

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

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2000 AND 1999**

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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## 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, 2000 and 1999, 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 generally accepted auditing standards 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, such general purpose financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2000 and 1999, and changes therein for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic 2000 and 1999 general purpose financial statements taken as a whole. The supplemental schedules of funding progress, employer contributions, actuarial methods and assumptions, revenues by source and expenses by type, and administrative expenses are presented for the purpose of additional analysis and are not a required part of the basic general purpose financial statements. These schedules are the responsibility of the System's management. Such schedules for the years ended June 30, 2000 and 1999 have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

MILLER, KAPLAN, ARASE & CO., LLP

October 20, 2000

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000 AND 1999

NOTE 1 - DESCRIPTION OF PLANS

The City of Los Angeles Department of Pensions operates under provisions of the City Charter of the City of Los Angeles, 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. In addition, the City of Los Angeles is required to fund the administrative expenses of the System.

Pension System

In general, the System is a defined benefit single-employer pension plan covering all fire fighters and police officers of the City of Los Angeles. Benefits are based on members' final compensation and terms of service. In addition, the Plan provides for disability benefits under certain conditions and benefits to eligible survivors. The System is composed of three groups. Those members hired prior to January 29, 1967 participate in the first established Department of Pensions (Old System under Article XVII) unless they requested transfer to the New Pension System (New System under Article XVIII) established for members hired on or after January 28, 1967. Members hired on or after December 8, 1980 participate in the Safety Members Pension Plan (under Article XXXV) which was established at that time.

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

Effective July 1, 1998, a new tier was established for Article XXXV. Active Members hired prior to July 1, 1997 could elect to join the new tier, which has eligibility for service retirement requirements similar to Article XVIII, as of July 1, 1998. Members hired after July 1, 1997 will automatically be covered under the new tier, except Members hired between July 1, 1997 and December 31, 1997 who can elect to transfer to the old tier. This valuation is based upon both tiers of Article XXXV, with costs based upon the individual Member's actual tier election.

Members with 20 or more years of service in the Old System and New System 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 the Old System and 70% in the New System. 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 the Safety Members Pension Plan must be age 50, with ten 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 ten 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 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 189, 190.50 and 536 of the City Charter, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. Regular benefits begin at age sixty. Temporary subsidies are available to certain groups at earlier stages.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000 AND 1999

NOTE 1 - DESCRIPTION OF PLANS (Continued)

Health Subsidy Plan (Continued)

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the City Employees' Retirement System (CERS) 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.

Health Subsidy benefits are available to Members and their spouses/domestic partners on disability and service retirement. Effective December 1999, 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.

Membership

The components of the System's membership were as follows at June 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Active nonvested - Old & New Pension System	210	403
Active nonvested - Safety Members Pension Plan	5,512	5,921
Active vested - Old & New Pension System	2,770	2,963
Active vested - Safety Members Pension Plan	3,886	3,308
Pensioners and beneficiaries - Old & New Pension System	11,377	11,170
Pensioners and beneficiaries - Safety Members Pension Plan	<u>235</u>	<u>200</u>
	<u>23,990</u>	<u>23,965</u>

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). In fiscal 1997, the System adopted the GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension*

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000 AND 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Financial Reporting (Continued)

*Plans*; and GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. GASB No. 25 establishes financial reporting standards for defined benefit pension plans and requires that System investments be reported at fair value at the reporting date. GASB No. 26 establishes financial reporting standards for defined benefit pension plans in reporting healthcare assets and benefits. GASB No. 28 establishes accounting and financial reporting standards for securities lending transactions.

GASB No. 25, *Financial Reporting for Defined Benefit Plans and Notes Disclosures for Defined Contribution Plans*, was adopted by the System on July 1, 1996. GASB 25 supercedes all previous financial reporting standards allowed for governmental defined benefit pension plans included GASB No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers, Accounting and Reporting by Defined Benefit Pension Plans*, previously relied upon by the System. GASB No. 25 requires a statement of plan net assets, a statement of changes in plan net assets, investments be carried at fair value with unrealized gains and losses included in the statement of changes in plan net assets, and certain note disclosures regarding actuarial methods, contribution requirements and funding progress of the System.

GASB No. 26 was adopted by the System on July 1, 1996. GASB No. 26 establishes financial reporting standards for postemployment healthcare plans administered by state and local governmental defined benefit pension plans. It is an interim statement pending completion of the GASB's project on accounting and financial reporting of other postemployment benefits by plans and employers.

In addition to the reporting standards, the statement also establishes certain requirements for plans that elect to provide historical trend information about the funded status of the postemployment health plan subsidy and the employer's required contribution to the Plan, either as supplementary information or an additional financial statement or note.

GASB No. 28 was adopted on July 1, 1996. GASB No. 28 establishes accounting and financial reporting standards for securities lending transactions and requires the System to record cash and certain securities received as collateral under securities lending transactions as assets, and liabilities resulting from these transactions in the statement of plan net assets. Revenues from and costs of securities lending transactions, such as borrowing rebates and agent fees, are reported as investment income and expenditures, respectively, in the statement of changes in plan net assets. Securities lending activity had previously been disclosed in the footnotes to the financial statements.

C. Cash

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

D. Investments

The System is authorized to make temporary investments in instruments rated A1 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000 AND 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

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 in accordance with GASB No. 25.

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 combined pension plan and postemployment health subsidy 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.

Real estate investments are recorded in the financial statements under the equity method and are carried at lower of cost or market 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.

The fair values of venture capital and alternative investments are estimated based on audited financial statements provided by the individual fund managers.

E. Income from Investments

The Charter of the City of Los Angeles provides that the rate of return from investments, exclusive of gains and losses, shall be credited to member contribution accounts.

F. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000 AND 1999

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, 2000 and 1999, recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Old System members are required by the City Charter to contribute 6% of salary. Safety Members Pension Plan 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.
- B. For New System members and Old System members, 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 the Safety Members Pension Plan, any "unfunded liability" of that System 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.
- D. An amount to provide for administrative expenses.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C. above, for the year ended June 30, 2000 to be as follows:

	<u>Percentage of Member's Salaries</u>		
	<u>Old System (Article XVII)</u>	<u>New System (Article XVIII)</u>	<u>Safety Members Pension Plan (Article XXXV)</u>
Entry-Age Normal Cost Contribution	20.33%	21.77%	14.28%
Amortization of Unfunded Liability	\$30.3M	\$78.6M	\$61.5M
Health Plan Subsidy	\$ .5M*	\$17.1M*	\$11.0M*

\*Stated as required dollar amount.

The actuarially determined unfunded (surplus) liability of the System was (\$1,109,665,140) and (\$210,545,583) at June 30, 2000 and 1999, 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, 2000 is to be amortized over the next 37 years\*\* through contributions to be made by the City.

\*\*Amortization to be completed by year 2037.

Contributions totaling \$248,405,652 (\$190,837,163 City and \$57,568,489 member) were made during the year ending June 30, 2000 with respect to the pension plan and health plan subsidy, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2000. These contributions consisted of approximately \$185,100,000 normal cost and \$34,500,000 amortization of the unfunded actuarial accrued liability for the aggregate pension plans. For the health plan subsidy, they consisted of approximately \$19,600,000 normal cost and \$9,000,000 amortization of the unfunded actuarial accrued liability.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000 AND 1999

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 exceed the amounts the borrowers owe the System.

The borrower has all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify the System as a result of the custodian's failure to: (1) make a 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*.

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.

The System adopted the provisions of Statement No. 28 of the Governmental Accounting Standards Board, *Accounting And Financial Reporting for Securities Lending Transactions*, in fiscal 1997. This Statement requires that cash received as collateral on securities lending transactions be reported as assets, and that liabilities from these transactions be 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 \$1,222,861,713 and \$953,482,842 as of June 30, 2000 and 1999, respectively. The collateralized value of cash and securities was \$1,266,025,602 and \$988,159,504 as of June 30, 2000 and 1999, 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 the contributions and interest subject to this right was \$811,781,737 and \$787,499,626 as of June 30, 2000 and 1999, respectively.

NOTE 5 - CONTINGENCIES (Continued)

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000 AND 1999

B. Investment Commitment

The System has commitments to contribute capital for real estate and venture capital investments in the aggregate amount of approximately \$354,925,427 at June 30, 2000.

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.

At June 30, 2000, the market value of categorized investments were as follows:

<u>Types of Investments</u>	<u>Category</u>			<u>AMOUNT</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
<u>Investments - Categorized</u>				
<u>Securities Not on Securities Loan</u>				
Temporary Investments	\$ 311,514,278	\$ -	\$ 361,589,862	\$ 673,104,140
U.S. Government Obligations	557,141,503	-	-	557,141,503
Domestic Corporate Bonds	1,830,789,297	-	-	1,830,789,297
International Bonds	149,897,313	-	-	149,897,313
Domestic Stocks	5,634,395,160	-	-	5,634,395,160
International Stocks	1,933,867,447	-	-	1,933,867,447
Alternative Investments	344,652,555	-	-	344,652,555
<u>Total Securities Not on Loan</u>	<u>\$ 10,762,257,553</u>	<u>\$ -</u>	<u>\$ 361,589,862</u>	<u>\$ 11,123,847,415</u>
<u>Securities on Loan for Securities Collateral</u>				
U.S. Government Obligations	\$ 64,088,177	\$ -	\$ -	\$ 64,088,177
Domestic Stocks	41,940,563	-	-	41,940,563
International Stocks	20,834,521	-	-	20,834,521
<u>Total Securities on Loan for Securities Collateral</u>	<u>\$ 126,863,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,863,261</u>
<u>Total Categorized Investments</u>	<u>\$ 10,889,120,814</u>	<u>\$ -</u>	<u>\$ 361,589,862</u>	<u>\$ 11,250,710,676</u>
<u>Investments - Non-Categorized</u>				
<u>Securities Held by Broker/Dealer Under</u>				
<u>Securities Loans with Cash Collateral:</u>				
Domestic Stocks				\$ 570,010,675
International Stocks				193,073,540
Domestic Corporate Bonds				94,601,898
U.S. Government Obligations				235,214,178
International Bonds				3,098,160
<u>Total Securities Held by Broker/Dealer Under Securities Loans with Cash Collateral:</u>				<u>\$ 1,095,998,451</u>
<u>Securities Lending Short Term Investment Pool</u>				<u>\$ 1,266,025,602</u>
<u>Real Estate</u>				<u>\$ 722,763,649</u>
<u>Total</u>				<u>\$ 14,335,498,378</u>



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

**SUPPLEMENTAL SCHEDULES**

**FOR THE SIX YEARS ENDED JUNE 30, 2000**

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 Healthcare Plans was determined as part of the actuarial valuations as of June 30, 2000. Additional information as of June 30, 1999 follows:

PENSION PLANS

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:

Old System and New System Members:	
Accrued for All Subsequent	
Service (Subject to Any	
Applicable Caps)	5.00%
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.

HEALTHCARE PLANS

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.

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

HEALTHCARE PLANS (Continued)

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 Cost Rate Increases:	
Pre-65 Premiums	7.75%*
Post-65 Premiums	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.