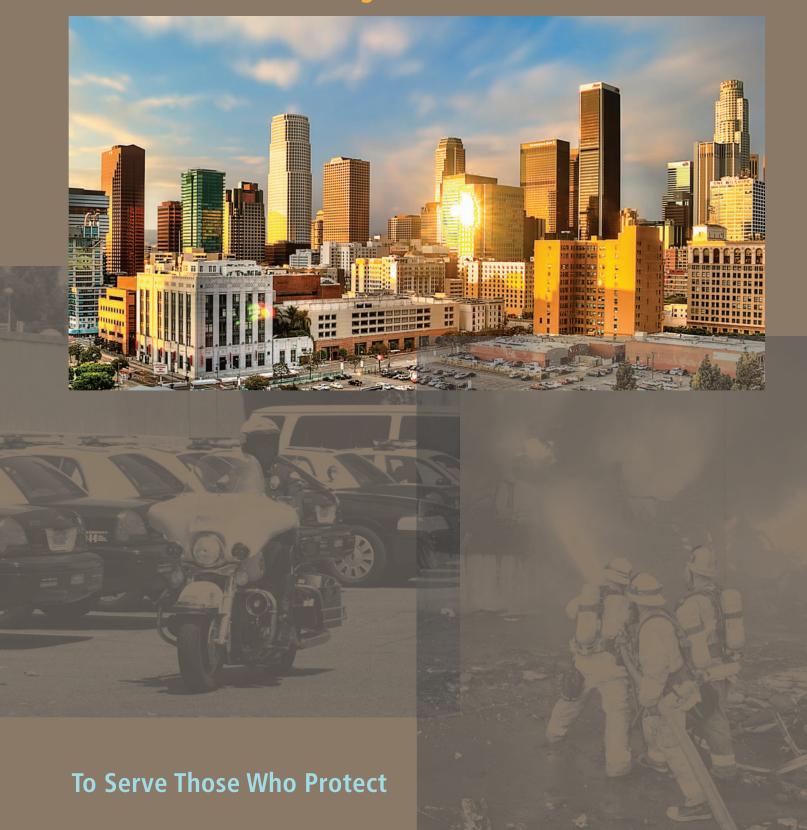
Los Angeles Fire and Police Pensions



Issued by Raymond P. Ciranna *General Manager*



Los Angeles Fire and Police Pensions

July 1, 2012 through June 30, 2013

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INTRODUCTION

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Board of Fire and Police Pension Commissioners

Organizational Chart



DEPARTMENT OF FIRE AND POLICE PENSIONS

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CITY OF LOS ANGELES

ERIC GARCETTI MAYOR RAYMOND P. CIRANNA GENERAL MANAGER

WILLIAM S. RAGGIO EXECUTIVE OFFICER

JOSEPH SALAZAR ASSISTANT GENERAL MANAGER

TOM LOPEZ
CHIEF INVESTMENT OFFICER

TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

June 30, 2013

On behalf of the Fire and Police Pension System of the City of Los Angeles, I am submitting our 2013 Annual Report. The annual report is intended to provide members, City leaders and other stakeholders with detailed information on the status and financial health of the System.

Our pension system provides pension and retiree health benefits promised to sworn members of the Fire, Police and Harbor Departments of the City of Los Angeles. These benefits are funded by contributions from the City and our members, and from returns on our investments. The System administers seven pension tiers, six of which are closed to new members, a medical subsidy program, a Deferred Retirement Option Plan (DROP) and a disability pension program. As of June 30, 2013, we have 13,224 active members, including 1,191 DROP members, and 12,432 retired members and beneficiaries.

Our pension funded status is 83.1 percent for the period ending June 30, 2013, which is a slight reduction from last year's funded status of 83.7 percent due to the lingering effects of the Great Recession. Our funded status for health subsidy benefits increased slightly from 37.1 percent to 38.5 percent for the period ending June 30, 2013. It is important to note that we have been pre-funding health insurance premium subsidy benefits since 1989 and we continue to be one of the few public pension systems to do so. Combined, our pension and health funded status is 77.3 percent.

For the one-year period ending June 30, 2013, our market rate of return was 13.01 percent, up from 1.89 percent the previous year. As of June 30, 2013, pension plan assets totaled over \$15.7 billion on a market basis and over \$15.6 billion on an actuarial (smoothed) basis. While the City's contribution to the Fund was approximately \$506 million in 2012-13, the positive return of the past fiscal year is expected to help mitigate the contribution increases expected from the City over the next several years. Contributions from active employees totaled over \$121 million for the period.

System Administration

The Fire and Police Pension System is administered by a Board of nine commissioners: five appointed by the Mayor and four elected by members. Fire and Police sworn employees each elect one active member, and Fire and Police 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 that "members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

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INTRODUCTION

Service Efforts and Accomplishments

In 2009-10, the Board adopted a multi-year approach to strategic planning that focused on three primary goals: 1) Customer Service; 2) Risk Management; and 3) Communications and Stakeholder Relations. To further achieve these goals, the Board adopted a multi-year strategic plan for 2012-15 that included eleven projects.

Five of these projects encompass the continued use of technology to improve our service to members and are in various stages of implementation. One of the most critical projects in development is the Business Continuity Planning Project that will help staff continue to provide member services during uncontrolled events such as hardware failures, earthquakes, or other natural disasters. Improvements have also been made to our security and network infrastructure to help further safeguard confidential member information. Additionally, progress continues on the Document Imaging System, which will allow staff to securely and more efficiently retrieve all records, and is a critical element to our Business Continuity Planning Project.

We have improved the functionality of member self service through our website (MyLAFPP). Members can now register online for financial planning education seminars and submit various forms electronically. Additionally, pensioners now have the option to update their tax withholding, direct deposit and address information online using the Benefit Payment Passport system. These service efforts will continue as we roll out new features and functionality to our members.

Finally, staff is performing a comprehensive assessment and review of our pension administration system to determine whether the existing system will meet our members' needs in the future. Given the limited functionality of the existing system, it is anticipated that we will replace the existing system with one that will provide additional functionality to members and staff. This project is one of the most significant projects ever undertaken by staff and will take several years to complete.

One of our major undertakings this year was receiving a favorable Determination Letter from the IRS indicating that our pension plan is compliant with the IRS regulations. This was extremely good news as we move forward with the next determination letter per the IRS filing cycle.

Staff continues to research and pursue other governance and operational best practices by benchmarking against other similar pension systems across the country. Additionally, we have resumed providing retirement planning seminars for members in 2012-13 with a focus on financial planning education to assist them in preparing for a successful retirement.

After searching for several years for a headquarters building, we have purchased a four-story building located in the Downtown Arts District. The 54,000 square foot building will provide suitable office space for the Board and staff for the future. Various tenant improvements and building upgrades will be completed over the coming year with a target move in date of April 2015.

Even though the System returned over 13 percent in 2012-13, it is important for us to remain diligent in our efforts to minimize costs and pursue efficiencies in our operations. We will continue to identify and reduce risk across the organization and review our asset allocation to achieve the greatest return for our members.

I am honored to serve the safety members of our pension system and I thank the Board and staff for their dedication, diligence and loyalty to the Los Angeles Fire and Police Pension System, and our active and retired members for their service to all of us.

Sincerely,

Raymond P. Ciranna General Manager

Board of Fire and Police Pension

Commissioners

Dean Hansell, President

Appointed by the Mayor

George V. Aliano

Elected by Retired Police Members

Sam Diannitto

Elected by Retired Fire Members

Gregory N. Lippe

Appointed by the Mayor

Wayne Moore

Appointed by the Mayor

Ruben Navarro, Vice President

Elected by Active Fire Members

Pedram Salimpour

Appointed by the Mayor

Belinda M. Vega

Appointed by the Mayor

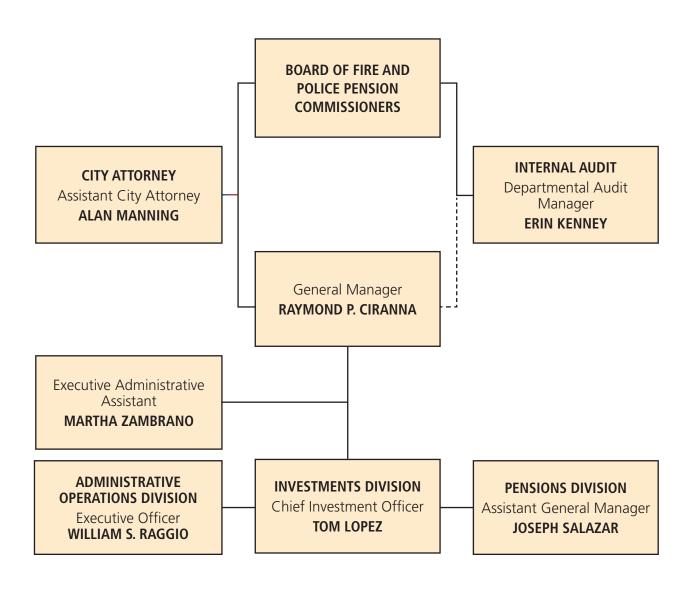
Robert von Voigt

Elected by Active Police Members

The Board meets on the first and third Thursdays of the month at 8:30 a.m. Most meetings, including special meetings, are from 1 to 4 hours in duration. The Board's current directory and meeting information are available on the Department website at, www.lafpp.com/LAFPP/commission.html.

INTRODUCTION

Organizational Chart



FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

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Schedule 1A - Schedule of Funding Progress - Pension Plan

Schedule 1B - Schedule of Funding Progress - Health Subsidy Plan

Schedule 2A - Schedule of Employer Contributions - Pension Plan

Schedule 2B - Schedule of Employer Contributions - Health Subsidy Plan





FINANCIAL

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Los Angeles Fire and Police Pension System as of June 30, 2013 and 2012, and the related Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the Los Angeles Fire and Police Pension System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Los Angeles Fire and Police Pension System as of June 30, 2013 and 2012, and the changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, the Los Angeles Fire and Police Pension System implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress, and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the Los Angeles Fire and Police Pension System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Los Angeles Fire and Police Pension System's internal control over financial reporting and compliance and should be considered in assessing the results of our audit.

Brown Armstrong
ACCOUNTANCY CORPORATION

Brown Armstrong

Secountancy Corporation

Bakersfield, California December 9, 2013

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Fire and Police Pension System (the System or the Plan) for the year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

- Net position at the close of the fiscal year ended June 30, 2013, was \$14.7 billion and \$1.08 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.
- Net position increased by \$1.3 billion or 10.0% and increased by \$152.1 million or 16.4% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2013, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 83.1% and 38.5%, respectively.
- Additions to the Pension Plan's net position increased by \$1.5 billion or 229.6% from \$669.0 million to \$2.2 billion, due primarily to the net appreciation in the fair value of investments in 2013.
- Deductions to the Pension Plan's net position increased by \$25.6 million or 3.0% over the prior year from \$846.1 million to \$871.7 million.
- Additions to the Health Subsidy Plan's net position increased by \$113.4 million or 82.3% from \$137.8 million to \$251.2 million, due to the net appreciation in the fair value of investments in 2013.
- Deductions from the Health Subsidy Plan's net position increased by \$4.7 million or 5.0% over the prior year from \$94.4 million to \$99.1 million in 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 11 to 35 of this report.

Required Supplementary Information: This report presents certain required supplementary information concerning the Pension Plan's and Health Subsidy Plan's progress in funding to provide pension and health benefits to members. The report also provides summary information on employer contributions. The required supplementary information is on pages 36 and 37 of this report.

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Pension Plan

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Fiduciary Net Position

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

Condensed Statement of Fiduciary Net Position (In Thousands)

	2013		2012	 Change	% Change	
Cash Receivables/Prepayments Investments	\$ 6,244 413,824 16,151,828	\$	5,648 169,419 14,759,688	\$ 596 244,405 1,392,140	10.6% 144.3% 9.4%	
Total Assets	16,571,896		14,934,755	1,637,141	11.0%	
Liabilities	1,891,523	_	1,587,680	303,843	19.1%	
Net Position	\$ 14,680,373	\$	13,347,075	\$ 1,333,298	10.0%	

Net position increased by \$1.3 billion (10.0%) to \$14.7 billion from the prior fiscal year. Assets increased in value by \$1.6 billion when compared with the prior fiscal year, attributable to securities lending cash collateral of \$1.25 billion received, investment income, and by appreciation of investments due to favorable market conditions.

Condensed Statement of Plan Net Position (In Thousands)

		2012		2011		Change	% Change	!
Cash Receivables/Prepayments Investments	\$ 14	5,648 169,419 1,759,688	\$	5,045 71,119 13,980,134	\$	603 98,300 779,554	12.0% 138.2% 5.6%	
Total Assets	14	,934,755		14,056,298		878,457	6.2%	
Liabilities	1	,587,680	_	532,110	_	1,055,570	198.4%	
Net Position	\$ 13	3,347,075	\$	13,524,188	\$	(177,113)	-1.3%	

Pension Plan (Continued)

Changes in Fiduciary Net Position

Condensed Statement of Changes in Fiduciary Net Position (In Thousands)

	2013	2012	Change	% Change
Additions				
Employer Contributions	\$ 375,448	\$ 321,593	\$ 53,855	16.7%
Member Contributions	121,778	120,099	1,679	1.4%
Net Investment Income	1,705,251	225,458	1,479,793	656.3%
Other Income	2,525	1,877	648	34.5%
Total Additions	2,205,002	669,027	1,535,975	229.6%
Deductions				
Benefits Payment	856,237	831,191	25,046	3.0%
Refund of Contributions	3,267	1,338	1,929	144.2%
Administrative Expenses	12,200	13,611	(1,411)	-10.4%
Total Deductions	871,704	846,140	25,564	3.0%
Net Increase (Decrease)	1,333,298	(177,113)	1,510,411	852.8%
Net Position, Beginning of Year	13,347,075	13,524,188	(177,113)	-1.3%
Net Position, End of Year	\$ 14,680,373	\$ 13,347,075	\$ 1,333,298	10.0%

Additions to Fiduciary Net Position

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

Contributions for fiscal year 2013 totaled \$497.2 million, up by \$55.5 million or 12.6% over fiscal year 2012. The increase in contributions was due to the net of an increase in the actuarial determined contribution rate. The employer contribution rate for fiscal year 2013 was 27.5% of covered payroll compared to 24.0% of covered payroll for fiscal year 2012.

Net investment income amounted to \$1.7 billion, an increase in net investment income of \$1.5 billion or 656.3% when compared with \$225.5 million from the prior fiscal year. Investment income increased in 2013 due to favorable capital markets.

Deductions from Fiduciary Net Position

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

Deductions for the fiscal year ended June 30, 2013, totaled \$871.7 million, an increase of \$25.5 million over 2012. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners, beneficiaries, and DROP pay-out.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Condensed Statement of Changes in Plan Net Position (In Thousands)

	2012	2011	Change	% Change
Additions				
Employer Contributions	\$ 321,593	\$ 277,092	\$ 44,501	16.1%
Member Contributions	120,099	105,535	14,564	13.8%
Net Investment Income	225,458	2,538,155	(2,312,697)	-91.1%
Other Income	1,877	2,124	(247)	-11.6%
Total Additions	669,027	2,922,906	(2,253,879)	-77.1%
Deductions				
Benefits Payment	831,191	786,861	44,330	5.6%
Refund of Contributions	1,338	3,145	(1,807)	-57.5%
Administrative Expenses	13,611	12,662	949	7.5%
Total Deductions	846,140	802,668	43,472	5.4%
Net Increase (Decrease)	(177,113)	2,120,238	(2,297,351)	-108.4%
Net Position, Beginning of Year	13,524,188	11,403,950	2,120,238	18.6%
Net Position, End of Year	\$ 13,347,075	\$ 13,524,188	\$ (177,113)	-1.3%

Health Subsidy Plan

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

Fiduciary Net Position

Condensed Statement of Fiduciary Net Position (In Thousands)

	 2013	_	2012	Change	% Change
Cash Receivables/Prepaids Investments	\$ 454 37,444 1,174,916	\$	388 18,645 1,013,673	\$ 66 18,799 161,243	17.0% 100.8% 15.9%
Total Assets	1,212,814		1,032,706	180,108	17.4%
Liabilities	 136,163		108,142	28,021	25.9%
Net Position	\$ 1,076,651	\$	924,564	\$ 152,087	16.4%

Net position increased by \$152.1 million (16.4%) to \$1.07 billion when compared to \$925.0 million of the prior fiscal year due to an increase in the actuarially determined employer contribution towards health and prepayment of the Health Subsidy.

Condensed Statement of Plan Net Position (In Thousands)

	2012	2011		Change	% Change
Cash Receivables Investments	\$ 388 18,645 1,013,673	\$ 329 4,359 910,546	\$	59 14,286 103,127	17.9% 327.7% 11.3%
Total Assets	1,032,706	915,234		117,472	12.8%
Liabilities	 108,142	 34,031	_	74,111	217.8%
Net Position	\$ 924,564	\$ 881,203	\$	43,361	4.9%

Changes in Fiduciary Net Position

Condensed Statement of Changes in Fiduciary Net Position (In Thousands)

	_	2013	 2012	 Change	% Change
Additions					
Contributions	\$	132,939	\$ 122,972	\$ 9,967	8.1%
Net Investment Income		118,124	14,690	103,434	704.1%
Other Income		175	 122	53	43.4%
Total Additions		251,238	137,784	113,454	82.3%
Deductions					
Benefits Payment		98,306	93,536	4,770	5.1%
Administrative Expenses		845	887	(42)	-4.7%
Total Deductions		99,151	94,423	4,728	5.0%
Net Increase		152,087	43,361	108,726	250.7%
Net Position, Beginning of Year	_	924,564	 881,203	 43,361	4.9%
Net Position, End of Year	\$	1,076,651	\$ 924,564	\$ 152,087	16.4%

Additions to Fiduciary Net Position

Total additions to net position increased \$113.0 million compared to fiscal year 2012. This is due primarily to an increase in net investment income by \$103.0 million, mostly attributed to favorable capital markets, and an increase in contributions of \$9.9 million or 8.1% over fiscal year 2012. For fiscal year 2013, the employer contribution rate is 9.7% of covered payroll compared to 9.2% for fiscal year 2012.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for the pensioners and beneficiaries and administrative expenses. Current year deductions were \$4.7 million or 5.0% more than the total deductions of the prior year. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of pensioners and beneficiaries.

Health Subsidy Plan (Continued)

Condensed Statement of Changes in Plan Net Position (In Thousands)

	 2012	2012 2011 Change % Chang		Change		% Change
Additions						
Contributions	\$ 122,972	\$	111,681	\$	11,291	10.1%
Net Investment Income	14,690		156,461		(141,771)	-90.6%
Other Income	122		131		(9)	-6.9%
Total Additions	137,784		268,273		(130,489)	-48.6%
Deductions						
Benefits Payment	93,536		89,271		4,265	4.8%
Administrative Expenses	887		781		106	13.6%
Total Deductions	94,423		90,052		4,371	4.9%
Net Increase	43,361		178,221		(134,860)	-75.7%
Net Position, Beginning of Year	 881,203		702,982		178,221	25.4%
Net Position, End of Year	\$ 924,564	\$	881,203	\$	43,361	4.9%

Debt Administration Mortgage Payable

At June 30, 2013, the System had a combined total of \$192,425,131 in mortgage payable for the Pension Plan and Health Subsidy Plan. The System paid down \$15,064,999 and added \$0 during the year for an ending balance of \$192,425,131.

Future Changes

As discussed in Note 2, Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68 will have a significant impact on reporting for future periods.

REQUEST FOR INFORMATION

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

Raymond P. Ciranna, General Manager City of Los Angeles Fire and Police Pension System 360 E. Second Street, Suite 400 Los Angeles, CA 90012

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM STATEMENTS OF FIDUCIARY NET POSITION JUNE 30, 2013 AND 2012

		2013		L	2012	
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS Cash	\$ 6,243,889	\$ 454,193	\$ 6,698,082	\$ 5,647,790	\$ 387,882	\$ 6,035,672
Receivables Accrued Interest and Dividends	47,014,998	3,419,965	50,434,963	45,451,754	3,121,557	48,573,311
Contributions	5,490,442		5,490,442	5,144,476	•	5,144,476
Due from Brokers	361,314,364	26,282,731	387,597,095	118,823,242	8,160,598	126,983,840
Total Receivables	413,819,804	29,702,696	443,522,500	169,419,472	11,282,155	180,701,627
Prepaid Health Subsidy	4,772	7,740,927	7,745,699	'	7,363,396	7,363,396
Investments at Fair Value						
Temporary	547,839,247	39,850,925	587,690,172	492,172,520	33,801,656	525,974,176
U.S. Government Obligations	1,597,254,678	116,187,507	1,713,442,185	1,682,432,384	115,546,882	1,797,979,266
Domestic Corporate Bonds	1,320,386,482	96,047,559	1,416,434,041	1,374,946,321	94,429,211	1,469,375,532
Foreign Bonds	1,713,327	124,631	1,837,958	17,405,729	1,195,399	18,601,128
Domestic Stocks	5,958,717,825	433,449,078	6,392,166,903	5,003,234,954	343,614,522	5,346,849,476
Foreign Stocks	2,563,866,624	186,500,797	2,750,367,421	2,137,109,111	146,773,383	2,283,882,494
Real Estate Alternative Investments	1,148,402,028 1,767,344,218	83,537,065 128,560,161	1,231,939,093 1,895,904,379	1,158,264,541 1,691,150,749	79,547,837 116,145,646	1,237,812,378 1,807,296,395
Total Investments	14,905,524,429	1,084,257,723	15,989,782,152	13,556,716,309	931,054,536	14,487,770,845
Securities Lending Collateral	1,246,303,273	90,658,598	1,336,961,871	1,202,971,011	82,618,209	1,285,589,220
TOTAL ASSETS	16,571,896,167	1,212,814,137	17,784,710,304	14,934,754,582	1,032,706,178	15,967,460,760
LIABILITIES						
Accounts Payable and Accrued						
Expenses Repetite in Process of Payment	7,948,122	520,663	8,468,785	7,570,804	481,768	8,052,572
Due to Brokers	433,919,740	31,564,191	465,483,931	165,721,870	11,381,524	177,103,394
Mortgage Payable Securities Lending Collateral	179,376,896	13,048,235	192,425,131	1202 971 011	13,334,324	207,490,130
TOTAL LIABILITIES	1.891.523.127	136.163.126	2,027,686,253	1,587,680,206	108,142,021	1,695,822,227
NET POSITION HELD IN TRUST FOR						
PENSION AND OTHER POST- FMPI OYMENT BENEFITS	\$ 14 680 373 040	\$1076651011	\$ 15 757 024 051	\$ 13 347 074 376	\$ 924 564 157	\$ 14 271 638 533
						200,000

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

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

		2013			2012	
ADDITIONS	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
Contributions Employer Contributions Member Contributions	\$ 375,448,092 121,777,654	\$ 132,939,191	\$ 508,387,283 121,777,654	\$ 321,593,433 120,099,124	\$ 122,971,851	\$ 444,565,284 120,099,124
Total Contributions	497,225,746	132,939,191	630,164,937	441,692,557	122,971,851	564,664,408
Investment Income (Loss) Net Appreciation (Depreciation) in Fair Value of Investments, Including Gain and Loss						
on Sales	1,345,525,723	93,205,808	1,438,731,531	(91,411,397)	(5,956,145)	(97,367,542)
Interest Dividends	105,000,214	13.409.698	112,273,676 206.993.061	113,081,586	7,368,121	120,449,707
Net Real Estate Income	64,904,411	4,495,988	69,400,399	59,570,573	3,881,474	63,452,047
Income from Alternative Investments	37,171,522	2,574,906	39,746,428	16,740,574	1,090,775	17,831,349
Less: Securities Lending Expense Other Income	(843,478) (3,451,327	(58,429) (239,077	(901,907) (901,907) 3.690,404	(594,240) (595,334 (59334	(38,719)	(632,959) (632,959) 1.369.083
Subtotal	1,757,237,870	121,725,488	1,878,963,358	274,079,083	17,858,328	291,937,411
Less: Investment Manager Expense	(51,987,110)	(3,601,195)	(55,588,305)	(48,621,792)	(3,168,078)	(51,789,870)
Net Investment Income	1,705,250,760	118,124,293	1,823,375,053	225,457,291	14,690,250	240,147,541
Other Income Miscellaneous	2,525,693	174,957	2,700,650	1,876,735	122,284	1,999,019
Total Other Income	2,525,693	174,957	2,700,650	1,876,735	122,284	1,999,019
TOTAL ADDITIONS	2,205,002,199	251,238,441	2,456,240,640	669,026,583	137,784,385	806,810,968
DEDUCTIONS Pension Benefits Payment of Health Subsidy Payment of Medicare Reimbursement Refund of Contributions Administrative Expenses	856,236,598 - 3,266,578 12,200,359	89,451,074 8,855,383 - 845,130	856,236,598 89,451,074 8,855,383 3,266,578 13,045,489	831,190,554 - 1,338,502 13,610,954	85,304,547 8,232,089 - 886,857	831,190,554 85,304,547 8,232,089 1,338,502 14,497,811
TOTAL DEDUCTIONS	871,703,535	99,151,587	970,855,122	846,140,010	94,423,493	940,563,503
NET INCREASE (DECREASE)	1,333,298,664	152,086,854	1,485,385,518	(177,113,427)	43,360,892	(133,752,535)
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS Beginning of Year	13,347,074,376	924,564,157	14,271,638,533	13,524,187,803	881,203,265	14,405,391,068
End of Year	\$ 14,680,373,040	\$ 1,076,651,011	\$ 15,757,024,051	\$ 13,347,074,376	\$ 924,564,157	\$ 14,271,638,533

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

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

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 City). The funding requirements of the System are determined by the result of annual actuarial valuations.

Pension Plan

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

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997 and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of June 30, 1998. Tier 4 includes members hired from July 1, 1997 through December 31, 2001 and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 includes members hired from January 1, 2002 through June 30, 2012 and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 6 was established for all firefighters and police officers hired on or after July 1, 2011.

Tier 6 is also the current tier for all Harbor Port Police officers hired on or after July 1, 2011. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2012. Harbor 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 to 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 terminated their employment after July 1, 1982, were entitled to a refund of contributions plus Board of Fire and Police Pension Commissioners (Board) approved interest if they did not qualify for a pension or if they waived their pension entitlements.

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

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

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

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

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

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter, and Section 4.2018 of the Administrative Code, and related ordinances. Members who retire from the System with at least 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.

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the System's Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. Effective July 1, 2012, the maximum subsidy amount is \$1,174.23 per month. The maximum monthly subsidy for fiscal years 2013 and 2012 was \$1,097.41. The System also reimburses Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

NOTE 1 – <u>DESCRIPTION OF THE PLANS</u> (Continued)

Health Subsidy Plan (Continued)

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, 2013 and 2012, total net position in the amounts of \$1,076,651,011 and \$924,564,157, respectively, was available for the Health Subsidy Plan. Effective July 1, 2008, actual employer contributions and benefit payments relating to health subsidy benefits are separately accounted to comply with Internal Revenue Code Section 401 (h).

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 at least ten years of sworn service and must meet 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 the maximum subsidy for health care. The maximum monthly subsidy for fiscal years 2013 and 2012 was \$1,174.23 and \$1,097.41, respectively. For members with Medicare Parts A and B, a different subsidy maximum is used. The System also reimburses basic Medicare Part B premiums for any pensioner eligible to receive a subsidy and enrolled in Medicare Parts A and B.

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 at least 10 years of service, are age 55 years or older, and 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 lower of the dental subsidy in effect for LACERS (civilian retirees) or active Safety Members. The maximum monthly subsidy amount was \$44.41 for the period of January 1, 2012, through December 31, 2012, and \$42.80 for the period of January 1, 2013, through June 30, 2013. 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, 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. Participation in DROP by Tier 6 members is subject to amendment of the Administrative Code.

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Deferred Retirement Option Plan (Continued)

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 their DROP participation, plus applicable COLAs.

At June 30, 2013 and 2012, 1,190 and 1,193 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$250,665,204 and \$237,048,190, respectively.

Two Percent Opt-In

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

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

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership at June 30, 2013 and 2012, are as follows:

	2013	2012
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	3	4
Tier 4	197	199
Tier 5	8,046	8,237
Tier 6	562	355
	8,808	8,795
Active Vested:		
Tier 1	_	_
Tier 2	58	87
Tier 3	892	918
Tier 4	166	184
Tier 5	3,300	3,412
Tier 6		
	4,416	4,601
Dennieurous and Bennefeierieur		
Pensioners and Beneficiaries:	EEE	600
Tier 1	555	600
Tier 2	8,357	8,535
Tier 3	494	466
Tier 4 Tier 5	216	197
Tier 6	2,810	2,582
	12,432	12,380
	25,656	25,776

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Financial Reporting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Method Used to Value Investments

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

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

The category of alternative investments includes private equity and hedge funds. Private equity investments are composed predominantly of limited partnerships that invest mainly in privately-owned companies. Hedge funds are pooled investment programs that invest in a wide variety of asset classes and use a wide variety of approaches to do so. The use of leverage and short selling is a common characteristic. The System invests in hedge funds using what are known as fund of funds. The System hires a manager skilled in the selection of hedge funds that then builds a diversified portfolio of individual hedge funds.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on the accrual basis of accounting. The corresponding proceeds due from sales are reported on the Statements of Fiduciary Net Position as receivables and labeled due from brokers, and amounts payable for purchases are reported as liabilities and labeled due to brokers. Dividend income is recorded on ex-dividend date and interest income is accrued as earned.

Investments are carried at fair value. The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers. Investments for which market quotations are not readily available are valued at their fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net position valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the investment managers of investee limited partnerships. Hedge fund of funds investments are valued by the fund manager based upon the information they receive from individual hedge fund managers with which they have invested monies. Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by a periodic external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers.

<u>Cash</u>

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.

Use of Estimates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The primary change as a result of implementing this statement was renaming as net position what was previously reported as net assets. The City does not have any deferred inflows or outflows to report.

On June 25, 2012, GASB approved new accounting and reporting standards for pensions. GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces Statement No. 25 for Plan reporting and GASB Statement No. 68, *Accounting for Financial Reporting for Pension Plans*, replaces Statement No. 27 for Employer reporting. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

For the City, the new standards build upon the existing framework for financial reports, enhances the note disclosures and required supplementary information, and requires the presentation of new information about annual money-weighted rates of return in the notes to the basic financial statements. The City is currently planning for the implementation of GASB No. 67, *Financial Reporting for Pension Plans*, for its June 30, 2014 year-end.

The new standards require the City and outside Districts to recognize their proportionate share of long-term obligation for pension benefits as a liability for the first time and provide a more comparable measure of the annual costs of pension benefits by employer. This proportionate share is based on the employer's long-term contribution effort. The new financial reporting standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For the City and outside Districts, the new financial reporting provisions are effective for fiscal year ending June 30, 2015.

The City will establish a Task Force comprised of key stakeholders from the City, outside Districts, and external professional service providers to discuss the requirements for implementation of the new accounting standards, GASB Statements No. 67 and No. 68. The Task Force will work toward establishing timelines and a framework for preliminary implementation decisions.

GASB issued the Implementation Guide for GASB Statement No. 67 in late June 2013. Limited guidance has been available for GASB Statement No. 68 thus far. However, GASB anticipates releasing the GASB Statement No. 68 Implementation Guide in the first quarter of 2014.

NOTE 3 - FUNDING POLICY AND CONTRIBUTION INFORMATION

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

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

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

NOTE 3 - FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

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

Accordingly, the City's contributions as determined by the System's actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2013 and 2012, were to be as follows (\$ in millions):

Fiscal Year Ended June 30, 2013

	Fire and Police			Harbor Port Police				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age cost*	N/A	\$ 3.50	\$15.67	\$6.50	\$216.57	\$2.67	\$ 1.98	\$ 0.07
Unfunded supplemental present value amount *	\$16.84	\$ 8.23	\$ 7.72	\$5.08	\$ 89.60	\$1.33	\$ 0.65	\$ 0.03
Health subsidy entry age cost*	N/A	\$ 0.47	\$ 3.54	\$1.41	\$ 40.60	\$0.93	\$ 0.44	\$ 0.02
Health subsidy unfunded actuarial accrued liability annual amount*	\$ 2.13	\$ 46.24	\$ 3.37	\$2.52	\$ 30.75	\$0.41	\$ 0.11	\$ -

^{*}Stated in million dollars.

Fiscal Year Ended June 30, 2012

	Fire and Police Har				Harbor Po	ort Police		
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age cost*	N/A	\$ 3.99	\$15.38	\$6.62	\$208.55	\$0.37	\$ 2.06	\$ 0.04
Unfunded supplemental present value amount *	\$16.84	\$ (12.39)	\$ 6.56	\$3.82	\$ 68.83	\$0.16	\$ 0.74	\$ 0.02
Health subsidy entry age cost*	N/A	\$ 0.57	\$ 3.33	\$1.40	\$ 38.46	\$0.12	\$ 0.50	\$ 0.01
Health subsidy unfunded actuarial accrued liability annual amount*	\$ 2.27	\$ 43.74	\$ 3.19	\$2.08	\$ 27.16	\$0.08	\$ 0.06	\$ -

^{*}Stated in million dollars.

During fiscal year 2013, total contributions of \$508,387,283 from the employer and \$121,777,654 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2010. For the Pension Plan, fiscal year 2013 employer contributions included \$246.0 million for normal cost and \$129.0 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2013 employer contributions consisted of \$47.4 million for normal cost and \$85.5 million for unfunded actuarial accrued liability annual amount.

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

During fiscal year 2012, total contributions of \$564,664,408 (\$444,565,284 from the employer and \$120,099,124 from the members) were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2010. For the Pension Plan, fiscal year 2012 employer contributions included \$237.0 million for normal cost and \$84.6 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2012 employer contributions consisted of \$44.4 million for normal cost and \$78.6 million for unfunded actuarial accrued liability annual amount.

NOTE 4 - FUNDED STATUS AND FUNDING PROGRESS

The System engages an actuarial firm to conduct annual actuarial valuations of the Pension Plan and Health Subsidy Plan to monitor the System's funding status and funding integrity.

Pension Plan

The June 30, 2013 and 2012 annual valuations determined the funding status to be 83.1% and 83.7%, respectively. For 2013, if the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 83.1% to 83.5%.

The funded status of the Pension Plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

	Actuarial				
Actuarial	Accrued	Unfunded			UAAL as a
Value of	Liability	AAL	Funded	Covered	Percentage of
Assets	(AAL)	(UAAL)	Ratio	Payroll	Covered Payroll
(a)	(b)	(b) - (a)	(a) / (b)	(c)	((b) - (a)) / (c)
\$ 14,657,712,639	\$ 17,632,425,090	\$ 2,974,712,451	83.1%	\$ 1,367,236,866	217.6%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation Date June 30, 2013

Actuarial Cost Method Entry Age Normal Cost Method

Amortization Method

For Tier 1, level dollar amortization is used ending on June 30, 2037. For Tiers 2, 3, and 4, level percent of payroll amortization with multiple layers is used as a percent of TOTAL valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).

Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Pension Plan (Continued)

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 seven-year period. Unrecognized return established before July 1, 2008, was recognized over a five-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market

value of assets.

Actuarial Assumptions:

Investment Return Rate 7.75%

Inflation Rate 3.50%

Real Across-the-Board

Salary Increase 0.75%

Projected Salary Increase Ranges from 5.25 to 12.25% based on service.

Cost-of-Living Adjustments 3.50% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3,

4, 5, and 6 retirement income.

Mortality Rates:

Healthy RP-2000 Combined Healthy Mortality Table (separate for males

and females) set back four years for members. RP-2000 Combined Health Mortality Table (separate for males and

females) set back two years for beneficiaries.

Disabled RP-2000 Combined Health Mortality Table (separate for males

and females) set back two years.

Health Subsidy Plan

The June 30, 2013 and 2012 annual valuations determined the funding status to be 38.5% and 37.1%, respectively. If the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 38.5% to 38.7%.

The funded status of the Health Subsidy Plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

Actuarial	Actuarial Accrued	Unfunded			UAAL as a
Value of	Liability	AAL	Funded	Covered	Percentage of
Assets	(AAL)	(UAAL)	Ratio	Payroll	Covered Payroll
(a)	(b)	(b) - (a)	(a) / (b)	(c)	((b) - (a)) / (c)
\$ 1,013,399,583	\$ 2,633,792,545	\$ 1,620,392,962	38.5%	\$ 1,367,236,866	118.5%

The schedules of funding progress, presented as RSI following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Additional information as of the latest actuarial valuation is as follows:

Valuation Date June 30, 2013

Actuarial Cost Method Entry Age Normal, Level Percent of Pay

Amortization Method Closed amortization periods. On September 6, 2012, the Board

adopted the following amortization policy:

	Amortization Period
Type of Base	(Closed)
Actuarial Gains or Losses ⁽¹⁾	20
Assumption or Method Changes	25
Plan Amendments	15
ERIPs	5
Actuarial Surplus	30
(1) Retiree health assumption	changes are treated as

Retiree health assumption changes are treated as gains and losses and amortized over 20 years.

Remaining Amortization Period As of June 30, 2013:

23 years for bases established prior to June 30, 2012 19 years for bases established on June 30, 2012 20 years for bases established on June 30, 2013

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 seven-year period. Unrecognized return established before July 1, 2008, was recognized over a five-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market

value of assets.

Actuarial Assumptions:

Investment Rate of Return 7.75%

Inflation Rate 3.50%

Across-the-Board Pay Increase 0.75%

Projected Salary Increase 4.25%

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Health care cost trend rate (to calculate following year's premium):

Medical 8.0% in 2013-2014, then decreasing by 0.5% for each year for

six years until it reaches an ultimate rate of 5%.

Dental 5%

Medicare Part B Premium The 2014-2015 premiums are assumed to be 2.5% higher than

2013-2014 premiums (based on 2014 calendar year premium remaining unchanged from 2013). All subsequent premiums are

assumed to be 5% greater than the prior year premium.

Medical Subsidy Trend For employees not subject to freeze:

For all non-Medicare retires, increase at lesser of 7% or medical

trend.

For Medicare retirees with single party premium, increase with

medical trend.

For Medicare retirees with 2-Party premium less than or equal to the maximum subsidy as of July 1, 2013 (e.g., Police Kaiser),

increase with medical trend.

For Medicare retirees with 2-Party premium greater than the

maximum subsidy as of July 1, 2013 (e.g., Police Blue Cross),

increase with lesser of 7% or medical trend.

The following assumptions were adopted by the System's Board based on the actuarial experience study as of June 30, 2010, and the economic assumptions study as of June 30, 2010:

Data Detailed census data and the System's financial data for post-

employment benefits were provided by the System.

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

Administrative Expenses No administrative expenses were valued separately from the

claim costs.

Spouse Age Difference Husbands are assumed to be 4 years older than wives.

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NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Participation

ratiopation	Service Range (Years)	Assumption for Future Retirees Under 65 (Percentage)	Assumption for Future Retirees Over 65 (Percentage)	
	10-14	45	80	
	15-19	60	85	
	20-24	70	90	
	25 and over	95	95	
Medicare Coverage	100% of future retirees are assumed to elect Medicare Parts A and B.			
Dental Coverage	80% of future retir	ees are assumed to	elect dental covera	age.
Spousal Coverage	Of future retirees receiving a medical subsidy, 80% are assumed to elect coverage for married and surviving spouses or domestic partners. For those retired on valuation date, spousal coverage is based on census data.			
Implicit Subsidy		dy exists since reti rately from active p		ums are

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

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

For Participants under Age 65:

			N	1axin	num Subsidie	es	
Plan	Assumed Election Percentage		Single		Married		urviving Spouse
Fire Medical PPO	75	\$	1,256.43	\$	1,256.43	\$	681.72
Fire Kaiser	15		1,256.43		1,256.43		681.72
Fire Blue Cross HMO	5		1,256.43		1,256.43		681.72
Fire California Care HMO	5		1,256.43		1,256.43		681.72
Police Blue Cross PPO	65		1,256.43		1,256.43		681.72
Police California Care HMO	15		1,256.43		1,256.43		681.72
Police Kaiser	20		1,256.43		1,256.43		681.72
Dental	80		42.80		42.80		-

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

NOTE 4 - FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

For Participants Age 65 and Over:

		Maximum Subsidies				
Plan	Assumed Election Percentage	Single		Married		urviving Spouse
Fire Medical PPO	85	\$ 452.93	\$	727.79	\$	452.93
Fire Kaiser	10	452.93		756.08		452.93
Fire Blue Cross HMO	5	452.93		1,201.17		452.93
Fire California Care HMO	0	452.93		1,035.91		452.93
Police Blue Cross PPO	75	452.93		917.40		452.93
Police California Care HMO	10	452.93		918.05		452.93
Police Kaiser	15	452.93		440.51		452.93
Dental	80	42.80		42.80		-
Medicare B	100	104.90		104.90		104.90

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

NOTE 5 – SECURITIES LENDING

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

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

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

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

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

NOTE 5 – SECURITIES LENDING (Continued)

As of June 30, 2013 and 2012, the fair value of securities lent was \$1,606,643,493 and \$1,421,442,839, respectively, and the fair value of collateral received was \$1,658,291,108 and \$1,442,912,340, respectively. Of the \$1,658,291,108 collateral received as of June 30, 2013, \$1,336,961,871 was cash collateral and \$321,329,237 represented the fair value of non-cash collateral; and of the \$1,442,912,340 collateral received as of June 30, 2012, \$1,285,589,220 was cash collateral and \$157,323,120 represented the value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the security lending transactions as of June 30, 2013 and 2012.

Fair value of collateral received for loaned securities as of June 30, 2013:

				Total
				Collateral
	Securities Lent	Cash	Non-Cash	Securities
	U.S. Government and Agency			
	Securities	\$ 1,111,226,419	\$ 44,374,919	\$ 1,155,601,338
	Domestic Corporate Fixed	v 1,111,== 0 ,110	+,,	4 1,100,001,000
	Income Securities	144,962,974	_	144,962,974
	International Stocks	80,772,478	276,954,318	357,726,796
	memanenar otooko	00,772,770	270,001,010	007,720,700
		\$ 1,336,961,871	\$ 321,329,237	\$ 1,658,291,108
		Ψ 1,000,001,011	Ψ 021,020,201	ψ 1,000,201,100
Fair v	value of loaned securities as of June	30. 2013:		
				Total Fair Value
				of Underlying
	Securities Lent	Cash	Non-Cash	Securities
	U.S. Government and Agency			
	Securities	\$ 1,085,487,583	\$ 43,333,250	\$ 1,128,820,833
	Domestic Corporate Fixed	. , , ,		
	Income Securities	141,546,587	-	141,546,587
	International Stocks	76,117,719	260,158,354	336,276,073
		\$ 1,303,151,889	\$ 303,491,604	\$ 1,606,643,493

NOTE 5 - SECURITIES LENDING (Continued)

Fair value of collateral received for loaned securities as of June 30, 2012:

			Total
			Collateral
Securities Lent	Cash	Non-Cash	Securities
U.S. Government and Agency			
Securities	\$ 921,140,219	\$ 22,702,166	\$ 943,842,385
Domestic Corporate Fixed			
Income Securities	179,946,570	-	179,946,570
International Stocks	184,502,431	134,620,954	319,123,385
	\$ 1,285,589,220	\$ 157,323,120	\$ 1,442,912,340
Fair value of loaned securities as of June	30, 2012:		
			Total Fair Value
			of Underlying
Securities Lent	Cash	Non-Cash	Securities
U.S. Government and Agency			
Securities	\$ 914,399,782	\$ 22,657,469	\$ 937,057,251
Domestic Corporate Fixed			
Income Securities	177,849,930	-	177,849,930
International Stocks	180,180,386	126,355,272	306,535,658
	\$ 1,272,430,098	\$ 149,012,741	\$ 1,421,442,839

For the fiscal years ended June 30, 2013 and 2012, securities lending income amounted to \$9,029,766 and \$6,338,375, respectively, while securities lending expenses amounted to \$901,907 and \$632,959, respectively.

NOTE 6 - 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. At June 30, 2013, cash and temporary investments consisted of \$6,698,082 cash held by the City Treasurer's office and \$587,690,172 in collective short-term investment funds (STIF). At June 30, 2012, cash and temporary investments consisted of \$6,035,672 cash held by the City Treasurer's office and \$525,974,176 in collective STIF. Cash held by the City Treasurer's office is pooled with funds of other City agencies and is not individually identifiable.

Credit Risk

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

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

Credit Risk (Continued)

As of June 30, 2013, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	\$ 1.300.328.977	48.55%
AA	77,735,517	2.90%
A	287,312,090	10.73%
BBB	432,594,131	16.15%
BB	201,379,140	7.52%
В	217,383,485	8.11%
CCC	50,943,522	1.90%
CC	7,195,078	0.27%
C	511,291	0.02%
Not Rated	103,075,796	3.85%
Subtotal	2,678,459,027	100.00%
U.S. Government Issued or Guaranteed Securities	453,255,157	
Total Fixed Income Investments	\$ 3,131,714,184	

As of June 30, 2012, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	\$ 103,937,554	3.26%
AA	52,660,719	1.65%
A	379,962,698	11.91%
BBB	983,428,727	30.83%
BB	66,952,816	2.10%
В	77,625,398	2.43%
CCC	41,956,412	1.32%
CC	13,753,126	0.43%
C	1,991,806	0.06%
Not Rated	1,467,929,586	46.01%
Subtotal	3,190,198,842	100.00%
U.S. Government Issued or Guaranteed Securities	95,757,084	
Total Fixed Income Investments	\$ 3,285,955,926	

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, 2013 and 2012, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$10,584,998 and \$18,348,839, respectively.

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

Custodial Credit Risk (Continued)

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2013 and 2012, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2013 and 2012, the System's investments in hedge fund of funds of \$549,054,089 and \$598,713,969, private equity of \$1,346,850,290 and \$1,208,584,553, and commingled real estate funds of \$589,790,484 and \$587,101,735, were exposed to custodial credit risk, respectively.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2013 and 2012, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

Interest Rate Risk

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

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Fiscal Year 2013

		Average Maturity
Investment Type	Fair Value	(in Years)
Asset Backed Securities	\$ 49,496,120	49.49
Commercial Mortgages	54,593,562	29.13
Corporate Bonds	1,285,295,376	16.41
Government Agencies Bonds	57,374,270	4.29
Government Bonds	562,829,453	12.85
Government Mortgage Backed Securities	366,922,761	21.64
Index Linked Government Bonds	731,669,504	9.42
Non-Government Backed Collateralized		
Mortgage Obligations	2,694,144	22.81
Bond Index Fund*	20,838,994	N/A
Total Fixed Income Investments	\$3,131,714,184	

^{*} Shares are in commingled fixed income funds.

NOTE 6 – <u>CASH, TEMPORARY INVESTMENTS</u>, <u>AND OTHER INVESTMENTS</u> (Continued)

Interest Rate Risk (Continued)

Fiscal Year 2012

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	\$ 111,169,244	5.33
Commercial Mortgages	41,054,629	27.85
Corporate Bonds	1,284,924,347	18.65
Government Agencies Bonds	57,175,552	4.44
Government Bonds	617,536,223	31.83
Government Mortgage Backed Securities	390,719,282	21.47
Index Linked Government Bonds	766,223,197	9.97
Non-Government Backed Collateralized		
Mortgage Obligations	5,744,057	20.88
Bond Index Fund*	11,409,395	N/A
Total Fixed Income Investments	\$ 3,285,955,926	

^{*} Shares are in commingled fixed income funds.

Investments that are highly sensitive to interest rate risk are as follows:

Fiscal Year 2013

Investment Type	- —	Fair Value
Asset Backed Securities	\$	49,496,120
Commercial Mortgages		54,593,562
Government Agencies Bonds		57,374,270
Government Mortgage Backed Securities		366,922,761
Index Linked Government Bonds		731,669,504
Non-Government Backed Collateralized Mortgage Obligations		2,694,144
	\$ 1	1,262,750,361

Fiscal Year 2012

Investment Type	 Fair Value
Asset Backed Securities	\$ 111,169,244
Commercial Mortgages Government Agencies Bonds	41,054,629 57,175,552
Government Mortgage Backed Securities	390,719,282
Index Linked Government Bonds Non-Government Backed Collateralized Mortgage Obligations	766,223,197 5,744,057
	\$ 1,372,085,961

NOTE 6 – <u>CASH, TEMPORARY INVESTMENTS</u>, <u>AND OTHER INVESTMENTS</u> (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, 2013, are as follows:

Foreign Currency Type	Fair Value	_
Australian Dollar	\$ 91,492,220	1
Brazilian Real	57,847,147	
British Pound Sterling	490,118,766	
Canadian Dollar	21,767,245	
Chilean Peso	4,985,118	
Colombian Peso	973.751	
Czech Koruna	859,506	
Danish Krone	27.930.359	
Euro	674,756,331	
Hong Kong Dollar	171,343,450	
Hungarian Forint	1,052,021	
Indian Rupee	39,825,597	
Indonesian Rupiah	25,798,825	
Japanese Yen	468,849,496	
Malaysian Ringgit	27,147,597	
Mexican Peso	32,424,956	
New Israeli Shekel	3,997,741	
New Taiwan Dollar	106,044,594	
New Zealand Dollar	1,629,822	
Norwegian Krone	15,819,721	
Philippine Peso	6,068,139)
Polish Zloty	9,454,949)
Singapore Dollar	22,736,482	>
South African Rand	56,683,471	
South Korean Won	138,097,722	>
Swedish Krona	65,112,478	3
Swiss Franc	144,693,772	>
Thai Baht	20,120,651	
Turkish Lira	24,573,452	2
	\$ 2,752,205,379)

Note: The foreign currency total is comprised of foreign stocks and foreign bonds.

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NOTE 6 – <u>CASH, TEMPORARY INVESTMENTS</u>, <u>AND OTHER INVESTMENTS</u> (Continued)

Foreign Currency Risk (Continued)

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2012, are as follows:

Foreign Currency Type	_	Fair Value
Australian Dollar	\$	60,157,586
Brazilian Real	*	64,294,125
British Pound Sterling		403,431,353
Canadian Dollar		47,315,672
Chilean Peso		7,345,984
Colombian Peso		798,298
Czech Koruna		1,786,081
Danish Krone		20,966,827
Euro		504,320,456
Hong Kong Dollar		171,069,603
Hungarian Forint		1,712,719
Indian Rupee		35,841,686
Indonesian Rupiah		19,401,738
Japanese Yen		374,201,124
Malaysian Ringgit		22,148,438
Mexican Peso		23,686,532
New Israeli Shekel		2,408,126
New Taiwan Dollar		87,693,143
New Zealand Dollar		512,708
Norwegian Krone		14,873,346
Peruvian Nuevo Sol		666,844
Philippine Peso		7,834,664
Polish Zloty		8,683,196
Singapore Dollar		26,362,070
South African Rand		58,581,578
South Korean Won		128,795,413
Swedish Krona		52,159,858
Swiss Franc		118,121,213
Thai Baht		19,292,285
Turkish Lira	_	18,020,956
	\$	2,302,483,622

Note: The foreign currency total is comprised of foreign stocks and foreign bonds.

NOTE 7 - DERIVATIVE INSTRUMENTS

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.

NOTE 7 – **DERIVATIVE INSTRUMENTS** (Continued)

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2013 financial statements are as follows (\$ in thousands):

	Changes in Fair Value			Fair Value at June 30, 2013			Notional	
Туре	Classification	Amount		Classification	Amount		nount Amount	
Investment Derivatives:								
Futures - Shorts		\$	-	Investment	\$	-	\$	-
Futures - Longs	Investment Revenue		(1,798)	Investment		-		(2,194)
Forwards	Investment Revenue		(754)	Investment		167		-
Rights/Warrants	Investment Revenue		(960)	Investment		36		-

At June 30, 2013, the System held futures-longs with a notional value of \$(2,193,610) with a realized gain of \$1,797,509 for the fiscal year. The System held forwards with a fair value of \$167,087 and rights and warrants with a fair value of \$36,726. Earnings of \$754,519 were reported for the fiscal year for forwards and \$960,351 was reported for rights and warrants respectively for the fiscal year.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements are as follows (\$ in thousands):

	Changes in Fair Value			Fair Value at June 30, 2012			Notional	
Туре	Classification	Amount Classification Amount		Amount Classification Amount An		Amount		
Investment Derivatives:								
Futures - Shorts		\$	-	Investment	\$	-	\$	(14, 119)
Futures - Longs	Investment Loss		503	Investment		-		3,574
Forwards	Investment Revenue		(1,769)	Investment		(28)		-
Rights/Warrants	Investment Loss		1,111	Investment		108		-

At June 30, 2012, the System held futures-shorts with a notional value of \$(14,118,906) and the future longs with the notional value of \$3,573,525 and a realized loss of \$503,264 for the fiscal year. The System held forwards with a fair value of \$(27,837) and rights and warrants with a fair value of \$108,178. Earnings of \$1,769,285 for forwards and loss of \$1,111,030 for rights and warrants were reported for the fiscal year.

NOTE 8 - MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2013, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from \$17,550 to \$850,000. For fiscal year 2012, interest rates range from 2.94% to 7.50% per annum. Monthly principal and interest payments range from \$43,348 to \$929,868.

NOTE 8 - MORTGAGES PAYABLE (Continued)

The mortgages mature from January 2014 to June 2031. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

Year Ending	Principal		Interest		Total		
2014	\$	43,805,240	\$	7,561,521	\$	51,366,761	
2015		8,116,004		7,012,842		15,128,846	
2016		36,652,903		6,502,462		43,155,365	
2017		39,175,519		4,182,325		43,357,844	
2018		1,477,970		3,803,594		5,281,564	
2019-2023		55,271,221		10,003,627		65,274,848	
2024-2028		3,883,076		1,803,086		5,686,162	
2029-2031		4,043,198		505,731		4,548,929	
	\$	192,425,131	\$	41,375,188	\$	233,800,319	

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

The following is a summary of mortgage payable activity for the year ended June 30, 2013:

	Balance			
	June 30, 2012	Additions	Deletions	June 30, 2013
Mortgage Payable	\$ 207,490,130	\$ -	\$ 15,064,999	\$ 192,425,131

NOTE 9 - OPERATING LEASE

The System leases office space under an operating lease that expires on April 14, 2017. The annual lease payments for the fiscal years ended June 30, 2013 and 2012, were \$865,108 and \$913,374, respectively.

The minimum lease commitment for future fiscal years is as follows:

Υ	ear	End	led	Jur	ıe	30	

2014	\$ 876,354
2015	865,108
2016	876,354
2017	902,639
	\$ 3,520,455

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were \$1,586,973,508 and \$1,498,454,279 as of June 30, 2013 and 2012, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

Termination Rights (Continued)

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

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1,050,565,956 and \$962,188,539 at June 30, 2013 and 2012, respectively. As of June 30, 2013, the System settled with the State of Arizona over the value received in a taking of property that was owned by the System.

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

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018. If there is no change in the law or the System plan provisions between now and 2018, and if the current medical cost trend stays substantially the same during the same period, some of the System post-employment healthcare plans will be subject to the excise tax in 2018. GASB has not yet issued any guidance on accounting or financial reporting of this potential future liability.

NOTE 11 – DONATIONS

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

As previously reported in fiscal year ending June 30, 2005, the System has been informed that the Internal Revenue Service is disputing the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System. The last donation of private equity accepted by the System was in 2002. The System has sold or returned the majority of 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; \$864,281 in 2007; \$67,568 in 2008; \$50,676 in 2009; and no dividends in 2010, 2011, 2012, or 2013.

NOTE 12 – RISKS AND UNCERTAINTIES

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

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NOTE 13 – <u>SUBSEQUENT EVENTS</u>	
Management has evaluated subsequent events through December 9, 2013, whi financial statements were issued.	ch is the date the
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CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM JUNE 30, 2013

SCHEDULE 1A SCHEDULE OF FUNDING PROGRESS – PENSION PLAN (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
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%
June 30, 2008	14,153,296,122	14,279,115,742	125,819,620	99.1%	1,206,589,277	10.4%
June 30, 2009	14,256,610,416	14,817,145,691	560,535,275	96.2%	1,357,248,936	41.3%
June 30, 2010	14,219,580,662	15,520,624,313	1,301,043,651	91.6%	1,356,986,475	95.9%
June 30, 2011	14,337,669,409	16,616,476,266	2,278,806,857	86.3%	1,343,963,356	169.6%
June 30, 2012	14,251,913,532	17,030,833,184	2,778,919,652	83.7%	1,341,913,739	207.1%
June 30, 2013	14,657,712,639	17,632,425,090	2,974,712,451	83.1%	1,367,236,866	217.6%

SCHEDULE 1B SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN (UNAUDITED)

Actuarial Valuation Date	_	Actuarial Value of Assets	_	Actuarial Accrued Liability	_	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
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%
June 30, 2008		767,647,562		1,836,840,337		1,069,192,775	41.8%	1,206,589,277	88.6%
June 30, 2009		809,676,978		2,038,658,698		1,228,981,720	39.7%	1,357,248,936	90.5%
June 30, 2010		817,275,977		2,537,825,016		1,720,549,039	32.2%	1,356,986,475	126.8%
June 30, 2011		882,890,188		2,557,606,524		1,674,716,336	34.5%	1,343,963,356	124.6%
June 30, 2012		927,361,635		2,499,288,516		1,571,926,881	37.1%	1,341,913,739	117.1%
June 30, 2013		1,013,399,583		2,633,792,545		1,620,392,962	38.5%	1,367,236,866	118.5%

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM JUNE 30, 2013

SCHEDULE 2A SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN (UNAUDITED)

Fiscal Years Ending	Annual Required Contribution	Actual Contribution	Percent Contributed
2004	\$ 97,465,612	\$ 97,465,612	100.00%
2005	135,853,688	135,853,688	100.00%
2006	143,945,802	143,945,802	100.00%
2007	224,946,082	224,946,082	100.00%
2008 ⁽¹⁾	261,635,491	261,635,491	100.00%
2009	238,697,929	238,697,929	100.00%
2010	250,516,858	250,516,858	100.00%
2011	277,092,251	277,092,251	100.00%
2012	321,593,433	321,593,433	100.00%
2013	375,448,092	375,448,092	100.00%

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

SCHEDULE 2B SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN (UNAUDITED)

Fiscal Years Ending	Annual Required Contribution	Actual Contribution	Percent Contributed
2004	\$ 38,737,255 ⁽¹⁾	\$ 38,737,255	100.00%
2005	31,541,933 ⁽¹⁾	31,541,933	100.00%
2006	31,413,281 ⁽¹⁾	31,413,281	100.00%
2007	55,162,681 ⁽¹⁾	55,162,681	100.00%
2008	98,033,338 (2)	78,257,328	79.83%
2009	98,444,833 ⁽³⁾	88,178,910	89.57%
2010	106,648,282	106,648,282	100.00%
2011	111,681,208	111,681,208	100.00%
2012	122,971,851	122,971,851	100.00%
2013	132,939,191	132,939,191	100.00%

- (1) Payable at the beginning of the year. For years 2007 and prior, Annual Required Contribution may not have been determined in compliance with GASB Statements No. 43 and No. 45 due to maximum amortization period and/or for the medical trend rate employed.
- (2) Based on the beginning of year contribution rate of 8.15% of compensation calculated in the June 30, 2006 valuation before the phase-in, the Annual Required Contribution dollar amount has been approximated by applying the ratio of the contribution before the phase-in to the contribution after the phase-in as determined in the June 30, 2006 valuation to the actual contributions made during 2007-2008.
- (3) Based on the beginning of year contribution rate of 7.89% of compensation calculated in the June 30, 2007 valuation before phase-in. The Annual Required Contribution has been approximated by applying the ratio of the contribution before phase-in to the contribution after the phase-in made during 2008-2009 as determined in the June 30, 2007 valuation to the actual contributions.



2013 ANNUAL REPORT

DEPARTMENT BUDGET

Receipts - Budgeted and Actual

Expenditures - Budgeted and Actual



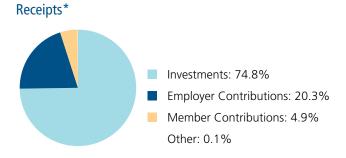
DEPARTMENT BUDGET

Receipts	Budgeted 2012-13	Actual 2012-13
City Contribution	505,082,619	505,082,619
Special Fund (Harbor)	3,304,664	3,304,664
Excess Benefit Plan ¹	1,003,643	808,654
Member Contributions	128,295,739	121,777,654
Earnings on Investments	280,000,000	440,231,827
Gain (Loss) on Sale of Investments	_	1,438,731,531
Miscellaneous ²	1,000,000	2,700,650
Total Receipts	918,686,665	2,512,637,599

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

² Represents receipts from purchase of prior years' pension overpayment.

Expenditures	Budgeted 2012-13	Actual 2012-13
Service Pensions	532,500,000	519,879,684
Service Pensions - DROP Payout	109,390,000	105,562,867
Disability Pensions	120,000,000	117,216,636
Surviving Spouse Pensions	109,000,000	111,721,960
Minor/Dependent Pensions	1,800,000	1,855,451
Refund of Member Contributions	4,000,000	3,266,578
Health Insurance Premium Subsidy	88,000,000	84,870,070
Dental Insurance Premium Subsidy	3,900,000	3,590,939
Medicare Reimbursement	9,200,000	8,855,383
Health Insurance Premium Reimbursement	1,300,000	990,064
Investment Management Expense	99,552,780	55,588,305
Administrative Expense	17,126,153	13,045,489
Total Expenditures	1,095,738,933	1,026,443,426
Increase (Decrease) in Fund Balance	-177,052,268	1,486,194,173



Expenditures*

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Service & DROP: 60.9%
Disability: 11.4%
Survivor Pensions: 11.1%
Other: 16.6%

^{*} Figures may not foot exactly due to rounding.



2013 ANNUAL REPORT

INVESTMENTS

Investment Environment

Investment Performance

Asset Allocation Decisions

Investment Activities

Proxy Voting

Changes in Asset Mix

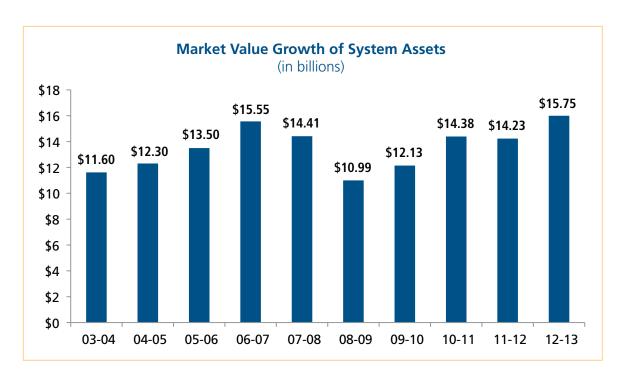
Annual Rates of Return

Investment Advisors



INVESTMENTS

From July 1, 2008 to June 30, 2013, the System's assets increased from \$14.41 billion to \$15.75 billion (5.05 percent). For the one-year period ending June 30, 2013, the Fund increased by \$1.52 billion (13.01 percent).



Investment Environment

The past fiscal year saw the continuation of the slow recovery from the global financial crises of 2007-2008. Domestic interest rates remained near historic lows as the Federal Reserve continued its program of quantitative easing early in the year, while domestic equity markets approached historic highs thanks to improving availability of credit and strong corporate profits. Factors affecting market volatility included the effects of hurricane Sandy striking the northeastern U.S. in the fall of 2012, uncertainty over the Presidential election and then the federal budget deliberations over the "fiscal cliff" and potential sequestration. Overseas, economic conditions in the Eurozone appeared to stabilize as European finance ministers, the International Monetary Fund and the European Central Bank worked in concert to develop support programs for Greece and other European Union countries with

large budget deficits. In Asia the stimulus program announced by Japan's new Prime Minister Shinzo Abe lifted Japanese stocks, while the slowdown in the Chinese economy negatively affected many emerging market countries around the region.

The bond market (Barclays US Universal Bond Index) produced a return of 0.24 percent for the year ending June 30, 2013. Large company stocks (S&P 500) returned 20.60 percent. Small stocks (Russell 2000 Index) returned 24.20 percent. International stocks (MSCI ACWI ex-U.S. Index) returned 14.14 percent. Real estate, as measured by the National Council of Real Estate Investment Fiduciaries Index (NCREIF Property Index), returned 10.70 percent.

Investment Performance

The investment objective 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 assumed

INVESTMENTS 59

actuarial rate of return of 7.75 percent and investment performance above the median of a sampling of public funds.

For the past five years, the System's annualized return of 5.05 percent did not exceed the actuarial rate of return, and trailed the RV Kuhns Public Funds' median return of 5.41 percent.

For the one- and three-year periods, the System's overall investment returns were 13.01 percent and 12.02 percent, respectively.

The Fund was ranked in the 32nd percentile of the RV Kuhns Public Fund Universe for the one-year period, the 30th percentile for the three-year period, the 70th percentile for the five-year period and the 47th percentile for the seven-year period ending June 30, 2013. The System's top performers this year were its domestic and international equity portfolios, while the fixed income and real estate investments 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 the investment returns necessary to fund benefits.

The Board's Asset Class Targets as of June 30, 2013

Domestic Large Cap Equity 23.00%
Domestic Small Cap Equity 6.00%
International Equity
Emerging Markets (Equity) 5.00%
Domestic Bonds 14.00%
High Yield Bonds
TIPS 5.00%
Real Estate
Private Equity
Hedge Funds*
Commodities – Energy 5.00%
Cash Equivalents 1.00%

^{*} In May 2013, the Board approved the elimination of the allocation to Hedge Funds. The redemption of Hedge Fund assets and their re-allocation to other asset classes will take effect in Fiscal Year 2013-14.

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.

Net	Asset	Va	ues
as of	June 3	30,	2013

Asset Class	Market Value (in millions)	Percent
Stocks	\$ 9,018	57.28%
Bonds	3,237	20.56%
Real Estate	1,299	8.25%
Private Equity	1,310	8.32%
Hedge Funds	549	3.49%
Commodities	11	.07%
Cash Equivalents	319	2.03%
Total*	\$15,745	100.0%

^{*} Figures may not foot exactly due to rounding.

Investment Activities

Throughout the past fiscal year the Board and the Investment Staff continued their focus on investment manager fees and the System's emerging manager program, with Ad Hoc Committees of the Board meeting multiple times on these topics. The interim report of the periodic Management Audit of the System, required every five years by the City Charter and commissioned by the City Controller, noted that "We believe that the LAFPP's investment management fees are reasonable given the size, complexity and structure of the LAFPP investment program. This is especially true when comparing the investment management fees that LAFPP paid to its active U.S. equity and fixed income managers, as those fees are significantly lower than peers across these asset classes." 1 The Board continues to evaluate the emerging manager program as it studies the effectiveness of the manager-of-emerging-managers model, versus the direct hire of emerging managers. Other notable activities included the Board's consideration and approval of a Firearms Investment Policy for incorporation within the Investment Policy. The Firearms Investment Policy prohibits the purchase

¹ From the "Analysis" section of the Management Audit Interim Report issued June 27, 2013.



of the stock of a firearms manufacturer that makes any firearm ruled by the California Attorney General as illegal for sale within the State of California.

During the year, there were some changes in managers. The following investment managers were terminated: one international equity manager, one hedge fund of fund manager and one real estate manager. Two new international equity managers were hired, while two small cap domestic equity managers, four bond managers and two real estate managers were rehired. In addition, the General Consultant and Private Equity manager were rehired.

Most of the System's assets are managed by investment managers hired to outperform a market index. The System also has a large equity account that is a Standard & Poor's 500 Index fund, two smaller equity accounts that are indexed to the Russell 1000 Value and the Russell 1000 Growth respectively, an international equity account that is a MSCI EAFE (excluding the U.S.), a MSCI EAFE Small Cap fund and a fixed income account that is a Barclays Capital U.S. Aggregate Index fund, whose performances match their respective index. A list of our managers is at the end of this section.

Proxy Voting

The System votes all domestic proxy ballots, while the international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines.

The System votes affirmatively on preemptive rights, cumulative voting and confidential voting; opposes anti-takeover measures and generally abstains on issues of a social, political or environmental nature 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 exceeded the returns of both the Standard & Poor's 500 Index and an appropriate peer group index; supports the nomination of and directs an affirmative vote for the appointment of independent directors to the Board of Directors. The System also votes affirmatively on measures that propose to place independent directors on compensation committees and directs an affirmative vote on shareholder proposals that request management to report on climate change.

INVESTMENTS

Changes in Asset Mix: Last Ten Years

Fiscal Year	Stocks	Bonds	Real Estate	Private Equity	Hedge Funds	Short-Term Investments
2003-04	60.3%	28.0%	6.7%	3.5%		1.5%
2004-05	62.5%	28.1%	4.7%	3.2%		1.6%
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%
2007-08	60.6%	22.9%	8.4%	4.2%	3.2%	0.7%
2008-09	55.2%	25.7%	7.6%	5.5%	4.6%	1.4%
2009-10	54.2%	25.5%	7.4%	6.8%	4.4%	1.7%
2010-11	58.3%	21.8%	7.6%	7.4%	4.0%	0.8%
2011-12	53.1%	23.4%	8.9%	8.5%	4.0%	2.1%
2012-13	57.3%	20.6%	8.3%	8.3%	3.5%	2.0%

Annual Rates of Return

Fiscal Year	Domestic Equities	International Equities	Fixed Income	Real Estate	Private Equity	Hedge Funds*	Total Fund**	CPI***
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%	4.32%
2006-07	20.05%	31.68%	6.52%	17.46%	17.35%	2.42%	18.50%	2.69%
2007-08	-11.93%	-7.50%	6.50%	-0.26%	10.17%	0.65%	-4.58%	5.02%
2008-09	-24.47%	-33.60%	4.20%	-31.98%	-21.22%	-13.02%	-19.97%	-1.43%
2009-10	16.58%	9.78%	15.11%	6.92%	25.54%	7.18%	13.91%	1.05%
2010-11	33.24%	29.92%	7.07%	16.20%	10.30%	7.00%	22.09%	3.56%
2011-12	2.19%	-14.82%	12.32%	12.32%	10.19%	-1.83%	1.89%	1.70%
2012-13	23.06%	14.64%	0.18%	11.00%	10.30%	9.47%	13.01%	1.80%

^{*} For the 2006-07 Fiscal Year, the 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

AllianceBernstein
Attucks Asset Management
Chicago Equity Partners
Daruma Asset Management
FIS Group
Frontier Capital Management
Los Angeles Capital Management
Research Affiliates
Robeco Boston Partners

International Stock Managers

Baillie Gifford
BlackRock
Boston Common Asset Management
Brandes Investment Partners
Del Rey Global
Dimensional Fund Advisors
Fisher Group
Northern Trust Investments
Principal Global Investors

Bond Managers

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

Separate Account Real Estate Managers

Heitman Capital Management Sentinel Real Estate Corporation Urdang Capital Management

REIT Managers

Morgan Stanley Principal Global Investors

Private Equity Managers

Portfolio Advisors

Hedge Fund of Fund Managers

Aetos Capital Dorchester Capital Grosvenor Capital Management

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Pension Benefit Balance Sheet

Unfunded Actuarial Accrued Liability

Employer Contribution Requirements Calculation

Health Insurance Premium Subsidy Valuation

Employer Contribution History

Actuarial Balance Sheet



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

Funding Status

The funded status of the System is examined over a span of several years to determine if progress is made. When the assets equal or exceed the liabilities, the Plan is funded at 100 percent or more and is considered fully funded; otherwise it is underfunded. Tier 5 provides for an employee contribution rate of 8 percent if the Plan's pension benefits are at least 100 percent actuarially funded; and 9 percent if not fully funded.

Pension Benefits

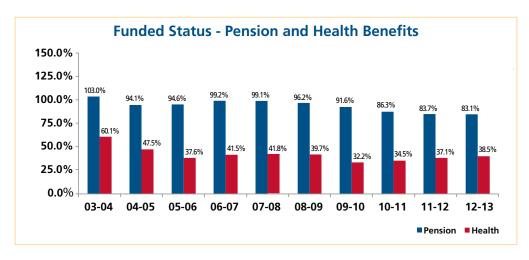
A 10-year history of the System's funded status for pension benefits is provided below. Although the funding progress has declined over the last few years due to the investment losses sustained in the 2008-2009 Great Recession, there was less of a decline over the last year due to an offset from investment gains and other favorable experience. As of June 30, 2013, the funded status for pension benefits is 83.1 percent, a decrease of 0.6 percent from the prior year. As a result, the employee pension contribution for Tier 5 members will remain at 9 percent. Details on the recognition of these investment gains and losses are available in Section 2, Chart 7 of the June 30, 2013 Actuarial Valuation and Review of Retirement Benefits.

Health Insurance Premium Subsidy Benefits

The System began pre-funding health insurance premium subsidy benefits in 1989. A 10-year history of the System's funded status for health benefits is included in the chart below. As of June 30, 2013, the funding status of health benefits increased from 37.1 percent to 38.5 percent. Details on the factors which contributed to the increased funding status are available in Section 2, Chart 2 of the June 30, 2013 Actuarial Valuation and Review of Other Postemployment Benefits.

Unlike the funding status of pension benefits, the funding status of health insurance premium subsidy benefits does not impact a Tier 5 member's contribution to the Plan.

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How a Valuation is Conducted

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

Actuarial Assumptions

The System's actuary recommends assumptions – demographic and economic – based on the Plan's experience and the Board of Fire and Police Pension Commissioners (Board) makes the decision to adopt them. Demographic assumptions explore the probabilities of when and how long members will receive the various types of benefits, e.g., the likelihood of retirement, disability and death. Economic assumptions are based on factors that affect the value of benefits or the value of a plan's assets, e.g., inflation rate, rate of salary increases and assumed investment return.

At least every five years, the assumptions are examined to determine if any adjustments are necessary for future valuations. Examples of assumptions used for the valuation period ending June 30, 2013 are provided below.

Average Life Expectancy for Retirees (Age = 65)

Service Retiree	20.5 years *
Disabled Retiree	18.8 years *
Surviving Spouse	21.2 years **

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

Rate of Inflation

Rate of Salary Increases

Years of Service	Annual Individual Salary Increase*
0	8.75%
1	7.75%
2	5.25%
3	4.75%
4	4.25%
5	3.95%
6	3.50%
7	3.25%
8	3.00%
9	3.00%
10	2.75%
11 or more	1.75%
al Increases in	

Investment Rate of Return

Net Investment Return 7.75%

Pension Benefit Balance Sheet

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

The projected future contributions are considered assets of the System, along with assets currently being invested by Los Angeles Fire and Police Pensions. For purposes of determining the contributions to the System, any investment gains and losses established after July 1, 2008 will be

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

Tiers 3 - 6 have an assumed cost of living adjustment of 3.00 percent annually.

^{*} Includes 0.75 percent "across the board" salary increase.



recognized over a seven-year period and the actuarial value of assets will be further adjusted, if necessary, to be within 40 percent of the market value of assets.

The Actuarial Balance Sheet comparing the System's assets and liabilities as of June 30, 2013 is available on page 72.

Unfunded Actuarial Accrued Liability

An unfunded actuarial accrued liability (UAAL) of a retirement system occurs when a system's actuarial liability is greater than the value of its assets, yielding a funded ratio less than 100 percent. As of June 30, 2013, the Actuarial Balance Sheet on page 72 shows the UAAL for pension benefits for all tiers to be approximately \$3.0 billion. The UAAL for health insurance premium subsidy benefits for all tiers is approximately \$1.6 billion.

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

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

Employer Contribution Requirements Calculation

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

Entry Age Normal Cost

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

Amortization of the UAAL

In September 2012, the Board adopted an amortization policy for the valuation period ending June 30, 2012 and for use in subsequent valuations. (Prior to voter approval in March 2011, the amortization policy was prescribed in the City Charter.)

The unfunded liability for Tier 1 is amortized as a level dollar amount and is scheduled to end on June 30, 2037. For all other tiers, it is amortized as a level percent of payroll. Specifically for Tiers 2 - 4, the unfunded liability is amortized as a percent of the total City sworn covered payroll. For Tiers 5 and 6, it is amortized as a percent of combined payroll of these tiers from the respective employers – City or Harbor Department. Actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 25 years and Plan amendments are amortized over 15 years. In the event of an actuarial surplus, 30-year amortization is used.

With this information, the actuary computes the employers' contribution requirements for pension benefits:

Entry Age Normal Cost Contribution Requirements Recommended 2014-15*

(as a percentage of Plan members' salaries)

Tier 1	0.0%
Tier 2	25.37%
Tier 3	17.54%
Tier 4	16.78%
Tier 5	19.79%
Tier 6	15.77%
Harbor Port Police – Tier 5	20.26%
Harbor Port Police – Tier 6	16.54%

^{*} Contributions to be made on July 15, 2014. The rates are adjusted for the employee 2 percent opt-in contribution and health subsidy freeze, and reflect the final year of the three-year phase-in of the noneconomic assumption changes adopted by the Board in September 2011.

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Unfunded Liability Contribution Requirements Recommended 2014-15*

(as a percentage of Plan members' salaries)

Tier 1	\$16 420 898
	3.35% of total payroll
	of Tiers 2 - 6
Tier 3	1.39% of total payroll of Tiers 2 - 6
Tier 4	0.77% of total payroll of Tiers 2 - 6
Tier 5	11.63% of Tier 5 payroll (excluding the
	Harbor Department)
Tier 6	11.63% of Tier 6 payroll (excluding the Harbor Department)
Harbor Port Police –	
Tier 5	9.44% of Tier 5
	payroll (excluding the City)
Harbor Port Police –	
Tier 6	9.44%of Tier 6
	payroll (excluding the City)

^{*} Contributions to be made on July 15, 2014. The rates are adjusted for the employee 2 percent opt-in contribution and health subsidy freeze, and reflect the final year of the three-year phase-in of the noneconomic assumption changes adopted by the Board in September 2011.



Health Insurance Premium Subsidy Valuation

The health insurance premium subsidy valuation utilizes the same actuarial assumptions as the valuation of pension benefits, with the addition of a medical inflation assumption. Medical costs continue to increase at a faster pace than inflation. Assumptions in the June 30, 2013 actuarial valuation included medical trend rate increases of 8.0 percent for pre-65 and post-65 premiums in Fiscal Year 2013-14, then decreasing by 0.5 percent for each year for six years until it reaches an ultimate rate of 5 percent. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health insurance premium subsidy benefits is shown on page 72.

The contributions suggested to fund the health insurance premium subsidy benefits are:

Health Insurance Premium Subsidy Contribution Rates Recommended 2014-15*

(as a percentage of Plan members' salaries)

Tier 1	\$1,937,964
Tier 2	7.23%
Tier 3	4.68%
Tier 4	4.04%
Tier 5	7.07%
Tier 6	10.07%
Harbor Port Police – Tier 5	5.98%
Harbor Port Police – Tier 6	7.32%

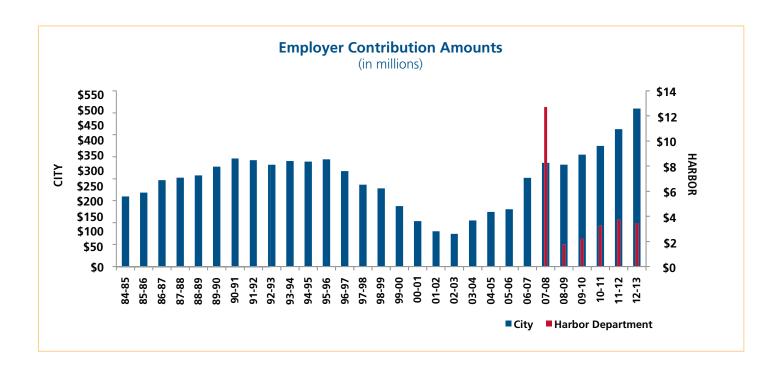
^{*} Contributions to be made on July 15, 2014. The rates are adjusted for the employee 2 percent opt-in contribution and health subsidy freeze, and reflect the final year of the three-year phase-in of the noneconomic assumption changes adopted by the Board in September 2011.

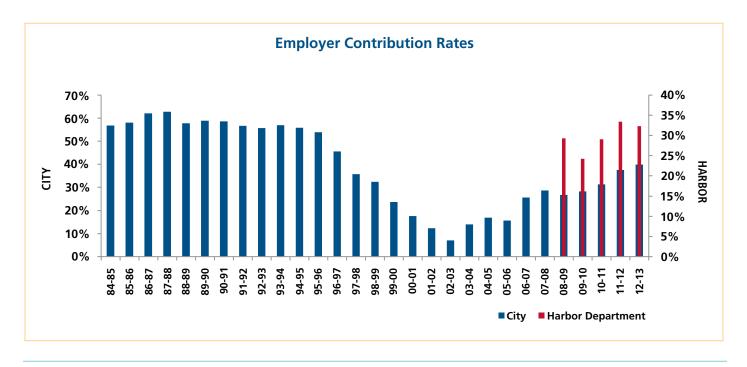
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Employer Contribution History

A history of the employer contributions is illustrated below. Over the last two decades, the City's contribution for pension and health benefits to the System has been fairly stable. However, there were periods when the contribution amount was decreased due to the System's well-funded status.

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





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Actuarial Balance Sheet – June 30, 2013

Present Resources and Expected Future Resources													
Assets	Pension	Health	Total										
1. Valuation value of assets	\$14,657,712,639	\$1,013,399,583	\$15,671,112,222										
2. Present value of future normal costs:													
Employee	\$1,316,849,252		\$1,316,849,252										
Employer	\$2,732,872,722	\$558,073,382	\$3,290,946,104										
Total	\$4,049,721,974	\$558,073,382	\$4,607,795,356										
3. Unfunded actuarial accrued liability	\$2,974,712,451	\$1,620,392,962	\$4,595,105,413										
4. Present value of current and future assets	\$21,682,147,064	\$3,191,865,927	\$24,874,012,991										

Present Value of Expected Future Benefit Payments and Reserve

Liabilities	Pension	Health	Total
5. Present value of future benefits:			
Retired members and beneficiaries	\$9,820,906,432	\$1,534,402,716	\$11,335,309,148
Inactive members with vested rights	\$24,953,935	\$6,856,137	\$31,810,072
Active members	\$11,836,286,697	\$1,650,607,074	\$13,486,893,771
6. Total present value of expected future benefit payments	\$21,682,147,064	\$3,191,865,927	\$24,874,012,991

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Fire and Police Pension Plans

Deferred Retirement Option Plan

Tables and Charts

Active Membership

DROP and Retired Membership



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Fire and Police Pension Plans

As of June 30, 2013, the System is composed of seven tiers. Benefits are based on the member's pension tier, pension salary base and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

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

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

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

Tier 5 includes members hired from January 1, 2002 through June 30, 2011. Active members in Tiers 2, 3 and 4 were allowed to transfer to Tier 5 during an enrollment period.

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

Tier 6 consists of all new members hired on or after July 1, 2011.

On July 1, 2012, the Department of General Services, Office of Public Safety (OPS) was consolidated into the Los Angeles Police Department (LAPD). As a result, OPS employees who successfully transition to a regular LAPD sworn classification may make an irrevocable election to opt out of LACERS and become a member of the Fire and Police Pension System. The opt-out election must be made prior to December 12, 2014.

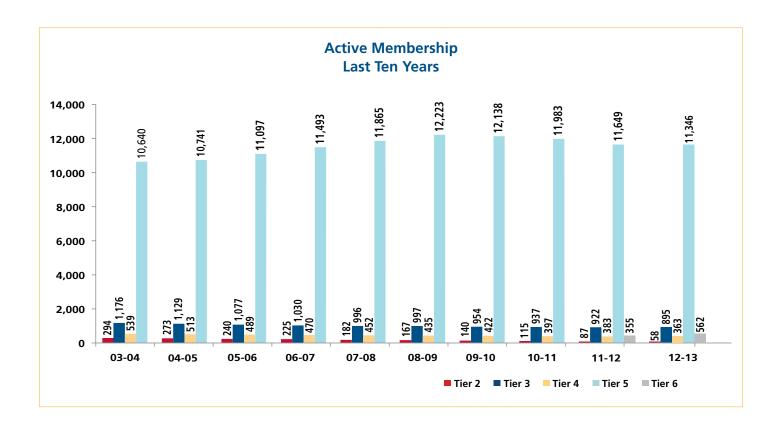
Deferred Retirement Option Plan

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

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

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ACTIVE MEMBERSHIP



	M	embe	ersh	ip
as	of	June	30,	2013

Tier	Fire	Police	Harbor	Total
Tier 2	28	30		58
Tier 3	28	867		895
Tier 4	57	306	_	363
Tier 5	3,097	8,143	106	11,346
Tier 6	_	560	2	562
Total	3,210*	9,906**	108***	13,224

Fire:					
Tier 2	0	0	0	0	0
Tier 3	0	2	0	0	0
Tier 4*	1	0	0	0	0
Tier 5	6	7	10	13	13
Police:					
Tier 2	0	0	0	0	0
Tier 3	10	8	9	2	4
Tier 4*	1	1	2	0	0
Tier 5	68	60	51	83	52
Tier 6	_	_	—	0	2
Harbor:					

Refunds of Member Contributions

08-09 09-10 10-11 11-12 12-13

78

73

0

0

86

0

0

98

0

0

71

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Tier 5

Tier 6

Total

^{*} Includes 510 DROP participants.** Includes 679 DROP participants.

^{***} Includes 2 DROP participants.

^{*} Refund of contributions paid to the member's beneficiary.

Active Fire Membership Age and Years of Service

	•	_		
Years	Ot.	50	rvice	7

Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
-25	2	0	0	0	0	0	0	2
25-29	93	132	1	0	0	0	0	226
30-34	91	325	58	0	0	0	0	474
35-39	24	183	280	5	0	0	0	492
40-44	10	68	264	62	45	0	0	449
45-49	1	18	95	71	204	120	1	510
50-54	1	1	25	24	157	250	188	646
55-59	0	0	1	3	21	106	206	337
60-64	0	0	0	0	2	14	54	70
65+	0	0	0	0	0	0	4	4
Total	222	727	724	165	429	490	453	3,210

Active Police Membership Age and Years of Service

Years of Service

Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
-25	211	0	0	0	0	0	0	211
25-29	823	273	0	0	0	0	0	1,096
30-34	417	829	150	0	0	0	0	1,396
35-39	152	476	646	253	0	0	0	1,527
40-44	66	206	411	1,284	90	0	0	2,057
45-49	20	73	136	676	753	186	0	1,844
50-54	7	9	34	218	386	417	133	1,204
55-59	0	2	10	69	88	146	144	459
60-64	0	0	1	15	5	28	45	94
65+	0	0	0	5	1	7	5	18
Total	1,696	1,868	1,388	2,520	1,323	784	327	9,906

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Active Har	rbor Me	mbership
Age and	Years of	Service

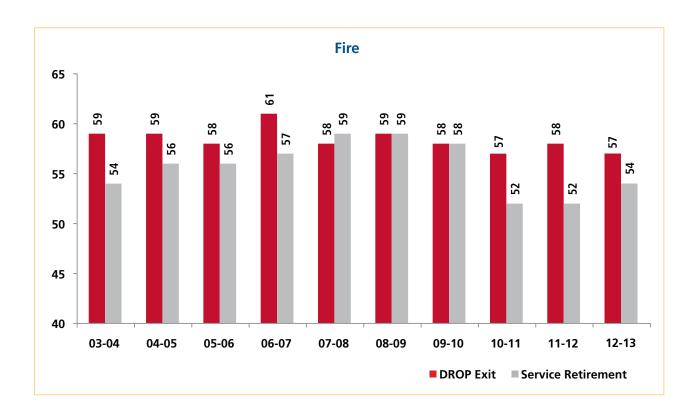
				Years o	f Service			
Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
-25	0	0	0	0	0	0	0	0
25-29	6	7	0	0	0	0	0	13
30-34	5	31	2	0	0	0	0	38
35-39	5	16	1	0	0	0	0	22
40-44	1	8	5	1	0	0	0	15
45-49	1	0	5	1	0	2	0	9
50-54	3	0	2	1	1	0	0	7
55-59	0	0	0	1	0	3	0	4
60-64	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0
Total	21	62	15	4	1	5	0	108

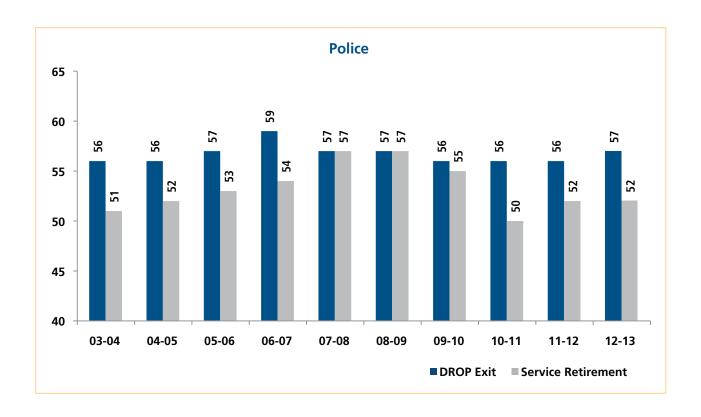
DROP AND RETIRED MEMBERSHIP

Note: Data for Harbor Port Police may not be reflected in all charts and tables since they did not become members of the Fire and Police Pension System until January 2006.

	DROP Program Summary of Participation															
Fiscal Year	Average Participation Total per Month Entries						Average Age at Entry			Average Years of Service at Entry				Total Exits		
	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD	
03-04	401	641	_	188	241	_	55	53	_	29	29	_	43	52	_	
04-05	451	721	_	111	135	_	54	53	_	29	28	_	57	86	_	
05-06	499	744	_	85	144	0	52	53	_	27	28	_	63	128	_	
06-07	543	738	_	142	157	0	53	52	_	27	27	_	122	233	_	
07-08	524	627	1	100	125	1	53	52	57	29	27	31	112	199	0	
08-09	479	574	3	65	122	2	53	52	54	29	27	26	116	168	0	
09-10	481	552	5	131	159	1	53	52	52	29	27	28	99	129	0	
10-11	502	578	4	180	166	1	53	53	55	29	28	25	105	123	2	
11-12	565	657	4	82	166	0	53	53	_	28	27	_	115	140	0	
12-13	512	644	3	73	166	1	53	53	58	28	27	25	100	143	3	

DROP vs. Service Retirement - Average Age

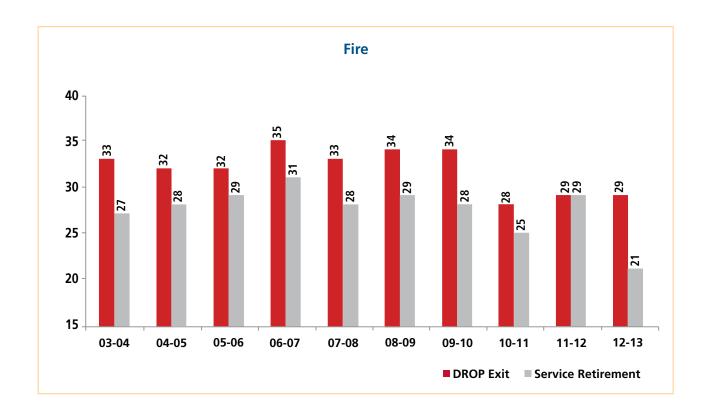


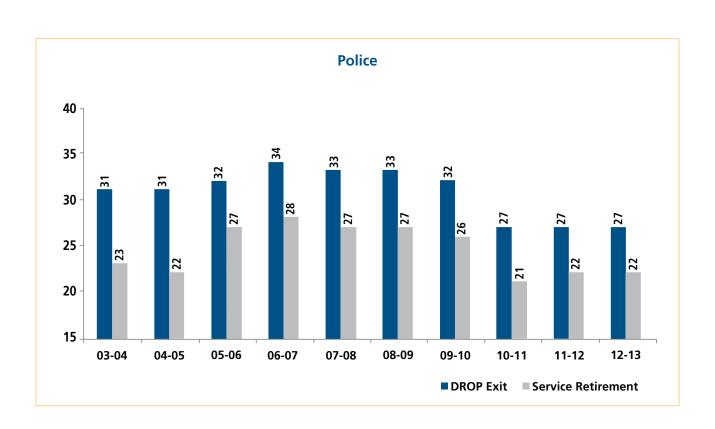


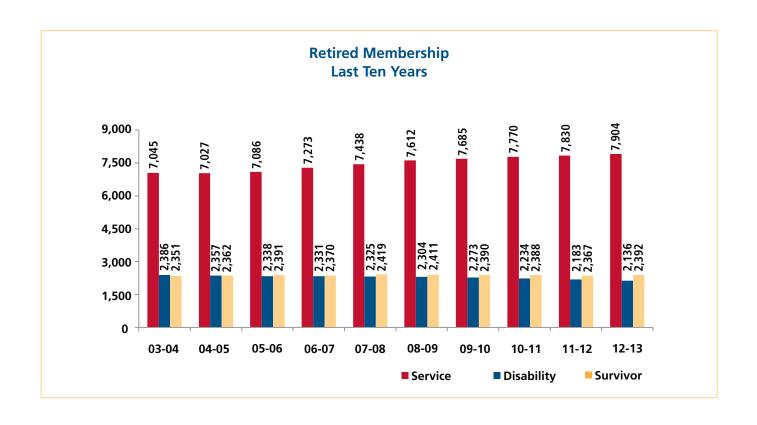
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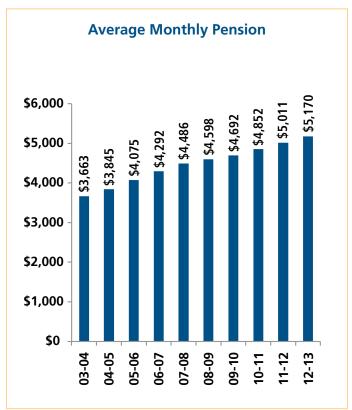
DROP vs. Service Retirement - Years of Service





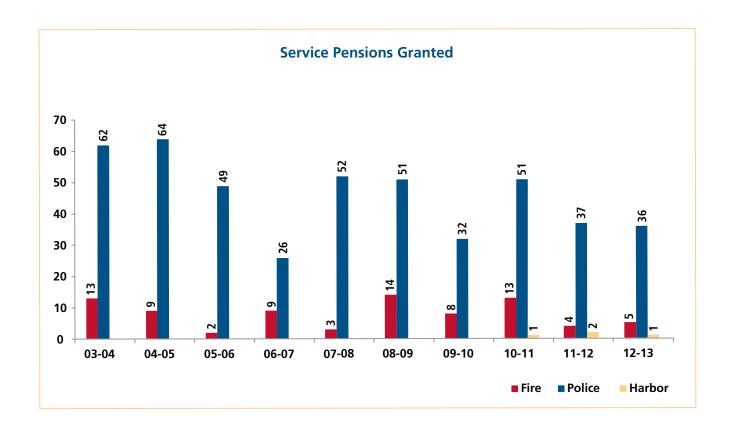


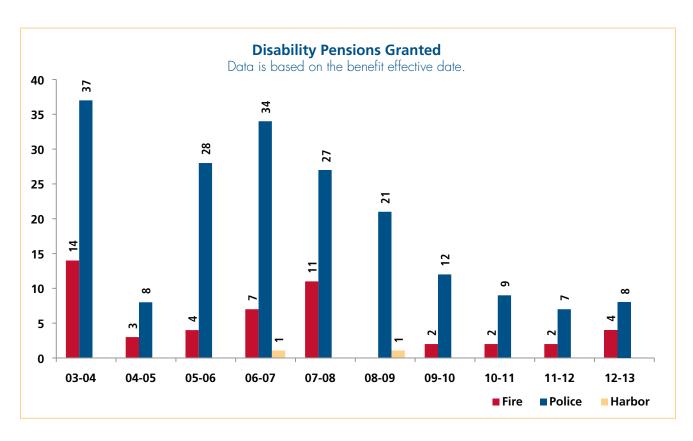


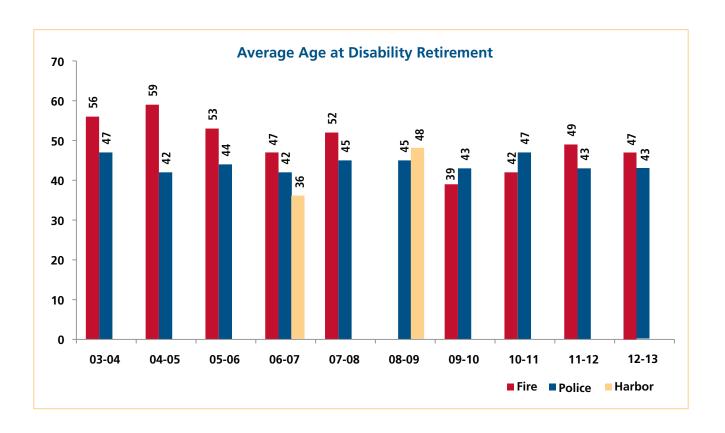


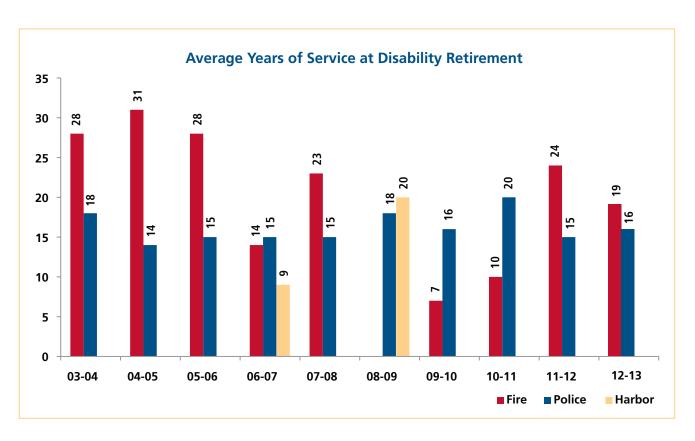
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Service-Connected Disability Pensions by Type and Department*

Disability Pensions Granted	Fiscal Year 2008-09**		Fiscal Year 2009-10		Fiscal Year 2010-11		Fiscal Year 2011-12		Fiscal Year 2012-13						
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Physical Only	0	23	23	2	9	11	1	4	5	4	7	11	3	7	10
Physical/Psychiatric	0	2	2	0	1	1	1	3	4	0	1	1	2	1	3
Psychiatric Only	0	1	1	0	0	0	0	0	0	0	0	0	0	1	1
Total	0	26	26	2	10	12	2	7	9	4	8	12	5	9	14

Types of Claims***		scal Ye 008-0			scal Y 2009-1			scal Y 2010-1			scal Y 2011-			scal Yo 2012-1	
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Back	0	19	19	2	5	7	2	7	9	3	6	9	4	5	9
Neck	0	14	14	0	5	5	0	1	1	1	2	3	2	0	2
Knees	0	10	10	1	2	3	2	3	5	2	2	4	2	2	4
Other Orthopedic	0	15	15	1	9	10	0	6	6	2	5	7	3	2	5
Cardiovascular	0	5	5	0	1	1	0	4	4	1	1	2	4	4	8
Ulcer	0	3	3	0	1	1	2	0	2	0	1	1	1	1	2
Hypertension	0	4	4	0	1	1	0	5	5	0	3	3	3	5	8
Pulmonary	0	2	2	0	1	1	1	0	1	0	1	1	1	0	1
Cancer	0	1	1	0	1	1	0	0	0	1	1	2	0	0	0
Gun Shot Wound	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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

** Police totals for Fiscal Year 2008-09 include one Harbor Port Police Officer, with service-connected injuries and/or illnesses.

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

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

Fire	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Firefighter	0	2	2	2	3
Apparatus Operator	0	0	0	0	0
Engineer	0	0	0	1	1
Inspector	0	0	0	0	0
Captain	0	0	0	1	1
Battalion Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Total	0	2	2	4	5
Police	Fiscal Year 2008-09**	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Police Police Officer					
	2008-09**	2009-10	2010-11	2011-12	2012-13
Police Officer	2008-09** 14	2009-10	2010-11 5	2011-12 5	2012-13
Police Officer Sergeant	2008-09** 14 7	2009-10 3 4	2010-11 5	2011-12 5 3	2012-13
Police Officer Sergeant Detective	2008-09** 14 7 4	2009-10 3 4 3	2010-11 5 2 1	5 3 2	7 1
Police Officer Sergeant Detective Lieutenant	2008-09** 14 7 4	3 4 3 0	2010-11 5 2 1	5 3 2 0	2012-13 7 1 1 0
Police Officer Sergeant Detective Lieutenant Captain	2008-09** 14 7 4 0 1	3 4 3 0	2010-11 5 2 1 0	2011-12 5 3 2 0	2012-13 7 1 1 0 0
Police Officer Sergeant Detective Lieutenant Captain Commander	2008-09** 14 7 4 0 1 0	3 4 3 0 0	2010-11 5 2 1 0 1	5 3 2 0 0	2012-13 7 1 1 0 0 0

STATISTICAL

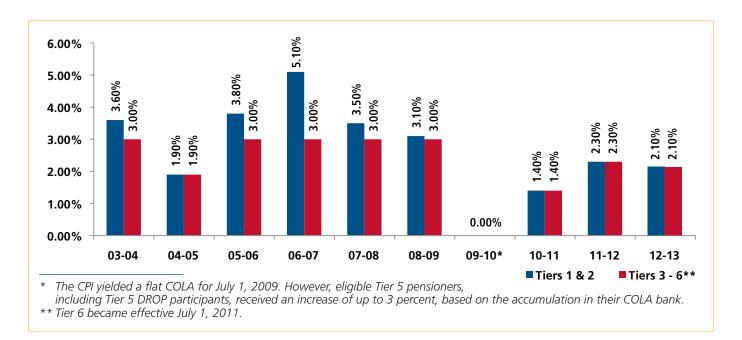
85

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

** Police totals for Fiscal Year 2008-09 include one Harbor Port Police Officer, with service-connected injuries and/or illnesses.

Cost of Living Adjustments – Effective July 1

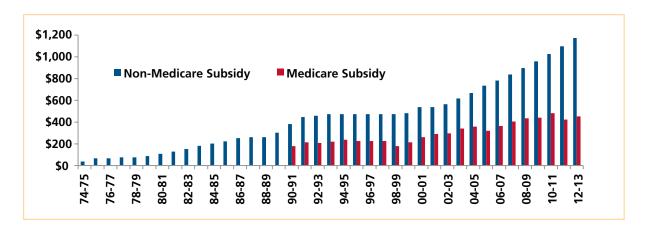
The size of any year's Cost of Living Adjustment (COLA) is based on the Los Angeles-Riverside-Orange County Area Consumer Price Index (CPI) for All Urban Consumers as published by the Bureau of Labor Statistics for the previous one-year March through February period. Tier 1 and 2 members have an uncapped COLA, while members in Tiers 3, 4, 5 and 6 have a 3 percent maximum COLA. However, Tier 5 and 6 members have a COLA bank to "store" amounts above the 3 percent cap.



Maximum Health Insurance Premium Subsidy Benefit for Retired Members

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

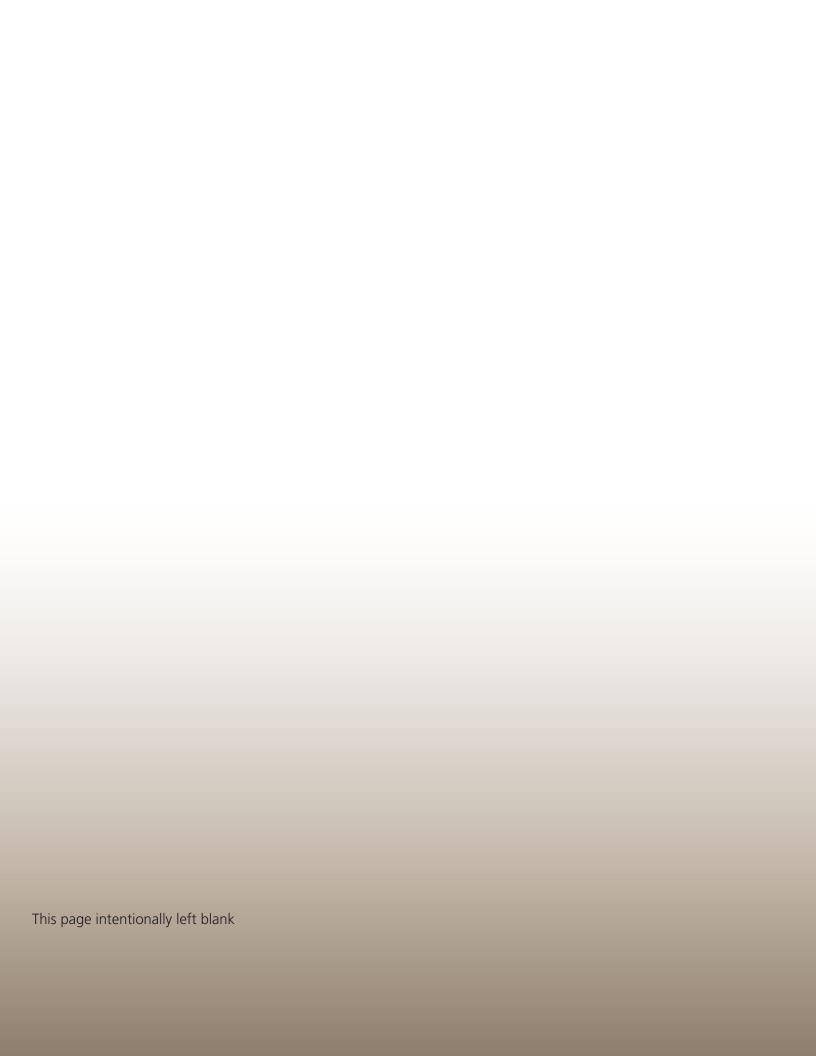
The maximum Medicare health insurance premium subsidy for retired members is equivalent to the highest single-party Medicare plan premium offered by the Los Angeles City Employees' Retirement System.



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LEGAL

Litigation



LEGAL

Under City Attorney Carmen A. Trutanich, the Retirement Benefits Division of the Los Angeles City Attorney's Office, led by Managing Assistant City Attorney Alan L. Manning, along with Senior Assistant City Attorney Theresa Stamus, Deputy City Attorneys John C. Blair, Marie McTeague, and James Napier, and assisted by Legal Secretary Julie Cruz, 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 pension benefit and Deferred Retirement Option Plan (DROP) issues and compliance with tax regulations, state and municipal ethics laws and regulations, legal review of investments, and disability retirement requests. The City Attorney's Office also represented the Department in Superior Court cases.

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

Outside counsel are used to assist the City Attorney's Office in providing the Department with advice and representation in specialized areas, such as tax, investment, and fiduciary law, as well as occasional representation in litigation.

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



Litigation

During this fiscal year, certain members of the Plan and their representative bargaining units commenced litigation questioning the validity of the City's 2011 "freeze" of the retiree non-Medicare health premium subsidies at 2011 levels. The litigation also questioned the requirement of a 2 percent payroll contribution if members wished to be exempted from the freeze at retirement, and whether the additional contributions would assure members of always receiving the maximum allowed subsidy increase from the Board. One of the cases (Los Angeles Police Protective League, United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners for the City of Los Angeles, et al.) was dismissed in 2013 as premature; the other case (Jack Fry, et al. v. City of Los Angeles) is scheduled for trial in the fall of 2014. In the meantime, the Board has granted premium subsidy increases at the maximum level to which it is allowed, and members of most bargaining units have agreed to make the additional 2 percent contributions.

LEGAL 8



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SUMMARY OF PLAN PROVISIONS

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



SUMMARY OF PLAN PROVISIONS

Fire and Police Pension Plans

Tier 1

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

Tier 2

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

Tier 3

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

Tier 4

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

Tier 5

January 1, 2002 – June 30, 2011

Tier 6

Effective July 1, 2011

		Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
1.	Service Retiremen	t				
	a. Eligibility	20 years of service	20 years of service	<i>Tier 3:</i> Age 50 with 10 years of service <i>Tier 4:</i> 20 years of service	Age 50 with 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)	Final Average Salary (Two-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	40% at 20 years of service, plus 3% per year for years 21 through 25, 4% per year for years 26 through 30 and 5% per year for years 31 through 33 Maximum of 90% for 33 or more years of service
2.	Service-Connected	d Disability				
	a. Eligibility	Work related	Work related	Work related	Work related	Work related
		No age or service requirements	No age or service requirements	No age or service requirements	No age or service requirements	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)	Final Average Salary (Two-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 pension equal to the greater of 30% or 2% per year of service	30% to 90% depending on severity of disability, with a minimum pension equal to the greater of 30% or 2% per year of service	30% to 90% depending on severity of disability, with a minimum pension equal to the greater of 30% or 2% per year of service
3.	Nonservice-Conne	cted 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	Not work related Five years of service
	b. Salary base	Nonservice- Connected Pension Base (Highest monthly salary as of member's retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)	Nonservice- Connected Pension Base (Highest monthly salary as of member's retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)	Final Average Salary (Two-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	30% to 50% depending on severity of disability

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

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
e. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive	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	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	If no QSS/QSDP or eligible children, the eligible dependent par- ent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive
5. Death While Eligib	ole to Receive a Service P	ension on Account of Year	rs 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	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) Except as noted for former Tier 2 members	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	100% of accrued service retirement member would have received, not to exceed 50% of Normal Pension Base	100% of accrued service retirement member would have received, not to exceed 55% of Normal Pension Base	80% of service retirement member would have received, not to exceed 40% of Final Average Salary	Former Tier 2: Same benefit as Tier 2 All Other Tier 5: 40% of Final Average Salary	50% of Final Average Salary
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21

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	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
e. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive	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	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	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive
6. Death After Service	e 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	Member was receiving a service pension
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 as noted for former Tier 2 members.	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	Same as member's pension up to 50% of Normal Pension Base	Same as member's pension up to 55% of Normal Pension Base	60% of member's pension	Former Tier 2: Same benefit as Tier 2 All Other Tier 5: 60% of member's pension	70% of member's pension
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive. Otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
e. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive	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	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	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
7. Nonservice-Con	nected Death or Death	After Nonservice-Con	nected Disability		
a. Eligibility	Five years of service	Five years of service	Five years of service	Five years of service	Five years of service
b. Salary base	Nonservice- Connected Pension Base (Highest monthly salary as of member's retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)	Nonservice- Connected Pension Base (Highest monthly salary as of member's retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) Except as noted for former Tier 2 members.	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	40% of member's Nonservice- Connected Pension Base	40% of member's Nonservice- Connected Pension Base	NONSERVICE-CONNECTED DEATH 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received, not to exceed 40% of Final Average Salary DEATH AFTER NONSERVICE- CONNECTED DISABILITY 60% of member's pension	NONSERVICE-CONNECTED DEATH Former Tier 2: Same benefit as Tier 2 All Other Tier 5: 30% of Final Average Salary or, if eligible to retire based on years of service, 40% of Final Average Salary DEATH AFTER NONSERVICE-CONNECTED DISABILITY Former Tier 2: Same as Nonservice-Connected Death benefit. All Other Tier 5: 60% of member's pension	NONSERVICE-CONNECTED DEATH 50% of Final Average Salary Note: If member's death occurs while on military leave and is a result of his/her military duties, 50% of Final Average Salary DEATH AFTER NONSERVICE- CONNECTED DISABILITY 70% of member's pension

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	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive. Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21
e. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive	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	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	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

		Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
8.	Cost of Living A	djustments (COLA)				
	a. Generally applicable provisions	Full annual COLA increase or decrease COLAs compound, and are based upon the Consumer Price Index for local urban consumers Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death	Full annual COLA increase or decrease COLAs compound, and are based upon the Consumer Price Index for local urban consumers Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death	Annual COLA increase up to 3% COLAs compound, and are based upon the Consumer Price Index for local urban consumers Pro rata adjustment in the first year of retirement City Council may grant discretionary COLA increases once every three years Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death	Annual COLA increase up to 3% Amounts above 3% are banked to be credited during years when the Consumer Price Index is below 3% COLAs compound, and are based upon the Consumer Price Index for local urban consumers Pro rata adjustment in the first year of retirement City Council may grant discretionary COLA increases once every three years - member's COLA Bank is reduced Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death	Annual COLA increase or decrease up to 3% Amounts above 3% are banked to be credited during years when the Consumer Price Index is below 3% COLAs compound, and are based upon the Consumer Price Index for local urban consumers Pro rata adjustment in the first year of retirement City Council may grant discretionary COLA increases once every three years - member's COLA Bank is reduced Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death
	b. Effective date of COLA:i. Service retirement	Annual adjustments commence on July 1 following the later of the effective date or the date the member would have been age 55	Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
	ii. Service- connected disability, service- connected death	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date

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	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
iii.Nonservice- connected disability	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual adjustments commence on the July 1 following the date the member would have completed 25 years of service or 5 years after the effective date of the member's pension if earlier	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
iv. Nonservice- connected death, death while eligible for service retirement	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual adjustments commence on the July 1 following the date the member would have completed 26 years of service or 5 years after the effective date of the survivor's pension if earlier	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
v. Death after nonservice- connected disability, death after service- connected disability	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual adjustments commence on the July 1 following the date the member would have completed 26 years of service or 5 years after the effective date of the survivor's pension if earlier	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
9. Member Contribut	tions As a Percentage of F	Pay			
	6% No member contributions required after 30 years of service	6% plus ½ cost of cost of living benefit up to 1% (currently 7%) No member contributions required after 30 years of service	8% No member contributions required after 30 years of service	9% City pays 1% of 9% if Plan is at least 100% actuarially funded No member contributions required after 33 years of service	11% 2% of 11% pension contribution will support funding of retiree health benefits. This portion will cease once the member attains 25 years of service No member contributions required after 33 years of service

	Tier 1	Tier 2	Tiers 3 & 4	Tier 5	Tier 6
10. Qualified Survivors	S				
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 domestic partner at least one year prior to date of nonservice- connected death and as of date of death	Married or registered domestic partner at least one year prior to date of nonservice- connected death and as of date of death	Married or registered domestic partner at least one year prior to date of nonservice- connected death and as of date of death	Married or registered 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	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/ DROP entry and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension/ DROP entry and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension/ DROP entry 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 the 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 the 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 the 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 the 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 the effective date of nonservice-connected disability pension and as of date of death
v. Death after service- connected disability	Dependent upon member's retirement status and cause 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	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 occurs first	Legitimate or adopted child of a deceased member, until age 18 or marries, whichever occurs first	Child or adopted child of a deceased member, until age 18 (22 if in school full time) or marries, whichever occurs first	Child or adopted child of a deceased member, until age 18 (22 if in school full time) or marries, whichever occurs first	Child or adopted child of a deceased member, until age 18 (22 if in school full time) or marries, whichever occurs first

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	Tier 1	Tier 2	Tiers 3 & 4	Tier 5	Tier 6
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	Child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood
d. Dependent parent eligibility requirements	Natural parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay necessary living expenses without the pension	Natural parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay necessary living expenses without the pension	Parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay necessary living expenses without the pension	Parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay necessary living expenses without the pension	Parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay necessary living expenses without the pension



Miscellaneous Pension Provisions

11. Basic Death Benefit

Applicable to Tiers 3 - 6.

Beneficiary receives a refund of contributions, and if the member had at least one year of service, the Qualified Survivor receives a limited monthly pension based on the member's Final Average Salary multiplied by his/her completed years of service. This pension is payable in monthly installments of one-half of the member's Final Average Salary, not to exceed 12 monthly payments for six or more years of service.

12. Deferred Pension Option

Applicable to Tiers 3, 5 and 6.

Tier 3: Upon termination, can elect deferred pension option if member has at least 10 years of service and leaves contributions in Fund. At age 50, member is entitled to receive a service pension.

Tiers 5 and 6: Upon termination, can elect deferred pension option if member has at least 20 years of service and leaves contributions in Fund. At age 50, member is entitled to receive a service pension using the Tier 3 service pension percentages.

13. Deferred Retirement Option Plan (DROP)

Not applicable to Tier 1.

Tiers 2 and 4: At least 25 years of service

Tiers 3 and 5: At least 25 years of service and at least age 50

Tier 6: To be determined

Member must be on an active duty/working status at the time of DROP entry.

While in DROP, the member's monthly pension is held with a guaranteed annual interest rate of 5 percent.

Member may participate for a maximum of five years, after which he/she is required to terminate sworn employment and exit DROP.

Death of a DROP Member

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

In the event of a service-connected death, the qualified surviving spouse/domestic partner has the option to forfeit the member's DROP account and collect a monthly benefit as outlined in *Section 4 - Service-Connected Death*.

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

Applicable to Tiers 3 - 6.

At service or disability retirement, member may elect a higher QSS/QSDP benefit with a corresponding actuarial reduction in his/her retirement benefit.

15. Public Service Purchase (PSP) Program

Not applicable to Tier 1.

Members may purchase service credit for time served in the military or with other public agencies, subject to requirements and limitations established by the City Council.

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

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

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

Miscellaneous Pension Provisions (continued)

16. Return of Contributions with Interest

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

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

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

17. Survivor Benefit Purchase Program

A retired member may make a one-time, irrevocable election to purchase a survivor benefit for a spouse married in retirement or a domestic partner declared in retirement by taking an actuarially reduced retirement benefit.

18. Vesting of Service Retirement

Tiers 1, 2, 5 and 6: After 20 years of service

Tier 3: After 10 years of service

Tier 4: No vesting until retirement (minimum of 20 years)

19. Opt-In Contribution

Applicable to Tiers 2 - 5

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



Health and Dental Insurance Premium Subsidy		
20. Health Subsidy	Member	Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)
a. Age	If retirement date is: 1. On or after 7/1/1998 – at least 55 years of age 2. Prior to 7/1/1998 – at least 60 years of age If member retired between 7/1/1988 and 7/1/1998 and had at least 20 years of service, member may be eligible for a Special MOU Subsidy prior to the age of 60	Member (retired sworn officer) must be at least 55 years of age, if he/she was still alive If member died in the line of duty, medical benefits are provided by the Personnel Department
b. Years of service	At least 10 years of service (YOS), except for a Tier 6 member who retires on a Service- Connected Disability Pension	Member (retired sworn officer) must have had at least 10 years of service (YOS)
c. Pension type	Service or Disability	QSS/QSDP Pension
d. Eligible plans	Medical subsidies may be applied to one of the following: 1. A Board-approved association plan: - United Firefighters of Los Angeles City - Los Angeles Fire Relief Association - Los Angeles Police Relief Association - LACERS plans offered to Tier 5 Port Police retirees 2. Health Insurance Premium Reimbursement Program – only available to residents who live outside a Board-approved HMO plan service area or outside the state of California	Medical subsidies may be applied to one of the following: 1. A Board-approved association plan: - United Firefighters of Los Angeles City - Los Angeles Fire Relief Association - Los Angeles Police Relief Association - LACERS plans offered to Tier 5 Port Police retirees 2. Health Insurance Premium Reimbursement Program – only available to residents who live outside a Board-approved HMO plan service area or outside the state of California
e. Medicare requirements	Most retirees qualify for Medicare at age 65 Exceptions occur where eligibility is granted before age 65 Enrollment in: - Medicare Part A: Required only if retiree is eligible for Part A free of charge - Medicare Part B: Required	Most QSS/QSDPs qualify for Medicare at age 65 Exceptions occur where eligibility is granted before age 65 Enrollment in: - Medicare Part A: Required only if QSS/QSDP is eligible for Part A free of charge - Medicare Part B: Required
f. Non-Medicare, Medicare Part B only subsidy formula	4% per YOS, up to a maximum of 25 YOS Subsidy may not exceed premium of insurance plan Note: Members in Tiers 2-5 who (1) enter DROP or retire after July 14, 2011 and (2) elected not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011	4% per YOS, up to a maximum of 25 YOS Subsidy may not exceed the single-party premium of insurance plan Note: QSS/QSDPs of members in Tiers 2-5 who (1) enter DROP or retire after July 14, 2011 and (2) elected not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011

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Health and Dental Insurance Premium Subsidy (continued)						
	Member	Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)				
g. Medicare subsidy formula	10-14 YOS – 75% of maximum subsidy 15-19 YOS – 90% of maximum subsidy 20+ YOS – 100% of maximum subsidy	10-14 YOS – 75% of maximum subsidy 15-19 YOS – 90% of maximum subsidy 20+ YOS – 100% of maximum subsidy Subsidy may not exceed premium of insurance plan Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse standard Medicare Part B premium				
	Subsidy may not exceed premium of insurance plan					
	Dependent subsidy may apply Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse standard Medicare					
	Part B premium Note: Members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) elected not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011	Note: QSS/QSDPs of members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) elected not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011				
h. Dependentc overage	The member subsidy may be used to cover spouses, domestic partners and children Children may be covered until age 19 or age 25 if in school full time	The QSS/QSDP may cover eligible dependents on their health plan. However, the subsidy may not exceed the single-party premium				
21. Dental Subsidy	Member	Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)				
a. Age	At least 55 years of age	QSSs and QSDPs are not eligible to receive a dental subsidy				
b. Years of service	At least 10 years of service (YOS)	N/A				
c. Pension type	Service or Disability	N/A				
d. Eligible plans	Dental subsidies may only be applied to one of the following Board-approved association plans: – United Firefighters of Los Angeles City – Los Angeles Police Protective League – Los Angeles Police Relief Association – LACERS plans offered to Tier 5 Port Police retirees	Not eligible for a subsidy. However, QSS/QSDP may enroll in one of the following Board-approved association plans: – United Firefighters of Los Angeles City – Los Angeles Police Protective League – Los Angeles Police Relief Association – LACERS plans offered to Tier 5 Port Police retirees				
e. Dental subsidy formula	4% per YOS up to a maximum of 25 YOS Dental subsidy may not exceed the single-party premium	N/A				

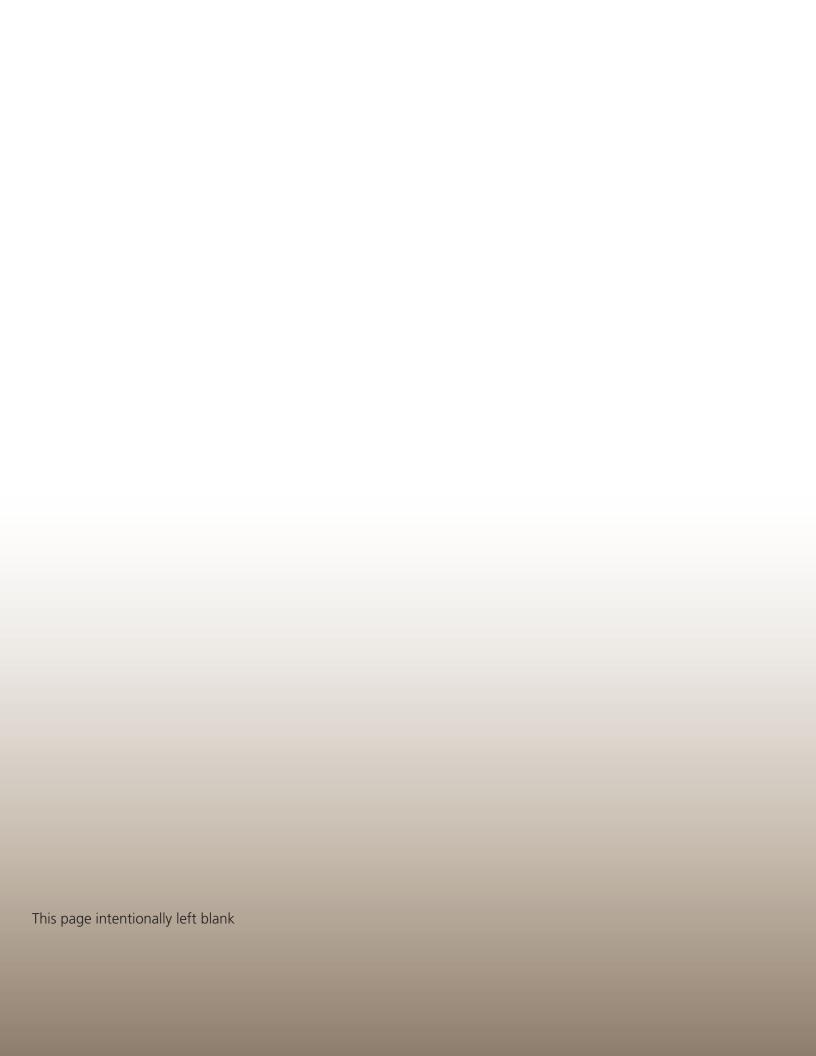
Disclaimer

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

SUMMARY OF PLAN PROVISIONS 107



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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 lowered the minimum retirement age to 55 and eliminated member contributions. In 1919, ordinances were adopted allowing retirement after 20 years of service regardless of age.

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

1923-1925 The System began funding 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 that became effective July 1, 1925 added a provision that service and disability pensions would remain fixed amounts.

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



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

1947 Members hired after January 17, 1947 could retire after 20 years of service with a pension equal to 40 percent of the average salary of the last three years of service 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 funded on an actuarial basis with a 50-year amortization period for the unfunded liabilities. Investment provisions were changed to permit investment of up to 35 percent of fund assets in common stocks.

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

1967 Tier 1, (formerly Article XVII) was extensively amended, and a new Tier 2 pension plan, (formerly Article XVIII) was adopted effective January 29, 1967 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 on 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 liabilities 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 Tiers 1 and 2.

1969 Amendments to Tiers 1 and 2 effective May 2, 1969 applied cost of living adjustments to disability and survivor pensions. Service pensioners were allowed to apply for return-to-active duty under certain conditions and restrictions.

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

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

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

1975 Amendments to Tiers 1 and 2 allowed cost of living adjustments for service-connected disability pensions on the July 1 following the date of retirement. Certain waiting periods for those eligible to receive this adjustment were eliminated.



1976 The health insurance premium

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

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

1980 A new Tier 3 Safety Members' pension plan, (formerly Article XXXV, Plan 1) was created effective December 8, 1980. It 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 the member's pension.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1997 A new Tier 4 pension plan, (formerly Article XXXV, Plan 2) was established effective July 1, 1997. All Tier 3 members hired between December 8, 1980 and June 30, 1997 were given until June 30, 1998 to make an irrevocable transfer to Tier 4. Tier 4 provides retirement benefits at any age after 20 years of service based on a formula of 2 percent per year of service up to 20 years 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.

Tier 3 and 4 members retiring on or after July 1, 2000 at a rank no higher than Fire Captain or Police Lieutenant shall receive 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.

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

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

1999 The City Council was given authority to establish by ordinance 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 Tier 4 to Tier 3. The provision allowed the Metropolitan Transportation Authority officers who merged into the Police Department to join either Tier 3 or Tier 4. A delay in the merger made it necessary to add this provision so that negotiated benefits could be provided.

2000 Effective January 17, 2000, domestic partners became eligible to receive survivor benefits under the same eligibility requirements as surviving spouses, after filing a Declaration of Domestic Partnership with the Board of Fire and Police Pension Commissioners. Surviving spouses and domestic partners became eligible to receive a health insurance premium subsidy 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 seven to nine members to include an elected retired fire member and an elected retired police member.
- 4. The Board selects the General Manager, subject to confirmation by the Mayor and Council, and may remove the General Manager, subject to confirmation by the Mayor.
- 5. Assistant General Manager positions are appointed on an exempt basis.
- 6. The powers, duties and responsibilities of the Board are more expressly recognized and include:
 - a. language consistent with the provisions of California Constitution Article XVI, Section 17;
 - b. the prudent person investment standard;

- c. sole and exclusive power to provide actuarial services:
- d. control over litigation and settlement of litigation that involves policies and funds under Board control; and
- e. deletion of the Council's right to veto any Board decisions.
- 7. The definition of dependent parent was revised so that United States residency at the time of 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 from January 2, 2002 to December 31, 2002. Tier 5 members are eligible to retire at age 50 with 20 years of service and receive a 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 credit is given for that year of service. 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 (members of Tiers 3 and 5 must also be at least age 50) may file for a service pension but continue to work and earn salary and benefits as an active member. The monthly service pension a 5 percent per annum return, payable upon exiting DROP. Participation in DROP is limited to a maximum of 5 years.

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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.

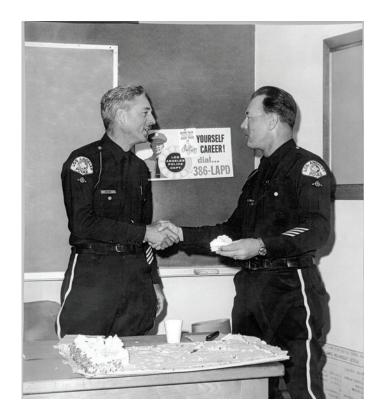
Based on recent federal and state legislation, active members may use funds from deferred compensation to purchase service credit.

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

In the March 2005 election, the voters approved two Charter amendments. The first amendment authorized the Council to 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. Instituted return-to-duty provisions similar to those in Tier 2 to members in Tiers 3, 4 and 5.
- 2. Authorized the Council to allow a City Defrayal of Employee Contributions by Ordinance. This means the City may pay a portion of the employee contributions to Tiers 3, 4 and 5, not to exceed 2 percent of the required contributions in lieu of a salary increase or a portion of an increase. This provision is to be used during Memorandum of



Understanding negotiations as part of a total economic package and the cost will be evaluated at that time.

3. Authorized the City Council to set sworn retiree health insurance premium subsidies by ordinance. Prior to this change, the Charter limited the maximum sworn retiree health insurance premium subsidy to the lesser of the maximum active sworn member health subsidy or the maximum civilian retiree health subsidy. The Council can delegate authority for setting sworn retiree subsidies to the Pension Board.

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

The actuarial valuation of 2005 found the Plan less than 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 February 1, 2007 the Board created an Audit Committee and an Internal Audit Division.

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

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

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

In July 2007, the System began consultant-supported audits of the retiree medical and dental plans offered by the Los Angeles Firemen's Relief Association (LAFRA), Los Angeles Police Protective League (LAPPL), Los Angeles Police Relief Association (LAPRA) and United Firefighters of Los Angeles City (UFLAC). The principal areas of the audits are an eligibility audit, a benefit audit, an administrative audit and a financial analysis.

On September 6, 2007, the Board voted to revise its proxy voting guidelines to vote "FOR" shareholder proposals that request management to report on climate change. This change was in light of survey results released by an advocacy group known as the Carbon Disclosure Project (CDP). The study determined that 80 percent of U.S. companies believe that climate change poses commercial risks for their businesses. As a result, investors are encouraging more environmental disclosure from companies. The Supreme Court had ruled in April 2007 that greenhouse gases are a pollutant that may be regulated by the Environmental Protection Agency.

The first management audit of the System was conducted by Independent Fiduciary Services and the results were released on December 3, 2007. Charter Section 1112 requires that the City Controller, the Office of the Mayor and the Los Angeles City Council

shall jointly cause, once every five years, a management audit to be conducted by an independent, qualified management auditing firm. The purpose of the audit was to examine whether the pension system is operating in the most efficient and economical manner. The audit found that the System was generally operating efficiently and in accordance with best industry practices, providing good investment returns overall, utilizing reasonable actuarial assumptions and methods and pre-funding health insurance premium subsidy benefits.



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

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

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

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

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

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

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

2010 On April 1, 2010, the Board retained Northern Trust Benefit Payment Services as the issuer for monthly pension payments. The Northern Trust Benefit Payment Passport system replaced the outdated mainframe-based Retirement and Pension Payment (RAP) System operated and maintained by the City of Los Angeles Office of the Controller and

Information Technology Agency. In October 2010, the Department issued pension payments utilizing the new benefit payment system for the first time. As a result of this transition, pensioners received 13 rather than the usual 12 pension checks for Tax Year 2010.

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

- 1. Established a Tier 6 for new members effective July 1, 2011. As a result of pension reform, Tier 6 participants will be required to contribute 2 percent more than the maximum 9 percent Tier 5 member contribution for a total of 11 percent. The additional 2 percent will be contributed in exchange for the retiree health benefits provided to members of other tiers who were retired as of April 8, 2011.
- 2. Removed the amortization policies for each Tier in the Fire and Police Pension System from the Charter and the Administrative Code. These policies shall instead be adopted by the Board of Fire and Police Pension Commissioners upon the advice of its consulting actuary.

On July 15, 2011, City Council adopted an ordinance to permanently freeze the retiree non-Medicare and Medicare health insurance premium subsidy benefits at the rates in effect on July 1, 2011 for members who enter DROP or retire on or after July 15, 2011. The ordinance also provided, per letters of agreement signed by each labor organization, an election period whereby the affected members could elect to unfreeze their retiree medical subsidy by making additional 2 percent "opt-in" contributions. The freeze does not apply to Tier 6 members, as they are required to contribute the additional 2 percent.

2012 On May 15, 2012, the Council approved an Office of the City Administrative Officer (CAO) report that recommended consolidating the Department of General Services (GSD), Office of Public Safety (OPS) into the Police Department (LAPD). The consolidation was adopted with an effective date of July 1, 2012. OPS employees who successfully transition to a regular LAPD sworn classification have two years to make an irrevocable election to opt out of the Los Angeles City Employees' Retirement System and become a member of the Fire and Police Pension System. The opt-out election must be made prior to December 12, 2014.

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