage of spouse's benefit	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.
d. Dependent parent's benefit as a percentage of spouse's benefit	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Summary Of Pension Plan Benefits

	Article XVII	Article XVIII	Article XXXV
<b>6. NONSERVICE-CONNECTED DEATH OR DEATH AFTER NONSERVICE-CONNECTED DISABILITY</b>			
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 non-service disability: 60% of Member's pension.
c. Children's benefit as a percentage of spouse's benefit.	Same conditions and percentages as for service connected death.	Same conditions and percentages as for service connected death.	Same conditions and percentages as for service connected death.
d. Dependent parent's benefit as a percentage of spouse's benefit	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.	Same conditions and percentages as for service-connected death.
<b>7. COST-OF-LIVING</b>			
a. Generally applicable provisions	<p>Current Plan Provision:</p> <p>Full annual cost-of-living increase.</p> <p>Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers.</p> <p>Survivors' pension include the percentage of cost-of-living increases applied to the Member's pension prior to death.</p>	<p>Current Plan Provision:</p> <p>Full annual cost-of-living increase.</p> <p>Cost-of-living increases compound, and are based upon the Consumer Price Index for all Urban Consumers.</p> <p>Survivors' pension include the percentage of cost-of-living increases 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 increases compound, and are based upon the Consumer Price Index for all Urban Consumers.</p> <p>City Council may grant discretionary cost-of-living increases once every three years.</p>

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Summary Of Pension Plan Benefits

	Article XVII	Article XVIII	Article XXXV
			Survivor's pensions include the percentage of cost-of-living increases applied to the Member's pension prior to death.  Pro rata adjustment in the first year of retirement.
b. Effective date of cost-of-living increases			
i. Service retirement	Annual increases commence on July 1 following the later of the effective date or the date the Member would have been age 55.	Annual increases 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 increases commence on the July 1 following the effective date.
ii. Service-connected disability, service connected death	Annual increases commence on the July 1 following the effective date.	Annual increases commence on the July 1 following the effective date.	
iii. Nonservice-connected disability	Annual increases 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 increases 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 increases 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 increases 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 pension of the beneficiary if earlier.	
v. Death after nonservice-connected disability, death after service-connected disability.	Annual increases 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 increases 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.	

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Summary Of Pension Plan Benefits

	Article XVII	Article XVIII	Article XXXV
<b>8. MEMBERS' CONTRIBUTIONS AS AN ANNUAL PERCENTAGE OF PAY</b>			
	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.
<b>9. MISCELLANEOUS</b>			
a. Vesting of service retirement	No vesting until retirement (20 years).	No vesting until retirement (20 years).	Tier 1: After 10 years of service. Tier 2: No vesting until retirement (20 years)
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, beneficiary receives one-year average salary times years of completed service (not to exceed 6).
d. Optional forms of benefit	None.	None.	At service or disability retirement, Member may elect higher death benefit with corresponding actuarial reduction of retirement benefit.



# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS**

## **Summary of Health Subsidy Benefit Provisions**

### **BASIC SUBSIDY**

Eligibility:	Retired Members age 55 and over who retired with 10 or more years of service. Members who retire prior to July 1, 1998 are subject to an eligibility requirement of age 60 with 10 or more years of service. Subsidy is paid only to Members on service, or disability retirements. No survivor benefits are paid. Basic subsidy is paid until age 65, or after age 65 if Member is not covered by Medicare Parts A and B.
Amount of Subsidy:	4% per year of service, to a maximum of 100%, times Maximum Subsidy, subject to a maximum of the actual premium paid to City approved health carrier.
Maximum Subsidy:	Lesser of monthly amount paid to active Fire and Police Members and retired CERS Members. Effective July 1, 1999, maximum is \$483 per month.
Increase in Subsidy:	Based on the lesser of the rate increases to active Fire and Police Members or the dollar increase to the civilian retirees, 2 party non Medicare Kaiser plan, subject to Board approval.
Spousal Portion:	Difference between Basic Subsidy amount and single party premium.

### **MEDICARE RELATED SUBSIDY**

Eligibility:	Retired Members over age 65 with 10 or more years of service who participate in Medicare Part A & B.
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Amount of Subsidy to Participant:

100% of actual premium up to civilian retiree limit to City approved health carrier with 20-24 years of service.

90% of actual premium up to civilian retiree limit City approved health carrier with 15-19 years of service.

75% of actual premium up to civilian retiree limit to City approved health carrier with 10-14 years of service.

Spousal Portion:

Difference between Medicare Related Subsidy amount and single party premium without Medicare.

### SPECIAL SUBSIDY

Eligibility:

Various, based on effective date of retirement, rank at retirement, years of service and type of pension.

The benefit is paid temporarily until the Basic Subsidy becomes effective and is only available to eligible Members who retire between July 2, 1988 and June 30, 1998.

Amount of Subsidy:

<b>Flat Amount Based on Years of Service</b>	
20-24 years	\$150 per month
25-29 years	\$225 per month
30 and over	\$300 per month

### MEDICARE PREMIUM SUBSIDY

For retired Members enrolled in Medicare A & B who are receiving a subsidy, the Systems provide payment of Part B premiums (\$45.50 per month for calendar year 1999).

# CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS

## Summary Of Actuarial Assumptions And Methods Used for Valuation of Pension Benefits

Interest Rate: 8.5% per year.

Salary Increases: The total payroll of the System is assumed to increase 5.0% per year.

Annual salary increases for individuals vary 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%

Cost-of-Living: A. Articles XVII and XVIII:  
5.0% per year on all benefits.

B. Article XXXV:  
3.0% per year on all benefits.

Mortality: A. For Pensioners on service retirement:

1994 Group Annuity Mortality Basic Table.

Age	Sample Rates	
	Deaths per 1,000	Average Life Expectancy
45	1.7	34.7
50	2.8	30.1
55	4.8	25.5
60	8.6	21.2
65	15.6	17.3
70	25.5	13.8
75	40.0	10.7

B. For Pensioners on disability retirement:

1984 PBGC Disabled Life Mortality Table for males not receiving Social Security, with ages set back three years.

<b>Sample Rates</b>		
<b>Age</b>	<b>Deaths per 1,000</b>	<b>Average Life Expectancy</b>
45	3.8	30.4
50	6.2	26.1
55	9.9	22.0
60	15.5	18.2
65	24.8	14.7
70	37.7	11.7
75	57.8	9.0

C. For Spouses:

1994 Group Annuity Mortality Basic Table, with four year setback.

<b>Sample Rates</b>		
<b>Age</b>	<b>Deaths per 1,000</b>	<b>Average Life Expectancy</b>
40	0.9	43.3
45	1.2	38.5
50	1.9	33.8
55	3.1	29.1
60	5.3	24.7
65	9.7	20.4
70	17.5	16.6

Probabilities of Meeting  
Vesting Requirements:

A. Article XVIII:

1. Probability of Working 20 Years

<b>Age at Hire</b>	<b>Fire Members</b>	<b>Police Members</b>
under 25	62.1%	52.5%
25-29	74.1	63.6
30-34	76.7	68.4
35-39	67.4	68.2
40-44	46.4	65.6
45-49	29.0	61.8

2. Probability of Working 10 Years

<b>Age at Hire</b>	<b>Fire Members</b>	<b>Police Members</b>
under 25	70.2%	64.1%
25-29	82.5	75.7
30-34	88.5	82.0
35-39	89.9	84.0
40-44	86.7	83.4
45-49	75.0	81.2

B. Article XXXV:

1. Probability of Working to Age 50

<b>Age at Hire</b>	<b>Fire Members</b>	<b>Police Members</b>
under 25	56.0%	47.2%
25-29	70.6	56.8
30-34	79.8	62.5
35-39	85.7	66.9
40-44	90.2	71.4
45-49	95.3	76.2

2. Probability of Working 10 Years

<b>Age at Hire</b>	<b>Fire Members</b>	<b>Police Members</b>
Under 25	70.2%	65.5%
25-29	82.5	70.9
30-34	88.5	71.7
35-39	89.9	70.7
40-44	86.7	68.6
45-49	75.0	65.4

3. Probability of Working to Age 50 with 10 Years

<b>Age at Hire</b>	<b>Fire Members</b>	<b>Police Members</b>
under 25	56.0%	47.2%
25-29	70.6	56.8
30-34	79.8	62.5
35-39	85.7	66.9
40-44	86.7	68.6
45-49	75.0	65.4

4. Probability of Working 20 Years

<b>Age at Hire</b>	<b>Fire Members</b>	<b>Police Members</b>
Under 25	62.1%	54.2%
25-29	74.1	59.9
30-34	76.7	60.0
35-39	67.4	57.5
40-44	46.4	54.0
45-49	29.0	49.9

Dependents: Where no other information is available, Members are assumed to have two children with a three year difference in age. The eldest is assumed to reach age 21 when the participant reaches age 45.

Proportion of Members with Spouses at Retirement: 85%.

Average Service-Connected Disability Benefits: Benefits are assumed to follow this schedule:

<b>Years of Service at Time of Disability</b>	<b>Percent of Salary Base</b>
Less than 20	50%
20-30	60%
Over 30	70%

Average Nonservice-Connected Disability benefit for Article XXXV: 40% of Salary Base.

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 8.5% 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.

## **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS**

### **Summary of Actuarial Assumptions and Methods Used For Valuation of Health Subsidy Benefits**

Interest Rate: 8.5%.

Salary Increases:

<b>Age</b>	<b>Annual Salary Increase</b>
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%

Medical Inflation Rate:

<b>Year</b>	<b>Pre-65</b>	<b>Post-65</b>
1999-2000	8.00%	7.75%
2000-2001	7.75%	7.50%
2001-2002	7.50%	7.25%
2002-2003	7.25%	7.00%
2003-2004	7.00%	6.75%
2004-2005	6.75%	6.50%
2005+	6.50%	6.50%



Medicare Premium  
Inflation Rate:

<b>Year</b>	<b>Increase</b>
1999+	6.5%

Members Assumed To  
Receive Subsidy: 85%

Members Assumed  
Married At Retirement: 85%

Members Assumed To  
Receive Medicare A&B: 90%

- Mortality:
- A. For Pensioners on service retirement:  
1994 Group Annuity Mortality Basic Table.
  - B. For Pensioners on disability retirement:  
1984 PBGC Disabled Life Mortality Table for  
males not receiving Social Security with ages  
setback three years.
  - C. For Spouses:  
1994 Group Annuity Mortality Basic Table, with  
four year setback.

Average Subsidy Rates  
as of June 30, 1999:

<b>Age of Pensioner</b>	<b>Monthly Subsidy Per Year of Service*</b>
Under Age 65	\$13.56 for Single Member \$16.09 for Married Member
Age 65 and Over	\$8.84 for Single Member with Medicare \$10.96 for Married Member with Medicare  \$12.80 for Single Member without Medicare \$16.31 for Married Member without Medicare
<i>*Maximum service for this purpose is 25 years.</i>	

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 8.5% 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.

# **CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEMS**

## **Rates Of Separation From Active Service**

A schedule of the probabilities of termination of employment due to the following causes can be found on the following pages:

- |  |   |
|--|---|
| 1. Ordinary Withdrawal:                            | Member terminates and elects a refund of Member contributions.  |
| 2. Service Retirement:                             | Member retires after meeting age and service requirements for reasons other than disability.            |
| 3. Ordinary Disability:                            | Member receives disability retirement; disability is not service related.                               |
| 4. Service Disability:                             | Member receives disability retirement resulting from service related disability.                        |
| 5. Ordinary Death:                                 | Member dies before eligibility for retirement; death is not service related.                            |
| 6. Service Death:                                  | Member dies before retirement as a result of assigned duties.   |
| 7. Death While Eligible for Service Retirement:    | Member dies before retirement but after meeting age and service requirements for service retirement.    |
| 8. Death While Eligible for Disability Retirement: | Member dies before retirement but after meeting age and service requirements for disability retirement. |

Each rate represents the probability that a Member will separate from service at each age due to the particular cause. For example, a rate of 0.0277 for a Fire Member's service retirement at age 45 means we assume that, on average, 2.77 out of 100 Members who are age 45 will retire at that age.