2006 annual REPORT

CITY OF LOS ANGELES DEPARTMENT OF FIRE AND POLICE PENSIONS

LAFPP

To Serve Those Who Protect

July 1, 2005 to June 30, 2006

Department of Fire and Police Pensions

2006 annual REPORT

July 1, 2005 to June 30, 2006

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Assistant General Manager
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ADMINISTRATIVE SERVICES DIVISION

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Table of Contents

2 Governing Bodies

3 General Manager's Letter

5 System Investments

11 Actuarial Valuation

17 Department Budget

19 Auditor's Report

51 Active and Retired Membership

65 Legal Summary

67 Summary of Pension Plan Benefits

77 Milestones

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CITY OF LOS ANGELES

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GENERAL MANAGER

D. EDWARD GRIFFITHS
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ASSISTANT GENERAL MANAGERS

TOM LOPEZ
CHIEF INVESTMENT OFFICER

June 30, 2006

The Honorable Antonio Villaraigosa
The Honorable Members of the City Council

I respectfully submit the 2006 Annual Report for the Fire and Police Pension System of the City of Los Angeles. This year marks the 107th anniversary of this pension system. The annual report is intended to provide detailed, reliable information for you, other City leaders and stakeholders to help make management decisions and plans.

The System administers six pension tiers, two of which are closed, a medical subsidy program, a Deferred Retirement Option Program (DROP) and a complex disability pension program. As of June 30, 2006 we have 12,903 active and 11,815 retired beneficiaries and assets of $13.5 billion.

For the last three fiscal years, we have enjoyed double-digit returns on our investments. For the one-year period ending June 30, 2006, our return was 12.5%, and our pension funded status improved from 94.1% to 94.6%, one of the highest in the state of California. We have been prefunding health benefits since 1989, and our funded status for health benefits is at 37.6%.

Payments to pensioners and beneficiaries totaled $649.8 million, while the City and members contributed $254.8 million. This means that $395.0 million, or 60.8% of LAFPP's annual cost, was paid from system assets. What this demonstrates is that our defined benefit system is working extremely well for members and the taxpayers of the City of Los Angeles to pay promised benefits using the earnings of the pension system.

The Annual Report contains eight sections:

System Investments
Actuarial Valuation
Department Budget
Auditor's Report
Active and Retired Membership
Legal Summary
Summary of Pension Plan Benefits
Milestones

System Administration

The Fire and Police Pension System is administered by a Board of nine commissioners, five appointed by the Mayor; Fire and Police members each elect one active member, and Fire and Police retired beneficiaries each elect one retired member.

The Board administers the System in accordance with the City Charter and the State Constitution. Article XVI, Section 17 (a) of the State Constitution provides the Board "sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17 (b) further provides the "members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

Service efforts and accomplishments

Our benefits and systems teams continue efforts in a number of areas to provide members professional and prompt service. We are upgrading our web site to offer easier access to information. Work continues on providing active and retired members 24/7 online self service, and improving our communication materials and educational services. We are also devoting a great deal of time and resources preparing for the large number of members exiting DROP beginning in the spring of 2007.

We have made significant progress toward acquiring a joint headquarters facility with our civilian counterpart, the Los Angeles City Employees' Retirement System (LACERS). We are working to determine our space requirements and are utilizing the services of a real estate consultant to help us acquire a building or lot (if we build to suit) to meet our long-term needs. It is envisioned that the new facility will be a permanent asset for both systems, allowing for improved efficiency and reduced long-term administrative costs.

In investments, the Board and staff are working to continue looking for the best risk-adjusted returns available for our public pension system. We are now looking carefully at hedge fund investments, with the assistance of our general consultant, Pension Consulting Alliance.

I have worked closely with the Board and staff on a number of new initiatives that focus on our ultimate mission — to provide members with a professional delivery of promised pension benefits — and thank both the Board and staff for their support and dedication in these efforts. We strive to make efficient improvements for the members, while respecting the duty to the City to do so at a reasonable cost. We will continue our mission with humility and pride as we support those making such great sacrifices for all of us.

Respectfully submitted,

Michael A. Perez
General Manager

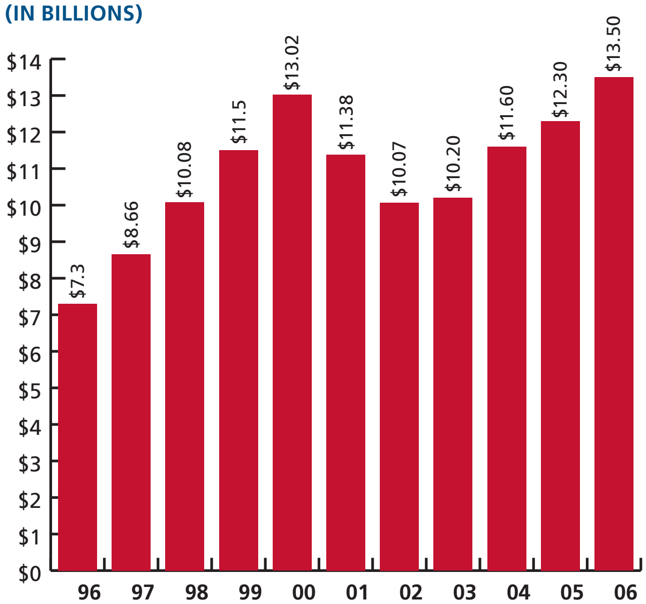
system INVESTMENTS

Summary of Investment Activities

INTRODUCTION

During the past five years, the System's assets have increased from $11.38 billion to $13.503 billion. The Fund grew by $1.2 billion for the year ending June 30, 2006.

Market Value Growth of System Assets
(IN BILLIONS)



INVESTMENT ENVIRONMENT

The bond market (Lehman U.S. Universal Bond Index) produced a negative return of -0.26 percent for the year ending June 30, 2006. Large company stocks (S&P 500) returned a positive 8.63 percent. Small company stocks (Russell 2000 Index) returned a positive 14.58 percent. International stocks (Morgan Stanley EAFE Index) were the best performer returning a positive 26.56 percent. Real estate, as measured by the National Council of Real Estate Investment Fiduciaries Index (NCREIF Classic Property Index) returned 20.19 percent.

INVESTMENT PERFORMANCE

The investment objective of the total Fund, over a full market cycle (usually five to seven years), is to earn a return on investment matching or exceeding the required actuarial rate of return of 8 percent, and investment performance above the median of a sampling of public funds.

For the past five years, the System's annualized return of 7.17 percent was slightly higher than the Northern Trust Public Funds Median return of 7.04 percent. For the one- and three-year periods, the System's overall investment performance was up 12.48 percent and 13.36 percent, respectively, both of which exceeded the actuarial rate of return.

The System's performance was also above the median for other public funds (Northern Trust Public Fund Universe) over the past one-year, two-year and three-year periods. The Fund was ranked in the 38th percentile for the one-year period, the 24th percentile for the two-year period, and the 40th percentile for the three-year period ending June 30, 2006. For this past year, the System's positive 12.48 percent return exceeded the public fund median return of positive 9.99 percent. The System's top performers this year were its international equity, real estate, and alternative investments. The lone under-performer was the System's fixed income portfolio.

ASSET ALLOCATION DECISIONS

Our asset allocation plan establishes the blueprint for investing the System's assets in stocks, bonds, real estate and cash equivalents over a three- to five-year period. This plan is the single most important factor in managing risk and achieving investment returns necessary to fund benefits.

The Board adopted the following asset class targets on June 5, 2003, pursuant to a recommendation by Pension Consulting Alliance, the Board's asset allocation project consultant.

Domestic Equity	28.0%
U.S. Small Capitalization Stocks	7.0%
International Equity	16.2%
Domestic Bonds	21.5%
High Yield Bonds	4.5%
Real Estate	10.0%
Alternative Investments	10.0%
Emerging Markets	1.8%
Cash Equivalents	1.0%

The actual asset class percentages of the System will vary from target allocations due to inflows (such as City and member contributions), outflows (such as pension payments) and the movements of the securities markets. Assets are periodically rebalanced to adjust for these movements.

As of June 30, 2006, the net asset values were as follows:

ASSET CLASS	MARKET VALUE (IN MILLIONS)	PERCENT
Stocks	$ 8,222.4	61.3%
Bonds	3,557.6	26.5%
Real Estate	919.4	6.2%
Alternative Investments	500.2	3.7%
Cash Equivalents	303.5	2.3%
Total	$13,503.1	100.0%

INVESTMENT ACTIVITIES

Manager changes for the year included the termination of one domestic equity manager and one alternative investment advisor, and the hiring of three REIT managers. The following investment managers were rehired during the year: one fixed income manager, one alternative investment advisor and two international equity managers.

Most of the System's assets are managed by investment managers who try to outperform a market index. The System has one large equity account that is a Standard & Poor's 500 Index fund whose performance matches that index and one fixed income account that is a Lehman Brothers U.S. Aggregate Index fund. A list of our managers is at the end of this section.

The System invested in several new commingled real estate funds and sold some individual properties in the portfolio. Properties sold by the fund included office buildings in Agoura, CA and Austin, TX, a retail property in Old Bridge, NJ, and industrial properties in Braselton, GA and Columbus, OH. The System purchased an office building in Huntersville, NC and retail property in Tulsa, OK.

PROXY VOTING

The System votes all domestic proxy ballots, which totaled to 1,482 proxies and corporate consents for fiscal year 2005-2006. The international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines and cast a total of 1,056 proxy ballots.

The System votes affirmatively on preemptive rights, cumulative voting, and confidential voting; opposes anti-takeover measures and generally abstains on issues of a social, political, or environmental nature that have no expected economic impact on the System's assets. The System votes affirmatively on executive compensation bonus plans if the corporation's stock performance in the past year has exceeded the returns of both the Standard & Poor's 500 Index and an appropriate peer group index; supports the nomination of and affirmative vote for the appointment of independent directors to the board of directors; and directs an affirmative vote on measures proposed to place independent directors on compensation committees.

Changes in Asset Mix: Last Ten Years

FISCAL YEAR	STOCKS	BONDS	REAL ESTATE	ALTERNATIVE INVESTMENTS	SHORT-TERM INVESTMENTS
1996-97	58.8%	30.3%	5.2%		4.9%
1997-98	60.62%	28.79%	3.91%		5.63%
1998-99	62.48%	24.97%	4.42%	1.56%	6.57%
1999-00	64.45%	22.53%	5.55%	2.65%	4.82%
2000-01	56.35%	25.24%	7.62%	3.31%	7.48%
2001-02	54.95%	27.74%	7.95%	3.52%	5.84%
2002-03	54.1%	31.4%	7.6%	3.50%	3.4%
2003-04	60.3%	28.0%	6.7%	3.50%	1.5%
2004-05	62.47%	28.05%	4.66%	3.24%	1.58%
2005-06	61.3%	26.5%	6.2%	3.7%	2.3%

Annual Rates of Return

FISCAL YEAR	DOMESTIC EQUITIES	INTERNATIONAL EQUITIES	FIXED INCOME	REAL INCOME	ALTERNATIVE INVESTMENTS	TOTAL FUND*	CPI**
1996-97	27.09%	12.70%	10.43%	13.90%		18.52%	2.30%
1997-98	23.07%	12.42%	11.84%	18.20%		17.48%	1.69%
1998-99	25.53%	17.65%	2.44%	13.00%	12.46%	16.04%	1.96%
1999-00	17.91%	26.93%	3.90%	15.00%	42.14%	16.30%	2.87%
2000-01	-17.88%	-19.49%	2.35%	12.80%	1.58%	-10.00%	2.98%
2001-02	-17.64%	-6.57%	1.17%	1.10%	-17.05%	-7.97%	1.07%
2002-03	3.21%	-5.42%	15.29%	3.90%	-12.66%	5.47%	2.11%
2003-04	23.67%	35.82%	3.39%	6.50%	23.50%	16.92%	3.30%
2004-05	5.54%	15.68%	9.85%	9.58%	27.03%	10.07%	2.50%
2005-06	10.69%	29.35%	-0.91%	22.68%	27.24%	12.48%	4.3%

**Total fund indicates short-term investments.*
***CPI is for the U.S. for the year ending June 30.*

Investment Advisors

Stock Managers

Alliance Capital Management
Attucks Asset Management
Boston Partners Asset Management
Daruma Asset Management
Delta Asset Management
FIS Funds Management
Frontier Capital Management
Trust Company of the West

Bond Managers

Bridgewater
LM Capital Management
Loomis Sayles & Company
MacKay Shields
Northern Trust
Reams Asset Management
Western Asset Management Company

International Stock Managers

Brandes Investment Partners
Fisher Investments
Julius Baer Investment Management
Marvin & Palmer Associates
McKinley Capital Management
Principal Global Investors

Real Estate Managers

Apollo Real Estate Advisors
Heitman Capital Management
Lowe Enterprises Investment Management
Sentinel Real Estate Corporation
Urdang Associates Real Estate Advisors

Separate Account Real Estate Managers

Adelante Capital Management
Morgan Stanley Investment Management

Alternative Investment Managers

Abbott Capital Management
Pension Consulting Alliance
Portfolio Advisors

actuarial VALUATION

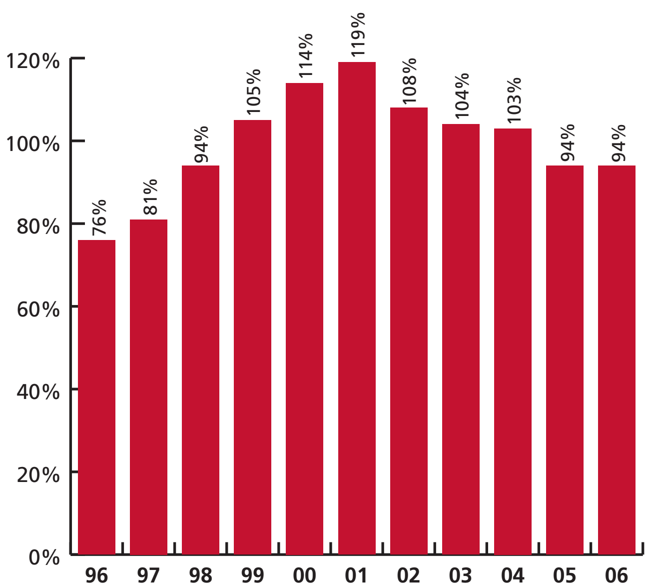
Actuarial Valuation Summary

ACTUARIAL VALUATIONS

Two actuarial valuations of the assets and liabilities of pension benefits are conducted annually. One study examines the pension benefits paid to members and their beneficiaries; the other study examines the health subsidies allocated to qualifying members. These studies evaluate the funding progress of the system and determine the annual contribution requirements.

The funded status of the pension system is examined over a span of several years to determine if funding progress is made. Satisfactory funding progress has occurred over the past ten years.

Funded Status



FUNDING STATUS AND TIER 5

Tier 5 provides for an employee contribution rate of 8% as long as the plan is 100% actuarially funded. As of June 30, 2006, the plan is 94.6% actuarially funded. Therefore, the employee pension contribution for Tier 5 members will remain at 9%. This increase was effective July 1, 2006 and will continue until the plan is at least 100% actuarially funded.

HOW A VALUATION IS CONDUCTED

The actuarial funding method used (Entry Age Normal Cost) is required by the Charter under Section 1210 (Fire and Police Pension Plans General Provision section) for Tier 1, Tier 2, Tier 3, Tier 4 and Tier 5. An actuarial valuation examines the membership of the pension system as currently constituted, and then projects future liabilities using various assumptions.

Non-economic actuarial assumptions on mortality of members and spouses, probability of service retirement and disability, probability of termination prior to retirement, and probability of having a surviving beneficiary are created from studies made of the actual experience of the membership of the System. A new study is conducted every three years.

These assumptions are recommended by an actuary and adopted by the Board of Fire and Police Pension Commissioners. The last study was adopted by the Board in September 2004. This experience study covered the period July 1, 2001 to June 30, 2004. An example of projected mortality is as follows:

Average Life Expectancy for Retirees

Service Retiree (Age = 65)	18.8 years
Disabled Retiree (Age = 65)	15.8 years
Surviving Spouse (Age = 65)	20.4 years

Economic assumptions are also studied, recommended by the actuary, and adopted by the Board. Economic assumptions in effect for this valuation period are:

Economic Assumptions

Annual Increase in the
Consumer Price Index 3.75%*
Annual Individual
Salary Increase .... varies by age

AGE	ANNUAL SALARY INCREASE**
20-24	5.75%
25-29	4.75%
30-34	3.75%
35-39	2.75%
40-44	1.75%
45-49	1.50%
50 and over	1.25%

Annual Increases in
Total System Payroll 3.75%
Investment Rate of Return 8.0%

**Tiers 3, 4 and 5 are capped at 3%.*
*** Includes 0.50% "across the board" salary increase.*

PENSION BENEFIT BALANCE SHEET

Cost-of-living and individual salary assumptions are used to project the dollar amount of benefits to be paid. The total liability is then reduced to today's dollar terms using the investment-rate-of-return assumption.

Once the liabilities of the System are computed, the valuation study projects the member contributions expected to be received, which are reduced to today's dollar terms using the investment-rate-of-return assumption. The individual salary increase assumptions are used to project the total member contributions. The Entry Age Normal Cost contribution, the amount the City would contribute for a hypothetical new entrant into the System, is calculated. This amount would theoretically be sufficient to fully fund a member's retirement on the date of retirement if all assumptions were realized and no benefit changes were made.

These potential future contributions are considered assets of the System, along with assets currently being invested by the Department of Fire and Police Pensions. For purposes of determining the contributions to the System, the current assets are now valued using a method that phases in, over five years, the unrealized and realized appreciation above that which is expected based on the assumed rate of return.

As can be seen in the Actuarial Balance Sheet (see page 15), the balance of almost $690 million is considered the unfunded actuarial liability. The unfunded liability for health subsidy benefits for all plans combined is approximately $1.02 billion (see page 15).

UNFUNDED ACTUARIAL LIABILITY

An unfunded actuarial liability can result from many variables. Often, benefit increases are credited to members while in the middle of their career, or even after they retire. Because these benefit increases did not exist when the funding of the members' benefits began, contributions to fund these increased benefits were not made during all or part of the members' working career. An example of a benefit enhancement that occurred was the lifting of a 2% cap on cost-of-living increases. This applied to all members, active and retired, and created an immediate unfunded liability. The Milestones section of this report contains more examples of benefit changes.

The Entry Age Normal Cost actuarial method normally results in actuarial gains or losses, unless all actuarial assumptions are met each year. These actuarial gains or losses also result in decreases or increases in the unfunded actuarial liability.

Occasionally, the actuarial methodology itself is refined according to accepted actuarial practice. For example, salary increases were not utilized in the computations until the late 1970s. When this practice was adopted, it created an additional unfunded liability.

Finally, during a period in the history of the Pension System, funding was on a pay-as-you-go basis, instead of on an actuarial basis. When the System shifted to an actuarial basis, an immediate unfunded liability resulted.

CONTRIBUTION REQUIREMENTS CALCULATION

The contribution is composed of two parts: (1) the Entry Age Normal Cost contribution and (2) the contribution to amortize the unfunded liability. The unfunded liability is amortized over a time period using a methodology prescribed in the Charter and Administrative Code. The amortization period for Tier 1 and Tier 2 is scheduled to end on June 30, 2037.

Tier 1 is amortized as a level dollar amount. Tier 2 is amortized as a level percent of all System members' (Tiers 1, 2, 3, 4 and 5 combined) salaries. Tiers 3, 4 and 5's amortization basis is a level percentage of plan members' salaries over a continuous 15-year cycle. Each year's actuarial gain or loss is amortized over 15 years. Any gains or losses resulting from benefit changes are amortized over a 30-year period. With this information, the actuary computes the contribution requirements for the City.

Entry Age Normal Cost Contribution Requirements Recommended 2007-2008

(as a percentage of plan members' salaries)

Tier 1	0.0%
Tier 2	19.61%
Tier 3	16.85%
Tier 4	13.53%
Tier 5	18.11%

Unfunded Liability Contribution Requirements Recommended 2007-2008

Tier 1	$18,657,440
Tier 2	-0.60% of total payroll of Tiers 1, 2, 3, 4, 5
Tier 3	3.47% of Tier 3 payroll
Tier 4	2.35% of Tier 4 payroll
Tier 5	2.3% of Tier 5 payroll

HEALTH SUBSIDY VALUATION

The health valuation study utilizes the same actuarial assumptions as the study on pension benefits, with the addition of a medical inflation assumption. Currently, medical costs are increasing at a faster pace than inflation. Assumptions in the June 30, 2006 actuarial valuation included medical trend rate increases of 12% for pre-65 and post-65 premiums in 2007, both decreasing gradually to 5.0% in 2015 and thereafter. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health subsidy benefits is shown on page 15.

The contributions suggested to fund the health subsidy plan are:

Health Contribution Rates Recommended 2007-2008

(as a percentage of plan members' salaries)

Tier 1	$1,153,308
Tier 2	2.72%
Tier 3	5.39%
Tier 4	5.09%
Tier 5	3.53%
Total	6.50%

Actuarial Balance Sheet – June 30, 2006

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

ASSETS	RETIREMENT	HEALTH	TOTAL
1. Valuation value of assets	$12,121,402,902	$613,782,166	$12,735,185,068
2. Present value of future normal costs			
Employee	845,200,781		845,200,791
Employer	1,931,551,309	348,101,577	2,279,652,886
Total	2,776,752,090	348,101,577	3,124,853,677
3. Unfunded actuarial accrued liability	689,980,835	1,017,405,273	1,707,386,108
4. Present value of current and future assets	$15,588,135,827	$1,979,289,016	$17,567,424,853

PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS AND RESERVE

LIABILITIES	RETIREMENT	HEALTH	TOTAL
5. Present value of future benefits			
Retired members and beneficiaries	$7,324,492,795	$973,704,591	$8,298,197,386
Inactive members with vested rights	13,494,539		13,494,539
Active members	8,250,148,493	1,005,584,425	9,255,732,918
6. Total present value of expected future benefit payments	$15,588,135,827	$1,979,289,016	$17,567,424,843

department BUDGET

Department Budget

RECEIPTS	BUDGETED 2005-06	ACTUAL 2005-06
City Contribution	$175,719,237	$174,859,083
Member Contributions	88,144,082	79,402,694
Earnings on Investments	340,000,000	378,091,710
Gain (Loss) on Sale of Investments	—	892,634,836
UFLAC Settlement	500,000	500,000
Miscellaneous (1)	1,000,000	1,425,026
Total Receipts	$605,363,319	$1,526,913,349

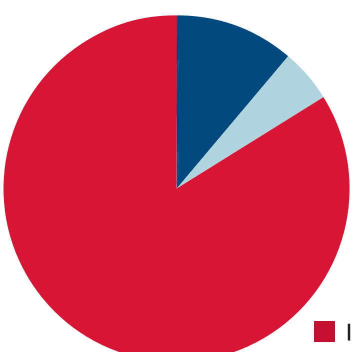
(1) Actual miscellaneous receipts include donations from outside entities. Donations are not budgeted. No donations were received in this fiscal year.

EXPENDITURES	BUDGETED 2005-06	ACTUAL 2005-06
Service Pensions (2)	$382,123,000	$394,946,910
Disability Pensions	106,463,000	106,551,014
Surviving Spouses' Pensions	84,967,000	87,983,352
Minors'/Dependents' Pensions	1,284,000	1,560,632
Refund of Member Contributions	5,000,000	4,113,034
Health Insurance Subsidy	80,500,000	50,497,787
Dental Insurance Subsidy	2,600,000	2,106,468
Medicare	7,500,000	5,565,510
Health Insurance Reimbursement	450,000	516,086
Investment Management Expense	48,744,500	41,524,390
Administrative Expense	12,533,000	9,617,352
Total Expenditures	$732,164,500	$704,982,535

(2) Service Pensions includes DROP payments. Budgeted DROP payments were $39,600,000. Actual DROP payments were $42,643,552.

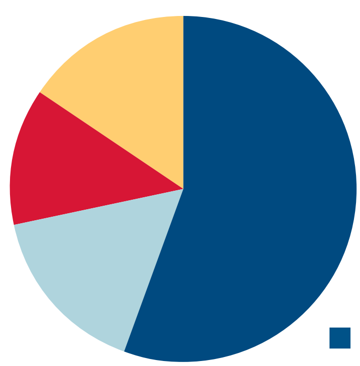
Increase (Decrease) in Fund Balance	$(126,801,181)	$821,930,814

Receipts



Investments: 84%
City Contributions: 11%
Member Contributions: 5%
Other: 0%

Expenditures



Service and DROP: 55.79%
Disability: 15.96%
Surviving Spouse: 12.75%
Other: 15.5%

auditor's REPORT

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
STATEMENTS OF PLAN NET ASSETS	3
STATEMENTS OF CHANGES IN PLAN NET ASSETS	4
NOTES TO FINANCIAL STATEMENTS	5
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE 1A - Schedule of Funding Progress – Pension Plan	22
SCHEDULE 1B – Schedule of Funding Progress – Health Subsidy Plan	22
SCHEDULE 2A – Schedule of Employer Contributions – Pension Plan	23
SCHEDULE 2B –Schedule of Employer Contributions – Health Subsidy Plan	23
Notes to Schedules of Funding Progress and Employer Contributions	24
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*	27

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INDEPENDENT AUDITOR'S REPORT

To the Board of Fire and Police
Pension Commissioners
Los Angeles, California

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2006 and 2005, and changes therein for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2006 on our consideration of the System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules and the related notes are presented for the purpose of additional analysis and are not a part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly presented in all material respects, when considered in relation to the basic financial statements taken as a whole.

Simpson & Simpson

Simpson & Simpson
November 30, 2006, except for the annual Actuarial
Valuation information which is December 12, 2006

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF PLAN NET ASSETS

	June 30, 2006 Pension	June 30, 2006 Health Subsidy	June 30, 2006 Combined	June 30, 2005 Combined
ASSETS				
Cash	$ 678,087	$ 34,313	$ 712,400	$ 610,085
Receivables				
Accrued Interest and Dividends	46,231,233	2,339,403	48,570,636	47,975,095
Contributions	5,369,149	271,691	5,640,840	5,010,835
Due from Brokers	322,688,974	16,328,781	339,017,755	510,188,994
Total Receivables	374,289,356	18,939,875	393,229,231	563,174,924
Investments at Fair Value				
Temporary	730,357,183	36,957,702	767,314,885	530,205,704
U.S. Government Obligations	1,408,622,722	71,279,450	1,479,902,172	1,188,677,833
Domestic Corporate Bonds	1,835,000,304	92,855,106	1,927,855,410	2,195,691,093
Foreign Bonds	5,544,572	280,568	5,825,140	26,984,864
Domestic Stocks	5,293,890,804	267,882,677	5,561,773,481	5,353,091,866
Foreign Stocks	2,555,642,805	129,321,223	2,684,964,028	2,169,409,001
Real Estate	984,569,173	49,821,395	1,034,390,568	900,240,788
Alternative Investments	460,986,184	23,326,929	484,313,113	455,813,441
Total Investments	13,274,613,747	671,725,050	13,946,338,797	12,820,114,590
Securities Lending Collateral	2,372,600,535	120,058,877	2,492,659,412	1,678,941,822
TOTAL ASSETS	16,022,181,725	810,758,115	16,832,939,840	15,062,841,421
LIABILITIES				
Accounts Payable and Accrued Expenses	9,384,846	474,894	9,859,740	8,028,954
Benefits in Process of Payment	11,760,422	158,093	11,918,515	10,243,619
Due to Brokers	481,326,135	24,356,175	505,682,310	676,645,960
Mortgage Payable	294,744,271	14,914,717	309,658,988	311,622,731
Securities Lending Collateral	2,372,600,535	120,058,877	2,492,659,412	1,678,941,822
TOTAL LIABILITIES	3,169,816,209	159,962,756	3,329,778,965	2,685,483,086
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS	$ 12,852,365,516	$ 650,795,359	$ 13,503,160,875	$ 12,377,358,335

The notes are an integral part of these financial statements.

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

	Year Ended June 30, 2006			Year Ended June 30, 2005
	Pension	Health Subsidy	Combined	Combined
ADDITIONS				
Contributions				
City Contributions	$ 143,945,802	$ 31,413,281	$ 175,359,083	$ 167,395,621
Member Contributions	79,402,694	-	79,402,694	75,785,506
Total Contributions	223,348,496	31,413,281	254,761,777	243,181,127
Investment Income				
Net Appreciation in Fair Value of Plan Investments, Including Gains and Losses on Sales	1,138,647,576	57,858,986	1,196,506,562	851,355,988
Interest	166,572,525	8,464,180	175,036,705	155,112,138
Dividends	135,987,896	6,910,059	142,897,955	138,925,864
Net Real Estate Income	39,369,676	2,000,522	41,370,198	42,366,122
Income from Alternative Investments	7,795,007	396,094	8,191,101	13,489,048
Securities Lending Income	11,014,150	559,671	11,573,821	4,408,546
Less: Securities Lending Expense	(1,299,414)	(66,028)	(1,365,442)	(421,716)
Other Income	368,640	18,732	387,372	1,851,481
Subtotal	1,498,456,056	76,142,216	1,574,598,272	1,207,087,471
Less: Investment Manager Expense	(39,516,412)	(2,007,978)	(41,524,390)	(33,082,521)
Net Investment Income	1,458,939,644	74,134,238	1,533,073,882	1,174,004,950
Other Income				
Donations	-	-	-	7,791,262
Miscellaneous	1,356,117	68,909	1,425,026	796,802
Total Other Income	1,356,117	68,909	1,425,026	8,588,064
TOTAL ADDITIONS	1,683,644,257	105,616,428	1,789,260,685	1,425,774,141
DEDUCTIONS				
Pension Benefits	591,041,908	-	591,041,908	552,436,651
Payment of Medicare Reimbursement	-	5,565,510	5,565,510	4,721,424
Payment of Health Subsidy	-	53,120,341	53,120,341	48,727,547
Refund of Contributions	4,113,034	-	4,113,034	3,206,330
Administrative Expenses	9,152,290	465,062	9,617,352	9,552,993
TOTAL DEDUCTIONS	604,307,232	59,150,913	663,458,145	618,644,945
NET INCREASE	1,079,337,025	46,465,515	1,125,802,540	807,129,196
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS				
Beginning of Year	11,773,028,491	604,329,844	12,377,358,335	11,570,229,139
End of Year	$ 12,852,365,516	$ 650,795,359	$ 13,503,160,875	$ 12,377,358,335

The notes are an integral part of these financial statements.

NOTE 1 - DESCRIPTION OF THE PLANS

The City of Los Angeles Fire and Police Pension System operates under the provisions of the City of Los Angeles Charter and Administrative Code, which provide that the funding requirements of the City of Los Angeles Fire and Police Pension System (the System or the Plan) will be satisfied by the City of Los Angeles. The funding requirements of the System are determined by the result of annual actuarial valuations.

Pension Plan

The System is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain port police officers of the City of Los Angeles. As of June 30, 2006, the System is composed of five tiers. Benefits are based on members' pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Those members hired on or before January 28, 1967 participate in Tier 1. Tier 2 includes members hired on or after January 29, 1967, and Tier 1 members who transferred to Tier 2. Members hired on or after December 8, 1980 participate in Tier 3, and those hired on or after July 1, 1997 are in Tier 4. Tier 3 members were allowed to transfer to Tier 4 during an enrollment period. Also, Tier 4 members hired between July 1, 1997 and December 31, 1997 could elect to transfer to Tier 3 during an enrollment period. Tier 5 is the current Tier established for all firefighters and police officers hired on or after January 1, 2002. Active members of Tiers 2, 3, and 4 were allowed to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002.

The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ending June 30, 1983, or have since been hired. Tier 5 is also the current tier for all port police officers hired on or after January 8, 2006. Port police officers hired before January 8, 2006 who were members of LACERS are allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 through January 5, 2007.

Tier 1 members hired prior to January 17, 1927 with 20 years of service are entitled to annual pension benefits equal to 50%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 members hired on or after January 17, 1927 with 20 or more years of service are entitled to annual pension benefits equal to 40%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 has no minimum age requirement and provides for unlimited post-retirement cost-of-living adjustments (COLA) based on the Consumer Price Index (CPI). Tier 1 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982, are entitled to a refund of contributions plus Board approved interest if they do not qualify for a pension or if they waive their pension entitlements.

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

Tier 2 members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 70%. Tier 2 has no minimum age requirement and provides for unlimited post-employment COLAs based on the CPI. Tier 2 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982, are entitled to a refund of contributions plus Board approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Members of Tier 3 must be age 50, with at least 10 years of service, to be entitled to a service pension. Annual pension benefits are equal to 20% of the monthly average of a member's salary during any 12 consecutive months of service as a Plan Member (one-year average compensation), increasing for each year of service over 10 years, to a maximum of 70% for 30 years. Tier 3 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The Los Angeles City Council (City Council) may grant an ad-hoc COLA no more than every three years. Members who terminate their employment are entitled to a refund of contributions plus Board approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Members of Tier 4 must have at least 20 years of service to be entitled to a service pension. There is no minimum age requirement. Annual pension benefits are equal to 40% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 4 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The City Council may grant an ad-hoc COLA no more than every three years. Members who terminate their employment before they are eligible for pension benefits do not receive a refund of contributions.

Members of Tier 5 must be age 50, with at least 20 years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. As of July 1, 2005, eligible Tier 5 pensioners, including Tier 5 pensioners in DROP, had 0.8% deposited in the COLA bank. The City Council may grant an ad-hoc COLA no more than every three years. Members who terminate their employment are entitled to a refund of their contributions plus Board approved interest if they do not quality for a pension or if they waive their pension entitlements.

SINCE THE PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE CITY CHARTER AND ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518 and 1618 of the City Charter, Section 4.2018 of the Administrative Code, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60. Temporary subsidies are available to certain groups at earlier ages. For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55.

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by LACERS (civilian retirees) and active Safety Members. Effective July 1, 2005, the maximum subsidy amount is $735.38 per month. The System also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Health subsidy benefits are available to members and their spouses/domestic partners on disability and service retirement. Effective January 1, 2000, qualified surviving spouses/domestic partners are eligible for health subsidy benefits.

The System began pre-funding the health subsidy benefits effective with the 1989-1990 plan year. Full funding was phased in over four years.

At June 30, 2006, of $13,503,160,875 in total net assets available for benefits, $650,795,359 was determined to be available for the Health Subsidy Plan based on a percentage derived from the actuarial report dated December 12, 2006.

Health Insurance Premium Reimbursement Program

Effective January 1, 2001, members of the System are entitled to post-employment health insurance premium reimbursements under Section 4.1163 of the Administrative Code.

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The Pensioner (whether living or deceased) must have had at least ten years of sworn service as a fire or police pension member and must have met minimum age requirements on the effective date of retirement. The pensioner or qualified surviving spouse/domestic partner must reside either outside California or in the state of California but not within a City-approved health plan zip code service area. They may not be enrolled in a City-approved plan.

The reimbursement paid is a percentage of a maximum subsidy for health care based on the lesser of the health subsidy in effect for LACERS (civilian retirees) and active Safety Members. Effective July 1, 2005, the maximum subsidy amount is $735.38 per month. For members with Medicare Parts A and B, a different subsidy maximum is used. The System also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Dental Subsidy Plan

Effective January 1, 2002, members of the System are entitled to post-employment dental subsidy benefits under Section 4.1164 of the Administrative Code.

Members who retire from the System with 10 years of service, are at least 55 years old, and who are enrolled in a City approved dental plan, are eligible for dental subsidy benefits. Surviving spouses, domestic partners, and dependents are not covered by this subsidy.

The benefit paid is a percentage of a maximum subsidy for dental care based on the lesser of the health subsidy in effect for LACERS (civilian retirees) and active Safety Members. Effective January 1, 2005 the maximum subsidy amount is $34.84 per month. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, members of the System have the option to enroll in the Deferred Retirement Option Plan (DROP) under Section 4.2100 of the Administrative Code. Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3 and 5 who have at least 25 years of service and who are at least age 50 are eligible for DROP.

Members who enroll continue to work and receive their active salary up to 5 years. Enrolled members continue to contribute to the System until they have completed the maximum number of years required for their Tier but cease to earn additional retirement service and pay credits. Monthly pension benefits that would have been paid to enrolled members are credited into their DROP accounts. DROP account balances will earn interest at an annual rate of 5%.

Once the DROP participation period ends, enrolled members must terminate active employment. They then receive proceeds from their DROP account and a monthly benefit based on their service and salary at the beginning date of DROP, plus applicable COLA's.

Letters of Agreement have been signed to extend DROP for a five-year period, until April 20, 2012. An actuary will evaluate DROP at the end of the first five-year period (April 30, 2007). If the actuary determines that DROP is not cost neutral, the City and the unions will negotiate adjustments to the program. These adjustments would be effective no later than May 1, 2008. If the City and the unions cannot agree on necessary plan adjustments by March 1, 2008, the City will suspend new entrants into DROP until an agreement is reached.

At June 30, 2006 and 2005, 1,215 and 1,217 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of $255,000,000 and $193,000,000, respectively.

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership were as follows at June 30, 2006 and 2005:

	2006	2005
Active Nonvested:		
Tier 1	--	--
Tier 2	--	1
Tier 3	360	575
Tier 4	354	383
Tier 5	8,145	7,759
	8,859	8,718
Active Vested:		
Tier 1	--	--
Tier 2	240	272
Tier 3	717	554
Tier 4	135	130
Tier 5	2,952	2,982
	4,044	3,938
Pensioners and beneficiaries:		
Tier 1	996	1,077
Tier 2	9,542	9,647
Tier 3	357	334
Tier 4	102	84
Tier 5	818	604
	11,815	11,746
	24,718	24,402

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

B. Financial Reporting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as outlined in the Governmental Accounting Standards Board (GASB).

C. Cash

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

D. Investments

The System is authorized to make temporary investments in instruments rated A-1 by Standard & Poor's Corporation and P-1 by Moody's Commercial Paper Record.

Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, U.S. Treasury bills and repurchase agreements along with bonds, stocks and alternative investments are reported at fair value.

Pooled temporary investments represent funds invested in a custodian-managed discretionary short-term investment fund. This fund invests in a variety of U.S. and foreign securities rated A1 or P-1, or equivalent quality as determined by the Custodian.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the System's year-end. Resulting gains or losses are included in the System's statement of changes in plan net assets.

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers.

Alternative investments are comprised predominantly of limited partnerships that invest in private equity companies. The fair values of alternative investments are estimated by the General Partners based on consideration of various factors, including current net asset valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the General Partners of investee limited partnerships.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by an annual external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on the accrual basis. The corresponding proceeds due from sales are reported on the statement of plan net assets as receivables and labeled due from brokers, and amounts payable for purchases are reported as liabilities and labeled due to brokers. Dividend income, recorded on ex-dividend date, and interest income are accrued as earned.

E. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

F. Reclassification

Certain reclassifications have been made in the 2005 financial statements to conform to the current year presentation.

NOTE 3 - FUNDING POLICY

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of Tier 5 contributions contingent on the System remaining at least 100% actuarially funded for pension benefits. For the year ended June 30, 2006, Tier 5 members were required to contribute 8% of salary.

NOTE 3 - FUNDING POLICY (Continued)

The Charter of the City of Los Angeles specifies that the City will make the following contributions each year:

A. An amount equal to the City's share of defined entry-age normal costs.

B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4 and 5, any "unfunded liability" shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-year period.

C. An amount to provide for health plan subsidies.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C above, for the year ended June 30, 2006 to be as follows:

	Percentage of Members' Salaries				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Entry-Age Normal Cost Contribution	N/A	21.30%	13.67%	11.56%	15.07%
Amortization of Unfunded Liability *	$23.0M	$ 4.9M	$12.8M	$ 4.1M	$95.5M
Health Plan Subsidy *	$ 2.2M	$24.2M	$(4.6)M	$(1.5)M	$10.7M

*Stated as required dollar amount. Does not include 1% Tier 5 City contribution portion.

The actuarially determined unfunded liability (UAAL) of the System was $1,707,386,108 and $1,383,716,330 at June 30, 2006 and 2005, respectively, (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City Charter, UAAL at June 30, 2006 is to be amortized over the next 31 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

During fiscal year 2006, total contributions of $254,761,777 ($175,359,083 from the City and $79,402,694 from the members) were made, with respect to the pension and health subsidy plans, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2004. For the pension plan, the contributions included City contributions of $160.9 million for normal cost, ($24.5 million) for unfunded supplemental present value annual amount, and $7.6 million relating to the 1% Tier 5 City contribution. For the health plan subsidy, the contributions consisted of $18.9 million for normal cost, $11.7 million for unfunded actuarial accrued liability annual amount, and $0.8 million relating to the 1% Tier 5 City contribution.

NOTE 4 - SECURITIES LENDING

The System has entered into various short-term arrangements with its Custodian, whereby investments are loaned to various brokers, as selected by the Custodian. The lending arrangements are collateralized by cash, letters of credit and marketable securities, held on the System's behalf by the Custodian. These agreements provide for the return of the investments and for a payment of: a) a fee when the collateral is marketable securities or letters of credit, or b) interest earned when the collateral is cash on deposit.

The City Charter permits the System to use investments of the System to enter into securities lending transactions - loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Upon direction of the Board, the Custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions, as it deems advisable. Collateral for the securities on loan will be maintained at a level of at least 102 percent of their fair value plus any accrued interest for U.S. securities lending and 105 percent of the fair value plus any accrued interest for non-U.S. securities lending. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The borrower has all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the Custodian will indemnify the System as a result of the Custodian's failure to: (1) make a reasonable determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action, (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examinations Council Supervisory Policy on Securities Lending.

These agreements provide the return of the securities and revenue determined by the type of collateral received (from which the Custodian's fee is deducted). The securities on loan to brokers are shown at their fair value on the System's plan net assets.

As required by GASB, cash received as collateral on securities lending transactions is reported as assets, and the liabilities from these transactions are reported in the statement of plan net assets. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

The following represents the balances relating to the security lending transactions as of June 30 2006.

NOTE 4 - SECURITIES LENDING (Continued)

Fair Value of collateral received for loaned securities as June 30, 2006:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U. S. Government and Agency Securities	$1,031,985,387	$77,268,998	$1,109,254,385
Domestic Corporate Fixed Income Securities	70,522,813	26,829,689	97,352,502
International Fixed Income Securities	6,609,806	--	6,609,806
Domestic Stocks	957,799,873	47,935,245	1,005,735,118
International Stocks	425,741,533	6,770,866	432,512,399
	$ 2,492,659,412	$158,804,798	$2,651,464,210

Fair value of loaned securities as June 30, 2006:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U. S. Government and Agency Securities	$1,015,596,665	$75,980,519	$1,091,577,184
Domestic Corporate Fixed Income Securities	69,295,205	26,399,230	95,694,435
International Fixed Income Securities	6,558,277	--	6,558,277
Domestic Stocks	941,711,711	47,127,312	988,839,023
International Stocks	414,865,122	6,526,044	421,391,166
	$2,448,026,980	$156,033,105	$2,604,060,085

As of June 30, 2006, the fair value of total securities lent was $2,604,060,085. The fair value of collateral received was $2,651,464,210. Of this amount, $2,492,659,412 represents cash collateral and $158,804,798 represents the fair value of non-cash collateral. Non-cash collateral, which the system does not have the ability to pledge or sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were $11,573,821 and $1,365,442, respectively for the year ended June 30, 2006.

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS

The Board is responsible for adopting an investment policy using the "prudent person standard" per Article XI, Section 1106 (c) of the City Charter. Investments are made with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims.

The System considers investments purchased with a maturity of 12 months of or less to be temporary investments. The carrying value of cash and temporary investments at June 30, 2006 includes $712,400 held by the City Treasurer's office and $767,314,885 in short-term investment funds (STIF). The amounts held by the City Treasurer's office are pooled with funds of other City agencies and are not individually identifiable. Short-term investments are comprised of $767,314,885 in collective STIF.

Credit Risk

Credit risk is the risk that an issuer or a counter party to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class. As of June 30, 2006, the quality ratings of the System's fixed income investments in U.S. Government obligations, domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	$ 156,263,670	8.08%
AA	40,852,990	2.11%
A	156,767,736	8.11%
BBB	239,408,612	12.38%
BB	265,370,056	13.72%
B	318,339,268	16.46%
CCC	56,686,010	2.93%
CC	917,813	0.05%
C	5,338,651	0.28%
D	4,495,975	0.23%
Not Rated	689,239,769	35.65%
Subtotal	$1,933,680,550	100.00%
U. S. Government Issued or Guaranteed Securities	1,479,902,172	
Total Fixed Income Investments	$3,413,582,722	

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2006, the System's exposure to such risk was $19,408,209 comprised of foreign currencies held outside the custodial bank.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counter party, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counter party. The System's investments are not exposed to custodial risk since they are all held by the custodian and are registered in the System's name.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2006 the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways the System manages its exposure to interest rate risk is by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Lehman Brothers Aggregate Index for core fixed income investments, (2) the Lehman Brothers Long Term Government/Corporate Index for long duration investments, and (3) the First Boston High Yield Index for high yield investments. The longer the duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the System's investments to interest rate fluctuations is provided in the following table that shows the weighted average effective duration of the System's fixed income investments by investment type.

Investment Type	Fair Value	Effective Duration (in Years)
Asset Backed Securities	$ 52,920,461	6.65
Commercial Mortgages	59,412,014	33.23
Corporate Bonds	1,156,147,161	11.86
Government Agencies	73,956,176	2.17
Government Bonds	453,842,634	21.83
Government Mortgage Backed Securities	468,400,263	21.17
Government Issued Commercial Mortgage Backed	1,208,289	2.91
Index Linked Government Bonds	481,066,838	10.91
Non-Government Backed Collateralized Mortgage Obligations	18,027,079	24.16
Municipal/Provincial Bonds	1,427,973	2.93
Bond Index Fund	647,173,834	18.35
Total Fixed Income Investments	$ 3,413,582,722	

Investments that are highly sensitive to interest rate risk as of June 30, 2006 are as follows:

Investment Type	Fair Value
Asset Backed Securities	$ 52,920,461
Commercial Mortgages	59,412,014
Government Agencies	73,956,176
Government Mortgage Backed Securities	468,400,263
Government Issued Commercial Mortgage Backed	1,208,289
Index Linked Government Bonds	481,066,838
Non-Government Backed Collateralized Mortgage Obligations	18,027,079
	$ 1,154,991,120

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 18% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks. The System's foreign investment holdings, including foreign currencies and temporary investments as of June 30, 2006 are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	$ 62,017,604
Brazilian Real	49,081,982
British Pound	375,567,277
Canadian Dollar	44,287,946
Czech Koruna	10,262,257
Danish Krone	7,647,286
Egyptian Pound	2,683,202
Euro	988,909,859
Hong Kong Dollar	70,863,688
Hungarian Forint	6,288,200
Indian Rupee	226,839
Indonesian Rupiah	3,657,958
Israeli Shekel	1,678,346
Japanese Yen	543,263,223
Korean Won	82,265,716
Lithuanian Litas	74,251
Malaysian Ringgit	5,066,956
Mexican Peso	13,980,241
Moroccan Dirham	566,927
New Zealand Dollar	8,581,229
Norwegian Krone	55,832,517
Philippine Peso	1,853,237
Polish Zloty	21,242,305
Singapore Dollar	28,967,734
South African Rand	32,277,006
Swedish Krona	39,113,003
Swiss Franc	157,946,504
Taiwan New Dollar	65,821,389
Thai Baht	3,453,233
Turkish New Lira	7,311,253
	$ 2,690,789,168

NOTE 6 - MORTGAGES PAYABLE

Mortgages are secured by real estate. Interest rates range from 4.35% to 7.5% per annum. Monthly principal and interest payments range from $48,454 to $447,958. The mortgages mature from February 2008 to June 2032. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

Year Ending	Principal	Interest	Total
2007	$ 2,412,696	$ 18,336,404	$ 20,749,100
2008	16,856,509	17,840,113	34,696,622
2009	60,639,368	14,815,771	75,455,139
2010	22,084,347	13,034,246	35,118,593
2011	26,104,863	10,193,876	36,298,739
2012 through 2016	125,538,836	37,714,693	163,253,529
2017 through 2021	14,242,599	16,747,165	30,989,764
2022 through 2026	19,833,029	11,153,735	30,986,764
2027 through 2031	19,982,932	28,241,030	48,223,962
2032	1,963,809	74,408	2,038,217
	$ 309,658,988	$ 168,151,441	$ 477,810,429

NOTE 7 - OPERATING LEASE

The System leases office space under an operating lease that expires on December 31, 2011.

The annual lease payments for the year ended June 30, 2006, were $987,070 and the minimum lease commitments for futures fiscal years are as follows:

2007	$ 862,734
2008	991,346
2009	1,020,676
2010	1,056,662
2011	1,100,942
2012	577,793
	$ 5,610,153

NOTE 8 - CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982 have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right was $1,168,037,586 and $1,089,114,169 as of June 30, 2006 and 2005 respectively.

The Charter of the City of Los Angeles provides that member contributions earn interest at a rate based on return from investments, exclusive of gains and losses.

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $678,300,000 and $423,100,000 at June 30, 2006 and 2005 respectively.

NOTE 9 - DONATIONS

From 1999 to 2002, the System received donations of non-voting common stock of non-public corporations, pursuant to repurchase agreements, between the System and the donors, structured entirely by the donors' tax advisers. Under the terms of the agreements, the System, although the owner of the donated common stock, acknowledge that: the non-voting common shares have not been registered under the Federal Securities Act of 1933 or qualified under the California Corporate Securities Law of 1968; that no public market exists with respect to the non-voting common shares; and, that the common shares are subject to a right of first refusal prohibiting the System from selling or otherwise disposing of any common shares without first offering to sell them to the donor. The shares are recorded at carry and market values of zero for the following reasons: (1) there is no public market for the shares, (2) the System does not have the right to sell or otherwise dispose of the shares until the agreed upon future date, and (3) the shares were received as a donation for no consideration. Donation income is only recorded if cash dividends are received from the stock while in the possession of the System.

The System has been informed that the Internal Revenue Service is investigating the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System. The last donation of private equity accepted by the System was in 2002. The System has returned majority of donation of private equity since August 2005. The System has received the following income from these donations: $2,685,000 in 2002; $2,918,066 in 2003; $14,402,308 in 2004; $7,791,262 in 2005, and none in 2006.

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

SCHEDULE 1A

SCHEDULE OF FUNDING PROGRESS – PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL As a % of Payroll
June 30, 2001	$11,835,548,939	$ 9,954,056,461	$(1,881,492,478)	118.9%	$ 882,758,282	(213.1%)
June 30, 2002	11,491,922,362	10,606,825,276	(885,097,086)	108.3%	946,037,252	(93.6%)
June 30, 2003	11,690,750,393	11,203,558,461	(487,191,932)	104.3%	970,726,720	(50.2%)
June 30, 2004	11,735,696,180	11,389,980,813	(345,715,367)	103.0%	1,001,003,937	(34.5%)
June 30, 2005	11,634,113,683	12,357,524,467	723,410,784	94.1%	1,037,444,701	69.7%
June 30, 2006	12,121,402,902	12,811,383,737	689,980,835	94.6%	1,092,814,844	63.1%

SCHEDULE 1B

SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL As a % of Payroll
June 30, 2001	$ 573,844,190	$ 840,287,944	$ 266,443,754	68.3%	$ 882,758,282	30.2%
June 30, 2002	586,953,850	884,371,214	297,417,364	66.4%	946,037,252	31.4%
June 30, 2003	592,539,000	926,760,943	334,221,943	63.9%	970,726,720	34.4%
June 30, 2004	605,998,904	1,009,062,407	403,063,503	60.1%	1,001,003,937	40.3%
June 30, 2005	597,199,108	1,257,504,654	660,305,546	47.5%	1,037,444,701	63.6%
June 30, 2006	613,782,166	1,631,187,439	1,017,405,273	37.6%	1,092,814,844	93.1%

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

SCHEDULE 2A

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN

Fiscal Years Ending	Annual Required Contribution	Percent Contributed
2001	$ 113,849,004	100%
2002	73,120,666	100%
2003	64,634,125	100%
2004	97,465,612	100%
2005	135,853,688	100%
2006	143,945,802	100%

SCHEDULE 2B

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN

Fiscal Years Ending	Annual Required Contribution	Percent Contributed
2001	$ 25,084,169	100%
2002	30,326,543	100%
2003	33,894,924	100%
2004	38,737,255	100%
2005	31,541,933	100%
2006	31,413,281	100%

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

NOTE 1 – DESCRIPTION

The information presented in the required supplementary schedules for the Pension and Health Subsidy Plan was determined as part of the actuarial valuations for the applicable year.

NOTE 2 – ACTUARIAL METHODS AND ASSUPMTIONS

Pension Plan

Actuarial Cost Method – Entry Age Normal Cost Method

Asset Valuation Method – Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Amortization Method and Period – Level percent of payroll. For Tier 1, level dollar amortization is used ending on June 30, 2037. For Tier 2, level percent of payroll amortization is used ending on June 30, 2037 as a percent of total valuation payroll. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. Tiers 1 and 2 UAAL are amortized over a 31-year closed (declining) period.

Investment Return Rate:	8.00%
Inflation Rate:	3.75%
Annual Salary Scale Increase:	
Age:	(Varies by age)
Under 25	5.25%
25-29	4.25%
30-34	3.25%
35-39	2.25%
40-44	1.25%
45-49	1.00%
50 and Over	0.75%
Annual Cost-of-Living Increase:	
Tiers 1 and 2:	3.75%*
Tiers 3, 4, and 5:	3.00%

*Accrued for all subsequent service and subject to any applicable caps.

Mortality Among Retirees – The valuation for those on service retirement is based upon the 1994 Uninsured Pensioner Mortality Table for males set back two years for members. The valuation for those on disability retirement is based upon the 1994 Uninsured Pensioner Mortality Table for males set forward two years for members.

Mortality Among Spouses – The valuation is based upon the 1994 Uninsured Pensioner Mortality Table for males set back four years for spouses.

Health Subsidy Plan

Actuarial Cost Method – Entry Age Normal, Level Percent of Pay

Asset Valuation Method – The actuarial value of assets is a five-year smoothed market value of assets. This method recognizes 20 percent of the year's investment earnings in excess of (or less than) expected investment earnings in the current year and each of the four prior years. The expected value of assets for the year is the market value of assets at the beginning of the prior year brought forward with interest at the assumed rate of return to the end of the current year plus contributions minus benefit disbursements, all adjusted with interest at the assumed rate of return to the end of the current year.

Amortization Method and Period – level percent of pay over 30 years

Graded Medical and Dental Cost Rate Increases:	
Medical (applicable to both pre-65 and post-65 Premiums)	12.0%*
Dental and Medical Part B	5.0%*

*Decreasing gradually to 5.0% in 2016 and later

80% of all retirees over age 65 are assumed to receive a subsidy for an approved health carrier.

86% of retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage, with members being three years older than spouses/domestic partners.

90% of retirees are assumed to elect Medicare Parts A and B.

65% of retirees are assumed to elect dental coverage.

With regard to members who are currently alive, 70% of eligible spouses or domestic partners are assumed to elect continued health coverage after the member's death. With regard to deceased members, 70% of the current eligible survivors are assumed to have elected health coverage.

Other actuarial assumptions on mortality rates, consumer price index, net investment return, age of spouse, and future benefit accruals are the same as for retirement benefits.

Health Subsidy Plan (Continued)

The following methodology is used to develop per capita cost to be used in the valuation of current actives health subsidies. The assumed costs on a composite basis (and other demographic factors such as sex and family status) are the future costs of providing postretirement health care benefits at each age. To determine the assumed costs on a composite basis, historical claims costs are reviewed, and adjusted for increases in the cost of health care services.

For Participants without Medicare Parts A and B

		Maximum Subsidies			
Plan	Participation Percentage	Single	Married	Surviving Spouse	Utilization
Fire Medical	12.9%	$713.79	$782.44	$439.45	75.0%
Blue Cross PPO	54.6%	642.56	782.44	439.45	75.0%
California Care	16.5%	321.04	672.46	321.04	75.0%
Fire Kaiser	1.5%	404.20	782.44	404.20	75.0%
Police Kaiser	14.5%	323.63	641.85	323.63	75.0%
Dental	100.0%	34.84	34.84	0.00	65.0%

For Participants with Medicare Parts A and B

		Maximum Subsidies			
Plan	Participation Percentage	Single	Married	Surviving Spouse	Utilization
Fire Medical	34.5%	$320.01	$583.01	$320.01	85.0%
Fire Kaiser	5.1%	320.01	698.25	320.01	85.0%
Blue Cross PPO	42.8%	320.01	649.21	320.01	85.0%
California Care	4.2%	287.65	586.77	287.65	85.0%
Police Kaiser	13.4%	177.30	495.52	177.30	85.0%
Dental	100.0%	34.84	34.84	0.00	65.0%
Medicare B	100.0%	88.50	88.50	0.00	100.0%

SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Fire and Police
Pension Commissioners
Los Angeles, California

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2006 and 2005, and related statements of changes in plan net assets for the years ended and have issued our report thereon dated November 30, 2006, except for the annual actuarial valuation information which is December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instance of noncompliance or other matters that are required to reporting under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Fire and Police Pension Commissioners and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

Simpson & Simpson

Los Angeles, California
November 30, 2006

active and retired
MEMBERSHIP

FIRE AND POLICE PENSION PLANS

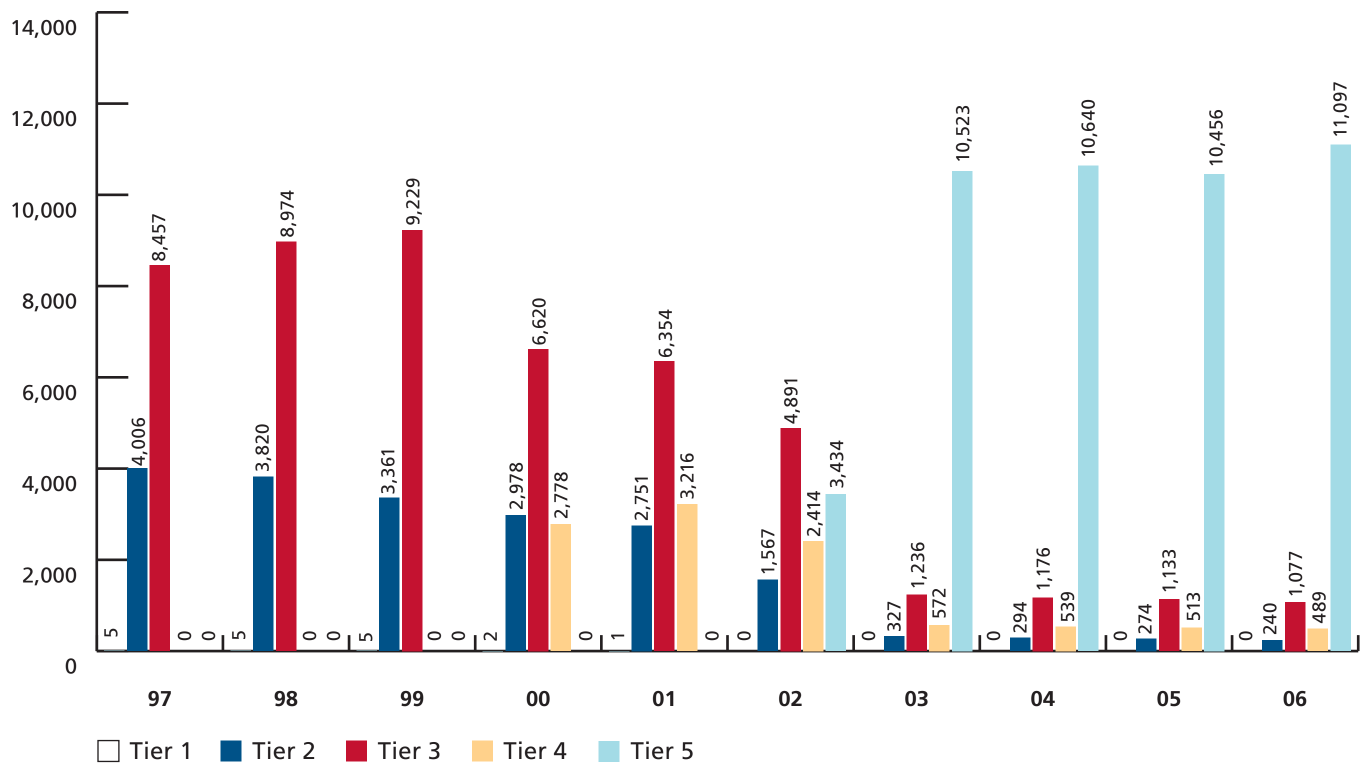
SIX FIRE AND POLICE PENSION PLANS

As of June 30, 2006, the System is composed of six tiers. Benefits are based on the member's pension tier, pension salary base and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Members hired pursuant to the provisions of Article XI 1/2 of the 1925 Charter are known as "fluctuators." Fluctuator pensioners receive 50% of the current salary received by the classification the pensioner retired from. Such beneficiaries are included in Tier 1 for purposes of our actuarial valuations.

Members hired on or before January 28, 1967 participate in Tier 1 (formerly Article XVII). Tier 2 (formerly Article XVIII) includes members hired on or after January 29, 1967 and Tier 1 members who transferred to Tier 2. Members hired on or after December 8, 1980 participate in Tier 3 (formerly Article XXXV, plan 1) and those hired on or after July 1, 1997 are in Tier 4 (formerly Article XXXV, plan 2). Tier 3 members were allowed to transfer to Tier 4 during an enrollment period. Also, Tier 4 members hired between July 1, 1997 and December 31, 1997 were given the opportunity to transfer to Tier 3 during an enrollment period. Tier 5 is the current tier. It was established for all members hired on or after January 1, 2002. Active members of Tiers 2, 3, and 4 were allowed to transfer to Tier 5 during the enrollment period from January 1, 2002 through December 31, 2002. Additionally, eligible sworn members of the Harbor Department hired prior to January 8, 2006 were provided the option to irrevocably elect a transfer to Tier 5 from LACERS during the period January 8, 2006 through January 5, 2007. Upon graduation on or after January 8, 2006, Harbor Department eligible sworn personnel are automatically enrolled as Tier 5 members.

Active Membership Last Ten Years

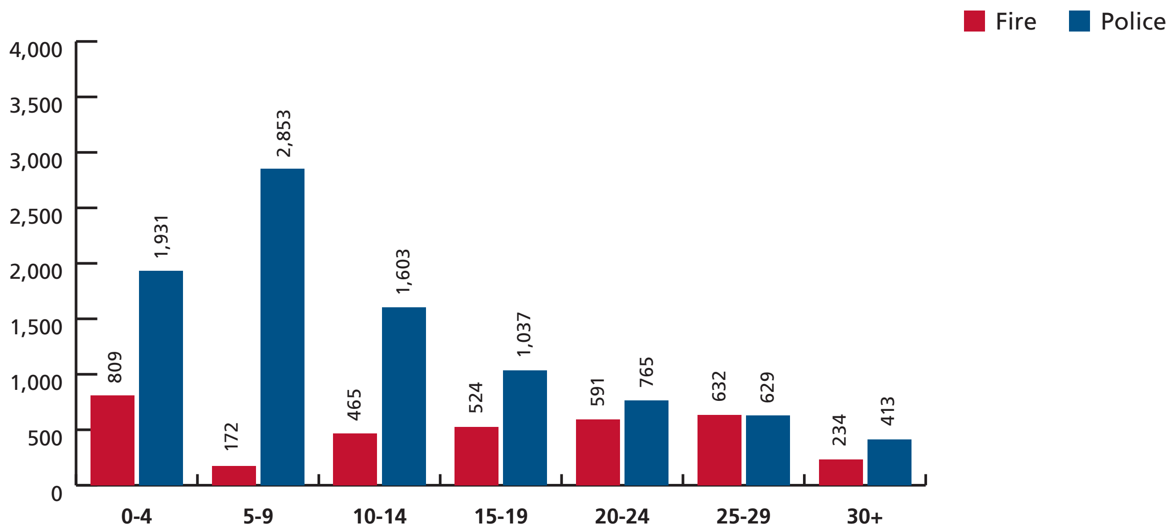


MEMBERSHIP AS OF JUNE 30, 2006

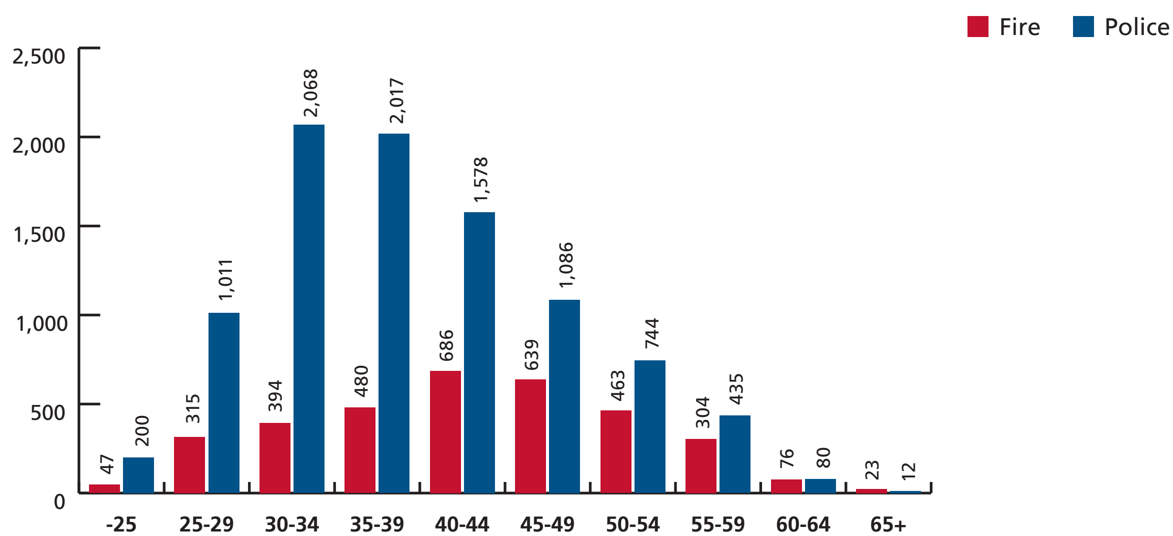
TIER	FIRE	POLICE	TOTAL
Tier 1	0	0	0
Tier 2	94	146	240
Tier 3	34	1,043	1,077
Tier 4	64	425	489
Tier 5	3,401	7,696	11,097
Total	3,593*	9,310**	12,903

Includes 505 **DROP participants.*
***Includes 753 **DROP** participants.*

Active Membership by Years of Service



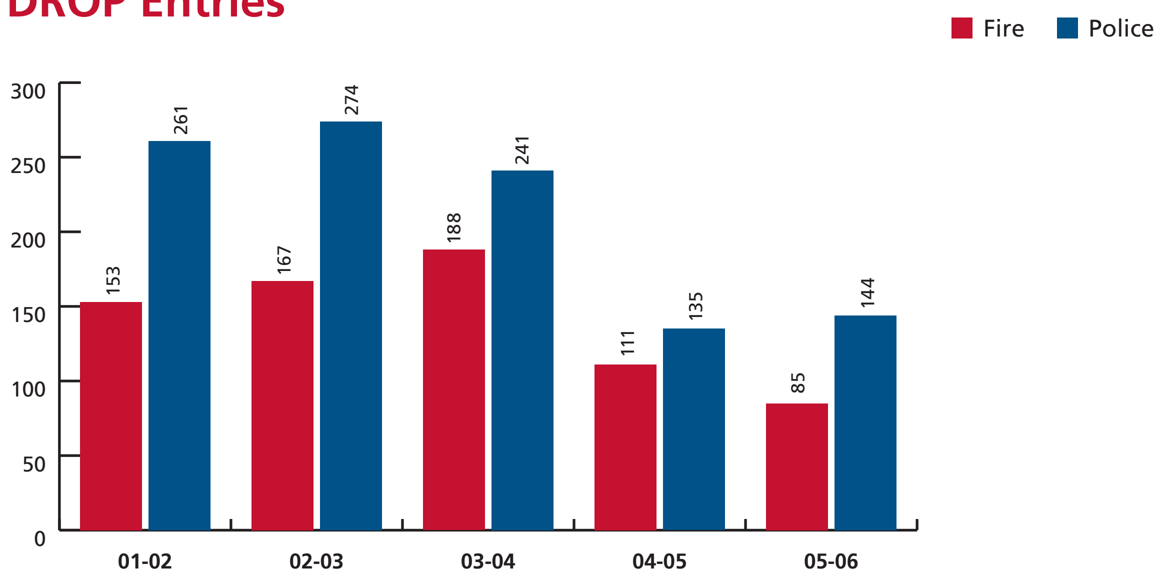
Active Membership by Age Group



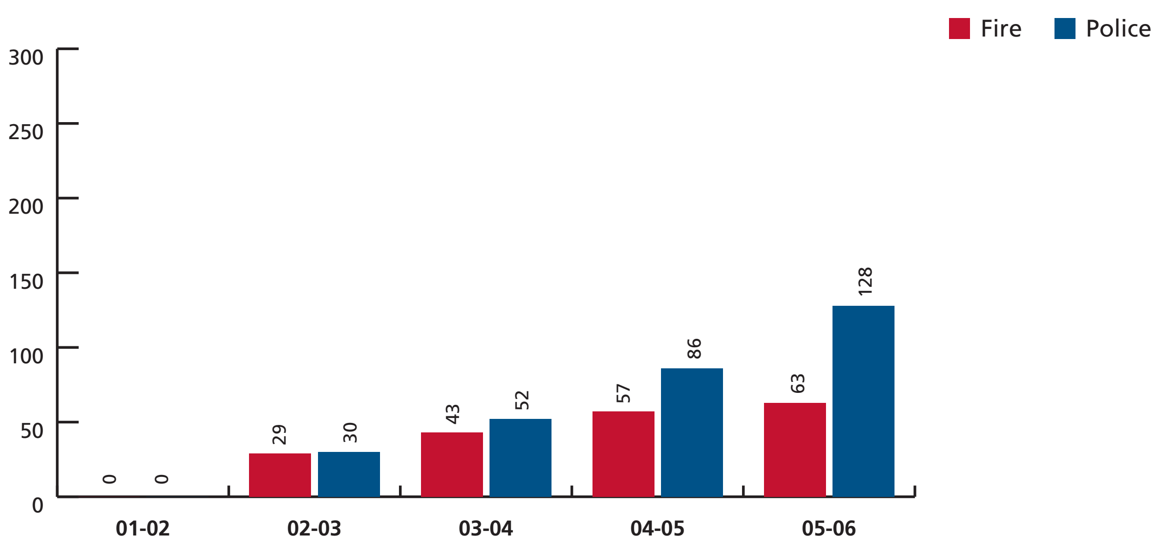
REFUNDS OF MEMBER CONTRIBUTIONS

	01-02	02-03	03-04	04-05	05-06
Fire:					
Tier 2	0	0	0	0	0
Tier 3	3	1	0	1	0
Tier 5	0	6	10	15	17
Police:					
Tier 2	4	0	0	0	0
Tier 3	117	49	39	29	22
Tier 5	13	37	54	55	64
Total	137	93	103	100	103

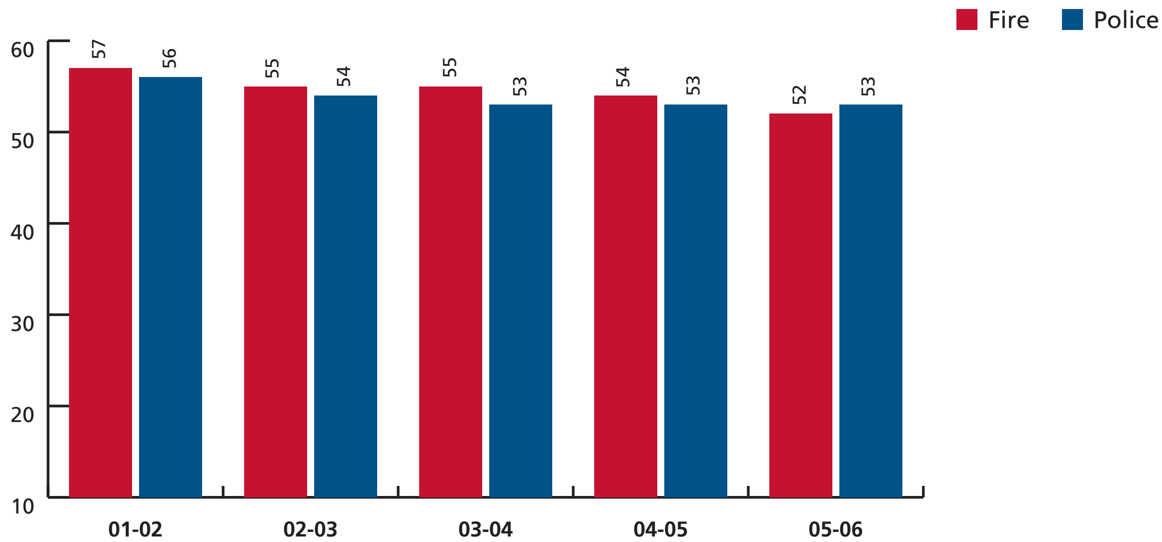
Deferred Retirement Option Plan (DROP)
DROP Entries



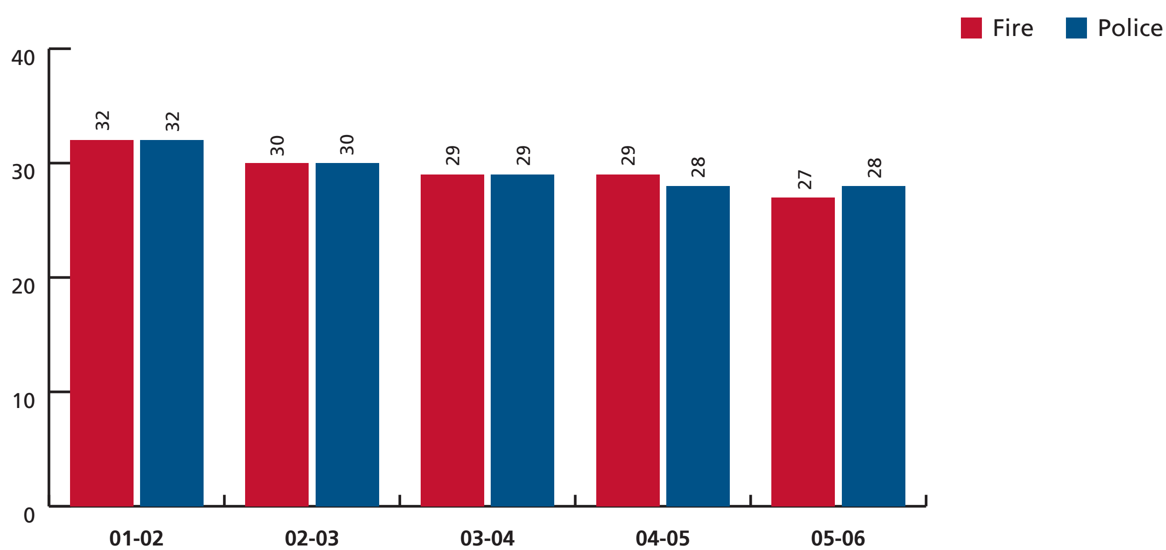
DROP Exits Granted



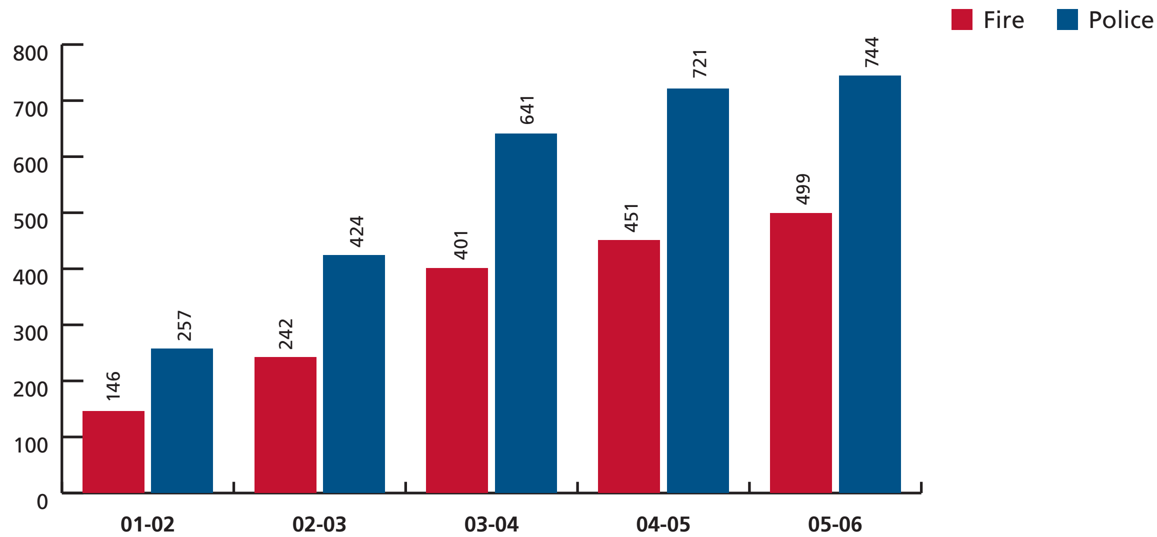
Deferred Retirement Option Plan (DROP) Average Age at DROP Entry



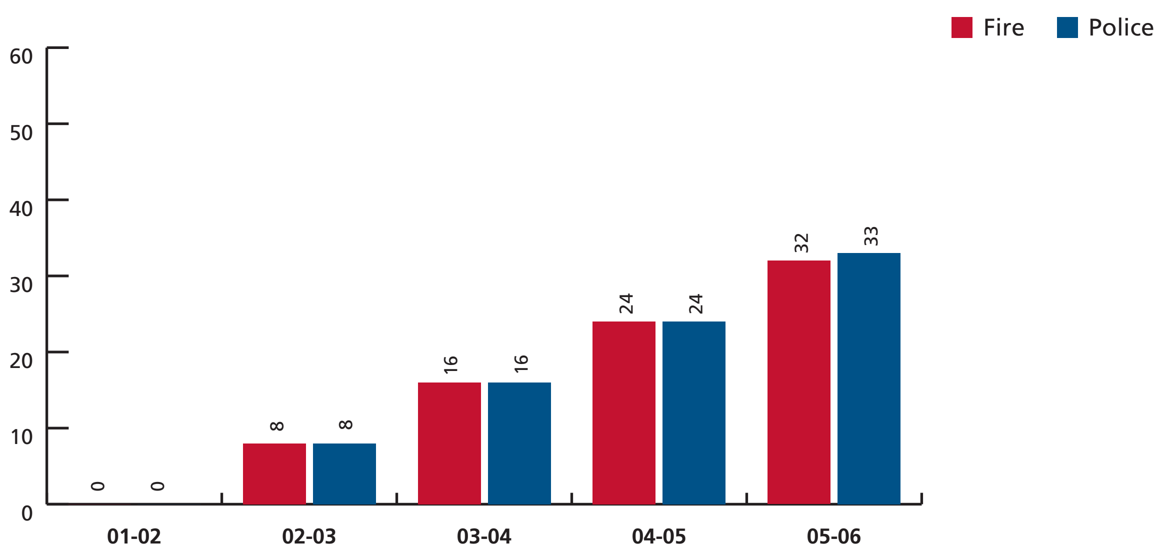
Average Years of Service at DROP Entry



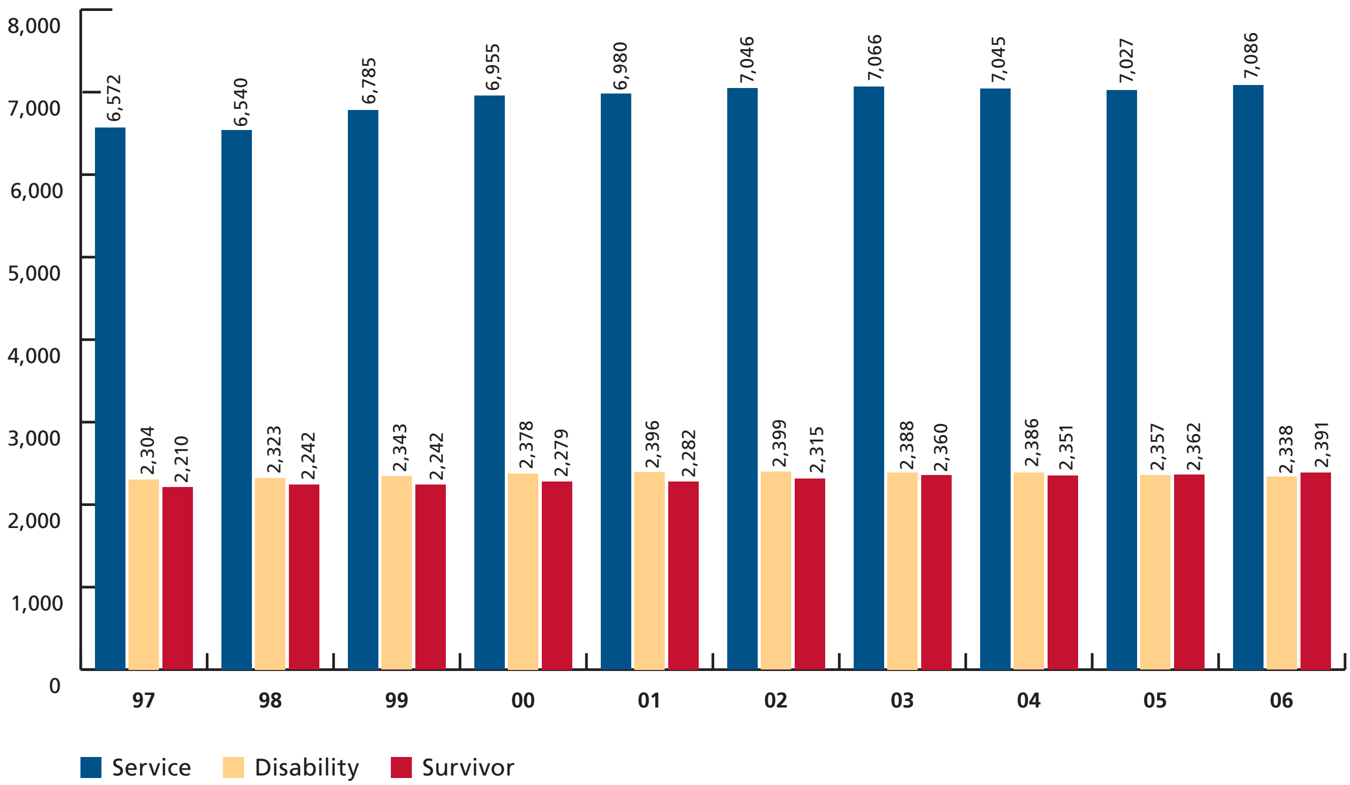
Deferred Retirement Option Plan (DROP) Average DROP Participation



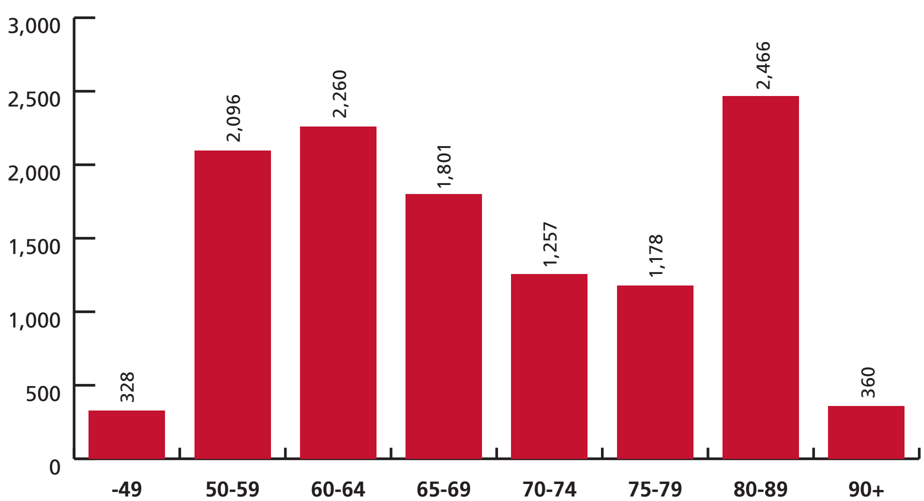
Average DROP Duration at Exit (Months)



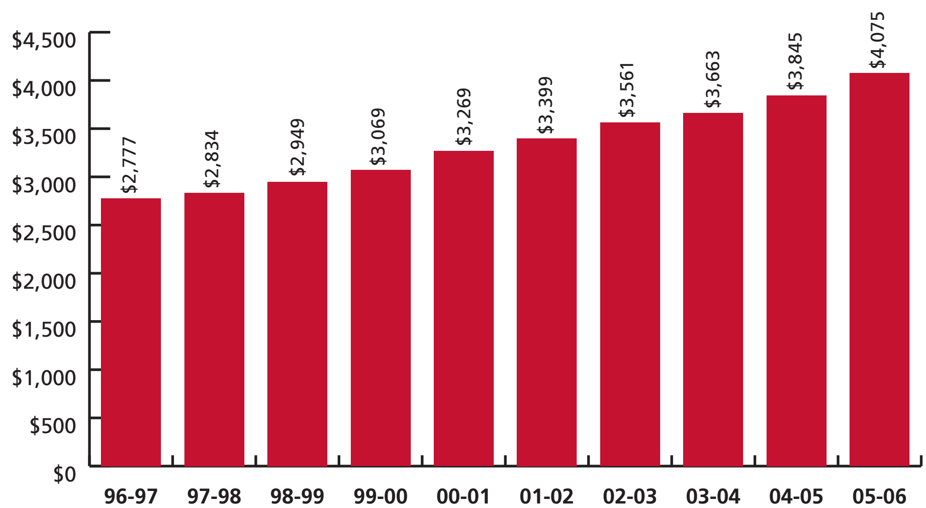
Retired Membership Last Ten Years



Retired Membership by Age Group



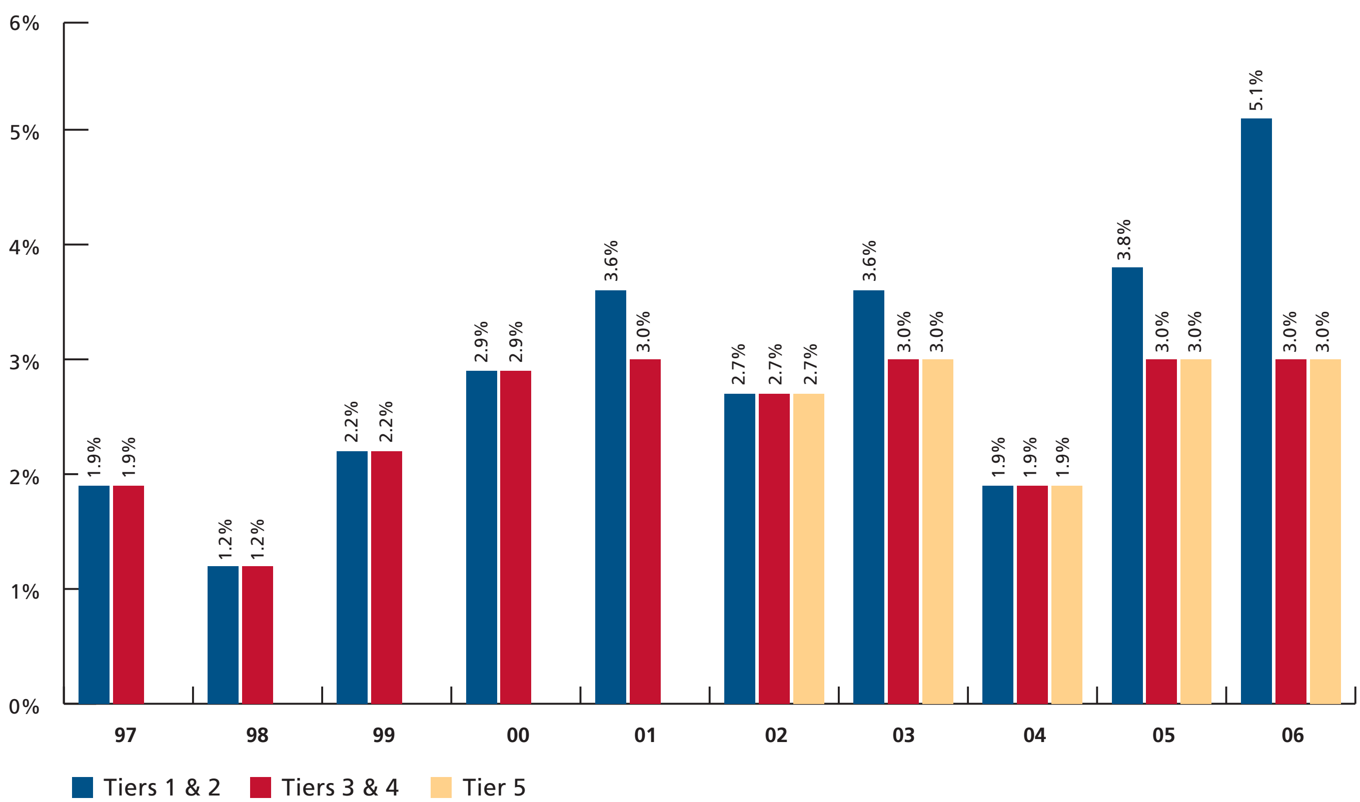
Average Monthly Pension



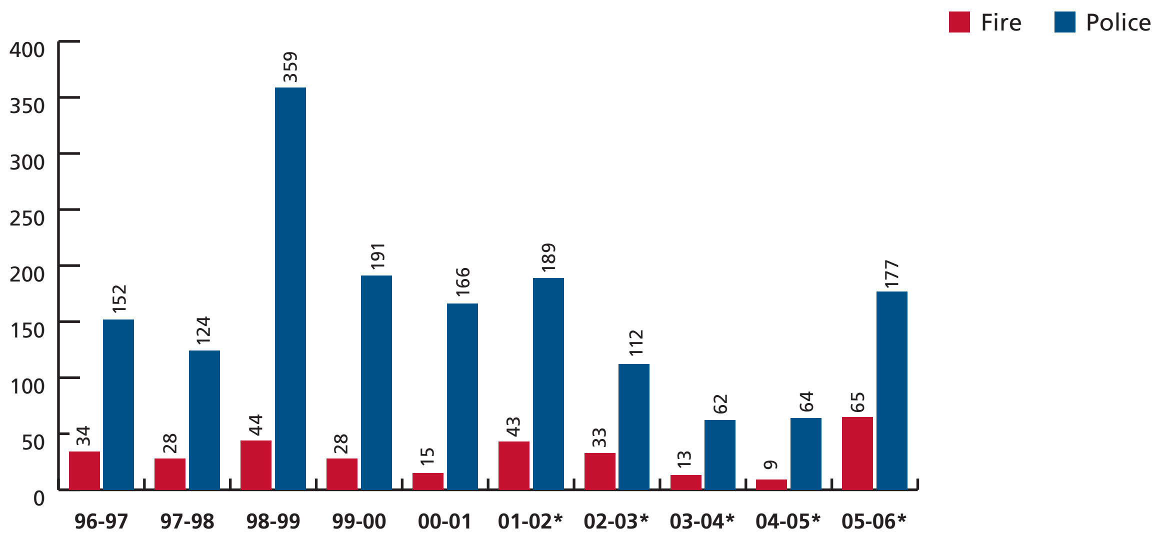
Cost-of-Living Adjustments

EFFECTIVE JULY 1

Cost-of-living adjustments are made to eligible pensions each July 1, based on the movement of the Consumer Price Index for the Greater Los Angeles area from March 1 of the preceding year to March 1 of that year. Members of Tier 1 and Tier 2 have no cap on their cost-of-living adjustments. Members of Tiers 3, 4 and 5 have cost-of-living increases capped at 3%. Members of Tier 5 also have a COLA bank feature.

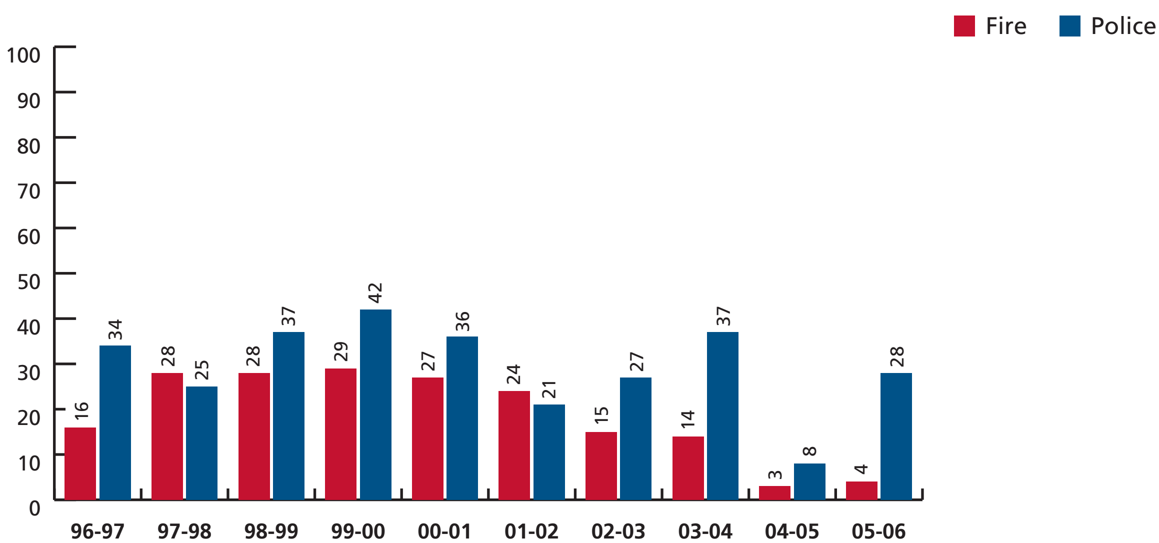


Pension Statistics: Last Ten Years
Service Pensions Granted

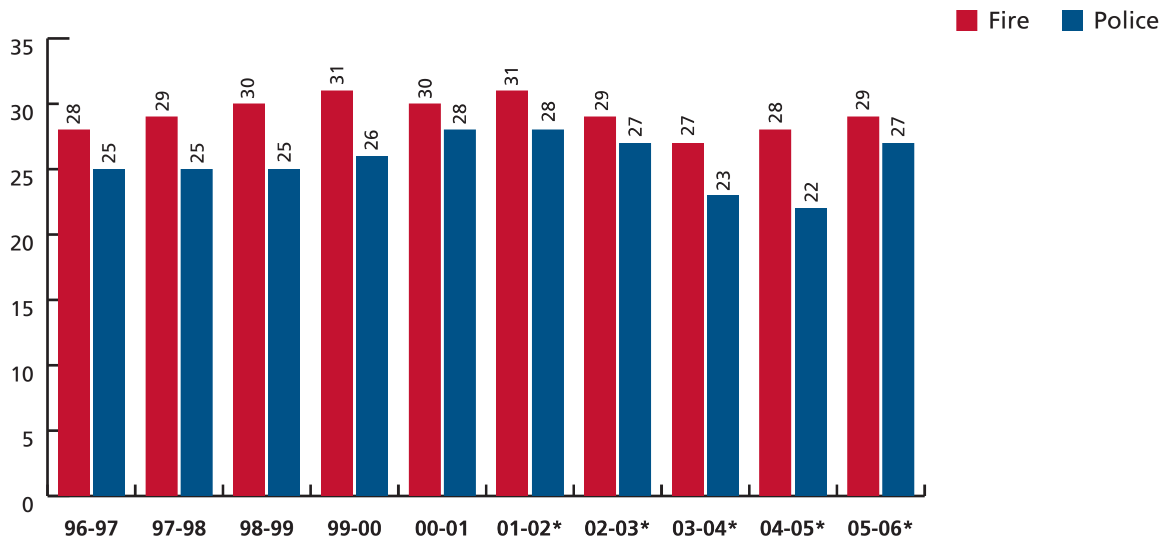


**Excludes DROP Exits.*

Disability Pensions Granted

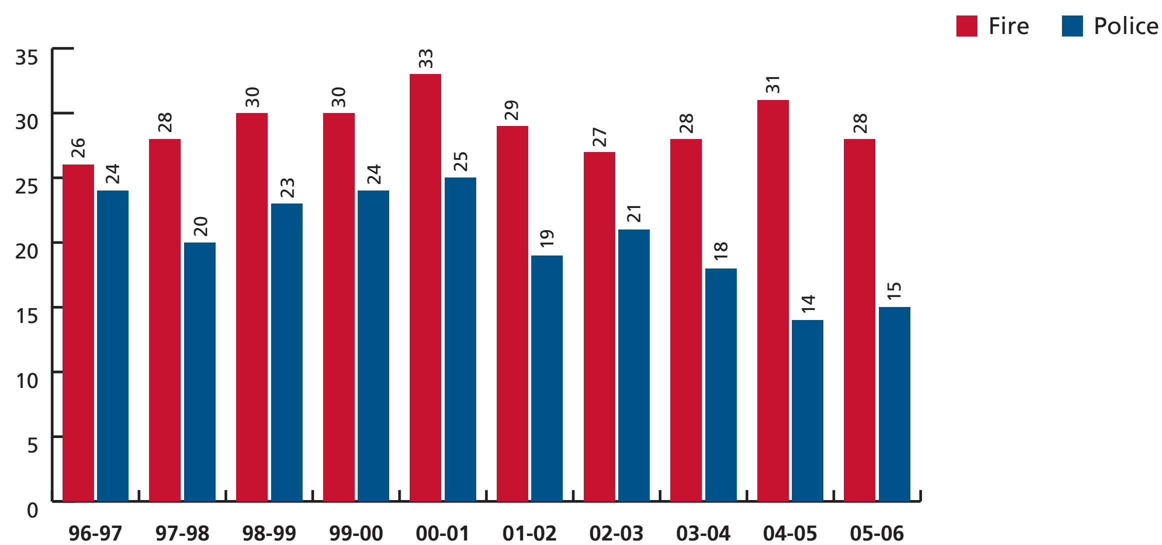


Pension Statistics: Last Ten Years
Average Years of Service at Service Retirement

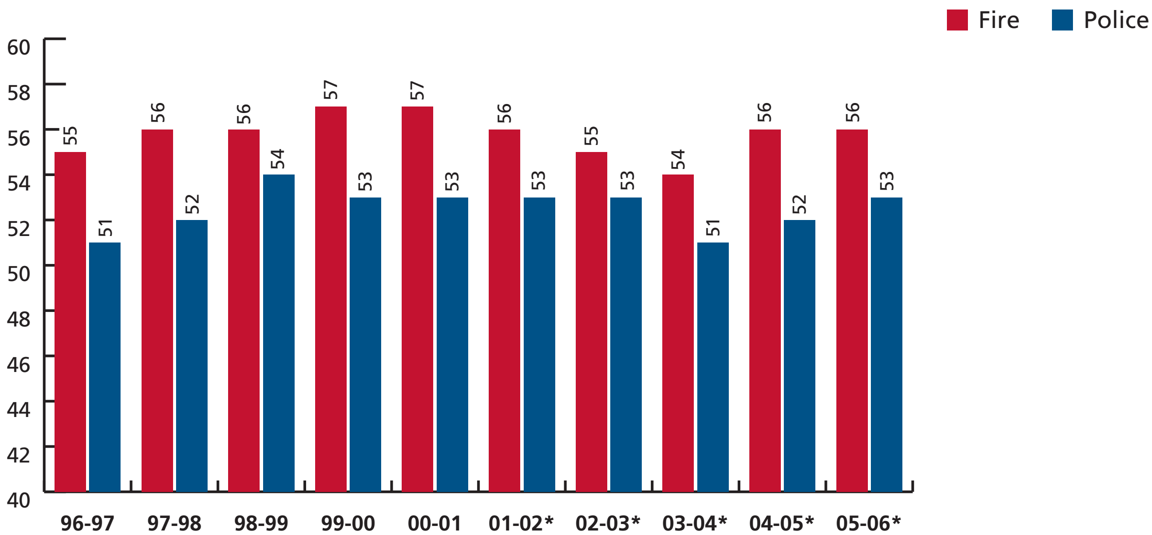


*Excludes DROP Exits.

Average Years of Service at Disability Retirement

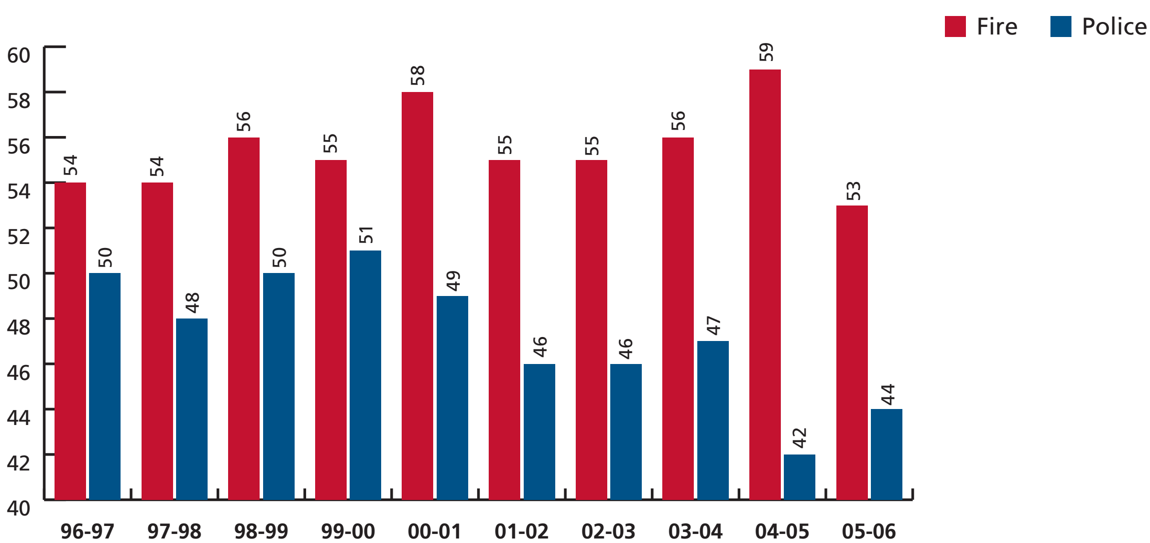


Pension Statistics: Last Ten Years
Average Age at Service Retirement



Excludes DROP Exits.

Average Age at Disability Retirement



Service-Connected Disability Pensions by Type and Department

DISABILITY PENSIONS GRANTED	FISCAL YEAR 2001-02			FISCAL YEAR 2002-03			FISCAL YEAR 2003-04			FISCAL YEAR 2004-05			FISCAL YEAR 2005-06		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Physical Only	22	10	32	13	24	37	13	22	35	12	16	28	4	20	24
Physical/Psychiatric	1	5	6	1	2	3	1	10	11	0	7	7	0	6	6
Psychiatric Only	0	2	2	0	0	0	0	1	1	0	1	1	0	0	0
TOTAL	23	17	40	14	26	40	14	33	47	12	24	36	4	26	30

TYPES OF CLAIMS*	FISCAL YEAR 2001-02			FISCAL YEAR 2002-03			FISCAL YEAR 2003-04			FISCAL YEAR 2004-05			FISCAL YEAR 2005-06		
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total
Back	15	4	19	7	16	23	12	27	39	10	9	19	4	17	21
Neck	9	4	13	0	4	4	3	10	13	6	12	18	2	9	11
Knees	8	3	11	3	3	6	7	15	22	6	9	15	2	10	12
Other Orthopedic	11	10	21	7	20	27	8	21	29	6	14	20	1	26	27
Cardiovascular	6	7	13	3	8	11	2	9	11	2	5	7	1	7	8
Ulcer	0	0	0	4	5	9	0	11	11	1	7	8	0	4	4
Hypertension	2	2	4	2	7	9	1	8	9	0	4	4	2	4	6
Pulmonary	1	0	1	1	1	2	2	0	2	0	0	0	1	1	2
Cancer	2	1	3	1	0	1	3	1	4	0	2	2	0	1	1
Gun Shot Wound	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

**Will not equal the total number of disability pensions granted due to multiple claimed disabilities.*

Service and Nonservice-Connected Disability Retirement by Department and Rank

FIRE	01-02	02-03	03-04	04-05	05-06
Firefighter	6	7	5	6	0
Apparatus Operator	1	0	1	0	0
Engineer	2	3	2	3	1
Inspector	2	0	0	1	0
Captain	11	4	6	2	2
Battalion Chief	1	0	0	0	1
Assistant Chief	1	1	0	0	0
Deputy Chief	0	0	0	0	0
TOTAL	24	15	14	12	4

POLICE	01-02	02-03	03-04	04-05	05-06
Police Officer	15	5	25	14	15
Sergeant	2	5	2	7	7
Detective	3	9	8	2	3
Lieutenant	1	6	0	1	1
Captain	0	1	2	0	0
Commander	0	1	0	0	0
Deputy Chief	0	1	0	0	0
Assistant Chief	0	0	0	0	0
TOTAL	21	28	37	24	26

legal SUMMARY

Summary of Legal Activities

FISCAL YEAR 2005–2006

Under City Attorney Rockard J. Delgadillo, the Retirement Benefits Division of the Los Angeles City Attorney's Office, led by Managing Assistant City Attorney Alan L. Manning, along with Deputy City Attorneys John C. Blair, Mary Jo Curwen, and Michael R. Wilkinson, and assisted by legal Secretary Rebecca Clark, provided day-to-day assistance on the myriad legal issues facing the Department and the members and beneficiaries of the plan. As legal counsel to the Board of Fire and Police Pension Commissioners and the Department, the City Attorney's Office provided advice on a wide range of subjects, from Brown Act issues and public record requests to Tier 5 and DROP (Deferred Retirement Option Plan) issues and compliance with new tax regulations. Additionally, the Division provided representation for the Board and the Department in all legal matters. It assisted members and their beneficiaries in understanding the effects of dissolution proceedings on pension and DROP benefits. The Division worked with the Department staff on ordinances and City Charter changes, including a return-to-work provision and the addition of Port Police, a retiree health subsidy premium and the extension of DROP for an additional five years.

summary of PENSION PLAN BENEFITS

Fire and Police Pension plan

Tier 1 (Formerly Article XVII)
(Closed Jan. 28, 1967)

Tier 2 (Formerly Article XVIII)
(Closed Dec. 7, 1980)

Tier 3 (Formerly Article XXXV, plan 1)
(Closed Jun. 30, 1997)

Tier 4 (Formerly Article XXXV, plan 2)
(Closed Dec. 31, 2001)

Tier 5 Effective Jan. 1, 2002

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
1. SERVICE RETIREMENT				
a. Eligibility	20 years of service	20 years of service	Tier 3: Age 50 with 10 years of service Tier 4: 20 years of service	Age 50 with 20 years of service
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	40% at 20 years of service, plus 2% for each additional year up to 25 years of service, plus 1-2/3% for each additional year between 25 and 35 years of service Maximum of 66-2/3% for 35 or more years of service	40% at 20 years of service, plus 2% for each additional year up to 25 years of service. 55% at 25 years of service, plus 3% for each additional year between 25 and 30 years of service Maximum of 70% for 30 or more years of service	2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service Maximum of 70% for 30 or more years of service	50% at 20 years of service, plus 3% for each additional year (except 4% at 30 years of service) Maximum of 90% for 33 or more years of service
2. SERVICE-CONNECTED DISABILITY				
a. Eligibility	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	50% to 90% depending on severity of disability, with a minimum of member's service pension percentage rate	50% to 90% depending on severity of disability, with a minimum of member's service pension percentage rate	30% to 90% depending on severity of disability, with a minimum of 2% per year of service	30% to 90% depending on severity of disability, with a minimum of 2% per year of service
3. NONSERVICE-CONNECTED DISABILITY				
a. Eligibility	Not work related Five years of service	Not work related Five years of service	Not work related Five years of service	Not work related Five years of service
b. Salary base	Highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay	Nonservice-Connected Salary Base: Highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary)
c. Pension as a percentage of salary base	40%	40%	30% to 50% depending on severity of disability	30% to 50% depending on severity of disability

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
4. SERVICE-CONNECTED DEATH OR DEATH AFTER SERVICE-CONNECTED DISABILITY				
a. Eligibility	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements	Work related No age or service requirements
b. Salary base	Normal Pension Base (Final monthly salary rate)	Normal Pension Base (Final monthly salary rate)	Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) Except for members who transferred from Tier 2 to Tier 5
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	50%	50% with less than 25 years of service with uncapped COLA 55% with 25 or more years of service with uncapped COLA	**SERVICE-CONNECTED DEATH:** 75% of Final Average Salary if service-connected death while active or death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension with 3% cap on COLA **DEATH AFTER SERVICE-CONNECTED DISABILITY:** 75% of Final Average Salary if death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension, otherwise 60% of member's Service-Connected Disability pension with 3% cap on COLA	**SERVICE-CONNECTED DEATH:** *Former Tier 2:* 75% of Normal Pension Base if service-connected death while active with 3% cap on COLA and COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 75% of Final Average Salary if service-connected death while active or death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension with 3% cap on COLA and COLA Bank **DEATH AFTER SERVICE-CONNECTED DISABILITY:** *Former Tier 2:* 50% of Normal Pension Base with less than 25 YOS with 3% cap on COLA and COLA Bank. 55% of Normal Pension Base with 25 or more YOS with 3% cap on COLA and COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 75% of Final Average Salary if death due to service-connected cause(s) within 3 years after effective date of Service-Connected Disability pension, otherwise 60% of member's Service-Connected Disability pension with 3% cap on COLA and COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
d. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, with COLA Bank
e. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, with COLA Bank

5. DEATH WHILE ELIGIBLE TO RECEIVE A SERVICE PENSION ON ACCOUNT OF YEARS OF SERVICE

a. Eligibility	20 years of service	20 years of service	Tier 3: 10 years of service Tier 4: 20 years of service	20 years of service
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	100% of member's accrued service retirement member would have received, not to exceed 50% of Normal Pension Base Uncapped COLA	100% of member's accrued service retirement member would have received, not to exceed 55% of Normal Pension Base Uncapped COLA	Higher of 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received not to exceed 40% of Final Average Salary 3% cap on COLA, no COLA Bank	*Former Tier 2:* 100% of member's accrued service retirement member would have received, not to exceed 55% of Normal Pension Base with 3% cap on COLA, with COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* Per Section 1508(2), if member was eligible to retire based on YOS, 80% of service retirement member would have been entitled to or 30% of member's Final Average Salary; not to exceed 40% of Final Average Salary with 3% cap on COLA and COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, with COLA Bank

6. DEATH AFTER SERVICE RETIREMENT

a. Eligibility	Member was receiving a service pension	Member was receiving a service pension	Member was receiving a service pension	Member was receiving a service pension
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	Same as member's pension up to 50% of member's Normal Pension Base Uncapped COLA	Same as member's pension up to 55% of member's Normal Pension Base Uncapped COLA	60% of member's pension benefit 3% cap on COLA, no COLA Bank	*Former Tier 2:* Same as member's pension up to 55% of Normal Pension Base, with 3% cap on COLA, with COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 60% of member's pension benefit, with 3% cap on COLA and COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, with COLA Bank

7. NONSERVICE-CONNECTED DEATH OR DEATH AFTER NONSERVICE-CONNECTED DISABILITY

a. Eligibility	Five years of service	Five years of service	Five years of service	Five years of service
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit as a percentage of member's salary base	40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay Uncapped COLA	40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay (nonservice-connected pension base) Uncapped COLA	**NONSERVICE-CONNECTED DEATH** 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received not to exceed 40% of Final Average Salary 3% COLA cap, no COLA Bank **DEATH AFTER NONSERVICE-CONNECTED DISABILITY** 60% of member's pension 3% COLA cap, no COLA Bank	**NONSERVICE-CONNECTED DEATH** *Former Tier 2:* 40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay with 3% cap on COLA and COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received not to exceed 40% of Final Average Salary with 3% cap on COLA and COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
				DEATH AFTER NONSERVICE-CONNECTED DISABILITY *Former Tier 2:* 40% of highest monthly salary as of member's retirement for basic rank of Police Officer III or Firefighter III, and the highest length of service pay with 3% cap on COLA and COLA Bank *Former Tier 3/Tier 4 or Tier 5 hired on or after 1/1/02:* 60% of member's Pension with 3% cap on COLA and COLA Bank
c. Eligible children's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 unless child is disabled before age 21 Uncapped COLA	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive, otherwise: • 25% for one child • 40% for two children • 50% for three or more children Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21 3% cap on COLA, with COLA Bank
d. Eligible dependent parent's benefit as a percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) benefit	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive Uncapped COLA	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, no COLA Bank	If no QSS/QSDP, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive 3% cap on COLA, with COLA Bank

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
8. COST-OF-LIVING				
a. Generally applicable provisions	Full annual cost-of-living increase Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers Survivors' pension includes the percentage of cost-of-living increases applied to the member's pension prior to death	Full annual cost-of-living increase Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers Survivors' pension includes the percentage of cost-of-living increases applied to the member's pension prior to death	Annual cost-of-living increase not to exceed 3% Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers City Council may grant discretionary cost-of-living increases once every three years Survivors' pension includes the percentage of cost-of-living increases applied to the member's pension prior to death Pro rata adjustment in the first year of retirement	Annual cost-of-living increase not to exceed 3% Amounts above the maximum of 3% are banked to be credited during years when the CPI is less than the maximum Cost-of-living increases compound, and are based upon the Consumer Price Index for local Urban Consumers City Council may grant discretionary cost-of-living increases once every three years. Such discretionary COLAs reduce the member's COLA Bank Survivors' pension includes the percentage of cost-of-living increases applied to the member's pension prior to death Pro rata adjustment in the first year of retirement
b. Effective date of cost-of-living increases				
i. Service retirement	Annual increases commence on July 1 following the later of the effective date or the date the member would have been age 55	Annual increases commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date
ii. Service-connected disability, service-connected death	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date
iii. Nonservice-connected disability	Annual increases commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date
iv. Nonservice-connected death, death while eligible for service retirement	Annual increases commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date
v. Death after nonservice-connected disability, death after service-connected disability	Annual increases commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension if earlier	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date	Annual increases commence on the July 1 following the effective date

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
9. MEMBERS' CONTRIBUTION AS A PERCENTAGE OF ANNUAL PAY				
	6% No member contributions required after 30 years of service	6% plus 1/2 cost of cost-of-living benefit up to 1% (currently 7%) No member contributions required after 30 years of service	8% No member contributions required after 30 years of service	9% City pays 1% of 9% if plan is at least 100% actuarially funded No member contributions required after 33 years of service
10. QUALIFIED SURVIVORS				
a. Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP) eligibility requirements				
i. Nonservice-connected death	Married at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death	Married or registered the domestic partner at least one year prior to date of nonservice-connected death and as of date of death
ii. Service-connected death	Married as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death	Married or registered the domestic partner as of the date of service-connected death
iii. Death after service pension	Married at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death	Married or registered the domestic partner at least one year prior to the effective date of service pension and as of date of death
iv. Death after nonservice-connected disability	Married at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death	Married or registered the domestic partner at least one year prior to effective date of nonservice-connected disability pension and as of date of death
v. Death after service-connected disability	Married as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death	Married or registered the domestic partner as of effective date of service-connected disability pension and as of date of death
b. Minor child eligibility requirements	Legitimate or adopted child of a deceased member, until age 18 or marries, whichever comes first	Legitimate or adopted child of a deceased member, until age 18 or marries, whichever comes first	Child or adopted child of a deceased member, until age 18 (22 if a full-time student) or marries, whichever comes first	Child or adopted child of a deceased member, until age 18 (22 if a full-time student) or marries, whichever comes first
c. Dependent child eligibility requirements	Legitimate or adopted child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Legitimate or adopted child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood	Child of a deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood

	TIER 1	TIER 2	TIERS 3 AND 4	TIER 5
d. Dependent parent eligibility requirements	Natural parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension	Natural parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension	Parent of a deceased member who had at least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension	Parent of a deceased member who had al least one-half of their necessary living expenses provided by the member for at least one year prior to the member's death and be unable to pay necessary living expenses without the pension

11. MISCELLANEOUS

a. Vesting of service retirement	After 20 years of service	After 20 years of service	Tier 3: After 10 years of service Tier 4: No vesting until retirement (20 years)	After 20 years of service
b. Return of contributions with interest	On termination or death if no other benefits are payable	On termination or death if no other benefits are payable	Tier 3: On termination or death if no other benefits are payable (except basic death benefit) Tier 4: Upon death if no other benefits are payable (except basic death benefit). No refund upon termination	On termination or death if no other benefits are payable (except basic death benefit)
c. Basic death benefit	None	None	If member has at least one year of service, in addition to return of contributions, beneficiary receives the member's one-year average monthly salary times years of completed service (not to exceed 6 years)	If member has at least one year of service, in addition to return of contributions, beneficiary receives the member's one-year average monthly salary times years of completed service (not to exceed 6 years)
d. Optional forms of benefit for Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP)	None	None	At service or disability retirement, member may elect higher QSS/QSDP benefit with corresponding actuarial reduction of retirement benefit	At service or disability retirement, member may elect higher QSS/QSDP benefit with corresponding actuarial reduction of retirement benefit
e. Deferred Pension Option	None	None	Tier 3: Upon termination, can elect deferred pension option if member has at least 10 YOS and leaves contributions in Fund. Upon reaching age 50, member is entitled to receive a service pension using Tier 3 retirement formula Tier 4: No Deferred Pension Option	Tier 5: Upon termination, can elect deferred pension option if member has at least 20 YOS and leaves contributions in Fund. Upon reaching age 50, member is entitled to receive a service pension using Tier 3 retirement formula

milestones

MILESTONES

1899-1901. The California State Legislature enacted legislation in 1899 that enabled cities and counties to establish pension systems for police officers and firefighters. The City of Los Angeles authorized a system for police officers effective June 7, 1899 and for firefighters effective June 10, 1901. It provided for a pension at age 60 after 20 years of service, at an amount of one-half of the salary of the rank held for one year preceding retirement. Disability and survivor benefits were also provided. Member contributions were set at $2 per month.

1911-1919. In 1911 a Charter amendment empowered the City Council to make changes in the pension systems. Effective September 16, 1913, the Council adopted an ordinance that reduced the minimum retirement age to 55 and eliminated member contributions. In 1919, ordinances were adopted allowing retirement after 20 years of service regardless of age.

1922. Fire and police pension plans were merged into one system.

1923-1925. The pension system was placed on an actuarial basis effective January 29, 1923 and a provision was added increasing pensions for members with more than 20 years of service, based on a formula of 1-2/3% for each year of service over 20 up to two-thirds of the salary of the rank held at retirement. The new City Charter which became effective July 1, 1925 added a provision that service and disability pensions would remain fixed amounts.

1927. Members entering service after January 17, 1927 would receive a pension after 25 years of service equal to 50% of the average salary during the three years preceding retirement, plus 1-2/3% for each of the next 10 years of service. A monthly limit of $1,800 for service pensions was established. Member contributions to the system were set at 4% of salary. Pensions for widows were made fixed amounts.

1933. The actuarial requirements were eliminated and the system was placed on a "pay-as-you-go" basis effective May 15, 1933.

1947. Members hired after January 17, 1947 could retire after 20 years of service with a pension equal to 40% of the average salary of the last three years of service with an additional 2% for each of the next five years of service and 1-1/3% for each of the next ten years of service. A maximum pension of two-thirds of the average salary was retained, with a cap based on the salary level of a police captain or fire battalion chief. Member contributions were increased from 4% to 6% of salary. Effective June 16, 1947, a Charter amendment created a non-service disability pension of 40% of the highest salary attached to the rank of firefighter or police officer; an equal amount was to be paid to any surviving spouse with additional percentages allowed for unmarried minor children under the age of 18.

1957. The maximum limit attached to rank for service pensions was removed effective April 18, 1957.

1958. The California Supreme Court ruled that the 1928 Charter provisions for fixed pension did not apply to members employed prior to July 1, 1925 or to surviving spouses of members employed prior to January 27, 1927.

1959. Effective May 6, 1959, the system was again placed on an actuarial basis with a 50-year amortization period for the unfunded liabilities. Investment provisions were changed to permit investment of up to 35% of the fund assets in common stocks.

1961. A one-time cost-of-living increase was provided for all member or surviving spouse pensions based on service-connected disability or death.

1967. Article XVII was extensively amended, and a New Pension System (Article XVIII) adopted effective January 29, 1967 provided:

(1) a pension equal to 55% of annual salary at retirement with 25 years of service plus an additional 3% for each year of service over 25 up to a maximum pension of 70% of salary at retirement with 30 years of service;

(2) a 2% cap to the annual cost-of-living adjustment to all member and surviving spouse pensions that were based on length of service;

(3) a minimum pension of $250 per month to be adjusted each year by the cost-of-living formula;

(4) an extension of the amortization period for the unfunded liability to 70 years; and

(5) changes in the investment authority to provide for mortgage investments and public improvement financing.

1968. Overtime compensation was excluded from computation of contributions and benefits under Articles XVII and XVIII.

1969. Amendments to Articles XVII and XVIII effective May 2, 1969 applied cost-of-living adjustments to disability and survivor pensions. Service pensioners were allowed to apply for return to active duty under certain conditions and restrictions. The authorized limit for common stock investments was raised to 50% of fund assets.

1971. Articles XVII and XVIII were amended effective July 1, 1971 to remove the 2% per year cost-of-living ceiling from all eligible pensions and pegged increases to the Consumer Price Index; to increase the minimum pension to $350 per month; to grant pension credit for partial years of service; and to add two elected employee members to the Board of Pension Commissioners.

1974. Article XVII and XVIII amendments enabled the City Council to adopt ordinances providing subsidy payments for health insurance and other programs for eligible pensioners.

1975. Amendments to Articles XVII and XVIII allowed cost-of-living adjustments for service-connected disability pensions upon the July 1, following the date of retirement. Certain waiting periods for those eligible to receive this adjustment were eliminated.

1976. The health insurance subsidy ordinance was amended effective September 30, 1976 to include the spouse and dependents of eligible members.

1977. The mandatory retirement age provision of Article XVII was eliminated effective April 15, 1977.

1980. Article XXXV, The Safety Members' Pension plan, was created effective December 8, 1980. It provided for a pension at age 50 with 10 years of service based on a formula of 2% per year of service up to 20 years and 3% for each additional year up to a maximum pension of 70% of annual salary at retirement; refund of member contributions with interest upon termination; and a surviving spouse pension equal to 60% of member's pension.

1981. Extensive revisions to the investment provisions of the Charter provided for:

(1) the investment of up to 70% of fund assets in common stock and up to 25% of the 70% without dividend record and registration on a national securities exchange;

(2) the investment of 35% of fund assets in short-term securities;

(3) the appointment of a securities custodian bank;

(4) a requirement to retain investment advisors registered under the Investment Advisor Act;

(5) the selling and repurchasing of covered call options; and

(6) authority to conduct transactions and exchanges of securities without specific prior Board approval, within established guidelines.

1982. Significant revisions to Articles XVII and XVIII provided a 3% cap on the cost-of-living adjustment for all future service earned by active members and a refund of member contributions upon termination. Cost-of-living adjustments were prorated for the first year of retirement. Paramedics and civilian ambulance drivers were transferred from the City Employees' Retirement System to the Safety Members Pension plan (Article XXXV).

1983. Article XVII and XVIII active members were no longer required to contribute to the pension system upon completion of 30 years of service.

1984. The City Charter was amended to permit banks and insurance companies to act as investment advisors to the plan.

1985. Authority was extended to include investment in real estate by all City of Los Angeles pension systems.

1990. A series of measures were enacted which allow the City to protect the integrity of the pension system in response to new tax code regulations. The waiting period was removed for cost-of-living adjustments for surviving spouses of members hired before December 8, 1980 who die in the line of duty.

The 3% cap on cost-of-living increases instituted in 1982 for Article XVII and XVIII members was overturned by court order.

1993. The Board of Pension Commissioners was given authority to increase investments under the "prudent person" provisions of the Charter from 25% to 50%. Retired Article XVIII members may be recalled for up to one year after retirement.

1995. The amount of salary to be used to calculate pension benefits was capped at $150,000 (adjusted annually) for members hired on or after July 1, 1996. The City Council was authorized to enact ordinances required to maintain the tax-qualified status of Article XXXV under federal law.

1996. In January 1996, a new federal law prohibited states from taxing retirement income of nonresidents earned while working or residing in that state.

Effective December 5, 1996, pension benefits to the qualified surviving spouse of a deceased police officer or firefighter continue even if the spouse remarries.

1997. Article XXXV, Plan 2 was established effective July 1, 1997. All Article XXXV members hired between December 8, 1980 and June 30, 1997 were given until June 30, 1998 to make an irrevocable transfer to plan 2. Plan 2 offers a "20 and out" provision with retirement benefits at any age after 20 years of service based on a formula of 2% per year of service up to 20 years and 3% for each additional year up to a maximum pension of 70% of Final Average Salary; member contributions are non-refundable; deferred retirement is not an option.

Article XXXV members retiring on or after July 1, 2000 at a rank no higher than Fire Captain or Police Lieutenant shall receive some pension credit for prior hazard pay even if no hazard pay was received during the 12-month period used to determine Final Average Salary for pension purposes.

Effective July 1, 1997, at the discretion of the City Council, administrative expenses which shall include investment management expenses, shall be paid from fund assets.

The City Council approved an ordinance lowering the health subsidy eligibility age to 55 for members retiring on or after July 1, 1998 with at least 10 years of service.

1999. City Council was given authority to establish by ordinance domestic partner benefits and pension benefits for sworn employees brought into City employment by merger or contract for fire and police services. Provision was also established so that members hired July 1, 1997 through December 31, 1997 could irrevocably elect to transfer from Article XXXV, Plan 2 to XXXV, Plan 1. The provision allowed the Metropolitan Transportation Authority officers merge into the Police Department to join either Plan 1 or Plan 2 of Article XXXV. A delay in the merger made it necessary to add this provision so that negotiated benefits could be provided.

As of June 30, 1999, the actuarial value of system assets equaled 104.7% of the actuarial accrued liability of pension benefits.

2000. Effective January 17, 2000 domestic partners became eligible to receive survivor benefits under the same eligibility requirements as surviving spouses, after filing a Declaration of Domestic Partnership with the Board of Fire and Police Pension Commissioners. Surviving spouses and domestic partners who meet eligibility requirements may now receive a health insurance premium subsidy at the time of the member's death.

The new City Charter became effective July 1, 2000. The primary changes affecting the Pension System are:

(1) The official department name became the Department of Fire and Police Pensions.

(2) The plans were reorganized under a new Charter Article number. Articles XVII, XVIII, XXXV Plan 1 and XXXV Plan 2 are now referred to as Tiers 1, 2, 3 and 4, respectively.

(3) The Board of Commissioners was expanded from 7 to 9 members and now includes an elected retired fire member and an elected retired police member.

(4) The Board now selects the Retirement plan Manager, subject to confirmation by the Mayor and Council, and may remove the Manager, subject to confirmation by the Mayor.

(5) Assistant General Manager positions will be appointed on an exempt basis.

(6) The powers, duties and responsibilities of the Board are more expressly recognized and include:

(a) Language consistent with the provisions of California Constitution Article XVI, Section 17

(b) The prudent person investment standard

(c) Sole and exclusive power to provide actuarial services

(d) Control over litigation and settlement of litigation that involve policies and funds under Board control

(e) Deletion of the Council's right to veto any Board decisions.

(7) The definition of dependent parent was revised so that United States residency at the time of member death is no longer an eligibility requirement.

2001. Charter changes were approved to:

(1) enable the City Council to establish by ordinance a Deferred Retirement Option Plan (DROP).

(2) combine all tiers into a single plan for funding purposes.

(3) require the City Council to create by ordinance a Tier 5 effective January 1, 2002.

(4) allow surviving spouses who remarried prior to December 5, 1996 to collect "surviving spouse" benefits.

(5) enable the City Council to provide by ordinance a dental subsidy for retirees.

2002. By Council ordinance, a new Tier 5 pension plan became effective January 1. Active members of existing tiers could elect to irrevocably transfer to Tier 5 during the period January 2, 2002 to December 31, 2002. Tier 5 members are eligible to retire at age 50 with 20 years of service and receive a service pension benefit of 50% of final average salary, plus 3% for each additional year of service to a maximum of 90% of final average salary for 33 or more years. The exception is year 30 in which 4% of final average salary is earned for retirement. Members contribute 8% of salary; 9% if plan assets fall below the 100% funding level.

The Deferred Retirement Option Plan (DROP) became effective May 1, 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service may file for a service pension but continue to work and earn salary and benefits as an active member. The monthly service pension benefit is deposited into a DROP account that earns a 5% per annum return, payable upon exiting the DROP. Participation in the DROP is limited to a maximum of 5 years.

A dental subsidy for retirees became effective January 1, 2002. To qualify, a member must be age 55 with a minimum of 10 years of service. For each year of service, a member earns 4% of the maximum available subsidy.

Effective January 1, 2001, retirees and surviving spouses/domestic partners not able to enroll in a City-approved and subsidized health plan because they live out of state or outside the service area of a City-approved HMO became eligible to receive a health insurance premium reimbursement. Administration of the program began in 2002, retroactive to the effective date.

The first payment under the Excess Benefit Plan was made. This plan was first authorized in 1990 to supplement the benefits to certain employees to the extent such benefits are reduced by the limitations on benefits imposed by Section 415 of the Internal Revenue Code of 1986 as amended. This plan is nonqualified under the Internal Revenue Code.

2003. Annual active member statements of service credit and recorded contributions were issued to members for the first time since 1985.

Based on recent federal and state legislation, active members may now use funds from deferred compensation and other qualified plans to purchase service credit.

2005. On January 20, 2005, an ordinance became operational allowing former Tier 2 members who transferred to Tier 5 and who had prior service as Paramedics or Civilian ambulance Personnel under LACERS to purchase this period of service.

In the March 2005 election, the voters approved two Charter amendments.

The first amendment authorized the Council to amend the Charter to transfer the Sworn Port Police Officers to Tier 5 of Fire and Police Pensions.

The second amendment does the following:

1) Provides return-to-duty provisions similar to those in Tier 2 to members in Tiers 3, 4 and 5.

2) Authorizes the Council to allow a City Defrayal of Employee Contributions by Ordinance. This means the City may pay a portion of the employee contributions to Tiers 3, 4 and 5, not to exceed 2% of the required contributions in lieu of a salary increase or a portion of an increase. This provision will be used during Memorandum of Understanding negotiations as part of a total economic package and the cost will be evaluated at that time. It has the potential to save money by saving the pension contribution that would be required on any salary increase, lowering the salary base for some period in the future, and saving overtime costs on the lower salary base.

3) The Council authorizes to amend Tier 5 by ordinance to set maximum health subsidies for beneficiaries. The Council could authorize the Pension Board to increase or decrease subsidies, and the link of subsidies for retired members to active members would be removed.

2006. Council Ordinance Number 177214, authorizing the transfer of Sworn Port Police Officers to Tier 5 of Fire and Police Pensions, became effective January 4, 2006. The ordinance gave current Port Police Officers the choice of transferring to Tier 5 or remaining in their current retirement system. Persons appointed on or after January 8, 2006 as specified in the ordinance became members of Tier 5 upon graduation from academy training required by the Harbor Department.

Notes

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To Serve Those Who Protect

LOS ANGELES FIRE AND POLICE PENSIONS