

Department of Pensions

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1999 Annual Report

July 1, 1998 to June 30, 1999

Gary Mattingly

General Manager

Edward Griffiths

Assistant Manager, Benefits

Tom Lopez

Chief Investment Officer

Donna Weisz Jones

Assistant City Attorney

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MAYOR
Richard J. Riordan

City Attorney
James Kenneth Hahn

Controller
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

Richard Alarcon
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

Richard Alatorre
Fourteenth District

Rudy Svorinich, Jr.
Fifteenth District

BOARD OF PENSION COMMISSIONERS

Gay L. Harwin, *President*

Steven J. Silberman
Vice President

David H. Kim
Commissioner

Mike Carter
Commissioner

Louis F. Moret
Commissioner

Charles B. Isgar
Commissioner

Fredrick A. Tredy
Commissioner

June 30, 1999

The Honorable Richard J. Riordan, Mayor
Honorable Members of the City Council

In accordance with Section 64 of the Los Angeles Charter, I am submitting the Annual Report of the Department of Pensions for the fiscal year ended June 30, 1999. 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.

During the 1998-99 Fiscal Year, the Investment Program gained \$1.586 billion, reflecting an annual rate of return of 16.04%. Total system assets have grown to \$11.506 billion. For the first time, the System's pension plans are fully funded. Favorable investment and actuarial experience increased the funding of pension benefits to 104.7%, an 11.2% improvement. During the same period, the funding of health subsidy benefits increased to 66.5%, a 12.3% improvement.

A 1.6% decline in active membership brought the total to 12,595. Pensioners currently number 11,370, a 2.4% increase. The average monthly benefit paid to pensioners rose to \$2,949, a 4.1% increase from the previous year.

On the benefits side, Article XXXV, Plan II became effective for all new sworn employees hired after July 1, 1998, adding a fourth tier to the System's pension plans. In December 1998, a new active member information system was implemented. This information system automates a variety of calculations and provides a central location for active members' records.

A new asset allocation plan was adopted in December 1998, to further optimize asset growth. In June 1999, a manager retention policy was adopted to further the goal of generating superior, long-term investment performance. It is anticipated that the new asset allocation plan and the manager retention policy will facilitate the continuing growth of assets to meet the demands of the system.

Respectfully submitted,

GARY MATTINGLY
General Manager

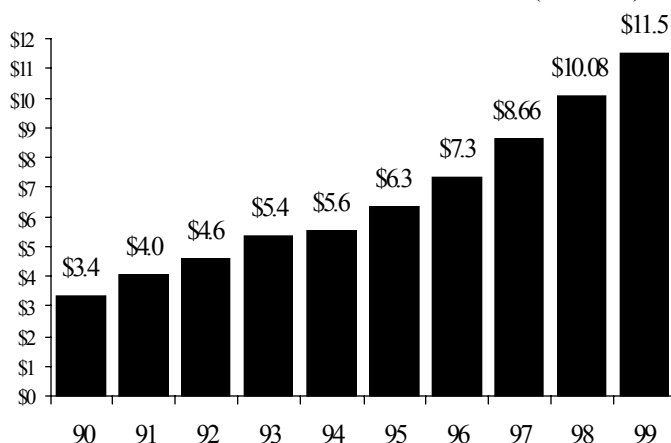
System Investments

Summary of Investment Activities

Introduction

During the past five years, the System's assets have grown from \$5.521 billion to \$11.506 billion. The investment program produced a gain of \$1.586 billion for the year ending June 30, 1999.

MARKET VALUE GROWTH OF SYSTEM ASSETS (In Billions)



Investment Environment

The bond market (*Salomon Bros. Broad Investment Grade Index*) produced a positive return of only 3.12 percent for the year ending June 30, 1999. Large capitalization stocks (*S&P 500*) achieved an outstanding 22.76 percent return. Smaller capitalization stocks (*Russell 2000 Index*) returned only 1.5 percent. International stocks (*Morgan Stanley EAFE Index*) returned 7.59 percent. Real Estate, as measured by the *Russell-National Council of Real Estate Investment Fiduciaries Index (NCREIF Classic Property Index)* continued its recover from the real estate recession with a 13.6 percent return.

Investment Performance

The investment objectives of the System, over a full market cycle (usually 3 to 5 years), are a return of at least two percent above the consumer price index per year and above median investment performance for public funds.

For the past five years, the System's annualized return of 16.19 percent was more than six times the inflation measurement increase of 2.34

percent. For the one year period, the System's overall investment performance was up 16.04 percent and outpaced the Consumer Price Index increase of 1.96 percent.

The System's performance was above median compared with other public funds (*Trust Universe Comparison Service [TUCS]*) over the past three years. For this past year, the System returned 16.04 percent vs. 10.42 percent for the public funds universe, and returned 17.30 percent for the past 3 years vs. 16.04 percent for the public funds universe. Our above median performance this year is mainly attributable to the weighting and performance of the System's stock managers.

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 Caps	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, 1999, the asset values were as follows:

ASSET CLASS	MARKET VALUE (In \$ Millions)	PERCENT
Stocks	7,188.88	62.5
Bonds	2,872.92	25.0
Real Estate	508.51	4.4
Alternative Investments	179.13	1.6
Cash Equivalents	756.08	6.5
Total	<u>11,505.52</u>	

Investment Activities

The manager changes for the year included the termination of one small cap manager, one bond manager, and one real estate manager; and the hiring of two international equities managers and two small cap equities managers. Administrative actions included the rehiring of our custodial bank, three real estate managers, one international manager, three equities managers, two emerging bond managers, our real estate consultant, and one passively indexed equities manager.

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 Portland, Oregon; Arden Hills, Minnesota; and Austin, Texas. The Anasazi land parcel in Paradise Valley, Arizona, was developed with the first tenants occupying the building in March. Several properties were sold, including a shopping center in Pasadena, Texas, and an office building in New York City. The shopping centers in Brookfield, Connecticut, and Old Bridge, New Jersey, were turned over to the management of Urdang & Associates in December.

In the commingled portion of the real estate portfolio, Heitman's Apartment Fund, Lend Lease's Asset Enhancement, and Sentinel's Apartment Fund are in liquidation and funds should be

completely returned to the Board by the end of the next fiscal year. The Board made a new investment in Lend Lease's Value Enhancement III after Value Enhancement I commenced its planned sale of assets.

The Board hired three emerging markets managers, effective July 1, 1999, to implement the new asset allocation plan adopted in December. Emerging markets are those lesser-developed countries outside of the Europe-Australasia-Far East Index developed by Morgan Stanley. The new plan calls for 3 percent of the Fund to be invested in emerging markets.

Proxy Voting

The System votes all domestic and available international proxy ballots. Staff voted 755 corporations' proxies and corporate consents in Fiscal Year 1998-99. The international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines, and cast a total of 186 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

<u>Fiscal Year</u>	<u>Stocks</u>	<u>Bonds</u>	<u>Real Estate</u>	<u>Alternative Investments</u>	<u>Short Term Investments</u>
1989-90	52.4%	31.8%	5.9%		9.9%
1990-91	52.0%	32.7%	6.1%		9.2%
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%

ANNUAL RATES OF RETURN

<u>Fiscal Year</u>	<u>Domestic Equities</u>	<u>International Equities</u>	<u>Fixed Income</u>	<u>Real Estate</u>	<u>Alternative Investments</u>	<u>Total Fund*</u>	<u>CPI**</u>
1989-90	14.9%		5.5%	7.4%		10.5%	4.7%
1990-91	5.2%	-9.90%	10.5%	-3.0%		4.8%	4.3%
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%

*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
Brown Capital Management
CIC Asset Management
Daruma Asset Management
Delta Asset Management
Frontier Capital Management
Loomis Sayles & Company, L.P.

BOND MANAGERS

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

INTERNATIONAL STOCK MANAGERS

Brandes Investment Partners
Invista Capital Management
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

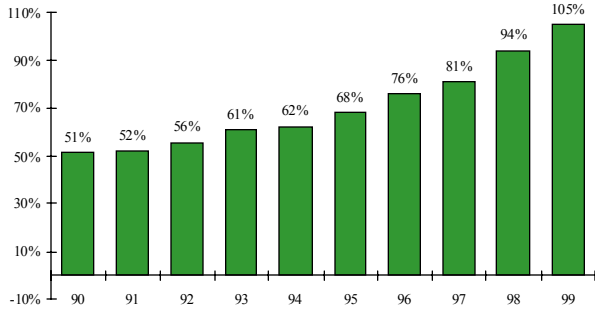
Actuarial Valuation Summary

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 Articles XVII (Sec. 186.2), XVIII (Sec. 190.09), and XXXV (Sec. 528). 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 Pension Commissioners. The last study was adopted by the Board in November 1998. This experience study covered the period beginning July 1, 1995 to June 30, 1998. An example of projected mortality is as follows:

Average Life Expectancy for Retirees

Service Retiree (Average Age = 66) 16.9 years
 Disabled Retiree (Average Age = 60) 18.5 years
 Surviving Spouse (Average Age = 74) 13.8 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%
 (**Article XXXV is 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 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 p. 12), the balance of -\$434

million is considered the unfunded actuarial liability.

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 Articles XVII and XVIII is scheduled to end on June 30, 2037.

Article XVII is amortized as a level dollar amount. Article XVIII is amortized as a level percent of all system members' (Articles XVII, XVIII, and XXXV combined) salaries. Article XXXV's am-

ortization 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 2000-2001

(As a percentage of plan members' salaries)

Article XVII	18.488%
Article XVIII	21.748%
Article XXXV	14.189%

Unfunded Liability Contribution Requirements Recommended 2000-2001

Article XVII	\$28,948,703
Article XVIII	(3.124%) of all system members' salaries
Article XXXV ...	(3.383%) of all Art XXXV members' salaries

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 1999 actuarial valuation included graded medical cost increase rates of 8.0% for pre-65 premiums and 7.75% for post-65 premiums in 1999; both decreasing gradually to 6.5% in 2005 and beyond. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health subsidy benefits is shown on page 12.

The contributions suggested to fund the health subsidy plan are:

Entry Age Normal Cost Contribution Requirements Recommended 2000-2001

(As a percentage of plan members' salaries)

Article XVII	0.219%
Article XVIII	1.256%
Article XXXV	2.966%

Unfunded Liability Contribution Requirements Recommended 2000-2001

Article XVII	\$425,623
Article XVIII	1.539% of all system members' salaries
Article XXXV	(1.088%) of Art XXXV members' salaries

Valuation of Pension Benefits

Actuarial Balance Sheet As of June 30, 1999

ASSETS				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets	\$ (2,127,018)	\$8,136,173,417	\$1,503,209,090	\$9,637,255,489
2. Present Value of Future Member Contributions	0	61,065,078	532,568,060	593,633,138
3. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	219,762	319,939,866	1,005,046,132	1,325,205,760
b. Unfunded Actuarial Accrued Liability	311,972,218	(525,076,213)	(220,515,097)	(433,619,092)
4. Total Assets	\$310,064,962	\$7,992,102,148	\$2,820,308,185	\$11,122,475,295

LIABILITIES				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
5. Present Value of Benefits Already Granted				
a. Service Retirements	\$ 77,817,132	\$3,668,162,414	\$ 12,772,283	\$3,758,751,829
b. Disability Retirements	82,403,427	1,145,567,507	51,611,364	1,279,582,298
c. Survivors and Dependents	146,017,399	514,009,946	23,399,838	683,427,183
d. Total	<u>\$ 306,237,958</u>	<u>\$5,327,739,867</u>	<u>\$ 87,783,485</u>	<u>\$5,721,761,310</u>
6. Present Value of Benefits to be Granted				
a. Service Retirements	\$ 3,331,826	\$2,181,803,585	\$2,076,286,845	\$4,261,422,256
b. Disability Retirements	480,309	463,916,482	552,552,552	1,016,949,343
c. Survivors and Dependents	14,474	17,683,869	61,177,149	78,875,492
d. Total	<u>\$ 3,826,609</u>	<u>\$2,663,403,936</u>	<u>\$2,690,016,546</u>	<u>\$5,357,247,091</u>
7. Refund of Employee Contributions	\$ 395	\$ 958,345	\$ 42,508,154	\$ 43,466,894
8. Total Liabilities	\$ 310,064,962	\$7,902,102,148	\$2,820,308,185	\$11,122,475,295

Valuation of Health Subsidy Benefits

Actuarial Balance Sheet As of June 30, 1999

ASSETS				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
1. Applicable Assets	\$ 6,654,518	248,279,303	\$ 188,558,349	\$443,492,170
2. Present Value of Future Contributions by the City for:				
a. Entry Age Normal Costs	1,628	12,945,674	173,355,540	186,302,742
b. Unfunded/(Surplus) Actuarial Accrued Liability	4,586,827	258,538,992	(40,052,410)	223,073,509
3. Total Assets	\$ 11,242,973	\$519,763,969	\$321,861,479	\$852,868,421

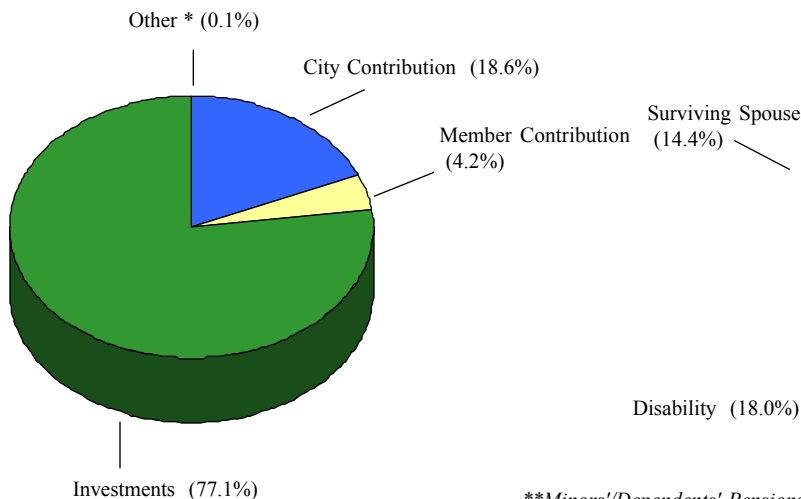
LIABILITIES				
	Fire & Police Pension System	New Pension System	Safety Members Pension Plan	All Plans Combined
4. Present Value of Benefits Already Granted	\$10,969,758	\$335,132,017	\$ 3,017,240	\$349,119,015
5. Present Value of Benefits to be Granted				
a. Actives Eligible to Retire	273,215	164,996,790	5,814,781	171,084,786
b. Other Actives	0	19,635,162	313,029,458	332,664,620
c. Total	<u>\$ 273,215</u>	<u>\$ 184,631,952</u>	<u>\$318,844,239</u>	<u>\$503,749,406</u>
6. Total Liabilities	\$11,242,973	\$519,763,969	\$321,861,479	\$852,868,421

Department Budget

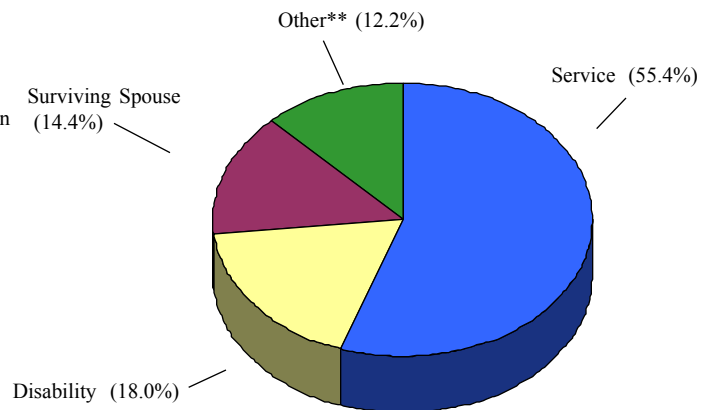
Department Budget

Receipts	Budgeted 1998-99	Actual 1998-99
Balance Available	\$ 769,650	\$ 0
City Contribution	247,888,665	247,888,665
Member Contributions	58,181,183	55,805,076
Earnings on Investments	325,000,000	379,294,840
Gain on Sale of Investments	--	648,051,891
UFLAC Settlement	500,000	500,000
Miscellaneous	650,000	725,079
Total Receipts	<u>\$632,989,498</u>	<u>\$1,332,265,551</u>
Expenditures	Budgeted 1998-99	Actual 1998-99
Service Pensions	\$261,360,000	\$250,805,918
Disability Pensions	87,480,000	81,564,522
Surviving Spouses' Pensions	69,120,000	65,047,298
Minors'/Dependents' Pensions	1,296,000	1,214,154
Refund of Member Contributions	4,000,000	4,157,672
Health Insurance Subsidy	15,697,000	16,963,567
Medicare	1,900,000	1,868,234
Investment Management Expense	25,572,500	26,609,343
Administrative Expense	6,503,850	4,829,886
Total Expenditures	<u>\$472,929,350</u>	<u>\$453,060,594</u>
Increase in Fund Balance	<u>\$160,060,148</u>	<u>\$879,204,957</u>

RECEIPTS



EXPENDITURES



*UFLAC Settlement and Miscellaneous

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

Auditors' Report

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Independent Auditors' Report

To the Board of Pension Commissioners of
the City of Los Angeles
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, 1999 and 1998, 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, 1999 and 1998, 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 1999 and 1998 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, 1999 and 1998 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

November 1, 1999

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

STATEMENT OF PLAN NET ASSETS

June 30, 1999

	Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	<u>Total</u>
<u>ASSETS</u>					
CASH	\$ 1,595,929	\$ --	\$ 215,156	\$ --	\$ 1,811,085
<u>RECEIVABLES</u>					
Accrued Interest and Dividend Income	\$ 53,840,328	\$ --	\$ 7,608,933	\$ --	\$ 61,449,261
Contributions	461,388	--	1,587,863	--	2,049,251
Due from Old Pension and New Pension System	--	252,968,619	--	--	252,968,619
Due from Safety Members Pension Plan	--	--	--	192,928,739	192,928,739
Due from Brokers	\$ 62,152,790	\$ --	\$ 5,979,241	\$ --	\$ 68,132,031
TOTAL RECEIVABLES	\$ 116,454,506	\$ 252,968,619	\$ 15,176,037	\$ 192,928,739	\$ 577,527,901
<u>INVESTMENTS AT FAIR VALUE</u>					
Temporary	\$ 521,886,165	\$ --	\$ 221,632,595	\$ --	\$ 743,518,760
U.S. Government Obligations	703,479,833	--	221,994,963	--	925,474,796
Municipal Bonds	28,436,640	--	7,274,000	--	35,710,640
Domestic Corporate Bonds	1,637,260,793	--	222,994,363	--	1,860,255,156
International Bonds	41,217,728	--	10,256,768	--	51,474,496
Domestic Stocks	4,958,397,694	--	756,029,579	--	5,714,427,273
International Stocks	1,463,184,383	--	11,265,777	--	1,474,450,160
Real Estate	143,968,316	--	364,537,698	--	508,506,014
Alternative Investments	\$ 153,258,022	\$ --	\$ 25,877,204	\$ --	\$ 179,135,226
TOTAL INVESTMENTS	\$ 9,651,089,574	\$ --	\$ 1,841,862,947	\$ --	\$ 11,492,952,521
<u>SECURITIES LENDING</u>					
COLLATERAL	\$ 863,928,858	\$ --	\$ 124,230,646	\$ --	\$ 988,159,504
TOTAL ASSETS	\$ 10,633,068,867	\$ 252,968,619	\$ 1,981,484,786	\$ 192,928,739	\$ 13,060,451,011
<u>LIABILITIES</u>					
Accounts Payable and Accrued Expenses	\$ 9,309,935	\$ --	\$ 848,145	\$ --	\$ 10,158,080
Benefits in Process of Payment	187,300	--	34,843	--	222,143
Due to Brokers	54,698,698	--	27,553,687	--	82,252,385
Mortgage Payable	--	--	28,244,041	--	28,244,041
Due to Health Plan Subsidy	252,968,619	--	192,928,739	--	445,897,358
Securities Lending Collateral	863,928,858	--	124,230,646	--	988,159,504
TOTAL LIABILITIES	\$ 1,181,093,410	\$ --	\$ 373,840,101	\$ --	\$ 1,554,933,511
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST EMPLOYMENT HEALTHCARE BENEFITS</u>					
<small>(A schedule of funding progress is presented on pages 29 and 30)</small>					
TOTAL PLAN ASSETS	\$ 9,451,975,457	\$ 252,968,619	\$ 1,607,644,685	\$ 192,928,739	\$ 11,505,517,500

June 30, 1998

Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
\$ 338,874	\$ --	\$ 1,019,280	\$ --	\$ 1,358,154
\$ 43,423,380	\$ --	\$ 8,254,671	\$ --	\$ 51,678,051
441,034	--	1,317,310	--	1,758,344
--	215,819,305	--	--	215,819,305
--	--	--	167,206,980	167,206,980
\$ 20,541,084	\$ --	\$ 4,381,607	\$ --	\$ 24,922,691
\$ 64,405,498	\$ 215,819,305	\$ 13,953,588	\$ 167,206,980	\$ 461,385,371
\$ 402,871,882	\$ --	\$ 154,819,701	\$ --	\$ 557,691,583
804,247,078	--	190,791,722	--	995,038,800
90,234,503	--	7,683,600	--	97,918,103
1,426,243,098	--	322,541,812	--	1,748,784,910
52,343,307	--	6,909,251	--	59,252,558
4,124,043,172	--	620,397,438	--	4,744,440,610
1,331,315,183	--	32,146,302	--	1,363,461,485
143,702,471	--	262,056,706	--	405,759,177
\$ 91,299,175	\$ --	\$ 14,628,316	\$ --	\$ 105,927,491
\$ 8,466,299,869	\$ --	\$ 1,611,974,848	\$ --	\$ 10,078,274,717
\$ 1,074,417,680	\$ --	\$ 183,718,903	\$ --	\$ 1,258,136,583
\$ 9,605,461,921	\$ 215,819,305	\$ 1,810,666,619	\$ 167,206,980	\$ 11,799,154,825
\$ 7,149,945	\$ --	\$ 302,706	\$ --	\$ 7,452,651
182,941	--	67,690	--	250,631
49,037,170	--	13,564,729	--	62,601,899
--	--	11,418,417	--	11,418,417
215,819,305	--	167,206,980	--	383,026,285
1,074,417,680	--	183,718,903	--	1,258,136,583
\$ 1,346,607,041	\$ --	\$ 376,279,425	\$ --	\$ 1,722,886,466
\$ 8,258,854,880	\$ 215,819,305	\$ 1,434,387,194	\$ 167,206,980	\$ 10,076,268,369

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

June 30, 1999

	Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
<u>ADDITIONS</u>					
Contributions:					
City contributions	\$ 164,112,320	\$ 16,878,608	\$ 57,642,742	\$ 9,754,995	\$ 248,388,665
Member contributions	<u>15,680,628</u>	<u>--</u>	<u>40,124,448</u>	<u>--</u>	<u>55,805,076</u>
<u>TOTAL CONTRIBUTIONS</u>	\$ 179,792,948	\$ 16,878,608	\$ 97,767,190	\$ 9,754,995	\$ 304,193,741
Miscellaneous	<u>669,638</u>	<u>--</u>	<u>\$ 55,441</u>	<u>--</u>	<u>\$ 725,079</u>
	<u>\$ 180,462,586</u>	<u>\$ 16,878,608</u>	<u>\$ 97,822,631</u>	<u>\$ 9,754,995</u>	<u>\$ 304,918,820</u>
<u>INVESTMENT INCOME</u>					
Net Appreciation in Fair Value of Plan Investments, Including Gain on Sales	\$ 1,153,280,656	\$ 16,436,314	\$ 12,750,719	\$ 10,118,961	\$ 1,192,586,650
Interest	177,812,123	14,230,347	39,321,128	3,146,879	234,510,477
Dividends	74,866,717	5,991,601	6,083,625	486,874	87,428,817
Net Real Estate Income	18,635,572	1,491,409	27,307,526	2,185,428	49,619,935
Securities Lending Income	6,485,830	519,063	355,485	28,450	7,388,828
Other Income	<u>5,357,043</u>	<u>428,725</u>	<u>65,220</u>	<u>5,220</u>	<u>5,856,208</u>
<u>SUBTOTAL</u>	\$ 1,436,437,941	\$ 39,097,459	\$ 85,883,703	\$ 15,971,812	\$ 1,577,390,915
Less: Investment Manager Expense	<u>(26,045,505)</u>	<u>--</u>	<u>(563,838)</u>	<u>--</u>	<u>(26,609,343)</u>
Net Investment Income	<u>\$ 1,410,392,436</u>	<u>\$ 39,097,459</u>	<u>\$ 85,319,865</u>	<u>\$ 15,971,812</u>	<u>\$ 1,550,781,572</u>
<u>TOTAL ADDITIONS</u>	<u>\$ 1,590,855,022</u>	<u>\$ 55,976,067</u>	<u>\$ 183,142,496</u>	<u>\$ 25,726,807</u>	<u>\$ 1,855,700,392</u>
<u>DEDUCTIONS</u>					
Pension Benefits	\$ 392,673,293	\$ --	\$ 5,841,600	\$ --	\$ 398,514,893
Payment of Medicare Reimbursement	--	1,866,091	--	2,143	1,868,234
Payment of Health Subsidy	--	16,960,662	--	2,905	16,963,567
Refund of Contributions	231,267	--	4,043,405	--	4,274,672
Administrative Expenses	<u>4,829,885</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>4,829,885</u>
	<u>\$ 397,734,445</u>	<u>\$ 18,826,753</u>	<u>\$ 9,885,005</u>	<u>\$ 5,048</u>	<u>\$ 426,451,251</u>
<u>NET INCREASE</u>	\$ 1,193,120,577	\$ 37,149,314	\$ 173,257,491	\$ 25,721,759	\$ 1,429,249,141
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST EMPLOYMENT HEALTHCARE BENEFITS</u>					
Beginning of Year	<u>8,258,854,880</u>	<u>215,819,305</u>	<u>1,434,387,194</u>	<u>167,206,980</u>	<u>10,076,268,359</u>
End of Year	<u>\$ 9,451,975,457</u>	<u>\$ 252,968,619</u>	<u>\$1,607,644,685</u>	<u>\$ 192,928,739</u>	<u>\$ 11,505,517,500</u>

JUNE 30, 1998

Old Pension and New Pension System	Old Pension and New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
\$ 179,527,992	\$ 19,712,441	\$ 51,642,840	\$ 9,873,394	\$ 260,756,667
<u>16,991,363</u>	<u>—</u>	<u>36,147,773</u>	<u>—</u>	<u>53,139,136</u>
\$ 196,519,355	\$ 19,712,441	\$ 87,790,613	\$ 9,873,394	\$ 313,895,803
<u>254,497</u>	<u>—</u>	<u>51,755</u>	<u>—</u>	<u>306,252</u>
\$ 196,773,852	\$ 19,712,441	\$ 87,842,368	\$ 9,873,394	\$ 314,202,055
\$ 947,021,618	\$ 23,607,849	\$ 196,425,011	\$ 11,962,241	\$ 1,179,016,719
178,675,298	6,903,532	31,943,474	4,773,163	222,295,467
70,532,994	2,725,205	4,529,270	676,788	78,464,257
14,902,046	575,775	19,244,062	2,875,549	37,597,432
3,137,174	121,212	216,005	32,277	3,506,668
<u>1,445,778</u>	<u>55,861</u>	<u>131,527</u>	<u>19,654</u>	<u>1,652,820</u>
\$ 1,215,714,908	\$ 33,989,434	\$ 252,489,349	\$ 20,339,672	\$ 1,522,533,363
<u>(15,883,019)</u>	<u>—</u>	<u>(516,916)</u>	<u>—</u>	<u>(16,399,935)</u>
\$ 1,199,831,889	\$ 33,989,434	\$ 251,972,432	\$ 20,339,672	\$ 1,506,133,428
\$ 1,396,605,741	\$ 53,701,875	\$ 339,814,801	\$ 30,213,066	\$ 1,820,335,483
\$ 377,264,087	\$ —	\$ 4,727,296	\$ —	\$ 381,991,383
—	1,813,901	—	2,102	1,816,003
—	15,575,636	—	—	15,575,636
252,811	—	2,611,079	—	2,863,890
<u>3,977,451</u>	<u>—</u>	<u>791,558</u>	<u>—</u>	<u>4,769,009</u>
\$ 381,494,349	\$ 17,389,537	\$ 8,129,933	\$ 2,102	\$ 407,015,921
\$ 1,015,111,392	\$ 36,312,338	\$ 331,684,868	\$ 30,210,964	\$ 1,413,319,562
<u>7,243,743,488</u>	<u>179,506,967</u>	<u>1,102,702,326</u>	<u>136,996,016</u>	<u>8,663,948,807</u>
\$ 8,258,854,880	\$ 215,819,305	\$ 1,434,387,194	\$ 167,206,980	\$ 10,076,268,369

City of Los Angeles Fire and Police Pension System

Notes to Financial Statements

June 30, 1999 and 1998

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 firefighters 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 on or before January 28, 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 29, 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.

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.

Note 1 -- Description of Plans (Continued)

Health Subsidy benefits are available to Members on disability and service retirement. No subsidy is paid to survivors or beneficiaries. Limited spousal and dependent benefits are available during the member's lifetime.

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, 1999 and 1998:

	1999	1998
Active nonvested - Old & New Pension System	403	547
Active nonvested - Safety Members Pension Plan	5,921	6,216
Active vested - Old & New Pension System	2,963	3,278
Active vested - Safety Members Pension Plan	3,308	2,758
Pensioners and beneficiaries -		
Old & New Pension System	11,170	10,937
Pensioners and beneficiaries -		
Safety Members Pension Plan	200	168
	23,965	23,904

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 year 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 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 including 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.

B. Financial Reporting (Continued)

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 established 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 cost 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 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.

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.

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, 1999 and 1998, 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, 1999 to be as follows:

	<u>Percentage of Member's Salaries</u>		
	<u>Old System</u> <u>(Article XVII)</u>	<u>New System</u> <u>(Article XVIII)</u>	<u>Safety Members</u> <u>Pension Plan</u> <u>(Article XXXV)</u>
Entry-Age Normal Cost Contribution	22.87%	24.47%	14.77%
Amortization of Unfunded Liability	\$33.8M	\$137.5M	\$60.4M
Health Plan Subsidy	\$.6M*	\$17.1M*	\$10.2M*

*Stated as required dollar amount.

The actuarially determined unfunded (surplus) liability of the System was (\$210,545,583) and \$773,924,834 at June 30, 1999 and 1998, 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, 1999 is to be amortized over the next 39 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

Contributions totaling \$304,193,741 (\$248,388,665 City and \$55,805,076 member) were made during the year ending June 30, 1999 with respect to the pension plan and health plan subsidy, in accordance with actuarially determined contribution requirements determined through an actuarial evaluation performed at June 30, 1999. These contributions consisted of approximately \$189,500,000 normal cost and \$90,500,000 amortization of the unfunded actuarial accrued liability for the aggregate pension plans. For the health plan subsidy, they consisted of approximately \$18,000,000 normal cost and \$10,000,000 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 owed 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 \$953,482,842 and \$1,222,341,764 as of June 30, 1999 and 1998, respectively. The collateralized value of cash and securities was \$988,159,504 and \$1,258,136,583 as of June 30, 1999 and 1998, 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 \$787,499,626 and \$456,435,241 as of June 30, 1999 and 1998, respectively.

B. Investment Commitment

The System has commitments to contribute capital for real estate and venture capital investments in the aggregate amount of approximately \$229,900,000 at June 30, 1999.

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

Note 6 -- Governmental Accounting Standards Board (GASB) Investment Categories (Continued)

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, 1999, the market value of categorized investments were as follows: (in thousands):

Types of Investments	Category			AMOUNT
	1	2	3	
Investments - Categorized				
Securities Not on Securities Loan				
Temporary Investments	\$ 221,958,158	\$ --	\$ 521,560,602	\$ 743,518,760
U.S. Government Obligations	596,382,583	--	--	596,382,583
Municipal Bonds	35,710,640	--	--	35,710,640
Domestic Corporate Bonds	1,789,094,279	--	--	1,789,094,279
International Bonds	50,485,196	--	--	50,485,196
Domestic Stocks	5,292,566,747	--	--	5,292,566,747
International Stocks not on Loan	1,344,070,234	--	--	1,344,070,234
Alternative Investments	179,135,226	--	--	179,135,226
Total Securities Not on Loan	\$ 9,509,403,063	\$ --	\$ 521,560,602	\$ 10,030,963,665
Securities on Loan for Securities Collateral				
U.S. Government Obligations	34,145,272	--	--	34,145,272
Domestic Corporate Bonds	18,796,153	--	--	18,796,153
Domestic Stocks	24,019,151	--	--	24,019,151
International Stocks	18,350,979	--	--	18,350,979
Total Securities on Loan for Securities Collateral	\$ 95,311,555	\$ --	\$ --	\$ 95,311,555
Total Categorized Investments	<u>\$ 9,604,714,618</u>	<u>\$ --</u>	<u>\$ 521,560,602</u>	\$ 10,126,275,220
Investments - Non-Categorized				
Securities Held by Broker/Dealer Under				
Securities Loans with Cash Collateral:				
Domestic Stocks				\$ 397,841,375
International Stocks				112,028,947
Domestic Corporate Bonds				52,364,724
U.S. Government Obligations				294,946,941
International Bonds				989,300
Total Securities Held by Broker/Dealer Under				
Securities Loans with Cash Collateral:				\$ 858,171,287
Securities Lending Short Term Investment Pool				\$ 988,159,504
Real Estate				\$ 508,506,014
Total				<u>\$ 12,481,112,025</u>

Note 6 -- Governmental Accounting Standards Board (GASB) Investment Categories (Continued)

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, 1999:

Secured by real estate. Interest rate ranges from 7.25% to 9.0% per annum.

Monthly Principal and interest payments range from \$25,357 to \$41,047.

The notes mature July 2002 through October 2008. \$ 28,244,041

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

2000	\$ 662,737
2001	719,502
2002	777,348
2003	4,885,348
2004	759,153
Thereafter	20,439,953
	<u>\$28,244,041</u>

Note 8 -- Operating Lease

The System leases building facilities under a noncancelable operating lease that expires in 2001, at which time a five-year renewal option is available.

The future minimum lease commitments are as follows as of June 30, 1999:

2000	\$ 339,989
2001	339,989
2002	169,995
	<u>\$ 849,973</u>

Note 9 -- Year 2000 Compliance

The System has addressed the Year 2000 issue (i.e. to recognize between 99 and 00 as one year instead of negative 99 years). During the fiscal year ending June 30, 1999, the System has completed the assessment and converted affected computer systems and equipment that are not year 2000 compliant. The execution of the plan included the replacement of existing hardware systems and the review of existing software for Year 2000 compliance. The System also completed the testing of all new hardware for compliance.

As of November 1, 1999, 98% of the System's computer systems have been converted and tested. Conversion and testing of all other systems should be completed by November 30, 1999.

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

ALL PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1994	\$ 5,111,331,371	\$ 8,311,393,751	\$ 3,200,062,380	61.5%	\$ 554,626,745	577.0%
June 30, 1995	5,602,149,360	8,412,407,080	2,810,257,720	66.6%	608,978,306	461.5%
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%)

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1994	\$ 4,527,618,395	\$ 7,781,907,008	\$ 3,254,288,613	58.2%	\$ 269,887,595	1205.8%
June 30, 1995	4,913,393,210	7,813,942,098	2,900,548,888	62.9%	278,097,839	1043.0%
June 30, 1996	5,701,026,050	8,041,068,131	2,340,042,081	70.9%	286,626,330	816.4%
June 30, 1997	6,376,809,995	8,217,516,312	1,840,706,317	77.6%	286,787,233	641.8%
June 30, 1998	7,145,149,538	7,821,533,465	676,383,927	91.4%	287,719,455	235.1%
June 30, 1999	8,134,046,399	7,920,942,404	(213,103,995)	102.7%	261,600,750	(81.5%)

SAFETY MEMBERS PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1994	\$ 583,712,976	\$ 529,486,743	\$ (54,226,233)	110.2%	\$ 284,739,150	(19.0%)
June 30, 1995	688,756,150	598,464,982	(90,291,168)	115.1%	330,880,467	(27.3%)
June 30, 1996	857,770,716	745,107,640	(112,663,076)	115.1%	401,945,932	(28.0%)
June 30, 1997	1,029,633,754	893,541,279	(136,092,475)	115.2%	462,718,338	(29.4%)
June 30, 1998	1,248,719,147	1,091,001,734	(157,717,413)	114.5%	521,087,814	(30.3%)
June 30, 1999	1,503,209,090	1,282,693,993	(220,515,097)	117.2%	558,139,897	(39.5%)

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

ALL PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1994	\$ 131,848,404	\$ 697,230,188	\$ 565,381,784	18.9%	\$ 554,626,745	101.9%
June 30, 1995	175,792,687	659,805,919	484,013,232	26.6%	608,978,306	79.5%
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%

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1994	\$ 77,378,107	\$ 609,717,517	\$ 532,339,410	12.7%	\$ 269,887,595	197.2%
June 30, 1995	102,366,307	566,443,155	464,076,848	18.1%	278,097,839	166.9%
June 30, 1996	145,929,451	504,733,828	358,804,377	28.9%	286,626,330	125.2%
June 30, 1997	181,352,489	481,842,685	300,490,196	37.6%	286,787,233	104.8%
June 30, 1998	213,935,369	501,116,016	287,180,647	42.7%	287,719,455	99.8%
June 30, 1999	254,933,821	518,059,740	263,125,919	49.2%	261,600,750	100.6%

SAFETY MEMBERS PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1994	\$ 54,470,297	\$ 87,512,671	\$ 33,042,374	62.2%	\$ 284,739,150	11.6%
June 30, 1995	73,426,380	93,362,764	19,936,384	78.6%	330,880,467	6.0%
June 30, 1996	102,299,458	87,044,017	(15,255,441)	117.5%	401,945,932	(3.8%)
June 30, 1997	129,499,893	104,586,388	(24,913,505)	123.8%	462,718,338	(5.4%)
June 30, 1998	157,476,044	125,553,717	(31,922,327)	125.4%	521,087,814	(6.1%)
June 30, 1999	188,558,349	148,505,939	(40,052,410)	127.0%	558,139,897	(7.2%)

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

ALL PLANS	Annual Required	Percent
Fiscal Years Ending	<u>Contribution</u>	Contributed
1994	\$ 281,880,495	100%
1995	287,697,971	100%
1996	296,636,023	100%
1997	265,744,307	100%
1998	231,170,832	100%
1999	221,755,062	100%

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

Fiscal Years Ending		
1994	\$ 246,773,576	100%
1995	250,731,527	100%
1996	253,792,681	100%
1997	222,678,703	100%
1998	179,527,992	100%
1999	164,112,320	100%

SAFETY MEMBERS PENSION PLAN

Fiscal Years Ending		
1994	\$ 35,106,919	100%
1995	36,966,444	100%
1996	42,843,342	100%
1997	43,065,604	100%
1998	51,642,840	100%
1999	57,642,742	100%

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

ALL PLANS	Annual Required	Percent
Fiscal Years Ending	<u>Contribution</u>	Contributed
1994	\$ 49,889,992	100%
1995	45,782,214	100%
1996	46,565,595	100%
1997	39,935,095	100%
1998	29,585,835	100%
1999	26,633,603	100%

OLD PENSION SYSTEM AND NEW PENSION SYSTEM

Fiscal Years Ending		
1994	\$ 32,957,468	100%
1995	31,897,396	100%
1996	32,128,225	100%
1997	26,805,677	100%
1998	19,712,441	100%
1999	16,878,608	100%

SAFETY MEMBERS PENSION PLAN

Fiscal Years Ending		
1994	\$ 16,932,524	100%
1995	13,884,818	100%
1996	14,437,370	100%
1997	13,129,418	100%
1998	9,873,394	100%
1999	9,754,995	100%

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO 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, 1999. 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.

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

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.

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	5.50%

Graded Medical Cost Rate Increases:

Pre-65 Premiums	8.00%*
Post-65 Premiums	7.75%*

*Decreasing gradually to 6.5% in 2004 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*

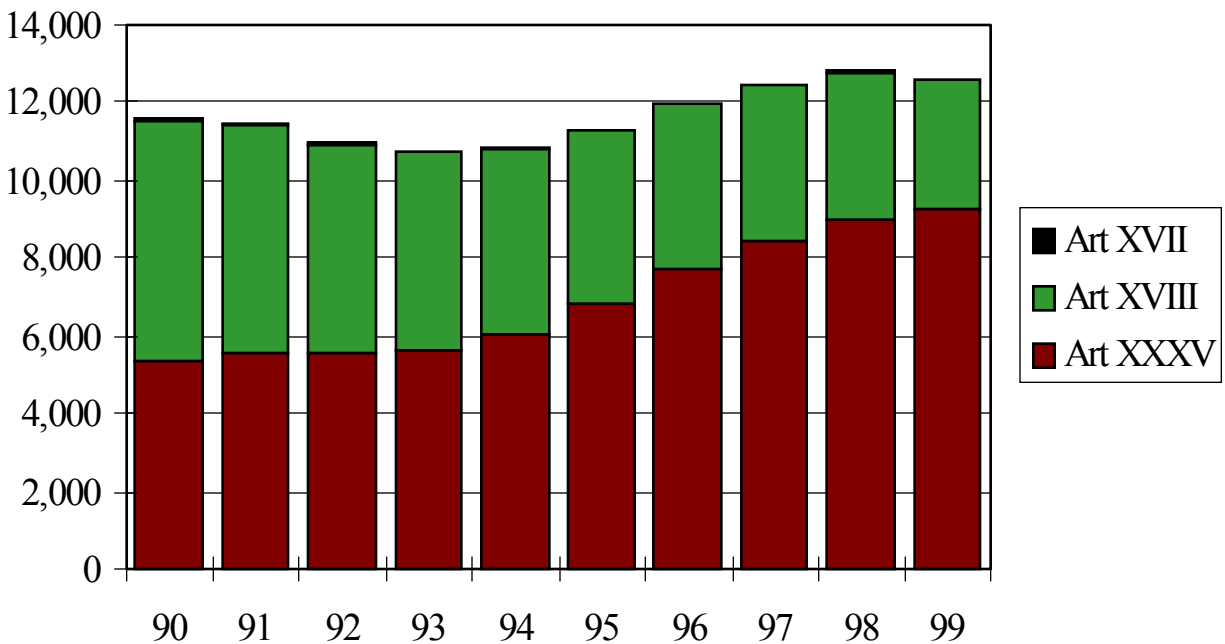
POLICE AND FIRE PENSION SYSTEMS

Three Pension Systems

There are currently 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.

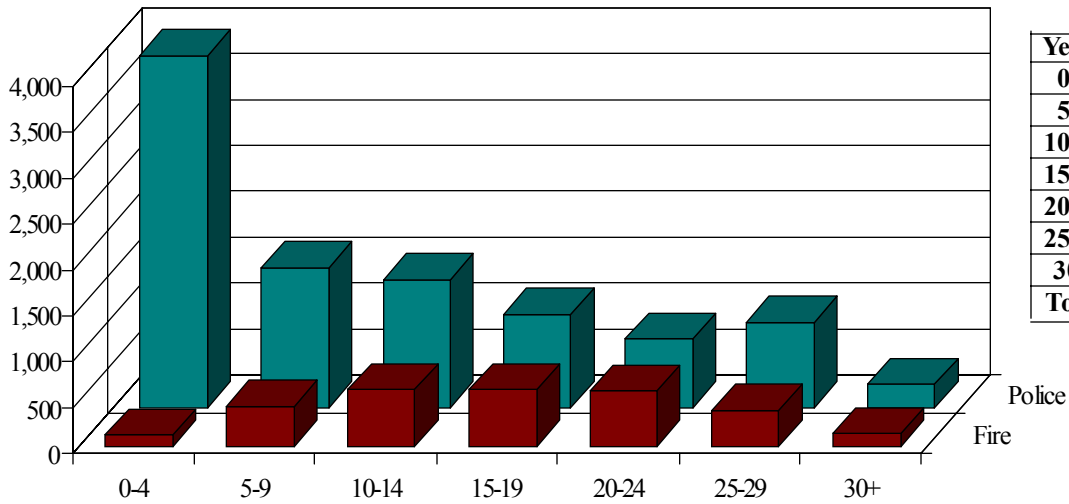
In 1980, the benefits of the system were again extensively revised. This resulted in the creation of **The Safety Members Pension Plan (Article XXXV)**. All members hired on December 8, 1980 and later become members of this plan. All members hired or rehired prior to July 1, 1997 are covered under the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

ACTIVE MEMBERSHIP Last Ten Years

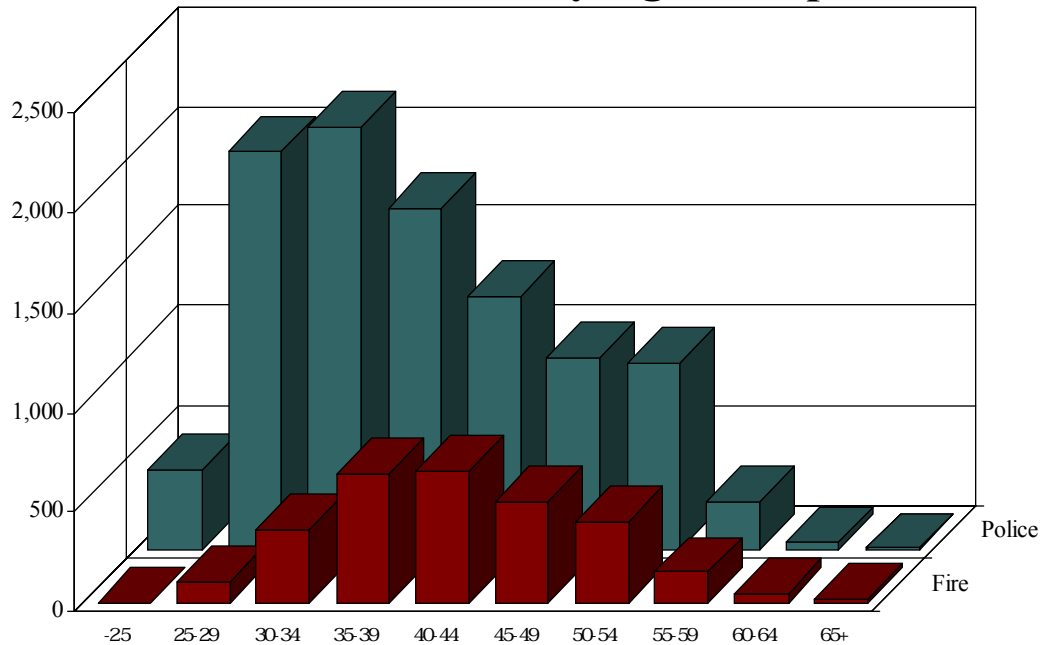


MEMBERSHIP AS OF JUNE 30, 1999			
Article	Fire	Police	Total
XVII	1	4	5
XVIII	1,257	2,104	3,361
XXXV	1,664	7,565	9,229
TOTAL	2,922	9,673	12,595

ACTIVE MEMBERSHIP By Years of Service



ACTIVE MEMBERSHIP By Age Group



REFUNDS OF MEMBER CONTRIBUTIONS

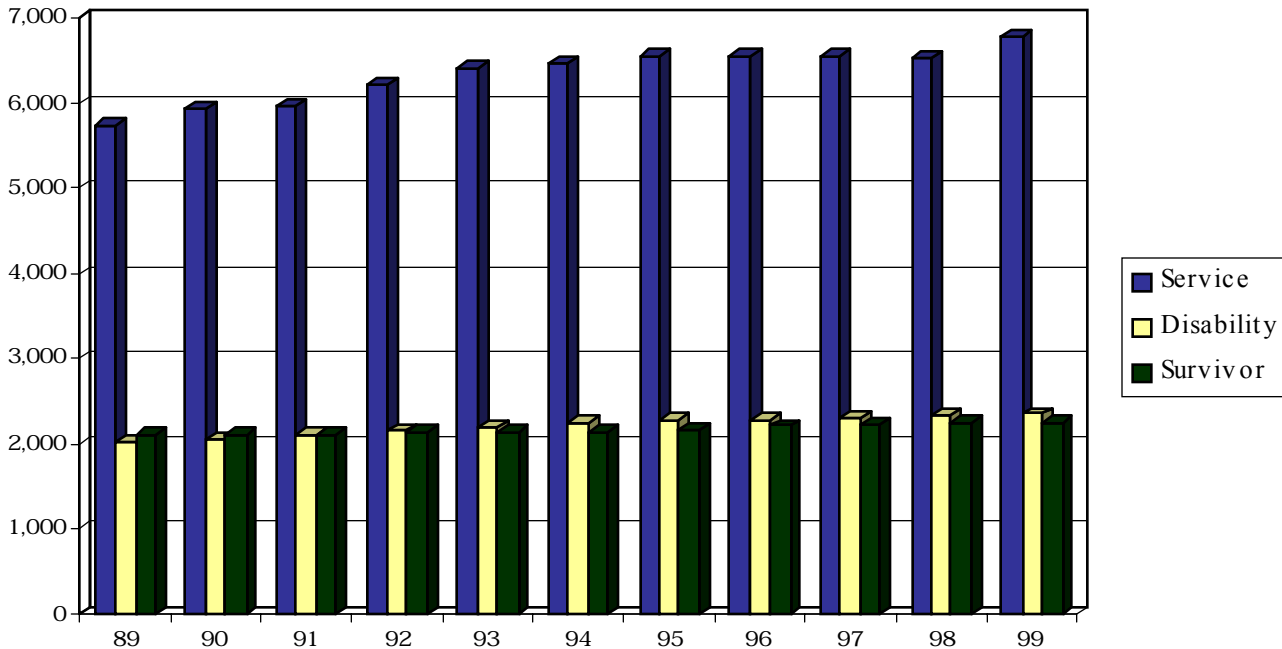
	95-96	96-97	97-98	98-99
FIRE				
Article XVIII	0	1	1	2
Article XXXV	23	6	5	2
POLICE				
Article XVIII	4	3	2	1
Article XXXV	144	125	152	151
TOTAL	171	135	160	156

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

RETIRED MEMBERSHIP

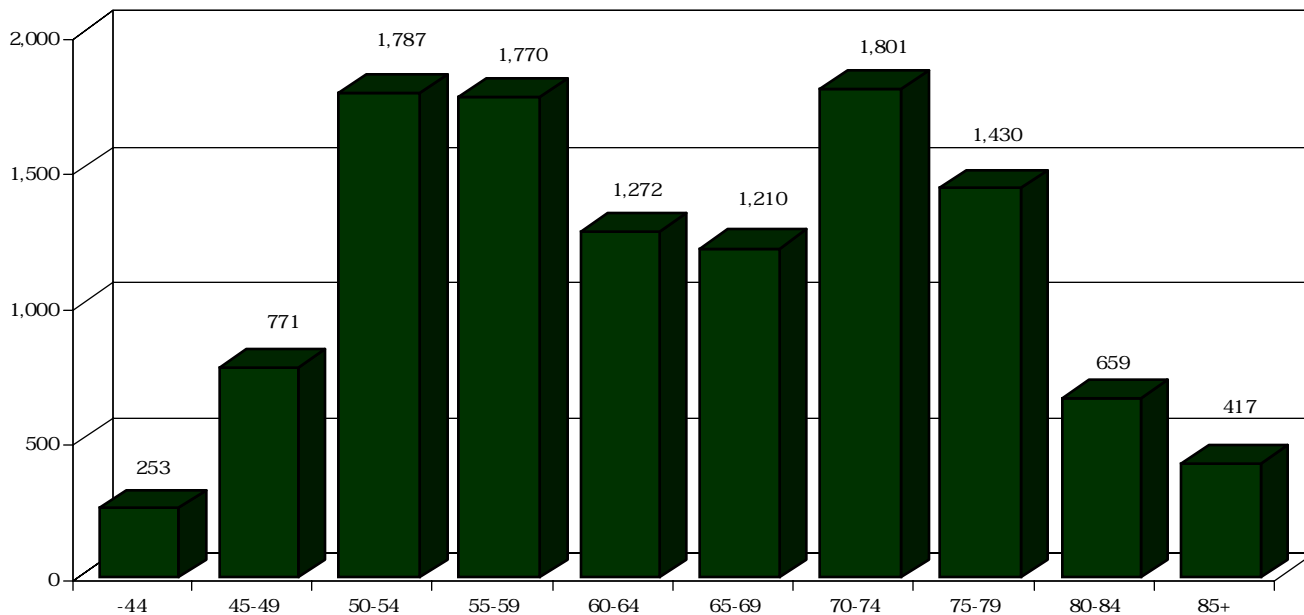
Last Ten Years

AS OF JUNE 30, 1999	
Service Pensions	6,785
Disability Pensions	2,343
Survivor Pensions	2,242
Total	11,370

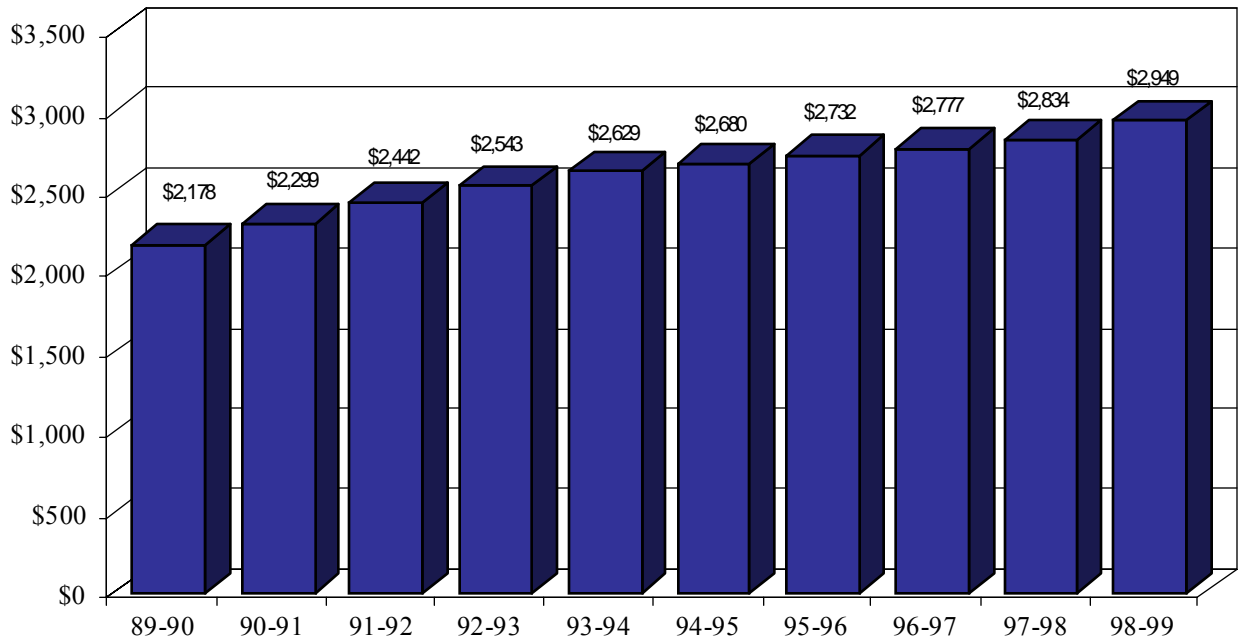


RETIRED MEMBERSHIP

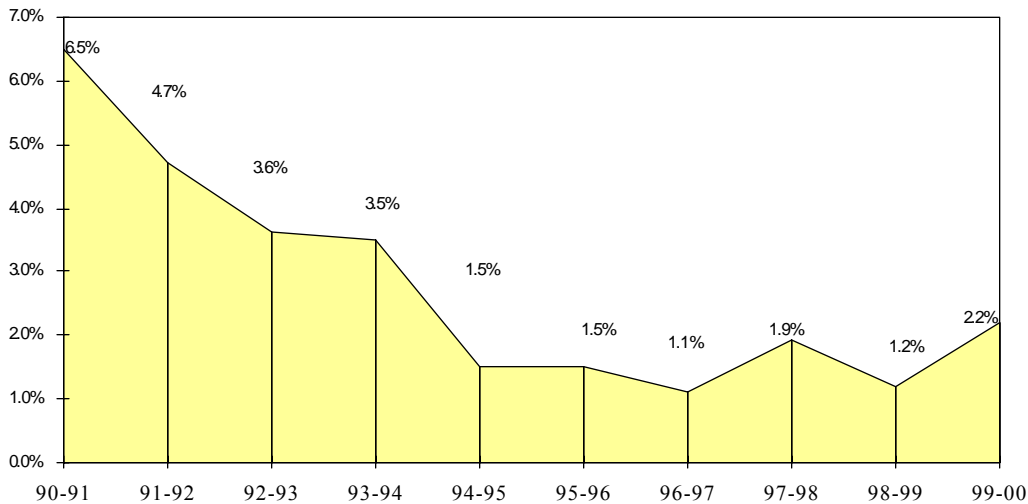
By Age Group



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 the Safety Members Pension Plan (Article XXXV) 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 Articles XVII and XVIII have no cap on their cost of living adjustments.