

**DEPARTMENT OF  
FIRE AND POLICE  
PENSIONS**

701 E. 3RD STREET  
SUITE 200  
LOS ANGELES, CA 90013

(213) 279-3000 (Main Line)  
(844) 88-LAFPP (52377) - TOLL FREE  
FAX (213) 628-7716  
TDD (213) 628-7713

EMAIL: PENSIONS@LAFPP.COM

**CITY OF LOS ANGELES**  
CALIFORNIA



ERIC GARCETTI  
MAYOR

RAYMOND P. CIRANNA  
GENERAL MANAGER

WILLIAM S. RAGGIO  
EXECUTIVE OFFICER

JOSEPH SALAZAR  
ASSISTANT GENERAL MANAGER

TOM LOPEZ  
CHIEF INVESTMENT OFFICER

January 23, 2017

The Honorable City Council  
City of Los Angeles  
c/o City Clerk  
Room 395, City Hall  
200 North Spring Street  
Los Angeles, CA 90012

Attention: Councilmember Paul Krekorian  
Chair, Budget and Finance Committee

Dear Honorable Members:

Subject: **LAFPP Annual Report for FY 2015-16**

Enclosed is a copy of the Annual Report for the Department of Fire and Police Pensions (LAFPP) for fiscal year 2015-16. The report provides financial information as of June 30, 2016, and includes other pertinent information such as the department's budget summary, investment performance, asset allocation data, plan actuarial data, statistical information, and a summary of the plan provisions. In addition, the report highlights department achievements while serving approximately 25,997 members during the fiscal year.

As of June 30, 2016, pension benefits were actuarially funded at 93.9 percent and health subsidy benefits were funded at 48.1 percent, an increase of 2.4 and 2.7 percent respectively over the prior year. The combined funding status increased from 85 percent to 87.4 percent for the Plan.

Plan assets totaled over \$18.5 billion on a market basis as of June 30, 2016. The System is focused on achieving a 7.5 percent return over the long-term with the understanding that there are market fluctuations from year-to-year. The investment rate of return for Fiscal Year 2015-16 was 1.18 percent. However, over the 3- and 5-year periods, the System's average returns were 7.49 and 7.42 percent, respectively. The System continues to work with its investment consultants to manage market volatility by investing



in a variety of asset classes. In June 2016, the Board of Fire and Police Pension Commissioners made modifications to the asset allocation to manage the market volatility.

LAFPP's accomplishments throughout the past fiscal year include relocating in March 2016 to a new headquarters facility in the Arts District after residing in the Little Tokyo for almost 30 years. In addition, an Asset Liability Study was conducted by the Plan's investment consultant, which included complex modeling that was used by the Board to help establish the appropriate asset allocation for the Fund. Staff continues to refine and update our Strategic and Business Plan goals to build upon our prior achievements and meet new challenges. These achievements ultimately support our mission – *To advance the health and retirement security of those who dedicate their careers and risk their lives to protect the people of Los Angeles.*

This report, along with historical annual reports, actuarial valuations and financial statements, is also available on our website, [www.lafpp.com](http://www.lafpp.com), from the "Financial Reports" link in the *About LAFPP* section.

I welcome the opportunity to convey our accomplishments to the City Council. Please contact me at (213) 279-3015 if you have any questions.

Sincerely,



Raymond P. Ciranna  
General Manager

RPC:JS:BHN

Enclosure

# LAFPP

LOS ANGELES FIRE AND POLICE PENSIONS  
2016 ANNUAL REPORT



TO SERVE THOSE WHO PROTECT



# 2016 LAFPP ANNUAL REPORT

DATA FOR JULY 1, 2015 THROUGH JUNE 30, 2016

ISSUED BY:  
RAYMOND P. CIRANNA  
GENERAL MANAGER

## INTRODUCTION 3

- 5 GENERAL MANAGER'S MESSAGE
- 8 MISSION, VISION, STRATEGIC GOALS, AND VALUES
- 10 ORGANIZATIONAL CHART
- 10 BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

## FINANCIAL 13

- 17 INDEPENDENT AUDITOR'S REPORT
- 19 MANAGEMENT'S DISCUSSION AND ANALYSIS
- 29 FINANCIAL STATEMENTS
- 67 REQUIRED SUPPLEMENTARY INFORMATION
- 75 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

## DEPARTMENT BUDGET 77

- 79 DEPARTMENT BUDGET
- 80 SUMMARY OF RECEIPTS
- 81 SUMMARY OF EXPENDITURES
- 82 DETAIL OF ADMINISTRATIVE EXPENSE

## INVESTMENTS 83

- 85 INVESTMENT ENVIRONMENT
- 86 INVESTMENT PERFORMANCE
- 86 ASSET ALLOCATION DECISIONS
- 86 INVESTMENT ACTIVITIES
- 87 ASSUMED RATE vs. ACTUAL RATE
- 87 PROXY VOTING
- 88 EMERGING MANAGERS
- 88 TOTAL FUND RETURNS
- 88 INVESTMENT ADVISORS
- 89 ANNUAL RATES OF RETURN
- 89 CHANGES IN ASSET MIX

## ACTUARIAL 91

- 93 FUNDING STATUS
- 94 HOW A VALUATION IS CONDUCTED
- 95 PENSION BENEFIT BALANCE SHEET
- 95 UNFUNDED ACTUARIAL ACCRUED LIABILITY
- 96 EMPLOYER CONTRIBUTION REQUIREMENTS CALCULATION
- 96 HEALTH INSURANCE PREMIUM SUBSIDY VALUATION
- 97 ADMINISTRATIVE EXPENSES
- 97 EMPLOYER CONTRIBUTION HISTORY
- 98 ACTUARIAL BALANCE SHEET

## STATISTICAL 99

- 101 MEMBERSHIP STATISTICS
- 102 ACTIVE MEMBERSHIP
- 104 DROP MEMBERSHIP
- 105 RETIRED MEMBERSHIP
- 116 MEMBER OUTREACH
- 117 FINANCIAL
- 118 FINANCIAL TRENDS INFORMATION
- 124 OPERATING INFORMATION

## LEGAL 125

- 127 PENDING LITIGATION

## PLAN PROVISIONS 129

- 131 FIRE AND POLICE PENSION PLANS
- 131 PENSION BENEFIT PROVISIONS
- 139 MISCELLANEOUS BENEFIT PROVISIONS
- 140 HEALTH AND DENTAL INSURANCE PREMIUM SUBSIDY

## MILESTONES 143

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GENERAL MANAGER'S MESSAGE

MISSION, VISION, STRATEGIC GOALS, AND VALUES

ORGANIZATIONAL CHART

BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

# PART ONE INTRODUCTION





# GENERAL MANAGER'S MESSAGE

- RAYMOND P. CIRANNA

JUNE 30, 2016

## TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

ON BEHALF OF THE FIRE AND POLICE PENSION SYSTEM OF THE CITY OF LOS ANGELES, I AM SUBMITTING THE 2016 ANNUAL REPORT. THIS REPORT PROVIDES MEMBERS, CITY LEADERS, AND OTHER STAKEHOLDERS WITH DETAILED INFORMATION ON THE STATUS AND FINANCIAL HEALTH OF THE SYSTEM.

The System provides pension and retiree health benefits to sworn members of the Fire, Police, and Harbor Departments of the City of Los Angeles. As of June 30, 2016, we have a total of 25,997 members, of which 13,050 are active members, 128 are vested former members, and 12,819 are retired members and beneficiaries.

Although our investment return for Fiscal Year 2015-16 was only 1.18%, our 3-year average return is 7.49%, which is slightly below our assumed rate of return of 7.5%. Over the last 15 years, we have seen returns fluctuate considerably from year-to-year. However, even over this difficult period, our 20-year average return is still 7.52%. It is important to remember that the Plan is focused on achieving a 7.5% return over the long-term horizon with the realization that the financial markets may fluctuate from year-to-year. To help manage this market volatility, the System diversifies its investments across a broad variety of asset classes (stocks, bonds, commodities, real estate, and private equity).

As of June 30, 2016, System assets totaled over \$18.5 billion on a market basis and over

\$19.1 billion on an actuarial (smoothed) basis. The 2015-16 contributions to the Fund by the City and the Harbor Department were slightly less than the prior year, totaling approximately \$623 million and \$4.2 million, respectively. Contributions from active members totaled over \$129 million for the year.

Even though the Fund earned less than the assumed rate of return, our pension funded status on an actuarial basis increased from 91.5 percent to 93.9 percent at year-end. Our funded status for health subsidy benefits also increased from 45.4 percent to 48.1 percent. Combined, our pension and health funded status increased from 85.0 percent to 87.4 percent at June 30, 2016. Additionally, our total unfunded actuarial accrued liabilities continued to decrease from \$3.19 billion at June 30, 2015, to \$2.75 billion at June 30, 2016.

### Service Efforts and Accomplishments

The 2015-16 Business Plan included several projects to help fulfill our mission and vision to move the Department forward and support our members.

EVEN THOUGH THE FUND EARNED LESS THAN THE ASSUMED RATE OF RETURN, OUR PENSION FUNDED STATUS ON AN ACTUARIAL BASIS INCREASED FROM 91.5 PERCENT TO 93.9 PERCENT AT YEAR-END

A brief summary of our key projects is below.

### **New Headquarters Building**

After years of planning and searching for a headquarters building, the System finally purchased the Neptune Building in 2013, a 54,000 sq. ft. building located in the Arts District. Construction and tenant improvements began in June 2015 and were completed in March 2016. Immediately thereafter, the Department moved into the Neptune Building after residing in the Brunswig Building in Little Tokyo for almost 30 years. This purchase will help us achieve our goal of reducing administrative expenses over the long term by owning a headquarters building versus continuing to lease office space at market rates. The purchase has proven to be successful as we have received unsolicited offers to purchase the building and parking lot at prices that exceed the capital cost of the purchase and all improvements. Further, based on a recent appraisal, the value of the property has increased thirty-three percent over the initial purchase price of the building, parking lot and renovation costs. We are also proud of the fact that our architectural plans incorporated many energy efficient elements to secure a Gold LEED certification, a designation achieved by fewer than twenty percent of building projects.

### **Pension Administration System Project**

In May 2015, the Board awarded a contract to Xerox to replace our aging pension administration system. Implementation began in July 2015 with staff reviewing the system requirements, performing data cleansing, project management, and procuring the necessary hardware and software. This is the first year of a three-year implementation plan, with the goal to “go live” in 2018. We are looking forward to increasing our operational efficiency and the additional functionality we can provide to members through its implementation.

THE SYSTEM WILL NOT BE CONSTRAINED BY LIQUIDITY NEEDS, WHICH ALLOWS FOR A WIDER RANGE OF INVESTMENT OPPORTUNITIES FOR THE SYSTEM

### **Asset Liability Study**

In November 2015, we completed an Asset Liability Study for the first time in over ten years. This study, conducted by our investment consultant RVK, included complex modeling that was used by the Board to help establish the appropriate asset allocation for the Fund. The favorable results of the Study indicated that the payout ratio of benefits versus overall System assets is projected to remain constant at approximately six percent over the next 20 years. The Study also concluded that the System

will not be constrained by liquidity needs, which allows for a wider range of investment opportunities for the System.

Other notable business plan projects in 2015-16 included:

- Completed implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 67 and 68, which are designed to improve financial reporting and increase transparency by state and local governmental pension plans.
- Continued enhancement of our business continuity plan and working with our vendor to secure member data at the off-site disaster recovery facility to help us provide member services during uncontrolled events such as hardware failures, earthquakes, or other natural disasters.
- Employed new technology and other enhancements to quickly route information to members and provide tools to help educate members and stakeholders.
- Strengthened our relationships with our member Departments, other City Departments, employee unions and retiree organizations to better coordinate services and events.
- Completed a membership survey to evaluate our services, which indicated a high satisfactory rating of 93%.

Continued

Over the last several years, LAFPP has grown as an organization as we employ industry best practices. We continue to utilize prudent and sound investment strategies to grow and protect System assets over the long-term horizon with the goal of securing the retirement benefits of our members. As always, I am deeply honored to serve the safety members of our City and I thank the Board and staff for their dedication, diligence, and commitment to the Los Angeles Fire and Police Pension System, and our active and retired members for their service to the residents of Los Angeles.

Sincerely,

A handwritten signature in black ink, reading "Raymond P. Ciranna". The signature is fluid and cursive, with the first name being the most prominent.

Raymond P. Ciranna  
General Manager

# MISSION

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TO ADVANCE THE HEALTH AND RETIREMENT SECURITY OF THOSE WHO DEDICATE THEIR CAREERS AND RISK THEIR LIVES TO PROTECT THE PEOPLE OF LOS ANGELES

# VISION

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TO BE A LEADER AND INNOVATOR IN THE PUBLIC PENSION INDUSTRY THROUGH AN UNCOMPROMISING DEDICATION TO EXCELLENCE, CUSTOMER SERVICE, TRANSPARENCY, AND EDUCATION

# STRATEGIC GOALS

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## GOAL 1

ENSURE A FINANCIALLY SOUND RETIREMENT SYSTEM

## GOAL 2

MANAGE RISK THROUGHOUT THE ORGANIZATION

## GOAL 3

ENHANCE CUSTOMER SERVICE TO OUR MEMBERS

## GOAL 4

PURSUE OPERATIONAL EFFICIENCIES

## GOAL 5

ENHANCE COMMUNICATION EFFORTS AND OUTREACH

# VALUES

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## COLLABORATION

We value teamwork to achieve success and encourage staff at all levels to share ideas and offer suggestions for improving operations. We are enriched by our engagement with the Board, our members, and our stakeholders.

## RESPECT

We treat each other and our members with kindness and dignity. We promote a fair environment and support each other by sharing information and knowledge to ensure we deliver quality services.

## ETHICS

We preserve the public trust by adhering to the ethical standards established by the State, the City, and our Board Policies.

## ACCOUNTABILITY

We recognize our responsibility to our members to deliver promised pension benefits. We ensure appropriate oversight to achieve excellence in service, operational and investment decision making.

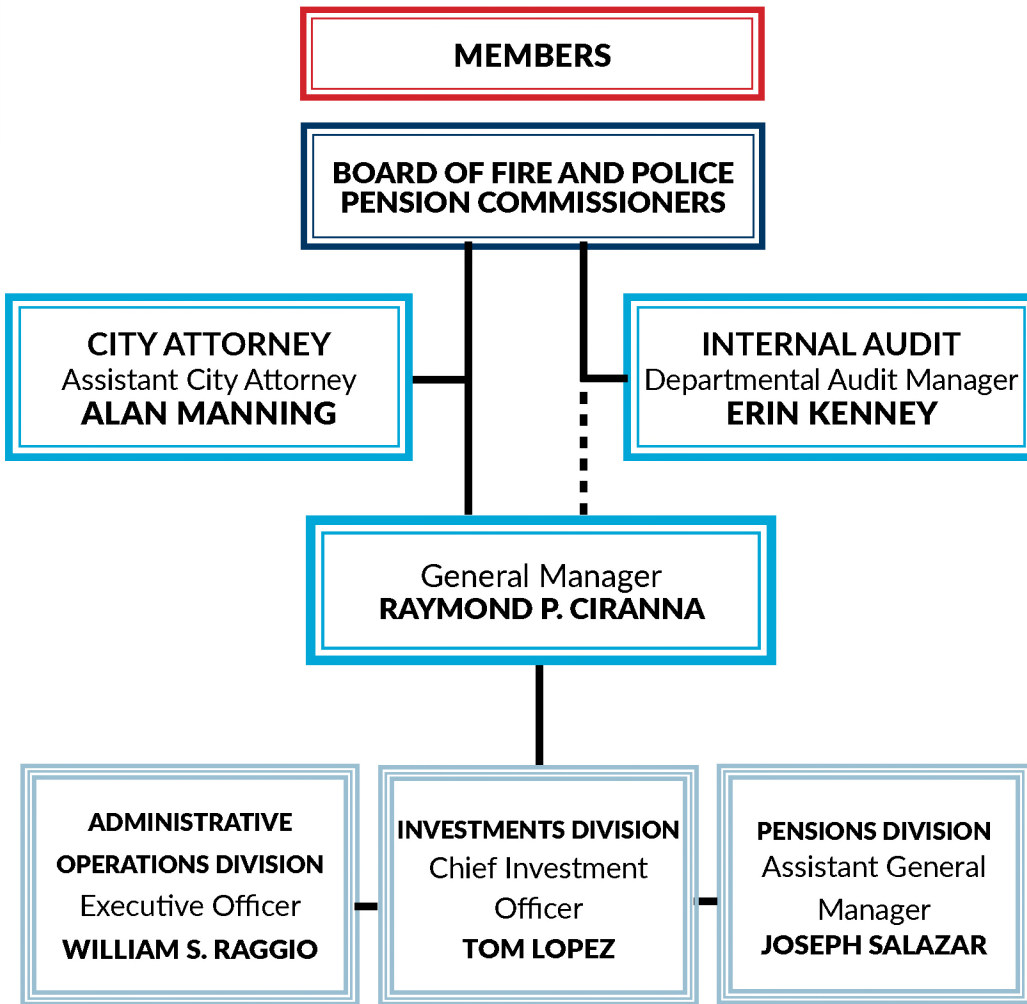
## TRANSPARENCY

We strive to always provide clear, accurate, and complete information, and transact business decisions in an open manner so that our members, the City, and the public can trust that our decisions are fair, honest, and ethical.

## EFFICIENCY

We continually search for ways to deliver quality services and reduce administrative expenses. We promote innovation throughout the organization and use performance measurement to drive decisions.

# ORGANIZATIONAL CHART



## BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

**Robert von Voigt**  
Elected by Active Police Members  
President

**Pedram Salimpour, M.D.**  
Appointed by the Mayor  
Vice President

**George V. Aliano**  
Elected by Retired Police Members

**Ruben Navarro**  
Elected by Active Fire Members

**Corinne T. Babcock**  
Appointed by the Mayor

**Brian Pendleton**  
Appointed by the Mayor

**Sam Diannitto**  
Elected by Retired Fire Members

**Belinda M. Vega**  
Appointed by the Mayor

**Adam Nathanson**  
Appointed by the Mayor

## SYSTEM ADMINISTRATION

The Fire and Police Pension System is administered by a Board of nine commissioners: five appointed by the Mayor and four elected by members. Fire and Police sworn employees each elect one active member, and Fire and Police retired beneficiaries each elect one retired member. The Board administers the System in accordance with the City Charter and the State Constitution. Article XVI, Section 17 (a) of the State Constitution provides the Board “sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries.” Section 17 (b) further provides that “members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board’s duty to its participants and their beneficiaries shall take precedence over any other duty.”

## BOARD MEETINGS

The Board meets on the first and third Thursdays of the month at 8:30 a.m. Most meetings, including special meetings, are from one to four hours in duration. The Board’s current directory and meeting information are available on the Department website at: [www.lafpp.com/board](http://www.lafpp.com/board).



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2016***

Presented to

***Los Angeles Fire & Police Pensions***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

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Alan H. Winkle  
Program Administrator

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INDEPENDENT AUDITOR'S REPORT

REQUIRED SUPPLEMENTARY  
INFORMATION

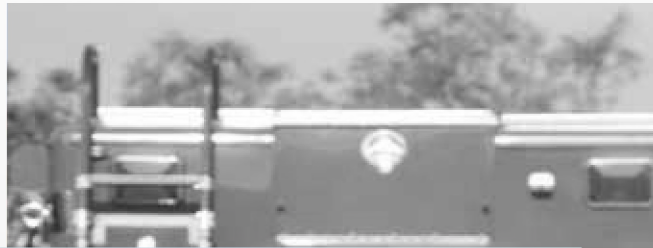
MANAGEMENT'S DISCUSSION AND  
ANALYSIS

INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND  
OTHER MATTERS

FINANCIAL STATEMENTS

# PART TWO FINANCIAL





**LOS ANGELES FIRE AND  
POLICE PENSION SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**



## LOS ANGELES FIRE AND POLICE PENSION SYSTEM

### TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
FINANCIAL STATEMENTS:	
Statements of Fiduciary Net Position.....	13
Statements of Changes in Fiduciary Net Position.....	14
Notes to Financial Statements.....	15
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Health Subsidy Plan.....	51
Schedule of Employer Contributions – Health Subsidy Plan .....	52
Schedule of Employer’s Net Pension Liability.....	53
Schedule of Changes in Employer’s Net Pension Liability and Related Ratios.....	54
Schedule of Employer Contributions – Pension Plan .....	55
Schedule of Investment Returns .....	57
COMPLIANCE SECTION	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	58



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

U.S. BANK TOWER  
633 WEST 5TH STREET, SUITE 3320  
LOS ANGELES, CA 90071  
(213) 736-6664 TELEPHONE  
(213) 736-6692 FAX  
www.simpsonandsimpsoncpas.com

## INDEPENDENT AUDITOR'S REPORT

To the Board of Fire and Police Pension Commissioners  
Los Angeles Fire and Police Pension System

### Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2016, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan. The financial statements of the System as of and for the year ended June 30, 2015, were audited by another auditor whose report dated November 9, 2015, expressed an unmodified opinion on those financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on the respective financial statements for each plan, based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.





We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2016, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'Simpson &amp; Simpson', is written in a cursive style.

Los Angeles, California  
November 21, 2016

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

**FINANCIAL HIGHLIGHTS**

- Net position at the close of the fiscal year ended June 30, 2016, was \$17.1 billion and \$1.4 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.
- Net position decreased by \$242.3 million or 1.4% and increased by \$44.9 million or 3.2% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2016, the date of the most recent actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 93.9% and 48.1%, respectively.
- Additions to the Pension Plan's net position decreased by \$514.2 million or 40.1% from \$1.3 billion to \$767.4 million, due primarily to the net depreciation in the fair value of investments in fiscal year 2016.
- Deductions from the Pension Plan's net position increased by \$73.0 million or 7.8% over fiscal year 2015 from \$936.7 million to \$1.0 billion.
- Additions to the Health Subsidy Plan's net position decreased by \$37.1 million or 18.5% from \$200.1 million to \$163.1 million, due to the net depreciation in the fair value of investments in fiscal year 2016.
- Deductions from the Health Subsidy Plan's net position increased by \$6.5 million or 5.8% over fiscal year 2015 from \$111.8 million to \$118.2 million in the fiscal year 2016.
- The total pension liability for the Pension Plan at June 30, 2016, was \$19.6 billion, and the fiduciary net position was \$17.1 billion. Thus, the net pension liability for the Pension Plan was \$2.5 billion, and the fiduciary net position as a percentage of the total pension liability was 87.42%.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The following discussion and analysis is intended to serve as an introduction to the financial statements of the System, which are:

1. Statement of Fiduciary Net Position
2. Statement of Changes in Fiduciary Net Position
3. Notes to the Financial Statements

*The Statement of Fiduciary Net Position* is a snapshot of account balances at year-end. It indicates the amount of assets available for payment to retirees, beneficiaries, and any current liabilities owed at year-end.

*The Statement of Changes in Fiduciary Net Position* reports additions to and deductions from the fiduciary net position during the year.

The above statements are on a full accrual basis of accounting. Investment gains and losses are shown at trade date, and account balances are based on fair values recognizing both realized and unrealized gains and losses on investments.

*Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 15 to 50 of this report.

The *Required Supplementary Information* (RSI) section includes the following six schedules:

- Schedule of Funding Progress – Health Subsidy Plan
- Schedule of Employer Contributions – Health Subsidy Plan
- Schedule of Employer's Net Pension Liability
- Schedule of Changes in Employer's Net Pension Liability and Related Ratios
- Schedule of Employer Contributions – Pension Plan
- Schedule of Investment Returns

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**FINANCIAL ANALYSIS**

*Pension Plan*

**Fiduciary Net Position**

A summary of the Pension Plan's net position and changes in net position is presented below:

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2016	2015	Change	% Change
Cash	\$ 2,024	\$ 955	\$ 1,069	111.9%
Receivables/Prepayments	122,778	237,392	(114,614)	-48.3%
Investments	18,775,169	18,916,665	(141,496)	-0.7%
Capital Assets	21,873	12,613	9,260	73.4%
Total Assets	18,921,844	19,167,625	(245,781)	-1.3%
Liabilities	1,817,568	1,821,071	(3,503)	-0.2%
Net Position	<u>\$ 17,104,276</u>	<u>\$ 17,346,554</u>	<u>\$ (242,278)</u>	-1.4%

Net position decreased by \$242.3 million (1.4%) to \$17.1 billion from fiscal year 2015. Assets decreased in value by \$245.8 million when compared with the prior fiscal year 2015, attributable to depreciation of investments due to unfavorable market conditions.

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2015	2014	Change	% Change
Cash	\$ 955	\$ 1,347	\$ (392)	-29.1%
Receivables/Prepayments	237,392	299,184	(61,792)	-20.7%
Investments	18,916,665	18,518,838	397,827	2.1%
Capital Assets	12,613	11,835	778	6.6%
Total Assets	19,167,625	18,831,204	336,421	1.8%
Liabilities	1,821,071	1,829,547	(8,476)	-0.5%
Net Position	<u>\$ 17,346,554</u>	<u>\$ 17,001,657</u>	<u>\$ 344,897</u>	2.0%

Net position increased by \$344.9 million (2.0%) to \$17.3 billion from fiscal year 2014. Assets increased in value by \$336.4 million when compared with fiscal year 2014, attributable to appreciation of investments due to favorable market conditions.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position**

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2016	2015	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 478,385	\$ 480,332	\$ (1,947)	-0.4%
Member Contributions	129,734	126,771	2,963	2.3%
Net Investment Income	156,205	669,668	(513,463)	-76.7%
Other Income	3,108	4,849	(1,741)	-35.9%
Total Additions	<u>767,432</u>	<u>1,281,620</u>	<u>(514,188)</u>	<u>-40.1%</u>
<b>Deductions</b>				
Pension Benefits	987,296	915,163	72,133	7.9%
Refund of Contributions	3,067	3,746	(679)	-18.1%
Administrative Expenses	19,347	17,814	1,533	8.6%
Total Deductions	<u>1,009,710</u>	<u>936,723</u>	<u>72,987</u>	<u>7.8%</u>
Net Increase (Decrease)	(242,278)	344,897	(587,175)	-170.2%
Net Position, Beginning of Year	<u>17,346,554</u>	<u>17,001,657</u>	<u>344,897</u>	<u>2.0%</u>
Net Position	<u>\$ 17,104,276</u>	<u>\$ 17,346,554</u>	<u>\$ (242,278)</u>	<u>-1.4%</u>

Additions to Fiduciary Net Position

Additions needed to fund benefit payments are accumulated through employer and member contributions, and from income generated from the Plan's investing activities.

Contributions for fiscal year 2016 totaled \$608.1 million, up by \$1.0 million or 0.2% over fiscal year 2015. The increase in members' contributions was due to an increase in membership in Tier 6. The members' contribution for fiscal year 2016 was \$129.7 million compared to \$126.8 million for fiscal year 2015.

Net investment income amounted to \$156.2 million, a decrease in net investment income of \$513.5 million or 76.7% when compared with \$669.7 million from fiscal year 2015. Investment income decreased in fiscal year 2016 due to unfavorable market conditions.

Deductions from Fiduciary Net Position

Costs associated with the Pension Plan include benefit payments to members, refund of contributions due to termination and member death, and administrative expenses.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Deductions for the fiscal year ended June 30, 2016, totaled \$1.0 billion, an increase of \$73.0 million over fiscal year 2015. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries.

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2015	2014	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 480,332	\$ 440,698	\$ 39,634	9.0%
Member Contributions	126,771	124,395	2,376	1.9%
Net Investment Income	669,668	2,626,143	(1,956,475)	-74.5%
Other Income	4,849	2,899	1,950	67.3%
Total Additions	<u>1,281,620</u>	<u>3,194,135</u>	<u>(1,912,515)</u>	-59.9%
<b>Deductions</b>				
Pension Benefits	915,163	856,036	59,127	6.9%
Refund of Contributions	3,746	2,950	796	27.0%
Administrative Expenses	17,814	13,865	3,949	28.5%
Total Deductions	<u>936,723</u>	<u>872,851</u>	<u>63,872</u>	7.3%
Net Increase	344,897	2,321,284	(1,976,387)	-85.1%
Net Position, Beginning of Year	<u>17,001,657</u>	<u>14,680,373</u>	<u>2,321,284</u>	15.8%
Net Position	<u>\$ 17,346,554</u>	<u>\$ 17,001,657</u>	<u>\$ 344,897</u>	2.0%

Additions to Fiduciary Net Position

Additions needed to fund benefit payments are accumulated through employer and member contributions, and from income generated from the Plan's investing activities.

Contributions for fiscal year 2015 totaled \$607.1 million, up by \$42.0 million or 7.4% over fiscal year 2014. The increase in contributions was due to an increase in the actuarially determined contribution rate. The employer contribution rate for fiscal year 2015 was 36.54% of covered payroll compared to 34.72% of covered payroll for fiscal year 2014.

Net investment income amounted to \$669.7 million, a decrease in net investment income of \$1.9 billion or 74.5% when compared with \$2.6 billion from fiscal year 2014. Investment income decreased in fiscal year 2015 due to unfavorable market conditions.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Deductions from Fiduciary Net Position

Costs associated with the Pension Plan include benefit payments to members, refund of contributions due to termination and member death, and administrative expenses.

Deductions for the fiscal year ended June 30, 2015, totaled \$936.7 million, an increase of \$63.9 million over fiscal year 2014. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

***Health Subsidy Plan***

A summary of the Health Subsidy Plan's net position and changes in net position is presented below:

**Fiduciary Net Position**

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2016	2015	Change	% Change
Cash	\$ 169	\$ 76	\$ 93	122.4%
Receivables/Prepayments	18,763	27,294	(8,531)	-31.3%
Investments	1,564,177	1,505,961	58,216	3.9%
Capital Assets	1,822	1,004	818	81.5%
Total Assets	1,584,931	1,534,335	50,596	3.3%
Liabilities	149,527	143,788	5,739	4.0%
Net Position	<u>\$ 1,435,404</u>	<u>\$ 1,390,547</u>	<u>\$ 44,857</u>	3.2%

Net position increased by \$44.9 million (3.2%) to \$1.4 billion when compared to fiscal year 2015 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy.

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2015	2014	Change	% Change
Cash	\$ 76	\$ 102	\$ (26)	-25.5%
Receivables/Prepayments	27,294	30,520	(3,226)	-10.6%
Investments	1,505,961	1,408,826	97,135	6.9%
Capital Assets	1,004	900	104	11.6%
Total Assets	1,534,335	1,440,348	93,987	6.5%
Liabilities	143,788	138,165	5,623	4.1%
Net Position	<u>\$ 1,390,547</u>	<u>\$ 1,302,183</u>	<u>\$ 88,364</u>	6.8%

Net position increased by \$88.3 million (6.8%) to \$1.4 billion when compared to \$1.3 billion of fiscal year 2014 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the Health Subsidy.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Health Subsidy Plan (Continued)*

**Changes in Fiduciary Net Position**

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2016	2015	Change	% Change
<b>Additions</b>				
Contributions	\$ 150,315	\$ 148,477	\$ 1,838	1.2%
Net Investment Income	12,522	51,291	(38,769)	-75.6%
Other Income	249	371	(122)	-32.9%
Total Additions	<u>163,086</u>	<u>200,139</u>	<u>(37,053)</u>	-18.5%
<b>Deductions</b>				
Benefits Payment	116,678	110,411	6,267	5.7%
Administrative Expenses	1,551	1,364	187	13.7%
Total Deductions	<u>118,229</u>	<u>111,775</u>	<u>6,454</u>	5.8%
Net Increase	44,857	88,364	(43,507)	-49.2%
Net Position, Beginning of Year	<u>1,390,547</u>	<u>1,302,183</u>	<u>88,364</u>	6.8%
Net Position	<u>\$ 1,435,404</u>	<u>\$ 1,390,547</u>	<u>\$ 44,857</u>	3.2%

Additions to Fiduciary Net Position

Total additions to net position decreased by \$37.1 million compared to fiscal year 2015. This is due primarily to a decrease in net investment income by \$38.8 million, mostly attributed to unfavorable market conditions, offset by an increase in contributions of \$1.8 million or 1.2% over fiscal year 2015. For fiscal year 2016, employer contribution was \$150.3 million compared to \$148.5 million in fiscal year 2015 due to an increase in covered payroll.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$118.2 million or 5.8% more than the total deductions of fiscal year 2015. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

***Health Subsidy Plan (Continued)***

**Changes in Fiduciary Net Position (Continued)**

Condensed Statement of Fiduciary Net Position  
(\$ in Thousands)

	2015	2014	Change	% Change
<b>Additions</b>				
Contributions	\$ 148,477	\$ 138,107	\$ 10,370	7.5%
Net Investment Income	51,291	192,600	(141,309)	-73.4%
Other Income	371	213	158	74.2%
Total Additions	<u>200,139</u>	<u>330,920</u>	<u>(130,781)</u>	-39.5%
<b>Deductions</b>				
Benefits Payment	110,411	104,371	6,040	5.8%
Administrative Expenses	1,364	1,017	347	34.1%
Total Deductions	<u>111,775</u>	<u>105,388</u>	<u>6,387</u>	6.1%
Net Increase	88,364	225,532	(137,168)	-60.8%
Net Position, Beginning of Year	<u>1,302,183</u>	<u>1,076,651</u>	<u>225,532</u>	20.9%
Net Position	<u><u>\$ 1,390,547</u></u>	<u><u>\$ 1,302,183</u></u>	<u><u>\$ 88,364</u></u>	6.8%

**Additions to Fiduciary Net Position**

Total additions to net position decreased \$130.8 million compared to fiscal year 2014. This is due primarily to a decrease in net investment income by \$141.3 million, mostly attributed to unfavorable market conditions, and an increase in contributions of \$10.4 million or 7.5% over fiscal year 2014. For fiscal year 2015, the employer contribution rate is 11.3% of covered payroll compared to 10.6% for fiscal year 2014.

**Deductions from Fiduciary Net Position**

Deductions represent medical and dental insurance premiums paid for the pensioners and beneficiaries and administrative expenses. Fiscal year 2015 deductions were \$111.8 million or 6.1% more than the total deductions of fiscal year 2014. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

**Debt Administration Mortgage Payable**

At June 30, 2016, the System had a combined total of \$182.9 million in mortgage payable for the Pension Plan and Health Subsidy Plan. The System paid down \$23.3 million during the year for an ending balance of \$182.9 million.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Health Subsidy Plan (Continued)*

Current Year Changes

GASB issued Statement No. 72, Fair Value Measurement and Application, in February 2015. This statement improves financial reporting by clarifying the definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures. The System, through its professional organizations, management, and consultants, worked to evaluate and implement the new requirements as prescribed within the required time frame.

**REQUEST FOR INFORMATION**

This financial report is designed to provide the Board of Fire and Police Pension Commissioners, members, investment managers, and creditors with a general overview of LAFPP's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Raymond P. Ciranna, General Manager  
Los Angeles Fire and Police Pension System  
701 E. Third Street, Suite 200  
Los Angeles, CA 90013

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**JUNE 30, 2016 AND 2015**

	2016			2015		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ASSETS</b>						
Cash	\$ 2,023,847	\$ 168,609	\$ 2,192,456	\$ 954,823	\$ 76,014	\$ 1,030,837
Receivables						
Accrued Interest and Dividends	51,966,161	4,329,351	56,295,512	49,710,417	3,957,458	53,667,875
Contributions	7,499,627		7,499,627	6,686,968		6,686,968
Due from Brokers	63,304,733	5,273,978	68,578,711	180,990,731	14,408,716	195,399,447
Total Receivables	122,770,521	9,603,329	132,373,850	237,388,116	18,366,174	255,754,290
Prepaid Health Subsidy	7,376	9,159,638	9,167,014	3,737	8,928,092	8,931,829
Investments at Fair Value						
Temporary	929,116,882	77,405,622	1,006,522,504	650,292,676	51,769,958	702,062,634
U.S. Government Obligations	2,080,871,205	173,359,386	2,254,230,591	1,949,302,525	155,184,448	2,104,486,973
Corporate Bonds	1,656,749,063	138,025,361	1,794,774,424	1,610,722,591	128,230,016	1,738,952,607
Foreign Bonds	6,711,342	559,128	7,270,470	18,172	1,447	19,619
Domestic Stocks	6,412,878,444	534,263,081	6,947,141,525	6,790,804,582	540,617,603	7,331,422,185
Foreign Stocks	3,186,510,937	265,471,296	3,451,982,233	3,484,205,332	277,378,433	3,761,583,765
Real Estate	1,392,083,051	115,975,780	1,508,058,831	1,451,891,514	115,585,436	1,567,476,950
Alternative Investments	1,739,350,013	144,906,925	1,884,256,938	1,609,930,495	128,166,958	1,738,097,453
Total Investments	17,404,270,937	1,449,966,579	18,854,237,516	17,547,167,887	1,396,934,299	18,944,102,186
Capital Assets	21,873,006	1,822,261	23,695,267	12,613,071	1,004,129	13,617,200
Securities Lending Collateral	1,370,898,246	114,210,854	1,485,109,100	1,369,497,118	109,025,998	1,478,523,116
<b>TOTAL ASSETS</b>	<b>18,921,843,933</b>	<b>1,584,931,270</b>	<b>20,506,775,203</b>	<b>19,167,624,752</b>	<b>1,534,334,706</b>	<b>20,701,959,458</b>
<b>LIABILITIES</b>						
Accounts Payable and Accrued Expenses	11,998,804	953,252	12,952,056	12,157,055	904,019	13,061,074
Benefits in Process of Payment	31,977,504	814,774	32,792,278	20,739,437	527,080	21,266,517
Due to Brokers	233,799,426	19,478,055	253,277,481	227,650,771	18,123,333	245,774,104
Mortgage Payable	168,869,885	14,068,713	182,938,598	190,996,840	15,205,305	206,202,145
Security Deposit	23,733	1,977	25,710	29,455	2,345	31,800
Securities Lending Collateral	1,370,898,246	114,210,854	1,485,109,100	1,369,497,118	109,025,998	1,478,523,116
<b>TOTAL LIABILITIES</b>	<b>1,817,567,598</b>	<b>149,527,625</b>	<b>1,967,095,223</b>	<b>1,821,070,676</b>	<b>143,788,080</b>	<b>1,964,858,756</b>
<b>NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS</b>	<b>\$ 17,104,276,335</b>	<b>\$ 1,435,403,645</b>	<b>\$ 18,539,679,980</b>	<b>\$ 17,346,554,076</b>	<b>\$ 1,390,546,626</b>	<b>\$ 18,737,100,702</b>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
JUNE 30, 2016 AND 2015**

	2016			2015		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ADDITIONS</b>						
<b>Contributions</b>						
Employer Contributions	\$ 478,385,438	\$ 150,315,374	\$ 628,700,812	\$ 480,332,251	\$ 148,476,512	\$ 628,808,763
Member Contributions	129,733,559		129,733,559	126,770,882		126,770,882
Total Contributions	<u>608,118,997</u>	<u>150,315,374</u>	<u>758,434,371</u>	<u>607,103,133</u>	<u>148,476,512</u>	<u>755,579,645</u>
<b>Investment Income (Loss)</b>						
<b>Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales</b>						
Interest	(221,126,477)	(17,726,095)	(238,852,572)	189,380,584	14,504,946	203,885,530
Dividends	117,592,847	9,426,560	127,019,407	105,684,530	8,094,538	113,779,068
Net Real Estate Income	226,490,236	18,156,069	244,646,305	214,597,751	16,436,367	231,034,118
Income from Alternative Investments	76,412,712	6,125,449	82,538,161	67,776,657	5,191,117	72,967,774
Securities Lending Income	24,137,732	1,934,946	26,072,678	29,306,707	2,244,645	31,551,352
Less: Securities Lending Expense	8,202,075	657,500	8,859,575	8,013,539	613,769	8,627,308
Other Income	(818,709)	(65,629)	(884,338)	(799,855)	(61,262)	(861,117)
Other Income	(3,132,218)	(251,087)	(3,383,305)	126,083,194	9,656,903	135,740,097
Subtotal	<u>227,758,198</u>	<u>18,257,713</u>	<u>246,015,911</u>	<u>740,043,107</u>	<u>56,681,023</u>	<u>796,724,130</u>
Less: Investment Manager Expense	(71,553,142)	(5,735,893)	(77,289,035)	(70,374,872)	(5,390,118)	(75,764,990)
Net Investment Income	<u>156,205,056</u>	<u>12,521,820</u>	<u>168,726,876</u>	<u>669,668,235</u>	<u>51,290,905</u>	<u>720,959,140</u>
<b>Other Income</b>						
Miscellaneous	3,107,832	249,132	3,356,964	4,849,056	371,397	5,220,453
Total Other Income	<u>3,107,832</u>	<u>249,132</u>	<u>3,356,964</u>	<u>4,849,056</u>	<u>371,397</u>	<u>5,220,453</u>
<b>TOTAL ADDITIONS</b>	<u>767,431,885</u>	<u>163,086,326</u>	<u>930,518,211</u>	<u>1,281,620,424</u>	<u>200,138,814</u>	<u>1,481,759,238</u>
<b>DEDUCTIONS</b>						
Pension Benefits	987,296,111		987,296,111	915,163,279		915,163,279
Payment of Health Subsidy		107,064,398	107,064,398		100,933,453	100,933,453
Payment of Medicare Reimbursement		9,614,045	9,614,045		9,477,016	9,477,016
Refund of Contributions	3,067,069		3,067,069	3,746,037		3,746,037
Administrative Expenses	19,346,446	1,550,864	20,897,310	17,814,449	1,364,436	19,178,885
<b>TOTAL DEDUCTIONS</b>	<u>1,009,709,626</u>	<u>118,229,307</u>	<u>1,127,938,933</u>	<u>936,723,765</u>	<u>111,774,905</u>	<u>1,048,498,670</u>
<b>NET INCREASE (DECREASE)</b>	<u>(242,277,741)</u>	<u>44,857,019</u>	<u>(197,420,722)</u>	<u>344,896,659</u>	<u>88,363,909</u>	<u>433,260,568</u>
<b>NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS</b>						
Beginning of Year	17,346,554,076	1,390,546,626	18,737,100,702	17,001,657,417	1,302,182,717	18,303,840,134
End of Year	<u>\$ 17,104,276,335</u>	<u>\$ 1,435,403,645</u>	<u>\$ 18,539,679,980</u>	<u>\$ 17,346,554,076</u>	<u>\$ 1,390,546,626</u>	<u>\$ 18,737,100,702</u>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1 – DESCRIPTION OF THE PLANS**

The Los Angeles Fire and Police Pension System (the System or LAFPP) was established by the City of Los Angeles (the City) in 1899 and operates under the provisions of the City Charter and Administrative Code. The System is a single employer public employee retirement system whose main function is to provide retirement benefits to the safety members employed by the City.

The System is administered by a Board of Fire and Police Pension Commissioners (Board) composed of five commissioners who are appointed by the Mayor, two commissioners elected by Police members of the System and two commissioners elected by Fire members of the System. Under the provisions of the City Charter and Administrative Code and the State Constitution, the Board has the responsibility to administer the Pension Plan and Health Subsidy Plan.

Pension Plan

The System's Pension Plan is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain Harbor Port Police officers of the City of Los Angeles. The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ended June 30, 1983, or have since been hired. The System is composed of six tiers. Effective July 1, 2011, a new pension tier, Tier 6, was added. Benefits are based on the member's pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997, and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of August 6, 1999. Tier 4 includes members hired from July 1, 1997 through December 31, 2001, and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 includes members hired from January 1, 2002 through June 30, 2011, and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 6 was established for all firefighters and police officers hired on or after July 1, 2011.

Tier 6 is also the current tier for all Harbor Port Police officers hired on or after July 1, 2011. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2011. Harbor Port Police officers hired before January 8, 2006, who were members of LACERS, were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 to January 5, 2007.

Tier 6 includes sworn officers from the Department of General Services who transferred to Los Angeles Police Department (LAPD) classifications and who elected to opt out of the LACERS by December 12, 2014 deadline.

Tier 1 members hired prior to January 17, 1927, with 20 years of service are entitled to annual pension benefits equal to 50%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 members hired on or after January 17, 1927, with 20 or more years of service are entitled to annual pension benefits equal to 40%, increasing for each

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1 – DESCRIPTION OF THE PLANS** (Continued)

Pension Plan (Continued)

year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 has no minimum age requirement and provides for unlimited post-employment cost-of-living adjustments (COLA) based on the Consumer Price Index (CPI). Tier 1 members who were active as of July 1, 1982, and who terminated their employment after July 1, 1982, were entitled to a refund of contributions plus Board-approved interest if they did not qualify for a pension or if they waived their pension entitlements.

Tier 2 members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 2 has no minimum age requirement and provides for unlimited post-employment COLAs based on the CPI. Tier 2 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982, are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

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

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

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

Tier 6 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for post-

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1 – DESCRIPTION OF THE PLANS** (Continued)

Pension Plan (Continued)

employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter; Section 4.2018 of the Administrative Code; and related ordinances. Members who retire from the System with at least 10 years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60.

Temporary subsidies are available to certain groups at earlier ages. For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55.

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. Effective July 1, 2015, the maximum subsidy amount is \$1,438.49 per month. The maximum monthly subsidy for fiscal years 2015 and 2014 was \$1,344.38 and \$1,256.43, respectively. The System also reimburses Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

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

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

At June 30, 2016 and 2015, total net position in the amounts of \$1,435,403,645 and \$1,390,546,626, respectively, was available for the Health Subsidy Plan. Effective July 1, 2008, actual employer contributions and benefit payments relating to health subsidy benefits are separately accounted for in order to comply with Internal Revenue Code Section 401 (h).

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1 – DESCRIPTION OF THE PLANS** (Continued)

Health Insurance Premium Reimbursement Program

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

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

The reimbursement paid is a percentage of the maximum subsidy for health care. The maximum monthly subsidy for fiscal years 2016 and 2015 was \$1,438.49 and \$1,344.38, respectively. For members with Medicare Parts A and B, a different subsidy maximum is used. The System also reimburses basic Medicare Part B premiums for any pensioner eligible to receive a subsidy and enrolled in Medicare Parts A and B.

Dental Subsidy Plan

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

The benefit paid is a percentage of a maximum subsidy for dental care based on the lower of the dental subsidy in effect for LACERS (civilian retirees) or active Safety Members. The maximum monthly subsidy amount was \$43.24 for the period of January 1, 2015, through June 30, 2016. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

Effective May 1, 2002, members of the System have the option to enroll in the Deferred Retirement Option Plan (DROP) under Section 4.2100 of the Administrative Code. Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3, 5, and 6 who have at least 25 years of service and who are at least age 50 are eligible for DROP. The Administrative Code was amended August 8, 2014, to add Tier 6 members.

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 – DESCRIPTION OF THE PLANS** (Continued)

Deferred Retirement Option Plan (Continued)

At June 30, 2016 and 2015, 1,243 and 1,359 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$239,562,356 and \$280,813,494, respectively.

Two Percent Opt-In

On July 15, 2011, the City Council adopted an ordinance to permanently freeze the retiree health subsidies and reimbursements for members of the System who retired or entered DROP on or after July 15, 2011. This ordinance added language to the Los Angeles Administrative Code to freeze the maximum monthly non-Medicare subsidy at the July 1, 2011, rate of \$1,097.41 per month, and freeze the maximum monthly Medicare subsidy as of the January 1, 2011, rate of \$480.41 per month. However, the ordinance also provided that members may make an irrevocable election to contribute towards vesting increases in the maximum medical subsidy, as allowed by an applicable Memorandum of Understanding.

Members who opted-in to make an additional two percent pension contributions are entitled to the current maximum medical subsidy benefit and all future subsidy increases once they retire and become eligible to receive a subsidy. The opt-in period for the majority of the members began August 15, 2011, and closed September 29, 2011.

SINCE THE PENSION PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE LEGAL TEXT OF THE CITY CHARTER AND LOS ANGELES CITY ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 1 – DESCRIPTION OF THE PLANS** (Continued)

Pension Plan Membership

The components of the System’s Pension Plan membership at June 30, 2016 and 2015, are as follows:

	2016	2015
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	1
Tier 4	178	183
Tier 5	6,588	7,207
Tier 6	1,781	1,215
	8,547	8,606
Active Vested:		
Tier 1	-	-
Tier 2	12	22
Tier 3	799	835
Tier 4	121	140
Tier 5	3,571	3,465
Tier 6	-	-
	4,503	4,462
Pensioners and Beneficiaries:		
Tier 1	403	444
Tier 2	7,738	7,975
Tier 3	594	559
Tier 4	275	251
Tier 5	3,809	3,364
Tier 6	-	-
	12,819	12,593
Vested Terminated		
Tier 3	44	39
Tier 5	47	47
Tier 6	37	26
	128	112
	25,997	25,773

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Financial Reporting

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

Investments and Method Used to Value Investments

Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, U.S. Treasury bills, and repurchase agreements along with bonds, stocks, and alternative investments, are reported at fair value. Pooled temporary investments represent funds invested in a custodian-managed discretionary short-term investment fund. This fund invests in a variety of U.S. and foreign securities rated A1 or P-1 by Moody's Investors Service and Standard & Poor's, respectively, or equivalent quality as determined by the custodian.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the System's year-end. Resulting gains or losses are included in the System's Statements of Changes in Fiduciary Net Position.

The category of alternative investments includes private equity and hedge funds. Private equity investments are composed predominantly of limited partnerships that invest mainly in privately-owned companies. Hedge funds are pooled investment programs that invest in a wide variety of asset classes and use a wide variety of approaches. The use of leverage and short selling is a common characteristic.

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

Investments are carried at fair value. The fair value of securities investments is generally based on published market prices or quotations from major investment dealers. Investments for which market quotations are not readily available are valued at their estimated fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net position valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the investment managers of investee limited partnerships.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Investments and Method Used to Value Investments (Continued)

The sole hedge fund investment is valued by the fund manager based upon the information received from individual hedge funds in which monies are invested. Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by a periodic external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers with periodic external valuations.

Cash

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

Capital Assets

Capital assets include land, building, improvements, and furniture and fixtures that are used in operation. Assets with an individual cost of at least \$5,000 and an estimated useful life of more than one year are capitalized. Capital assets are valued at acquisition cost plus the cost of improvements. Depreciation is computed using the straight-line method over the estimated useful lives of the building and improvements (20-year) and furniture and fixtures (5-year). The System did not record depreciation expense on the building acquired in fiscal year 2015 and occupied as the headquarters in fiscal year 2016, since a separate valuation for the land and building is not available as of June 30, 2016. An independent appraisal will be obtained to establish the valuation basis for the land and building. The System will begin recording depreciation expense of the headquarters in 2017.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made in the fiscal year 2015 notes to financial statements in order to conform to the current year presentation.

Implementation of New Accounting Pronouncements

The System adopted Governmental Accounting Standard Board (GASB) Statement No. 72 (GASB 72), Fair Value Measurement and Application, effective at the beginning of fiscal year 2016. This Statement provides guidance for applying fair value to investments and disclosures related to all fair value measurements. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION**

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of the Tier 5 required contribution rate contingent on the System remaining at least 100% actuarially funded for pension benefits. Since July 1, 2006, Tier 5 members have been required to contribute 9% of salary because the System has remained less than 100% actuarially funded for pension benefits as determined by the System's actuary. Tier 6 members are required to contribute 9% of salary for regular pension contributions. Tier 6 members are also required to make an additional pension contribution of 2% of salary to support the City's ability to fund retiree health benefits.

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

- A. An amount equal to the City's share of defined entry age normal costs.
- B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4, and 5, any "unfunded liability" resulting from plan amendments shall be amortized over a 25-year period, and actuarial experience gains and losses shall be amortized over a 20-year period. For Tier 6, the unfunded liabilities shall be funded in accordance with the actuarial funding method adopted by the Board upon the advice of the consulting actuary. Charter Amendment G, effective April 8, 2011, now provides that with the advice of the consulting actuary, the Board shall establish amortization policies for unfunded actuarial accrued liabilities and surpluses for all Tiers.
- C. An amount to provide for the Health Subsidy Plan.

Accordingly, the City's contributions as determined by the System's actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2016 and 2015, were as follows (\$ in thousands):

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION** (Continued)

Fiscal Year Ended June 30, 2016

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age cost	\$ -	\$ 1,688	\$ 15,613	\$ 6,756	\$ 220,890	\$ 7,314	\$ 2,337	\$ 38
Unfunded supplemental present value amount	15,482	28,132	24,783	12,994	122,491	4,979	956	20
Pension Administrative Expenses	-	61	853	354	10,496	427	109	2
Health subsidy entry age cost	-	221	3,882	1,523	44,982	3,409	610	19
Health subsidy unfunded actuarial accrued liability	1,878	50,905	4,555	2,813	33,218	1,350	136	3
Health Administrative Expenses	-	4	56	23	692	28	7	-
<b>Total</b>	<b>\$ 17,360</b>	<b>\$ 81,011</b>	<b>\$ 49,742</b>	<b>\$ 24,463</b>	<b>\$ 432,769</b>	<b>\$ 17,507</b>	<b>\$ 4,155</b>	<b>\$ 82</b>

During fiscal year 2016, total contributions of \$628,700,812 from the employer and \$129,733,559 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2014. For the Pension Plan, fiscal year 2016 employer contributions included \$254.6 million for entry age normal cost, \$209.8 million for the unfunded supplemental present value annual amount, \$12.3 million for pension administrative expense and \$1.6 million transfer from LACERS for sworn officers who opted to transfer from the Department of General Services. For the Health Subsidy Plan, fiscal year 2016 employer contributions consisted of \$54.6 million for entry age normal cost and \$94.9 million for the unfunded actuarial accrued liability annual amount, and \$0.8 million for health administrative expense.

Fiscal Year Ended June 30, 2015

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age cost	\$ -	\$ 1,982	\$ 16,215	\$ 6,336	\$ 223,886	\$ 4,723	\$ 2,462	\$ 24
Unfunded supplemental present value amount	16,421	43,619	18,099	10,026	131,895	3,483	1,147	14
Health subsidy entry age cost	-	269	3,994	1,442	45,137	2,090	593	9
Health subsidy unfunded actuarial accrued liability	1,938	49,348	4,687	2,865	35,043	925	134	2
<b>Total</b>	<b>\$ 18,359</b>	<b>\$ 95,218</b>	<b>\$ 42,995</b>	<b>\$ 20,669</b>	<b>\$ 435,961</b>	<b>\$ 11,221</b>	<b>\$ 4,336</b>	<b>\$ 49</b>

During fiscal year 2015, total contributions of \$628,808,763 from the employer and \$126,770,882 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2013. For the Pension Plan, fiscal year 2015 employer contributions included \$255.6 million for entry age normal cost and \$224.7 million for the unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2015 employer contributions consisted of \$53.5 million for entry age normal cost and \$94.9 million for the unfunded actuarial accrued liability annual amount.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 – NET PENSION LIABILITY**

The components of the System’s net pension liability (NPL) at June 30, 2016 and 2015, were as follows:

	2016	2015
Total Pension Liability	\$ 19,565,408,718	\$ 19,385,427,756
Less: Fiduciary Net Position	17,104,276,335	17,346,554,076
Net Pension Liability	\$ 2,461,132,383	\$ 2,038,873,680
Fiduciary Net Position as a Percentage of the Total Pension Liability	87.42%	89.48%

The NPL was measured as of June 30, 2016 and June 30, 2015 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2015 and 2014 respectively.

Actuarial Assumptions

The TPL as of June 30, 2016 and 2015 were determined by actuarial valuations as of June 30, 2015 and 2014, respectively. The actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of an experience study for the period from July 1, 2010 through June 30, 2013. They are the same as the assumptions used in the June 30, 2016 funding actuarial valuation for the Pension Plan. The following actuarial assumptions were applied to all periods included in the measurement:

Investment Return Rate	7.50%, including inflation but net of investment expenses
Inflation Rate	3.25%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increase	Ranges from 4.75 to 11.50% based on service.
COLAs	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.
Mortality	<p>Healthy: RP-2000 Combined Healthy Mortality Table (separate for males and females) projected to 2022 with scale BB set back one year for members. RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year for beneficiaries.</p> <p>Disabled: RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year.</p>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 4 – NET PENSION LIABILITY** (Continued)

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2016 and 2015 are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return	
		2016	2015
Large Cap U.S. Equity	23.00%	6.03%	6.03%
Small Cap U.S. Equity	6.00%	6.71%	6.71%
Developed International Equity	16.00%	6.71%	6.71%
Emerging Markets Equity	5.00%	8.02%	8.02%
U.S. Core Fixed Income	14.00%	0.52%	0.52%
High Yield Bonds	3.00%	2.81%	2.81%
Real Estate	10.00%	4.73%	4.73%
Treasury Inflation Protected Securities (TIPS)	5.00%	0.43%	0.43%
Commodities	5.00%	4.67%	4.67%
Cash	1.00%	-0.19%	-0.19%
Unconstrained Fixed Income	2.00%	2.50%	2.50%
Private Equity	10.00%	9.25%	9.25%
Total Portfolio	<u>100.00%</u>	<u>5.12%</u>	<u>5.12%</u>

Discount Rate

The discount rates used to measure the TPL was 7.50% as of June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2016 and 2015.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 – NET PENSION LIABILITY** (Continued)

Sensitivity Analysis

The following presents the NPL of the System as of June 30, 2016 and 2015, calculated using the discount rate of 7.50%, as well as what the System's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net pension liability as of June 30, 2016	\$ 5,059,215,255	\$ 2,461,132,383	\$ 325,047,115
Net pension liability as of June 30, 2015	4,618,797,137	2,038,873,680	(81,182,624)

**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN**

The June 30, 2016 and 2015 annual actuarial valuations determined the Health Subsidy Plan's funding status to be 48.1% and 45.5%, respectively. If the deferred loss were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 48.1% to 46.6% for fiscal year 2016.

The funded status of the Health Subsidy Plan as of June 30, 2016, the most recent actuarial valuation date, is as follows (\$ in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) / (c)
\$ 1,480,810	\$ 3,079,670	\$ 1,598,860	48.1%	\$ 1,400,808	114.1%

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN**  
(Continued)

Additional information as of the most recent actuarial valuation is as follows:

Valuation Date	June 30, 2016												
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay												
Amortization Method	Closed amortization periods. On September 6, 2012, the Board adopted the following amortization policy:												
	<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Type of Base</th> <th style="text-align: right; border-bottom: 1px solid black;">Amortization Period (Closed)</th> </tr> </thead> <tbody> <tr> <td>Actuarial Gains or Losses<sup>(1)</sup></td> <td style="text-align: right;">20</td> </tr> <tr> <td>Assumption or Method Changes</td> <td style="text-align: right;">25</td> </tr> <tr> <td>Plan Amendments</td> <td style="text-align: right;">15</td> </tr> <tr> <td>Early Retirement Incentive Programs (ERIPs)</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Actuarial Surplus</td> <td style="text-align: right;">30</td> </tr> </tbody> </table>	Type of Base	Amortization Period (Closed)	Actuarial Gains or Losses <sup>(1)</sup>	20	Assumption or Method Changes	25	Plan Amendments	15	Early Retirement Incentive Programs (ERIPs)	5	Actuarial Surplus	30
Type of Base	Amortization Period (Closed)												
Actuarial Gains or Losses <sup>(1)</sup>	20												
Assumption or Method Changes	25												
Plan Amendments	15												
Early Retirement Incentive Programs (ERIPs)	5												
Actuarial Surplus	30												
	<sup>(1)</sup> Retiree health assumption changes are treated as gains and losses and amortized over 20 years.												
Remaining Amortization	As of June 30, 2016: 18 years for bases established on June 30, 2014 23 years for assumption change base established on June 30, 2014 19 years for bases established on June 30, 2015												
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013, have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.												
Actuarial assumptions:													
Investment Rate of Return	7.50%												
Inflation Rate	3.25%												
Across-the-Board Pay	0.75%												
Projected Salary Increase	4.00%												
Health Care Cost Trend Rate (to calculate following year's premium):													
Medical	7.00% in 2016-2017, then decreasing by 0.25% for each year for eight years until it reaches an ultimate rate of 5%.												
Dental	5% for all years												
Medicare Part B Premium	5% for all years												

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN**  
(Continued)

Medical Subsidy Trend	<p>For employees not subject to freeze: For all non-Medicare retirees, increase at lesser of 7% or medical trend.</p> <p>For Medicare retirees with single party premium, increase with medical trend.</p> <p>For Medicare retirees with 2-party premium less than or equal to the maximum subsidy as of July 1, 2016 (e.g., Fire Kaiser) increase with medical trend.</p> <p>For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2016 (e.g., Police Blue Cross PPO), increase with lesser of 7% or medical trend.</p>
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The following assumptions were adopted by the Board based on the July 1, 2010 through June 30, 2013 actuarial experience study and the economic assumptions study for June 30, 2014 actuarial valuation:

Data	Detailed census data and the System’s financial data for post-employment benefits were provided by the System.
Actuarial Cost Method	Entry age normal, level percent of pay.
Administrative Expenses	Out of the total of 1.00% of payroll in administrative expense, 0.06% of payroll payable bi-weekly is allocated to the Retiree Health Plan. This is equal to 0.06% of payroll payable at the beginning of the year.
Spouse Age Difference	Husbands are assumed to be 3 years older than wives.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN**  
(Continued)

Participation	Service Range (Years)	Participation for Future Retirees Under 65 (Percentage)	Participation for Future Retirees Over 65 (Percentage)	Participation for Current Retirees Age 55-64 Without Subsidy Upon Attaining Age 65 (Percentage)
	10-14	45	80	63.64
	15-19	60	85	62.50
	20-24	75	90	60.00
	25 and over	95	95	0.00
Medicare Coverage	100% of future retirees are assumed to elect Medicare Parts A and B.			
Dental Coverage	80% of future retirees are assumed to elect dental coverage.			
Spousal Coverage	Of future retirees receiving a medical subsidy, 80% are assumed to elect coverage for married and surviving spouses or domestic partners. For those retired on valuation date with a subsidy, spousal/domestic partner coverage is based on census data.			
Implicit Subsidy	No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums, except for one small group (Fire Blue Cross and Fire California Care) that has some active/retiree experience blending			

Other actuarial assumptions on mortality rates, termination rates, retirement rates, net investment return, and future benefit accruals are the same as for Pension Plan benefits.

The per capita cost assumptions were based on premium, subsidy, and census data provided by the System and are summarized as follows:

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS - HEALTH SUBSIDY PLAN**  
(Continued)

For Participants under Age 65:

Plan	Assumed Election Percentage	Maximum Subsidies		
		Single	Married/With Domestic Partner	Eligible Survivor
Fire Medical	80	\$ 1,535.59	\$ 1,535.59	\$ 748.03
Fire Kaiser	10	1,535.59	1,535.59	748.03
Fire Blue Cross	5	1,535.59	1,535.59	748.03
Fire California Care	5	1,535.59	1,535.59	748.03
Police Blue Cross PPO	65	1,535.59	1,535.59	748.03
Police Blue Cross HMO	15	1,535.59	1,535.59	748.03
Police Kaiser	20	1,535.59	1,535.59	748.03
Dental	80	43.24	43.24	-

For Participants Age 65 and Over:

Plan	Assumed Election Percentage	Maximum Subsidies		
		Single	Married/With Domestic Partner	Eligible Survivor
Fire Medical	85	\$ 487.71	\$ 764.31	\$ 487.71
Fire Kaiser	15	487.71	765.04	487.71
Fire Blue Cross	0	487.71	1,390.57	487.71
Fire California Care	0	487.71	1,429.48	487.71
Police Blue Cross PPO	75	487.71	1,034.71	487.71
Police Blue Cross HMO	10	487.71	1,083.27	487.71
Police Kaiser	15	487.71	413.64	487.71
Dental	80	43.24	43.24	-
Medicare B	100	121.80	121.80	121.80

*Note: The System pays the lower of the member's subsidy or member's medical plan premium.*

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN**  
(Continued)

The Harbor Port Police, upon reaching eligibility to retire, have a choice of retiree medical plans with contracts at the Los Angeles City Employees Retirement System (LACERS), but will only be eligible for a subsidy up to the System’s maximum medical subsidy limit. In order to estimate the liability in the June 30, 2016 valuation, the actuary assumed that Harbor Port Police will select similar plans at LACERS roughly in proportion to those assumed for future System Police retirees. For pre-65 retirees, the actuary has assumed that 65% will enroll in the Anthem Blue Cross PPO and 35% will enroll in the Kaiser Permanente HMO, available through LACERS. For retirees over age 65, the actuary has assumed that 85% will enroll in the Anthem Blue Cross PPO Medicare Plan and 15% will enroll in the Kaiser Permanente Senior Advantage HMO, available through LACERS.

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2016 and 2015, are as follows:

	2016	2015
Retired members	8,970	8,827
Beneficiaries	1,678	1,664
Vested terminated members	1,010	900
Active members	13,050	13,068
Total	24,708	24,459

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS**

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2016, cash and temporary investments consisted of \$ 2,192,456 cash held by the City Treasurer’s office and \$1,006,522,504 in collective short-term investment funds (STIF). At June 30, 2015, cash and temporary investments consisted of \$1,030,837 cash held by the City Treasurer’s office and \$702,062,634 in collective STIF. Cash held by the City Treasurer’s office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

The System measures and categorizes its investments using fair value measurements guidelines established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The levels of valuation inputs are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in an active market
- Level 2 – Observable inputs other than quoted market prices; and,
- Level 3 – Unobservable inputs.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS** (Continued)

Fair Value of Investments (continued)

At June 30, 2016, the System has the following recurring fair value measurements (\$ in thousands):

	<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Investments by fair value level</b>				
Debt Securities				
U.S. Treasuries	\$ 1,809,140	\$ -	\$ 1,809,140	\$ -
U.S. Agencies	455,431	-	455,431	-
Municipal/Provincial Bonds	22,662	-	22,662	-
Collateralized Debt Obligations	159,575	-	158,883	692
Commercial Paper	13,478	-	13,478	-
Corporate Bonds	1,588,184	-	1,583,933	4,251
Total Debt Securities	<u>4,048,470</u>	<u>-</u>	<u>4,043,527</u>	<u>4,943</u>
Equity Securities				
Common Stock	10,313,920	10,284,914	25,057	3,949
Preferred Stock	65,370	65,370	-	-
Other	19,833	19,422	-	411
Total Equity Securities	<u>10,399,123</u>	<u>10,369,706</u>	<u>25,057</u>	<u>4,360</u>
Other				
Miscellaneous	540	-	-	540
Total Other	<u>540</u>	<u>-</u>	<u>-</u>	<u>540</u>
Total Investments by Fair Value Level	<u>\$ 14,448,133</u>	<u>\$ 10,369,706</u>	<u>\$ 4,068,584</u>	<u>\$ 9,844</u>
<b>Investment measured at the net asset value (NAV)</b>				
Private Equity Partnerships	\$ 1,781,886			
Real Estate	1,508,059			
Global Macro Strategy Hedge Funds	89,884			
Asset/Mortgage-Backed Security Funds	18,146			
Commercial mortgages	1,607			
Total Investments Measured at NAV	<u>\$ 3,399,582</u>			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities such as U.S. Treasuries, U.S. Agencies, municipal bonds, collateralized debt obligations, commercial paper, corporate bonds and other equity securities are classified in Level 2. They are valued using quoted prices for identical securities in markets that are not active. The value prices observed using market-based inputs.

Debt securities, namely collateralized debt obligations and corporate bonds, classified in Level 3 are valued using unobservable inputs which can be extrapolated data, proprietary models or indicative quotes. Other equity securities classified in Level 3 are valued using uncorroborated indicative quotes.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Fair Value of Investments (continued)

The System's investments valued using the net asset value (NAV) such as private equity partnerships, real estate, hedge funds, asset/mortgage-backed security funds and commercial mortgages. Real estate investments are valued based on an independent appraisal or other methods using various techniques including models. Hedge funds generally do not have readily obtainable market values and take the form of limited partnerships. Valuation is either based on the partnerships audited financial statements or from the most recently available valuation.

Investment measured at the NAV (\$ in thousands):

Investment Strategy	Fair value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private Equity Partnerships	\$ 1,781,886	\$ 1,115,600	N/A	-
Real Estate <sup>1</sup>	1,508,059	149,935	Quarterly	90-179 days
Hedge Funds	89,884	-	Quarterly	90 days
Corporate Debt Securities	18,146	-	Anytime	-
U.S. Agencies Debt Securities	1,607	-	N/A	-
Total Investments Measured at NAV	<u>\$ 3,399,582</u>	<u>\$ 1,265,535</u>		

<sup>(1)</sup> This type of investment includes \$270 million of comingled real estate committed and funded that can be redeemed quarterly with 90 to 179 days redemption notice period.

The System has unfunded commitments of \$1.1 billion in private equity partnerships and \$ 150.0 million in real estate. The System's investments in hedge funds can be redeemed quarterly with 90 days redemption notice period.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS** (Continued)

Investment Policy

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

The Board’s adopted allocation policy effective during fiscal years 2016 and 2015 was as follow:

<u>Asset Class</u>	<u>Target Allocation</u>
Large Cap U.S. Equity	23.00%
Small Cap U.S. Equity	6.00%
Developed International Equity	16.00%
Emerging Markets Equity	5.00%
U.S. Core Fixed Income	14.00%
High Yield Bonds	3.00%
Real Estate	10.00%
TIPS	5.00%
Commodities	5.00%
Cash	1.00%
Unconstrained Fixed Income	2.00%
Private Equity	10.00%
Total Portfolio	<u>100.00%</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Credit Risk

Credit risk is the risk that an issuer or a counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class.

As of June 30, 2016, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,007,917,033	56.11%
AA	78,875,356	2.20%
A	169,680,320	4.74%
BBB	527,733,053	14.75%
BB	283,612,585	7.93%
B	239,760,978	6.70%
CCC	89,472,791	2.50%
CC	9,208,526	0.26%
C	4,697,756	0.13%
Not Rated	167,317,312	4.68%
Subtotal	3,578,275,710	100.00%
U.S. Government Issued or Guaranteed Securities	477,999,775	
Total Fixed Income Investments	<u>\$ 4,056,275,485</u>	

As of June 30, 2015, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 1,662,215,812	48.86%
AA	92,569,862	2.72%
A	396,504,222	11.65%
BBB	551,206,854	16.20%
BB	234,969,108	6.90%
B	234,765,036	6.90%
CCC	68,039,456	2.00%
CC	10,096,881	0.30%
C	1,617,042	0.05%
Not Rated	150,324,548	4.42%
Subtotal	3,402,308,821	100.00%
U.S. Government Issued or Guaranteed Securities	441,150,378	
Total Fixed Income Investments	<u>\$ 3,843,459,199</u>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS** (Continued)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2016 and 2015, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$20,990,095 and \$16,388,935, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2016 and 2015, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2016 and 2015, the System's sole hedge fund investment of \$89,884,101 and \$94,401,493, private equity of \$1,794,372,836 and \$1,643,695,970, and commingled real estate funds of \$811,271,154 and \$844,297,078, were exposed to custodial credit risk, respectively.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2016 and 2015, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

Interest Rate Risk

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Interest Rate Risk (Continued)

Fiscal Year 2016

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	\$ 62,061,565	12.85
Bank Loans	13,477,834	4.24
Collateralized Bonds	722,823	11.20
Commercial Mortgage-Backed	32,793,101	27.00
Corporate Bonds	1,517,554,082	11.72
Corporate Convertible Bonds	4,060,104	5.53
Government Agencies	61,351,121	10.62
Government Bonds	998,976,584	9.51
Government Mortgage-Backed Securities	333,801,710	21.47
Government Issued Commercial Mortgage-Backed	50,471,494	5.21
Index Linked Government Bonds	847,475,962	9.68
Municipal/Provincial Bonds	27,759,497	51.24
Non-Government Backed Collateralized Mortgage Obligations	63,997,544	17.97
Short Term Bills and Notes	17,150,711	0.37
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	24,621,353	N/A
	<u>\$ 4,056,275,485</u>	

Fiscal Year 2015

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	\$ 48,312,810	16.06
Bank Loans	22,469,812	5.24
Commercial Mortgage-Backed	31,303,306	29.31
Corporate Bonds	1,543,929,785	10.69
Corporate Convertible Bonds	2,565,022	9.00
Government Agencies	68,252,384	10.11
Government Bonds	812,774,864	10.82
Government Mortgage-Backed Securities	290,704,245	21.68
Government Issued Commercial Mortgage-Backed	36,810,174	3.52
Index Linked Government Bonds	864,570,166	9.64
Municipal/Provincial Bonds	21,185,587	56.73
Non-Government Backed Collateralized Mortgage Obligations	50,384,435	18.76
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	50,196,609	N/A
Total Fixed Income Investments	<u>\$ 3,843,459,199</u>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS** (Continued)

Interest Rate Risk (Continued)

Highly sensitive investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. The following are asset-backed investments by investment type:

Fiscal Year 2016

Investment Type	Fair Value
Asset-Backed Securities	\$ 62,061,565
Commercial Mortgages	32,793,101
Government Agencies Bonds	61,351,121
Government Mortgage-Backed Securities	384,273,204
Index Linked Government Bonds	847,475,962
Non-Government Backed Collateralized Mortgage Obligations	63,997,544
Total Asset-Backed Investments	<u>\$ 1,451,952,497</u>

Fiscal Year 2015

Investment Type	Fair Value
Asset-Backed Securities	\$ 48,312,810
Commercial Mortgages	31,303,306
Government Agencies Bonds	68,252,384
Government Mortgage-Backed Securities	327,514,418
Index Linked Government Bonds	864,570,166
Non-Government Backed Collateralized Mortgage Obligations	50,384,435
Total Asset-Backed Investments	<u>\$ 1,390,337,519</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS** (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 16% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks.

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2016, are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	\$ 136,172,755
Brazilian Real	68,770,576
British Pound Sterling	597,966,881
Canadian Dollar	76,165,978
Chilean Peso	4,678,345
Colombian Peso	1,759,088
Czech Koruna	4,442,975
Danish Krone	56,954,764
Euro	791,132,861
Hong Kong Dollar	236,032,336
Hungarian Forint	5,532,415
Indian Rupee	89,443,923
Indonesian Rupiah	29,573,588
Japanese Yen	561,044,186
Kenyan Shilling	1,519,664
Malaysian Ringgit	16,935,085
Mexican Peso	29,379,649
New Israeli Shekel	9,079,602
New Taiwan Dollar	114,052,533
New Zealand Dollar	9,731,784
Norwegian Krone	16,240,107
Philippine Peso	10,572,734
Polish Zloty	11,439,909
Qatari Rial	392,632
Singapore Dollar	30,147,446
South African Rand	72,386,323
South Korean Won	161,046,026
Swedish Krona	84,596,007
Swiss Franc	200,569,904
Thai Baht	18,400,211
Turkish Lira	13,092,416
	<u>\$ 3,459,252,703</u>

Note: The foreign currency total comprises foreign stocks, foreign bonds, and currency holdings.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS** (Continued)

Foreign Currency Risk (Continued)

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2015, are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	\$ 134,416,997
Brazilian Real	61,246,089
British Pound Sterling	752,673,535
Canadian Dollar	74,717,478
Chilean Peso	4,557,430
Colombian Peso	1,903,380
Czech Koruna	4,908,206
Danish Krone	57,220,071
Egyptian Pound	264,536
Euro	807,506,169
Hong Kong Dollar	267,133,299
Hungarian Forint	3,559,997
Indian Rupee	86,544,415
Indonesian Rupiah	26,690,641
Japanese Yen	627,167,328
Malaysian Ringgit	15,932,527
Mexican Peso	25,271,361
New Israeli Shekel	10,116,741
New Taiwan Dollar	120,116,155
New Zealand Dollar	4,134,894
Nigerian Naira	2,357,230
Norwegian Krone	21,233,784
Philippine Peso	7,529,593
Polish Zloty	12,563,320
Qatari Rial	106,447
Singapore Dollar	39,815,255
South African Rand	86,923,631
South Korean Won	156,144,814
Swedish Krona	74,339,607
Swiss Franc	234,346,714
Thai Baht	16,908,748
Turkish Lira	23,252,992
	<u>\$ 3,761,603,384</u>

Note: The foreign currency total is comprised of foreign stocks and foreign bonds.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS** (Continued)

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on Pension Plan investments, gross of Pension Plan investment expense, for the years ended June 30, 2016 and 2015, was 1.04% and 4.14%, respectively. The source for the rate of return was the June 30, 2016 and 2015 Investment Hierarchy provided by the custodian bank, Northern Trust.

**NOTE 7 – SECURITIES LENDING**

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

Upon direction of the Board, the custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions, as it deems advisable. Collateral for the securities on loan will be maintained at a level of at least 102 percent of their fair value plus any accrued interest for U.S. securities lending and 105 percent of the fair value plus any accrued interest for non-U.S. securities lending. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

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

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

As required by GASB, cash received as collateral on securities lending transactions is reported as an asset, and the liabilities from these transactions are reported in the Statements of Fiduciary Net Position. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 7 – SECURITIES LENDING** (Continued)

As of June 30, 2016 and 2015, the fair value of securities on loan was \$1,620,830,719 and \$1,629,911,635, respectively, and the fair value of collateral received was \$1,655,817,773 and \$1,673,918,158, respectively. Of the \$1,655,817,773 collateral received as of June 30, 2016, \$1,485,109,100 was cash collateral and \$170,708,673 represented the fair value of non-cash collateral; and of the \$1,673,918,158 collateral received as of June 30, 2015, \$1,478,523,116 was cash collateral and \$195,395,042 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the securities lending transactions as of June 30, 2016 and 2015:

Fair value of collateral received for loaned securities as of June 30, 2016:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities□	\$ 221,562,890	\$ 2,414,668	\$ 223,977,558
Domestic Corporate Fixed Income Securities□	143,884,301	7,282,071	151,166,372
Domestic Equities	1,018,524,744	19,041,552	1,037,566,296
International Equities	101,137,165	141,970,382	243,107,547
	<u>\$ 1,485,109,100</u>	<u>\$ 170,708,673</u>	<u>\$ 1,655,817,773</u>

Fair value of loaned securities as of June 30, 2016:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities□	\$ 217,546,807	\$ 2,374,683	\$ 219,921,490
Domestic Corporate Fixed Income Securities	141,521,564	7,195,126	148,716,690
Domestic Equities	1,003,855,259	18,771,465	1,022,626,724
International Equities	96,394,432	133,171,383	229,565,815
	<u>\$ 1,459,318,062</u>	<u>\$ 161,512,657</u>	<u>\$ 1,620,830,719</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 7 – SECURITIES LENDING** (Continued)

Fair value of collateral received for loaned securities as of June 30, 2015:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities□	\$ 247,703,159	\$ 16,110,400	\$ 263,813,559
Domestic Corporate Fixed Income Securities□	138,925,755	5,117,640	144,043,395
Domestic Equities	1,022,414,279	60,498,572	1,082,912,851
International Equities	69,479,923	113,668,430	183,148,353
	<u>\$ 1,478,523,116</u>	<u>\$ 195,395,042</u>	<u>\$ 1,673,918,158</u>

Fair value of loaned securities as of June 30, 2015:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities□	\$ 242,690,660	\$ 15,794,725	\$ 258,485,385
Domestic Corporate Fixed Income Securities	136,005,033	5,012,581	141,017,614
Domestic Equities	1,000,925,473	57,378,446	1,058,303,919
International Equities	64,649,502	107,455,214	172,104,716
	<u>\$ 1,444,270,668</u>	<u>\$ 185,640,966</u>	<u>\$ 1,629,911,634</u>

For the fiscal years ended June 30, 2016 and 2015, securities lending income amounted to \$8,859,575 and \$8,627,308, respectively, while securities lending expenses amounted to \$884,338 and \$861,117, respectively.

**NOTE 8 – DERIVATIVE INSTRUMENTS**

The System, through its outside investment managers, holds investments in swaps, options, rights, and warrants and enters into futures and forward foreign currency contracts to manage portfolio risk or use them as substitutes for owning securities. Forward contracts are subject to credit risk if the counterparties to the contracts are unable to meet the terms of the contract. Futures contracts have little credit risk, as organized exchanges are the guarantors. Due to the level of risk associated with derivative investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amount reported in the financial statements.

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period. For options, swaps, rights, and warrants pricing would come from the exchange they are traded on if they are exchange traded securities. They can also

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 8 – DERIVATIVE INSTRUMENTS** (Continued)

trade as over the counter securities and the market values would then be determined by the value of a reference security or value that would typically be publicly priced. For assets traded over the counter and held at the custodian bank an independent pricing service is involved in calculating the price of the derivative security using the value of the reference security or reference value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows (\$ in thousands):

Type	Changes in Fair Value		Fair Value at June 30, 2016		Notional Amount
	Classification	Amount	Classification	Amount	
Investment Derivatives:					
Futures - Shorts	-	\$ -	Investment	\$ -	\$ (54,023)
Futures - Longs	Investment Loss	(6,584)	Investment	-	108,426
Forwards	Investment Loss	(653)	Investment	171	-
Options	Investment Loss	(312)	Investment	45	-
Rights/Warrants	Investment Revenue	679	Investment	209	-
Swaps	Investment Revenue	2,995	Investment	(705)	-

At June 30, 2016, the System held futures – shorts and futures – longs with a notional value of \$(54,022,816) and \$108,426,473, respectively, with a realized loss of \$6,583,622 for the fiscal year. The System held forwards with a fair value of \$171,434, options with a fair value of \$44,836, rights and warrants with a fair value of \$208,834, and swaps with the fair value of \$(705,375). Losses of \$652,641 were reported for the fiscal year for forwards and \$312,451 for options, and earnings of \$678,584 were reported for rights and warrants and \$2,995,085 for swaps for the fiscal year.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2015 financial statements are as follows (\$ in thousands):

Type	Changes in Fair Value		Fair Value at June 30, 2015		Notional Amount
	Classification	Amount	Classification	Amount	
Investment Derivatives:					
Futures - Shorts	-	\$ -	Investment	\$ -	\$ (25,131)
Futures - Longs	Investment Loss	(2,862)	Investment	-	16,258
Forwards	Investment Loss	(688)	Investment	608	-
Options	Investment Loss	(206)	Investment	65	-
Rights/Warrants	Investment Revenue	741	Investment	195	-
Swaps	Investment Revenue	344	Investment	55	-

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 8 – DERIVATIVE INSTRUMENTS** (Continued)

At June 30, 2015, the System held futures – shorts and futures – longs with a notional value of \$(25,131,497) and \$16,258,301, respectively, with a realized loss of \$2,862,268 for the fiscal year. The System held forwards with a fair value of \$680,443, options with a fair value of \$64,825, rights and warrants with a fair value of \$195,384, and swaps with the fair value of \$54,613. Losses of \$688,202 were reported for the fiscal year for forwards and \$206,210 for swaps, and earnings of \$740,865 were reported for rights and warrants and \$344,323 for swaps for the fiscal year.

**NOTE 9 – CAPITAL ASSETS**

The System’s capital assets comprise the land and building that was acquired in July 2013 for \$12,735,689, additional land for parking that was purchased in December 2015 for \$3,825,000, and capital improvements totaled \$5,902,415 as of June 30, 2016. This building is the System’s headquarters that will provide long-term control over its future space needs and lease costs. Ongoing capital improvement program as of June 30, 2016, will address the tenant improvements and other needs. Furniture and fixtures were also acquired in fiscal year 2016. The headquarters was occupied in March 2016.

The following is a summary of the System’s capital assets at June 30, 2016 and 2015:

	2016	2015
Land and Building	\$ 22,463,104	\$ 13,617,200
Furniture and Fixtures	1,297,014	-
Accumulated Depreciation	<u>(64,851)</u>	<u>-</u>
Furniture and Fixtures-Net	<u>1,232,163</u>	<u>-</u>
Total Capital Assets	<u><u>\$ 23,695,267</u></u>	<u><u>\$ 13,617,200</u></u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 10 – MORTGAGES PAYABLE**

Mortgages are secured by real estate. For fiscal year 2016, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from \$7,438 to \$189,798. For fiscal year 2015, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from \$14,653 to \$185,292.

The mortgages mature from September 2016 to June 2025. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 27,462,170	\$ 7,125,475	\$ 34,587,645
2018	15,440,724	6,458,803	21,899,527
2019	34,244,149	6,093,778	40,337,927
2020	1,350,258	4,316,876	5,667,134
2021	24,307,720	3,644,119	27,951,839
2022-2025	<u>80,133,577</u>	<u>6,260,091</u>	<u>86,393,668</u>
	<u>\$ 182,938,598</u>	<u>\$ 33,899,142</u>	<u>\$ 216,837,740</u>

The mortgages are secured by real estate that was purchased with the funds.

The following is a summary of mortgage payable activities for the years ended June 30, 2016 and 2015:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>
Mortgage Payable	<u>\$ 206,202,145</u>	<u>\$ -</u>	<u>\$ 23,263,547</u>	<u>\$ 182,938,598</u>

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>
Mortgage Payable	<u>\$ 168,520,538</u>	<u>\$ 63,050,000</u>	<u>\$ 25,368,393</u>	<u>\$ 206,202,145</u>

**NOTE 11 – OPERATING LEASE**

The System leases office space under an operating lease that was discontinued with appropriate notice to the building management. The annual lease payments for the fiscal years ended June 30, 2016 and 2015, were \$655,521 and \$854,071, respectively.

There are no minimum lease commitment for future fiscal years.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were \$1,768,610,823 and \$1,742,423,013 as of June 30, 2016 and 2015, respectively.

The City Charter and the Administrative Code provide that member contributions as of June 30 and December 31 of each year earn interest at a rate based on investment earnings, exclusive of gains and losses on principal resulting from sales of securities.

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1,265,535,468 and \$1,208,200,000 at June 30, 2016 and 2015, respectively.

The Patient Protection and Affordable Care Act (PPACA) of 2010

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018; subsequent legislation has since postponed this provision until 2020. If there is no change in the law or the System plan provisions between now and 2020, and if the current medical cost trend stays substantially the same during the same period, some of the System post-employment health care plans will be subject to the excise tax in 2020. GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Pension Plans. This Statement requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments. Statement No. 74 is effective for the fiscal years beginning after June 15, 2016.

Retiree Health Subsidy Freeze Litigation

*Fry, et al. v. City of Los Angeles* concerns the City's ordinance freezing the retiree health subsidy benefit by the City for those active LAFPP members who retired or entered DROP on or after July 15, 2011, and who did not elect to contribute an extra 2% of their salary. At that time, approximately 30% of the active membership did not choose to contribute the extra 2% of salary. The petitioners sued the City and argued that the City's "freeze ordinance" illegally impaired their vested rights to a retiree health subsidy that would increase over time.

On July 28, 2014, the Court ruled that the petitioners have a vested right to a "non-frozen" health subsidy in retirement. The Court ruled that petitioners had a right to the Board exercising its discretion in setting the subsidy rate, but not a right to any particular amount of subsidy. However, the ruling did not address: 1) whether members who elected to contribute the additional 2% would be entitled to a refund, or 2) whether retirees who had to make up the difference in premiums in excess of the 2011 subsidy level would be entitled to a refund.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)**

On September 5, 2014, the Los Angeles County Superior Court issued an official Writ restoring the Board's authority to provide the current "non-frozen" subsidy to pensioners who were impacted by the City's "freeze" ordinance. Accordingly, on the October 31<sup>st</sup> pension payments, the System provided the current "non-frozen" subsidy to pensioners who were impacted by the freeze. Subsequently, the City filed a Notice of Appeal on October 29, 2014, and a Verified Petition for Writ of Mandate and Request for Immediate Stay on November 3, 2014.

On November 12, 2014, the Court of Appeal granted a stay on the Writ issued by the trial court on September 5<sup>th</sup>. As a result of the stay, beginning with the November 30<sup>th</sup> pension payments and until otherwise ordered by the court, LAFPP will once again provide a frozen subsidy to those pensioners and to any future retirees who did not elect to contribute the additional 2% of their salary.

On March 7, 2016, the California Second District Court of Appeal reversed the September 5, 2014 Writ of Mandate issued by the Los Angeles County Superior Court authorizing the Board ) "to exercise its discretion, previously delegated to it by the City in an ordinance, to set the maximum subsidy...without regard to later City ordinances 'freezing' the subsidy..." The Court of Appeal agreed with the City's position that there was not a vested right to a LAFPP Board-determined subsidy. The Court of Appeal found that the City Council continued to retain the final decision authority over the subsidy even while delegating to the LAFPP Board determination of subsidy increases. On March 25, 2016, the Second Appellate Court denied the plaintiffs' petition for rehearing.

On April 14, 2016, the plaintiffs filed a Petition for Review with the California Supreme Court. On June 16, 2016, the California Supreme Court denied the Petition for Review. The matter has been remanded to the trial court to resolve the issues in accordance with the Court of Appeal's opinion.

**NOTE 13 – DONATIONS**

From 1999 to 2002, the System received donations of non-voting common stock of non-public corporations, pursuant to repurchase agreements between the System and the donors, structured entirely by the donors' tax advisers. Under the terms of the agreements, the System, although the owner of the donated common stock, acknowledged that: the non-voting common shares have not been registered under the Federal Securities Act of 1933 or qualified under the California Corporate Securities Law of 1968; that no public market exists with respect to the non-voting common shares; and that the common shares are subject to a right of first refusal prohibiting the System from selling or otherwise disposing of any common shares without first offering to sell them to the donor.

The shares are recorded at carry and market values of zero for the following reasons: (1) there is no public market for the shares, (2) the System does not have the right to sell or otherwise dispose of the shares until the agreed upon future date, and (3) the shares were received as a donation for no consideration. Donation income is only recorded if cash dividends are received from the stock while in the possession of the System or when the stock is sold.

As previously reported in fiscal year ending June 30, 2005, the System has been informed that the Internal Revenue Service is disputing the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**NOTE 13 – DONATIONS** (Continued)

The last donation of private equity accepted by the System was in 2002. The System has sold or returned the majority of donated private equity since August 2005. The System has received the following income from these donations: \$2,685,000 in 2002; \$2,918,066 in 2003; \$14,402,308 in 2004; \$7,791,262 in 2005; none in 2006; \$864,281 in 2007; \$67,568 in 2008; \$50,676 in 2009; and no dividends in 2010, 2011, 2012, 2013, 2014, 2015 or 2016.

**NOTE 14 – RISKS AND UNCERTAINTIES**

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statements of Fiduciary Net Position.

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 21, 2016, which is the date the financial statements were issued. In addition to those noted below, there were no additional subsequent events to disclose.

**Measure SSS – Airport Police Officers Pension Changes**

On November 8, 2016, Measure SSS was included in the ballot. If this measure passes, it will amend the Los Angeles City Charter to enroll new Airport Peace Officers into the Fire and Police Pension System; allow current Airport Peace Officers to transfer into the Fire and Police Pension System; and allow new Airport Police Chiefs to enroll in the City Employees' Retirement System.

Charter Amendment SSS would do the following:

- Enroll all city employees appointed on or after January 7, 2018 who perform police or firefighting duties for the Airports Department in Tier 6 of the sworn employee retirement system (LAFPP).
- Allow sworn peace officers appointed to the Airports Department before January 7, 2018 the option to transfer from the city's civilian employee retirement plan (LACERS) to Tier 6 of the sworn employee retirement system (LAFPP), at their expense.
- Give any Airports Department Chief of Police appointed on or after January 7, 2018 who is not already a member of the sworn employee retirement system the option to enroll in the city's civilian employee retirement plan (LACERS).

The final result for this measure is not available as of November 21, 2016, the date the financial statements were issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN**  
(\$ in Thousands)  
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 2007	\$ 687,096	\$1,656,653	\$ 969,557	41.5%	\$1,135,592	85.4%
June 30, 2008	767,648	1,836,840	1,069,192	41.8%	1,206,589	88.6%
June 30, 2009	809,677	2,038,659	1,228,982	39.7%	1,357,249	90.5%
June 30, 2010	817,276	2,537,825	1,720,549	32.2%	1,356,986	126.8%
June 30, 2011	882,890	2,557,607	1,674,717	34.5%	1,343,963	124.6%
June 30, 2012	927,362	2,499,289	1,571,927	37.1%	1,341,914	117.1%
June 30, 2013	1,013,400	2,633,793	1,620,393	38.5%	1,367,237	118.5%
June 30, 2014	1,200,874	2,783,283	1,582,409	43.2%	1,402,715	112.8%
June 30, 2015	1,344,333	2,962,703	1,618,370	45.5%	1,405,171	115.2%
June 30, 2016	1,480,810	3,079,670	1,598,860	48.1%	1,400,808	114.1%

See accompanying independent auditor's report.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN**  
**(\$ in Thousands)**  
**(Unaudited)**

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2007	\$ 55,163 <sup>(1)</sup>	\$ 55,163	100.0%
2008	98,033 <sup>(2)</sup>	78,257	79.8%
2009	98,445 <sup>(3)</sup>	88,179	89.6%
2010	106,648	106,648	100.0%
2011	111,681	111,681	100.0%
2012	122,972	122,972	100.0%
2013	132,939	132,939	100.0%
2014	138,107	138,107	100.0%
2015	148,477	148,477	100.0%
2016	150,315	150,315	100.0%

- (1) Payable at the beginning of the year. For years 2007 and prior, Annual Required Contribution may not have been determined in compliance with GASB Statements No. 43 and No. 45 due to maximum amortization period and/or for the medical trend rate employed.
- (2) Based on the beginning of year contribution rate of 8.15% of compensation calculated in the June 30, 2006 valuation before the phase-in, the Annual Required Contribution dollar amount has been approximated by applying the ratio of the contribution before the phase-in to the contribution after the phase-in as determined in the June 30, 2006 valuation to the actual contributions made during 2007-2008.
- (3) Based on the beginning of year contribution rate of 7.89% of compensation calculated in the June 30, 2007 valuation before phase-in. The Annual Required Contribution has been approximated by applying the ratio of the contribution before phase-in to the contribution after the phase-in made during 2008-2009 as determined in the June 30, 2007 valuation to the actual contributions.

See accompanying independent auditor's report.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY  
(S in Thousands)  
(Unaudited)**

Date*	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)	Net Pension Liability (NPL)	Funded Status (FNP/TPL)	Covered Employee Payroll	NPL % Pay
6/30/2016	7.50%	\$19,565,409	\$ 17,104,276	\$ 2,461,132	87.4%	\$ 1,351,788	182.1%
6/30/2015	7.50%	19,385,428	17,346,554	2,038,874	89.5%	1,316,969	154.8%
6/30/2014	7.50%	18,861,992	16,989,705 <sup>(1)</sup>	1,872,287	90.1%	1,308,149	143.1%
6/30/2013	7.75%	16,989,705	14,680,373	3,584,155	86.4%	1,277,031	280.7%

\* GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

<sup>(1)</sup> Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY**  
**AND RELATED RATIOS**  
**(\$ in Thousands)**  
**(Unaudited)**

	<u>6/30/2016*</u>	<u>6/30/2015*</u>	<u>6/30/2014*</u>
Total Pension Liability:			
Service Cost	\$ 365,956	\$ 368,700	\$ 368,018
Interest	1,399,576	1,384,527	1,392,552
Benefit Payments	(990,363)	(918,909)	(858,986)
Administrative Expenses	-	-	-
Experience Losses (Gains)	(595,188)	(310,882)	(234,638)
Assumption Changes	-	-	(69,482)
Benefit Changes	-	-	-
	<u>179,981</u>	<u>523,436</u>	<u>597,464</u>
Net Change			
Total Pension Liability at Beginning of Year	<u>19,385,428</u>	<u>18,861,992</u>	<u>18,264,528</u>
Total Pension Liability at End of Year (a)	<u>\$ 19,565,409</u>	<u>\$ 19,385,428</u>	<u>\$ 18,861,992</u>
Fiduciary Net Position:			
Employer Contributions	\$ 478,385	\$ 480,332	\$ 440,698
Member Contributions	129,734	126,771	124,395
Net Investment Income	159,313	686,470	2,617,090
Benefit Payments	(990,363)	(918,909)	(858,986)
Administrative Expenses	(19,346)	(17,815)	(13,865)
	<u>(242,277)</u>	<u>356,849</u>	<u>2,309,332</u>
Net Change			
Fiduciary Net Position at Beginning of Year	<u>17,346,554</u>	<u>16,989,705</u>	<u>14,680,373</u>
Fiduciary Net Position at End of Year (b)	<u>\$ 17,104,277</u>	<u>\$ 17,346,554</u>	<u>\$ 16,989,705</u> (1)
Net Pension Liability/(Asset) (a)-(b)	<u>\$ 2,461,132</u>	<u>\$ 2,038,874</u>	<u>\$ 1,872,287</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.42%	89.48%	90.07%
Covered Employee Payroll	\$ 1,351,788	\$ 1,316,969	\$ 1,308,149
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	182.06%	154.82%	143.12%

\* GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

(1) Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTION – PENSION PLAN**  
(\$ in Thousands)  
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Employee Payroll	Contribution as % of Payroll <sup>(2)</sup>
6/30/2016	\$ 478,385	\$ 478,385	-	\$ 1,351,788	35.4%
6/30/2015	480,332	480,332	-	1,316,969	36.5%
6/30/2014	440,698	440,698	-	1,308,149	33.7%
6/30/2013	375,448	375,448	-	1,277,031	29.4%
6/30/2012	321,593	321,593	-	1,213,396	26.5%
6/30/2011	277,092	277,092	-	1,289,857	21.5%
6/30/2010	250,517	250,517	-	1,266,312	19.8%
6/30/2009	238,698	238,698	-	1,253,659	19.0%
6/30/2008 <sup>(1)</sup>	261,635	261,635	-	1,188,972	22.0%
6/30/2007	224,946	224,946	-	1,130,297	19.9%

<sup>(1)</sup> Figures include amounts transferred and contributed during the fiscal year that were related to the transfer of certain Harbor Port Police members from the Los Angeles City Employees' Retirement System.

<sup>(2)</sup> Contribution rate as a percentage of covered employee payroll reflects discount applied when the employer prepays its contributions. This rate has been "backed" into by dividing the actual contributions by the budgeted covered payroll.

See accompanying independent auditor's report.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION PLAN  
(Unaudited)**

**Notes to Schedule of Employer Contribution – Pension Plan**

Methods and assumptions used to establish “actuarially determined contribution” (ADC) rates:

The assumptions used in establishing the ADC for the year ended June 30, 2016 were based on the June 30, 2014 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions: June 30, 2014 valuation	
<i>Investment rate of return</i>	7.50%, net of investment expenses
<i>Inflation rate</i>	3.25%
<i>Administrative Expenses:</i>	Out of the total 1.00% of payroll in administrative expense, 0.94% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 0.91% of payroll payable at beginning of the year.
<i>Real across-the-board salary</i>	0.75%
<i>Projected salary increases</i>	Ranges from 4.75% to 11.50% based on years of service
<i>Cost of living adjustments</i>	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

See accompanying independent auditor’s report.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
SCHEDULE OF INVESTMENT RETURNS  
(Unaudited)**

	2016*	2015*	2014*
Annual money-weighted rate of return, gross of investment expense**	1.04%	4.14%	18%

\* GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as they become available.

\*\* The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2016, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

See accompanying independent auditor's report.



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

U.S. BANK TOWER  
633 WEST 5TH STREET, SUITE 3320  
LOS ANGELES, CA 90071  
(213) 736-6664 TELEPHONE  
(213) 736-6692 FAX  
www.simpsonandsimpsoncpas.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Fire and Police Pension Commissioners  
Los Angeles Fire and Police Pension System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2016, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated November 21, 2016. The financial statements of the System as of and for the year ended June 30, 2015, were audited by another auditor whose report dated November 9, 2015, expressed unmodified opinion on those financial statements.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.





### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Simpson &amp; Simpson', is written in a cursive style.

Los Angeles, California  
November 21, 2016



DEPARTMENT BUDGET

SUMMARY OF RECEIPTS

SUMMARY OF EXPENDITURES

DETAIL OF ADMINISTRATIVE EXPENSE

# PART THREE DEPARTMENT BUDGET





# DEPARTMENT BUDGET

## Receipts

	Budgeted FY 2015-16	Actual FY 2015-16
City Contribution <sup>1</sup>	622,851,100	624,463,729
Special Fund (Harbor)	4,237,083	4,237,083
Excess Benefit Plan <sup>2</sup>	563,500	563,500
Member Contributions	136,835,823	129,733,559
Earnings on Investments	355,440,000	484,868,483
Gain (Loss) on Sale of Investments <sup>3</sup>	-----	439,703,707
Miscellaneous <sup>4</sup>	1,000,000	3,356,964
<b>Total Receipts</b>	<b>1,120,927,506</b>	<b>1,686,927,025</b>

1 The difference between Budgeted vs. Actual amounts represents contributions received from LACERS for former Department of General Services - Office of Public Safety employees who transitioned to regular sworn classifications with the Police Department and opted out of LACERS.

2 Represents the City of Los Angeles General Fund earmarked to pay excess benefits, including administrative costs in compliance with IRC Section 415(b).

3 This amount does not include a \$678,556,279 unrealized decrease in the value of investments as a result of the current market conditions. If included it would match the amount shown in the Systems' audited financial report of \$238,852,572 as Net Appreciation in Fair Value of Investment including Gain and Loss on Sales.

4 Represents receipts from members for purchases of prior years' pension buybacks/overpayments.

## Expenditures

	Budgeted FY 2015-16	Actual FY 2015-16
Service Pensions	566,000,000	573,741,855
Service Pensions – DROP Payout	176,000,000	181,495,545
Disability Pensions	120,000,000	112,097,385
Surviving Spouse/Domestic Partner Pensions	120,000,000	117,553,409
Minor/Dependent Pensions	2,000,000	2,407,917
Refund of Member Contributions	3,500,000	3,067,069
Health Insurance Premium Subsidy	108,000,000	102,171,944
Dental Insurance Premium Subsidy	4,100,000	3,861,676
Medicare Reimbursement	11,750,000	9,614,045
Health Insurance Premium Reimbursement	1,300,000	1,030,778
Investment Management Expense	88,221,204	77,289,035
Administrative Expense*	25,195,535	20,897,310
<b>Total Expenditures</b>	<b>1,228,066,739</b>	<b>1,205,227,968</b>
<b>Increase (Decrease) in Fund Balance</b>	<b>(107,139,233)</b>	<b>481,699,057</b>

\*Includes \$1,272,000 approved by the Board on July 16, 2015 for Administrative Expense costs associated with the new Headquarters.

## 2015-16 Budget - Receipts

### Summary of Receipts

The Department receives revenue primarily from three sources: Employer Contributions (City and Harbor), Member Contributions, and Investment Earnings. In 2015-16, the Department received total revenue of \$1.69 billion, a decrease of \$585.26 million, or 25.8 percent, from 2014-15. The change was primarily due to a decrease in Investment Earnings.

#### Employer Contributions

Employer Contributions are based on the application of the actuary's computed rates for each tier with the budgeted sworn payroll. It is comprised of the City's General Fund contribution, the Special Fund (Harbor Department) contribution, and the City's Excess Benefit Plan payment. In 2015-16, Employer Contributions totaled \$629.26

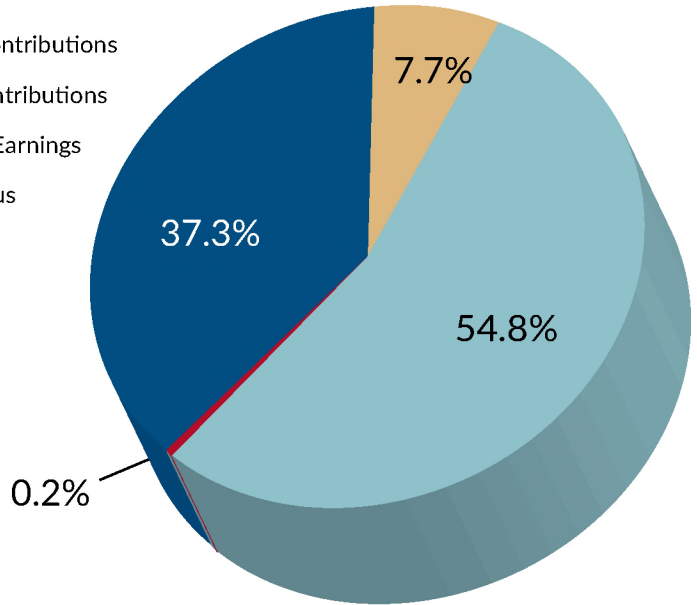
million, a decrease of \$0.10 million, or 0.02 percent, from 2014-15.

#### Member Contributions

Member Contributions are calculated based on the member's contribution rate for his or her tier. These rates range

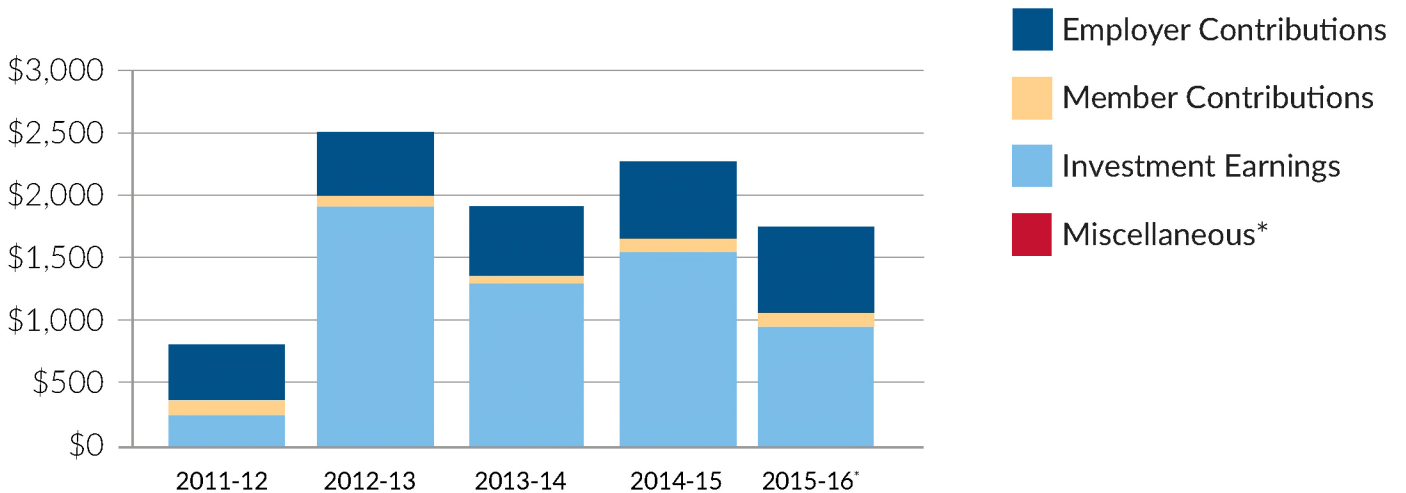
from 7 to 9 percent of salaries for members in Tiers 2 through 5, while members in Tier 6 contribute 11 percent of salary. In 2015-16, revenue received from Member Contributions was \$129.73 million, an increase of \$2.96 million, or 2.3 percent, from 2014-15.

- Employer Contributions
- Member Contributions
- Investment Earnings
- Miscellaneous



### Receipts In Millions

### Five-Year Receipts History



\* Miscellaneous receipts in 2015-16 were \$3.4 million or 0.2 percent of the Total Receipts.

### Investment Earnings

Investment Earnings consist of 'Earnings on Investments' and 'Gain (Loss) on Sale of Investments'. In 2015-16, the Department received investment earnings of \$924.57 million, a decrease of \$586.63 million, or 38.8 percent, from 2014-15.

- **Earnings on Investments** – includes real estate and private equity net cash, interest and dividends, and miscellaneous income. Earnings on Investments in 2015-16 were \$484.87 million, a decrease of \$108.34 million, or 18.3 percent, from 2014-15.
- **Gain (Loss) on Sale of Investments** – includes actual cash receipts to the System on the sale of investments. Gains or losses on the sale of investments are a function of how many transactions are performed by our investment advisors. In 2015-16, the Department received \$439.70 million in cash through these transactions, a decrease of \$478.29 million, or 52.1 percent, from 2014-15.

### Summary of Expenditures

The Department's expenses can be divided into three categories: Pensions and Benefit Expenses, Investment Management Expense, and Administrative Expense. Expenses for 2015-16 totaled

\$1.21 billion, an increase of \$80.96 million, or 7.2 percent, from 2014-15. There were increases in all three categories but most of the increase was due to changes in Pensions and Benefit Expenses.

### Pensions and Benefit Expenses

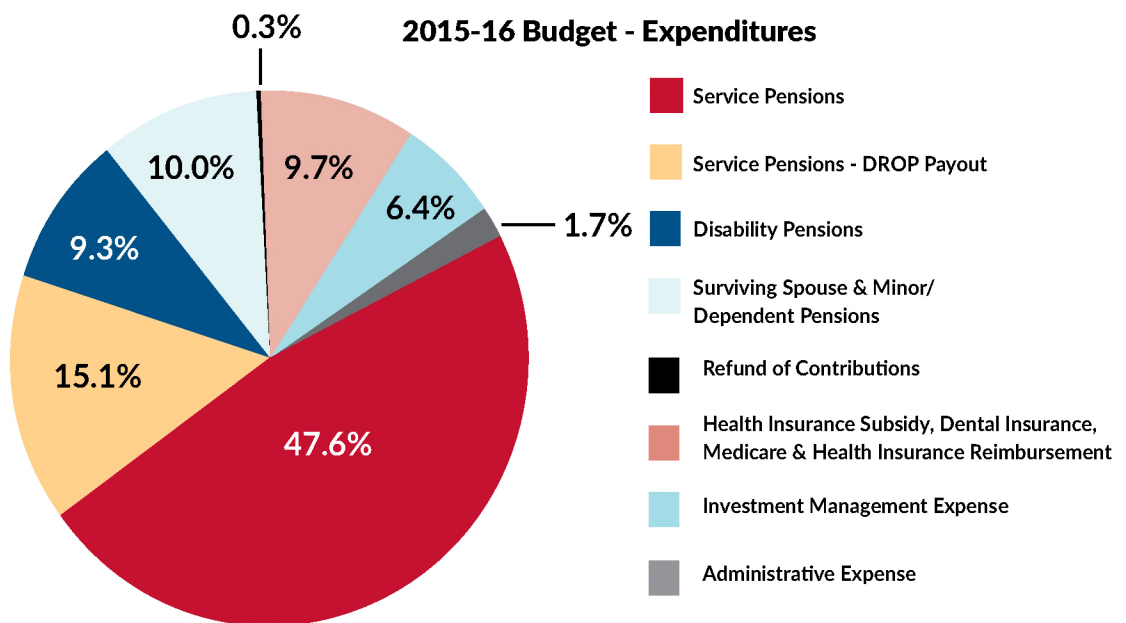
The Department's Pensions and Benefit Expenses include Service Pensions, Deferred Retirement Option Plan (DROP) Payout, Disability Pensions, Surviving Spouse/Domestic Partner Pensions, Minor/Dependent Pensions, Refund of Member Contributions, and health-related expenses. In 2015-16, Pensions and Benefit Expenses were \$1.11 billion, which represent 92.0 percent of total expenses and an increase of \$77.72 million, or 7.6 percent,

### Investment Management Expense

Investment Management Expense was \$77.29 million, which represents 6.4 percent of total expenses and an increase of \$1.52 million, or 2.0 percent, from 2014-15. Actual payments to investment managers depend on the amount of assets under management, the portfolio performance, the period in which the fee is calculated, and the terms and conditions of the individual contracts as approved by the Board.

### Administrative Expense

Administrative Expense includes staff salaries and benefits, operating costs, and the unappropriated balance. The Department's Administrative Expense was \$20.90 million,

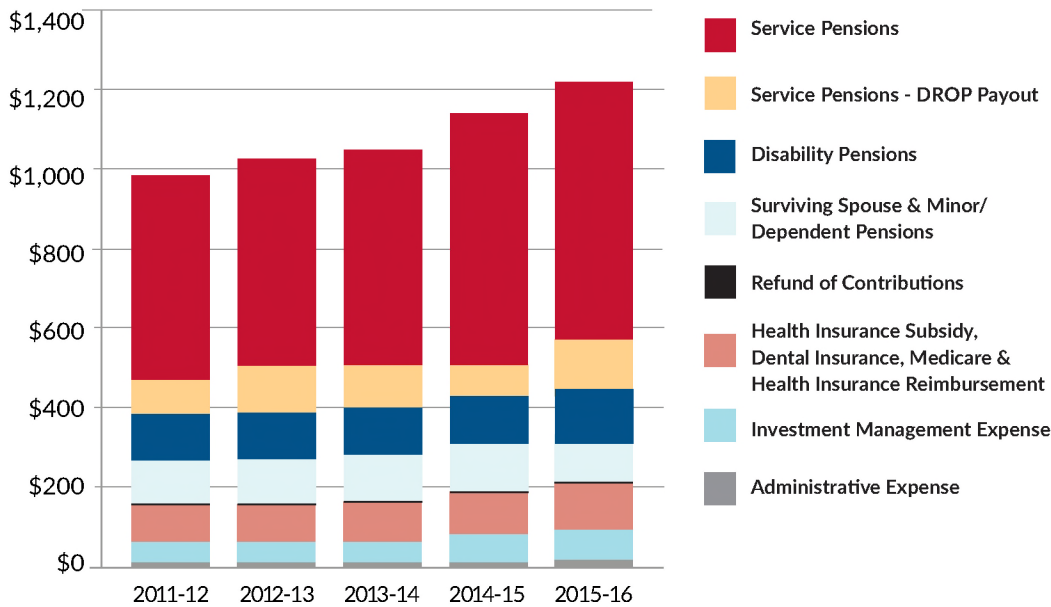


from 2014-15. The increase in Pensions and Benefit Expenses was primarily due to an increase in DROP Payouts (due to a large number of mandatory DROP exits) in 2015-16.

which represents 1.7 percent of the total expenses and an increase of \$1.72 million, or 9.0 percent, from 2014-15. A Detail of Administrative Expense is provided on page 82.

Expenditures  
In Millions

### Five-Year Expenditures History



in contractual expenses and medical services.

#### Unappropriated Balance

The unappropriated balance (UB) includes funds set aside for designated contingencies.

Appropriations of these funds are subject to Board approval. In 2015-16, the UB budget totaled \$270,000, of which

\$241,000 was appropriated to the following expense accounts: Furniture, Office, and Technical Equipment (\$180,000) and Contractual Services (\$61,000).

### Detail of Administrative Expense

Administrative Expense includes staff salaries and related costs, operating costs, and the unappropriated balance.

Administrative Expense. In 2015-16, operating costs totaled \$5.8 million, an increase of \$1.1 million, or 23.2 percent, from 2014-15. The change was primarily due to increases

#### Salaries and Related Costs

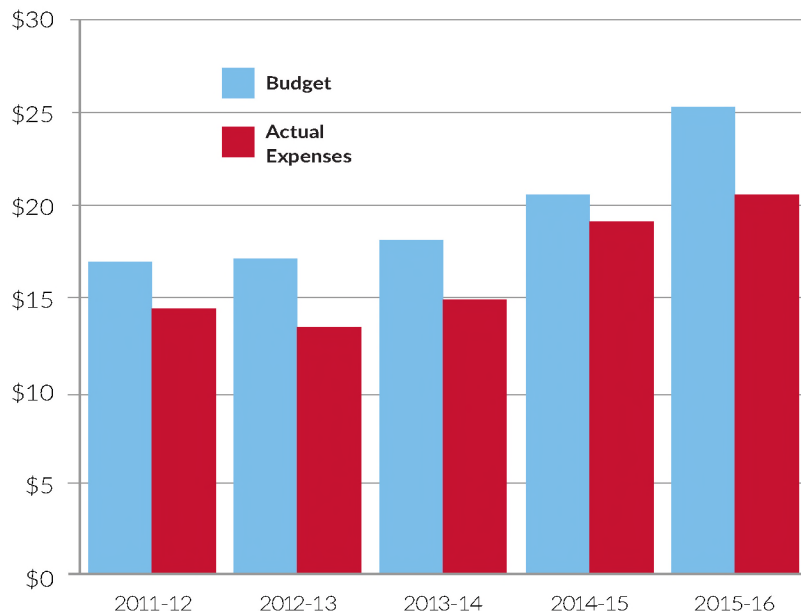
Salaries and related costs comprise 72.1 percent of the total Administrative Expense. In 2015-16, salaries and related costs totaled \$15.1 million, an increase of \$0.62 million, or 4.3 percent, from 2014-15. Most of the increase was a result of the mandatory staff salary increases bargained by the City and labor unions, salary step increases, and expected retirement and sick leave payouts.

#### Operating Costs

Operating costs comprise 27.9 percent of the total

### Five-Year Administrative Expense History

Administrative Expense  
In Millions





INVESTMENT ENVIRONMENT

INVESTMENT PERFORMANCE

ASSET ALLOCATION DECISIONS

INVESTMENT ACTIVITIES

ASSUMED RATE vs. ACTUAL RATE

PROXY VOTING

EMERGING MANAGERS

TOTAL FUND RETURNS

INVESTMENT ADVISORS

ANNUAL RATES OF RETURN

CHANGES IN ASSET MIX

# PART FOUR INVESTMENTS





# INVESTMENTS

For the five-year period ending June 30, 2016, the System's total assets increased \$4.15 billion to \$18.53 billion. For the one-year period ending June 30, 2016, the Fund's total assets decreased by \$0.19 billion.

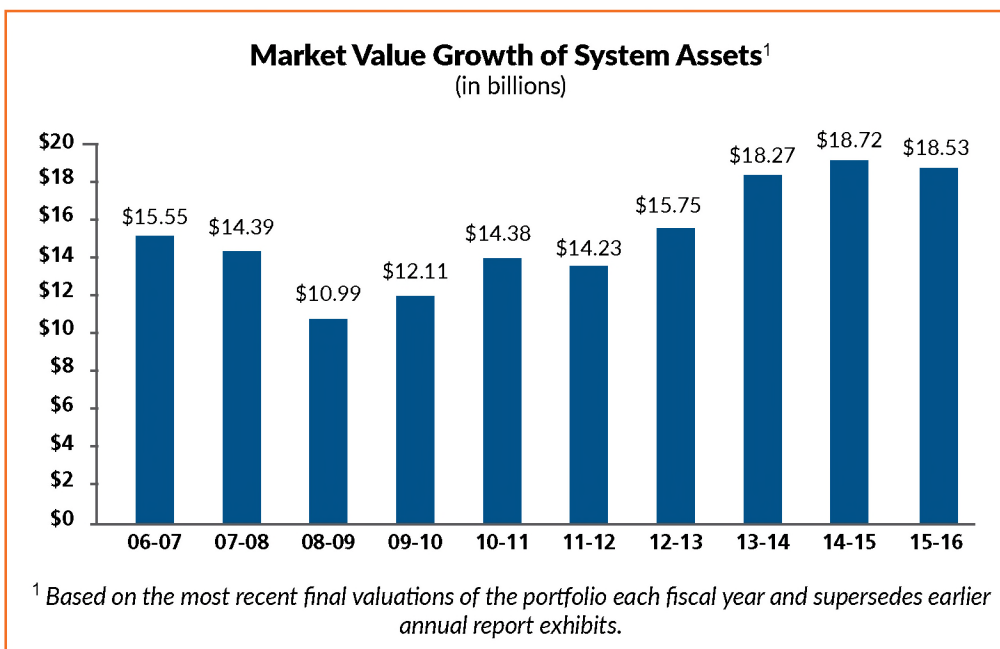
## Investment Environment

The United States economy improved during the 2015-16 fiscal year but at a slower pace than the previous year. The labor market improved as the national unemployment rate declined from 5.3% in July 2015 to 4.9% in June 2016. During this period, economic activity expanded marginally as real Gross Domestic Product (GDP) increased 1.4%. The Consumer Price Index (CPI) rose 1.0%, suggesting domestic inflation was under control. For the first time since December 2008 the Federal Reserve adjusted the federal funds target rate by raising it 25 basis points to a range of 0.25% to 0.50% in December 2015.

Although the domestic interest rates are linked to the CPI, economic activities in the U.S., and the federal funds rate, they are also impacted by other factors such as global equity markets, commodities, and geopolitical issues. The 6-month Treasury bill rate, a measure of short term interest rates, started at 0.13% in July 2015, increased to 0.49% in December 2015 after the Federal Reserve's action, and subsequently settled at 0.37% in June 2016. The U.S. 10-year Treasury yield, which is less impacted by the federal funds rate, was at 2.43% in July 2015 and at 1.46% in June 2016.

Global stock markets experienced substantial volatility during this period. The Standard & Poor's (S&P) 500 index, a broad based domestic stock

market indicator, posted a return of about 4% while the MSCI EAFE (Europe, Australasia and Far East) index, an international stock market indicator, generated a negative return of -9.7%. The month of August 2015 was one of the most volatile months for global stocks since May 2012, as fears about a slowdown in China, and to a lesser extent the timing of a Federal Reserve rate hike, impacted the markets adversely. During the first quarter of 2016, stock markets again experienced large swings as oil hit a decade low price of \$26 per barrel before rebounding. The last episode of volatility during this period was in late June 2016 when the United Kingdom (UK) decided to leave the European Union (EU).



The U.S. bond market (Barclays US Universal Bond Index) generated a return of 5.8% for the year ending June 30, 2016. The return was attributed to global investors seeking lower risk assets; many international government bonds were generating negative yields. The return of the real estate market as measured by the NCREIF (National Council of Real Estate Investment Fiduciaries) Property Index was 10.6%.

## Investment Performance

The investment objective of the total Fund over a full market cycle (usually five to seven years) is to earn a return on investments matching or exceeding the actuarial assumed rate of return of 7.50% and investment performance above the median of a sampling of public funds.

Over the past five years the System's annualized return of 7.42% slightly lagged the actuarial rate of return, but surpassed the RVK Public Funds' median return of 6.65%. For the one- and three-year periods, the System's overall investment returns were 1.18% and 7.49%, respectively.

The Fund was ranked in the 37th percentile of the RVK Public Fund universe for the one-year period, the 22nd percentile

for the three-year period, the 21st percentile for the five-year period, and the 16th percentile for the seven-year period ending June 30, 2016.

The System's top performers during this past year were its real estate and bond portfolios which recorded returns of 13.80% and 6.40%, respectively. Its worst performer was its international stock portfolio which generated a negative return of -8.54%.

## Asset Allocation Decisions

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

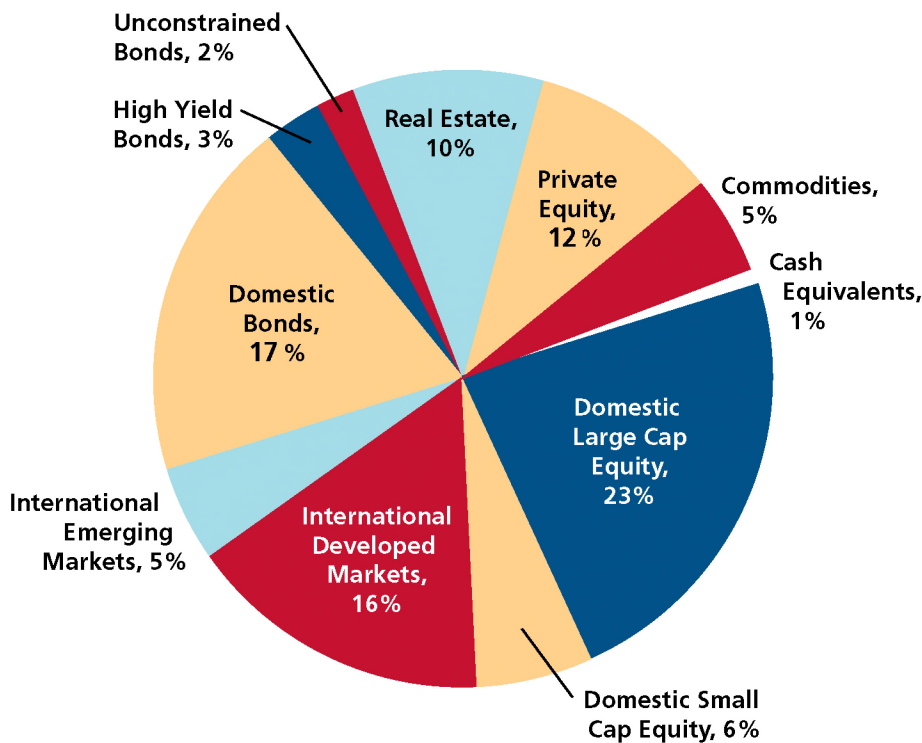
During this fiscal year, the Board made slight modifications to the asset allocation by reducing domestic bonds from 19% to 17% and increasing private equity from 10% to 12%. The actual asset class percentages of the System will vary from target allocations due to inflows (such as employer and member contributions), outflows (such as pension payments), and the movements of the securities markets. Assets are periodically rebalanced to adjust for these movements.

## Investment Activities

During the year there was some turnover among investment managers. The contract with Attucks Asset Management, an active small cap domestic equity emerging manager, was terminated, while the Board hired two new active large cap domestic equity emerging managers: Oakbrook Investments and Redwood Investments. In addition, contracts with RVK Inc., the Fund's general consultant and several existing managers were renewed. Managers that were rehired included:

- AllianceBernstein LP, a commodity public equity index manager;
- Boston Common Asset Management, an active international public equity manager;
- Brandes Investment Partners, an active international public equity manager;
- Daruma Capital Management LLC, an active domestic public equity manager;
- Fisher Asset Management, an active international public equity manager;

The Board's Asset Allocation Targets as of June 30, 2016



- Heitman Capital Management, an active real estate manager;
- LM Capital Group LLC, an active fixed income manager;
- Loomis Sayles & Company LP, an active fixed income manager;
- Northern Trust Investment Inc., a fixed income index manager and an international small cap equity index manager;
- Portfolio Advisors LLC, an active private equity manager;
- Reams Asset Management, an active fixed income manager and a fixed income index manager; and
- Sentinel Real Estate Corporation, an active real estate manager.

#### Assumed Rate vs. Actual Rate of Return: Last Ten Years

Fiscal Year	Assumed Rate	Actual Rate*
06-07	8.00%	18.50%
07-08	8.00%	-4.65%
08-09	8.00%	-19.97%
09-10	7.75%	13.72%
10-11	7.75%	22.09%
11-12	7.75%	1.89%
12-13	7.75%	13.01%
13-14	7.50%	17.85%
14-15	7.50%	4.15%
15-16	7.50%	1.18%

\*Based on the most recent final valuations of each fiscal year and supersedes earlier annual report exhibits

Most of the System's assets are managed by investment managers hired to outperform a market index. The System also has significant assets in passively managed accounts, including a large cap equity account that is indexed to the S&P 500 index, two large cap equity accounts that are indexed to the Russell 1000 Value and the Russell 1000 Growth indices respectively, two international equity accounts that are indexed to the MSCI EAFE and the MSCI EAFE Small Cap indices respectively, two fixed

#### Net Asset Values as of June 30, 2016

Asset Class	Market Value (in millions)	Percent
Stocks	\$ 9,494	51.24%
Bonds	4,249	22.93%
Real Estate	2,007	10.83%
Private Equity	1,715	9.26%
Commodities	729	3.94%
Cash Equivalents	334	1.80%
Total	\$ 18,528	100.00%

income accounts that are indexed to the Barclays Capital U.S. Aggregate index and the Barclays US Government Inflation Linked Bond index respectively, four accounts that are indexed to the S&P Global Natural Resources index and three related indices, and a REIT account that is indexed to the FTSE EPRA/NAREIT Developed index. A list of the System's managers is provided at the end of this section.

#### Proxy Voting

The System votes all domestic proxy ballots, while the international equities managers vote the proxies for their portfolios in accordance with the Board's proxy guidelines. The System votes affirmatively on preemptive rights, cumulative voting, and confidential voting; opposes anti-takeover measures and generally abstains on issues of a social, political, or environmental nature unless they are required by law or have potential adverse economic impact on the System's assets. However, the System votes affirmatively on proposals encouraging firms to refrain from manufacturing or merchandising firearms illegal for sale in California. The System votes affirmatively on executive compensation bonus plans if the corporation's stock performance in the past year exceeded the returns of both the S&P 500 Index and an appropriate peer group index, and supports the nomination of and directs an affirmative vote for the appointment of independent directors to the Board of Directors. The System votes affirmatively on measures that propose to place independent directors on compensation committees and directs an affirmative vote on shareholder proposals that request management to report on information related to climate change.

## Emerging Managers

The Board devoted considerable time during the past few years reviewing and refining the System's emerging manager program. Emerging managers are defined as investment management firms that are either too small or too new to normally be considered as candidates for an investment management contract with a large institutional investor like LAFPP. However, the Board believes that newer and/or smaller firms may be able to produce competitive investment returns for the System. The emerging manager program seeks to remove unnecessary barriers to the hiring of successful emerging managers.

The System has had an emerging manager program since the early 1990's. Examples of firms originally hired as emerging managers that are now considered institutional level include Daruma Capital Management, LLC (a small cap value domestic equity manager first hired by the Board in 1998) and LM Capital Group, LLC (an opportunistic fixed income manager first

### Total Fund Returns as of June 30, 2016

1 Year	1.18%
3 Years	7.49%
5 Years	7.42%
10 Years	6.03%
15 Years	6.36%
20 Years	7.52%
25 Years	8.49%
30 Years	8.57%

hired in 1997). Both firms "graduated" long ago from emerging manager status and each continues to manage money for the System. The current program includes one international equity manager of managers (i.e., a manager that oversees a number of emerging managers), two direct fixed income emerging managers, and five direct domestic equity emerging managers.

## Investment Advisors

### Stock Managers

AllianceBernstein  
Channing Capital Management  
Chicago Equity Partners  
Daruma Asset Management  
FIS Group  
Frontier Capital Management  
Granite Investment Partners  
Los Angeles Capital Management  
Oakbrook Investments  
PHOCAS Financial  
Redwood Investments  
Research Affiliates  
Robeco Boston Partners

### International Stock Managers

Baillie Gifford  
BlackRock  
Boston Common Asset Management  
Brandes Investment Partners  
Dimensional Fund Advisors

Fisher Asset Management  
Harding Loevner  
Northern Trust Investments

### Bond Managers

Bridgewater Associates  
GIA Partners  
LM Capital Group  
Loomis Sayles & Company  
MacKay Shields  
Northern Trust Investments  
Payden & Rygel  
Reams Asset Management  
Semper Capital Management

### Separate Account

**Real Estate Managers**  
Heitman Capital Management  
Sentinel Real Estate Corporation

### REIT Managers

AllianceBernstein  
Principal Global Investors

### Commodities Managers

AllianceBernstein  
Goldman Sachs Asset Management  
Gresham Investment Management  
Kleinwort Benson Investors  
Mellon Capital  
Portfolio Advisors

### Private Equity Manager

Portfolio Advisors

### Real Estate Consultant

The Townsend Group

### General Consultant

RVK, Inc.

## Annual Rates of Return<sup>1</sup>: Last Ten Years

Fiscal Year	Domestic Equities	International Equities	Fixed Income	Real Estate	Private Equity	Hedge <sup>2</sup> Funds	Commodities	Total Fund <sup>3</sup>	CPI <sup>4</sup>
06-07	20.05%	31.68%	6.52%	17.46%	17.08%	2.42%	–	18.50%	2.69%
07-08	-11.93%	-7.50%	6.50%	-1.20%	10.17%	0.65%	–	-4.65%	5.02%
08-09	-24.47%	-33.60%	4.20%	-31.98%	-21.22%	-13.02%	–	-19.97%	-1.43%
09-10	16.58%	9.78%	15.15%	3.73%	25.69%	7.18%	–	13.72%	1.05%
10-11	33.23%	29.92%	7.07%	13.79%	24.66%	7.00%	–	22.09%	3.56%
11-12	2.19%	-14.81%	12.32%	12.32%	5.18%	-1.83%	–	1.89%	1.70%
12-13	23.06%	14.64%	0.18%	11.00%	13.79%	9.47%	–	13.01%	1.80%
13-14	24.76%	22.78%	6.80%	12.93%	21.92%	–	–	17.85%	2.10%
14-15	7.36%	-2.14%	1.20%	11.41%	12.51%	–	-13.19%	4.15%	0.12%
15-16	-0.32%	-8.54%	6.40%	13.80%	5.31%	–	-6.19%	1.18%	1.01%

<sup>1</sup> Based on the most recent final valuations of each fiscal year and supersedes earlier annual report exhibits.  
<sup>2</sup> For the 2006-07 Fiscal Year, the Hedge Funds return is for May and June only.  
<sup>3</sup> Total Fund includes Short-Term Investments.  
<sup>4</sup> CPI is for the U.S. for the year ending June 30.

## Changes in Asset Mix: Last Ten Years

Fiscal Year	Stocks	Bonds	Real Estate	Private Equity	Hedge Funds	Commodities	Short-Term Investments
06-07	63.2%	23.5%	7.0%	3.4%	2.0%	–	0.9%
07-08	60.6%	22.9%	8.4%	4.2%	3.2%	–	0.7%
08-09	55.2%	25.7%	7.6%	5.5%	4.6%	–	1.4%
09-10	54.2%	25.5%	7.4%	6.8%	4.4%	–	1.7%
10-11	58.3%	21.8%	7.6%	7.4%	4.0%	–	0.8%
11-12	53.1%	23.4%	8.9%	8.5%	4.0%	–	2.1%
12-13	57.3%	20.6%	8.3%	8.3%	3.5%	–	2.0%
13-14	57.9%	19.7%	9.8%	8.2%	–	1.0%	3.4%
14-15	54.8%	21.7%	10.3%	8.7%	–	2.8%	1.7%
15-16	51.3%	22.9%	10.8%	9.3%	–	3.9%	1.8%

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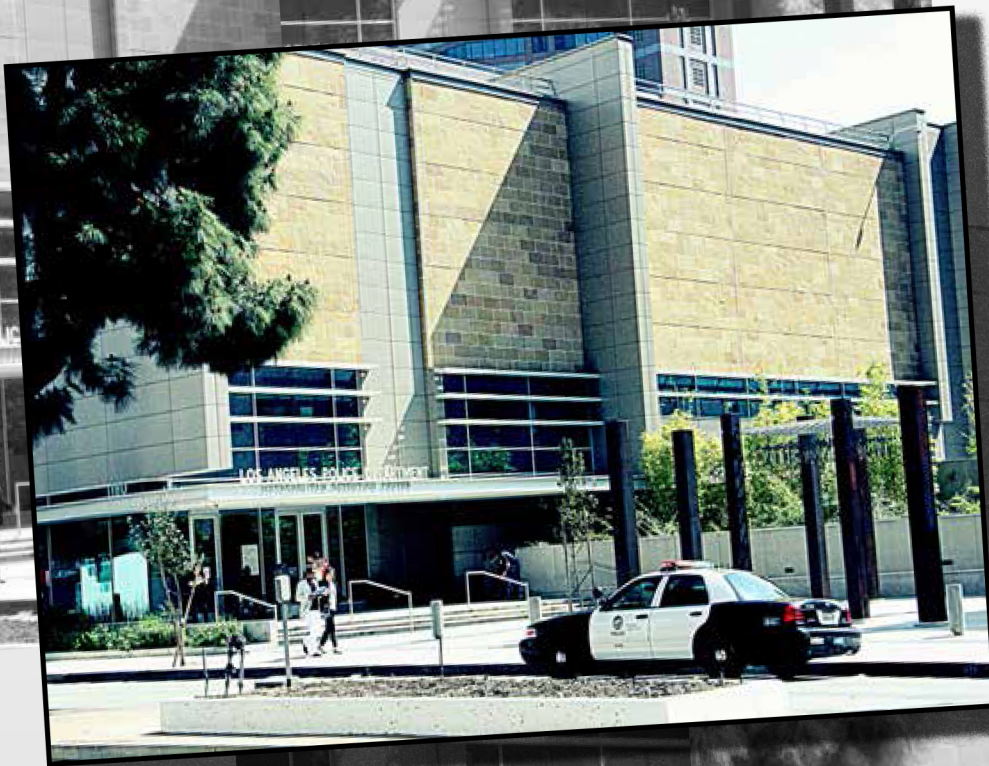


FUNDING STATUS  
HOW A VALUATION IS CONDUCTED  
PENSION BENEFIT BALANCE SHEET  
UNFUNDED ACTUARIAL ACCRUED  
LIABILITY

EMPLOYER CONTRIBUTION  
REQUIREMENTS CALCULATION  
HEALTH INSURANCE PREMIUM  
SUBSIDY VALUATION  
ADMINISTRATIVE EXPENSES  
EMPLOYER CONTRIBUTION HISTORY  
ACTUARIAL BALANCE SHEET

# PART FIVE ACTUARIAL





# ACTUARIAL

The purpose of an actuarial valuation is to determine the funding progress and the contribution requirements of a retirement plan at a specific moment in time. The System conducts two studies annually for the fiscal year ending June 30: one study evaluates the ratio of assets to liabilities for pension benefits for members and their beneficiaries; the other study evaluates the same ratio for health insurance premium subsidy benefits for qualified retired members and their survivors. The ratios establish the funding status of the System and determine the annual contribution requirements to fund the benefits.

## Funding Status

The funded status of the System is examined over a span of several years to determine if progress is made. When the assets equal or exceed the liabilities, the Plan is funded at 100 percent or more and is considered fully funded; otherwise it is underfunded. Tier 5 provides for a member contribution rate of 8 percent if the Plan's pension benefits are at least 100 percent actuarially funded and 9 percent if not fully funded. All other tiers require fixed member contribution rates regardless of funding status.

### Pension Benefits

A 10-year history of the System's funded status for pension benefits is provided below. Although the funding ratios declined over several years due to the investment losses sustained in the 2008-2009 Great Recession, the results of the last two actuarial studies reflect continued improved funding progress.

As of June 30, 2016, the funded status for pension benefits is 93.9 percent, an increase of 2.4 percent from the prior year. The increase in the funded ratio was primarily the result of lower

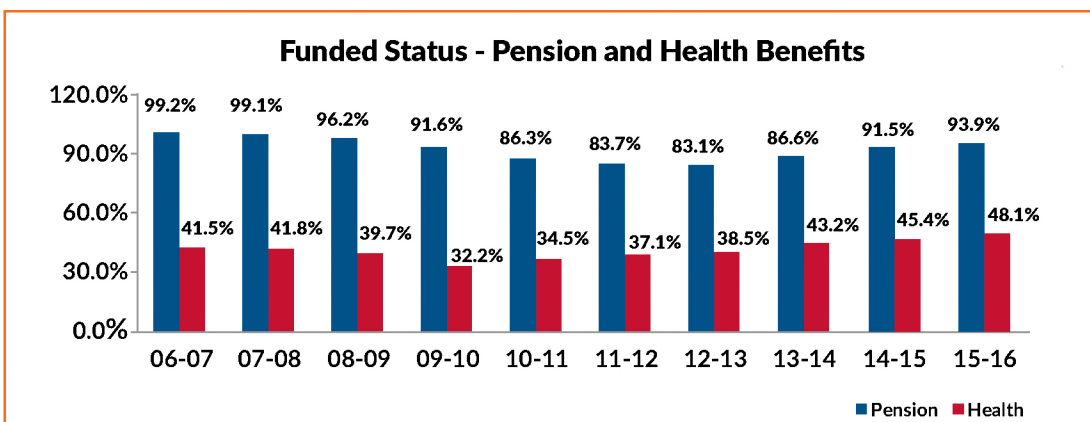
than expected cost of living increases during the year for pensioners and DROP members, lower than expected salary increases for active members, a slightly higher than expected return on the valuation value of

assets (after smoothing), and other actuarial gains during the year. However, because the System is not fully funded, the Tier 5 member pension contribution will remain at 9 percent. Details on the determination of the actuarial value of assets for the year are available in Section 2, Chart 7 of the June 30, 2016 Actuarial Valuation and Review of Retirement Benefits.

### Health Insurance Premium Subsidy Benefits

The System began pre-funding health insurance premium subsidy benefits in 1989. A 10-year history of the System's funded status for health benefits is included in the chart below. As of June 30, 2016, the funding status of health benefits increased from 45.4 to 48.1 percent, an increase of 2.7 percent. Details on the factors which contributed to the increased funding status are available in Section 2, Chart 2 of the June 30, 2016 Actuarial Valuation and Review of Other Postemployment Benefits.

Unlike the funding status of pension benefits, the funding status of health insurance premium subsidy benefits does not impact a Tier 5 member's contribution to the Plan.



## How a Valuation is Conducted

In accordance with §1210 of the City Charter, the Entry Age Normal Cost is the actuarial funding method used to determine the contribution requirements to fund the benefits. To determine the cost of benefits, an actuarial valuation takes into consideration the Plan's provisions, participant data, and various actuarial assumptions.

### Actuarial Assumptions

The System's actuary recommends assumptions – both demographic and economic – based on the Plan's experience, economic forecasts, and other factors. The Board adopts these assumptions

in consultation with the actuary. Demographic assumptions explore the probabilities of when and how long members will receive the various types of benefits, e.g., the likelihood of retirement, disability, and death. Economic assumptions are based on factors that affect the value of benefits or the value of a plan's assets, e.g., inflation rate, rate of salary increases, and assumed investment return.

At least every five years, the assumptions are examined to determine if any adjustments are necessary for future valuations. Examples of assumptions used for the valuation period ending June 30, 2016 are provided below.

<b>Average Life Expectancy for Retirees (Age = 65)</b>	<b>Investment Rate of Return</b>	<b>Rate of Salary Increases</b>																										
Service Retiree 20.4 years*	Inflation 3.25%	Inflation: 3.25% per year; plus 0.75% "across the board" increases; plus the following Merit and Longevity increases based on years of service.																										
Disabled Retiree 18.7 years*	Plus Portfolio Real Rate of Return 5.12%																											
Surviving Spouse 20.7 years**	Less Expense Adjustment (0.35%)	<table border="1"> <thead> <tr> <th>Years of Service</th> <th>Additional Salary Increase</th> </tr> </thead> <tbody> <tr><td>0</td><td>7.50%</td></tr> <tr><td>1</td><td>6.50%</td></tr> <tr><td>2</td><td>5.00%</td></tr> <tr><td>3</td><td>4.75%</td></tr> <tr><td>4</td><td>3.75%</td></tr> <tr><td>5</td><td>3.00%</td></tr> <tr><td>6</td><td>2.25%</td></tr> <tr><td>7</td><td>2.00%</td></tr> <tr><td>8</td><td>1.75%</td></tr> <tr><td>9</td><td>1.75%</td></tr> <tr><td>10</td><td>1.25%</td></tr> <tr><td>11 or more</td><td>0.75%</td></tr> </tbody> </table>	Years of Service	Additional Salary Increase	0	7.50%	1	6.50%	2	5.00%	3	4.75%	4	3.75%	5	3.00%	6	2.25%	7	2.00%	8	1.75%	9	1.75%	10	1.25%	11 or more	0.75%
Years of Service	Additional Salary Increase																											
0	7.50%																											
1	6.50%																											
2	5.00%																											
3	4.75%																											
4	3.75%																											
5	3.00%																											
6	2.25%																											
7	2.00%																											
8	1.75%																											
9	1.75%																											
10	1.25%																											
11 or more	0.75%																											
	Less Risk Adjustment (0.52%)																											
	<b>Net Investment Return*</b> 7.50%																											
	* Net of Investment Expenses Only																											
	The investment return assumption is comprised of two primary components: inflation and real rate of investment return, adjusted for expenses and risk.																											
	<b>Rate of Inflation</b>																											
	Annual increase in the Consumer Price Index 3.25%*																											
	* Tiers 3 – 6 have an assumed cost of living adjustment of 3.00 percent annually.																											
*The average is calculated based on a proportion of 95 percent male and 5 percent female in the current retiree population.																												
**The average is calculated based on a proportion of 5 percent male and 95 percent female.																												

## Pension Benefit Balance Sheet

Cost of living and individual salary assumptions are used to project the dollar amount of benefits to be paid. The total liability is then reduced to today's dollar terms using the investment rate of return assumption. Once the liabilities of the System are computed, the valuation study projects the member and employer contributions expected to be received using the individual salary increase assumptions. The contributions are then reduced to today's dollar terms using the investment rate of return assumption.

The projected future contributions are considered assets of the System, along with assets currently invested by the System. For purposes of determining the contributions to the System, any investment gains and losses established after July 1, 2008 will be recognized over a seven-year period and the actuarial value of assets will be further adjusted, if necessary, to be within 40 percent of the market value of assets.

The Actuarial Balance Sheet comparing the System's assets and liabilities as of June 30, 2016 is available on page 98.

## Unfunded Actuarial Accrued Liability

An unfunded actuarial accrued liability (UAAL) of a retirement system occurs when a system's actuarial liability is greater than the actuarial value of its assets, yielding a funded ratio less than 100 percent. As of June 30, 2016, the Actuarial Balance Sheet on page 98 shows the UAAL for pension benefits for all tiers to be approximately \$1.2 billion. The UAAL for health insurance premium subsidy benefits for all tiers is approximately \$1.6 billion.

Numerous variables, including pension benefit increases and actuarial losses, generate or increase the UAAL. Actuarial gains or losses arise from differences between the actual experience of a pension system and the actuarial assumptions used to project the system's funding requirements. An example would be if combined members' salaries increased more than what was assumed.

The gains and losses reflected in the UAAL must be amortized over a period of time in accordance with the Board's Actuarial Funding Policy and are a key component of the employer's required contribution to the System.

### Unfunded Liability Contribution Requirements Recommended 2017-18\* (as a percentage of Plan members' salaries)

Tier 1	\$14,845,840
Tier 2	0.41% of total payroll of Tiers 2 – 6
Tier 3	2.82% of total payroll of Tiers 2 – 6
Tier 4	1.31% of total payroll of Tiers 2 – 6
Tier 5	7.60% of Tier 5 payroll (excluding the Harbor Department)
Tier 6	7.60% of Tier 6 payroll (excluding the Harbor Department)
Harbor Port Police – Tier 5	5.76% of Tier 5 payroll (excluding the City)
Harbor Port Police – Tier 6	5.76% of Tier 6 payroll (excluding the City)

\*Contributions to be made on July 15, 2017.

## Employer Contribution Requirements Calculation

The City and the Harbor Department's contributions to the System are composed of two parts: (1) the Entry Age Normal Cost; and (2) the contribution to amortize the unfunded liability.

### Entry Age Normal Cost

The Entry Age Normal Cost contribution is the amount the employer would contribute for a hypothetical new entrant into the System. This amount would theoretically be sufficient to fully fund a member's retirement benefit on the date of retirement if all assumptions were realized and no benefit changes were made.

prescribed in the City Charter.)

The unfunded liability for Tier 1 is amortized as a level dollar amount and is scheduled to end on June 30, 2037. For all other tiers, it is amortized as a level percent of payroll. Specifically, for Tiers 2 - 4, the unfunded liability is amortized as a percentage of the total City sworn covered payroll. For Tiers 5 and 6, it is amortized as a percentage of the combined payroll of these tiers from the respective employer – the City or Harbor Department. Actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 25 years, and Plan amendments are amortized over 15 years. In the

## Health Insurance Premium Subsidy Valuation

The health insurance premium subsidy valuation utilizes the same actuarial assumptions as the valuation of pension benefits, with the addition of a medical inflation assumption. Medical costs continue to increase at a faster pace than inflation. Assumptions in the June 30, 2016 actuarial valuation included medical trend rate increases of 7.00 percent for non-Medicare and Medicare premiums in Fiscal Years 2016-17 and 2017-18, then decreasing by 0.25 percent each year for eight years until it reaches an ultimate rate of 5.00 percent. Using the same actuarial methods for pension benefits, the Actuarial Balance Sheet for health insurance premium subsidy benefits is shown on page 98. The contributions recommended to fund the health insurance premium subsidy benefits are:

### Entry Age Normal Cost Contribution Requirements Recommended 2017-18\* (as a percentage of Plan members' salaries)

Tier 1	N/A
Tier 2	24.35%
Tier 3	16.57%
Tier 4	17.24%
Tier 5	18.99%
Tier 6	15.64%
Harbor Port Police – Tier 5	19.58%
Harbor Port Police – Tier 6	15.14%

\*Contributions to be made on July 15, 2017.

### Amortization of the UAAL

In September 2012, the Board adopted an amortization policy for the valuation period ending June 30, 2012 and for use in subsequent valuations. (Prior to voter approval of a March 2011 Charter amendment, the amortization policy was

event of an actuarial surplus, 30-year amortization is used.

With this information, the actuary computes the employer contribution requirements for pension benefits. See chart on page 95.

### Health Insurance Premium Subsidy Contribution Rates Recommended 2017-18\* (as a percentage of Plan members' salaries)

Tier 1	\$1,701,267
Tier 2	7.64%
Tier 3	5.02%
Tier 4	4.65%
Tier 5	7.43%
Tier 6	10.04%
Harbor Port Police – Tier 5	7.15%
Harbor Port Police – Tier 6	6.93%

\*Contributions to be made on July 15, 2017.

### Health Insurance Premium Cost Trend Rates

(applied to calculate following year's premium)

Fiscal Year	Non-Medicare	Medicare
2016-2017	7.00%	7.00%
2017-2018	7.00%	7.00%
2018-2019	6.75%	6.75%
2019-2020	6.50%	6.50%
2020-2021	6.25%	6.25%
2021-2022	6.00%	6.00%
2022-2023	5.75%	5.75%
2023-2024	5.50%	5.50%
2024-2025	5.25%	5.25%
2025 and later	5.00%	5.00%

### Administrative Expenses

Beginning with the June 30, 2014 valuation, the Plan's assumed investment rate of return excludes administrative expenses. This change was made in order to implement new Governmental Accounting Standards Board (GASB) financial reporting requirements (GASB Statements 67 and 68) so that the same investment return assumption can be used for both funding and financial reporting purposes. The actuary now recommends an explicit assumption to account for the Plan's administrative expenses.

#### Contribution Amount Allocated for Administrative Expenses\*

Pension	0.91%
Health	0.06%

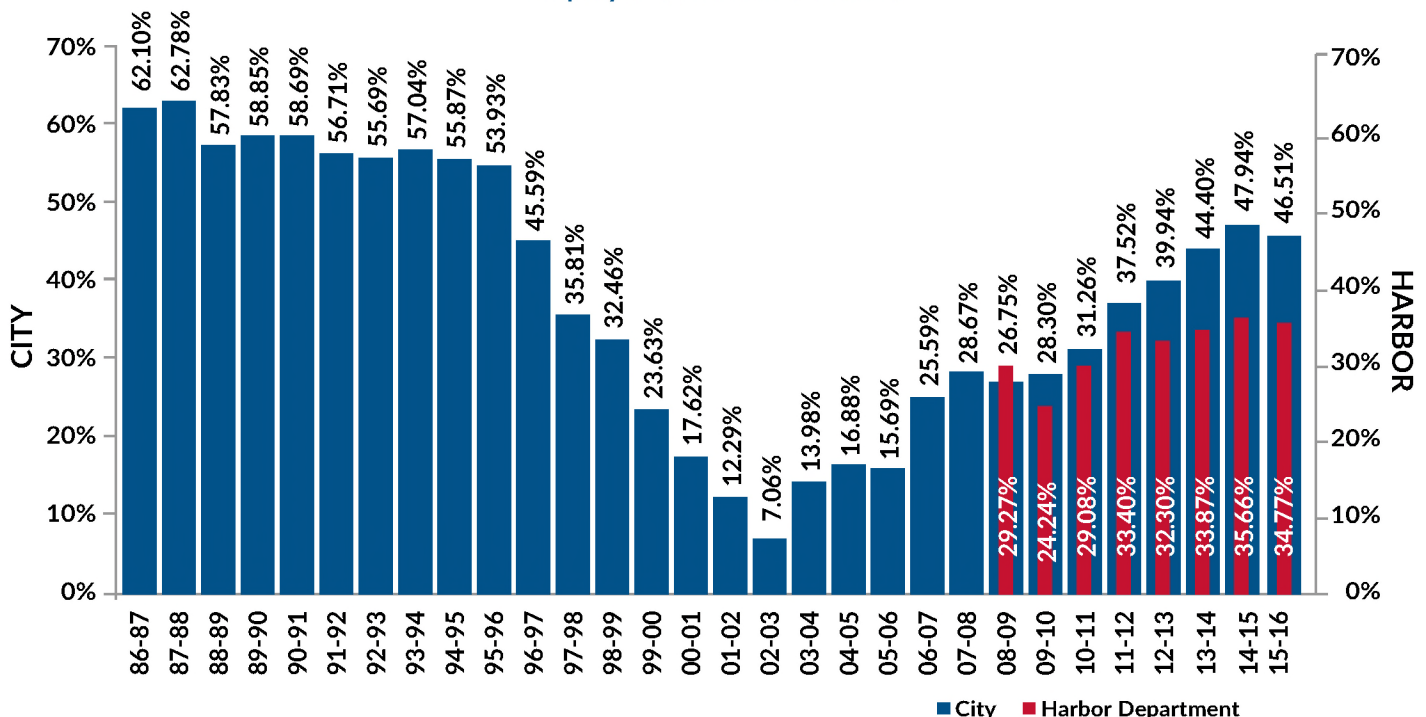
\*Percent of total payroll

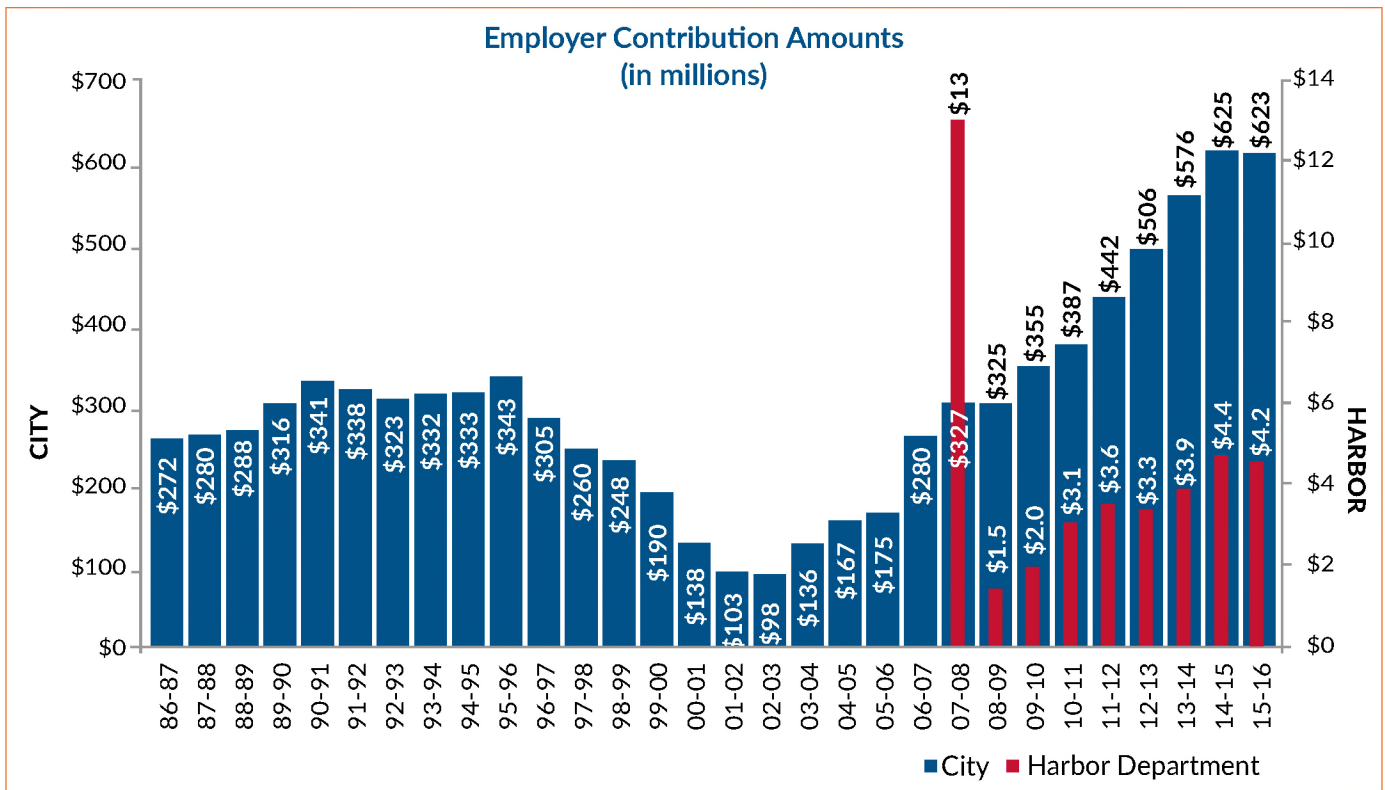
### Employer Contribution History

A history of employer contributions is illustrated in the following charts. Over the last two decades, the City's contribution for pension and health benefits to the System has grown, although there were periods when the contribution amount was decreased due to the System's actuarial surplus status.

After the inclusion of Harbor Port Police in January 2006, the Harbor Department began making contributions to the System in Fiscal Year 2007-08. Since its first-year contribution, subsequent contributions have been quite stable as well.

#### Employer Contribution Rates





## Actuarial Balance Sheet – June 30, 2016

### Present Resources and Expected Future Resources

Assets	Pension	Health	Total
1. Valuation value of assets	\$17,645,338,395	\$1,480,809,977	\$19,126,148,372
2. Present value of future normal costs:			
Member	\$1,379,550,855		\$1,379,550,855
Employer	\$2,717,968,964	\$700,885,615	\$3,418,854,579
Total	\$4,097,519,819	\$700,885,615	\$4,798,405,434
3. Unfunded actuarial accrued liability	\$1,153,172,139	\$1,598,859,540	\$2,752,031,679
4. Present value of current and future assets	\$22,896,030,353,	\$3,780,555,132	\$26,676,585,485

### Present Value of Expected Future Benefit Payments and Reserve

Liabilities	Pension	Health	Total
5. Present value of future benefits:			
Retired members and beneficiaries	\$10,661,982,871	\$1,689,309,297	\$12,351,292,168
Inactive members with vested rights	\$26,288,293	\$116,395,136	\$142,683,429
Active members	\$12,207,759,189	\$1,974,850,699	\$14,182,609,888
6. Total present value of expected future benefit payments	\$22,896,030,353	\$3,780,555,132	\$26,676,585,485



MEMBERSHIP STATISTICS

ACTIVE MEMBERSHIP

DROP MEMBERSHIP

RETIRED MEMBERSHIP

MEMBER OUTREACH

FINANCIAL

FINANCIAL TRENDS INFORMATION

OPERATING INFORMATION

# PART SIX STATISTICAL





As of June 30, 2016, the System is composed of seven tiers. Benefits are based on the member's pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

## Membership Statistics

### Fire and Police Pension Plans

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

Members hired from July 1, 1925 to January 28, 1967 participate in Tier 1 (formerly Article XVII). Tier 2 (formerly Article XVIII) includes members hired from January 29, 1967 through December 7, 1980, and Tier 1 members who elected to transfer during an enrollment period.

Tier 3 (formerly Article XXXV, Plan 1) consists of members hired from December 8, 1980 to June 30, 1997. Members hired from July 1, 1997 to December 31, 2001 are in Tier 4 (formerly Article XXXV, Plan 2). Tier 4 also includes members who elected to transfer from Tier 3 during an enrollment period. Additionally, Tier 4 members hired from July 1, 1997 through December 31, 1997 were given the opportunity to transfer to Tier 3 during an enrollment period.

Tier 5 includes members hired from January 1, 2002 through June 30, 2011. Active members in Tiers 2 – 4 were allowed to transfer to Tier 5 during an enrollment period.

Additionally, all eligible sworn members of the Harbor Department hired on or after January 8, 2006 automatically become members of the Fire and Police Pension System. Members hired from January 8, 2006 through June 30, 2011 are in Tier 5. Those hired prior to January 8, 2006 were provided the option to transfer to Tier 5 from the Los Angeles City Employees' Retirement System (LACERS) from January 8, 2006 to January 5, 2007.

Tier 6 consists of all new members hired on or after July 1, 2011.

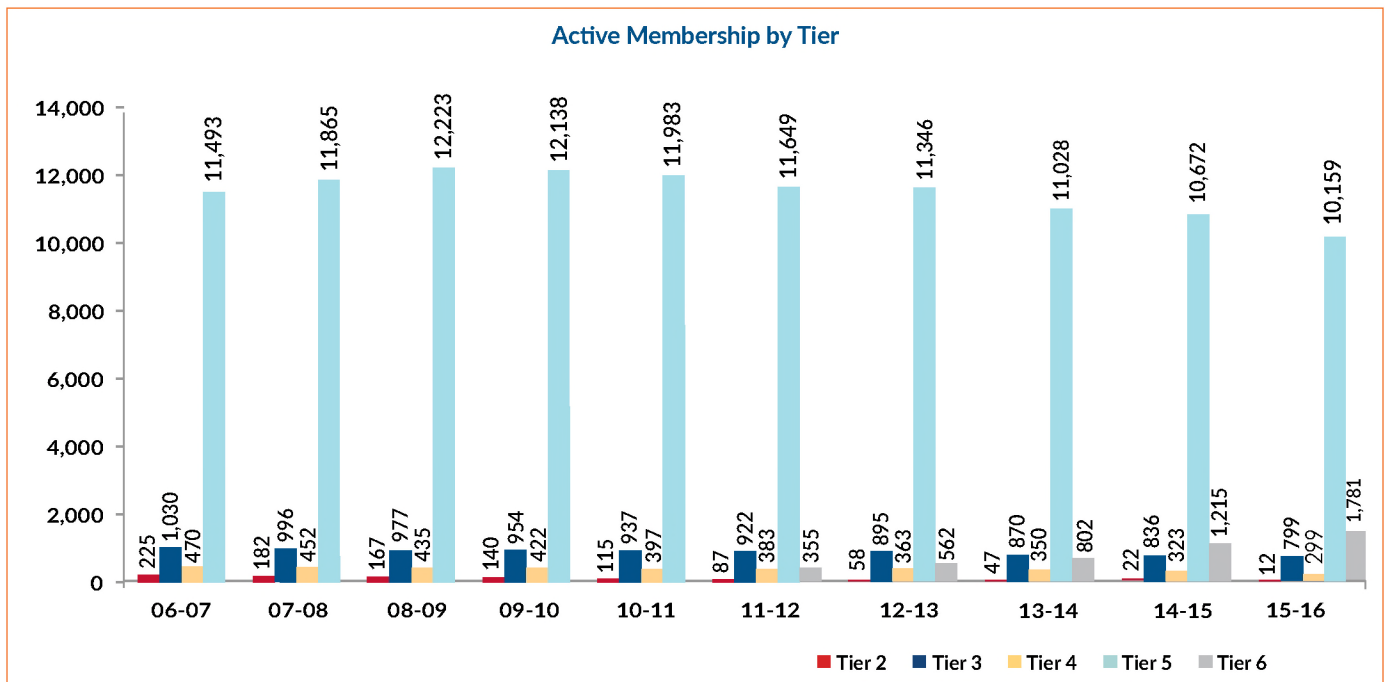
On July 1, 2012, the Department of General Services, Office of Public Safety (OPS) was consolidated into the Los Angeles Police Department (LAPD). As a result, OPS employees who successfully transitioned to a regular LAPD sworn classification could make an irrevocable election to opt out of LACERS and become a Tier 6 member of the Fire and Police Pension System. The opt-out election period expired on December 12, 2014.

### Deferred Retirement Option Plan

Effective May 1, 2002, the System began administering a Deferred Retirement Option Plan (DROP). DROP is a voluntary program whereby a member with a minimum of 25 years of service (members of Tiers 3, 5 and 6 must also be at least age 50) may file for a service pension but continue to work and earn salary and receive benefits as an active employee. The monthly service pension benefit is deposited into an interest bearing account (5 percent per annum), payable upon exiting DROP. Participation in DROP is limited to a maximum of five years.

All eligible members of the Fire and Police Pension System, except the Fire and Police Chiefs, may elect to participate in DROP. The intent of the program was to retain police officers and lengthen their careers due to significant challenges faced by the City in police retention and recruitment. In addition, DROP must be cost neutral with regard to plan funding. As such, Administrative Code §4.2100 requires the City to conduct an actuarial study at least every five years to determine whether the program is maintaining cost neutrality and/or meeting the City's goal of retaining sworn personnel.

# Active Membership



**Active Membership  
as of June 30, 2016**

Tier	Fire	Police	Harbor	Total
Tier 2	7	5	---	12
Tier 3	22	777	---	799
Tier 4	52	247	---	299
Tier 5	2,689	7,370	100	10,159
Tier 6	389	1,375	17	1,781
<b>Total</b>	<b>3,159*</b>	<b>9,774**</b>	<b>117***</b>	<b>13,050</b>

\* Includes 391 DROP participants.  
 \*\* Includes 851 DROP participants.  
 \*\*\* Includes 1 DROP participant.

**Refunds of Member Contributions**

	11-12	12-13	13-14	14-15	15-16
<b>Fire:</b>					
Tier 2	0	0	0	0	0
Tier 3	0	0	0	0	0
Tier 4	0	0	0	0	0
Tier 5	13	13	7	6	4
Tier 6	0	0	0	1	0
<b>Police:</b>					
Tier 2	0	0	0	0	0
Tier 3	2	4	6	0	2
Tier 4	0	0	0	0	0
Tier 5	83	52	65	53	50
Tier 6	0	2	17	17	18
<b>Harbor:</b>					
Tier 5	0	0	0	3	0
Tier 6	0	0	1	0	0
<b>Total</b>	<b>98</b>	<b>71</b>	<b>96</b>	<b>80</b>	<b>74</b>

**Active Fire Membership  
Age and Years of Service**

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
-25	96	0	0	0	0	0	0	96
25-29	178	33	0	0	0	0	0	211
30-34	88	309	57	0	0	0	0	454
35-39	21	165	287	58	0	0	0	531
40-44	3	50	208	164	20	0	0	445
45-49	2	20	109	134	85	107	0	457
50-54	1	2	26	41	86	298	89	543
55-59	1	0	7	9	12	172	157	358
60-64	0	0	0	1	0	24	34	59
65+	0	0	0	0	0	3	2	5
<b>Total</b>	<b>390</b>	<b>579</b>	<b>694</b>	<b>407</b>	<b>203</b>	<b>604</b>	<b>282</b>	<b>3,159</b>

**Active Police Membership  
Age and Years of Service**

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
-25	305	0	0	0	0	0	0	305
25-29	692	181	0	0	0	0	0	873
30-34	291	921	159	0	0	0	0	1,371
35-39	82	510	647	149	0	0	0	1,388
40-44	30	233	359	862	298	0	0	1,782
45-49	10	81	163	604	799	300	0	1,957
50-54	3	23	42	182	339	806	74	1,469
55-59	0	3	4	55	88	259	82	491
60-64	0	1	1	17	26	55	23	123
65+	0	0	0	2	3	6	4	15
<b>Total</b>	<b>1,413</b>	<b>1,953</b>	<b>1,375</b>	<b>1,871</b>	<b>1,553</b>	<b>1,426</b>	<b>183</b>	<b>9,774</b>

**Active Harbor Membership  
Age and Years of Service**

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
-25	4	0	0	0	0	0	0	4
25-29	9	2	0	0	0	0	0	11
30-34	1	19	0	0	0	0	0	20
35-39	1	33	7	0	0	0	0	41
40-44	0	11	4	1	0	0	0	16
45-49	0	3	4	3	0	0	0	10
50-54	0	3	3	3	1	1	0	11
55-59	1	0	0	1	1	0	0	3
60-64	1	0	0	0	0	0	0	1
65+	0	0	0	0	0	0	0	0
<b>Total</b>	<b>17</b>	<b>71</b>	<b>18</b>	<b>8</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>117</b>

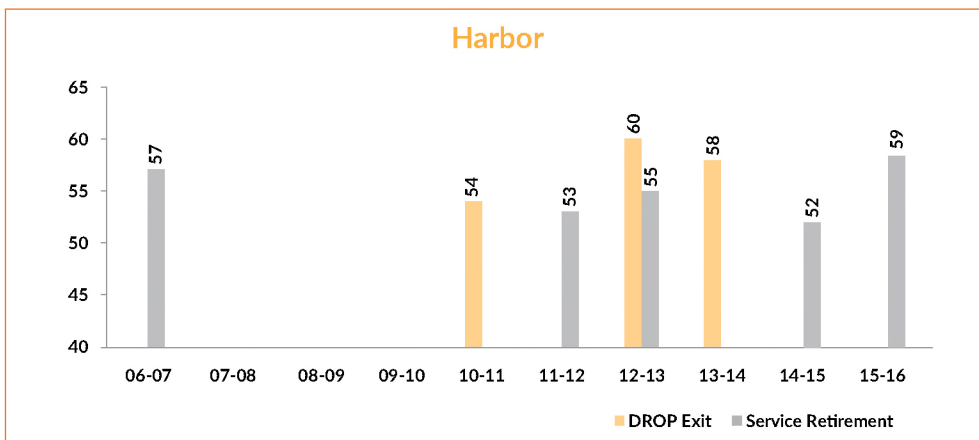
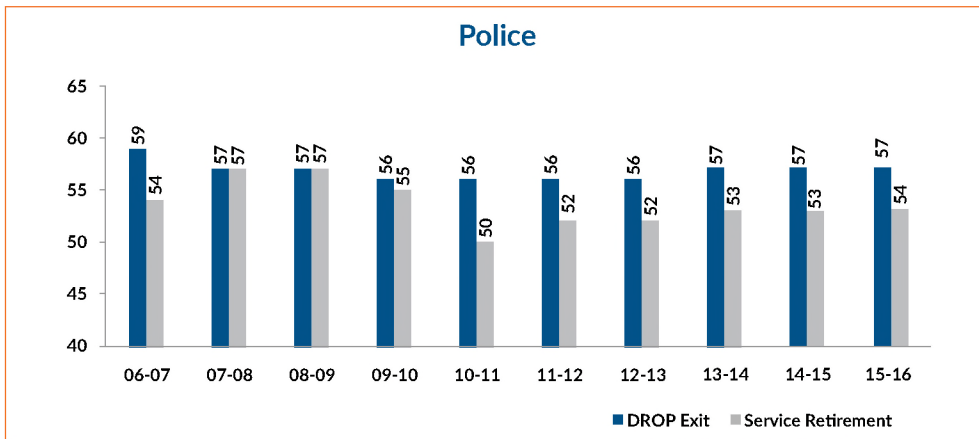
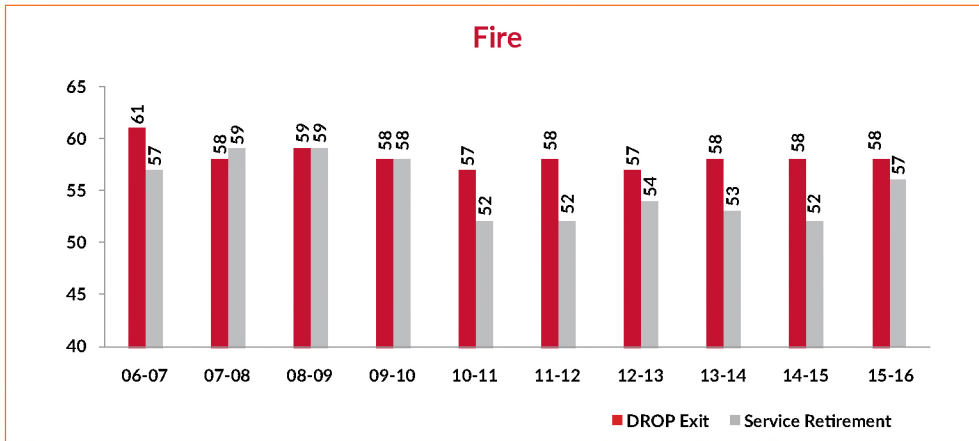
## DROP Membership

**DROP Program Summary of Participation**

Fiscal Year	Average Participation per Month			Total Entries			Average Age at Entry			Average Years of Service at Entry			Total Exits		
	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD	FD	PD	HD
06-07	543	738	0	142	157	0	53	52	0	27	27	0	122	233	0
07-08	524	627	1	100	125	1	53	52	57	29	27	31	112	199	0
08-09	479	574	3	65	122	2	53	52	54	29	27	26	116	168	0
09-10	481	552	5	131	159	1	53	52	52	29	27	28	99	129	0
10-11	502	578	4	180	166	1	53	53	55	29	28	25	105	123	2
11-12	565	657	4	82	166	0	53	53	0	28	27	0	115	140	0
12-13	512	644	3	73	166	1	53	53	58	28	27	25	100	143	3
13-14	506	681	1	101	218	1	54	53	50	29	26	27	72	146	2
14-15	524	775	1	99	275	0	54	53	0	29	26	0	121	173	0
15-16	492	890	1	86	235	0	54	52	0	28	27	0	194	193	0

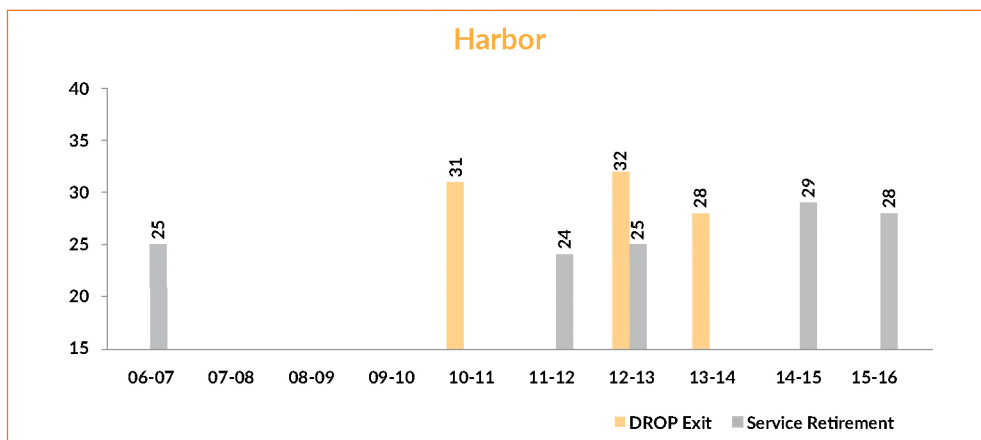
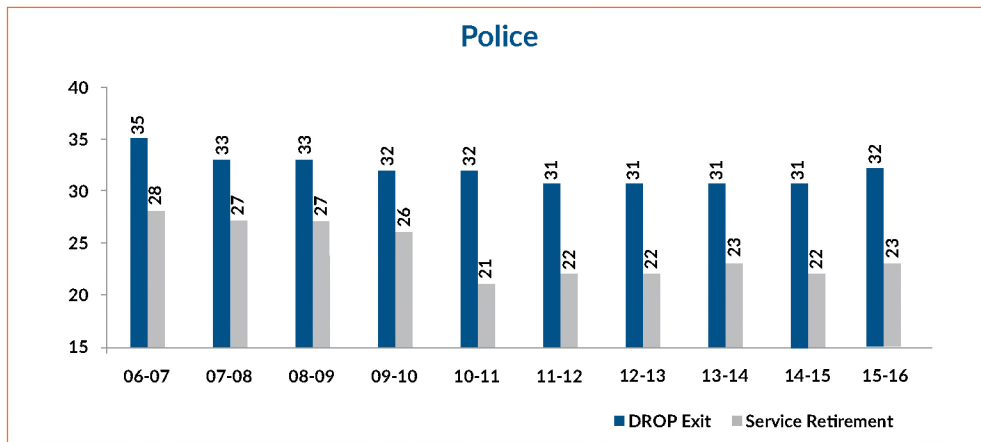
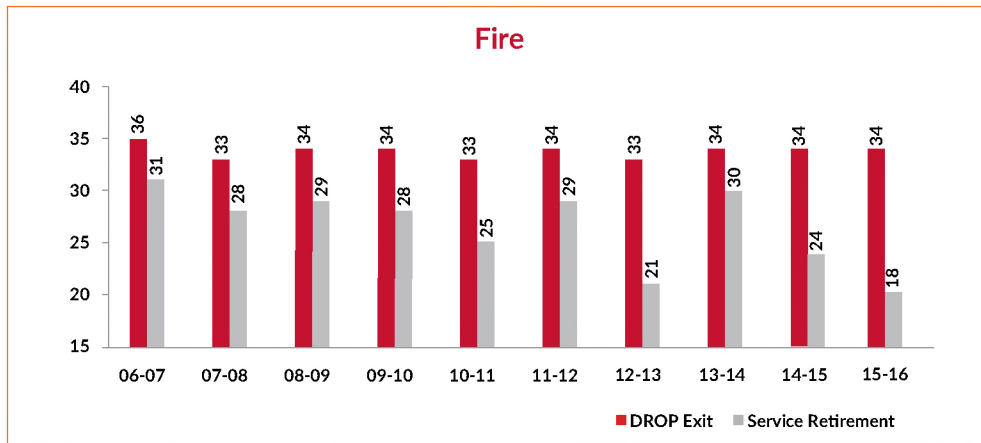
# Retired Membership

DROP vs. Service Retirement  
Average Age

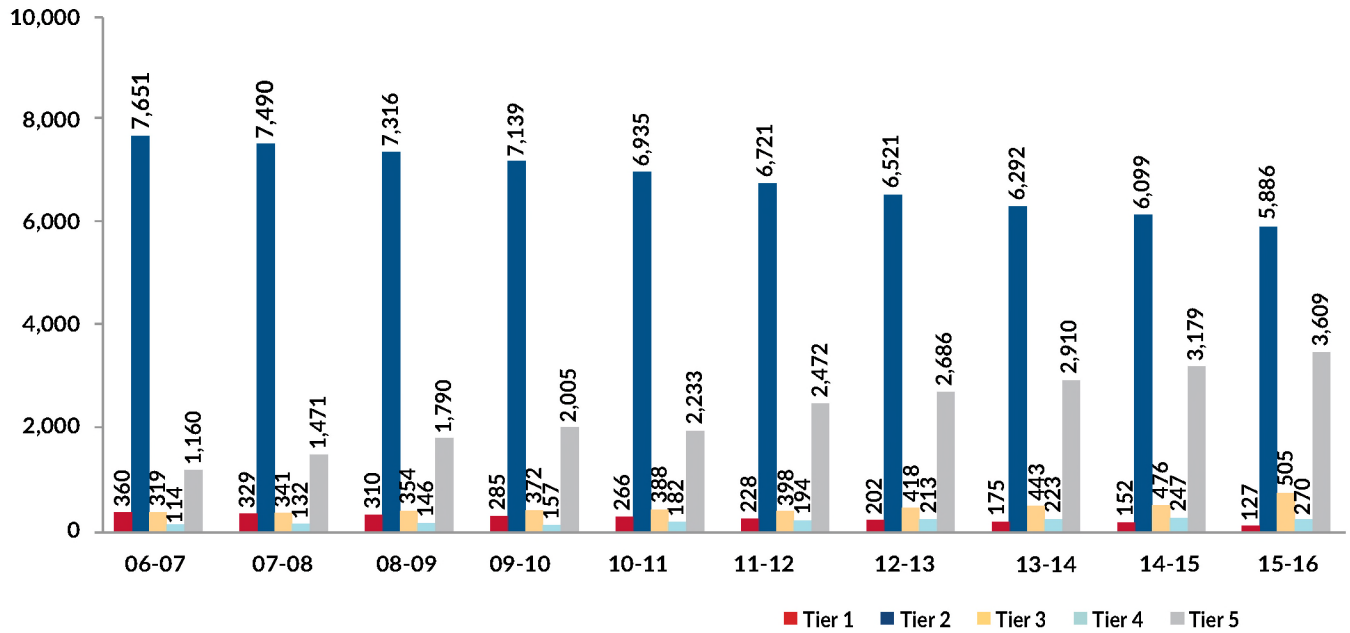


## DROP vs. Service Retirement Average Years of Service\*

(\*DROP Exit data for fiscal years 2010-11 to 2014-15 has been revised for Fire and Police.)



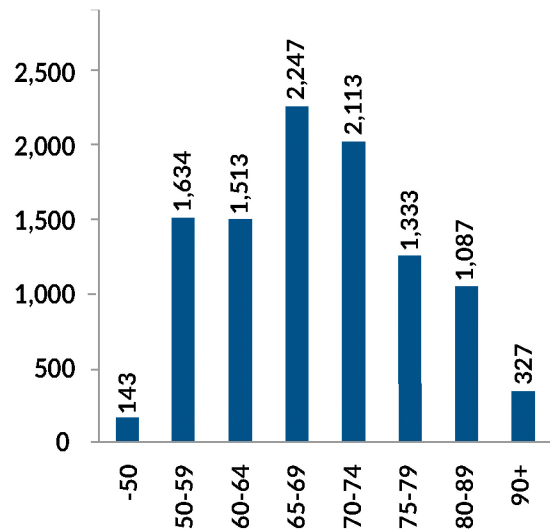
### Retired Membership by Tier Excludes survivor pensioners.



### Retired Membership as of June 30, 2016 Excludes survivor pensioners.

Tier	Fire	Police	Harbor	Total
Tier 1	18	109	0	127
Tier 2	1,361	4,524	1	5,886
Tier 3	82	423	0	505
Tier 4	19	251	0	270
Tier 5	1,344	2,250	15	3,609
Tier 6	0	0	0	0
<b>Total</b>	<b>2,824</b>	<b>7,557</b>	<b>16</b>	<b>10,397</b>

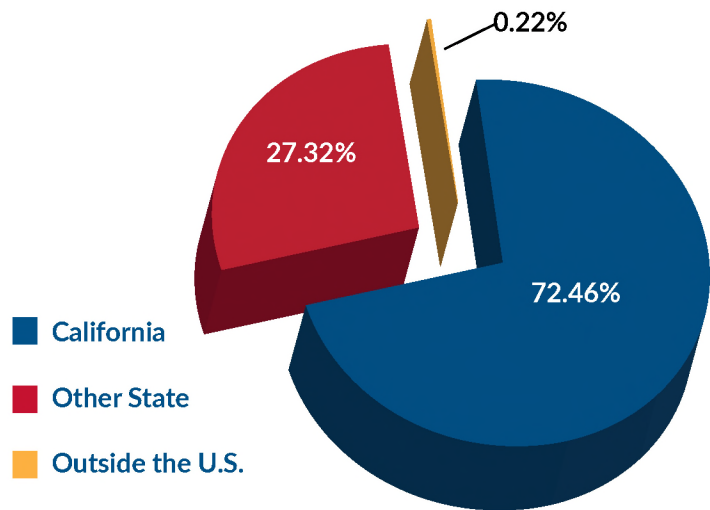
### Retired Membership by Age Excludes survivor pensioners.



### Service Pensioners

Number in Pay Status:	8,414
Average Age at Retirement:	51.8
Average Age:	69.5
Average Monthly Benefit:	\$6,056

### Residency of Pensioners



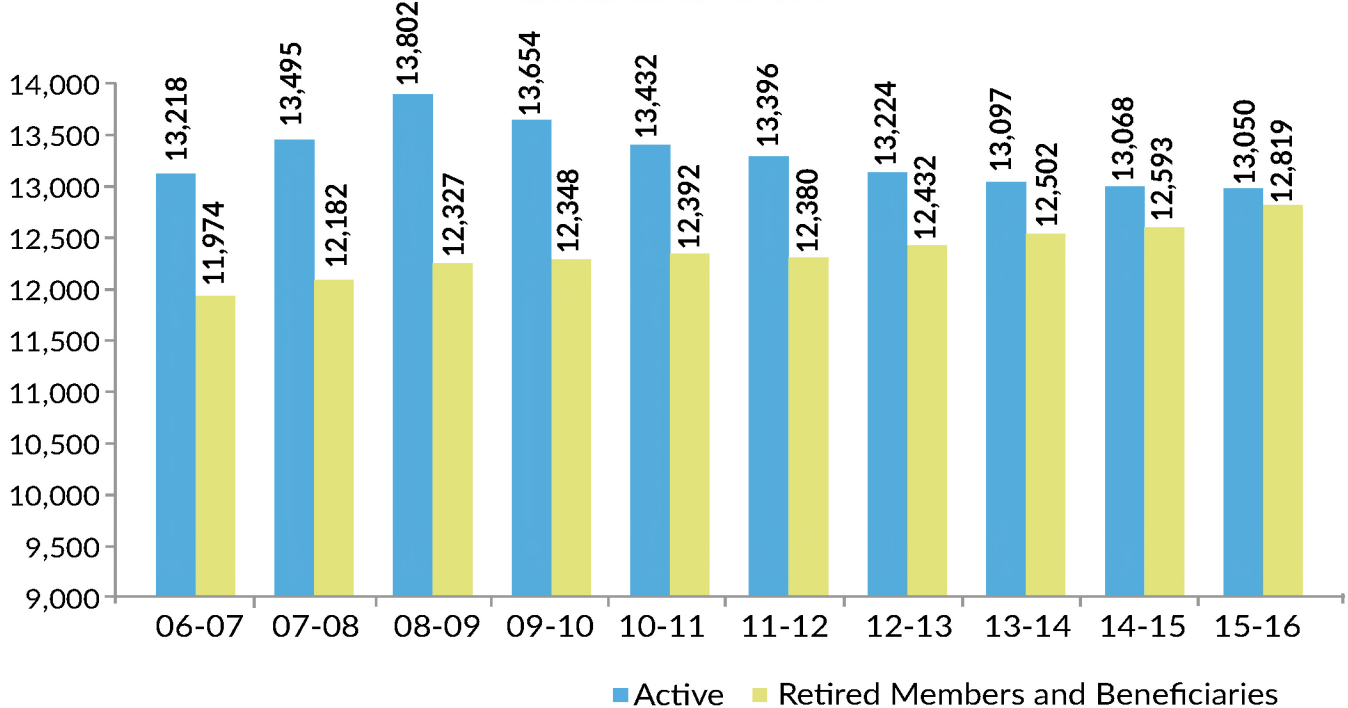
### Disability Pensioners

Number in Pay Status:	1,983
Average Age at Retirement:	44.0
Average Age:	70.1
Average Monthly Benefit:	\$4,740

### Survivor Pensioners

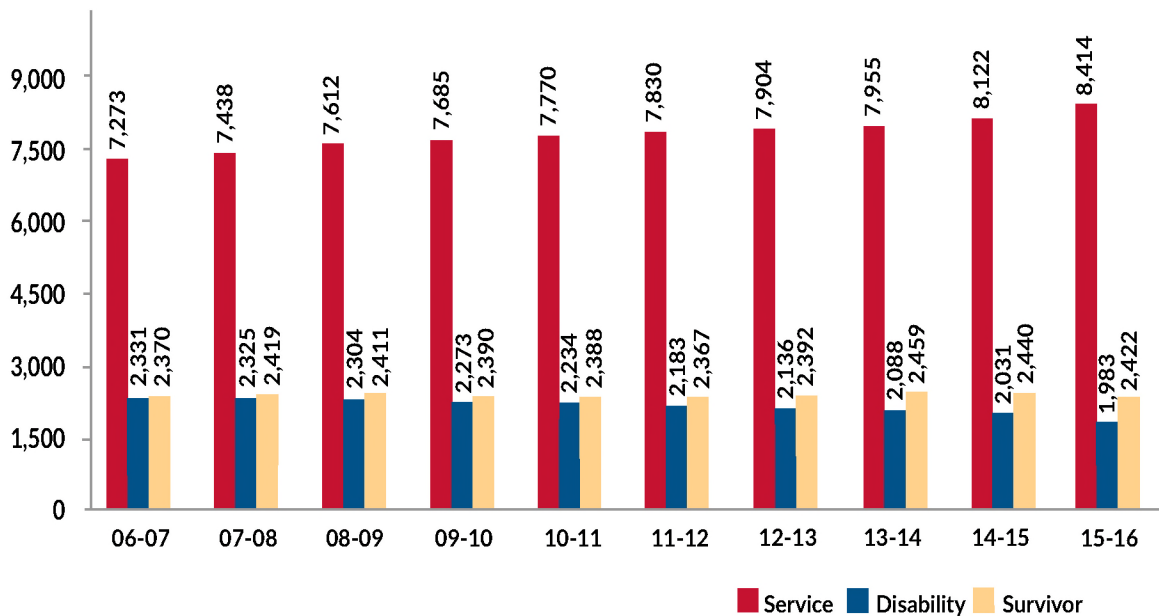
Number in Pay Status:	2,422
Average Age:	76.6
Average Monthly Benefit:	\$4,190

### Active vs. Retired Members

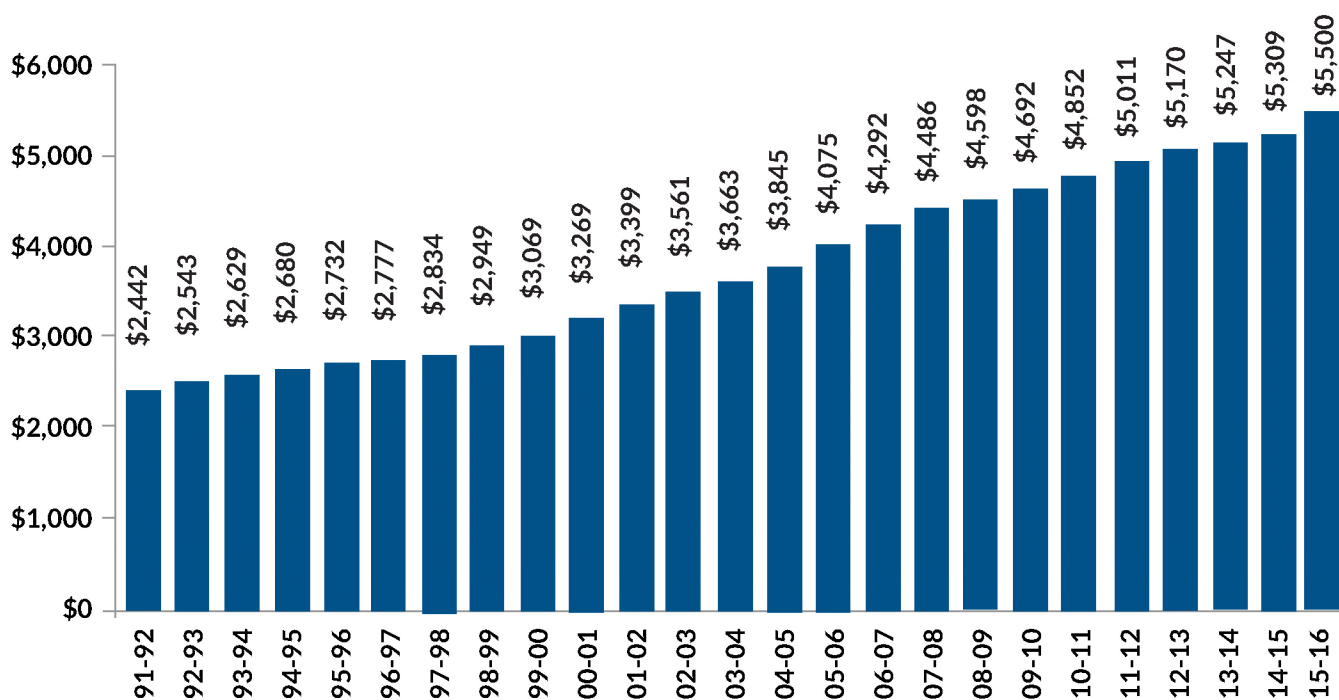


2011 Retired membership includes 13 new retirees during the period July 1, 2011 to July 14, 2011.

Pensioners by Benefit Type

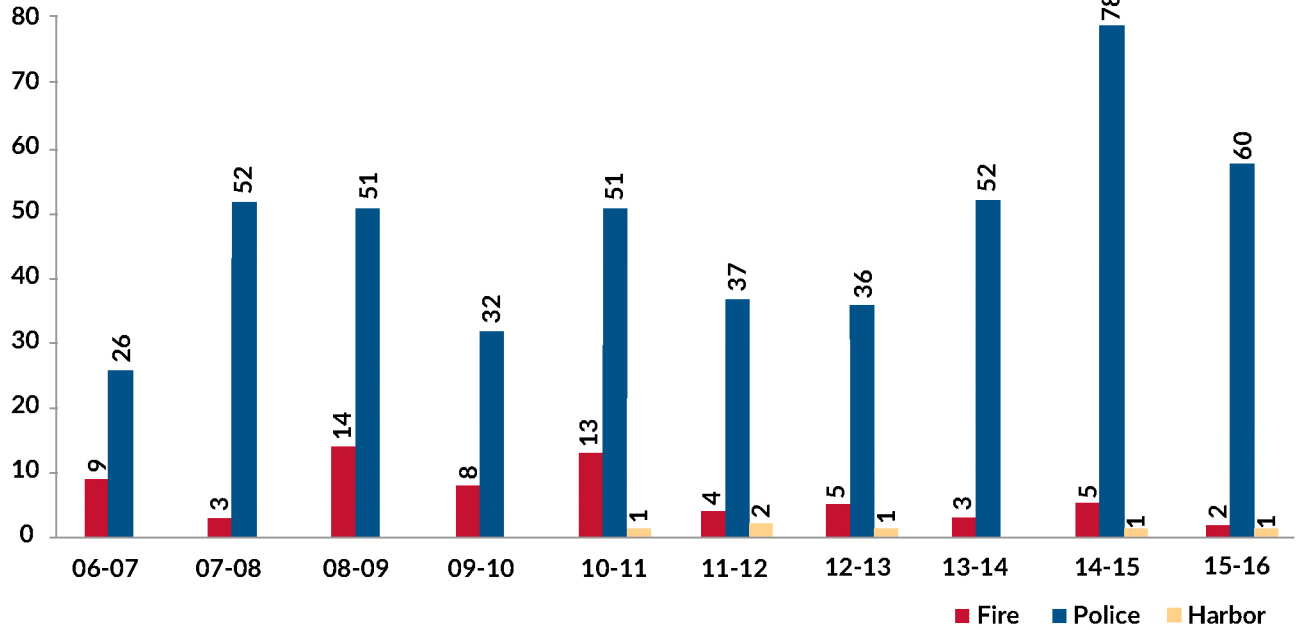


Average Monthly Pension



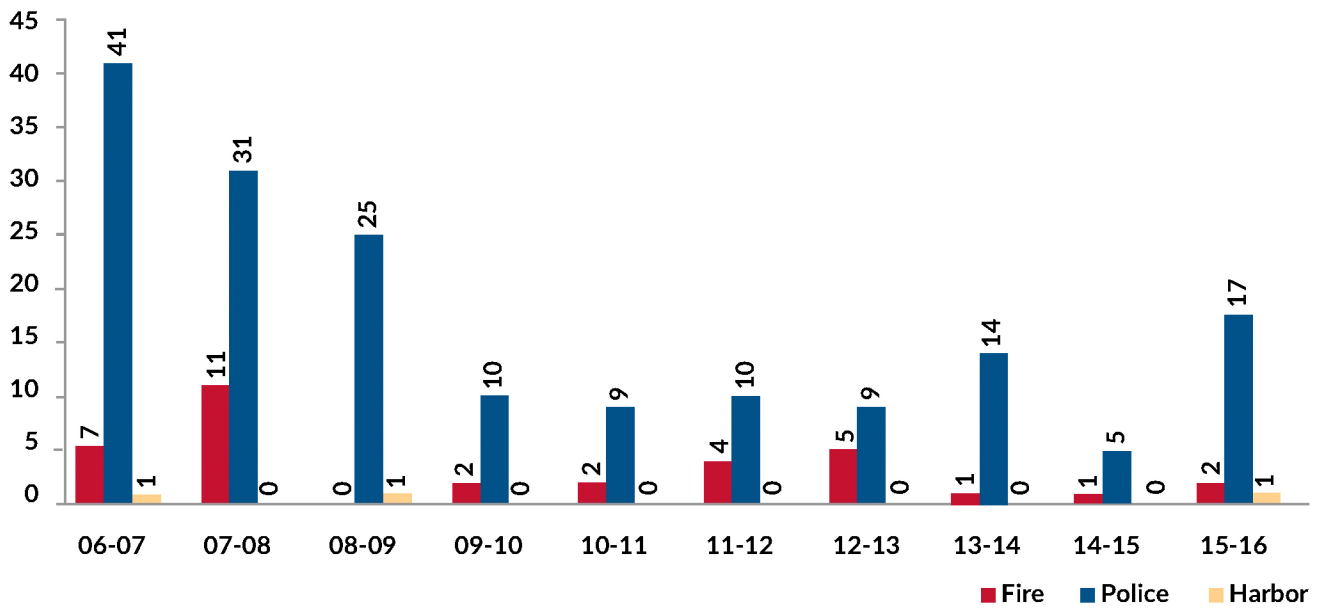
### Service Pensions Granted

Excludes members who exited DROP.

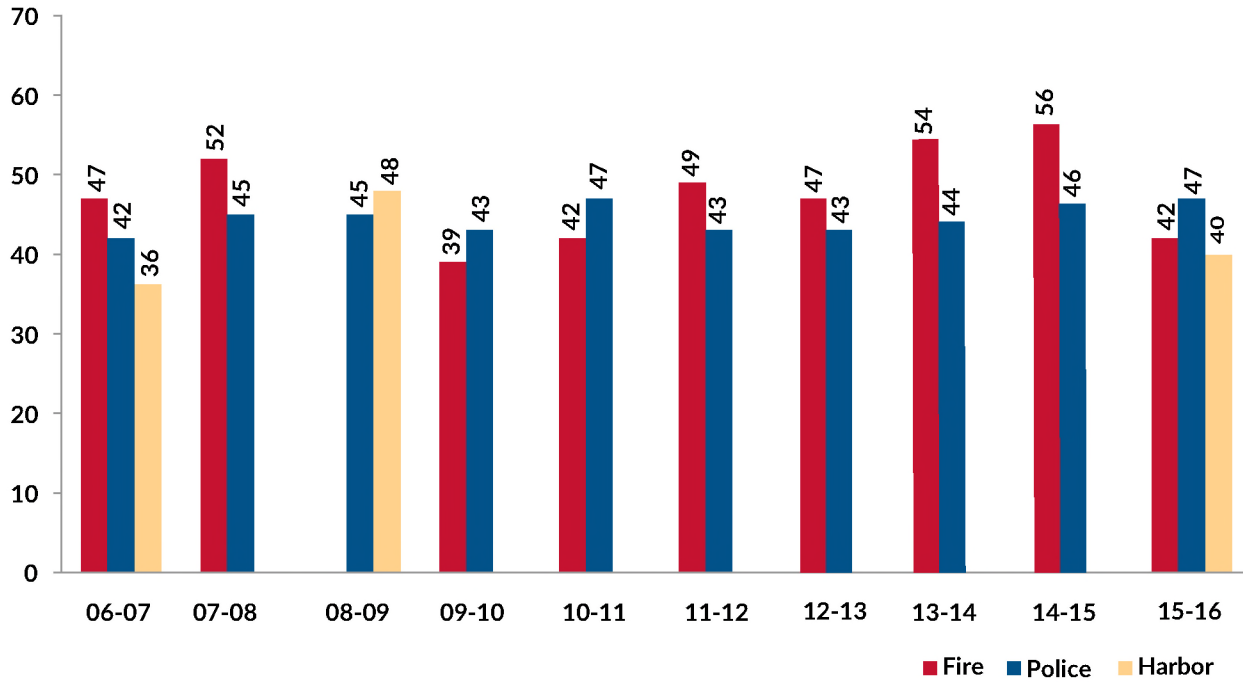


### Disability Pensions Granted

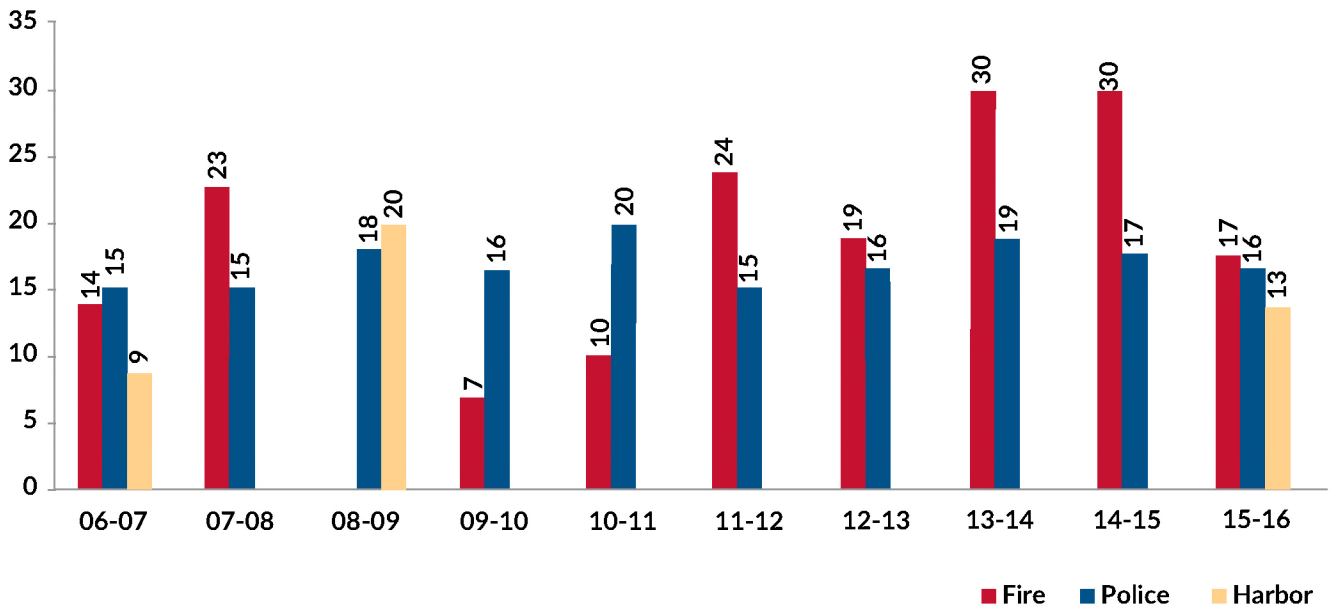
Data is based on the Board approval date.



**Average Age at Disability Retirement**



**Average Years of Service at Disability Retirement**



### Service-Connected Disability Pensions by Type and Department\*

Disability Pensions Granted	Fiscal Year 11-12			Fiscal Year 12-13			Fiscal Year 13-14			Fiscal Year 14-15			Fiscal Year 15-16			
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	HD	Total
Physical Only	4	7	11	3	7	10	1	10	11	1	4	5	2	10	1	13
Physical/ Psychiatric	0	1	1	2	1	3	0	1	1	0	0	0	0	2	0	2
Psychiatric Only	0	0	0	0	1	1	0	0	0	0	0	0	0	1	0	1
<b>Total</b>	<b>4</b>	<b>8</b>	<b>12</b>	<b>5</b>	<b>9</b>	<b>14</b>	<b>1</b>	<b>11</b>	<b>12</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>13</b>	<b>1</b>	<b>16</b>

Types of Claims**	Fiscal Year 11-12			Fiscal Year 12-13			Fiscal Year 13-14			Fiscal Year 14-15			Fiscal Year 15-16			
	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	Total	FD	PD	HD	Total
Back	3	6	9	4	5	9	1	6	7	1	3	4	1	4	0	5
Neck	1	2	3	2	0	2	1	5	6	1	2	3	0	5	1	6
Knees	2	2	4	2	2	4	1	1	2	0	1	1	1	3	0	4
Other Orthopedic	2	5	7	3	2	5	0	7	7	1	2	3	1	7	1	9
Cardiovascular	1	1	2	4	4	8	0	1	1	0	0	0	0	0	0	0
Ulcer	0	1	1	1	1	2	0	1	1	0	0	0	0	0	0	0
Hypertension	0	3	3	3	5	8	0	0	0	0	0	0	0	0	0	0
Pulmonary	0	1	1	1	0	1	0	0	0	0	0	0	0	1	0	1
Cancer	1	1	2	0	0	0	0	1	1	0	0	0	0	1	0	1
Gun Shot Wound	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
HIV/AIDS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1

\* Data is based on disability pensions approved by the Board during each fiscal year.

\*\* Total claims will not equal the total number of disability pensions granted due to multiple claimed disabilities.

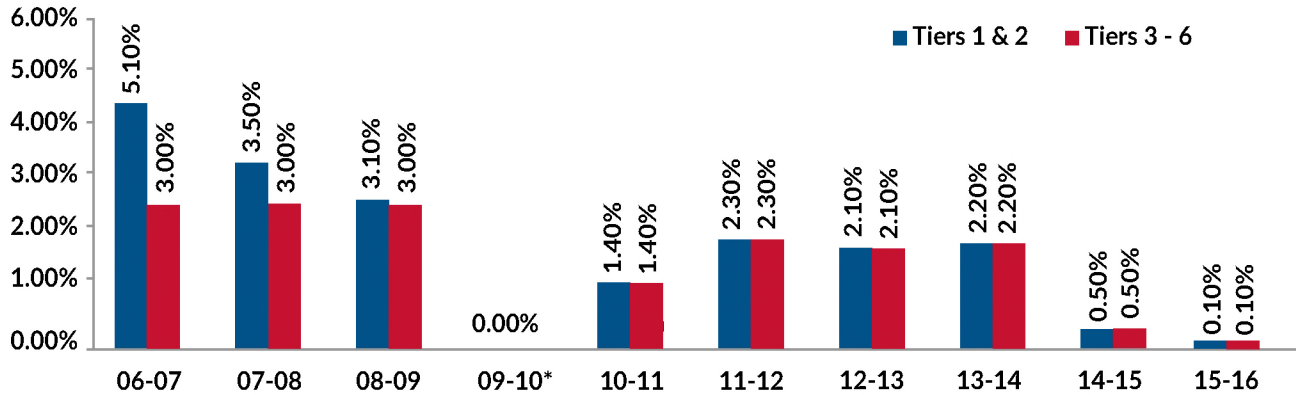
Service- and Nonservice-Connected Disability Pensions by Department and Rank\*

<b>Fire</b>	<b>Fiscal Year 11-12</b>	<b>Fiscal Year 12-13</b>	<b>Fiscal Year 13-14</b>	<b>Fiscal Year 14-15</b>	<b>Fiscal Year 15-16</b>
Firefighter	2	3	0	0	1
Apparatus Operator	0	0	1	0	1
Engineer	1	1	0	1	0
Inspector	0	0	0	0	0
Captain	1	1	0	0	0
Battalion Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
Deputy Chief	0	0	0	0	0
<b>Total</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>Police</b>	<b>Fiscal Year 11-12</b>	<b>Fiscal Year 12-13</b>	<b>Fiscal Year 13-14</b>	<b>Fiscal Year 14-15</b>	<b>Fiscal Year 15-16</b>
Police Officer	5	7	10	2	12
Sergeant	3	1	1	2	3
Detective	2	1	3	1	2
Lieutenant	0	0	0	0	0
Captain	0	0	0	0	0
Commander	0	0	0	0	0
Deputy Chief	0	0	0	0	0
Assistant Chief	0	0	0	0	0
<b>Total</b>	<b>10</b>	<b>9</b>	<b>14</b>	<b>5</b>	<b>17</b>
<b>Harbor</b>	<b>Fiscal Year 11-12</b>	<b>Fiscal Year 12-13</b>	<b>Fiscal Year 13-14</b>	<b>Fiscal Year 14-15</b>	<b>Fiscal Year 15-16</b>
Sergeant	0	0	0	0	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

\* Data is based on disability pensions approved by the Board during each fiscal year.

## Cost of Living Adjustments – Effective July 1

The size of any year's Cost of Living Adjustment (COLA) is based on the Los Angeles-Riverside-Orange County Area Consumer Price Index (CPI) for All Urban Consumers as published by the Bureau of Labor Statistics for the previous one-year period ending March 1. Tier 1 and 2 members have an uncapped COLA, while members in Tiers 3 – 6 have a 3 percent maximum COLA. However, Tier 5 and 6 members have a COLA bank to “store” amounts above the 3 percent cap.



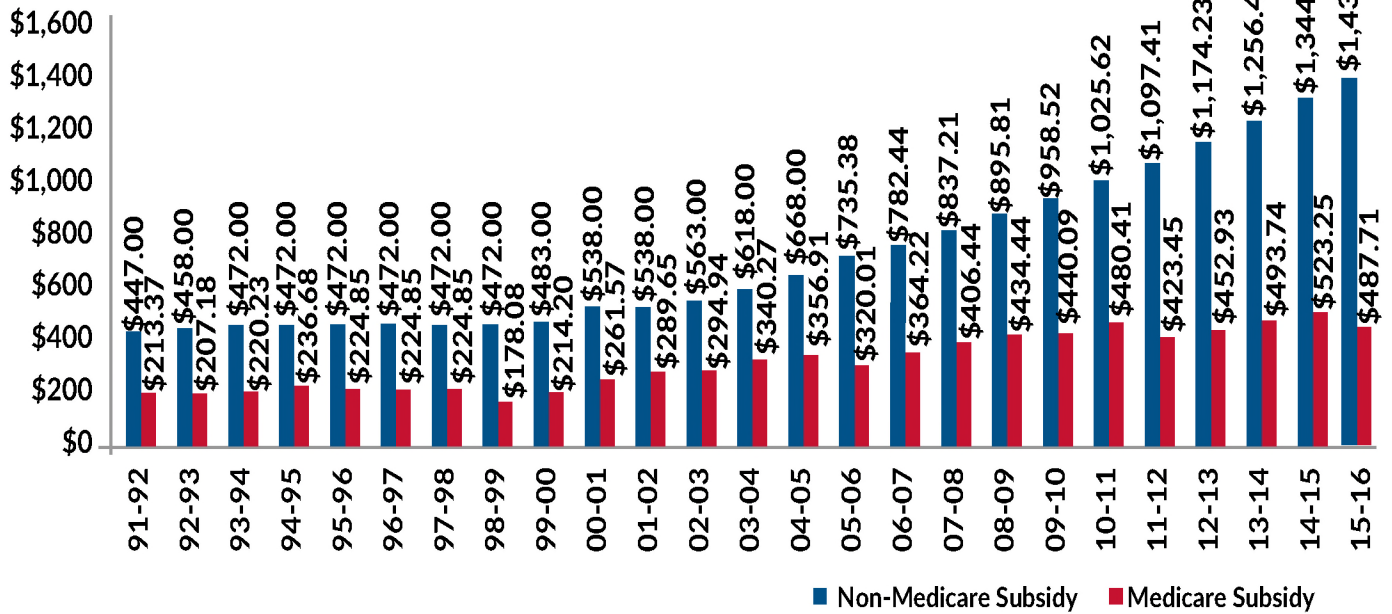
\* The CPI yielded a flat COLA for July 1, 2009. However, eligible Tier 5 pensioners, including Tier 5 DROP participants, received an increase of up to 3 percent, based on the accumulation in their COLA Bank.



## Maximum Health Insurance Premium Subsidy Benefit for Retired Members

In 1974, voters approved a Charter amendment to provide a health insurance premium subsidy benefit for pensioners. Effective July 1, 2005, the Los Angeles Administrative Code § 4.1154(e) grants the Board of Fire and Police Pension Commissioners the authority to raise the maximum non-Medicare health insurance premium subsidy for retired members on an annual basis. The Board may raise the subsidy up to the lesser of 7 percent or the approved actuarially assumed rate for medical inflation for pre-65 health benefits for the fiscal year. Per the City Charter, the subsidy was previously linked to the subsidy for active members and retired civilians.

The maximum Medicare health insurance premium subsidy for retired members is equivalent to the highest single-party Medicare plan premium offered by the Los Angeles City Employees' Retirement System.



## Member Outreach

One of the Plan's fundamental duties is to communicate benefits information to members and other stakeholders. Information is disseminated through written communications such as Summary Plan Descriptions (SPDs), benefits handbooks, newsletters, annual reports, and the Department's online resources (e.g., website, social media).

Staff also provides benefits education by phone, in-person counseling sessions, and by engaging in various outreach events with members and their beneficiaries. During the 2015-16 fiscal year, staff connected with approximately 2,115 members at 55 events. These events provide an opportunity to interact directly with members, help us determine what their needs are, and ultimately improve our services to them. A summary of the events conducted over the last two fiscal years is provided below.

Outreach Events	Fiscal Year 14-15		Fiscal Year 15-16	
	Number of Events	Members Reached	Number of Events	Members Reached
<b>New Recruit Talks</b> Staff develops and conducts a presentation specific for new hires of the Fire, Police, and Harbor Departments.	11	273	17	599
<b>Benefits Presentations</b> Staff conducts an hour-long benefits presentation at fire stations, roll-calls, and training days for members in various tiers and/or stages of their careers.	7	129	2	15
<b>Financial Planning Education Seminars</b> Together with the Financial Planning Education Consultant, staff holds full-day seminars to assist members at specific stages of retirement planning with their total financial plan.	11	458	15	666
<b>Other Outreach Events</b> Staff participates at various outreach events sponsored by the sworn departments and associations for active and retired members.	21	1,045	21	835
<b>Total</b>	<b>50</b>	<b>1,905</b>	<b>55</b>	<b>2,115</b>

# Financial

This section provides historical perspective, context, and detail to assist in utilizing the Financial Statements, Notes to the Financial Statements, and Required Supplementary Information to understand and assess the System’s economic condition.

The statistical information provided here is divided into two main categories: Financial Trends Information and Operating Information.

Financial Trends Information is intended to assist readers in understanding how the System’s financial position has changed over time. The “Changes in Fiduciary Net Position – Pension Plan” and “Changes in Fiduciary Net Position – Health Subsidy Plan” present additions by source, deductions by type, and the total change in fiduciary net position for the last ten fiscal years. The “Pension Benefit Expenses by Type” presents a ten-year history of the total benefit amounts for service, disability, and survivor pensioners.

Operating Information is intended to provide contextual information about the System’s operations and membership, and to assist readers in using financial statement information to understand and evaluate the System’s fiscal condition. “Retired Members by Type of Pension Benefit” and the “Retired Members by Type of Health Subsidy Benefit” present the dollar levels for each benefit as of June 30, 2016.



CLOCKWISE FROM TOP LEFT: DAVID MARK; MADRID H.K. STUART; QUEST; SMITH; FALKENPOST

## Financial Trends Information

Schedule of Additions by Source – Pension Plan (in thousands)						
Fiscal Year	Employer Contributions		Member Contributions	Net Investment Income (Loss)*	Other Income (Loss)	Total (\$)
	Dollars	% of Annual Covered Payroll				
06-07	\$ 224,946	20%	\$ 91,264	\$2,335,362	\$ 2,291	2,653,863
07-08	261,636	22%	98,074	(730,673)	2,709	(368,254)
08-09	238,698	19%	103,685	(2,808,259)	3,962	(2,461,914)
09-10	250,517	20%	106,480	1,449,498	1,545	1,808,040
10-11	277,092	21%	105,535	2,538,155	2,124	2,922,906
11-12	321,593	27%	120,099	225,458	1,877	669,027
12-13	375,448	29%	121,778	1,705,251	2,525	2,205,002
13-14	440,698	34%	124,395	2,626,144	2,899	3,194,136
14-15	480,332	36%	126,771	669,668	4,849	1,281,620
15-16	478,385	35%	129,734	156,205	3,108	767,432

\* Includes change in unrealized gain and loss of investment.

Schedule of Deductions by Type – Pension Plan (in thousands)				
Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total
06-07	\$ 733,810	\$ 4,793	\$ 11,044	\$ 749,647
07-08	754,312	2,768	11,801	768,881
08-09	762,205	2,858	12,675	777,738
09-10	768,114	2,946	12,824	783,884
10-11	786,861	3,145	12,662	802,668
11-12	831,191	1,338	13,611	846,140
12-13	856,237	3,267	12,200	871,704
13-14	856,036	2,950	13,865	872,851
14-15	915,163	3,746	17,814	936,723
15-16	987,296	3,067	19,347	1,009,710

**Schedule of Additions by Source – Health Subsidy Plan  
(in thousands)**

Fiscal Year	Employer Contributions		Net Investment Income (Loss)*	Other Income (Loss)	Total
	Dollars	% of Annual Covered Payroll			
06-07	\$ 55,163	5%	\$ 123,932	\$ 122	\$ 179,217
07-08	78,257	7%	(35,454)	132	42,935
08-09	88,179	7%	(152,315)	215	(63,921)
09-10	106,648	8%	83,310	89	190,047
10-11	111,681	9%	156,461	131	268,273
11-12	122,972	10%	14,690	122	137,784
12-13	132,939	10%	118,124	175	251,238
13-14	138,107	11%	192,600	212	330,919
14-15	148,477	11%	51,291	371	200,139
15-16	150,315	11%	12,522	249	163,086

\* Includes change in unrealized gain and loss of investment.

**Schedule of Deductions by Type – Health Subsidy Plan  
(in thousands)**

Fiscal Year	Benefit Payments	Administrative Expenses	Total
06-07	\$ 62,216	\$ 586	\$ 62,802
07-08	70,879	573	71,452
08-09	77,502	687	78,189
09-10	82,911	737	83,648
10-11	89,271	781	90,052
11-12	93,536	887	94,423
12-13	98,306	845	99,151
13-14	104,371	1,017	105,388
14-15	110,411	1,364	111,775
15-16	116,678	1,551	118,229

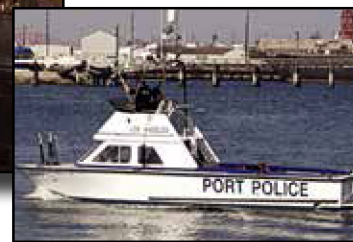
**Changes in Plan Net Position – Pension Plan  
(in thousands)**

	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
<b>Additions:</b>										
Employer Contributions	\$ 224,946	\$ 261,636	\$ 238,698	\$ 250,517	\$ 277,092	\$ 321,593	\$ 375,448	\$ 440,698	\$ 480,332	\$478,385
Member Contributions	91,264	98,074	103,685	106,480	105,535	120,099	121,778	124,395	126,771	129,734
Net Investment Income (Loss)	2,335,362	(730,673)	(2,808,259)	1,449,498	2,538,155	225,458	1,705,251	2,626,144	669,668	156,205
Other Income (Loss)	2,291	2,709	3,962	1,545	2,124	1,877	2,525	2,899	4,849	3,108
<b>Total Additions</b>	<b>2,653,863</b>	<b>(368,254)</b>	<b>(2,461,914)</b>	<b>1,808,040</b>	<b>2,922,906</b>	<b>669,027</b>	<b>2,205,002</b>	<b>3,194,136</b>	<b>1,281,620</b>	<b>767,432</b>

<b>Deductions:</b>										
Benefit Payments	733,810	754,312	762,205	768,114	786,861	831,191	856,237	856,036	915,163	987,296
Refunds of Contributions	4,793	2,768	2,858	2,946	3,145	1,338	3,267	2,950	3,746	3,067
Administrative Expenses	11,044	11,801	12,675	12,824	12,662	13,611	12,200	13,865	17,814	19,347
<b>Total Deductions</b>	<b>749,647</b>	<b>768,881</b>	<b>777,738</b>	<b>783,884</b>	<b>802,668</b>	<b>846,140</b>	<b>871,704</b>	<b>872,851</b>	<b>936,723</b>	<b>1,009,710</b>
<b>Changes in Plan Net Position</b>	<b>\$1,904,216</b>	<b>\$(1,137,135)</b>	<b>\$(3,239,652)</b>	<b>\$1,024,156</b>	<b>2,120,238</b>	<b>\$(177,113)</b>	<b>\$1,333,298</b>	<b>\$2,321,285</b>	<b>\$ 344,897</b>	<b>\$(242,278)</b>



PORT OF LOS ANGELES: WIRRALWATER/FICKR



PRAYITNO HADINATA/FICKR

**Changes in Plan Net Position – Health Subsidy Plan  
(in thousands)**

	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
<b>Additions:</b>										
Employer Contributions	\$ 55,163	\$ 78,257	\$ 88,179	\$ 106,648	\$ 111,681	\$ 122,972	\$ 132,939	\$ 138,107	\$148,477	\$150,315
Net Investment Income (Loss)	123,932	(35,454)	(152,315)	83,310	156,461	14,690	118,124	192,600	51,291	12,522
Other Income (Loss)	122	132	215	89	131	122	175	212	371	249
<b>Total Additions</b>	<b>179,217</b>	<b>42,935</b>	<b>(63,921)</b>	<b>190,047</b>	<b>268,273</b>	<b>137,784</b>	<b>251,238</b>	<b>330,919</b>	<b>200,139</b>	<b>163,086</b>

<b>Deductions:</b>										
Benefit Payments	62,216	70,879	77,502	82,911	89,271	93,536	98,306	104,371	110,411	116,678
Administrative Expenses	586	573	687	737	781	887	845	1,017	1,364	1,551
<b>Total Deductions</b>	<b>62,802</b>	<b>71,452</b>	<b>78,189</b>	<b>83,648</b>	<b>90,052</b>	<b>94,423</b>	<b>99,151</b>	<b>105,388</b>	<b>111,775</b>	<b>118,229</b>
<b>Changes in Plan Net Position</b>	<b>\$ 116,415</b>	<b>\$ (28,517)</b>	<b>\$(142,110)</b>	<b>\$106,399</b>	<b>\$178,221</b>	<b>\$ 43,361</b>	<b>\$152,087</b>	<b>\$225,531</b>	<b>\$ 88,364</b>	<b>\$ 44,857</b>

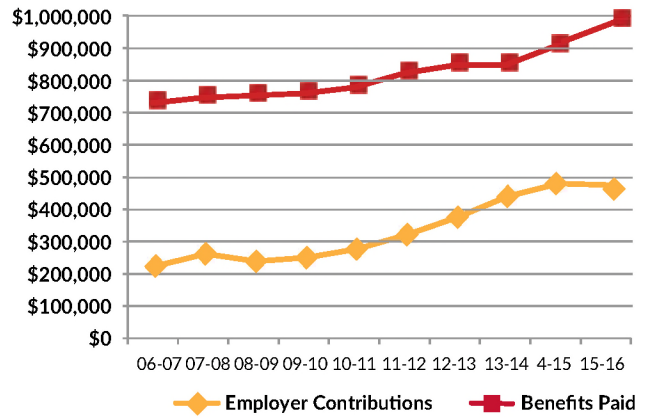


Schedule of Benefit Expenses by Type – Pension Plan (in thousands)										
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Type of Benefit										
Service/ DROP	\$ 525,838	\$ 538,891	\$ 539,177	\$ 547,254	\$ 563,023	\$ 604,220	\$ 625,443	\$ 620,845	\$ 681,484	\$ 755,237
Disability	112,641	115,348	118,182	115,811	115,960	116,390	117,217	117,601	114,429	112,097
Surviving Spouse	93,511	98,143	102,836	102,734	105,633	108,774	111,722	115,726	116,935	117,554
Minors	1,820	1,930	2,010	2,314	2,245	1,807	1,855	1,864	2,315	2,408
<b>Total Benefits Paid</b>	<b>\$ 738,603</b>	<b>\$ 754,312</b>	<b>\$ 762,205</b>	<b>\$ 768,113</b>	<b>\$ 786,861</b>	<b>\$ 831,191</b>	<b>\$ 856,237</b>	<b>\$ 856,036</b>	<b>\$ 915,163</b>	<b>\$ 987,296</b>

Schedule of Benefit Expenses by Type – Health Subsidy Plan (in thousands)										
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Type of Benefit										
Medicare	\$ 6,258	\$ 6,796	\$ 7,153	\$ 7,497	\$ 7,871	\$ 8,232	\$ 8,855	\$ 9,295	\$ 9,477	\$ 9,614
Health Subsidy	53,079	60,737	66,742	71,765	77,509	81,030	84,870	90,462	96,198	102,172
Dental Subsidy	2,270	2,605	2,742	2,734	2,839	3,236	3,591	3,631	3,729	3,861
Health Insurance Reimbursement	609	741	865	954	1,052	1,039	990	983	1,006	1,031
<b>Total Benefits Paid</b>	<b>\$ 62,216</b>	<b>\$ 70,879</b>	<b>\$ 77,502</b>	<b>\$ 82,950</b>	<b>\$ 89,271</b>	<b>\$ 93,537</b>	<b>\$ 98,306</b>	<b>\$ 104,371</b>	<b>\$ 110,410</b>	<b>\$116,678</b>

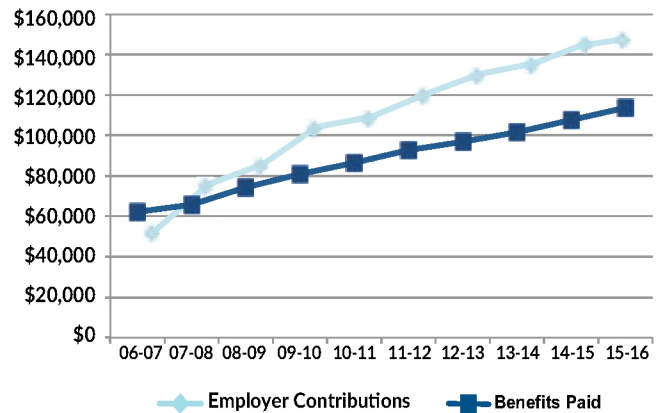
**Employer Contributions vs. Benefits Paid – Pension Plan**  
(in thousands)

Fiscal Year	Employer Contributions	Benefits Paid
06-07	\$ 224,946	\$ 738,801
07-08	261,636	754,312
08-09	238,698	762,205
09-10	250,517	768,113
10-11	277,092	786,861
11-12	321,593	831,191
12-13	375,448	856,237
13-14	440,698	856,036
14-15	480,332	915,163
15-16	478,385	987,296



**Employer Contributions vs. Benefits Paid – Health Subsidy Plan**  
(in thousands)

Fiscal Year	Employer Contributions	Benefits Paid
06-07	\$ 55,163	\$ 62,216
07-08	78,257	70,879
08-09	88,179	77,502
09-10	106,648	82,950
10-11	111,681	89,271
11-12	122,972	93,537
12-13	132,939	98,306
13-14	138,107	104,371
14-15	148,477	110,411
15-16	150,315	116,678



# Operating Information

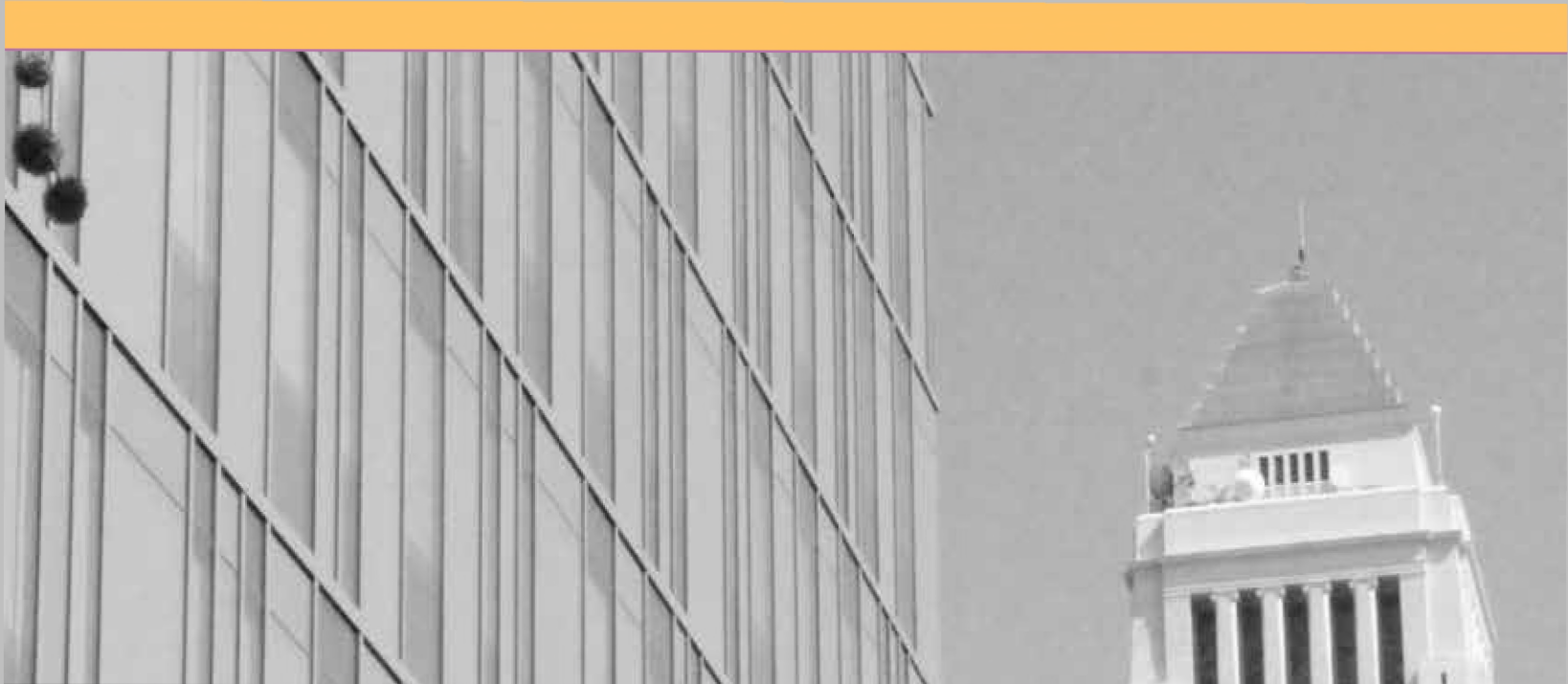
Schedule of Retired Membership by Type of Benefits – Pension Plan				
Monthly Benefit	Type of Benefits			
	Number of Pensioners	Service	Disability	Survivor
\$ 1 to \$ 1,000	24	4	0	20
1,001 to 2,000	165	84	26	55
2,001 to 3,000	1,481	724	174	583
3,001 to 4,000	1,594	746	484	364
4,001 to 5,000	2,289	958	580	751
5,001 to 6,000	2,452	1,643	354	455
6,001 to 7,000	1,943	1,657	202	84
7,001 to 8,000	1,463	1,296	107	60
8,001 to 9,000	714	660	25	29
9,001 to 10,000	359	340	12	7
Over \$10,000	335	302	19	14
<b>Total</b>	<b>12,819</b>	<b>8,414</b>	<b>1,983</b>	<b>2,422</b>

Schedule of Retired Membership by Type of Benefits – Health Subsidy Plan				
Monthly Benefit	Type of Benefits			
	Number of Pensioners	Service	Disability	Survivor
<b>Health:</b>				
Not receiving subsidy	2,368	931	693	744
\$ 1 to \$ 200	99	41	27	31
201 to 400	722	247	169	306
401 to 600	3,147	1,616	307	1,224
601 to 800	1,467	966	384	117
801 to 1,000	880	765	115	0
1,001 to 1,200	1,989	1,792	197	0
1,201 to 1,300	586	545	41	0
1,301 to 1,535.59*	1,561	1,511	50	0
<b>Total</b>	<b>12,819</b>	<b>8,414</b>	<b>1,983</b>	<b>2,422</b>

<b>Dental:</b>				
Not receiving subsidy	2,436	1,557	879	
\$ 1 to \$ 10	0	0	0	
11 to 20	118	15	103	
21 to 30	409	183	226	
31 to 43.24**	7,434	6,659	775	
<b>Total</b>	<b>10,397</b>	<b>8,414</b>	<b>1,983</b>	

\* Maximum health subsidy effective July 1, 2016.

\*\* Maximum dental subsidy for Plan year 2016.



PENDING LITIGATION

PART SEVEN  
**LEGAL**





## LEGAL

Under City Attorney Mike Feuer, the Retirement Benefits Division of the Los Angeles City Attorney's Office, led by Managing Assistant City Attorney Alan Manning, along with Deputy City Attorneys John Blair, Anya Freedman, Joshua Geller, and Jim Napier, and assisted by Legal Secretary Julie Cruz, provided day-to-day assistance on legal issues affecting the Department and the members and beneficiaries of the Plan.

As legal counsel to the Board of Fire and Police Pension Commissioners and the Department, the City Attorney's Office provided advice on a variety of subjects ranging from Brown Act issues and public record requests, to pension benefit and Deferred Retirement Option Plan (DROP) issues, compliance with tax regulations, state and municipal ethics laws and regulations, legal review of investments, and disability pension applications. The City Attorney's Office also represented the Department in Superior Court cases.

Additionally, the City Attorney's Office assisted members and their beneficiaries in understanding the effects of dissolution proceedings on pension and DROP benefits, and provided representation for the Board and the Department in all legal matters.

Outside counsel are called upon to assist the City Attorney's Office in providing the Department with advice and representation in specialized areas, such as federal and state tax regulations, legal review of investments, and fiduciary law, as well as occasional representation in litigation.

The City Attorney's Office also provides legal counsel to the Boards of the Los Angeles City Employees' Retirement System and the Water and Power Employees' Retirement Plan.

### Pending Litigation

Litigation continued in 2015-16 concerning the validity and meaning of the City's 2011 ordinance which "froze" the retiree health insurance premium subsidies at 2011 levels for certain members and their beneficiaries. The litigation also challenges the City's requirement of an additional 2 percent payroll contribution from active members who wished to be exempted from the freeze upon retirement.

*The Fry, et al. v. City of Los Angeles* case continued through 2016. This litigation questions the constitutionality of the City's "freeze ordinance." On July 28, 2014, Los Angeles County Superior Court Judge Joanne O'Donnell ruled that

the petitioning members have a vested right to a "non-frozen" health subsidy in retirement.



On September 5, 2014, the Court issued a Writ ordering the Plan to begin providing the current "non-frozen" subsidy to pensioners who were previously impacted by the freeze.

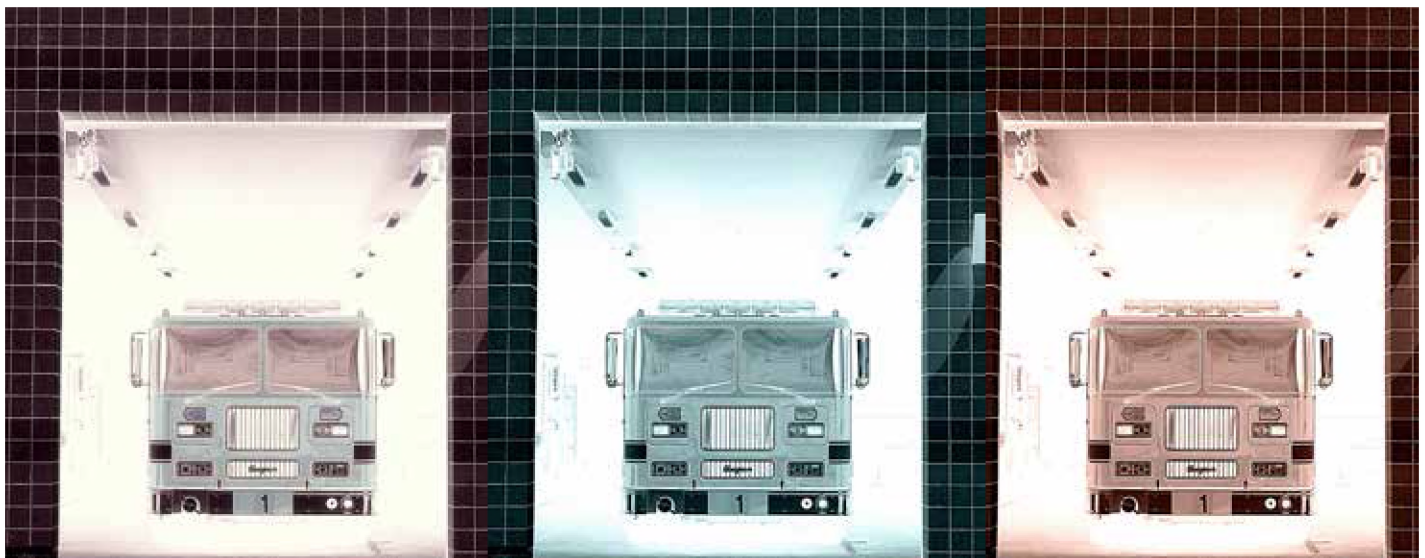
The Plan obeyed the Writ and reinstated the full subsidies shortly thereafter. In response, on October 29, 2014, the City filed a Notice of Appeal and asked the Second District Court of Appeal to stay the effect of the Writ; the appellate court granted the stay request on November 12, 2014, effective immediately. As a result of the stay, the Plan was required to reinstate “frozen” subsidies for present and future pensioners who are impacted by the City’s “freeze ordinance.”

On March 7, 2016, the California Second District Court of Appeal reversed the September 5, 2014 Writ of Mandate. The Court of Appeal agreed with the City’s position that there was not a vested right to a LAFPP Board-determined subsidy. The Court of Appeal found that the City Council continues to retain the final authority over the subsidy even while delegating to the LAFPP Board the ability to determine the subsidy increases. Based on this latest ruling, LAFPP will continue to provide a frozen subsidy to current and future pensioners (i.e., those who retire on or after July 15, 2011) who chose not to “opt-in” to contribute an additional 2 percent of their salary.

The plaintiffs filed a petition for rehearing which was denied by the Second Appellate Court on March 25, 2016. In April 2016, the plaintiffs filed a Petition for Review with the California Supreme Court, which was later denied in June 2016. The matter has been remanded to the trial court to resolve the remaining issues in accordance with the Court of Appeal’s opinion. The case is currently set for trial on September 14, 2017, with a mandatory settlement conference to be completed by February 23, 2017.

A second action filed by the Los Angeles Police Protective League and the United Firefighters of Los Angeles City also progressed through 2016. This litigation questions the intent of the Letters of Agreement that were entered between the City and the unions regarding the 2 percent member contributions and the scope of the Board’s continuing discretion to set the health subsidy increase each year for members who agreed to make the additional contributions. The Superior Court originally dismissed the action on February 11, 2013; the petitioners filed an appeal of the dismissal order on March 14, 2013. On June 24, 2014, the Second District Court of Appeal vacated the Superior Court’s judgment of dismissal, finding that there was an actual controversy between the parties that required a ruling on the merits. The action was remanded to the Superior Court for further proceedings. On November 1, 2016, the Superior Court granted declaratory relief in favor of the plaintiffs, ruling that affected employees possess a vested right to receive from the Plan the health subsidy in effect as of the effective date of the Letter of Agreement and annual health subsidy increases equal to the lesser of the medical trend rate or 7% without the Board discretion to set the subsidy any lower. Prior to the ruling, the Plan was dismissed from the lawsuit but agreed to be bound by the final judgment of the courts. Currently, the City is reviewing the judgment. As of this writing, it is not known if the City will appeal and the judgment is not yet final.

Neither action seeks monetary relief from the System.





FIRE AND POLICE PENSION PLANS

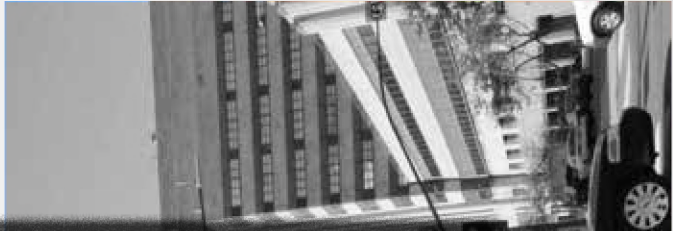
PENSION BENEFIT PROVISIONS

MISCELLANEOUS BENEFIT PROVISIONS

HEALTH AND DENTAL INSURANCE PREMIUM SUBSIDY

# PART EIGHT PLAN PROVISIONS





# FIRE AND POLICE PENSION PLANS

**Tier 1**  
(Formerly Article XVII)  
July 1, 1925 – January 28, 1967

**Tier 3**  
(Formerly Article XXXV, Plan 1)  
December 8, 1980 – June 30, 1997

**Tier 5**  
January 1, 2002 – June 30, 2011

**Tier 2**  
(Formerly Article XVIII)  
January 29, 1967 – December 7, 1980

**Tier 4**  
(Formerly Article XXXV, Plan 2)  
July 1, 1997 – December 31, 2001

**Tier 6**  
Effective July 1, 2011

Pension Benefit Provisions					
	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>1. Service Retirement</b>					
a. Eligibility	20 years of service		<b>Tier 3:</b> Age 50 with 10 years of service <b>Tier 4:</b> 20 years of service	Age 50 with 20 years of service	
b. Salary Base	Normal Pension Base (Final monthly salary rate)		Final Average Salary (One-year average monthly salary)		Final Average Salary (Two-year average monthly salary)
c. Pension As a Percentage of Salary Base	40% at 20 years of service, plus 2% for each additional year up to 25 years of service, plus 1-2/3% for each additional year between 25 and 35 years of service  Maximum of 66-2/3% for 35 or more years of service	40% at 20 years of service, plus 2% for each additional year up to 25 years of service. 55% at 25 years of service, plus 3% for each additional year between 25 and 30 years of service  Maximum of 70% for 30 or more years of service	2% per year of service up to 20 years of service, plus 3% for each additional year of service up to 30 years of service  Maximum of 70% for 30 or more years of service	50% at 20 years of service, plus 3% for each additional year (except 4% at 30 years of service)  Maximum of 90% for 33 or more years of service	40% at 20 years of service, plus 3% per year for years 21 through 25, 4% per year for years 26 through 30, and 5% per year for years 31 through 33  Maximum of 90% for 33 or more years of service
<b>2. Service-Connected Disability</b>					
a. Eligibility	Work related No age or service requirements				
b. Salary Base	Normal Pension Base (Final monthly salary rate)		Final Average Salary (One-year average monthly salary)		Final Average Salary (Two-year average monthly salary)
c. Pension As a Percentage of Salary Base	50% to 90% depending on severity of disability, with a minimum of member's Service Pension percentage rate		30% to 90% depending on severity of disability, with a minimum pension equal to the greater of 2% per year of service or 30%		
<b>3. Nonservice-Connected Disability</b>					
a. Eligibility	Not work related Five years of service				
b. Salary Base	Nonservice-Connected Pension Base (Highest monthly salary as of member's retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)		Final Average Salary (One-year average monthly salary)		Final Average Salary (Two-year average monthly salary)
c. Pension As a Percentage of Salary Base	40%		30% to 50% depending on severity of disability		

## Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>4. Service-Connected Death or Death After Service-Connected Disability</b>					
a. Eligibility	Work related No age or service requirements				
b. Salary Base	Normal Pension Base (Final monthly salary rate)		Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) Except as noted for former Tier 2 members	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit As a Percentage of Member's Salary Base	50% of Normal Pension Base	50% of Normal Pension Base  OR  55% of Normal Pension Base with 25 years of service	<b>SERVICE-CONNECTED DEATH</b> 75% of Final Average Salary  <b>DEATH AFTER SERVICE-CONNECTED DISABILITY</b> 75% of Final Average Salary if the death is due to service-connected cause(s) and occurs within 3 years after the effective date of the Service-Connected Disability Pension  Otherwise, 60% of the member's Service-Connected Disability Pension	<b>SERVICE-CONNECTED DEATH</b> <b>Former Tier 2:</b> 75% of Normal Pension Base <b>All Other Tier 5:</b> 75% of Final Average Salary  <b>DEATH AFTER SERVICE-CONNECTED DISABILITY</b> <b>Former Tier 2:</b> Same benefit as Tier 2 <b>All Other Tier 5:</b> 75% of Final Average Salary if the death is due to service-connected cause(s) and occurs within 3 years after the effective date of the Service-Connected Disability Pension  Otherwise, 60% of the member's Service-Connected Disability Pension	<b>SERVICE-CONNECTED DEATH</b> 80% of Final Average Salary  <b>DEATH AFTER SERVICE-CONNECTED DISABILITY</b> 80% of Final Average Salary if the death is due to service-connected cause(s) and occurs within 3 years after the effective date of the Service-Connected Disability Pension  Otherwise, 80% of the member's Service-Connected Disability Pension
d. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive  Otherwise: • 25% for one child • 40% for two children • 50% for three or more children  Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive  Otherwise: • 25% for one child • 40% for two children • 50% for three or more children  Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive  Otherwise: • 25% for one child • 40% for two children • 50% for three or more children  Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21		

## Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>4. Service-Connected Death or Death After Service-Connected Disability (continued)</b>					
e. Eligible Dependent Parent's Benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			
<b>5. Death While Eligible to Receive a Service Pension on Account of Years of Service</b>					
a. Eligibility	20 years of service		<b>Tier 3:</b> 10 years of service <b>Tier 4:</b> 20 years of service	20 years of service	
b. Salary Base	Normal Pension Base (Final monthly salary rate)		Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) Except as noted for former Tier 2 members	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit As a Percentage of Member's Salary Base	100% of accrued service retirement the member would have received, not to exceed 50% of Normal Pension Base	100% of accrued service retirement the member would have received, not to exceed 55% of Normal Pension Base	80% of service retirement the member would have received, not to exceed 40% of Final Average Salary	<b>Former Tier 2:</b> Same benefit as Tier 2  <b>All Other Tier 5:</b> 40% of Final Average Salary	50% of Final Average Salary
d. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive  Otherwise: <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive  Otherwise: <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive  Otherwise: <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21		

## Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>5. Death While Eligible to Receive a Service Pension on Account of Years of Service (continued)</b>					
e. Eligible Dependent Parent's Benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			
<b>6. Death After Service Retirement</b>					
a. Eligibility	Member was receiving a Service Pension				
b. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	Same as the member's pension percentage, not to exceed 50% of the member's Normal Pension Base	Same as the member's pension percentage, not to exceed 55% of the member's Normal Pension Base	60% of the member's pension benefit	<b>Former Tier 2:</b> Same benefit as Tier 2  <b>All Other Tier 5:</b> 60% of the member's pension benefit	70% of the member's pension benefit
c. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive  Otherwise: <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive  Otherwise: <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> Pension not payable after child reaches age 18 unless child is disabled before age 21	If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive  Otherwise: <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21		
d. Eligible Dependent Parent's Benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			

## Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>7. Nonservice-Connected Death or Death After Nonservice-Connected Disability</b>					
a. Eligibility	Five years of service				
b. Salary Base	Nonservice-Connected Pension Base (Highest monthly salary as of member's death or retirement for basic rank of Firefighter III or Police Officer III, and the highest length of service pay)		Final Average Salary (One-year average monthly salary)	Final Average Salary (One-year average monthly salary) <i>Except as noted for former Tier 2 members</i>	Final Average Salary (Two-year average monthly salary)
c. Eligible Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit As a Percentage of Member's Salary Base	40% of the member's Nonservice-Connected Pension Base		<p><b>NONSERVICE-CONNECTED DEATH</b></p> <p>30% of Final Average Salary or, if eligible to retire based on years of service, 80% of the pension the member would have received, not to exceed 40% of Final Average Salary</p> <p><b>DEATH AFTER NONSERVICE-CONNECTED DISABILITY</b></p> <p>60% of the member's pension benefit</p>	<p><b>NONSERVICE-CONNECTED DEATH</b></p> <p><b>Former Tier 2:</b> Same benefit as Tier 2</p> <p><b>All Other Tier 5:</b> 30% of Final Average Salary or, if eligible to retire based on years of service, 40% of Final Average Salary</p> <p><b>DEATH AFTER NONSERVICE-CONNECTED DISABILITY</b></p> <p><b>Former Tier 2:</b> Same benefit as Tier 2</p> <p><b>All Other Tier 5:</b> 60% of the member's pension benefit</p>	<p><b>NONSERVICE-CONNECTED DEATH</b></p> <p>50% of Final Average Salary</p> <p><b>Note:</b> If the member's death occurs while on military leave and is a result of his/her military duties, 50% of Final Average Salary</p> <p><b>DEATH AFTER NONSERVICE-CONNECTED DISABILITY</b></p> <p>70% of the member's pension benefit</p>
d. Eligible Children's Benefit As a Percentage of Qualified Surviving Spouse's (QSS) or Qualified Surviving Domestic Partner's (QSDP) Benefit	<p>If no QSS, the eligible children will receive a monthly pension equal to the pension the QSS would have been eligible to receive</p> <p>Otherwise:</p> <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>Otherwise:</p> <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> <p>Pension not payable after child reaches age 18 unless child is disabled before age 21</p>	<p>If no QSS/QSDP, the eligible children will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive</p> <p>Otherwise:</p> <ul style="list-style-type: none"> <li>• 25% for one child</li> <li>• 40% for two children</li> <li>• 50% for three or more children</li> </ul> <p>Pension not payable after child reaches age 18 (age 22 if in school full time) unless child is disabled before age 21</p>		

## Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>7. Nonservice-Connected Death or Death After Nonservice-Connected Disability (continued)</b>					
e. Eligible Dependent Parent's Benefit	If no QSS or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS would have been eligible to receive	If no QSS/QSDP or eligible children, the eligible dependent parent will receive a monthly pension equal to the pension the QSS/QSDP would have been eligible to receive			
<b>8. Cost of Living Adjustments (COLA)</b>					
a. Generally Applicable Provisions	Full annual COLA increase or decrease COLAs compound and are based upon the Consumer Price Index for local urban consumers  Survivors' pension includes the percentage of COLAs applied to the member's pension prior to death	Annual COLA increase or decrease up to 3%  COLAs compound and are based upon the Consumer Price Index for local urban consumers  Pro rata adjustment in the first year of retirement  City Council may grant discretionary COLA increases once every three years  Survivor's pension includes the percentage of COLAs applied to the member's pension prior to death	Annual COLA increase or decrease up to 3%  COLAs compound and are based upon the Consumer Price Index for local urban consumers  Pro rata adjustment in the first year of retirement  City Council may grant discretionary COLA increases once every three years  Survivor's pension includes the percentage of COLAs applied to the member's pension prior to death	Annual COLA increase or decrease not to exceed 3%  Amounts above 3% are banked to be credited during years when the Consumer Price Index is below 3%  COLAs compound and are based upon the Consumer Price Index for local urban consumers  Pro rata adjustment in the first year of retirement  City Council may grant discretionary COLA increases once every three years - member's COLA Bank is reduced  Survivor's pension includes the percentage of COLAs applied to the member's pension prior to death	
b. Effective Date of COLA:					
i. Service Retirement	Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have been age 55	Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service	Annual adjustments commence on the July 1 following the effective date		
ii. Service-Connected Disability, Service-Connected Death	Annual adjustments commence on the July 1 following the effective date				

## Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>8. Cost of Living Adjustments (COLA) (continued)</b>					
iii. Nonservice-Connected Disability, Death After Nonservice-Connected Disability	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier	Annual adjustments commence on the July 1 following the date the member would have completed 25 years of service or 5 years after the effective date of the member's pension, if earlier	Annual adjustments commence on the July 1 following the effective date		
iv. Nonservice-Connected Death	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier	<p>While Eligible for Service Retirement - Annual adjustments commence on the July 1 following the later of the effective date or the date the member would have completed 25 years of service</p> <p>While Not Eligible for Service Retirement - Annual adjustments commence on the July 1 following the date the member would have completed 26 years of service or 5 years after the effective date of the survivor's pension, if earlier</p>	Annual adjustments commence on the July 1 following the effective date		
v. Death After Service-Connected Disability	Annual adjustments commence on the July 1 following the date the member would have been age 55 or 5 years after the effective date of the pension, if earlier	Annual adjustments commence on the July 1 following the effective date			
<b>9. Member Contributions As a Percentage of Pay</b>					
	6% No member contributions required after 30 years of service	6% plus 1/2 cost of cost-of-living benefit up to 1% No member contributions required after 30 years of service	8% No member contributions required after 30 years of service	9% City pays 1% of the 9% if the Plan is at least 100% actuarially funded for pension benefits No member contributions required after 33 years of service	11% 2% of the 11% supports the funding of the retiree health subsidy benefits. This portion will cease once the member attains 25 years of service No member contributions required after 33 years of service

## Pension Benefit Provisions (continued)

	Tier 1	Tier 2	Tiers 3 and 4	Tier 5	Tier 6
<b>10. Qualified Survivors</b>					
a. Qualified Surviving Spouse (QSS) or Qualified Surviving Domestic Partner (QSDP) Eligibility Requirements:	i. Nonservice-Connected Death		Married to spouse at least one year prior to the date of the nonservice-connected death and as of the date of death		
	ii. Service-Connected Death		Married to spouse or declared/registered domestic partner at least one year prior to the date of the nonservice-connected death and as of the date of death		
	iii. Death After Service Retirement		Married to spouse or declared/registered domestic partner as of the date of the service-connected death		
	iv. Death After Nonservice-Connected Disability		Married to spouse or declared/registered domestic partner at least one year prior to the effective date of the Service Pension and as of the date of death		
	v. Death After Service-Connected Disability		Married to spouse or declared/registered domestic partner at least one year prior to the effective date of the Nonservice-Connected Disability Pension and as of the date of death		
	vi. Death After Service-Connected Disability		Married to spouse or declared/registered domestic partner as of the effective date of the Service-Connected Disability Pension and as of the date of death		
b. Minor Child Eligibility Requirements	Legitimate or adopted child of the deceased member, until age 18 or marries, whichever occurs first		Child or adopted child of the deceased member, until age 18 (22 if in school full time) or marries, whichever occurs first		
c. Dependent Child Eligibility Requirements	Legitimate or adopted child of the deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood		Child of the deceased member who, prior to turning age 21, became mentally or physically disabled and cannot earn a livelihood		
d. Dependent Parent Eligibility Requirements	Natural parent of the deceased member who had at least one-half of his/her necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay his/her necessary living expenses without the pension		Parent of the deceased member who had at least one-half of his/her necessary living expenses provided by the member for at least one year prior to the member's death and is unable to pay his/her necessary living expenses without the pension		

## Miscellaneous Benefit Provisions

### 11. Basic Death Benefit

#### Applicable to Tiers 3 - 6

Beneficiary receives a refund of contributions with interest. In addition, if the member had at least one year of service, the Qualified Survivor receives a limited pension payable in monthly installments as follows: for each year of service completed by the member, the Qualified Survivor receives two payments equal to one-half of the member's Final Average Salary, not to exceed 12 monthly payments for six or more years of service.

### 12. Deferred Pension Option

#### Applicable to Tiers 3, 5, and 6

Tier 3: Upon termination, the member can elect the Deferred Pension option if he/she has at least 10 years of service and leaves his/her contributions in the Fund. At age 50, the member is entitled to receive a Service Pension.

Tiers 5 and 6: Upon termination, the member can elect the Deferred Pension option if he/she has at least 20 years of service and leaves his/her contributions in the Fund. At age 50, the member is entitled to receive a Service Pension using the Tier 3 Service Pension percentages.

### 13. Deferred Retirement Option Plan (DROP)

#### Not applicable to Tier 1

Tiers 2 and 4: At least 25 years of service

Tiers 3, 5, and 6: At least 25 years of service and at least age 50

The member must be on an active duty/working status at the time of DROP entry.

While in DROP, the member's monthly pension, including any applicable cost of living adjustments, is posted to a nominal account that is credited with a guaranteed annual interest rate of 5%.

The member may participate for a maximum of five years, after which he/she is required to terminate sworn employment and exit DROP.

#### Death of a DROP Member

For the purpose of survivor benefits, DROP members are considered retired. Qualified survivors receive the benefits outlined in *Section 6 - Death After Service Retirement*, while the proceeds in the member's DROP account are paid to the named DROP beneficiary.

In the event of a service-connected death, the Qualified Surviving Spouse/Domestic Partner has the option to forfeit the member's DROP account and collect a monthly benefit as outlined in *Section 4 - Service-Connected Death*.

### 14. Optional Form of Benefit for Qualified Surviving Spouse (QSS) / Qualified Surviving Domestic Partner (QSDP)

#### Applicable to Tiers 3 - 6

At any time prior to the first payment of a Service or Disability Pension or entering DROP, the member may elect a higher QSS/QSDP benefit with a corresponding actuarial reduction in his/her retirement benefit.

### 15. Public Service Purchase (PSP) Program

#### Not applicable to Tier 1

Members may purchase service credit for time served in the military or with other public agencies, subject to requirements and limitations established by the City Council.

Purchased service must be for a minimum of six months, but no more than four years of full-time, uninterrupted service.

Purchased service will only count toward increasing the member's monthly pension allowance and any survivorship benefits.

Purchases must be initiated and finalized prior to entering DROP or retiring, whichever occurs first.

## Miscellaneous Benefit Provisions (continued)

### 16. Return of Contributions with Interest

Tiers 1 and 2: On termination or death if no other benefits are payable  
 Tiers 3, 5, and 6: On termination or death if no other benefits are payable, (except Basic Death Benefit)  
 Tier 4: Upon death if no other benefits payable, (except Basic Death Benefit). No refund upon termination

### 17. Survivor Benefit Purchase Program

A retired member may make a one-time, irrevocable election to purchase a survivor benefit for a spouse married in retirement or a domestic partner declared/registered in retirement by taking an actuarial reduction in his/her retirement benefit.

### 18. Opt-In Contribution

**Applicable to Tiers 2 - 5**  
 Members in Tiers 2 - 5 who: (1) enter DROP or retire on or after July 15, 2011 and (2) elected to make the additional 2% opt-in contribution will receive a non-frozen health subsidy benefit in retirement. The additional pension contribution supports the funding of the retiree health benefits and will cease once the member contributes for 25 years or retires.

## Health and Dental Insurance Premium Subsidy

19. Health Subsidy	Member	Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)
a. Age	If the retirement date is: 1. On or after 7/1/1998 – at least age 55 2. Prior to 7/1/1998 – at least age 60  If the member retired between 7/1/1988 and 7/1/1998 and had at least 20 years of service, he/she may be eligible for a Special MOU Subsidy prior to age 60	Member (retired sworn officer) must be at least age 55, if he/she was still alive  If the member died in the line of duty, medical benefits are provided by the Personnel Department
b. Years of Service	At least 10 years of service (YOS), except for a Tier 6 member who retires on a Service-Connected Disability Pension	Member (retired sworn officer) must have had at least 10 years of service (YOS)
c. Pension Type	Service or Disability Pension	QSS/QSDP Pension
d. Eligible Plans	Medical subsidies may be applied to one of the following: 1. A Board-approved association plan: – United Firefighters of Los Angeles City – Los Angeles Firemen’s Relief Association – Los Angeles Police Relief Association – LACERS plans offered to Port Police retirees 2. Health Insurance Premium Reimbursement Program – only available to pensioners who live outside a Board-approved HMO plan service area or outside the state of California	Medical subsidies may be applied to one of the following: 1. A Board-approved association plan: – United Firefighters of Los Angeles City – Los Angeles Firemen’s Relief Association – Los Angeles Police Relief Association – LACERS plans offered to Port Police retirees 2. Health Insurance Premium Reimbursement Program – only available to pensioners who live outside a Board-approved HMO plan service area or outside the state of California

## Health and Dental Insurance Premium Subsidy (continued)

19. Health Subsidy (continued)	Member	Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)
e. Medicare Requirements	<p>Most retirees and their covered dependents qualify for Medicare at age 65</p> <p>May qualify for Medicare prior to age 65 due to disability</p> <p>Enrollment in:</p> <ul style="list-style-type: none"> <li>- Medicare Part A: Required only if the retiree or covered dependent is eligible for Part A free of charge</li> <li>- Medicare Part B: Required</li> </ul>	<p>Most QSS/QSDPs qualify for Medicare at age 65</p> <p>May qualify for Medicare prior to age 65 due to disability</p> <p>Enrollment in:</p> <ul style="list-style-type: none"> <li>- Medicare Part A: Required only if the QSS/QSDP is eligible for Part A free of charge</li> <li>- Medicare Part B: Required</li> </ul>
f. Non-Medicare, Medicare Part B Only Subsidy Formula	<p>4% per YOS, up to a maximum of 25 YOS</p> <p>Subsidy may not exceed the health insurance plan premium</p> <p><b>Note:</b> Members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011</p>	<p>4% per YOS, up to a maximum of 25 YOS</p> <p>Subsidy may not exceed the single-party health insurance plan premium</p> <p><b>Note:</b> QSS/QSDPs of members in Tiers 2-5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011</p>
g. Medicare Subsidy Formula	<p>10-14 YOS – 75% of maximum subsidy 15-19 YOS – 90% of maximum subsidy 20+ YOS – 100% of maximum subsidy</p> <p>Subsidy may not exceed the health insurance plan premium</p> <p>Dependent subsidy may apply</p> <p>Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse the standard Medicare Part B premium</p> <p><b>Note:</b> Members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011</p>	<p>10-14 YOS – 75% of maximum subsidy 15-19 YOS – 90% of maximum subsidy 20+ YOS – 100% of maximum subsidy</p> <p>Subsidy may not exceed the health insurance plan premium</p> <p>Dependent subsidy may apply</p> <p>Must be enrolled in Medicare Parts A and B; and LAFPP will reimburse the standard Medicare Part B premium</p> <p><b>Note:</b> QSS/QSDPs of members in Tiers 2 - 5 who (1) enter DROP or retire after July 14, 2011 and (2) chose not to opt-in during the designated period are subject to the maximum subsidy in effect on July 1, 2011</p>
h. Dependent Coverage	<p>The member subsidy may be used to cover spouses, domestic partners and children</p> <p>Children may be covered until age 26</p>	<p>The QSS/QSDP may cover eligible dependents on his/her health plan. However, the subsidy may not exceed the single-party health insurance plan premium</p>

## Health and Dental Insurance Premium Subsidy (continued)

20. Dental Subsidy	Member	Qualified Surviving Spouse (QSS)/Qualified Surviving Domestic Partner (QSDP)
a. Age	At least age 55	QSS/QSDPs are not eligible to receive a dental subsidy
b. Years of Service	At least 10 years of service (YOS)	N/A
c. Pension Type	Service or Disability	N/A
d. Eligible Plans	Dental subsidies may only be applied to one of the following Board-approved association plans: <ul style="list-style-type: none"> <li>- United Firefighters of Los Angeles City</li> <li>- Los Angeles Police Protective League</li> <li>- Los Angeles Police Relief Association</li> <li>- LACERS plans offered to Port Police retirees</li> </ul>	Not eligible for a subsidy. However, QSS/QSDP may enroll in one of the following Board-approved association plans: <ul style="list-style-type: none"> <li>- United Firefighters of Los Angeles City</li> <li>- Los Angeles Police Protective League</li> <li>- Los Angeles Police Relief Association</li> <li>- LACERS plans offered to Port Police retirees</li> </ul>
e. Dental Subsidy Formula	4% per YOS up to a maximum of 25 YOS  Subsidy may not exceed the single-party dental insurance plan premium	N/A

## Reciprocity

### 21. Reciprocity

There are no reciprocity agreements between outside agencies and Los Angeles Fire and Police Pensions.

RECIPROCITY is:

- an agreement among public retirement systems to allow members to move from one public employer to another
- within a specific time limit
- without losing some valuable retirement and benefit rights

### Disclaimer

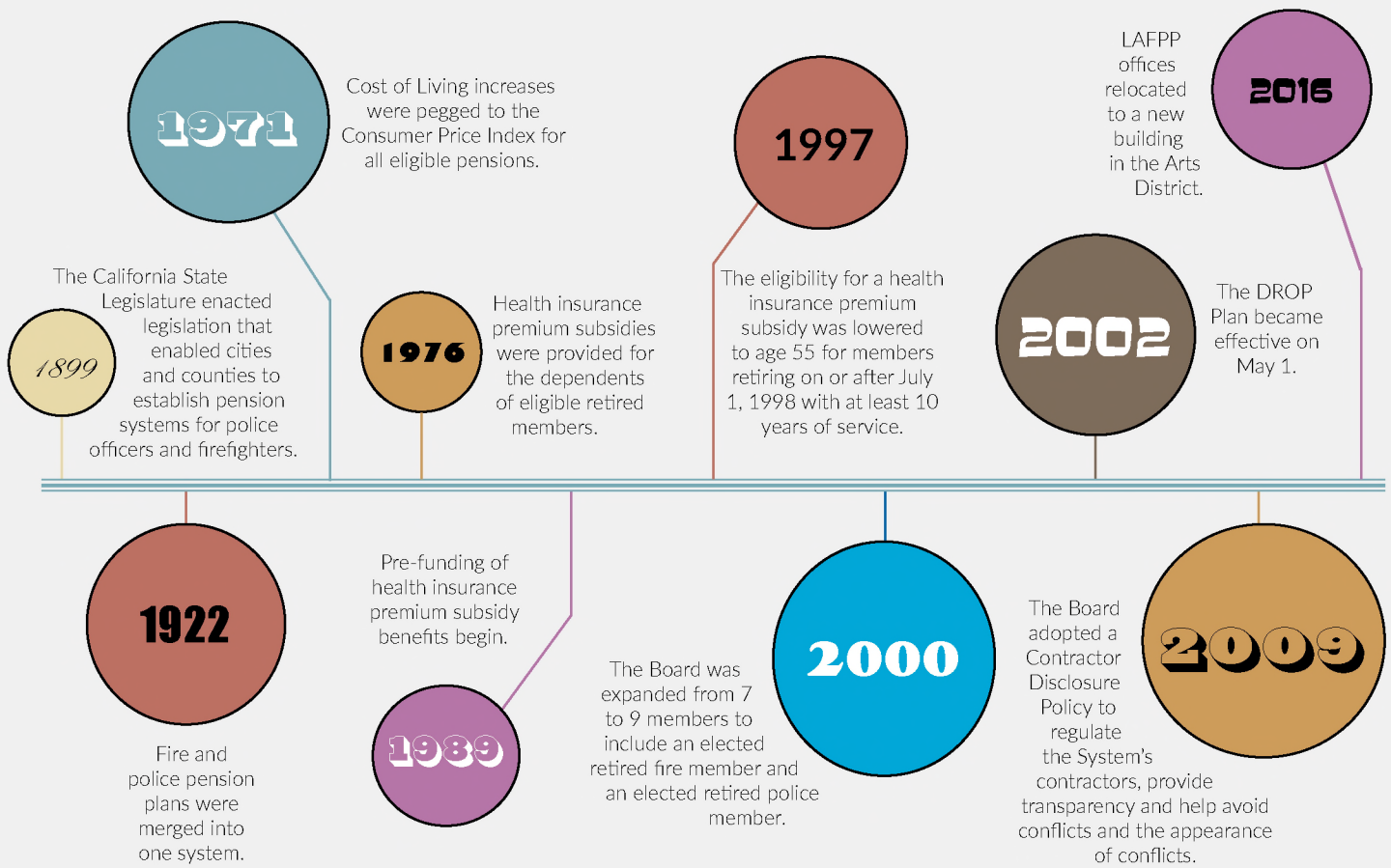
The “Summary of Plan Provisions” describes in informal language, the provisions of Tiers 1 - 6. The intent is to summarize legal texts in a clear and concise manner. If there is a difference between this guide and the legal text outlined in the City Charter, the Los Angeles Administrative Code, the Internal Revenue Code, or other laws, the legal text prevails.



# MILESTONES







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

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

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

**1923-1925** The System began funding pension benefits on an actuarial basis effective January 29, 1923 and a provision was added to increase pensions for members with more than 20 years of service based on a formula of 1-2/3 percent for each year of service over 20, up to two-thirds of the salary of the rank held at retirement. The new City Charter that became effective July 1, 1925 added a provision that Service and Disability Pensions would remain fixed amounts.

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

**1933** The actuarial funding requirements were eliminated and the System was placed on a “pay-as-you-go” basis effective May 15, 1933.

**1947** Members hired after January 17, 1947 could retire after 20 years of service with a pension equal to 40 percent of the average salary of the last three years of service, plus an additional 2 percent for each of the next five years of

**1957** The maximum limit attached to rank for Service Pensions was removed effective April 18, 1957.

**1958** The California Supreme Court ruled that the 1925 Charter provisions for fixed pensions did not apply to members employed prior to July 1, 1925, nor to surviving spouses of members employed prior to January 17, 1927.

(formerly Article XVIII) was adopted effective January 29, 1967, providing:

1. A pension equal to 55 percent of the final monthly salary rate at retirement with 25 years of service, plus an additional 3 percent for each year of service over 25, up to a maximum pension of 70 percent of salary at retirement with 30 years of service;
2. A two percent cap on the annual cost of living adjustment to all member and surviving spouse pensions that were based on length of service; and
3. A minimum pension of \$250 per month to be adjusted each year by the cost of living formula.

Other changes included the extension of the amortization period for the unfunded liabilities to 70 years and changes to the investment authority to provide for mortgage investments and public improvement financing.

**1968** Overtime compensation was excluded from the computation of contributions and benefits under Tiers 1 and 2.

**1969** Amendments to Tiers 1 and 2 effective May 2, 1969 applied cost of living adjustments to Disability and Survivor Pensions. Service Pensioners were allowed to apply for return-to-active duty under certain conditions and restrictions.

The authorized limit for common stock investments was raised to 50 percent of fund assets.

**1971** Tiers 1 and 2 were amended effective July 1, 1971 to remove the 2 percent per year cost of living ceiling from all eligible pensions and pegged increases



service, and 1-1/3 percent for each of the next 10 years of service. A maximum pension of two-thirds of the average salary was retained, with a cap based on the salary level of a Fire Battalion Chief or Police Captain. Member contributions were increased from 4 percent to 6 percent of salary.

Effective June 16, 1947, a Charter amendment created a Nonservice-Connected Disability Pension of 40 percent of the highest salary attached to the rank of firefighter or police officer; an equal amount was to be paid to any surviving spouse, with additional percentages allowed for unmarried minor children under the age of 18.

**1959** Effective May 6, 1959, the System was again funded on an actuarial basis with a 50-year amortization period for the unfunded liabilities.

Investment provisions were changed to permit investment of up to 35 percent of fund assets in common stocks.

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

**1967** Tier 1 (formerly Article XVII) was extensively amended, and a new Tier 2 pension plan

to the Consumer Price Index; to increase the minimum pension to \$350 per month; to grant pension credit for partial years of service; and to add two elected employee members to the Board of Pension Commissioners.

**1974** Tier 1 and 2 amendments enabled the City Council to adopt ordinances providing health insurance premium subsidy benefits and other programs for eligible pensioners.

**1975** Amendments to Tiers 1 and 2 allowed cost of living adjustments for Service-Connected Disability Pensions on the July 1 following the date of retirement. Certain waiting periods for those eligible to receive this adjustment were eliminated.

**1976** LAFPP began providing health insurance premium subsidies to eligible retired members for dependent health insurance coverage.

**1977** The mandatory retirement age provision of Tier 1 was eliminated effective April 15, 1977.

**1980** A new Tier 3 Safety Members' pension plan, (formerly Article XXXV, Plan 1) was created effective December 8, 1980. It provides for a pension at age 50 with 10 years of service based on a formula of 2 percent per year of service up to 20 years and 3 percent for each additional year of service, up to a maximum pension of 70 percent of a 12-month Final Average Salary. Member contributions to the System are 8 percent of salary and are refunded with interest upon termination. Pensions for surviving spouses are equal to 60 percent of the member's pension.

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

1. The investment of up to 70 percent of fund assets in common stock and up to 25 percent of the 70 percent without dividend record and registration on a national securities exchange;
2. The investment of 35 percent of fund assets in short-term securities;
3. The appointment of a securities custodian bank;

4. A requirement to retain investment advisors registered under the Investment Advisor Act;
5. The selling and repurchasing of covered call options; and
6. Authority to conduct transactions and exchanges of securities without specific prior approval from the Board of Pension Commissioners, within established guidelines.



**1982** Significant revisions to Tiers 1 and 2 provided a 3 percent cap on the cost of living adjustment for all future service earned by active members and a refund of member contributions upon termination.

Cost of living adjustments were prorated for the first year of retirement.

Paramedics and civilian ambulance drivers were transferred from the Los Angeles City Employees' Retirement System to Tier 3.

**1983** Tier 1 and 2 active members were no longer required to contribute to the Pension System upon completion of 30 years of service.

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

## FIRE AND POLICE PENSION PLANS

<b>TIER 1</b> (FORMERLY ARTICLE XV11)	JULY 1, 1925 - JANUARY 28, 1967
<b>TIER 2</b> (FORMERLY ARTICLE XV11)	JANUARY 29, 1967 - DECEMBER 7, 1980
<b>TIER 3</b> (FORMERLY ARTICLE XV11)	DECEMBER 8, 1980 - JUNE 30, 1997
<b>TIER 4</b> (FORMERLY ARTICLE XV11)	JULY 1, 1997 - DECEMBER 31, 2001
<b>TIER 5</b> (FORMERLY ARTICLE XV11)	JANUARY 1, 2002 - JUNE 30, 2011
<b>TIER 6</b> (FORMERLY ARTICLE XV11)	EFFECTIVE JULY 1, 2011

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

**1989** The System began pre-funding the health insurance premium subsidy benefits.

On April 26, 1989, in the case of the United Firefighters of Los Angeles City vs. the City of Los Angeles, the California Court of Appeals upheld the Los Angeles County Superior Court's judgment for the plaintiffs. As a result, the 3 percent cap on cost of living increases instituted in 1982 for Tier 1 and 2 members was lifted.

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

**1992** California Proposition 162, or the California Pension Protection Act of 1992, was on the November 3, 1992 ballot as an initiated constitutional amendment, where it was approved. Proposition 162 made several changes to California's constitution relating to public retirement systems:



1. It gave the board of each public pension system complete authority for administration of the system's assets and for the actuarial function.

2. Each board is required to continue to provide benefits to members of the system and their beneficiaries, minimize employer contributions, and pay reasonable administrative costs. Proposition 162, however, specified that each board is to give highest priority to providing benefits to members and their beneficiaries.

3. Prop 162 specified that the Legislature cannot change terms and conditions of board membership, for boards with elected employee members, unless a majority of the persons registered to vote in the jurisdiction of the retirement system approves the change. For example, a change in a county retirement system's board membership would require a countywide vote.

**1993** The Board of Pension Commissioners was given authority to increase investments under the "prudent person" provisions of the Charter from 25 percent to 50 percent of the stock portfolio.

Retired Tier 2 members may be recalled for up to one year after retirement.

**1995** The amount of salary to be used to calculate pension benefits was capped at \$150,000 (adjusted annually) for members hired on or after July 1, 1996.

The City Council was authorized to enact ordinances required to maintain the tax-qualified status of Tier 3 under federal law.

**1996** In January 1996, a new federal law prohibited states from taxing retirement income of nonresidents.

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

The City implemented an Internal Revenue Code provision that required the System to collect member contributions on a pre-tax basis. Previously, member pension contributions were collected after-tax from July 1, 1982 to December 21, 1996; and pre-tax before July 1, 1982.

**1997** A new Tier 4 pension plan (formerly Article XXXV, Plan 2) was established effective July 1, 1997. All Tier 3 members hired between December 8, 1980 and June 30, 1997 were given until June 30, 1998 to make an irrevocable transfer to Tier 4. Tier 4 provides retirement benefits at any age after 20 years of service based on a formula of 2 percent per year of service up to 20 years, plus 3 percent for each additional year of service, up to a maximum pension of 70 percent of a 12-month Final Average Salary. Members contribute 8 percent of salary to the System and are not refunded upon termination. Deferred retirement is not an option.



Tier 3 and 4 members retiring on or after July 1, 2000 at a rank no higher than Fire Captain or Police Lieutenant shall receive credit for prior hazard pay if no hazard pay was received during the 12-month period used to determine Final Average Salary for pension purposes.

The Charter was also amended to allow, at the discretion of the City Council, administrative expenses, which shall include investment



management expenses, to be paid from fund assets.

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

**1999** The City Council was given authority to establish, by ordinance, survivor benefits for domestic partners and pension benefits for sworn employees brought into City employment by merger or contract for fire or police services.

A provision was established so that members hired July 1, 1997 through December 31, 1997 could irrevocably elect to transfer from Tier 4 to Tier 3. The provision allowed the Metropolitan Transportation Authority officers who merged into the Police Department to join either Tier 3 or Tier 4. A delay in the merger made it necessary to add this provision so that negotiated benefits could be provided.

**2000** Effective January 17, 2000, domestic partners became eligible to receive survivor benefits under the same eligibility requirements as surviving spouses

after filing a Declaration of Domestic Partnership with the Board of Fire and Police Pension Commissioners. Surviving spouses and domestic partners became eligible to receive a health insurance premium subsidy upon the member's death, subject to eligibility requirements.

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

1. The official department name became the "Department of Fire and Police Pensions."
2. The plans were reorganized under a new Charter Article number. Articles XVII, XVIII, XXXV Plan 1, and XXXV Plan 2 are referred to as Tiers 1, 2, 3, and 4, respectively.
3. The Board of Fire and Police Pension Commissioners (Board) was expanded from seven to nine members to include an elected retired fire member and an elected retired police member.



4. The Board selects the General Manager, subject to confirmation by the Mayor and Council, and may remove the General Manager, subject to confirmation by the Mayor.

5. Assistant General Manager positions are appointed on an exempt basis.

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



1. language consistent with the provisions of California Constitution Article XVI, Section 17;
2. the prudent person investment standard;
3. sole and exclusive power to provide actuarial services;
4. control over litigation and settlement of litigation that involves policies and funds under Board control; and
5. deletion of the Council's right to veto any Board decisions.

7. The definition of dependent parent was revised so that United States residency at the time of the member's death is no longer a requirement.

**2001** Charter changes were approved to:

1. Enable the City Council to establish by ordinance a Deferred Retirement Option Plan (DROP).
2. Combine all tiers into a single plan for funding purposes.
3. Require the City Council to create, by ordinance, a new Tier 5 pension plan effective January 1, 2002.
4. Allow surviving spouses who remarried prior to December 5, 1996 to collect survivorship benefits.
5. Enable the City Council to provide by ordinance a dental subsidy for retirees.

**2002** By Council ordinance, a new Tier 5 pension plan became effective January 1. Active members of existing tiers could elect to irrevocably transfer to Tier 5 during the period from January 2, 2002 to December 31, 2002. Tier 5 members are eligible to retire at age 50 with 20 years of service and receive a pension benefit of 50 percent of a 12-month Final Average Salary, plus 3 percent for each additional year of service (except 4 percent for the 30th year), up to a maximum of 90 percent for 33 or more years of service. Members contribute 9 percent of salary to the System; 8 percent if Plan assets meet or exceed the 100 percent funding level.

The Deferred Retirement Option Plan (DROP) became effective May 1, 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service (members of Tiers 3 and 5 must also be at least age 50) may file for a Service Pension but continue to work and earn salary and benefits as an active member. The monthly Service Pension benefit

is deposited into a DROP account that earns a 5 percent per annum return, payable upon exiting DROP. Participation in DROP is limited to a maximum of 5 years.

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



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

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

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

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

**2005** On January 20, 2005, an ordinance was enacted allowing former Tier 2 members who had prior service as paramedics or civilian ambulance personnel under the Los Angeles City Employees' Retirement System to purchase this period of service.

In the March 2005 election, the voters approved two Charter amendments. The first amendment authorized the Council to adopt an ordinance to transfer the sworn Port Police Officers to Tier 5 of Fire and Police Pensions.

The second amendment provided the following:

1. Instituted return-to-duty provisions similar to those in Tier 2 to members in Tiers 3, 4, and 5.
2. Authorized the Council to allow a City Defrayal of Employee Contributions by Ordinance. This means the City may pay a portion of the employee contributions to Tiers 3, 4, and 5, not to exceed 2 percent of the required contributions in lieu of a salary increase or a portion of an increase. This provision is to be used during Memorandum of Understanding negotiations as part of a total economic package and the cost will be evaluated at that time.
3. Authorized the City Council to set the maximum sworn retiree health insurance premium subsidy by ordinance. Prior to this change, the Charter limited the maximum sworn retiree health insurance premium subsidy to the lesser of the maximum active sworn member health subsidy or the maximum civilian retiree health subsidy. The Council can delegate authority for setting sworn retiree subsidies

to the Board of Fire and Police Pension Commissioners.

**2006** An ordinance was effective January 4, 2006, which gave current Port Police Officers the choice of transferring to Tier 5 or remaining in the Los Angeles City Employees' Retirement System. Persons appointed on or after January 8, 2006, as specified in the ordinance, become members of Tier 5 upon graduation from academy training required by the Harbor Department.

The actuarial valuation of 2005 found the Plan less than 100% funded for pension benefits. As required by Administrative Code Section 4.2014, Tier 5 member contributions were increased to 9 percent effective July 1, 2006.



**2007** The election period for sworn Port Police Officers to transfer to Tier 5 closed on January 5, 2007, with 40 Port Police Officers electing membership in Tier 5.

On February 1, 2007, the Board of Fire and Police Pension

Commissioners (Board) created an Audit Committee, followed by the creation of an Internal Audit function within the System.

On March 6, 2007, voters passed a Charter amendment giving the City Council authority to establish, by ordinance, a voluntary Public Service Purchase Program. The program is to provide a means for Plan membership to purchase eligible full time service with the military and/or with other public agencies for the purpose of increasing pension credits. The member must assume the full actuarial cost of the purchase.

The Deferred Retirement Option Plan (DROP) completed its fifth year on April 30, 2007. Participants who enrolled in DROP from its inception, May 1, 2002, were required to exit the program by April 30, 2007. There were approximately 200 mandatory exits processed in April and May 2007.

The City Council approved an extension of DROP, commencing May 1, 2007 and ending April 30, 2012, and excluded participation by the Chief Engineer of the Fire Department and the Chief of the Police Department.

In July 2007, the System began audits of the retiree medical and dental plans offered by the Los Angeles Firemen's Relief Association, the Los Angeles Police Protective League, the Los Angeles Police Relief Association, and the United Firefighters of Los Angeles City. The principal areas of the audits are an eligibility audit, a benefit audit, an administrative audit, and a financial analysis.

On September 6, 2007, the Board voted to revise its proxy voting guidelines to vote "FOR" shareholder proposals that

request management to report on climate change. This change was in light of survey results released by an advocacy group known as the Carbon Disclosure Project (CDP). The study determined that 80 percent of U.S. companies believe that climate change poses commercial risks for their businesses. As a result, investors are encouraging more environmental disclosure from companies. The Supreme Court had ruled in April 2007 that greenhouse gases are a pollutant that may be regulated by the Environmental Protection Agency.



The first management audit of the System was conducted by Independent Fiduciary Services and the results were released on December 3, 2007. Charter Section 1112 requires that the City Controller, the Office of the Mayor, and the Los Angeles City Council shall jointly cause, once every five years, a management audit to be conducted by an independent, qualified management auditing firm. The purpose of the audit was to examine whether the System operates in the most efficient and economical manner. The audit found that the System was generally operating efficiently and in accordance with industry best practices, providing good investment returns overall, utilizing reasonable actuarial assumptions and methods, and pre-funding health insurance premium subsidy benefits.

**2008** The Public Service Purchase (PSP) ordinance was adopted by the City Council on April 8, 2008 and became effective April 22, 2008. On June 1, 2008, a PSP calculator was made available online to eligible members to perform cost estimates for the purchase of service. The first purchase was completed in June.

The City Council adopted the following amendments to the Deferred Retirement Option Plan (DROP):

1. July 3, 2008 - A DROP member who is subsequently appointed Fire or Police Chief prior to exiting DROP shall be allowed to rescind his/her DROP election.
2. November 4, 2008 - A definitive ending date for DROP was removed, and a member must be on an active duty/working status at the time of entry into the program.



**2009** On March 3, 2009, voters passed two Charter amendments:

1. The first measure established a Survivor Benefit Purchase Program that allows retired members of the Plan to purchase, at their own expense, a survivor benefit for a spouse or domestic partner. The retiree's monthly benefit is actuarially reduced to cover the cost of providing this survivor benefit.
2. The second measure modified the Dependent (Disabled) Children Survivor Benefits provided by the

Plan. Dependent Children may now marry or be adopted without losing the right to Dependent Child benefits. Additional payment options, which do not increase the amount of benefits payable, were also authorized. The Board of Fire and Police Pension Commissioners (Board) was granted the authority to pay Dependent Child benefits to a Special Needs Trust for the benefit of the disabled child.

On May 7, 2009, the Board terminated its contract with private equity consultant, Aldus Equity Partners. The termination was based in part on "pay-to-play" complaints filed against Aldus by the State of New York and the Securities and Exchange Commission. One of the founders of Aldus later pleaded guilty to felony securities fraud in the New York attorney general's pension fund corruption probe. In addition, two appointed commissioners resigned from the Board on this day.

On July 23, 2009, the Board adopted a "Contractor Disclosure Policy" to regulate the System's contractors and fine or terminate those who violate the policy.

The policy complies with the provisions of Assembly Bill 1584 (later enacted into law on October 11, 2009), requiring the disclosure of gifts, campaign contributions, and meetings with the System's investment managers, consultants, and other contractors, to provide transparency and help avoid conflicts and the appearance of conflicts.

**2010** On April 1, 2010, the Board retained Northern Trust Benefit Payment Services as the issuer for monthly pension payments. The Northern Trust Benefit Payment Participant

Web Passport System replaced the outdated mainframe-based Retirement and Pension Payment System operated and maintained by the City of Los Angeles Office of the Controller and Information Technology Agency. In October 2010, the Plan issued pension payments utilizing the new benefit payment system for the first time. As a result of this transition, pensioners received 13 pension payments for Tax Year 2010, instead of the usual 12.



**2011** On March 8, 2011, voters approved Charter Amendment G which:

1. Established a Tier 6 for new members effective July 1, 2011. As a result of pension reform, Tier 6 participants will be required to contribute 11 percent, 2 percent more than the Tier 5 maximum 9 percent contribution. The additional 2 percent will be contributed in exchange for the retiree health benefits provided to members of other tiers who were retired as of April 8, 2011. Tier 6 members are eligible to retire at age 50 with 20 years of service and receive a pension based on a formula of 40 percent of a 24-month Final Average Salary, plus 3 percent per year of service for years 21 through 25; 4 percent per year for years 26 through 30; and

5 percent per year thereafter, up to a maximum of 90 percent for 33 or more years of service.

2. Removed the System's amortization policies from the Charter and the Administrative Code. Instead, these policies shall be adopted by the Board of Fire and Police Pension Commissioners upon the advice of its consulting actuary.

On July 15, 2011, the City Council adopted an ordinance to permanently freeze the retiree non-Medicare and Medicare health insurance premium subsidy benefits at the rates in effect on July 1, 2011 for members who enter DROP or retire on or after July 15, 2011. The ordinance also provided, per letters of agreement signed by each labor organization, an election period whereby the affected members could elect to unfreeze their retiree medical subsidy by making additional 2 percent "opt-in" contributions. The freeze does not apply to Tier 6 members, as they are required to contribute the additional 2 percent.

**2012** On May 15, 2012, the



City Council approved a City Administrative Officer report that recommended consolidating the Department of General Services, Office of Public Safety (OPS), into the Police Department (LAPD). The consolidation was adopted with an effective date of July 1, 2012. OPS employees who successfully transition to a regular LAPD sworn classification have two years to make an irrevocable election to



opt out of the Los Angeles City Employees' Retirement System and become a member of the Fire and Police Pension System. The opt-out election had to be made no later than December 12, 2014.

**2013-2014** On June 27, 2013 and January 8, 2014, the City issued Management Audit Interim and Final Reports, constituting the second Charter-mandated audit of the System. The two audit reports determined that, overall, the System is generally operating in an effective manner. Specifically, the reports found that the processes to monitor investment performance are sound, investment manager fees are reasonable, and the System's procedures for long-term planning and monitoring of its financial condition are proper.

On August 8, 2014, the City Council adopted an ordinance to add Deferred Retirement Option Plan (DROP) provisions for Tier 6 members. Tier 6 members must have a minimum of 25 years of service and be at least age 50 in order to enter the DROP program.

By December 12, 2014, a total of 22 former Office of Public Safety (OPS) employees who transitioned to regular sworn classifications with the Police Department opted out of the Los Angeles City Employees' Retirement System (LACERS) and became members of Tier 6 of the Fire and Police Pension System. In addition, 17 of these new members elected to enter into an agreement to purchase their prior OPS service accrued with LACERS.

**2015** The Board of Fire and Police Pension Commissioners engaged Segal Consulting to perform an Internal Revenue Code operational compliance audit of the System. The purpose of the audit was to perform an independent review of the administrative operations and practices of the System to determine whether it meets the standards set forth in the Plan documents and is compliant with applicable federal tax laws. The audit concluded that the Plan is substantially in compliance with the requirements under the Internal Revenue Code, related Treasury Regulations and other applicable federal laws.

**2016** In March 2016, after nearly 30 years of leasing office space in Little Tokyo, LAFPP relocated to a new headquarters facility located in the Los Angeles



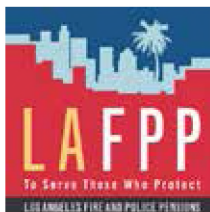
Downtown Arts District. The Board authorized the purchase of the building in December 2012. For approximately two years, the building underwent major renovations and features an energy efficient and environmental design; enhanced security; larger counseling rooms; and ergonomic workstations for staff.

On February 18, 2016, the Board's Specialized Private Equity Investment Manager Program was modified to include for the first time, Lesbian, Gay, Bisexual and Transgender (LGBT) owned or disabled veteran owned funds. By adding these ownership groups to the specialized program, LAFPP provides the LGBT and disabled veteran communities access to institutional investment capital.

Additionally, LAFPP was recognized as one of the first pension systems in the country to provide this access to the LGBT community.

On May 19, 2016, the Board approved disbanding standing committees (Audit, Benefits, and Governance). This action was taken because the current Board is actively engaged during all meetings, so the discussion at the Committee level and Board level was essentially the same. Further, most committee meetings were usually attended by a quorum of the Board and, with few exceptions, the duration of the committee meetings was brief. At the same time, the Board instructed staff to report back in twenty-four months with an assessment of this governance structure.





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