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VIA E-MAIL

November 14, 2007

Ms. Robyn Barnes
City of Los Angeles Fire and Police Pension Plan
360 East Second Street, Suite 400
Los Angeles, CA 90012

Re: City's Contribution Rates for Fiscal Year 2008/2009

Dear Robyn:

In our June 30, 2007 actuarial valuation reports for the retirement and health programs, we have calculated the City's recommended contribution rates by taking into consideration the minimum Annual Required Contributions (ARC) required by the Government Accounting Standards Board (GASB) to pay off the Unfunded Actuarial Accrued Liability (UAAL). This letter discusses those requirements in relation to the corresponding Board funding policy.

Retirement Plan

For the retirement program, under the Board's current funding policy, the contribution rates to payoff the UAAL have been set using different periods to amortize the different layers of the UAAL. There is a layer associated with the initial or original UAAL that has been amortized over 30 years or 70 years depending on the tier. For Tiers 3, 4 and 5, changes in the UAAL due to changes in actuarial assumptions or plan benefit provisions have been amortized over 30 years. Experience gains or losses due to differences between actual and expected actuarial experience have been amortized over 15 years.

GASB does allow the layered approach to amortize the UAAL; however, the resulting current UAAL payment for the entire plan has to be at least enough to amortize the plan's entire UAAL over a single period of 30 years.

The recommended contribution rates that we provided in our June 30, 2007 valuation report have been prepared so as to meet the minimum 30-year GASB requirement. In particular, the experience gains for Tiers 3, 4 and 5 during the 2006/2007 plan year have been amortized over 21 years instead of 15 years so that the resulting total payment will comply with the GASB requirement.



As requested by your office, we have provided in the attached Schedule A the current funding policy contribution rates calculated using 15 years instead of 21 years to amortize the experience gain for 2006/2007 plan year.

The City's contribution requirement is lowered under the 15-year amortization schedule. However, if the City were to contribute the lower amount (and assuming that the City is deemed a single employer plan) then the difference between the contribution rates provided in our June 30, 2007 valuation report and rates in Schedule A will have to be accrued as a liability called the Net Pension Obligation in the City's financial statement. The plan and the City should consult with the auditors on this issue.

Health Plan

Historically, the same policy used to determine the UAAL rate for the retirement plan has also been followed in determining the UAAL rate for the health plan. However, with the method and assumption changes adopted by the Board in the June 30, 2006 valuation, the Board decided to combine all the previous UAAL layers into a single layer, and to amortize the entire UAAL for the health plan over 30 years effective June 30, 2006.

In determining the recommended contribution rates in the June 30, 2007 valuation report, we have taken the changes in the UAAL from the changes in the assumptions, the plan amendment to allow Harbor Port Police to join the plan and the experience gain during the 2006/2007 plan year and combined them with the outstanding balance of the UAAL from the June 30, 2006 valuation and amortized the entire UAAL over a single period of 29 years. This produces an amount that meets the minimum payment, 30-year GASB requirement, and also is consistent with the decision to restart the total UAAL amortization last year.

As requested by your office, we have provided in the attached Schedule B the contribution rates calculated using 15 years to amortize the experience gain for the 2006/2007 plan year and 30 years to amortize the plan amendment and the assumption changes.

Again, the City's contribution rate requirement is lower with the use of the layered approach but the contribution rates will be less than that required under the minimum GASB requirement. As with pensions, the difference between the two amounts will have to be accrued as a liability called the Net OPEB Obligation and accrued as a liability in the City's financial statement.

Please note that it is possible to calculate a GASB compliant City contribution rate that is less than that provided in our June 30, 2007 valuation by taking the entire UAAL as of June 30, 2007 and amortizing that over 30 years effective June 30, 2007 (instead of 29 years as we stated in our

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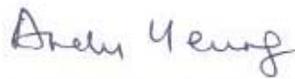
report). Because this would not appear to be consistent with the decision to reamortize the UAAL on a 30-year schedule starting last year. We have not recommended this alternative to the Board.

We look forward to discussing this with you and your Board. Please let us know if you have any questions.

Sincerely,



Paul Angelo, FSA, MAAA, EA, FCA
Senior Vice President and Actuary



Andy Yeung, ASA, MAAA, EA
Vice President and Associate Actuary

AYY:jc

**Schedule A –City’s Contribution Rates for the Retirement Plan Calculated Using a 15-Year
Period or a 21-Year Period to
Amortize the Experience Gain for the 2006/2007 Plan Year**

		2006/2007 Experience Gain Amortized Over 15 Years		2006/2007 Experience Gain Amortized Over 21 Years	
Total Employers Combined		Amount	% of Payroll	Amount	% of Payroll
1.	Total normal cost	\$307,487,283	27.08%	\$307,487,283	27.08%
2.	Expected employee contributions	-95,700,124	-8.43%	-95,700,124	-8.43%
3.	Employer normal cost: (1) + (2)	211,787,159	18.65%	211,787,159	18.65%
4.	Actuarial accrued liability	13,324,089,628		13,324,089,628	
5.	Valuation value of assets	13,215,668,458		13,215,668,458	
6.	Unfunded actuarial accrued liability	108,421,170		108,421,170	
7.	Amortization of unfunded accrued liability	1,967,329	0.17%	6,148,720	0.54%
8.	Total recommended contribution, not adjusted for timing	213,754,488	18.82% ⁽¹⁾	217,935,879	19.19% ⁽²⁾
9.	Total recommended contribution, adjusted for timing*	222,414,383	19.59%	226,765,175	19.97%
10.	Projected payroll used for developing normal cost rate	1,135,591,951		1,135,591,951	

(1) Contribution rate payable on July 15, 2008 is 18.88% for 2007.

(2) Contribution rate payable on July 15, 2008 is 19.25% for 2007.

Schedule B –City’s Contribution Rates for the Health Plan Calculated Using 15 and 30-Year Periods or a 29-Year Period to Amortize the Changes in UAAL for the 2006/2007 Plan Year

Total Employers Combined	2006/2007 Changes in UAAL Amortized Over 30 and 15 Years		2006/2007 Changes in UAAL Amortized Over 29 Years	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	\$36,415,392	3.21%	\$36,415,392	3.21%
2. Amortization of unfunded accrued liability	51,889,241	4.57%	53,119,923	4.68%
3. Total recommended contribution, not adjusted for timing	88,304,633	7.78% ⁽¹⁾	89,535,315	7.89% ⁽²⁾
4. Total recommended contribution, adjusted for timing*	91,836,818	8.09%	93,116,728	8.20%
5. Projected payroll used for developing normal cost rate	1,135,591,951		1,135,591,951	

(1) Contribution rate payable on July 15, 2008 is 7.80% for 2007.

(2) Contribution rate payable on July 15, 2008 is 7.92% for 2007.