2014 ANNUAL REPORT

Los Angeles Fire and Police Pensions

To Serve Those Who Protect

2014 ANNUAL REPORT

Issued by
Raymond P. Ciranna
General Manager

LAFPP

Los Angeles Fire and Police Pensions

July 1, 2013 through June 30, 2014

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INTRODUCTION

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DEPARTMENT OF
FIRE AND POLICE
PENSIONS

360 EAST SECOND STREET
SUITE 400
LOS ANGELES, CA 90012-4203

(213) 978-4545
(800) 787-CITY(2489)
FAX (213) 978-4450
TDD (213) 978-4455

EMAIL: PENSIONS@LAFPP.COM

CITY OF LOS ANGELES
CALIFORNIA

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, 2014

On behalf of the Fire and Police Pension System of the City of Los Angeles, I am submitting our 2014 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 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 from investment returns and by contributions from the City and our members. 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, 2014, we now have 13,097 active members, including 1,277 DROP members, and 12,502 retired members and beneficiaries.

Fiscal Year 2013-14 was another successful year in terms of our investment return and staff accomplishments. For the one-year period ending June 30, 2014, our market rate of return was again double-digit at 17.86 percent, up from 13.01 percent the previous year. With the six-year bull run in the stock market, our average return over the last five years was 13.51 percent. As of June 30, 2014, system assets totaled over $18.27 billion on a market basis and over $16.88 billion on an actuarial (smoothed) basis. While the City's contribution to the Fund was approximately $576 million in 2013-14 (excluding the Harbor Department's contribution), the positive return of the past fiscal year is expected to help stabilize future contribution increases for the City over the next several years. Contributions from active members totaled over $123 million for the period.

Given the two consecutive years of double-digit returns, our pension funded status increased to 86.6 percent for the period ending June 30, 2014, which is up from last year's funded status of 83.1 percent. Our funded status for health subsidy benefits increased from 38.5 percent to 43.2 percent for the period ending June 30, 2014. Combined, our pension and health funded status increased to 80.8 percent, up from 77.3 percent last year. Additionally, our total unfunded liabilities decreased to $4.02 billion, the first reduction in several years.

www.lafpp.com

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."

Service Efforts and Accomplishments

In 2009-10, the Board first adopted a multi-year approach to strategic planning that focused on three primary goals: 1) Customer Service – To continue developing systems and processes that provide members with accurate, prompt, and efficient service; 2) Risk Management – To systematically manage the operational risks in LAFPP; and 3) Communications and Stakeholder Relations – To present key stakeholders a clear picture of the value provided by the System and to maintain positive, professional relations with key stakeholders. In order to continue to achieve these goals, the Board adopted a multi-year strategic plan for 2013-16 that included twelve projects.

Four of the twelve projects are multi-year projects that embrace the use of technology to improve our service to members. In 2013-14, we completed our security and network infrastructure upgrades to help safeguard member information and we are in the process of securing disaster recovery solutions that will help staff continue to provide member services during uncontrolled events such as hardware failures, earthquakes, or other natural disasters. Progress continues on the Document Imaging System project, which will allow staff to securely and more efficiently retrieve all records. However, the completion of this project has been pushed into 2014-15 to ensure all digitized records are properly scanned and are easily retrievable.

Finally, our largest technology project, replacement of our pension administration system, is well underway. Staff, with the assistance of a consulting firm, has completed a comprehensive assessment of the existing system and review of the business requirements for existing and future operational needs. With the limited functionality of the existing system, staff has determined that the existing system needs to be replaced with one that will provide additional functionality to members and staff. Based on this review, a request for proposals was drafted and released in early 2014-15 to select a new vendor that will help staff implement a new pension administration system. As anticipated, this project is one of the most significant projects ever undertaken by the Department and will take several years to complete.

Our Internal Audit Section (IAS) has been in existence since 2010 and has been successful in evaluating our internal operations to ensure we are efficient and effective in providing service to members. As noted in its Annual Audit Plan and Forecast, IAS has completed two subsidy program audits specific to the relief associations and will complete two more in 2014-15. Additionally, the IAS successfully passed an independent peer review of its internal quality control system, thereby demonstrating IAS's adherence to two different sets of professional auditing standards.

One of our 2013-14 projects included compiling and submitting the necessary information to the IRS for the next application cycle for plan qualification. This plan qualification is critical as it confirms the design and operation of the pension system complies with the IRS regulations, which allows members to pay contributions on a pre-tax basis and for the System to not pay taxes on investment gains. Although we last received a favorable IRS Determination Letter for our January 2009 application, every five years the Plan needs to submit an application to the IRS to determine its compliance with the Internal Revenue Code. As of June 30, 2014, staff had submitted all necessary information and was waiting for the IRS to respond with a new favorable Determination Letter.

On July 24, 2013, we closed escrow on the purchase of a new headquarters building in the Downtown Arts District. The 54,000 square foot building will provide suitable office space for the Board and staff for the future. Over the past year, we worked with our architect and construction consultant to address various design issues and building upgrades. While our anticipated move-in date has been pushed back to mid-2015, we are looking forward to working in the new facility.

Staff continues to research and pursue governance and operational best practices by benchmarking against other similar pension systems across the state. The Administrative Operations Division has implemented enhanced budget tracking to assist the Plan in allocating costs. Additionally, with the launch of our new website and a renewed focus on communication, we are now providing news releases and information regularly to members to keep them informed of current events. This outreach includes all of our stakeholders, including investment managers. Lastly, we held 41 retirement planning seminars and other outreach events in 2013-14 and touched almost 1,200 members with the goal of assisting them in preparing for their retirement.

Even though the System returned over 17 percent in 2013-14, we should be mindful of our need to plan for the future and minimize our costs where possible. We will continue to make every effort to minimize organizational risk, apply prudent and sound investment strategies, and secure the retirement benefits of our members.

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

Sincerely,

Raymond P. Ciranna
General Manager

Board of Fire and Police Pension

Commissioners

Ruben Navarro, President
Elected by Active Fire Members

George V. Aliano
Elected by Retired Police Members

Carl Cade
Appointed by the Mayor

Sam Diannitto
Elected by Retired Fire Members

Emanuel Pleitez
Appointed by the Mayor

Belinda M. Vega, Vice President
Appointed by the Mayor

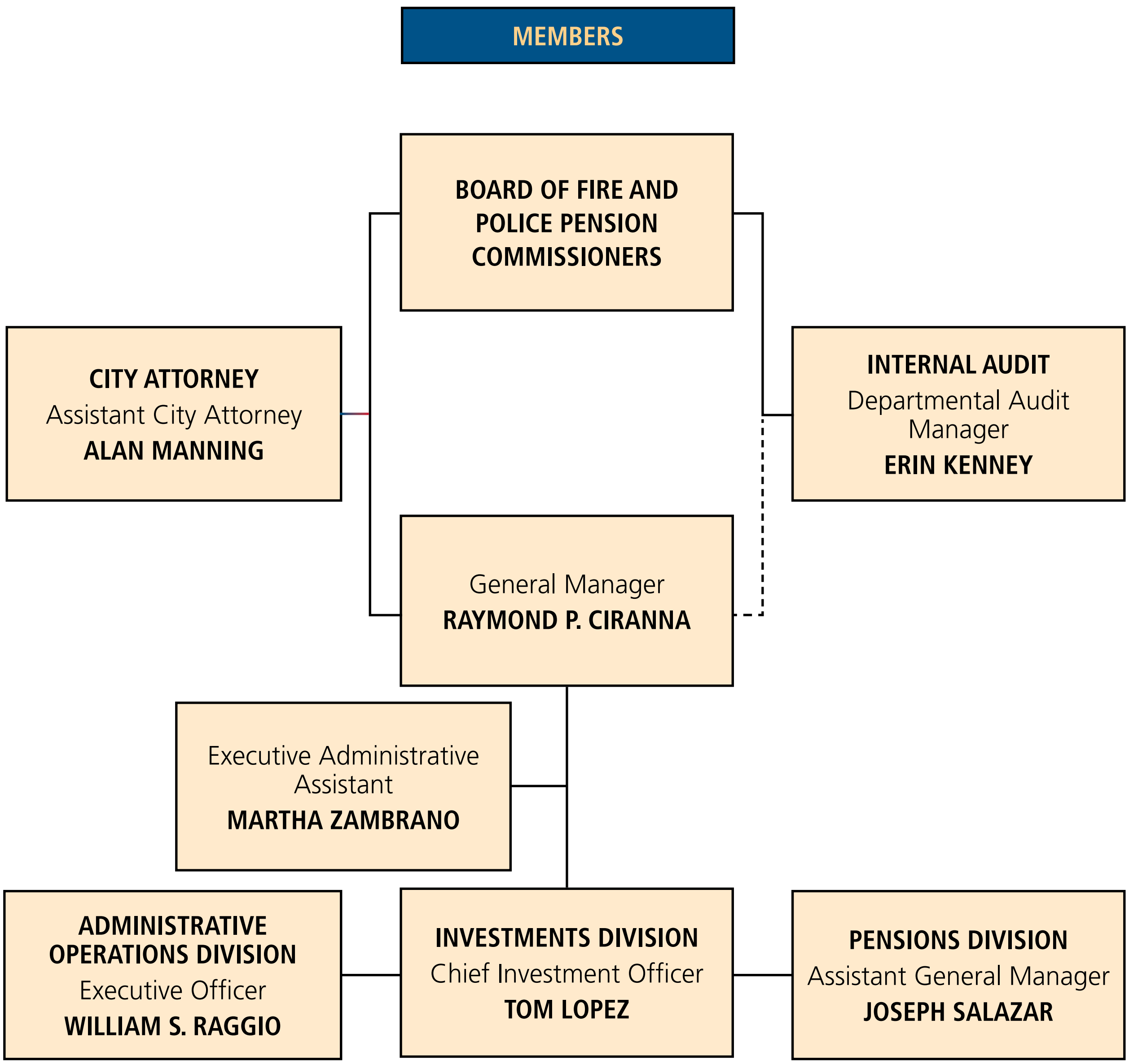
Pedram Salimpour
Appointed by the Mayor

Corinne E. Tapia
Appointed by the Mayor

Robert von Voigt
Elected by Active Police Members

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

Organizational Chart



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FINANCIAL

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

LOS ANGELES FIRE AND
POLICE PENSION SYSTEM

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BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET
SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

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, 2014 and 2013, 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.

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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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2014, the Los Angeles Fire and Police Pension System implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. 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 required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 8, 2014, 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
Accountancy Corporation

Bakersfield, California
December 8, 2014

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (LAFPP) is an overview of its fiscal operations for the year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

FINANCIAL HIGHLIGHTS

- Net position at the close of the fiscal year ended June 30, 2014, was $17.0 and $1.3 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet LAFPP's obligations to members and their beneficiaries.
- Net position increased by $2.32 billion or 15.8% and increased by $225.5 million or 20.9% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2014, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 86.6% and 43.2%, respectively.
- Additions to the Pension Plan's net position increased by $989.1 million or 44.9% from $2.20 billion to $3.19 billion, due primarily to the net appreciation in the fair value of investments in 2014.
- Deductions to the Pension Plan's net position increased by $1.1 million or 0.1% over the prior year from $871.7 million to $872.9 million.
- Additions to the Health Subsidy Plan's net position increased by $79.7 million or 31.7% from $251.2 million to $330.9 million, due to the net appreciation in the fair value of investments in 2014.
- Deductions from the Health Subsidy Plan's net position increased by $6.2 million or 6.3% over the prior year from $99.2 million to $105.4 million in 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 67 IMPLEMENTATION

LAFPP's financial statements, notes to the financial statements, and required supplementary information were prepared in accordance with the reporting requirements of GASB Statement No. 67. The most recent actuarial valuation as of June 30, 2014, used the Entry Age Normal Cost Method in the preparation of the valuation.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The Total Pension Liability for the Plan at June 30, 2014, was $18,861,992,028, and the Fiduciary Net Position was $16,989,704,585. Thus, the Net Pension Liability for the Plan was $1,872,287,443, and the Plan Fiduciary Net Position as a percentage of the total pension liability was 90.07%.

The Notes to Financial Statements provide additional disclosures to comply with GASB Statement No. 67 implementation, as follows:

- Plan Membership
- Investments (allocation by asset class, expected long-term rate of return by asset class, and the annual money-weighted rate of return)
- Investments greater than 5% of the Plan's Fiduciary Net Position
- Net Pension Liability (and the components of Net Pension Liability)
- Significant actuarial assumptions used to measure Total Pension Liability

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.

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

- Schedule of Funding Progress – Health Subsidy Plan
- Schedule of Employer Contributions – Health Subsidy Plan
- Schedule of Employer's Net Pension Liability
- Schedule of Changes in Employer's Net Pension Liability and Related Ratios
- Schedule of Employer Contributions
- Schedule of Investment Returns

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

FINANCIAL ANALYSIS

Pension Plan

Fiduciary Net Position

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

Condensed Statement of Fiduciary Net Position
(In Thousands)

	2014	2013	Change	% Change
Cash	$ 1,347	$ 6,244	$ (4,897)	-78.4%
Receivables/Prepayments	299,184	413,824	(114,640)	-27.7%
Investments	18,518,838	16,151,828	2,367,010	14.7%
Capital Assets	11,835	-	11,835	100.0%
Total Assets	18,831,204	16,571,896	2,259,308	13.6%
Liabilities	1,829,547	1,891,523	(61,976)	-3.3%
Net Position	$ 17,001,657	$ 14,680,373	$ 2,321,284	15.8%

Net position increased by $2.32 billion (15.8%) to $17.0 billion from the prior fiscal year. Assets increased in value by $2.26 billion when compared with the prior fiscal year, attributable to appreciation of investments due to favorable market conditions.

Condensed Statement of Plan Net Position
(In Thousands)

	2013	2012	Change	% Change
Cash	$ 6,244	$ 5,648	$ 596	10.6%
Receivables/Prepayments	413,824	169,419	244,405	144.3%
Investments	16,151,828	14,759,688	1,392,140	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%

Pension Plan (Continued)

Changes in Fiduciary Net Position

	2014	2013	Change	% Change
Additions				
Employer Contributions	$ 440,698	$ 375,448	$ 65,250	17.4%
Member Contributions	124,395	121,778	2,617	2.1%
Net Investment Income	2,626,143	1,705,251	920,892	54.0%
Other Income	2,899	2,525	374	14.8%
Total Additions	3,194,135	2,205,002	989,133	44.9%
Deductions				
Pension Benefits	856,036	856,237	(201)	0.0%
Refund of Contributions	2,950	3,267	(317)	-9.7%
Administrative Expenses	13,865	12,200	1,665	13.6%
Total Deductions	872,851	871,704	1,147	0.1%
Net Increase	2,321,284	1,333,298	987,986	74.1%
Net Position, Beginning of Year	14,680,373	13,347,075	1,333,298	10.0%
Net Position, End of Year	$ 17,001,657	$ 14,680,373	$ 2,321,284	15.8%

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 2014 totaled $565.1 million, up by $67.9 million or 13.6% over fiscal year 2013. The increase in contributions was due to an increase in the actuarial determined contribution rate. The employer contribution rate for fiscal year 2014 was 31.4% of covered payroll compared to 27.5% of covered payroll for fiscal year 2013.

Net investment income amounted to $2.63 billion, an increase in net investment income of $920.9 million or 54.0% when compared with $1.7 billion from the prior fiscal year. Investment income increased in 2014 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, 2014, totaled $872.8 million, an increase of $1.15 million over 2013. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Condensed Statement of Changes in Plan 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				
Pension Benefits	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%

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)

	2014	2013	Change	% Change
Cash	$ 102	$ 454	$ (352)	-77.5%
Receivables/Prepaids	30,520	37,444	(6,924)	-18.5%
Investments	1,408,826	1,174,916	233,910	19.9%
Capital Assets	900	-	900	100.0%
Total Assets	1,440,348	1,212,814	227,534	18.8%
Liabilities	138,165	136,163	2,002	1.5%
Net Position	$ 1,302,183	$ 1,076,651	$ 225,532	20.9%

Net position increased by $225.5 million (20.9%) to $1.3 billion when compared to $1.07 billion of the prior fiscal year due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the Health Subsidy.

Condensed Statement of Plan Net Position
(In Thousands)

	2013	2012	Change	% Change
Cash	$ 454	$ 388	$ 66	17.0%
Receivables	37,444	18,645	18,799	100.8%
Investments	1,174,916	1,013,673	161,243	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%

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position

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

	2014	2013	Change	% Change
Additions				
Contributions	$ 138,107	$ 132,939	$ 5,168	3.9%
Net Investment Income	192,600	118,124	74,476	63.0%
Other Income	213	175	38	21.7%
Total Additions	330,920	251,238	79,682	31.7%
Deductions				
Benefits Payment	104,371	98,306	6,065	6.2%
Administrative Expenses	1,017	845	172	20.4%
Total Deductions	105,388	99,151	6,237	6.3%
Net Increase	225,532	152,087	73,445	48.3%
Net Position, Beginning of Year	1,076,651	924,564	152,087	16.4%
Net Position, End of Year	$ 1,302,183	$ 1,076,651	$ 225,532	20.9%

Additions to Fiduciary Net Position

Total additions to net position increased $79.7 million compared to fiscal year 2013. This is due primarily to an increase in net investment income by $74.5 million, mostly attributed to favorable capital markets, and an increase in contributions of $5.2 million or 3.9% over fiscal year 2013. For fiscal year 2014, the employer contribution rate is 9.8% of covered payroll compared to 9.7% for fiscal year 2013.

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 $105.4 million or 6.3% 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.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Health Subsidy Plan (Continued)

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

	2013	2012	Change	% Change
Additions				
Contributions	$ 138,107	$ 122,972	$ 15,135	12.3%
Net Investment Income	192,600	14,690	177,910	1211.1%
Other Income	213	122	91	74.6%
Total Additions	330,920	137,784	193,136	140.2%
Deductions				
Benefits Payment	104,371	93,536	10,835	11.6%
Administrative Expenses	845	887	(42)	-4.7%
Total Deductions	105,216	94,423	10,793	11.4%
Net Increase	225,704	43,361	182,343	420.5%
Net Position, Beginning of Year	924,564	881,203	43,361	4.9%
Net Position, End of Year	$ 1,150,268	$ 924,564	$ 225,704	24.4%

Debt Administration Mortgage Payable

At June 30, 2014, LAFPP had a combined total of $168.5 million in mortgage payable for the Pension Plan and Health Subsidy Plan. The System paid down $43.2 million and added $19.3 million during the year for an ending balance of $168.5 million.

Future Changes

GASB issued the *Implementation Guide* for GASB Statement No. 68 in late January 2014. The Los Angeles Fire and Police Pension System through our professional organizations, management, and consultants, will work together with our plan sponsors to evaluate and implement these new requirements as prescribed within the required time frame.

REQUEST FOR INFORMATION

This financial report is designed to provide the Board of Fire and Police Pension Commissioners, members, investment managers, and creditors with a general overview of 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
Los Angeles Fire and Police Pension System
360 E. Second Street, Suite 400
Los Angeles, CA 90012

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2014 AND 2013

	2014			2013		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	$ 1,347,076	$ 102,479	$ 1,449,555	$ 6,243,889	$ 454,193	$ 6,698,082
Receivables						
Accrued Interest and Dividends	46,466,784	3,534,971	50,001,755	47,014,998	3,419,965	50,434,963
Contributions	6,109,845	-	6,109,845	5,490,442	-	5,490,442
Due from Brokers	246,602,831	18,760,368	265,363,199	361,314,364	26,282,731	387,597,095
Total Receivables	299,179,460	22,295,339	321,474,799	413,819,804	29,702,696	443,522,500
Prepaid Health Subsidy	4,232	8,224,596	8,228,828	4,772	7,740,927	7,745,699
Investments at Fair Value						
Temporary	797,305,321	60,655,189	857,960,510	547,839,247	39,850,925	587,690,172
U.S. Government Obligations	1,871,171,885	142,349,838	2,013,521,723	1,597,254,678	116,187,507	1,713,442,185
Domestic Corporate Bonds	1,331,856,288	101,321,278	1,433,177,566	1,320,386,482	96,047,559	1,416,434,041
Foreign Bonds	6,326,552	481,294	6,807,846	1,713,327	124,631	1,837,958
Domestic Stocks	6,935,869,711	527,647,909	7,463,517,620	5,958,717,825	433,449,078	6,392,166,903
Foreign Stocks	3,378,350,372	257,008,793	3,635,359,165	2,563,866,624	186,500,797	2,750,367,421
Real Estate	1,319,437,440	100,376,511	1,419,813,951	1,148,402,028	83,537,065	1,231,939,093
Alternative Investments	1,479,783,920	112,574,908	1,592,358,828	1,767,344,218	128,560,161	1,895,904,379
Total Investments	17,120,101,489	1,302,415,720	18,422,517,209	14,905,524,429	1,084,257,723	15,989,782,152
Capital Assets	11,835,315	900,374	12,735,689	-	-	-
Securities Lending Collateral	1,398,736,181	106,409,182	1,505,145,363	1,246,303,273	90,658,598	1,336,961,871
TOTAL ASSETS	18,831,203,753	1,440,347,690	20,271,551,443	16,571,896,167	1,212,814,137	17,784,710,304
LIABILITIES						
Accounts Payable and Accrued Expenses	9,875,685	688,063	10,563,748	7,948,122	520,663	8,468,785
Benefits in Process of Payment	17,646,356	387,491	18,033,847	23,975,096	371,439	24,346,535
Due to Brokers	246,591,117	18,759,477	265,350,594	433,919,740	31,564,191	465,483,931
Mortgage Payable	156,606,650	11,913,887	168,520,537	179,376,896	13,048,235	192,425,131
Security Deposit	90,347	6,873	97,220	-	-	-
Securities Lending Collateral	1,398,736,181	106,409,182	1,505,145,363	1,246,303,273	90,658,598	1,336,961,871
TOTAL LIABILITIES	1,829,546,336	138,164,973	1,967,711,309	1,891,523,127	136,163,126	2,027,686,253
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	$ 17,001,657,417	$ 1,302,182,717	$ 18,303,840,134	$ 14,680,373,040	$ 1,076,651,011	$ 15,757,024,051

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

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			2013		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	$ 440,698,260	$ 138,106,847	$ 578,805,107	$ 375,448,092	$ 132,939,191	$ 508,387,283
Member Contributions	124,394,889	-	124,394,889	121,777,654	-	121,777,654
Total Contributions	565,093,149	138,106,847	703,199,996	497,225,746	132,939,191	630,164,937
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	2,274,456,889	166,807,499	2,441,264,388	1,345,525,723	93,205,808	1,438,731,531
Interest	103,466,280	7,588,164	111,054,444	105,000,214	7,273,462	112,273,676
Dividends	209,258,753	15,346,929	224,605,682	193,583,363	13,409,698	206,993,061
Net Real Estate Income	59,874,324	4,391,152	64,265,476	64,904,411	4,495,988	69,400,399
Income from Alternative Investments	33,417,573	2,450,828	35,868,401	37,171,522	2,574,906	39,746,428
Securities Lending Income	7,947,591	582,872	8,530,463	8,444,788	584,978	9,029,766
Less: Securities Lending Expense	(793,457)	(58,192)	(851,649)	(843,478)	(58,429)	(901,907)
Other Income	3,759,251	275,702	4,034,953	3,451,327	239,077	3,690,404
Subtotal	2,691,387,204	197,384,954	2,888,772,158	1,757,237,870	121,725,488	1,878,963,358
Less: Investment Manager Expense	(65,243,367)	(4,784,915)	(70,028,282)	(51,987,110)	(3,601,195)	(55,588,305)
Net Investment Income	2,626,143,837	192,600,039	2,818,743,876	1,705,250,760	118,124,293	1,823,375,053
Other Income						
Miscellaneous	2,898,644	212,586	3,111,230	2,525,693	174,957	2,700,650
Total Other Income	2,898,644	212,586	3,111,230	2,525,693	174,957	2,700,650
TOTAL ADDITIONS	3,194,135,630	330,919,472	3,525,055,102	2,205,002,199	251,238,441	2,456,240,640
DEDUCTIONS						
Pension Benefits	856,035,663	-	856,035,663	856,236,598	-	856,236,598
Payment of Health Subsidy	-	95,076,096	95,076,096	-	89,451,074	89,451,074
Payment of Medicare Reimbursement	-	9,294,803	9,294,803	-	8,855,383	8,855,383
Refund of Contributions	2,950,391	-	2,950,391	3,266,578	-	3,266,578
Administrative Expenses	13,865,199	1,016,867	14,882,066	12,200,359	845,130	13,045,489
TOTAL DEDUCTIONS	872,851,253	105,387,766	978,239,019	871,703,535	99,151,587	970,855,122
NET INCREASE	2,321,284,377	225,531,706	2,546,816,083	1,333,298,664	152,086,854	1,485,385,518
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning 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
End of Year	$ 17,001,657,417	$ 1,302,182,717	$ 18,303,840,134	$ 14,680,373,040	$ 1,076,651,011	$ 15,757,024,051

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

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NOTE 1 – DESCRIPTION OF THE PLANS

The Los Angeles Fire and Police Pension System (the System, LAFPP 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 post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

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

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter, 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, 2013, the maximum subsidy amount is $1,256.43 per month. The maximum monthly subsidy for fiscal years 2013 and 2012 was $1,174.23 and $1,097.41, respectively. The System also reimburses Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

NOTE 1 – DESCRIPTION OF THE PLANS (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, 2014 and 2013, total net position in the amounts of $1,302,182,717 and $1,076,651,011, 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 for in order 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 2014 and 2013 was $1,256.43 and $1,174.23, 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

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 $42.80 for the period of January 1, 2013, through December 31, 2013, and $42.80 for the period of January 1, 2014, through June 30, 2014. 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, 2014 and 2013, 1,277 and 1,191 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately $284,935,292 and $250,665,204, 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, 2014 and 2013, are as follows:

	2014	2013
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	2	3
Tier 4	193	197
Tier 5	7,715	8,046
Tier 6	802	562
	8,712	8,808
Active Vested:		
Tier 1	-	-
Tier 2	47	58
Tier 3	868	892
Tier 4	157	166
Tier 5	3,313	3,300
Tier 6	-	-
	4,385	4,416
Pensioners and Beneficiaries:		
Tier 1	498	555
Tier 2	8,167	8,357
Tier 3	532	494
Tier 4	227	216
Tier 5	3,078	2,810
Tier 6	-	-
	12,502	12,432
	25,599	25,656

Capital Assets

Capital Assets are items that benefit more than one fiscal year. LAFPP's capital asset represents the land and the building acquired that will serve as its' headquarters. Improvements to the building are in progress before it will be put to use and will be capitalized and will be subject to depreciation.

Fiduciary Net Position

There are no additional capital assets acquired for this fiscal year other than the headquarters (land and building).

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting

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

Investments and Method Used to Value Investments

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

Cash

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

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

The System adopted Governmental Accounting Standards Board (GASB) Statement No. 67 (GASB 67), *Financial Reporting for Pension Plans*, *an amendment of GASB Statement No. 25* (GASB 25), effective at the beginning of the fiscal year. GASB 67 replaces the requirements of GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Benefit Plans,* and also replaces the requirement of GASB Statement No. 50, *Pension Disclosures.* The objective of GASB 67 is to improve financial reporting by state and local government pension plans, such as LAFPP.

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.

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, 2014 and 2013, were to be as follows ($ in millions):

Fiscal Year Ended June 30, 2014

	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	$ -	$ 2.62	$16.35	$6.72	$223.41	$2.63	$ 2.34	$ 0.01
Unfunded supplemental present value amount	$16.24	$ 31.51	$12.58	$7.39	$117.33	$1.72	$ 0.91	$ 0.01
Health subsidy entry age cost	$ -	$ 0.36	$ 3.89	$1.50	$ 43.39	$1.18	$ 0.54	$ -
Health subsidy unfunded actuarial accrued liability annual amount	$ 1.83	$ 46.03	$ 3.63	$2.59	$ 32.60	$0.46	$ 0.11	$ -

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

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	$ -

During fiscal year 2014, total contributions of $578,805,107 from the employer and $124,394,889 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, 2012. For the Pension Plan, fiscal year 2014 employer contributions included $254.1 million for normal cost and $187.7 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2014 employer contributions consisted of $50.9 million for normal cost and $87.3 million for unfunded actuarial accrued liability annual amount.

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 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, 2014 and 2013 annual valuations determined the funding status to be 86.6% and 83.1%, respectively. For 2014, if the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 86.6% to 93.8%.

The funded status of the Pension Plan as of June 30, 2014, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) – (a)) / (c)
$ 15,678,480,269	$ 18,114,229,307	$ 2,435,749,038	86.6%	$ 1,402,715,039	173.6%

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NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Pension Plan (Continued)

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

Valuation Date	June 30, 2014
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.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last seven 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. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial Assumptions:	
Investment Return Rate	7.50%
Inflation Rate	3.25%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increase	Ranges from 4.75 to 11.50% based on service.
Cost-of-Living Adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.
Mortality Rates:	
Healthy	RP-2000 Combined Healthy Mortality Table (separate for males and females) projected to 2022 with scale BB set back one year for members. RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year for beneficiaries.
Disabled	RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan

The June 30, 2014 and 2013 annual valuations determined the funding status to be 43.2% and 38.5%, respectively. If the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 43.2% to 46.8% for 2014.

The funded status of the Health Subsidy Plan as of June 30, 2014, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) – (a)) / (c)
$ 1,200,874,444	$ 2,783,282,885	$ 1,582,408,441	43.2%	$ 1,402,715,039	112.8%

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.

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

Valuation Date: June 30, 2014

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:

Type of Base	Amortization Period (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 gains and losses and amortized over 20 years.

Remaining Amortization Period: As of June 30, 2014:

22 years for bases established prior to June 30, 2012
18 years for bases established on June 30, 2012
19 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. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Actuarial Assumptions:

Investment Rate of Return	7.50%
Inflation Rate	3.25%
Across-the-Board Pay Increase	0.75%
Projected Salary Increase	4.00%

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

Medical	7.0% in 2014-2015, then decreasing by 0.25% for each year for eight years until it reaches an ultimate rate of 5%.
Dental	5%
Medicare Part B Premium	5%
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, 2014 (e.g., Fire Kaiser), increase with medical trend. For Medicare retirees with 2-Party premium greater than the maximum subsidy as of July 1, 2014 (e.g., Police Blue Cross PPO), 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, 2013, and the economic assumptions study as of June 30, 2014:

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	Out of the total of 1.00% of payroll in administrative expense, 0.06% of payroll payable bi-weekly is allocated to the Retiree Health Plan. This is equal to 0.06% of payroll payable at the beginning of the year.
Spouse Age Difference	Husbands are assumed to be 3 years older than wives.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Participation

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 retirees are assumed to elect dental coverage.

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

Implicit Subsidy — No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums, except for one small group (Fire Blue and Fire California Care) that has some active/retiree experience blending.

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:

		Maximum Subsidies		
Plan	Assumed Election Percentage	Single	Married	Surviving Spouse
Fire Medical PPO	75	$ 1,344.38	$ 1,344.38	$ 729.83
Fire Kaiser	15	1,344.38	1,344.38	729.83
Fire Blue Cross HMO	5	1,344.38	1,344.38	729.83
Fire California Care HMO	5	1,344.38	1,344.38	729.83
Police Blue Cross PPO	65	1,344.38	1,344.38	729.83
Police California Care HMO	15	1,344.38	1,344.38	729.83
Police Kaiser	20	1,344.38	1,344.38	729.83
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:

Plan	Assumed Election Percentage	Maximum Subsidies: Single	Married	Surviving Spouse
Fire Medical PPO	85	$ 493.74	$ 787.84	$ 493.74
Fire Kaiser	10	493.74	771.76	493.74
Fire Blue Cross HMO	5	493.74	1,256.43	493.74
Fire California Care HMO	0	493.74	1,283.36	493.74
Police Blue Cross PPO	75	493.74	887.21	493.74
Police California Care HMO	10	493.74	909.06	493.74
Police Kaiser	15	493.74	466.66	493.74
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.

Net Pension Liability

GASB 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of LAFPP's (the Plan's) net pension liability at June 30, 2014, were as follows:

	2014
Total Pension Liability	$18,861,992,028
Less: Fiduciary Net Position	16,989,704,585
Net Pension Liability	$ 1,872,287,443
Fiduciary Net Position as a Percentage of the Total Pension Liability	90.07%

Fiduciary Net Position-The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents .07% of LAFPP's fiduciary net position.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Net Pension Liability (Continued)

Sensitivity Analysis. In accordance with GASB 67, changes to the total pension liability and net pension liability must be reported as of June 30, 2014. The net pension liability changes when there are changes in the discount rate. The following, from page 6 of Segal Consulting's GASB 67 report, presents the net pension liability, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50 percent) or 1-percentage point higher (8.50 percent) than the current rate (7.50 percent).

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of LAFPP as of June 30, 2014, calculated using the discount rate of 7.50%, as well as what LAFPP's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
LAFPP's net pension liability as of June 30, 2014	$4,386,029,023	$1,872,287,443	($192,812,153)

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

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

As required by GASB, cash received as collateral on securities lending transactions is reported as 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, 2014 and 2013, the fair value of securities lent was $1,610,850,465 and $1,606,643,493, respectively, and the fair value of collateral received was $1,653,458,227 and $1,658,291,108, respectively. Of the $1,653,458,227 collateral received as of June 30, 2014, $1,505,145,363 was cash collateral and $148,312,864 represented the fair value of non-cash collateral; and 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 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, 2014 and 2013.

Fair value of collateral received for loaned securities as of June 30, 2014:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 83,978,605	$ 113,972,099	$ 197,950,704
Domestic Corporate Fixed Income Securities	94,043,912	674,300	94,718,212
International Stocks	1,327,122,846	33,666,465	1,360,789,311
	$ 1,505,145,363	$ 148,312,864	$ 1,653,458,227

Fair value of loaned securities as of June 30, 2014:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 78,551,470	$ 106,816,931	$ 185,368,401
Domestic Corporate Fixed Income Securities	92,040,204	661,283	92,701,487
International Stocks	1,299,772,762	33,007,815	1,332,780,577
	$ 1,470,364,436	$ 140,486,029	$ 1,610,850,465

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

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 1,111,226,419	$ 44,374,919	$ 1,155,601,338
Domestic Corporate Fixed Income Securities	144,962,974	-	144,962,974
International Stocks	80,772,478	276,954,318	357,726,796
	$ 1,336,961,871	$ 321,329,237	$ 1,658,291,108

NOTE 5 – SECURITIES LENDING (Continued)

Fair value of loaned securities as of June 30, 2013:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying 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

For the fiscal years ended June 30, 2014 and 2013, securities lending income amounted to $8,530,463 and $9,029,766, respectively, while securities lending expenses amounted to $851,649 and $901,907, 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, 2014, cash and temporary investments consisted of $1,449,555 cash held by the City Treasurer's office and $857,960,510 in collective short-term investment funds (STIF). 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 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)

As of June 30, 2014, 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	$ 1,551,036,490	51.63%
AA	78,108,606	2.60%
A	263,364,762	8.77%
BBB	477,905,029	15.91%
BB	214,403,697	7.13%
B	232,553,783	7.74%
CCC	55,108,160	1.83%
CC	8,019,735	0.27%
C	548,175	0.02%
Not Rated	123,097,238	4.10%
Subtotal	3,004,145,675	100.00%
U.S. Government Issued or Guaranteed Securities	449,361,460	
Total Fixed Income Investments	$ 3,453,507,135	

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%
B	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	

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, 2014 and 2013, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to $15,778,549 and $10,584,998, respectively.

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NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (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, 2014 and 2013, 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, 2014 and 2013, the System's investments in hedge fund of funds of $92,572,645 and $549,054,089, private equity of $1,499,786,183 and $1,346,850,290, and commingled real estate funds of $744,051,612 and $589,790,484, 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, 2014 and 2013, 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.

Interest Rate Risk (Continued)

Fiscal Year 2014

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	$ 30,749,093	12.21
Commercial Mortgages	42,816,225	29.49
Corporate Bonds	1,327,267,704	16.54
Government Agencies Bonds	75,075,133	9.29
Government Bonds	780,898,434	8.09
Government Mortgage Backed Securities	355,296,636	25.66
Index Linked Government Bonds	810,769,340	9.53
Non-Government Backed Collateralized Mortgage Obligations	2,342,080	22.05
Bond Index Fund*	28,292,490	N/A
Total Fixed Income Investments	$ 3,453,507,135	

* Shares are in commingled fixed income funds.

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

Fiscal Year 2013

Investment Type	Fair Value	Weighted Average Maturity (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.

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

Interest Rate Risk (Continued)

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

Fiscal Year 2014

Investment Type	Fair Value
Asset Backed Securities	$ 30,749,093
Commercial Mortgages	42,816,225
Government Agencies Bonds	75,075,133
Government Mortgage Backed Securities	355,296,636
Index Linked Government Bonds	810,769,340
Non-Government Backed Collateralized Mortgage Obligations	2,342,080
Total Fixed Income Investments	$ 1,317,048,507

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
Total Fixed Income Investments	$ 1,262,750,361

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 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, 2014, are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	$ 132,010,519
Brazilian Real	59,565,590
British Pound Sterling	709,216,698
Canadian Dollar	44,200,412
Chilean Peso	5,024,528
Colombian Peso	3,125,648
Czech Koruna	4,785,204
Danish Krone	49,520,219
Euro	849,981,479
Hong Kong Dollar	245,199,693
Hungarian Forint	4,263,469
Indian Rupee	72,862,127
Indonesian Rupiah	31,450,563
Japanese Yen	623,544,987
Malaysian Ringgit	23,262,574
Mexican Peso	27,390,390
New Israeli Shekel	7,256,567
New Taiwan Dollar	119,039,641
New Zealand Dollar	3,586,906
Nigerian Naira	5,045,379
Norwegian Krone	18,468,717
Philippine Peso	6,215,424
Polish Zloty	12,759,218
Singapore Dollar	36,544,690
South African Rand	78,006,672
South Korean Won	153,262,867
Swedish Krona	88,204,111
Swiss Franc	181,746,597
Thai Baht	19,802,229
Turkish Lira	26,823,894
	$ 3,642,167,012

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

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

Foreign Currency Risk (Continued)

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
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
Swiss Franc	144,693,772
Thai Baht	20,120,651
Turkish Lira	24,573,452
	$ 2,752,205,379

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

Discount Rate

The actuary, Segal Consulting, defines Investment Return (discount rate) as the rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss of adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. (LAFPP's June 30, 2014 OPEB Report from Segal, page 57).

The discount rate for the June 30, 2014 valuation is 7.50%. Additional details regarding the calculation of the discount rate can be found in the Actuarial Assumptions section of the Required Supplementary Information Notes.

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

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on pension plan investments, gross of pension plan investment expense, for the year ended June 30, 2014, was 17.84%. The source for the rate of return was the June 30, 2014 Investment Hierarchy provided by the custodian bank, Northern Trust.

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.

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, 2014, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2014 financial statements are as follows ($ in thousands):

	Changes in Fair Value		Fair Value at June 30, 2014		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts		$ -	Investment	$ -	$ (98)
Futures - Longs	Investment Revenue	(1,551)	Investment	-	1,571
Forwards	Investment Loss	393	Investment	6	-
Rights/Warrants	Investment Revenue	(934)	Investment	160	-

At June 30, 2014, the System held futures-shorts and futures-longs with a notional value of $(98,085) and $(1,571,286), respectively, with a realized gain of $1,550,949 for the fiscal year. The System held forwards with a fair value of $6,526 and rights and warrants with a fair value of $159,770. Loss of $392,887 was reported for the fiscal year for forwards and earnings of $934,301 were reported for rights and warrants for the fiscal year.

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
Type	Classification	Amount	Classification	Amount	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 for the fiscal year.

NOTE 8 – CAPITAL ASSETS

The System's capital asset is comprised of land and building which was acquired in July 2013 for $12,735,689. This will become the System's headquarters which will provide long-term control over its future space needs and lease costs. A capital improvement program is being developed to address the seismic, HVAC, tenant improvements, and other needs before the move from the existing lease space.

NOTE 9 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2014, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from $72,603 to $679,752. For fiscal year 2013, interest rates range from 2.94% to 7.50% per annum. Monthly principal and interest payments range from $17,550 to $850,000.

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
2015	$ 871,245	$ 8,167,028	$ 9,038,273
2016	11,733,932	7,865,392	19,599,324
2017	52,683,751	6,072,635	58,756,386
2018	15,940,349	4,797,770	20,738,119
2019	24,057,089	4,677,552	28,734,641
2020-2024	56,725,582	8,335,870	65,061,452
2025-2029	4,368,145	1,318,017	5,686,162
2030-2034	2,140,444	134,021	2,274,465
	$ 168,520,537	$ 41,368,285	$ 209,888,822

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, 2014:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Mortgage Payable	$ 192,425,131	$ 19,295,406	$ 43,200,000	$ 168,520,537

NOTE 10 – OPERATING LEASE

The System leases office space under an operating lease that can be discontinued after April 2015. The annual lease payments for the fiscal years ended June 30, 2014 and 2013, were $869,768 and $865,108, respectively.

NOTE 10 – OPERATING LEASE (Continued)

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

Year Ended June 30	
2015	$ 860,000
2016	430,000 [(1)]
	$ 1,290,000

(1) LAFPP can discontinue its current lease after April 2015 with appropriate notice to the building management. Due to LAFPP's anticipated move to the new headquarters in calendar year 2015, LAFPP would like to budget half the 2015 amount to cover lease expenses for July 2015 to December 2015.

NOTE 11 – 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 $1,674,326,359 and $1,586,973,508 as of June 30, 2014 and 2013, respectively.

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 $1,419,000,000 and $1,050,565,956 at June 30, 2014 and 2013, respectively.

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

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018. 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 12 – 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.

NOTE 12 – DONATIONS (Continued)

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, 2013, or 2014.

NOTE 13 – RISKS AND UNCERTAINTIES

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

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2014, which is the date the financial statements were issued. In addition to those noted below, there were no additional subsequent events to disclose.

Retiree Health Subsidy Freeze Litigation

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

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

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

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

NOTE 14 – SUBSEQUENT EVENTS (Continued)

Ordinance Allowing Former OPS Officer Service Purchases

The General Services Department's Office of Public Safety (OPS) was consolidated into the Los Angeles Police Department (LAPD) in July 2012 and these OPS officers are members of LACERS. However, these OPS officers were given the opportunity to transfer to regular LAPD police officer classifications following an abbreviated academy training period and to opt out of membership in LACERS to become members of LAFPP Tier 6.

In addition, pursuant to a March 2013 Charter amendment, in conjunction with their change in employment status, the members in question will be offered the option to purchase their years of LACERS service credit they earned while employed in specific OPS officer classifications. The Charter amendment requires these purchases to be cost neutral. Pursuant to the OPS service purchase ordinance, all employees who elect to become members of LAFPP will have until June 30, 2015, to initiate an agreement to purchase their OPS service.

REQUIRED SUPPLEMENTARY INFORMATION

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
JUNE 30, 2014

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, 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%
June 30, 2014	1,200,874,444	2,783,282,885	1,582,408,441	43.2%	1,402,715,039	112.8%

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
JUNE 30, 2014

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN (UNAUDITED)

Fiscal Years Ending	Annual Required Contribution		Actual Contribution	Percent Contributed
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%
2014	138,106,847		138,106,847	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.

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY
JUNE 30, 2014

Net Pension Liability
(Amounts in 000's)

Date*	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)[1]	Net Pension Liability (NPL)*	Funded Status (FNP/TPL)	Covered Payroll	NPL %Pay
6/30/2014	7.50%	$18,861,992	$16,989,705	$1,872,287	90.1%	$1,308,149	143%
6/30/2013	7.75%	16,989,705	14,680,373	3,584,155	86.4%	1,277,031	281%

Source: June 30, 2014 actuarial valuation prepared by System actuary, Segal Consulting.

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

[1] Fiduciary Net Position-The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents .07% of LAFPP's fiduciary net position.

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY
AND RELATED RATIOS
JUNE 30, 2014

Changes in Total Pension Liability
(Amounts in 000's)

	June 30, 2014
Total Pension Liability:	
Service Cost	$ 368,018
Interest	1,392,552
Benefit Payments	(858,986)
Administrative Expenses	-
Experience Losses (Gains)	(234,638)
Assumption Changes	(69,482)
Benefit Changes	-
Net Change	597,464
Total Pension Liability at Beginning of Year	18,264,528
Total Pension Liability at End of Year (a)	$ 18,861,992

Changes in Fiduciary Net Position
(Amounts in 000's)

	June 30, 2014
Fiduciary Net Position:	
Employer Contributions	$ 440,698
Member Contributions	124,395
Net Investment Income	2,617,090
Benefit Payments	(858,986)
Administrative Expenses	(13,865)
Net Change (Gain)	2,309,332
Fiduciary Net Position at Beginning of Year	14,680,373
Fiduciary Net Position at End of Year* (b)[1]	$ 16,989,705
Net Pension Liability/(Asset) (a)-(b)	$ 1,872,287
Plan fiduciary net position as a percentage of the total pension liability	90.07%
Covered employee payroll	$ 1,308,148,504
Plan net position liability as a percentage of covered employee payroll	143.12%

Source: June 30, 2014 actuarial valuation prepared by System actuary, Segal Consulting. GASB 67 available online at www.lafpp.com

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

[1] Fiduciary Net Position-The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents .07% of LAFPP's fiduciary net position.

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2014

Schedule of Employer Contributions
(Amounts in 000's)

Fiscal Year Ending*	Actuarially Determined Contribution**	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll	Contribution as % of Payroll (3)
6/30/2014	$ 440,698	$ 440,698	$ -	$ 1,308,149	34%
6/30/2013	375,448	375,448	-	1,277,031	29%
6/30/2012	321,593	321,593	-	1,213,396	27%
6/30/2011	277,092	277,092	-	1,289,857	21%
6/30/2010	250,517	250,517	-	1,266,312	20%
6/30/2009	238,698	238,698	-	1,253,659	19%
6/30/2008(1)	261,635	261,635	-	1,188,972	22%
6/30/2007	224,946	224,946	-	1,130,297	20%
6/30/2006	143,946	143,946	-	N/A(2)	N/A(2)
6/30/2005	135,854	135,854	-	N/A(2)	N/A(2)

Source is the June 30, 2014 actuarial valuation prepared by System actuary, Segal Consulting.
** GASB Statement No. 67 requires this information be reported for 10 years.*
*** As required by applicable Contribution Agreements with the City.*

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

(2) Not Available.

(3) Contribution rate as a percentage of payroll reflect discount applied when the employer prepays its contributions. This rate has been "backed" into by dividing the actual contributions by the budgeted covered-employee payroll.

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LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF INVESTMENT RETURNS
JUNE 30, 2014

	2014*
Annual money-weighted rate of return, gross of investment expense	17.84%(**)

Source is the June 30, 2014 Investment Hierarchy provided by System's custodian bank, Northern Trust.

** GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as they become available.*

*** The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on pension plan investments, gross of pension plan investment expense, for the year ended June 30, 2014, was 17.84%. The source for the rate of return was the June 30, 2014 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal year 2013-2014, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.*

Summary of Significant Accounting Policies

Implementation of GASB 67. The Plan implemented GASB Statement No. 67 (GASB 67), Financial Reporting for Pension Plans, and an amendment of GASB Statement No. 25, effective at the beginning of the year. GASB 67 replaces the requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Benefit Plans, and also replaces the requirements of GASB Statement No. 50, Pension Disclosures. The objective of GASB 67 is to improve financial reporting by state and local government pension plans.

Asset Allocation Policy and Expected Long-term Rate of Return by Asset Class. The allocation of investment assets within the LAFPP portfolio is approved by the Board as outlined in the Board Investment Policies. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans.

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	23.00%	6.03
Small Cap U.S. Equity	6.00%	6.71
Developed International Equity	16.00%	6.71
Emerging Markets Equity	5.00%	8.02
U.S. Core Fixed Income	14.00%	0.52
High Yield Bonds	3.00%	2.81
Real Estate	10.00%	4.73
TIPS	5.00%	0.43
Commodities	5.00%	4.67
Cash	1.00%	-
Unconstrained Fixed Income	2.00%	2.50
Private Equity	10.00%	9.25
Total Portfolio	100.00%	5.12

Rate of return. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, gross of pension plan investment expense, was 17.84 percent. The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested.

Concentrations. [If the pension plan held investments (other than those issued or explicitly guaranteed by the U.S.government) in any one organization that represent 5 percent or more of the pension plan's fiduciary net position, the pension plan should disclose information as required by paragraph 30b(3) of Statement 67.] As of June 30, 2014 and 2013, LAFPP's investment portfolio contained no such concentrations.

Net Pension Liability

The components of the net pension liability of the Plan at June 30, 2014, were as follows:

Net Pension Liability (in millions)

Total pension liability	$18,862
Plan fiduciary net position*	16,990
Plan's net pension liability	$ 1,872

Plan fiduciary net position as a percentage of the total pension liability is 90.07%

**Fiduciary Net Position-The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents .07% of LAFPP's net position.*

Actuarial assumptions. The total pension liability as of June 30, 2014 was remeasured as of June 30, 2014 to reflect the following actuarial assumptions that the Board of Commissioners has approved for use in the pension funding valuation as of June 30, 2014:

Inflation	3.25%
Salary increases	Ranges from 4.75% to 11.50% based on years of service, including inflation
Investment rate of return	7.50%, including inflation but net of Pension Plan investment expense
Other assumptions	See analysis of actuarial experience during the period July 1, 2010 through June 30, 2013 and Appendix A for the service retirement rates after they have been adjusted to be based on the earlier date of first participation in the DROP.

Discount rate: The discount rates used to measure the total pension liability were 7.50% and 7.75% as of June 30, 2014 and June 30, 2013, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of LAFPP as of June 30, 2014, calculated using the discount rate of 7.50%, as well as what LAFPP's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
LAFPP's net pension liability as of June 30, 2014	$4,386,029,023	$1,872,287,443	($192,812,153)

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2014 ANNUAL REPORT

DEPARTMENT BUDGET

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DEPARTMENT BUDGET

Receipts	Budgeted	Actual
City Contribution	574,871,226	574,871,226
Special Fund (Harbor)	3,933,881	3,933,881
Excess Benefit Plan[1]	1,070,154	1,070,154
Member Contributions	131,896,827	124,394,889
Earnings on Investments	325,000,000	447,507,771
Gain (Loss) on Sale of Investments	——	827,268,466
Miscellaneous[2]	1,000,000	3,111,231
Total Receipts	1,037,772,088	1,982,157,618

[1] *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	Actual
Service Pensions	540,000,000	541,052,297
Service Pensions – DROP Payout	98,245,000	79,792,333
Disability Pensions	120,000,000	117,600,922
Surviving Spouse/Domestic Partner Pensions	115,000,000	115,725,849
Minor/Dependent Pensions	2,000,000	1,864,262
Refund of Member Contributions	3,500,000	2,950,392
Health Insurance Premium Subsidy	95,000,000	90,462,381
Dental Insurance Premium Subsidy	3,900,000	3,630,506
Medicare Reimbursement	10,000,000	9,294,803
Health Insurance Premium Reimbursement	1,300,000	983,208
Investment Management Expense	87,857,049	70,028,282
Administrative Expense	18,163,081	14,882,066
Total Expenditures	1,094,965,130	1,048,267,301
Increase (Decrease) in Fund Balance	(57,193,042)	933,890,317

Summary of Receipts

The Department receives revenue primarily from three sources: Employer Contributions (City and Harbor), Member Contributions, and Investment Earnings. In 2013-14, the Department received total revenue of $1.98 billion, a decrease of $530.5 million from 2012-13. The change was primarily due to a reduction in Investment Earnings (please see Investment Earnings discussion below).

Employer Contributions

The Employer Contributions are based on the application of the actuary's computed rates for each tier with the budgeted sworn payroll. It is comprised of the City's General Fund contribution, the Special Fund (Harbor Department) contribution, and the City's Excess Benefit Plan payment. In 2013-14, the Employer Contributions totaled $579.9 million, an increase of $70.7 million from 2012-13.

Member Contributions

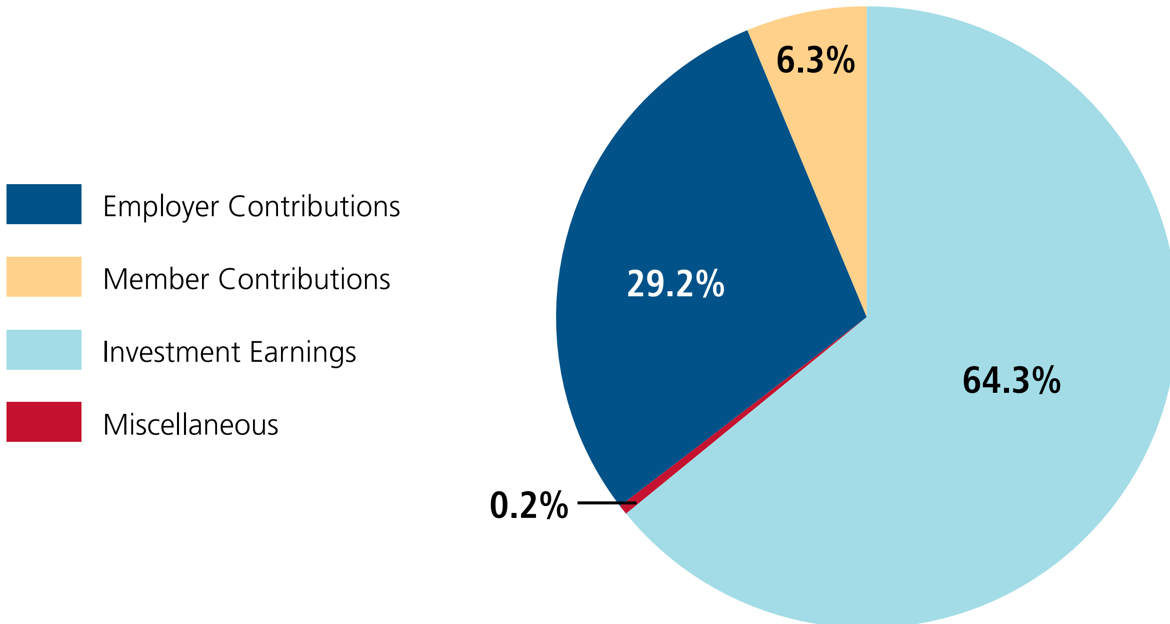
Member Contributions are calculated based on the member's contribution rate for his or her tier. These rates range from 7 to 9 percent of salaries for members in Tiers 2 through 5, while members in Tier 6 contribute 11 percent of salary. In 2013-14, revenue received from Member Contributions was $124.4 million, an increase of $2.62 million from 2012-13.

Investment Earnings

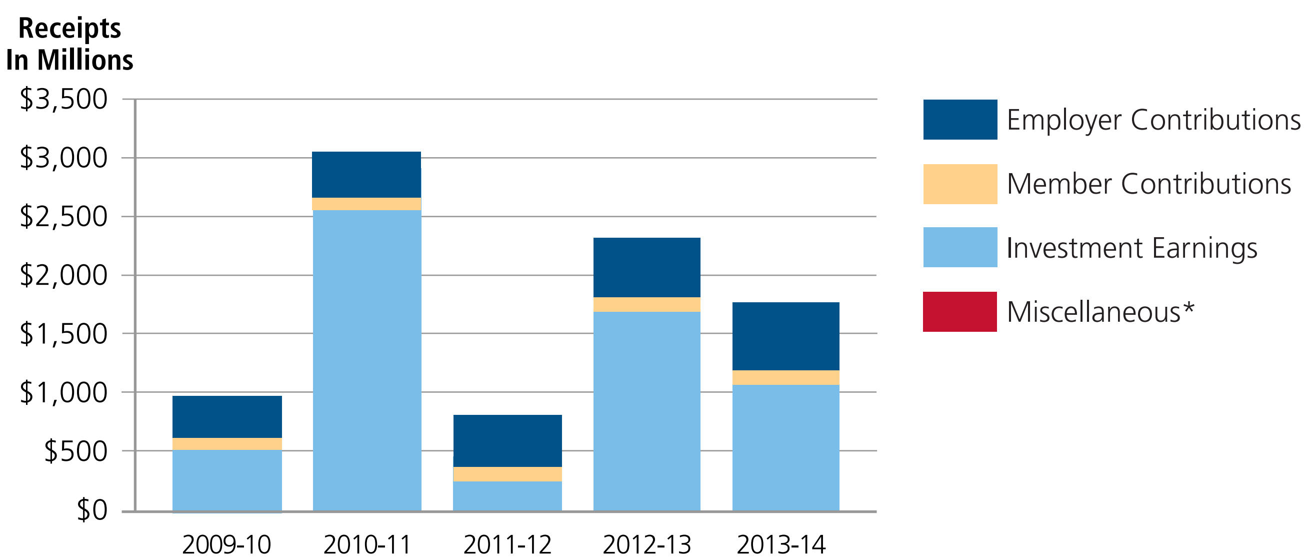
Investment Earnings consist of 'Earnings on Investments' and 'Gain (Loss) on Sale of Investments'. In 2013-14, the Department received investment earnings of $1.27 billion, a decrease of $604.2 million from 2012-13. This decrease is attributable to a methodology change discussed in the Gain (Loss) on Sale of Investments section below.

- **Earnings on Investments** - includes real estate and private equity net cash, interest and dividends, and miscellaneous income. Earnings on Investments in 2013-14 were $447.5 million, an increase of $7.3 million from 2012-13.
- **Gain (Loss) on Sale of Investments** – prior to 2013-14, the appreciation/depreciation in the market value of the entire portfolio was included in this amount. Beginning in 2013-14, this amount only includes actual cash receipts to the System on the sale of investments. Gains or losses on the sale of investments are a function of how many transactions are performed by our investment advisors. In 2013-14, the Department received $827.3 million in cash through these transactions, a decrease of $611.5 million. If the methodology had not changed, this item would have increased by $1.00 billion from 2012-13.

FY 2013-14 Budget - Receipts



Five-Year Receipts History



Miscellaneous receipts in 2013-14 were $3.1 million or 0.16% of the Total Receipts.

Summary of Expenditures

The Department's expenses can be divided into three categories: Pensions and Benefit Expenses, Investment Management Expense, and Administrative Expense. Expenses for 2013-14 totaled $1.05 billion, an increase of $21.8 million from 2012-13. The increase was primarily due to an increase in Pensions and Benefit Expenses and Investment Management Expense.

Pensions and Benefit Expenses

The Department's Pensions and Benefit Expenses include Service Pensions, Deferred Retirement Option Plan (DROP) distributions, Disability Pensions, Surviving Spouse/Domestic Partner Pensions, Minor/Dependent Pensions, Refunds of Member Contributions, and health related expenses. In 2013-14, Pensions and Benefit Expenses were $963.4 million, which represent 91.9 percent of total expenses and an increase of $5.5 million from 2012-13.

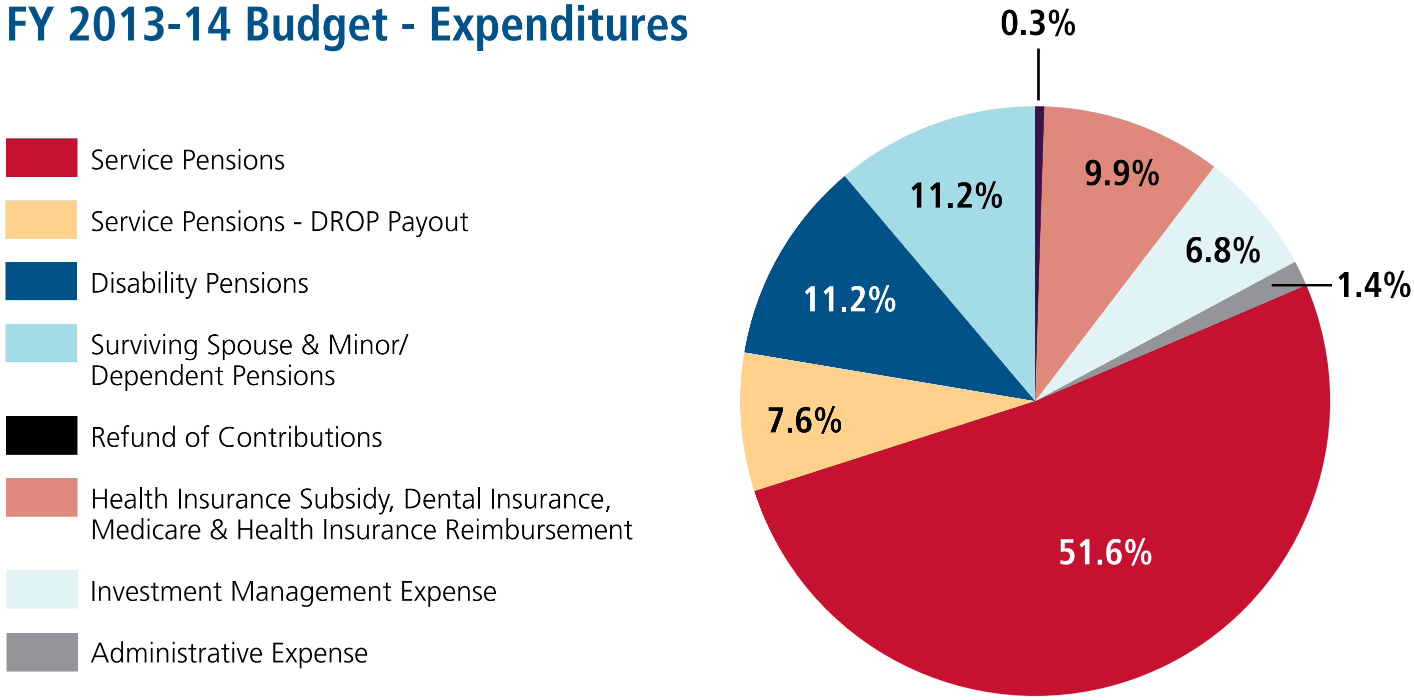
Investment Management Expense

Investment Management Expense was $70.0 million, which represents 6.7 percent of the total expenditures and an increase of $14.4 million from 2012-13. Actual payments to investment managers depend on the amount of assets under management, the portfolio performance, the period in which the fee is calculated, and the terms and conditions of the individual contracts as approved by the Board.

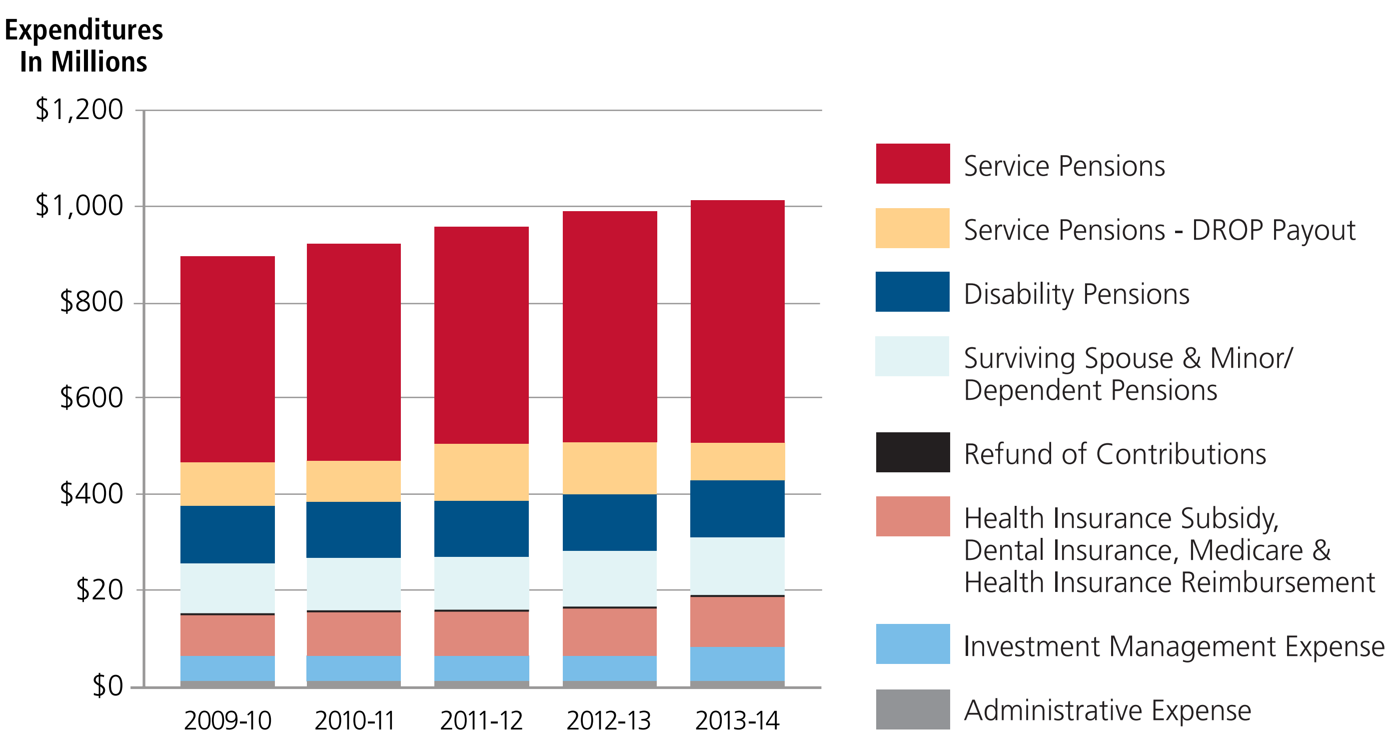
Administrative Expense

Administrative Expense includes staff salaries and benefits, operating costs, and the unappropriated balance. The Department's Administrative Expense was $14.9 million, which represents 1.4 percent of the total expenditures and an increase of $1.84 million from 2012-13.

FY 2013-14 Budget - Expenditures



Five-Year Expenditure History



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INVESTMENTS

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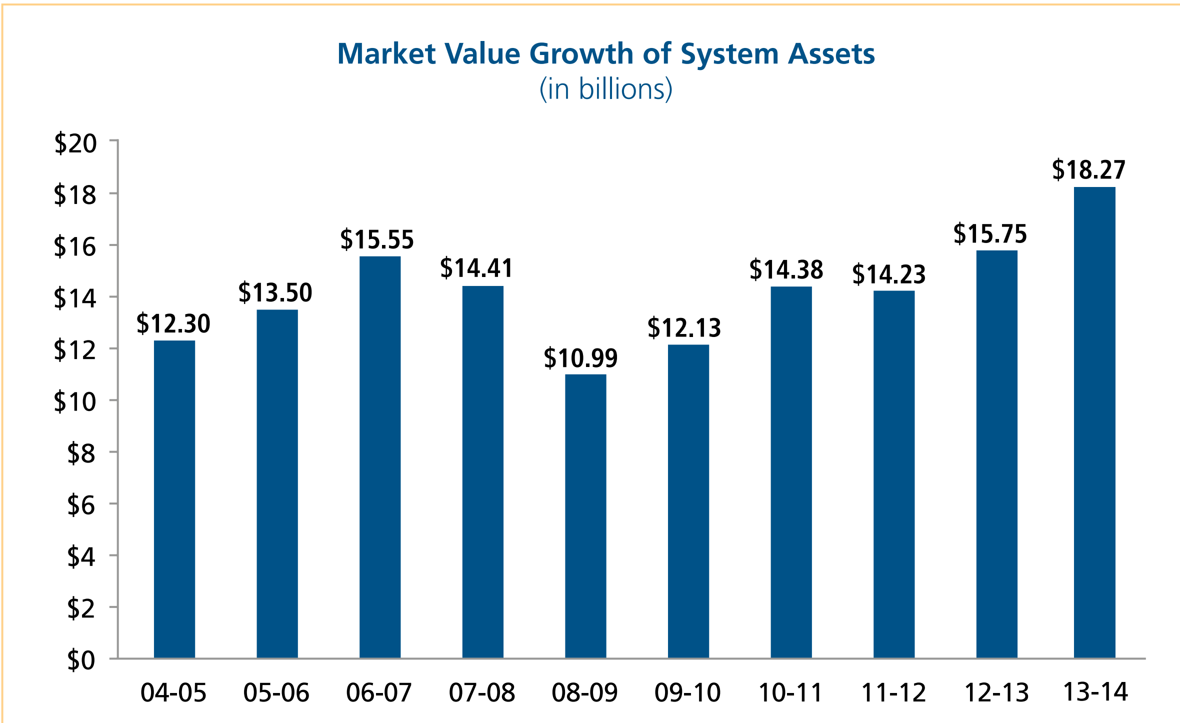
INVESTMENTS

From July 1, 2009 to June 30, 2014, the System's assets increased from $10.99 billion to $18.27 billion. For the one-year period ending June 30, 2014, the Fund increased by $2.52 billion.



Investment Environment

During the 2013-14 fiscal year, the economic environment in the United States remained moderately favorable as the national unemployment rate improved from 7.3 percent in July 2013 to 6.1 percent in June 2014. With the exception of the first quarter of 2014 where gross domestic product (GDP) recorded a decline of 2.1 percent, the other three quarters registered GDP growth from 3.5 to 4.6 percent.

Although domestic interest rates were expected to increase at the beginning of the fiscal year, they fluctuated in a limited trading range as the 10-year Treasury yield varied from 2.5 percent in July 2013 to a peak of 3.0 percent in January 2014 and settled at 2.5 percent at the end of June 2014.

The Standard & Poor's (S&P) 500 recorded a return of 24.61 percent during this period. Factors contributing to this favorable stock market included improving economic conditions, renewed investor confidence, and continued suppression of global interest rates. The international equity markets also did well as illustrated by the Morgan Stanley Capital International All Country World Index Ex-U.S. (MSCI ACWI ex U.S.) index return of 22.27 percent during this period.

The bond market (Barclays US Universal Bond Index) produced a return of 5.2 percent for the year ending June 30, 2014. Real estate, as measured by the National Council of Real Estate Investment Fiduciaries Index (NCREIF Property Index), returned 12.75 percent.

Investment Performance

The investment objective of the total Fund, over a full market cycle (usually five to seven years), is to earn a return on investments matching or exceeding the assumed actuarial rate of return of 7.50 percent and investment performance above the median of a sampling of public funds.

For the past five years, the System's annualized return of 13.51 percent exceeded the actuarial rate of return, and surpassed the RV Kuhns Public Funds' median return of 12.85 percent. For the one- and three-year periods, the System's overall investment returns were 17.86 percent and 10.71 percent, respectively.

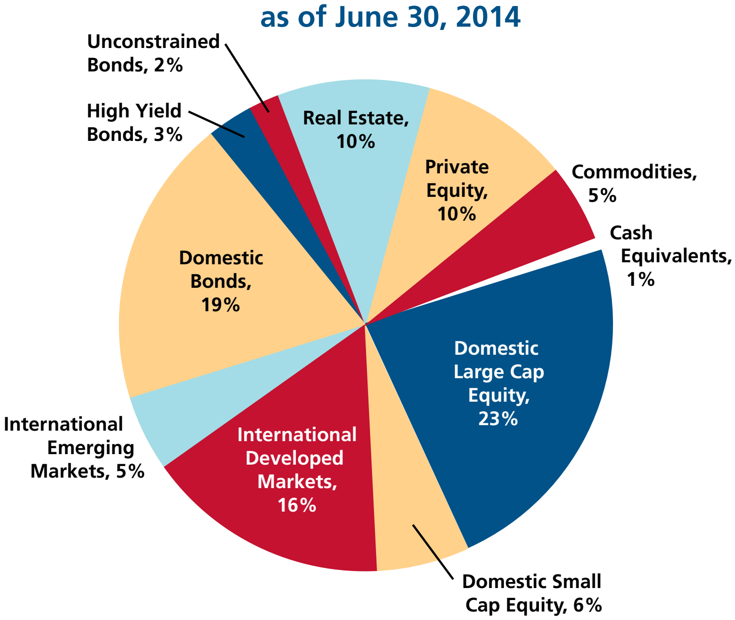
The Fund was ranked in the 29th percentile of the RV Kuhns Public Fund universe for the one-year period, the 24th percentile for the three-year period, the 25th percentile for the five-year period, and the 65th percentile for the seven-year period ending June 30, 2014.

The System's domestic and international equity portfolios were again the Fund's top performers on an absolute basis this past year, while the performances of fixed income and real estate investments, although positive, contributed less to the overall Fund's performance.

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 Allocation Targets as of June 30, 2014



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

Net Asset Values as of June 30, 2014

Asset Class	Market Value (in millions)	Percent
Stocks	$10,571	57.87%
Bonds	3,598	19.70%
Real Estate	1,794	9.82%
Private Equity	1,495	8.18%
Commodities	188	1.03%
Cash Equivalents	621	3.40%
Total	$18,267	100.00%

Investment Activities

With the Board's decision to terminate the hedge fund program during fiscal year 2012-13, the money invested in hedge funds was returned. While some of the redemption proceeds were reallocated to Private Equity and Real Estate, the balance was invested in "Unconstrained Bonds," a fixed income strategy that can adapt to a rise in interest rates.

The implementation of the commodities allocation continued as a passive commodity public equity manager was hired and funded. Within the real estate allocation, the Real Estate Investment Trust (REIT) sector was modified to invest in global REIT securities in addition to domestic REIT securities.

During the year, there were some changes in managers. The following investment managers were terminated: Western Asset, an active Treasury Inflation Protection Securities (TIPS) manager; Principal Global Investors, an active international emerging markets public equity manager; and Morgan Stanley Investment Management, an active REIT manager. Managers that were hired with new mandates included: Reams Asset Management, a passive TIPS manager and an unconstrained bond manager; Portfolio Advisors, a specialized private equity manager; AllianceBernstein, a passive commodities public equity

manager; Harding Loevner, an active international emerging markets public equity manager; EII Capital Management, an active global REIT manager; Principal Global Investors, an active global REIT manager; FIS Group, an active emerging international public equity fund of funds manager; and Payden & Rygel, an unconstrained bond manager. Managers that were rehired included: Brandes Investment Partners, an active international developed markets public equity manager; Northern Trust, the Fund's custodian bank; Principal Global Investors, an active domestic REIT manager; Robeco Investment Management, an active domestic large cap public equity manager; The Townsend Group, the Fund's real estate consultant; Attucks Asset Management, an active emerging domestic small cap public equity fund of funds manager; MacKay Shields, an active domestic high yield bond manager; Los Angeles Capital Management, an active domestic large cap public equity manager; Research Affiliates, an active domestic large cap public equity manager; and Chicago Equity Partners, an active domestic large cap public equity manager.

Most of the System's assets are managed by investment managers hired to outperform a market index. The System also has several passively managed accounts including a large cap equity account that is indexed to the S&P's 500 index, two large cap equity accounts that are indexed to the Russell 1000 Value and the Russell 1000 Growth indices respectively, two international equity accounts that are indexed to the MSCI EAFE (excluding the U.S.) and the MSCI EAFE Small Cap indices respectively, and a fixed income account that is indexed to the Barclays Capital U.S. Aggregate index. A list of our managers is provided 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. However, the System votes affirmatively on proposals encouraging firms to refrain from manufacturing or merchandising firearms illegal for sale in California.

The System votes affirmatively on executive compensation bonus plans if the corporation's stock performance in the past year exceeded the returns of both the S&P's 500 Index and an appropriate peer group index, and supports the nomination of and directs an affirmative vote for the appointment of independent directors to the Board of Directors. The System votes affirmatively on measures that propose to place independent directors on compensation committees and directs an affirmative vote on shareholder proposals that request management to report on climate change.

Changes in Asset Mix: Last Ten Years

Fiscal Year	Stocks	Bonds	Real Estate	Private Equity	Hedge Funds	Commodities	Short-Term Investments
04-05	62.5%	28.1%	4.7%	3.2%	–	–	1.6%
05-06	61.3%	26.5%	6.2%	3.7%	–	–	2.3%
06-07	63.2%	23.5%	7.0%	3.4%	2.0%	–	0.9%
07-08	60.6%	22.9%	8.4%	4.2%	3.2%	–	0.7%
08-09	55.2%	25.7%	7.6%	5.5%	4.6%	–	1.4%
09-10	54.2%	25.5%	7.4%	6.8%	4.4%	–	1.7%
10-11	58.3%	21.8%	7.6%	7.4%	4.0%	–	0.8%
11-12	53.1%	23.4%	8.9%	8.5%	4.0%	–	2.1%
12-13	57.3%	20.6%	8.3%	8.3%	3.5%	–	2.0%
13-14	57.9%	19.7%	9.8%	8.2%	–	1.0%	3.4%

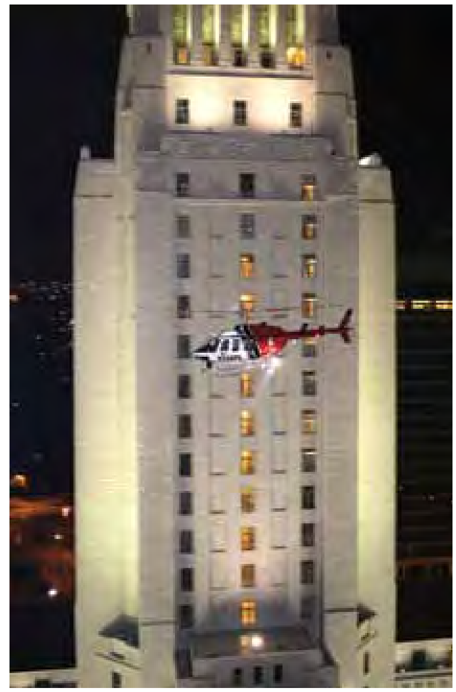
Annual Rates of Return

Fiscal Year	Domestic Equities	International Equities	Fixed Income	Real Estate	Private Equity	Hedge Funds*	Total Fund**	CPI***
04-05	5.54%	15.68%	9.85%	9.58%	27.03%	–	10.07%	2.50%
05-06	10.69%	29.35%	-0.91%	22.68%	27.24%	–	12.48%	4.32%
06-07	20.05%	31.68%	6.52%	17.46%	17.35%	2.42%	18.50%	2.69%
07-08	-11.93%	-7.50%	6.50%	-0.26%	10.17%	0.65%	-4.58%	5.02%
08-09	-24.47%	-33.60%	4.20%	-31.98%	-21.22%	-13.02%	-19.97%	-1.43%
09-10	16.58%	9.78%	15.11%	6.92%	25.54%	7.18%	13.91%	1.05%
10-11	33.24%	29.92%	7.07%	16.20%	10.30%	7.00%	22.09%	3.56%
11-12	2.19%	-14.82%	12.32%	12.32%	10.19%	-1.83%	1.89%	1.70%
12-13	23.06%	14.64%	0.18%	11.00%	10.30%	9.47%	13.01%	1.80%
13-14	24.76%	22.58%	6.80%	12.92%	20.40%	–	17.86%	2.10%

* *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

Harding Loevner

Northern Trust Investments

Principal Global Investors

Bond Managers

Bridgewater Associates

LM Capital Group

Loomis Sayles & Company

MacKay Shields

Northern Trust Investments

Payden & Rygel

Reams Asset Management

Separate Account Real Estate Managers

Heitman Capital Management

Sentinel Real Estate Corporation

REIT Managers

EII Capital Management

Principal Global Investors

Private Equity Managers

Portfolio Advisors

Real Estate Consultant

The Townsend Group

General Consultant

RV Kuhns & Associates

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ACTUARIAL

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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 a member 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. All other tiers require fixed member contribution rates regardless of funding status.

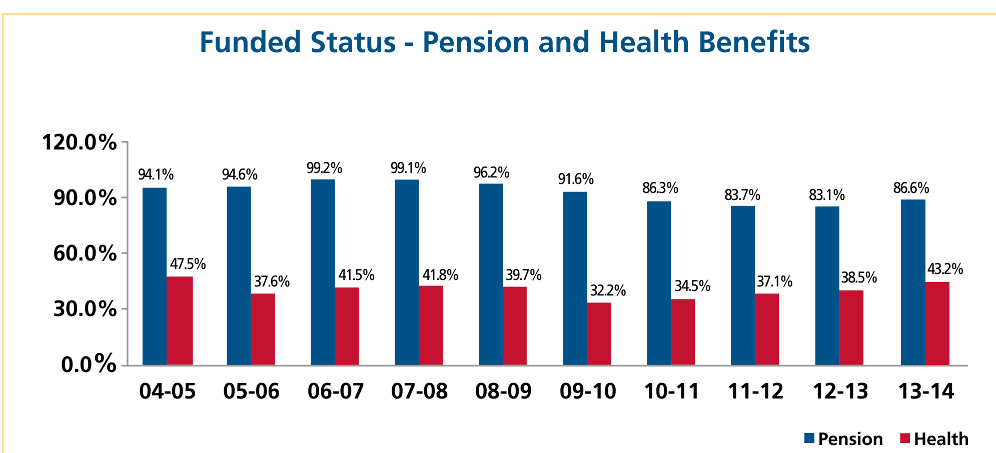
Pension Benefits

A ten-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, the results of the last actuarial study reflect improved funding progress. As of June 30, 2014, the funded status for pension benefits is 86.6 percent, an increase of 3.5 percent from the prior year. The increase in the funded ratio was primarily the result of less than expected cost of living increases during the year for pensioners and DROP members, a greater than expected return on investments, and other favorable actuarial experience during the year. However, because the System is not fully funded, the Tier 5 member pension contribution will remain at 9 percent. Details on the recognition of the investment gains for the year are available in Section 2, Chart 7 of the June 30, 2014 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, 2014, the funding status of health benefits increased from 38.5 to 43.2 percent, an increase of 4.7 percent. Details on the factors which contributed to the increased funding status are available in Section 2, Chart 2 of the June 30, 2014 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.



How a Valuation is Conducted

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

Actuarial Assumptions

The System's actuary recommends assumptions – both demographic and economic – based on the Plan's experience, economic forecasts, and other factors. The Board 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, 2014 are provided below.

Average Life Expectancy for Retirees (Age = 65)

Service Retiree .... 20.4 years*

Disabled Retiree .... 18.7 years*

Surviving Spouse .... 20.7 years**

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

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

Rate of Inflation

Annual Increase in the Consumer Price Index 3.25%*

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

Rate of Salary Increases

Inflation: 3.25% per year; plus 0.75% "across the board" increases; plus the following Merit and Longevity increases based on years of service.

Years of Service	Additional Salary Increase
0	7.50%
1	6.50%
2	5.00%
3	4.75%
4	3.75%
5	3.00%
6	2.25%
7	2.00%
8	1.75%
9	1.75%
10	1.25%
11 or more	0.75%

Investment Rate of Return

Net Investment Return* 7.50%

* *Net of Investment Expenses Only*

Pension Benefit Balance Sheet

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

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

The Actuarial Balance Sheet comparing the System's assets and liabilities as of June 30, 2014 is available on page 87.

Unfunded Actuarial Accrued Liability

An unfunded actuarial accrued liability (UAAL) of a retirement system occurs when a system's actuarial liability is greater than the actuarial value of its assets, yielding a funded ratio less than 100 percent. As of June 30, 2014, the Actuarial Balance Sheet on page 87 shows the UAAL for pension benefits for all tiers to be approximately $2.4 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 employer's 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 of a March 2011 Charter amendment, 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 percentage of the total City sworn covered payroll. For Tiers 5 and 6, it is amortized as a percentage of the combined payroll of these tiers from the respective employer – the City or Harbor Department. Actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 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 employer contribution requirements for pension benefits.

Entry Age Normal Cost Contribution Requirements Recommended 2015-16*
(as a percentage of Plan members' salaries)

Tier 1	0.00%
Tier 2	25.20%
Tier 3	16.65%
Tier 4	17.39%
Tier 5	19.20%
Tier 6	15.60%
Harbor Port Police – Tier 5	19.57%
Harbor Port Police – Tier 6	15.63%

** Contributions to be made on July 15, 2015. The rates are adjusted for the employee 2 percent opt-in contribution and health subsidy freeze.*

Unfunded Liability Contribution Requirements Recommended 2015-16*
(as a percentage of Plan members' salaries)

Tier 1	$15,481,817
Tier 2	2.10% of total payroll of Tiers 2 - 6
Tier 3	1.85% of total payroll of Tiers 2 - 6
Tier 4	0.97% of total payroll of Tiers 2 - 6
Tier 5	10.62% of Tier 5 payroll (excluding the Harbor Department)
Tier 6	10.62% of Tier 6 payroll (excluding the Harbor Department)
Harbor Port Police – Tier 5	8.01% of Tier 5 payroll (excluding the City)
Harbor Port Police – Tier 6	8.01% of Tier 6 payroll (excluding the City)

** Contributions to be made on July 15, 2015. The rates are adjusted for the employee 2 percent opt-in contribution and health subsidy freeze.*

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, 2014 actuarial valuation included medical trend rate increases of 7.0 percent for pre-65 and post-65 premiums in Fiscal Year 2014-15, then decreasing by 0.25 percent each year for eight years until it reaches an ultimate rate of 5.0 percent. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health insurance premium subsidy benefits is shown on page 87. The contributions recommended to fund the health insurance premium subsidy benefits are:

Health Insurance Premium Subsidy Contribution Rates Recommended 2015-16*
(as a percentage of Plan members' salaries)

Tier 1	$1,877,883
Tier 2	7.10%
Tier 3	4.48%
Tier 4	4.13%
Tier 5	6.78%
Tier 6	10.15%
Harbor Port Police – Tier 5	6.25%
Harbor Port Police – Tier 6	8.98%

** Contributions to be made on July 15, 2015. The rates are adjusted for the employee 2 percent opt-in contribution and health subsidy freeze.*

Administrative Expenses

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

Contribution Amount Allocated for Administrative Expenses*

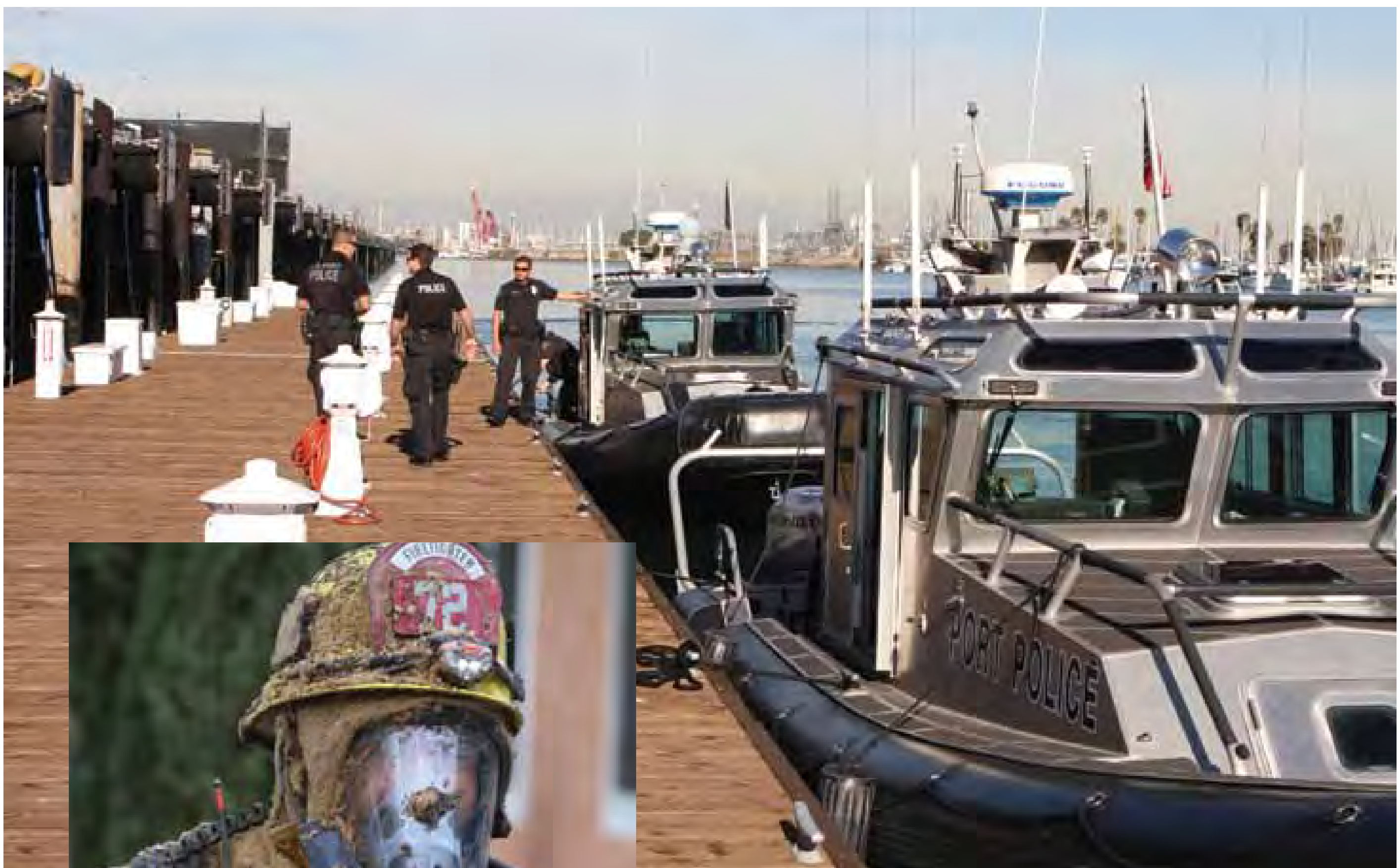
Pension	0.91%
Health	0.06%

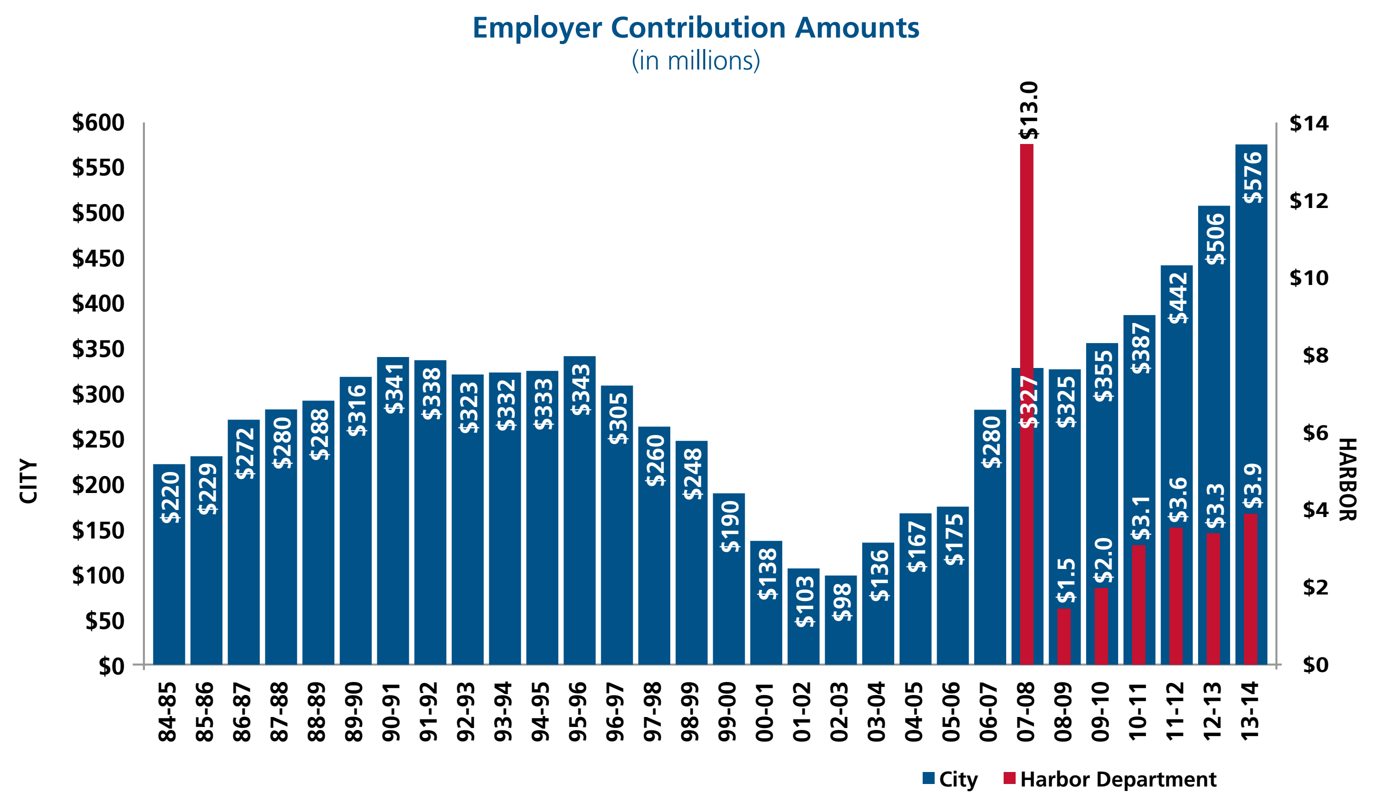
** Percent of total payroll*

Employer Contribution History

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

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




Employer Contribution Amounts
(in millions)
$600
$550
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$0
CITY
$14
$12
$10
$8
$6
$4
$2
$0
HARBOR
$220
$229
$272
$280
$288
$316
$341
$338
$323
$332
$333
$343
$305
$260
$248
$190
$138
$103
$98
$136
$167
$175
$280
$327
$325
$355
$387
$442
$506
$576
$13.0
$1.5
$2.0
$3.1
$3.6
$3.3
$3.9
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85-86
86-87
87-88
88-89
89-90
90-91
91-92
92-93
93-94
94-95
95-96
96-97
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99-00
00-01
01-02
02-03
03-04
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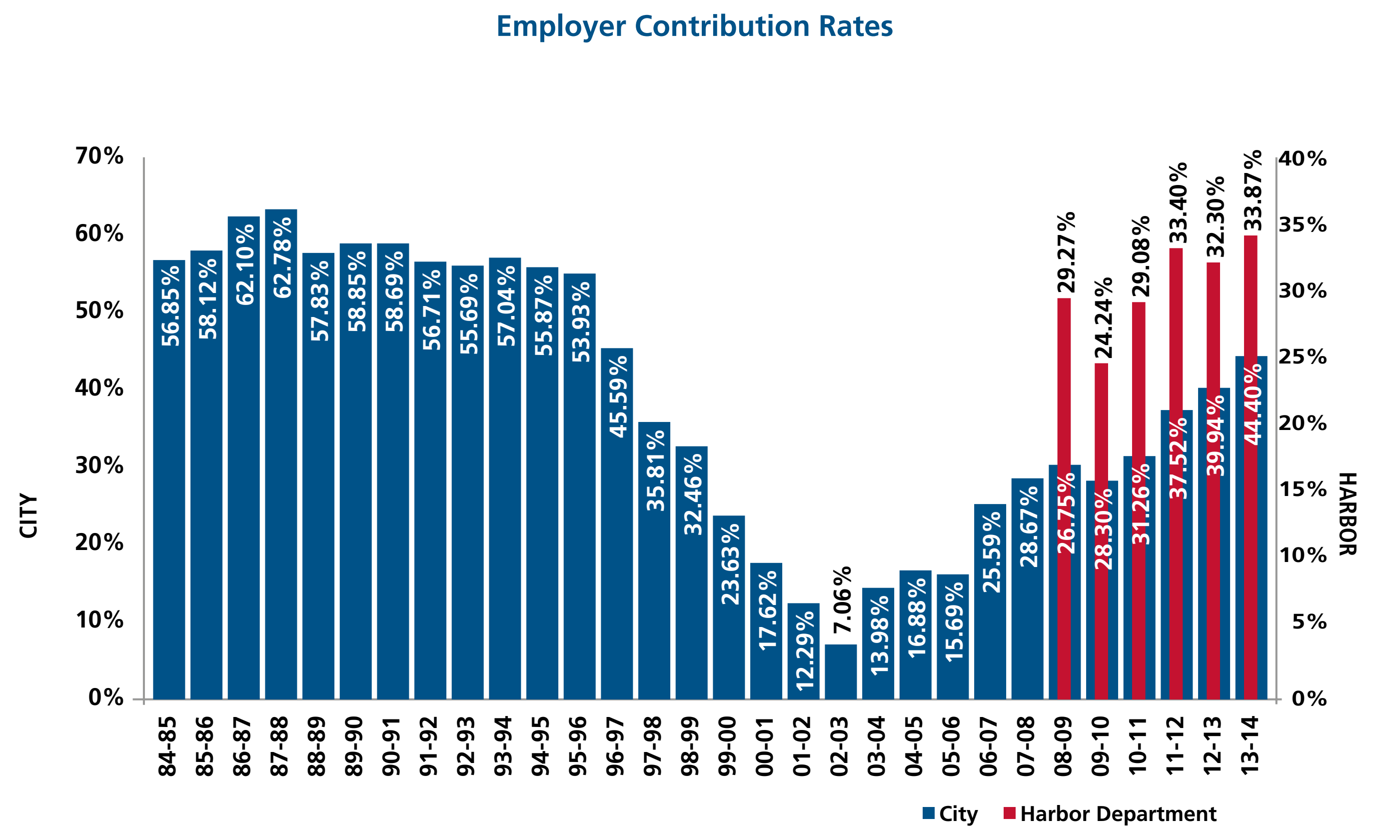
13-14
City
Harbor Department


Employer Contribution Rates
70%
60%
50%
40%
30%
20%
10%
0%
CITY
40%
35%
30%
25%
20%
15%
10%
5%
0%
HARBOR
56.85%
58.12%
62.10%
62.78%
57.83%
58.85%
58.69%
56.71%
55.69%
57.04%
55.87%
53.93%
45.59%
35.81%
32.46%
23.63%
17.62%
12.29%
7.06%
13.98%
16.88%
15.69%
25.59%
28.67%
26.75%
28.30%
31.26%
37.52%
39.94%
44.40%
29.27%
24.24%
29.08%
33.40%
32.30%
33.87%
84-85
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01-02
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03-04
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09-10
10-11
11-12
12-13
13-14
City
Harbor Department

Actuarial Balance Sheet – June 30, 2014

Present Resources and Expected Future Resources

Assets	Pension	Health	Total
1. Valuation value of assets	$15,678,480,269	$1,200,874,444	$16,879,354,713
2. Present value of future normal costs:			
Member	$1,366,635,351		$1,366,635,351
Employer	$2,760,973,038	$595,090,482	$3,356,063,520
Total	$4,127,608,389	$595,090,482	$4,722,698,871
3. Unfunded actuarial accrued liability	$2,435,749,038	$1,582,408,441	$4,018,157,479
4. Present value of current and future assets	$22,241,837,696	$3,378,373,367	$25,620,211,063

Present Value of Expected Future Benefit Payments and Reserve

Liabilities	Pension	Health	Total
5. Present value of future benefits:			
Retired members and beneficiaries	$9,932,576,305	$1,598,044,159	$11,530,620,464
Inactive members with vested rights	$23,465,196	$8,804,946	$32,270,142
Active members	$12,285,796,195	$1,771,524,262	$14,057,320,457
6. Total present value of expected future benefit payments	$22,241,837,696	$3,378,373,367	$25,620,211,063

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2014 ANNUAL REPORT

STATISTICAL

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Membership Statistics

Fire and Police Pension Plans

As of June 30, 2014, the System is composed of seven tiers. Benefits are based on the member's pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

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

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

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

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

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

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

On July 1, 2012, the Department of General Services, Office of Public Safety (OPS) was consolidated into the Los Angeles Police Department (LAPD). As a result, OPS employees who successfully 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.

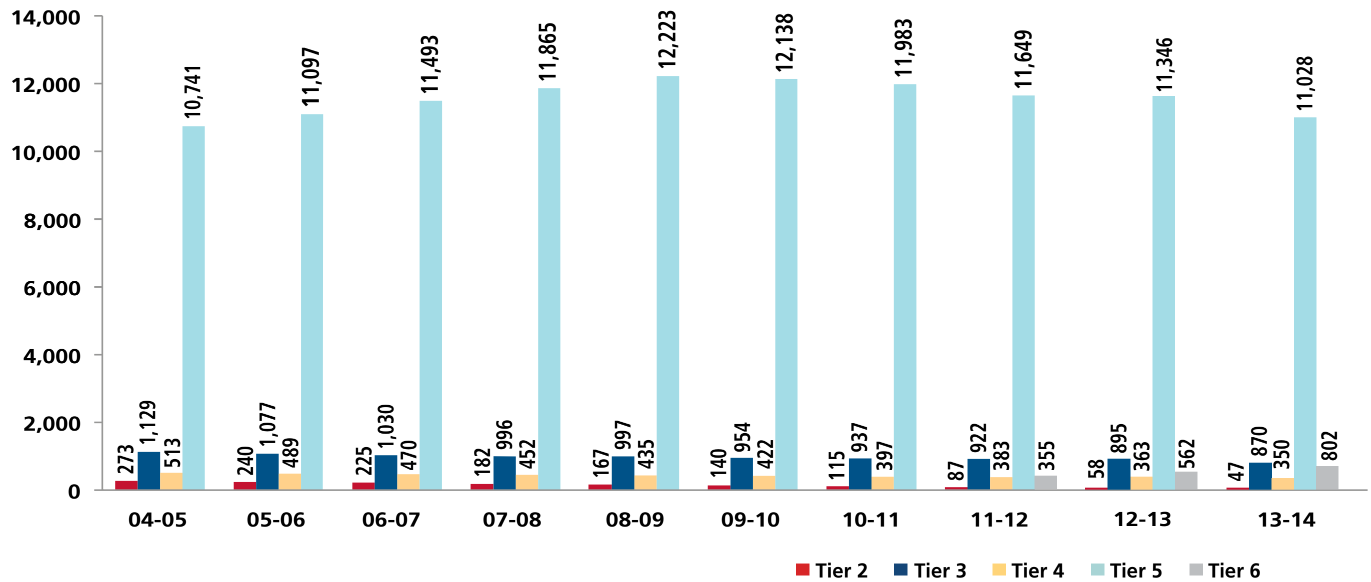
Deferred Retirement Option Plan

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 receive benefits as an active member. The monthly service pension benefit is deposited into an interest bearing account (5 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, may elect to participate in DROP. The intent of the program was to retain police officers and lengthen their careers due to significant challenges faced by the City in police retention and recruitment. In addition, DROP must be cost neutral with regard to plan funding. As such, Administrative Code §4.2100 requires the City to conduct an actuarial study at least every five years to determine whether the program is maintaining cost neutrality and/or meeting the City's goal of retaining sworn personnel. The most recent DROP cost neutrality study was completed by the Plan's actuary in February 2014. The report was forwarded to the City Administrative Officer for review and discussion with the labor organizations. The System will administer any benefit changes that arise from the negotiations between the City and the labor organizations.

ACTIVE MEMBERSHIP

Active Membership
Last Ten Years



Active Membership as of June 30, 2014

Tier	Fire	Police	Harbor	Total
Tier 2	24	23	—	47
Tier 3	28	842	—	870
Tier 4	57	293	—	350
Tier 5	3,012	7,911	105	11,028
Tier 6	65	733	4	802
Total	**3,186***	**9,802****	**109*****	**13,097**

* *Includes 536 DROP participants.*
** *Includes 740 DROP participants.*
*** *Includes 1 DROP participant.*

Refunds of Member Contributions

	09-10	10-11	11-12	12-13	13-14
Fire:					
Tier 2	0	0	0	0	0
Tier 3	2	0	0	0	0
Tier 4*	0	0	0	0	0
Tier 5	7	10	13	13	7
Police:					
Tier 2	0	0	0	0	0
Tier 3	8	9	2	4	6
Tier 4*	1	2	0	0	0
Tier 5	60	51	83	52	65
Tier 6	—	—	0	2	17
Harbor:					
Tier 5	0	1	0	0	0
Tier 6	—	—	0	0	1
Total	**78**	**73**	**98**	**71**	**96**

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

Active Fire Membership
Age and Years of Service

Age	Years of Service: 0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
-25	21	0	0	0	0	0	0	21
25-29	35	143	0	0	0	0	0	178
30-34	8	378	68	0	0	0	0	454
35-39	4	179	326	2	0	0	0	511
40-44	1	56	288	67	33	0	0	445
45-49	0	17	120	69	149	113	0	468
50-54	1	1	25	38	131	305	144	645
55-59	0	0	3	5	15	125	225	373
60-64	0	0	0	0	1	20	68	89
65+	0	0	0	0	0	1	1	2
Total	70	774	830	181	329	564	438	**3,186**

Active Police Membership
Age and Years of Service

Age	Years of Service: 0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
-25	221	0	0	0	0	0	0	221
25-29	634	321	0	0	0	0	0	955
30-34	324	900	138	0	0	0	0	1,362
35-39	93	550	609	218	0	0	0	1,470
40-44	39	206	407	1,261	100	0	0	2,013
45-49	14	80	119	760	635	252	0	1,860
50-54	4	17	30	234	345	538	126	1,294
55-59	0	2	5	77	92	165	164	505
60-64	0	0	1	17	6	40	37	101
65+	1	0	0	5	2	7	6	21
Total	1,330	2,076	1,309	2,572	1,180	1,002	333	**9,802**

Active Harbor Membership
Age and Years of Service

Age	Years of Service 0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
-25	1	0	0	0	0	0	0	1
25-29	2	7	0	0	0	0	0	9
30-34	0	34	2	0	0	0	0	36
35-39	2	22	0	0	0	0	0	24
40-44	0	12	6	1	0	0	0	19
45-49	0	2	2	4	1	0	0	9
50-54	0	3	2	1	0	2	0	8
55-59	0	0	0	1	1	1	0	3
60-64	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0
Total	5	80	12	7	2	3	0	**109**

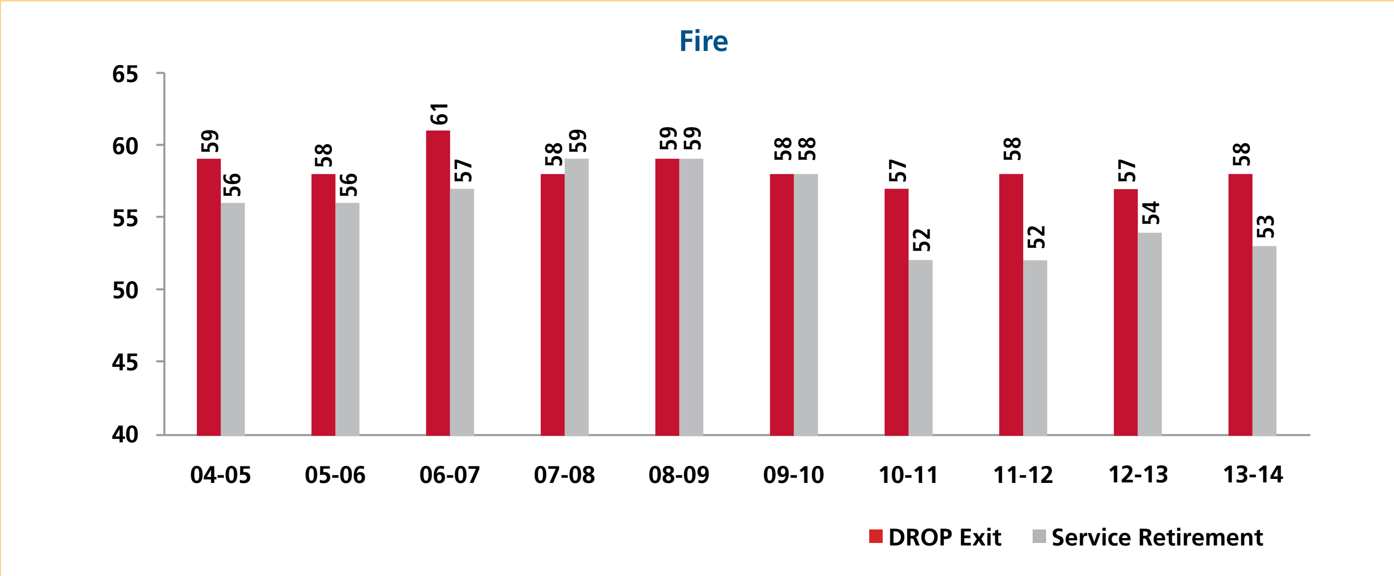
DROP AND RETIRED MEMBERSHIP

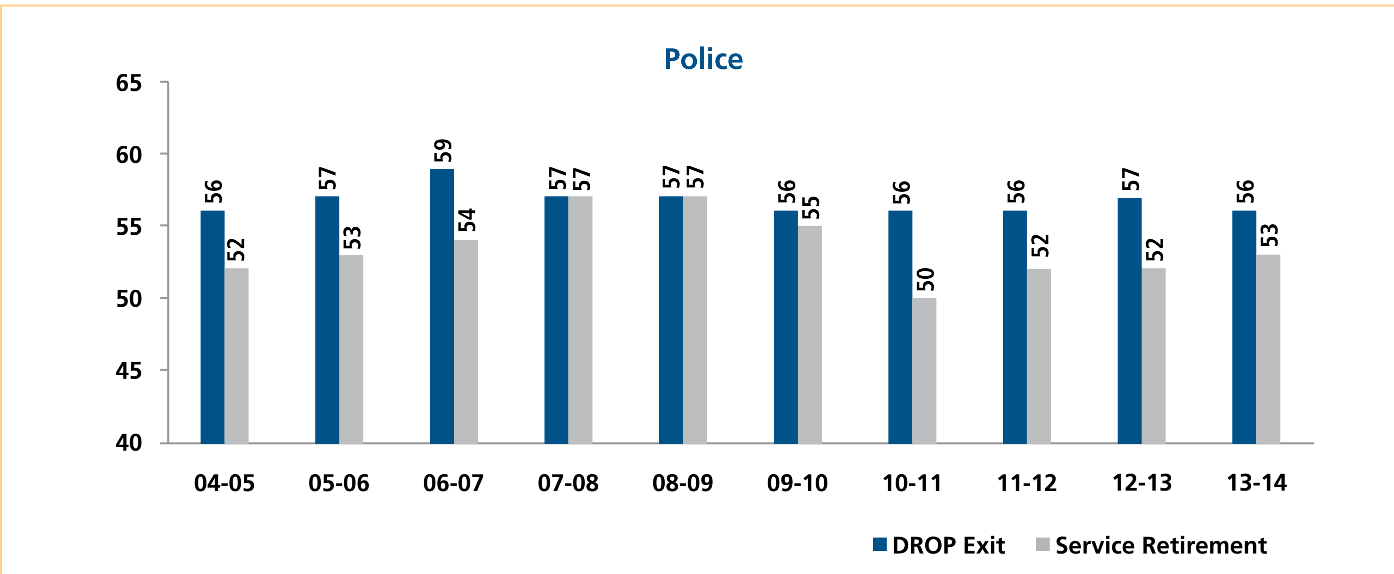
Note: Data for Harbor Port Police may not be reflected in all charts and tables since they did not become members of the Fire and Police Pension System until January 2006.

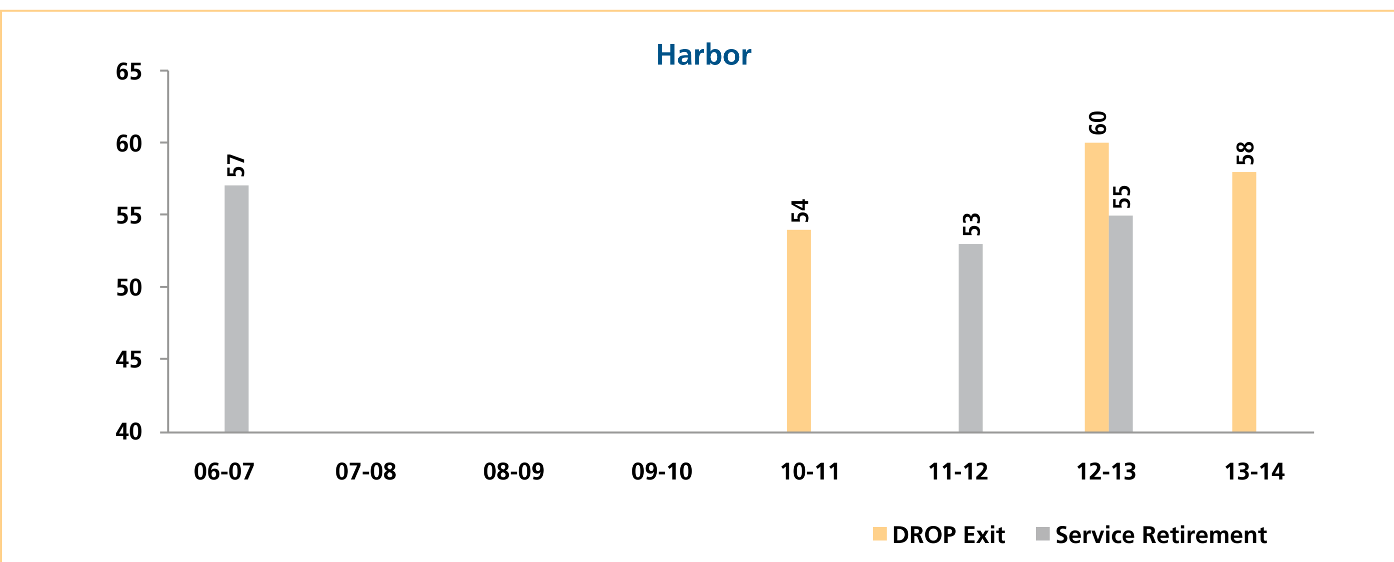
DROP Program Summary of Participation

Fiscal Year	Average Participation per Month			Total Entries			Average Age at Entry			Average Years of Service at Entry			Total Exits		
	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD
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
13-14	506	681	1	101	218	1	54	53	50	29	26	27	72	146	2

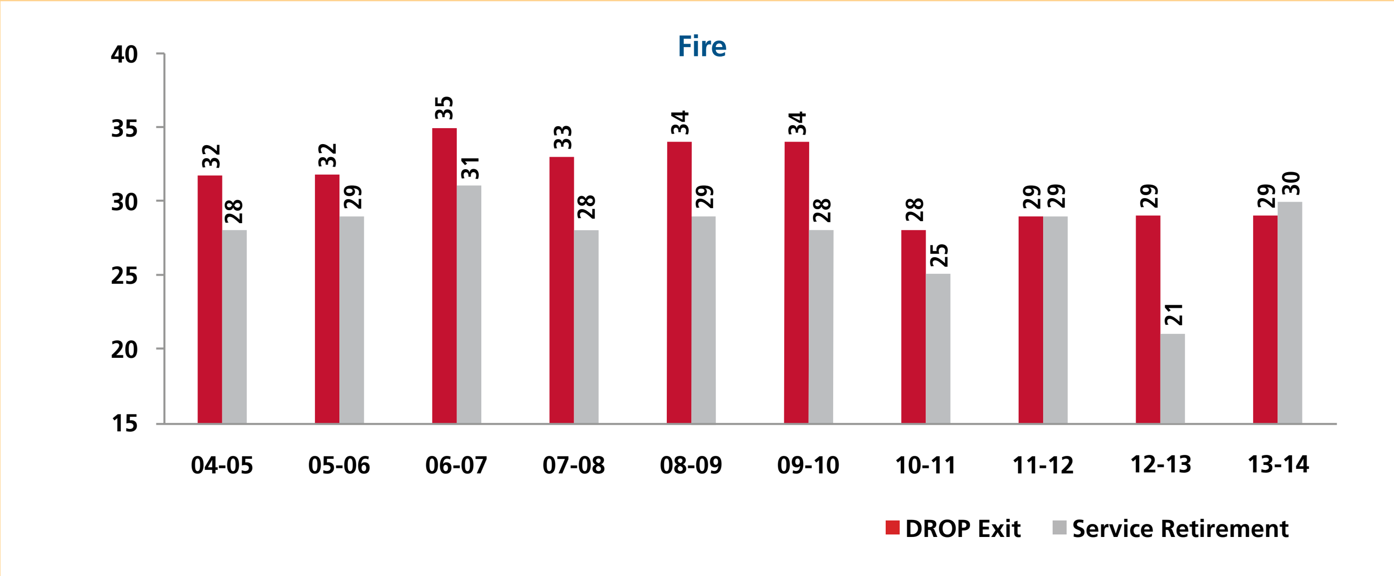
DROP vs. Service Retirement - Average Age

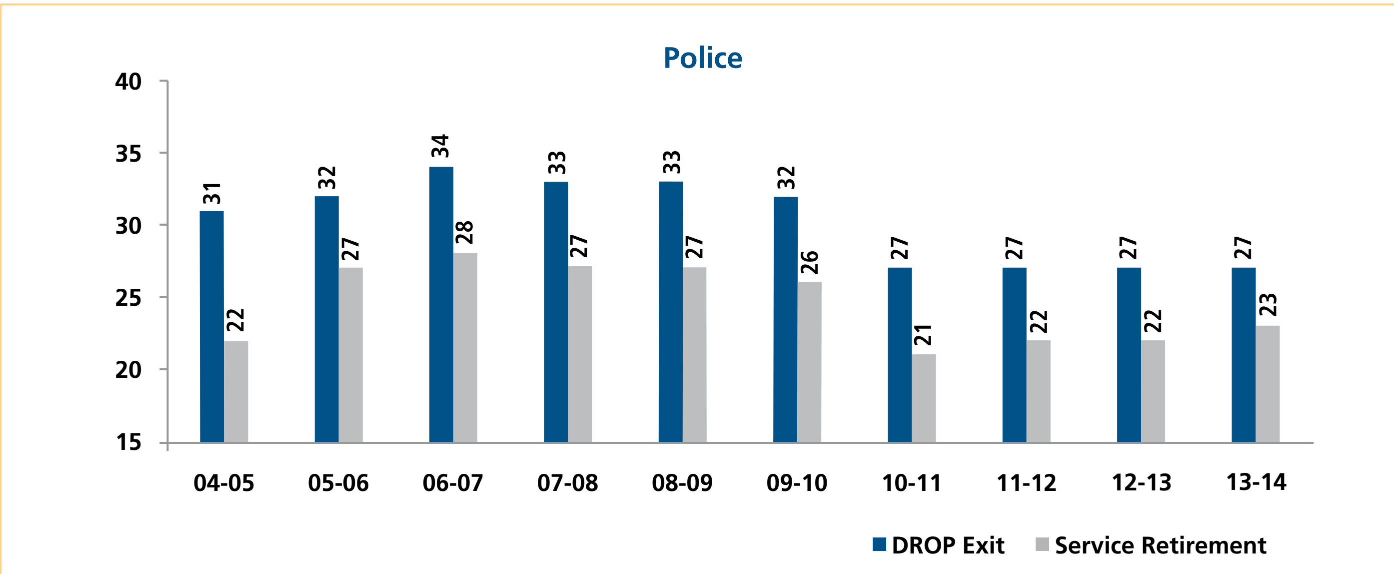


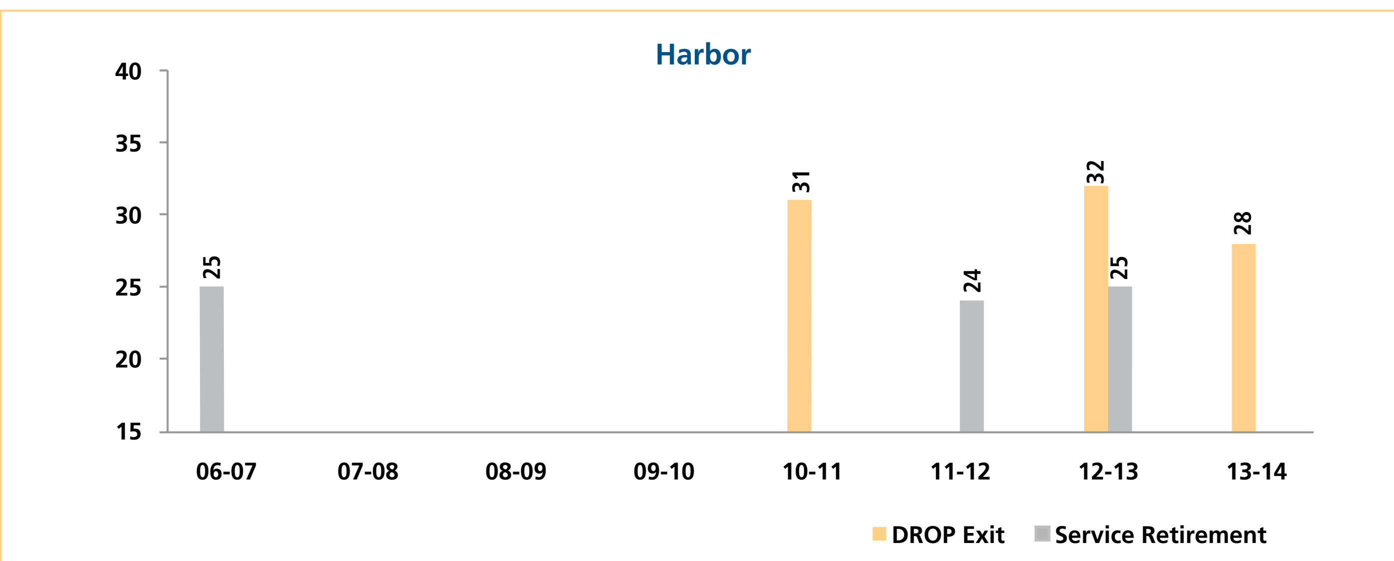




DROP vs. Service Retirement - Average Years of Service

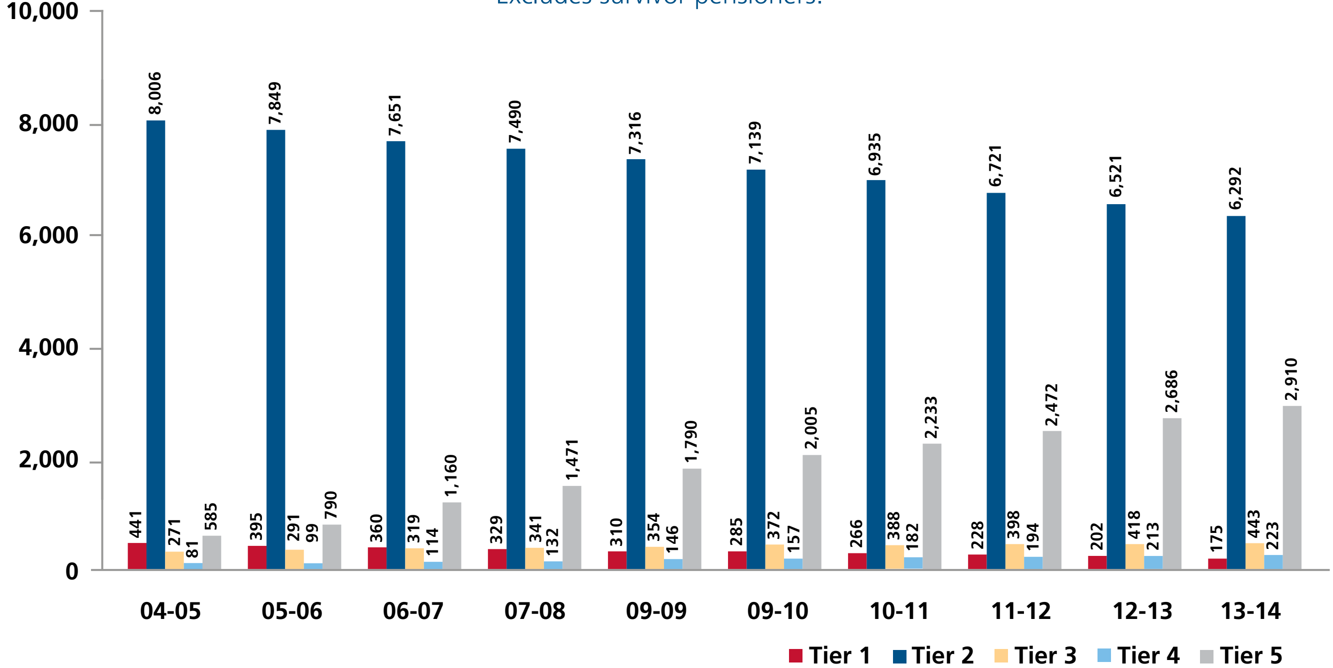






Retired Membership Last Ten Years by Tier

Excludes survivor pensioners.

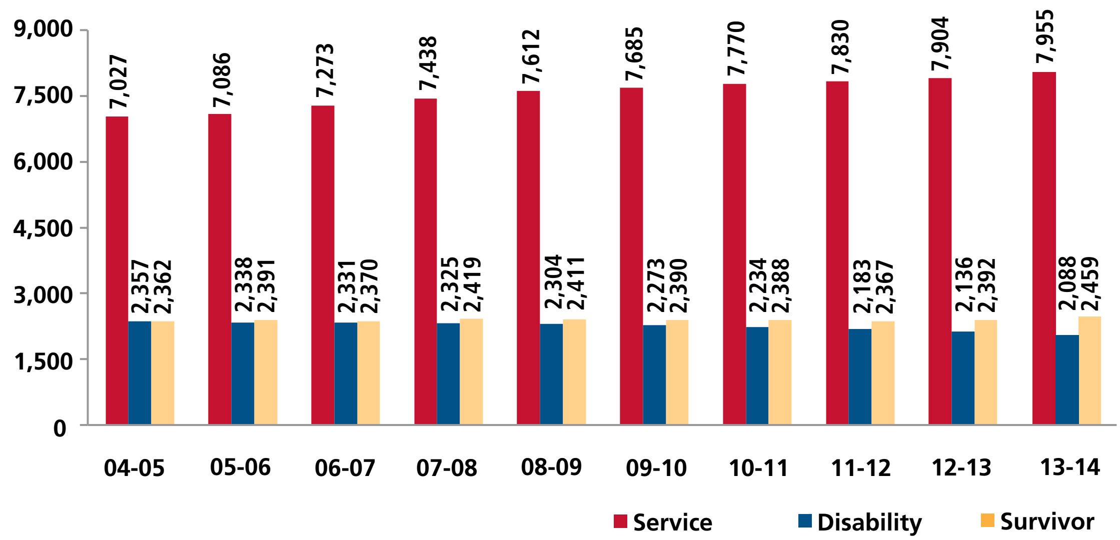


Retired Membership as of June 30, 2014

Excludes survivor pensioners.

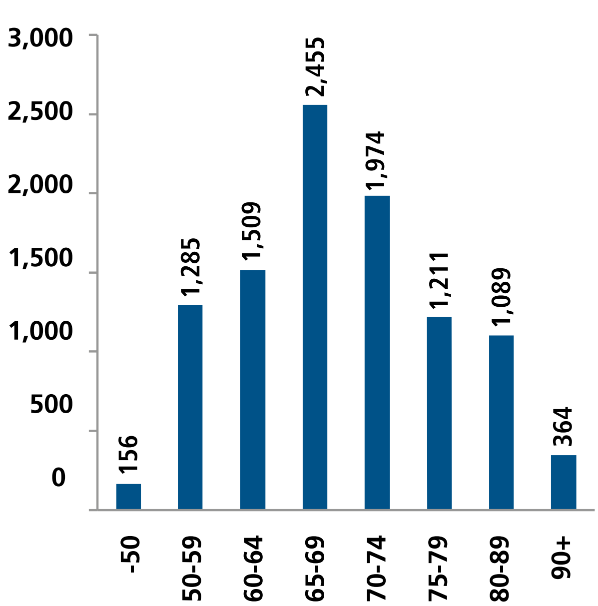
Tier	Fire	Police	Harbor	Total
Tier 1	31	144	—	175
Tier 2	1,511	4,780	1	6,292
Tier 3	78	365	—	443
Tier 4	16	207	—	223
Tier 5	1,049	1,849	12	2,910
Total	**2,685**	**7,345**	**13**	**10,043**

Retired Membership
Last Ten Years by Type of Benefit

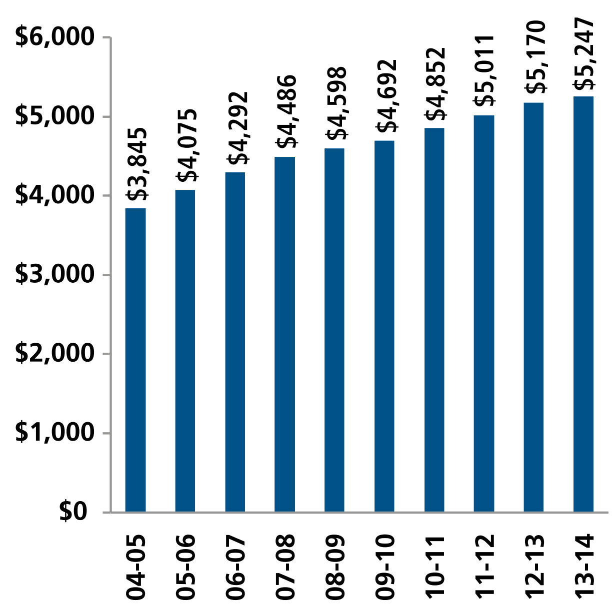


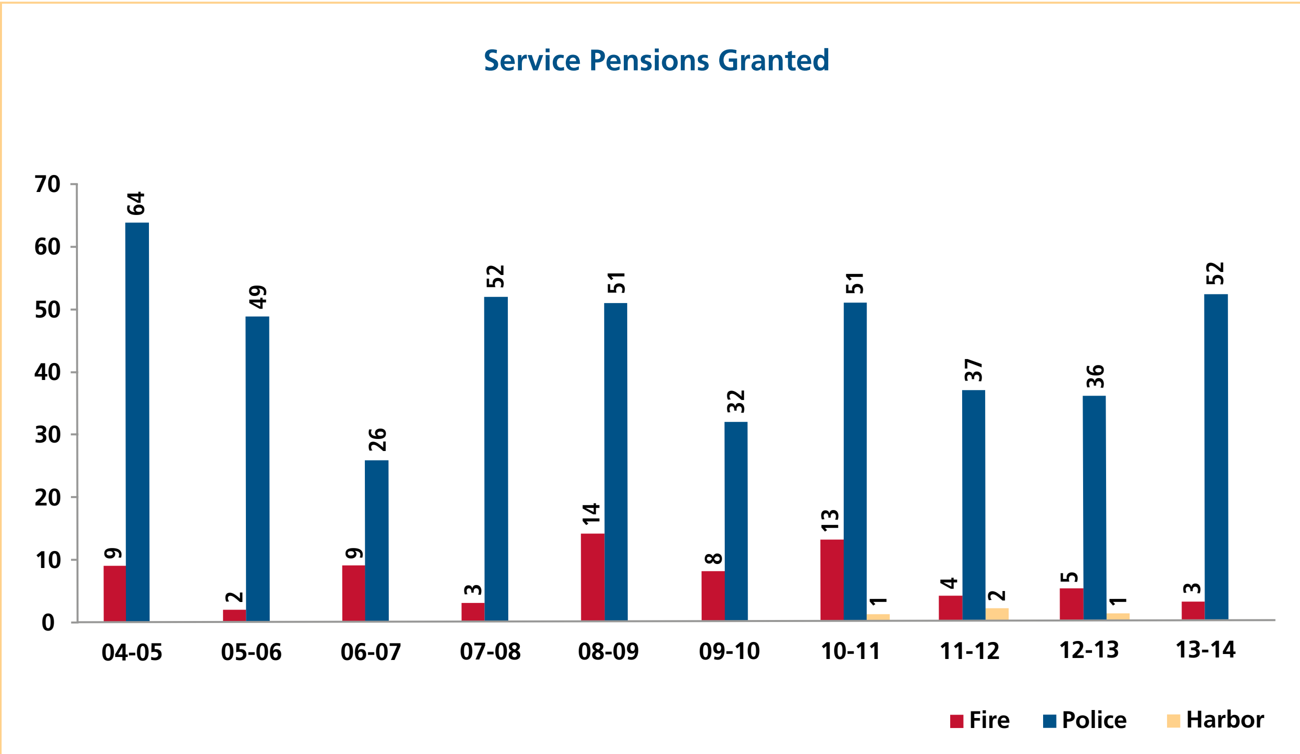
Retired Membership by Age

Excludes survivor pensioners.



Average Monthly Pension




Service Pensions Granted
70
60
50
40
30
20
10
0
9
64
2
49
9
26
3
52
14
51
8
32
13
51
1
4
37
2
5
36
1
3
52
04-05
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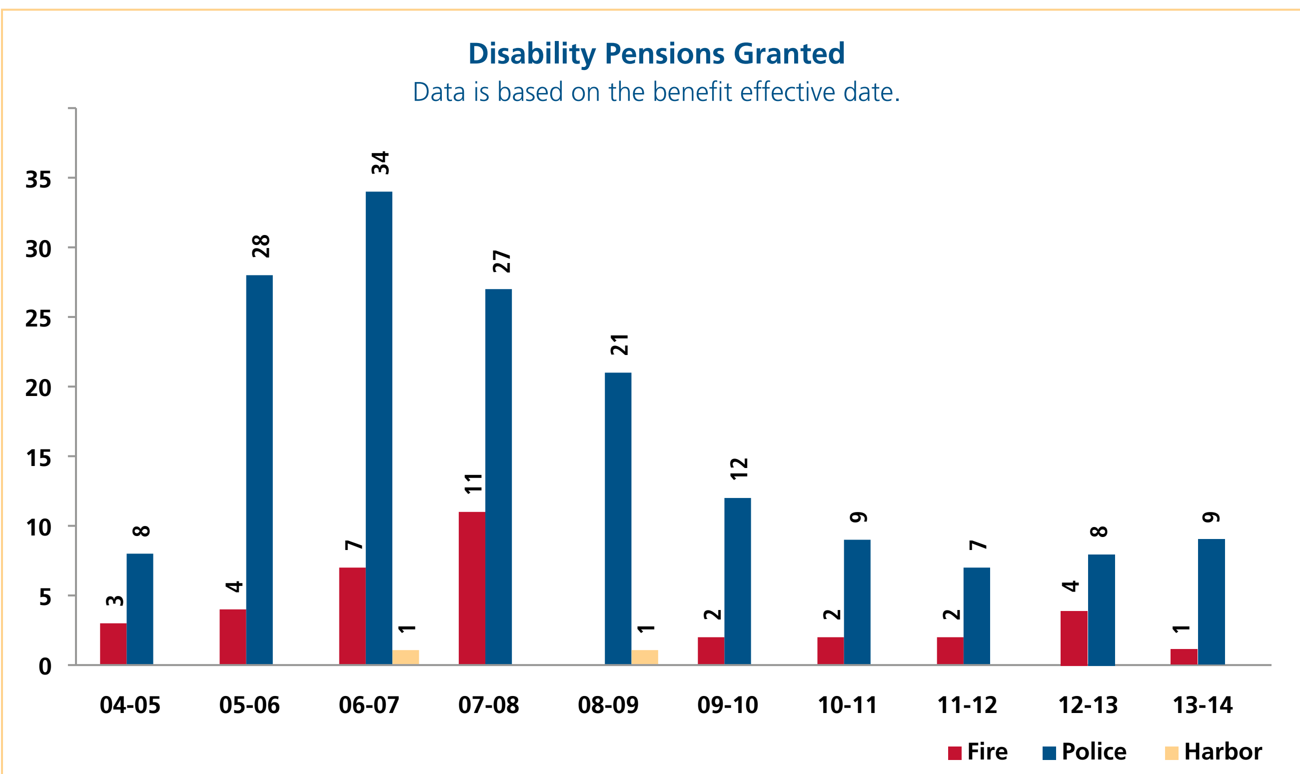
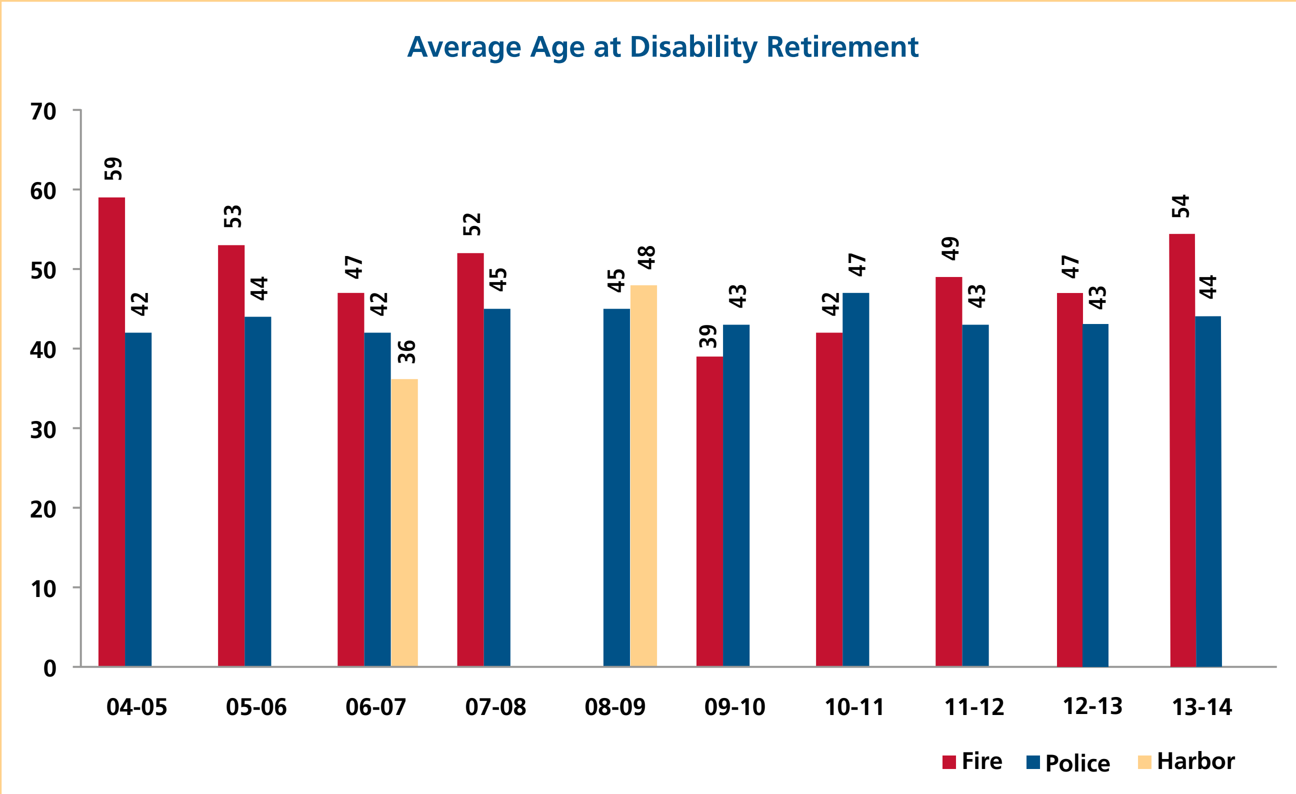
11-12
12-13
13-14
Fire
Police
Harbor


Disability Pensions Granted
Data is based on the benefit effective date.
35
30
25
20
15
10
5
0
3
8
4
28
7
34
1
11
27
21
1
2
12
2
9
2
7
4
8
1
9
04-05
05-06
06-07
07-08
08-09
09-10
10-11
11-12
12-13
13-14
Fire
Police
Harbor


Average Age at Disability Retirement
70
60
50
40
30
20
10
0
59
42
53
44
47
42
36
52
45
45
48
39
43
42
47
49
43
47
43
54
44
04-05
05-06
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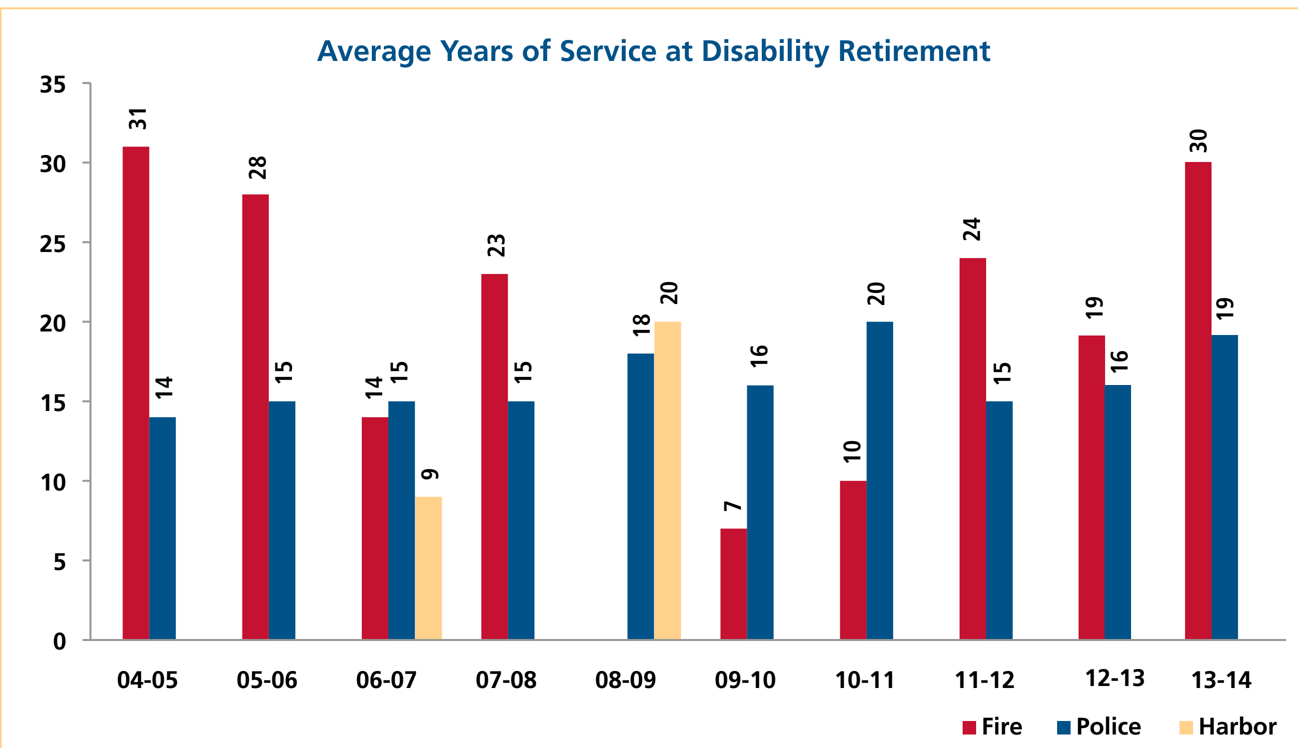
12-13
13-14
Fire
Police
Harbor


Average Years of Service at Disability Retirement
35
30
25
20
15
10
5
0
31
14
28
15
14
15
9
23
15
18
20
7
16
10
20
24
15
19
16
30
19
04-05
05-06
06-07
07-08
08-09
09-10
10-11
11-12
12-13
13-14
Fire
Police
Harbor

Service-Connected Disability Pensions by Type and Department*

Disability Pensions Granted	Fiscal Year 09-10			Fiscal Year 10-11			Fiscal Year 11-12			Fiscal Year 12-13			Fiscal Year 13-14		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Physical Only	2	9	11	1	4	5	4	7	11	3	7	10	1	10	11
Physical/Psychiatric	0	1	1	1	3	4	0	1	1	2	1	3	0	1	1
Psychiatric Only	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0
Total	2	10	12	2	7	9	4	8	12	5	9	14	1	11	12

Types of Claims**	Fiscal Year 09-10			Fiscal Year 10-11			Fiscal Year 11-12			Fiscal Year 12-13			Fiscal Year 13-14		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Back	2	5	7	2	7	9	3	6	9	4	5	9	1	6	7
Neck	0	5	5	0	1	1	1	2	3	2	0	2	1	5	6
Knees	1	2	3	2	3	5	2	2	4	2	2	4	1	1	2
Other Orthopedic	1	9	10	0	6	6	2	5	7	3	2	5	0	7	7
Cardiovascular	0	1	1	0	4	4	1	1	2	4	4	8	0	1	1
Ulcer	0	1	1	2	0	2	0	1	1	1	1	2	0	1	1
Hypertension	0	1	1	0	5	5	0	3	3	3	5	8	0	0	0
Pulmonary	0	1	1	1	0	1	0	1	1	1	0	1	0	0	0
Cancer	0	1	1	0	0	0	1	1	2	0	0	0	0	1	1
Gun Shot Wound	0	0	0	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.*
** *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*

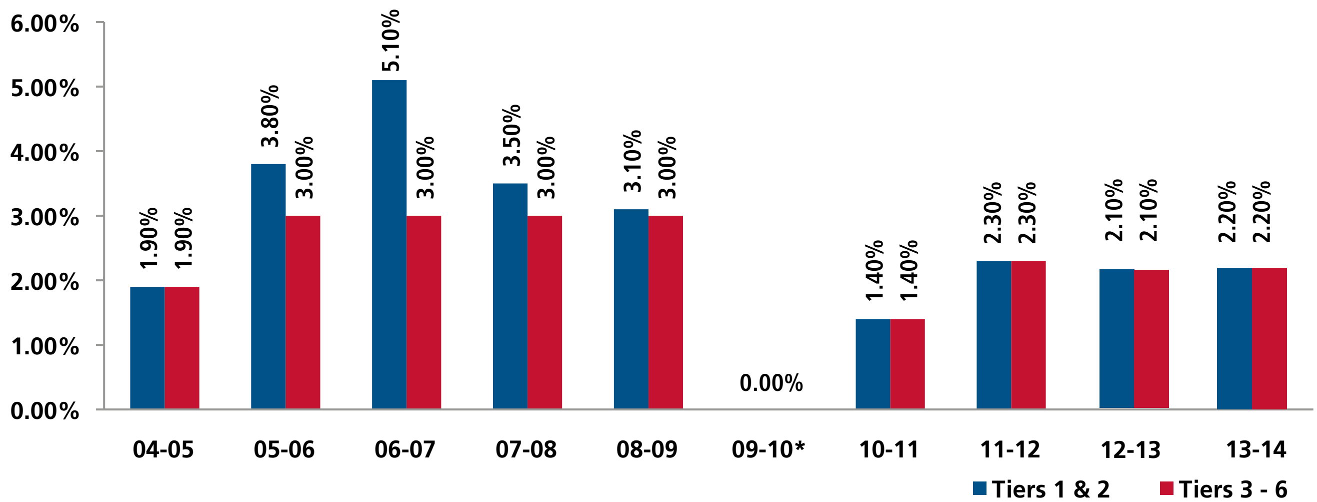
Fire	Fiscal Year 09-10	Fiscal Year 10-11	Fiscal Year 11-12	Fiscal Year 12-13	Fiscal Year 13-14
Firefighter	2	2	2	3	0
Apparatus Operator	0	0	0	0	1
Engineer	0	0	1	1	0
Inspector	0	0	0	0	0
Captain	0	0	1	1	0
Battalion Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Total	2	2	4	5	1

Police	Fiscal Year 09-10	Fiscal Year 10-11	Fiscal Year 11-12	Fiscal Year 12-13	Fiscal Year 13-14
Police Officer	3	5	5	7	10
Sergeant	4	2	3	1	1
Detective	3	1	2	1	3
Lieutenant	0	0	0	0	0
Captain	0	1	0	0	0
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
Total	10	9	10	9	14

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

Cost of Living Adjustments – Effective July 1

The size of any year's Cost of Living Adjustment (COLA) is based on the Los Angeles-Riverside-Orange County Area Consumer Price Index (CPI) for All Urban Consumers as published by the Bureau of Labor Statistics for the previous one-year March through February period. Tier 1 and 2 members have an uncapped COLA, while members in Tiers 3 – 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.

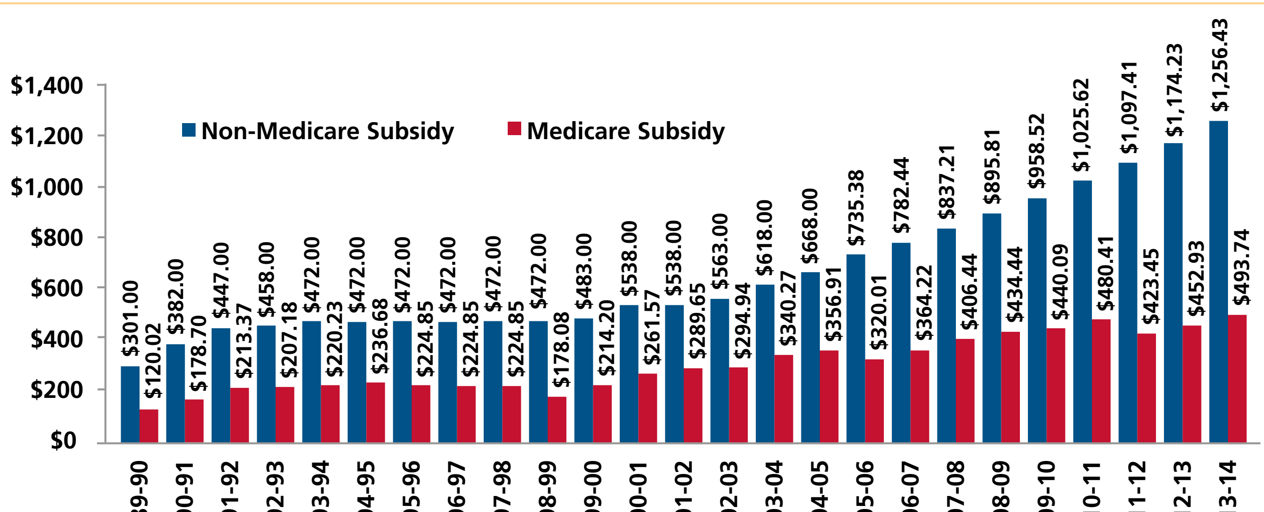


* *The CPI yielded a flat COLA for July 1, 2009. However, eligible Tier 5 pensioners, including Tier 5 DROP participants, received an increase of up to 3 percent, based on the accumulation in their COLA bank.*

Maximum Health Insurance Premium Subsidy Benefit for Retired Members

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

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



Member Outreach Statistics

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

Staff also provides benefits education by phone, in counseling sessions, and by engaging in various outreach events with members and their beneficiaries. During the 2013-14 fiscal year, staff connected with approximately 1,200 members at over 40 events. These events provide an opportunity to interact directly with members and help us determine what their needs are and ultimately, improve our services to them. A summary of the events conducted this past year is provided below.

Outreach Events	Number of Events	Members Reached
New Recruit Talks Staff develops and conducts a presentation specific for new hires of the Fire, Police, and Harbor Departments.	8	251
Benefits Presentations Staff conducts an hour long benefits presentation at fire stations, roll-calls, and training days for members in various tiers and/or stages of their careers.	16	238
Financial Planning Education Seminars Together with the Financial Planning Education Consultant, staff holds three types of full-day seminars to assist members at specific stages of retirement planning with their total financial plan.	12	500
Other Outreach Events Staff participates at various outreach events sponsored by the sworn departments and associations for active and retired members.	5	198
Total	**41**	**1,187**

Financial Statistics

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

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

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

Operating Information is intended to provide contextual information about the System's operations and membership, and to assist readers in using financial statement information to understand and evaluate the System's fiscal condition. "Retired Members by Type of Pension Benefit" and the "Retired Members by Type of Health Subsidy Benefit" present the dollar levels for each benefit as of June 30, 2014.

Financial Trends Information

Schedule of Additions by Source – Pension Plan (in thousands)						
	Employer Contributions					
Fiscal Year	Dollars	% of Annual Covered Payroll	Member Contributions	Net Investment Income (Loss)*	Other Income (Loss)	Total
04-05	$ 135,854	13%	$ 75,785	$ 1,115,839	$ 8,163	$ 1,335,641
05-06	143,946	13%	79,402	1,458,940	1,356	1,683,644
06-07	224,946	20%	91,264	2,335,362	2,291	2,653,863
07-08	261,636	22%	98,074	(730,673)	2,709	(368,254)
08-09	238,698	18%	103,685	(2,808,259)	3,962	(2,461,914)
09-10	250,517	18%	106,480	1,449,498	1,545	1,808,040
10-11	277,092	21%	105,535	2,538,155	2,124	2,922,906
11-12	321,593	24%	120,099	225,458	1,877	669,027
12-13	375,448	27%	121,778	1,705,251	2,525	2,205,002
13-14	440,698	34%	124,395	2,626,143	2,899	3,194,135

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

Schedule of Deductions by Type – Pension Plan (in thousands)				
Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total
04-05	$ 552,437	$ 3,206	$ 9,080	$ 564,723
05-06	591,042	4,113	9,152	604,307
06-07	733,810	4,793	11,044	749,647
07-08	754,312	2,768	11,801	769,755
08-09	762,205	2,858	12,675	777,738
09-10	768,114	2,946	12,824	783,884
10-11	786,861	3,145	12,662	802,668
11-12	831,191	1,338	13,611	846,140
12-13	856,237	3,267	12,200	871,704
13-14	856,036	2,950	13,865	872,851

Schedule of Additions by Source – Health Subsidy Plan (in thousands)					
	Employer Contributions				
Fiscal Year	Dollars	% of Annual Covered Payroll	Net Investment Income (Loss)*	Other Income (Loss)	Total
04-05	$ 31,542	3%	$ 58,166	$ 425	$ 90,133
05-06	31,413	3%	74,134	69	105,616
06-07	55,163	5%	123,932	122	179,217
07-08	78,257	6%	(35,454)	132	42,935
08-09	88,179	6%	(152,315)	215	(63,921)
09-10	106,648	8%	83,310	89	190,047
10-11	111,681	8%	156,461	131	268,273
11-12	122,972	9%	14,690	122	137,784
12-13	132,939	10%	118,124	175	251,238
13-14	138,107	11%	192,600	213	330,920

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

Schedule of Deductions by Source – Health Subsidy Plan (in thousands)			
Fiscal Year	Benefit Payments	Administrative Expenses	Total
04-05	$ 53,449	$ 473	$ 53,922
05-06	58,686	465	59,151
06-07	62,216	586	62,802
07-08	70,879	573	71,452
08-09	77,502	687	78,189
09-10	82,911	737	83,648
10-11	89,271	781	90,052
11-12	93,536	887	94,423
12-13	98,306	845	99,151
13-14	104,371	1,017	105,388

Changes in Plan Net Position – Pension Plan
(in thousands)

	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Additions:										
Employer Contributions	$135,854	$ 143,946	$ 224,946	$ 261,636	$ 238,698	$ 250,517	$ 277,092	$ 321,593	$ 375,448	$ 440,698
Member Contributions	75,785	79,402	91,264	98,074	103,685	106,480	105,535	120,099	121,778	124,395
Net Investment Income (Loss)	1,115,839	1,458,940	2,335,362	(730,673)	(2,808,259)	1,449,498	2,538,155	225,458	1,705,251	2,626,143
Other Income (Loss)	8,163	1,356	2,291	2,709	3,962	1,545	2,124	1,877	2,525	2,899
Total Additions	1,335,641	1,683,644	2,653,863	(368,254)	(2,461,914)	1,808,040	2,922,906	669,027	2,205,002	3,194,135
Deductions:										
Benefit Payments	552,437	591,042	733,810	754,312	762,205	768,114	786,861	831,191	856,237	856,036
Refunds of Contributions	3,206	4,113	4,793	2,768	2,858	2,946	3,145	1,338	3,267	2,950
Administrative Expenses	9,080	9,152	11,044	11,801	12,675	12,824	12,662	13,611	12,200	13,865
Total Deductions	564,723	604,307	749,647	769,755	777,738	783,884	802,668	846,140	871,704	872,851
Changes in Plan Net Position	$770,918	$1,079,337	$1,904,216	$(1,138,009)	$(3,239,652)	$1,024,156	$2,120,238	$(177,113)	$1,333,298	$2,321,284

Changes in Plan Net Position – Health Subsidy Plan
(in thousands)

	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Additions:										
Employer Contributions	$31,542	$31,413	$ 55,163	$ 78,257	$ 88,179	$106,648	$111,681	$122,972	$132,939	$138,107
Net Investment Income (Loss)	58,166	74,134	123,932	(35,454)	(152,315)	83,310	156,461	14,690	118,124	192,600
Other Income (Loss)	425	69	122	132	215	89	131	122	175	213
Total Additions	90,133	105,616	179,217	42,935	(63,921)	190,047	268,273	137,784	251,238	330,920
Deductions:										
Benefit Payments	53,449	58,686	62,216	70,879	77,502	82,911	89,271	93,536	98,306	104,371
Administrative Expenses	473	465	586	573	687	737	781	887	845	1,017
Total Deductions	53,922	59,151	62,802	71,452	78,189	83,648	90,052	94,423	99,151	105,388
Changes in Plan Net Position	$36,211	$46,465	$116,415	$(28,517)	$(142,110)	$106,399	$178,221	$ 43,361	$152,087	$225,532

Schedule of Benefit Expenses by Type - Pension Plan
(in thousands)

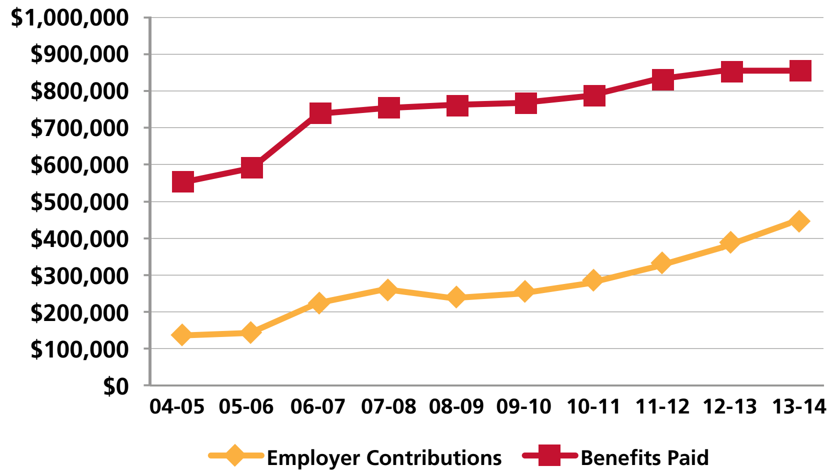
Type of Benefit	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Service/DROP	$363,567	$394,948	$525,838	$538,891	$539,177	$547,254	$563,023	$604,220	$625,443	$620,845
Disability	104,030	106,551	112,641	115,348	118,182	115,811	115,960	116,390	117,217	117,601
Surviving Spouse	83,100	87,983	93,511	98,143	102,836	102,734	105,633	108,774	111,722	115,726
Minors	1,739	1,560	1,820	1,930	2,010	2,314	2,245	1,807	1,855	1,864
Total Benefits Paid	$552,436	$591,042	$738,603	$754,312	$762,205	$768,113	$786,861	$831,191	$856,237	$856,036

Schedule of Benefit Expenses by Type – Health Subsidy Plan
(in thousands)

Type of Benefit	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Medicare	$ 4,722	$ 5,565	$ 6,258	$ 6,796	$ 7,153	$ 7,497	$ 7,871	$ 8,232	$ 8,855	$ 9,295
Health Subsidy	46,160	50,498	53,079	60,737	66,742	71,765	77,509	81,030	84,870	90,462
Dental Subsidy	2,153	2,107	2,270	2,605	2,742	2,734	2,839	3,236	3,591	3,631
Health Insurance Reimbursement	414	516	609	741	865	954	1,052	1,039	990	983
Total Benefits Paid	$53,449	$58,686	$62,216	$70,879	$77,502	$82,950	$ 89,271	$93,537	$98,306	$104,371

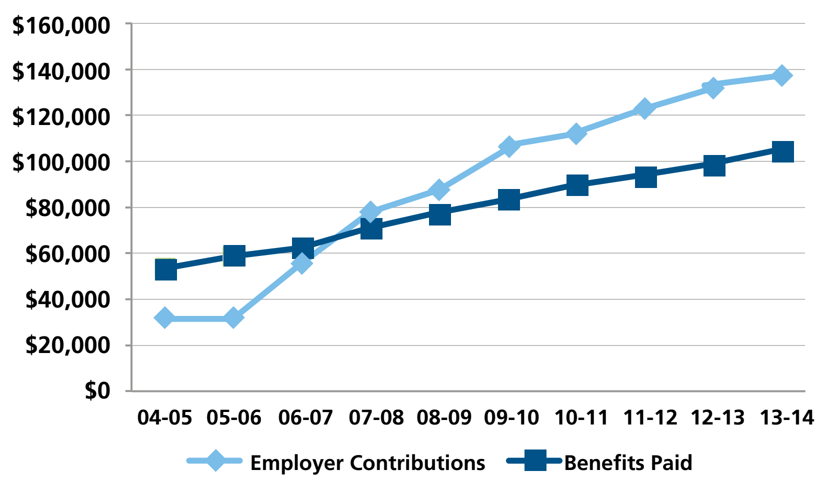
Employer Contributions vs. Benefits Paid – Pension Plan
(in thousands)

Fiscal Year	Employer Contributions	Benefits Paid
04-05	$135,854	$552,436
05-06	143,946	591,042
06-07	224,946	738,603
07-08	261,636	754,312
08-09	238,698	762,205
09-10	250,517	768,113
10-11	277,092	786,861
11-12	321,593	831,191
12-13	375,448	856,237
13-14	440,698	856,036



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

Fiscal Year	Employer Contributions	Benefits Paid
04-05	$ 31,542	$ 53,449
05-06	31,413	58,686
06-07	55,163	62,216
07-08	78,257	70,879
08-09	88,179	77,502
09-10	106,648	82,950
10-11	111,681	89,271
11-12	122,972	93,537
12-13	132,939	98,306
13-14	138,107	104,371



Operating Information

Schedule of Retired Membership by Type of Benefits – Pension Plan				
	Type of Benefits			
Amount of Monthly Benefits	Number of Pensioners	Service	Disability	Survivor
$ 1 to $1,000	6	4	0	2
1,001 to 2,000	150	83	31	36
2,001 to 3,000	1,737	886	199	652
3,001 to 4,000	1,617	723	537	357
4,001 to 5,000	2,519	1,096	633	790
5,001 to 6,000	2,398	1,656	328	414
6,001 to 7,000	1,783	1,497	207	79
7,001 to 8,000	1,217	1,060	97	60
8,001 to 9,000	538	475	23	40
9,001 to 10,000	284	255	16	13
Over $ 10,000	253	220	17	16
Total	12,502	7,955	2,088	2,459

Schedule of Retired Membership by Type of Benefits – Health Subsidy Plan				
	Type of Benefit			
Monthly Benefit	Number of Pensioners	Service	Disability	Survivor
Health:				
Not receiving subsidy	2,544	965	779	800
$ 1 to $ 200	25	2	13	10
201 to 400	654	194	159	301
401 to 600	3,100	1,511	329	1,260
601 to 800	1,304	832	390	82
801 to 1,000	2,359	2,085	270	4
1,001 to 1,200	1,117	1,012	105	0
1,201 to 1,300	314	292	22	0
1,301 to 1,344.38*	1,085	1,062	21	2
Total	12,502	7,955	2,088	2,459
Dental:				
Not receiving subsidy	2,459	1,510	949	
$ 1 to $ 10	0	0	0	
11 to 20	117	13	104	
21 to 30	483	204	279	
31 to 42.80**	6,984	6,228	756	
Total	10,043	7,955	2,088	

* *Maximum health subsidy effective July 1, 2014.*
** *Maximum dental subsidy for Plan year 2014.*

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2014 ANNUAL REPORT

LEGAL

Litigation

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Under City Attorney Mike Feuer, 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 Patzakis, 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, compliance with tax regulations, state and municipal ethics laws and regulations, legal review of investments, and disability retirement applications. The City Attorney's Office also represented the Department in Superior Court cases.

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

Outside counsel are called upon to assist the City Attorney's Office in providing the Department with advice and representation in specialized areas, such as 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 the Water and Power Employees' Retirement Plan.

Litigation

Litigation continued in 2014 concerning the validity and meaning of the City's 2011 ordinance which "froze" the retiree health insurance premium subsidies at 2011 levels for certain members and their beneficiaries. The litigation also challenges the City's requirement of an additional 2 percent payroll contribution from active members who wished to be exempted from the freeze upon retirement.

The Fry, et al. v. City of Los Angeles case progressed in the summer of 2014. This litigation questions the constitutionality of the City's "freeze ordinance." On July 28, 2014, Los Angeles County Superior Court Judge Joanne O'Donnell ruled that the petitioning members have a vested right to a "non-frozen" health subsidy in retirement. On September 5, 2014, the Court issued a Writ ordering the Plan to begin providing the current "non-frozen" subsidy to pensioners who were previously impacted by the freeze. The Plan obeyed the Writ and reinstated the full subsidies shortly thereafter. In response, on October 29, 2014, the City filed a Notice of Appeal and asked the Second District Court of Appeal to stay the effect of the Writ; the appellate court granted the stay request on November 12, 2014, effective immediately. As a result of the stay, and until otherwise ordered by the court, the Plan has been required to reinstate "frozen" subsidies for present and future pensioners who are impacted by the City's "freeze ordinance."

A second action filed by the Los Angeles Police Protective League and the United Firefighters of Los Angeles City also progressed during 2014. This litigation questions the intent of the Letters of Agreement that were entered into between the City and the unions, regarding the 2 percent member contributions and the Board's continuing discretion to increase the maximum health subsidy each year for members who agreed to make the additional contributions. The Superior Court originally dismissed the action on February 11, 2013; the petitioners filed an appeal on March 14, 2013. On June 24, 2014, the Second District Court of Appeal vacated the Superior Court's judgment of dismissal, finding that there was an actual controversy between the parties that required a ruling on the merits. The action has been remanded to the Superior Court for further proceedings.

Neither action seeks monetary relief from the System.

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2014 ANNUAL REPORT

SUMMARY OF PLAN PROVISIONS

Fire and Police Pension Plans

Pension Benefit Provisions

Miscellaneous Benefit Provisions

Health and Dental Insurance Premium Subsidy

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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

Pension Benefit Provisions

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
1. Service Retirement					
a. Eligibility	20 years of service		***Tier 3:*** Age 50 with 10 years of service ***Tier 4:*** 20 years of service	Age 50 with 20 years of service	
b. Salary base	Normal Pension Base (Final monthly salary rate)		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 Disability					
a. Eligibility	Work related No age or service requirements				
b. Salary base	Normal Pension Base (Final monthly salary rate)		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		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-Connected Disability					
a. Eligibility	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)		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%		30% to 50% depending on severity of disability		

Pension Benefit Provisions (continued)					
	Tier 1	**Tier 2**	**Tiers 3 and 4**	**Tier 5**	**Tier 6**
4. Service-Connected Death or Death After Service-Connected Disability					
a. Eligibility	Work related No age or service requirements				
b. Salary base	Normal Pension Base (Final monthly salary rate)		Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) *Except as noted for former Tier 2 members*	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	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		

Pension Benefit Provisions (continued)					
	Tier 1	**Tier 2**	**Tiers 3 and 4**	**Tier 5**	**Tier 6**
e. Eligible dependent parent's benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			
5. Death While Eligible to Receive a Service Pension on Account of Years of Service					
a. Eligibility	20 years of service		***Tier 3:*** 10 years of service ***Tier 4:*** 20 years of service	20 years of service	
b. Salary base	Normal Pension Base (Final monthly salary rate)		Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) *Except as noted for former Tier 2 members*	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	100% of accrued service retirement 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 school full time) unless child is disabled before age 21		

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

Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
7. Nonservice-Connected Death or Death After Nonservice-Connected Disability					
a. Eligibility	Five years of service				
b. Salary base	Nonservice-Connected Pension Base (Highest monthly salary as of member's 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		**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 benefit	**NONSERVICE-CONNECTED DEATH** ***Former Tier 2:*** Same benefit as Tier 2 ***All Other Tier 5:*** 30% of Final Average Salary or, if eligible to retire based on years of service, 40% of Final Average Salary **DEATH AFTER NONSERVICE-CONNECTED DISABILITY** ***Former Tier 2:*** Same benefit as Tier 2 ***All Other Tier 5:*** 60% of member's pension benefit	**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 benefit
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21		

<table>
<tr><th colspan="6">Pension Benefit Provisions (continued)</th></tr>
<tr><th></th><th>Tier 1</th><th>Tier 2</th><th>Tiers 3 and 4</th><th>Tier 5</th><th>Tier 6</th></tr>
<tr><td>e. Eligible dependent parent's benefit</td><td>If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive</td><td colspan="4">If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</td></tr>
<tr><td colspan="6">8. Cost of Living Adjustments (COLA)</td></tr>
<tr><td>a. Generally applicable provisions</td><td colspan="2">Full annual COLA increase or decrease
COLAs compound and are based upon the Consumer Price Index for local urban consumers
Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death</td><td>Annual COLA increase or decrease up to 3%
COLAs compound and are based upon the Consumer Price Index for local urban consumers
Pro rata adjustment in the first year of retirement
City Council may grant discretionary COLA increases once every three years
Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death</td><td colspan="2">Annual COLA increase or decrease not to exceed 3%
Amounts above 3% are banked to be credited during years when the Consumer Price Index is below 3%
COLAs compound and are based upon the Consumer Price Index for local urban consumers
Pro rata adjustment in the first year of retirement
City Council may grant discretionary COLA increases once every three years - member's COLA Bank is reduced
Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death</td></tr>
<tr><td>b. Effective date of COLA:
i. Service retirement</td><td>Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have been age 55</td><td>Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service</td><td colspan="3">Annual adjustments commence on the July 1 following the effective date</td></tr>
<tr><td>ii. Service-connected disability, service-connected death</td><td colspan="5">Annual adjustments commence on the July 1 following the effective date</td></tr>
</table>

Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
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		
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		
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 member's pension, if earlier	Annual adjustments commence on the July 1 following the effective date		
9. Member Contributions As a Percentage of Pay					
	6% No member contributions required after 30 years of service	6% plus 1/2 cost of cost of living benefit up to 1% No member contributions required after 30 years of service	8% No member contributions required after 30 years of service	9% City pays 1% of the 9% if Plan is at least 100% actuarially funded No member contributions required after 33 years of service	11% 2% of the 11% pension contribution supports the funding of the retiree health subsidy benefits. This portion will cease once the member attains 25 years of service No member contributions required after 33 years of service

Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
10. Qualified Survivors					
a. Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP) eligibility requirements:					
i. Nonservice-connected death	Married to spouse at least one year prior to date of nonservice-connected death and as of date of death	Married to spouse 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 to spouse as of the date of service-connected death	Married to spouse or registered domestic partner as of date of service-connected death			
iii. Death after service retirement	Married to spouse at least one year prior to the effective date of Service Pension and as of date of death	Married to spouse or registered domestic partner at least one year prior to the effective date of Service Pension/ DROP entry and as of date of death			Married to spouse or registered 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 to spouse at least one year prior to the effective date of Nonservice-Connected Disability Pension and as of date of death	Married to spouse or registered 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 to spouse or registered 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		Child or adopted child of a deceased member, until age 18 (22 if in school full time) or marries, whichever occurs first		
c. Dependent child eligibility requirements	Legitimate or adopted child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood		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 his/her necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay necessary living expenses without the pension		Parent of a deceased member who had at least one-half of his/her necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay necessary living expenses without the pension		

Miscellaneous Benefit Provisions

11. Basic Death Benefit

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

12. Deferred Pension Option

Applicable to Tiers 3, 5, and 6

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

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

13. Deferred Retirement Option Plan (DROP)

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

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

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

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

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

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

15. Public Service Purchase (PSP) Program

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

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

Purchased service will only count toward increasing 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 Benefit Provisions (continued)
16. Return of Contributions with Interest
Tiers 1 and 2: On termination or death if no other benefits are payable Tiers 3, 5, and 6: On termination or death if no other benefits are payable, (except Basic Death Benefit) Tier 4: Upon death if no other benefits payable, (except Basic Death Benefit). No refund upon termination
17. Survivor Benefit Purchase Program
A retired member may make a one-time, irrevocable election to purchase a survivor benefit for a spouse married in retirement or a domestic partner declared in retirement by taking an actuarial reduction to his/her 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% opt-in contribution will receive a non-frozen health subsidy benefit in retirement. The additional pension contribution supports the funding of the retiree health benefits and will cease once the member contributes for 25 years or retires.

Health and Dental Insurance Premium Subsidy		
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 age 55 2. Prior to 7/1/1998 – at least age 60 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 age 60	Member (retired sworn officer) must be at least age 55, 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 Pension	QSS/QSDP Pension
d. Eligible plans	Medical subsidies may be applied to one of the following: 1. A Board-approved association plan: – United Firefighters of Los Angeles City – Los Angeles Firemen's Relief Association – Los Angeles Police Relief Association – LACERS plans offered to Tier 5 Port Police retirees 2. Health Insurance Premium Reimbursement Program – only available to pensioners 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 Firemen's 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 pensioners 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 the health insurance plan premium ***Note:*** Members in Tiers 2-5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011	4% per YOS, up to a maximum of 25 YOS Subsidy may not exceed the single party health insurance plan premium ***Note:*** QSS/QSDPs of members in Tiers 2-5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011

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 Subsidy may not exceed health insurance plan premium Dependent subsidy may apply Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse the standard Medicare Part B premium ***Note:*** Members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011	10-14 YOS – 75% of maximum subsidy 15-19 YOS – 90% of maximum subsidy 20+ YOS – 100% of maximum subsidy Subsidy may not exceed the single party health insurance plan premium Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse the standard Medicare Part B premium ***Note:*** QSS/QSDPs of members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011
h. Dependent coverage	The member subsidy may be used to cover spouses, domestic partners and children Children may be covered until age 26	The QSS/QSDP may cover eligible dependents on his/her health plan. However, the subsidy may not exceed the single party health insurance plan premium
21. Dental Subsidy	**Member**	**Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)**
a. Age	At least age 55	QSS/QSDPs are not eligible to receive a dental subsidy
b. Years of service	At least 10 years of service (YOS)	N/A
c. Pension type	Service or Disability	N/A
d. Eligible plans	Dental subsidies may only be applied to one of the following Board-approved 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 Subsidy may not exceed the single party dental insurance plan 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 Administrative Code, the Internal Revenue Code, or other laws, the legal text prevails.

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2014
ANNUAL REPORT

MILESTONES

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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 providing:

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 the computation of contributions and benefits under Tiers 1 and 2.

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

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

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

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

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

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;
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 benefit is deposited into a DROP account that earns a 5 percent per annum return, payable upon exiting DROP. Participation in DROP is limited to a maximum of 5 years.

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

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

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

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

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

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

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

The second amendment provided the following:

1. Instituted return-to-duty provisions similar to those in Tier 2 to members in Tiers 3, 4, and 5.
2. Authorized the Council to allow a City Defrayal of Employee Contributions by Ordinance. This means the City may pay a portion of the employee contributions to Tiers 3, 4, and 5, not to exceed 2 percent of the required contributions in lieu of a salary increase or a portion of an increase. This provision is to be used during Memorandum of Understanding negotiations as part of a total economic package and the cost will be evaluated at that time.
3. Authorized the City Council to set 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 in the Los Angeles City Employees' Retirement System. Persons appointed on or after January 8, 2006 as specified in the ordinance become members of Tier 5 upon graduation from academy training required by the Harbor Department.

The actuarial valuation of 2005 found the Plan less than 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), the Los Angeles Police Protective League (LAPPL), the Los Angeles Police Relief Association (LAPRA), and the 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 DROP was removed, and a member must be on an active duty/working status at the time of entry into the program.

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

1. The first measure established a Survivor Benefit Purchase Program that allows retired members of the Plan to purchase, at their own expense, a survivor benefit for a spouse or domestic partner. The retiree's monthly benefit is actuarially reduced to cover the cost of providing this survivor benefit.
2. The second measure modified the Dependent (Disabled) Children Survivor Benefits provided by the Plan. Dependent Children may now marry or be adopted without losing the right to Dependent Child benefits. Additional payment options, which do not increase the amount of benefits payable, were also authorized. The Board 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 Board of Fire and Police Pension Commissioners 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 Participant (BPP) Web 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, the City Council adopted an ordinance to permanently freeze the retiree non-Medicare and Medicare health insurance premium subsidy benefits at the rates in effect on July 1, 2011 for members who enter DROP or retire on or after July 15, 2011. The ordinance also provided, per letters of agreement signed by each labor organization, an election period whereby the affected members could elect to unfreeze their retiree medical subsidy by making additional 2 percent "opt-in" contributions. The freeze does not apply to Tier 6 members, as they are required to contribute the additional 2 percent.

2012 On May 15, 2012, the City Council approved 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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360 East Second Street
Suite 400
Los Angeles, CA 90012
213.978.4545
pensions@lafpp.com
lafpp.com

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