

# The City of Phoenix Employees' Retirement Plan

A COMPONENT OF THE CITY OF PHOENIX, ARIZONA

## Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2004





## City of Phoenix

RETIREMENT SYSTEMS

### Management's Discussion and Analysis

Dear Members and Retirees:

The City of Phoenix Employees Retirement Systems (COPERS) is pleased to provide the following analysis of the financial activities for the fiscal year ended June 30, 2004. The information provided is intended to be considered in conjunction with the Transmittal Letter in the Introductory Section, the Statements provided in the Financial Section of this Comprehensive Annual Financial Report (CAFR), and the Notes to the Financial Statements.

#### **Financial Highlights:** (in thousands)

- As of June 30, 2004, \$1,445,743 in Plan Net Assets are held in Trust for the payment of pension benefits, as identified in the Statements of Plan Net Assets on page 22. This amount represents an increase of 14.5% from June 30, 2003. The increase is attributable primarily to higher returns experienced in the financial markets, which impacted COPERS investment performance. The Plan Net Assets as of June 30, 2003 were \$1,262,543 compared to \$1,244,403 as of June 30, 2002. The increase of 1.5% was attributable to higher returns experienced in the financial markets, which impacted COPERS investment performance.
- COPERS revenues, additions (deductions) to Plan assets, as reported in the Statements of Changes in Plan Net Assets on page 23, for the fiscal year ended June 30, 2004 were \$263,361 compared to \$91,351 for fiscal year ended June 30, 2003 and (\$33,944) for fiscal year ended June 30, 2002. The amount as of June 30, 2004, includes employer and employee contributions of \$64,347 and net investment income of \$198,641. Fiscal year ended June 30, 2003 and June 30, 2002, employer and employee contributions were \$53,942 and \$53,486 respectively. The net investment income/losses were \$36,909 and (\$88,483) respectively.
- The Statements of Changes in Plan Net Assets report an increase in deductions in Plan assets of 9.5% from fiscal year ended June 30, 2003. This compares to a 6.9% increase in deductions between June 30, 2003 and June 30, 2002. Deductions for fiscal year ended June 30, 2004 were \$80,161, compared to \$73,211 for fiscal year ended June 30, 2003 and \$68,505 for June 30, 2002. The increase as of June 30, 2004 is attributable to increased benefits paid during the year.
- The recent Actuarial Valuation prepared as of June 30, 2004 reports the funded ratio to be 84.2%. This percentage is calculated by evaluating the Valuation Assets of \$1,417,774,257 and the Actuarial Accrued Liabilities of \$1,684,795,490 for year ended June 30, 2004. The funded ratio for fiscal years June 30, 2003 and June 30, 2002 are 88.5% and 91.6% respectively. A smoothed market value of assets was used for the June 30, 2003 and the June 30, 2004 valuations. This method spreads the difference between the actual and expected investment return over four years. The method used in prior years spread realized and unrealized gains and losses over four years.

#### **Using This Annual Report:**

This report is prepared to provide information as a means for making management decisions, complying with statutory provisions, and demonstrating the responsible stewardship of the assets of the Plan. The financial statements starting on page 22 in the Financial Section identify the Net Assets Held in Trust for Pension Benefits, and provide a comparison of the current fiscal year to the prior year.

## **Overview of Financial Statements:**

The Financial Section includes the following:

- Comparative Statements of Plan Net Assets (Page 22)
- Comparative Statements of Changes in Plan Net Assets (Page 23)
- Notes to the Financial Statements (Page 24)
- Required Supplementary Information (Page 31)
- Supporting Schedules (Page 33)

### Comparative Statements of Plan Net Assets:

This statement identifies the receivables, investments, and liabilities of the Plan to arrive at the Net Assets Held in Trust for Pension Benefits payable to retirees and survivors. The current year information is provided in comparison to the previous year to assist the reader in evaluating the progress of the Plan.

### Comparative Statements of Changes in Plan Net Assets:

The Comparative Statement of Changes in Plan Net Assets differs from the Statement of Plan Net Assets by providing the reader with the Plan's revenues (additions) and expenses (deductions) for the current year and the previous year. The statement provides the net increase or decrease realized during the year.

### Notes to the Financial Statements:

The Notes to the Financial Statements are an integral part of the financial statements. The information provides the reader with a better understanding of the data presented in the financial statements to further evaluate the financial condition and operations of the Plan.

### Required Supplementary Information (RSI):

The RSI provides the Plan's funding progress for the last eight years and the funding ratio to identify the Plan's ability to meet its current and future benefit obligations. The Schedule of Employer Contributions for the last ten years includes the City's required dollar amount of contributions made to the Plan. The Notes to the Schedules of Trend Information provide additional information regarding actuarial assumptions and factors affecting trends.

### Supporting Schedules:

The Supporting Schedules include Administrative Expenditures and Encumbrances for the current and previous year in operating COPERS. The administrative expenditures are paid by the City of Phoenix and are not recognized in the financial statements. ~~However, this year the Retirement Board authorized and paid from the Plan \$340,000 for computer services for COPERS' new computer system, which was not included in the City's budget. This amount is included in the Statement of Changes in Plan Net Assets on page 23.~~ The Schedules of Investment Expenses and Payments to Consultants provide the reader with the cost to the Plan for managing and monitoring the Plan's assets.

## Financial Analysis

(in thousands)

The evaluation of the Plan's net assets provides a measurement tool in assessing the progress and performance of the Plan. COPERS' Plan Net Assets as of June 30, 2004, totaled \$1,445,743. This amount represents an increase of 14.5% from Plan Net Assets of \$1,262,543 as of June 30, 2003. The Plan Net Assets as of June 30, 2002 were \$1,244,403. The increase in Plan Net Assets for the current year is as a result of net income from investing activities. The return (decline) on investments for fiscal years ended June 30, 2004, 2003 and 2002 was 16.0 percent, 3.3 percent and (6.4) percent respectively. The increase in investment performance for the current fiscal year was attributable to equity performance of 24.9 percent and 0.1 percent for bonds. The return (decline) for bonds and equities as of June 30, 2003 was 10.8 percent and (2.2) percent respectively. The return (decline) for bonds and equities as of June 30, 2002 was 7.1 percent and (16.6) percent respectively.

Table 1: COPERS' Plan Net Assets for June 30, 2004 and 2003 (in thousands)

	2004	2003	Increase	Increase
Cash & Cash Equivalents	\$ 54,706	\$ 49,425	\$ 5,281	10.7%
Total Receivables	55,698	27,704	27,994	101.0%
Total Investments	1,533,763	1,326,406	207,357	15.6%
Total Assets	1,644,167	1,403,535	240,632	17.1%
Total Liabilities	198,424	140,992	57,432	40.7%
COPERS' Plan Net Assets	\$ 1,445,743	\$ 1,262,543	\$ 183,200	14.5%

Table 2: COPERS' Plan Net Assets for June 30, 2003 and 2002 (in thousands)

	2003	2002	Increase (Decrease)	Increase (Decrease)
Cash & Cash Equivalents	\$ 49,425	\$ 85,058	\$ (35,633)	-41.9%
Total Receivables	27,704	15,800	11,904	75.3%
Total Investments	1,326,406	1,313,365	13,041	1.0%
Total Assets	1,403,535	1,414,223	(10,688)	-0.8%
Total Liabilities	140,992	169,820	(28,828)	-17.0%
COPERS' Plan Net Assets	\$ 1,262,543	\$ 1,244,403	\$ 18,140	1.5%

**Reserves:**

COPERS' maintains five accounts to hold reserves for benefit payments. Additions to the reserves come from contributions (employer and employee) and investment income. Distributions from the reserve include monthly pension benefits and increases to eligible pensions under the Pension Equalization Program and the "13<sup>th</sup> Check." A schedule of reserve account balances is on page 27.

**COPERS' Activities:**

(in thousands)

COPERS provides retirement pensions/annuities, survivor benefits, member contribution refunds, and disability benefits to qualified members and their beneficiaries. These benefits are financed through employer and member contributions and income from COPERS' investments.

Net investment income, which includes net appreciation in fair value of investments, bond interest and dividend income, for the fiscal year ended June 30, 2004 was \$198,641. This compares to net investment income (loss) for June 30, 2003 and June 30, 2002 of \$36,909 and (\$88,483) respectively. Expenditures increased by 9.5% over the prior fiscal year, primarily as a result of increases in pension payments. This compares to a 6.9% increase in expenditures from June 30, 2002 to June 30, 2003. Benefit payments for the fiscal years ending June 30, 2004, 2003 and 2002 were \$76,949, \$70,234 and \$64,289 respectively. The increase in benefit payments for the last two fiscal years is due to an increase in the number of retirees and permanent pension adjustments paid to eligible retirees under the pension equalization program (refer to page 60 for more information on the pension equalization program).

The summary of COPERS' revenues (additions) and expenses (deductions) to plan net assets for the fiscal years ended June 30, 2004, 2003 and 2002 are provided in Table 3 and Table 4 below:

**Table 3: Additions and Deductions to/from Plan Net Assets for the fiscal years ended June 30, 2004 and June 30, 2003 (in thousands)**

	2004	2003	Increase (Decrease)	Increase (Decrease)
<b>Additions</b>				
Employer Contributions	\$ 39,564	\$ 27,820	\$ 11,744	42.2 %
Member Contributions	24,783	26,122	(1,339)	(5.1)
Inter-System Transfers	373	500	(127)	(25.4)
Net Investment Income	198,458	36,707	161,751	440.7
Net Securities Lending Income*	183	202	(19)	(9.4)
<b>Total</b>	<b>\$ 263,361</b>	<b>\$ 91,351</b>	<b>\$ 172,010</b>	<b>188.3 %</b>
<b>Deductions</b>				
Benefit Payments	\$ 76,949	\$ 70,234	\$ 6,715	9.6 %
Refunds	2,272	2,457	(185)	(7.5)
Inter-System Transfers	600	365	235	64.4
Other	340	155	185	119.4
<b>Total</b>	<b>\$ 80,161</b>	<b>\$ 73,211</b>	<b>\$ 6,950</b>	<b>9.5 %</b>
<b>Net Change in Assets</b>	<b>\$ 183,200</b>	<b>\$ 18,140</b>	<b>\$ 165,060</b>	<b>909.9 %</b>

\*Securities Lending Program  
Effective 4/1/02

Table 4: Additions and Deductions to/from Plan Net Assets for the fiscal years ended June 30, 2003 and June 30, 2002 (in thousands)

	2003	2002	Increase (Decrease)	Increase (Decrease)
<b>Additions</b>				
Employer Contributions	\$ 27,820	\$ 28,295	\$ (475)	(1.7) %
Member Contributions	26,122	25,191	931	3.7
Inter-System Transfers	500	1,053	(553)	(52.5)
Net Investment Income (Loss)	36,707	(88,574)	125,281	141.4
Net Securities Lending Income*	202	91	111	122.0
<b>Total</b>	<b>\$ 91,351</b>	<b>\$ (33,944)</b>	<b>\$ 125,295</b>	<b>369.1 %</b>
<b>Deductions</b>				
Benefit Payments	\$ 70,234	\$ 64,289	\$ 5,945	9.2 %
Refunds	2,457	3,484	(1,027)	(29.5)
Inter-System Transfers	365	657	(292)	(44.4)
Other	155	75	80	106.7
<b>Total</b>	<b>\$ 73,211</b>	<b>\$ 68,505</b>	<b>\$ 4,706</b>	<b>6.9 %</b>
<b>Net Change in Assets</b>	<b>\$ 18,140</b>	<b>\$ (102,449)</b>	<b>\$ 120,589</b>	<b>117.7 %</b>

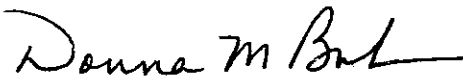
\*Securities Lending Program  
Effective 4/1/02

**Requests for Information:**

This report is prepared to provide the Retirement Board, members, retirees and citizens with an overview of the plan to assess COPERS' financial position and to show accountability for funds received. Questions regarding the information provided in this financial report or requests for additional information may be addressed to:

COPERS  
101 S. Central Avenue, Ste. 600  
Phoenix, AZ 85004  
(602) 534-4400

Respectfully Submitted,



Donna M. Buelow  
Retirement Program Administrator

## Statements of Plan Net Assets

June 30, 2004 and 2003

(in thousands)

	2004	2003
<b>ASSETS</b>		
<b>Cash and Cash Equivalents (Note 8)</b>	\$ 54,706	\$ 49,425
<b>Receivables</b>		
City of Phoenix Contributions	1,150	614
Member Contributions	708	512
Interest and Dividends	2,443	1,892
Unsettled Broker Transactions - Sales	51,396	24,686
Other	1	-
<b>Total Receivables</b>	<b>55,698</b>	<b>27,704</b>
<b>Investments, at Fair Value</b>		
Temporary Investments from Securities Lending Collateral (Note 9)	143,260	81,032
Fixed Income	448,138	424,872
Domestic Equities	792,985	701,088
International Equities	149,380	119,414
<b>Total Investments (Note 8)</b>	<b>1,533,763</b>	<b>1,326,406</b>
<b>Total Assets</b>	<b>1,644,167</b>	<b>1,403,535</b>
<b>Liabilities</b>		
Payable for Securities Lending Collateral (Note 9)	143,260	81,032
Unsettled Broker Transactions - Purchases	48,007	53,583
Due to the City of Phoenix (Note 11)	6,377	5,635
Investment Management Fees Payable	780	742
<b>Total Liabilities</b>	<b>198,424</b>	<b>140,992</b>
Contingencies (Note 8, 9 and 12)		
<b>Net Assets Held in Trust for Pension Benefits</b>	<b>\$1,445,743</b>	<b>\$1,262,543</b>
(A Schedule of Funding Progress is presented on page 31)		

The accompanying notes are an integral part of these financial statements.

## Statements of Changes in Plan Net Assets

June 30, 2004 and 2003

(in thousands)

ADDITIONS	2004	2003
<b>Contributions</b>		
City of Phoenix	\$ 39,564	\$ 27,820
Member	24,783	26,122
Funds from Other Systems (Note 10)	373	500
Total Contributions (Note 5)	<u>64,720</u>	<u>54,442</u>
<b>Investment Income</b>		
From Investing Activities: (Note 8)		
Net Appreciation in		
Fair Value of Investments	184,205	11,292
Interest	10,936	21,228
Dividends	6,173	6,630
Other	460	193
Total Investment Income	201,774	39,343
Less Investment Expense (Note 4)	<u>(3,316)</u>	<u>(2,636)</u>
Net Income from Investing Activities	<u>198,458</u>	<u>36,707</u>
From Security Lending Activities:		
Security Lending Gross Income	913	1,031
Less Security Lending Activity Expenses:		
Agent Fees	(79)	(86)
Broker Rebates/Collateral Management Fees	(651)	(743)
Total Security Lending Expenses	<u>(730)</u>	<u>(829)</u>
Net Income from Security Lending Activity	183	202
Total Net Investment Income	<u>198,641</u>	<u>36,909</u>
Total Additions	<u>263,361</u>	<u>91,351</u>
<b>DEDUCTIONS</b>		
Benefit Payments	76,949	70,234
Refunds of Contributions	2,272	2,457
Funds to Other Systems (Note 10)	600	365
Other (Note 4)	340	155
Total Deductions	<u>80,161</u>	<u>73,211</u>
<b>NET INCREASE</b>	183,200	18,140
<b>Net Assets Held in Trust for Pension Benefits (Note 3)</b>		
Beginning of Year	<u>1,262,543</u>	<u>1,244,403</u>
End of Year	<u>\$1,445,743</u>	<u>\$1,262,543</u>

The accompanying notes are an integral part of these financial statements.



**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2004 and 2003**

**Note 1 - Description of Plan**

**a. Purpose**

The City of Phoenix Employees' Retirement Plan (COPERS) is a single-employer, defined benefit pension plan established by the City Charter. Its purpose is to provide retirement, disability retirement and survivor benefits for its members.

**b. Administration**

The general administration, management and operation of COPERS are vested in a nine-member Retirement Board consisting of three elected employee members, four statutory members, a citizen member and a retiree member. The Retirement Board appoints the Retirement Program Administrator, a civil service position, and contracts investment counsel and other services necessary to properly administer the Plan.

All full-time classified civil service employees and full time appointive officials of the City of Phoenix, with the exception of sworn police and firefighters, are required, as a condition of employment, to contribute to COPERS.

**c. Plan Amendment and Termination**

COPERS is administered in accordance with the Charter of the City of Phoenix (Chapter XXIV, Article II, Employees' Retirement Law of 1953) and can be amended or repealed only by a vote of the people. There are no provisions for termination of COPERS.

**d. Membership Data**

	June 30	
	2004	2003
Current retirees, beneficiaries and survivors	3,743	3,592
Terminated vested members	591	396
Active members:		
Vested	6,011	5,973
Non-vested	2,949	2,970
Total Members	<u>13,294</u>	<u>12,931</u>

**e. Pension Benefits**

Benefits are calculated on the basis of a given rate, final average salary and service credit. Members are eligible for retirement benefits at age 60 with ten or more years of service credit; age 62 with five or more years of service credit; or where age and service credits equal 80. The benefit is based on 2% of final average compensation multiplied by the first 32.5 years of service credit, 1% in excess of 32.5 years to 35.5 years, and .5% thereafter. A deferred pension is available at age 62 for members who have five or more years of service credit at time of separation and leave their accumulated contributions in COPERS.

A supplemental post-retirement payment and a permanent benefit increase (under the pension equalization program), may be provided to retirees if sufficient reserves are available at the end of the fiscal year. The reserve is funded if the five-year average investment return exceeds 8 percent.

## Notes to the Financial Statements

(Continued)

---

### Note 1 - Description of Plan (Continued)

#### f. Disability Benefits

A member who becomes permanently disabled for the performance of duty is eligible for a disability benefit if the disability is 1) by reason of a personal injury or disease and the member has ten or more years of service credit, or 2) due to on-the-job injuries, regardless of service credit.

#### g. Survivor Benefits

Dependents of deceased members may qualify for survivor benefits if the deceased member had ten or more years of service credit, or if the member's death was in the line of duty with the City and compensable under the Workmen's Compensation Act of the State of Arizona. Chapter XXIV, Section 25 of the Charter of the City of Phoenix, specifies the dependents and conditions under which they qualify for survivor benefits.

#### h. Refunds

Upon separation from employment, a member, or beneficiary not entitled to a pension, may withdraw the member's contribution plus applicable interest. An interest rate of 5% for fiscal year 2004 was granted by the Retirement Board to be applied at June 30, 2004 to the members' mean account balances during the fiscal year. The acceptance of a refund cancels the individual's rights and benefits in COPERS. Employer contributions to COPERS are not refundable.

#### i. Tax Exempt Status of Member Contributions

COPERS has received a favorable letter of determination of qualification from the Internal Revenue Service under Section 401(a) of the Internal Revenue Code. Continued tax-exempt status of COPERS is contingent on future operations remaining in compliance with Section 401(a).

Under Code Section 414(h)(2) and Revenue Ruling 81-36, effective January 1, 1985 the City of Phoenix authorized that a portion of its contributions be earmarked as being made by the members of COPERS, and "picked up" that portion of the designated active member contributions. The portion of COPERS' contribution that is picked up by the City of Phoenix is treated as an employer contribution for federal and state income tax purposes and excluded from the member's gross income until distributed by COPERS.

### Note 2 - Summary of Significant Accounting Policies

COPERS is a defined benefit single-employer public employees' retirement system for the City's general municipal employees. The accounting policies of COPERS conform to generally accepted accounting principles as applicable to governmental retirement plans.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits and changes therein. Actual results could differ from those estimates.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." In June 2001, the GASB issued Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – Omnibus", and Statement No. 38, "Certain Financial Statements Note Disclosures." COPERS adopted these standards for fiscal year 2002. The only significant change to COPERS' financial statements required by these standards is the addition of Management's Discussion and Analysis as Required Supplementary Information. The following is a summary of the more significant policies:

# Notes to the Financial Statements

(Continued)

## Note 2 - Summary of Significant Accounting Policies (Continued)

### a. Reporting Entity

COPERS prepares and distributes separate financial statements as required by Charter. Its financial statements are also included as a component unit of the City of Phoenix reporting entity due to the significance of COPERS' operational and financial relationships with the City. The City is the only non-employee contributor to the pension plan.

Not all employees of the City of Phoenix are covered under COPERS. Police officers and firefighters are covered under the Arizona Public Safety Personnel Retirement System (APSPRS) and elected officials under the Elected Officials Retirement Plan of Arizona (EORPA). APSPRS and EORPA were established by Arizona State Statute and are administered by an independent Board of Trustees. The City's involvement with these plans is limited to the administration of benefits for APSPRS and making the required annual contributions.

### b. Basis of Accounting

COPERS financial statements are prepared using the accrual basis of accounting using the economic resources measurement focus. Employee contributions are recognized as revenues in the period in which employee services are performed and the contributions are therefore earned. Employer contributions are recognized at the same time, as the City is formally committed to contributing the actuarially determined amount each year. Benefit payments received the first of each month by retirees are recognized as an expense of the prior month, and refunds are recognized as expenses when due and payable, in accordance with the terms of the plan.

### c. Investments

Equity securities and fixed-income securities are reported at fair value (Note 8). Interest and dividend income is recognized on the accrual basis as earned. Purchases and sales of investments are recorded on a trade-date basis. The fair value of an investment is the amount that the Plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller. Fair value is based upon financial statements prepared by the Plan's master custodian, State Street Bank.

### d. New Accounting Pronouncement

COPERS will implement GASB Statement No. 40, *Deposit and Investment Risk Disclosures* with the June 30, 2005 annual financial report.

## Note 3 - Fund Balance Accounts

Various accounts have been established to hold the reserves for benefit payments:

- The **Income Account** is used to account for COPERS' investment and miscellaneous income. At year-end, the Income Account is closed to the Employees' Savings Account, the Pension Accumulation Account, and the Pension Reserve Account, which results in no fund balance in the Income Account.
- The **Employees' Savings Account** is used to account for member contributions, member refunds, and the member portion of investment income. As a condition of employment, each member is required to contribute 5 percent of his/her covered compensation. Accumulated contributions receive regular interest that is computed at the end of each fiscal year on the mean balance in the members' accounts during the year. The rate of interest is established each year by the Board (currently 5 percent). Transfers are made from the Employees' Savings Account to the Pension Reserve Account when a member retires or becomes eligible for disability benefits.

## Notes to the Financial Statements

(Continued)

### Note 3 - Fund Balance Accounts (Continued)

- The **Pension Accumulation Account** is used to account for employer contributions and for a portion of investment income. The Charter requires the City to contribute an amount that is determined annually by COPERS' retained actuaries. Contributions are based upon a level percentage of payroll funding principle so that the contribution rates do not fluctuate significantly over time. This contribution is over and above the member contributions made by the City. Transfers are made from the Pension Accumulation Account to the Pension Reserve Account when a member retires or becomes eligible for disability benefits.
- The **Pension Reserve Account** is used to account for distributions to retirees and for a portion of investment income. The reserve is fully funded.
- The **Pension Equalization Reserve Account** is used for funding increases to eligible pensions under the Pension Equalization Program and the "13th Check." The Pension Equalization Program was established on October 1, 1991, when voters of the City of Phoenix approved an amendment to the City Charter, allowing pension adjustments to be paid to retired members of COPERS. These adjustments are to be made exclusively from COPERS' investment earnings in excess of 8% over the preceding 5-year period, and may not exceed the Phoenix area Consumer Price Index (CPI). This amendment was effective January 1, 1992, and will benefit only retirees who, as of January 1 of each year, have received at least 36 pension payments.

Following are the fiscal year-end reserve balances as of June 30, 2004 and 2003 respectively, based on amortized cost for fixed income investments and cost for equity investments (in thousands):

	2004	2003
Employee Savings	\$334,535	\$317,582
Pension Accumulation	295,619	274,329
Pension Reserve	705,619	640,508
Pension Equalization Reserve	37,243	46,293
Convert to Fair Value	72,727	(16,169)
Total Based on Fair Value	<u>\$1,445,743</u>	<u>\$1,262,543</u>

### Note 4 - Administrative Costs

The 2004 Administrative costs of COPERS were \$1,530,246 paid as follows: \$1,190,246 by the City and not recognized in COPERS financial statements; \$340,000 by the Plan for computer services for COPERS new computer system and included in COPERS Statement of Changes in Plan Net Assets. The 2003 administrative costs of COPERS were \$1,209,371: \$1,054,371 paid by the City and not recognized in COPERS financial statements; \$155,000 paid by COPERS for evaluation and purchase of COPERS new computer system and included in the 2003 Statement of Changes in Plan Net Assets. Investment-related costs are paid directly from Plan assets.

### Note 5 - Funding Requirement Determinations and Actual Contributions

City of Phoenix contributions for the fiscal year ended June 30, 2004 were \$39,564,000 equivalent to 9.17% of the estimated annual active member payroll, compared with 6.86% for the fiscal year ended June 30, 2003. Employee contributions for the fiscal year ended June 30, 2004 were \$24,783,000, which represent the required 5% of covered compensation as a condition of employment. The estimated annualized active member payroll at June 30, 2002, was \$404,414,000.

Employee contributions consisted entirely of payments for normal costs. Amounts contributed by the City of Phoenix were actuarially determined using an individual entry-age normal cost method. (See Note 6)

## Notes to the Financial Statements

(Continued)

### Note 6 - Unfunded Actuarial Accrued Liabilities and Actuarial Assumptions

Unfunded actuarial accrued liabilities are determined annually by the consulting actuaries. The unfunded actuarial accrued liability as of June 30, 2004 and June 30, 2003 are detailed below (in thousands).

	<u>2004</u>	<u>2003</u>
<b>Actuarial Value of Assets</b>	\$1,417,774	\$1,330,584
<b>Actuarial Accrued Liability</b>		
Active Members	923,020	828,538
Retirees and Beneficiaries Currently Receiving Benefits	737,683	659,634
Terminated Members Not Yet Receiving Benefits	<u>24,092</u>	<u>15,953</u>
Total Actuarial Accrued Liability	<u>1,684,795</u>	<u>1,504,125</u>
<b>Unfunded Actuarial Accrued Liability</b>	<u>(\$267,021)</u>	<u>(\$173,541)</u>

Actuarial present values are determined by a consulting actuary applying actuarial assumptions to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements, such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

The actuarial assumptions employed as of June 30, 2004 and June 30, 2003 include the following:

- 1) Investment Return - 8.0%
- 2) Salary Scale – Projected salary increases of 4.5% per year compounded annually attributable to inflation, with another .5% to competition and productivity. Additional projected salary increases ranging from 0% to 4.0% per year, depending on age, attributable to merit and longevity.
- 3) Multiple Decrement Tables:
  - a) Death - For determination of member, retiree and beneficiary mortality, the 1971 Group Annuity Mortality Table projected to 2000, set back zero years for men and six years for women was used for 2000 and subsequent years.
  - b) Disability - Based upon COPERS' experience.
  - c) Withdrawal - Based upon COPERS' experience, measures the probability of members terminating employment for reasons other than retirement, death or disability.
- 4) Smoothed Funding – A smoothed market value of assets was used for the June 30, 2003 and June 30, 2004 valuations. This method spreads the difference between the actual and expected investment return over four years. The method used in prior years spread realized and unrealized gains and losses over four years.

The foregoing actuarial assumptions are based on the presumption that COPERS will continue as presently chartered. If COPERS is terminated or amended, different actuarial assumptions and other factors might be applicable in determining actuarial present values.

### Note 7 - Funding Policy

As a condition of employment, members are required to contribute 5% of their salary to COPERS as provided in Chapter XXIV, Section 27, of the City Charter. Present members' accumulated contributions at June 30, 2004 were \$334,535,000, including interest compounded annually compared to \$317,582,000 at June 30, 2003. The City's funding policy is designed to provide annual contributions to COPERS in amounts that are estimated to remain a constant percentage of members' compensation each year, such that, when combined with members'

## Notes to the Financial Statements

(Continued)

### Note 7 - Funding Policy (Continued)

contributions, all active member benefits will be fully funded as earned. Contributions to the Plan are actuarially determined. The unfunded actuarial accrued liability in excess of applicable value of assets is amortized as a level percent of payroll over 20 years from June 30, 2004.

### Note 8 - Investments

COPERS is authorized to invest in common stocks, obligations of the U.S. Treasury, its agencies and instrumentalities, money market accounts, certificates of deposit, the State Treasurer's investment pool, obligations issued or guaranteed by any state or political subdivision thereof, which are rated in the highest short-term or second highest long-term category, and investment grade corporate bonds, debentures, notes and other evidences of indebtedness which are not in default as to principal or interest and are issued or guaranteed by a solvent U.S. corporation. Effective with the Charter change of September 7, 1999, COPERS may invest in any other investment category authorized by a two-thirds vote of the COPERS Board, exercising the diligence of a prudent person acting in a like capacity.

The City Charter allows up to a 60% investment (at cost) in domestic common stocks. The Board's present policy has resulted in approximately 49% being invested (at cost) in domestic common stocks and the remainder in bonds, cash equivalents and international equities. COPERS' investments are categorized as follows to give an indication of the level of risk assumed at year-end:

<b>Category 1</b>	Investments that are insured or registered or for which the securities are held by COPERS or its agent in COPERS' name.
<b>Category 2</b>	Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in COPERS' name.
<b>Category 3</b>	Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in COPERS' name.

All of the investments at June 30, 2004 were included in category 1 except for money market funds which, in accordance with GASB No. 3, are not categorized. A summary of investments at June 30, 2004 and 2003 is as follows (in thousands):

	2004		2003	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Temporary Investments from				
Securities Lending Collateral (Note 9)	\$ 143,260	\$ 143,260	\$ 81,032	\$ 81,032
Fixed Income	432,574	448,138	400,273	424,872
Domestic Equities	745,202	792,985	721,270	701,088
International Equities	140,000	149,380	140,000	119,414
	<u>1,461,036</u>	<u>1,533,763</u>	<u>1,342,575</u>	<u>1,326,406</u>
Money Market Funds	54,706	54,706	49,425	49,425
Total Investments	<u>\$ 1,515,742</u>	<u>\$ 1,588,469</u>	<u>\$ 1,392,000</u>	<u>\$ 1,375,831</u>

COPERS' investments are managed by eight professional fund managers and are held by a plan custodian who is COPERS' agent.

The credit risk held at June 30, 2004 and June 30, 2003 was the same credit risk held throughout the year. COPERS has no investments in the stocks or bonds of any commercial or industrial organization whose market value exceeds 5% of the net assets available for benefits.

## **Notes to the Financial Statements**

**(Continued)**

---

### **Note 9 – Securities Lending Program**

State statutes do not prohibit COPERS from participating in securities lending transactions, and COPERS has, via a Securities Lending Authorization Agreement effective March 5, 2002, authorized State Street Bank and Trust Company ("State Street") to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, State Street lent, at the direction of COPERS, securities and received cash (United States currency) and securities issued or guaranteed by the United States government as collateral. State Street did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

COPERS did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf and State Street indemnified COPERS by agreeing to purchase replacement securities or return cash collateral in the event borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, COPERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in the Quality A Short-Term Investment Fund (the "Fund"). As of June 30, 2004, such investment pool had an average duration of 52 days and an average weighted maturity of 118 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004 COPERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for COPERS as of June 30, 2004, were \$143,260,203 and \$140,904,323 respectively, and as of June 30, 2003, were \$81,031,807 and \$78,589,848 respectively.

### **Note 10 – Funds To/From Other Systems**

Under the provisions of Arizona Revised Statutes, Section ARS 38-781.24 as amended in 1992, transfers between COPERS and the Arizona State Retirement System ("ASRS") are allowed when the City hires an employee who was formerly covered by ASRS, or a COPERS member who separates from City of Phoenix employment goes to work for an entity that covers its employees under ASRS. The amount of the transfers, in and out of COPERS during 2004, was equal to the present value of the employees' then-vested benefits.

### **Note 11 – Interfund Balances**

On the Statement of Net Assets, the liability, Due to the City of Phoenix, results from the fact that the General City Employees' Retirement Plan does not have a local bank account. The City of Phoenix Payroll Section issues both Retirement pension warrants and employee retirement contribution refund warrants from the City's bank account.

Until Retirement personnel instruct State Street Bank and Trust to wire funds to the City of Phoenix in reimbursement for the warrants, the Retirement Plan is in debt to the City. Also, City employees previously employed by government entities may purchase prior service credits. The dollar amount of these purchases is deposited in the City's bank account, to be later transferred to the Plan's custodian. Until the transfer is made, the City is in debt to the Retirement Plan.

### **Note 12 – Contingent Liabilities**

COPERS is a party in a pending litigation matter. While the final outcome cannot be determined at this time, management is of the opinion that the final obligation, if any, for these legal actions will not have a material adverse effect on the COPERS' financial position or results of operations.

## Required Supplementary Information (Unaudited)

### Schedule of Funding Progress Last Eight Fiscal Years (in thousands)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (3)/(5)
06/30/04	\$ 1,417,774	\$ 1,684,795	\$ 267,021	84.2 %	\$ 445,348	59.96 %
06/30/03 (a)	1,330,584	1,504,125	173,541	88.5	416,472	41.67
06/30/02	1,273,731	1,390,273	116,542	91.6	404,414	28.82
06/30/01	1,291,338	1,259,564	(31,774)	102.5	376,913	--
06/30/00 (a)	1,219,892	1,199,871	(20,021)	101.7	360,654	--
06/30/99	1,117,497	1,044,425	(73,072)	107.0	336,153	--
06/30/98	984,501	973,048	(11,453)	101.2	322,475	--
06/30/97	840,539	888,968	48,429	94.6	294,678	16.43

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, or unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the plan's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Usually expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

(a) After changes in benefit provisions and/or actuarial assumptions and actuarial cost methods.

### Schedule of Employer Contributions Last Ten Fiscal Years (in thousands)

Fiscal Year	Valuation Date	Annual Required Contribution	Percent Contributed
2005-06	2004	\$ 53,094	N/A
2004-05	2003	44,275	N/A
2003-04	2002	39,564	100
2002-03	2001	27,820	100
2001-02	2000	28,295	100
2000-01	1999	22,329	100
1999-00	1998	26,802	100
1998-99	1997	29,186	100
1997-98	1996	30,124	100
1996-97	1995	23,208	100



## Required Supplementary Information (Continued)

---

### Notes to the Schedules of Trend Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows.

<b>Valuation Date:</b>	June 30, 2004	June 30, 2003
<b>Actuarial Cost Method</b>	Entry Age Normal	Entry Age Normal
<b>Amortization Method</b>	Level Percent Open	Level Percent Open
<b>Remaining Amortization Period</b>	20 Years	20 Years
<b>Asset Valuation Method</b>	4-Year Smoothed Market	4-Year Smoothed Market
<b>Actuarial Assumptions:</b>		
<b>Investment Rate of Return</b>	8.0%	8.0%
<b>Projected Salary Increases (1)</b>	5.0% to 9.0%	5.0% to 9.0%
<b>Cost-of-Living Adjustments</b>	None	None
<b>Factors Affecting Trends</b>	None	None

(1) Includes inflation at 4.5%

## Supporting Schedules

### Schedule of Administrative Expenditures and Encumbrances (Non-GAAP Budgetary Basis) For the Fiscal Years Ended June 30, 2004 and 2003

	2004		2003	
	Original Budget	Actual	Original Budget	Actual
<b>Personal Services</b>				
Staff Salaries	\$791,652	\$712,418	\$743,660	\$671,240
Insurance	141,037	122,923	145,391	116,649
Social Security	58,769	50,588	54,231	48,153
Retirement	65,531	64,521	38,832	43,384
<b>Total Personal Services</b>	<b>1,056,989</b>	<b>950,450</b>	<b>982,114</b>	<b>879,426</b>
<b>Professional Services</b>				
Consultants	21,500	19,711	21,500	23,423
Audit and Accounting	27,600	14,227	19,600	17,542
Medical Advisors	31,768	37,273	36,768	34,702
Computer Services	-	340,000	-	135,524
Other	62,445	75,131	25,355	23,708
<b>Total Professional Services</b>	<b>143,313</b>	<b>486,342</b>	<b>103,223</b>	<b>234,899</b>
<b>Communications</b>				
Printing	38,842	38,452	42,107	37,652
Postage	2,177	2,955	2,417	5,785
Travel and Conferences	16,820	10,060	14,000	8,812
Telephone	9,768	11,051	9,736	11,232
Subscriptions and Memberships	3,337	3,209	750	2,150
<b>Total Communications</b>	<b>70,944</b>	<b>65,727</b>	<b>69,010</b>	<b>65,631</b>
<b>Miscellaneous</b>				
Supplies	13,315	14,132	12,853	13,828
Office Furniture	3,081	2,595	11,081	4,714
Insurance	1,265	1,042	875	1,120
Computer Equipment	5,468	9,715	29,617	8,652
Other	1,200	243	1,418	1,101
<b>Total Miscellaneous</b>	<b>24,329</b>	<b>27,727</b>	<b>55,844</b>	<b>29,415</b>
<b>Total Administrative Expenditures and Encumbrances</b>	<b>\$1,295,575</b>	<b>\$1,530,246</b>	<b>\$1,210,191</b>	<b>\$1,209,371</b>

Note: Administrative expenditures of COPERS are budgeted and paid by the City of Phoenix and are not recognized in COPERS' financial statements. However, the Retirement Board authorized and paid from the Plan \$155,000 in 2003 (for evaluation and purchase of computer software) and \$340,000 in 2004 (for computer services for COPERS new computer system) not included in the City's budget. These amounts are included in the Statement of Changes in Plan Net Assets and in this schedule.

See accompanying independent auditors' report.

## Supporting Schedules (Continued)

### Schedule of Investment Expenses For the Fiscal Year Ended June 30, 2004

<u>Payee</u>	<u>Commissions or Fees</u>	<u>Nature of Services</u>
State Street Bank	\$ 68,152	Master Custodian
Cadence Capital Management	716,425	Investment Management
MacKay-Shields Financial Corporation	466,125	Investment Management
Vanderbilt Capital Advisors	200,404	Investment Management
Northern Trust Investments	82,388	Investment Management
Bank of Ireland	613,184	Investment Management
The Boston Company	748,637	Investment Management
Columbus Circle Investors, Inc.	420,792	Investment Management
	<u>\$ 3,316,107</u>	

### Schedule of Payments to Consultants For the Fiscal Year Ended June 30, 2004

<u>Payee</u>	<u>Fees Paid</u>	<u>Nature of Services</u>
Becker, Burke Associates, Inc. (1)	\$ 73,500	Investment Consultant
Rodwan & Nichols (2)	19,120	Actuarial
Levi, Ray & Shoup, Inc. (3)	340,000	Computer Services
Lieberman Dodge Gerding & Anderson	55,836	Legal Services
	<u>\$ 488,456</u>	

- (1) All or a portion of investment consultant fees may be paid through the Plan's directed brokerage commission program. Refer to page 41 for a detailed description of this program.
- (2) Fees are a component of administrative expenses (budget) of COPERS, paid by the City of Phoenix and are not recognized in COPERS' financial statements.
- (3) The Retirement Board authorized and paid from the Plan \$340,000 for computer services for COPERS' new computer system, which was not included in the City's budget.

See accompanying independent auditors' report.



## **Investment Section**

The **Investment Section** contains the Plan's report on investment activity, its investment policies, and schedules of investment results and related information.

056-4164

## Schedule of Investment Results

For the Fiscal Years Ended June 30, 2004

	1-Year	Annualized	
		3-Years	5-Years
<b>TOTAL PORTFOLIO:</b>			
<b>COPERS</b>	16.0%	3.9%	3.7%
Allocation Index (1)	14.6%	4.0%	2.8%
S & P 500	19.1%	-0.7%	-2.2%
Lehman Aggregate	0.3%	6.4%	6.9%
Median of Other Public Plans	15.1%	4.4%	4.0%
<b>EQUITY FUNDS:</b>			
<b>Northern Trust Investments (2)</b>	19.1%	-0.7%	--
S & P 500 Index	19.1%	-0.7%	-2.2%
<b>Cadence Capital Management</b>	17.5%	-1.5%	1.8%
Russell 1000 Growth Index	17.9%	-3.7%	-6.5%
<b>MacKay-Shields Financial Corporation</b>	25.4%	2.6%	3.9%
Russell 1000 Value Index	21.1%	3.0%	1.9%
<b>Columbus Circle Investors, Inc. (3)</b>	29.3%	--	--
Russell 2000 Growth Index	31.6%	-0.2%	-0.5%
<b>The Boston Company (4)</b>	45.7%	--	--
Russell Midcap Index	29.4%	6.4%	6.5%
<b>Bank of Ireland (5)</b>	25.1%	1.2%	--
EAFE Index	32.4%	3.9%	0.1%
<b>FIXED INCOME FUNDS:</b>			
<b>Vanderbilt Capital Advisors</b>	0.1%	5.6%	5.3%
Lehman Aggregate Index	0.3%	6.4%	6.9%
<b>Northern Trust Investments (6)</b>	0.1%	6.3%	--
Lehman G/C Intermediate Index	-0.1%	6.2%	6.8%

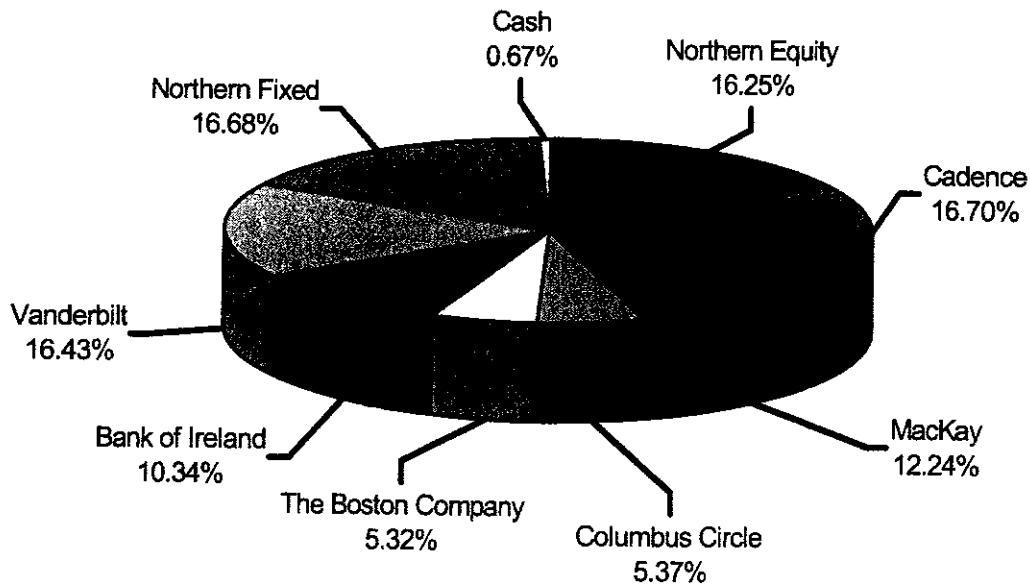
- (1) The Allocation Index is based on the performance of a passive portfolio, invested in the S&P 500, EAFE, and Lehman Aggregate indices, at the same ratios as the Plan was actually allocated throughout the period.
- (2) Northern Trust replaced Deutsche Bank as manager of the S&P 500 Index fund effective 8/1/00.
- (3) Columbus Circle Investors, Inc. added as small cap manager effective 4/02/02; funds transitioned from Nicholas-Applegate. Performance figures would not be representative of the benchmark index.
- (4) The Boston Company added as mid cap manager effective 4/02/02; funds transitioned from Nicholas Applegate. Performance figures would not be representative of the benchmark index.
- (5) Bank of Ireland added 3/01/01 as the manager for the International Commingled Equity Fund.
- (6) Northern Trust added as a manager of a Lehman G/C Intermediate Index as of 8/1/00; funds transitioned from Payden & Rygel.

The calculations above were prepared by COPERS' consultant, using a time-weighted rate of return, based on market value and in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

# Asset Allocation by Manager

As of June 30, 2004

Manager	Style	Management (in thousands)	% of Portfolio
<b>EQUITY FUNDS</b>			
Northern Trust Investments	S & P 500 Index	\$ 234,906	16.25 %
Cadence Capital Management	Large Cap Growth	241,299	16.70
MacKay Shields Financial Corp.	Large Cap Value	176,931	12.24
Columbus Circle Investors, Inc.	Small Cap Growth	77,555	5.37
The Boston Company	Mid Cap Value	76,932	5.32
Bank of Ireland	International	149,380	10.34
<b>TOTAL EQUITY FUNDS</b>		<b>957,003</b>	<b>66.22</b>
<b>FIXED INCOME FUNDS</b>			
Vanderbilt Capital Advisors	Aggressive Fixed Income	237,440	16.43
Northern Trust	Defensive Fixed Income	241,060	16.68
COPERS Cash Account	Short Term Income Fund	9,706	0.67
<b>TOTAL FIXED INCOME FUNDS</b>		<b>488,206</b>	<b>33.78</b>
<b>Total Portfolio</b>		<b>\$ 1,445,209</b>	<b>100.00 %</b>



**List of Largest Assets Held**  
**As of June 30, 2004 (dollars in thousands)**

**Ten Largest Bond Holdings (Market Value)**

<u>Par Value</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Due</u>	<u>Rating</u>	<u>Market Value</u>
\$24,358	United States Treasury Notes	1.63%	09/30/2005	AAA	\$24,175
14,000	United States Treasury Notes	4.75%	05/15/2014	AAA	14,149
12,000	Federal National Mortgage Assn	3.25%	02/15/2009	AAA	11,555
10,950	United States Treasury Notes	4.00%	06/15/2009	AAA	11,044
9,793	United States Treasury Notes	3.63%	01/15/2008	AAA	10,700
8,030	Federal Home Loan BKS	2.00%	02/13/2006	AAA	7,933
4,130	FNMA Pool 748654	6.00%	09/01/2033	AAA	4,222
4,000	Federal Home Loan BKS	5.25%	06/18/2014	AAA	4,023
3,715	GNMA II Pool 403448	6.50%	11/20/2033	AAA	3,860
3,852	Fed Hm Ln PC Pool M80911	4.00%	04/01/2011	AAA	3,757

**Ten Largest Stock Holdings (Market Value)**

<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
118,888	Bank America Corp.	\$10,060
194,551	Citigroup Inc.	9,047
284,900	Microsoft Corp.	8,137
136,400	Kerr McGee Corp.	7,334
210,300	Pfizer Inc.	7,209
151,500	Allstate Corp.	7,052
99,300	Hartford Financial Svcs Grp	6,826
89,000	Conoco Phillips	6,790
272,000	Cisco Systems Inc.	6,446
61,900	Goldman Sachs Group Inc.	5,829

A complete list of portfolio holdings is available at COPERS' office.

**Schedule of Investment Related Fees**  
**For the Fiscal Year Ended June 30, 2004**

	Assets Under Management	Fees	Basis Points
Investment Manager Fees			
Northern Trust Investments	\$475,965,982	\$82,388	1.73
Cadence Capital Management	241,299,065	716,425	29.69
MacKay-Shields Financial Corporation	176,931,056	466,125	26.35
Columbus Circle Investors, Inc.	77,555,287	420,792	54.26
The Boston Company	76,932,410	748,637	97.31
Bank of Ireland	149,380,240	613,184	41.05
Vanderbilt Capital Advisors	237,439,522	200,404	8.44
COPERS Cash Account STIF	<u>9,705,725</u>	N/A	
Total	<u>\$1,445,209,287</u>	<u>\$3,247,955</u>	
Other Investment Service Fees			
State Street Bank (Custodian)		68,152	
Becker, Burke Assoc., Inc. (Consultant)		<u>73,500</u>	
Total Investment Service Fees		<u>141,652</u>	
Total Investment Related Fees		<u>\$3,389,607</u>	



## Investment Summary

As of June 30, 2004

<u>Type of Investment</u>	<u>Market Value (in thousands)</u>	<u>Percent of Total Market Value</u>
<b>Fixed Income:</b>		
Government Bonds	\$96,070	6.65 %
Corporate Bonds	57,613	3.98
Lehman G/C Index	241,060	16.68
Temporary Investments	<u>91,338</u>	<u>6.32</u>
Total Fixed Income	<u>486,081</u>	<u>33.63</u>
<b>Equity:</b>		
Information Technology	115,077	7.96
Financials	98,177	6.79
Health Care	55,706	3.86
Energy Related	65,173	4.51
Consumer Discretionary	71,631	4.96
Industrials	68,479	4.74
Consumer Staples	39,814	2.75
Telecommunications	15,054	1.04
Utilities	4,845	0.34
Materials	24,123	1.67
International Commingled Equity Fund	149,380	10.34
S&P Equity Index	234,906	16.25
Cash Equivalent	<u>16,763</u>	<u>1.16</u>
Total Equities	<u>959,128</u>	<u>66.37</u>
<b>Total</b>	<u><u>\$1,445,209</u></u>	<u><u>100.00 %</u></u>

# Schedule of Commissions

## For the Fiscal Year Ended June 30, 2004

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions Per Share
ABEL NOSER CORP.	1,686,150	\$ 34,395	\$ 0.02040
ADAMS HARKNESS & HILL, INC.	294,500	14,270	0.04846
AMERICA'S GROWTH CAPITAL LLC	202,600	10,130	0.05000
BAIRD, ROBERT W., & COMPANY INC.	393,000	17,810	0.04532
BANC AMERICA SECURITY LLC MONTGOMERY	1,008,700	47,927	0.04751
BEAR STEARNS & CO. INC.	2,015,400	98,140	0.04870
BEAR STEARNS SECURITIES CORP.	381,300	17,148	0.04497
BECKER BURKE & ASSOCIATES INC.	4,170,900	195,181	0.04680
BNY BROKERAGE INC.	1,138,600	52,016	0.04568
BRIDGE TRADING	621,175	29,020	0.04672
BROADCORT CAPITAL	382,700	18,789	0.04910
CANTOR FITZGERALD & CO.	797,400	39,870	0.05000
CHARLES SCHWAB CO. INC.	531,600	26,580	0.05000
CIBC WORLD MARKETS CORP.	1,238,700	61,732	0.04984
CITIGROUPGLOBAL MARKETS INC.	926,460	45,741	0.04937
COMPASS POINT RESEARCH & TRADING	941,300	45,981	0.04885
CREDIT SUISSE FIRST BOSTON CORP.	1,061,016	51,787	0.04881
DEUTSCHE BANC SECURITIES INC.	902,700	43,987	0.04873
EDWARDS AG SONS INC.	231,900	11,151	0.04809
FACTSET DATA SYSTEMS	248,100	12,405	0.05000
FIRST ALBANY CAPITAL INC.	266,000	13,300	0.05000
FISERV SECURITIES INC.	443,900	17,967	0.04048
FOX PITT KELTON	242,700	12,135	0.05000
FULCRUM GLOBAL PARTNERS LLC	349,300	17,287	0.04949
GOLDMAN SACHS & CO.	1,225,480	59,597	0.04863
J P MORGAN SECURITIES INC.	627,700	30,224	0.04815
JANNEY MONTGOMERY, SCOTT INC.	587,000	25,705	0.04379
JEFFERIES & COMPANY	1,215,800	57,573	0.04735
KEEFE BRUYETTE & WOODS INC.	260,000	12,924	0.04971
LA BRANCHE FINANCIAL #2	1,275,350	48,610	0.03812
LAZARD FRERES & CO.	1,300,457	63,907	0.04914
LEERINK SWANN & CO.	683,900	34,054	0.04979
LEGG MASON WOOD WALKER	249,300	12,548	0.05033
LEHMAN BROS. INC.	1,551,200	74,799	0.04822
LIQUIDNETINC	1,218,425	35,165	0.02886
MERRILL LYNCH PIERCE FENNER & SMITH	800,800	40,040	0.05000
MERRILL LYNCH PROFESSIONAL CLEARING CORP.	744,685	32,796	0.04404
MIDWEST RESEARCH SECURITIES	566,400	24,520	0.04329
MORGAN STANLEY CO INC.	806,100	39,718	0.04927
PERSHING LLC	824,250	39,687	0.04815
PIPER JAFFRAY & CO.	201,718	10,086	0.05000
PRUDENTIAL EQUITY GROUP	1,631,896	74,194	0.04546
RAYMOND JAMES & ASSOCIATES INC.	274,200	13,322	0.04858
RBC CAPITAL MARKETS	248,100	12,405	0.05000
RBC DAIN RAUSCHER INC.	516,500	25,691	0.04974
ROCHDALE SEC CORP.	286,800	12,390	0.04320
S.G.COWEN & CO.	292,000	14,600	0.05000
SANDLER ONEILL & PART LP	825,650	38,628	0.04678
SANFORD C. BERNSTEIN & CO., LLC	1,269,900	56,654	0.04461
SG COWEN SECURITIES CORP.	877,400	43,295	0.04934
STATE STREET BROKERAGE SERVICES	3,612,700	169,148	0.04682
STEPHENS, INC.	355,400	17,607	0.04954
SUNTRUST CAPITAL MARKETS	310,365	15,518	0.05000
THINKEQUITY PARTNERS LLC	265,400	13,270	0.05000
THOMAS WEISEL PARTNERS	883,000	37,737	0.04274
U S BANCORP PIPER JAFFRAY INC.	398,800	19,940	0.05000
US CLEARING INSTITUTIONAL TRADING	297,300	12,408	0.04174
UBS SECURITIES LLC	317,200	14,376	0.04532
UBS WARBURG LLC	951,412	45,848	0.04819
WEDBUSH MORGAN SECURITIES	948,204	45,616	0.04811
WEEDEN & CO	4,428,550	140,768	0.03179
ALL OTHER BROKERS (1)	5,525,271	225,164	0.04075
TOTAL	59,130,714	\$2,625,281	

(1) Includes brokers with total commissions less than \$10,000 each



## **Actuarial Section**

The **Actuarial Section** contains the actuary's certification letter, supporting schedules prepared by the actuary, and a summary of plan provisions.

# Supporting Schedules

---

## Summary of Actuarial Assumptions and Methods

### Funding Method

The Entry-Age Normal Actuarial Cost method is used in the actuarial valuation. This cost method was adopted effective June 30, 1991. Actuarial gains (losses) are included as decreases (increases) in unfunded actuarial accrued liabilities and amortized as a level percent of projected payroll over 20 years from June 30, 2004.

### Asset Valuation Method for Actuarial Purposes

Present assets (cash and investments) are valued at four-year smoothed market value for actuarial purposes, as adopted by the COPERS Board effective June 30, 1991.

### Valuation Data

The data with respect to persons now covered and present assets were furnished by COPERS' administrative staff. Data is examined for general reasonableness and year-to-year consistency, but is not audited by the actuaries. The COPERS' fiscal year coincides with the City's fiscal year (July 1 to June 30).

### Economic Assumptions

#### **Investment Return**

8.0% annually, compounded annually. Considering other financial assumptions, the 8.0% rate translates to an assumed real rate of return of 3.5% over inflation and 3.0% over across-the-board salary increases. The real rate of return is the rate of investment return over the inflation rate. Adopted 1991.

#### **Active Member Total Payroll**

Increasing 5.0% annually, compounded annually, comprised of 4.5% inflation and .5% competition/productivity. In effect, this assumes no change in the number of active members. Adopted 2000.

### Experience Study

COPERS' actuary conducts an experience study every five years to determine if any adjustments in actuarial assumptions are necessary. The last experience study covered the 5 years ended June 30, 1999. This report reflects the recommendations made by the actuary in this study, as adopted by the COPERS Board June 28, 2000.

## Supporting Schedules (Continued)

### Summary of Actuarial Assumptions and Methods (Continued)

#### Individual Member Pay Increases

A member's pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. Adopted June 28, 2000. For sample ages, the following table describes annual increase percents:

<u>Age</u>	<u>Merit and Longevity</u>	<u>Base</u>	<u>Competition/ Productivity</u>	<u>Total</u>
20	4.0 %	4.5 %	0.5 %	9.0 %
25	3.2	4.5	0.5	8.2
30	2.8	4.5	0.5	7.8
35	2.5	4.5	0.5	7.5
40	2.2	4.5	0.5	7.2
45	1.7	4.5	0.5	6.7
50	1.2	4.5	0.5	6.2
55	0.7	4.5	0.5	5.7
60	0.2	4.5	0.5	5.2
65	--	4.5	0.5	5.0

#### Decrement Assumptions

##### Mortality

The mortality table used was the 1971 Group Annuity Mortality Table projected to 2000, set back zero years for men and six years for women. Adopted June 28, 2000.

##### Retirement

Sample probabilities of retirement with an unreduced age and service pension are shown in Schedule 1. Adopted June 28, 2000.

#### Schedule 1 - Percent of Eligible Active Members Retiring Within Next Year (Unreduced)

<u>Retirement Age</u>	<u>Percent Eligible to Retire</u>		<u>Retirement Age</u>	<u>Percent Eligible to Retire</u>	
	<u>Males</u>	<u>Females</u>		<u>Males</u>	<u>Females</u>
51	10	25	61	20	20
52	10	25	62	35	35
53	15	25	63	15	20
54	15	25	64	25	20
55	25	35	65	45	45
56	20	35	66	25	45
57	20	25	67	25	20
58	20	25	68	25	20
59	20	25	69	30	20
60	20	20	70	100	100

## Supporting Schedules (Continued)

### Summary of Actuarial Assumptions and Methods (Continued)

#### Turnover

Adopted June 28, 2000. Rates of separation from employment before age and service retirement because of death, withdrawal or disability are:

Sample Ages	Years of Service	Percent Separating Within Next Year	
		Male	Female
All	0	15.0 %	18.0 %
	1	8.0	11.0
	2	7.0	9.0
	3	6.0	8.0
	4	5.0	7.0
25	5 & Over	5.5	6.1
30		5.0	5.6
35		4.0	4.4
40		2.0	2.2
45		1.5	1.7
50		1.6	1.8
55		1.8	2.0
60		2.1	2.3
65		2.3	2.5

#### Actuarial Valuation Data - Active Members

Valuation Year	Number	Annual Payroll (in thousands)	Average Pay	% Increase Average Pay
04	8,960	\$445,348	\$49,698	6.7 %
03	8,943	416,472	46,570	3.6
02	9,000	404,414	44,935	4.3
01	8,748	376,913	43,086	0.9
00	8,450	360,654	42,681	3.9
99	8,182	336,153	41,085	3.9
98	8,157	322,475	39,534	5.9
97	7,893	294,678	37,334	2.6
96	7,750	281,940	36,379	5.8
95	7,507	258,042	34,373	5.3

## Supporting Schedules (Continued)

### Schedule of Retirants and Beneficiaries Added To and Removed From Rolls

(dollars in thousands)

Year End	Added to Rolls			Removed		Rolls End of Year		Average Annual Allowance	% Increase in Annual Allowances
	No.	Annual Allowances		No.	Annual Allow.	No.	Annual Allowances		
		New	PEP (a)						
04	296	\$7,610	\$1,727	145	\$2,122	3,743	\$79,318	\$21,191	9.1 %
03	259	6,720	1,066	124	1,935	3,592	72,221	20,106	8.8
02	264	5,999	1,786	135	1,689	3,457	66,370	19,199	10.1
01	240	6,665	1,559	83	831	3,328	60,274	18,111	14.0
00	276	8,661	1,056	102	1,047	3,171	52,881	16,671	13.1
99	194	4,173	719	77	805	2,998	44,211	14,747	10.2
98	220	3,985	1,461	116	1,205	2,881	40,124	13,927	11.8
97	213	3,753	1,180	114	1,262	2,777	35,873	12,918	11.4
96	204	2,754	1,266	129	1,100	2,678	32,203	12,025	10.0
95	188	2,569	913	102	830	2,603	29,284	11,250	10.0

(a) Pension Equalization Increase

### Solvency Test

Valuation Date	Aggregate Accrued Liabilities for				Valuation Assets (in thousands)	Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)	(1)		(2)	(3)	
	Active Member Contributions (in thousands)	Retirees and Beneficiaries (in thousands)	Active Members Employer Portion (in thousands)	%		%	%	
6/30/2004 *	\$334,535	\$737,684	\$612,577	\$1,417,774	100	100	56	
6/30/2003 *	317,582	659,634	526,909	1,330,584	100	100	67	
6/30/2002 *	305,480	605,227	479,566	1,273,731	100	100	76	
6/30/2001 *	278,179	549,592	431,792	1,291,338	100	100	100	
6/30/2000 *	258,011	456,380	485,480	1,219,892	100	100	100	
6/30/1999 *	242,103	401,182	401,140	1,117,497	100	100	100	
6/30/1998 *	220,272	359,401	393,374	984,501	100	100	100	
6/30/1997 *	200,665	319,687	368,616	840,539	100	100	87	
6/30/1996 *	182,320	284,459	352,768	742,076	100	100	78	
6/30/1995	162,511	259,586	284,426	663,593	100	100	85	

\* After implementation of GASB Statement 25

## Supporting Schedules (Continued)

### Analysis of Financial Experience

(dollars in thousands)

	Derivation for Year Ended June 30,				
	2004	2003	2002	2001	2000
(1) UAAL at Start of Year	\$173,542	\$116,542	(\$31,774)	(\$20,021)	(\$73,072)
(2) Normal cost for year (employer) (normal cost x pays, 1999 valuation)	55,116	52,987	51,008	27,915	26,724
(3) Employer Contributions for Year	(64,347)	(53,942)	(53,486)	(22,329)	(26,802)
(4) Assumed Investment Income Accrual on (1), (2) and (3)	13,490	9,283	(2,641)	(1,379)	(5,849)
(5) Expected UAAL Before Changes	177,801	124,870	(36,893)	(15,814)	(78,999)
(6) Effect of Assumption Changes	--	--	--	--	30,177
(7) Effect of Benefit Changes	--	--	--	--	25,800
(8) Expected UAAL After Changes	177,801	124,870	(36,893)	(15,814)	(23,022)
(9) Actual UAAL	267,021	173,541	116,542	(31,774)	(20,021)
(10) Gain (loss) (8) - (9)	(\$89,220)	(\$48,671)	(\$153,435)	\$15,960	(\$3,001)
(11) As % of AAL at Start of Year	(5.9)%	(3.5)%	(12.2)%	1.3%	(.3)%

UAAL means unfunded actuarial accrued liability  
AAL means actuarial accrued liability

The entire cost of the pension increases created by the Pension Equalization Program is funded by a separate reserve, established from investment earnings in excess of the assumed rate on retired life reserves; no increase in the unfunded accrued liability is created.



## **Summary of Plan Provisions**

---

### **Purpose**

The City of Phoenix Employees' Retirement Plan ("COPERS"), a defined benefit pension plan, was created under and is governed by the Charter of the City of Phoenix (the "Charter") to provide retirement, survivor and disability benefits to the City of Phoenix (the "City") general employees. COPERS is a qualified plan under the Internal Revenue Code.

### **Administration**

The Charter provides that the administration, management and operation of COPERS be vested in a nine-member Retirement Board (the "Board"). The Board has the responsibility of administering the Charter provisions and bears a fiduciary obligation to the City, the taxpayers and the municipal employees and retirees who are the Plan's beneficiaries.

Three of the Board members are elected from and by the active employee members of COPERS, and must have at least ten years of credited service. Four members are statutory, consisting of the City Manager or his delegate, the City Treasurer, the Finance Director and a Deputy City Manager or department head to be selected by the City Manager. The eighth Board member is a citizen, who is a resident of the City of Phoenix and has at least five years experience in retirement administration, but is not employed by the City nor a COPERS' retiree. The ninth board member is a COPERS' retiree and is selected by the employee Board members. A listing of the current Retirement Board is included on page 8 of this report.

### **Voluntary Retirement**

An active member may retire with benefits if he or she ("he") meets the eligibility requirements of:

- age 60 with 10 or more years of credited service,
- age 62 with 5 or more years of credited service, or
- an age which added to his or her ("his") years of credited service equals 80 (Rule of 80).

### **Final Average Compensation**

Final Average Compensation ("FAC") is the average of a member's monthly pay during the 36 consecutive months of credited service producing the highest monthly average contained within the 120 consecutive months of credited service immediately preceding retirement. For most members, this is the last three years of employment. Pursuant to City management and Board action, FAC includes Deferred Compensation (DCP) fringe and travel allowance. Inclusion of travel allowance in FAC was effective July 1995 and the DCP fringe inclusion is retroactive to the inception of the program in 1986. Inclusion of the sick leave payout in the calculation of final average compensation began July 1, 1996. Beginning in fiscal year 96/97, salary adjustments for certain employees (referred to as reimbursement of contributions), are included in the calculation of final average compensation.

### **Credited Service**

A member's unused sick leave shall be added to his credited service upon retirement. COPERS service credit and benefit calculations must be consistent with the Charter and Board-adopted policies.

## **Summary of Plan Provisions (Continued)**

---

### **Purchase of Public Service Credits**

On January 28, 1998, the COPERS Board, after review of legal and actuarial considerations, adopted a program permitting COPERS' members to purchase in-state and out-of-state public service credits, along with non-intervening military service credits, towards their retirement. The basic requirements for this program are contained in Board Policy number 11.25, including the members' payment of contributions and compound interest, consistent with the existing policies for buyback of forfeited service. Members must meet the vesting requirement (five years of COPERS' membership) prior to applying for any purchase of prior service credits, members must apply for any purchase of previous service credits (governmental or military) within one year of vesting, and military purchases are limited to a maximum of five years.

### **Pension Allowance**

The normal retirement benefit is payable monthly for the lifetime of a member. The annual amount equals 2 percent of FAC times credited service up to 32.5 years, plus 1 percent of FAC times service in excess of 32.5 years to 35.5 years, plus 1/2 of 1 percent of FAC times service in excess of 35.5 years. Effective January 2, 2000, the minimum monthly retirement benefit is \$500 per month for retirees with 15 years or more of service and \$250 per month for retirees with less than 15 years.

### **Deferred Retirement**

If a member leaves COPERS' covered employment before age 60, but after completing five or more years of credited service, he becomes eligible for a deferred pension, provided he lives to age 62 and does not withdraw his accumulated contributions.

### **Disability Retirement**

- **Non-Duty**

A member with ten or more years of credited service, who becomes totally and permanently disabled for duty in the employ of the City from other than duty connected causes, is eligible for a non-duty disability benefit computed in the same manner as a pension allowance, based upon his service and average salary at the time of disability.

- **Duty**

A member who becomes totally and permanently disabled for duty in the employ of the City, as a result of a duty-related injury or disease, is eligible for a duty disability benefit computed in the same manner as a pension allowance, regardless of length of service. There is a 15% (of FAC) minimum benefit payable.

Upon termination of the workmen's compensation period, if any, the member shall be given service credit and the disability pension shall be recomputed to include such additional credited service.

- **Disability Assessment Committee Examinations**

The Retirement Law provides for a Disability Assessment Committee (DAC) consisting of five members: the Personnel Safety Administrator; the Executive Secretary to the Board; two employee members appointed by the Board; and one citizen member (resident of Maricopa County), also appointed by the Board. The DAC determines eligibility for disability benefits under the Law. Each person alleging a condition of disability or the continuance of such condition shall be required to undergo any medical examinations required by the Disability Assessment Committee, but not more than twice annually or after age 60.

## **Summary of Plan Provisions (Continued)**

### **Survivor Benefits**

Dependents of deceased members may qualify for survivor benefits if (1) the deceased member had ten or more years of credited service or (2) the member's death was the result of causes arising out of and in the course of his employment with the City, and is compensable under the Workmen's Compensation Act of the State of Arizona.

If the member had less than ten years of credited service and died as a result of causes arising out of and in the course of his employment, his credited service shall be increased to ten years.

A deceased member's spouse will be paid a benefit equivalent to Option A Standard, 100 percent Joint and Survivor, calculated as if the member had retired the day preceding the date of his death, notwithstanding that he might not have attained age 60. Benefits cease upon death of the survivor.

The voters of the City of Phoenix approved a change to the Charter on September 7, 1999 to increase surviving child pension benefits. Effective January 1, 2000, a deceased member's unmarried child or children under age 18 shall receive a benefit of \$200 per month, regardless of the number of children. The benefit shall cease upon adoption, marriage, death, or upon attainment of age 18.

### **Post-Retirement Distribution (13th Check)**

Each year, based upon a predetermined formula and investment return, a distribution amount (known as the "13th Check") for each eligible retiree and beneficiary may be payable in the form of a supplemental one-time payment, provided an adequate balance in the Pension Equalization Reserve exists. This payment must be made prior to the seventh month after the end of the fiscal year. A minimum 1% of annual pension, for the 13th Check, was established by an amendment to the City Charter, adopted by City of Phoenix voters October 3, 1995.

### **Pension Equalization Program**

A provision for permanent pension adjustments, based on Plan performance was established, effective January 1, 1992. On the basis of COPERS' five-year average rate of return, reported by the Plan's consultant, earnings in excess of 8 percent will be transferred to a Pension Equalization Reserve. The Plan's actuary will determine what percentage pension increase should be applied to eligible retirees who, on January 1, have received 36 pension payments. This permanent increase to the gross pension, under said formula, shall not exceed the Consumer Price Index as calculated by the U.S. Department of Labor, Bureau of Labor Statistics ("Phoenix-Mesa, AZ" for all Urban Consumers) and takes into consideration the cost of the "13th Check," if any.

### **Optional Forms of Payment**

When a COPERS' member makes application for retirement, his benefits are calculated in four optional forms, and he selects the one that best fits his retirement needs. The election of an optional form of payment is made prior to the receipt of the first benefit check. Otherwise, such election is irrevocable. Married members must select Option A Standard unless the spouse signs a consent form authorizing a different option. The four options are as follows:

- **Straight Life Option**

This is the largest payment available to a retiree; however, upon the death of the retiree, monthly payments cease. If the retiree had not received an amount equal to at least his accumulated contributions (inclusive of regular interest to date of retirement) before his death, a refund of the balance of his account is made to his designated beneficiary. The City of Phoenix Charter was amended on September 7, 1999, to establish a minimum pension benefit of \$500 for retirees with 15 years or more of service and \$250 for retirees with less than 15 years.

## Summary of Plan Provisions (Continued)

### Optional Forms of Payment (Continued)

- **Option A**

This is a continuing survivor option that allows the retiree to receive less than the Straight Life Option, with the provision that the designated survivor will receive 100 percent of the retiree's reduced benefit for the remainder of his lifetime.

**Standard:** Under this option, should the designated survivor die prior to the retiree, the pension paid the retiree will remain the same.

**Pop-Up:** This form of Option A is available to all retirees and provides that, should the designated survivor die before the retiree, the reduced pension paid the retiree shall be increased to equal the Straight Life Option for the remainder of the retiree's life. The selection of this form of Option A generally provides an amount less than that available under the Option A Standard.

- **Option B**

This option is also a continuing survivor option similar to Option A above, except that the percentage is changed. Under Option B, the retiree would receive less than the Straight Life Option (more than under Option A) with the designated survivor receiving 50 percent of the retiree's benefit for the remainder of his lifetime.

**Standard:** Under this option, should the designated survivor die prior to the retiree, the pension paid the retiree will remain the same.

**Pop-Up:** This form of Option B is available to all retirees and provides that, should the designated survivor die before the retiree, the reduced pension paid the retiree shall be increased to equal the Straight Life Option for the remainder of the retiree's life. The selection of this option generally provides an amount less than that available under the Option B Standard.

- **Option C**

The final of the four options is referred to as a "ten-year certain and life" form. As with the other options, the benefit is payable for the lifetime of the retiree but with the added provision that if the retiree lives less than 10 years after retirement, COPERS will make additional monthly payments to the designated survivor, not to exceed 120 monthly payments (between the retiree and the survivor). Monthly payments cease upon the primary retiree's death if he lives more than 10 years.

### Member Contributions

As a condition of employment, each member is required to contribute 5 percent of his covered compensation. The City, however, established a qualified employee "pick-up" plan [under Internal Revenue Code Section 414(h)] effective January 1, 1985. Under this plan, the City pays the required 5 percent on behalf of the members on a pre-tax basis. If a member leaves covered City employment for reasons other than retirement, his accumulated contributions may be refunded to him. Accumulated contributions also include regular interest that is computed at the end of each fiscal year on the mean balance in the member's account during the year. The rate of interest is established each year by the Board (currently 5 percent). If the member dies prior to accruing ten or more years of credited service and not as a result of causes arising out of and in the course of his employment, his accumulated contributions are refunded to his designated beneficiary.

## Summary of Plan Provisions (Continued)

---

### Employer Contributions

The Charter requires the City to contribute an amount that is determined annually by COPERS' retained actuaries. Contributions are based upon level percentage of projected payroll funding principles, so that the contribution rates do not fluctuate significantly over time. This contribution is over and above the member contributions made by the City. A chart, showing the City of Phoenix recommended and actual contributions, is included in the Actuarial Section of this report.

It is noted this summary of plan provisions has been written to furnish the members of COPERS and other readers with general information about the system. Since it is a summary, all of the requirements of the Plan are not covered. Details of all benefits can be obtained from Chapter XXIV of the City Charter, which is available in the COPERS' Office. **Although every effort has been made to accurately summarize the benefits under the Plan, the provisions of Chapter XXIV shall prevail in the unlikely event of discrepancies.**



## **Statistical Section**

The **Statistical Section** provides financial and demographic data pertaining to COPERS.

## Schedule of Revenues by Source

Last Ten Fiscal Years

(dollars in thousands)

Fiscal Year	Member Contributions	Employer Contributions		Investment Income (1)	Other Additions	Total
		Dollars	% of Covered Payroll			
2003-2004	\$24,783	\$39,564	9.17 %	\$198,641	\$373	\$263,361
2002-2003	26,122	27,820	6.86	36,909	500	91,351
2001-2002	25,191	28,295	7.24	(88,483)	1,053	(33,944)
2000-2001	22,942	22,329	6.13	(22,405)	359	23,225
1999-2000	19,813	26,802	7.67	107,841	124	154,580
1998-1999	19,603	29,186	9.14	94,896	535	144,220
1997-1998	16,402	30,124	9.86	179,993	394	226,913
1996-1997	15,393	23,208	8.30	140,517	279	179,397
1995-1996	14,661	21,218	8.16	126,590	162	162,631
1994-1995	13,394	20,607	8.37	108,341	373	142,715

(1) Part of the increase in investment income for 1994-1995 through 1999-2000 results from reporting investments, in compliance with GASB Statement 25, at fair value instead of amortized cost.

## Schedule of Expenses by Type

Last Ten Fiscal Years

(in thousands)

Fiscal Year	Benefit Payments	Administrative Expenses (2)	Refunds	Other Deductions	Total
2003-2004	\$76,949	\$340	\$2,272	\$600	\$80,161
2002-2003	70,234	155	2,457	365	73,211
2001-2002	64,289	75	3,484	657	68,505
2000-2001	57,806	--	3,364	211	61,381
1999-2000	49,409	--	2,941	351	52,701
1998-1999	43,054	--	3,263	297	46,614
1997-1998	38,987	--	2,238	167	41,392
1996-1997	34,571	--	2,103	39	36,713
1995-1996	31,401	--	2,291	3	33,695
1994-1995	28,066	--	1,990	112	30,168

(2) Administrative expenses of COPERS are paid by the City of Phoenix and are not recognized in COPERS financial statements. The \$340,000 represents computer services for COPERS' new computer system, which was authorized by the Retirement Board and was not included in the City's budget. The \$155,000 for fiscal year 2002-2003 represents computer services and due diligence for COPERS new computer system, which was authorized by the Retirement Board and was not included in the City's budget. The \$75,000 for fiscal year 2001-2002 represents expenses incurred for an organizational study of COPERS office.

## Schedule of Benefit Expenses by Type

### Last Ten Fiscal Years

#### Retirement and Survivor Benefits (in thousands)

Fiscal Year	Age & Service		Disability Benefits Retirees		Survivors	Total Benefits *
	Benefits Retirees	Death In Service	Duty	Non-Duty		
2003/2004	\$68,192	\$2,281	\$577	\$1,864	\$6,404	\$79,318
2002/2003	61,925	1,877	549	1,614	6,256	72,221
2001/2002	56,822	2,015	466	1,656	5,411	66,370
2000/2001	51,373	1,894	465	1,501	5,041	60,274
1999/2000	45,002	1,790	440	1,293	4,356	52,881
1998/1999	37,716	1,473	397	1,163	3,462	44,211
1997/1998	34,125	1,396	373	1,050	3,179	40,123
1996/1997	30,356	1,249	332	964	2,972	35,873
1995/1996	27,142	1,168	339	956	2,598	32,203
1994/1995	24,778	1,103	310	879	2,214	29,284

\* Periodic payments annualized based on June payroll.

#### Refunds (in thousands)

Fiscal Year	Beneficiaries*	Separation	Total Refunds
2003/2004	\$216	\$2,056	\$2,272
2002/2003	391	2,066	2,457
2001/2002	464	3,020	3,484
2000/2001	151	3,213	3,364
1999/2000	20	2,921	2,941
1998/1999	30	3,233	3,263
1997/1998	85	2,153	2,238
1996/1997	153	1,950	2,103
1995/1996	266	2,025	2,291
1994/1995	216	1,774	1,990

\* Lump sum payment to beneficiaries upon member's death.



# Schedule of Retired Members by Type of Benefit

## June 30, 2004

Monthly Benefit	Number of Retirees	Type of Retirement						
		Deferred	Normal or Voluntary	Duty Disability	Non-Duty Disability	Survivor Payment	Death Benefit	QDRO
Deferred	591	591	-	-	-	-	-	-
\$ 1-\$ 100	2	-	-	-	-	1	-	1
101- 200	21	-	3	-	-	3	11	4
201- 300	144	-	85	7	-	28	18	6
301- 400	98	-	62	5	-	25	4	2
401- 500	131	-	85	7	4	24	5	6
501- 600	197	-	94	2	12	77	9	3
601- 700	169	-	91	6	17	39	11	5
701- 800	168	-	101	3	18	38	5	3
801- 900	188	-	103	4	17	48	12	4
901- 1,000	173	-	113	5	13	27	10	5
1,001- 1,100	126	-	87	1	8	20	6	4
1,101- 1,200	163	-	118	1	9	25	9	1
1,201- 1,300	152	-	117	1	6	16	10	2
1,301- 1,400	132	-	88	4	4	26	8	2
1,401- 1,500	122	-	92	4	6	11	7	2
1,501- 2,000	578	-	496	6	14	43	16	3
2,001- 2,500	426	-	393	-	5	20	8	-
2,501- 3,000	323	-	297	-	2	16	8	-
Over 3,001	483	-	462	-	2	14	5	-
<b>Totals</b>	<b>4,387</b>	<b>591</b>	<b>2,887</b>	<b>56</b>	<b>137</b>	<b>501</b>	<b>162</b>	<b>53</b>

Monthly Benefit	Total	Option Selected					Flat Benefit
		Life	Option A	Option B	Option C		
\$ 1-\$ 100	2	1	-	-	1	-	-
101- 200	21	7	2	1	-	10	11
201- 300	144	84	22	12	3	7	-
301- 400	98	62	19	7	-	14	-
401- 500	131	71	25	19	2	9	-
501- 600	197	129	29	19	6	14	-
601- 700	169	103	26	15	3	14	-
701- 800	168	88	32	24	10	10	-
801- 900	188	118	35	17	8	4	-
901- 1,000	173	100	36	21	5	6	-
1,001- 1,100	126	62	27	17	4	5	-
1,101- 1,200	163	85	32	14	9	11	-
1,201- 1,300	152	86	21	18	8	11	-
1,301- 1,400	132	66	29	13	4	9	-
1,401- 1,500	122	55	28	22	7	3	-
1,501- 2,000	578	221	142	80	36	39	-
2,001- 2,500	426	151	122	69	24	16	-
2,501- 3,000	323	134	67	45	18	16	-
Over 3,001	483	186	130	64	30	23	-
<b>Totals</b>	<b>3,796</b>	<b>1,809</b>	<b>824</b>	<b>477</b>	<b>177</b>	<b>208</b>	<b>22</b>
Deferred	591						
<b>Total</b>	<b>4,387</b>						

## Schedule of Average Benefit Payment Amounts by Year of Retirement

### Last Five Fiscal Years

Retirement Effective Dates For Fiscal Years Ending June 30:	Years of Credited Service (1)					
	5-9	10-14	15-19	20-24	25-29	30+
<b>2004</b>						
Average Monthly Benefit	\$390.71	\$798.05	\$1,239.61	\$2,189.62	\$2,845.60	\$3,422.11
Mean Monthly Final Average Compensation	\$2,879.58	\$3,589.91	\$4,246.54	\$5,327.76	\$5,436.20	\$5,771.38
Number of Active Retirees	12	17	22	43	58	60
<b>2003</b>						
Average Monthly Benefit	\$401.73	\$760.17	\$1,283.31	\$1,926.88	\$2,883.91	\$3,495.89
Mean Monthly Final Average Compensation	\$3,105.12	\$3,403.87	\$4,228.97	\$4,658.82	\$5,443.17	\$6,164.61
Number of Active Retirees	15	34	37	36	62	52
<b>2002</b>						
Average Monthly Benefit	\$415.84	\$721.98	\$1,316.11	\$1,900.86	\$2,965.31	\$3,850.57
Mean Monthly Final Average Compensation	\$3,207.09	\$3,308.97	\$4,342.85	\$4,674.37	\$5,604.16	\$6,443.17
Number of Active Retirees	14	30	30	29	53	45
<b>2001</b>						
Average Monthly Benefit	\$570.46	\$879.29	\$1,304.04	\$2,092.24	\$2,803.73	\$3,112.97
Mean Monthly Final Average Compensation	\$3,119.69	\$3,889.29	\$4,237.24	\$5,003.11	\$5,346.02	\$5,265.65
Number of Active Retirees	16	30	19	31	72	71
<b>2000</b>						
Average Monthly Benefit	\$432.59	\$814.57	\$1,305.28	\$2,027.53	\$2,659.15	\$2,912.53
Mean Monthly Final Average Compensation	\$2,957.74	\$3,484.00	\$4,000.12	\$4,772.55	\$5,107.44	\$4,921.73
Number of Active Retirees	16	22	31	48	62	72
<b>From July 1, 2000 to June 30, 2004</b>						
Average Monthly Benefit	\$442.27	\$794.81	\$1,289.67	\$2,027.43	\$2,831.54	\$3,358.81
Mean Monthly Final Average Compensation	\$3,053.85	\$3,535.21	\$4,211.14	\$4,887.32	\$5,387.40	\$5,713.31
Number of Active Retirees	73	133	139	187	307	300

(1) Does not include sick leave service