2008 annual REPORT

CITY OF LOS ANGELES DEPARTMENT OF FIRE AND POLICE PENSIONS

LAFPP

To Serve Those Who Protect

July 1, 2007 to June 30, 2008

Department of Fire and Police Pensions

2008 annual REPORT

July 1, 2007 to June 30, 2008

Michael A. Perez
General Manager

D. Edward Griffiths
Assistant General Manager
PENSIONS DIVISION

Laura K. Guglielmo
Assistant General Manager
ADMINISTRATIVE SERVICES DIVISION

Tom Lopez
Chief Investment Officer
INVESTMENTS DIVISION

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LAFPP
To Serve Those Who Protect
LOS ANGELES FIRE AND POLICE PENSIONS

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Wendy Greuel
President Pro Tempore

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CITY OF LOS ANGELES
CALIFORNIA

ANTONIO R. VILLARAIGOSA
MAYOR

MICHAEL A. PEREZ
GENERAL MANAGER

D. EDWARD GRIFFITHS
LAURA K. GUGLIELMO
ASSISTANT GENERAL MANAGERS

TOM LOPEZ
CHIEF INVESTMENT OFFICER

June 30, 2008

The Honorable Antonio Villaraigosa
The Honorable Members of the City Council

I respectfully submit the 2008 Annual Report for the Fire and Police Pension System of the City of Los Angeles. The annual report is intended to provide detailed, reliable information for you, other City leaders and stakeholders to keep you advised on the status and health of the System, and to help make management decisions and plans.

This year marks the 109th anniversary of this pension system — the nation's largest public safety pension plan. The System administers six pension tiers, two of which are closed, a medical subsidy program, a Deferred Retirement Option Plan (DROP) and a complex disability pension program. As of June 30, 2008, we have 13,495 active and 12,174 retired beneficiaries, 1,144 members enrolled in DROP and assets of $14.4 billion.

For the one-year period ending June 30, 2008, our return was -4.58 percent. Despite our challenging year, over the last five years, our return averaged 10.5 percent, and we ranked in the 25th percentile of the Northern Trust Public Fund Universe. Our pension funded status is 99.1 percent for the period ending June 30, 2008, one of the highest in the state of California. We have been pre-funding health insurance premium subsidy benefits since 1989, and the funded status increased slightly, from 41.5 percent to 41.8 percent, for the period ending June 30, 2008.

System Administration

The Fire and Police Pension System is administered by a Board of nine commissioners, five appointed by the Mayor; Fire and Police members each elect one active member, and Fire and Police retired beneficiaries each elect one retired member. The Board administers the System in accordance with the City Charter and the State Constitution. Article XVI, Section 17 (a) of the State Constitution provides the Board "sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17(b) further provides the "members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

Service Efforts and Accomplishments

In order to ensure that the pension system is operating in the most efficient and economical manner, City Charter Section 1112 requires that a management audit of the Fund be conducted by an independent management auditing firm at least every five years. Pursuant to this Charter language adopted in 2000, Independent Fiduciary Services (IFS) conducted our first audit in January 2006. Results were released in December 2007 and found the System to be well run. Many of the recommendations made by IFS were implemented or in progress at the time the final audit was released. The remaining recommendations for improvement are being analyzed for incorporation into our Risk Assessment Plan.

To better define the path to accomplish our mission — to advance the health and retirement security of those who dedicate their careers to serve and protect the people of Los Angeles — the Board adopted the second annual Strategic Plan in March 2008. The plan outlines the Board's overall goals and specific projects to achieve them. The four goals — customer service, risk management, communications and stakeholder relations and facility and resource analysis — include 11 projects for the 2008-09 Strategic Plan.

Staff continues to look for ways to maximize technological advances to improve services to our members. For example, we are merging the retiree payroll system, which is based on the City Controller's mainframe, with our Web-based system that is used to manage our active membership data. This conversion will result in improved system operations, streamlined data entry and reduced manual calculations. Another project focuses on reducing hard copy documents by "digitizing" them, which allows for ease of searching and retrieving information. Ultimately, Staff will have information available at their fingertips for our most important function — the delivery of pension benefits to our members. In executing these conversions we are engaging top security consultants to ensure the security of applications and member data.

The Public Service Purchase (PSP) Program became effective in April 2008, and was implemented in June beginning with an online calculator for cost estimates. This program allows active members to purchase time served in the military and time with another government entity in order to increase their LAFPP pension benefit. The specialized actuarial calculations involved in determining the cost to purchase service under PSP presented challenges in the implementation process. However, Staff and our consultants worked diligently to ensure that members continued to receive quality customer service during this period.

Consistent with a recommendation from IFS, the City's auditor, the Board authorized the creation of an Internal Control Section. The intent of this section is to identify major risks in the Department and establish controls to minimize those risks.

The recent economic turmoil has caused substantial concern over our future. However, this pension system has remained resilient through current and past market crises. We have been providing a lifelong defined benefit to our members for over 10 decades. Fulfilling this lifetime obligation is made possible by a professionally managed asset allocation plan, along with an investment strategy that calls for a well-diversified portfolio. The Board and Staff, with the assistance of our general consultant, Pension Consulting Alliance, continue to closely evaluate our asset allocation plan and make prudent decisions concerning changes.

To further improve the overall health of the Fund, we work with many other public funds in the Council of Institutional Investors (CII). CII is a nonprofit association committed to addressing governance and investment issues that affect the retirement assets entrusted to its members. Membership in CII has allowed us to join with other pension systems to collectively study and weigh in on financial regulation changes, such as corporate executive compensation, necessary to protect the economic interests of our members.

I sincerely thank the Board, Staff and our consultants and advisors for their support and dedication to improve the services and administration of our pension system, and I look forward to meeting the challenges before us.

Respectfully submitted,

Michael A. Perez
General Manager

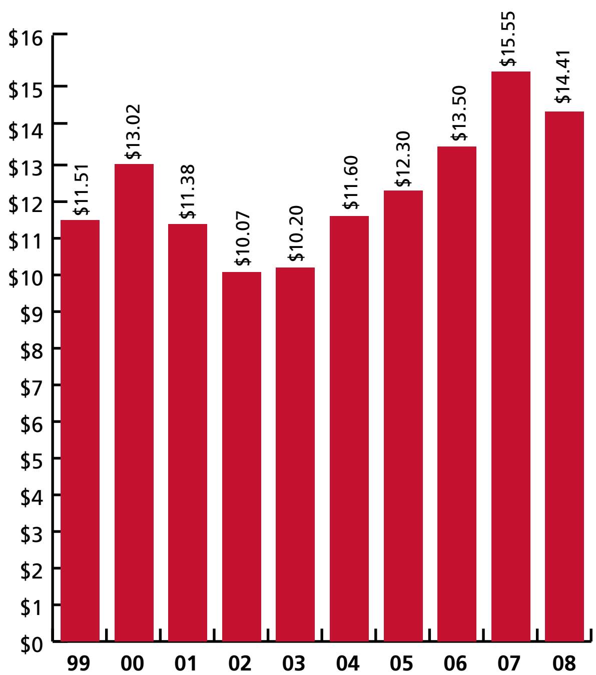
system INVESTMENTS

Summary of Investment Activities

INTRODUCTION

During the past five years, the System's assets increased from $10.20 billion to $14.41 billion. The Fund decreased by $1.14 billion for the year ending June 30, 2008.

Market Value Growth of System Assets
(IN BILLIONS)



INVESTMENT ENVIRONMENT

The bond market *(Lehman U.S. Universal Bond Index)* produced a return of 6.22 percent for the year ending June 30, 2008. Large company stocks *(S&P 500)* returned -13.12 percent. Small stocks *(Russell 2000 Index)* returned -16.19 percent. International stocks *(Morgan Stanley EAFE Index)* returned -6.20 percent. Real estate, as measured by the National Council of Real Estate Investment Fiduciaries Index (*NCREIF Property Index*), returned 9.20 percent.

INVESTMENT PERFORMANCE

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

For the past five years, the System's annualized return of 10.50 percent exceeded the actuarial rate of return and was also higher than the Northern Trust Public Funds' median return of 9.44 percent. For the one- and three-year periods, the System's overall investment performance was down 4.58 percent and up 8.35 percent, respectively.

The Fund was ranked in the 59th percentile of the Northern Trust Public Fund Universe for the one-year period, 21st percentile for the three-year period and 25th percentile for the five-year period ending June 30, 2008. The System's top performers this year were its emerging markets equities, alternative investments and fixed income portfolios, while the domestic equities, international developed equities and real estate underperformed their benchmarks this time period.

ASSET ALLOCATION DECISIONS

Our asset allocation plan establishes the blueprint for investing the System's assets in stocks, bonds, real estate and cash equivalents over a three- to five-year period. This plan is the single most important factor in managing risk and achieving the investment returns necessary to fund benefits.

The Board's asset class targets as of June 30, 2008 are:

Domestic Large Cap Equity	29.75%
Domestic Small Cap Equity	5.25%
International Equity	15.00%
Emerging Markets	3.00%
Domestic Bonds	19.50%
High Yield Bonds	2.50%
Real Estate	9.00%
Alternative Investments	10.00%
Hedge Funds	5.00%
Cash Equivalents	1.00%

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

As of June 30, 2008, the net asset values were as follows:

ASSET CLASS	MARKET VALUE (IN MILLIONS)	PERCENT
Stocks	$ 8,729.8	60.6%
Bonds	3,301.1	22.9%
Real Estate	1,205.6	8.4%
Alternative Investments	607.3	4.2%
Hedge Funds	460.8	3.2%
Cash Equivalents	101.5	0.7%
Total	$14,406.1	100.0%

INVESTMENT ACTIVITIES

The manager changes for the year included the termination of one domestic equity manager and two alternative investment advisors, and the hiring of two alternative investment advisors. The following investment managers were rehired during the year: six domestic equity managers, four international equity managers, one real estate consultant and the System's custodian bank.

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

The System invested in several new commingled real estate funds and sold individual properties, including an industrial building in Round Rock, TX and an apartment complex in Dallas, TX.

PROXY VOTING

The System votes all domestic proxy ballots, which totaled 2,207 proxies and corporate consents for Fiscal Year 2007-2008. The international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines, and cast a total of 1,168 proxy ballots.

The System votes affirmatively on preemptive rights, cumulative voting and confidential voting; opposes anti-takeover measures; and generally abstains on issues of a social, political or environmental nature that have no expected economic impact on the System's assets. The System votes affirmatively on executive compensation bonus plans if the corporation's stock performance in the past year exceeded the returns of both the Standard & Poor's 500 Index and an appropriate peer group index; supports the nomination of and directs an affirmative vote for the appointment of independent directors to the Board of Directors; and directs an affirmative vote on measures proposed to place independent directors on compensation committees.

Changes in Asset Mix: Last Ten Years

FISCAL YEAR	STOCKS	BONDS	REAL ESTATE	ALTERNATIVE INVESTMENTS	HEDGE FUNDS	SHORT-TERM INVESTMENTS
1998-99	62.48%	24.97%	4.42%	1.56%		6.57%
1999-00	64.45%	22.53%	5.55%	2.65%		4.82%
2000-01	56.35%	25.24%	7.62%	3.31%		7.48%
2001-02	54.95%	27.74%	7.95%	3.52%		5.84%
2002-03	54.1%	31.4%	7.6%	3.50%		3.4%
2003-04	60.3%	28.0%	6.7%	3.50%		1.5%
2004-05	62.47%	28.05%	4.66%	3.24%		1.58%
2005-06	61.3%	26.5%	6.2%	3.7%		2.3%
2006-07	63.2%	23.5%	7.0%	3.4%	2.0%	0.9%
2007-08	60.6%	22.9%	8.4%	4.2%	3.2%	0.7%

Annual Rates of Return

FISCAL YEAR	DOMESTIC EQUITIES	INTERNATIONAL EQUITIES	FIXED INCOME	REAL ESTATE	ALTERNATIVE INVESTMENTS	HEDGE FUNDS*	TOTAL FUND**	CPI***
1998-99	25.53%	17.65%	2.44%	13.00%	12.46%		16.04%	1.96%
1999-00	17.91%	26.93%	3.90%	15.00%	42.14%		16.30%	2.87%
2000-01	-17.88%	-19.49%	2.35%	12.80%	1.58%		-10.00%	2.98%
2001-02	-17.64%	-6.57%	1.17%	1.10%	-17.05%		-7.97%	1.07%
2002-03	3.21%	-5.42%	15.29%	3.90%	-12.66%		5.47%	2.11%
2003-04	23.67%	35.82%	3.39%	6.50%	23.50%		16.92%	3.30%
2004-05	5.54%	15.68%	9.85%	9.58%	27.03%		10.07%	2.50%
2005-06	10.69%	29.35%	-0.91%	22.68%	27.24%		12.48%	4.3%
2006-07	20.05%	31.68%	6.52%	17.46%	17.35%	2.42%	18.50%	2.7%
2007-08	-11.93%	-7.50%	6.50%	-0.26%	10.17%	0.65%	-4.58%	5.0%

* *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

Alliance Capital Management
Attucks Asset Management
Daruma Asset Management
Delta Asset Management
FIS Funds Management
Frontier Capital Management
Robeco Investment Management
Trust Company of the West

Bond Managers

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

International Stock Managers

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

Separate Account Real Estate Managers

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

Alternative Investment Managers

Aldus Equity
StepStone Group

Fund of Hedge Funds Managers

Aetos Alternatives Management
Grosvenor Institutional Partners
K2 Advisors

actuarial VALUATION

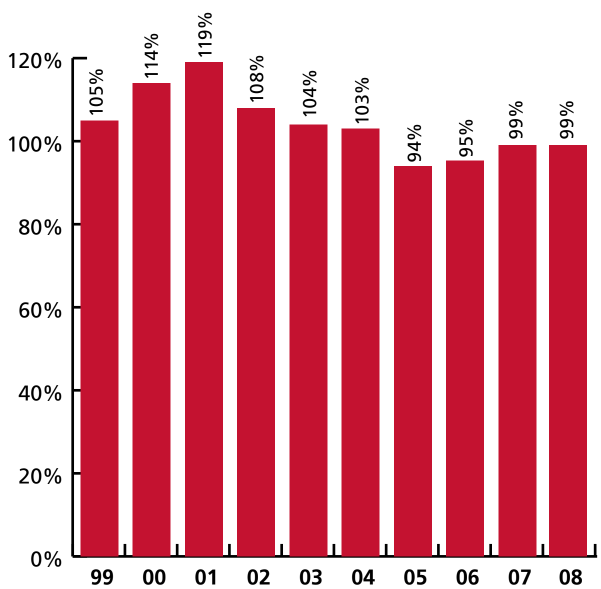
Actuarial Valuation Summary

ACTUARIAL VALUATIONS

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

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

Funded Status



FUNDING STATUS AND TIER 5

Tier 5 provides for an employee contribution rate of 8 percent as long as the Plan is 100 percent actuarially funded. As of June 30, 2008, the Plan is 99.1 percent actuarially funded. Therefore, the employee pension contribution for Tier 5 members will remain at 9 percent until the Plan is at least 100 percent actuarially funded.

HOW A VALUATION IS CONDUCTED

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

Non-economic actuarial assumptions on mortality of members and spouses, probability of service retirement and disability, probability of termination prior to retirement and probability of having a surviving beneficiary are created from studies made of the actual experience of the membership of the System. A new study is conducted every three years.

These assumptions are recommended by an actuary and adopted by the Board of Fire and Police Pension Commissioners. The last experience study covered the period July 1, 2004 to June 30, 2007 and was adopted by the Board in October 2007. The adopted assumptions were used for the June 30, 2008 annual actuarial valuation. An example of projected mortality is as follows:

Average Life Expectancy for Retirees

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

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

Economic Assumptions

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

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

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

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

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

PENSION BENEFIT BALANCE SHEET

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

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

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

UNFUNDED ACTUARIAL ACCRUED LIABILITY

An unfunded actuarial accrued liability (UAAL) of a retirement system occurs when the system's actuarial liability is greater than the value of its assets, or when the funded ratio is less than 100 percent. As of June 30, 2008, the Actuarial Balance Sheet (see page 15) shows the UAAL for pension benefits for all tiers to be approximately $126 million. The UAAL for health insurance premium subsidy benefits for all tiers combined is approximately $1.1 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 and are a key component of the City's required contribution to the System.

CONTRIBUTION REQUIREMENTS CALCULATION

The City contribution is composed of two parts: (1) the Entry Age Normal Cost contribution and (2) the contribution to amortize the unfunded liability. The unfunded liability is amortized over a time period using a methodology prescribed in the Charter and Administrative Code. The amortization period for Tier 1 and Tier 2 is scheduled to end on June 30, 2037.

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

Entry Age Normal Cost Contribution Requirements Recommended 2009-2010*

(as a percentage of Plan members' salaries)

Tier 1.	0.0%
Tier 2	23.32%
Tier 3	17.8%
Tier 4	16.21%
Tier 5	19.44%
Harbor Port Police *(Tier 5)*	19.72%

** Contributions to be made on July 15, 2009.*

Unfunded Liability Contribution Requirements Recommended 2009-2010*

Tier 1	$18,206,925
Tier 2	-2.85% of total payroll of Tiers 1, 2, 3, 4, 5
Tier 3	5.28% of Tier 3 payroll
Tier 4	4.98% of Tier 4 payroll
Tier 5	1.54% of Tier 5 payroll
Harbor Port Police *(Tier 5)*	-0.09% of Harbor Tier 5 payroll

** Contributions to be made on July 15, 2009.*

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. Currently, medical costs are increasing at a faster pace than inflation. Assumptions in the June 30, 2008 actuarial valuation included medical trend rate increases of 9 percent for pre-65 and post-65 premiums in 2008, both decreasing gradually to 5.0 percent in 2017 and thereafter. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health insurance premium subsidy benefits is shown on page 15.

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

Health Insurance Premium Subsidy Contribution Rates Recommended 2009-2010*

(as a percentage of Plan members' salaries)

Tier 1	$1,977,523
Tier 2	5.85%
Tier 3	7.57%
Tier 4	7.94%
Tier 5	4.95%
Total	8.45%
Harbor Port Police *(Tier 5)*	4.61%

** Contributions to be made on July 15, 2009.*

Actuarial Balance Sheet – June 30, 2008

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

ASSETS	RETIREMENT	HEALTH	TOTAL
1. Valuation value of assets	$14,153,296,122	$767,647,562	$14,920,943,684
2. Present value of future normal costs			
Employee	1,067,649,943		1,067,649,943
Employer	2,421,482,453	451,669,043	2,873,151,496
Total	3,489,132,396	451,669,043	3,940,801,439
3. Unfunded actuarial accrued liability	125,819,620	1,069,192,775	1,195,012,395
4. Present value of current and future assets	$17,768,248,138	$2,288,509,380	$20,056,757,518

PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS AND RESERVE

LIABILITIES	RETIREMENT	HEALTH	TOTAL
5. Present value of future benefits			
Retired members and beneficiaries	$8,183,755,499	$1,114,590,122	$9,298,345,621
Inactive members with vested rights	19,504,695		19,504,695
Active members	9,564,987,944	1,173,919,258	10,738,907,202
6. Total present value of expected future benefit payments	$17,768,248,138	$2,288,509,380	$20,056,757,518

department BUDGET

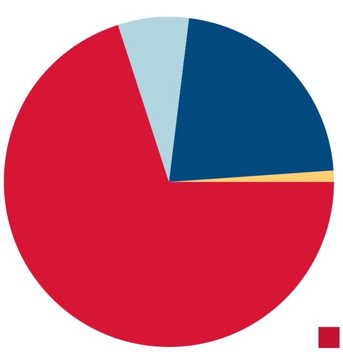
Department Budget

RECEIPTS	BUDGETED 2007-08	ACTUAL 2007-08
City Contribution	$326,656,184	$326,656,184
Special Fund (Harbor)	1,572,547	12,954,035
Excess Benefit Plan	149,734	121,447
Member Contributions	105,096,297	98,074,219
Earnings on Investments	399,050,000	425,929,934
Gain (Loss) on Sale of Investments	—	640,730,148
UFLAC Settlement	282,582	282,600
Miscellaneous [(1)]	1,000,000	2,840,637
Total Receipts	$833,807,344	$1,507,589,204

[(1)] Actual miscellaneous receipts include donations from outside entities. Donations are not budgeted. Donations totaling $67,568 were received in this fiscal year.

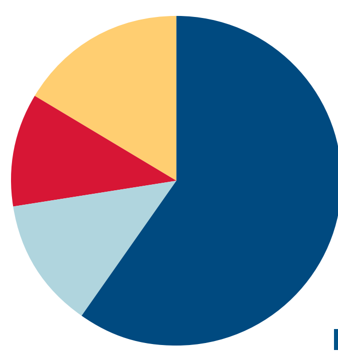
EXPENDITURES	BUDGETED 2007-08	ACTUAL 2007-08
Service Pensions	$425,050,000	$416,237,599
Service Pensions – DROP Payout	165,740,000	122,654,025
Disability Pensions	117,651,000	115,347,464
Surviving Spouses' Pensions	97,614,000	98,143,712
Minors'/Dependents' Pensions	1,671,000	1,929,521
Refund of Member Contributions	4,917,000	2,767,666
Health Insurance Premium Subsidy	80,000,000	60,737,207
Dental Insurance Premium Subsidy	3,000,000	2,604,663
Medicare	9,000,000	6,796,582
Health Insurance Reimbursement	1,000,000	740,806
Investment Management Expense	66,120,000	58,750,238
Administrative Expense	15,169,500	12,373,185
Total Expenditures	$986,932,500	$899,082,668
Increase (Decrease) in Fund Balance	$(153,125,156)	$608,506,536

Receipts



Investments: 70%
City Contributions: 22%
Member Contributions: 7%
Special Fund (Harbor): 1%
Other: 0%

Expenditures



Service and DROP: 59.94%
Disability: 12.83%
Surviving Spouse: 10.92%
Other: 16.32%

auditor's REPORT

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the System's net assets as of June 30, 2008 and 2007, and the changes in net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – An Amendment of GASB Statement No. 25 and No. 27.*

The Management's Discussion and Analysis on pages 3 through 9, the Schedules of Funding Progress on page 34, and the Schedules of Employer Contributions on page 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008 on our consideration of the System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Simpson & Simpson

Los Angeles, California
November 21, 2008

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

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Fire and Police Pension System (the System or the Plan) for the years ended June 30, 2008 and 2007.

FINANCIAL HIGHLIGHTS

- Net assets at the close of the fiscal year ended June 30, 2008 were \$13.6 billion and \$738.7 million for the Pension Plan and Health Subsidy Plan, respectively. All of the net assets may be used to meet the System's obligations to members and their beneficiaries.

- Net assets decreased by \$1.1 billion or 7.7% and \$28.5 million or 3.7% for the Pension Plan and Health Subsidy Plan, respectively.

- As of June 30, 2008, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 99.1% and 41.8%, respectively.

- Additions to the Pension Plan's net assets decreased \$3.0 billion or 113.9% from \$2.6 billion to a negative \$368.3 million, due primarily to the net depreciation in the fair value of investments in 2008.

- Deductions from the Pension Plan's net assets increased \$19.2 million or 2.6% over the prior year from \$749.7 million to \$768.9 million over the prior year.

- Additions to the Health Subsidy Plan's net assets decreased \$136.3 million or 76.0% from \$179.2 million to \$42.9 million, due to the net depreciation in the fair value of investments in 2008.

- Deductions from the Health Subsidy Plan's net assets increased \$8.6 million or 13.8% over the prior year from \$62.8 million to \$71.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

The Statement of Plan Net Assets 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 Plan Net Assets reports additions to and deductions from the plan net assets 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 12 to 32 of this report.

Required Supplementary Information: This report presents certain required supplementary information concerning the Pension Plan's and Health Subsidy Plan's progress in funding to provide pension and health benefits to members. The report also provides summary information on employer contributions. The required supplementary information is on pages 34 and 35 of this report.

FINANCIAL ANALYSIS

Pension Plan

Plan Net Assets

A summary of the Pension Plan's net assets and changes in net assets are presented below:

Condensed Statement of Plan Net Assets

	(In Thousands)			
	2008	2007	Change	% Change
Cash	$ 651	$ 4,796	$ (4,145)	(86.4%)
Receivables	311,911	311,406	505	0.2%
Investments	16,585,064	18,211,600	(1,626,536)	(8.9%)
Total Assets	16,897,626	18,527,802	(1,630,176)	(8.8%)
Liabilities	3,278,180	3,771,221	(493,041)	(13.1%)
Net Assets	$ 13,619,446	$ 14,756,581	$ (1,137,135)	(7.7%)

Net assets decreased by $1.1 billion (7.7%) to $13.6 billion from the prior fiscal year. Investments were down $1.6 billion when compared with the prior fiscal year, attributable to the decline in fair value of investments as a result of the subprime mortgage melt down and financial market crisis.

Pension Plan (Continued)

Changes in Plan Net Assets

Condensed Statement of Changes in Plan Net Assets

	(In Thousands)			
	2008	2007	Change	% Change
Additions				
Employer Contributions	$ 261,636	$ 224,946	$ 36,690	16.3%
Member Contributions	98,074	91,263	6,811	7.5%
Net Investment (Loss) Income	(730,673)	2,335,362	(3,066,035)	(131.3%)
Other Income	2,709	2,292	417	18.2%
Total additions	(368,254)	2,653,863	(3,022,117)	(113.9%)
Deductions				
Benefits Payment	754,312	733,810	20,502	2.8%
Refund of Contributions	2,768	4,793	(2,025)	(42.2%)
Administrative Expenses	11,801	11,044	757	6.9%
Total Deductions	768,881	749,647	19,234	2.6%
Net Increase (Decrease)	(1,137,135)	1,904,216	(3,041,351)	(159.7%)
Net Assets, Beginning of Year	14,756,581	12,852,365	1,904,216	14.8%
Net assets, End of Year	$ 13,619,446	$ 14,756,581	$ (1,137,135)	(7.7%)

Additions to Plan Net Assets

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 2008 totaled $359.7 million, up $43.5 million or 13.8% over fiscal year 2007. The increase in contributions was due to: a) an increase of 277 active members and b) an increase in the actuarial determined contribution rate. The employer contribution rate for fiscal year 2008 was 21.7% of covered payroll compared to 19.8% of covered payroll for fiscal year 2007. Current year contributions also included $4.7 million remittance from the Harbor Department and $5.4 million transfers from LACERS for certain Harbor port police officers previously members of LACERS who elected to transfer to the System during the enrollment period of January 8, 2006 to January 5, 2007.

Pension Plan (Continued)

Net investment income amounted to a negative $730.7 million, down by $3.1 billion or 131.3% when compared with $2.3 billion from the prior fiscal year. This decline in net investment income is mostly attributed to the net depreciation in the fair value of investments.

Deductions from Plan Net Assets

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, 2008 totaled $768.9 million, an increase of $19.2 million over 2007. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries and the cost-of-living adjustment granted starting July 1, 2007.

Health Subsidy Plan

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

Plan Net Assets

Condensed Statement of Plan Net Assets

(In Thousands)

	2008	2007	Change	% Change
Cash	$ 35	$ 249	$ (214)	(85.9%)
Receivables	16,877	16,162	715	4.4%
Investments	897,403	945,179	(47,776)	(5.1%)
Total Assets	914,315	961,590	(47,275)	(4.9%)
Liabilities	175,622	194,380	(18,758)	(9.7%)
Net Assets	$ 738,693	$ 767,210	$ (28,517)	(3.7%)

Health Subsidy Plan (Continued)

Net assets decreased by $28.5 million (3.7%) to $738.7 million when compared to $767.2 million of the prior fiscal year. Investments were down $47.8 million when compared with the prior fiscal year, attributable to the decline in fair value as a result of the subprime mortgage melt down and financial market crisis.

Changes in Plan Net Assets

Condensed Statement of Changes in Plan Net Assets

(In Thousands)

	2008	2007	Change	% Change
Additions				
Employer Contributions	$ 78,257	$ 55,163	$ 23,094	41.9%
Net Investment (Loss) Income	(35,454)	123,932	(159,386)	(128.6%)
Other Income	132	122	10	8.2%
Total additions	42,935	179,217	(136,282)	(76.0%)
Deductions				
Benefits Payment	70,879	62,216	8,663	13.9%
Administrative Expenses	573	586	(13)	(2.2%)
Total Deductions	71,452	62,802	8,650	13.8%
Net Increase (Decrease)	(28,517)	116,415	(144,932)	(124.5%)
Net Assets, Beginning of Year	767,210	650,795	116,415	17.9%
Net assets, End of Year	$ 738,693	$ 767,210	$ (28,517)	(3.7%)

Additions to Plan Net Assets

Total additions to net assets decreased $136.3 million compared to fiscal year 2007. This is due primarily to the decrease in net investment income in the amount of $159.4 million mostly attributed to the decline in the fair value of investments, offset by increase in contributions of $23.1 million or 41.9% over fiscal year 2007. The employer contribution rate for fiscal year 2008 was 6.5% of covered payroll compared to 4.9% of covered payroll for fiscal year 2007.

Health Subsidy Plan (Continued)

Deductions from Plan Net Assets

Deductions represent medical and dental insurance premiums paid for the pensioners and beneficiaries and administrative expenses. Current year deductions were $8.7 million or 13.8% more than the total deductions of the prior year. This is due primarily to increase in the medical and dental insurance premiums and increase in the number of pensioners and beneficiaries.

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:

Michael A. Perez, General Manager
City of Los Angeles Fire and Police Pension System
360 E. Second Street, Suite 400
Los Angeles, CA 90012

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

	June 30, 2008			June 30, 2007
	Pension	Health Subsidy	Combined	Combined
ASSETS				
Cash	$ 651,462	$ 35,250	$ 686,712	$ 5,044,693
Receivables				
Accrued Interest and Dividends	44,727,361	2,420,156	47,147,517	52,399,616
Contributions	6,191,505	335,017	6,526,522	5,797,976
Due from Brokers	260,992,484	14,122,059	275,114,543	269,370,712
Total Receivables	311,911,350	16,877,232	328,788,582	327,568,304
Investments at Fair Value				
Temporary	592,016,332	32,033,449	624,049,781	606,902,056
U.S. Government Obligations	1,321,650,346	71,513,262	1,393,163,608	1,613,897,644
Domestic Corporate Bonds	1,737,182,948	93,997,342	1,831,180,290	1,981,501,360
Foreign Bonds	31,352,147	1,696,435	33,048,582	33,722,990
Domestic Stocks	5,519,787,887	298,670,552	5,818,458,439	6,593,176,281
Foreign Stocks	2,748,670,585	148,727,991	2,897,398,576	3,240,002,908
Real Estate	1,223,473,137	66,200,985	1,289,674,122	1,179,505,370
Alternative Investments	1,007,953,452	54,539,417	1,062,492,869	826,945,236
Total Investments	14,182,086,834	767,379,433	14,949,466,267	16,075,653,845
Securities Lending Collateral	2,402,976,904	130,022,829	2,532,999,733	3,081,125,634
TOTAL ASSETS	16,897,626,550	914,314,744	17,811,941,294	19,489,392,476
LIABILITIES				
Accounts Payable and Accrued Expenses	9,930,539	537,332	10,467,871	15,291,951
Benefits in Process of Payment	36,716,356	229,596	36,945,952	29,933,232
Due to Brokers	540,504,587	29,246,197	569,750,784	499,127,569
Mortgage Payable	288,051,759	15,586,211	303,637,970	340,122,595
Securities Lending Collateral	2,402,976,904	130,022,829	2,532,999,733	3,081,125,634
TOTAL LIABILITIES	3,278,180,145	175,622,165	3,453,802,310	3,965,600,981
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS	$ 13,619,446,405	$ 738,692,579	$ 14,358,138,984	$ 15,523,791,495

The notes are an integral part of these financial statements.

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

	Year Ended June 30, 2008			Year Ended June 30, 2007
	Pension	Health Subsidy	Combined	Combined
ADDITIONS				
Contributions				
Employer Contributions	$ 261,635,491	$ 78,257,328	$ 339,892,819	$ 280,108,763
Member Contributions	98,074,219	-	98,074,219	91,263,474
Total Contributions	359,709,710	78,257,328	437,967,038	371,372,237
Investment Income				
Net (Depreciation) Appreciation in Fair Value of Investments, Including Gains and Losses on Sales	(1,080,860,928)	(52,446,524)	(1,133,307,452)	2,082,446,892
Interest	161,559,187	7,839,323	169,398,510	179,423,831
Dividends	186,570,668	9,052,953	195,623,621	173,509,739
Net Real Estate Income	46,549,954	2,258,740	48,808,694	41,638,670
Income from Alternative Investments	9,341,934	453,298	9,795,232	13,267,871
Securities Lending Income	5,910,784	286,809	6,197,593	10,038,535
Less: Securities Lending Expense	(1,962,804)	(95,241)	(2,058,045)	(1,250,357)
Other (Loss) Income	(1,750,721)	(84,950)	(1,835,671)	7,978,630
Subtotal	(674,641,926)	(32,735,592)	(707,377,518)	2,507,053,811
Less: Investment Manager Expense	(56,031,430)	(2,718,808)	(58,750,238)	(47,759,114)
Net Investment (Loss) Income	(730,673,356)	(35,454,400)	(766,127,756)	2,459,294,697
Other Income				
Donations (Note 11)	64,441	3,127	67,568	864,281
Miscellaneous	2,644,740	128,329	2,773,069	1,548,811
Total Other Income	2,709,181	131,456	2,840,637	2,413,092
TOTAL ADDITIONS	(368,254,465)	42,934,384	(325,320,081)	2,833,080,026
DEDUCTIONS				
Pension Benefits	754,312,321	-	754,312,321	733,810,365
Payment of Medicare Reimbursement	-	6,796,582	6,796,582	6,258,210
Payment of Health Subsidy	-	64,082,676	64,082,676	55,957,812
Refund of Contributions	2,767,666	-	2,767,666	4,792,898
Administrative Expenses	11,800,586	572,599	12,373,185	11,630,121
TOTAL DEDUCTIONS	768,880,573	71,451,857	840,332,430	812,449,406
NET (DECREASE) INCREASE	(1,137,135,038)	(28,517,473)	(1,165,652,511)	2,020,630,620
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS				
Beginning of Year	14,756,581,443	767,210,052	15,523,791,495	13,503,160,875
End of Year	$ 13,619,446,405	$ 738,692,579	$ 14,358,138,984	$ 15,523,791,495

The notes are an integral part of these financial statements.

NOTE 1 - DESCRIPTION OF THE PLANS

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

Pension Plan

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

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 is the current Tier established for all firefighters and police officers hired on or after January 1, 2002. Active members of Tiers 2, 3, and 4 were allowed to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002.

The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ended June 30, 1983, or have since been hired. Tier 5 is also the current tier for all Harbor port police officers hired on or after January 8, 2006. 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 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 2 members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 70%. Tier 2 has no minimum age requirement and provides for unlimited post-employment COLAs based on the CPI. Tier 2 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982, are entitled to a refund of contributions plus Board approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 3 members must be at 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. Members who terminate their employment are entitled to a refund of contributions plus Board approved interest if they do not qualify for a pension or if they waive their pension entitlements.

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

Tier 5 members must be age 50, with at least 20 years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. On July 1, 2007, eligible Tier 5 pensioners, including Tier 5 pensioners in DROP, had an additional 0.5% deposited in the COLA bank. The City Council may grant an ad-hoc COLA no more than every three years. Members who terminate their employment are entitled to a refund of their contributions plus Board approved interest if they do not quality for a pension or if they waive their pension entitlements.

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

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518 and 1618 of the City Charter, Section 4.2018 of the Administrative Code, and 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.

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

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, 2007, the maximum subsidy amount is $837.21 per month. The System also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

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

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

At June 30, 2008, of $14,358,138,984 in total net assets available for benefits, $738,692,579 was determined to be available for the Health Subsidy Plan based on a percentage derived from the actuarial report adopted on November 6, 2008.

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. Effective July 1, 2007, the maximum subsidy amount is $837.21 per month. For members with Medicare Parts A and B, a different subsidy maximum is used. The System also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Dental Subsidy Plan

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

Members who retire from the System with 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 subsidy amount was \$37.18 for the period July 1, 2007 through December 31, 2007. Effective January 1, 2008 the maximum subsidy amount is \$39.04 per month. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, members of the System have the option to enroll in 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.

The DROP program was extended for an additional five-year period beginning May 1, 2007. Members were allowed to continue to enroll in DROP through March 1, 2008, while the City and unions negotiated potential changes to the program. Enrollment in the program was suspended temporarily on March 2, 2008 since an agreement to the changes was not reached by the March 1 deadline. However, an ordinance, which took effect on March 25, 2008, extended the deadline to August 1, 2008 and enrollment in DROP resumed.

Members who enroll continue to work and receive their active salary 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 pay credits. Monthly pension benefits that would have been paid to enrolled members are credited into their DROP accounts. DROP account balances will earn interest at an annual rate of 5%.

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

At June 30, 2008 and 2007, 1,107 and 1,200 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$221,000,000 and \$213,000,000, respectively.

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership at June 30, 2008 and 2007 are as follows:

	2008	2007
Active Nonvested:		
Tier 1	--	--
Tier 2	--	--
Tier 3	20	167
Tier 4	297	331
Tier 5	8,889	8,592
	9,206	9,090
Active Vested:		
Tier 1	--	--
Tier 2	182	225
Tier 3	976	863
Tier 4	155	139
Tier 5	2,976	2,901
	4,289	4,128
Pensioners and Beneficiaries:		
Tier 1	868	929
Tier 2	9,240	9,341
Tier 3	414	388
Tier 4	135	117
Tier 5	1,525	1,199
	12,182	11,974
	25,677	25,192

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Financial Reporting

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

Investments and Method Used to Value Investments

The System is authorized to make temporary investments in instruments rated A-1 by Standard & Poor's Corporation and P-1 by Moody's Commercial Paper Record.

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

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

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

Alternative investments are comprised predominantly of limited partnerships that invest mainly in privately-owned companies.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Method Used to Value Investments (Continued)

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 alternative investments are estimated by the General Partners based on consideration of various factors, including current net asset valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the General Partners of investee limited partnerships. Hedge Fund of Fund investments are valued by the fund manager based upon the information it receives from individual hedge fund managers that it has invested the money with. Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by an annual external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers.

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.

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.

Implementation of New Accounting Pronouncement

The System implemented the provisions of GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statement No. 25 and No. 27,* effective July 1, 2007. The objective of this statement is to amend the note disclosure and required supplementary information (RSI) standards of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform to applicable changes adopted in GASB No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Other postemployment benefits (OPEB) include postemployment healthcare, as well as other non-pension benefits provided to employees as part of their compensation for services.

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.

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

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

B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4 and 5, any "unfunded liability" shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-year period.

C. An amount to provide for Health Subsidy Plan.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C above, for the year ended June 30, 2008 to be as follows ($ in millions):

	Percentage of Members' Salaries				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Entry-Age Normal Cost Contribution	N/A	20.39%	17.52%	14.07%	18.83%
Amortization of Unfunded Liability *	$19.4	$(1.9)	$20.7	$ 7.6	$216.3
Health Subsidy Plan *	$ 1.2	$33.5	$5.5	$2.4	$37.2

*Stated as required dollar amount.

During fiscal year 2008, total contributions of $437,967,038 ($339,892,819 from the employer and $98,074,219 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, 2006. For the Pension Plan, employer contributions for the current year included $212.2 million for normal cost and $39.4 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, employer contributions for the current year consisted of $38.0 million for normal cost and $38.9 million for unfunded actuarial accrued liability annual amount. In addition to the current year's contribution, the Harbor Department remitted $4.7 million for the Pension Plan and $0.5 million for the Health Subsidy Plan as a result of the transfer of certain Harbor port police officers to Tier 5 of the System effective January 8, 2006. Likewise, LACERS transferred contributions of $5.4 million for the Pension Plan and $0.8 million for the Health Subsidy Plan.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS

The System retains an independent consulting actuary to conduct annual actuarial valuations of the Pension Plan and Health Subsidy Plan to monitor the System's funding status and funding integrity. The Health Subsidy Plan includes post-employment medical and dental benefits.

Pension Plan

The June 30, 2008 and 2007 annual valuations determined the funding status to be 99.1% and 99.2%, respectively.

The funded status of the Pension Plan as of June 30, 2008, the most recent actuarial valuation date is as follows ($ in thousands):

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)
$14,153,296	$14,279,116	$125,820	99.1%	$1,206,589	10.4%

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

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

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	For Tier 1, level dollar amortization is used ending on June 30, 2037. For Tier 2, level percent of payroll amortization is used ending on June 30, 2037 as a percent of total valuation payroll. For other Tiers, level percent of payroll with multiple layers. Actuarial gains/losses are amortized over 15 years (21 and 17 years for gains/losses at June 30, 2007 and June 30, 2008, respectively). Plan and assumption changes are amortized over 30 years.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Pension Plan (Continued)

Actuarial Assumptions:

Investment Return Rate	8.00%
Inflation Rate	3.75%
Real Across-the-board Salary Increase	0.50%
Projected Salary Increase	Ranges from 4.90% to 10.09% based on age.
Cost of Living Adjustments	3.75% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, and 5 retirement income.
Mortality Rates:	
Healthy	RP-2000 Combined Healthy Mortality Table (separate for males and females) set back two years for members. RP-2000 Combined Health Mortality Table (separate for males and females) for beneficiaries.
Disabled	RP-2000 Combined Health Mortality Table (separate for males and females) set forward one year.

Health Subsidy Plan

The June 30, 2008 and 2007 annual valuations determined the funding status to be 41.8% and 41.5%, respectively.

The funded status of the Health Subsidy Plan as of June 30, 2008, the most recent actuarial valuation date is as follows ($ in thousands):

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)
$767,647	$1,836,840	$1,069,193	41.8%	$1,206,589	88.6%

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

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

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

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay
Amortization Method	30 years, level percent of pay (with the exception of Tier 1 that is amortized as a level dollar amount)
Remaining Amortization Period	28 years as of June 30, 2008
Asset Valuation Method	The actuarial value of assets is a five-year smoothed market value of assets. This method recognizes 20 percent of the year's investment earnings in excess of (or less than) expected investment earnings in the current year and each of the four prior years. The expected value of assets for the year is the market value of assets at the beginning of the prior year brought forward with interest at the assumed rate of return to the end of the current year plus contributions minus benefit disbursements, all adjusted with interest at the assumed rate of return to the end of the current year.

Actuarial Assumptions:

Discount rate	8.00%
Inflation rate	3.75%
Across-the-board pay increase	0.50%
Projected Salary Increase	4.25%
Health care cost trend rate: (To Calculate following Year's premium)	
Medical	9.0% in 2008-2009, decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%.
Dental	5%
Medical Part B Premium	1.53% in 2008-2009 based on actual Medicare Part B premium increase, then 5% for all years.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

The following assumptions were adopted by the System's Board based on the actuarial experience study as of June 30, 2007 and the Economic Assumptions Study of June 30, 2006:

Data	Detailed census data and the System's financial data for post employment benefits.
Actuarial Cost Method	Entry age normal, level percent of pay
Administrative Expenses	No administrative expenses were valued separately from the claim costs
Participation	80% of all eligible retirees under age 65 are assumed to receive a subsidy for an approved health carrier. 90% of all eligible future retirees age 65 and older are assumed to receive a subsidy for an approved health carrier.
Medicare Coverage	100% of future retirees are assumed to elect Medicare Parts A and B.
Dental Coverage	70% of future retirees are assumed to elect dental coverage.
Spousal Coverage	Of future retirees receiving a medical subsidy, 70% 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.

Other actuarial assumptions on mortality rates, consumer price index, net investment return, age of spouse, 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	15%	$895.81	$895.81	$ 511.76
Blue Cross PPO	55%	895.81	895.81	511.76
California Care	15%	895.81	895.81	511.76
Fire Kaiser	0%	895.81	895.81	511.76
Police Kaiser	15%	895.81	895.81	511.76
Dental	100%	39.04	39.04	0.00

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

For Participants Age 65 and Over:

		Maximum Subsidies		
Plan	Assumed Election Percentage	Single	Married	Surviving Spouse
Fire Medical	35%	$406.44	$623.70	$ 406.44
Blue Cross PPO	45%	406.44	690.21	406.44
California Care	5%	406.44	666.60	406.44
Fire Kaiser	5%	406.44	677.10	406.44
Police Kaiser	10%	406.44	433.88	406.44
Dental	100%	39.04	39.04	0.00
Medicare B	100%	96.40	96.40	96.40

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.

The City Charter permits the System to use investments of the System to enter into securities lending transactions - loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Upon direction of the Board, the custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions, as it deems advisable. Collateral for the securities on loan will be maintained at a level of at least 102 percent of their fair value plus any accrued interest for U.S. securities lending and 105 percent of the fair value plus any accrued interest for non-U.S. securities lending. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

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

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

NOTE 5 - SECURITIES LENDING (Continued)

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

The following represents the balances relating to the security lending transactions as of June 30, 2008.

Fair Value of collateral received for loaned securities as of June 30, 2008:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U. S. Government and Agency Securities	$ 942,866,045	$ 83,364,339	$1,026,230,384
Domestic Corporate Fixed Income Securities	149,697,921	--	149,697,921
International Fixed Income Securities	738,859	--	738,859
Domestic Stocks	1,062,321,563	14,683,099	1,077,004,662
International Stocks	377,375,345	31,308,741	408,684,086
	$ 2,532,999,733	$129,356,179	$2,662,355,912

Fair value of loaned securities as of June 30, 2008:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U. S. Government and Agency Securities	$ 922,856,602	$ 81,343,744	$1,004,200,346
Domestic Corporate Fixed Income Securities	145,857,537	--	145,857,537
International Fixed Income Securities	701,168	--	701,168
Domestic Stocks	1,033,540,047	14,248,522	1,047,788,569
International Stocks	357,537,849	29,440,949	386,978,798
	$2,460,493,203	$125,033,215	$2,585,526,418

As of June 30, 2008, the fair value of total securities lent was $2,585,526,418. The fair value of collateral received was $2,662,355,912. Of this amount, $2,532,999,733 represents cash collateral and $129,356,179 represents the fair value of non-cash collateral. Non-cash collateral, which the system does not have the ability to pledge or sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were $6,197,593 and $2,058,045, respectively for the year ended June 30, 2008.

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. The carrying value of cash and temporary investments at June 30, 2008 includes $686,712 held by the City Treasurer's office and $624,049,781 in short-term investment funds (STIF). The amounts held by the City Treasurer's office are pooled with funds of other City agencies and are not individually identifiable. Short-term investments are comprised of $624,049,781 in collective STIF.

Credit Risk

Credit risk is the risk that an issuer or a counter party to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class. As of June 30, 2008, the quality ratings of the System's fixed income investments in U.S. Government obligations, domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	$ 1,103,682,847	39.57%
AA	53,994,732	1.94%
A	107,161,176	3.84%
BBB	213,549,411	7.66%
BB	141,815,494	5.08%
B	180,733,989	6.48%
CCC	74,776,090	2.68%
CC	2,166,450	0.08%
Not Rated	911,411,855	32.67%
Subtotal	2,789,292,044	100.00%
U. S. Government Issued or Guaranteed Securities	468,100,436	
Total Fixed Income Investments	$3,257,392,480	

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

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2008, the System's exposure to such risk was $42,000,770 comprised of foreign currencies held outside the custodial bank.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counter party, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counter party. The System's investments in publicly traded stocks and bonds are not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. However, the System's other investments in hedge fund of funds amounting to $460,829,482, private equity of $601,663,387, and commingled real estate funds of $424,798,451 as of June 30, 2008 are exposed to custodial credit risk..

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, 2008 the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

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

Interest Rate Risk

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

Investment Type	Fair Value	Effective Duration (in Years)
Asset Backed Securities	$ 37,677,379	10.34
Commercial Mortgages	124,834,980	33.94
Corporate Bonds	922,527,524	16.70
Government Agencies Bonds	49,662,091	4.62
Government Bonds	297,297,341	14.22
Government Mortgage Backed Securities	399,342,064	23.77
Index Linked Government Bonds	667,106,703	10.18
Non-Government Backed Collateralized Mortgage Obligations	9,801,217	24.52
Bond Index Fund	749,143,181	0.48
Total Fixed Income Investments	$ 3,257,392,480	

Investments that are highly sensitive to interest rate risk as of June 30, 2008 are as follows:

Investment Type	Fair Value
Asset Backed Securities	$ 37,677,379
Commercial Mortgages	124,834,980
Government Agencies Bonds	49,662,091
Government Mortgage Backed Securities	399,342,064
Index Linked Government Bonds	667,106,703
Non-Government Backed Collateralized Mortgage Obligations	9,801,217
	$ 1,288,424,434

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, 2008 are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	$ 132,663,738
Brazilian Real	77,053,835
British Pound Sterling	465,378,391
Canadian Dollar	70,642,514
Chilean Peso	508,069
Czech Koruna	24,896,376
Danish Krone	24,090,018
Egyptian Pound	7,246,625
Euro	921,773,209
Hong Kong Dollar	82,988,738
Hungarian Forint	10,970,619
Indonesian Rupiah	20,886,524
Japanese Yen	602,632,383
Malaysian Ringgit	6,691,423
Mexican Peso	14,403,940
New Israeli Shekel	11,193,886
New Taiwan Dollar	47,043,612
New Zealand Dollar	7,428,287
Norwegian Krone	27,019,356
Polish Zloty	13,283,794
Singapore Dollar	13,881,512
South African Rand	24,431,466
South Korean Won	55,966,190
Swedish Krona	43,995,844
Swiss Franc	201,215,882
Thai Baht	11,647,554
Turkish Lira	8,444,569
United Arab Emirates Dirham	2,068,804
	$ 2,930,447,158

NOTE 7 - FUTURES AND FORWARD CONTRACTS

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

At June 30, 2008, the System had notional value of $129,482,457 exposure in futures and forward contracts in foreign currency exchange transactions with an unrealized loss of $274,428. At June 30, 2008, the System held other futures and forward contracts with a notional value of $74,569,645 with an unrealized gain of $91,674.

NOTE 8 - MORTGAGES PAYABLE

Mortgages are secured by real estate. Interest rates range from 4.35% to 7.5% per annum. Monthly principal and interest payments range from $48,520 to $2,158,106. The mortgages mature from June 2009 to June 2032. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

Year Ending	Principal	Interest	Total
2009	$ 40,810,159	$ 16,584,038	$ 57,394,197
2010	22,674,005	14,727,975	37,401,980
2011	35,723,683	13,467,786	49,191,469
2012	2,812,268	12,377,282	15,189,550
2013	28,008,042	10,988,187	38,996,229
2014 through 2018	126,796,044	28,728,432	155,524,476
2019 through 2023	17,865,850	13,123,914	30,989,764
2024 through 2028	16,743,234	7,332,072	24,075,306
2029 through 2032	12,204,685	1,483,733	13,688,418
	$ 303,637,970	$ 118,813,419	$ 422,451,389

NOTE 9 - OPERATING LEASE

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

The annual lease payments for the year ended June 30, 2008, were $930,007 and the minimum lease commitments for futures fiscal years are as follows:

2009	$ 1,021,000
2010	1,057,000
2011	1,101,000
2012	1,155,000
	$ 4,334,000

NOTE 10 - CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982 have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right was $1,237,821,370 and $1,188,525,936 as of June 30, 2008 and 2007, 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 $1,052,751,000 and $572,908,000 at June 30, 2008 and 2007, respectively.

NOTE 11 - DONATIONS

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

The System has been informed that the Internal Revenue Service is 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 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 and $67,568 in 2008.

NOTE 12 - SUBSEQUENT EVENTS

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 subprime mortgage crisis and current financial market events, changes in the values of investment could materially affect the amounts reported in the financial statements.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

SCHEDULE 1A

SCHEDULE OF FUNDING PROGRESS – PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL As a % of Payroll
June 30, 2003	$11,690,750,393	$11,203,558,461	$(487,191,932)	104.3%	$ 970,726,720	-50.2%
June 30, 2004	11,735,696,180	11,389,980,813	(345,715,367)	103.0%	1,001,003,937	-34.5%
June 30, 2005	11,634,113,683	12,357,524,467	723,410,784	94.1%	1,037,444,701	69.7%
June 30, 2006	12,121,402,902	12,811,383,737	689,980,835	94.6%	1,092,814,844	63.1%
June 30, 2007	13,215,668,458	13,324,089,628	108,421,170	99.2%	1,135,591,951	9.5%
June 30, 2008	14,153,296,122	14,279,115,742	125,819,620	99.1%	1,206,589,277	10.4%

SCHEDULE 1B

SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL As a % of Payroll
June 30, 2003	$ 592,539,000	$ 926,760,943	$ 334,221,943	63.9%	$ 970,726,720	34.4%
June 30, 2004	605,998,904	1,009,062,407	403,063,503	60.1%	1,001,003,937	40.3%
June 30, 2005	597,199,108	1,257,504,654	660,305,546	47.5%	1,037,444,701	63.6%
June 30, 2006	613,782,166	1,631,187,439	1,017,405,273	37.6%	1,092,814,844	93.1%
June 30, 2007	687,096,380	1,656,653,149	969,556,769	41.5%	1,135,591,951	85.4%
June 30, 2008	767,647,562	1,836,840,337	1,069,192,775	41.8%	1,206,589,277	88.6%

SCHEDULE 2A

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN

Fiscal Years Ending	Annual Required Contribution	Actual Contributions	Percent Contributed
2003	$ 64,634,125	$ 64,634,125	100.00%
2004	97,465,612	97,465,612	100.00%
2005	135,853,688	135,853,688	100.00%
2006	143,945,802	143,945,802	100.00%
2007	224,946,082	224,946,082	100.00%
2008(1)	261,635,491	261,635,491	100.00%

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

SCHEDULE 2B

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN

Fiscal Years Ending	Annual Required Contribution	Actual Contributions	Percent Contributed
2003	$ 33,894,924 (1)	$ 33,894,924	100.00%
2004	38,737,255 (1)	38,737,255	100.00%
2005	31,541,933 (1)	31,541,933	100.00%
2006	31,413,281 (1)	31,413,281	100.00%
2007	55,162,681 (1)	55,162,681	100.00%
2008	98,033,338 (2)	78,257,328	79.83%

(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 43 and 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.

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CERTIFIED PUBLIC ACCOUNTANTS

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CARL P. SIMPSON, CPA

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

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

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2008 and 2007, and related statements of changes in plan net assets for the years ended, and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the System in a separate letter dated November 21, 2008.

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

Simpson & Simpson

Los Angeles, California
November 21, 2008

active and retired MEMBERSHIP

FIRE AND POLICE PENSION PLANS

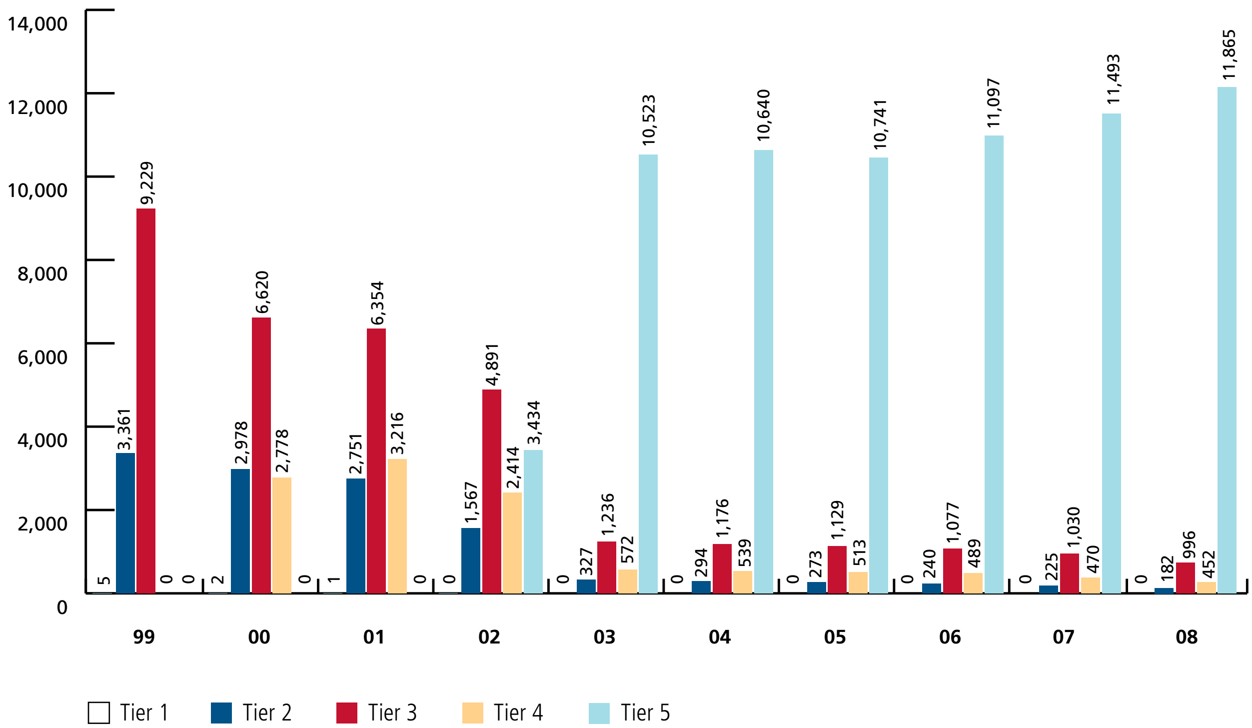
SIX FIRE AND POLICE PENSION PLANS

As of June 30, 2008, the System is composed of six tiers. Benefits are based on the member's pension tier, pension salary base and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

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

Members hired on or before January 28, 1967 participate in Tier 1 (formerly Article XVII). Tier 2 (formerly Article XVIII) includes members hired on or after January 29, 1967 and Tier 1 members who transferred to Tier 2. Members hired on or after December 8, 1980 participate in Tier 3 (formerly Article XXXV, Plan 1) and those hired on or after July 1, 1997 are in Tier 4 (formerly Article XXXV, Plan 2). Tier 3 members were allowed to transfer to Tier 4 during an enrollment period. Also, Tier 4 members hired between July 1, 1997 and December 31, 1997 were given the opportunity to transfer to Tier 3 during an enrollment period. Tier 5 is the only tier accepting new members. It was established for all members hired on or after January 1, 2002. Active members in Tiers 2, 3 and 4 were allowed to transfer to Tier 5 during the enrollment period from January 1, 2002 through December 31, 2002. Additionally, eligible sworn members of the Harbor Department hired prior to January 8, 2006 were provided the option to transfer to Tier 5 from LACERS during the period January 8, 2006 through January 5, 2007. Harbor Department eligible sworn personnel hired on or after January 8, 2006 are automatically enrolled as Tier 5 members.

Active Membership Last Ten Years

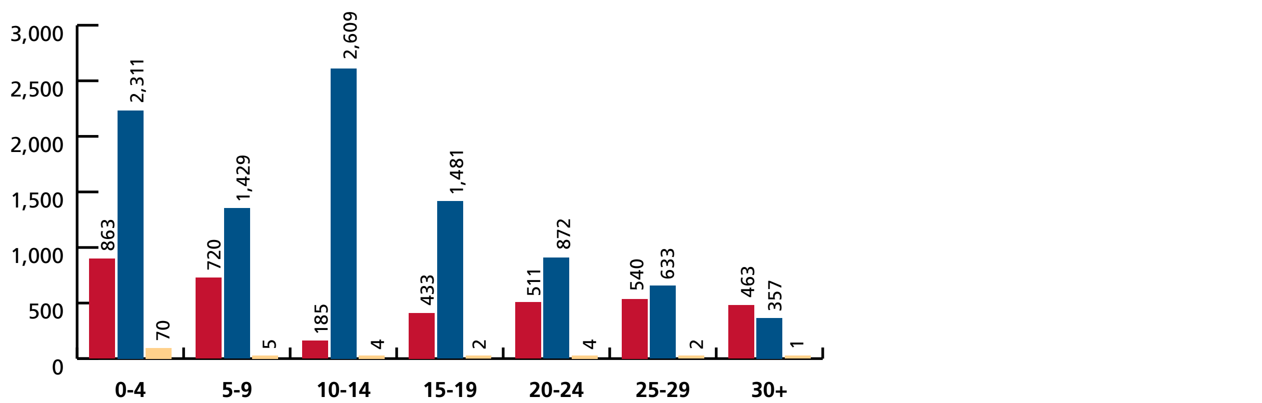


MEMBERSHIP AS OF JUNE 30, 2008

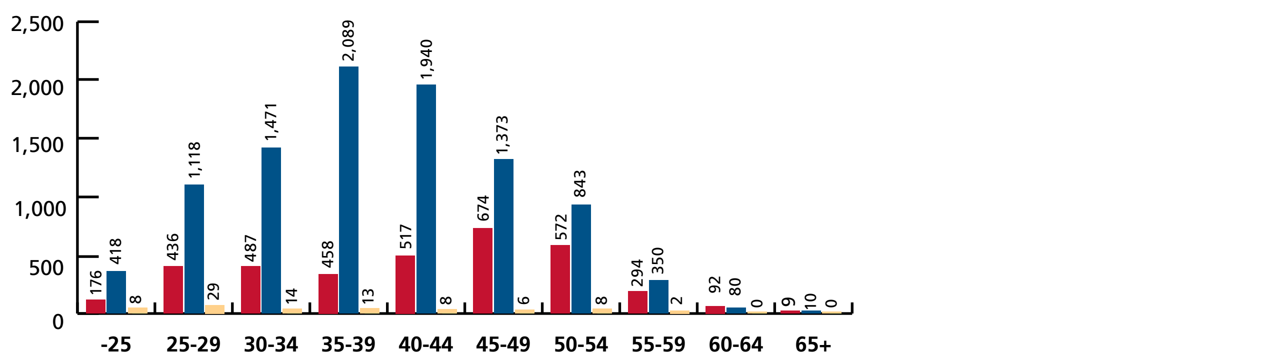
TIER	FIRE	POLICE	HARBOR	TOTAL
Tier 1	0	0	0	0
Tier 2	71	111	0	182
Tier 3	32	964	0	996
Tier 4	61	391	0	452
Tier 5	3,551	8,226	88	11,865
Total	3,715*	9,692**	88***	13,495

Includes 530 **DROP participants.*
***Includes 613 **DROP** participants.*
****Includes 1 **DROP** participant.*

Active Membership by Years of Service



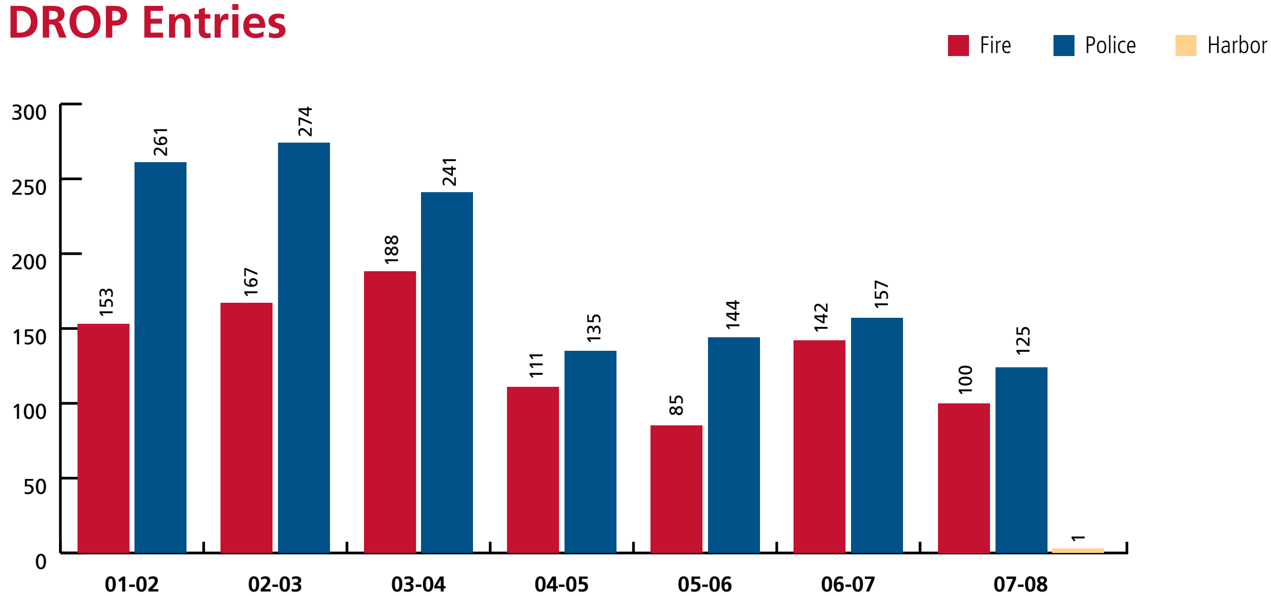
Active Membership by Age Group



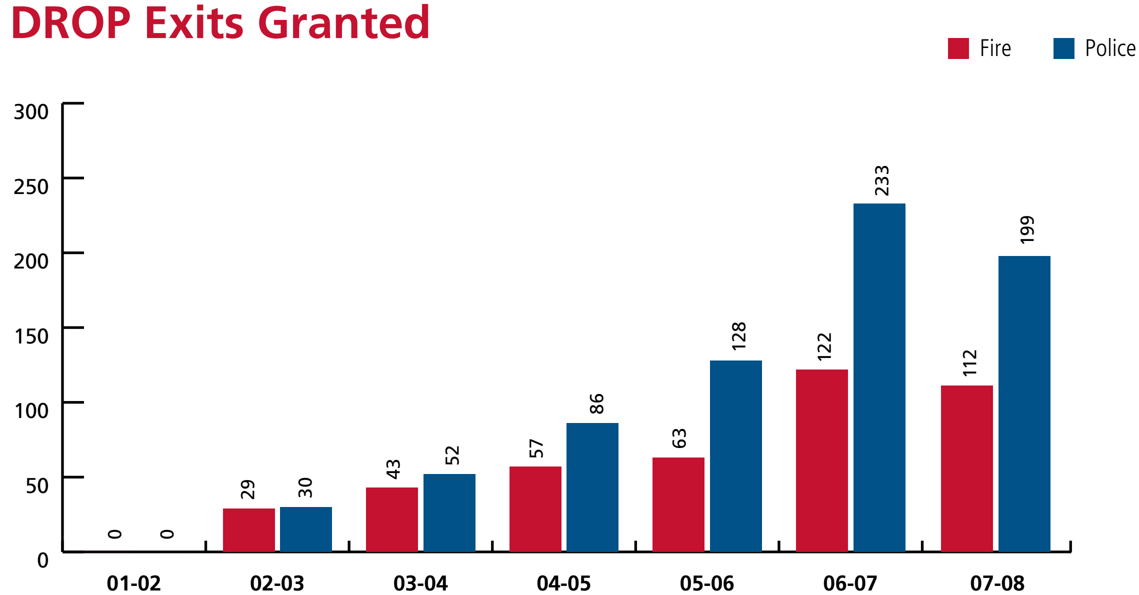
REFUNDS OF MEMBER CONTRIBUTIONS

	01-02	02-03	03-04	04-05	05-06	06-07	07-08
Fire:							
Tier 2	0	0	0	0	0	0	0
Tier 3	3	1	0	1	0	0	0
Tier 5	0	6	10	15	17	6	10
Police:							
Tier 2	4	0	0	0	0	1	0
Tier 3	117	49	39	29	22	15	12
Tier 5	13	37	54	55	64	97	69
Harbor:							
Tier 5	0	0	0	0	0	1	0
Total	137	93	103	100	103	120	91

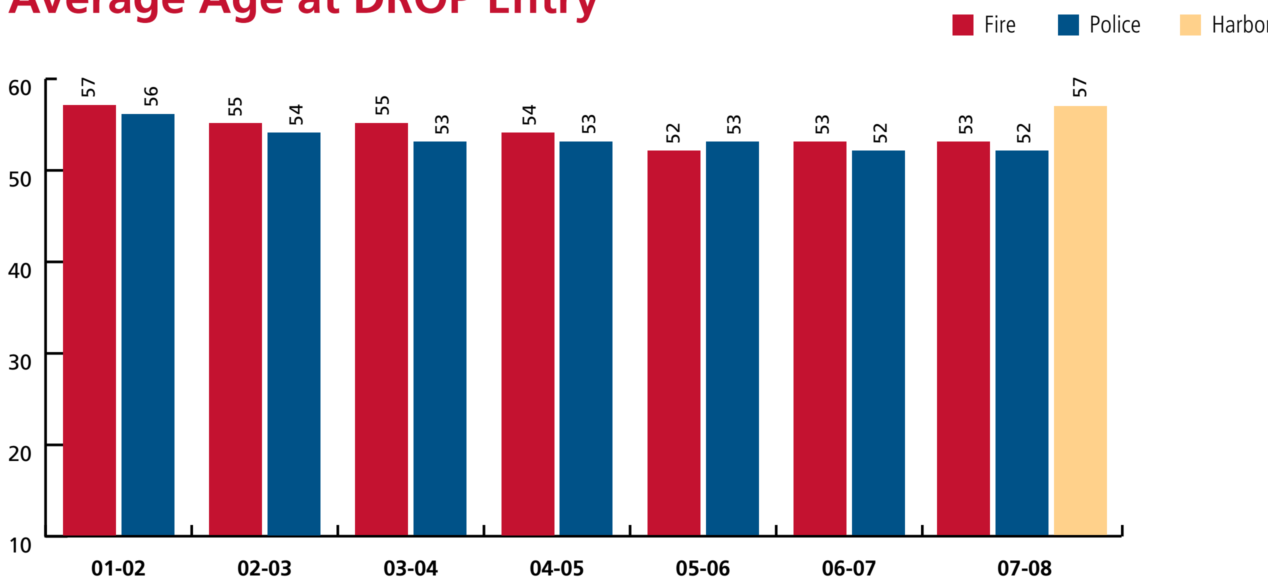
Deferred Retirement Option Plan (DROP)
DROP Entries



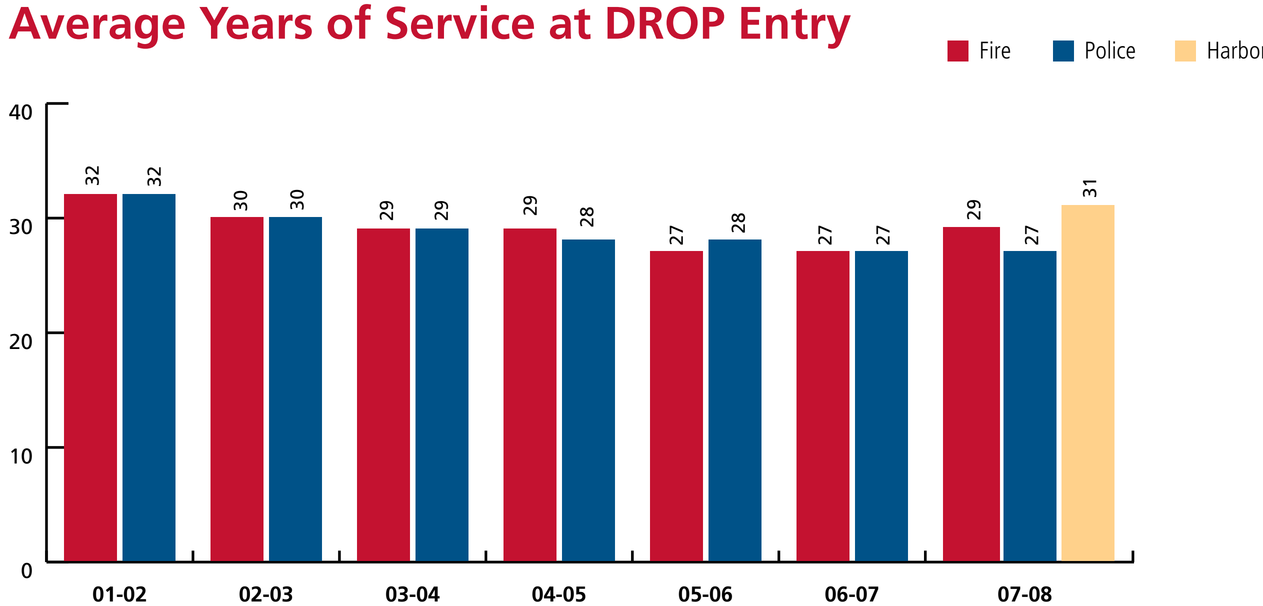
DROP Exits Granted



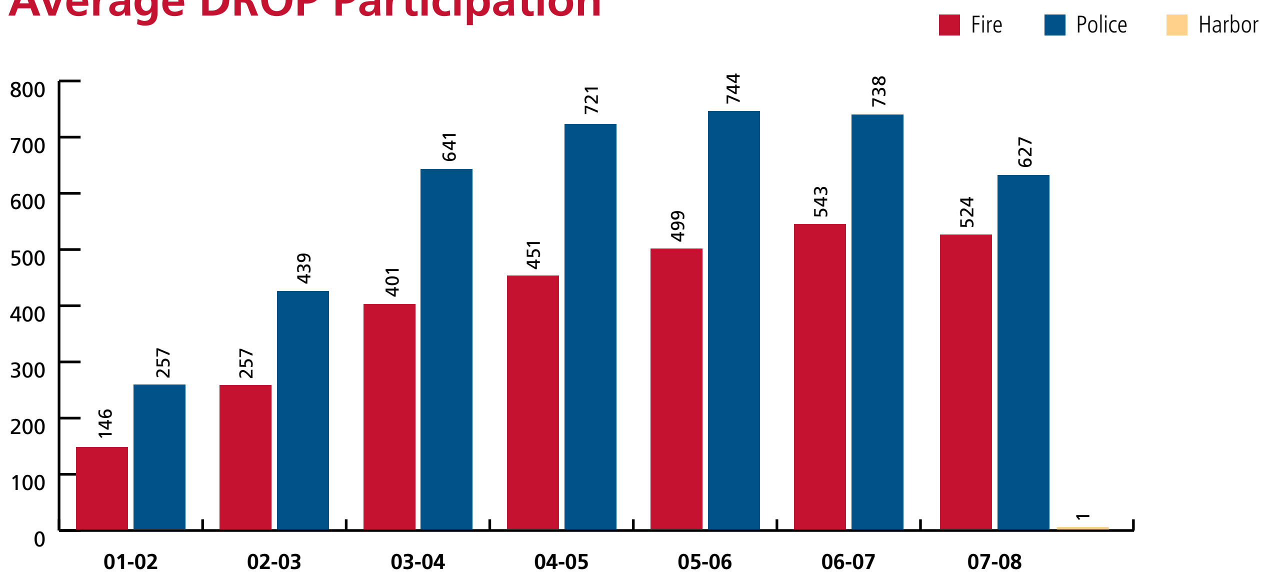
Deferred Retirement Option Plan (DROP)
Average Age at DROP Entry



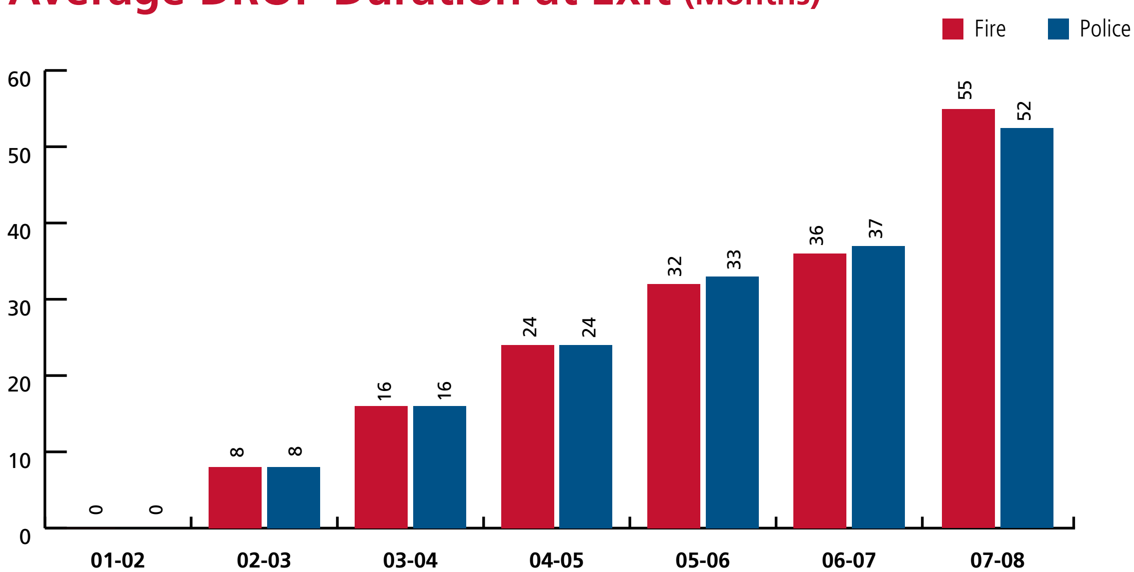
Average Years of Service at DROP Entry



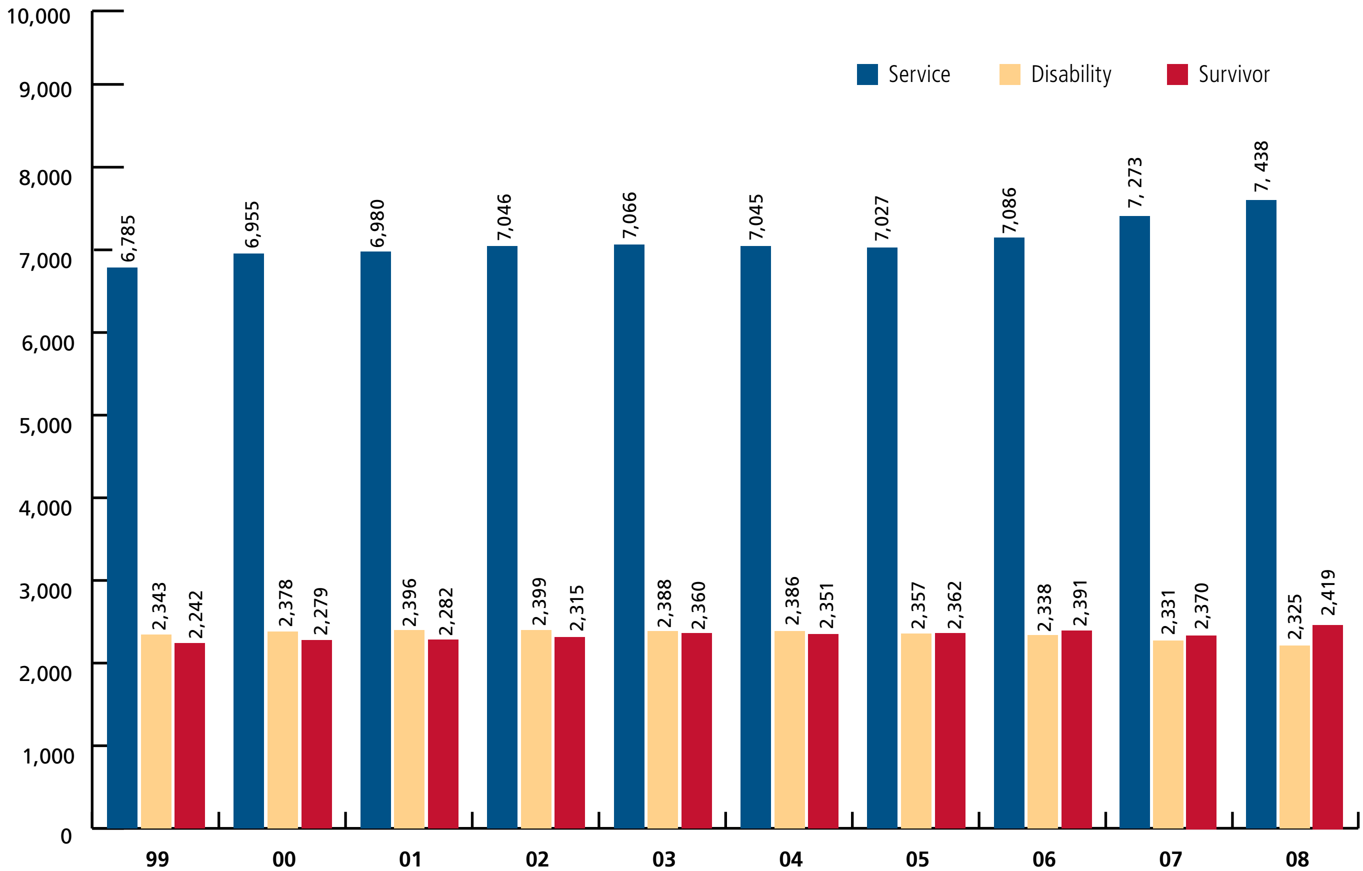
Deferred Retirement Option Plan (DROP)
Average DROP Participation



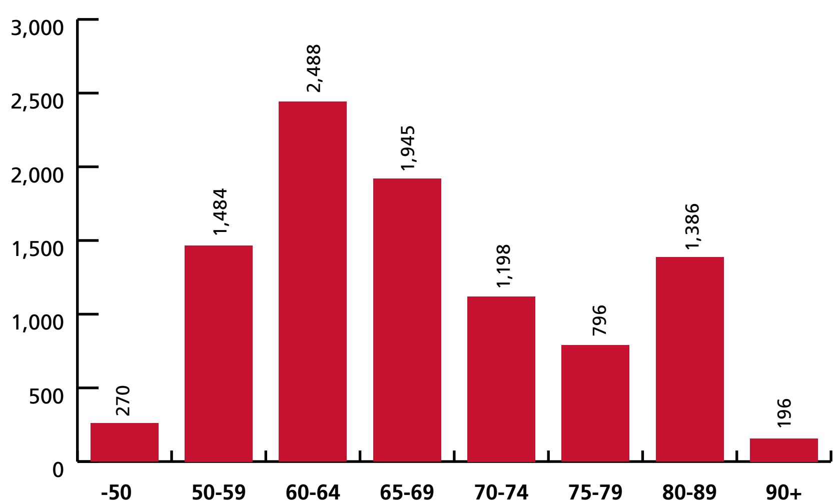
Average DROP Duration at Exit (Months)



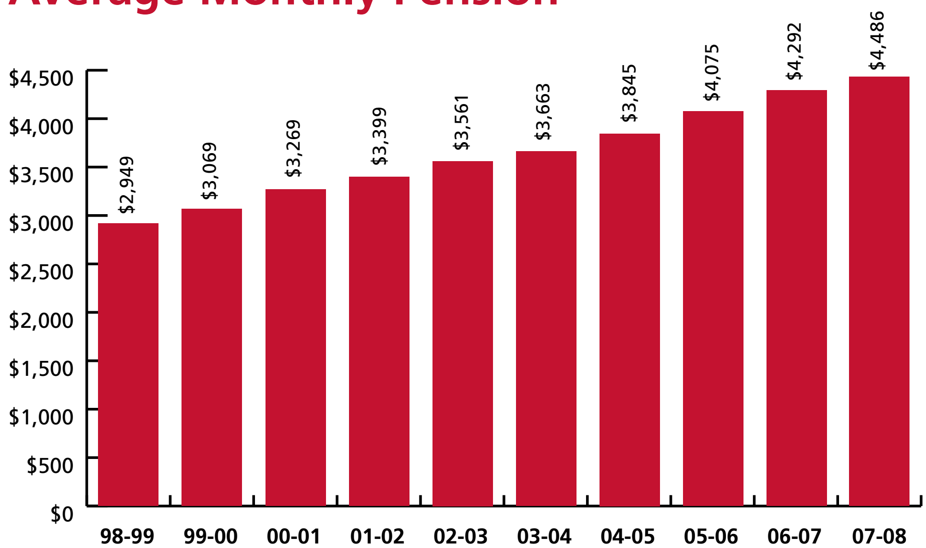
Retired Membership Last Ten Years



Retired Membership by Age Group



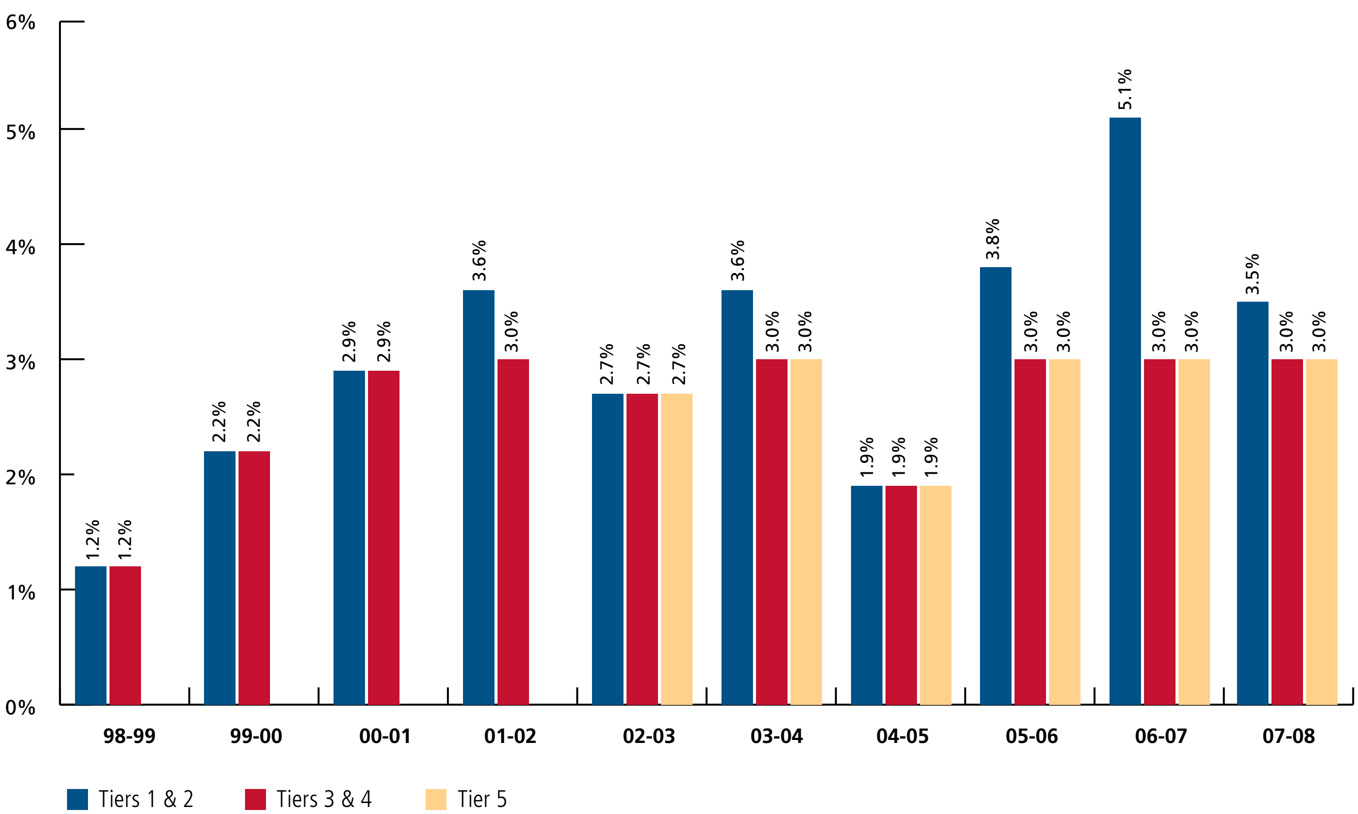
Average Monthly Pension



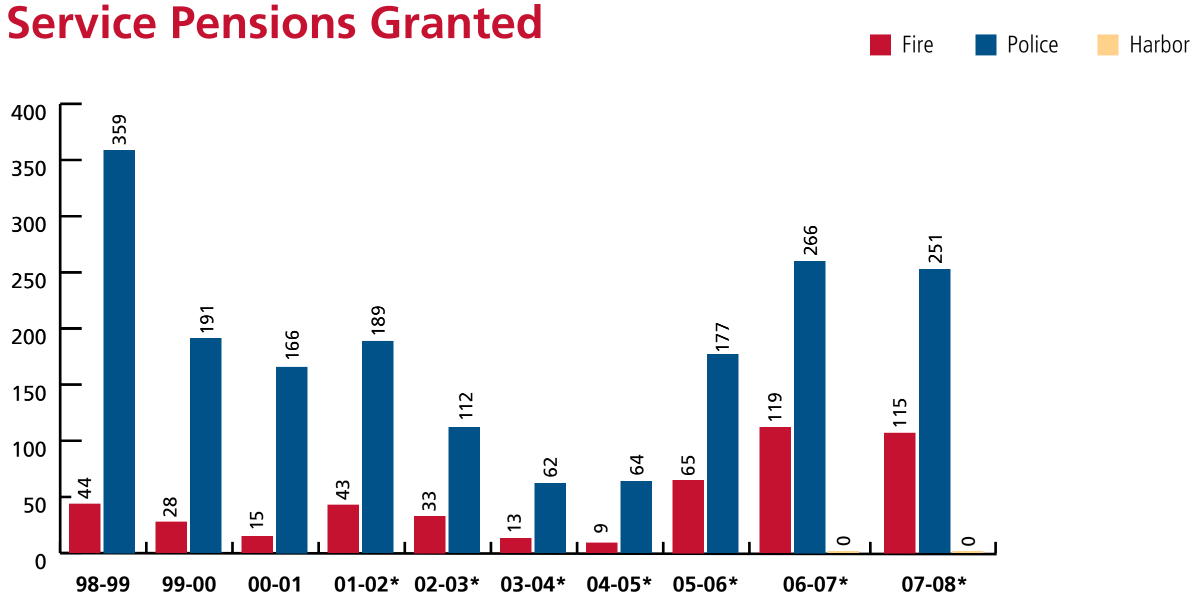
Cost-of-Living Adjustments

EFFECTIVE JULY 1

Cost-of-living adjustments are made to eligible pensions each July 1, based on the movement of the Consumer Price Index for the Greater Los Angeles area from March 1 of the preceding year to March 1 of that year. Members of Tier 1 and Tier 2 have no cap on their cost-of-living adjustments. Members of Tiers 3, 4 and 5 have cost-of-living adjustments capped at 3 percent. Members of Tier 5 also have a COLA Bank feature.

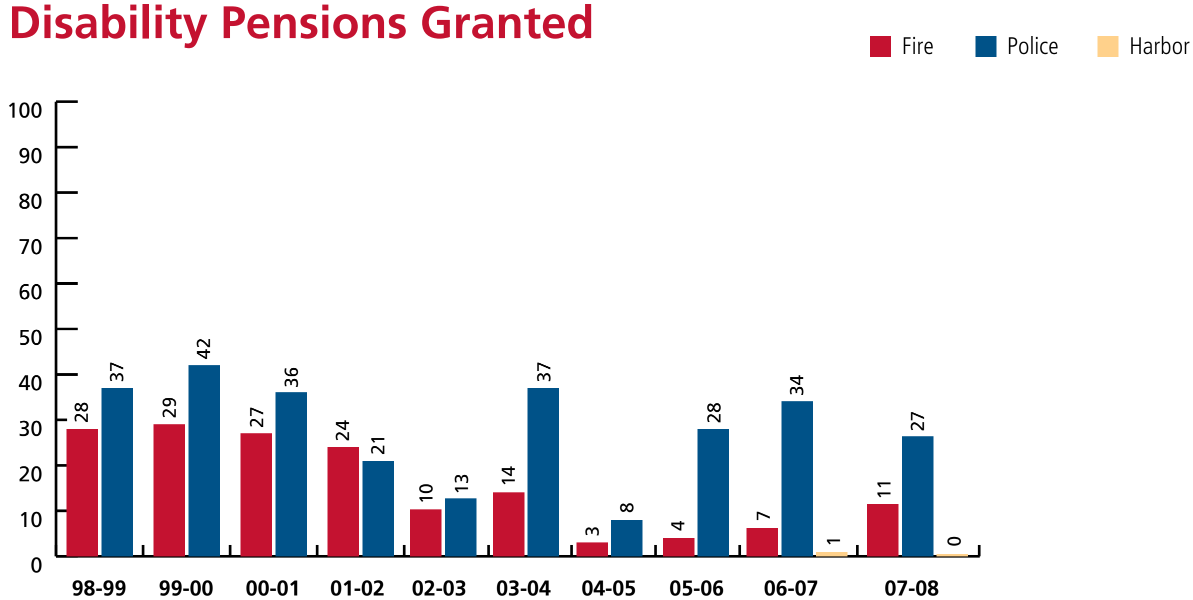


Pension Statistics: Last Ten Years
Service Pensions Granted

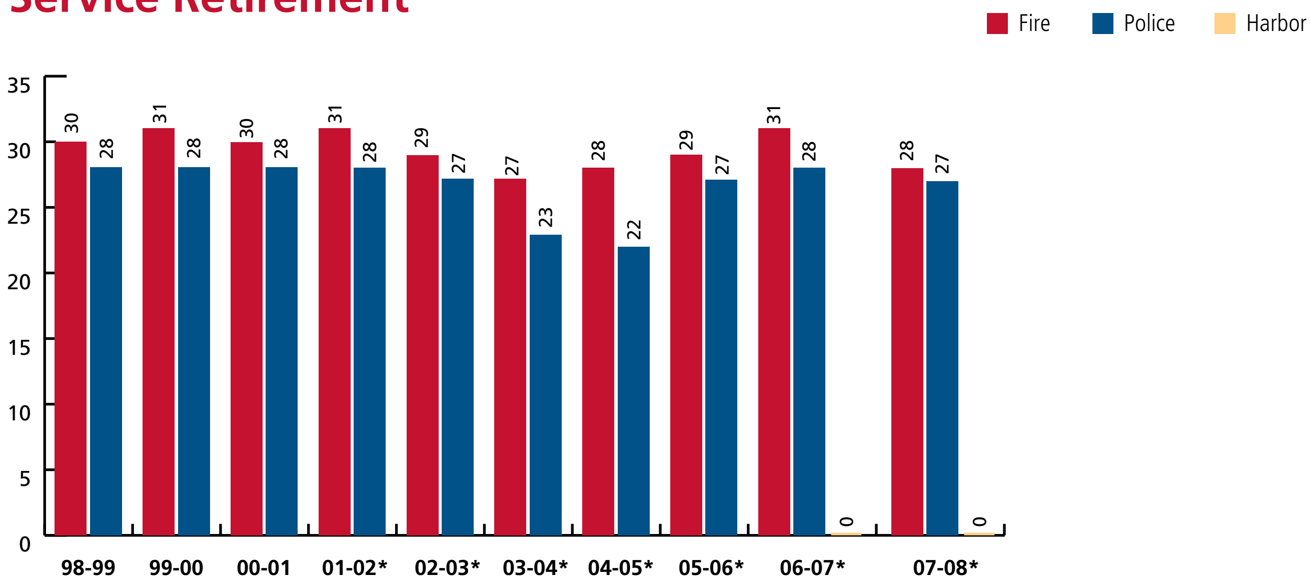


**Excludes DROP Exits.*

Disability Pensions Granted

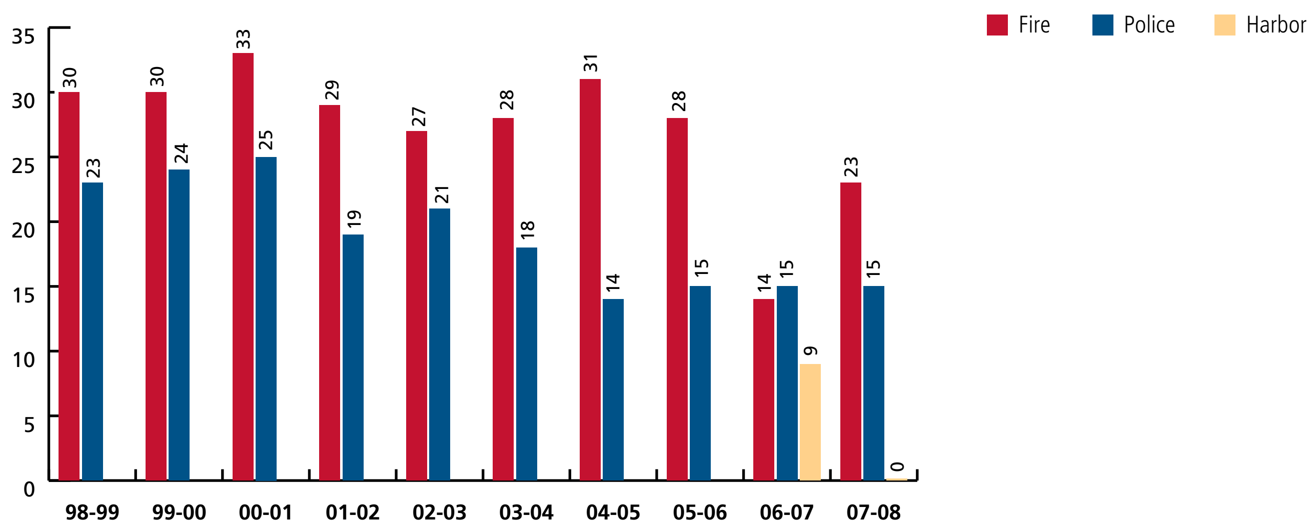


Pension Statistics: Last Ten Years
Average Years of Service at Service Retirement

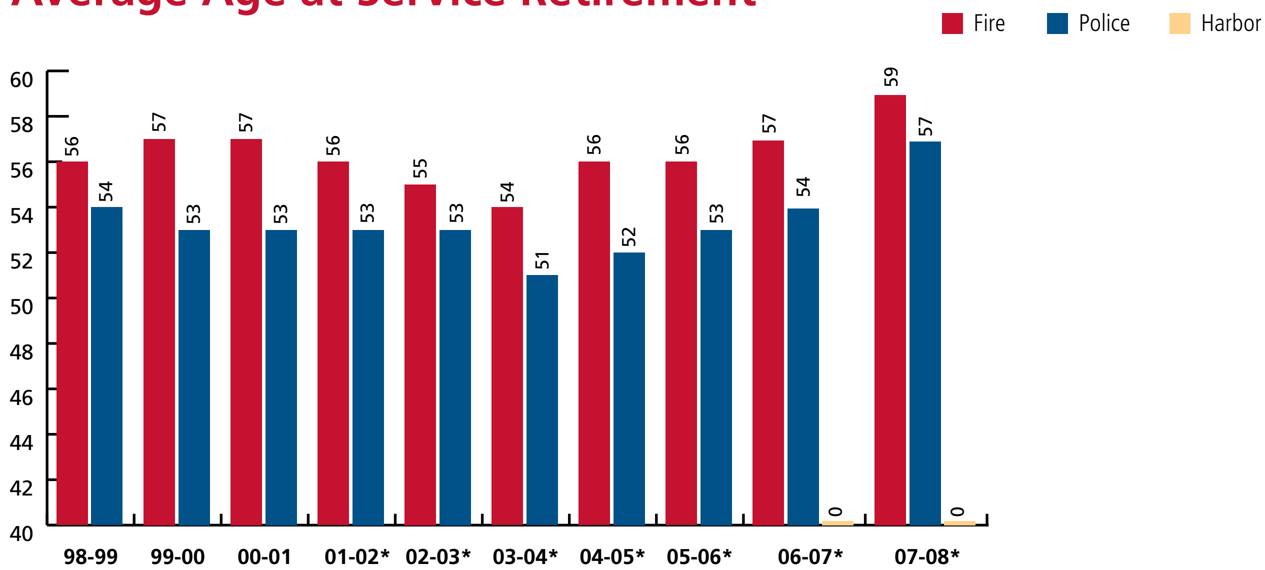


*Excludes DROP Exits.

Average Years of Service at Disability Retirement

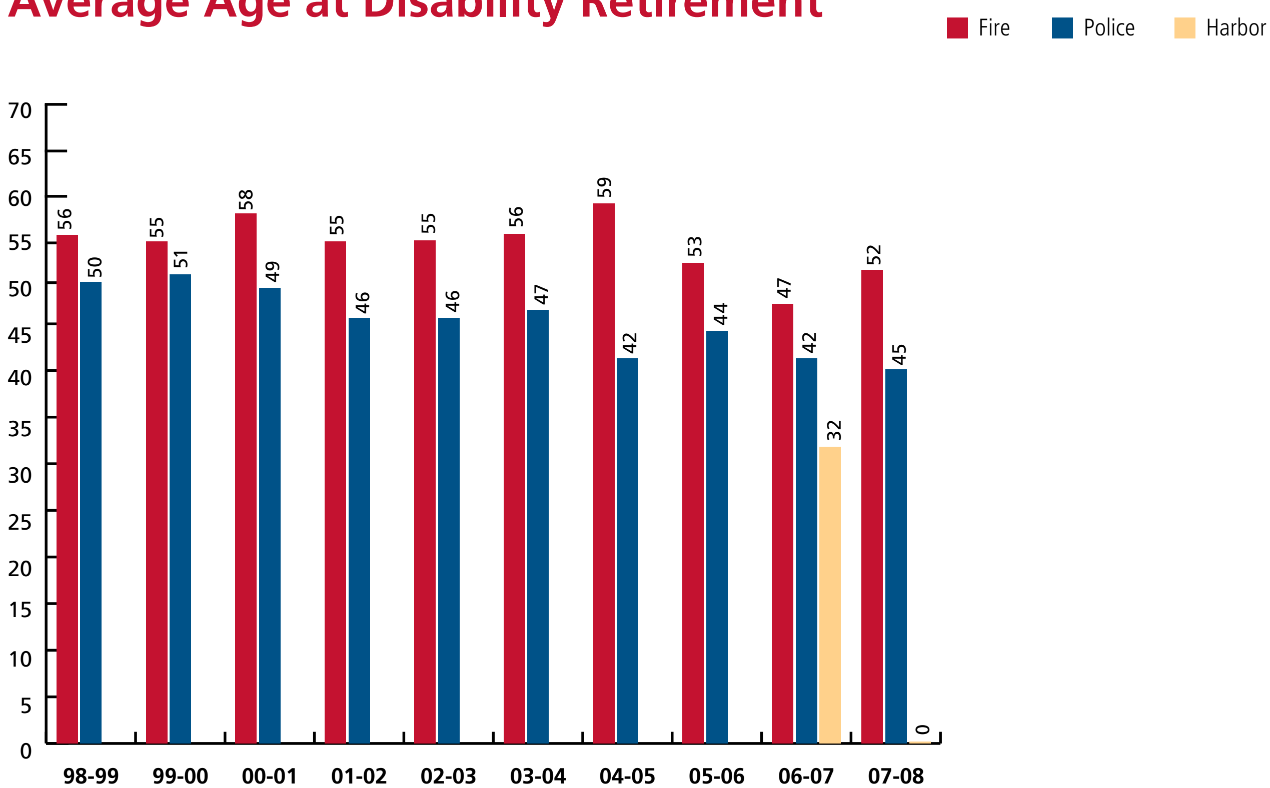


Pension Statistics: Last Ten Years
Average Age at Service Retirement



**Excludes DROP Exits.*

Average Age at Disability Retirement



Service-Connected Disability Pensions by Type and Department

DISABILITY PENSIONS GRANTED	FISCAL YEAR 2003-04			FISCAL YEAR 2004-05			FISCAL YEAR 2005-06			FISCAL YEAR 2006-07			FISCAL YEAR 2007-08		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Physical Only	13	24	37	12	16	28	4	20	24	5	27	32	11	23	34
Physical/Psychiatric	1	10	11	0	7	7	0	6	6	2	10	12	0	2	2
Psychiatric Only	0	1	1	0	1	1	0	0	0	0	3	3	0	0	0
TOTAL	14	35	49	12	24	36	4	26	30	7	40	47	11	25	36

TYPES OF CLAIMS*	FISCAL YEAR 2003-04			FISCAL YEAR 2004-05			FISCAL YEAR 2005-06			FISCAL YEAR 2006-07			FISCAL YEAR 2007-08		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Back	12	27	39	10	9	19	4	17	21	5	27	32	8	23	31
Neck	3	10	13	6	12	18	2	9	11	1	13	14	2	11	13
Knees	7	15	22	6	9	15	2	10	12	1	5	6	6	7	13
Other Orthopedic	8	21	29	6	14	20	1	26	27	6	19	25	6	14	20
Cardiovascular	2	9	11	2	5	7	1	7	8	0	5	5	3	7	10
Ulcer	0	11	11	1	7	8	0	4	4	0	4	4	1	6	7
Hypertension	1	8	9	0	4	4	2	4	6	0	8	8	3	5	8
Pulmonary	2	0	2	0	0	0	1	1	2	1	1	2	0	2	2
Cancer	3	1	4	0	2	2	0	1	1	0	1	1	0	2	2
Gun Shot Wound	0	1	1	0	0	0	0	0	0	0	1	1	0	1	1
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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

Service- and Nonservice-Connected Disability Retirements by Department and Rank

FIRE	03-04	04-05	05-06	06-07	07-08
Firefighter	5	6	0	4	3
Apparatus Operator	1	0	0	1	0
Engineer	2	3	1	1	3
Inspector	0	1	0	0	1
Captain	6	2	2	1	4
Battalion Chief	0	0	1	0	0
Assistant Chief	0	0	0	0	0
Deputy Chief	0	0	0	0	0
TOTAL	14	12	4	7	11

POLICE	03-04	04-05	05-06	06-07	07-08
Police Officer	25	14	15	25	22
Sergeant	2	7	7	6	4
Detective	8	2	3	10	4
Lieutenant	0	1	1	1	1
Captain	2	0	0	0	0
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
TOTAL	37	24	26	42	31

legal SUMMARY

Summary of Legal Activities

FISCAL YEAR 2007–2008

Under City Attorney Rockard J. Delgadillo, the Retirement Benefits Division of the Los Angeles City Attorney's Office, led by Managing Assistant City Attorney Alan L. Manning, along with Deputy City Attorneys John C. Blair, Mary Jo Curwen and Michael R. Wilkinson, and assisted by legal Secretary Rebecca Clark, provided day-to-day assistance on the myriad legal issues facing the Department and the members and beneficiaries of the Plan. As legal counsel to the Board of Fire and Police Pension Commissioners and the Department, the City Attorney's Office provided advice on a wide range of subjects, from Brown Act issues and public record requests to Tier 5 and Deferred Retirement Option Plan (DROP) issues and compliance with new tax regulations. Additionally, the Division provided representation for the Board and the Department in all legal matters. It assisted members and their beneficiaries in understanding the effects of dissolution proceedings on pension and DROP benefits. The Division worked with the Department Staff on ordinances and City Charter changes, including Medicare Part B, Public Service Purchase Program, Recall to Duty and several amendments to the Deferred Retirement Option Plan.

summary of PENSION PLAN BENEFITS

Fire and Police Pension Plan

Tier 1 (Formerly Article XVII)
(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 Effective January 1, 2002

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
1. SERVICE RETIREMENT				
a. Eligibility	20 years of service	20 years of service	Tier 3: Age 50 with 10 years of service Tier 4: 20 years of service	Age 50 with 20 years of service
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	40% at 20 years of service, plus 2% for each additional year up to 25 years of service, plus 1-2/3% for each additional year between 25 and 35 years of service Maximum of 66-2/3% for 35 or more years of service	40% at 20 years of service, plus 2% for each additional year up to 25 years of service. 55% at 25 years of service, plus 3% for each additional year between 25 and 30 years of service Maximum of 70% for 30 or more years of service	2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service Maximum of 70% for 30 or more years of service	50% at 20 years of service, plus 3% for each additional year of service (except 4% at 30 years of service) Maximum of 90% for 33 or more years of service
2. SERVICE-CONNECTED DISABILITY				
a. Eligibility	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	50% to 90% depending on severity of disability, with a minimum of member's service pension percentage rate	50% to 90% depending on severity of disability, with a minimum of member's service pension percentage rate	30% to 90% depending on severity of disability, with a minimum of 2% per year of service	30% to 90% depending on severity of disability, with a minimum of 2% per year of service
3. NONSERVICE-CONNECTED DISABILITY				
a. Eligibility	Not work related Five years of service	Not work related Five years of service	Not work related Five years of service	Not work related Five years of service
b. Salary base	Highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay	Highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	40%	40%	30% to 50% depending on severity of disability	30% to 50% depending on severity of disability

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

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	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 Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank
e. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank

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

a. Eligibility	20 years of service	20 years of service	*Tier 3:* 10 years of service *Tier 4:* 20 years of service	20 years of service
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	100% of member's accrued service retirement member would have received, not to exceed 50% of Normal Pension Base Uncapped COLA	100% of member's accrued service retirement member would have received, not to exceed 55% of Normal Pension Base Uncapped COLA	80% of service retirement member would have received, not to exceed 40% of Final Average Salary 3% cap on COLA, no COLA Bank	*Former Tier 2:* 100% of member's accrued service retirement member would have received, not to exceed 55% of Normal Pension Base 3% cap on COLA, with COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 80% of service retirement member would have received, not to exceed 40% of Final Average Salary 3% cap on COLA, with COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	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 Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank

6. DEATH AFTER SERVICE RETIREMENT

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

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	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 Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank

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

a. Eligibility	Five years of service	Five years of service	Five years of service	Five years of service
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay Uncapped COLA	40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay Uncapped COLA	**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 3% cap on COLA, no COLA Bank **DEATH AFTER NONSERVICE-CONNECTED DISABILITY** 60% of member's pension 3% cap on COLA, no COLA Bank	**NONSERVICE-CONNECTED DEATH** *Former Tier 2:* 40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay 3% cap on COLA, with COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 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 3% cap on COLA, with COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
				DEATH AFTER NONSERVICE-CONNECTED DISABILITY *Former Tier 2:* 40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay with 3% cap on COLA and COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 60% of member's pension 3% cap on COLA, with COLA Bank
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 Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive Uncapped COLA	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 Uncapped COLA	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 3% cap on COLA, no COLA Bank	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 3% cap on COLA, with COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
8. COST-OF-LIVING				
a. Generally applicable provisions	Full annual cost-of-living increase or decrease Cost-of-living adjustments compound, and are based upon the Consumer Price Index for local Urban Consumers Survivors' pension includes the percentage of cost-of-living adjustments applied to the member's pension prior to death	Full annual cost-of-living increase or decrease Cost-of-living adjustments compound, and are based upon the Consumer Price Index for local Urban Consumers Survivors' pension includes the percentage of cost-of-living adjustments applied to the member's pension prior to death	Annual cost-of-living increase or decrease not to exceed 3% Cost-of-living adjustments compound, and are based upon the Consumer Price Index for local Urban Consumers City Council may grant discretionary cost-of-living increases once every three years Survivors' pension includes the percentage of cost-of-living adjustments applied to the member's pension prior to death Pro rata adjustment in the first year of retirement	Annual cost-of-living increase or decrease not to exceed 3% Amounts above the maximum of 3% are banked to be credited during years when the Consumer Price Index is less than the maximum Cost-of-living adjustments compound, and are based upon the Consumer Price Index for local Urban Consumers City Council may grant discretionary cost-of-living increases once every three years. Such discretionary COLAs reduce the member's COLA Bank Survivors' pension includes the percentage of cost-of-living adjustments applied to the member's pension prior to death Pro rata adjustment in the first year of retirement
b. Effective date of cost-of-living adjustments				
i. Service retirement	Annual adjustments commence on July 1 following the later of the effective date or the date the member would have been age 55	Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
ii. Service-connected disability, service-connected death	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
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 effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
iv. Nonservice-connected death, death while eligible for service retirement	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date
v. Death after nonservice-connected disability, death after service-connected disability	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date	Annual adjustments commence on the July 1 following the effective date

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
9. MEMBERS' CONTRIBUTION AS A PERCENTAGE OF ANNUAL PAY				
	6% No member contributions required after 30 years of service	6% plus 1/2 cost of cost-of-living benefit up to 1% (currently 7%) No member contributions required after 30 years of service	8% No member contributions required after 30 years of service	9% City pays 1% of 9% if Plan is at least 100% actuarially funded No member contributions required after 33 years of service
10. QUALIFIED SURVIVORS				
a. Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP) eligibility requirements				
i. Nonservice-connected death	Married at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death
ii. Service-connected death	Married as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death
iii. Death after service pension	Married at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death
iv. Death after nonservice-connected disability	Married at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death
v. Death after service-connected disability	Married as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death
b. Minor child eligibility requirements	Legitimate or adopted child of a deceased member, until age 18 or marries, whichever comes first	Legitimate or adopted child of a deceased member, until age 18 or marries, whichever comes first	Child or adopted child of a deceased member, until age 18 (22 if a full-time student) or marries, whichever comes first	Child or adopted child of a deceased member, until age 18 (22 if a full-time student) or marries, whichever comes first
c. Dependent child eligibility requirements	Legitimate or adopted child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Legitimate or adopted child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood

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

11. MISCELLANEOUS

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

milestones

MILESTONES

1899-1901. The California State Legislature enacted legislation in 1899 that enabled cities and counties to establish pension systems for police officers and firefighters. The City of Los Angeles authorized a system for police officers effective June 7, 1899 and for firefighters effective June 10, 1901. It provided for a pension at age 60 after 20 years of service, at an amount of one-half of the salary of the rank held for one year preceding retirement. Disability and survivor benefits were also provided. Member contributions were set at $2 per month.

1911-1919. In 1911 a Charter amendment empowered the City Council to make changes in the pension systems. Effective September 16, 1913, the Council adopted an ordinance that 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 was placed on an actuarial basis effective January 29, 1923 and a provision was added increasing pensions for members with more than 20 years of service, based on a formula of 1-2/3 percent for each year of service over 20 up to two-thirds of the salary of the rank held at retirement. The new City Charter 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 requirements were eliminated and the System was placed on a "pay-as-you-go" basis effective May 15, 1933.

1947. Members hired after January 17, 1947 could retire after 20 years of service with a pension equal to 40 percent of the average salary of the last three years of service with an additional 2 percent for each of the next five years of service and 1-1/3 percent for each of the next ten years of service. A maximum pension of two-thirds of the average salary was retained, with a cap based on the salary level of a Police Captain or Fire Battalion Chief. Member contributions were increased from 4 percent to 6 percent of salary. Effective June 16, 1947, a Charter amendment created a nonservice-connected disability pension of 40 percent of the highest salary attached to the rank of firefighter or police officer; an equal amount was to be paid to any surviving spouse with additional percentages allowed for unmarried minor children under the age of 18.

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

1958. The California Supreme Court ruled that the 1928 Charter provisions for fixed pension did not apply to members employed prior to July 1, 1925 or to surviving spouses of members employed prior to January 27, 1927.

1959. Effective May 6, 1959, the System was again placed on an actuarial basis with a 50-year amortization period for the unfunded liabilities. Investment provisions were changed to permit investment of up to 35 percent of 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. Article XVII was extensively amended, and a New Pension System (Article XVIII) adopted effective January 29, 1967 provided:

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

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

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

(4) an extension of the amortization period for the unfunded liabilities to 70 years; and

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

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

1969. Amendments to Articles XVII and XVIII effective May 2, 1969 applied cost-of-living adjustments to disability and survivor pensions. Service pensioners were allowed to apply for return to active duty under certain conditions and restrictions. The authorized limit for common stock investments was raised to 50 percent of fund assets.

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

1974. Article XVII and XVIII amendments enabled the City Council to adopt ordinances providing health insurance premium subsidy benefits and other programs for eligible pensioners.

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

1976. The health insurance 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 Article XVII was eliminated effective April 15, 1977.

1980. Article XXXV, The Safety Members' Pension Plan, was created effective December 8, 1980. It provided for a pension at age 50 with 10 years of service based on a formula of 2 percent per year of service up to 20 years and 3 percent for each additional year up to a maximum pension of 70 percent of annual salary at retirement; refund of member contributions with interest upon termination; and a surviving spouse pension equal to 60 percent of 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 Articles XVII and XVIII provided a 3 percent cap on the cost-of-living adjustment for all future service earned by active members and a refund of member contributions upon termination. Cost-of-living adjustments were prorated for the first year of retirement. Paramedics and civilian ambulance drivers were transferred from the City Employees' Retirement System to the Safety Members' Pension Plan (Article XXXV).

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

1990. A series of measures was 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.

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

1993. The Board of Pension Commissioners was given authority to increase investments under the "prudent person" provisions of the Charter from 25 percent to 50 percent. Retired Article XVIII members may be recalled for up to one year after retirement.

1995. The amount of salary to be used to calculate pension benefits was capped at $150,000 (adjusted annually) for members hired on or after July 1, 1996. The City Council was authorized to enact ordinances required to maintain the tax-qualified status of Article XXXV under federal law.

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

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

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

Article XXXV members retiring on or after July 1, 2000 at a rank no higher than Fire Captain or Police Lieutenant shall receive some pension credit for prior hazard pay even if no hazard pay was received during the 12-month period used to determine Final Average Salary for pension purposes.

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

The City Council approved an ordinance lowering the health 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 Article XXXV, Plan 2 to Article XXXV, Plan 1. The provision allowed the Metropolitan Transportation Authority officers who merged into the Police Department to join either Plan 1 or Plan 2 of Article XXXV. A delay in the merger made it necessary to add this provision so that negotiated benefits could be provided.

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

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

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

(1) The official department name became the Department of Fire and Police Pensions.

(2) The plans were reorganized under a new Charter Article number. Articles XVII, XVIII, XXXV Plan 1 and XXXV Plan 2 are referred to as Tiers 1, 2, 3 and 4, respectively.

(3) The Board of Commissioners was expanded from seven to nine members and includes an elected retired fire member and an elected retired police member.

(4) The Board selects the General Manager, subject to confirmation by the Mayor and Council, and may remove the 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 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 transferred to Tier 5 and who had prior service as paramedics or civilian ambulance personnel under LACERS to purchase this period of service.

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

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

The second amendment provided the following:

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

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

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

Internal Risk Assessment — 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 plan by April 30, 2007. There were approximately 200 mandatory exits processed in April and May 2007.

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

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

Carbon Disclosure Project — 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.

Management Audit — The first management audit of the System was conducted by Independent Fiduciary Services and the results released on December 3, 2007. Charter Section 1112 requires that the City Controller, the Office of the Mayor and the Los Angeles City Council shall jointly cause, once every five years, a management audit to be conducted by an independent, qualified management auditing firm. The purpose of the audit was to examine whether the pension system is operating in the most efficient and economical manner. The audit found that the System was generally operating efficiently and in accordance with best industry practices, providing good investment returns overall, utilizing reasonable actuarial assumptions and methods and pre-funding health insurance premium subsidy benefits.

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

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

(1) July 3, 2008 — A DROP member who is subsequently appointed Fire or Police Chief prior to exiting DROP shall be allowed to rescind his/her DROP election.

(2) November 4, 2008 — A definitive ending date for the DROP Program was removed, and a member must be on active duty status at the time of entry into the program.

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