



**CITY OF PHOENIX
EMPLOYEES' RETIREMENT PLAN
(A Component Unit of the City of Phoenix, Arizona)**

**SIXTY-SECOND ANNUAL
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2008 and 2007**

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Prepared by:
City of Phoenix
Employees' Retirement System
and
City of Phoenix
Finance Department

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Introductory Section

The **Introductory Section** contains the Certificate of Achievement for Excellence in Financial Reporting, the letter of transmittal, the Retirement Board structure, the administrative organization, and the Chairperson's Report.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Phoenix
Employees' Retirement Plan
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

December 4, 2008

Chairperson and Members of the Retirement Board
City of Phoenix Employees' Retirement Plan:

The Comprehensive Annual Financial Report ("CAFR") of the City of Phoenix Employees' Retirement Plan ("COPERS" or the "Plan") as of and for the years ended June 30, 2008 and 2007 is hereby submitted. This report consists of the Introductory, Financial, Investment, Actuarial and Statistical sections.

The Plan is governed by the City of Phoenix Employees' Retirement Law of 1953 (Chapter XXIV of the City of Phoenix Charter). This law has been revised over the years, with the latest amendment approved by the City voters on September 9, 2003.

COPERS was created to provide retirement, survivor and disability benefits to the City of Phoenix general employees. COPERS is a qualified retirement plan under the Internal Revenue Code. The City of Phoenix Employees' Retirement Board (the "Board") is trustee of the Plan. Elections are held every three years to elect three Retirement Board members. The three elected Board members with terms of January 1, 2006 to December 31, 2008 are Frank Barriga, Elizabeth Bissa and Cathleen Gleason. Ex-Officio Board members are Barbara Lang, City Treasurer; Rick Naimark, Deputy City Manager; Janet Smith, Personnel Director; and Bob Wingenroth, Finance Director. The Retiree Board Member is Jim Flanagan. The Citizen Board Member is Linda Reidenbach.

The Mayor and City Council are covered by the Elected Officials Retirement Plan of Arizona ("EORPA"). Sworn police and fire employees are covered by the Arizona Public Safety Personnel Retirement System ("APSPRS"). The administration of the system and responsibility for making the APSPRS provisions effective for each employer are vested in Local Boards. For the City of Phoenix, this responsibility rests with the City of Phoenix Fire Pension Board and the City of Phoenix Police Pension Board. EORPA and APSPRS benefit payments and investments are handled by a centralized State Board known as "Fund Manager." The EORPA and the APSPRS were created by Arizona State Statutes. These retirement plans publish separate financial reports.

FINANCIAL INFORMATION

Responsibility for accuracy of the data, completeness and fairness of the presentation of the CAFR, including all disclosures, rests with the Retirement Board. The Plan's record-keeping, financial statement and investment control responsibilities have been performed by the City's Finance Department. To the best of our knowledge and belief, this report is accurate in all material respects and is reported in a manner designed to present fairly the Plan net assets and changes in Plan net assets. All disclosures necessary to enable the reader to gain an understanding of the Plan's financial activities have been included. The Management's Discussion and Analysis, which begins on page 19, provides analysis of the financial activities for the fiscal years ended June 30, 2008 and 2007.

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to COPERS for its comprehensive annual financial report for the fiscal year ended June 30, 2007. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

INTERNAL CONTROLS

Internal controls are procedures designed to protect assets from loss, theft or misuse; to check the accuracy and reliability of accounting data; to promote operational efficiency; and to encourage compliance with managerial policies. The Board and the City of Phoenix (the "City") management are responsible for establishing a system of internal controls designed to provide reasonable assurance these objectives are met. To help assure the adequacy of the City's (including COPERS') system of internal controls, an Audit Committee consisting of three members of the City Council, the City Manager and other top City officials provide direction to the City Auditor's Department in carrying out an extensive internal audit program, as well as providing a liaison with the City's (including COPERS') independent auditors. The City also maintains budgetary controls designed to ensure compliance with legal provisions of the annual budget adopted by the City Council.

This report has been prepared in conformance with the principles of governmental accounting and reporting as set forth by the Governmental Accounting Standards Board. Transactions of COPERS are reported on the accrual basis of accounting. Revenues are recorded when earned, without regard to the date of collection and expenses are recorded when incurred. The City's internal accounting and audit controls are designed to provide for the accuracy, reliability and integrity of all financial records.

MAJOR INITIATIVES INVOLVING PLAN ADMINISTRATION

During the fiscal year ended June 30, 2008, the Board continued to diversify the investment of plan assets through the adoption of various reallocations among investment styles and asset classes

On April 23, 2008, after a search process with the assistance of R.V. Kuhns & Associates, the Board selected Milliman, Inc. to conduct an audit to review the methods and assumptions used for the June 30, 2007 actuarial valuation.

On May 21, 2008, the Board, after legal and actuarial reviews, adopted a revision to the plan's service purchase program to allow active members to purchase previous City of Phoenix job-share and City of Phoenix full-time temporary employment service effective October 1, 2008.

During the fiscal year, the COPERS' staff participated in the upgrade project for the City's Personnel and Payroll computer system. In addition, COPERS' staff initiated a seamless retirement process pilot involving staff from other City departments to improve service for retiring members.

ADMINISTRATIVE BUDGET

The City provides an annual budgetary allocation to pay for the general administration of COPERS. The cost paid by the City for COPERS' administration was \$1,497,000. Most investment-related expenses, such as investment custody costs, investment manager fees, and consultant fees are paid directly from the Plan's assets. These costs amounted to \$9,176,000 for the fiscal year ended June 30, 2008. Administrative and investment costs combined represented 0.45% of total Plan assets.

FUNDING STATUS AND PROGRESS

Fund balances are derived from net assets and are accumulated to meet current and future obligations to retirees and beneficiaries. COPERS' funding objective is to meet these obligations through contributions that remain approximately level as a percent of member payroll. The actuarial valuation as of June 30, 2008 reflects an unfunded actuarial accrued liability of \$504,951,000. This amount is primarily the difference between the funding value of assets and the actuarially calculated pension liability. The unfunded actuarial accrued liability will be amortized as a level percent of payroll over future years. The amortization period as of June 30, 2008 is 20 years. A smoothed market value of assets was used for the June 30, 2008 evaluation. This method spreads the difference between the actual and expected investment return over four years. A detailed discussion of the funding of COPERS is provided in the Actuarial Section of this report.

INVESTMENT ACTIVITIES

As of June 30, 2008, the net asset value of the COPERS' Plan was \$1.818 billion at market value. The fiscal year return for the Plan was -5.14%. The five year annualized return was 8.69%. The actual allocation as of June 30, 2008 was domestic large cap equities 24.1%, domestic small/mid cap equities 13.1%, international large cap equities 17.0%, international small/mid cap equities 4.7%, core fixed income 20.4%, real estate 11.1%, real return strategy 9.1% and cash 0.5%.

The Board's investment consultant, R.V. Kuhns & Associates, coordinated a search for a domestic small- to mid-cap value manager. On July 11, 2007, the Board authorized contract negotiations with Wellington Management Company. Following a review of organizational changes at Wellington Management Company, on September 26, 2007, the Board directed the discontinuation of contract negotiations with Wellington Management Company. On September 26, 2007, the Board authorized contract negotiations with Cramer Rosenthal McGlynn.

On August 15, 2007 and November 14, 2007, the Board adopted changes in investment manager allocations following domestic equity structure studies presented by R.V. Kuhns & Associates.

On August 15, 2007, the Board adopted a revised benchmark for the Plan's investment results, following a presentation from R.V. Kuhns & Associates, applicable for the fiscal year ended June 30, 2007. The plan's performance will be compared to the "All Pension Plans \$1 Billion to \$5 Billion" universe as developed by R.V. Kuhns & Associates.

During September 2007 and October 2007, funds were transitioned to facilitate the progression to a new target allocation. On September 7, 2007, \$111 million from the Northern Trust S&P 500 Fund was reinvested in GMO (\$20 million), Pyramis (\$22 million), AXA Rosenberg (\$33 million) and Research Affiliates (\$36 million). On October 3, 2007 funds from the full liquidation of the Northern Trust Corp/Gov't Bond Fund were reinvested in Wells Capital (\$10.5 million), Western Asset Management (\$15 million), JP Morgan Real Estate (\$26 million) and Research Affiliates (\$25 million).

On November 14, 2007, the Board adopted a formal quarterly rebalancing policy for plan assets. Procedures recommended by the Board's investment consultant, R.V. Kuhns & Associates, were incorporated in the Plan's investment policy.

The Retirement Board, on November 14, 2007, voted to accept the recommendation of R.V. Kuhns & Associates to update the allocation to the small/mid cap domestic equity asset class with 40% to small cap value, 40% to small cap growth and the remaining 20% to mid cap core.

On November 14, 2007, the Board authorized the Plan's fixed income managers to invest up to 20% of their COPERS' holdings in foreign debt securities. Separately Western Asset Management was permitted to utilize their pooled investment vehicle to access emerging market debt.

The funding of Cramer Rosenthal McGlynn, the plan's new small cap value manager, was completed February 1, 2008 utilizing transition management services provided by State Street Global Markets.

During two half-day sessions on May 12, 2008 and May 13, 2008, the Board attended an informational "Investment Manager Roundtable" attended by representatives from each contracted investment manager and R.V. Kuhns & Associates.

On May 21, 2008, the Board approved the formation of a transition manager pool, authorizing contract negotiations with managers, based on recommendation from R.V. Kuhns & Associates. Procedures for employing this pool were formalized with the assistance of R.V. Kuhns & Associates and included in the Plan's investment policy.

The Board's investment consultant, R.V. Kuhns and Associates, proposed a revised target allocation for the Plan consisting of 16% large cap domestic equity, 17% large cap international equity, 9% small/mid cap domestic equity, 4% small/mid cap international equity, 19% core domestic fixed income, 10% real return, 7% core real estate, 5% value added real estate, 3% opportunistic real estate and 10% dedicated to a long/short equity strategy.

The Board adopted this allocation on June 25, 2008, pending legal review of value added and opportunistic real estate and use of a hedge fund of funds manager for the long/short equity position.

A number of potential investments were reviewed by legal counsel for compliance with the City Charter and approved by the Board during this fiscal year. These included rights and warrants, hybrid securities, short sale exchange traded funds, fundamental index collective trusts and a long/short equity strategy.

PROFESSIONAL SERVICES

The Retirement Board retains professional consultants to prudently discharge its fiduciary responsibility for the proper administration of the Plan. Rodwan Consulting Company provides actuarial services and the corresponding certification. During the fiscal year, the Board contracted with Milliman, Inc. to provide actuarial audit services. State Street Bank serves as the master custodian. Brokerage trade execution monitoring is compiled by Elkins/McSherry, LLC and reviewed by investment consultant R.V. Kuhns & Associates. COPERS' financial statements are audited by Clifton Gunderson LLP and a review of operations is performed by the City Auditor's Department. Investment performance analysis, asset allocation review and investment consulting is provided by R.V. Kuhns & Associates, Inc. State Street Global Markets provided transition management services. Legal services were provided by the City Attorney, Kutak Rock, LLP and Yoder & Langford, P.C.

COPERS' investment managers and styles as of June 30, 2008 were:

Equity Managers:

AXA Rosenberg.....	International Small Cap
Cadence Capital Management.....	Domestic Large Cap Growth
Dimensional Fund Advisors.....	Domestic Large Cap Value
Eagle Asset Management.....	Domestic Small Cap Growth
GMO.....	International Large Cap Value
Northern Trust Investments.....	S&P 500 Index
Pyramis Global Advisors.....	International Large Cap Growth
The Boston Company.....	Domestic Mid Cap Value
Cramer Rosenthal McGlynn.....	Domestic Small Cap Growth

Fixed Income Managers:

Wells Capital Management.....	Core Fixed Income
Western Asset Management Company.....	Core Fixed Income

Real Estate Managers:

J.P. Morgan
Morgan Stanley

Real Return Manager:

Research Affiliates

SUBSEQUENT EVENTS AND ACKNOWLEDGMENTS

On August 20, 2008, the Board interviewed and approved contract negotiations, subject to a favorable legal opinion regarding the Board's authority to invest in the asset class, with two long/short equity hedge fund of fund managers, K2 Advisors and Pacific Alternative Asset Management.

On August 20, 2008, the Board adopted a transition plan proposed by R.V. Kuhns & Associates for the long-term target asset allocation adopted by the Board on June 25, 2008.

On August 27, 2008, the Board received the results of the actuarial audit performed by Milliman, Inc.

On August 27, 2008, the Board reviewed and accepted an opinion prepared by legal counsel indicating the Board had the authority to invest assets with long/short equity only hedge fund of fund managers.

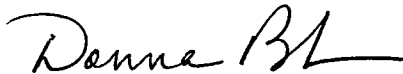
On September 24, 2008, the Board reviewed and accepted an opinion prepared by legal counsel indicating the Board had the authority to participate in global private equity real estate investments.

On September 24, 2008, the Board reviewed search results from R.V. Kuhns & Associates for managers to implement the investment allocation to global private equity value-added real estate. The Board interviewed three potential managers and selected TA Associates Realty Fund IX and Wrightwood Capital High Yield Partners II.

On October 24, 2008, the Board reviewed search results from R.V. Kuhns & Associates for managers to implement the investment allocation to global private equity opportunistic real estate. The Board interviewed three potential managers and selected Real Estate Capital Asia Partners II and Apollo Real Estate Opportunity Fund VI.

The preparation of this report reflects the combined efforts of COPERS staff, the Finance Department and others who have worked diligently in the successful operation of COPERS. This report is intended to provide information as a means for making management decisions, complying with statutory provisions and demonstrating responsible stewardship for the assets of the Plan. The direction and support extended by the Retirement Board and committee members is greatly appreciated.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Donna Buelow". The signature is fluid and cursive, with a long horizontal stroke at the end.

Donna Buelow
Retirement Program Administrator

Retirement Board

Elected Board Members



CATHLEEN GLEASON
Chairperson Retirement Board



ELIZABETH BISSA
Vice Chairperson
Retirement Board



FRANK BARRIGA
Board Member

Ex-Officio Board Members



BARBARA LANG
Treasurer
City of Phoenix



RICK NAIMARK
Deputy City Manager
City of Phoenix
Chairperson Legal
Review Committee



JANET SMITH
Personnel Director
City of Phoenix
Chairperson Charter
Amendments Policies &
Procedures Committee



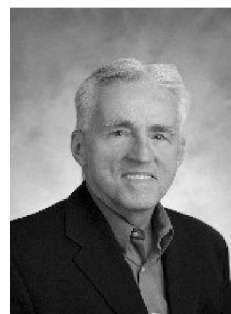
BOB WINGENROTH
Finance Director
City of Phoenix

Citizen Board Member



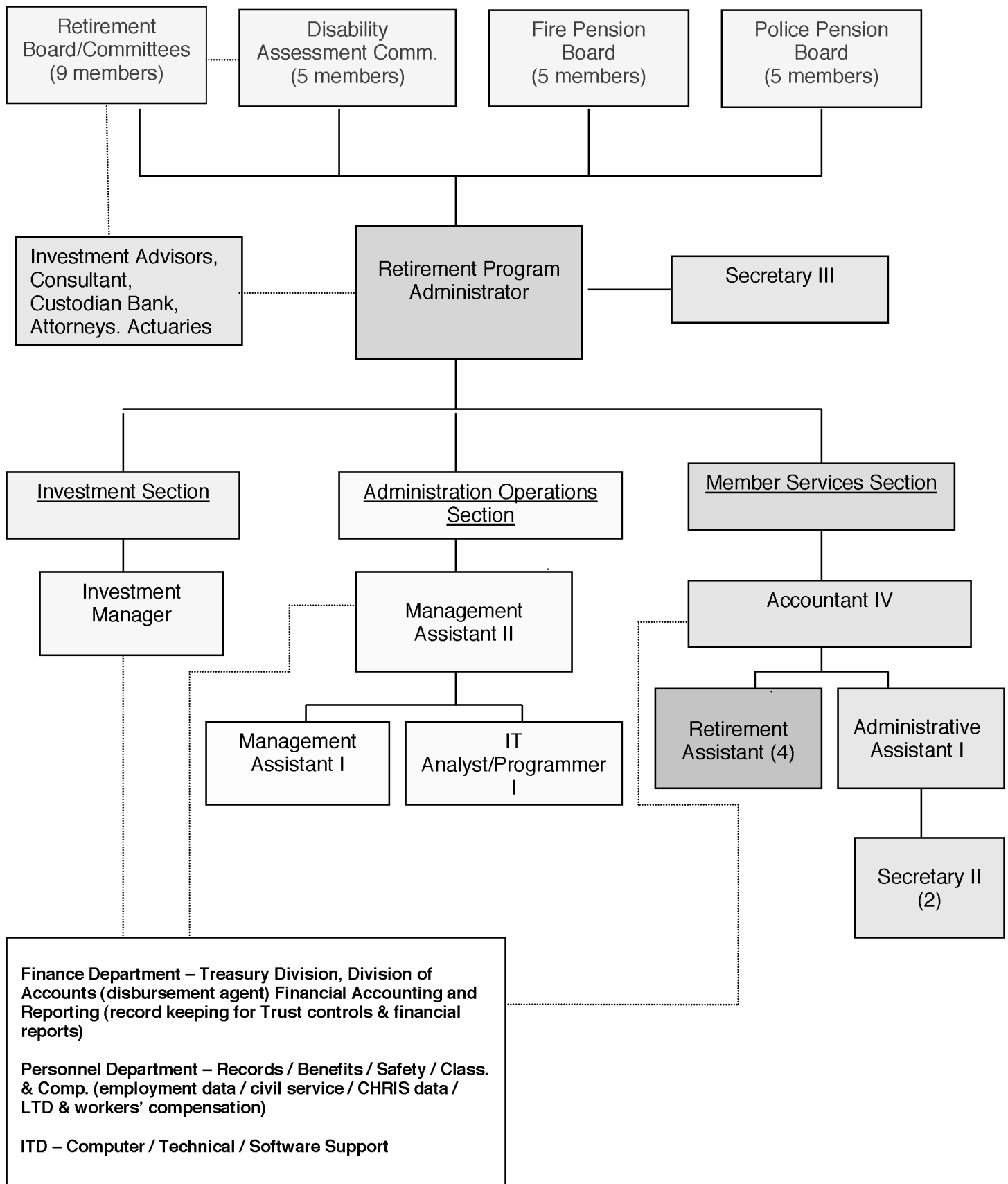
LINDA REIDENBACH
Senior Benefits Analyst
Salt River Project (SRP)
Chairperson Investment Committee

Retiree Board Member



JIM FLANAGAN
Retired City Auditor
City of Phoenix

Administrative Organization



Administrative Organization (Continued)

ADMINISTRATIVE STAFF (current)

Donna Buelow

Retirement Program Administrator

Josie Armenta

Retirement Assistant

John Buchanan

Retirement Assistant

Lollita Cordova

Management Assistant I

Greg Fitchet

Investment Manager

Stephen Herbert

IT Analyst Programmer

Tim Jackson

Retirement Assistant

Edna Marinelarena

Secretary II

Anna Martinez

Management Assistant II

Tricia Moreno

Secretary II

Michael Teeselink

Retirement Assistant

Jackie Temple

Accountant IV

Paula Whisel

Secretary III

Vacant

Administrative Assistant I

RETIREMENT BOARD COMMITTEES

Investment Committee

Linda Reidenbach, Chairperson

Elizabeth Bissa

Jim Flanagan

Barbara Lang

Bob Wingenroth

Charter Amendments/Policies & Procedures

Janet Smith, Chairperson

Frank Barriga

Elizabeth Bissa

Jim Flanagan

Cathleen Gleason

Legal Review Committee

Rick Naimark, Chairperson

Frank Barriga

Cathleen Gleason

Linda Reidenbach

Bob Wingenroth

Disability Assessment Committee

Michael C. Jimenez, Chairperson

Donna Buelow

Amber Cole

Robert Jones, M.D.

Cindy Prejs

ACCOUNTING

Finance Department

Bob Wingenroth, Finance Director

TREASURER

Finance Department

Barbara Lang, City Treasurer

LEGAL

Law Department

Gary Verburg, City Attorney

Administrative Organization (Continued)

CONSULTING SERVICES

Actuary

Rodwan Consulting Company
Royal Oak, MI

Actuarial Audit

Milliman, Inc
Omaha, NE

Auditor

Clifton Gunderson LLP
Phoenix, AZ
Certified Public Accountants under contract with
the City Auditor

Medical Advisors (per case basis)

Several physicians and clinics used for
evaluation of disability applicants on a "per case" basis

Master Custodian

State Street Bank
Alameda, CA

Brokerage Transaction Measurement Service

Elkins/McSherry, LLC
New York, NY

Investment Services

Refer to the Investment Section, pages 47, 50, 51 and 53

Legal Services

Kutak Rock LLP
Scottsdale, AZ

Yoder & Langford, P.C.
Phoenix, AZ



December 4, 2008

To COPERS' Members and Retirees:

On behalf of the Retirement Board, it is my pleasure to present the City of Phoenix Employees' Retirement System ("COPERS") Comprehensive Annual Financial Report ("CAFR") for the fiscal years ended June 30, 2008 and 2007. This annual report contains information regarding the COPERS' administration, financial statements, investments, actuarial and statistical data.

The Board's investment consultant, R.V. Kuhns & Associates, provides performance measurement and assists the Board with analysis of investment issues. R.V. Kuhns & Associates reports the COPERS' total fund performance for the year ended June 30, 2008 was -5.14%. The annualized return for the past three and five years was 6.40% and 8.69%, respectively.

During the fiscal year ended June 30, 2008, the plan completed the implementation of the asset allocation adopted in June 2006. After several Board presentations by R.V. Kuhns & Associates concerning potential new asset classes, on June 25, 2008, R.V. Kuhns & Associates proposed a revised allocation. The Board adopted the target allocation pending legal review of value added and opportunistic real estate and use of hedge fund of funds managers for the long/short equity position. The target asset allocation is 16% large cap domestic equity, 17% large cap international equity, 9% small/mid cap domestic equity, 4% small/mid cap international equity, 19% core domestic fixed income, 10% real return, 7% core real estate, 5% value added real estate, 3% opportunistic real estate and 10% dedicated to a long/short equity strategy. Subsequently, the Board has approved contracting with six new managers to implement the target allocation. The Board adopted schedule for the implementation will take some time given the long-term nature of many of the asset classes.

The Board's actuarial consultant, Rodwan Consulting Company, conducts annual actuarial valuations and periodic experience studies. During the fiscal year ended June 30, 2008, the Board directed Milliman, Inc. to conduct an audit of the June 30, 2007 actuarial valuation. The results of the audit were presented to the Board in August 2008. Many of the actuarial assumption and method changes recommended by Milliman, Inc. were incorporated into the June 30, 2008 actuarial valuation completed by Rodwan Consulting Company. The Board intends to consider the remaining recommendations prior to the June 30, 2009 actuarial valuation and upon completion of the experience study scheduled for fiscal year 2010.

As of June 30, 2008, Rodwan Consulting Company reports the Plan's funded ratio is 79.1%, slightly decreased from the funded ratio as of June 30, 2007 of 83.9% due to less favorable than expected experience based on long-term assumptions and the implementation of the recommended actuarial assumption and method changes. The plan sponsor, the City of Phoenix, remains committed to funding the employer's actuarially computed contribution amount.

The COPERS Board commends staff for continuing to provide a high level of service to plan members and retirees. Staff continues to provide counseling and education opportunities independently and through coordination with the City's Personnel Department, including a presentation for the City of Phoenix Retirees Association. Staff also streamlined the retirement process for employees.

The Board and staff have continued effective communication with active members and retirees through the distribution of annual statements and a summary of the CAFR report through a Popular Annual Financial Report ("PAFR") for the fiscal years ended June 30, 2007 and 2006. The PAFR was well received and was recognized by the Government Finance Officers Association for the third consecutive year.

The COPERS Board is focused on fulfilling our fiduciary obligation to all stakeholders; employees, retirees, the City of Phoenix and its taxpayers. Please contact the Retirement Office with any questions or comments.

Sincerely,

A handwritten signature in black ink that reads "Cathleen Gleason". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Cathleen Gleason
Chairperson, Retirement Board

Financial Section

The **Financial Section** contains the opinion of the independent auditors, management's discussion and analysis, the audited financial statements, notes to the financial statements, and relevant supplemental information.



Independent Auditor's Report

To The Honorable Mayor and
Members of the City Council
City of Phoenix Employees'
Retirement System Retirement Board:

We have audited the accompanying statements of plan net assets of the City of Phoenix Employees' Retirement System (the "Plan") as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the City of Phoenix Employees' Retirement System as of June 30, 2008 and 2007, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information on pages 17 through 21 and 36 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements. The additional supplementary information in the financial section for the years ended June 30, 2008 and 2007 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section, the investment section, the actuarial section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Henderson LLP

Phoenix, Arizona
December 4, 2008

Management's Discussion and Analysis

Dear Members and Retirees:

The City of Phoenix Employees' Retirement System ("COPERS" or the "Plan") is pleased to provide the following analysis of the financial activities for the fiscal years ended June 30, 2008 and 2007. 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, 2008, \$1,810,669 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 24. This amount represents a decrease of 6.2% from June 30, 2007. The decrease is attributable primarily to losses experienced in the financial markets, which impacted COPERS' investment performance. The Plan Net Assets as of June 30, 2007 were \$1,930,535 compared to \$1,670,553 as of June 30, 2006. The increase of 15.6% during 2007 was attributable to higher returns experienced in the financial markets, which impacted COPERS' investment performance.
- COPERS' additions (reductions) to Plan assets, as reported in the Statements of Changes in Plan Net Assets on page 25, for the fiscal year ended June 30, 2008 were \$(5,832) compared to \$364,916 for fiscal year ended June 30, 2007 and \$215,957 for fiscal year ended June 30, 2006. The decrease for the current year was attributable primarily to decreases in investment income. The amount as of June 30, 2008, includes employer and employee contributions of \$95,435 and net investment loss of \$106,022. Fiscal year ended June 30, 2007 and June 30, 2006, employer and employee contributions were \$88,358 and \$80,953 respectively. The net investment income was \$272,051 and \$133,934 respectively.
- The Statements of Changes in Plan Net Assets report an increase in deductions in Plan assets of 8.7% from the fiscal year ended June 30, 2007. This compares to a 10.5% increase in deductions between June 30, 2007 and June 30, 2006. Deductions for fiscal year ended June 30, 2008 were \$114,034 compared to \$104,934 for fiscal year ended June 30, 2007 and \$94,976 for fiscal year ended June 30, 2006. The increases in deductions as of June 30, 2008 and June 30, 2007 are attributable to increased benefits paid during the year.
- The recent Actuarial Valuation prepared as of June 30, 2008 reports the funded ratio to be 79.1%. The funded ratio for fiscal years June 30, 2007 and June 30, 2006 is 83.9% and 81.3%, respectively. A smoothed market value of assets was used for the June 30, 2007, June 30, 2006 and June 30, 2005 valuations. This method spreads the difference between the actual and expected investment return 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 24 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:

- Statements of Plan Net Assets (Page 24)
- Statements of Changes in Plan Net Assets (Page 25)
- Notes to the Financial Statements (Page 26)
- Required Supplementary Information (Page 39)
- Additional Supplementary Information (Page 41)

Statements of Plan Net Assets:

These statements identify 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.

Statements of Changes in Plan Net Assets:

The Statements of Changes in Plan Net Assets differ from the Statements of Plan Net Assets by providing the reader with the Plan's additions and deductions for the current year and the previous year. The statements provide the net increases or decreases realized during the years.

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.

Additional Supplementary Information:

The Additional Supplementary Information includes 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 COPERS' financial statements. The Schedules of Investment Expenses 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, 2008 were \$1,810,669. This amount represents a decrease of 6.2% from Plan Net Assets of \$1,930,535 as of June 30, 2007. The Plan Net Assets as of June 30, 2006 were \$1,670,553. The decrease in Plan Net Assets for the current year is as a result of net loss from investing activities. The return on investments for fiscal years ended June 30, 2008, 2007 and 2006 was (5.14)%, 16.5% and 9.0%, respectively. The investment performance for the fiscal year ended June 30, 2008 was attributable to domestic equity performance of (12.6)%, international equity performance of (7.83)%, real estate performance of 7.95%, real return performance of 1.64% and 4.35% for bonds. The return for domestic equities and bonds as of June 30, 2007 was 20.0% and 6.12%, respectively. The return for domestic equities and bonds as of June 30, 2006 was 11.2% and (0.9)%, respectively.

Table 1: COPERS' Plan Net Assets for June 30, 2008 and 2007 (in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Cash & Cash Equivalents	\$ 115,292	\$ 73,046	\$ 42,246	57.8%
Total Receivables	117,837	49,595	68,242	137.6%
Total Investments	2,133,814	2,232,596	(98,782)	(4.4%)
Total Assets	<u>2,366,943</u>	<u>2,355,237</u>	<u>11,706</u>	0.5%
Total Liabilities	<u>556,274</u>	<u>424,702</u>	<u>131,572</u>	31.0%
COPERS' Net Assets	<u>\$ 1,810,669</u>	<u>\$ 1,930,535</u>	<u>\$ (119,866)</u>	(6.2%)

Table 2: COPERS' Plan Net Assets for June 30, 2007 and 2006 (in thousands)

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% Change</u>
Cash & Cash Equivalents	\$ 73,046	\$ 82,227	\$ (9,181)	(11.2%)
Total Receivables	49,595	47,422	2,173	4.6%
Total Investments	2,232,596	1,819,046	413,550	22.7%
Total Assets	<u>2,355,237</u>	<u>1,948,695</u>	<u>406,542</u>	20.9%
Total Liabilities	<u>424,702</u>	<u>278,142</u>	<u>146,560</u>	52.7%
COPERS' Net Assets	<u>\$ 1,930,535</u>	<u>\$ 1,670,553</u>	<u>\$ 259,982</u>	15.6%

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 "13th Check." A schedule of reserve account balances is in Note 3 to the Financial Statements.

COPERS' Activities:

(in thousands)

COPERS' provides retirement pensions, 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 and depreciation in fair value of investments, bond interest, dividend income, net securities lending income and investment expenses for the fiscal year ended June 30, 2008 was \$(106,022). This compares to net investment income for June 30, 2007 and June 30, 2006 of \$272,051 and \$133,934, respectively. Deductions increased by 8.7% over the prior fiscal year, primarily as a result of increases in pension payments. This compares to a 10.5% increase in deductions from June 30, 2006 to June 30, 2007. Benefit payments for the fiscal years ending June 30, 2008, 2007 and 2006 were \$109,308, \$100,366 and \$91,911, 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 68 for more information on the Pension Equalization Program).

The summary of COPERS' revenues (additions) and expenses (deductions) for the fiscal years ended June 30, 2008, 2007 and 2006 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, 2008 and June 30, 2007 (in thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Additions				
Employer Contributions	\$ 64,198	\$ 58,151	\$ 6,047	10.4 %
Members' Contributions	31,237	30,207	1,030	3.4 %
Inter-System Transfers	4,755	4,507	248	5.5 %
Net Investment Income (Loss)	(107,931)	271,692	(379,623)	(139.7) %
Net Securities Lending Income	1,909	359	1,550	431.8 %
Total	<u>\$ (5,832)</u>	<u>\$ 364,916</u>	<u>\$ (370,748)</u>	<u>(101.6) %</u>
Deductions				
Benefit Payments	\$ 109,308	\$ 100,366	\$ 8,942	8.9 %
Refunds	2,623	2,770	(147)	(5.3) %
Inter-System Transfers	2,103	1,798	305	17.0 %
Total	<u>\$ 114,034</u>	<u>\$ 104,934</u>	<u>\$ 9,100</u>	<u>8.7 %</u>
Net Change in Assets	<u>\$ (119,866)</u>	<u>\$ 259,982</u>	<u>\$ (379,848)</u>	<u>(146.1) %</u>
Ending Net Assets	<u>\$ 1,810,669</u>	<u>\$ 1,930,535</u>	<u>\$ (119,866)</u>	<u>(6.2) %</u>

Table 4: Additions and Deductions to/from Plan Net Assets for the fiscal years ended June 30, 2007 and June 30, 2006 (in thousands)

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% Change</u>
Additions				
Employer Contributions	\$ 58,151	\$ 52,974	\$ 5,177	9.8 %
Members' Contributions	30,207	27,979	2,228	8.0 %
Inter-System Transfers	4,507	1,070	3,437	321.2 %
Net Investment Income	271,692	133,682	138,010	103.2 %
Net Securities Lending Income	359	252	107	42.5 %
Total	<u>\$ 364,916</u>	<u>\$ 215,957</u>	<u>\$ 148,959</u>	69.0 %
Deductions				
Benefit Payments	\$ 100,366	\$ 91,911	\$ 8,455	9.2 %
Refunds	2,770	2,465	305	12.4 %
Inter-System Transfers	1,798	600	1,198	199.7 %
Total	<u>\$ 104,934</u>	<u>\$ 94,976</u>	<u>\$ 9,958</u>	10.5 %
Net Change in Assets	<u>\$ 259,982</u>	<u>\$ 120,981</u>	<u>\$ 139,001</u>	114.9 %
Ending Net Assets	<u>\$ 1,930,535</u>	<u>\$ 1,670,553</u>	<u>\$ 259,982</u>	15.6 %

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, Suite 600
 Phoenix, AZ 85004
 (602) 534-4400
www.phoenix.gov/phxcopers.html

Statements of Plan Net Assets

June 30, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and Cash Equivalents (Note 8)	\$ 115,292	\$ 73,046
Receivables		
Due from the City of Phoenix (Note 12)	-	1,327
City of Phoenix Contributions	2,607	1,821
Member Contributions	1,217	1,039
Interest and Dividends	4,558	3,880
Unsettled Broker Transactions - Sales	109,440	41,521
Other	15	7
	<u>117,837</u>	<u>49,595</u>
Total Receivables		
	117,837	49,595
Investments, at Fair Value		
Temporary Investments from Securities		
Lending Collateral (Note 9)	347,922	283,909
Fixed Income	485,443	496,112
Domestic Equities	886,965	1,081,022
International Equities	413,484	371,553
Total Investments (Note 8)	<u>2,133,814</u>	<u>2,232,596</u>
	2,133,814	2,232,596
Total Assets		
	2,366,943	2,355,237
Liabilities		
Payable for Securities Lending		
Collateral (Note 9)	347,922	283,909
Unsettled Broker Transactions - Purchases	197,160	139,197
Due to the City of Phoenix	8,972	-
Investment Management Fees Payable	2,052	1,259
Other Payables	168	337
	<u>556,274</u>	<u>424,702</u>
	556,274	424,702
Total Liabilities		
	556,274	424,702
Commitments and Contingencies (Notes 8, 9 and 13)		
Net Assets Held in Trust for Pension Benefits (Note 3)	<u>\$1,810,669</u>	<u>\$1,930,535</u>
(A Schedule of Funding Progress is presented on page 39)		

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

Statements of Changes in Plan Net Assets

For the Fiscal Years Ended June 30, 2008 and 2007

(in thousands)

ADDITIONS	<u>2008</u>	<u>2007</u>
Contributions		
City of Phoenix	\$ 64,198	\$ 58,151
Member	31,237	30,207
Inter-System Transfers (Note 11)	4,755	4,507
	<u>100,190</u>	<u>92,865</u>
Net Investment Income		
From Investing Activities:		
Net Appreciation (Depreciation) in Fair Value of Investments	(150,161)	241,419
Interest	24,741	18,953
Dividends	23,794	12,808
Other	653	2,903
	<u>(100,973)</u>	<u>276,083</u>
Less Investing Activities Expense	(6,958)	(4,391)
	<u>(107,931)</u>	<u>271,692</u>
From Security Lending Activities:		
Security Lending Gross Income	12,419	8,449
Less Security Lending Activity Expenses:		
Agent Fees	(818)	(154)
Broker Rebates	(9,692)	(7,936)
Total Security Lending Expenses	(10,510)	(8,090)
	<u>1,909</u>	<u>359</u>
Net Income from Security Lending Activities	<u>1,909</u>	<u>359</u>
Total Net Investment Income/(Loss)	<u>(106,022)</u>	<u>272,051</u>
	<u>(5,832)</u>	<u>364,916</u>
DEDUCTIONS		
Benefit Payments	109,308	100,366
Refunds of Contributions	2,623	2,770
Inter-System Transfers (Note 11)	2,103	1,798
	<u>114,034</u>	<u>104,934</u>
NET INCREASE/(DECREASE)	(119,866)	259,982
Net Assets Held in Trust for Pension Benefits (Note 3)		
Beginning of Year	<u>1,930,535</u>	<u>1,670,553</u>
End of Year	<u>\$1,810,669</u>	<u>\$1,930,535</u>

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

Notes to the Financial Statements

For the Fiscal Years Ended June 30, 2008 and 2007

Note 1 - 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 accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental retirement plans.

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 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 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 through the City of Phoenix Fire and Police Local Boards 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 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. Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

d. 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. Cash equivalents are determined by using a maturity of no more than 90 days. 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. The fair values of investments are generally based on published market prices and quotations obtained from major investment firms. For investments where no readily ascertainable market value exists, the Plan's custodian, in consultation with the Plan investment managers, determines fair values for the individual investments. There were no situations during the fiscal year where the fair value was not readily available for COPERS' investments.

e. New Accounting Pronouncement

COPERS implemented GASB Statement No. 50 "*Pension Disclosures*" with the June 30, 2008 annual financial report. It impacts the financial notes and Required Supplementary Information (RSI) sections, but has no impact on the financial statements as a result of implementing GASB Statement No. 50.

Notes to the Financial Statements

(Continued)

Note 2 - Description of Plan

a. Purpose

The City of Phoenix Employees' Retirement Plan ("COPERS" or the "Plan") 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. Members are full-time employees on a work schedule which consists of the number of full-time hours per week designated for the class of employment for the employee's classification and which work schedule is intended to be continuous over a period of twelve months at the aforementioned full-time hours per week. All full-time classified civil service employees and full time appointive officials of the City of Phoenix, ("City") with the exception of sworn police and firefighters, are required, as a condition of employment, to contribute to COPERS.

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.

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	
	2008	2007
Current retirees, beneficiaries and survivors	4,417	4,217
Alternate Payees	80	72
Terminated vested members	784	760
Active members:		
Vested	6,550	6,636
Non-vested	3,074	2,928
Total Members	14,905	14,613

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 2 - 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 8% for fiscal year 2008 was granted by the Retirement Board to be applied at June 30, 2008 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 Internal Revenue 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 3 – Net Assets Held in Trust for Pension Benefits

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, the Pension Reserve Account and the Pension Equalization 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 8 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 – Net Assets Held in Trust for Pension Benefits (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, 2008 and 2007 respectively, based on amortized cost for fixed income investments and cost for equity investments (in thousands):

	<u>2008</u>	<u>2007</u>
Employees' Savings	\$433,742	\$403,819
Pension Accumulation	363,257	385,615
Pension Reserve	1,037,973	929,462
Pension Equalization Reserve	16,422	1,150
Convert to Fair Value	<u>(40,725)</u>	<u>210,489</u>
Total Based on Fair Value	<u>\$1,810,669</u>	<u>\$1,930,535</u>

Note 4 - Administrative Costs

The 2008 Administrative costs of COPERS were \$1,497,000. This amount was paid by the City and not recognized in COPERS' financial statements. This compares to the 2007 administrative costs of \$1,417,000. 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, 2008 were \$64,198,000, which is equivalent to 12.12% of the estimated annual active member payroll, compared with 11.66% for the fiscal year ended June 30, 2007. Employee contributions for the fiscal years ended June 30, 2008 and June 30, 2007 were \$31,237,000 and \$30,207,000 respectively, which represent the required 5% of covered compensation as a condition of employment.

Employer contributions are actuarially determined amounts, which together with member contributions, are sufficient to cover both (i) normal costs of the plan, and (ii) financing of unfunded accrued actuarial costs over a selected period of future years. (See Note 6)

Notes to the Financial Statements (Continued)

Note 6 – Funded Status and Funding Progress (as of most recent valuation)

Unfunded actuarial accrued liabilities are determined annually by the consulting actuary. The unfunded actuarial accrued liability as of June 30, 2008 and June 30, 2007 are detailed below (in thousands).

	<u>2008</u>	<u>2007</u>
Actuarial Value of Assets	\$1,908,414	\$1,816,508
Actuarial Accrued Liability		
Active Members	1,310,964	1,169,824
Retirees and Beneficiaries Currently Receiving Benefits	1,066,886	964,006
Terminated Members Not Yet Receiving Benefits	<u>35,514</u>	<u>32,289</u>
Total Actuarial Accrued Liability	<u>2,413,365</u>	<u>2,166,119</u>
Unfunded Actuarial Accrued Liability	<u>(\$504,951)</u>	<u>(\$349,611)</u>
Funded Ratio (unfunded actuarial liability to annual covered payroll)	79.1%	83.9%
Covered Payroll	\$ 566,512	\$ 535,079

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of the plan are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 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.

Valuation Date:	June 30, 2008	June 30, 2007
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period	20 Years	20 Years
Asset Valuation Method	4-Year Smoothed Market Value	4-Year Smoothed Market Value
Actuarial Assumptions:		
Investment Rate of Return	8.0%	8.0%
Projected Salary Increases (1)	5.0%	5.0%
Cost-of-Living Adjustments	None	None
Factors Affecting Trends	None	None

(1) Includes inflation at 4.5%

Notes to the Financial Statements

(Continued)

Note 6 – Funded Status and Funding Progress (as of most recent valuation) (Continued)

The actuarial assumptions employed as of June 30, 2008 and June 30, 2007 includes the following:

- 1) Salary Scale – Projected salary increases of 4.5% per year compounded annually attributable to inflation, with another 0.5% to competition and productivity. Additional projected salary increases ranging from 0% to 4.0% per year, depending on age, attributable to merit and longevity.
- 2) Multiple Decrement Tables:
 - a) Death - For determination of member, retiree and beneficiary mortality, the RP 2000 Healthy Annuitants Mortality Table.
 - 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.
- 3) Smoothed Funding – A smoothed market value of assets was used for the June 30, 2008 valuation. This method, which is unchanged from last year, spreads the difference between the actual and expected investment return 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, 2008 were \$433,741,943, including interest compounded annually compared to \$403,818,906 at June 30, 2007. 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' 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, 2008.

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.

The City Charter allows up to a 60% investment (at cost) in domestic common stocks. The Board's present policy has resulted in approximately 37% being invested (at cost) in domestic common stocks as of June 30, 2008. The Board's present policy allows up to 26% investment (at fair value) in international equities. As of June 30, 2008 approximately 22% was invested (at fair value) in international equities.

Notes to the Financial Statements (Continued)

Note 8 – Investments (Continued)

A summary of investments at June 30, 2008 and 2007 is as follows (in thousands):

	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Temporary Investments from Securities Lending Collateral (Note 9)	\$ 347,922	\$ 347,922	\$ 283,909	\$ 283,909
Fixed Income	503,919	485,443	485,950	496,112
Domestic Equities	896,862	886,965	953,582	1,081,022
International Equities	425,836	413,484	298,665	371,553
	<u>2,174,539</u>	<u>2,133,814</u>	<u>2,022,106</u>	<u>2,232,596</u>
Cash and Cash Equivalents	<u>115,292</u>	<u>115,292</u>	<u>73,046</u>	<u>73,046</u>
Total Investments	<u>\$ 2,289,831</u>	<u>\$ 2,249,106</u>	<u>\$ 2,095,152</u>	<u>\$ 2,305,642</u>

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

COPERS' investment policy permits investment in swaps, futures and options. As of June 30, 2008 and June 30, 2007, the total market value of options held was \$(294,293) and \$27,992, respectively. As of June 30, 2008 and June 30, 2007, the total market value for swaps was (\$3,759,860) and (\$393,000), respectively.

Notes to the Financial Statements (Continued)

Note 8 – Investments (Continued)

The following schedule provides the categories of investments as of June 30, 2008 (in thousands):

<u>Investment Categories</u>	<u>Fair Value</u>
Cash	\$ 1,964
Short-Term Investment Fund	113,328
Cash and Cash Equivalents	<u>115,292</u>
Temporary Investments from Securities Lending Collateral	347,922
Fixed Income:	
Options (Net)	(294)
SWAPS	(3,760)
U S Government Guaranteed Securities	107,739
Government Agencies Securities	4,793
Mortgage Backed Securities	240,781
Asset Backed Securities	31,907
Corporate Bonds	60,185
Foreign (USD)	<u>44,092</u>
	485,443
Domestic Equities	675,626
International Equities:	
Commingled Funds	413,484
Real Estate:	
Commingled Funds	205,878
Commodities:	
Exchange Traded Fund	<u>5,461</u>
Total	<u><u>\$2,249,106</u></u>

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a depository institution failure, a government will not be able to recover deposits or collateral held by an outside party. As of June 30, 2008, COPERS did not realize any custodial credit risk for deposits. COPERS' policy requires all deposits to be insured and to be held in COPERS' name.

Notes to the Financial Statements (Continued)

Note 8 – Investments (Continued)

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of a failure of a counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2008, COPERS did not realize any custodial credit risk for investments or securities lending arrangements. Note 9 on page 37, provides detailed information regarding securities lending. COPERS' policy requires all investments to be collateralized and registered in COPERS' or its nominee(s) name.

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. COPERS' investment policy does not allow for an investment in any one issuer that is in excess of five percent of COPERS' total investments, except investments issued or explicitly guaranteed by the U.S. government. As of June 30, 2008, COPERS did not have any investments with any one issuer in excess of five percent.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. COPERS' investment policy includes a target of 23% of the Plan's total assets in international investments. The current actual international investment allocation is 21.73% of total Plan assets as of June 30, 2008. The fair market value of COPERS' international commingled equity funds managed by Pyramis Global Advisors, GMO and AXA/Rosenberg was \$413,484,000 as of June 30, 2008. Dollar denominated holdings accounted for 78.32% of the international investments. Non-dollar denominated holdings amounted to 21.68% and are listed in the table below by currency exposure.

Foreign Currency Exposure as of June 30, 2008 (in thousands)

<u>Currency</u>	<u>Equity</u>	<u>Cash</u>	<u>Total</u>
Australian Dollar	\$5,372	\$43	\$5,415
Canadian Dollar	5,827	43	5,870
Swiss Franc	7,374	103	7,477
Chinese Yuan	378	0	378
Danish Krone	223	0	223
Euro	27,418	138	27,556
Pounds Sterling	14,457	275	14,732
Hong Kong Dollar	1,556	52	1,608
Japanese Yen	14,087	52	14,139
South Korean Won	3,215	0	3,215
Norwegian Krone	774	34	808
New Zealand Dollar	266	(9)	257
Swedish Krona	2,699	0	2,699
Singapore Dollar	1,212	43	1,255
Total	\$84,858	\$774	\$85,632

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. COPERS' investment policy permits purchasing any security that is included in the Lehman Aggregate Bond Index and relies on the methodology used by Lehman to determine if a security is investment grade.

Notes to the Financial Statements (Continued)

Note 8 – Investments (Continued)

COPERS' currently has two managers responsible for fixed income investments. Wells Capital Management and Western Asset Management Company are active bond managers. Northern Trust Investments managed COPERS' commingled index fund until October 3, 2007 when funds were liquidated and reinvested in Wells Capital, Western Asset, JP Morgan and Research Affiliates. Table I on page 36 provides information relating to the credit risk for the fixed income investments in COPERS' as of June 30, 2008.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates which adversely affect the fair value of an investment. Typically, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. COPERS' investment services agreement with Wells Capital Management requires them to maintain duration within 10% of the Lehman Aggregate Bond Index with duration not below 90% and not higher than 110% of the index. COPERS' investment services agreement with Western Asset Management Company directs them to maintain an average weighted duration of portfolio security holdings including futures and options positions within $\pm 20\%$ of the Lehman Aggregate Bond Index. COPERS also diversifies its fixed income investments into active and passive bond management, which further limits the volatility to changes in interest rates. Information about the interest rate risk exposure of COPERS is provided in Table I on page 36. COPERS' assets include several collateralized mortgage obligations and mortgage backed securities, which could be considered as highly sensitive to interest rate changes, depending upon the exercise of prepayment options.

COPERS' investment policy permits the following investments, which include investments that are considered to be highly sensitive to interest rate changes due to long maturities, prepayment options, coupon multipliers, reset dates and similar terms:

- Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies.
- Obligations of U.S. and non-U.S. corporations such as mortgage bonds, convertible and non-convertible notes and debentures.
- Mortgage-backed and asset-backed securities, swaps, forwards, options on swaps, options on forwards
- Obligations denominated in U.S. dollars of international agencies, supranational entities and foreign governments (or their subdivisions or agencies).
- Securities defined under Rule 144A and Commercial paper defined under Section 4(2) of the Securities Act of 1933.
- Bank Loans, TBA Securities and Mortgage Dollar Rolls.
- General obligation bonds, revenue bonds, improvement district bonds, or other evidences of indebtedness of any state of the United States, or any of the counties or incorporated cities, towns and duly organized school districts in the State of Arizona which are not in default as to principal and interest.

Notes to the Financial Statements

(Continued)

Note 8 – Investments (Continued)

Table I: Credit Rating and Maturity for COPERS' Fixed Income Investments (in thousands)

	Credit Quality Ratings	Fair Value	Remaining Maturity					
			0 - 5 Years	6 - 10 Years	11 - 15 Years	16 - 20 Years	21 - 25 Years	Over 25 Years
Total Cash		\$ 1,964	\$ 1,964	\$ -	\$ -	\$ -	\$ -	\$ -
Short Term Investment Fund	Not Rated	111,624	56,600	-	-	-	55,024	-
Short Term Government Agency	AAA	1,704	1,704	-	-	-	-	-
Total Short Term Investments		113,328	58,304	-	-	-	55,024	-
Total Options	Not Rated	(294)	(294)	-	-	-	-	-
Total SWAPS	Not Rated	(3,760)	(2,234)	(404)	(162)	-	-	(960)
U S Government	Not Rated	17,153	-	-	-	-	-	17,153
U S Government	AAA	90,586	4,840	6,957	1,040	37,646	34,690	5,413
Total U S Government		107,739	4,840	6,957	1,040	37,646	34,690	22,566
Total Government Agency	AAA	4,793	2,031	2,155	277	-	143	187
Asset Backed	Not Rated	3,242	1,623	261	-	-	-	1,358
Asset Backed	AAA	26,402	5,345	7,396	2,195	811	1,062	9,593
Asset Backed	AA	563	127	25	245	-	-	166
Asset Backed	A	445	170	-	-	-	-	275
Asset Backed	BBB	1,255	-	-	158	12	-	1,085
Total Asset Backed		31,907	7,265	7,682	2,598	823	1,062	12,477
Mortgage Backed	Not Rated	92,863	-	-	-	-	-	92,863
Mortgage Backed	AAA	146,940	1,341	8,999	16,033	2,662	11,677	106,228
Mortgage Backed	AA	479	-	-	-	-	-	479
Mortgage Backed	A	499	-	-	-	-	-	499
Total Mortgage Backed		240,781	1,341	8,999	16,033	2,662	11,677	200,069
Corporate Bonds	Not Rated	787	-	-	-	-	-	787
Corporate Bonds	AAA	902	665	-	1	-	-	236
Corporate Bonds	AA	8,289	3,365	2,939	-	-	-	1,985
Corporate Bonds	A	17,574	2,981	7,697	707	-	471	5,718
Corporate Bonds	BBB	28,798	10,043	10,069	435	355	2,158	5,738
Corporate Bonds	BB	103	-	103	-	-	-	-
Corporate Bonds	B	2,539	2,202	68	269	-	-	-
Corporate Bonds	CCC	1,193	362	218	-	22	120	471
Total Corporate Bonds		60,185	19,618	21,094	1,412	377	2,749	14,935
International Bonds	Not Rated	28,761	-	598	-	-	-	28,163
International Bonds	AAA	171	72	99	-	-	-	-
International Bonds	AA	2,396	2,069	327	-	-	-	-
International Bonds	A	3,484	2,147	903	-	234	-	200
International Bonds	BBB	8,245	761	4,425	697	-	-	2,362
International Bonds	BB	1,035	-	1,035	-	-	-	-
Total International Bonds		44,092	5,049	7,387	697	234	-	30,725
Total Fixed Income Investments by Maturity Dates		\$ 600,735	\$ 97,884	\$ 53,870	\$ 21,895	\$ 41,742	\$ 105,345	\$ 279,999

Notes to the Financial Statements

(Continued)

Note 9 – Securities Lending Program

State statutes and City Charter 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. The Agreement was amended effective November 16, 2006 directing State Street Bank and Trust to invest cash collateral in the Funds for Short-Term Investment – Quality D, replacing the requirement to invest in the Quality A Fund.

During 2008 and 2007, State Street lent, on behalf of COPERS, certain securities held by State Street as custodian and received cash (United States and foreign currency), securities issued or guaranteed by the United States government and irrevocable letters of credit 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 2008 and 2007, COPERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2008, such investment pool had an average duration of 42 days and an average weighted maturity of 396 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, 2008; 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, 2008, were \$347,921,718 and \$338,030,754, respectively, and as of June 30, 2007, were \$283,909,161 and \$277,927,888 respectively.

Note 10 – Risk and Uncertainties

COPERS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the statements of changes in plan assets. Subsequent to June 30, 2008, financial markets as a whole have incurred declines in values. COPERS' investment portfolio has also incurred a decline in the values reported since June 30, 2008. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that COPERS will recognize in its future financial statements, if any, cannot be determined.

Note 11 – Funds To/From Other Systems

Under the provisions of Arizona Revised Statutes, Section ARS 38-730 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 2008 and 2007, was equal to the present value of the employees' then-vested benefits.

Notes to the Financial Statements

(Continued)

Note 11 – Funds To/From Other Systems (Continued)

Under the provisions of Arizona Revised Statutes, Section ARS 38-923 and 38-924 as amended in 2006, an active or inactive member of COPERS or the Public Safety Personnel Retirement System (“PSPRS”) who becomes a member of the other retirement system may transfer service credits from the member’s prior retirement system to the member’s current retirement system. The amount of the transfers from COPERS during 2008 and 2007 was equal to the member’s account.

Note 12 – Interfund Balances

On the Statement of Plan Net Assets, the liability if any, Due to the City of Phoenix, results from the fact that COPERS 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 13 – 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 COPERS’ financial position or results of operations.

Note 14 – Subsequent Events

On August 20, 2008, the Board interviewed and approved contract negotiations, subject to a favorable legal opinion regarding the Board’s authority to invest in the asset class, with two long/short equity hedge fund of fund managers, K2 Advisors and Pacific Alternative Asset Management.

On August 20, 2008, the Board adopted a transition plan proposed by R.V. Kuhns & Associates for the long-term target asset allocation adopted by the Board on June 25, 2008.

On August 27, 2008, the Board received the results of the actuarial audit performed by Milliman, Inc.

On August 27, 2008, the Board reviewed and accepted an opinion prepared by legal counsel indicating the Board had the authority to invest assets with long/short equity only hedge fund of fund managers.

On September 24, 2008, the Board reviewed and accepted an opinion prepared by legal counsel indicating the Board had the authority to participate in global private equity real estate investments.

On September 24, 2008, the Board reviewed search results from R.V. Kuhns & Associates for managers to implement the investment allocation to global private equity value-added real estate. The Board interviewed three potential managers and selected TA Associates Realty Fund IX and Wrightwood Capital High Yield Partners II.

On October 24, 2008, the Board reviewed search results from R.V. Kuhns & Associates for managers to implement the investment allocation to global private equity opportunistic real estate. The Board interviewed three potential managers and selected Real Estate Capital Asia Partners II and Apollo Real Estate Opportunity Fund VI.

Subsequent to June 30, 2008, the name of the “Lehman Brothers” index changed to “Barclays Capital.”

Required Supplementary Information

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)
06/30/08 (a)	\$ 1,908,414	\$ 2,413,365	\$ 504,951	79.1 %	\$ 566,512	89.13 %
06/30/07	1,816,508	2,166,119	349,611	83.9	535,079	65.34
06/30/06 (a)	1,626,741	2,000,346	373,605	81.3	497,105	75.16
06/30/05	1,511,553	1,795,514	283,961	84.2	467,998	60.68
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	--

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, actuarial assumptions and/or actuarial cost methods.

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

Fiscal Year	Valuation Date	Annual Required Contribution	Percent Contributed
2007-08	2006	\$ 64,198	100 %
2006-07	2005	58,151	100
2005-06	2004	52,974	100
2004-05	2003	43,375	100
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

Required Supplementary Information (Continued)

Notes to the Required Supplementary Information

The following changes in methods were made pursuant to the recommendations in the actuarial audit of the June 30, 2007 annual valuation and implemented in the June 30, 2008 annual valuation:

- The Normal Cost contribution rate was calculated to be consistent with contributions that are paid throughout the year, not at the beginning of the year.
- The calculation of the projected final average compensation and years of service at retirement was changed to mid-year, consistent with the timing regarding the applications of the assumptions.

Additional Supplementary Information

Schedule of Administrative Expenditures and Encumbrances (Non-GAAP Budgetary Basis) For the Fiscal Years Ended June 30, 2008 and 2007

	2008		2007	
	Budget	Actual	Budget	Actual
Personal Services				
Staff Salaries	\$1,035,689	\$755,083	\$928,538	\$678,794
Insurance	160,201	120,856	155,394	102,688
Social Security	72,670	50,938	58,456	47,193
Retirement	108,879	85,115	95,291	74,241
Total Personal Services	1,377,439	1,011,992	1,237,679	902,916
Professional Services				
Consultants	58,500	49,679	71,220	90,946
Audit and Accounting	97,948	71,298	70,460	75,814
Medical Advisors	23,550	24,166	23,550	20,472
Computer Services	238,602	204,337	223,886	224,940
Total Professional Services	418,600	349,480	389,116	412,172
Communications				
Printing	41,126	42,939	42,501	43,460
Postage	3,200	2,358	4,400	3,670
Travel and Conferences	13,326	4,360	15,126	14,844
Telephone	1,490	1,960	1,490	2,843
Subscriptions and Memberships	2,700	3,415	2,600	3,114
Total Communications	61,842	55,032	66,117	67,931
Miscellaneous				
Supplies	13,375	13,260	13,375	16,605
Office Furniture	3,181	3,697	6,681	6,272
Insurance	90	2,145	1,005	1,395
Computer Equipment	4,800	4,635	7,344	7,222
Other	56,834	56,450	3,942	2,094
Total Miscellaneous	78,280	80,187	32,347	33,588
Total Administrative Expenditures and Encumbrances	<u>\$1,936,161</u>	<u>\$1,496,691</u>	<u>\$1,725,259</u>	<u>\$1,416,607</u>

Note: Administrative expenditures of COPERS are budgeted and paid by the City of Phoenix and are not recognized in COPERS' financial statements.

Additional Supplementary Information (Continued)

Schedule of Investment Expenses For the Fiscal Year Ended June 30, 2008

Payee	Commissions or Fees	Nature of Services
RV Kuhns & Associates	\$175,852	Investment Consultant
State Street Bank	106,851	Master Custodian
AXA Rosenberg	536,210	Investment Management
Cadence Capital Management	628,562	Investment Management
Cramer Rosenthal McGlynn	427,477	Investment Management
Dimensional Fund Advisors	372,259	Investment Management
Eagle Asset Management	570,356	Investment Management
GMO (1)	1,043,724	Investment Management
J P Morgan Investment Management (1)	955,623	Investment Management
Morgan Stanley (1)	1,174,645	Investment Management
Pyramis Global Advisors	645,918	Investment Management
Northern Trust Investments	56,096	Investment Management
Research Affiliates	1,048,373	Investment Management
The Boston Company	588,827	Investment Management
Wells Capital Management	409,678	Investment Management
Western Asset Management Corporation	429,716	Investment Management
Foreign Taxes	6,127	Investment Expense
Total	\$9,176,294	

Schedule of Payments to Consultants For the Fiscal Year Ended June 30, 2008

Payee	Fees Paid	Nature of Services
Kutak Rock LLP (2)	\$ 27,984	Legal Services
Rodwan Consulting Company (2)	19,459	Actuarial Services
Yoder & Langford, P.C. (2)	7,641	Legal Services
	\$ 55,084	

(1) Because GMO, J P Morgan and Morgan Stanley fees are not paid separately as are fees to the other fund managers, they are not included in the investment expenses reported in the Statements of Changes in Net Assets. The fees are a component of the overall performance of the investment.

(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.

Investment Section

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



RVKuhns

▶▶▶ & ASSOCIATES, INC.

October 2, 2008

Board of Trustees
City of Phoenix Employees' Retirement System
c/o Ms. Donna Buelow
Retirement Program Administrator
101 South Central Avenue, Suite 600
Phoenix, Arizona 85005

Dear Board Members:

The past year has been marked by generally positive performance of the U.S. economy, but also by turbulent investment markets and elevated inflation. U.S. Gross Domestic Product grew in three of the last four quarters as the economy expanded by 9.0% since June 30, 2007.¹ The economy added approximately 92,000 jobs to nonfarm payrolls; however, the unemployment rate rose from 4.6% to 5.5% during the year.² Inflation, as measured by the Consumer Price Index, rose 5.0% during the year. The Federal Reserve lowered short-term interest rates from 5.25% to 2.00% over the course of the fiscal year, and Treasury yields declined across their range of maturities.

The market value of the City of Phoenix Employees' Retirement System (COPERS) assets decreased from \$1.928 billion to \$1.818 billion in the year ended June 30, 2008. Five years ago, the fund was valued at \$1.268 billion.

The past year has been favorable for fixed income securities but not favorable for equities. In the United States, the S&P 500 Index returned -13.1%. International developed markets fared a bit better, returning -10.2% (as measured by the MSCI EAFE Index). Fixed income securities returned 7.1% (Lehman Brothers Aggregate Bond Index).

The System's overall investment return over the past year was -5.1%, the System's three-year annualized return was 6.4%, and the System's five-year annualized return was 8.7%. The System's current actuarial assumed rate of return is 8.0%, which represents the System's long-term return goal.

The System's current investments are diversified. All segments of the U.S. equity market are represented in the portfolio, and the fixed income portfolio is well diversified across two investment managers. Non-U.S. equity investments have dampened portfolio volatility while enhancing returns. As of June 30, 2008, 24.1% of the System's investments were invested in large-capitalization U.S. equities, 13.1% in small- and mid-capitalization U.S. equities, 21.7% in non-U.S. equities, 20.4% in fixed income investments, 11.1% in real estate, 9.1% in real return strategies, and 0.5% in cash equivalents. This investment allocation was consistent with policy guidelines.

¹ Based on data provided by the U.S. Department of Commerce, Bureau of Economic Analysis. Data for second quarter 2008 are preliminary.

² Based on data provided by the U.S. Department of Labor. Data for June 2008 are preliminary.

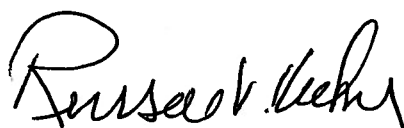
We believe that the recent course undertaken by the Board to diversify the System's investments into several new asset classes will enhance future portfolio returns. Over the past three years, the Board has approved the inclusion of several new asset classes to the portfolio, including real estate, emerging markets equities, a real return strategy, and international small-capitalization equities. Recently, the Board approved further diversification of the real estate portfolio and the adoption of long/short equities as a new diversifying asset class. As well, the Board has authorized a new target asset allocation, which we project will provide higher expected returns, at lower levels of risk, than our similar projections for the target portfolio that existed a year ago. We are confident that the Board's decisions in this respect will preserve and enhance the System's ability to meet its long-term goals.

The System's investment policies, goals, and objectives, as well as the performance of its assets and transaction costs are regularly monitored by the Board and by R.V. Kuhns & Associates. These evaluations include analysis of the investment management firms and the custodial bank that serve the System.

The System's assets are held in custody at State Street Bank. Market values and returns referenced above are based upon financial statements prepared by State Street. Their statements are, to the best of our knowledge, reliable.

An uncertain market environment demands careful attention and thoughtful treatment of the assets entrusted to the Board's care by the System's employee participants. We expect the Board's continued high standard of care for these assets and commitment to diversification to allow the System to meet its long-term goals and objectives.

Most sincerely,



Russell V. Kuhns
Chief Executive Officer

Outline of Investment Policies and Objectives

Adopted July, 1990 and subsequently amended

1. COPERS' asset allocation targets (at fair value) as of June 30, 2008 were 25% large cap domestic equities, 13% small/mid cap domestic equities, 23% international equities to allow for a maximum 1.8% to international emerging markets, 20% domestic fixed income, 10% real estate and 9% real return.
2. Each asset class will be broadly diversified to be similar to the market for the asset class. The market for stocks shall be represented by the Russell 1000 Value and Growth Index, the Russell Mid Cap Index, the Russell 2000 Growth Index, MSCI EAFE Index, S & P/Citigroup EMI World Ex US Index and the S & P 500 Index. The market for bonds shall be represented by the Lehman Aggregate Bond Index and the Lehman Brothers Govt/Credit Int. Term Bond Index. The market for real estate shall be represented by the NCREIF Property Index.
3. Multiple managers will be employed. Allocations among the managers will be controlled by the Trustees to maintain both diversification and policy guidelines.
4. Investments will conform to the Phoenix City Charter, Chapter 24, Article II, Section 34 (See note 8). All other investments are prohibited.
5. COPERS' main investment objective is to achieve a rate of return that exceeds inflation by at least 3 percent over time. The actuarial assumed rate of return is 8%.

Directed Brokerage Commissions

A directed commissions program was established by COPERS' Board on July 31, 1991. Becker, Burke Associates ("BBA") provided the directed commissions program through December 31, 2003. As of January 1, 2004 State Street Global Markets, LLC ("SSGM") became the provider of the commission recapture program. SSGM has agreed to allocate to the fund 80% of commissions for US trades executed with a network of brokers and 100% (above the "execution only" rate) for US trades directly with SSGM's Trading Desk, identified and designated by investment managers as "directed." Under this program, COPERS equity managers are requested to execute trades to achieve best execution of fund transactions and to use best efforts to place trades with SSGM. For the fiscal year ended June 30, 2008, the total payments received under SSGM were \$68,212.

Investment Services Under Contract (as of June 30, 2008)

EQUITY MANAGERS:

AXA Rosenberg Group LLC Ornida, CA
Laurie Hardwick
Cadence Capital Management Boston, MA
Steve Shaw
Cramer Rosenthal McGlynn New York, NY
Chris Barnett
Dimensional Fund Advisors Santa Monica, CA
John Gray
Eagle Asset Management St. Petersburg, FL
Clay Lindsey
GMO Boston, MA
Wendy Malaspina
Northern Trust Investments Chicago, IL
Richard Clark
Pyramis Global Advisors Trust Co. Boston, MA
Paul Cahill
The Boston Company Boston, MA
Rob Harkins

TRANSITION MANAGER:

State Street Bank and Trust Boston, MA
Christopher Carlin

FIXED INCOME MANAGERS:

Wells Capital Management San Francisco, CA
Sandy Willen
Western Asset Management Pasadena, CA
Joseph Carieri

REAL ESTATE MANAGERS:

J.P. Morgan Chase & Co. New York, NY
Karel Lansky
Morgan Stanley Real Estate Advisor New York, NY
Lidia Novak

REAL RETURN MANAGER:

Research Affiliates LLC Pasadena, CA
Janine Nesbit

INVESTMENT CONSULTANT

R. V. Kuhns & Associates, Inc. Portland, OR
Russell V. Kuhns

Schedule of Investment Results

For the Fiscal Years Ended June 30, 2008

	1-Year	Annualized	
		3-Years	5-Years
TOTAL PORTFOLIO:			
COPERS	-5.1%	6.4%	8.7%
Target Benchmark	-4.0%	6.9%	8.9%
R.V. Kuhns All Pension Plans \$1B - \$5B median	-4.7%	7.7%	9.9%
EQUITY FUNDS:			
Cadence Capital Management	-4.4%	7.2%	10.1%
Russell 1000 Growth Index	-6.0%	5.9%	7.3%
Cramer Rosenthal McGlynn (1)	--	--	--
Russell 2000 Value Index	-21.6%	1.4%	10.0%
Eagle Asset Management (2)	-8.7%	10.6%	--
Russell 2000 Growth Index	-10.8%	6.1%	10.4%
Pyramis Global Advisors (3)	-4.7%	--	--
MSCI EAFE Index	-10.2%	13.3%	17.2%
GMO (4)	-9.4%	--	--
MSCI EAFE Index	-10.2%	13.3%	17.2%
Dimensional Fund Advisors (5)	-24.9%	--	--
Russell 1000 Value Index	-18.8%	3.5%	8.9%
Northern Trust Investments	-13.2%	4.4%	7.6%
S & P 500 Index	-13.1%	4.4%	7.6%
The Boston Company	-9.9%	7.4%	14.7%
Russell Midcap Index	-11.2%	6.8%	13.1%
AXA Rosenberg (6)	-14.1%	--	--
S&P/Citigroup EMI World Index	-14.5%	14.0%	20.8%
FIXED INCOME FUNDS:			
Wells Capital Management (7)	8.0%	4.6%	--
Lehman Aggregate Bond Index	7.1%	4.1%	3.9%
Western Asset Management (8)	0.7%	2.1%	--
Lehman Aggregate Bond Index	7.1%	4.1%	3.9%
REAL ESTATE FUNDS:			
J P Morgan (9)	9.4%	--	--
NCREIF ODCE Index	8.0%	14.9%	14.6%
Morgan Stanley (10)	7.0%	--	--
NCREIF ODCE Index	8.0%	14.9%	14.6%
REAL RETURN FUND			
Research Affiliates (11)	1.4%	--	--
CPI + 4% (Long Term)	9.2%	8.2%	7.7%

Schedule of Investment Results

(Continued)

- (1) Cramer Rosenthal McGlynn was added as a domestic small cap value manager on February 1, 2008. Funds transitioned from Boston Co, Eagle, Cadence, GMO and Pyramis. Performance figures would not be representative of the benchmark index.
- (2) Eagle Asset Management added as small cap manager effective June 15, 2005; funds transitioned from Columbus Circle. Performance figures would not be representative of the benchmark index.
- (3) Pyramis Global Advisors added July 1, 2005 as an International Commingled Equity Fund manager; funds transitioned from The Bank of Ireland. Performance figures would not be representative of the benchmark index. Fidelity Management & Trust changed its name to Pyramis Global Advisors effective October 1, 2006.
- (4) GMO added July 1, 2005 as an International Commingled Equity Fund manager; funds transitioned from The Bank of Ireland. Performance figures would not be representative of the benchmark index.
- (5) Dimensional Fund Advisors was added as a large cap value manager on April 1, 2007. Funds transitioned from MacKay Shields. Performance figures would not be representative of the benchmark index.
- (6) AXA Rosenberg was added as a small/mid cap international equity manager effective April 1, 2007. Performance figures would not be representative of the benchmark index.
- (7) Wells Capital Management added as core fixed income manager effective January 1, 2005; funds transitioned from Vanderbilt Capital Advisors. Performance figures would not be representative of the benchmark index.
- (8) Western Asset Management added as core fixed income manager effective January 1, 2005; funds transitioned from Vanderbilt Capital Advisors. Performance figures would not be representative of the benchmark index.
- (9) JP Morgan added as a real estate manager on May 1, 2007. Performance figures would not be representative of the benchmark index.
- (10) Morgan Stanley added as a real estate manager on December 1, 2006. Performance figures would not be representative of the benchmark index.
- (11) Research Affiliates added as a real return manager on June 6, 2007. Performance figures would not be representative of the benchmark index.

The calculations above were prepared by COPERS' consultant, using a time-weighted rate of return, based on market value.

Asset Allocation by Manager

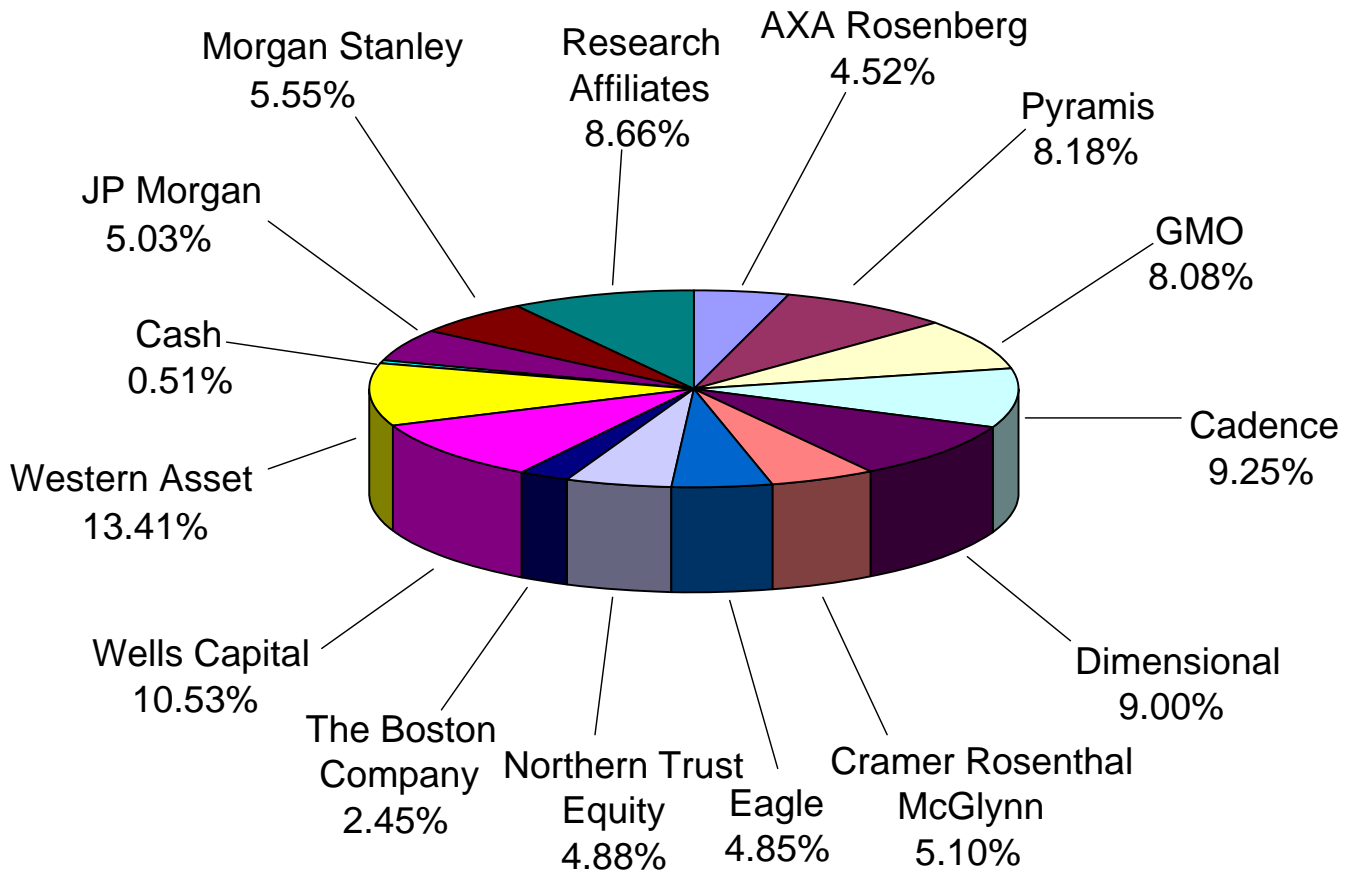
As of June 30, 2008

Manager	Style	Management (in thousands)	% of Portfolio
EQUITY FUNDS			
AXA Rosenberg	International	\$ 85,949	4.52 %
Pyramis Global Advisors	International	155,457	8.18
GMO	International	153,613	8.08
Cadence Capital Management	Large Cap Growth	175,923	9.25
Dimensional Fund	Large Cap Value	171,036	9.00
Cramer Rosenthal McGlynn	Small Cap Value	96,885	5.10
Eagle Asset Management	Small Cap Growth	92,215	4.85
Northern Trust Equity	S & P 500 Index	92,785	4.88
The Boston Company	Mid Cap Value	46,696	2.45
TOTAL EQUITY FUNDS		1,070,559	56.31
FIXED INCOME FUNDS			
Wells Capital Management	Core Fixed Income	200,194	10.53
Western Asset Management	Core Fixed Income	254,940	13.41
COPERS Cash Account	Short Term Income Fund	9,702	.51
TOTAL FIXED INCOME FUNDS		464,836	24.45
REAL ESTATE FUNDS			
J P Morgan	Core Real Estate	95,589	5.03
Morgan Stanley	Core Real Estate	105,499	5.55
TOTAL REAL ESTATE FUNDS		201,088	10.58
REAL RETURN FUNDS			
Research Affiliates		164,701	8.66
TOTAL REAL RETURN FUNDS		164,701	8.66
Total Portfolio		\$1,901,184	100.00 %

Asset Allocation by Manager

As of June 30, 2008

(Continued)



List of Largest Assets Held

As of June 30, 2008 (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>
\$19,800	FNMA TBA Jul 30 Single Fam	5.00%	12/01/2099	AAA	\$18,972
12,281	United States Treasury Bonds	3.88%	04/15/2029	AAA	15,784
11,812	United States Treasury Bonds	3.63%	04/15/2028	AAA	14,693
15,471	United States Treasury Bonds	1.75%	01/15/2028	AAA	14,689
11,689	United States Treasury Bonds	3.38%	04/15/2032	AAA	14,649
11,400	FNMA TBA Aug 30 Single Fam	5.50%	12/01/2099	AAA	11,205
10,900	FNMA TBA Aug 30 Single Fam	5.00%	12/01/2099	AAA	10,421
7,000	FNMA TBA Jul 30 Single Fam	5.50%	12/01/2099	AAA	6,897
6,508	United States Treasury Notes	3.88%	05/15/2018	AAA	6,453
5,847	Federal Home Ln PC Pool G03696	5.50%	01/01/2038	AAA	5,767

Ten Largest Stock Holdings (Market Value)

<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
86,782	Conoco Phillips	\$8,191
185,300	Verizon Communications	6,560
385,400	Time Warner Inc New	5,704
165,100	JP Morgan Chase & Co	5,665
295,700	Comcast Corp New	5,609
71,400	Union Pac Corp	5,391
100,400	Metlife Inc	5,298
199,992	Bank of America Corp	4,774
47,400	Burlington Northern Santa Fe	4,735
114,800	Alcoa Inc	4,089

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

Schedule of Investment Related Fees

For the Fiscal Year Ended June 30, 2008

	Assets Under Management as of June 30, 2008 (in thousands)	Fees	Basis Points
Equity Funds			
AXA Rosenberg	\$85,949	\$536,210	62.39
Cadence Capital Management	175,923	628,562	35.73
Cramer Rosenthal McGlynn	96,885	427,477	44.12
Dimensional Fund	171,036	372,259	21.76
Eagle Asset Management	92,215	570,356	61.85
Pyramis Global Advisors	155,457	645,918	41.55
GMO	153,613	1,043,724	67.95
Northern Trust Investments	92,785	56,096	6.05
The Boston Company	46,696	588,827	126.10
TOTAL EQUITY FUNDS	1,070,559	4,869,429	
Fixed Income Funds			
Wells Capital Management	200,194	409,678	20.46
Western Asset Management	254,940	429,716	16.86
COPERS Cash Account STIF	9,702	N/A	N/A
TOTAL FIXED INCOME FUNDS	464,836	839,394	
Real Estate Funds			
JP Morgan	95,589	955,623	99.97
Morgan Stanley	105,499	1,174,645	111.34
TOTAL REAL ESTATE FUNDS	201,088	2,130,268	
Real Return Funds			
Research Affiliates	164,701	1,048,373	63.65
TOTAL REAL RETURN FUNDS	164,701	1,048,373	
Total	1,901,184	8,893,591	
Other Investment Service Fees			
RV Kuhns & Associates (Consultant)		175,852	
State Street Bank (Custodian)		106,851	
Foreign Taxes		6,127	
TOTAL OTHER INVESTMENT SERVICE FEES		288,830	
Total Investment Related Fees		\$9,176,294	

Investment Summary

As of June 30, 2008

Type of Investment	Market Value (in thousands)	Percent of Total Market Value
Fixed Income:		
Asset Backed	\$ 31,907	1.68 %
Corporate Bonds	60,185	3.17
Foreign (USD)	44,092	2.32
Government Agencies Securities	4,793	0.25
Mortgage Backed Securities	240,781	12.66
Options	(294)	-0.02
Swaps	(3,760)	-0.20
US Government Guaranteed Securities	107,739	5.67
Total Fixed Income	485,443	25.53
Domestic Equities:		
Commingled Fund	103,556	5.45
Consumer Discretionary	79,251	4.17
Consumer Staples	29,378	1.55
Energy Related	66,937	3.52
Financials	106,424	5.60
Health Care	53,099	2.79
Industrials	92,660	4.87
Information Technology	80,207	4.22
Materials	39,238	2.06
Telecommunication Services	12,003	0.63
Utilities	12,873	0.68
Total Domestic Equities	675,626	35.54
Real Estate:		
Commingled Funds	205,878	10.83
International Equities:		
Commingled Funds	413,484	21.75
Commodities:		
Exchange Traded Funds	5,461	0.29
Cash & Cash Equivalents	115,292	6.06
Total	\$1,901,184	100.00 %

Schedule of Commissions
For the Fiscal Year Ended June 30, 2008

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions Per Share
BAIRD, ROBERT W., & COMPANY INCORPORATED	284,895	\$ 10,400	\$ 0.0365
BANC OF AMERICA SECURITIES LLC	428,779	11,829	0.0276
BANK OF NEW YORK	341,900	12,036	0.0352
BEAR STEARNS + CO INC	298,180	11,205	0.0376
BNY BROKERAGE INC	362,570	12,798	0.0353
BROADCORTCAPITAL (THRU ML)	391,920	12,567	0.0321
CANTOR FITZGERALD + CO.	696,530	23,829	0.0342
CHAPDELAIN INSTITUTIONAL	633,796	24,028	0.0379
CITIGROUPGLOBAL MARKETS INC	918,511	29,581	0.0322
COWEN ANDCOMPANY, LLC	367,410	13,525	0.0368
CREDIT SUISSE SECURITIES (USA) LLC	426,792	15,140	0.0355
DEUTSCHE BANK SECURITIES INC	309,580	12,266	0.0396
GOLDMAN SACHS + CO	894,070	36,208	0.0405
INSTINET	2,524,622	43,125	0.0171
INVESTMENT TECHNOLOGY GROUP INC.	932,573	19,609	0.0210
J P MORGAN SECURITIES INC	584,501	22,356	0.0382
JEFFERIES+ COMPANY INC	1,183,205	42,207	0.0357
KNIGHT SECURITIES	505,674	17,262	0.0341
LEHMAN BROTHERS INC	1,447,289	44,765	0.0309
LIQUIDNETINC	1,566,708	42,621	0.0272
MERRILL LYNCH PROFESSIONAL CLEARING CORP	480,340	17,208	0.0358
MERRILL LYNCH,PIERCE,FENNER + SMITH, INC	588,751	23,946	0.0407
MORGAN STANLEY CO INCORPORATED	681,040	26,032	0.0382
RBC CAPITAL MARKETS	376,495	15,701	0.0417
RIDGE CLEARING + OUTSOURCING SOLUTIONS	2,049,504	22,879	0.0112
SANFORD CBERNSTEIN CO LLC	687,725	19,223	0.0280
STATE STREET BROKERAGE SERVICES	13,040,133	269,873	0.0210
WACHOVIACAPITAL MARKETS, LLC	281,155	11,168	0.0397
WEEDEN + CO.	628,505	16,777	0.0267
WILLIAM BLAIR & COMPANY, L.L.C	332,395	13,554	0.0408
All Other Brokers (1)	6,459,058	199,801	0.0309
TOTAL	40,704,606	\$ 1,093,519	

(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.





November 25, 2008

The Retirement Board
City of Phoenix Employees' Retirement Plan
101 South Central Avenue, Suite 600
Phoenix, Arizona 85004

The purpose of the annual actuarial valuation of the City of Phoenix Employees' Retirement Plan is to compute the liabilities of the Plan and the contributions which will satisfy its funding objective. The funding objective is to establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens.

The most recent actuarial valuation was made as of June 30, 2008. The actuarial valuation develops a contribution rate to finance the normal cost and to amortize any unfunded actuarial accrued liability over 20 years in accordance with the Plan's funding objective. The actuarial assumptions and methods are in accordance with Governmental Accounting Standards Board Statement No. 25. We believe the assumptions and methods used in the valuation produce results which are reasonable.

Data for the valuation was provided by the Retirement Program Administrator and was reviewed by us for internal completeness and reasonableness. A smoothed market value which spreads the difference between the actual and assumed rate of return over 4 years was used for the valuation.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report: Schedule of Funding Progress (Financial Section), Schedule of Employer Contributions (Financial Section), Summary of Actuarial Methods and Assumptions (Financial and Actuarial Sections), Actuarial Valuation Data (Actuarial Section), Schedule of Retirees and Beneficiaries Added and Removed from Rolls (Actuarial Section), Solvency Test (Actuarial Section), and Analysis of Financial Experience (Actuarial Section).

On the basis of the June 30, 2008 valuation, it is our opinion that the liabilities of the Retirement Plan are being funded as incurred in accordance with sound actuarial principles.

Respectfully submitted

A handwritten signature in black ink that reads 'Sandra W. Rodwan'. The signature is written in a cursive, flowing style.

Sandra W. Rodwan
Member, American Academy of Actuaries



Supporting Schedules

Summary of Actuarial Assumptions and Methods

The City of Phoenix Employees' Retirement Board adopts actuarial assumptions and methods which are recommended by COPERS' actuary.

Method Changes

The following changes in methods were made pursuant to the recommendations in the actuarial audit of the June 30, 2007 annual valuation: 1) The Normal Cost contribution rate was calculated to be consistent with contributions that are paid throughout the year, not at the beginning of the year. 2) The calculation of projected final average compensation and years of service at retirement was changed to mid-year, consistent with the timing regarding the applications of the assumptions.

Funding Method

The Individual Entry-Age Normal Actuarial Cost method is used in the actuarial valuation. This cost method was adopted effective June 30, 1991. The unfunded actuarial accrued liability was amortized as a level percent of payroll over 20 years and added to the computed normal cost.

Asset Valuation Method for Actuarial Purposes

A smoothed market value of assets was used for the June 30, 2008 valuation. This method, which is unchanged from last year, spreads the difference between the actual and expected investment return over four years.

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 actuary. 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 0.5% 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. This report reflects the recommendations made by the actuary in the June 30, 2004 study, as adopted by COPERS' Board November 17, 2005.

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	3.8 %	4.5 %	0.5 %	8.8 %
25	3.1	4.5	0.5	8.1
30	2.7	4.5	0.5	7.7
35	2.4	4.5	0.5	7.4
40	2.2	4.5	0.5	7.2
45	1.6	4.5	0.5	6.6
50	1.1	4.5	0.5	6.1
55	0.6	4.5	0.5	5.6
60	0.1	4.5	0.5	5.1
65	0.0	4.5	0.5	5.0

Decrement Assumptions

Mortality

The mortality table used was the RP 2000 Mortality Table Combined Healthy. Adopted November 17, 2005. These rates were first used for the June 30, 2006 valuation.

Retirement

Sample probabilities of retirement with an unreduced age and service pension are shown below. Adopted November 17, 2005. These rates were first used for the June 30, 2006 valuation.

Percent of Active Members Retiring Within Year Following Attainment of Indicated Retirement Age

<u>Retirement Age</u>	<u>Percent Retiring</u>	<u>Retirement Age</u>	<u>Percent Retiring</u>
50	25		
51	25	61	20
52	25	62	35
53	25	63	30
54	25	64	25
55	35	65	45
56	25	66	30
57	25	67	30
58	25	68	30
59	25	69	30
60	25	70	100

Supporting Schedules (Continued)

Summary of Actuarial Assumptions and Methods (Continued)

Turnover

Adopted November 17, 2005. These rates were first used for the June 30, 2006 valuation. Rates of separation from employment for reasons other than age and service retirement, death or disability are:

<u>Sample Ages</u>	<u>Years of Service</u>	<u>% of Active Members Separating Within Next Year</u>
All	0	20.0 %
All	1	18.0
All	2	12.0
All	3	9.0
All	4	8.0
25	5 & Over	7.0
30	5 & Over	6.0
35	5 & Over	5.0
40	5 & Over	3.0
45	5 & Over	3.0
50	5 & Over	2.5
55	5 & Over	2.5
60	5 & Over	2.5
65	5 & Over	2.5

Actuarial Valuation Data - Active Members

<u>Valuation Year</u>	<u>Number</u>	<u>Annual Payroll (in thousands)</u>	<u>Average Pay</u>	<u>% Increase Average Pay</u>
08	9,624	\$566,512	\$58,865	5.2 %
07	9,564	535,079	55,947	4.2
06	9,260	497,105	53,683	3.6
05	9,036	467,998	51,793	4.2
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

Supporting Schedules (Continued)

Schedule of Retirees and Beneficiaries Added To and Removed From Rolls

(dollars in thousands)

Year End	Added to Rolls			Removed		Rolls End of Year		Average Annual Pensions	% Increase in Annual Pensions
	No.	Annual Pensions		No.	Annual Pensions	No.	Annual Pensions		
		New	PEP (a)						
08	348	\$10,935	\$2,874	148	\$2,732	4,417	\$113,433	\$25,681	10.8 %
07	290	8,205	1,519	142	2,165	4,217	102,356	24,272	8.0
06	309	9,247	1,976	147	2,144	4,069	94,797	23,297	9.0
05	314	7,795	1,159	150	2,554	3,907	85,718	21,940	8.1
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

(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)	Valuation Assets (in thousands)		(1)	(2)	(3)
	Active Member Contributions (in thousands)	Retirees and Beneficiaries (in thousands)	Active Members Employer Portion (in thousands)					
6/30/2008	\$433,742	\$1,066,886	\$912,737	\$1,908,414	100 %	100 %	45 %	
6/30/2007	403,819	964,006	798,294	1,816,508	100	100	56	
6/30/2006	374,091	892,123	734,131	1,626,741	100	100	49	
6/30/2005	354,438	798,414	642,663	1,511,553	100	100	56	
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	

Supporting Schedules (Continued)

Analysis of Financial Experience

(dollars in thousands)

	Derivation for Year Ended June 30,				
	2008	2007	2006	2005	2004
(1) UAAL at Start of Year	\$349,611	\$373,605	\$283,961	\$267,021	\$173,542
(2) Normal cost for year	72,806	66,245	64,510	59,355	55,116
(3) Employer Contributions for Year	(95,435)	(88,358)	(80,952)	(69,681)	(64,347)
(4) Assumed Investment Income Accrual on (1), (2) and (3)	<u>27,005</u>	<u>29,004</u>	<u>22,059</u>	<u>20,956</u>	<u>13,490</u>
(5) Expected UAAL Before Changes	353,987	380,496	289,578	277,651	177,801
(6a) Effect of Assumption Changes	-	-	49,051	-	-
(6b) Effect of Method Changes	74,539	-	-	-	-
(7) Effect of Benefit Changes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(8) Expected UAAL After Changes	428,526	380,496	338,629	277,651	177,801
(9) Actual UAAL	<u>504,950</u>	<u>349,611</u>	<u>373,605</u>	<u>283,961</u>	<u>267,021</u>
(10) Gain (loss) (8) - (9)	(\$76,424)	\$30,885	(\$34,976)	(\$6,310)	(\$89,220)
(11) As % of AAL at Start of Year	(3.5)%	1.5%	(1.9)%	(0.4)%	(5.9)%

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

COPERS is a defined benefit pension plan, was created under and is governed by the Charter of the City of Phoenix to provide retirement, survivor and disability benefits to the City of Phoenix 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 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 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 has at least five years experience in retirement administration, and is not employed by the City or a COPERS' retiree. The ninth board member is a COPERS' retiree and is elected by the employee Board members. A listing of the current Retirement Board is included on page 9 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 1997, 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. Effective January 1, 2007, the Board revised the service purchase program. The cost of eligible service shall be based on the full actuarial cost of providing benefits for the period of service being purchased. Members are eligible to purchase service credits upon membership with COPERS. 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 City Charter 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 appointed by the Board who is a resident of Maricopa County, not employed by the City or receiving benefits from the plan and has at least five years experience in a responsible position in the health care field. The DAC determines eligibility for disability benefits under the Charter. Each person alleging a condition of disability or the continuance of such condition shall be required to undergo any medical examinations required by the DAC, 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).

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 highest 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.

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. The Board adopted an 8 percent interest rate for June 30, 2008.

If a member leaves covered City employment for reasons other than retirement, his accumulated contributions may be refunded to him. If a 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 actuary. 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. The Schedule of Employer Contributions for the Last Ten Fiscal Years is located on page 39 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 Plan. 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 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.



Statistical Section

The purpose of the statistical section is to provide the reader with data, which is considered to be pertinent to the financial and economic condition of the retirement plan. Each schedule is defined below with an explanation of the schedule and an identification of the source of the data.

Schedule of Changes in Net Assets

This schedule provides the additions and deductions to the plan for the past ten years. The change in net assets is provided to illustrate whether or not sufficient resources are available in the current fiscal year to cover plan benefits. This schedule is developed using the Statements of Changes in Plan Net Assets for the past ten years.

Schedule of Benefit Expenses by Type

This schedule provides the benefit expenses of the plan by type for the last ten years. COPERS' benefits include payments for service retirements, disability benefits, death in service benefits, child benefits, payment to alternate payees and survivor benefits. This schedule is developed using reports from the City's accounting system. The expenses can be found in COPERS' Statements of Changes in Plan Net Assets for the past ten years.

Schedule of Retired Members by Type of Benefit

This schedule provides the number of retired members by type of benefit. COPERS plan benefits include payments for deferred benefits, normal retirement benefits, disability benefits, survivor benefits, death benefits and payments to alternate payees. The schedule is developed using COPERS' database.

Schedule of Average Benefit Payment Amounts

This schedule provides the average benefit payments per years of credited service. This information is provided to illustrate the changes in benefit payment amounts as the amount of service earned increases. This schedule is developed using COPERS' database.

Schedule of Changes in Net Assets

Last Ten Fiscal Years

(dollars in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ADDITIONS					
Member Contributions	\$31,237	\$30,207	\$27,979	\$26,307	\$24,783
Employer Contributions	64,198	58,151	52,974	43,375	39,564
Funds from Other Systems	4,755	4,507	1,070	963	373
Net Investment Income (Loss)	<u>(106,022)</u>	<u>272,051</u>	<u>133,934</u>	<u>120,237</u>	<u>198,641</u>
Total Additions to Plan Net Assets	<u>(5,832)</u>	<u>364,916</u>	<u>215,957</u>	<u>190,882</u>	<u>263,361</u>
DEDUCTIONS					
Benefit Payments	109,308	100,366	91,911	83,657	76,949
Refunds of Contributions	2,623	2,770	2,465	2,508	2,272
Funds to Other Systems	2,103	1,798	600	888	600
Administrative Expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>340</u>
Total Deductions from Plan Net Assets	<u>114,034</u>	<u>104,934</u>	<u>94,976</u>	<u>87,053</u>	<u>80,161</u>
CHANGE IN NET ASSETS	<u>(\$119,866)</u>	<u>\$259,982</u>	<u>\$120,981</u>	<u>\$103,829</u>	<u>\$183,200</u>
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
ADDITIONS					
Member Contributions	\$26,122	\$25,191	\$22,942	\$19,813	\$19,603
Employer Contributions	27,820	28,295	22,329	26,802	29,186
Funds from Other Systems	500	1,053	359	124	535
Net Investment Income (Loss)	<u>36,909</u>	<u>(88,483)</u>	<u>(22,405)</u>	<u>107,841</u>	<u>94,896</u>
Total Additions to Plan Net Assets	<u>91,351</u>	<u>(33,944)</u>	<u>23,225</u>	<u>154,580</u>	<u>144,220</u>
DEDUCTIONS					
Benefit Payments	70,234	64,289	57,806	49,409	43,054
Refunds of Contributions	2,457	3,484	3,364	2,941	3,263
Funds to Other Systems	365	657	211	351	297
Administrative Expenses	<u>155</u>	<u>75</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Deductions from Plan Net Assets	<u>73,211</u>	<u>68,505</u>	<u>61,381</u>	<u>52,701</u>	<u>46,614</u>
CHANGE IN NET ASSETS	<u>\$18,140</u>	<u>(\$102,449)</u>	<u>(\$38,156)</u>	<u>\$101,879</u>	<u>\$97,606</u>

Note: Administrative expenses of COPERS are paid by the City of Phoenix and are not recognized in COPERS' financial statements. However, the \$340,000 for fiscal year 2003-2004 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, which was authorized by the Retirement Board and was not included in the City's budget.

Schedule of Benefit Expenses by Type

Last Ten Fiscal Years

Retirement and Survivor Benefits (in thousands)

Fiscal Year	Age & Service	Death In Service	Disability Benefits		Survivors	Deferred	Child	Alternate Payee	Total Benefits
	Benefits Retirees		Retirees						
			Duty	Non-Duty					
2007-2008	\$93,116	\$2,583	\$690	\$2,398	\$8,413	\$1,287	\$39	\$782	\$109,308
2006-2007	85,252	2,509	668	2,202	7,799	1,208	39	681	100,358
2005-2006	77,829	2,414	626	2,029	7,319	1,033	49	611	91,910
2004-2005 *	73,703	2,366	597	1,958	7,094	--	--	--	85,718
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

* Amounts shown are annualized amounts based on the June 30th payroll.

Refunds (in thousands)

Fiscal Year	Beneficiaries*	Separation	Total Refunds
2007-2008	\$157	\$2,428	\$2,585
2006-2007	376	2,394	2,770
2005-2006	347	2,118	2,465
2004-2005	228	2,280	2,508
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

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

Schedule of Retired Members by Type of Benefit

June 30, 2008

Monthly Benefit	Number of Retirees	Type of Retirement						
		Deferred	Normal or Voluntary	Duty Disability	Non-Duty Disability	Survivor Payment	Death Benefit	Alternate Payee
Deferred	784	784						
\$1 - \$300	63	--	30	1	14	8	--	10
301 - 400	153	--	93	9	--	38	8	5
401 - 500	117	--	66	7	3	29	4	8
501 - 600	131	--	79	5	9	28	5	5
601 - 700	195	--	98	6	12	70	6	3
701 - 800	147	--	79	5	15	27	11	10
801 - 900	158	--	92	3	18	39	4	2
901 - 1,000	177	--	92	4	18	46	11	6
1,001 - 1,100	155	--	98	5	12	27	9	4
1,101 - 1,200	137	--	92	2	13	18	6	6
1,201 - 1,300	148	--	101	1	11	20	6	9
1,301 - 1,400	137	--	100	1	10	17	9	--
1,401 - 1,500	157	--	107	5	7	25	11	2
1,501 - 2,000	610	--	489	11	17	64	21	8
2,001 - 2,500	592	--	523	--	11	46	10	2
2,501 - 3,000	409	--	374	--	5	21	9	--
3,001 - 4,000	540	--	516	--	2	17	5	--
4,001 - 5,000	268	--	256	--	2	9	1	--
Over 5,001	203	--	194	--	--	6	3	--
Totals	5,281	784	3,479	65	179	555	139	80

Monthly Benefit	Total	Option Selected						
		Life	Option A		Option B		Option C	Child Benefit
			Standard	Pop-Up	Standard	Pop-Up		
\$1 - \$300	63	30	13	5	--	--	1	--
301 - 400	153	98	27	11	3	4	10	14
401 - 500	117	75	26	6	2	--	8	--
501 - 600	131	73	24	21	4	2	7	--
601 - 700	195	122	37	16	3	7	10	--
701 - 800	147	95	18	18	3	6	7	--
801 - 900	158	82	33	22	8	4	9	--
901 - 1,000	177	113	32	16	9	4	3	--
1,001 - 1,100	155	87	36	18	4	6	4	--
1,101 - 1,200	137	59	37	20	5	11	5	--
1,201 - 1,300	148	83	28	13	7	12	5	--
1,301 - 1,400	137	78	26	14	6	9	4	--
1,401 - 1,500	157	84	26	19	9	11	8	--
1,501 - 2,000	610	265	163	83	23	42	34	--
2,001 - 2,500	592	229	169	75	31	65	23	--
2,501 - 3,000	409	161	108	57	28	41	14	--
3,001 - 4,000	540	202	164	68	23	60	23	--
4,001 - 5,000	268	105	70	33	19	30	11	--
Over 5,001	203	82	61	25	10	16	9	0
Totals	4,497	2,123	1,098	540	197	330	195	14

Deferred 784
 Total 5,281

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+
2008						
Average Monthly Benefit	\$557.91	\$943.83	\$1,471.82	\$2,688.20	\$3,503.85	\$4,356.59
Mean Monthly Final Average Compensation	\$3,867.12	\$4,301.83	\$4,522.21	\$6,016.25	\$6,504.98	\$6,669.55
Number of Active Retirees	17	29	23	57	72	78
2007						
Average Monthly Benefit	\$456.74	\$1,008.27	\$1,601.26	\$2,346.30	\$3,248.89	\$4,196.41
Mean Monthly Final Average Compensation	\$3,719.97	\$4,376.90	\$4,783.46	\$5,305.36	\$5,773.94	\$6,323.68
Number of Active Retirees	18	14	29	44	67	49
2006						
Average Monthly Benefit	\$736.79	\$859.23	\$1,441.88	\$2,144.98	\$2,907.38	\$4,647.01
Mean Monthly Final Average Compensation	\$3,578.06	\$3,667.90	\$4,560.91	\$5,270.84	\$5,682.46	\$8,548.57
Number of Active Retirees	16	23	36	48	56	75
2005						
Average Monthly Benefit	\$524.15	\$905.56	\$1,582.98	\$2,154.09	\$3,027.18	\$4,141.86
Mean Monthly Final Average Compensation	\$4,004.45	\$4,137.87	\$4,842.52	\$5,246.70	\$5,828.46	\$7,021.72
Number of Active Retirees	23	27	26	47	80	48
2004						
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
From July 1, 2003 to June 30, 2008						
Average Monthly Benefit	\$533.26	\$902.99	\$1,467.51	\$2,304.64	\$3,106.58	\$4,152.80
Mean Monthly Final Average Compensation	\$3,609.84	\$4,014.88	\$4,591.13	\$5,433.38	\$5,845.21	\$6,866.98
Number of Active Retirees	86	110	136	239	333	310

(1) Does not include sick leave service

