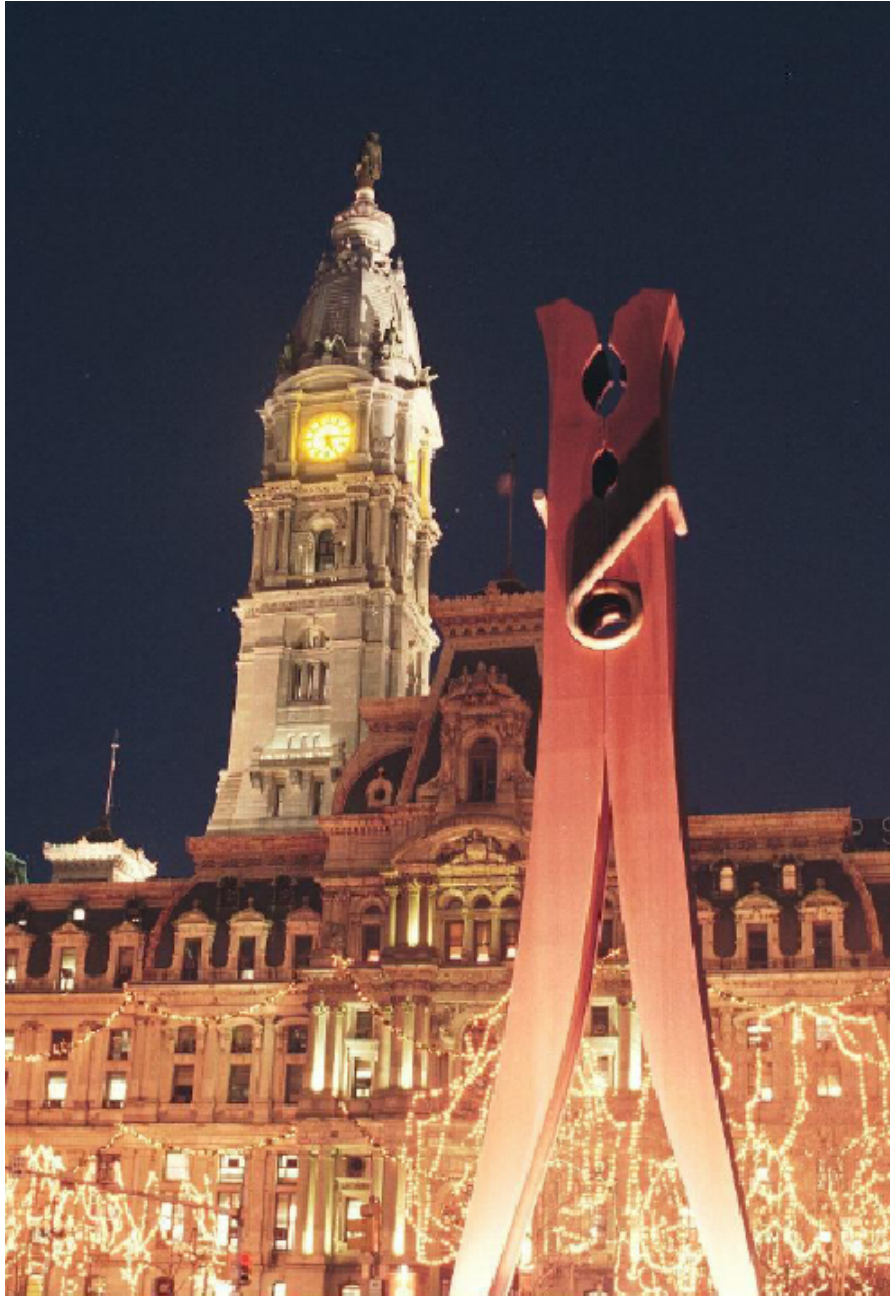




ANNUAL REPORT

City of Philadelphia BOARD OF PENSIONS AND RETIREMENT



FISCAL YEAR ENDING JUNE 30, 2005

John F. Street
Mayor

Vincent Jannetti
Chairperson

Gwendolyn Bell
Executive Director

CITY OF PHILADELPHIA

BOARD OF PENSIONS AND RETIREMENT

ANNUAL REPORT

FISCAL YEAR JULY 1, 2004 – JUNE 30, 2005

**16TH FLOOR, TWO PENN CENTER PLAZA
PHILADELPHIA, PENNSYLVANIA 19102
(215-496-7418)**

To the People of the City of Philadelphia:

The Board of Pensions and Retirement hereby submits the Annual Report of the Retirement System for City of Philadelphia employees for the fiscal year ending June 30, 2005. The report consists of three sections: An introductory section which contains a brief summary of the Board's activities and identifies the administrators and professional consultants of the Retirement System, an actuarial section which details the methods of costing and funding current and future benefits to members and beneficiaries of the Retirement System, and a financial section which contains the System's financial statements, membership and pension data, and investment statistics.

TABLE OF CONTENTS

INTRODUCTORY SECTION		PAGE
The Board, Consultants, and Investment Managers		1-5
Mission Statement		6
Membership		6
Funding		7
Income		7-8
Investments		8
Expenses		9
Amendments to Public Employees Retirement Code And Regulations of the Board		9
Professional Services		10
Audit		10
ACTUARIAL SECTION		
Executive Summary of Findings – July 1, 2005		
Mercer Human Resource Consulting		11-18
Cost Derivation		19-21
Minimum Municipal Obligation		22-25
Governmental Accounting Standards Board (GASB)		26-29
FINANCIAL SECTION		
Statement of Plan Net Assets – June 30, 2005	Exhibit A-1	30
Summary Schedule of Investments – June 30, 2005	Schedule A-1a	31
Statement of Changes in Plan Net Assets		
Fiscal Years Ended June 30, 2005 and 2004	Exhibit A-2	32
Analysis of Members' Contributions		
Fiscal Year Ended June 30, 2005	Exhibit A-3	33-34
Analysis of Fund Balance		
Fiscal year Ended June 30, 2005	Exhibit A-4	35
Statement of Cash Receipts and Disbursements		
Fiscal year Ended June 30, 2005	Exhibit A-5	36
Pension Contributions by Division		
Fiscal Year Ending June 30, 2005		37
STATISTICAL INFORMATION		
Applications Processed During Period July 2003		
Through June 2004 and July 2004 Through June 2005		38
Comparative Statement of Retirement Benefits in Force		
As of June 30, 2004 and June 30, 2005		39
Analysis of Membership		40

NOTES:

If you require more detailed information on the Board's Investment Portfolio, please write to Gwendolyn Bell, Executive Director, Two Penn Center Plaza – 16th Floor, Philadelphia, PA 19102 or call 215-496-7418 or 1-800-544-1173.

For additional copies of this report, write to: Linda Donovan, Pension Program Administrator, or call 215-496-7413 or 1-800-544-1173, or download from www.phila.gov/pensions/.

INTRODUCTORY SECTION

CITY OF PHILADELPHIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Gwendolyn Bell

Executive Director

MEMBERS OF THE BOARD

Vincent Jannetti

Chairperson, Acting Director of Finance
Appointed December 27, 2004.

Pedro Ramos, Esquire

Managing Director
Appointed April 4, 2005.

Romulo L. Diaz, Jr., Esquire

City Solicitor
Appointed April 4, 2005

Linda Orfanelli

Personnel Director
Appointed January 14, 2002.

Jonathan A. Saidel, Esquire

City Controller
Elected by voters of Philadelphia.
Serving as Board Member since
January 2, 1990.

John A. Reilly

Local No. 22, Philadelphia Firefighters
Union. Serving as Employee Elected
Representative since November 1976.

William Rubin

AFSCME District Council 33. Serving
as Employee Elected Representative
since November 2004.

Carol Stukes

AFSCME District Council 47. Serving
as Employee Elected Representative
since September 29, 1994.

Ronald Stagliano

Fraternal Order of Police. Serving as
Employee Elected Representative since
November 2004.

CONSULTANTS

ACTUARY

William M. Mercer, Incorporated
Washington, D. C.

AUDITOR

City Controller
And
Mitchell & Titus, LLP
Philadelphia, Pennsylvania

LEGAL COUNSEL

City Solicitor
And
Blank Rome LLP

GENERAL INVESTMENT CONSULTANT

Fiduciary Investment Solutions, Inc.
Philadelphia, Pennsylvania

ALTERNATIVE INVESTMENT CONSULTANTS

CRA RogersCasey
Darien, Connecticut

Franklin Park
Bala Cynwid, Pennsylvania

CUSTODIAN BANK

State Street Bank
Boston, Massachusetts

INVESTMENT MANAGERS

U. S. Equities

Ark Asset Management
New York, New York

Boston Partners Asset Management
Boston, Massachusetts

Cooke & Bieler
Philadelphia, Pennsylvania

Lord, Abbett & Company
Jersey City, New Jersey

New York Life
New York, New York

Seneca Capital Management
San Francisco, California

Wellington Management
Company, LLP
Boston, Massachusetts

Aronson + Johnson + Ortiz, LLC
Philadelphia, Pennsylvania

Chicago Equity Partners
Chicago, Illinois

Emerald Advisors
Lancaster, Pennsylvania

Navellier & Associates
Reno, Nevada

J. & W. Seligman & Co.
New York, New York

Turner Investment Partners
Berwyn, Pennsylvania

Wells Capital Management
Minneapolis, Minnesota

International Equities

Fidelity Investments
Boston, Massachusetts

Northern Trust
Chicago, Illinois

Mondrian Investment Partners
London, England

Philadelphia International Advisors
Philadelphia, Pennsylvania

Global Fixed Income

Deutsche Asset Management
Investment Services Limited
Philadelphia, Pennsylvania

Western Asset Management Co.
Pasadena, California

Fidelity Investments
Boston, Massachusetts

Tactical Asset Allocation

Mellon Capital Management Corp.
San Francisco, California

Cash Management

State Street Bank
Boston, Massachusetts

Relative Return Bond

AIG Global Investors Corp.
Wilton, Connecticut

Opportunity Fund

Capital Prospects
Stamford, Connecticut

PFM Advisors
Philadelphia, Pennsylvania

Alternative Investments

Ascend Ventures, L.P.
New York, New York

Asian Financial Bank
Philadelphia, Pennsylvania

Bachow Investment Partners, III, L.P.
Bala Cynwyd, Pennsylvania

Behrman Capital III L.P.
New York, New York

Blackstone Capital Partners, IV, L.P.
New York, New York

Columbia Capital Equity Partners
II & III QP, L.P.
Alexandria, Virginia

European Strategic Partners
I & II, L.P. – Standard Life
of Scotland
Edinburgh, Scotland

Fairview Capital II & III, L.P.
Farmington, Connecticut

Falcon Mezzanine Partners, L.P.
Needham, Maryland

Fenway Partners Capital Fund II, L.P.
New York, New York

Green Equity Investors, IV, L.P.
Los Angeles, California

GS Capital, L.P.
Wayne, Pennsylvania

Keystone Venture IV & V, L.P.
Philadelphia, Pennsylvania

Kohlberg Investors V, L.P.
Mt. Kisco, New York

Thomas H. Lee Equity Fund IV
& V, L.P.
Boston, Massachusetts

Lindsay, Goldberg & Bessemer, L.P.
New York, New York

Littlejohn Fund III, L.P.
Greenwich, Connecticut

LLR Equity Partners, L.P., I & II
Philadelphia, Pennsylvania

Meridian Venture Partners, L.P.
& MVP Distribution Partners, L.P.
Radnor, Pennsylvania

Merion Investment Partners, L.P.
King of Prussia, Pennsylvania

MGIC Mortgage Marketing Corp.
Milwaukee, Wisconsin

Nogales Investors Fund I, L.P.
Los Angeles, California

PA Early Stage Partners, III, L.P.
Wayne, Pennsylvania

Platinum Equity Capital Partners, L.P.
Beverly Hills, California

The Retail Initiative
New York, New York

Sterling Capital Partners II, L.P.
Northbrook, Illinois

Technology Leaders I, II & V L.P.
Wayne, Pennsylvania

United Bank of Philadelphia
Philadelphia, Pennsylvania

Wicks Communications & Media
Partners III, L.P.
New York, New York

Real Estate Investments

AEW Capital Management
Boston, Massachusetts

Heitman Capital Management Corp.
Chicago, Illinois

Morgan Stanley Venture
Partners IV & 2002, L.P.
New York, New York

OCM Opportunities Fund III & IV, L.P.
Los Angeles, California

Pharos Capital Partners II, L.P.
Houston, Texas

Quaker BioVentures, L.P.
Philadelphia, Pennsylvania

SCP Private Equity Partners, I & II, L.P.
Wayne, Pennsylvania

TCW/Crescent Mezzanine
Partners II & III, L.P.
Los Angeles, California

TGP Partners II & III, L.P.
Fort Worth, Texas

Thomas Weisel Capital
Partners, LP
San Francisco, California

State of Israel Jubilee ISS
Israel Bonds

CIGNA Realty Corp.
Hartford, Connecticut

MISSION

The Board of Pensions and Retirement was charged under the Philadelphia Home Rule Charter with the creation and maintenance of an actuarially sound Retirement System providing benefits for all City employees. The Ordinance (Bill No. 907) implementing the present Retirement System was formally approved by City Council on December 3, 1956, and the System became operational effective January 1, 1957. The enactment of Bill No. 907 superseded the Act of Assembly approved May 20, 1915, P.L. 566, under which the Pension Fund had previously been governed.

The Board, as defined in the Home Rule Charter, is composed of the Director of Finance, who serves as chairperson, the Managing Director, the City Solicitor, the Personnel Director, the City Controller and four members who are elected by the Civil Service employees of the City of Philadelphia. The elected members serve a four-year term of office.

The 9-member Board formally approves all benefit applications, but its major role is that of “trustee”, to ensure that the Retirement System remains actuarially and financially sound for the benefit of current and future benefit recipients. The Board, with the assistance of its professional consultants, develops the policies and strategies which will enable the Board to successfully execute its fiduciary obligations.

The Executive Director, aided by a staff of 72 personnel, administers the day-to-day activities of the Retirement System.

MEMBERSHIP

The Public Employees Retirement System provides benefits to police, fire and civilian workers of the City of Philadelphia through the administration of pension plans adopted from 1915 to the present. In addition, the Board of Pensions administers (but does not fund) a pension plan for the employees of quasi-public agencies (the Philadelphia Parking Authority, the Hospitals and Higher Education Facilities Authority of Philadelphia, the Philadelphia Municipal Authority, the Philadelphia Housing Development Corporation, and the Philadelphia Regional Port Authority).

In fiscal year 2005, the Public Employees Retirement System had 30,106 active members and 32,889 retired members, including 8,672 survivors and 4,538 people receiving disability benefits.

During fiscal year 2005, the Board approved 1,633 pension applications submitted by retiring employees, surviving spouses, beneficiaries and disabled members. The Board processed 1,249 refunds of pension contributions to former employees and beneficiaries of deceased members.

FUNDING

The Municipal Pension Plan Funding Standard and Recovery Act of December 1984 (Act 205) mandated funding methods for all municipal pension plans in the Commonwealth of Pennsylvania. Under the provisions of Act 205, the Municipal Retirement System is required to fund the actuarial liability accrued after July 1, 1985 on a level dollar payment method. In effect, the cost of current pension obligations must be satisfied annually.

The unfunded actuarial liability which had accrued prior to July 1, 1985 is being amortized over a 40-year period with payments increasing at the rate of 6% per year. This debt portion will be satisfied on June 30, 2019.

A class action suit, *Dombrowski v. City of Philadelphia*, was instituted against the City of Philadelphia asserting that the funding level was insufficient to maintain an actuarially sound system as required by the City Charter. The Philadelphia Court of Common Pleas ordered that the judgment in the *Dombrowski* case was to be amortized in level dollar payments over 40 years, ending June 30, 2009.

Act 205 requires that an actuarial valuation be performed annually and that an experience study, covering a 5-year period, be conducted every 4 years to insure that the pension costs derived by the actuary are accurate and based on valid historical experience.

In January 1999, the City issued \$1.29 billion of 30-year pension obligation bonds having an overall rate of 6.61% with a goal of reducing the City's unfunded pension obligation liability.

The normal cost to the Public Employees Retirement System for fiscal year 2005 was \$74,345,334. The total unfounded accrued liability for fiscal year 2005 was \$301,443,860, including \$2,024,000 for the *Dombrowski* annual payment.

Under the City's funding policy, the recommended contribution for the City for the current year amounted to \$349,525,295. The City's actual contribution was \$290,624,000. The City's contribution did meet the Minimum Municipal Obligation (MMO) as required by the Commonwealth of Pennsylvania's Acts 205 and 189.

INCOME

The City of Philadelphia is the largest single contributor to the Public Employees Retirement System. The City contributed \$290,624,000 or 39.8% of the total additions to the Retirement System's net assets in fiscal year 2005. Employees contribute a percentage of their pay, and the percentage varies with plan membership. Employee contributions totalled \$49,328,140 or 6.8% of additions. Contributions from the quasi-public agencies amounted to \$8,615,221 or 1.2% of additions.

A major source of income is the earnings of the System's investment portfolio. Interest and dividends amounted to \$74,571,116 or 10.2% of total additions, while securities lending revenue increased plan net assets by \$8,499,493 or 1.2% of additions. Normal investing activity contributed \$321,234,088 in capital gains or 44.0% of the additions. Miscellaneous sources provided \$358,422 or .01% towards the additions. Together the contributions and earnings added \$753,230,480 to the plan net assets.

Investment expenses of \$15,012,132 and securities lending expenses of \$7,564,803 resulted in a decrease to the plan net assets of \$22,576,935. After investment expenses, the plan net assets increased by \$730,653,545 in fiscal year 2005.

INVESTMENTS

The 9-member Board of Pensions and Retirement plays an active role in the determination of investment policy and strategy. All major decisions with regard to the portfolio are approved by the Board based upon the recommendations of its investment consultant and managers and the Board's in-house investment staff. Fiduciary Investment Solutions, Inc., the Board's Investment Consultant, oversees the management of the portfolio by investment management firms (a listing of these firms is presented on Pages 2-5).

The investment policy developed by the Board provides the framework for the investment of funds. However, the manner in which the Board invests its funds is constrained by legal statutes. Investments of the Public Employees Retirement System must be made in compliance with Section 22-1001 of the Public Employees Retirement Code and the regulations for the investment of similar State funds as set forth in the Act of March 1, 1974 (P.L. 125, No. 31), as amended (71 Pa. C.S. Section 5931).

As part of its overall investment policy, the Board approved an asset allocation strategy which has as its goal the identification of the mix of broad asset classes that most efficiently balances the need for achieving a 9% rate of return with the desire to minimize the possibility of capital loss. This strategy is periodically reviewed by the Board for possible fine-tuning to ensure that it remains dynamic and reflective of market conditions.

The current portfolio structure is: 43.16% Domestic Equities; 16.19% International Equities; 20.61% Global Fixed Income; 4.96% Tactical Asset Allocation (TAA) Balanced Portfolio of Stocks and Bond (Target of 60/40); 3.48% Opportunity Fund; 3.00% Relative Return Bond; 5.87 % Alternative Investments; 0.00% Real Estate; and 2.45% Cash.

As of the fiscal year ending June 30, 2005, the total market value of Pension Fund investments was \$4,022,634,018 (a 0.3% decrease over fiscal year 2004) vs. the value at cost of \$3,547,963,701 (a 5.8% decrease over fiscal year 2004). Accounting principles require the recognition of the assets at fair value and the resultant unrealized gain or loss shown as an addition or deduction to plan net assets.

EXPENSES

Pension benefit payments are the Board's greatest current normal expense. Of the total deductions of \$602,072,216 from plan net assets in fiscal 2005, \$590,653,605 or 98.1% were pension payments. Other expenses included \$4,641,536 for the refund of members' contributions and \$6,777,075 for administrative expenses.

AMENDMENTS TO CITY OF PHILADELPHIA PUBLIC EMPLOYEES RETIREMENT CODE

Section 22-501 – Service-Connected Death and Health Care Benefits – Bill No. 040755 (Enacted by City Council February 10, 2005)

Section 22-501 was amended to provide that service-connected health care benefits continue to a dependent child beyond 18 years of age if the child is and remains dependent because of physical or mental infirmity. This provision applies retroactively to applications approved by the Board on or after January 23, 1986 (the effective date of the original legislation on service connected death and health care benefits).

Section 22-400 – Disability Benefits – Bill No. 040326 (Enacted by City Council without the Mayor's Approval February 17, 2005)

Section 22-401 relating to Service-Connected Disability Benefits and Section 22-402 relating to Ordinary Disability Benefits were amended to eliminate reductions in the pension benefits of retirees engaged in gainful employment. Retirees (other than a uniformed fire employee or Sheriff's Department employee) receiving a service-connected or ordinary disability were subject to this earnings offset until the age of sixty-five. Bill No. 040326 was enacted retroactive to July 12, 1993.

REGULATIONS OF THE BOARD OF PENSIONS AND RETIREMENT

Regulation No. 7 – Application of Court Ruling Abolishing Common-Law Marriages (Became Effective October 22, 2004)

On September 17, 2003, the Commonwealth Court issued its decision in PNC Bank Corporation v. Workers' Compensation Appeal Board (Stamos), 831 A.2d 1269 holding that the time has come to abolish the doctrine of common law marriage but that this decision should be given a purely prospective effect. The Court will recognize as valid only those Pennsylvania marriages entered into pursuant to the Marriage Law procedures.

At its regular meeting held on September 16, 2004, the Board of Pensions and Retirement adopted Regulation No. 7 to guide the members of the Retirement System, the public, the bar and the courts as to its interpretation of Commonwealth Court's language with regard to the "purely prospective effect".

PROFESSIONAL SERVICES

Professional consultants are retained by the Board of Pensions and Retirement to provide expertise and support necessary for the administration of the Public Employees Retirement System. A list of those firms rendering professional services to the Board is presented on Pages 2-5.

AUDIT

The City Controller's Office, which is independent of the City of Philadelphia Administration, audits all operational transactions of the Board of Pensions and Retirement. For the Fiscal year ending June 30, 2005, the Board elected to have the annual financial audit of the Municipal Pension Fund performed by the accounting firm of Mitchell & Titus, LLP.

ACTUARIAL SECTION

EXECUTIVE SUMMARY

This report presents the actuarial valuation of the costs and liabilities for the City of Philadelphia Municipal Retirement System as of July 1, 2005 and City contributions for the fiscal year ending June 30, 2007. This section summarizes the valuation results and discusses changes in the System's costs and liability arising from demographic and economic experience for the year ending June 30, 2005 as well as the assumption changes from the July 2000 – July 2005 Experience Study.

Findings summary

Table 1 shows actuarial valuation results for all divisions as of July 1, 2005.

1. July 1, 2005 actuarial valuation (dollars in thousands)

Participants	
Active	27,992
Retired	19,528
Beneficiaries	8,610
Disabled	4,481
Terminated vested	802
DROP	2,824 ^c
Total	64,237
Total annual salaries	\$ 1,270,656
Actuarial accrued liability	\$ 7,851,465
Unfunded actuarial accrued liability	\$ 3,691,940
Assets for valuation purposes	\$ 4,159,525
Funding percent	53.0%
City normal cost as percent of payroll (beginning-of-year payment)	5.779%
Fiscal 2007 funding requirements (beginning-of-year payments)	
City's funding policy	\$ 483,531 ^{a, b}
Minimum municipal obligation	\$ 400,256 ^a

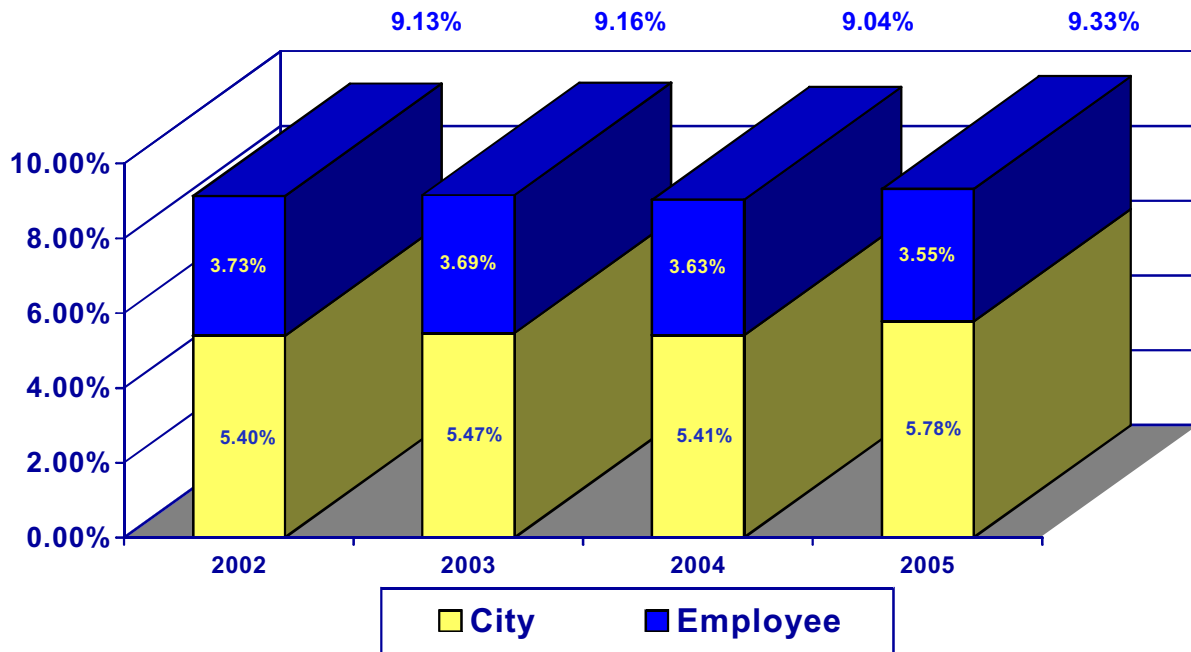
- a. The City may use general state aid and state cost-of-living reimbursements to meet this commitment. For fiscal 2006, these totaled \$57,338,499 (general state assistance of \$47,631,872 and COLA reimbursements of \$4,094,566 and \$5,612,060).
- b. Determined using estimated July 1, 2006 annual payroll. Final contribution will be based on actual fiscal 2007 payroll.
- c. While still active employees, the Deferred Retirement Option Plan (DROP) participants are treated as retired for valuation purposes since they no longer accrue benefits.

EXECUTIVE SUMMARY

Normal cost

The total normal cost is the cost of one year's accrual of projected benefits plus administrative expenses. The City's normal cost equals the total normal cost *less* expected employee contributions. The total normal cost percentage increased due to assumption changes. The following graph is a four-year history of the total normal cost with employee and City components as a percent of pay.

2. Total normal cost - percent of pay



Unfunded actuarial accrued liability

From July 1, 2004 through June 30, 2005, the unfunded actuarial accrued liability increased \$816,376,000 from the expected value of \$2,875,564,000 to \$3,691,940,000 because:

- The valuation assets had a return of 1.8% during the year. We assumed the valuation assets would have a 9.0% return.
- The assumptions were updated because of the 5-year experience study. Lowering the interest rate to 8.75% and lowering the expected mortality rates increased the liabilities substantially. This was somewhat offset by increasing the turnover rates.
- The City contributed the amount required under the MMO, which is less than the amortization payment under the City's funding policy.

EXECUTIVE SUMMARY

- Non-economic experience, such as mortality and retirement experience, resulted in a small loss.
- Salary increases were less than our 5% assumption, resulting in a gain.
- The plan was amended to remove the reduction in disability benefits for gainful employment. We treated this amendment effective for the July 1, 2005 valuation. This amendment had a small increase in liabilities.

The impact of these factors is illustrated in Table 3.

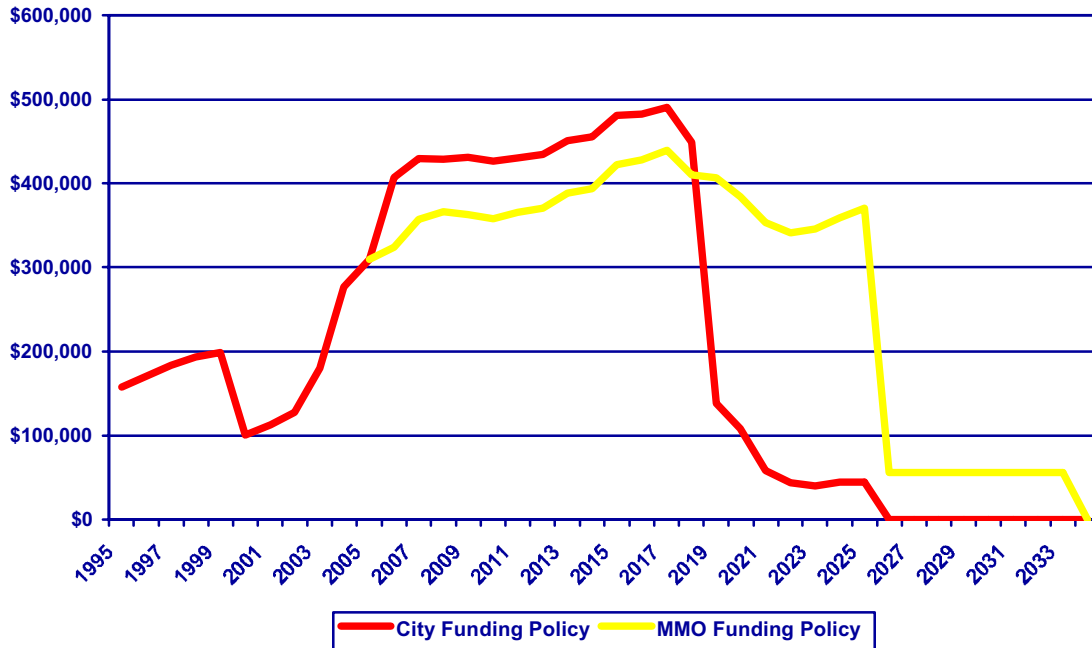
3. Unfunded liability (millions)	
2004 Unfunded liability	\$ 2,915
Change due to:	
Expected change from payment schedule	\$ (39)
Plan changes	2
Salary increases	(50)
Investment return	304
Assumption changes	406
Smaller contribution than scheduled	52
Other actuarial experience	102
Total of all changes	<u>777</u>
2005 Unfunded liability	\$ 3,692

Due to the July 30, 1985 unfunded liability being amortized with payments increasing 4.0% per year and the 5-year recognition of asset losses, the amortization payment is scheduled to increase each year, reaching a maximum in 2018, and then decrease. The total unfunded liability is scheduled to increase each year until fiscal year 2008, and then gradually decrease. With the 1997 change in Act 205, once the funding ratio reaches 70%, the City may shift to a 10 year rolling level amortization schedule. The plan is currently 53.0% funded and the alternative amortization schedule is not expected to result in a lower cost to the City until fiscal year 2013.

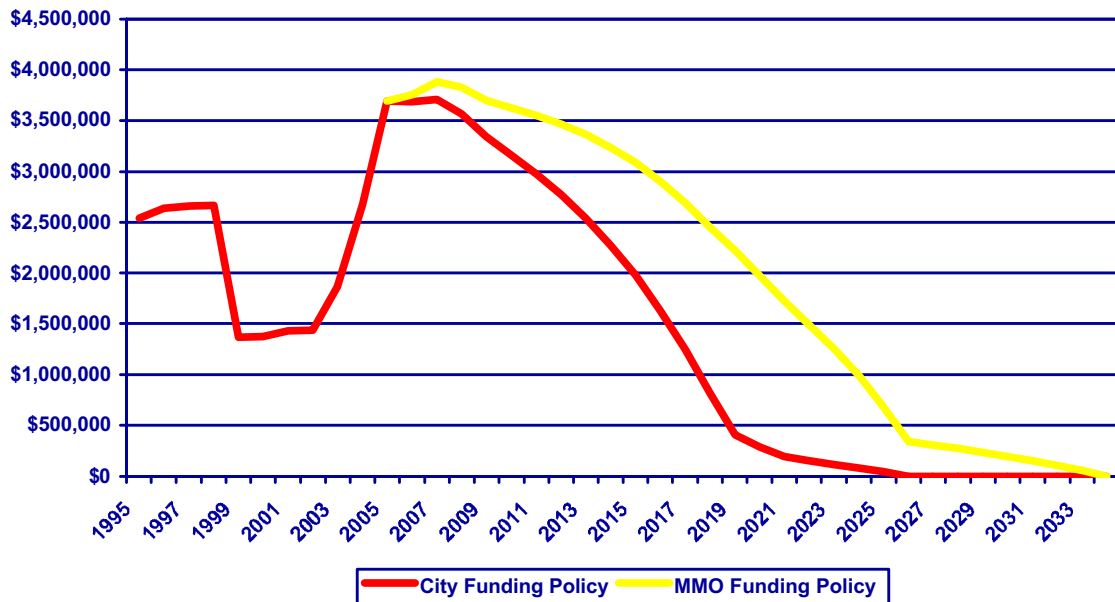
The City has contributed the MMO payment the last couple of years versus contributing the City's funding policy. While the MMO payments are lower now, these MMO payments are expected to continue for a larger time period to pay off the unfunded liability. Graph 3(A) illustrates the difference in the amortization payments through 2035 while graph 3(B) tracks the difference in the unfunded liability through 2035. The red lines indicate changes in the amortization payment or unfunded liability if the City always contributes under the City funding policy while the yellow line is if the city always contributes the MMO. The projected changes include the future schedule of the initial July 30, 1985 unfunded liability and known asset losses for the next year due to the adjusted asset smoothing method.

EXECUTIVE SUMMARY

3(A). Amortization schedule of payments (\$'s in thousands)



3(B). Unfunded actuarial accrued liability (\$'s in thousands)



EXECUTIVE SUMMARY

City funding policy

The report shows the recommended City contributions, assuming they're paid at the beginning of the fiscal year (July 1, 2006). If paid after July 1, the City's funding policy has been to pay interest (at 8.75%) from July 1, 2006 to the date paid.

The resulting estimated City contributions for fiscal years 2006 and 2007 are shown in Table 4(A).

4(A). Estimated City contributions (thousands) — beginning-of-year payment

	Fiscal 2006	Fiscal 2007
Normal cost	\$ 71,491	\$ 76,368 ^a
Amortization payment	309,247	407,163
Total City cost	\$ 380,738	\$ 483,531 ^b

- Based on estimated July 1, 2006 annual payroll. Actual normal cost will be based on actual fiscal 2007 payroll. This payroll does not include DROP participants.
- The City may use general state aid and state COLA reimbursements to meet this commitment. For fiscal year 2006, they totaled \$57.3 million.

Table 4(B) shows July 1, 2006 employee contribution rates.

4(B). Employee contribution rates effective July 1, 2006 (based on July 1, 2005 results)

	Municipal	Elected	Police	Fire
1967 Plan	3.75% ^a	N/A	6.00%	6.00%
Plan 87	1.86%	7.22%	5.00%	5.00%

- 6.00% on wages over the Social Security maximum taxable wage base — \$94,200 in 2006.

Quasi agency funding

Table 4(C) shows the quasi agencies funding rate as a percent of payroll for fiscal years 2006 and 2007.

EXECUTIVE SUMMARY

4(C). Quasi agency funding rate as a percent of payroll

	Fiscal 2006	Fiscal 2007
Valuation date	July 1, 2004	July 1, 2005
Normal cost	5.146%	6.294% ^a
Amortization rate	<u>48.112%</u>	<u>70.850%</u> ^b
Total, year-end rate	53.258%	77.144%
Total, adjusted for quarterly payments	<u>51.951%</u>	<u>74.734%</u> ^c

- End of year normal cost rate, page 11, Municipal 1967 Plan.
- $\$240,253 \div \$339,103$, see pages 15 and 11.
- $.96877$ (quarterly adjustment factor) $\times 77.144\%$. The adjustment factor was updated due to the change in interest rate.

Minimum municipal obligation

The minimum municipal obligation (MMO) is the minimum required City contribution under state law (Acts 205 and 189).

The City's funding policy differs from the MMO. The most significant differences are:

- The City uses a 34-year increasing amortization of its July 1, 1985 unfunded actuarial accrued liability, while Act 205 allows a 40-year increasing amortization schedule.
- Act 205 was amended in July 2004 to allow for a 30-year amortization of the portion of the July 1, 2003 unfunded liability attributable to the 2001 and 2002 calendar year investment returns. Investment losses are usually amortized over 15 years.
- The City applies the normal cost rates to the fiscal year's actual payroll. The MMO is based on the prior year's estimated payroll.
- No interest accumulates on the MMO if the payment is made by plan (fiscal) year-end. This was confirmed in a telephone conversation with the Public Employee Retirement Commission (PERC).
- The City's funding policy and the MMO use a one-year delay in applying actuarial valuation results to fiscal years. This July 1, 2005 valuation report determines the City's fiscal 2007 MMO and funding contribution. For the MMO, however, no interest is added for the one-year delay.
- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.

Table 46 of this report summarizes the City's unfunded liability payment for its fiscal 2007 MMO. These payments reflect the 40-year funding from July 1, 1985 with increasing payments at 4.0%.

The resulting fiscal 2007 MMO is summarized in Table 4(D).

EXECUTIVE SUMMARY

4(D). Fiscal 2007 minimum municipal obligation (thousands)

Valuation report	July 1, 2005
Normal cost	\$ 115,840
Amortization payment	324,165
Expected administrative expense	<u>7,100</u>
Subtotal	\$ 447,105
Expected member contributions	<u>(46,849)</u>
Minimum municipal obligation	\$ 400,256
Interest	<u>0^a</u>
Total	<u>\$ 400,256^b</u>

- a. Interest applies if the MMO is not paid before the plan year-end (June 30th).
b. The City may use general state aid and state COLA reimbursement, estimated at \$57.3 million, to meet this commitment.

Funding status

The plan's funding status is measured by the ratio of actuarial value of assets to the actuarial accrued liability. A comparison of this ratio as of July 1, 2004 and July 1, 2005 is shown in Table 4(E).

4(E). Funding status comparison (dollars in thousands)

	2004	2005
Actuarial value of assets	\$ 4,333,057	\$ 4,159,525
Actuarial accrued liability	\$ 7,247,743	\$ 7,851,465
Funding ratio	59.8%	53.0%

EXECUTIVE SUMMARY

Certification

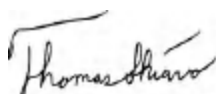
Mercer Human Resource Consulting has prepared the actuarial valuation of the City of Philadelphia Municipal Retirement System as of July 1, 2005 to determine contributions for the fiscal year ending June 30, 2007. The valuation is based on employee and financial data which were provided by the City of Philadelphia Board of Pensions and Retirement, and are summarized in this report.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current state statutes and regulations issued thereunder. The actuarial assumptions are selected jointly by the actuary and the Pension Board and, in our opinion, are considered reasonable. This report fully and fairly discloses the present actuarial position of the Plan on an ongoing basis.

There have been no changes in valuation procedures or actuarial cost methods since the last valuation of the Plan as of July 1, 2005.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

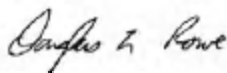


Thomas Skiavo, EA, MAAA
Enrollment Number: 05-6727

March 28, 2006

Date

As a Fellow of the Society of Actuaries, I meet the Qualification Standards to provide the statements of actuarial opinion contained in this report.



Douglas Rowe, FSA, EA, MAAA
Enrollment Number: 05-2626

March 28, 2006

Date

Mercer Human Resource Consulting
1255 23rd Street, NW, Suite 500
Washington, DC 20037
202 331 5200

COST DERIVATION

This section explains the Retirement System's costs. Costs are determined using the entry age actuarial cost method. The cost estimates derived in this actuarial valuation will be the basis for determining pension costs for the fiscal year ending June 30, 2007. Pension costs consist of the normal cost and the unfunded liability amortization payment.

Derivation of normal cost

The normal cost is the total of the individual normal costs for all members assuming the plan always existed and the underlying actuarial assumptions are exactly realized. Benefits payable under every circumstance (retirement, death, disability, and termination) are included in the calculations. Employee contributions expected to be made during the year are subtracted from the total normal cost to determine the City's normal cost. The City's normal cost is divided by total payroll to determine the normal cost as a percent of pay for each division and the entire Retirement System.

Derivation of the unfunded actuarial accrued liability

The actuarial accrued liability is the total of the actuarial present value of all accumulated past normal costs assuming the normal cost had always been contributed and the current actuarial assumptions had always been used.

The valuation assets are determined as of July 1, 2005, using an actuarial asset method that spreads investment experience over a five-year period to minimize the impact of investment volatility on the Retirement System's costs. The method measures the market value of assets' gains or losses against the assumed investment yield, recognizing one-fifth of the gain or loss over the current and each of the next four years. The Pension Adjustment Fund (PAF), if any, is subtracted from the market value to determine the assets to use for the valuation. The valuation assets are limited to be no more than 120% and no less than 80% of the market assets.

The unfunded actuarial accrued liability is the accrued liability less the fund's assets on the valuation date.

Experience gains and losses are the difference between the expected and actual unfunded actuarial accrued liability (see the preceding paragraphs) on the valuation date.

The portion of the unfunded actuarial accrued liability attributable to the Dombrowski class action suit is amortized in level dollar payments over 40 years ending June 30, 2009. The remaining July 1, 1985 unfunded actuarial accrued liability is amortized over 34 years ending June 30, 2019 in annual payments increasing 4.0% per year. Changes in the actuarial accrued liability realized after July 1, 1985 are amortized in level dollar payments over the following years according to Act 205:

COST DERIVATION

- Changes in actuarial assumptions — 20 years
- Experience gains and losses — 15 years
- Active members' benefit modifications — 20 years
- Nonactive members' benefit modifications — 10 years.

For a detailed analysis of the derivation of plan costs, see Tables 5 through 15.

The resulting contribution reflects the City's funding policy which calls for a larger contribution than the MMO determined under Act 205.

Table 46 shows the annual unfunded liability payments needed to satisfy the City's MMO for fiscal year ending June 30, 2007.

Table 16 shows the annual payments needed to fund plan liabilities using the City's funding policy if the City does not move to the 10-year rolling amortization of the unfunded.

COST DERIVATION

16. Schedule of annual payments to fund the anticipated July 1, 2005 unfunded actuarial accrued liability (dollars in thousands)

Plan Year Beginning July 1	Annual Beginning-of-Year Payment										Progress of Unfunded Actuarial Accrued Liability	Estimated Annual Payroll	Annual Payments as a Percent of Pay	
	1967 Plan					Plan 87								
	Municipal	Police	Fire	Municipal	Elected	Police	Fire	Municipal	Elected	Police				Fire
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$1,270,656	N/A
2006	206,456	143,685	45,872	1,307	167	5,134	393	1,307	167	5,134	393	403,014	3,685,094	30.5%
2007	216,810	150,068	48,636	2,599	162	6,337	682	2,599	162	6,337	682	425,295	3,708,299	30.9%
2008	213,293	152,050	49,418	2,499	107	6,382	711	2,499	107	6,382	711	424,459	3,566,018	29.7%
2009	214,588	153,732	49,970	1,964	96	5,897	582	1,964	96	5,897	582	426,828	3,341,507	28.7%
2010	211,184	152,612	50,188	2,173	17	5,765	624	2,173	17	5,765	624	422,563	3,165,334	27.3%
2011	212,351	154,146	51,124	2,108	33	5,794	653	2,108	33	5,794	653	426,210	2,978,384	26.5%
2012	213,940	155,355	51,939	2,156	75	5,897	715	2,156	75	5,897	715	430,076	2,771,111	25.7%
2013	223,168	159,485	54,332	2,430	75	6,260	775	2,430	75	6,260	775	446,525	2,541,496	25.7%
2014	228,975	157,101	54,877	2,630	109	6,500	880	2,630	109	6,500	880	451,073	2,273,902	24.9%
2015	239,628	150,427	59,315	10,440	398	14,188	2,860	10,440	398	14,188	2,860	477,256	1,977,947	25.4%
2016	243,734	147,320	58,927	10,633	394	14,424	3,003	10,633	394	14,424	3,003	478,434	1,627,622	24.5%
2017	247,320	152,456	58,168	11,093	400	14,269	2,938	11,093	400	14,269	2,938	486,643	1,245,363	23.9%
2018	225,228	142,337	54,866	8,520	346	11,179	2,564	8,520	346	11,179	2,564	445,041	820,729	21.0%
2019	60,897	46,476	14,799	2,918	165	7,458	1,506	2,918	165	7,458	1,506	134,219	404,182	6.1%
2020	59,298	37,518	12,405	2,889	165	6,263	1,057	2,889	165	6,263	1,057	119,596	289,206	5.2%
2021	31,537	14,616	6,520	688	111	3,906	906	688	111	3,906	906	58,283	197,037	2.4%
2022	23,678	12,231	5,554	(420)	49	1,682	411	(420)	49	1,682	411	43,185	151,028	1.7%
2023	21,956	11,100	4,662	(406)	49	1,682	411	(406)	49	1,682	411	39,455	117,150	1.5%
2024	25,995	11,372	4,740	200	70	1,256	318	200	70	1,256	318	43,950	84,365	1.6%
2025	25,995	11,372	4,740	200	70	1,256	318	200	70	1,256	318	43,950	43,950	1.6%
2026	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0%

Note: Numbers may not add because of rounding. Includes anticipated losses on the valuation assets over the next two years and the amortization payments shown do not switch to the 10-year rolling amortization when advantageous.

MINIMUM MUNICIPAL OBLIGATION

The minimum municipal obligation (MMO) is the minimum required City contribution under state law (Acts 205 and 189). The City's MMO for the year ending June 30, 2007 is \$400,255,902. This amount is summarized by division in Table 45 and is based on the July 1, 2005 actuarial valuation report.

The City receives general state aid and cost-of-living adjustment reimbursement from the state. The MMO includes these amounts. For fiscal 2006, the total state payments are \$57,338,499. Amounts received during fiscal 2007 may be used to meet the \$400,255,902 obligation.

The City's funding policy differs from the MMO. The most significant differences are:

- The City uses a 34-year increasing amortization of its July 1, 1985 unfunded actuarial accrued liability, while Act 205 allows a 40-year increasing amortization schedule. The City chose to amortize the July 1, 1985 unfunded actuarial accrued liability over the 34 years remaining in their then-existing schedule, rather than adopting the 40-year phased-in schedule permitted under Act 205. The City's more aggressive funding policy has resulted in larger contributions than Act 205 requires.
- Act 205 was amended in July 2004 to allow for a 30-year amortization of the portion of the July 1, 2003 unfunded liability attributable to the 2001 and 2002 calendar year investment returns. Investment losses are usually amortized over 15 years.
- The City applies the normal cost rates to the fiscal year's actual payroll. The MMO uses the prior year's estimated payroll.
- The City's actual contribution includes interest at 8.75% from July 1 to the payment date. However, no interest accumulates on the MMO if the payment is made by plan year-end as confirmed in conversations with the Public Employee Retirement Commission (PERC).
- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.

MINIMUM MUNICIPAL OBLIGATION

The City’s unfunded liability payments towards the MMO are summarized in Table 46. These payments reflect the 40-year funding of the July 1, 1985 unfunded actuarial accrued liability with increasing payments at 4.0% — pre-1999 balances were adjusted to reflect the Pension Obligation Bond.

45. MMO calculation for fiscal 2007 (July 1, 2005 valuation report)

	Fiscal 2006 (dollars in thousands)			
	Non-Uniformed	Police	Fire	Total
Estimated FY 2006-2007 payroll	\$ 868,577	\$ 349,834	\$ 103,070	\$ 1,321,482
Normal cost percent	7.012%	11.974%	12.657%	8.766%
Normal cost	\$ 60,906	\$ 41,889	\$ 13,045	\$ 115,840
Amortization payment	174,739	113,805	35,621	324,165
Administrative expense	<u>4,686</u>	<u>1,808</u>	<u>606</u>	<u>7,100</u>
Subtotal	\$ 240,331	\$ 157,502	\$ 49,272	\$ 447,105
Expected member contributions	<u>(22,958)</u>	<u>(18,373)</u>	<u>(5,518)</u>	<u>(46,849)</u>
MMO ^a	\$ 217,373	\$ 139,129	\$ 43,754	\$ 400,256

a. Includes general pension state aid and state cost-of-living adjustment reimbursement. For fiscal 2006, the total is \$57,338 (thousands). Also includes quasi agencies.

MINIMUM MUNICIPAL OBLIGATION

46. Unfunded liability payments toward MMO for fiscal 2007 (thousands) — July 1, 2005 valuation report

	Municipal			Police			Fire		
	July 1, 2005 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2005 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2005 Remaining Balance	Years Remaining	Amortization Payment
Original July 1, 1985 unfunded actuarial accrued liability	\$ 929,285	20	\$ 68,719 ^a	\$ 596,554	20	\$ 44,114 ^a	\$ 237,895	20	\$ 17,592 ^b
Dombrowski	\$ 2,705	3	\$ 978	\$ 1,730	3	\$ 626	\$ 689	3	\$ 249
July 1, 1986 additional amounts	\$ 452	2	\$ 235	\$ 39	2	\$ 20	\$ 19	2	\$ 10
July 1, 1989 additional amounts	\$ 759	1	\$ 759	\$ 212	1	\$ 212	\$ 99	1	\$ 99
Active plan change	(828)	1	(828)	(241)	1	(241)	(97)	1	(97)
Assumption change	(69)		(69)	(29)		(29)	2		2
Subtotal ^b	\$ 187	3	\$ 68	\$ 0		\$ 0	\$ 0		\$ 0
July 1, 1992 additional amounts	\$ 607	5	\$ (143)	\$ (404)	5	\$ (95)	\$ 0		\$ 0
Active plan change	(2,430)	1	(2,430)	(1,915)	1	(1,915)	(772)	1	(772)
(Gain)/loss	(5,976)	5	(1,404)	48	5	11	(1,113)	5	(261)
Assumption change	(9,013)		(3,976)	(2,271)		(1,999)	(1,885)		(1,033)
Subtotal ^b	\$ (2,441)	2	\$ (1,272)	\$ (373)	2	\$ (195)	\$ (1,447)	2	\$ (754)
July 1, 1994 additional amounts	\$ 333	10	\$ 47	\$ 0		\$ 0	\$ 0		\$ 0
Active plan change	3,958	5	930	266	5	62	(1,718)	5	(403)
(Gain)/loss	4,291		977	266		62	(1,718)		(403)
Subtotal ^b	\$ 3,164	6	\$ 644	\$ 1,553	6	\$ 316	\$ (1,350)	6	\$ (275)
July 1, 1996 additional amounts	\$ 38,526	12	\$ 4,885	\$ 4,715	12	\$ 598	\$ 1,986	12	\$ 252
(Gain)/loss	(36,919)	7	(6,689)	(14,170)	7	(2,567)	(9,472)	7	(1,716)
Subtotal ^b	\$ 1,607		\$ (1,804)	\$ (9,455)		\$ (1,969)	\$ (7,487)		\$ (1,464)
July 1, 1998 additional amounts	\$ (11,498)	8	\$ (1,893)	\$ (9,386)	8	\$ (1,545)	\$ (8,437)	8	\$ (1,398)
(Gain)/loss									

Mercer Human Resource Consulting

City of Philadelphia
Municipal Retirement System

MINIMUM MUNICIPAL OBLIGATION

	Municipal			Police			Fire		
	July 1, 2005 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2005 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2005 Remaining Balance	Years Remaining	Amortization Payment
July 1, 1999 additional amounts									
(Gain)/loss	\$ (101,864)	9	\$ (15,465)	\$ 749	9	\$ 114	\$ (36,977)	9	\$ (5,614)
Active plan change	12,824	14	1,493	0		0	0		0
Nonactive plan change	22,082	4	6,233	9,828	4	2,774	3,648	4	1,030
Subtotal ^b	\$ (66,958)		\$ (7,739)	\$ 10,578		\$ 2,888	\$ (33,329)		\$ (4,625)
July 1, 2000 additional amounts									
(Gain)/loss	\$ (21,346)	10	\$ (3,025)	\$ 29,690	10	\$ 4,207	\$ 608	10	\$ 86
July 1, 2001 additional amounts									
Assumption change	\$ (3,754)	16	\$ (409)	\$ (2,141)	16	\$ (233)	\$ (4,869)	16	\$ (530)
(Gain)/loss	(16,521)	11	(2,206)	(19,783)	11	(2,642)	9,885	11	1,320
Subtotal ^b	\$ (20,275)		\$ (2,615)	\$ (21,924)		\$ (2,875)	\$ 5,015		\$ 790
July 1, 2002 additional amounts									
Assumption change	\$ 14,789	17	\$ 1,566	\$ 9,806	17	\$ 1,039	\$ 7,719	17	\$ 818
Calendar year 2001 investment loss ^c	19,673	28	1,750	10,488	28	933	4,470	28	398
Other (Gain)/loss	135,342	12	17,162	89,996	12	11,408	25,165	12	3,191
Subtotal ^b	\$ 169,804		\$ 20,478	\$ 110,261		\$ 13,379	\$ 37,354		\$ 4,406
July 1, 2003 additional amounts									
Calendar year 2002 investment loss ^c	\$ 336,189	28	\$ 29,906	\$ 177,404	28	\$ 15,781	\$ 76,263	28	\$ 6,784
Other (Gain)/loss	74,953	13	9,083	10,719	13	1,299	7,975	13	966
Active plan change	0	18	0	22,642	18	2,338	9,055	18	935
Nonactive plan change	0	8	0	30,230	8	4,976	9,038	8	1,488
Subtotal ^b	\$ 411,142		\$ 38,989	\$ 240,996		\$ 24,394	\$ 102,331		\$ 10,173
July 1, 2004 additional amounts									
(Gain)/loss	\$ 141,772	14	\$ 16,508	\$ 85,642	14	\$ 9,972	\$ 25,186	14	\$ 2,933
July 1, 2005 additional amounts									
(Gain)/loss	\$ 225,839	15	\$ 25,384	\$ 96,308	15	\$ 10,825	\$ 41,213	15	\$ 4,632
Assumption change	241,973	20	23,942	117,085	20	11,585	47,007	20	4,651
Plan change	2,122	20	210	268	20	26	0	20	0
Subtotal ^b	\$ 469,934		\$ 49,536	\$ 213,661		\$ 22,436	\$ 88,219		\$ 9,283
Total^b	\$ 2,002,742		\$ 174,739	\$ 1,247,532		\$ 113,805	\$ 441,667		\$ 35,621

a. Level dollar amortization payment (20 years remaining).

- Municipal — \$40,946
- Police — \$27,474
- Fire — \$10,482.

b. Numbers may not add because of rounding.

c. The amendment to Act 205 in July 2004 allows for a 30-year amortization of the portion of the July 1, 2003 unfunded liability affected by the 2001 and 2002 calendar year investment returns.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

Statement Number 25 of the Governmental Accounting Standards Board (GASB 25) is effective for plan years beginning after June 15, 1996 and supersedes Statement Number 5 (GASB 5).

The objective of GASB 25 is to provide a standard for disclosing pension information for the financial reports of governmental pension plans. The financial report should include two financial statements and two required schedules of historical information. The financial statements and required schedules are:

- *A statement of plan net assets* including information about plan assets and liabilities at the reporting date. This information is shown in the Financial Experience of the Fund section of the report.
- *A statement of changes in plan net assets* including receipts and disbursements. This information is also contained in the Financial Experience of the Fund section of the report.
- *A schedule of funding progress* including historical information about the actuarially determined funded status of the plan and the progress made in accumulating sufficient assets. This information should be provided for each of the past six plan years. For the transition year and the following five years the schedules should show information for the current year and as many prior years as available. This schedule is shown in Table 54 below.
- *A schedule of employer contributions* including historical trend information about the Annual Required Contributions (ARC) and the contributions made by the employer in relation to the ARC. This information is shown in Table 55.

54. Schedule of funding progress (dollars in millions)

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/92	\$1,981.8	\$4,425.5	\$2,443.7	44.78%	\$ 993.3	246.02%
7/1/93	2,113.9	4,502.1	2,388.2	46.95%	975.0	244.94%
7/1/94	2,225.2	4,662.6	2,437.4	47.72%	974.3	250.17%
7/1/95	2,312.1	4,850.8	2,538.7	47.66%	1,006.4	252.26%
7/1/96	2,457.2	5,098.1	2,640.9	48.20%	1,068.3	247.21%
7/1/97	2,660.9	5,318.1	2,657.2	50.03%	1,067.7	248.87%
7/1/98	2,921.3	5,586.1	2,664.8	52.30%	1,128.2	236.19%
7/1/99	4,496.8	5,862.1	1,365.3	76.71%	1,178.6	115.84%
7/1/00	4,765.0	6,193.4	1,428.4	76.94%	1,142.8	124.99%
7/1/01	4,943.4	6,379.8	1,436.4	77.49%	1,180.4	121.69%
7/1/02	4,891.3	6,727.2	1,835.9	72.71%	1,207.3	152.06%
7/1/03	4,548.1	7,188.3	2,640.2	63.27%	1,269.3	208.00%
7/1/04	4,333.1	7,247.7	2,914.7	59.79%	1,266.0	230.23%
7/1/05	4,159.5	7,851.5	3,691.9	52.98%	1,270.7	290.54%

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

55. Schedule of contributions from the employer and other contributing entities

Fiscal Year	Annual Required Contributions^a	Percentage Contributed
1993	\$ 209,352	100.0%
1994	\$ 223,750	104.5%
1995	\$ 212,838	100.0%
1996	\$ 222,482	100.0%
1997	\$ 237,016	100.0%
1998	\$ 252,080	100.0%
1999	\$ 256,704	586.9% ^b
2000	\$ 168,928	108.9%
2001	\$ 167,616	100.0%
2002	\$ 178,239	100.0%
2003	\$ 195,514	91.9%
2004	\$ 253,844	79.9%
2005	\$ 358,141	83.6%

- a. Dollars in thousands. For each year, the actuarial valuation provides the City of Philadelphia with the unfunded actuarial accrued liability amortization payment as a dollar amount and the normal cost as a percentage of payroll. The City of Philadelphia then multiplies their actual fiscal year payroll with that percentage to get the normal cost payment. We determined the annual required contribution as the greater of (i) the resulting amount or (ii) the normal cost plus a 40-year amortization of the unfunded actuarial accrued liability with amortization payments increasing 4.0% per year.
- b. On February 2, 1999, the City deposited the proceeds of a Pension Obligation Bond worth \$1,250,000,000.

Statement No. 27 disclosure

Under Government Accounting Standards Board (GASB) Statement No. 27 for the period beginning after June 15, 1997 financial statements must include new standard reporting for pension expenditures/expenses. This section summarizes our valuation as we understand Statement No. 27. Because these are financial statement disclosures, our interpretation of the statements are subject to your auditor's review.

The reporting elements are:

- **Annual required contributions or ARC** — this is the anticipated required contribution based on statement specific valuation methods, valuation assumptions and unfunded liability amortization over a period, not to exceed forty years as a level payment or level percent of pay, and amortization of contribution deficiencies or excesses. Historically, the ARC has been shown as the contribution derived from the City's funding policy.

Your valuation method conforms to the entry age cost method as defined in Section B of Statement 27. Unfunded actuarial accrued liabilities are funded on average over 16 years from July 1, 2005. Assets are valued as a five-year smoothing of gains and losses on the market value.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

- **Net Pension Obligation or NPO** — is made up of a transition liability or asset equal to the accumulated value of contribution deficiencies or excesses over required contributions from July 1, 1987 to Statement effective date (July 1, 1997) between the annual pension cost (discussed below) and the employer’s contribution.

During the 1994 fiscal year, the City contributed \$10,000,000 more than the ARC. Therefore, the initial NPO value at the effective date is \$(9,012,000) as shown in Table 56 below.

After 1999, the “increase in the NPO” is from the recognition of:

- *The 15-year open amortization of the NPO as of the beginning of the year.*
 - *Differences in the City’s funding policy contribution and the actual contribution.*
- **Annual pension cost** — is equal to the ARC plus one year’s interest on NPO and ARC adjustment to avoid double counting of NPO and interest on NPO.

The following table summarizes the GASB Statement disclosure for fiscal years 1994 through 2005.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

56. Calculation of annual pension cost (dollars in thousands)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ARC	\$ 223,750	\$ 212,838	\$ 222,482	\$ 237,016	\$ 252,080	\$ 256,704	\$ 168,928	\$ 167,616	\$ 178,239	\$ 195,514	\$ 253,844	\$ 358,141
Interest on NPO	—	(900)	(869)	(840)	(811)	(783)	(113,257)	(110,748)	(106,975)	(103,330)	(98,392)	(90,448)
Adjustment to ARC	—	1,241	1,198	1,158	1,118	1,080	156,130	152,672	147,470	142,446	135,638	124,687
Annual pension cost	\$ 223,750	\$ 213,179	\$ 222,811	\$ 237,334	\$ 252,387	\$ 257,001	\$ 211,801	\$ 209,540	\$ 218,734	\$ 234,630	\$ 291,090	\$ 392,380
Contributions made	233,750	212,838	222,482	237,016	252,080	1,506,704	183,928	167,616	178,239	179,757	202,827	299,266
Increase in NPO	(10,000)	341	329	318	307	(1,249,703)	27,873	41,924	40,495	54,873	88,263	93,114
NPO at beginning of year	—	(10,000)	(9,659)	(9,330)	(9,012)	(8,705)	(1,258,408)	(1,230,535)	(1,188,611)	(1,148,116)	(1,093,243)	(1,004,980)
NPO at end of year	(10,000)	(9,659)	(9,330)	(9,012) ^a	(8,705)	(1,258,408)	(1,230,535)	(1,188,611)	(1,148,116)	(1,093,243)	(1,004,980)	(911,866)
Interest rate	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
15-year amortization factor (EOY)	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06

a. \$(9,012,000) is the NPO at transition date.

file:///p:/p/1h2/006/docs/val_rpt.2005.doc

FINANCIAL SECTION

EXHIBIT A-1

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
STATEMENT OF PLAN NET ASSETS
JUNE 30, 2005

ASSETS

Cash on Deposit and on Hand	\$ 111,923,987
Investments at Fair Value	4,022,634,018
Securities Lending	334,021,207
Accounts Receivable	6,198,726
Due from Brokers	40,036,535
Interest and Dividends Receivable	9,390,599
Due from Other Governmental Units	4,161,698
Other Assets	11,220
Total Assets	<u>\$ 4,528,377,990</u>

LIABILITIES

Vouchers Payable	\$ 180,169
Accounts Payable	3,403,562
Salaries and Wages Payable	113,285
Due on Securities Lending	334,021,207
Due to Brokers	83,510,622
Accrued Expenses	840,423
Deferred Revenue	4,184,582
Other Liabilities	335,860
Total Liabilities	<u>426,589,710</u>

Net Assets Held in Trust for Pension Benefits	<u>\$ 4,101,788,010</u>
---	-------------------------

MUNICIPAL PENSION FUND
SUMMARY OF INVESTMENTS BY TYPE
FYE 6/30/2005

	PAR	COST	MARKET
U.S. GOVERNMENT SECURITIES	\$ 97,327,029	\$ 95,655,854	\$ 97,991,089
U.S. GOVT AGENCY SECURITIES	172,427,876	174,378,518	174,761,334
CORPORATE BONDS	281,039,303	301,325,126	324,841,640
CORPORATE EQUITY	-	2,556,196,964	3,037,672,365
COLLATERALIZED MTG OBLIGATIONS	29,985,060	30,311,054	30,521,459
OTHER BONDS AND INVESTMENTS	61,889,622	63,769,288	72,192,192
SHORT TERM INVESTMENT POOLS	86,846,627	86,830,205	86,830,069
REAL ESTATE	26,934,354	26,934,180	12,207,865
FINANCIAL AGREEMENTS	212,516,117	212,562,512	185,616,005
	<u>\$ 968,965,988</u>	<u>\$ 3,547,963,701</u>	<u>\$ 4,022,634,018</u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Additions:		
Contributions:		
Employer's Contributions	\$ 299,239,221	\$ 202,826,876
Employees' Contributions	49,328,140	50,534,513
	<hr/>	<hr/>
Total Contributions	348,567,361	253,361,389
Investment Income:		
Interest and Dividends	74,571,116	68,375,744
Gain (Loss) from Sale of Investments	321,234,088	539,661,188
(Less) Investment Expenses	(15,012,132)	(13,033,850)
Securities Lending Revenue	8,499,493	3,608,267
(Less) Securities Lending Expenses	(7,564,803)	(2,803,286)
Net Investment Income	<hr/> 381,727,762	<hr/> 595,808,063
Miscellaneous Operating Revenues	358,422	1,269,700
	<hr/>	<hr/>
<u>Total Additions</u>	<u>730,653,545</u>	<u>850,439,152</u>
Deductions:		
Personal Services	3,320,747	3,251,517
Purchase of Services	1,644,744	1,375,320
Materials and Supplies	101,580	122,348
Employee Benefits	1,507,331	1,244,307
Pension Benefits	590,653,605	657,549,075
Refunds of Members' Contributions	4,641,536	4,100,253
Other Operating Expenses	202,673	390,571
	<hr/>	<hr/>
<u>Total Deductions</u>	<u>602,072,216</u>	<u>668,033,391</u>
	<hr/>	<hr/>
<u>Net Increase</u>	<u>128,581,329</u>	<u>182,405,761</u>
Net Assets Held in Trust for Pension Benefits - July 1, 2004	<hr/> 3,973,206,681	<hr/> 3,790,800,920
Net Assets Held in Trust for Pension Benefits - June 30, 2005	<hr/> <u>\$ 4,101,788,010</u>	<hr/> <u>\$ 3,973,206,681</u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
ANALYSIS OF MEMBERS' CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Municipal Division - Old	Municipal Division - New	Fire Division - New	Police Division - New
Balance, July 1, 2004	<u>\$ 203,351</u>	<u>\$ 331,457</u>	<u>\$66,291,364</u>	<u>\$ 114,307,851</u>
Additions:				
Regular Payroll Deductions	-	3,363	2,214,669	5,098,289
Installment Repurchase Deductions	-	-	70,474	69,904
Payments Through City Treasurer	-	-	460,618	425,628
Retirees' Pension Payments	-	-	-	-
Net Change in Liability for Deceased Pensioners	-	-	-	(5,018,625)
Net Change In Liability for Pensioners' Unexpended Contributions	-	-	(3,200,142)	(40,830)
Adjustments to Members' Contribution Accounts	-	-	-	-
Unclaimed Withdrawal Checks Deposited	-	-	-	107
Total Additions	<u>-</u>	<u>3,363</u>	<u>(454,380)</u>	<u>534,473</u>
Deductions:				
Withdrawals	-	4,333	79,278	173,285
Retirements	-	3,175	6,347,085	8,434,842
Adjustments to Members' Contribution Accounts	-	-	-	-
Total Deductions	<u>-</u>	<u>7,507</u>	<u>6,426,363</u>	<u>8,608,127</u>
Net Change in Year	<u>-</u>	<u>(4,144)</u>	<u>(6,880,743)</u>	<u>(8,073,654)</u>
Balance, June 30, 2005	<u>\$ 203,351</u>	<u>\$ 327,313</u>	<u>\$59,410,621</u>	<u>\$ 106,234,197</u>

Elected Officials	Municipal Revised Plan 60	Municipal Revised Plan 87	Municipal Revised Plan 93	Fire Division Old	Police Division - Old	Total
<u>\$2,067,666</u>	<u>\$278,671,261</u>	<u>\$7,243,992</u>	<u>\$51,102,038</u>	<u>\$19,708,290</u>	<u>\$79,454,017</u>	<u>\$619,381,286</u>
183,018	12,634,836	470	9,629,935	3,095,217	12,185,671	45,045,469
4,825	141,892	-	389,649	166,757	168,217	1,011,719
-	1,411,766	7,670	711,001	51,796	110,319	3,178,797
-	86,607	-	-	-	-	86,607
30,191	(2,137,245)	-	1,460	-	(12,616)	(7,136,835)
-	(48,134)	(58,573)	3,413	(5,694)	42,240	(3,307,720)
-	-	-	-	-	-	-
-	3,753	-	1,688	-	-	5,549
<u>218,034</u>	<u>12,093,476</u>	<u>(50,434)</u>	<u>10,737,147</u>	<u>3,308,076</u>	<u>12,493,831</u>	<u>38,883,585</u>
303	1,494,607	7,504	1,843,802	237,445	800,980	4,641,536
81,435	20,580,462	-	898,727	137,593	276,325	36,759,644
-	-	-	-	-	-	-
<u>81,738</u>	<u>22,075,069</u>	<u>7,504</u>	<u>2,742,529</u>	<u>375,038</u>	<u>1,077,305</u>	<u>41,401,180</u>
<u>136,296</u>	<u>(9,981,593)</u>	<u>(57,938)</u>	<u>7,994,618</u>	<u>2,933,038</u>	<u>11,416,526</u>	<u>(2,517,594)</u>
<u>\$2,203,962</u>	<u>\$268,689,667</u>	<u>\$7,186,054</u>	<u>\$59,096,656</u>	<u>\$22,641,328</u>	<u>\$90,870,543</u>	<u>\$616,863,691</u>

MUNICIPAL PENSION FUND
ANALYSIS OF FUND BALANCE
FOR THE PERIOD ENDED JUNE 30, 2005

	Reserve for Member Contributions	Reserve for Payment of Pensions and All Other Purposes	Total Reserves
Balance, July 1, 2004	619,381,285	3,353,825,396	3,973,206,681
Additions:			
Contributions:			
Employees	49,322,592		
Quasi-Public Agencies	-	8,615,221	
City Appropriations	-	290,624,000	
Total Contributions	49,322,592	299,239,221	
Interest:			
Members' Reinstatements	-	91,862	
Interest on Long-Term Investments	-	72,944,935	
Interest on Short-Term Investments	-	1,534,319	
Total Interest	-	74,571,116	
Members' Contributions Transferred To Reserve for Retirements	-	36,759,644	
Adjustments for Employees Unexpended Vacation Time	-		
Adjustments to Members' Unexpended Contributions	-	10,342,670	
Adjustments for Accrued Death Benefits	-	(78,517)	
Net Appreciation (Depreciation)Fair Value of Investment Managers		133,223,213	
Net Income (Loss) from Investment Managers		188,010,876	
Other Additions:			
Unclaimed Withdrawal Checks Deposited	5,549		
Refunds and Cancelled Checks-Prior Years' Pensions	-	68,264	
Miscellaneous Receipts	-	1,150,523	
Miscellaneous Fund Balance Adjustments	-	176,210	
Total Other Additions	5,549	1,394,996	
Total Additions	49,328,140	743,463,219	792,791,359
Deductions:			
Withdrawals	4,641,536		
Retirements	36,759,644		
Adjustments to Members' Contributions	-	-	
Administrative Expenses	-	6,791,419	
Payments of Pensions and Benefits	-	590,653,605	
Investment Manager Expenses	-	14,933,615	
Adjustments for Employees Unexpended Vacation Time	-	(14,343)	
Adjustments to Members' Unexpended Contributions	10,342,670	-	
Adjustments for Liability to Deceased Pensioners	101,884	-	
Miscellaneous Fund Balance Adjustments	-	-	
Total Deductions	51,845,734	612,364,295	664,210,030
Balance, June 30, 2005	616,863,691	3,484,924,319	4,101,788,010

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Balance, July 1, 2004	\$ <u>9,916,549</u>
Receipts:	
From Members:	
Contributions	47,259,565
Interest	83,883
Repayment Fees	6,185
Payroll Deductions Accrued at June 30, 2003	<u>1,571,925</u>
Total Receipts - Members	48,921,558
From Operating Funds Appropriations-Current Year's Requirements	290,624,000
Prior Year's Appropriations	9,767,890
Interest on Short-Term Debt Securities	1,534,319
Sale or Maturity of Long-Term Debt Securities	16,014,114
Sale or Maturity of Equity/Debt Securities	454,418,049
Gain(Loss) on Sale of Investments	434
Refunds and Cancelled Checks Deposited	197,235
Reimbursement for Normal City Costs, Quasi-Public Agencies	4,453,523
Accrual Due from Quasi-Public Agencies at June 30, 2003	2,711,331
Other Receipts	<u>1,233,007</u>
Total Receipts	829,875,460
Total Available for Disbursement	839,792,009
Disbursements:	
Pensions and Benefits	590,851,740
Withdrawals	4,641,536
Administrative Expenses	19,432,480
Equity/Debt Securities Purchased	103,998,275
Long-Term Investments Purchased	<u>8,943,991</u>
Total Disbursements	<u>727,868,022</u>
Balance, June 30, 2005	\$ <u><u>111,923,987</u></u>

City of Philadelphia
 Year-End Pension Contribution
 Pension Contributions By Division
 Fiscal Year Ending June 30, 2005

Rangename to print: COSTS BY DIV

	<u>Payroll Used To Determine Normal Cost</u>	<u>Normal Costs</u>	<u>Unfunded Liability</u>	<u>Less Quasi Contributions</u>	<u>Plus Total Interest Charges</u>	<u>Total Pension Contribution</u>
Police - 1967 Plan	81,094,311.81	7,300,109.95	111,853,620.00		(5,727,273.86)	113,426,456.09
Police - 1987 Plan	231,123,276.70	15,545,351.59	97,010.00		(751,869.78)	14,890,491.81
Fire - 1967 Plan	35,336,387.23	3,103,241.53	35,595,040.00		(1,860,081.56)	36,838,199.96
Fire - 1987 Plan	58,850,394.90	4,270,773.16	(622,390.00)		(175,364.12)	3,473,019.03
Municipal - 1967 Plan	343,524,150.92	18,031,582.68	155,793,700.00	(6,884,988.50)	(8,024,195.16)	158,916,099.02
Municipal - 1987 Plan	475,542,406.15	24,247,907.29	(1,313,450.00)		(1,102,373.53)	21,832,083.76
Municipal Elected - 1987 Plan	2,312,085.13	116,136.04	40,330.00		(7,520.74)	148,945.30
Quasi-Governmental Agencies	32,963,083.56	1,730,232.26		(1,730,232.26)		0.00
	<u>1,260,746,096.40</u>	<u>74,345,334.49</u>	<u>301,443,860.00</u>	<u>(8,615,220.76)</u>	<u>(17,648,678.76)</u>	<u>349,525,294.97</u>

TO BE GIVEN TO ROSE YUDISKAS FOR INCLUSION IN THE BOARD OF PENSIONS ANNUAL REPORT

CITY OF PHILADELPHIA
MUNICIPAL RETIREMENT SYSTEM

APPLICATIONS PROCESSED DURING JULY 2003 THROUGH JUNE 2004

<u>DIVISION</u>	<u>WITHDRAWAL APPLICATIONS</u>			<u>PENSION APPLICATIONS</u>				<u>GRAND TOTAL APPLICATIONS</u>
	<u>Members</u>	<u>Deaths</u>	<u>Total</u>	<u>Regular</u>	<u>Disabled</u>	<u>Survivors of Employees</u>	<u>Pensioners</u>	
MUNICIPAL	1,028	28	1,056	1,034	94	59	261	1,448
FIRE	27	-	27	295	3	6	41	345
POLICE	93	1	94	476	12	14	101	603
<u>GRAND TOTAL</u>	<u>1,148</u>	<u>29</u>	<u>1,177</u>	<u>1,805</u>	<u>109</u>	<u>79</u>	<u>403</u>	<u>2,396</u>

APPLICATIONS PROCESSED DURING JULY 2004 THROUGH JUNE 2005

<u>DIVISION</u>	<u>WITHDRAWAL APPLICATIONS</u>			<u>PENSION APPLICATIONS</u>				<u>GRAND TOTAL APPLICATIONS</u>
	<u>Members</u>	<u>Deaths</u>	<u>Total</u>	<u>Regular</u>	<u>Disabled</u>	<u>Survivors of Employees</u>	<u>Pensioners</u>	
MUNICIPAL	1,105	40	1,145	809	76	43	220	1,148
FIRE	16	2	18	125	2	13	38	178
POLICE	85	1	86	191	10	6	100	307
<u>GRAND TOTAL</u>	<u>1,206</u>	<u>43</u>	<u>1,249</u>	<u>1,125</u>	<u>88</u>	<u>62</u>	<u>358</u>	<u>1,633</u>

CITY OF PHILADELPHIA
MUNICIPAL RETIREMENT SYSTEM

COMPARATIVE STATEMENT OF RETIREMENT BENEFITS IN FORCE

AS OF JUNE 30, 2004 AND JUNE 30, 2005

	<u>NUMBER RECEIVING BENEFITS</u>				<u>MONTHLY RATE OF PENSION BENEFITS IN FORCE</u>			
	<u>Retired Members</u>				<u>Retired Members</u>			
	<u>Regular</u>	<u>Disabled</u>	<u>Survivors</u>	<u>TOTAL</u>	<u>Regular</u>	<u>Disabled</u>	<u>Survivors</u>	<u>TOTAL</u>
<u>JUNE 30, 2004</u>								
<u>MUNICIPAL DIVISION</u>	11,914	2,048	5,530	19,492	\$16,303,837	\$2,440,868	\$2,694,207	\$21,438,912
<u>FIRE DIVISION</u>	1,819	489	959	3,267	3,707,222	749,758	556,314	5,013,294
<u>POLICE DIVISION</u>	5,509	2,087	2,207	9,803	10,152,389	2,899,964	1,322,961	14,375,314
<u>GRAND TOTAL</u>	<u>19,242</u>	<u>4,624</u>	<u>8,696</u>	<u>32,562</u>	<u>\$30,163,448</u>	<u>\$6,090,590</u>	<u>\$4,573,482</u>	<u>\$40,827,520</u>
	<u>Retired Members</u>				<u>Retired Members</u>			
	<u>Regular</u>	<u>Disabled</u>	<u>Survivors</u>	<u>TOTAL</u>	<u>Regular</u>	<u>Disabled</u>	<u>Survivors</u>	<u>TOTAL</u>
<u>JUNE 30, 2005</u>								
<u>MUNICIPAL DIVISION</u>	12,213	2,018	5,532	19,763	\$17,389,020	\$2,471,293	\$2,788,534	\$22,648,847
<u>FIRE DIVISION</u>	1,895	476	942	3,313	4,004,798	737,547	585,284	5,327,629
<u>POLICE DIVISION</u>	5,571	2,044	2,198	9,813	10,454,619	2,866,241	1,361,072	14,681,932
<u>GRAND TOTAL</u>	<u>19,679</u>	<u>4,538</u>	<u>8,672</u>	<u>32,889</u>	<u>\$31,848,437</u>	<u>\$6,075,081</u>	<u>\$4,734,890</u>	<u>\$42,658,408</u>

**CITY OF PHILADELPHIA
PUBLIC EMPLOYEES RETIREMENT SYSTEM
ANALYSIS OF MEMBERSHIP**

ACTIVE MEMBERS

<u>DIVISION</u>	<u>6/30/04</u>	<u>6/30/05</u>
MUNICIPAL	21,717	21,190
FIRE	2,297	2,214
POLICE	7,012	6,702
<u>TOTAL</u>	<u>31,026</u>	<u>30,106</u>

Cover photo provided by courtesy of the Office of the City Representative, City of Philadelphia