

City and County of San Francisco

Retirement System Annual Report

For the Year Ended June 30, 2002



City and County of San Francisco Employees' Retirement System

MISSION STATEMENT

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits

**Annual Report
For Fiscal Year Ended June 30, 2002**

Table of Contents

President’s Message	3
The Retirement System	4
Members of the 2001-2002 SFERS Retirement Board	5
SFERS Senior Administrative Staff	6
Highlights of Retirement Board Activities for Fiscal Year 2001-2002	7
Deferred Compensation Program	9
Investment Division	14
Retirement Services Division	19
Fiscal Division	30
Actuarial Summary	37

President's Message

INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

December, 2002

On behalf of the Retirement Board and Retirement System staff, I present the Annual Report for Fiscal Year 2001-2002. The report offers information on the members and beneficiaries of the Retirement System's Plans, the retirement services provided, and the investments of the Trust Fund's assets.

Fiscal Year 2001-2002 was a challenging year for the investment community. The losses suffered in the financial markets adversely impacted many pension plans. Fortunately, here in San Francisco, due to the wisdom and insight of our forefathers, the Retirement Fund remained safe and sound. The diversified portfolio cushioned the large declines in value in both U.S. and International stocks. Over the last five years the SFERS Investment portfolio has performed in the top quartile of public pension plans. The Trust Fund remained over-funded and thus required no City contributions. Our employees and retirees continue to receive enhancements and protections for the plan's retirees and beneficiaries.

As a defined benefit plan, San Francisco's Retirement Plan provides tremendous security for its members compared to a defined contribution plan, where asset values and benefits fluctuate with the market and shortfalls are borne by the participant, not the sponsor. Our retirees and beneficiaries continue to receive their promised pensions and regular COLAs; however, because of market fluctuations, the supplemental COLA, which is paid from excess earnings, cannot be funded for the year beginning July 1, 2003.

On behalf of our Board and staff, I assure you that we will continue to make every effort to administer retirement benefits effectively and efficiently and to invest the Trust Fund assets for maximum return consistent with safety and prudence.

If you would like more information on the Retirement System or would like to provide input on any part of our operations, please feel free to contact any commissioner or member of our staff.

With best wishes,



Al Casciato, President
Retirement Board

The Retirement System

The San Francisco Employee's Retirement System was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS § 457 plan.

Each of these benefit plans is mandated by specific San Francisco City Charter sections and/or Administrative Code provisions.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS § 457 Plan, provides participants a tax-deferred method of deferring part of their salary during employment for distribution after retirement.

The Retirement Board

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets twice each month and reviews and approves important elements of Retirement System business, including:

Pension Fund Investment

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

Actuarial Funding

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

Active and Retired Members

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost-of-living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.

Administration and Management

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

Members of the 2001-2002 SFERS Retirement Board

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

Al Casciato Lieutenant, Police Department	Elected Member February 2005
Joseph D. Driscoll, C.F.A. Lieutenant, Fire Department	Elected Member February 2006
Herb Meiberger, C.F.A. Security Analyst, Retirement Department	Elected Member February 2007
William Breall, M.D. Cardiologist	Appointed Member February 2004
Brenda Wright Regional Manager, Financial Services	Appointed Member February 2003
Patricia E. Martel Public Administrator	Appointed Member February 2004
Jake McGoldrick Member, Board of Supervisors	Ex-Officio Member January 2003

SFERS Senior Administrative Staff

Administration:

Clare M. Murphy	Executive Director
Jay Huish	Deputy Director
Kay Gulbengay	Executive Assistant

Investment Division:

David Kushner, C.F.A.	Deputy Director of Investments
Carl Wilberg Equities	Senior Investment Officer
Richard Piket Fixed Income	Senior Investment Officer
Glen Schwartz Alternative Investments	Senior Investment Officer
Donald Holcher Real Estate	Senior Investment Officer

Retirement Services Division:

Maria Newport	Retirement Administrator
---------------	--------------------------

Fiscal Division:

Les Win	Chief Accountant
---------	------------------

Actuary Division:

Kieran Murphy, A.S.A.	Actuary July 1, 2001-December 14, 2001
Vacant	December 15, 2001-June 30, 2002

Highlights of Retirement Board Activities for Fiscal Year 2001-2002

The SFERS Retirement Board conducted 14 meetings and addressed several significant issues during the 2001-2002 Fiscal Year.

General Administrative Highlights

During the 2001-2002 Fiscal Year the Retirement Board continued its policy development efforts in addition to the traditional oversight covering benefits and investment activities of the Plan.

At the beginning of the Fiscal Year the Board reviewed recommendations and findings for the actuary succession plan. In November, it reviewed the economic actuarial assumptions including investment yield, wage inflation and inflation as measured by the Consumer Price Index.

In October of 2001, the Retirement Board welcomed the new Deputy Director for Investments, David Kushner, to administer the Retirement System investments.

Due to the growing complexities of the System, the Board established a formal Business Planning Policy to ensure the Board adequately plans for the future needs of the System. It also approved a Board Education Policy so that Board members can fulfill its fiduciary duties by acquiring the level of knowledge and facets for the Plan to make prudent policy determinations. The plan serves as a guide to raise awareness among prospective trustees of the importance of fiduciary education. The Board adopted four additional policies in April of 2002:

- Board Development Policy

- Monitoring and Reporting Policy

- Executive Director's Evaluation Policy

- Service Provider Policy

Throughout the Fiscal Year, the Board received reports and studies on the issue of credited interest rate. Reports included statistical data to understand the potential effect by a change in the plan credited interest rate and the liability impact of increasing the credited interest rate. The Board considered this issue throughout the Fiscal Year at several of its meetings and at the close of the Fiscal Year was contemplating making a determination at its July 2002 meeting in accordance with the newly revised San Francisco Administrative Code Section 16.37-1.

In October 2001, the Board approved procedures for purchase of retirement system credit for representative service in an effort to afford its members the most equitable calculation of compensation based on the applicable memorandum of understanding provisions.

The Retirement Board monitored two class action type lawsuits, which allege that the Retirement System should include additional "pay types" in pension calculations, the Mason case concerns the miscellaneous plan members and the Adams case pertains to safety members. The Retirement System has received a trial court judgment in its favor in Mason. Mason is now on appeal.

In March of 2002, a new lawsuit was filed against the Retirement System by the Veteran Police Officers Association (the "VPOA"). VPOA is asking that Police Officer Standard Training (POST) pay be included in the pensions of those retirees who had POST certificates (but not necessarily the POST rank) when they retired.

The Mason, Adams and VPOA cases are being vigorously contested. The City Attorney has associated outside counsel to help defend these claims.

The Board also considered and approved a change in its meeting dates (Retirement Rule 2.01) and established the first Tuesday of each month at 12:30 p.m. as its regular meeting date.

The annual budget was reviewed and approved in February 2002 for the upcoming Fiscal Year.

In March of 2002, the Retirement Board held its annual election of officers, and Mr. Al "Crocce" Casciato was elected President and Pat Martel as Vice-President.

In November of 2001, the Board approved a request for proposal for a fiduciary counsel and outside legal services to protect the San Francisco Employees' Retirement System and its fund. The outside counsel list was approved at its July 2002 meeting. The Board also reviewed the roles and rights of Board members to make public presentations in opposition to Retirement Board positions.

The Board reviewed the annual Cost of Living Adjustment (COLA) and approved a recommendation to pay the full 2% basic COLA as directed by Charter Section 8.526. Further, the Board reviewed the Supplemental COLA provisions in light of the passage of Proposition B in November 2001. Proposition B secured as permanent benefits all supplemental COLA's payable as of June 30, 2003. The Board was not able to create a reserve for additional supplemental COLA's for July 1, 2003 due to performance of the plan.

At its meeting of December 2001, the Retirement Board retained the law firm of Milberg Weiss, LLC to work with the City Attorney's office to join in the securities litigation against Enron as an active plaintiff. The Retirement Board has long recognized its fiduciary duty to recoup monies when investment losses are caused by fraud. Depending on the facts of a particular case, there are several options for the Retirement Board to consider in discharging this responsibility.

Deferred Compensation Program

The Board reviewed reports from the ING Financial Advisors LLC on the San Francisco Deferred Compensation (457) Plan and received a plan overview, investment options analysis, and updates on California Tax Conformity with Economic Growth Tax Relief Reconciliation Act (EGTRAA) and updates on the ING integration process.

The Board also reviewed the investment performance analysis for the Deferred Compensation plan and reviewed a list of investment options for the year ending December 31, 2001. The Board discussed the possibility of adding "lifestyle" type funds.

In June of 2002, the Board approved amendments to the San Francisco Deferred Compensation (457) Plan Document which were necessitated by the passage of income tax conformity provisions bringing California tax law into alignment with Federal (EGTRAA) changes. These changes allowed significant increases in deferral limits, inservice transfer of Deferred Compensation Plan assets for purchase of qualified pension credits, and enhanced catch-up provisions.

The Retirement Board concluded litigation to recover certain charges that were imposed by the Hartford Life Insurance Company when Hartford was replaced as the administrator of the City's Deferred Compensation Plan. Approximately \$1.4 million was recovered, which was directed to ING Aetna, the current San Francisco Deferred Compensation administrator to offset recovery fees charged the Deferred Compensation Plan participants.

Investment Highlights

Throughout the Fiscal Year the Retirement Board reviewed the performance of the Trust Fund and the performance and adherence to guidelines by individual managers. The Investment Division conducted searches for the Fund's General and Real Estate consultants, culminating in the reaffirmation of Angeles Investment Advisors as the General Consultant and The Townsend Group as the Real Estate consultant. Additionally during the Fiscal Year ended June 30, 2002, the Retirement Board adopted a new Manager Monitoring and Retention Policy. Finally, given the volatility of the capital markets, the Investment Division initiated a full Asset Liability/Asset Allocation study, which was under way at the close of the Fiscal Year.

The following is a summary of the investment activity that the Retirement Board and staff accomplished during Fiscal Year 2001-2002, organized by the major segments of the capital markets:

Equity

During the course of Fiscal 2002, Paradigm Asset Management and J.P. Morgan Investment Management were terminated. The funds from Paradigm were set aside to use for payment of benefits and fund expenses, while the funds from J.P. Morgan were invested in the S&P 500 Index Fund pending completion of the Asset Allocation study. Additionally, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the equity portion of the total fund.

Throughout the course of the Fiscal Year the equity staff also reviewed various investment strategies for possible inclusion at later dates.

Fixed Income

During the Fiscal Year ended June 30, 2002, the success of the Emerging Markets Debt (EMD) portfolio prompted the Retirement Board to retain Ashmore Investment Management as a second EMD manager responsible for a \$75 million portfolio of Local Currency Short Duration EMD.

A major highlight for the Fiscal Year was the completion of a third commercial mortgage whole loan securitization in April of 2002. This process involves converting commercial loans originated by a specialized fixed income manager into securities that are sold in the public markets at a premium to the original cost of the loans. The proceeds of this sale are then reinvested in new commercial loans so that the process can be repeated. The Retirement System is one of only a few Public Funds that engage in this activity and SFERS participation in two prior securitizations has resulted in returns in excess of 10% for this portfolio over the past several years. This latest securitization transaction is expected to produce similar results.

Real Estate

For the Fiscal Year ended June 30, 2002 the real estate portfolio had a one-year return net of managers' fees of 6.8%. The three-year return was 10.1% compared to the benchmark of 9.6% as reported by NACREF in their National Property Index ("NPI"). The 5-year return was 11.7%, which compares favorably to the NPI of 11.7%. The Trust Fund's real estate consultant provided these returns.

As of June 30, 2002, the real estate market value and unfunded commitments total \$1,102 million, which is 10.5% of Plan Assets.

The biggest challenge facing real estate is the lack of demand following an economic slow down. Vacancies nationally are high and rents have dropped. Market conditions are weak and will see additional deterioration until the end of 2003. SFERS real estate portfolio is well positioned to withstand the decline in fundamentals and should perform at or close to the NPI for the next year.

Alternative Investments

The Retirement Board reviewed staff commitments made under approved delegated authority in Fiscal Year 2001-2002, which resulted in participation by SFERS in the following new partnerships:

New Limited Partnerships in Fiscal Year

Partnership	Fund Type
Lexington Capital Partners V, L.P.	Secondary Purchaser of Funds
OCM Opportunities Fund IV-B, L.P.	Distressed Debt
Blackstone Capital Partners IV, L.P.	U.S. Private Equity

Compared with previous years, these three investments of \$90 million reflect a significant reduction in new commitments due to allocation constraints. These investments continue the Retirement Board's strategy to diversify the portfolio, and enhance the returns of the Trust.

SFERS Administration

Administering mandated benefit programs and providing promised benefits

Actuarial Services

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System.

Deferred Compensation

The following pages provide detailed statistical information related to the City's Deferred Compensation Plan and SFERS Disability Application Processing for Fiscal Year 2001-2002.

**CITY AND COUNTY OF SAN FRANCISCO 457 PLAN
DEFERRED COMPENSATION: CHANGES IN PLAN VALUES
ING Financial Advisors LLC
06/30/01 – 06/30/02**

Fund Name	Assets as of 06/30/2001	Assets as of 06/30/2002	Percent Change
ING Fixed Account - 457/401	\$250,876,275	\$302,309,124	21%
Janus Twenty Fund	\$120,863,104	\$84,638,874	-30%
ING T. Rowe Price Growth Equity Portfolio - Initial Class	\$89,740,829	\$70,508,279	-21%
ING VP Balanced Portfolio Inc. - Class R	\$73,016,307	\$66,472,543	-9%
AIM V.I. Capital Appreciation Fund – Series I Shares	\$80,501,517	\$61,554,129	-24%
Janus Aspen Series Worldwide Growth Portfolio – Inst Shares	\$52,962,663	\$41,119,241	-22%
ING VP Index Plus LargeCap Portfolio – Class R	\$44,796,467	\$38,400,122	-14%
Janus Aspen Series Balanced Portfolio – Inst Shares	\$35,056,262	\$35,980,872	3%
Ariel Fund	\$13,208,176	\$27,911,636	111%
ING VP Bond Portfolio - Class R	\$16,293,825	\$21,386,845	31%
ING VP Money Market Portfolio - Class R	\$22,727,435	\$20,645,231	-9%
ING VP Value Opportunity Portfolio – Class R	\$14,026,623	\$13,288,713	-5%
ING Scudder International Growth Portfolio - Initial Class	\$12,745,619	\$11,605,312	-9%
ING VP Growth Portfolio - Class R	\$12,378,001	\$9,594,343	-22%
Calvert Social Balanced Portfolio	\$7,809,602	\$7,247,427	-7%
AIM V.I. Growth Fund - Series I Shares	\$9,641,409	\$6,533,606	-32%
Janus Aspen Series Flexible Income Portfolio - Inst Shares	\$4,403,793	\$6,068,331	38%
ING VP Small Company Portfolio - Class R	\$3,574,110	\$5,450,171	52%
Citizens Emerging Growth Fund® - Administrative Shares	\$2,480,311	\$3,553,324	43%
ING VP International Equity Portfolio – Class R	\$3,722,917	\$3,054,244	-18%
ING Ultimate Account	\$7,038,100	\$5,316,722	-24%
Total	\$877,863,352	\$842,639,097	-4%

Number of Active Participants: 21,171
 Retirees Receiving Benefits from Hartford: 649
 Retirees Receiving Benefits from ING: 2,360

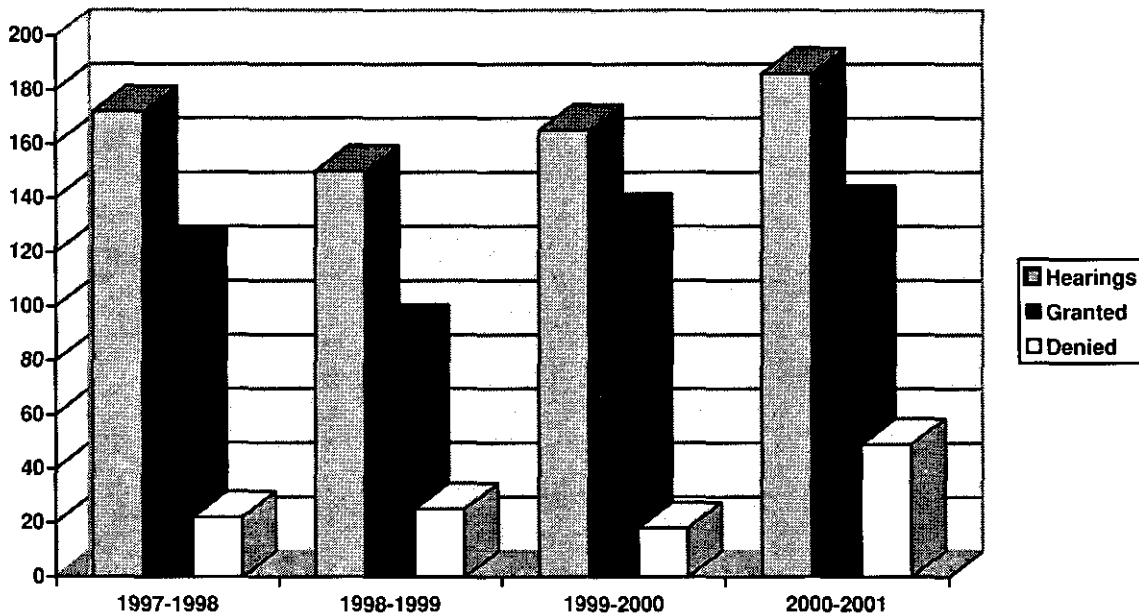
Total Retiree Assets: \$204,818,159

Hearing Officer Report Fiscal Year Ended June 30, 2002

CASES	TOTAL NO. OF HEARINGS	TOTAL NO. GRANTED	TOTAL NO. DENIED
Industrial Disability Retirements	54	45	13
Ordinary Disability Retirements	107	86	13
Industrial Disability Determinations	3	0	1
Death Benefits	4	2	0
Petitions for Rehearing	0	0	11
PERS	6	3	1
Reinstatements	1	2	1
TOTAL	175*	138	40

** The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.*

Hearing Officer Report Four-Year Comparison



Investment Division

Dedicated to securing, protecting and prudently investing the pension trust assets

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the seventy years since its inception. The Retirement System's goal, however, has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2002, approximately 20.99% of SFERS trust assets were managed internally, including \$854 million in domestic bonds and \$ 1.3 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global and domestic fixed income, international and domestic equities, real estate and alternative investments.

Investment Highlights for Fiscal Year Ended June 30, 2001

For the Fiscal Year ended June 30, 2002, the Investment portfolio of the Retirement System experienced the effects of a turbulent year in the capital markets. Corporate scandals at Enron, Worldcom, Tyco and others created concerns with investors as to the viability of corporate financial statements, causing a lack of confidence in the valuation underpinnings of the equity markets. A weak economy combined with shifts from the volatile equity markets to the "safe haven" of fixed income instruments combined to lower interest rates to levels not seen in over thirty years. With the exception of Real Estate and Non-U.S. Equity, which underperformed their benchmarks modestly, all asset classes within the fund outperformed their respective benchmarks. As a result, the total Fund experienced a total rate of return of -4.5% for the Fiscal Year versus the SFERS weighted policy benchmark of -5.23%.

Within asset classes the combined U.S. Equity portfolio returned -13.3% versus a Russell 3000 benchmark of -17.2% while the non-U.S. Equity composite declined by -9.4% versus the international benchmark return of -8.2%. Private Equity, as represented by the Alternative Asset portfolio also reported a -11.85% return for the year compared with its benchmark's return of -11.99% (S & P 500 Index + 6%). Offsetting these negative returns were an 8.06% return on the total Fixed Income portfolio versus the Lehman Aggregate benchmark of 7.72% and a 5.77% return on Real Estate versus a NCREIF benchmark of 6.54%.

While the investment returns for the past Fiscal Year were disappointing, on a longer term basis the investment performance for SFERS has been very strong on both an absolute and relative basis as shown in the table on the next page. As of June 30, 2002, the Fund ranked above the first quartile among Public Funds greater than \$1 Billion in size for the one-year and three-year periods. For the five-year period, the Fund ranked in the top fifth percentile. At the quarter end, the universe had 29 Public Funds over \$1 Billion.

Investment Portfolio Performance

Annualized Returns for the Periods ending 6/30/2002

	One Year	3 Years	5 Years
Domestic Equity (benchmark: Russell 3000)	-13.3% -17.24%	-5.94% -7.92%	4.55% 3.84%
International Equity (benchmark: MSCI ACWI Free ex US)	-9.43% -8.16%	-3.46% -6.16%	1.53% -1.70%
Domestic Fixed Income (benchmark: Lehman Universal)	8.29% 7.72%	7.89% 7.67%	7.62% 7.31%
Global Fixed Income (benchmark: Lehman Global)	7.39% 6.45%	7.41% 4.80%	4.79% 4.57%
Real Estate (benchmark: NCREIF)	5.77% 6.54%	9.12% 9.95%	12.74% 12.02%
Alternative Assets (benchmark: S&P + 6%)	-11.85% -11.99%	14.42% -3.18%	17.86% 9.66%
TOTAL Fund (weighted policy benchmark)	-4.50% -5.97%	1.73% -1.13%	6.55% 4.17%

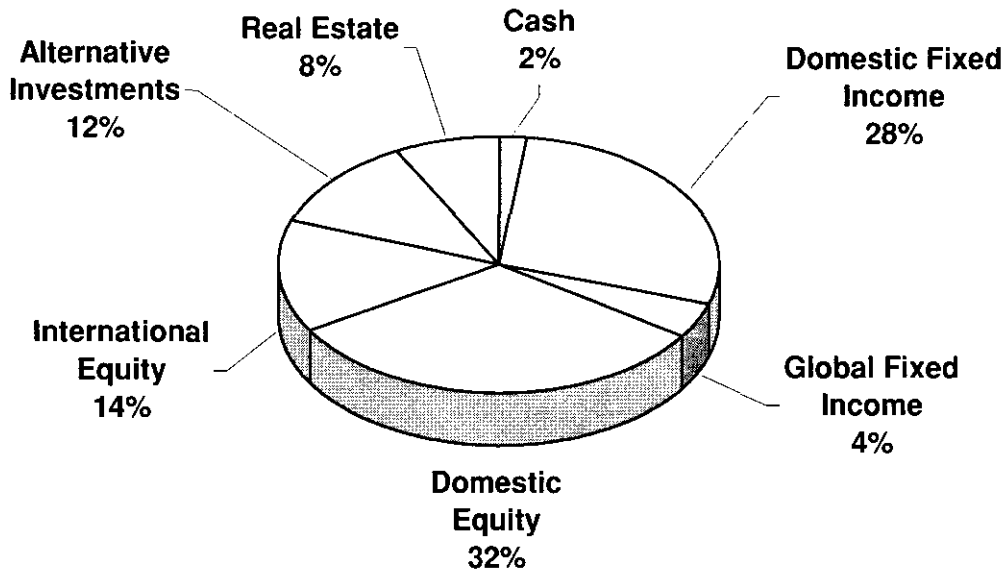
Source: The Northern Trust Company

SFERS Percentile Ranking within Public Funds Greater than \$1Billion Master Trust Fund TUCS Universe	28th	9th	6th
---	------------------------	-----------------------	-----------------------

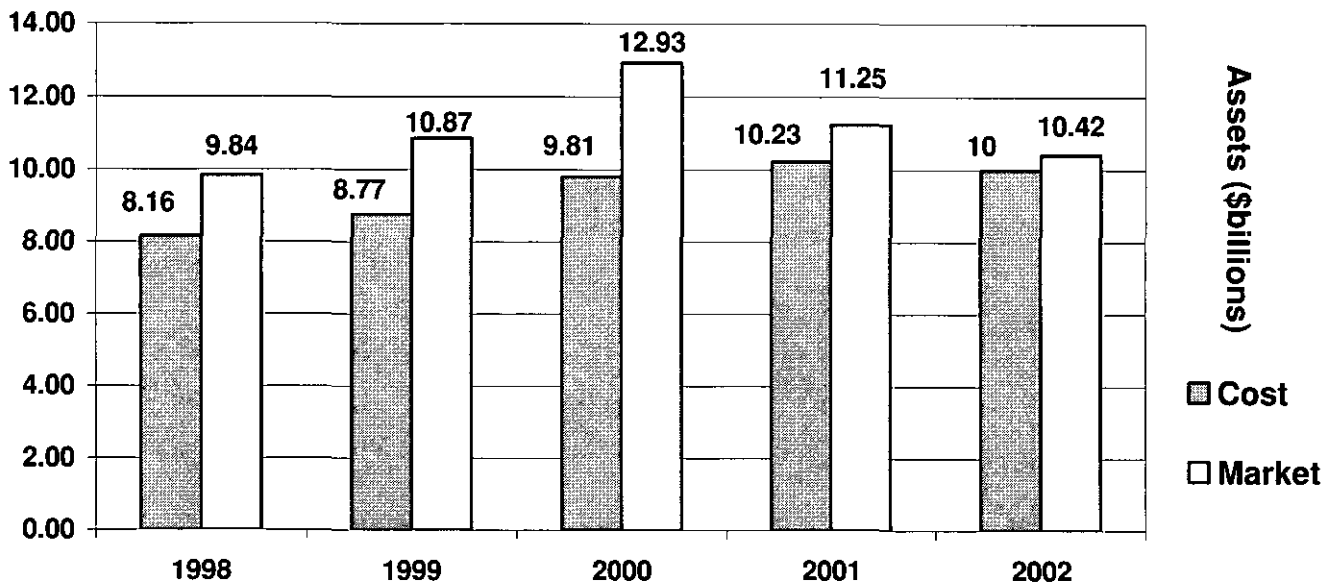
The following pages contain charts illustrating:

Asset Allocation as of June 30, 2002
Pension Fund Net Assets
Investment Earnings and Assets
Summary of Assets as of June 30, 2002

ASSET ALLOCATION AS OF JUNE 30, 2002 - MARKET VALUE



PENSION FUND NET ASSETS



**INVESTMENT EARNINGS AND ASSETS
THREE YEAR HISTORY**

Fiscal Year Ended June 30:	2002	2001	2000
<u>Investment Earnings</u>			
Interest Income	\$224,561,374	\$256,017,416	\$240,671,062
Equity Dividend Income	63,875,140	65,121,941	81,606,794
Real Estate Income	48,951,277	48,987,091	29,374,957
Alternative Investment Income	(6,686,655)	(11,172,920)	27,397,257
Realized Gains/(Loss)	(324,762,200)	360,191,823	901,411,122
Unrealized Gains/(Loss)	(539,134,907)	(2,119,255,360)	1,052,962,749
<u>Total Investment Earnings</u>	(\$533,195,971)	(\$1,400,110,009)	\$2,333,423,941
<u>Portfolio Assets - Fair Value</u>			
Fixed Income	\$3,374,601,919	\$3,402,051,535	\$3,058,839,025
Equities	4,796,110,459	5,361,633,163	7,111,864,028
Real Estate	820,844,105	875,014,860	551,299,038
Alternative Investments	1,218,142,257	1,363,120,151	1,862,466,346
Money Market Assets	203,444,843	244,519,844	345,981,126
<u>Total Fair Value of Portfolio</u>	\$10,413,143,583	\$11,246,339,553	\$12,930,449,563

**San Francisco City and County Employee Retirement System
Summary of Assets as of June 30, 2002**

Category	Cost	% of Total	Market	% of Total
Cash & Cash Equivalents	\$ 172,538,180	1.72%	\$ 203,444,843	1.95%
EQUITIES				
Basic industries	130,962,655	1.30%	149,914,166	1.44%
Capital goods industries	115,543,857	1.15%	166,825,455	1.60%
Consumer durables	40,615,230	0.40%	41,602,160	0.40%
Consumer non-durables & services	752,726,538	7.49%	956,351,546	9.18%
Energy	110,776,308	1.10%	138,337,966	1.33%
Financial services	409,956,996	4.08%	541,271,486	5.20%
Miscellaneous	698,847,730	6.96%	846,679,623	8.13%
Technology	354,093,412	3.52%	311,881,999	3.00%
Utilities	180,408,511	1.80%	162,345,033	1.56%
Foreign Stock	1,491,345,962	14.84%	1,480,901,024	14.22%
Equities Total	4,285,277,200	42.65%	4,796,110,459	46.06%
FIXED INCOME				
Basic industries	56,504,938	0.56%	54,231,661	0.52%
Capital goods industries	2,323,947	0.02%	2,622,921	0.03%
Consumer non-durables & services	80,774,214	0.80%	65,522,631	0.63%
Energy	4,575,624	0.05%	4,677,492	0.04%
Financial services	508,255,623	5.06%	521,486,694	5.01%
Miscellaneous	879,488,889	8.75%	848,717,606	8.15%
Mortgages	983,813	0.01%	983,813	0.01%
Technology	5,828,425	0.06%	2,971,668	0.03%
US Government	1,350,871,086	13.45%	1,375,164,277	13.21%
Utilities	56,501,961	0.56%	45,834,738	0.44%
Foreign government and corporate	439,583,819	4.38%	452,388,418	4.34%
Fixed Income Total	3,385,692,338	33.70%	3,374,601,919	32.41%
OTHER INVESTMENTS				
Real Estate	798,171,377		820,844,105	
Venture Capital & Partnerships	1,405,468,522		1,218,142,257	
Other Total	2,203,639,899	21.93%	2,038,986,362	20.29%
Grand Total	\$10,047,147,618	100.00%	\$10,413,143,583	100.00%

Retirement Services Division

Administering mandated benefit programs and providing promised benefits

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

SFERS Plan Membership

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of two tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current New Plan Firefighter benefits are established by Charter amendment passed in November 1996; current New Plan Police benefits are established by Charter amendment passed in November 1998; and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000. Miscellaneous Plan members have been covered under the Social Security System since September 1959 (City Charter §8.514).

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems.

In 1968, deputized personnel of the Sheriff's Department were authorized to transfer to the State of California Public Employees' Retirement System (CalPERS). Airport Police and Institutional Police personnel were authorized to transfer to CalPERS in 1984 and 1985, respectively. District Attorney Investigators similarly were authorized to transfer to CalPERS in 1986.

In 1972, schoolteachers were authorized to transfer to the State Teachers Retirement System (STRS).

On September 1, 1990, employees who were Adult and Juvenile Probation Officers on that date became CalPERS members for all prospective service rendered in qualified job classes. Past service credit was transferred for most members in September 1996.

On September 1, 1995, Retirement System membership rules were changed: employees who had earned not less than 1040 hours of compensation during any 12-month period became eligible for retirement membership on the first day of the pay period following the payperiod in which the member earns 1040 hours of compensation.

On December 27, 1997, Airport Police Officers became members of the SFERS under City Charter §§8.559 and §8.586 (Police New Plan.)

On February 21, 1998, Miscellaneous Plan members in paramedic job classes who were members of SFERS under City Charter §§8.509 and 8.584, became members of SFERS under City Charter §8.588 (Fire New Plan).

Other Plan Membership Charter References:

CHARTER SECTION	EMPLOYEE GROUP
8.508-1	Teachers – STRS
8.505	Port Employees – CalPERS
8.506	Sheriff's Deputies – CalPERS
8.506-2	Airport Police Officers, Institutional Police Officers, District Attorney Investigators, Probation Officers – CalPERS
8.506-3	Housing Authority Police – CalPERS
8.586	Airport Police Officers – SFERS Police New Plan
8.588	Paramedics – SFERS Fire New Plan

SFERS Membership

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2002, there were 29,713 members of the Miscellaneous Plans, 2,322 members of the Police Plans and 1,798 members of the Firefighter Plans.

SFERS Active Membership as of June 30, 2002

PLAN MEMBERSHIP GROUP	NUMBER OF ACTIVE MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
Old Miscellaneous Plan members before November 2, 1976	2,093	25	2	2,120
New Miscellaneous Plan members on or after November 2, 1976	26,379	712	502	27,593
Old Police Plan members before November 2, 1976	229	1	0	230
New Police Plan members on or after November 2, 1976	2,055	29	8	2,092
Old Firefighter Plan members before November 2, 1976	292	0	0	292
New Firefighter Plan members on or after November 2, 1976	1,497	6	3	1,506
TOTALS:	32,545	773	515	33,833

Miscellaneous Plan members comprise approximately 87.8% of the total SFERS Plan membership, with approximately 7.1% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.9% and 5.3% of the total membership, respectively.

Miscellaneous Plan members are members of the Social Security System (City Charter § 8.514). Social Security coverage was first made available to City and County employees in September 1959. Members covered under Social Security may elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members will have account shortages and will have reduced pensions on retirement if the shortages are not paid prior to retirement.

Employer (City and County) Contribution Rates As a Percentage of Covered Payroll

COVERED PERIOD	POLICE	FIREFIGHTER	MISCELLANEOUS
1995-1996 (1 st half)	14.79%	12.44%	4.98%
1995-1996 (2 nd half)	12.69%	10.58%	4.29%
1996-1997 (1 st half)	0%	0%	1.83%
1996-1997 (2 nd half)	0%	0%	0%
1997-2001	0%	0%	0%
2001-2002	0%	0%	0%

Note: Rates of contribution are composite rates for Old and New groups.

Employee Contribution Rates As a Percentage of Covered Payroll

PLAN MEMBERSHIP GROUP	RATE OF CONTRIBUTION
Miscellaneous (Old)*	8.00%
Miscellaneous (New)	7.50%
Police (Old)	7.00%
Police (New)	7.50%
Firefighter (Old)	7.00%
Firefighter (New)	7.50%

*Contributions for Old Plan Miscellaneous Employees (City Charter § 8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

SFERS Retirement Services

The following table summarizes some of the major activities of the SFERS Retirement Services Division during Plan Years 2000-2001 and 2001-2002:

ACTIVITY	2000-2001	2001-2002
Retirement Appointments	1662	1582
Retirement Applications Processed	861	903
Personnel Transactions:	3446	2405
New Members (New Hires)	2113	1351
New Members (1040 hours membership)	776	709
Rehires	217	140
Fire Recruits	96	64
Police Recruits	177	92
Sheriff Recruits	67	49
Visitors	17,275	16,321
Incoming Correspondence	18,946	17,262
Home Visits	17	20
Group Presentations	38	20
Beneficiary Changes	1291	1262
Refund Packets	1894	1593
Verification of Pension or Benefit Data	303	494
Electronic Fund Transfer (new and changes)	2390	1978
Other activities (address changes, name changes, etc.)	2351	1995
Pre-retirement Seminars	6	5
Registered Attendees at Pre-retirement Seminars	925	801
Mid-career Retirement Planning Seminars	0	1
Registered Attendees at Mid-career Seminars	0	83

Retirement appointments decreased 4.8% and retirement applications processed increased 4.9% in Plan Year 2001-2002 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted five pre-retirement seminars during Plan Year 2001-2002 that provided individualized benefit counseling for over 800 Miscellaneous Plan members considering retirement within the next five years. Retirement staff sponsored and conducted one mid-career retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in a retirement seminar sponsored by the Police Officers Association.

SFERS Plan Member Communications: During Plan Year 2001-2002, SFERS Retirement Services Division produced and distributed over 33,000 Annual Member Statements to active SFERS members.

SFERS Retirement Statistics for Plan Year Ended June 30, 2002

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2001-2002, as well as benefits payment summaries and comparisons:

New Retirements Processed during Plan Year Ended June 30, 2002

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
Miscellaneous	542	166	N/A	61	769
Firefighter	35	1	24	0	60
Police	41	2	9	0	52
TOTALS:	* 618	169	33	61	881

***Total service retirements in Plan Year 2001-2002 includes applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.**

The total number of new retirements processed in Plan Year 2001-2002 was 6.3% higher than retirements processed in Plan Year 2000-2001. Service retirements represent 70.2% of the total of new retirements processed.

Miscellaneous retirements represented 87.3% of the total retirements processed in Plan Year 2001-2002, an increase from 85.0% in Plan Year 2000-2001.

Firefighter retirements represented 6.8% of the total retirements processed in Plan Year 2001-2002, an increase from 6.0% in Plan Year 2000-2001.

Police retirements represented 5.9% of the total retirements processed in Plan Year 2001-2002, a decrease from 8.9% in Plan Year 2000-2001.

Miscellaneous Plan Members Plan Year Ended June 30, 2002

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
0-5	21	14	0	35	4.6%
6-10	13	74	6	93	12.1%
11-15	74	38	30	142	18.5%
16-20	114	34	18	166	21.6%
21-25	97	5	3	105	13.7%
26-30	106	1	3	110	14.3%
31-35	77	0	1	78	10.1%
36-40	38	0	0	38	4.9%
Over 40	2	0	0	2	0.3%
TOTAL	542	166	61	769	100.0%
PERCENT	70.5%	21.6%	7.9%	100.0%	

Approximately 70.4% of the total Miscellaneous Plan retirements had less than 26 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2001-2002 was 19.7 years.

Miscellaneous Plan service retirees were credited with an average of 22.9 years of service while those who retired for ordinary disability were credited with an average of 15.4 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
Under 55	47	93	43	183	23.8%
55-60	156	47	18	221	28.7%
61-65	234	13	0	247	32.1%
Over 65	105	13	0	118	15.3%
TOTAL	542	166	61	769	100.0%

The average age of all Miscellaneous Plan members who retired in Plan Year 2001-2002 was 57.0 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.6 years.

**Police and Firefighter Plan Members
Plan Year Ended June 30, 2002**

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY*	TOTAL	PERCENT OF TOTAL
0-5	2	0	0	2	1.8%
6-10	0	1	1	2	1.8%
11-15	0	1	1	2	1.8%
16-20	2	0	1	3	2.7%
21-25	3	1	1	5	4.5%
26-30	30	0	19	49	43.8%
31-35	36	0	10	46	41.1%
36-40	3	0	0	3	2.7%
Over 40	0	0	0	0	0.0%
TOTAL	76	3	33	112	100%
PERCENT	77.4%	0.8%	21.8%	100%	

* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2001-2002

Approximately 12.5% of the total Police and Firefighter Plan retirements had less than 26 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2001-2002 was 28.8 years.

Police and Firefighter Plan service retirees were credited with an average of 29.6 years of service while those who retired for industrial disability were credited with an average of 28.0 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	INDUSTRIAL DISABILITY	TOTAL	PERCENT OF TOTAL
Under 55	31	2	18	51	45.5%
55-60	34	1	13	48	42.9%
61-65	10	0	2	12	10.7%
Over 65	1	0	0	1	0.9%
TOTAL	76	3	33	112	100.0%

The average age of all Police and Firefighter Plan members who retired in Plan Year 2001-2002 was 55.5 years.

Total Retirement Allowances – Plan Year Ended June 30, 2002
Retired Members and Survivor Continuation Benefits

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
Number of Retirement Allowances as of 6/30/2002:				
MISCELLANEOUS	12,375	1,764	N/A	14,139
Member	10,171	1,233	N/A	11,404
Continuation	2,204	531	N/A	2,735
FIREFIGHTER	801	863	49	1,713
Member	546	598	-	1,144
Continuation	255	265	49	569
POLICE	1,141	760	51	1,952
Member	840	500	-	1,340
Continuation	301	260	51	612
TOTAL	14,317	3,387	100	17,804

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2002, the total number of retirement allowances paid to retired members represented 78.0% of the total allowances paid; continuation allowances represented 22.0% of the total allowances paid.

Retirement Benefits Paid – Plan Year 2001- 2002
Retired Members and Survivor Continuation Benefits

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
Retirement Benefits Paid in Plan Year 2001-2002:				
MISCELLANEOUS	\$ 19,777,269	\$ 2,138,528	N/A	\$ 21,915,797
FIREFIGHTER	3,039,575	3,200,450	\$ 124,913	6,364,939
POLICE	4,101,326	2,212,019	142,025	6,455,369
TOTAL	\$ 26,918,170	\$ 7,550,997	\$ 266,938	34,736,105

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 63.1% of the total monthly retirement allowances paid during Plan Year 2001-2002.

Monthly retirement allowances paid to service retirees represented 77.5% of the total monthly retirement allowances and monthly disability benefits represented 21.7% of the total monthly retirement allowances paid during Plan Year 2001-2002.

Death Benefits Paid – 3 Year Comparison

PLAN YEAR	2001-2002	2000-2001	1999-2000
NUMBER OF DEATHS:			
Active Members	52	77	72
Retired Members	568	528	507
Continuants	183	172	189
TOTAL	803	777	768
DEATH BENEFITS PAID:			
DUE TO ACTIVE MEMBER DEATHS			
Refund of Contributions	63	77	65
Industrial Death Allowances	0	2	2
6 Months Earnable Salary	57	74	61
SUBTOTAL	120	153	128
DUE TO RETIRED MEMBER DEATHS			
Continuation	249	231	229
Option 1 (Refund of Member Accumulated Contributions)	30	49	30
\$100/Year for Each Year of Service (Maximum \$3,000)	519	522	482
SUBTOTAL	798	802	741
TOTAL	918	955	869

The number of deaths during Plan Year 2001-2002 increased by 3.3% from Plan Year 2000-2001.

There was a 21.6% decrease in the number of benefits paid due to the death of active members in Plan Year 2001-2002 from the previous Plan Year. In Plan Year 2001-2002, the total number of death benefits payments processed due to the deaths of active and retired members decreased 3.9% over the previous Plan Year.

Withdrawal of Contributions – 3 Year Comparison

	MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
As of 6/30/2002				
Miscellaneous	1280		\$ 9,232,179	
Firefighter	13		140,111	
Police	33		318,718	
TOTAL	1326	(3.8%)	\$ 9,691,008	(8.5%)
As of 6/30/2001				
Miscellaneous	1334		\$10,221,516	
Firefighter	13		223,032	
Police	31		145,789	
TOTAL	1378	116.0%	\$10,590,337	50.5%
As of 6/30/2000				
Miscellaneous	619		\$6,772,457	
Firefighter	2		28,479	
Police	17		237,398	
TOTAL	638	18.4%	\$7,038,334	39.0%

The number of Withdrawal of Contributions requests processed during Plan Year 2001-2002 remained substantially unchanged due to Retirement staff's continuing efforts to settle long-inactive member accounts.

Fiscal Division

Administering mandated benefit programs and providing promised benefits

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Systems and database maintenance
- Budgeting and appropriations control
- General ledger and reports

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the City and County of San Francisco Employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2002, and 2001 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2002. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the independent auditors.

**SFERS Actual Expenditures – 3 Year Comparison
Retirement Services/Administration Divisions**

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2001-2002	2000-2001	1999-2000
Personnel Services	\$ 4,061,839	\$ 3,906,243	\$ 3,718,816
Equipment Purchase	337,752	105,933	447,082
Materials and Supplies	47,862	49,831	44,238
Services of Other Departments	6,174,528	5,978,896	3,541,755
Other Services	1,204,578	1,214,225	2,530,965
TOTAL	\$ 11,826,559	\$ 11,255,128	\$ 10,282,856

**SFERS Actual Expenditures – 3 Year Comparison
Investment Division**

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2001-2002	2000-2001	1999-2000
Personnel Services	\$ 1,499,912	\$ 1,328,812	\$ 1,220,546
Equipment Purchase	21,654	39,431	93,727
Materials and Supplies	10,024	12,557	14,837
Services of Other Departments	320,148	754,095	575,409
Other Services	16,146,391	21,241,255	27,518,524
TOTAL	\$ 17,998,129	\$ 23,376,150	\$ 29,423,043

SFERS Pension Fund Income
Fiscal Year 2001-2002

SOURCES OF INCOME	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
City and County Contributions			\$ -
Employee Contributions			155,918,122
Interest Earned			212,806,250
Dividends Earned			63,875,140
Securities Lending Income-Net			11,171,806
Dollar Roll Income – Net			729,537
Recaptured Commission Income – Net			661,847
Real Estate Income			48,951,277
Alternative Investment Income			(6,686,655)
Investment Expenses			18,517,382
TOTAL INCOME:			\$ 505,944,706
NET APPRECIATION IN FAIR VALUES			
Short-Term Securities	\$ (447,658)	\$ 1,623,616	\$ 1,175,958
Equities	(260,817,374)	(584,641,663)	(845,459,037)
Debt Securities	21,059,618	25,548,574	46,608,192
Real Estate	3,969,579	11,421,229	15,390,808
Venture Capital	(34,368,046)	(175,116,112)	(209,484,158)
Other Assets	(55,176,811)	209,052,949	153,876,138
TOTAL NET APPRECIATION:	\$ (325,780,692)	\$ (512,111,407)	\$ (837,892,099)
TOTAL INCOME including NET APPRECIATION:	\$ (325,780,692)	\$ (512,111,407)	(331,947,393)
Increase/(Decrease) From FY 2000–2001:			\$ (1,609,565,404)

**SFERS Pension Fund Disbursements
Plan Year 2001-2002**

DISBURSEMENTS / EXPENSES	AMOUNT
Service Retirement Payments	\$ 301,883,599
Disability Retirement Payments	9,813,665
Proposition C – Cost of Living Adjustment	85,679,299
Death Allowance Payments	3,513,232
Death Benefits	2,267,415
Normal Contributions Paid as Death Benefit	2,013,836
Retired Annuitant Rolls (Option 1 Death Benefit)	676,550
Refunds of Contributions	17,864,746
Administrative Expenses	11,826,557
TOTAL DISBURSEMENTS & EXPENSES:	\$ 435,538,899
Increase/(Decrease) From FY 1999-2000:	\$ 27,930,983

SFERS Contributions – 3 Year Comparison

Employer (City and County) Contributions

MEMBER	PLAN	PLAN YEAR 2001 – 2002	PLAN YEAR 2000 - 2001	PLAN YEAR 1999 - 2000
Miscellaneous Plans		\$ -	\$ -	\$ 217,636
Firefighter Plans		-	-	-
Police Plans		-	-	-
TOTAL		\$ -	\$ -	\$ 217,636

Employee Contributions

MEMBER	PLAN	PLAN YEAR 2001 – 2002	PLAN YEAR 2000 - 2001	PLAN YEAR 1999 - 2000
Miscellaneous Plans		\$ 133,268,640	\$ 124,007,174	\$ 113,030,434
Firefighter Plans		10,386,844	9,767,082	8,869,212
Police Plans		12,262,637	11,428,791	10,643,622
TOTAL		\$ 155,918,121	\$ 145,203,047	\$ 132,543,268

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2002 AND 2001**

Information derived from audited Financial Statements

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
	(in thousands)	
Deposits	\$ 1,298	\$ 5,992
Contributions receivable – members	8,506	7,880
Investment income receivable:		
Interest	32,156	33,653
Dividends	4,023	3,322
Securities Lending	1,025	1,079
Receivables from brokers, general partners, others	209,530	315,257
Receivables under fixed coupon dollar repurchase agreement	---	---
Investments at fair value:		
Short-term bills and notes	815,165	841,572
Debt securities:		
U. S. government securities	1,478,010	1,381,595
Other debt securities	1,896,592	2,020,457
Equity securities	4,796,110	5,361,633
Real estate	820,844	875,015
Venture capital	1,218,142	1,363,120
Forward currency contracts, net	---	8,323
Investments in lending agents' short-term investment pool	<u>1,461,506</u>	<u>1,574,089</u>
Total investments	<u>12,486,369</u>	<u>13,425,804</u>
Total assets	<u>12,742,907</u>	<u>13,792,987</u>
	<u>2002</u>	<u>2001</u>
<u>LIABILITIES</u>		
Payable to brokers	593,214	667,617
Obligations under fixed coupon dollar repurchase agreements	252,500	294,688
Foreign Currency Contracts, net	13,612	---
Other liabilities	6,125	10,513
Payable to borrowers of securities	<u>1,461,506</u>	<u>1,574,089</u>
Total liabilities	<u>2,326,957</u>	<u>2,546,907</u>
Net assets held in trust for pension benefits	<u>10,415,960</u>	<u>11,246,080</u>

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2002 AND 2001
Information derived from audited Financial Statements

		<u>2002</u>	<u>2001</u>
		(in thousands)	
Additions:			
Members' contributions:			
Miscellaneous	\$	133,269	\$ 124,007
Firefighter		10,387	9,767
Police		<u>12,263</u>	<u>11,429</u>
Total Contributions		<u>155,919</u>	<u>145,203</u>
Investment income (expenses)			
Interest	\$	212,806	\$ 243,189
Dividends		63,875	65,122
Net (depreciation) appreciation in fair value of investments		(820,574)	(1,720,846)
Securities lending income		35,676	93,158
Fixed coupon dollar repurchase agreement income		7,791	16,918
Investment expenses		(18,517)	(23,839)
Securities lending borrower rebates and expenses		(24,505)	(79,464)
Fixed coupon dollar repurchase agreement finance charges and expenses		<u>(7,061)</u>	<u>(17,059)</u>
Investment (loss) income, net		(550,509)	(1,422,821)
Total (deductions) additions	\$	(394,590)	\$ (1,277,618)
Deductions:			
Benefits		413,899	385,496
Refunds of contributions		9,814	10,857
Administrative expenses		<u>11,827</u>	<u>11,255</u>
Total Deductions		<u>435,540</u>	<u>407,608</u>
Net (decrease) increase		(830,130)	(1,685,226)
Net assets held in trust for pension benefits:			
Beginning of year		<u>11,246,080</u>	<u>12,931,306</u>
End of year	\$	<u>10,415,950</u>	<u>11,246,080</u>

Actuarial Summary

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2001 data. The results were first published in December 2001.

Assumptions and Method

The main assumptions used to measure the System's liabilities for future benefits payments were:

Investment Returns	8.25% per year
Base Wage Increases	4.50% per year
Merit and Promotion Wage Increases	1.3%, approximately (varies by group and years of service)
Retiree Mortality	1983 Group Annuity Mortality Table

The actuarial funding method used was as follows:

- ◆ entry age normal cost method
- ◆ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ◆ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.

Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

FUNDED STATUS

Actuarial Liability	\$ 8,371,843,000
Actuarial Value of Assets	<u>10,797,024,000</u>
Unfunded Liability (Surplus)	\$ <2,425,181,000>
Funded Status (assets / liabilities)	128.97%

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2002-2003 were derived from the following actuarial valuation results:

	POLICE	FIRE	MISC.	TOTAL
Normal Cost	17.19%	17.92%	12.83%	13.56%
Unfunded Liability & Other Costs	(48.32)%	(51.42)%	(3.62)%	(10.76)%
Employee Contributions	7.43%	7.40%	7.55%	7.53%
City Contribution Rate	(38.56)%	(40.90)%	1.66%	(4.73)%
Board Approved City Contribution Rate	0.0%	0.0%	0.0%	0.0%

ADDITIONAL DETAILS

Based on the method and assumptions stated on the previous pages, the basic findings of the latest valuation were:

Actuarial Valuation Results As of June 30, 2001

	POLICE	FIREFIGHTER	MISCELLANEOUS	TOTAL
Active Members	2,181	1,803	26,540	30,524
Annual Salaries	\$ 159,047,000	\$ 129,195,000	\$ 1,570,123,000	\$ 1,858,365,000
Average Salary	\$ 72,924	\$ 71,656	\$ 59,161	\$ 60,882
Retired Members				
Retired Members	1,935	1,722	13,951	17,608
Annual Benefits	\$ 71,713,000	\$ 71,389,000	\$ 247,660,000	\$ 390,762,000
Average Benefit	\$ 37,061	\$ 41,457	\$ 17,752	\$ 22,192
Actuarial Liability				
Actuarial Liability	\$ 1,426,243,000	\$ 1,183,406,000	\$ 5,762,194,000	\$ 8,371,843,000
Actuarial Value of Assets	\$ 2,327,107,000	\$ 1,964,073,000	\$ 6,505,844,000	\$10,797,024,000
Unfunded Liability	\$ (900,864,000)	\$ (780,667,000)	\$ (743,650,000)	\$(2,425,181,000)
Funded Status	163.16%	165.97%	112.91%	128.97%
CONTRIBUTIONS RATES:				
Normal Cost	17.19%	17.92%	12.83%	13.56%
+ Unfunded Liability	(48.77)%	(51.87)%	(4.07)%	(11.21)%
Total:	(31.58)%	(33.95)%	8.76%	2.35%
- Employee Contribution	7.43%	7.40%	7.55%	7.53%
+ Administrative Expenses	0.45%	0.45%	0.45%	0.45%
City and County Rate	(38.56)%	(40.90)%	1.66%	(4.73)%

Towers Perrin

December 5, 2001

Retirement Board of the San Francisco
City and County Employees' Retirement System
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

Dear Honorable Members:

Enclosed is the actuarial valuation of the Retirement System as of July 1, 2001. The report contains recommended City contribution rates for the Fiscal Year commencing July 1, 2002.

This report is based on information provided to us by the System's staff and on draft audited financial statements of the System.

This valuation has been conducted in accordance with generally accepted actuarial principles and financial accounting practices. The actuarial assumptions used in the development of the recommended contribution level have been selected by the Retirement Board, with the concurrence of Towers Perrin, to be individually reasonable (taking into account the experience of the plan and reasonable expectations) and, in combination, offer the actuary's best estimate of anticipated experience under the plan.

We look forward to discussing the valuation results with the Board on December 11, 2001.

Sincerely,



LPF:tg

Enclosures

Copies of the full report are available. Please contact 415-487-7020 to obtain a copy.

Actuarial Certification

SFERS retained Towers Perrin to perform a valuation of its pension plan for the purpose of determining a recommended contribution level and developing appropriate accounting disclosure. This valuation has been conducted in accordance with generally accepted actuarial principles and practices prescribed by the Actuarial Standards Board.

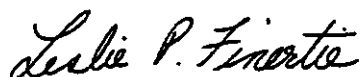
The consulting actuary is a member of the Society of Actuaries and other professional actuarial organizations and meets their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. While the scope of our engagement did not call for us to perform an audit or independent verification of this information, we have reviewed this information for reasonableness but have not audited it. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

The actuarial assumptions and methods employed in the development of the recommended contribution level have been selected by the Retirement Board, with the concurrence of Towers Perrin. The Government Accounting Standards Board requires the use of reasonable assumptions.

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The information contained in this report was prepared for the internal use of SFERS and its auditors in connection with our actuarial valuation of the pension plan. It is not intended nor necessarily suitable for other purposes. Further distribution or use of all or part of this report to other parties is expressly prohibited without Towers Perrin's prior written consent.



Leslie P. Finertie, F.S.A., E.A., M.A.A.A., F.C.A.

Towers Perrin
December 2001