ANNUAL REPORT

2001

July 1, 2000 to June 30, 2001

CITY OF LOS ANGELES DEPARTMENT OF FIRE AND POLICE PENSIONS

FIRE AND POLICE PENSION SYSTEMS

Department of Fire and Police Pensions

360 East Second Street
Suite 600
Los Angeles, California 90012
Electronic Mail: PENSIONS@FPPEN.LACITY.ORG
Web Site: http://www.cityofla.org

2001 Annual Report

July 1, 2000 to June 30, 2001

Gary Mattingly
General Manager

Edward Griffiths
Assistant Manager, Benefits

Rhonda Peterson
Assistant Manager, Administrative Services

Donna Weisz Jones
Assistant City Attorney

Tom Lopez
Chief Investment Officer

Table of Contents

MAYOR
Richard J. Riordan

City Attorney	Controller
James Kenneth Hahn	Rick Tuttle

CITY COUNCIL

John Ferraro, *President*
Joel Wachs, *President Pro Tempore*

Mike Hernandez First District	**Joel Wachs** Second District	**Laura Chick** Third District
John Ferraro Fourth District	**Michael Feuer** Fifth District	**Ruth Galanter** Sixth District
Alex Padilla Seventh District	**Mark Ridley-Thomas** Eighth District	**Rita Walters** Ninth District
Nate Holden Tenth District	**Cindy Miscikowski** Eleventh District	**Hal Bernson** Twelfth District
Jackie Goldberg Thirteenth District	**Nick Pacheco** Fourteenth District	**Rudy Svorinich, Jr.** Fifteenth District

BOARD OF PENSION COMMISSIONERS
Gay L. Harwin, President

Steven J. Silberman Vice President	**Sam Diannitto** Commissioner
George Aliano Commissioner	**Charles B. Isgar** Commissioner
Mike Carter Commissioner	**David H. Kim** Commissioner
Thomas A. Dawson Commissioner	**Louis F. Moret** Commissioner

June 30, 2001

The Honorable James K. Hahn, Mayor
Honorable Members of the City Council

In accordance with Section 216 of the Los Angeles Charter, I am submitting the Annual Report of the Department of Fire and Police Pensions for the fiscal year ended June 30, 2001. This annual report includes the System's financial statements audited by an independent audit firm and the actuarial valuation summary prepared by the System's actuary.

Although the System's overall investment performance was down 10% for the fiscal year 2000-2001, the annualized return for the past five years was 11.06 %. Total system assets are $11.382 billion. The funding of pension benefits increased to 118.9%, a 3.9% improvement. During the same period, the funding of health subsidy benefits increased to 68.3%, an increase of 4.1%.

A 0.5% decline in active membership brought the total to 12,322. Pensioners currently number 11,658, a 0.4% increase. The average monthly benefit paid to pensioners rose to $3,269, a 6.5% increase from the previous year.

Significant benefit changes were approved in 2001. A Tier 5 will become effective January 1, 2002 and will increase the maximum pension benefit from 70% to 90% of salary.

The City Council was given authority to establish by ordinance a cost neutral deferred retirement option plan (DROP) to offer an incentive to sworn employees, who are eligible to retire, to continue to work. Negotiation of the plan details is continuing.

A dental subsidy for retirees has also been negotiated and will be enacted by City Council ordinance.

Respectfully submitted,

GARY MATTINGLY
General Manager

(PAGE LEFT INTENTIONALLY BLANK)

System Investments

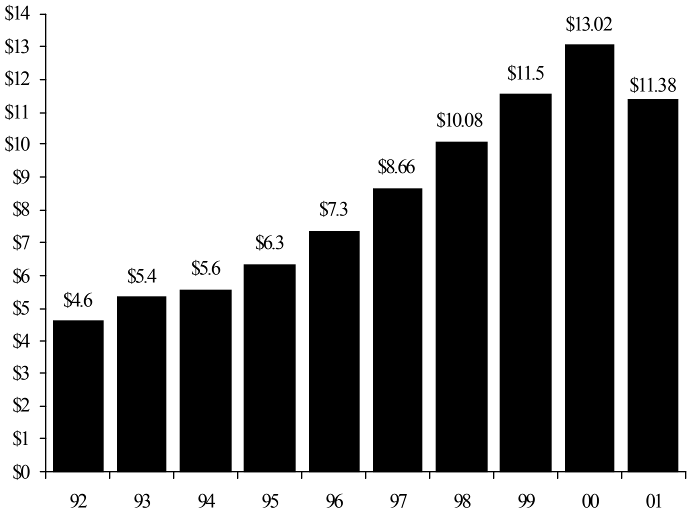
(PAGE LEFT INTENTIONALLY BLANK)

Summary of Investment Activities

Introduction

During the past five years, the System's assets have grown from $7.335 billion to $11.382 billion. The Fund shrank by $1.641 billion for the year ending June 30, 2001.

MARKET VALUE GROWTH OF SYSTEM ASSETS (In Billions)



Investment Environment

The bond market (*Salomon Bros. Broad Investment Grade Index*) produced a positive return of 11.26 percent for the year ending June 30, 2001. Large company stocks (*S&P 500*) returned a negative 14.83 percent. Small company stocks (Russell 2000 Index) returned .57 percent. International stocks (Morgan Stanley EAFE Index) returned less than the domestic indexes, at negative 23.62 percent. Real Estate, as measured by the National Council of Real Estate Investment Fiduciaries Index (NCREIF Classic Property Index) returned 11.50 percent.

Investment Performance

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

For the past five years, the System's annualized return of 11.06 percent was more than four times the annualized rate of inflation of 2.52 percent. For the one-year period, the System's overall investment performance was down 10.00 percent.

The System's performance was above the median compared with other public funds (Frank Russell Public Fund Universe) over the past three and five years. The Fund was ranked in the 24th percentile for the three-year period ending June 30, 2001, and 27th for the five year-year period. For this past year, the System returned a negative 10.00 percent (95th percentile) versus the public fund median of negative 5.79 percent. The Plan's overall under-performance this year is primarily attributable to the under-performance of the System's stock and bond portfolios.

Asset Allocation Decisions

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

The Board adopted the following asset class targets on December 17, 1998, pursuant to a recommendation by R.V. Kuhns, the Board's asset allocation project consultant.

Domestic Equity	35.2%
U.S. Small Cap Stocks	8.8%
International Equity	11%
Domestic Bonds	20%
High Yield Bonds	6%
Real Estate	8%
Alternative Investments	5%
Emerging Markets	3%
Cash Equivalents	3%

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, 2001, the net asset values were as follows:

ASSET CLASS	MARKET VALUE (In $ Millions)	PERCENT
Stocks	$ 6,413.7	56.35
Bonds	2,872.9	25.24
Real Estate	867.6	7.62
Alternative Investments	376.7	3.31
Cash Equivalents	851.8	7.48
Total	$ 11,382.7	100.00

Investment Activities

The manager changes for the year included the termination of one bond manager and one equity manager and the hiring of two equity managers, a manager search consultant and a performance measurement consultant. Administrative actions included the rehiring of five fixed income managers and two equity managers.

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

The real estate acquisition program continued with the purchase of office buildings in Agoura, CA, Indianapolis, IN, and Sacramento, CA; apartments in Minneapolis, MN, Atlanta, GA, Chicago, IL, Las Vegas, NV and Fairfield, CA and warehouse flex/office in Round Rock, TX. Properties sold by the fund included office buildings in Minneapolis, MN and Omaha, NE.

Proxy Voting

The System votes all domestic and available international proxy ballots. Staff voted 744 corporations' proxies and corporate consents in Fiscal Year 2000-2001. The international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines, and cast a total of 303 proxy ballots.

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

CHANGE IN ASSET MIX: LAST TEN YEARS

Fiscal Year	Stocks	Bonds	Real Estate	Alternative Investments	Short Term Investments
1991-92	51.7%	32.2%	5.6%		10.4%
1992-93	59.0%	26.4%	3.2%		11.4%
1993-94	58.6%	24.6%	5.8%		11.0%
1994-95	59.5%	27.9%	6.3%		6.3%
1995-96	59.2%	29.3%	6.9%		4.6%
1996-97	58.8%	30.3%	5.2%		4.9%
1997-98	60.62%	28.79%	3.91%	1.05%	5.63%
1998-99	62.48%	24.97%	4.42%	1.56%	6.57%
1999-00	64.45%	22.53%	5.55%	2.65%	4.82%
2000-01	56.35%	25.24%	7.62%	3.31%	7.48%

ANNUAL RATES OF RETURN

Fiscal Year	Domestic Equities	International Equities	Fixed Income	Real Estate	Alternative Investments	Total Fund*	CPI**
1991-92	15.2%	6.16%	17.6%	-3.1%		14.0%	3.1%
1992-93	18.7%	11.81%	17.7%	-15.3%		16.0%	2.8%
1993-94	2.7%	22.11%	0.7%	9.4%		3.5%	2.5%
1994-95	25.6%	-0.37%	14.3%	14.5%		14.5%	3.0%
1995-96	25.3%	14.83%	7.8%	9.5%		14.6%	2.7%
1996-97	27.09%	12.70%	10.43%	13.9%		18.52%	2.30%
1997-98	23.07%	12.42%	11.84%	18.2%	10.77%	17.48%	1.69%
1998-99	25.53%	17.65%	2.44%	13.0%	12.46%	16.04%	1.96%
1999-00	17.91%	26.93%	3.90%	15.0%	42.14%	16.30%	2.87%
2000-01	-17.88%	-19.49%	2.35%	12.80%	1.58%	-10.00%	2.98%

**Total fund includes short-term investments*
***CPI is for the U.S. ending June 30th*

INVESTMENT ADVISORS

STOCK MANAGERS

Alliance Capital Management
Amerindo Investment Advisors
Boston Partners
Brown Capital Management
CIC Asset Management
Daruma Asset Management
Delta Asset Management
Frontier Capital Management
Loomis Sayles & Company, L.P.
Trust Company of the West

BOND MANAGERS

Capital Guardian
GEM Capital Management
HCM Capital Management
LM Capital
Lend Lease
Loomis Sayles & Company, L.P.
Magten Asset Management Corporation
Reams Asset Management
Smith, Graham & Company

INTERNATIONAL STOCK MANAGERS

Brandes Investment Partners
Invista Capital Management
Marvin & Palmer Associates, Inc.
Montgomery Asset Management LLP
Oechsle International Advisors, Ltd.

REAL ESTATE MANAGERS

AEW Capital Management
Heitman Capital Management
Lend Lease
Lowe Enterprises Investment Management
PSI Institutional Realty
Sentinel Real Estate Corporation
Urdang & Associates

ALTERNATIVE INVESTMENT MANAGERS

Abbott Capital Management
Hamilton Lane Advisors
Oaktree Capital Management
Trust Company of the West

Actuarial Valuation

(PAGE LEFT INTENTIONALLY BLANK)

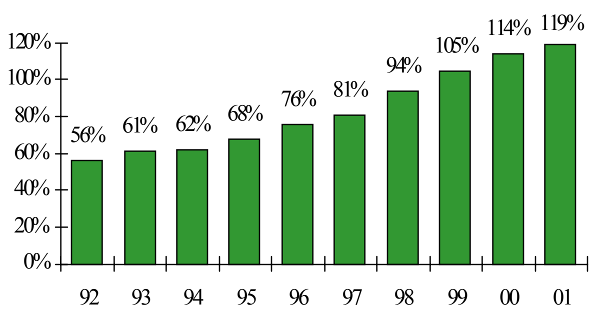
Actuarial Valuation Summary

Actuarial Valuations

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

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

FUNDED STATUS (Pension Benefits-Actuarial Ratio)



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 (formerly Article XVII), Tier 2 (formerly Article XVIII), Tier 3 (formerly Article XXXV, Plan 1) and Tier 4 (formely Article XXXV, Plan 2). An actuarial valuation examines the membership of the pension system as currently constituted, 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 study was adopted by the Board in December 2001. This experience study covered the period beginning July 1, 1998 to June 30, 2001. An example of projected mortality is as follows:

Average Life Expectancy for Retirees

Service Retiree (Age = 65)	17.3 years
Disabled Retiree (Age = 60)	18.2 years
Surviving Spouse (Age = 70)	16.6 years

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

Economic Assumptions

Annual Increase in the Consumer Price Index	5.0%**
Annual Individual Salary Increase	varies by age

Age	Annual Salary Increase
Under 25	10.00%
25-29	9.00%
30-34	8.00%
35-39	7.00%
40-44	6.00%
45-49	5.75%
50 and over	5.50%

Annual Increases in Total System Payroll	5.0%
Annual Interest	8.5%

*(**Tier 3 and Tier 4 are capped at 3%)*

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 interest 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 interest assumption. The individual salary 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 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 upon the assumed rate of return.

As can be seen on the Actuarial Pension Benefit Balance Sheet (see page 13), the balance of -$1.88 billion is considered the unfunded actuarial liability. The unfunded liability for health subsidy benefits for all plans combined is $266 million (see page 14).

Unfunded Actuarial Liability

An unfunded actuarial liability can result from many variables. Often, benefit increases are credited to members while in the middle of their career, or even after they have retired. Since these benefit enhancements did not exist when the funding of the members' benefits began, contributions to fund these increased benefits were not made during all or part of the members' working career. An example of a benefit enhancement that occurred was the lifting of a 2% cap on cost-of-living increases. This applied to all members, active and retired, and created an immediate unfunded liability. The Milestones section of this report contains more examples of benefit changes.

The Entry Age Normal Cost actuarial method normally results in actuarial gains or losses, unless all actuarial assumptions are met each year. These actuarial gains or losses also result in decreases or increases in the unfunded actuarial liability.

Occasionally, the actuarial methodology itself is refined according to accepted actuarial practice. For example, salary increases were not utilized in the computations until the late 1970s. When this practice was included, it created an additional unfunded liability.

Finally, during a period in the history of the Pension System, the funding was on a pay-as-you-go basis, instead of an actuarial basis. When the system shifted to an actuarial basis, an immediate unfunded liability resulted.

Contribution Requirements Calculation

The contribution is comprised 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 for each plan. The amortization period for Tier 1 and Tier 2 is scheduled to end on June 30, 2037.

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

Entry Age Normal Cost Contribution Requirements Recommended 2002-2003

(As a percentage of plan members' salaries)

Tier 1 (Article XVII)	17.548%
Tier 2 (Article XVIII)	21.016%
Tier 3 (Article XXXV, Plan 1)	12.826%
Tier 4 (Article XXXV, Plan 2)	11.875%

Unfunded Liability Contribution Requirements Recommended 2002-2003

Tier 1 (Article XVII)	$26,453,474
Tier 2 (Article XVIII)	-10.156% of total payroll of Tiers 1, 2, 3 & 4
Tier 3 (Article XXXV, Plan 1)	-5.680% of Tier 3 payroll
Tier 4 (Article XXXV, Plan 2)	-4.315% of Tier 4 payroll

Health Subsidy Valuation

The health valuation study utilizes the same actuarial assumptions as the study on pension benefits, with the addition of a medical inflation assumption. Currently, medical costs are increasing at a faster pace than inflation. Assumptions in the June 30, 2001 actuarial valuation included medical trend rate increases of 7.25% for pre-65 premiums and 7.5% for post-65 premiums in 2001; both decreasing gradually to 6.5% in 2005 and thereafter. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health subsidy benefits is shown on page 14.

The contributions suggested to fund the health subsidy plan are:

Entry Age Normal Cost Contribution Requirements Recommended 2002-2003

(As a percentage of plan members' salaries)

Tier 1 (Article XVII)	0.154%
Tier 2 (Article XVIII)	1.240%
Tier 3 (Article XXXV, Plan 1)	2.867%
Tier 4 (Article XXXV, Plan 2)	3.052%

Unfunded Liability Contribution Requirements Recommended 2002-2003

Tier 1 (Article XVII)	$964,977
Tier 2 (Article XVIII)	1.738% of total payroll of Tiers 1, 2, 3 & 4
Tier 3 (Article XXXV, Plan 1)	-1.425% of Tier 3 payroll
Tier 4 (Article XXXV, Plan 2)	-1.249% of Tier 4 payroll

Valuation of Pension Benefits
Actuarial Balance Sheet As of June 30, 2001

ASSETS

	Tier 1	Tier 2	Tier 3	Tier 4	All Plans Combined
1. Applicable Assets	$ (4,680,892)	$9,773,505,573	$1,504,549,601	$ 562,174,657	$ 11,835,548,939
2. Present Value of Future Member Contributions	0	46,194,976	384,012,165	190,375,042	620,582,183
3. Present Value of Future Contributions by the City for:					
a. Entry Age Normal Costs	46,845	273,957,451	656,608,867	306,158,647	1,236,771,810
b. Unfunded Actuarial Accrued Liability	282,698,501	(1,787,509,819)	(282,294,549)	(94,386,611)	(1,881,492,478)
4. Total Assets	**$278,064,454**	**$8,306,148,181**	**$2,262,876,084**	**$964,321,735**	**$11,811,410,454**

LIABILITIES

	Tier 1	Tier 2	Tier 3	Tier 4	All Plans Combined
5. Present Value of Benefits Already Granted					
a. Service Retirements	$ 65,914,955	$ 4,098,601,979	$ 18,836,642	$ 0	$ 4,183,353,576
b. Disability Retirements	74,602,304	1,238,279,259	72,568,118	0	1,385,449,681
c. Survivors and Dependents	136,699,267	566,335,805	27,073,221	0	730,108,293
d. Total	$ 277,216,526	$ 5,903,217,043	$ 118,477,981	$ 0*	$ 6,298,911,550
6. Present Value of Benefits to be Granted					
a. Service Retirements	$ 778,923	$ 1,999,038,542	$ 1,734,612,682	$ 780,289,023	$ 4,514,719,170
b. Disability Retirements	65,700	386,917,921	297,003,277	161,983,513	854,970,411
c. Survivors and Dependents	3,216	16,404,116	47,226,096	21,360,846	84,994,274
d. Total	$ 847,839	$ 2,402,360,579	$ 2,087,842,055	$ 963,633,382	$ 5,445,683,855
7. Refund of Employee Contributions	$ 89	$ 570,559	$ 65,556,048	$ 688,353	$ 66,815,049
8. Total Liabilities	**$ 278,064,454**	**$ 8,306,148,181**	**$2,262,876,084**	**$ 964,321,735**	**$ 11,811,410,454**

*Included within Tier 3 Liabilities

Valuation of Health Subsidy Benefits
Actuarial Balance Sheet As of June 30, 2001

ASSETS

	Tier 1	Tier 2	Tier 3	Tier 4	All Plans Combined
1. Applicable Assets	$ 4,691,167	$311,120,667	$187,844,352	$ 70,188,004	$ 573,844,190
2. Present Value of Future Contributions by the City for:					
a. Entry Age Normal Costs	226	11,824,999	120,749,306	68,649,868	201,224,399
b. Unfunded/(Surplus) Actuarial Accrued Liability	10,312,351	305,852,956	(34,521,961)	(15,199,592)	266,443,754
3. Total Assets	**$15,003,744**	**$628,798,622**	**$274,071,697**	**$123,638,280**	**$1,041,512,343**

LIABILITIES

	Tier 1	Tier 2	Tier 3	Tier 4	All Plans Combined
4. Present Value of Benefits Already Granted	$ 14,935,678	$ 449,242,624	$ 5,359,194	$ 0*	$ 469,537,496
5. Present Value of Benefits to be Granted					
a. Actives Eligible to Retire	68,066	179,477,406	2,896,829	12,309,740	194,752,041
b. Other Actives	0	78,592	265,815,674	111,328,540	377,222,806
c. Total	68,066	179,555,998	268,712,503	123,638,280	571,974,847
6. Total Liabilities	**$15,003,744**	**$628,798,622**	**$274,071,697**	**$123,638,280**	**$1,041,512,343**

*Included within Tier 3 Liabilities

(PAGE LEFT INTENTIONALLY BLANK)

Department Budget

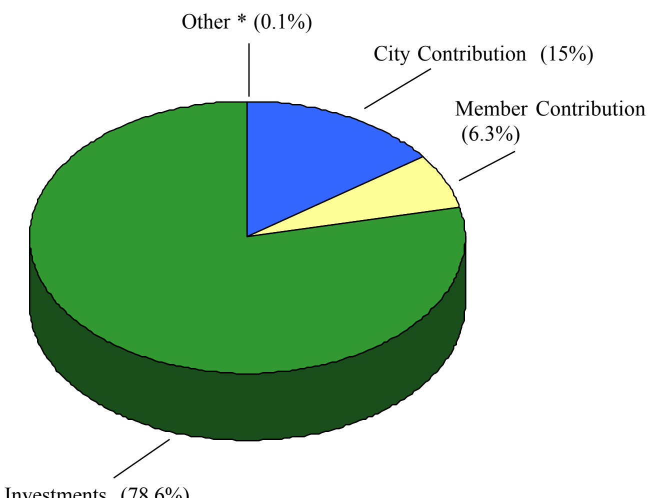
(PAGE LEFT INTENTIONALLY BLANK)

Department Budget

Receipts	Budgeted 2000-01	Actual 2000-01
City Contribution	$ 138,433,173	$ 138,433,173
Member Contributions	60,137,235	58,182,993
Earnings on Investments	350,000,000	446,920,200
Gain on Sale of Investments	--	275,899,761
UFLAC Settlement	500,000	500,000
Miscellaneous	660,000	409,061
Total Receipts	**$ 549,730,408**	**$ 920,345,188**

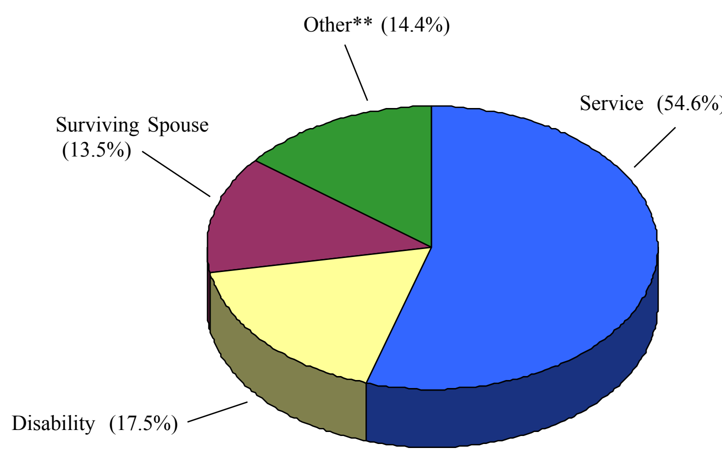
Expenditures	Budgeted 2000-01	Actual 2000-01
Service Pensions	$ 290,834,000	$ 281,782,026
Disability Pensions	95,014,000	90,369,728
Surviving Spouses' Pensions	76,064,000	69,499,610
Minors'/Dependents' Pensions	2,250,000	1,354,751
Refund of Member Contributions	4,500,000	5,749,455
Health Insurance Subsidy	25,000,000	24,999,727
Medicare	2,020,000	2,680,967
Investment Management Expense	35,640,900	33,696,037
Administrative Expense	7,486,150	5,951,628
Total Expenditures	**$ 538,809,050**	**$ 516,083,929**
Increase in Fund Balance	**$ 10,921,358**	**$ 404,261,259**

RECEIPTS



*UFLAC Settlement and Miscellaneous

EXPENDITURES



***Minors'/Dependents' Pensions, Refund of Member Contributions, Medicare, Health Insurance Subsidy, Investment Management Expense and Administrative Expense*

(PAGE LEFT INTENTIONALLY BLANK)

Auditors' Report

(PAGE LEFT INTENTIONALLY BLANK)

Independent Auditors' Report

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

Members of the Board:

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, 2001 and 2000, 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2001 and 2000, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

MILLER, KAPLAN, ARASE & CO., LLP

November 2, 2001

EXHIBIT "A"

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

	June 30, 2001		June 30, 2000	
ASSETS				
CASH		$ 564,581		$ 3,125,305
RECEIVABLES				
Accrued Interest and Dividends	$ 60,185,204		$ 64,130,303	
Contributions	2,543,521		299,312	
Due from Brokers	315,332,026		85,229,887	
TOTAL RECEIVABLES		378,060,751		149,659,502
INVESTMENTS AT FAIR VALUE				
Temporary	$ 652,417,831		$ 673,104,140	
U.S. Government Obligations	817,745,093		856,443,858	
Domestic Corporate Bonds	1,838,340,681		1,925,391,195	
International Bonds	216,866,336		152,995,473	
Domestic Stocks	4,745,994,018		6,246,346,398	
International Stocks	1,667,711,598		2,147,775,508	
Real Estate	1,003,479,644		722,763,649	
Alternative Investments	376,662,622		344,652,555	
TOTAL INVESTMENTS		11,319,217,823		13,069,472,776
SECURITIES LENDING COLLATERAL		1,343,695,171		1,266,025,602
TOTAL ASSETS		$ 13,041,538,326		$ 14,488,283,185
LIABILITIES				
Accounts Payable and Accrued Expenses	$ 9,456,357		$ 7,743,749	
Benefits in Process of Payment	407,571		672,311	
Due to Brokers	169,427,620		100,310,840	
Mortgage Payable	135,847,245		89,886,800	
Securities Lending Collateral	1,343,695,171		1,266,025,602	
TOTAL LIABILITIES		$ 1,658,833,964		$ 1,464,639,302
NET ASSETS HELD IN TRUST FOR BENEFITS		$ 11,382,704,362		$ 13,023,643,883

EXHIBIT "B"

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

	July 1, 2000 to June 30, 2001		July 1, 1999 to June 30, 2000	
ADDITIONS				
Contributions:				
City Contributions	$ 138,933,173		$ 190,837,163	
Member Contributions	58,182,993		57,568,489	
TOTAL CONTRIBUTIONS		$ 197,116,166		$ 248,405,652
Miscellaneous		409,061		599,055
		$ 197,525,227		$ 249,004,707
INVESTMENT INCOME				
Net (Depreciation) Appreciation in Fair Value of Plan Investments, Including Gains and Losses on Sales	$ (1,769,301,019)		$ 1,329,663,065	
Interest	259,082,273		251,255,333	
Dividends	104,876,784		107,372,944	
Net Real Estate Income	70,170,407		47,784,915	
Income from Alternative Investments	6,638,327		6,413,254	
Securities Lending Income	4,893,871		4,015,263	
Other Income	1,258,538		1,710,325	
SUBTOTAL	$ (1,322,380,819)		$ 1,748,215,099	
Less: Investment Manager Expense	(33,696,037)		(26,470,935)	
Net Investment (Loss) Income		(1,356,076,856)		1,721,744,164
TOTAL (REDUCTIONS) ADDITIONS		$ (1,158,551,629)		$ 1,970,748,871
DEDUCTIONS				
Pension Benefits	$ 443,006,115		$ 421,932,400	
Payment of Medicare Reimbursement	2,680,967		1,885,035	
Payment of Health Subsidy	24,999,727		19,864,358	
Refund of Contributions	5,749,455		3,875,333	
Administrative Expenses	5,951,628		5,065,362	
TOTAL DEDUCTIONS		$ 482,387,892		$ 452,622,488
NET (DECREASE) INCREASE		$ (1,640,939,521)		$ 1,518,126,383
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT HEALTH SUBSIDY BENEFITS:				
Beginning of Year		13,023,643,883		11,505,517,500
End of Year		$ 11,382,704,362		$ 13,023,643,883

City of Los Angeles Fire and Police Pension System
Notes to Financial Statements
June 30, 2001 and 2000

NOTE 1 -- DESCRIPTION OF THE PLANS

The City of Los Angeles Department of Fire and Police Pensions operates under provisions of the City Charter, which provides that the funding requirements of the City of Los Angeles Fire and Police Pension System (the System or the Plan), based on the results of actuarial valuation, will be satisfied by the City of Los Angeles.

Pension Plan

In general, the System is a defined benefit single-employer pension plan covering all full-time active sworn firefighters and police officers of the City of Los Angeles. Benefits are based on members' final salary rate or any twelve month average salary and terms of service. In addition, the Plan provides for disability benefits under certain conditions and benefits to eligible survivors. At June 30, 2001, the System is composed of four tiers. Those members hired on or before January 28, 1967 participate in the first established Department of Pensions (Old System under Article XVII, Now Tier 1) unless they requested transfer to the New Pension System (New System under Article XVIII, Now Tier 2) established for members hired on or after January 29, 1967. Members hired on or after December 8, 1980 participate in the Safety Members Pension Plan (under Article XXXV, Now Tier 3) which was established at that time. Effective July 1, 1997, a new tier was established for Article XXXV (Tier 4). Active members hired prior to July 1, 1997 could elect to join Tier 4, which has eligibility for service retirement requirements similar to Article XVIII. Members hired on or after July 1, 1997 are automatically covered under the Tier 4, except Members hired between July 1, 1997 and December 31, 1997, who may elect to transfer to Tier 3.

The Plan also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ending June 30, 1983, or have since been hired.

Members with 20 or more years of service in Tiers 1 and 2 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 66-2/3% in Tier 1 and 70% in Tier 2. There is no minimum age requirement. The Plans provide for unlimited cost-of-living adjustments in benefits. Members who terminate their employment after July 1, 1982 are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements. Members of Tier 3 must be age 50, with 10 years of service, to be entitled to a pension. Benefits are equal to 20% of their one-year average compensation increasing for each year of service over 10 years, to a maximum of 70% for 30 years. Benefits are adjusted by the cost-of-living rate, at a maximum of 3% per year. These benefits can be adjusted by the City Council once every 3 years. Members of Tier 4 with 20 or more years of service are entitled to benefits 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. Benefits are adjusted by the cost-of-living rate, at a maximum of 3% per year. These benefit can be adjusted by the City Council once every three years.

Since the Plan includes detailed provisions for each situation, members should refer to the Plan documents for more complete information.

Health Subsidy Plan

Members of the System are entitled to post-retirement health subsidy benefits under sections 1330, 1428, 1518 and 1618 of the new City Charter, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. Prior to July 1, 1998, regular benefits began at age sixty. Temporary subsidies are available to certain groups at earlier stages. Effective July 1, 1998, regular benefits begin at age fifty-five.

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the LACERS and active Safety Members. The City also pays Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Note 1 - DESCRIPTION OF PLANS (Continued)

Health Subsidy Plan (Continued)

Health Subsidy benefits are available to Members and their spouses/domestic partners on disability and service retirement. Effective January 1, 2000, 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, 2001, of $11,382,704,362 in total net assets available for benefits, $489,126,016 was actuarially determined to be available for the Health Subsidy Plan.

Membership

The components of the System's membership were as follows at June 30, 2001 and 2000:

	2001	2000
Active nonvested -		
Tier 1	-	-
Tier 2	2	210
Tier 3	3,151	3,936
Tier 4	1,953	1,576
Active vested -		
Tier 1	1	2
Tier 2	2,749	2,768
Tier 3	3,203	2,684
Tier 4	1,263	1,202
Pensioners and beneficiaries -		
Tier 1	1,406	1,504
Tier 2	9,989	9,873
Tier 3	263	235
Tier 4	-	-
	23,980	23,990

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

B. Financial Reporting

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

C. Cash

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments

The System is authorized to make temporary investments in instruments rated A-1 by Standard & Poor's Corporation and P-1 by Moody's Commercial Paper Record or the equivalent as determined by the Custodian, Bankers Trust Company, a subsidiary of Deutsche Bank.

Short-term investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, 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 A-1 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 pension plan statement of changes in plan net assets, if material.

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers. Real estate market values are taken from recent appraisals, when available, and from the reports of investment advisors. Market values reflected by reports of advisors are based on recent purchase prices, appraisals and on advisor estimates.

Alternative investments are comprised of limited partnerships that invest in private equity companies The fair values of alternative investments are estimated based on audited financial statements provided by the individual investment managers.

Real estate investments are recorded in the financial statements under the equity method and are carried at fair value. The fair values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the System's real estate consultant.

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

E. Income from Investments

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

F. Estimates

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

NOTE 3 - FUNDING POLICY

As a condition of participation, members are required to contribute a percentage of their salaries to the System. The System's actuaries, in their reports as of June 30, 2001 and 2000, 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. Tier 1 members are required by the City Charter to contribute 6% of salary. Tier 3 and 4 members are required to contribute 8% of salary.

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.

NOTE 3 - FUNDING POLICY (Continued)

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

C. An amount to provide for health plan subsidies for retired members.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C. above, for the year ended June 30, 2001 to be as follows:

	Percentage of Member's Salaries			
	(Tier 1)	(Tier 2)	(Tier 3)	(Tier 4)
Entry-Age Normal Cost Contribution	18.49%	21.75%	14.19%	14.19%
Amortization of Unfunded Liability	$29.0M	$29.8M	$40.5M	$17.1M
Health Plan Subsidy	$ .4M*	$15.2M	$ 7.0M*	$ 3.0M*

*Stated as required dollar amount.

The actuarially determined unfunded (surplus) liability of the System was ($1,615,048,724) and ($1,109,665,140) at June 30, 2001 and 2000, respectively, (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City charter, the amount at June 30, 2001 is to be amortized over the next 36 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

Contributions totaling $197,116,166 ($138,933,173 City and $58,182,993 member) were made during the year ending June 30, 2001 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, 2001. These contributions consisted of approximately $185,700,000 normal cost and ($13,500,000) amortization of the unfunded actuarial accrued liability for the aggregate pension plans. For the health plan subsidy, they consisted of approximately $19,000,000 normal cost and $6,700,000 amortization of the unfunded actuarial accrued liability.

NOTE 4 - SECURITIES LENDING

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

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

NOTE 4 - SECURITIES LENDING (Continued)

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 market value on the Systems' plan net assets.

As required by GASB, cash received as collateral on securities lending transactions is reported as assets, and the liabilities from these transactions are reported in the statement of plan net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees are netted against securities lending income.

The market value of total securities lent was $1,290,333,802 and $1,222,861,713 as of June 30, 2001 and 2000, respectively. The collateralized value of cash and securities was $1,343,695,171 and $1,266,025,602 as of June 30, 2001 and 2000, respectively.

NOTE 5 - CONTINGENCIES

A. 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. The dollar amount of contributions and interest subject to this right was $860,784,202 and $811,781,737 as of June 30, 2001 and 2000, respectively.

B. Investment Commitment

The System has commitments to contribute capital for real estate and venture capital investments in the aggregate amount of approximately $356,438,938 at June 30, 2001.

NOTE 6 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) INVESTMENT CATEGORIES

The System's investments in securities, which are held by Bankers Trust Company, the Custodian, are categorized below, in accordance with categories established by the GASB, to give an indication of relative custodial credit risk assumed at year end. Investments in real estate represent non-categorized investments under GASB guidelines. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, their trust departments or agents, but not in the System's name.

NOTE 6 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) INVESTMENT CATEGORIES (Continued)

At June 30, 2001, the market value of categorized investments were as follows:

Types of Investments	Category 1	Category 2	Category 3	AMOUNT
Investments - Categorized				
Securities Not on Securities Loan				
Temporary Investments	$ 323,355,082	$ -	$ 329,062,749	$ 652,417,831
U.S. Government Obligations	583,797,575	-	-	583,797,575
Domestic Corporate Bonds	1,725,549,627	-	-	1,725,549,627
International Bonds	216,866,336	-	-	216,866,336
Domestic Stocks	4,089,899,765	-	-	4,089,899,765
International Stocks	1,380,210,621	-	-	1,380,210,621
Alternative Investments	376,662,622	-	-	376,662,622
Total Securities Not on Loan	$ 8,696,341,628	$ -	$ 329,062,749	$ 9,025,404,377
Securities on Loan for Securities Collateral				
U.S. Government Obligations	$ 42,630,066	$ -	$ -	$ 42,630,066
Domestic Corporate Bonds	1,443,933	-	-	1,443,933
Domestic Stocks	12,384,256	-	-	12,384,256
International Stocks	11,224,994	-	-	11,224,994
Total Securities on Loan for Securities Collateral	$ 67,683,249	$ -	$ -	$ 67,683,249
Total Categorized Investments	$ 8,764,024,877	$ -	$ 329,062,749	$ 9,093,087,626
Investments - Non-Categorized				
Securities Held by Broker/Dealer Under				
Securities Loans with Cash Collateral:				
U.S. Government Obligations				$ 191,317,452
Domestic Corporate Bonds				111,347,121
Domestic Stocks				643,875,880
International Stocks				276,110,100
Total Securities Held by Broker/Dealer Under Securities Loans with Cash Collateral:				$ 1,222,650,553
Securities Lending Short Term Investment Pool				$ 1,343,695,171
Real Estate				$ 1,003,479,644
Total				$ 12,662,912,994

Investments presented in Category 3 represent the System's investment in a pooled short term investment fund managed by the Custodian, which also performs safekeeping of the pool's securities (Note 2-D).

NOTE 7 - NOTES PAYABLE

Notes payable consists of the following at June 30, 2001:

Secured by real estate. Interest rate ranges from 6.68% to 8.26% per annum. Monthly Principal and interest payments range from $36,140 to $190,800. The notes mature July 2002 through July 2008.	$ 135,847,245

Principal payments due under such notes are as follows for the years ended June 30:

2002	$ 2,577,026
2003	25,436,816
2004	2,307,240
2005	2,499,058
2006	28,273,326
Thereafter	74,753,779
	$135,847,245

NOTE 8 - OPERATING LEASE

The System leases building facilities under an operating lease that expires on December 31, 2001. A new lease was agreed to expiring on December 31, 2011.

The future minimum lease commitments are as follows (including the new lease):

2002	$ 712,234
2003	982,868
2004	982,868
2005	982,868
2006	982,868
Thereafter	5,405,774
	$ 10,049,480

NOTE 9 - RECLASSIFICATIONS

Certain balances for the year ended June 30, 2000 have been reclassified to conform to the 2001 presentation.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS - PENSION PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1996	$ 6,558,796,766	$ 8,786,175,771	$ 2,227,379,005	74.6%	$ 688,572,262	323.5%
June 30, 1997	7,406,443,749	9,111,057,591	1,704,613,842	81.3%	749,505,571	227.4%
June 30, 1998	8,393,868,685	8,912,535,199	518,666,514	94.2%	808,807,269	64.1%
June 30, 1999	9,637,255,489	9,203,636,397	(433,619,092)	104.7%	819,740,647	(52.9%)
June 30, 2000	10,985,936,206	9,604,173,677	(1,381,762,529)	114.4%	845,426,191	(163.4%)
June 30, 2001	11,835,548,939	9,954,056,461	(1,881,492,478)	118.9%	882,758,282	(213.1%)

SCHEDULE 1B

SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS - HEALTH SUBSIDY PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1996	$ 248,228,909	$ 591,777,845	$ 343,548,936	41.9%	$ 688,572,262	49.9%
June 30, 1997	310,852,382	586,429,073	275,576,691	53.0%	749,505,571	36.8%
June 30, 1998	371,411,413	626,669,733	255,258,320	59.3%	808,807,269	31.6%
June 30, 1999	443,492,170	666,565,679	223,073,509	66.5%	819,740,647	27.2%
June 30, 2000	519,240,573	791,337,962	272,097,389	65.6%	845,426,191	32.2%
June 30, 2001	573,844,190	840,287,944	266,443,754	68.3%	882,758,282	30.2%

SCHEDULE 2A

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION PLANS

Fiscal Years Ending	Annual Required Contribution	Percent Contributed
1996	$ 296,636,023	100%
1997	265,744,307	100%
1998	231,170,832	100%
1999	221,755,062	100%
2000	163,380,843	100%
2001	113,849,004	100%

SCHEDULE 2B

SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS - HEALTH SUBSIDY PLANS

Fiscal Years Ending	Annual Required Contribution	Percent Contributed
1996	$ 46,565,595	100%
1997	39,935,095	100%
1998	29,585,835	100%
1999	26,633,603	100%
2000	27,456,320	100%
2001	25,084,169	100%

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules for the Pension and Health Subsidy Plan was determined as part of the actuarial valuations as of June 30, 2001. Additional information as of June 30, 2000 follows:

PENSION PLAN

Funding Method - Entry Age Normal Funding Method

Asset Valuation Method - The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Investment Return:	8.5%
Annual Salary Scale Increase:	
Individually	(Varies by age)
Age:	
Under 25	10.00%
25-29	9.00%
30-34	8.00%
35-39	7.00%
40-44	6.00%
45-49	5.75%
50 and Over	5.50%
Aggregate	5.00%
Annual Cost-of-Living Increase:	
Tiers 1 and 2 - (Old System and New System Members):	
Accrued for All Subsequent Service [Subject to Any Applicable Caps]	5.00%
Tiers 3 and 4 - Safety Members Pension Plan Members	3.00%

Mortality among retirees - The valuation for those on service retirement is based upon the 1994 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1984 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Mortality among spouses - The valuation is based upon the 1994 Group Annuity Mortality Table.

Remarriage among spouses - Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.

NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS (Continued)

HEALTH SUBSIDY PLAN

Funding Method - Entry Age Normal Funding Method

Asset Valuation Method - The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Investment Return	8.5%
Annual Salary Scale Increase:	
Individually	(Varies by age)
Age:	
Under 25	10.00%
25-29	9.00%
30-34	8.00%
35-39	7.00%
40-44	6.00%
45-49	5.75%
50 and Over	5.50%
Aggregate	5.00%

Graded Medical and Dental Cost Rate Increases:	
Pre-65 Premiums	7.50%*
Post-65 Premiums	7.25%*
Dental	7.50%*

*Decreasing gradually to 6.5% in 2005 and beyond

Mortality among retirees - The valuation for those on service retirement is based upon the 1994 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1984 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Mortality among spouses - The valuation is based upon the 1994 Group Annuity Mortality Table.

Remarriage among spouses - Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.

Active and Retired Membership

(PAGE LEFT INTENTIONALLY BLANK)

FIRE AND POLICE PENSION PLANS

Four Fire and Police Pension Plans

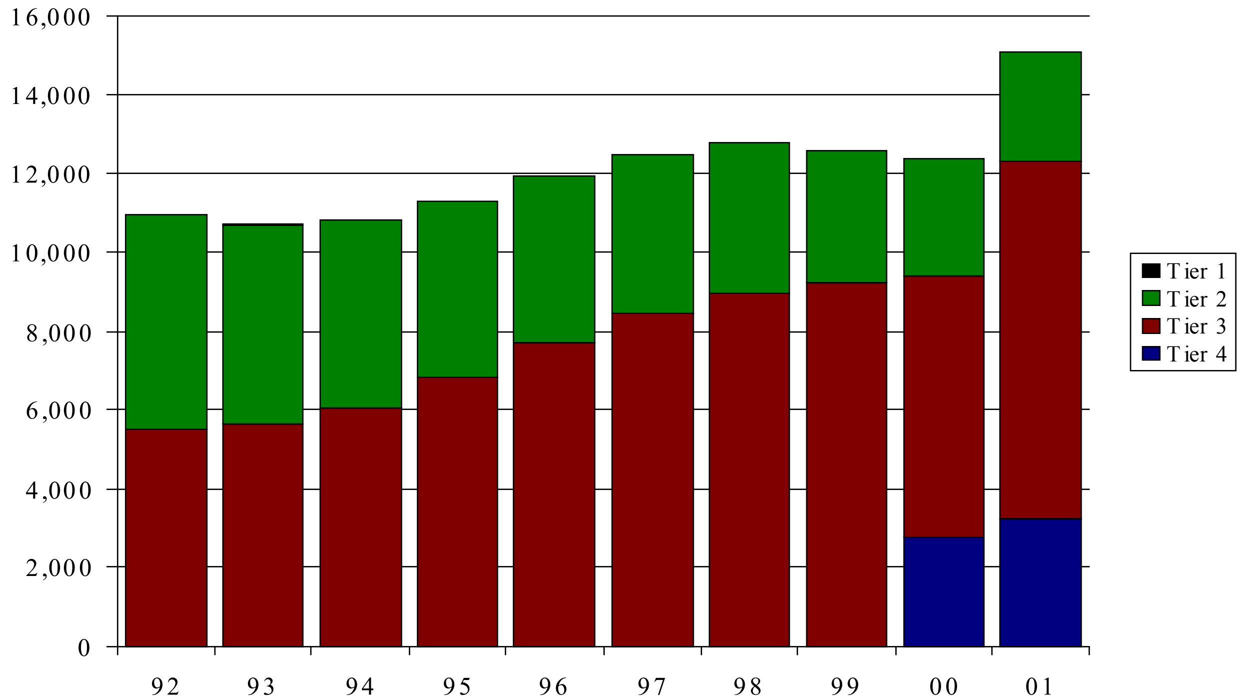
Prior to July 1, 2000, there were three pension systems in operation serving active and retired membership. **The Fire and Police Pension System (Article XVII)** was established under the Charter in 1925. In 1967, this plan was extensively amended, resulting in the creation of **The New Pension System (Article XVIII).** Members of the Article XVII plan were given the option to transfer into this plan.

In 1980, the benefits of the system were again extensively revised. This resulted in the creation of **The Safety Members Pension Plan (Article XXXV)**. All members hired on December 8, 1980 and later become members of this plan. All members hired or rehired prior to July 1, 1997 are covered under the provisions of Article XXXV, Plan 1. These members had a one time opportunity to transfer into Article XXXV, Plan 2. Members hired on or after July 1, 1997 are covered under the provisions of Article XXXV, Plan 2. Members hired from July 1, 1997 to December 31, 1997 have a one time opportunity to transfer into Article XXXV, Plan 1.

One of the Charter changes effective July 1, 2000 is the change of the titles for the pension plans. The chart below outlines the changes:

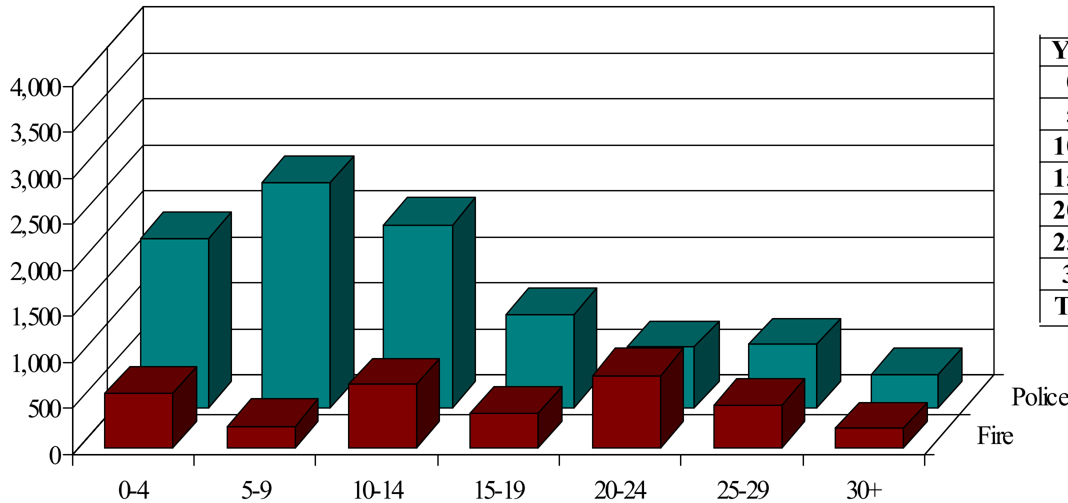
FORMER TITLE	NEW TITLE
ARTICLE XVII	TIER 1
ARTICLE XVIII	TIER 2
ARTICLE XXXV, PLAN 1	TIER 3
ARTICLE XXXV, PLAN 2	TIER 4

ACTIVE MEMBERSHIP
Last Ten Years



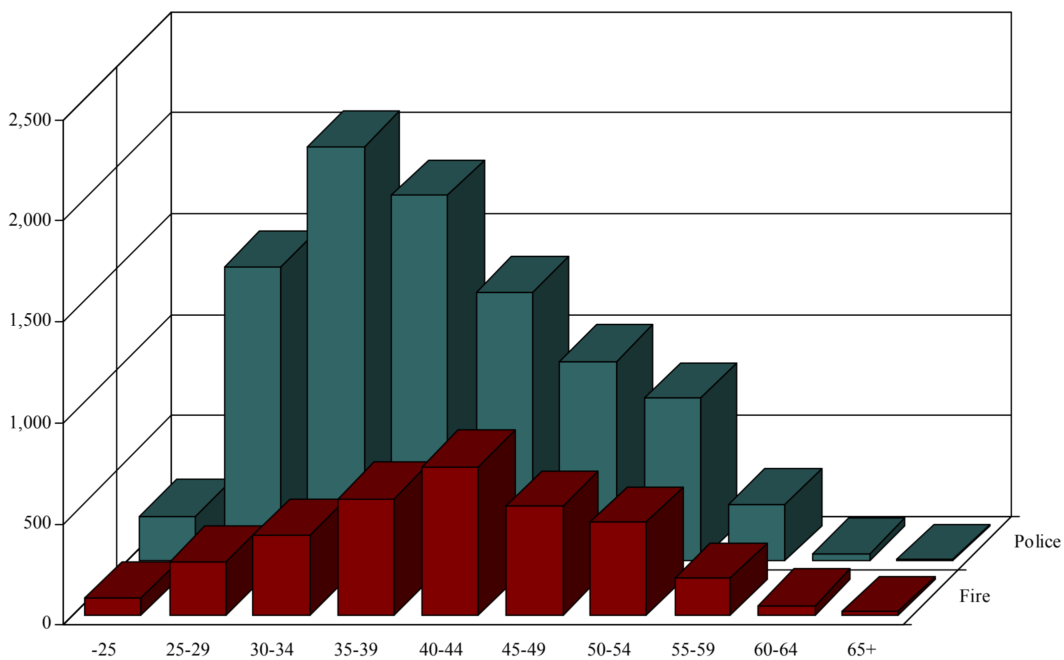
MEMBERSHIP AS OF JUNE 30, 2001			
Tier	**Fire**	**Police**	**Total**
Tier 1	**0**	**1**	**1**
Tier 2	**1,154**	**1,597**	**2,751**
Tier 3	**1,106**	**5,248**	**6,354**
Tier 4	**1,050**	**2,166**	**3,216**
Total	**3,310**	**9,012**	**12,322**

ACTIVE MEMBERSHIP
By Years of Service



Years	Fire	Police
0-4	586	1,836
5-9	228	2,455
10-14	681	1,995
15-19	374	1,020
20-24	781	663
25-29	459	687
30+	201	356
Total	3,310	9,012

ACTIVE MEMBERSHIP
By Age Group



Age	Fire	Police
-25	88	224
25-29	263	1,461
30-34	397	2,054
35-39	579	1,812
40-44	738	1,331
45-49	537	995
50-54	459	808
55-59	181	282
60-64	51	38
65+	17	7
Total	3,310	9,012

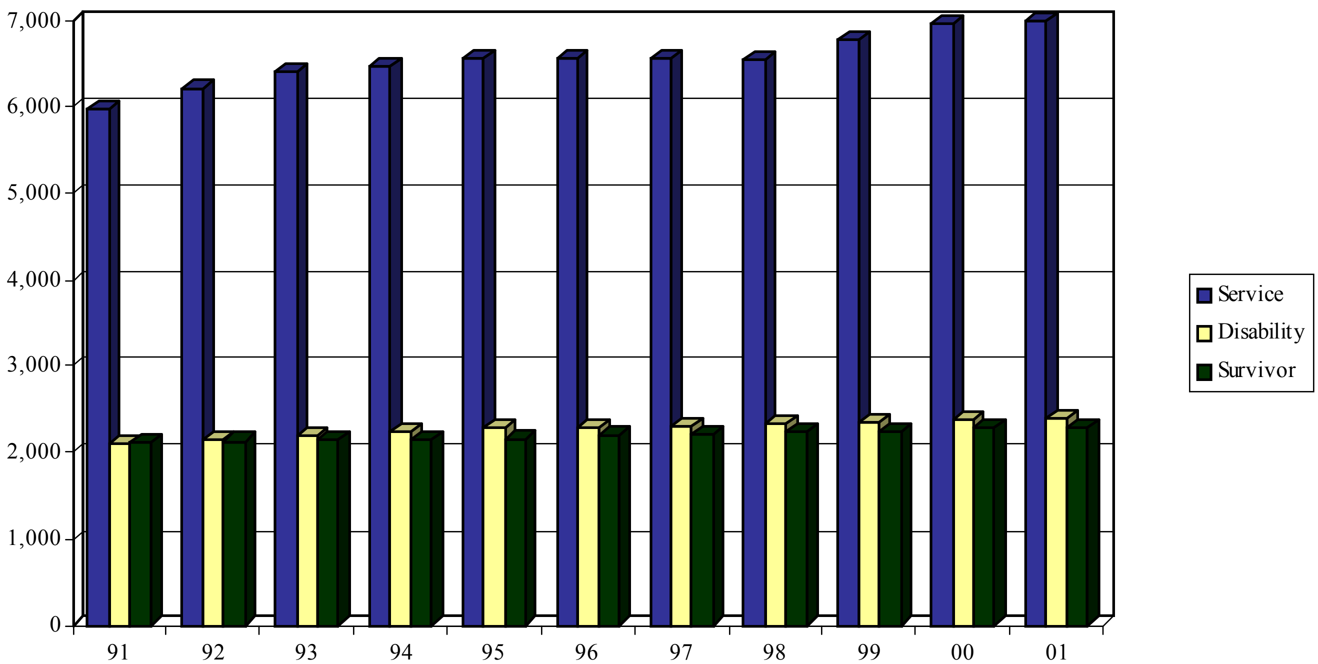
REFUNDS OF MEMBER CONTRIBUTIONS

	96-97	97-98	98-99	99-00	00-01
FIRE					
Tier 2	1	1	2	0	0
Tier 3	6	5	2	0	1
POLICE					
Tier 2	3	2	1	2	5
Tier 3	125	152	151	185	209
TOTAL	135	160	156	187	215

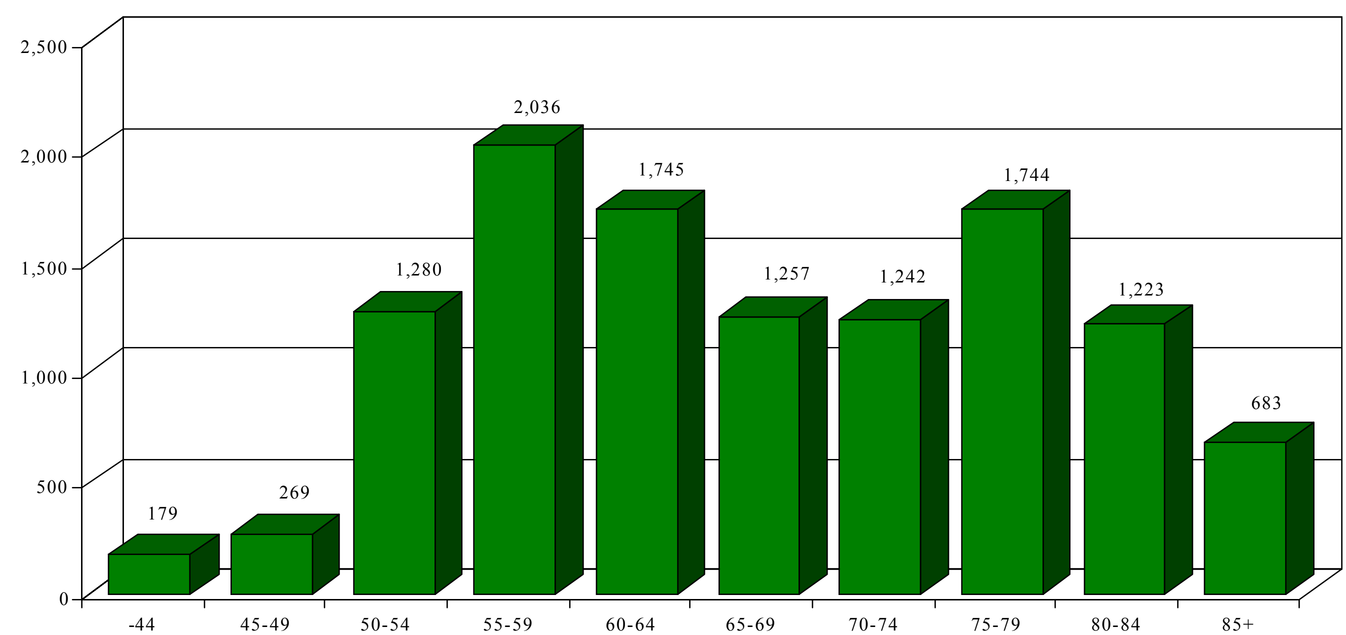
This chart shows the number of members who have applied for a refund of their Pension contributions.

RETIRED MEMBERSHIP
Last Ten Years

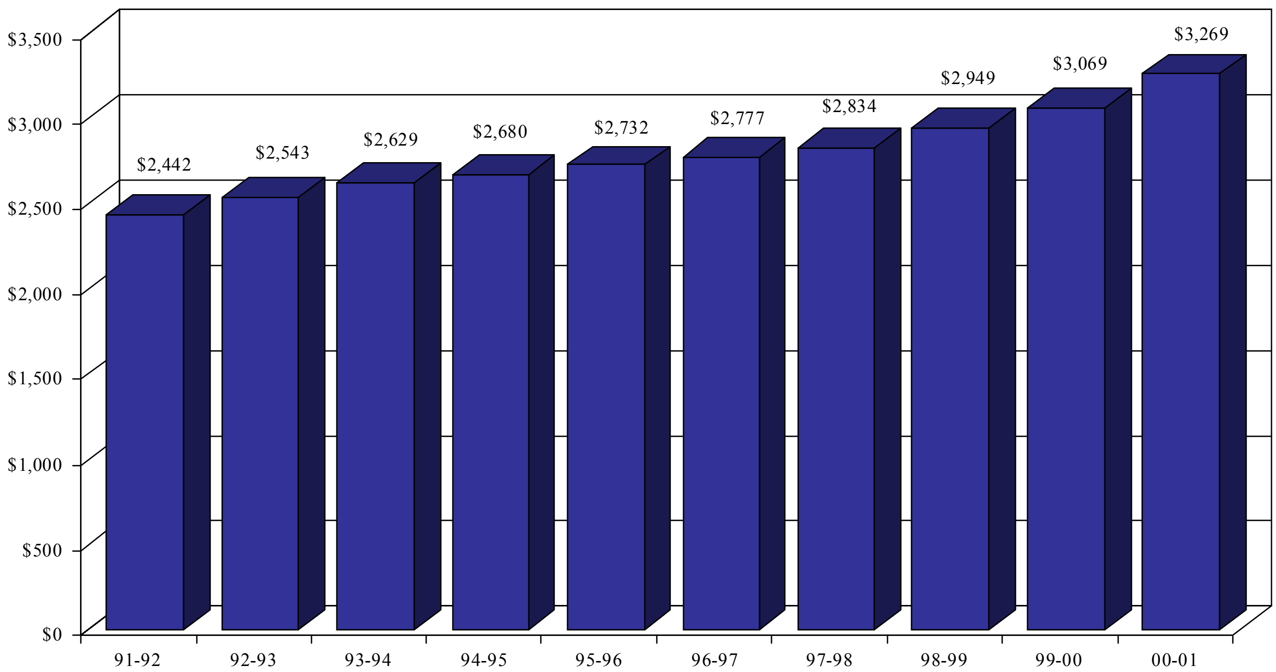
AS OF JUNE 30, 2001	
Service Pensions	6,980
Disability Pensions	2,396
Survivor Pensions	2,282
Total	11,658



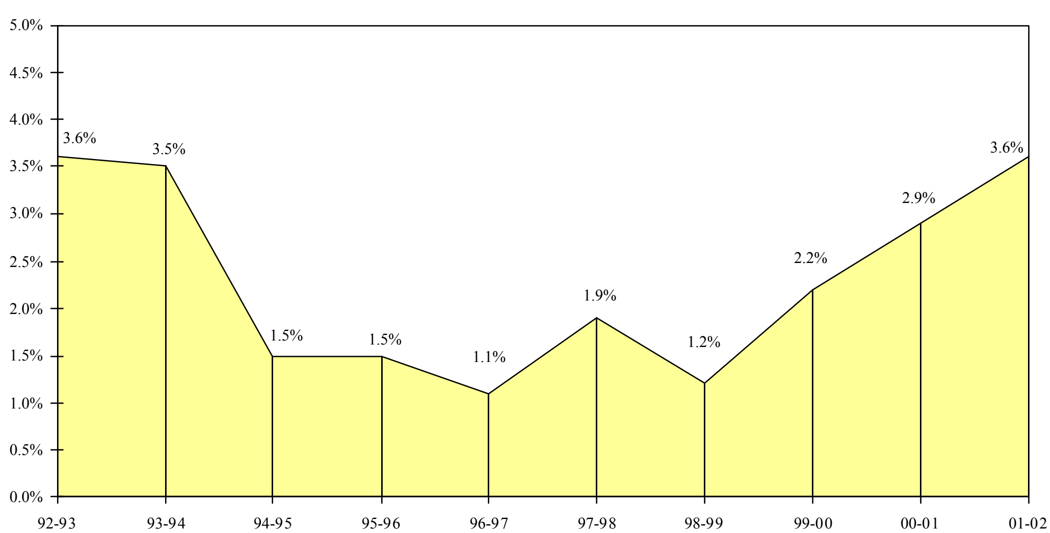
RETIRED MEMBERSHIP
By Age Group



AVERAGE MONTHLY PENSION



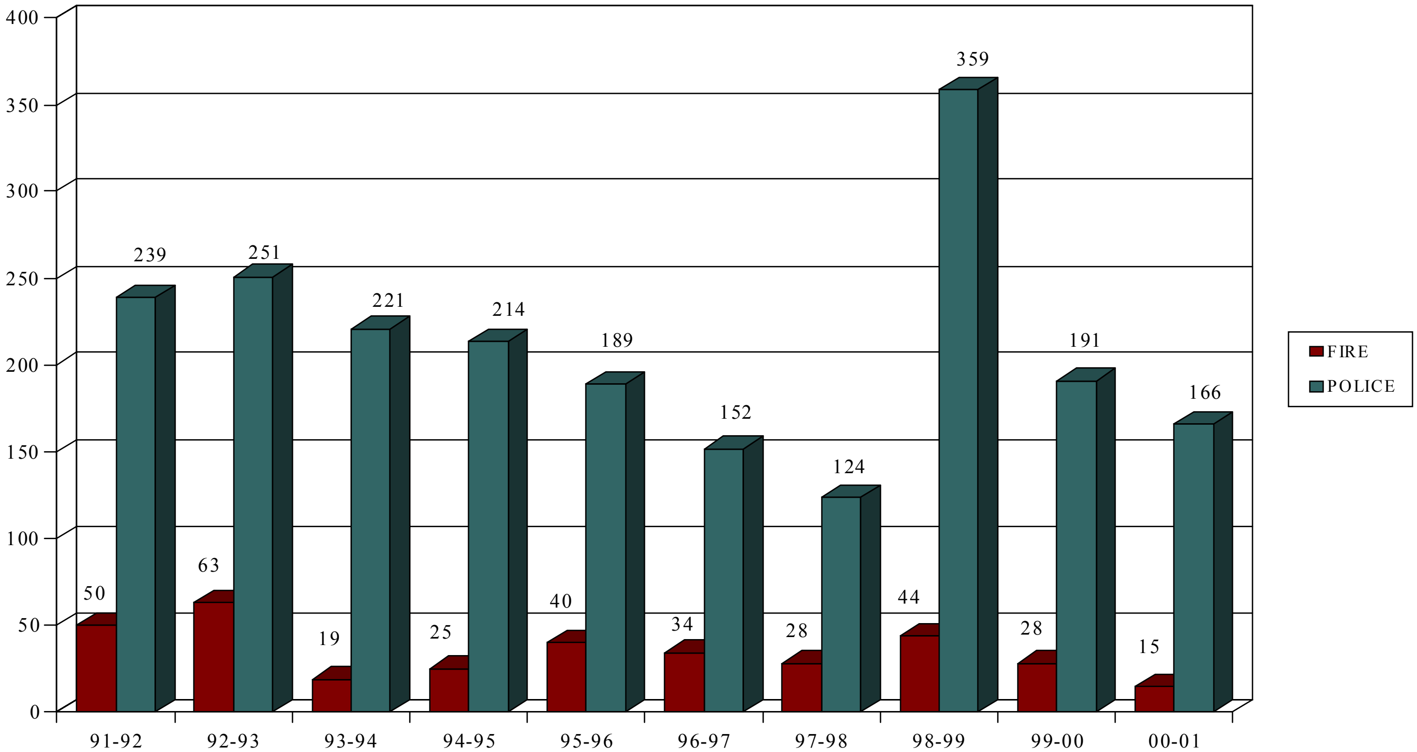
COST OF LIVING ADJUSTMENTS
Effective July 1



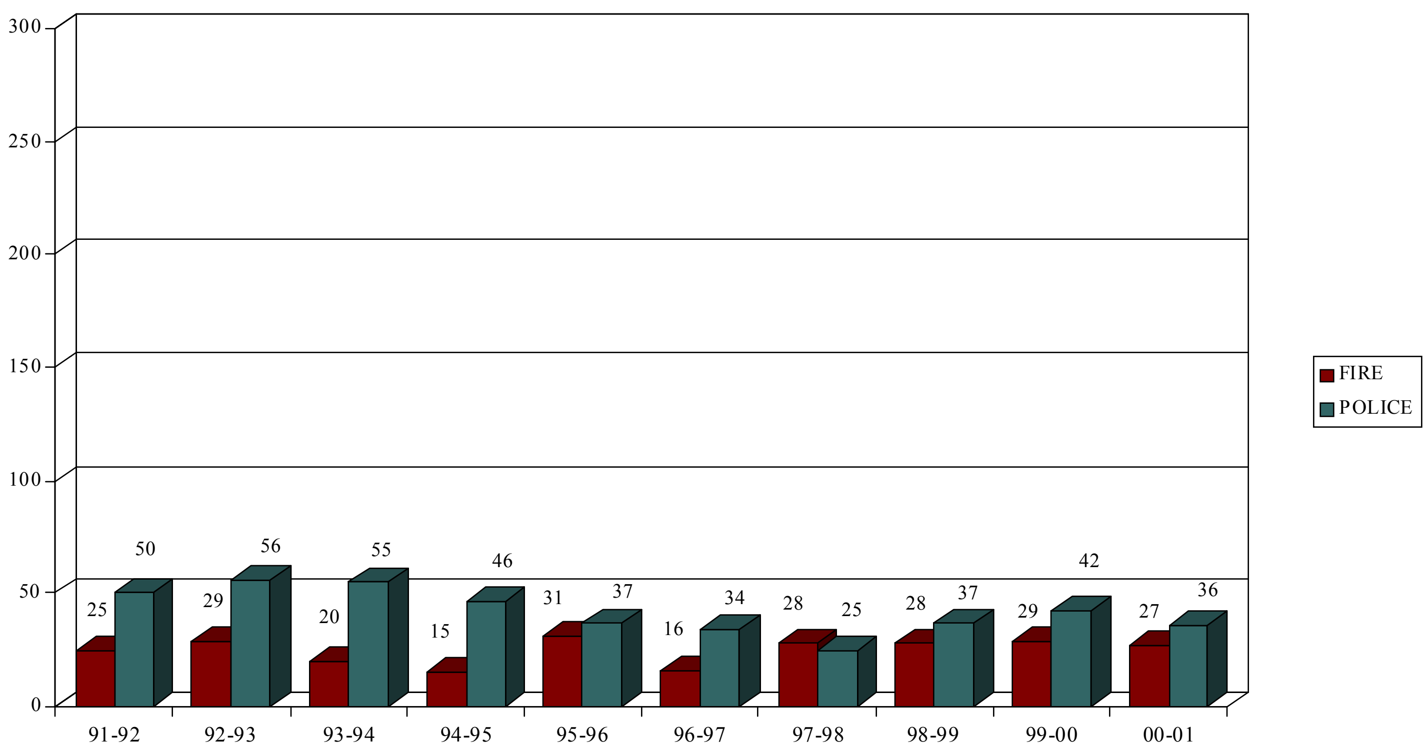
Cost of living adjustments are made to eligible pensions each July 1, based on the movement of the consumer price index for the greater Los Angeles area from March 1 of the preceding year to March 1 of that year. Members of Tier 3 and Tier 4 have cost of living increases capped at 3%. The City Council can provide for a discretionary cost of living increase above the 3% cap once every 3 years. Members of Tier 1 and Tier 2 have no cap on their cost of living adjustments.

PENSION STATISTICS: LAST TEN YEARS

SERVICE PENSIONS GRANTED

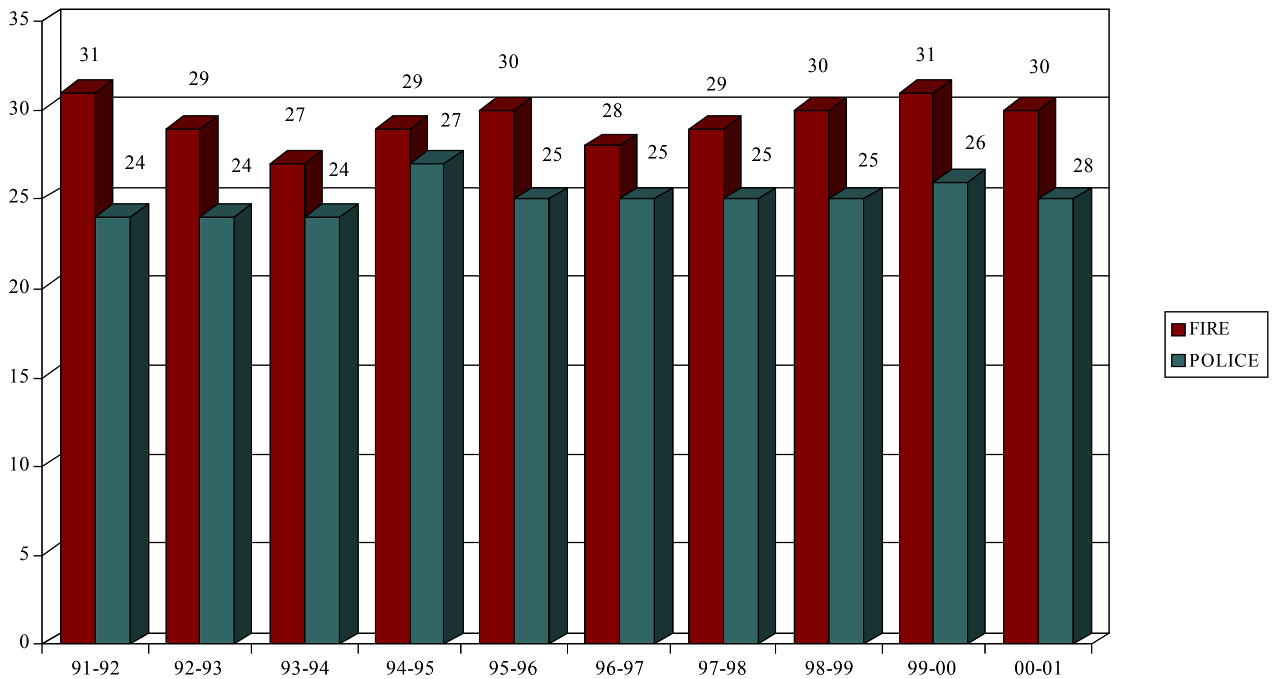


DISABILITY PENSIONS GRANTED

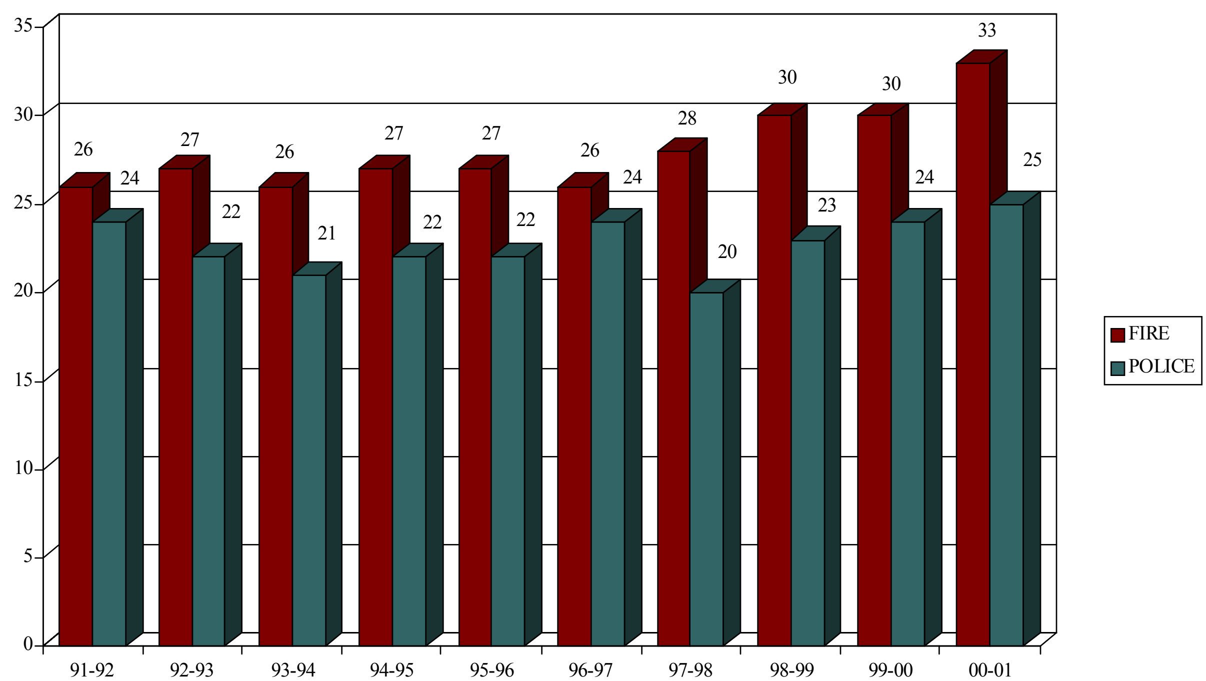


PENSION STATISTICS: LAST TEN YEARS

AVERAGE YEARS OF SERVICE
At Service Retirement

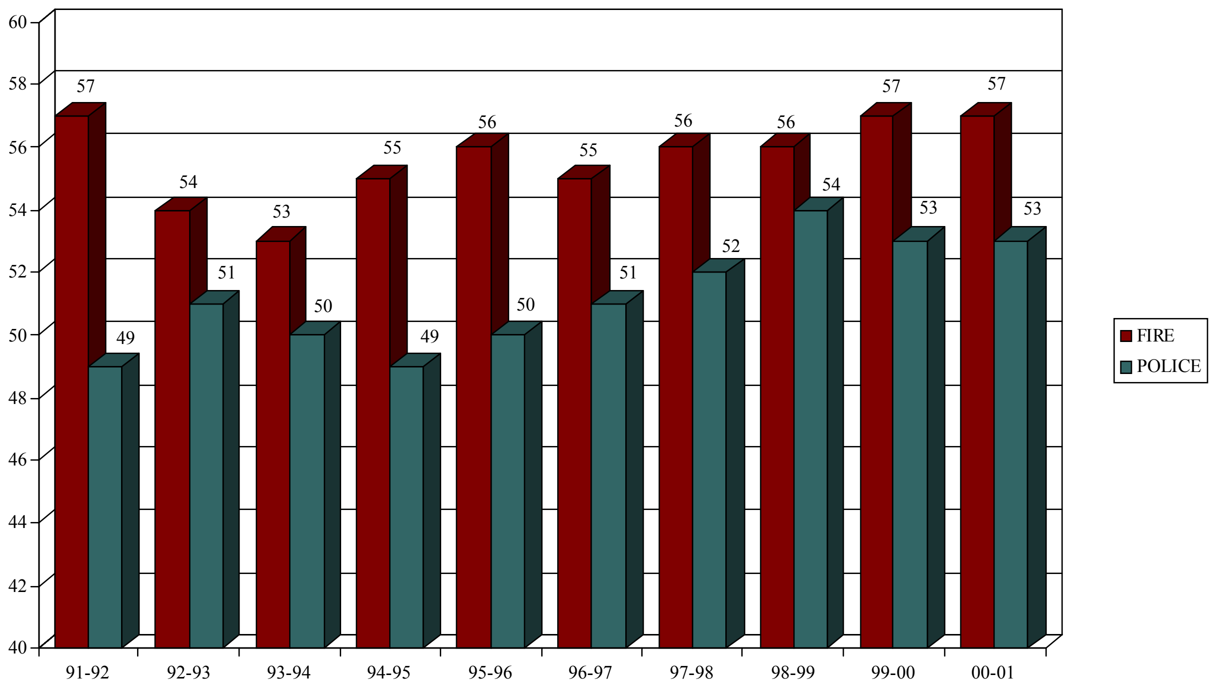


AVERAGE YEARS OF SERVICE
At Disability Retirement

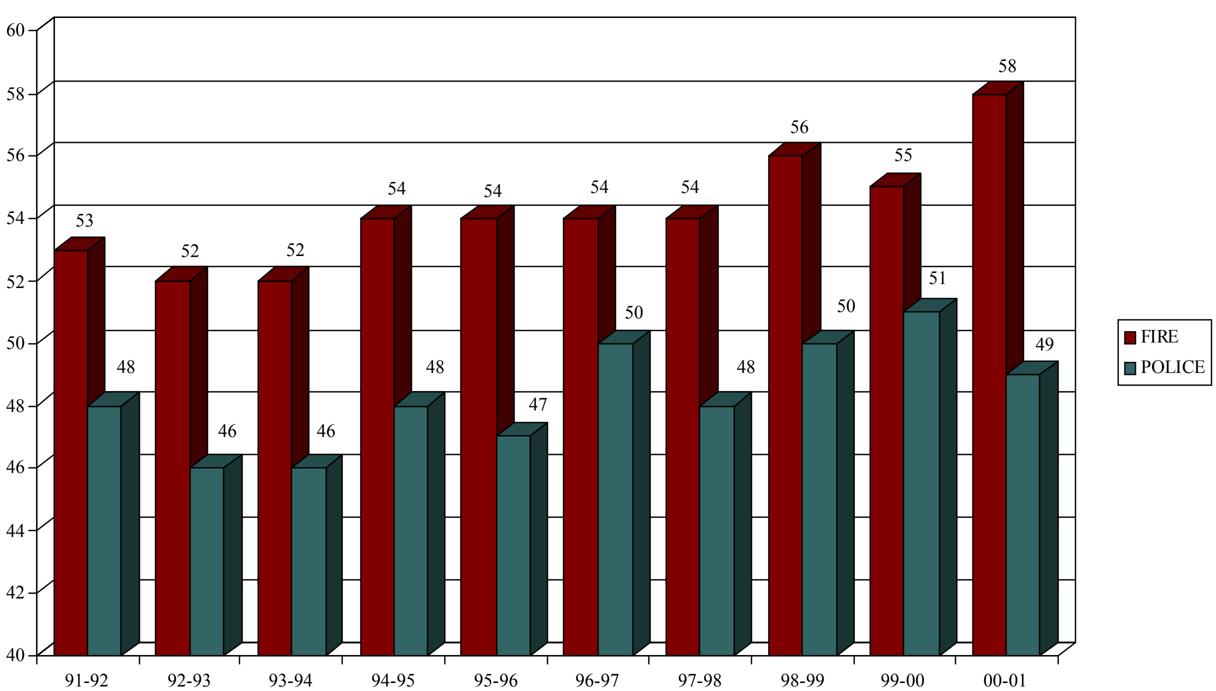


PENSION STATISTICS: LAST TEN YEARS

AVERAGE AGE
At Service Retirement



AVERAGE AGE
At Disability Retirement



SERVICE-CONNECTED DISABILITY PENSIONS
By Type and Department

DISABILITY PENSIONS GRANTED	FISCAL YEAR 1996-97			FISCAL YEAR 1997-98			FISCAL YEAR 1998-99			FISCAL YEAR 1999-00			FISCAL YEAR 2000-01		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Physical Only	15	22	37	25	12	37	27	33	60	29	37	66	26	24	50
Physical/Psychiatric	1	8	9	1	6	7	0	4	4	0	1	1	0	8	8
Psychiatric Only	0	0	0	0	2	2	1	0	1	0	4	4	0	2	2
TOTAL	16	30	46	26	20	46	28	37	65	29	42	71	26	34	60

TYPES OF CLAIMS*	FISCAL YEAR 1996-97			FISCAL YEAR 1997-98			FISCAL YEAR 1998-99			FISCAL YEAR 1999-00			FISCAL YEAR 2000-01		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Back	10	5	15	14	2	16	20	12	32	17	25	42	17	17	34
Neck	6	6	12	6	2	8	8	8	16	7	7	14	5	4	9
Knees	7	4	11	9	2	11	13	4	17	10	15	25	10	5	15
Other Orthopedic	9	15	24	19	9	28	10	16	26	11	17	28	15	18	33
Cardiovascular	0	12	12	3	4	7	4	14	18	4	12	16	4	7	11
Ulcer	0	1	1	0	1	1	0	0	0	0	5	5	0	5	5
Hypertension	1	9	10	2	1	3	0	6	6	0	0	0	1	7	8
Pulmonary	1	0	1	2	0	2	1	1	2	0	1	1	8	3	11
Cancer	0	1	1	0	1	1	1	0	1	1	0	1	0	1	1
Gun Shot Wound	0	0	0	0	3	3	0	2	2	0	0	0	0	1	1
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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

SERVICE AND NONSERVICE-CONNECTED DISABILITY RETIREMENTS
By Department and Rank

FIRE	96-97	97-98	98-99	99-00	00-01
Firefighter	5	13	10	12	8
Apparatus Operator	0	0	0	0	1
Engineer	4	3	3	5	2
Inspector	1	0	0	1	1
Captain	6	8	9	9	11
Battalion Chief	0	2	3	1	4
Assistant Chief	0	2	3	0	0
Deputy Chief	0	0	0	1	0
TOTAL	16	28	28	29	27

POLICE	96-97	97-98	98-99	99-00	00-01
Police Officer	21	14	18	19	15
Sergeant	3	5	7	7	10
Detective	8	5	7	12	11
Lieutenant	0	1	2	2	0
Captain	2	0	3	1	0
Commander	0	0	0	1	0
Deputy Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
TOTAL	34	25	37	42	36

(PAGE LEFT INTENTIONALLY BLANK)

Legal Summary

(PAGE LEFT INTENTIONALLY BLANK)

SUMMARY OF LEGAL ACTIVITIES

General Pension Litigation in Fiscal Year 2000-2001

The Retirement Benefits Division of the Los Angeles City Attorney's Office continued to provide legal advice to the Board of Fire and Police Pension Commissioners and the Department. Deputy City Attorney Michael R. Wilkinson joined the existing members of the Division, Managing Assistant City Attorney Donna Weisz Jones, Deputy City Attorneys John Blair and Mary Jo Curwen, and legal secretary Rebecca Clark.

In addition to handling the general legal issues that face the Department on a daily basis and disability pension litigation, the Division prepared the Charter Amendments for the Deferred Retirement Option Plan (DROP), Tier 5, and the reactivation of the qualified surviving spouse pension for those who remarried prior to December 5, 1996. They also prepared the Administrative Code sections providing for the health insurance subsidy for qualified surviving spouses and the dental subsidy for retired members. Lastly, they successfully represented the Board, all the way to the California Supreme Court, in Morgan v. City of Los Angeles, which involved the interaction of memorandums of understanding between the City and employee unions and a specific pension provision in the City Charter.

(PAGE LEFT INTENTIONALLY BLANK)

Summary of Pension Plan Benefits

Fire and Police Pension Plan - Tier 1 (Formerly Article XVII)
(Closed January 28, 1967)

Fire and Police Pension Plan - Tier 2 (Formerly Article XVIII)
(Closed December 7, 1980

Fire and Police Pension Plan - Tier 3 (Formerly Article XXXV, Plan 1)
(Closed June 30, 1997)

Fire and Police Pension Plan - Tier 4 (Formerly Article XXXV, Plan 2)
(Closed December 31, 2001)

Fire and Police Pension Plan - Tier 5 (Effective January 1, 2002)

(PAGE LEFT INTENTIONALLY BLANK)

SUMMARY OF PENSION PLAN BENEFITS
JUNE 30, 2001

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
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 salary)	Final Average Salary (One-year average salary)
c. Pensions as a percentage of salary base	40% at 20 years of service, plus 2% for each additional year up to 25 years of service, plus 1-2/3% for each additional year between 25 and 35 years of service. Maximum of 66-2/3% for 35 or more years of service.	40% at 20 years of service, plus 2% for each additional year up to 25 years of service. 55% at 25 years of service, plus 3% for each additional year between 25 and 30 years of service. Maximum of 70% for 30 or more years of service.	2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service. Maximum of 70% for 30 or more years of service.	50% at 20 years of service, plus 3% for each additional year (except 4% at 30 years of service). Maximum of 90% for 33 or more years of service.
2. SERVICE-CONNECTED DISABILITY				
a. Eligibility	Work related. No age or service requirements.	Work related. No age or service requirements.	Work related. No age or service requirements.	Work related. No age or service requirements.
b. Salary Base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average salary)	Final Average Salary (One-year average salary)
c. Pension as a percentage of salary base	50% to 90% depending on severity of disability, with a minimum of Member's service pension percentage rate.	50% to 90% depending on severity of disability, with a minimum of Member's service pension percentage rate.	30% to 90% depending on severity of disability, with a minimum of 2% per year of service.	30% to 90% depending on severity of disability, with a minimum of 2% per year of service.
3. NONSERVICE-CONNECTED DISABILITY				
a. Eligibility	Not work related. Five years of service.	Not work related. Five years of service.	Not work related. Five years of service.	Not work related. Five years of service.
b. Salary Base	Highest monthly salary as of Member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay.	Nonservice-Connected Salary Base: Highest monthly salary as of Member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay.	Final Average Salary (One-year average salary)	Final Average Salary (One-year average 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.

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
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 salary)	Final Average Salary (One-year average salary) *Except for Members who transferred from Tier 2 to Tier 5*
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Domestic Partner's (QSDP) benefit as a percentage of Member's salary base	50%	50% with less than 25 years of service with uncapped COLA. 55% with 25 or more years of service with uncapped COLA.	SERVICE-CONNECTED DEATH: 75% of Final Average Salary if service-connected death or death within 3 years after effective date of Service-Connected Disability pension with 3% cap on COLA. DEATH AFTER SERVICE-CONNECTED DISABILITY: 60% of Member's Service-Connected Disability pension with 3% cap on COLA.	SERVICE-CONNECTED DEATH: Former Tier 2: 75% of Normal Pension Base if service-connected death with 3% cap on COLA and 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 or death within 3 years after effective date of Service-Connected Disability pension with 3% cap on COLA and COLA Bank. DEATH AFTER SERVICE-CONNECTED DISABILITY: Former Tier 2: 50% of Normal Pension Base with less than 25 YOS with 3% cap on COLA and COLA Bank. 55% of Normal Pension Base with 25 or more YOS with 3% cap on COLA and COLA Bank.

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
4. SERVICE-CONNECTED DEATH OR DEATH AFTER SERVICE CONNECTED DISABILITY (Continued)				
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Domestic Partner's (QSDP) benefit as a percentage of Member's salary base (Continued)				Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02: 75% of Final Average Salary if died within 3 years after effective date of Service- Connected Disability pension, otherwise 60% of Member's Service-Connected Disability pension with 3% cap on COLA and COLA Bank.
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit	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 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 or Qualified Domestic Partner's benefit	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. 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

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
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 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	Higher of 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the Member would have received not to exceed 40% of Final Average Salary.	Former Tier 2: 100% of Member's accrued service retirement member would have received, not to exceed 55% of Normal Pension Base with 3% cap on COLA, with COLA Bank. Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02: Per Section 1508(2), if member was eligible to retire based on YOS, 80% of service retirement Member would have been entitled to or 30% of Member's Final Average Salary; not to exceed 40% of Final Average Salary with 3% cap on COLA and COLA Bank.
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21.	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21.	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21.	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21.

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
5. DEATH WHILE ELIGIBLE TO RECEIVE A SERVICE PENSION ON ACCOUNT OF YEARS OF SERVICE (Continued)				
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit (Continued)	Uncapped COLA	Uncapped COLA	3% cap on COLA, no COLA Bank	3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit	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. 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				
a. Eligibility	20 years of service.	20 years of service.	10 years of service and age 50.	20 years of service and age 50.
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified 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 Tier 2 pension up to 55% of Normal Pension Base, with 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, with 3% cap on COLA and COLA Bank.
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit	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:	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:	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:	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:

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
6. DEATH AFTER SERVICE RETIREMENT (Continued)				
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit (Continued)	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	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	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	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 or Qualified Domestic Partner's benefit	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. 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 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 (nonservice-connected pension base) 3% COLA Cap, no COLA Bank	For non-service 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 For death after nonservice-connected disability: 60% of Member's pension.	NONSERVICE-CONNECTED DEATH Former Tier 2: 40% of highest monthly salary as of Member's retirment 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

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
7. NONSERVICE-CONNECTED DEATH OR DEATH AFTER NONSERVICE-CONNECTED DISABILITY (Continued)				
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Domestic Partner's (QSDP) benefit as a percentage of Member's salary base (Continued)				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 with 3% cap on COLA and COLA Bank 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 Tier3/Tier 4 or Tier 5 hired on or after 1/1/02: 60% of Member's Pension with 3% cap on COLA and COLA Bank
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21.	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21.	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21.	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: 25% for one child 40% for two children 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21.

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
7. NONSERVICE-CONNECTED DEATH OR DEATH AFTER NONSERVICE-CONNECTED DISABILITY (Continued)				
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit (Continued)	Uncapped COLA	Uncapped COLA	3% cap on COLA, no COLA Bank	3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's or Qualified Domestic Partner's benefit	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. 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
8. COST-OF-LIVING				
a. Generally applicable provisions	Full annual cost-of-living increase. Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers.	Full annual cost-of-living increase. Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers.	Annual cost-of-living increase not to exceed 3%. Cost-of-living increases 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.	Annual cost-of-living increase not to exceed 3%. Amounts above the maximum of 3% are banked to be credited during years when the CPI is less than the maximum. Cost-of-living increases 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.

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
8. COST-OF-LIVING (Continued)				
a. Generally applicable provisions (Continued)	Survivors' pension includes the percentage of cost-of-living increases applied to the Member's pension prior to death.	Survivors' pension includes the percentage of cost-of-living increases applied to the Member's pension prior to death.	Survivors' pension includes the percentage of cost-of-living increases applied to the Member's pension prior to death. Pro rata adjustment in the first year of retirement.	Survivors' pension includes the percentage of cost-of-living increases applied to the Member's pension prior to death. Pro rata adjustment in the first year of retirement.
b. Effective date of cost-of-living increases				
i. Service retirement	Annual increases commence on July 1 following the later of the effective date or the date the Member would have been age 55.	Annual increases commence on the July 1 following the later of the effective date or the date the Member would have completed 25 years of service.	Same provisions for all types of pensions. Annual increases commence on the July 1 following the effective date.	Same provisions for all types of pensions. Annual increases commence on the July 1 following the effective date.
ii. Service-connected disability, service-connected death	Annual increases commence on the July 1 following the effective date.	Annual increases commence on the July 1 following the effective date.	Annual increases commence on the July 1 following the effective date.	Annual increases commence on the July 1 following the effective date.
iii. Nonservice-connected disability	Annual increases commence on the July 1 following the date the Member would have been age 55 or 5 years after the effective date of the pension if earlier.	Annual increases commence on the July 1 following the date the Member would have had 25 years of service or 5 years after the effective date of Member's pension, whichever is earlier.	Annual increases commence on the July 1 following the effective date.	Annual increases commence on the July 1 following the effective date.
iv. Nonservice-connected death, death while eligible for service retirement	Annual increases commence on the July 1 following the date the Member would have been age 55 or 5 years after the effective date of the pension if earlier.	Annual increases commence on the July 1 following the date the Member would have had 26 years of service or 5 years after the effective date of the qualified Survivor's pension, whichever is earlier.	Annual increases commence on the July 1 following the effective date.	Annual increases commence on the July 1 following the effective date.

SUMMARY OF PENSION PLAN BENEFITS

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
8. COST-OF-LIVING (Continued)				
b. Effective date of cost-of-living increases (Continued)				
v. Death after nonservice-connected disability, death after service-connected disability.	Annual increases commence on the July 1 following the date the Member would have been age 55 or 5 years after the effective date of the pension if earlier.	Annual increases commence on the July 1 following the date the Member would have had 26 years of service or 5 years after the effective date of the qualified Survivor's pension, whichever is earlier.	Annual increases commence on the July 1 following the effective date.	Annual increases commence on the July 1 following the effective date.
9. MEMBERS' CONTRIBUTIONS AS AN ANNUAL PERCENTAGE OF PAY				
	6%. No Member contributions required after thirty years of service.	6% plus 1/2 of the cost of cost-of-living benefit up to 1%. (Currently 7%) No Member contributions required after thirty 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. MISCELLANEOUS				
a. Vesting of service retirement	No vesting until retirement (20 years).	No vesting until retirement (20 years).	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).

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5 (Eff. 1/1/02)
10. MISCELLANEOUS (Continued)				
c. Basic death benefit	None.	None.	In addition to return of contributions, beneficiary receives one-year average salary times years of completed service (not to exceed 6 years).	In addition to return of contributions, beneficiary receives one-year average salary times years of completed service (not to exceed 6 years).
d. Optional forms of benefit	None.	None.	At service or disability retirement, Member may elect higher death benefit with corresponding actuarial reduction of retirement benefit.	At service or disability retirement, Member may elect higher death 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: None.	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.

(PAGE LEFT INTENTIONALLY BLANK)

Milestones

(PAGE LEFT INTENTIONALLY BLANK)

MILESTONES

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

1911-1919. In 1911 a charter amendment empowered the City Council to make changes in the pension systems. Effective September 16, 1913, the Council adopted an ordinance that reduced the minimum retirement age to 55 and eliminated member contributions. In 1919, ordinances were adopted allowing retirement after 20 years of service regardless of age.

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

1923-1925. The pension 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% for each year of service over 20 up to two-thirds of the salary of the rank held at retirement. The new City Charter which became effective July 1, 1925 added a provision that service and disability pensions would remain fixed amounts.

1927. Members entering service after January 17, 1927 would receive a pension after 25 years of service equal to 50% of the average salary during the three years preceding retirement, plus 1-2/3% 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% 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% of the average salary of the last three years of service with an additional 2% for each of the next five years of service and 1-1/3% 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% to 6% of salary. Effective June 16, 1947, a Charter amendment created a non-service disability pension of 40% 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 17, 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% of the fund assets in common stocks.

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

1967. Article XVII was extensively amended, and a New Pension system (Article XVIII) adopted effective January 29, 1967 provided:

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

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

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

(4) an extension of the amortization period for the unfunded liability to seventy 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% of fund assets.

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

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

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

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

1977. The mandatory retirement age provision of Article XVII was eliminated effective April 15, 1977.

1980. Article XXXV, The Safety Members' Pension Plan, was created effective December 8, 1980. It provided for a pension at age 50 with 10 years of service based on a formula of 2% per year of service up to 20 years and 3% for each additional year up to a maximum pension of 70% of annual salary at retirement; refund of member contributions with interest upon termination; and a surviving spouse pension equal to 60% of member's pension.

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

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

(2) the investment of 35% 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% 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 thirty years of service.

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

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

1990. A series of measures were enacted which allow the City to protect the integrity of the pension system in response to new tax code regulations. The waiting period was removed for cost-of-living adjustments for surviving spouses of members hired before December 8, 1980 who die in the line of duty.

The 3% 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% to 50%. Retired Article XVIII members may be recalled for up to one year after retirement.

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

1996. In January 1996, a new federal law prohibited states from taxing retirement income of nonresidents earned while working or residing in that state.

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

1997. Article XXXV, Plan II 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 II. Plan II offers a "20 and out" provision with retirement benefits at any age after 20 years of service based on a formula of 2% per year of service up to 20 years and 3% for each additional year up to a maximum pension of 70% 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 twelve month period used to determine Final Average Salary for pension purposes.

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

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

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

Provision was also 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 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 system assets equaled 104.7% of the actuarial accrued liability of pension benefits.

2000. Effective January 17, 2000 domestic partners became elegible 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 who meet eligibility requirements may now receive a health insurance premium subsidy at the time of the member's death.

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

(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 now referred to as Tiers 1, 2, 3 and 4, respectively.

(3) The Board of Commissioners was expanded from 7 to 9 members and now includes an elected retired fire member and an elected retired police member.

(4) The Board now selects the Retirement Plan Manager, subject to confirmation by the Mayor and Council, and may remove the Manager, subject to confirmation by the Mayor.

(5) Assistant General Manager positions will be 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 the California Constitution Article XVI, Section 17

(b) The prudent person investment standard

(c) Sole and exclusive power to provide actuarial services

(d) Control over litigation and settlement of litigation that involve policies and funds under board control

(e) Deletion of the Council's right to veto any Board decisions.

(7) The definition of dependent parent was revised so that United States residency at the time of member death is no longer an eligibility requirement.

2001. Charter changes were approved to:

(1) enable the City Council to establish by ordinance a deferred retirement option plan (DROP).

(2) combine all tiers into a single plan for funding purposes.

(3) require 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 City Council to provide by ordinance a dental subsidy for retirees.