

2007 annual REPORT

CITY OF LOS ANGELES DEPARTMENT OF FIRE AND POLICE PENSIONS



LA FPP

To Serve Those Who Protect

July 1, 2006 to June 30, 2007

Department of Fire and Police Pensions

2007 annual REPORT

July 1, 2006 to June 30, 2007

Michael A. Perez
General Manager

D. Edward Griffiths
Assistant General Manager
PENSIONS DIVISION

Laura K. Guglielmo
Assistant General Manager
ADMINISTRATIVE SERVICES DIVISION

Alan L. Manning
Assistant City Attorney

Tom Lopez
Chief Investment Officer



Table of Contents

2	Governing Bodies
3	General Manager’s Letter
5	System Investments
11	Actuarial Valuation
17	Department Budget
19	Auditor’s Report
51	Active and Retired Membership
65	Legal Summary
67	Summary of Pension Plan Benefits
77	Milestones

**360 East Second Street
Suite 400
Los Angeles, California 90012**

(213) 978-4545

E-mail — pen.pensions@lacity.org
Web — <http://www.lafpp.com>

Antonio R. Villaraigosa

MAYOR

Rockard J. Delgadillo
City Attorney

Laura Chick
Controller

City Council

Eric Garcetti
President

Wendy Greuel
President Pro Tempore

Bill Rosendahl
Eleventh District

Ed P. Reyes
First District

Tony Cardenas
Sixth District

Greig Smith
Twelfth District

Wendy Greuel
Second District

Richard Alarcón
Seventh District

Eric Garcetti
Thirteenth District

Dennis P. Zine
Third District

Bernard C. Parks
Eighth District

José Huizar
Fourteenth District

Tom LaBonge
Fourth District

Jan Perry
Ninth District

Janice Hahn
Fifteenth District

Jack Weiss
Fifth District

Herb J. Wesson, Jr.
Tenth District

Board of Pension Commissioners

Sean Harrigan
President

Mike Carter
Vice President

George V. Aliano
Commissioner

Sam Diannitto
Commissioner

Don Keith
Commissioner

Louis F. Moret
Commissioner

Elliott Broidy
Commissioner

Steve Juarez
Commissioner

Patricia Means
Commissioner

**DEPARTMENT OF
FIRE AND POLICE
PENSIONS**

360 EAST SECOND STREET
SUITE 400
LOS ANGELES, CA 90012-4203
(213) 978-4545
FAX (213) 978-4450
TDD (213) 978-4455

EMAIL: PEN.PENSIONS@LACITY.ORG

CITY OF LOS ANGELES

CALIFORNIA



ANTONIO R. VILLARAIGOSA
MAYOR

MICHAEL A. PEREZ
GENERAL MANAGER

D. EDWARD GRIFFITHS
LAURA K. GUGLIELMO
ASSISTANT GENERAL MANAGERS

TOM LOPEZ
CHIEF INVESTMENT OFFICER

June 30, 2007

The Honorable Antonio Villaraigosa
The Honorable Members of the City Council

I respectfully submit the 2007 Annual Report for the Fire and Police Pension System of the City of Los Angeles. The annual report is intended to provide detailed, reliable information for you, other City leaders and stakeholders to help make management decisions and plans.

This year marks the 108th anniversary of this pension system. The System administers six pension tiers, two of which are closed, a medical subsidy program, a Deferred Retirement Option Program (DROP) and a complex disability pension program. As of June 30, 2007, we have 13,218 active and 11,974 retired beneficiaries, 1,234 members enrolled in DROP and assets of \$15.5 billion.

For the one-year period ending June 30, 2007, our return was 18.5 percent and the fund ranked in the 28th percentile of the public funds universe, meaning our fund performed better than 72 percent of all public pension funds. Over the past five years, the total fund ranked in the 23rd percentile. Because of this consistent performance, our pension funded status improved from 94.6 percent to 99.2 percent for the period ending June 30, 2007, one of the highest in the state of California. Unlike most public pension funds which did not prefund health benefits until encouraged to do so this past year by the Governmental Accounting Standards Board (GASB), we have been prefunding health benefits since 1989. Our funded status for health benefits increased from 37.6 percent to 41.5 percent for the period ending June 30, 2007.

The Annual Report contains eight sections:

- System Investments
- Actuarial Valuation
- Department Budget
- Auditor's Report
- Active and Retired Membership
- Legal Summary
- Summary of Pension Plan Benefits
- Milestones

System Administration

The Fire and Police Pension System is administered by a Board of nine commissioners, five appointed by the Mayor; Fire and Police members each elect one active member, and Fire and Police retired beneficiaries each elect one retired member. The Board administers the System in accordance with the City Charter and the State Constitution. Article XVI, Section 17 (a) of the State Constitution provides the Board "sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of

benefits and related services to the participants and their beneficiaries.” Section 17 (b) further provides the “members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board’s duty to its participants and their beneficiaries shall take precedence over any other duty.”

Service Efforts and Accomplishments

City Charter Section 1112 requires that at least every five years the Mayor, Council and Controller, through an independent management auditing firm, conduct a management audit of the fund. The purpose of the audit is to ensure that the pension system is operating in the most efficient and economical manner and to evaluate the asset allocation of the System. Both the Board and staff are committed to providing the best possible service to our members in a cost-effective manner. The Mayor, Council and Controller selected Independent Fiduciary Services (IFS) to conduct our first audit since the Charter language was adopted in 2000. Work began in January and staff spent considerable time gathering requested documents to assist IFS in their evaluation. This spring, Board members and staff met with the auditors to discuss our specific policies and practices. The final audit will be released in late 2007.

This year the Board thoughtfully evaluated the strategic direction that the System should take to best achieve our mission — to advance the health and retirement security of those who dedicate their careers to serve and protect the people of Los Angeles. In March 2007, the Board adopted the first annual “Strategic Plan” which outlines the Board’s overall goals and specific projects to achieve them. The four goals of the Strategic Plan include customer service, risk management, communications and stakeholder relations and facility and resource analysis. Within these overall goals there are nine projects for 2007–08.

One of the biggest challenges we faced this past year was meeting the needs of the large number of members who were required to exit DROP in the spring, while enrolling new members who were concerned that the program might not continue. For the first five years of the program, we typically had less than 10 members exiting DROP each month. In April 2007, we had 172 members exit DROP and had 87 new enrollees. Staff worked to ensure that all of our members continued to receive the highest quality customer service during this period. Any future changes to the DROP program remain uncertain, but we expect resolution by the first quarter of 2008.

I want to thank the Board for its support of the many new initiatives designed to provide efficiencies in the services provided to our members, and in its work with staff and our consultants to take us to nearly 100 percent funding status. I would also like to thank the staff for their dedication and commitment to putting our members’ needs first. Working together we have made great strides in 2006 and have a strong foundation for 2007 and beyond. We will continue our mission with humility and pride as we support those making such great sacrifices for all of us.

Respectfully submitted,



Michael A. Perez
General Manager



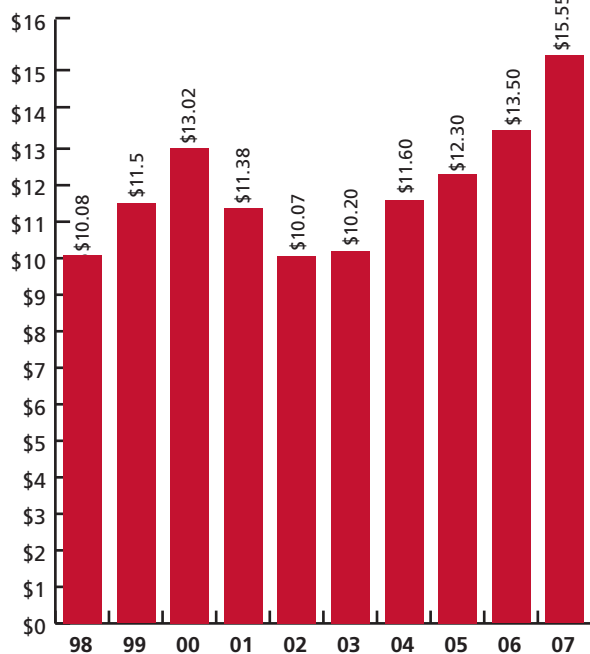
system INVESTMENTS

Summary of Investment Activities

INTRODUCTION

During the past five years, the System's assets have increased from \$10.07 billion to \$15.55 billion. The Fund grew by \$2.05 billion for the year ending June 30, 2007.

Market Value Growth of System Assets (IN BILLIONS)



INVESTMENT ENVIRONMENT

The bond market (*Lehman U.S. Universal Bond Index*) produced a return of 6.62 percent for the year ending June 30, 2007. Large company stocks (*S&P 500*) returned 20.59 percent. Small stocks (*Russell 2000 Index*) returned 16.44 percent. International stocks (*Morgan Stanley EAFE Index*) were the best performer returning a positive 27.54 percent. Real estate, as measured by the National Council of Real Estate Investment Fiduciaries Index (*NCREIF Property Index*) returned 17.25 percent.

INVESTMENT PERFORMANCE

The investment objectives of the total Fund, over a full market cycle (usually 5 to 7 years), is to earn a return on investments matching or exceeding the required actuarial rate of return of 8 percent, and investment performance above the median of a sampling of public funds.

For the past five years, the System's annualized return of 12.73 percent exceeded the actuarial rate of return and was higher than the Northern Trust Public Funds median return of 11.51 percent. For the one- and three-year periods, the System's overall investment performance was up 18.50 percent and 13.96 percent respectively, both of which also exceeded the actuarial rate of return and the median return.

The Fund was ranked in the 28th percentile for the one-year period, 16th percentile for the three-year period, and 23rd percentile for the five-year period ending June 30, 2007. For this past year, the System's 18.50 percent return exceeded the public fund median return of positive 17.24 percent. The System's top performers this year were its international equities, domestic equities and real estate, while the alternative investments and fixed income portfolios underperformed their benchmarks during this time period.

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 investment returns necessary to fund benefits.

The Board adopted the following asset class targets on January 18, 2007, pursuant to a recommendation by Pension Consulting Alliance, the Board's General Consultant.

Domestic Large Cap Equity	29.75%
Domestic Small Cap Equity	5.25%
International Equity	16.20%
Emerging Markets	1.80%
Domestic Bonds.....	17.50%
High Yield Bonds.....	4.50%
Real Estate	9.00%
Alternative Investments	10.00%
Hedge Funds	5.00%
Cash Equivalents.....	1.00%

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, 2007, the net asset values were as follows:

ASSET CLASS	MARKET VALUE (IN MILLIONS)	PERCENT
Stocks	\$ 9,822.1	63.2%
Bonds	3,664.1	23.6%
Real Estate	1,080.6	6.9%
Alternative Investments	528.8	3.4%
Hedge Funds	307.3	2.0%
Cash Equivalents	146.4	0.9%
Total	\$15,549.3	100.0%

INVESTMENT ACTIVITIES

The manager changes for the year included the termination of one real estate manager, and the hiring of three Fund of Hedge Funds managers. The following investment managers were rehired during the year: three domestic equity managers, three fixed income managers, one alternative investment advisor and three separate account real estate managers.

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, and one fixed income account that is a Lehman Brothers U.S. Aggregate Index fund. A list of our managers is at the end of this section.

The System invested in several new commingled real estate funds and purchased an apartment building in Allen, TX and an office building in Seattle, WA. Individual properties sold by the fund included an office building in Portland, OR and one building in an office/industrial complex of five buildings in Austin, TX.

PROXY VOTING

The System votes all domestic proxy ballots, which totaled 2,018 proxies and corporate consents for Fiscal Year 2006-2007. The international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines, and cast a total of 1,370 proxy ballots.

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.

Changes in Asset Mix: Last Ten Years

FISCAL YEAR	STOCKS	BONDS	REAL ESTATE	ALTERNATIVE INVESTMENTS	HEDGE FUNDS	SHORT-TERM INVESTMENTS
1997-98	60.62%	28.79%	3.91%			5.63%
1998-99	62.48%	24.97%	4.42%	1.56%		6.57%
1999-00	64.45%	22.53%	5.55%	2.65%		4.82%
2000-01	56.35%	25.24%	7.62%	3.31%		7.48%
2001-02	54.95%	27.74%	7.95%	3.52%		5.84%
2002-03	54.1%	31.4%	7.6%	3.50%		3.4%
2003-04	60.3%	28.0%	6.7%	3.50%		1.5%
2004-05	62.47%	28.05%	4.66%	3.24%		1.58%
2005-06	61.3%	26.5%	6.2%	3.7%		2.3%
2006-07	63.2%	23.5%	7.0%	3.4%	2.0%	0.9%

Annual Rates of Return

FISCAL YEAR	DOMESTIC EQUITIES	INTERNATIONAL EQUITIES	FIXED INCOME	REAL ESTATE	ALTERNATIVE INVESTMENTS	HEDGE FUNDS*	TOTAL FUND**	CPI***
1997-98	23.07%	12.42%	11.84%	18.20%			17.48%	1.69%
1998-99	25.53%	17.65%	2.44%	13.00%	12.46%		16.04%	1.96%
1999-00	17.91%	26.93%	3.90%	15.00%	42.14%		16.30%	2.87%
2000-01	-17.88%	-19.49%	2.35%	12.80%	1.58%		-10.00%	2.98%
2001-02	-17.64%	-6.57%	1.17%	1.10%	-17.05%		-7.97%	1.07%
2002-03	3.21%	-5.42%	15.29%	3.90%	-12.66%		5.47%	2.11%
2003-04	23.67%	35.82%	3.39%	6.50%	23.50%		16.92%	3.30%
2004-05	5.54%	15.68%	9.85%	9.58%	27.03%		10.07%	2.50%
2005-06	10.69%	29.35%	-0.91%	22.68%	27.24%		12.48%	4.3%
2006-07	20.05%	31.68%	6.52%	17.46%	17.35%	2.42%	18.50%	2.7%

* Hedge Funds return is for May and June only.

** Total fund includes short-term investments.

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

Investment Advisors

Stock Managers

Alliance Capital Management
Attucks Asset Management
Boston Partners Asset Management
Daruma Asset Management
Delta Asset Management
FIS Funds Management
Frontier Capital Management
Trust Company of the West

Bond Managers

Bridgewater
LM Capital Management
Loomis Sayles & Company
MacKay Shields
Northern Trust
Reams Asset Management
Western Asset Management Company

International Stock Managers

Brandes Investment Partners
Fisher Investments
Julius Baer Investment Management
Marvin & Palmer Associates
McKinley Capital Management
Principal Global Investors

Separate Account Real Estate Managers

Adelante Capital Management
Apollo Real Estate Advisors
Heitman Capital Management
Morgan Stanley Investment Management
Principal Global Advisors
Sentinel Real Estate Corporation
Urdang Associates Real Estate Advisors

Alternative Investment Managers

Abbott Capital Management
Portfolio Advisors

Fund of Hedge Funds Managers

Aetos Alternatives Management
Grosvenor Institutional Partners
K2 Advisors



actuarial VALUATION

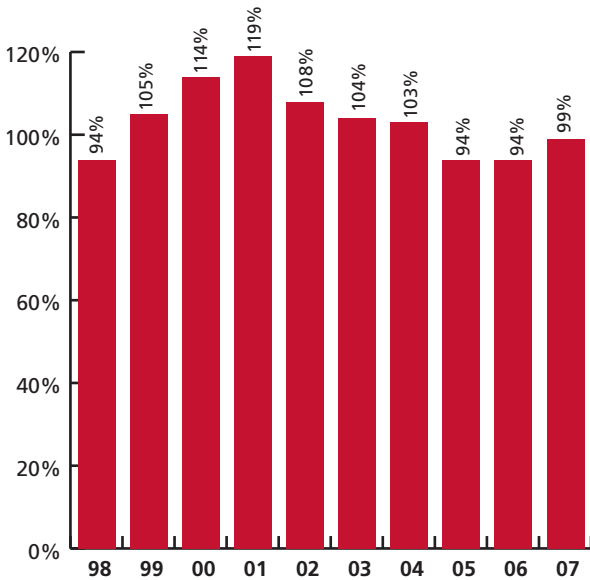
Actuarial Valuation Summary

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 System is examined over a span of several years to determine if progress is made. Satisfactory funding progress has occurred over the past ten years.

Funded Status



FUNDING STATUS AND TIER 5

Tier 5 provides for an employee contribution rate of 8 percent as long as the Plan is 100 percent actuarially funded. As of June 30, 2007, the Plan is 99.2 percent actuarially funded. Therefore, the employee pension contribution for Tier 5 members will remain at 9 percent until the Plan is at least 100 percent actuarially funded.

HOW A VALUATION IS CONDUCTED

The actuarial funding method used (Entry Age Normal Cost) is required by the Charter under Section 1210 (Fire and Police Pension Plans General Provision section) for Tier 1, Tier 2, Tier 3, Tier 4 and Tier 5. An actuarial valuation examines the membership of the System as currently constituted and 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 every three years.

These assumptions are recommended by an actuary and adopted by the Board of Fire and Police Pension Commissioners. The last experience study covered the period July 1, 2004 to June 30, 2007 and was adopted by the Board in October 2007. The adopted assumptions were used for the June 30, 2007 annual actuarial valuation. An example of projected mortality is as follows:

Average Life Expectancy for Retirees

Service Retiree (Age = 65)	19.2 years
Disabled Retiree (Age = 65)	16.8 years
Surviving Spouse (Age = 65)	20.1 years

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

Economic Assumptions

Annual Increase in the
Consumer Price Index 3.75%*
Annual Individual
Salary Increase varies by age

AGE	ANNUAL SALARY INCREASE**
20-24	6.34%
25-29	5.49%
30-34	4.37%
35-39	3.25%
40-44	2.25%
45-49	1.67%
50-54	1.37%
55-59	1.19%
60 and over	1.15%

Annual Increases in
Total System Payroll 3.75%
Investment Rate of Return 8.0%

* Tiers 3, 4 and 5 are capped at 3%.

** Includes 0.50% "across the board" salary increase.

PENSION BENEFIT BALANCE SHEET

Cost-of-living and individual salary assumptions are used to project the dollar amount of benefits to be paid. The total liability is then reduced to today's dollar terms using the investment rate of return assumption.

Once the liabilities of the System are computed, the valuation study projects the member contributions expected to be received, which are reduced to today's dollar terms using the investment rate of return assumption. The individual salary increase 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 benefit 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 Fire and Police 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 on the assumed rate of return.

UNFUNDED ACTUARIAL ACCRUED LIABILITY

An unfunded actuarial accrued liability (UAAL) of a retirement system occurs when the system's actuarial liability is greater than the value of its assets, or when the funded ratio is less than 100 percent. As of June 30, 2007, the Actuarial Balance Sheet (see page 15) shows the UAAL for pension benefits for all tiers to be approximately \$108 million, a decrease from last fiscal year's balance of \$690 million. The UAAL for health subsidy benefits for all tiers combined is approximately \$970 million.

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

The gains and losses reflected in the UAAL must be amortized over a period of time and are a key component of the City's required contribution to the System.

CONTRIBUTION REQUIREMENTS CALCULATION

The City contribution is composed 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 and Administrative Code. The amortization period for Tier 1 and Tier 2 is scheduled to end on June 30, 2037.

Tier 1 is amortized as a level dollar amount. Tier 2 is amortized as a level percent of all System members' (Tiers 1, 2, 3, 4 and 5 combined) salaries. Tiers 3, 4 and 5's amortization basis is a level percentage of Plan members' salaries over a continuous 15-year cycle. Each year's actuarial gain or loss is amortized over 15 years. Any gains or losses resulting from benefit changes are amortized over a 30-year period. With this information, the actuary computes the contribution requirements for the City.

Entry Age Normal Cost Contribution Requirements Recommended 2008-2009*

(as a percentage of Plan members' salaries)

Tier 1	0.0%
Tier 2	21.98%
Tier 3	17.26%
Tier 4	15.47%
Tier 5	18.90%
Harbor Port	
Police (<i>Tier 5</i>)	19.49%

* Contributions to be made on July 15, 2008.

Unfunded Liability Contribution Requirements Recommended 2008-2009*

Tier 1	\$18,836,736
Tier 2	-1.98% of total payroll of Tiers 1, 2, 3, 4, 5
Tier 3	3.62% of Tier 3 payroll
Tier 4	2.20% of Tier 4 payroll
Tier 5	0.55% of Tier 5 payroll
Harbor Port	
Police (<i>Tier 5</i>)	0.0% of Harbor Tier 5 Payroll

* Contributions to be made on July 15, 2008.

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 30, 2007 actuarial valuation included medical trend rate increases of 9 percent for pre-65 and post-65 premiums in 2007, both decreasing gradually to 5.0 percent in 2016 and thereafter. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health subsidy benefits is shown on page 15.

The contributions suggested to fund the health subsidy are:

Health Contribution Rates Recommended 2008-2009*

(as a percentage of Plan members' salaries)

Tier 1	\$1,694,574
Tier 2	5.39%
Tier 3	6.11%
Tier 4	6.47%
Tier 5	3.94%
Total	6.50%
Harbor Port	
Police (<i>Tier 5</i>)	3.79%

* Contributions to be made on July 15, 2008.

Actuarial Balance Sheet – June 30, 2007

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

ASSETS	RETIREMENT	HEALTH	TOTAL
1. Valuation value of assets	\$13,215,668,458	\$687,096,380	\$13,902,764,838*
2. Present value of future normal costs			
Employee	953,024,004		953,024,004
Employer	2,265,650,334	388,376,155	2,654,026,489
Total	3,218,674,338	388,376,155	3,607,050,493
3. Unfunded actuarial accrued liability	108,421,170	969,556,769	1,077,977,939
4. Present value of current and future assets	\$16,542,763,966	\$2,045,029,304	\$18,587,793,270

PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS AND RESERVE

LIABILITIES	RETIREMENT	HEALTH	TOTAL
5. Present value of future benefits			
Retired members and beneficiaries	\$7,836,708,025	\$1,003,043,279	\$8,839,751,304
Inactive members with vested rights	21,121,595		21,121,595
Active members	8,684,934,346	1,041,986,025	9,726,920,371
6. Total present value of expected future benefit payments	\$16,542,763,966	\$2,045,029,304	\$18,587,793,270

*Includes \$6,058,515 of discounted Harbor Port Police assets transferred from LACERS in October 2007.



department BUDGET

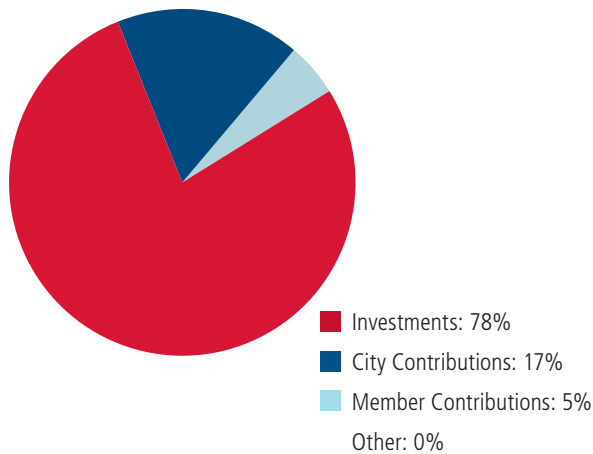
Department Budget

RECEIPTS	BUDGETED 2006-07	ACTUAL 2006-07
City Contribution	\$279,608,763	\$279,608,763
Excess Benefit Plan	111,844	106,421
Member Contributions	99,675,857	91,263,474
Earnings on Investments	350,000,000	424,606,919
Gain (Loss) on Sale of Investments	—	865,957,766
UFLAC Settlement	500,000	500,000
Miscellaneous ⁽¹⁾	1,000,000	2,413,092
Total Receipts	\$730,896,464	\$1,664,456,435

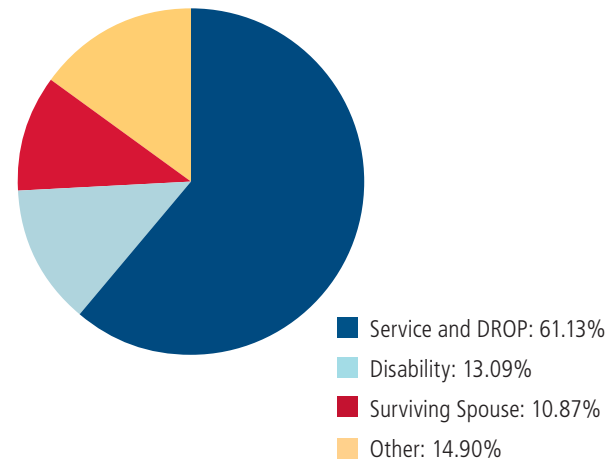
⁽¹⁾ Actual miscellaneous receipts include donations from outside entities. Donations are not budgeted. Donations totaling \$864,281 were received in this fiscal year.

EXPENDITURES	BUDGETED 2006-07	ACTUAL 2006-07
Service Pensions	\$378,967,000	\$377,413,857
Service Pensions – DROP Payout	45,376,000	148,530,771
Disability Pensions	111,809,000	112,642,343
Surviving Spouses’ Pensions	94,621,000	93,510,057
Minors’/Dependents’ Pensions	1,500,000	1,819,758
Refund of Member Contributions	4,455,000	4,792,898
Health Insurance Subsidy	85,000,000	53,079,360
Dental Insurance Subsidy	3,116,000	2,269,755
Medicare	9,500,000	6,258,210
Health Insurance Reimbursement	800,000	608,697
Investment Management Expense	53,121,650	47,759,114
Administrative Expense	13,645,300	11,630,121
Total Expenditures	\$801,910,950	\$860,314,941
Increase (Decrease) in Fund Balance	\$(71,014,486)	\$804,141,494

Receipts



Expenditures





auditor's REPORT

**CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM**

FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

**CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
STATEMENTS OF PLAN NET ASSETS	3
STATEMENTS OF CHANGES IN PLAN NET ASSETS	4
NOTES TO FINANCIAL STATEMENTS	5
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE 1A - Schedule of Funding Progress – Pension Plan	23
SCHEDULE 1B – Schedule of Funding Progress – Health Subsidy Plan	23
SCHEDULE 2A – Schedule of Employer Contributions – Pension Plan	24
SCHEDULE 2B –Schedule of Employer Contributions – Health Subsidy Plan	24
Notes to Schedules of Funding Progress and Employer Contributions	25
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	28



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRADNARD C. SIMPSON, CPA
& ARLENE SIMPSON, CPA

1600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90010
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Fire and Police
Pension Commissioners
Los Angeles, California

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2007 and 2006, 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 auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2007 and 2006, and changes therein for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007 on our consideration of the System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The CPA. Never Underestimate The Value.™



Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules and the related notes are presented for the purpose of additional analysis and are not a part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly presented in all material respects, when considered in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Simpson & Simpson
November 20, 2007

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF PLAN NET ASSETS**

ASSETS	June 30, 2007			June 30, 2006
	Pension	Health Subsidy	Combined	Combined
Cash	\$ 4,795,792	\$ 248,901	\$ 5,044,693	\$ 712,400
Receivables				
Accrued Interest and Dividends	49,814,264	2,585,352	52,399,616	48,570,636
Contributions	5,511,909	286,067	5,797,976	5,640,840
Due from Brokers	256,080,193	13,290,519	269,370,712	339,017,755
Total Receivables	<u>311,406,366</u>	<u>16,161,938</u>	<u>327,568,304</u>	<u>393,229,231</u>
Investments at Fair Value				
Temporary	576,958,031	29,944,025	606,902,056	767,314,885
U.S. Government Obligations	1,534,269,323	79,628,321	1,613,897,644	1,479,902,172
Domestic Corporate Bonds	1,883,735,788	97,765,572	1,981,501,360	1,927,855,410
Foreign Bonds	32,059,127	1,663,863	33,722,990	5,825,140
Domestic Stocks	6,267,874,638	325,301,643	6,593,176,281	5,561,773,481
Foreign Stocks	3,080,143,953	159,858,955	3,240,002,908	2,684,964,028
Real Estate	1,121,309,590	58,195,780	1,179,505,370	1,034,390,568
Alternative Investments	786,144,470	40,800,766	826,945,236	484,313,113
Total Investments	<u>15,282,494,920</u>	<u>793,158,925</u>	<u>16,075,653,845</u>	<u>13,946,338,797</u>
Securities Lending Collateral	<u>2,929,105,547</u>	<u>152,020,087</u>	<u>3,081,125,634</u>	<u>2,492,659,412</u>
TOTAL ASSETS	<u>18,527,802,625</u>	<u>961,589,851</u>	<u>19,489,392,476</u>	<u>16,832,939,840</u>
LIABILITIES				
Accounts Payable and Accrued Expenses	14,537,459	754,492	15,291,951	9,859,740
Benefits in Process of Payment	29,735,893	197,339	29,933,232	11,918,515
Due to Brokers	474,501,044	24,626,525	499,127,569	505,682,310
Mortgage Payable	323,341,239	16,781,356	340,122,595	309,658,988
Securities Lending Collateral	2,929,105,547	152,020,087	3,081,125,634	2,492,659,412
TOTAL LIABILITIES	<u>3,771,221,182</u>	<u>194,379,799</u>	<u>3,965,600,981</u>	<u>3,329,778,965</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS	<u>\$ 14,756,581,443</u>	<u>\$ 767,210,052</u>	<u>\$ 15,523,791,495</u>	<u>\$ 13,503,160,875</u>

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS**

	Year Ended June 30, 2007			Year Ended June 30, 2006
	Pension	Health Subsidy	Combined	Combined
ADDITIONS				
Contributions				
City Contributions	\$ 224,946,082	\$ 55,162,681	\$ 280,108,763	\$ 175,359,083
Member Contributions	91,263,474	-	91,263,474	79,402,694
Total Contributions	316,209,556	55,162,681	371,372,237	254,761,777
Investment Income				
Net Appreciation in Fair Value of Plan Investments, Including Gains and Losses on Sales	1,977,505,066	104,941,826	2,082,446,892	1,196,506,562
Interest	170,382,033	9,041,798	179,423,831	175,036,705
Dividends	164,765,973	8,743,766	173,509,739	142,897,955
Net Real Estate Income	39,540,351	2,098,319	41,638,670	41,370,198
Income from Alternative Investments	12,599,256	668,615	13,267,871	8,191,101
Securities Lending Income	9,532,658	505,877	10,038,535	11,573,821
Less: Securities Lending Expense	(1,187,347)	(63,010)	(1,250,357)	(1,365,442)
Other Income	7,576,559	402,071	7,978,630	387,372
Subtotal	2,380,714,549	126,339,262	2,507,053,811	1,574,598,272
Less: Investment Manager Expense	(45,352,364)	(2,406,750)	(47,759,114)	(41,524,390)
Net Investment Income	2,335,362,185	123,932,512	2,459,294,697	1,533,073,882
Other Income				
Donations	820,727	43,554	864,281	-
Miscellaneous	1,470,760	78,051	1,548,811	1,425,026
Total Other Income	2,291,487	121,605	2,413,092	1,425,026
TOTAL ADDITIONS	2,653,863,228	179,216,798	2,833,080,026	1,789,260,685
DEDUCTIONS				
Pension Benefits	733,810,365	-	733,810,365	591,041,908
Payment of Medicare Reimbursement	-	6,258,210	6,258,210	5,565,510
Payment of Health Subsidy	-	55,957,812	55,957,812	53,120,341
Refund of Contributions	4,792,898	-	4,792,898	4,113,034
Administrative Expenses	11,044,038	586,083	11,630,121	9,617,352
TOTAL DEDUCTIONS	749,647,301	62,802,105	812,449,406	663,458,145
NET INCREASE	1,904,215,927	116,414,693	2,020,630,620	1,125,802,540
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS				
Beginning of Year	12,852,365,516	650,795,359	13,503,160,875	12,377,358,335
End of Year	\$ 14,756,581,443	\$ 767,210,052	\$ 15,523,791,495	\$ 13,503,160,875

The notes are an integral part of these financial statements.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS

The City of Los Angeles Fire and Police Pension System (the System or the Plan) operates under the City of Los Angeles Charter and Administrative Code provisions, which provide that the funding requirements of the System will be satisfied by the City of Los Angeles. The funding requirements of the System are determined by the result of annual actuarial valuations.

Pension Plan

The System is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain port police officers of the City of Los Angeles. As of June 30, 2007, the System is composed of five tiers. Benefits are based on the members' pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Those members hired on or before January 28, 1967 participate in Tier 1. Tier 2 includes members hired on or after January 29, 1967, and Tier 1 members who transferred to Tier 2. Members hired on or after December 8, 1980 participate in Tier 3, and those hired on or after July 1, 1997 are in Tier 4. Tier 3 members were allowed to transfer to Tier 4 during an enrollment period. Also, Tier 4 members hired between July 1, 1997 and December 31, 1997 could elect to transfer to Tier 3 during an enrollment period. Tier 5 is the current Tier established for all firefighters and police officers hired on or after January 1, 2002. Active members of Tiers 2, 3, and 4 were allowed to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002.

The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ending June 30, 1983, or have since been hired. Tier 5 is also the current tier for all harbor port police officers hired on or after January 8, 2006. Port police officers hired before January 8, 2006 who were members of LACERS were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 through January 5, 2007.

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

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

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

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

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

Tier 5 members must be age 50, with at least 20 years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. On July 1, 2006, eligible Tier 5 pensioners, including Tier 5 pensioners in DROP, had an additional 2.1% deposited in the COLA bank. The City Council may grant an ad-hoc COLA no more than every three years. Members who terminate their employment are entitled to a refund of their contributions plus Board approved interest if they do not qualify for a pension or if they waive their pension entitlements.

SINCE THE PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE CITY CHARTER AND ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518 and 1618 of the City Charter, Section 4.2018 of the Administrative Code, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60. Temporary subsidies are available to certain groups at earlier ages. For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

Administrative Code Section 4.1154 (e) provides that beginning in 2006, the System's Board is authorized to make discretionary changes, on an annual basis, to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. Effective July 1, 2006, the maximum subsidy amount is \$782.44 per month. The System also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

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

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

At June 30, 2007, of \$15,523,791,495 in total net assets available for benefits, \$767,210,052 was determined to be available for the Health Subsidy Plan based on a percentage derived from the actuarial report adopted on November 15, 2007.

Health Insurance Premium Reimbursement Program

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

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The Pensioner (whether living or deceased) must have had at least ten years of sworn service and must have met minimum age requirements on the effective date of retirement. The pensioner or qualified surviving spouse/domestic partner must reside either outside California or in the state of California but not within a City-approved health plan zip code service area. They may not be enrolled in a City-approved plan.

The reimbursement paid is a percentage of a maximum subsidy for health care based on the lesser of the health subsidy in effect for LACERS (civilian retirees) and active Safety Members. Effective July 1, 2006, the maximum subsidy amount is \$782.44 per month. For members with Medicare Parts A and B, a different subsidy maximum is used. The System also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Dental Subsidy Plan

Effective January 1, 2002, members of the System are entitled to post-employment dental subsidy benefits under Section 4.1164 of the Administrative Code.

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

The benefit paid is a percentage of a maximum subsidy for dental care based on the lesser of the dental subsidy in effect for LACERS (civilian retirees) and active Safety Members. The maximum subsidy amount was \$34.84 for the period July 1, 2006 through December 31, 2006. Effective January 1, 2007 the maximum subsidy amount is \$37.18 per month. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, members of the System have the option to enroll in the Deferred Retirement Option Plan (DROP) under Section 4.2100 of the Administrative Code. Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3 and 5 who have at least 25 years of service and who are at least age 50 are eligible for DROP.

Letters of Agreement have been signed to extend DROP for a five-year period, until April 30, 2012. The City will complete an actuarial study of the DROP program in order to evaluate the cost neutrality of the DROP program. If the actuary determines that DROP is not cost neutral, the City and the unions will negotiate adjustments to the program. These adjustments would be effective no later than May 1, 2008. If the City and the unions cannot agree on necessary plan adjustments by March 1, 2008, the City will suspend new entrants into DROP until an agreement is reached.

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

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

At June 30, 2007 and 2006, 1,200 and 1,215 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of \$213,000,000 and \$255,000,000, respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership were as follows at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Active Nonvested:		
Tier 1	--	--
Tier 2	--	--
Tier 3	167	360
Tier 4	331	354
Tier 5	<u>8,592</u>	<u>8,145</u>
	<u>9,090</u>	<u>8,859</u>
Active Vested:		
Tier 1	--	--
Tier 2	225	240
Tier 3	863	717
Tier 4	139	135
Tier 5	<u>2,901</u>	<u>2,952</u>
	<u>4,128</u>	<u>4,044</u>
Pensioners and Beneficiaries:		
Tier 1	929	996
Tier 2	9,341	9,542
Tier 3	388	357
Tier 4	117	102
Tier 5	<u>1,199</u>	<u>818</u>
	<u>11,974</u>	<u>11,815</u>
	<u>25,192</u>	<u>24,718</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 accounting principles generally accepted in the United States of America, as outlined in the Governmental Accounting Standards Board (GASB).

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 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.

Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, U.S. Treasury bills and repurchase agreements along with bonds, stocks and alternative investments are reported at fair value.

Pooled temporary investments represent funds invested in a custodian-managed discretionary short-term investment fund. This fund invests in a variety of U.S. and foreign securities rated A1 or P-1, or equivalent quality as determined by the custodian.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the System's year-end. Resulting gains or losses are included in the System's statement of changes in plan net assets.

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers.

Alternative investments are comprised predominantly of limited partnerships that invest mainly in privately-owned companies. The fair values of alternative investments are estimated by the General Partners based on consideration of various factors, including current net asset valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the General Partners of investee limited partnerships.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by an annual external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers.

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 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 recorded on ex-dividend date and interest income are accrued as earned.

E. Estimates

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

F. Implementation of New Accounting Pronouncement

The System implemented the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal year 2006-07. Other postemployment benefits (OPEB) include postemployment healthcare, as well as other nonpension benefits provided to employees as part of their compensation for services.

NOTE 3 - FUNDING POLICY

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of Tier 5 contributions contingent on the System remaining at least 100% actuarially funded for pension benefits. Effective July 1, 2006, Tier 5 members are required to contribute 9% of salary because the System was 94.1% actuarially funded based on the actuarial valuation report as of June 30, 2005.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 3 - FUNDING POLICY (Continued)

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 members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4 and 5, any "unfunded liability" 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.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C above, for the year ended June 30, 2007 to be as follows:

	Percentage of Members' Salaries				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Entry-Age Normal Cost Contribution	N/A	23.74%	15.43%	12.84%	16.62%
Amortization of Unfunded Liability *	\$22.0M	\$24.4M	\$18.7M	\$ 6.9M	\$159.2M
Health Plan Subsidy *	\$ 2.2M	\$26.2M	\$(2.5)M	\$(0.4)M	\$31.0M

*Stated as required dollar amount.

The actuarially determined unfunded liability (UAAL) of the System was \$1,077,977,939 and \$1,707,386,108 at June 30, 2007 and 2006, 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, UAAL at June 30, 2007 is to be amortized over the next 30 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

During fiscal year 2007, total contributions of \$371,372,237 (\$280,108,763 from the City and \$91,263,474 from the members) were made, with respect to the pension and health subsidy plans, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2005. For the pension plan, the contributions included City contributions of \$181.7 million for normal cost and \$43.3 million for unfunded supplemental present value annual amount. For the health plan subsidy, the contributions consisted of \$29.7 million for normal cost and \$25.4 million for unfunded actuarial accrued liability annual amount.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 fair value plus any accrued interest for U.S. securities lending and 105 percent of the fair value plus any accrued interest for non-U.S. securities lending. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The borrower has all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify the System as a result of the custodian's failure to: (1) make a reasonable determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action, (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examinations Council Supervisory Policy on Securities Lending.

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

As required by GASB, cash received as collateral on securities lending transactions is reported as assets, and the liabilities from these transactions are reported in the statement of plan net assets. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

The following represents the balances relating to the security lending transactions as of June 30, 2007.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 4 - SECURITIES LENDING (Continued)

Fair Value of collateral received for loaned securities as of June 30, 2007:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Collateral Securities</u>
U. S. Government and Agency Securities	\$1,182,199,380	\$160,330,449	\$1,342,529,829
Domestic Corporate Fixed Income Securities	145,722,601	51,404,181	197,126,782
International Fixed Income Securities	3,663,798	--	3,663,798
Domestic Stocks	1,214,386,613	22,061,905	1,236,448,518
International Stocks	<u>535,153,242</u>	<u>28,560,972</u>	<u>563,714,214</u>
	<u>\$ 3,081,125,634</u>	<u>\$262,357,507</u>	<u>\$3,343,483,141</u>

Fair value of loaned securities as of June 30, 2007:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Fair Value of Underlying Securities</u>
U. S. Government and Agency Securities	\$1,160,074,419	\$157,036,948	\$1,317,111,367
Domestic Corporate Fixed Income Securities	142,591,825	50,501,085	193,092,910
International Fixed Income Securities	3,504,844	--	3,504,844
Domestic Stocks	1,186,271,669	21,505,516	1,207,777,185
International Stocks	<u>510,303,340</u>	<u>27,170,309</u>	<u>537,473,649</u>
	<u>\$3,002,746,097</u>	<u>\$256,213,858</u>	<u>\$3,258,959,955</u>

As of June 30, 2007, the fair value of total securities lent was \$3,258,959,955. The fair value of collateral received was \$3,343,483,141. Of this amount, \$3,081,125,634 represents cash collateral and \$262,357,507 represents the fair value of non-cash collateral. Non-cash collateral, which the system does not have the ability to pledge or sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were \$10,038,535 and \$1,250,357, respectively for the year ended June 30, 2007.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS

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

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. The carrying value of cash and temporary investments at June 30, 2007 includes \$5,044,693 held by the City Treasurer's office and \$606,902,056 in short-term investment funds (STIF). The amounts held by the City Treasurer's office are pooled with funds of other City agencies and are not individually identifiable. Short-term investments are comprised of \$606,902,056 in collective STIF.

Credit Risk

Credit risk is the risk that an issuer or a counter party to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class. As of June 30, 2007, the quality ratings of the System's fixed income investments in U.S. Government obligations, domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 187,444,142	9.31%
AA	37,072,568	1.84%
A	96,735,171	4.80%
BBB	287,832,095	14.28%
BB	232,429,412	11.53%
B	267,268,448	13.26%
CCC	97,927,481	4.86%
Not Rated	<u>808,515,033</u>	<u>40.12%</u>
Subtotal	\$2,015,224,350	<u>100.00%</u>
U. S. Government Issued or Guaranteed Securities	<u>1,613,897,644</u>	
Total Fixed Income Investments	<u>\$3,629,121,994</u>	

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2007, the System's exposure to such risk was \$20,401,971 comprised of foreign currencies held outside the custodial bank.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counter party, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counter party. The System's investments are not exposed to custodial risk since they are all held by the custodian and are registered in the System's name.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2007 the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways the System manages its exposure to interest rate risk is by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Lehman Brothers Aggregate Index for core fixed income investments, (2) the Lehman Brothers Long Term Government/Corporate Index for long duration investments, and (3) the First Boston High Yield Index for high yield investments. The longer the duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the System's investments to interest rate fluctuations is provided in the following table that shows the weighted average effective duration of the System's fixed income investments by investment type.

Investment Type	Fair Value	Effective Duration (in Years)
Asset Backed Securities	\$ 58,385,970	5.10
Commercial Mortgages	65,992,589	31.70
Corporate Bonds	1,189,991,014	24.38
Government Agencies	104,532,319	2.13
Government Bonds	623,414,243	16.17
Government Mortgage Backed Securities	344,905,333	16.03
Index Linked Government Bonds	541,045,749	10.57
Non-Government Backed Collateralized Mortgage Obligations	16,521,082	24.54
Bond Index Fund	<u>684,333,695</u>	22.34
 Total Fixed Income Investments	 <u>\$ 3,629,121,994</u>	

Investments that are highly sensitive to interest rate risk as of June 30, 2007 are as follows:

Investment Type	Fair Value
Asset Backed Securities	\$ 58,385,970
Commercial Mortgages	65,992,589
Government Agencies	104,532,319
Government Mortgage Backed Securities	344,905,333
Index Linked Government Bonds	541,045,749
Non-Government Backed Collateralized Mortgage Obligations	<u>16,521,082</u>
	<u>\$ 1,131,383,042</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 18% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks. The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2007 are as follows:

<u>Foreign Currency Type</u>	<u>Fair Value</u>
Australian Dollar	\$ 77,911,554
Brazilian Real	55,688,545
British Pound	471,779,614
Canadian Dollar	42,586,998
Chile Peso	778,944
Czech Koruna	15,893,718
Danish Krone	21,384,645
Egyptian Pound	3,774,601
Euro	1,229,400,194
Hong Kong Dollar	101,057,912
Hungarian Forint	24,379,924
Indonesian Rupiah	9,143,097
Israeli Shekel	2,420,889
Japanese Yen	604,166,677
Korean Won	134,144,862
Mexican Peso	17,045,586
Myanmar Kyat	19,188,744
New Zealand Dollar	13,542,885
Norwegian Krone	46,531,856
Philippine Peso	5,056,349
Polish Zloty	24,631,062
Russian Ruble	631,146
Singapore Dollar	12,446,445
South African Rand	32,096,436
Swedish Krona	75,669,907
Swiss Franc	161,439,666
Taiwan New Dollar	59,198,100
Thai Baht	2,020,199
Turkish New Lira	9,875,154
	<u>\$ 3,273,885,709</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 6 - FUTURES AND FORWARD CONTRACTS

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

At June 30, 2007, the System had notional value of \$205,258,624 exposure in futures and forward contracts in foreign currency exchange transactions with an unrealized gain of \$1,357,665. At June 30, 2007, the System held other futures and forward contracts with a notional value of \$135,498,204 with an unrealized gain of \$12,563.

NOTE 7 - MORTGAGES PAYABLE

Mortgages are secured by real estate. Interest rates range from 4.35% to 7.5% per annum. Monthly principal and interest payments range from \$48,520 to \$1,242,765. The mortgages mature from February 2008 to June 2032. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 16,875,493	\$ 19,995,142	\$ 36,870,635
2009	60,623,324	16,883,942	77,507,266
2010	22,070,450	15,071,483	37,141,933
2011	35,515,803	13,675,665	49,191,468
2012	2,600,288	12,589,263	15,189,551
2013 through 2017	150,750,266	37,572,486	188,322,752
2018 through 2022	15,620,053	15,369,711	30,989,764
2023 through 2027	20,164,425	9,091,841	29,256,266
2028 through 2032	<u>15,902,493</u>	<u>2,484,592</u>	<u>18,387,085</u>
	<u>\$ 340,122,595</u>	<u>\$ 142,734,125</u>	<u>\$ 482,856,720</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 8 - OPERATING LEASE

The System leases office space under an operating lease that expires on April 14, 2012.

The annual lease payments for the year ended June 30, 2007, were \$826,998 and the minimum lease commitments for futures fiscal years are as follows:

2008	\$ 991,346
2009	1,020,676
2010	1,056,662
2011	1,100,942
2012	<u>1,155,586</u>
	<u>\$ 5,325,212</u>

NOTE 9 - CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982 have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right was \$1,188,525,936 and \$1,168,037,586 as of June 30, 2007 and 2006, respectively.

The Charter of the City of Los Angeles provides that member contributions earn interest at a rate based on return from investments, exclusive of gains and losses.

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$572,908,000 and \$678,300,000 at June 30, 2007 and 2006 respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 10 - DONATIONS

From 1999 to 2002, the System received donations of non-voting common stock of non-public corporations, pursuant to repurchase agreements, between the System and the donors, structured entirely by the donors' tax advisers. Under the terms of the agreements, the System, although the owner of the donated common stock, acknowledge that: the non-voting common shares have not been registered under the Federal Securities Act of 1933 or qualified under the California Corporate Securities Law of 1968; that no public market exists with respect to the non-voting common shares; and, that the common shares are subject to a right of first refusal prohibiting the System from selling or otherwise disposing of any common shares without first offering to sell them to the donor. The shares are recorded at carry and market values of zero for the following reasons: (1) there is no public market for the shares, (2) the System does not have the right to sell or otherwise dispose of the shares until the agreed upon future date, and (3) the shares were received as a donation for no consideration. Donation income is only recorded if cash dividends are received from the stock while in the possession of the System.

The System has been informed that the Internal Revenue Service is investigating the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System. The last donation of private equity accepted by the System was in 2002. The System has returned majority of donation of private equity since August 2005. The System has received the following income from these donations: \$2,685,000 in 2002; \$2,918,066 in 2003; \$14,402,308 in 2004; \$7,791,262 in 2005, none in 2006, and \$864,281 in 2007.

**CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

SCHEDULE 1A

SCHEDULE OF FUNDING PROGRESS – 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, 2002	\$11,491,922,362	\$10,606,825,276	\$ (885,097,086)	108.3%	\$ 946,037,252	(93.6%)
June 30, 2003	11,690,750,393	11,203,558,461	(487,191,932)	104.3%	970,726,720	(50.2%)
June 30, 2004	11,735,696,180	11,389,980,813	(345,715,367)	103.0%	1,001,003,937	(34.5%)
June 30, 2005	11,634,113,683	12,357,524,467	723,410,784	94.1%	1,037,444,701	69.7%
June 30, 2006	12,121,402,902	12,811,383,737	689,980,835	94.6%	1,092,814,844	63.1%
June 30, 2007	13,215,668,458	13,324,089,628	108,421,170	99.2%	1,135,591,951	9.5%

SCHEDULE 1B

SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL As a % of Payroll
June 30, 2002	\$ 586,953,850	\$ 884,371,214	\$ 297,417,364	66.4%	\$ 946,037,252	31.4%
June 30, 2003	592,539,000	926,760,943	334,221,943	63.9%	970,726,720	34.4%
June 30, 2004	605,998,904	1,009,062,407	403,063,503	60.1%	1,001,003,937	40.3%
June 30, 2005	597,199,108	1,257,504,654	660,305,546	47.5%	1,037,444,701	63.6%
June 30, 2006	613,782,166	1,631,187,439	1,017,405,273	37.6%	1,092,814,844	93.1%
June 30, 2007	687,096,380	1,656,653,149	969,556,769	41.5%	1,135,591,951	85.4%

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

SCHEDULE 2A

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2002	\$ 73,120,666	100%
2003	64,634,125	100%
2004	97,465,612	100%
2005	135,853,688	100%
2006	143,945,802	100%
2007	224,946,082	100%

SCHEDULE 2B

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution (1)</u>	<u>Percent Contributed</u>
2002	\$ 30,326,543	100%
2003	33,894,924	100%
2004	38,737,255	100%
2005	31,541,933	100%
2006	31,413,281	100%
2007	55,162,681	100%

- (1) Payable throughout the plan year. For years 2007 and prior, Annual Required Contribution may not have been determined in compliance with GASB 43 and 45 due to maximum amortization period and for the medical trend rate employed. All results for 2007 and prior years were based on valuation by the actuary.

CITY OF LOS ANGELES
 FIRE AND POLICE PENSION SYSTEM
 NOTES TO SCHEDULES OF FUNDING PROGRESS AND
 EMPLOYER CONTRIBUTIONS

NOTE 1 – DESCRIPTION

The information presented in the required supplementary schedules for the Pension and Health Subsidy Plan was determined as part of the actuarial valuations for the applicable year.

NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS

Pension Plan

Valuation Date – June 30, 2007

Actuarial Cost Method – Entry Age Normal Cost Method

Amortization Method – For Tier 1, level dollar amortization is used ending on June 30, 2037. For Tier 2, level percent of payroll amortization is used ending on June 30, 2037 as a percent of total valuation payroll. For other Tiers, level percent of payroll with multiple layers. Actuarial gains/losses are amortized over 15 years (21 years for gains/losses at June 30, 2007). Plan and assumption changes are amortized over 30 years.

Asset Valuation Method – Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period.

Other Actuarial Assumptions:

Investment Return Rate:	8.00%
Inflation Rate:	3.75%
Real Across-the-Board Salary Increase:	0.50%
Projected Salary Increase:	4.90% through 10.09%
Annual Salary Scale Increase:	
Age:	(Varies by age)
Under 25	5.84%
25-29	4.99%
30-34	3.87%
35-39	2.75%
40-44	1.75%
45-49	1.17%
50-54	0.87%
55-59	0.69%
60 and Over	0.65%
Cost-of-Living Adjustments:	
Tiers 1 and 2:	3.75%
Tiers 3, 4, and 5:	3.00%

CITY OF LOS ANGELES
 FIRE AND POLICE PENSION SYSTEM
 NOTES TO SCHEDULES OF FUNDING PROGRESS AND
 EMPLOYER CONTRIBUTIONS
 (Continued)

NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

Pension Plan (Continued)

Mortality Among Retirees – The valuation for those on service retirement is based upon the RP-2000 Combined Healthy Mortality Table (separate for males and females) set back two years for members. The valuation for those on disability retirement is based upon the RP-2000 Combined Healthy Mortality Table (separate for males and females) set forward one year for members.

Mortality Among Beneficiaries – The valuation is based upon the RP-2000 Combined Healthy Mortality Table (separate for males and females) for beneficiaries.

Health Subsidy Plan

Valuation Date – June 30, 2007

Actuarial Cost Method – Entry Age Normal, Level Percent of Pay

Amortization Method – Level Percent of Pay Over 30 Years (with the exception of Tier 1 that is amortized as a level dollar)

Remaining Amortization Period – 29 Years as of June 30, 2007

Asset Valuation Method – The actuarial value of assets is a five-year smoothed market value of assets. This method recognizes 20 percent of the year's investment earnings in excess of (or less than) expected investment earnings in the current year and each of the four prior years. The expected value of assets for the year is the market value of assets at the beginning of the prior year brought forward with interest at the assumed rate of return to the end of the current year plus contributions minus benefit disbursements, all adjusted with interest at the assumed rate of return to the end of the current year.

Other Actuarial Assumptions:

Projected Payroll Increase – 4.25%

Health Care Cost Trend Rate:

Medical (applicable to both pre-65 and post-65 Premiums)	9.00%*
Dental	5.00%
Medical Part B	4.07%**

*Decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%

**Adjusting to 5% for all years

Participation – 80% of all eligible retirees under age 65 are assumed to receive a subsidy for an approved health carrier. 90% of all eligible future retirees age 65 and older are assumed to receive a subsidy for an approved health carrier.

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

CITY OF LOS ANGELES
 FIRE AND POLICE PENSION SYSTEM
 NOTES TO SCHEDULES OF FUNDING PROGRESS AND
 EMPLOYER CONTRIBUTIONS
 (Continued)

NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

Health Subsidy Plan (Continued)

Dental Coverage – 70% of future retirees are assumed to elect dental coverage.

Spousal Coverage – 65% of future retirees who receive a medical subsidy are assumed to elect coverage for married and surviving spouses or domestic partners.

Spouse Age Difference – Husbands are assumed to be 3 years older than wives.

Other actuarial assumptions on mortality rates, consumer price index, net investment return, age of spouse, and future benefit accruals are the same as for retirement benefits.

The following methodology is used to develop per capita cost to be used in the valuation of current active health subsidies. The assumed costs on a composite basis (and other demographic factors such as sex and family status) are the future costs of providing postretirement health care benefits at each age. To determine the assumed costs on a composite basis, historical claims costs are reviewed, and adjusted for increases in the cost of health care services.

For Participants Under Age 65:

Plan	Election Percentage	Maximum Subsidies			Utilization
		Single	Married	Surviving Spouse	
Fire Medical	15%	\$ 837.21	\$ 837.21	\$ 492.36	80%
Blue Cross PPO	55%	837.21	837.21	492.36	80%
California Care	15%	837.21	837.21	492.36	80%
Fire Kaiser	0%	837.21	837.21	492.36	80%
Police Kaiser	15%	837.21	837.21	492.36	80%
Dental	100%	37.18	37.18	0.00	70%

For Participants Age 65 and Over:

Plan	Election Percentage	Maximum Subsidies			Utilization
		Single	Married	Surviving Spouse	
Fire Medical	35%	\$ 364.22	\$ 597.11	\$ 364.22	90%
Blue Cross PPO	45%	353.67	696.09	353.67	90%
California Care	5%	307.92	628.05	307.92	90%
Fire Kaiser	5%	343.97	743.77	343.97	90%
Police Kaiser	10%	210.54	532.38	210.54	90%
Dental	100%	37.18	37.18	0.00	70%
Medicare B	100%	93.50	93.50	0.00	100%



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRIANARD C. SIMPSON, CPA
CAROL P. SIMPSON, CMA

3600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90008
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
WWW.SIMPSONANDSIMPSONCPAS.COM

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Fire and Police
Pension Commissioners
Los Angeles, California

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2007 and 2006, and related statements of changes in plan net assets for the years ended, and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

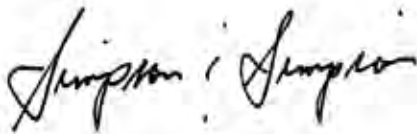
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Fire and Police Pension Commissioners, the System's audit committee and management, and is not intended to be and should not be used by anyone other than these specified parties.



Simpson & Simpson
Los Angeles, California
November 20, 2007



active and retired
MEMBERSHIP

FIRE AND POLICE PENSION PLANS

SIX FIRE AND POLICE PENSION PLANS

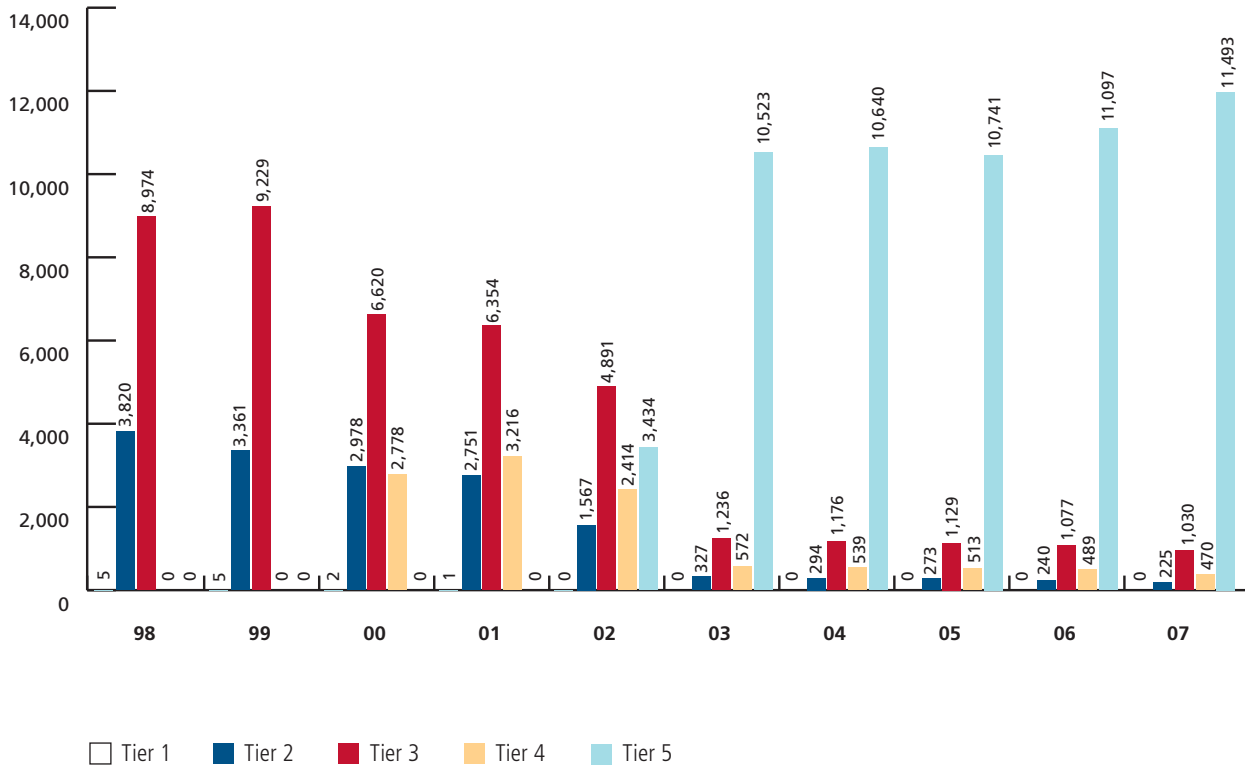
As of June 30, 2007, the System is composed of six tiers. Benefits are based on the member's pension tier, pension salary base and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

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

Members hired on or before January 28, 1967 participate in Tier 1 (formerly Article XVII). Tier 2 (formerly Article XVIII) includes members hired on or after January 29, 1967 and Tier 1 members who transferred to Tier 2. Members hired on

or after December 8, 1980 participate in Tier 3 (formerly Article XXXV, Plan 1) and those hired on or after July 1, 1997 are in Tier 4 (formerly Article XXXV, Plan 2). Tier 3 members were allowed to transfer to Tier 4 during an enrollment period. Also, Tier 4 members hired between July 1, 1997 and December 31, 1997 were given the opportunity to transfer to Tier 3 during an enrollment period. Tier 5 is the only tier accepting new members. It was established for all members hired on or after January 1, 2002. Active members of Tiers 2, 3 and 4 were allowed to transfer to Tier 5 during the enrollment period from January 1, 2002 through December 31, 2002. Additionally, eligible sworn members of the Harbor Department hired prior to January 8, 2006 were provided the option to transfer to Tier 5 from LACERS during the period January 8, 2006 through January 5, 2007. Harbor Department eligible sworn personnel hired on or after January 8, 2006 are automatically enrolled as Tier 5 members.

Active Membership Last Ten Years



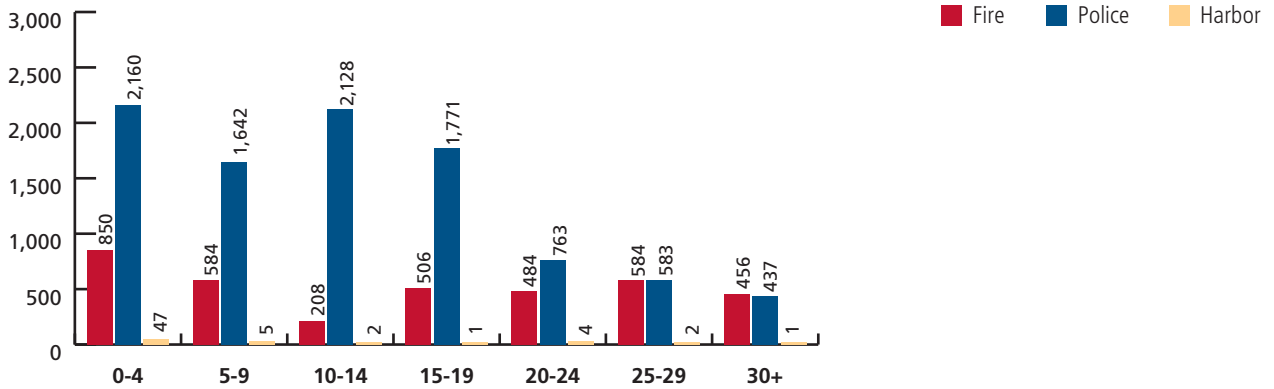
MEMBERSHIP AS OF JUNE 30, 2007

TIER	FIRE	POLICE	HARBOR	TOTAL
Tier 1	0	0	0	0
Tier 2	93	132	0	225
Tier 3	33	997	0	1,030
Tier 4	62	408	0	470
Tier 5	3,484	7,947	62	11,493
Total	3,672*	9,484**	62	13,218

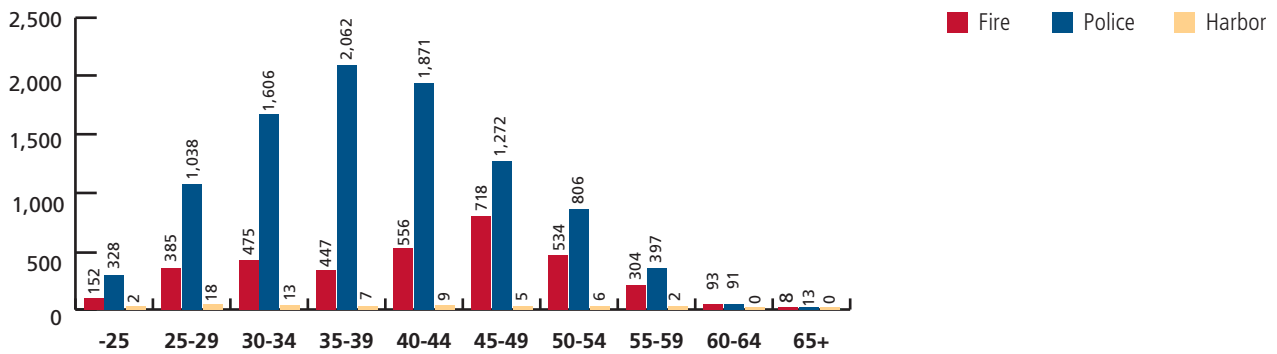
*Includes 541 DROP participants.

**Includes 685 DROP participants.

Active Membership by Years of Service



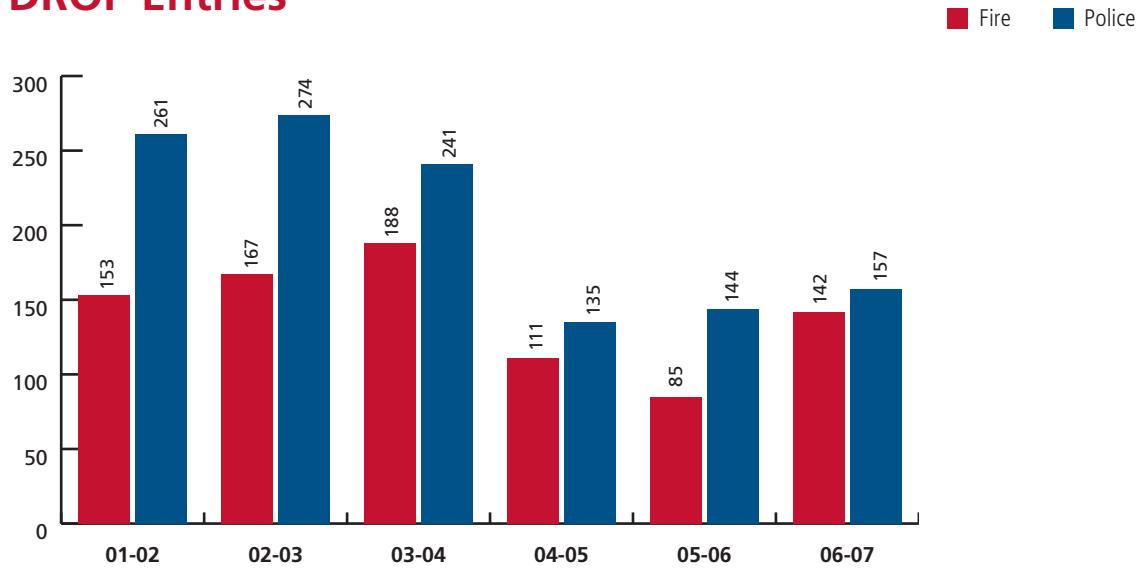
Active Membership by Age Group



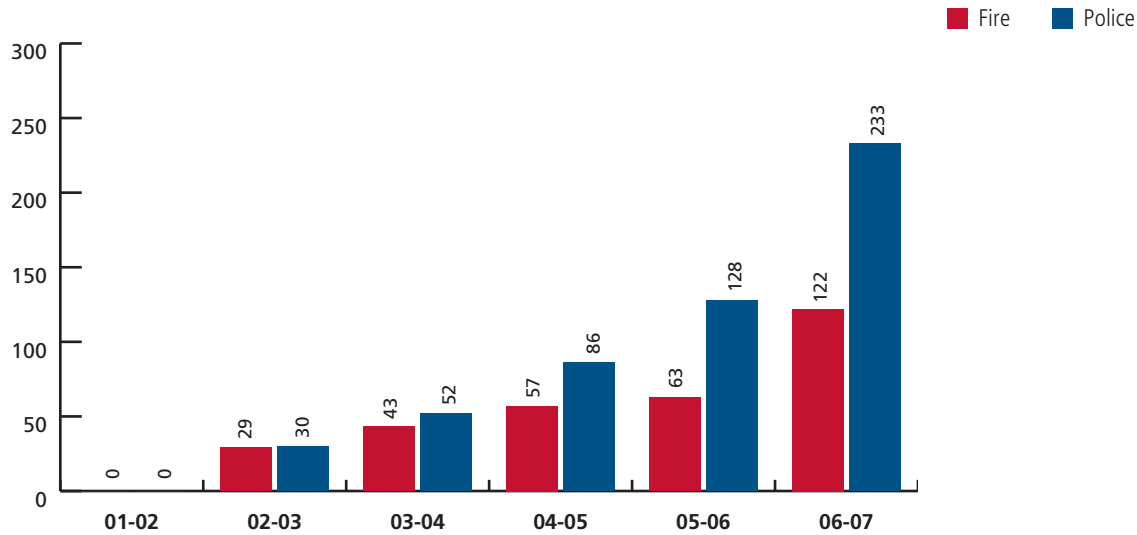
REFUNDS OF MEMBER CONTRIBUTIONS

	01-02	02-03	03-04	04-05	05-06	06-07
Fire:						
Tier 2	0	0	0	0	0	0
Tier 3	3	1	0	1	0	0
Tier 5	0	6	10	15	17	6
Police:						
Tier 2	4	0	0	0	0	1
Tier 3	117	49	39	29	22	15
Tier 5	13	37	54	55	64	97
Harbor:						
Tier 5	0	0	0	0	0	1
Total	137	93	103	100	103	120

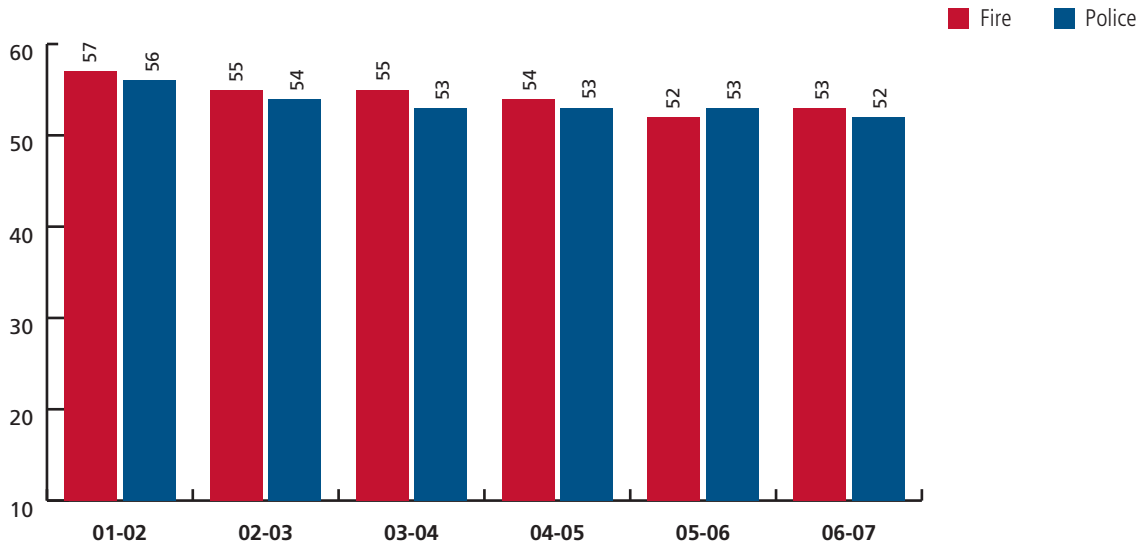
Deferred Retirement Option Plan (DROP) DROP Entries



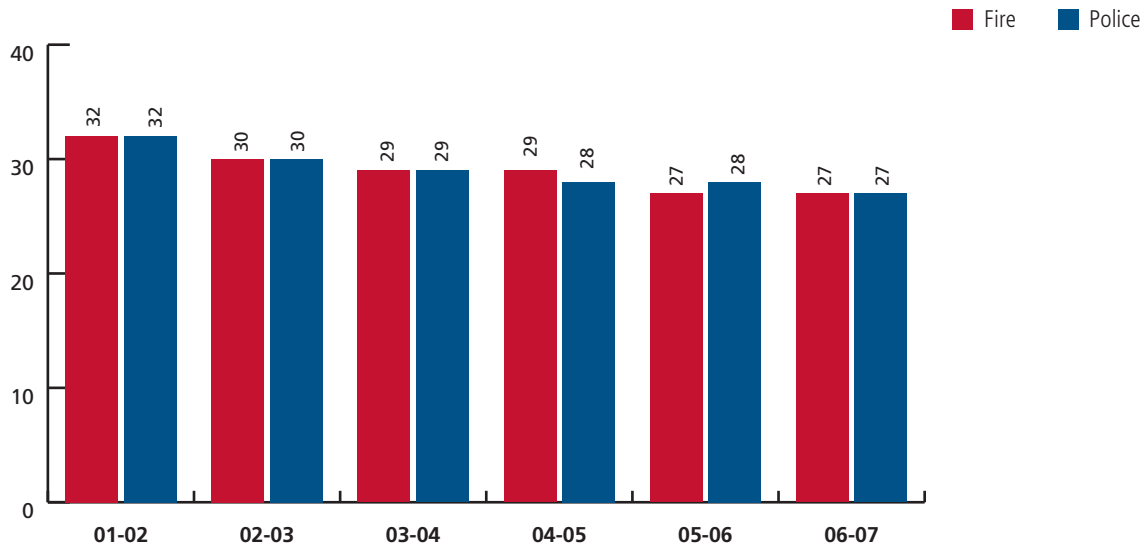
DROP Exits Granted



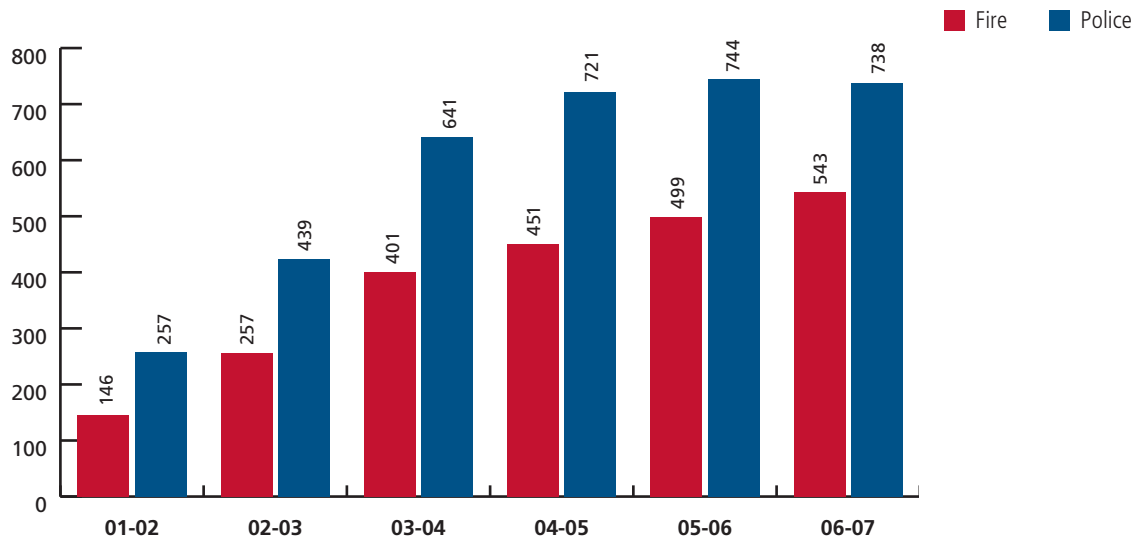
Deferred Retirement Option Plan (DROP) Average Age at DROP Entry



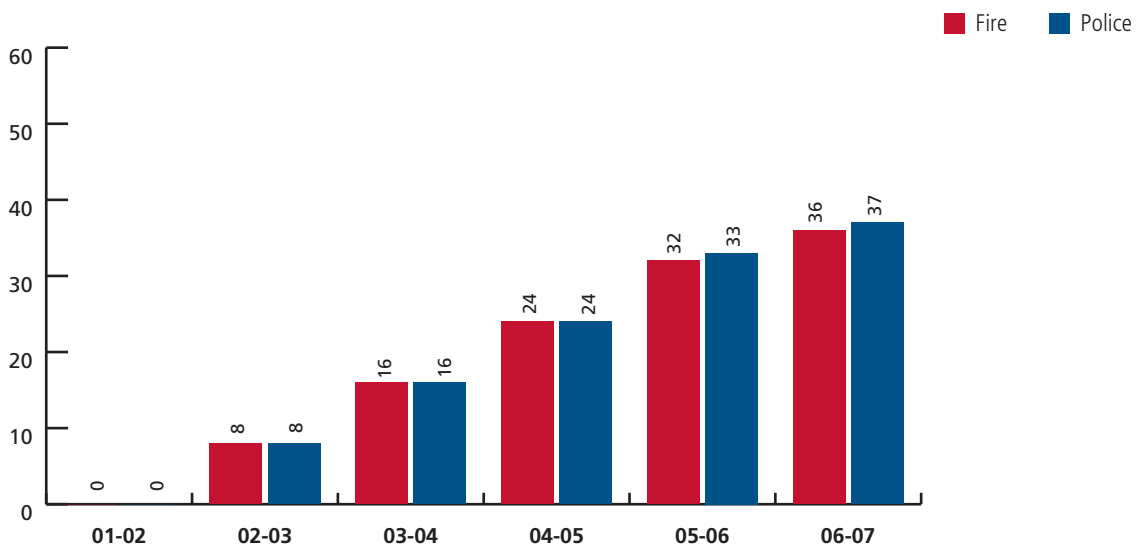
Average Years of Service at DROP Entry



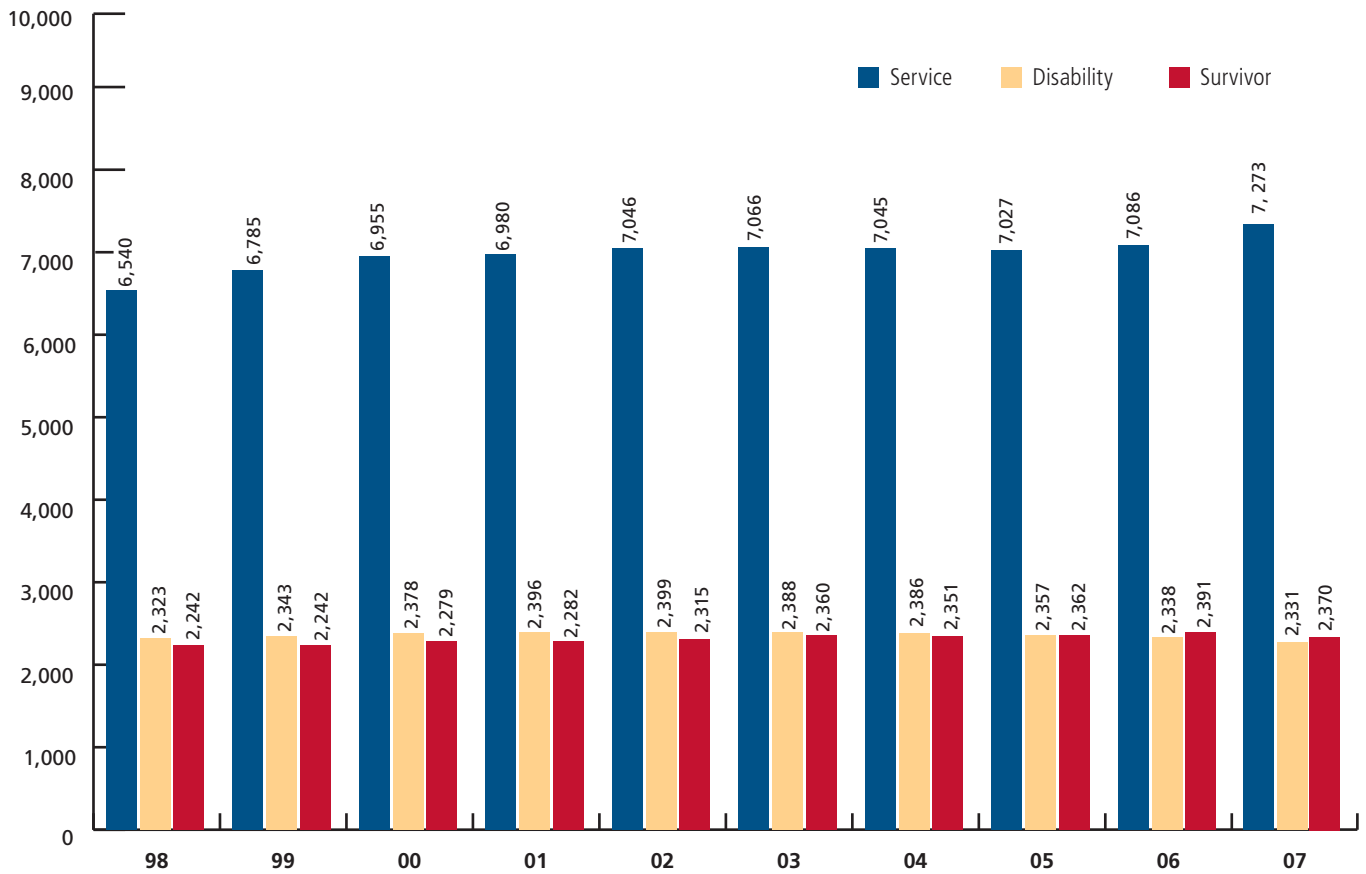
Deferred Retirement Option Plan (DROP) Average DROP Participation



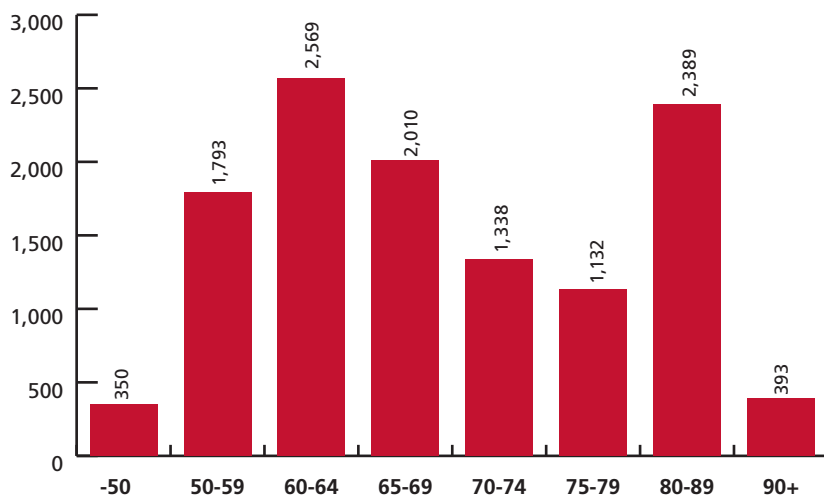
Average DROP Duration at Exit (Months)



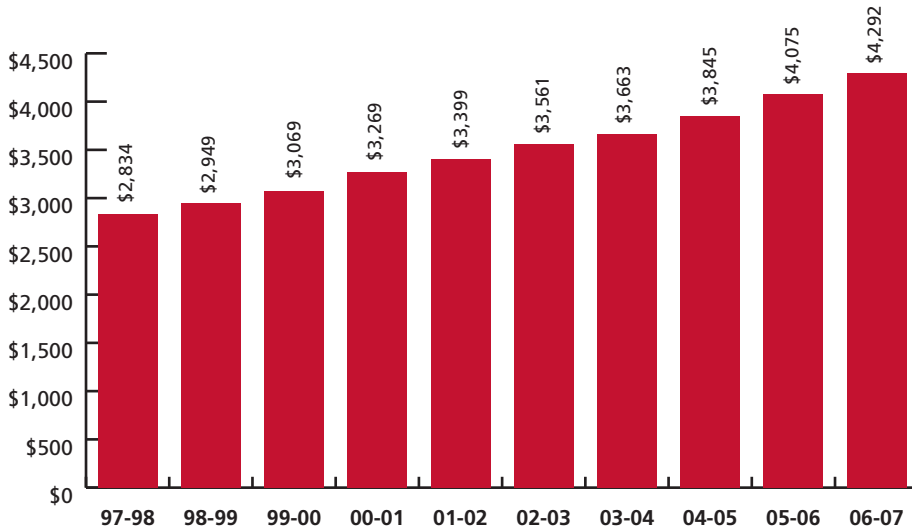
Retired Membership Last Ten Years



Retired Membership by Age Group



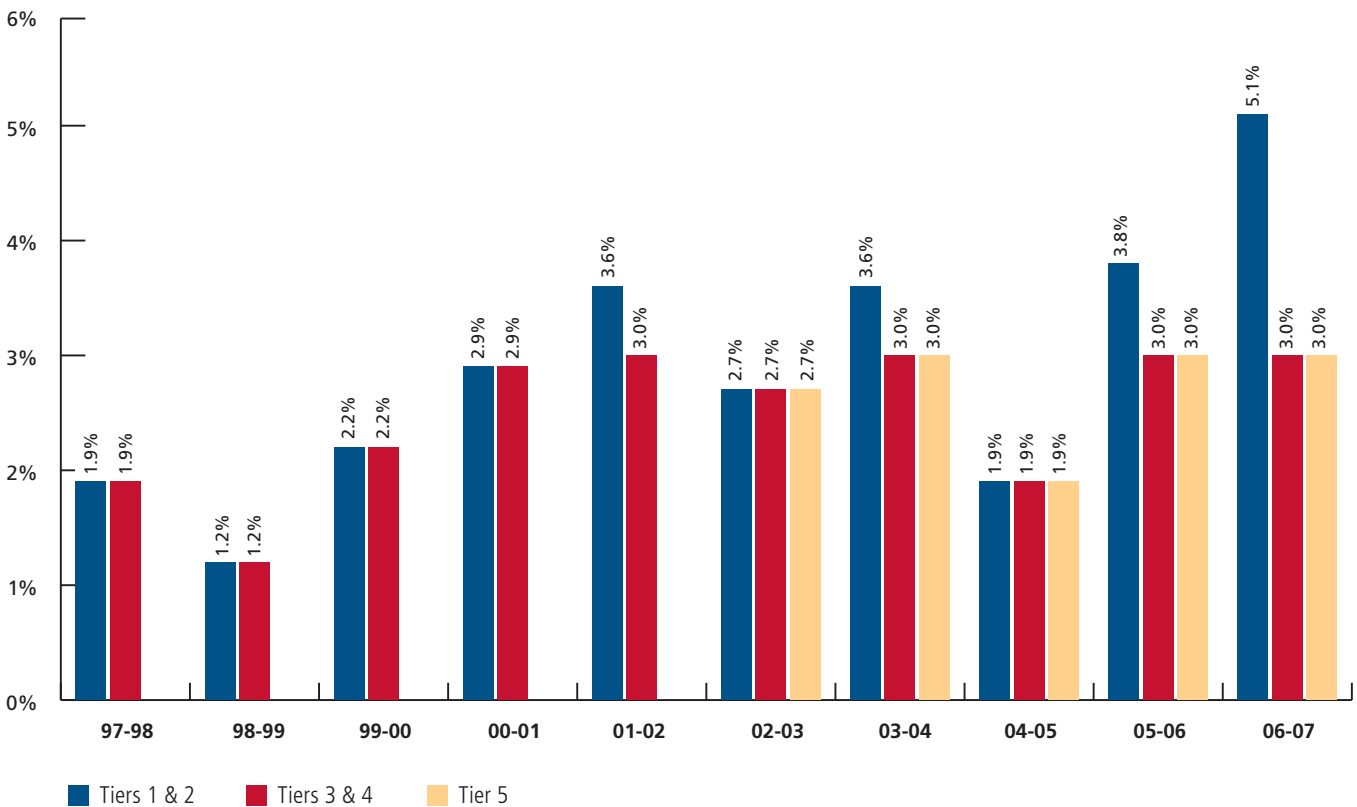
Average Monthly Pension



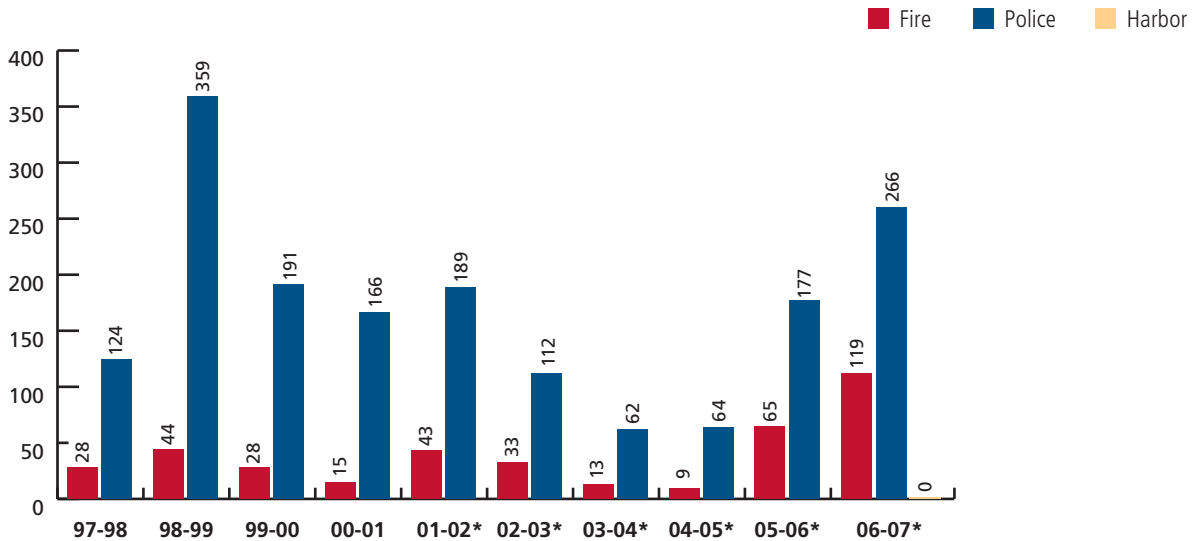
Cost-of-Living Adjustments

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 Tier 1 and Tier 2 have no cap on their cost-of-living adjustments. Members of Tiers 3, 4 and 5 have cost-of-living increases capped at 3 percent. Members of Tier 5 also have a COLA bank feature.

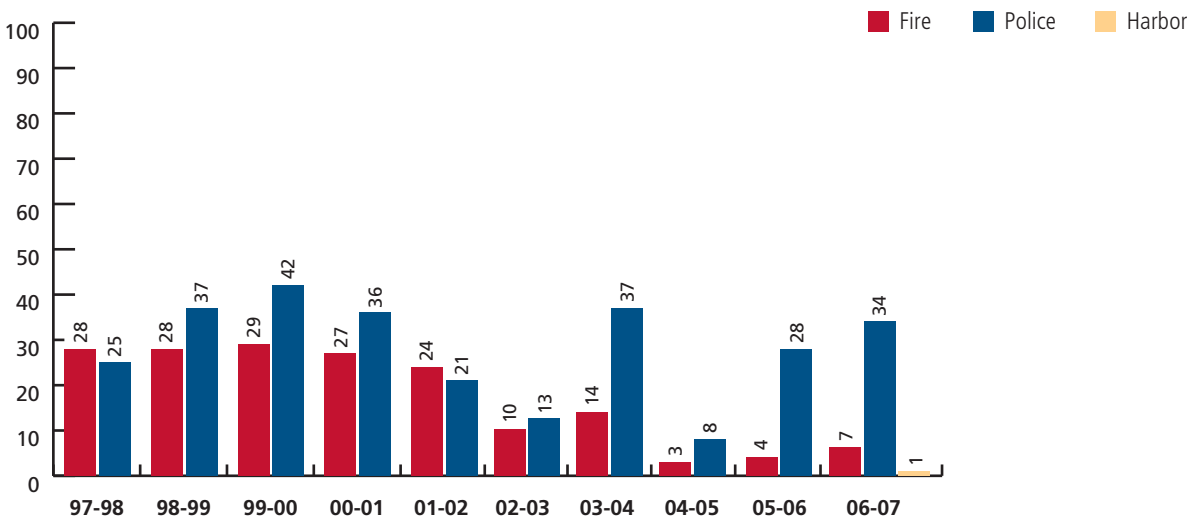


Pension Statistics: Last Ten Years Service Pensions Granted

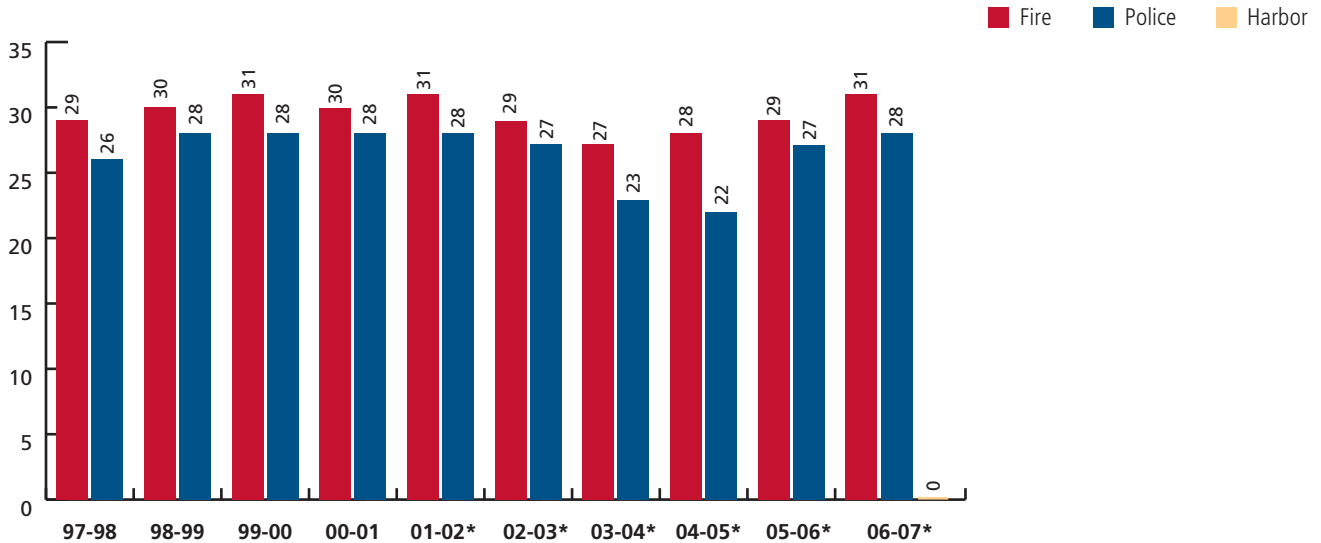


*Excludes DROP Exits.

Disability Pensions Granted

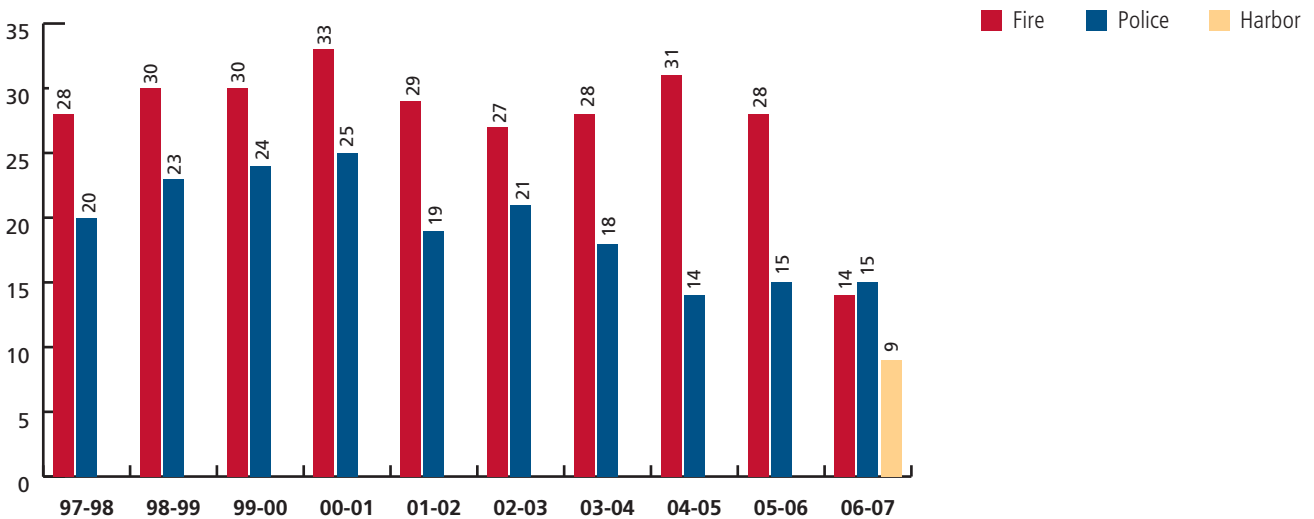


Pension Statistics: Last Ten Years Average Years of Service at Service Retirement

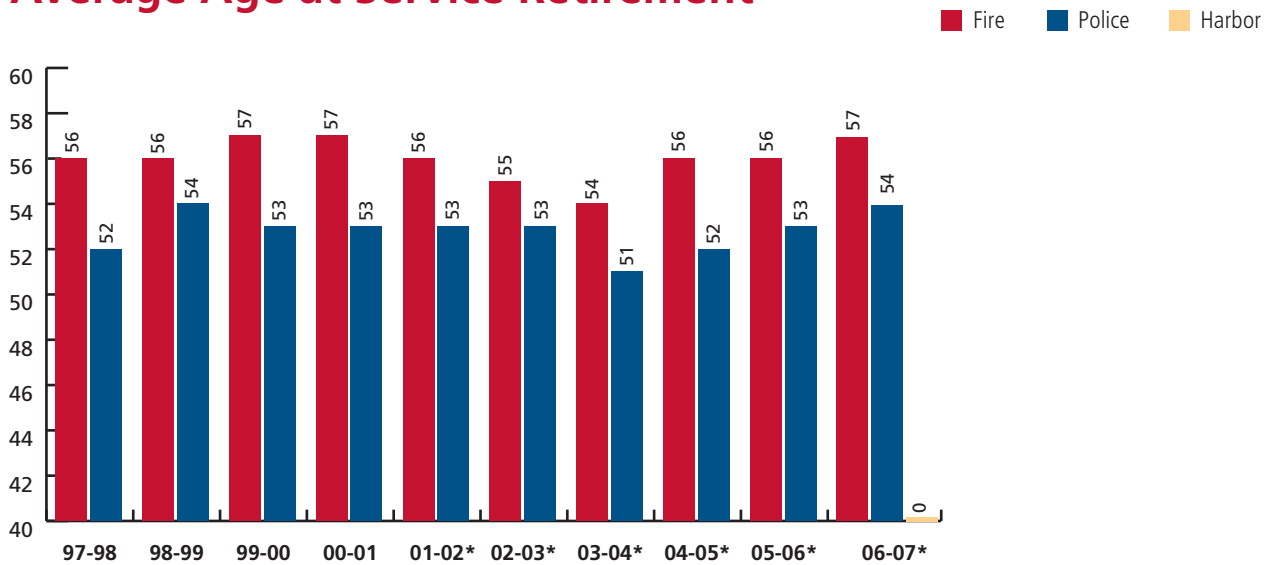


*Excludes DROP Exits.

Average Years of Service at Disability Retirement

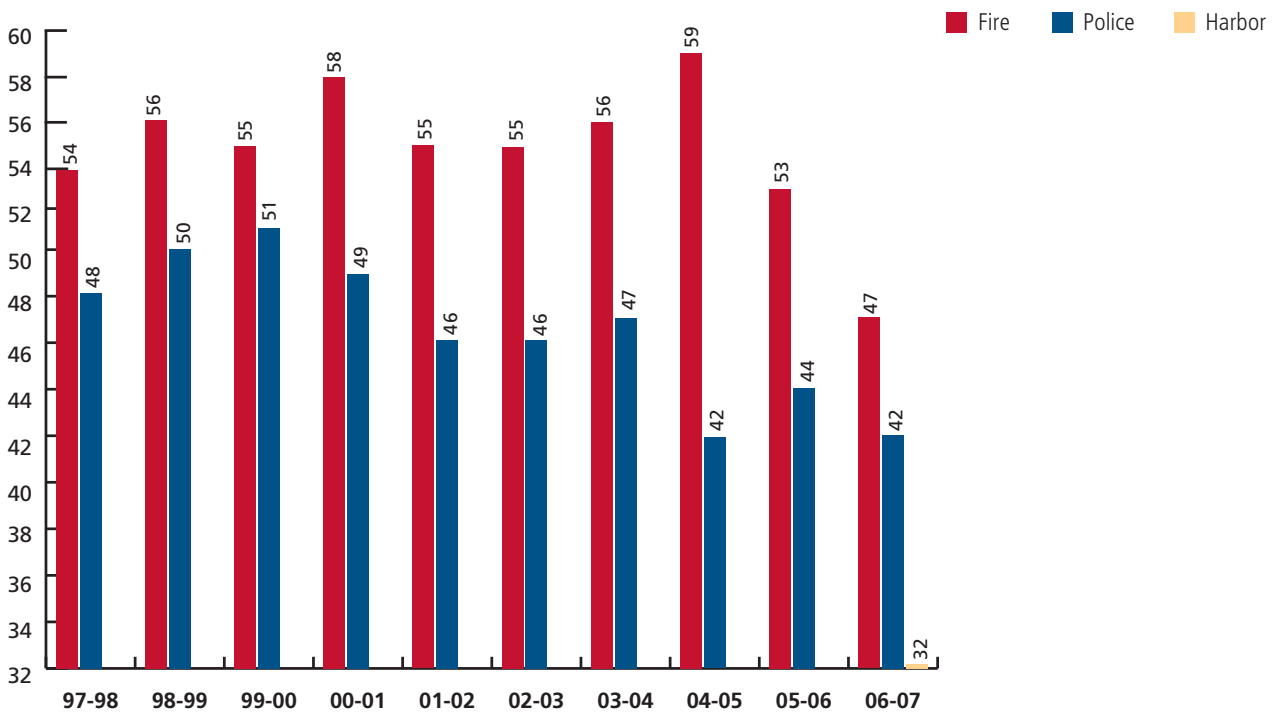


Pension Statistics: Last Ten Years Average Age at Service Retirement



*Excludes DROP Exits.

Average Age at Disability Retirement



Service-Connected Disability Pensions by Type and Department

DISABILITY PENSIONS GRANTED	FISCAL YEAR 2002-03			FISCAL YEAR 2003-04			FISCAL YEAR 2004-05			FISCAL YEAR 2005-06			FISCAL YEAR 2006-07		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Physical Only	13	24	37	13	24	37	12	16	28	4	20	24	5	27	32
Physical/Psychiatric	1	2	3	1	10	11	0	7	7	0	6	6	2	10	12
Psychiatric Only	0	0	0	0	1	1	0	1	1	0	0	0	0	3	3
TOTAL	14	26	40	14	33	47	12	24	36	4	26	30	7	40	47
TYPES OF CLAIMS*	FISCAL YEAR 2002-03			FISCAL YEAR 2003-04			FISCAL YEAR 2004-05			FISCAL YEAR 2005-06			FISCAL YEAR 2006-07		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Back	7	16	23	12	27	39	10	9	19	4	17	21	5	27	32
Neck	0	4	4	3	10	13	6	12	18	2	9	11	1	13	14
Knees	3	3	6	7	15	22	6	9	15	2	10	12	1	5	6
Other Orthopedic	7	20	27	8	21	29	6	14	20	1	26	27	6	19	25
Cardiovascular	3	8	11	2	9	11	2	5	7	1	7	8	0	5	5
Ulcer	4	5	9	0	11	11	1	7	8	0	4	4	0	4	4
Hypertension	2	7	9	1	8	9	0	4	4	2	4	6	0	8	8
Pulmonary	1	1	2	2	0	2	0	0	0	1	1	2	1	1	2
Cancer	1	0	1	3	1	4	0	2	2	0	1	1	0	1	1
Gun Shot Wound	0	0	0	0	1	1	0	0	0	0	0	0	0	1	1
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 Retirement by Department and Rank

FIRE	02-03	03-04	04-05	05-06	06-07	POLICE	02-03	03-04	04-05	05-06	06-07
Firefighter	7	5	6	0	4	Police Officer	5	25	14	15	25
Apparatus Operator	0	1	0	0	1	Sergeant	5	2	7	7	6
Engineer	3	2	3	1	1	Detective	9	8	2	3	10
Inspector	0	0	1	0	0	Lieutenant	6	0	1	1	1
Captain	4	6	2	2	1	Captain	1	2	0	0	0
Battalion Chief	0	0	0	1	0	Commander	1	0	0	0	0
Assistant Chief	1	0	0	0	0	Deputy Chief	0	0	0	0	0
Deputy Chief	0	0	0	0	0	Assistant Chief	0	0	0	0	0
TOTAL	15	14	12	4	7	TOTAL	27	37	24	26	42



legal SUMMARY

Summary of Legal Activities

FISCAL YEAR 2006–2007

Under City Attorney Rockard J. Delgadillo, the Retirement Benefits Division of the Los Angeles City Attorney's Office, led by Managing Assistant City Attorney Alan L. Manning, along with Deputy City Attorneys John C. Blair, Mary Jo Curwen and Michael R. Wilkinson, and assisted by legal Secretary Rebecca Clark, provided day-to-day assistance on the myriad of legal issues facing the Department and the members and beneficiaries of the Plan. As legal counsel to the Board of Fire and Police Pension Commissioners and the Department, the City Attorney's Office provided advice on a wide

range of subjects, from Brown Act issues and public record requests to Tier 5 and Deferred Retirement Option Plan (DROP) issues and compliance with new tax regulations. Additionally, the Division provided representation for the Board and the Department in all legal matters. It assisted members and their beneficiaries in understanding the effects of dissolution proceedings on pension and DROP benefits. The Division worked with the Department staff on ordinances and City Charter changes, including Medicare Part B, Public Service Purchase Program, Survivor Purchase Program for Retirees, Return to Active Duty, an extension of DROP and Recall to Duty.

A stylized graphic at the top of the page features a city skyline in light blue and white against a dark blue background. A prominent palm tree is positioned on the right side of the skyline. Below the skyline, a red silhouette of a city skyline is visible against a red background.

summary of PENSION PLAN BENEFITS

Fire and Police Pension Plan

- Tier 1 (Formerly Article XVII)
(Closed Jan. 28, 1967)
- Tier 2 (Formerly Article XVIII)
(Closed Dec. 7, 1980)
- Tier 3 (Formerly Article XXXV, Plan 1)
(Closed Jun. 30, 1997)
- Tier 4 (Formerly Article XXXV, Plan 2)
(Closed Dec. 31, 2001)
- Tier 5 Effective Jan. 1, 2002

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
1. SERVICE RETIREMENT				
a. Eligibility	20 years of service	20 years of service	Tier 3: Age 50 with 10 years of service Tier 4: 20 years of service	Age 50 with 20 years of service
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly 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	50% at 20 years of service, plus 3% for each additional year (except 4% at 30 years of service) Maximum of 90% for 33 or more years of service

2. SERVICE-CONNECTED DISABILITY				
a. Eligibility	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	50% to 90% depending on severity of disability, with a minimum of member's service pension percentage rate	50% to 90% depending on severity of disability, with a minimum of member's service pension percentage rate	30% to 90% depending on severity of disability, with a minimum of 2% per year of service	30% to 90% depending on severity of disability, with a minimum of 2% per year of service

3. NONSERVICE-CONNECTED DISABILITY				
a. Eligibility	Not work related Five years of service	Not work related Five years of service	Not work related Five years of service	Not work related Five years of service
b. Salary base	Highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay	Nonservice-Connected Salary Base: Highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	40%	40%	30% to 50% depending on severity of disability	30% to 50% depending on severity of disability

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
4. SERVICE-CONNECTED DEATH OR DEATH AFTER SERVICE-CONNECTED DISABILITY				
a. Eligibility	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) Except for members who transferred from Tier 2 to Tier 5
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	50%	50% with less than 25 years of service with uncapped COLA 55% with 25 or more years of service with uncapped COLA	SERVICE-CONNECTED DEATH: 75% of Final Average Salary if service-connected death while active or death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension with 3% cap on COLA DEATH AFTER SERVICE-CONNECTED DISABILITY: 75% of Final Average Salary if death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension, otherwise 60% of member's Service-Connected Disability pension with 3% cap on COLA	SERVICE-CONNECTED DEATH: <i>Former Tier 2:</i> 75% of Normal Pension Base if service-connected death while active with 3% cap on COLA and COLA Bank <i>Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:</i> 75% of Final Average Salary if service-connected death while active or death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension with 3% cap on COLA and COLA Bank DEATH AFTER SERVICE-CONNECTED DISABILITY: <i>Former Tier 2:</i> 50% of Normal Pension Base with less than 25 YOS with 3% cap on COLA and COLA Bank. 55% of Normal Pension Base with 25 or more YOS with 3% cap on COLA and COLA Bank <i>Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:</i> 75% of Final Average Salary if death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension, otherwise 60% of member's Service-Connected Disability pension with 3% cap on COLA and COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	<p>If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, with COLA Bank</p>
e. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	<p>If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, with COLA Bank</p>

5. DEATH WHILE ELIGIBLE TO RECEIVE A SERVICE PENSION ON ACCOUNT OF YEARS OF SERVICE

a. Eligibility	20 years of service	20 years of service	Tier 3: 10 years of service Tier 4: 20 years of service	20 years of service
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	<p>100% of member's accrued service retirement member would have received, not to exceed 50% of Normal Pension Base</p> <p>Uncapped COLA</p>	<p>100% of member's accrued service retirement member would have received, not to exceed 55% of Normal Pension Base</p> <p>Uncapped COLA</p>	<p>Higher of 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received not to exceed 40% of Final Average Salary</p> <p>3% cap on COLA, no COLA Bank</p>	<p>Former Tier 2: 100% of member's accrued service retirement member would have received, not to exceed 55% of Normal Pension Base with 3% cap on COLA, with COLA Bank</p> <p>Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02: Per Section 1508(2), if member was eligible to retire based on YOS, 80% of service retirement member would have been entitled to or 30% of member's Final Average Salary; not to exceed 40% of Final Average Salary with 3% cap on COLA and COLA Bank</p>

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	<p>If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, with COLA Bank</p>
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	<p>If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, with COLA Bank</p>

6. DEATH AFTER SERVICE RETIREMENT

a. Eligibility	Member was receiving a service pension	Member was receiving a service pension	Member was receiving a service pension	Member was receiving a service pension
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	<p>Same as member's pension up to 50% of member's Normal Pension Base</p> <p>Uncapped COLA</p>	<p>Same as member's pension up to 55% of member's Normal Pension Base</p> <p>Uncapped COLA</p>	<p>60% of member's pension benefit</p> <p>3% cap on COLA, no COLA Bank</p>	<p>Former Tier 2: Same as member's pension up to 55% of Normal Pension Base, with 3% cap on COLA, with COLA Bank</p> <p>Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02: 60% of member's pension benefit, with 3% cap on COLA and COLA Bank</p>

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	<p>If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, with COLA Bank</p>
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	<p>If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, with COLA Bank</p>

7. NONSERVICE-CONNECTED DEATH OR DEATH AFTER NONSERVICE-CONNECTED DISABILITY

a. Eligibility	Five years of service	Five years of service	Five years of service	Five years of service
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	<p>40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay</p> <p>Uncapped COLA</p>	<p>40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay (nonservice-connected pension base)</p> <p>Uncapped COLA</p>	<p>NONSERVICE-CONNECTED DEATH 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received not to exceed 40% of Final Average Salary</p> <p>3% cap on COLA, no COLA Bank</p> <p>DEATH AFTER NONSERVICE-CONNECTED DISABILITY 60% of member's pension</p> <p>3% cap on COLA, no COLA Bank</p>	<p>NONSERVICE-CONNECTED DEATH <i>Former Tier 2:</i> 40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay with 3% cap on COLA and COLA Bank</p> <p><i>Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:</i> 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received not to exceed 40% of Final Average Salary with 3% cap on COLA and COLA Bank</p>

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
				<p>DEATH AFTER NONSERVICE-CONNECTED DISABILITY</p> <p><i>Former Tier 2:</i> 40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay with 3% cap on COLA and COLA Bank</p> <p><i>Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:</i> 60% of member's Pension with 3% cap on COLA and COLA Bank</p>
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Domestic Partner's (QSDP) benefit	<p>If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise:</p> <ul style="list-style-type: none"> • 25% for one child • 40% for two children • 50% for three or more children <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p> <p>3% cap on COLA, with COLA Bank</p>
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Domestic Partner's (QSDP) benefit	<p>If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>Uncapped COLA</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, no COLA Bank</p>	<p>If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>3% cap on COLA, with COLA Bank</p>

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
8. COST-OF-LIVING				
a. Generally applicable provisions	<p>Full annual cost-of-living increase</p> <p>Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers</p> <p>Survivors' pension includes the percentage of cost-of-living increases applied to the member's pension prior to death</p>	<p>Full annual cost-of-living increase</p> <p>Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers</p> <p>Survivors' pension includes 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 local Urban Consumers</p> <p>City Council may grant discretionary cost-of-living increases once every three years</p> <p>Survivors' pension includes the percentage of cost-of-living increases applied to the member's pension prior to death</p> <p>Pro rata adjustment in the first year of retirement</p>	<p>Annual cost-of-living increase not to exceed 3%</p> <p>Amounts above the maximum of 3% are banked to be credited during years when the CPI is less than the maximum</p> <p>Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers</p> <p>City Council may grant discretionary cost-of-living increases once every three years. Such discretionary COLAs reduce the member's COLA Bank</p> <p>Survivors' pension includes the percentage of cost-of-living increases 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 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	Annual increases commence on the July 1 following the effective date	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	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 effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date
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 effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date
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 effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
9. MEMBERS' CONTRIBUTION AS A PERCENTAGE OF ANNUAL PAY	6%	6% plus 1/2 cost of cost-of-living benefit up to 1% (currently 7%)	8%	9%
	No member contributions required after 30 years of service	No member contributions required after 30 years of service	No member contributions required after 30 years of service	City pays 1% of 9% if Plan is at least 100% actuarially funded No member contributions required after 33 years of service

10. QUALIFIED SURVIVORS

a. Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP) eligibility requirements

i. Nonservice-connected death	Married at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death
ii. Service-connected death	Married as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death
iii. Death after service pension	Married at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death
iv. Death after nonservice-connected disability	Married at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death
v. Death after service-connected disability	Married as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death
b. Minor child eligibility requirements	Legitimate or adopted child of a deceased member, until age 18 or marries, whichever comes first	Legitimate or adopted child of a deceased member, until age 18 or marries, whichever comes first	Child or adopted child of a deceased member, until age 18 (22 if a full-time student) or marries, whichever comes first	Child or adopted child of a deceased member, until age 18 (22 if a full-time student) or marries, whichever comes first
c. Dependent child eligibility requirements	Legitimate or adopted child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Legitimate or adopted child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
d. Dependent parent eligibility requirements	Natural parent of a deceased member who had at least one-half of necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension	Natural parent of a deceased member who had at least one-half of necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension	Parent of a deceased member who had at least one-half of necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension	Parent of a deceased member who had at least one-half of necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension

11. MISCELLANEOUS

a. Vesting of service retirement	After 20 years of service	After 20 years of service	Tier 3: After 10 years of service Tier 4: No vesting until retirement (20 years)	After 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	Tier 3: On termination or death if no other benefits are payable (except basic death benefit) Tier 4: Upon death if no other benefits are payable (except basic death benefit). No refund upon termination	On termination or death if no other benefits are payable (except basic death benefit)
c. Basic death benefit	None	None	If member has at least one year of service, in addition to return of contributions, beneficiary receives the member's one-year average monthly salary times years of completed service (not to exceed 6 years)	If member has at least one year of service, in addition to return of contributions, beneficiary receives the member's one-year average monthly salary times years of completed service (not to exceed 6 years)
d. Optional forms of benefit for Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP)	None	None	At service or disability retirement, member may elect higher QSS/QSDP benefit with corresponding actuarial reduction of retirement benefit	At service or disability retirement, member may elect higher QSS/QSDP benefit with corresponding actuarial reduction of retirement benefit
e. Deferred Pension Option	None	None	Tier 3: Upon termination, can elect deferred pension option if member has at least 10 YOS and leaves contributions in Fund. Upon reaching age 50, member is entitled to receive a service pension using Tier 3 retirement formula Tier 4: No Deferred Pension Option	Tier 5: Upon termination, can elect deferred pension option if member has at least 20 YOS and leaves contributions in Fund. Upon reaching age 50, member is entitled to receive a service pension using Tier 3 retirement formula



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 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 percent for each year of service over 20 up to two-thirds of the salary of the rank held at retirement. The new City Charter 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 percent of the average salary during the three years preceding retirement, plus 1-2/3 percent for each of the next 10 years of service. A monthly limit of \$1,800 for service pensions was established. Member contributions to the System were set at 4 percent of salary. Pensions for widows were made fixed amounts.

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

1947. Members hired after January 17, 1947 could retire after 20 years of service with a pension equal to 40 percent of the average salary of the last three years of service with an additional 2 percent for each of the next five years of service and 1-1/3 percent 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 percent to 6 percent of salary. Effective June 16, 1947, a Charter amendment created a nonservice-connected disability pension of 40 percent of the highest salary attached to the rank of firefighter or police officer; an equal amount was to be paid to any surviving spouse with additional percentages allowed for unmarried minor children under the age of 18.

1957. The maximum limit attached to rank for service pensions was removed effective April 18, 1957.

1958. The California Supreme Court ruled that the 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 27, 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 percent 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 percent of annual salary at retirement with 25 years of service plus an additional 3 percent for each year of service over 25 up to a maximum pension of 70 percent of salary at retirement with 30 years of service;
- (2) a 2 percent 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 70 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 percent of fund assets.

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

1974. Article 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 1, 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 percent per year of service up to 20 years and 3 percent for each additional year up to a maximum pension of 70 percent of annual salary at retirement; refund of member contributions with interest upon termination; and a surviving spouse pension equal to 60 percent of member's pension.

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

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

1982. Significant revisions to Articles XVII and XVIII provided a 3 percent cap on the cost-of-living adjustment for all future service earned by active members and a refund of member contributions upon termination. Cost-of-living adjustments were pro rated 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 30 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 percent 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 percent to 50 percent. 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 2 was established effective July 1, 1997. All Article XXXV members hired between December 8, 1980 and June 30, 1997 were given until June 30, 1998 to make an irrevocable transfer to Plan 2. Plan 2 provides retirement benefits at any age after 20 years of service based on a formula of 2 percent per year of service up to 20 years and 3 percent for each additional year up to a maximum pension of 70 percent 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 12-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.

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

A provision was established so that members hired July 1, 1997 through December 31, 1997 could irrevocably elect to transfer from Article XXXV, Plan 2 to XXXV, Plan 1. The provision allowed the Metropolitan Transportation Authority officers who merged into the Police Department to join either Plan 1 or Plan 2 of Article XXXV. A delay in the merger made it necessary to add this provision so that negotiated benefits could be provided.

As of June 30, 1999, the actuarial value of the System assets equaled 104.7 percent of the actuarial accrued liability of pension benefits.

2000. Effective January 17, 2000, domestic partners became eligible to receive survivor benefits under the same eligibility requirements as surviving spouses, after filing a Declaration of Domestic Partnership with the Board of Fire and Police Pension Commissioners. Surviving spouses and domestic partners became eligible to receive a health insurance premium subsidy at the time of the member's death, subject to eligibility requirements.

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

- (1) The official department name became the Department of Fire and Police Pensions.
- (2) The plans were reorganized under a new Charter Article number. Articles XVII, XVIII, XXXV Plan 1 and XXXV Plan 2 are referred to as Tiers 1, 2, 3 and 4, respectively.
- (3) The Board of Commissioners was expanded from 7 to 9 members and includes an elected retired fire member and an elected retired police member.
- (4) The Board selects the General Manager, subject to confirmation by the Mayor and Council, and may remove the Manager, subject to confirmation by the Mayor.

- (5) Assistant General Manager positions are appointed on an exempt basis.
- (6) The powers, duties and responsibilities of the Board are more expressly recognized and include:
 - (a) Language consistent with the provisions of California Constitution Article XVI, Section 17
 - (b) The prudent person investment standard
 - (c) Sole and exclusive power to provide actuarial services
 - (d) Control over litigation and settlement of litigation that involve policies and funds under Board control
 - (e) Deletion of the Council's right to veto any Board decisions
- (7) The definition of dependent parent was revised so that United States residency at the time of member death is no longer an eligibility requirement.

2001. Charter changes were approved to:

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

2002. By Council ordinance, a new Tier 5 pension plan became effective January 1. Active members of existing tiers could elect to irrevocably transfer to Tier 5 during the period January 2, 2002 to December 31, 2002. Tier 5 members are eligible to retire at age 50 with 20 years of service and

receive a service pension benefit of 50 percent of final average salary, plus 3 percent for each additional year of service to a maximum of 90 percent of final average salary for 33 or more years. The exception is year 30 in which 4 percent of final average salary is earned for retirement. Members contribute 8 percent of salary; 9 percent if Plan assets fall below the 100 percent funding level.

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

A dental subsidy for retirees became effective January 1, 2002. To qualify, a member must be age 55 with a minimum of 10 years of service. For each year of service, a member earns 4 percent of the maximum available subsidy.

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

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

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

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

2005. On January 20, 2005, an ordinance became operational allowing former Tier 2 members who transferred to Tier 5 and who had prior service as paramedics or civilian ambulance personnel under LACERS to purchase this period of service.

In the March 2005 election, the voters approved two Charter amendments.

The first amendment authorized the Council to amend the Charter to transfer the Sworn Port Police Officers to Tier 5 of Fire and Police Pensions.

The second amendment provided the following:

- (1) Return-to-duty provisions similar to those in Tier 2 to members in Tiers 3, 4 and 5.
- (2) Authorized the Council to allow a City Defrayment of Employee Contributions by Ordinance. This means the City may pay a portion of the employee contributions to Tiers 3, 4 and 5, not to exceed 2 percent of the required contributions in lieu of a salary increase or a portion of an increase. This provision is to be used during Memorandum of Understanding negotiations as part of a total economic package and the cost will be evaluated at that time.
- (3) Authorized the City Council to set sworn retiree health subsidies by ordinance. Prior to this change, the Charter limited the maximum sworn retiree health subsidy to the lesser of the maximum active sworn member health subsidy or the maximum civilian retiree health subsidy. The Council can delegate authority for setting sworn retiree subsidies to the Pension Board.

2006. Council Ordinance Number 177214, authorizing the transfer of Sworn Port Police Officers to Tier 5 of Fire and Police Pensions, became effective January 4, 2006. The ordinance gave current Port Police Officers the choice of transferring to Tier 5 or remaining in their current retirement system. Persons appointed on or after January 8, 2006 as specified in the ordinance became members of Tier 5 upon graduation from academy training required by the Harbor Department.

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

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

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

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

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

