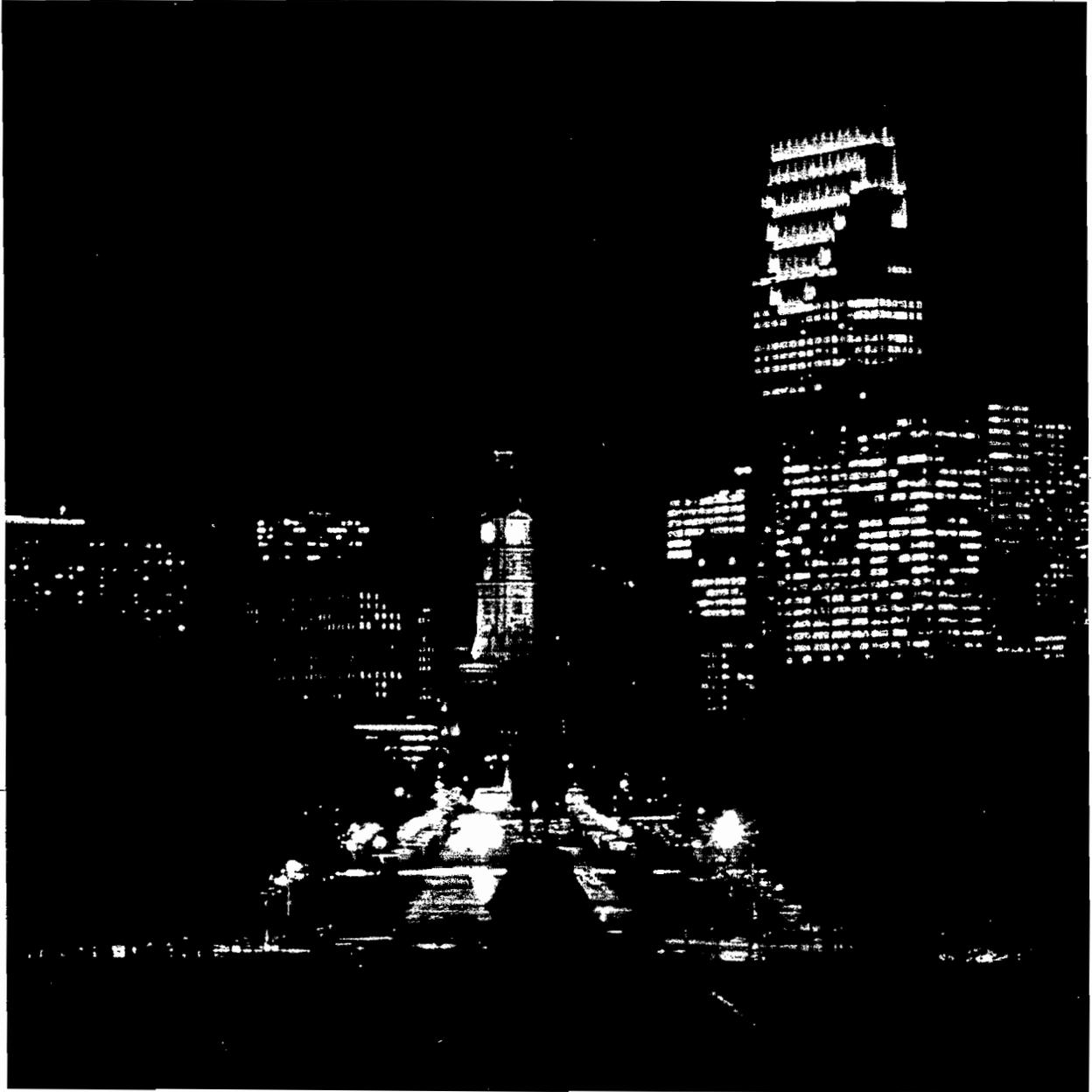




ANNUAL REPORT

City of Philadelphia BOARD OF PENSIONS AND RETIREMENT



FISCAL YEAR ENDING JUNE 30, 2002

John F. Street
Mayor

Janice D. Davis
Chairperson

James M. Kidwell
Acting Executive Director

CITY OF PHILADELPHIA

BOARD OF PENSIONS AND RETIREMENT

ANNUAL REPORT

FISCAL YEAR JULY 1, 2001 – JUNE 30, 2002

**PREPARED BY
GWENDOLYN BELL
EXECUTIVE DIRECTOR
20TH FLOOR, TWO PENN CENTER PLAZA
PHILADELPHIA, PENNSYLVANIA 19102
(215-496-7418)**

To the People of the City of Philadelphia:

The Board of Pensions and Retirement hereby submits the Annual Report of the Retirement System for City of Philadelphia employees for the fiscal year ending June 30, 2002. The report consists of three sections: An introductory section which contains a brief summary of the Board's activities and identifies the administrators and professional consultants of the Retirement System, an actuarial section which details the methods of costing and funding current and future benefits to members and beneficiaries of the Retirement System, and a financial section which contains the System's financial statements, membership and pension data, and investment statistics.

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NOTES:

If you require more detailed information on the Board's Investment Portfolio, please write to Gwendolyn Bell, Executive Director, Two Penn Center Plaza – 20th Floor, Philadelphia, PA 19102 or call 215-496-7418 or 1-800-544-1173.

For additional copies of this report, write to: Linda Donovan, Pension Program Administrator or call 215-496-7413 or 1-800-544-1173.

CITY OF PHILADELPHIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

James M. Kidwell

Acting Executive Director

MEMBERS OF THE BOARD

Janice D. Davis

Chairperson, Director of Finance
Appointed May 15, 2000.

Estelle B. Richman

Managing Director
Appointed December 1, 2001.

Nelson A. Diaz, Esquire

City Solicitor
Appointed December 3, 2001.

Linda Orfanelli

Personnel Director
Appointed January 14, 2002.

Jonathan A. Saidel, Esquire

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

John A. Reilly

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

Charles Johnson

AFSCME District Council 33. Serving
as Employee Elected Representative
since November 1988.

Carol Stukes

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

Serena Tenant

Fraternal Order of Police. Serving as
Employee Elected Representative
since November 1996.

CONSULTANTS

ACTUARY

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

AUDITOR

City Controller
And
Mitchell & Titus, LLP
Philadelphia, Pennsylvania

LEGAL COUNSEL

City Solicitor

GENERAL INVESTMENT CONSULTANT

Mercer Investment Consulting
Los Angeles, California

REAL ESTATE CONSULTANT

Pension Consulting Alliance
Portland, Oregon

ALTERNATIVE INVESTMENT CONSULTANT

Hamilton Lane Advisors
Bala Cynwyd, Pennsylvania

CUSTODIAN BANK

State Street Bank
Quincy, Massachusetts

INVESTMENT MANAGERS

U. S. Equities

Aronson + Partners
Philadelphia, Pennsylvania

Dreyfus Corporation
New York, New York

Turner Investment Partners
Berwyn, Pennsylvania

Deutsche Asset Management
Investment Services Limited
New York, New York

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

Wellington Management
Company, LLP
Boston, Massachusetts

International Equities

Delaware International Advisers
London, England

Putnam Company
Boston, Massachusetts

Philadelphia Investment Advisors
Philadelphia, Pennsylvania

Emerging Market Equities

City of London Investment Management
Coatesville, Pennsylvania

Global Fixed Income

Deutsche Asset Management
Investment Services Limited
Philadelphia, Pennsylvania

Smith, Graham & Co.
Houston, Texas

Morgan Stanley, Dean Witter
Conshohocken, Pennsylvania

Western Asset Management Co.
Pasadena, California

Tactical Asset Allocation

Mellon Capital Management Corp.
San Francisco, California

Cash Management

State Street Bank
Quincy, Massachusetts

Opportunity Fund

FIS Funds Management, Inc.
Philadelphia, Pennsylvania

Spagnola-Cosack, Inc.
Fort Washington, Pennsylvania

Alternative Investments

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

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

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

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

GS Capital, L.P.
Wayne, Pennsylvania

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

MGIC Mortgage Marketing Corp.
Milwaukee, Wisconsin

Morgan Stanley Dean Witter
Venture Partners IV, L.P.
New York, New York

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

SCP Private Equity Partners, L.P.
Wayne, Pennsylvania

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

United Bank
Philadelphia, Pennsylvania

Asian Financial Corporation
Philadelphia, Pennsylvania

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

European Strategic Partners—I, L.P.
Standard Life of Scotland
Edinburgh, Scotland

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

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

LLR Equity Partners, L.P.
Philadelphia, Pennsylvania

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

Morgan Stanley Venture
Partners 2002 Fund, L.P.
New York, New York

The Retail Initiative
New York, New York

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

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

Thomas Weisel Capital
Partners, LP
San Francisco, California

Real Estate Investments

AEW Capital Management
Boston, Massachusetts

LaSalle Advisors
Baltimore, Maryland

Heitman Capital Management
Corp.
Chicago, Illinois

Times Square Real Estate Investors
Hartford, Connecticut

MISSION

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

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

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

The Executive Director, aided by a staff of 61 personnel, administers the day-to-day activities of the Retirement System, providing services to 31,557 active employees and 31,124 retirees.

MEMBERSHIP

The Public Employees Retirement System provides benefits to police, fire and civilian workers of the City of Philadelphia through the administration of 19 separate plans adopted from 1915 to the present. In addition, the Board of Pensions administers (but does not fund) a pension plan for the employees of quasi-public agencies (the Philadelphia Parking Authority, the Hospitals and Higher Education Facilities Authority of Philadelphia, the Philadelphia Municipal Authority, the Philadelphia Housing Development Corporation, and the Philadelphia Regional Port Authority).

In fiscal year 2002, the Public Employees Retirement System had 31,557 active members and 31,124 retired members, including 8,634 survivors and 4,739 people receiving disability benefits.

During fiscal year 2002, the Board approved 1,261 pension applications submitted by retiring employees, surviving spouses, beneficiaries and disabled members. The Board processed 1,241 refunds of pension contributions to former employees and beneficiaries of deceased members.

FUNDING

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

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

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

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

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

The normal cost to the Public Employees Retirement System for fiscal year 2002 was \$70,706,984. The total unfunded accrued liability for fiscal year 2002 was \$122,683,860, including \$2,024,000 for the *Dombrowski* annual payment.

INCOME

The City of Philadelphia is the largest single contributor to the Public Employees Retirement System. The City contributed \$174,166,994 or 49.9% of the total additions to the Retirement System's net assets in fiscal year 2002. Employees contribute a percentage of their pay, and the percentage varies with plan membership. Employee contributions totalled \$50,079,266 or 14.3% of additions. Contributions from the quasi-public agencies amounted to \$4,072,434 or 1.2% of additions.

A major source of income is the earnings of the System's investment portfolio. Interest and dividends amounted to \$109,267,233 or 31.3% of total additions, while securities lending revenue increased plan net assets by \$10,808,232 or 3.1% of additions. Miscellaneous sources provided \$699,396 or .2% towards the additions. Together the contributions and earnings added \$349,093,555 to the plan net assets.

However, normal investing activity along with a decrease in the fair value of the investments overshadowed all of the additions to the plan net assets and resulted in a decrease of \$347,606,746. Combining the decrease from the investment activity with other deductions such as investment expenses of \$11,948,329 and securities lending expenses of \$8,657,111 resulted in a decrease to the plan net assets of \$368,212,186. Offset by the additions, the plan net assets decreased by \$19,118,631 in fiscal year 2002.

INVESTMENTS

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

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

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

The current portfolio structure is: 37.36% Domestic Equities; 16.56 % International Equities; 28.65% Global Fixed Income; 2.87% Direct Fixed Income Investment; 6.63% Tactical Asset Allocation (TAA) Balanced Portfolio of Stocks and Bond (60/40); 2.14% Opportunity Fund; .83% Emerging Markets; 4.30% Alternative Investments; 0.19% Real Estate; and 0.49% Cash.

As of the fiscal year ending June 30, 2002, the total market value of Pension Fund investments was \$3,992,670,896 (an 11.5% decrease over fiscal year 2001) vs. the value at cost of \$4,204,467,205 (a 6.3% decrease over fiscal year 2001). Accounting principles require the recognition of the assets at fair value and the resultant unrealized gain or loss shown as an addition or deduction to plan net assets.

EXPENSES

Pension benefit payments are the Board's greatest current normal expense. Of the total deductions from plan net assets of \$462,484,526 in fiscal 2002, \$450,221,681 or 97.3%, were pension payments. Other expenses included \$7,145,459 for the refund of pension contributions to employees who left City employment and \$5,117,386 for administrative expenses.

AMENDMENTS TO CITY OF PHILADELPHIA PUBLIC EMPLOYEES RETIREMENT CODE

Section 22-801 – Leaves of Absence Without Pay – Bill No. 010595 (Approved by the Mayor on February 27, 2002)

Section 22-801(2)(e) was added to permit members who are granted a leave of absence without pay to serve in a United Nations International Peacekeeping or Police Mission to purchase pension credit for the leave period.

PROFESSIONAL SERVICES

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

AUDIT

The City Controller's Office, which is independent of the City of Philadelphia Administration, audits all operational transactions of the Board of Pensions and Retirement. For the Fiscal year ending June 30, 2002, the Board elected to have the annual financial audit of the Municipal Pension Fund performed by the accounting firm of Mitchell & Titus, LLP.

ACTUARIAL SECTION

EXECUTIVE SUMMARY

This report presents the actuarial valuation of the costs and liabilities for the City of Philadelphia Municipal Retirement System as of July 1, 2002 and City contributions for the fiscal year ending June 30, 2004. This section summarizes the valuation results and discusses changes in the System's costs and liability arising from changes in assumptions and experience for the year ending June 30, 2002.

Findings summary

Table 1 shows actuarial valuation results for all divisions as of July 1, 2002.

1. July 1, 2002 actuarial valuation (dollars in thousands)

Participants	
Active	29,298
Retired	17,989
Beneficiaries	8,580
Disabled	4,683
Terminated vested	730
DROP	2,829 ^c
Total	64,109
Total annual salaries	\$ 1,207,302
Net actuarial accrued liability	\$ 6,727,215
Unfunded actuarial accrued liability	\$ 1,835,875
Assets for valuation purposes	\$ 4,891,340
Funding percent	72.7%
City normal cost as percent of payroll (beginning-of-year payment)	5.400%
Fiscal 2004 funding requirements (beginning-of-year payments)	
City's funding policy	\$ 248,218 ^{a, b}
Minimum municipal obligation	\$ 195,776 ^a

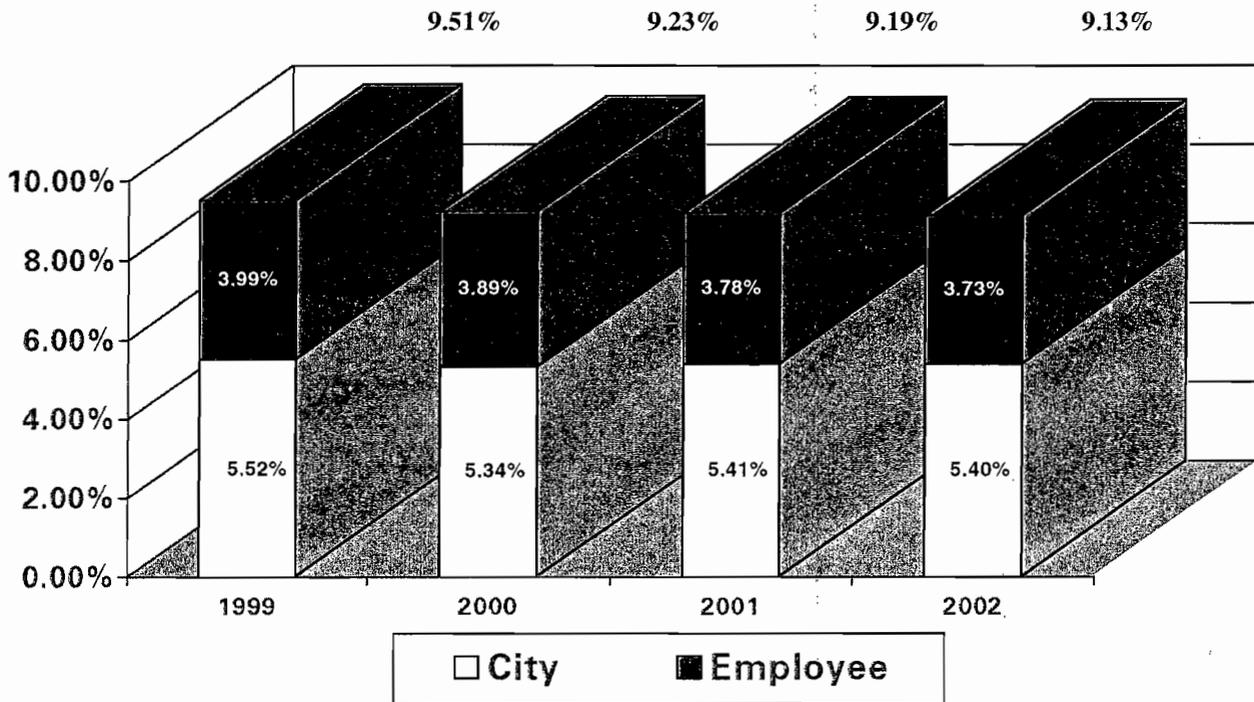
- The City may use general state aid and state cost-of-living reimbursements to meet this commitment. For fiscal 2002, these totaled \$40,272,432.
- Based on estimated July 1, 2003 payroll. Final contribution will be based on actual fiscal 2004 payroll.
- While still active employees, the Deferred Retirement Option Plan (DROP) participants are treated as retired for valuation purposes since they no longer accrue benefits.

EXECUTIVE SUMMARY

Normal cost

The total normal cost is the cost of one year's accrual of projected benefits. The City's normal cost equals the total normal cost *less* expected employee contributions. The total normal cost percentage declined again this year for the fourth year in a row. This continued trend is primarily from a larger portion of active members in Plan 87 over Plan 67. The following graph is a four-year history of the total normal cost with employee and City components as a percent of pay.

2. Total normal cost - percent of pay



Unfunded actuarial accrued liability

From July 1, 2001 through June 30, 2002, the unfunded actuarial accrued liability increased \$399,506,000 from \$1,436,369,000 to \$1,835,875,000 because:

- The valuation assets had a return of 3.4% during the year. We assume the valuation assets will have a 9% return. This was the primary cause for the increase in unfunded liability.
- Salary increases were greater than our 5% assumption resulting in a loss.

EXECUTIVE SUMMARY

- The assumption for the form of payment for DROP participants was changed. Previously, DROP participants were assumed to have a life annuity, but now we assume that 60% will elect Option 4 (50% joint and survivor annuity).
- The interest on the June 30, 1985 unfunded liability (which is amortized with payments increasing 4.5% per year) is more than the current payment. This will continue to increase the unfunded liability each year through fiscal year 2003; after then it will decrease.
- Other non-economic experience, mostly due to less than expected mortality, resulted in a loss.

These factors are illustrated in Table 3.

3. Unfunded liability (dollars in millions)

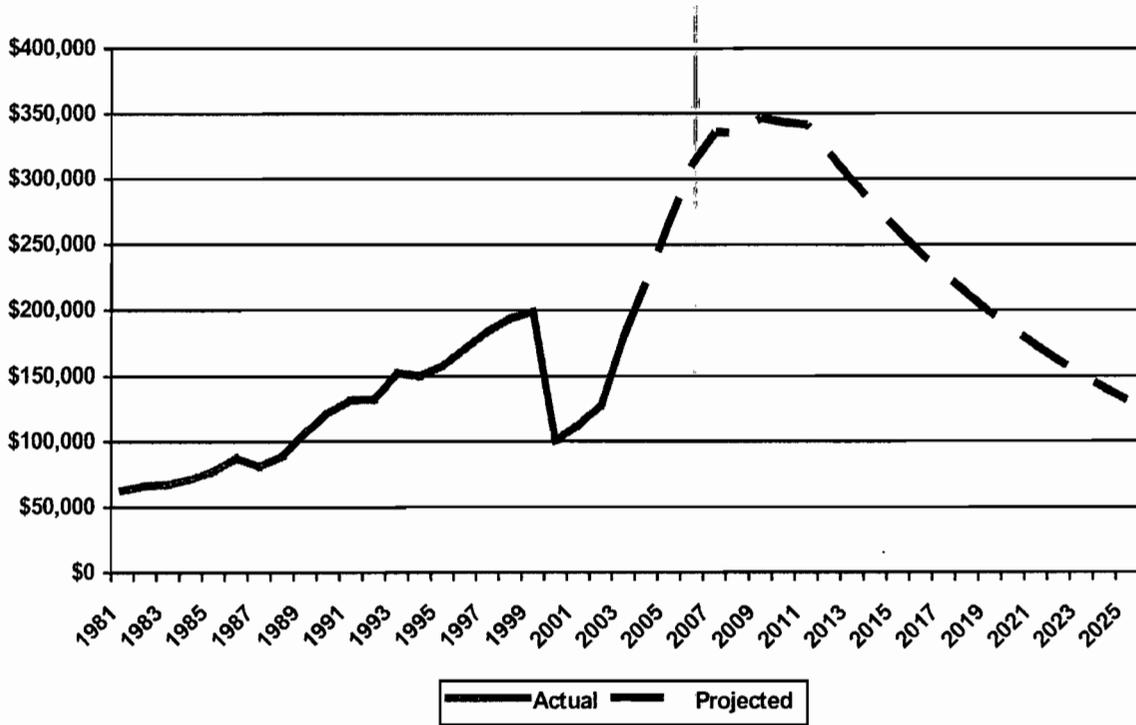
2001 Unfunded liability		\$ 1,436
Change due to:		
Plan changes	0	
Payment schedule	7	
Salary increases	6	
Investment return	276	
Assumption changes	35	
Other actuarial experience	76	
Total of all changes		\$ 400
2002 unfunded liability		\$ 1,836

Because the July 30, 1985 unfunded liability is being amortized with payments increasing 4.5% per year and due to the recognition of asset losses, the amortization payment is scheduled to increase each year, reaching a maximum in 2008, and then decreasing. The total unfunded liability is scheduled to increase each year until fiscal year 2007, and then gradually decrease. With the 1997 change in Act 205, once the funding ratio reaches 70% the City may shift to a 10 year rolling level amortization schedule. The plan is currently 72.7% funded; however, the alternative amortization schedule is not expected to result in lower cost to the City until fiscal year 2012.

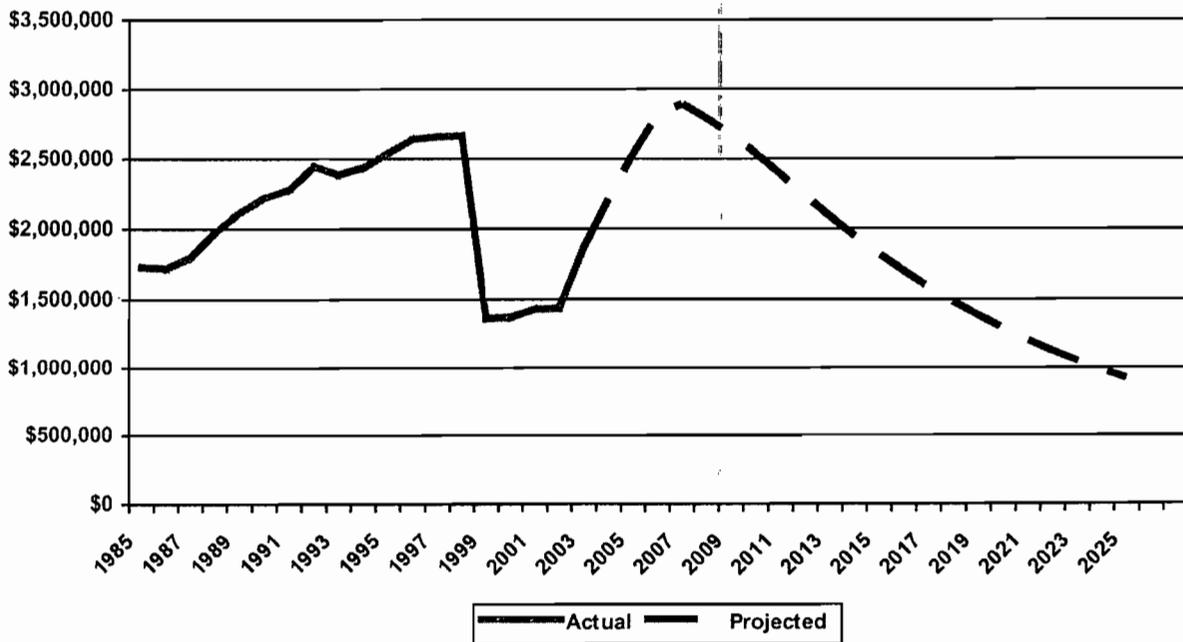
Graph 3(A) illustrates changes in the amortization payment through 2025. Graph 3(B) tracks the unfunded liability through 2025. The red lines indicate actual past changes in the amortization payment or unfunded liability and include scheduled increases and changes because of previous plan amendments, assumption changes, gains and losses and the impact of the Pension Obligation Bond (POB) of 1999. The yellow lines reflect projected changes, including the future schedule of the initial July 30, 1985 unfunded liability and known asset losses for the next four years due to the adjusted asset smoothing method. Also included in the projected changes detailed by the yellow lines, is the switch to the 10 year rolling amortization schedule, anticipated to be beneficial in 2012.

EXECUTIVE SUMMARY

3(A). Amortization schedule



3(B). Unfunded actuarial accrued liability



EXECUTIVE SUMMARY

City funding policy

The report shows the recommended City contributions, assuming they're paid at the beginning of the fiscal year (July 1, 2003). If paid after July 1 the City's funding policy has been to pay interest at 9% from July 1, 2003 to the date paid.

The resulting estimated City contributions for fiscal years 2003 and 2004 are shown in Table 4(A).

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

	Fiscal 2003	Fiscal 2004
Normal cost	\$ 63,818	\$ 68,125 ^a
Amortization payment	<u>127,934</u>	<u>180,093</u>
Total City cost	\$ 191,752	\$ 248,218 ^b

- Based on estimated July 1, 2003 payroll. Actual normal cost will be based on actual fiscal 2004 payroll. This payroll does not include DROP participants.
- The City may use general state aid and state cost-of-living reimbursements to meet this commitment. For fiscal year 2002, they totaled \$40.2 million.

To the extent the City elects to contribute less than the funding policy, an experience loss will be created equal to the shortfall in contributions. That shortfall will be amortized over 15 years.

Table 4(B) shows July 1, 2003 employee contribution rates.

4(B). Employee contribution rates effective July 1, 2003 (based on July 1, 2002 results)

	Municipal	Elected	Police	Fire
1967 Plan	3.75% ^a	N/A	6.00%	6.00%
Plan 87	2.01%	7.64%	5.00%	5.00%

- 6.00% on wages over the Social Security maximum taxable wage base — \$87,000 in 2003.

Quasi agency funding

Table 4(C) shows the quasi agencies funding rate as a percent of payroll for fiscal years 2003 and 2004 and the Parking Authority's additional contribution for their early retirement window. This special amortization charge must be made through fiscal 2004.

EXECUTIVE SUMMARY

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

	Fiscal 2003	Fiscal 2004
Valuation date	July 1, 2001	July 1, 2002
Normal cost	5.160%	5.140% ^a
Amortization rate	<u>16.835%</u>	<u>24.500%</u> ^b
Total, year-end rate	21.995%	29.640%
Total, adjusted for quarterly payments	21.455%	28.913% ^c
Parking authority's special amortization payment		
Annual year-end payment	\$ 78,000	\$ 78,000
Quarterly payment	\$ 19,021 ^d	\$ 19,021 ^d

- a. End of year normal cost rate, page 11, Municipal 1967 Plan.
- b. $(\$105,704 - \$78) \div \$431,131$, see pages 15 and 11.
- c. $.97546$ (quarterly adjustment factor) \times 29.640%.
- d. $\$78,000 \div 4 \times .97546$.

Minimum municipal obligation

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

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

- The City uses a 34-year increasing amortization of its July 1, 1985 unfunded actuarial accrued liability, while Act 205 allows a 40-year increasing amortization schedule.
- The City applies the normal cost rates to the fiscal year's actual payroll. The MMO is based on the prior year's estimated payroll.
- No interest accumulates on the MMO if the payment is made by calendar year-end.
- The City's funding policy uses a one-year delay in applying actuarial valuation results to fiscal years. The MMO also reflects a one-year delay, however, no interest is applied to the MMO for the one-year delay. As a result, this July 1, 2002 valuation report determines the City's fiscal 2004 MMO and funding contribution.
- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.

Table 46 of this report summarizes the City's unfunded liability payment for its fiscal 2004 MMO. These payments reflect the 40-year funding from July 1, 1985 with increasing payments at 4.5%.

The resulting fiscal 2004 MMO is summarized in Table 4(D).

EXECUTIVE SUMMARY

4(D). Fiscal 2004 minimum municipal obligation (dollars in thousands)

Valuation report	July 1, 2002
Normal cost	\$ 109,444
Amortization payment	127,899
Expected administrative expense	<u>5,500</u>
Subtotal	\$ 242,843
Expected member contributions	<u>(47,067)</u>
Minimum municipal obligation	\$ 195,776
Interest	<u>0^a</u>
Total	<u>\$ 195,776^b</u>

a. Assumes the MMO will be paid before December 31, 2003.

b. The City may use general state aid and state COLA reimbursement, estimated at \$40.2 million, to meet this commitment.

Funding status

The plan's funding status is measured by the ratio of actuarial value of assets to the actuarial accrued liability. A comparison of this ratio as of July 1, 2001 and July 1, 2002 is shown in Table 4(E).

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

	2001	2002
Actuarial value of assets	\$ 4,943,450	\$ 4,891,340
Actuarial accrued liability	\$ 6,379,819	\$ 6,727,215
Funding ratio	77.5%	72.7%

EXECUTIVE SUMMARY

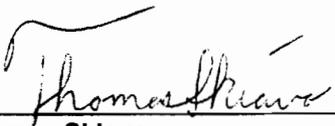
Certification

Mercer Human Resource Consulting has prepared the actuarial valuation of the City of Philadelphia Municipal Retirement System as of July 1, 2002 for fiscal year contributions ending June 30, 2004. The valuation is based on employee and financial data which were provided by the City of Philadelphia Board of Pensions and Retirement and trustee, respectively, and which are summarized in this report.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current state statutes and regulations issued thereunder. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the Plan. This report fully and fairly discloses the actuarial present position of the Plan on an ongoing basis.

There have been no changes in valuation procedures, or actuarial cost methods since the last valuation of the Plan as of July 1, 2001. Actuarial assumptions have changed and are summarized in this report.

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

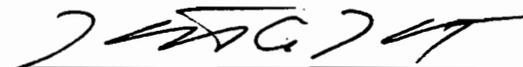


Thomas Skiavo

3/28/03

Date

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



Kenneth A. Kent, FSA, FCA, EA

3/28/03

Date

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

COST DERIVATION

This section explains the Retirement System's costs. Costs are determined using the entry age actuarial cost method. The cost estimates derived in this actuarial valuation will be the basis for determining pension costs for the fiscal year ending June 30, 2004. Pension costs consist of the normal cost and the unfunded liability amortization payment.

Derivation of normal cost

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

Derivation of the unfunded actuarial accrued liability

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

The valuation assets are determined as of July 1, 2002, using an actuarial asset method that spreads investment experience over a five-year period to minimize the impact of investment volatility on the Retirement System's costs. The method measures the market assets' gains or losses against the assumed 9% investment yield, recognizing one-fifth of the gain or loss over the current and each of the next four years. The Pension Adjustment Fund (PAF), if any, is subtracted from the market value to determine the assets to use for the valuation.

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

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

The portion of the unfunded actuarial accrued liability attributable to the Dombrowski class action suit is amortized in level dollar payments over 40 years ending June 30, 2009. The remaining July 1, 1985 unfunded actuarial accrued liability is amortized over 34 years ending June 30, 2019 in annual payments increasing 4.5% per year. Changes in the actuarial accrued liability realized after July 1, 1985 are amortized in level dollar payments over the following years according to Act 205:

COST DERIVATION

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

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

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

Table 46 shows the annual unfunded liability payments needed to satisfy the City's MMO for fiscal year ending June 30, 2004.

Table 16 shows the annual payments needed to fund plan liabilities through fiscal year ending June 30, 2022 if the City did not move to the 10-year rolling amortization of the unfunded.

Note: Reference to Tables 5 through 15 contained in Valuation is omitted for brevity of Annual Report.

COST DERIVATION

16. Schedule of annual payments to fund the anticipated July 1, 2002 unfunded actuarial accrued liability (dollars in thousands)

Plan Year Beginning July 1	Annual Beginning-of-Year Payment ^a										Total	Accrued Liability ^a	Progress of Unfunded Actuarial Liability ^a	Estimated Annual Payroll	Annual Payment as a Percent of Payroll
	Municipal	1967 Plan Police	Fire	Municipal	Plan 87 Elected	Police	Fire	Municipal	Police	Fire					
2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,835,875	1,207,302	N/A	
2003	96,976	76,680	20,019	(6,918)	(74)	(4,703)	(1,886)	180,093	1,861,656	1,261,631	2,214,403	1,318,404	14.3%		
2004	118,744	86,397	25,427	(4,421)	(50)	(2,356)	(1,310)	222,432	2,214,403	1,318,404	2,538,579	1,377,732	16.9%		
2005	143,420	96,960	30,455	(2,029)	48	(104)	(753)	267,996	2,538,579	1,377,732	2,819,375	1,439,730	19.5%		
2006	169,653	104,277	34,917	275	135	2,237	(209)	311,284	2,819,375	1,439,730	2,892,959	1,504,518	21.6%		
2007	181,377	111,647	38,100	1,357	128	3,273	37	335,919	2,892,959	1,504,518	2,787,173	1,572,221	22.3%		
2008	178,207	113,857	38,972	1,258	73	3,317	66	335,750	2,787,173	1,572,221	2,672,051	1,642,971	21.4%		
2009	183,932	117,627	40,492	1,328	83	3,391	74	346,926	2,672,051	1,642,971	2,534,386	1,716,905	21.1%		
2010	180,926	116,766	40,816	1,538	4	3,258	116	343,423	2,534,386	1,716,905	2,388,149	1,794,166	20.0%		
2011	182,538	118,589	41,869	1,472	20	3,287	145	347,921	2,388,149	1,794,166	2,223,848	1,874,903	19.4%		
2012	184,610	120,110	42,809	1,520	63	3,391	207	352,709	2,223,848	1,874,903	2,039,542	1,959,274	18.8%		
2013	194,404	124,592	45,348	1,797	62	3,756	267	370,227	2,039,542	1,959,274	1,819,553	2,047,441	18.9%		
2014	200,801	128,005	47,670	1,998	97	3,998	374	382,943	1,819,553	2,047,441	1,565,905	2,139,576	18.7%		
2015	212,127	121,656	52,293	9,870	388	11,748	2,370	410,452	1,565,905	2,139,576	1,259,444	2,235,857	19.2%		
2016	216,901	118,928	52,064	10,064	383	11,985	2,514	412,841	1,259,444	2,235,857	922,797	2,336,470	18.5%		
2017	221,201	124,549	51,472	10,529	389	11,829	2,448	422,417	922,797	2,336,470	545,415	2,441,612	18.1%		
2018	199,607	114,793	48,322	7,929	336	8,706	2,070	381,764	545,415	2,441,612	1,78,380	2,551,484	15.6%		
2019	53,612	24,454	11,573	5,481	240	6,391	1,507	103,257	1,78,380	2,551,484	2,666,301	2,911,667	4.0%		
2020	30,653	14,049	6,733	3,094	147	4,162	964	59,803	2,666,301	2,911,667	2,786,284	3,042,692	2.2%		
2021	10,643	4,292	2,195	883	60	2,072	455	20,600	2,786,284	3,042,692	3,179,613	3,322,696	0.7%		
2022	1,745	1,147	904	(14)	-	1	-	3,782	3,781	2,911,667	0	3,042,692	0.1%		
2023	-	-	-	-	-	-	-	-	0	3,042,692	-	3,179,613	0.0%		
2024	-	-	-	-	-	-	-	-	-	3,179,613	-	3,322,696	0.0%		
2025	-	-	-	-	-	-	-	-	-	3,322,696	-	3,322,696	0.0%		

a. These amounts do not reflect the election of the 10 year rolling amortization at any point

Note: Numbers may not add because of rounding.

MINIMUM MUNICIPAL OBLIGATION

The minimum municipal obligation (MMO) is the minimum required City contribution under state law (Acts 205 and 189). The City's MMO for the year ending June 30, 2004 is \$195,776,124. This amount is summarized by division in Table 45 and is based on the July 1, 2002 actuarial valuation report.

The City receives general pension state aid and cost-of-living adjustment reimbursement from the state. The MMO includes these amounts. For fiscal 2003, the total state payments are \$40,272,432. Amounts received during fiscal 2004 may be used to meet the \$195,776,124 obligation. Supplemental State Assistance (SSA), if any, may not be used to offset this commitment.

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

- The City uses a 34-year increasing amortization of its July 1, 1985 unfunded actuarial accrued liability, while Act 205 allows a 40-year increasing amortization schedule. The City chose to amortize the July 1, 1985 unfunded actuarial accrued liability over the 34 years remaining in their then-existing schedule, rather than adopting the 40-year phased-in schedule permitted under Act 205. The City's more aggressive funding policy has resulted in larger contributions than Act 205 requires.
- The City applies the normal cost rates to the fiscal year's actual payroll. The MMO uses the prior year's estimated payroll.
- The City's actual contribution includes interest at 9% from July 1 to the payment date. However, no interest accumulates on the MMO if the payment is made by year-end (December 31).
- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.

MINIMUM MUNICIPAL OBLIGATION

The City's unfunded liability payments towards the MMO are summarized in Table 46. These payments reflect the 40-year funding of the July 1, 1985 unfunded actuarial accrued liability with increasing payments at 4.5% — pre-1999 balances were adjusted to reflect the Pension Obligation Bond.

45. MMO calculation for fiscal 2004 (July 1, 2002 valuation report)

	Fiscal 2003 (dollars in thousands)			
	Non-Uniformed	Police	Fire	Total
Estimated FY 2003 payroll	\$ 853,551	\$ 312,121	\$ 95,959	\$1,261,631
Normal cost percent	7.196%	11.640%	12.187%	8.675%
Normal cost	\$ 61,419	\$ 36,330	\$ 11,695	\$ 109,444
Amortization payment ^a	62,587	54,791	10,521	127,899
Administrative expense	3,630	1,400	470	5,500
Subtotal	\$ 127,636	\$ 92,521	\$ 22,686	\$ 242,843
Expected member contributions	(25,102)	(16,686)	(5,280)	(47,067)
MMO ^b	\$ 102,534	\$ 75,836	\$ 17,406	\$ 195,776

- a. The portion of the unfunded actuarial accrued liability attributable to the Dombrowski class action suit is included in the initial unfunded liability that was established July 1, 1985. For MMO calculations, it is amortized over 40 years ending June 30, 2025 in annual payments increasing 4.5% per year. The City's funding policy, however, amortizes the original Dombrowski liability in level dollar payments over 40 years ending June 30, 2009.
- b. Includes general pension state aid and state cost-of-living adjustment reimbursement. For fiscal 2003, the total is \$40,272 (thousands). Also includes quasi agencies.

MINIMUM MUNICIPAL OBLIGATION

46. Unfunded liability payments toward MMO for fiscal 2004 (thousands) — July 1, 2002 valuation report

	Municipal			Police			Fire		
	July 1, 2002 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2002 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2002 Remaining Balance	Years Remaining	Amortization Payment
Original July 1, 1985 unfunded actuarial accrued liability	\$ 889,996	23	\$ 59,186 ^a	\$ 571,327	23	\$ 37,994 ^a	\$ 227,834	23	\$ 15,151 ^a
July 1, 1986 additional amounts Active	\$ 999	5	\$ 236	\$ 87	5	\$ 20	\$ 43	5	\$ 10
July 1, 1987 additional amounts (Gain)/loss	\$ (408)	1	\$ (408)	\$ 794	1	\$ 794	\$ 126	2	\$ 121
July 1, 1988 additional amounts	\$ 5,181	2	\$ 2,702	\$ 4,888	2	\$ 2,549	\$ 386	2	\$ 201
July 1, 1989 additional amounts Active	\$ 8,354	8	\$ 2,816	\$ 2,336	8	\$ 787	\$ 1,086	8	\$ 366
Assumption change	<u>(9,119)</u>	8	<u>(3,073)</u>	<u>(2,652)</u>	8	<u>(894)</u>	<u>(1,063)</u>	8	<u>(358)</u>
Subtotal^b	\$ (764)		\$ (258)	\$ (316)		\$ (107)	\$ 23		\$ 8
July 1, 1990 additional amount (Gain)/loss	\$ (2,914)	1	\$ (2,914)	\$ 3,064	1	\$ 3,064	\$ 617	1	\$ 617
July 1, 1991 additional amount (Gain)/loss	\$ (1,329)	5	\$ (801)	\$ (1,302)	5	\$ (785)	\$ (590)	5	\$ (356)
July 1, 1992 additional amounts Active	\$ 318	11	\$ 63	\$ 0		\$ 0	\$ 0		\$ 0
(Gain)/loss	<u>14,396</u>	6	<u>5,707</u>	<u>(1,699)</u>	6	<u>(674)</u>	<u>(702)</u>	6	<u>(278)</u>
Subtotal^b	\$ 14,714		\$ 5,770	\$ (1,699)		\$ (674)	\$ (702)		\$ (278)
July 1, 1993 additional amounts Active	\$ (919)	12	\$ (163)	\$ (611)	12	\$ (108)	\$ 0		\$ 0
(Gain)/loss	<u>(11,206)</u>	7	<u>(3,381)</u>	<u>(8,832)</u>	7	<u>(2,665)</u>	<u>(3,556)</u>	7	<u>(1,074)</u>
Assumption change	<u>(9,044)</u>	12	<u>(1,605)</u>	<u>73</u>	12	<u>13</u>	<u>(1,685)</u>	12	<u>(299)</u>
Subtotal^b	\$ (21,169)		\$ (5,150)	\$ (9,370)		\$ (2,760)	\$ (5,245)		\$ (1,373)

MINIMUM MUNICIPAL OBLIGATION

	Municipal			Police			Fire		
	July 1, 2002 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2002 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2002 Remaining Balance	Years Remaining	Amortization Payment
July 1, 1994 additional amounts									
(Gain)/loss	\$ (5,944)	8	\$ (1,471)	\$ (909)	8	\$ (225)	\$ (3,525)	8	\$ (872)
July 1, 1995 additional amounts									
Active	\$ 389	13	\$ 48	\$ 0		\$ 0	\$ 0		\$ 0
(Gain)/loss	5,632	8	934	378	8	63	(2,444)	8	(405)
Subtotal ^b	\$ 6,021		\$ 981	\$ 378		\$ 63	\$ (2,444)		\$ (405)
July 1, 1996 additional amount									
(Gain)/loss	\$ 4,228	9	\$ 647	\$ 2,075	9	\$ 318	\$ (1,804)	9	\$ (276)
July 1, 1997 additional amount									
Assumption change	\$ 43,368	15	\$ 4,936	\$ 5,307	15	\$ 604	\$ 2,235	15	\$ 254
(Gain)/loss	(47,077)	10	(6,730)	(18,068)	10	(2,583)	(12,078)	10	(1,727)
Subtotal ^b	\$ (3,709)		\$ (1,794)	\$ (12,761)		\$ (1,979)	\$ (9,843)		\$ (1,472)
July 1, 1998 additional amounts									
(Gain)/loss	\$ (14,137)	11	\$ (1,906)	\$ (11,540)	11	\$ (1,556)	\$ (10,373)	11	\$ (1,398)
July 1, 1999 additional amounts									
(Gain)/loss	\$ (121,666)	12	\$ (15,588)	\$ 895	12	\$ 115	\$ (44,165)	12	\$ (5,658)
Active	14,072	17	1,511	0		0	0		0
Nonactive	34,304	7	6,253	15,268	7	2,783	5,668	7	1,033
Subtotal ^b	\$ (73,290)		\$ (7,824)	\$ 16,163		\$ 2,898	\$ (38,498)		\$ (4,625)
July 1, 2000 additional amounts									
(Gain)/loss	\$ (24,903)	13	\$ (3,052)	\$ 34,637	13	\$ 4,244	\$ 709	13	\$ 87
July 1, 2001 additional amounts									
Assumption change	\$ (4,042)	19	\$ (414)	\$ (2,305)	19	\$ (236)	\$ (5,243)	19	\$ (537)
(Gain)/loss	(18,902)	14	(2,227)	(22,635)	14	(2,667)	11,310	14	1,333
Subtotal	\$ (22,944)		\$ (2,642)	(24,940)		(2,903)	\$ 6,067		\$ 795
July 1, 2002 additional amounts									
Assumption change	\$ 15,802	20	\$ 1,588	\$ 10,478	20	\$ 1,053	\$ 8,248	20	\$ 829
(Gain)/loss	173,035	15	19,694	112,300	15	12,782	33,027	15	3,759
Subtotal	\$ 188,837		\$ 21,282	122,778		13,835	\$ 41,275		\$ 4,588
Total unfunded actuarial accrued liability^b	\$ 938,466		\$ 62,587	\$ 693,354		\$ 54,791	\$ 204,056		\$ 10,521

a. Level dollar amortization payment (23 years remaining).

- Municipal — \$43,851
- Police — \$28,150
- Fire — \$11,226.

b. Numbers may not add because of rounding.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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

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

- *A statement of plan net assets* including information about plan assets and liabilities at the reporting date. This information is shown in the Financial Experience of the Fund section of the report.
- *A statement of changes in plan net assets* including receipts and disbursements. This information is also contained in the Financial Experience of the Fund section of the report.
- *A schedule of funding progress* including historical information about the actuarially determined funded status of the plan and the progress made in accumulating sufficient assets. This information should be provided for each of the past six plan years. For the transition year and the following five years the schedules should show information for the current year and as many prior years as available. This schedule is shown in Table 53 below.
- *A schedule of employer contributions* including historical trend information about the Annual Required Contributions (ARC) and the contributions made by the employer in relation to the ARC. This information is shown in Table 54.

53. Schedule of funding progress (dollars in millions)

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

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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

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

- a. Dollars in thousands. For each year, the actuarial valuation provides the City of Philadelphia with the unfunded actuarial accrued liability amortization payment as a dollar amount and the normal cost as a percentage of payroll. The City of Philadelphia then multiplies their actual fiscal year payroll with that percentage to get the normal cost payment. We determined the annual required contribution as the greater of (i) the resulting amount or (ii) the normal cost plus a 40-year amortization of the unfunded actuarial accrued liability with amortization payments increasing 4.5% per year.
- b. On February 2, 1999, the City deposited the proceeds of a Pension Obligation Bond worth \$1,250,000,000.

Statement No. 27 disclosure

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

The reporting elements are:

- **Annual required contributions or ARC** — this is the anticipated required contribution based on statement specific valuation methods, valuation assumptions and unfunded liability amortization over a period, not to exceed forty years as a level payment or level percent of pay, and amortization of contribution deficiencies or excesses.

Your valuation method conforms to the entry age cost method as defined in Section B of Statement 27. Unfunded actuarial accrued liabilities are funded on average over 16 years from July 1, 2002. Assets are valued as a five-year smoothing of gains and losses on the market value. All assumptions used in the calculation of the valuation reflect our long term expectations.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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

During the 1994 fiscal year, the City contributed \$10,000,000 more than the ARC. Therefore, the initial NPO value at the effective date is \$(9,012,000) as shown in Table 55 below.

- **Annual pension cost** — is equal to the ARC plus one year's interest on NPO and ARC adjustment to avoid double counting of NPO and interest on NPO.

The following table summarizes the GASB Statement disclosure for fiscal years 1994 through 2002.

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

	1994	1995	1996	1997	1998	1999	2000	2001	2002
ARC	\$ 223,750	\$ 212,838	\$ 222,482	\$ 237,016	\$ 252,080	\$ 256,704	\$ 168,928	\$ 167,616	\$ 178,239
Interest on NPO	—	(900)	(869)	(840)	(811)	(783)	(113,257)	(110,748)	(106,975)
Adjustment to ARC	—	1,241	1,198	1,158	1,118	1,080	156,130	152,672	147,470
Annual pension cost	\$ 223,750	\$ 213,179	\$ 222,811	\$ 237,334	\$ 252,387	\$ 257,001	\$ 211,801	\$ 209,540	\$ 218,734
Contributions made	233,750	212,838	222,482	237,016	252,080	1,506,704	183,928	167,616	178,239
Increase in NPO	(10,000)	341	329	318	307	(1,249,703)	27,873	41,924	40,495
NPO at beginning of year	—	(10,000)	(9,659)	(9,330)	(9,012)	(8,705)	(1,258,408)	(1,230,535)	(1,188,611)
NPO at end of year	(10,000)	(9,659)	(9,330)	(9,012) ^a	(8,705)	(1,258,408)	(1,230,535)	(1,188,611)	(1,148,116)
Interest rate	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
15-year amortization factor (EOY)	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06

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

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FINANCIAL SECTION

EXHIBIT A-1

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
STATEMENT OF PLAN NET ASSETS
JUNE 30, 2002

ASSETS

Cash on Deposit and on Hand	\$ 22,423,257
Investments at Fair Value	3,992,670,898
Securities Lending	214,943,810
Accounts Receivable	6,226,067
Due from Brokers	56,312,313
Interest and Dividends Receivable	11,742,632
Due from Other Funds	-
Due from Other Governmental Units	1,151,719
Other Assets	11,220
	<hr/>
<u>Total Assets</u>	<u>\$ 4,305,481,916</u>

LIABILITIES

Vouchers Payable	\$ 12,317
Accounts Payable	1,853,599
Salaries and Wages Payable	50,088
Due on Securities Lending	214,943,810
Due to Brokers	123,834,721
Accrued Expenses	941,424
Funds Held in Escrow and Advance Deposits	-
Deferred Revenue	4,948,079
Other Liabilities	388,003
	<hr/>
<u>Total Liabilities</u>	<u>346,972,041</u>

Net Assets Held in Trust for Pension Benefits	<u>\$ 3,958,509,875</u>
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CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Additions:		
Contributions:		
Employer's Contributions	\$ 178,239,428	\$ 167,615,831
Employees' Contributions	50,079,266	49,278,453
Other Contributions	-	-
<u>Total Contributions</u>	<u>228,318,694</u>	<u>216,894,284</u>
Investment Income:		
Interest and Dividends	109,267,233	133,787,204
Gain (Loss) from Sale of Investments	(347,606,746)	(408,821,981)
(Less) Investment Expenses	(11,948,329)	(14,032,276)
Securities Lending Revenue	10,808,232	29,434,716
(Less) Securities Lending Expenses	(8,657,111)	(27,388,843)
<u>Net Investment Income</u>	<u>(248,136,721)</u>	<u>(287,021,180)</u>
Miscellaneous Operating Revenues	699,396	647,998
<u>Total Additions</u>	<u>(19,118,631)</u>	<u>(69,478,898)</u>
Deductions:		
Personal Services	2,724,796	2,600,679
Purchase of Services	1,022,417	1,403,417
Materials and Supplies	85,404	80,138
Employee Benefits	1,054,798	996,638
Pension Benefits	450,221,681	456,741,689
Refunds of Members' Contributions	7,145,459	4,718,952
Securities Lending Expenses	-	-
Other Operating Expenses	229,971	279,398
<u>Total Deductions</u>	<u>462,484,526</u>	<u>466,820,911</u>
<u>Net Increase</u>	<u>(481,603,157)</u>	<u>(536,299,809)</u>
Net Assets Held in Trust for Pension Benefits - July 1, 2001	4,440,113,032	4,976,412,841
Prior Period Adjustment	-	-
Revised Net Assets Held in Trust for Pension Benefits - July 1, 2001	<u>4,440,113,032</u>	<u>4,976,412,841</u>
Net Assets Held in Trust for Pension Benefits - June 30, 2002	<u>\$ 3,958,509,875</u>	<u>\$ 4,440,113,032</u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
ANALYSIS OF MEMBERS' CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Municipal Division - <u>Old</u>	Municipal Division - <u>New</u>	Fire Division - <u>New</u>	Police Division - <u>New</u>
Balance, July 1, 2001	<u>\$ 203,351</u>	<u>\$ 370,049</u>	<u>\$66,378,656</u>	<u>\$ 120,926,364</u>
Additions:				
Regular Payroll Deductions	-	894	2,907,677	6,380,814
Installment Repurchase Deductions	-	-	63,592	94,549
Payments Through City Treasurer	-	-	924,634	291,052
Retirees' Pension Payments	-	-	4,017	192
Adjustments to Members' Contribution Accounts	-	-	-	-
Unclaimed Withdrawal Checks Deposited	-	-	636	-
Total Additions	<u>-</u>	<u>894</u>	<u>3,900,556</u>	<u>6,766,607</u>
Deductions:				
Withdrawals	-	22,951	115,396	441,181
Retirements	-	-	2,152,963	5,415,885
Net Change in Liability for Deceased Pensioners	-	-	(43,742)	63,651
Net Change In Liability for Pensioners' Unexpended Contributions	-	-	(29,333)	337,762
Adjustments to Members' Contribution Accounts	-	-	-	-
Total Deductions	<u>-</u>	<u>22,951</u>	<u>2,195,284</u>	<u>6,258,479</u>
Net Change in Year	<u>-</u>	<u>(22,057)</u>	<u>1,705,272</u>	<u>508,128</u>
Balance, June 30, 2002	<u>\$ 203,351</u>	<u>\$ 347,992</u>	<u>\$68,083,928</u>	<u>\$ 121,434,492</u>

<u>Elected Officials</u>	<u>Municipal Revised Plan 60</u>	<u>Municipal Revised Plan 87</u>	<u>Municipal Revised Plan 93</u>	<u>Fire Division Old</u>	<u>Police Division - Old</u>	<u>Total</u>
<u>\$1,609,307</u>	<u>\$280,154,718</u>	<u>\$7,138,615</u>	<u>\$28,381,490</u>	<u>\$12,099,622</u>	<u>\$50,671,395</u>	<u>\$567,933,567</u>
166,394	16,148,435	22,305	8,141,046	2,225,612	9,433,262	45,426,439
26,470	262,491	-	432,490	160,860	142,162	1,182,614
-	1,692,066	2,415	298,825	127,640	47,001	3,383,633
-	16,296	-	-	-	-	20,505
-	-	-	-	-	-	-
-	55,458	674	9,307	-	-	66,075
<u>192,864</u>	<u>18,174,746</u>	<u>25,394</u>	<u>8,881,668</u>	<u>2,514,112</u>	<u>9,622,425</u>	<u>50,079,266</u>
45,562	1,451,353	3,733	1,225,113	143,423	746,609	4,195,321
-	12,641,613	-	362,309	122,275	104,892	20,799,937
-	25,498	(3,084)	(15,810)	-	(24,670)	1,843
-	(677,092)	5,519	(24,350)	(5,272)	(11,909)	(404,675)
-	-	-	166	-	-	166
<u>45,562</u>	<u>13,441,372</u>	<u>6,168</u>	<u>1,547,428</u>	<u>260,426</u>	<u>814,922</u>	<u>24,592,592</u>
<u>147,302</u>	<u>4,733,374</u>	<u>19,226</u>	<u>7,334,240</u>	<u>2,253,686</u>	<u>8,807,503</u>	<u>25,486,674</u>
<u>\$1,756,609</u>	<u>\$284,888,092</u>	<u>\$7,157,841</u>	<u>\$35,715,730</u>	<u>\$14,353,308</u>	<u>\$59,478,898</u>	<u>\$593,420,241</u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
ANALYSIS OF FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Reserve for Members' Contributions	Reserve for Payment of Pensions and All Other Purposes	Total Reserves
Balance, July 1, 2001	\$ 567,933,567	\$ 3,872,179,465	\$ 4,440,113,032
Additions:			
Contributions:			
Employees	\$ 50,013,191	\$ -	
Quasi-Public Agencies	-	4,072,434	
City Appropriations	-	174,166,994	
Commonwealth of Pennsylvania	-	-	
Total Contributions	<u>50,013,191</u>	<u>178,239,428</u>	
Interest:			
Members' Reinstatements	-	1,251,023	
Interest on Long-Term Investments	-	106,682,416	
Interest on Short-Term Investments	-	1,333,794	
Accrued Interest as of June 30, 2001	-	-	
Total Interest	<u>-</u>	<u>109,267,233</u>	
Members' Contributions Transferred to Reserve for Retirements	-	20,799,937	
Adjustments for Liability to Deceased Pensioners	-	-	
Adjustments to Members' Unexpended Contributions	-	-	
Adjustments for Accrued Death Benefits	-	-	
Net Income (Loss) from Investment Managers	-	(112,343,430)	
Net Appreciation(Depreciation)/Fair Value of Investments	-	-	
Other Additions:			
Unclaimed Withdrawal Checks Deposited	66,075	-	
Refunds and Cancelled Checks - Prior Years' Pensions	-	247,561	
Miscellaneous Receipts	-	2,604,800	
Miscellaneous Fund Balance Adjustment	-	-	
Adjustments to Members' Contributions	-	-	
Total Other Additions	<u>66,075</u>	<u>2,852,361</u>	
Total Additions	<u>50,079,266</u>	<u>198,815,529</u>	<u>248,894,795</u>
Deductions:			
Withdrawals	4,195,321	-	
Retirements	20,799,937	-	
Adjustments to Members' Contributions	166	-	
Administrative Expenses	-	5,112,794	
Payments to Pensions and Benefits	-	450,221,681	
Investment Manager Expenses	-	11,922,586	
Net Appreciation(Depreciation)/Fair Value of Investments	-	235,263,316	
Adjustments for Liability to Deceased Pensioners	1,843	-	
Adjustments for Accrued Death Benefits	-	25,743	
Adjustments to Members' Unexpended Contributions	(404,675)	404,675	
Adjustments for Employees Unexpended Vacation Time	-	4,427	
Miscellaneous Fund Balance Adjustment	-	2,950,138	
Total Deductions	<u>24,592,592</u>	<u>705,905,360</u>	<u>730,497,952</u>
Balance, June 30, 2002	<u>\$ 593,420,241</u>	<u>\$ 3,365,089,634</u>	<u>\$ 3,958,509,875</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

EXHIBIT A-5

<u>Balance, July 1, 2001</u>		\$ <u>15,832,938</u>
Receipts:		
From Members:		
Contributions		48,736,887
Interest		1,191,830
Repayment Fees		51,076
Payroll Deductions Accrued at June 30, 2001		<u>1,114,176</u>
Total Receipts - Members		51,093,969
From Operating Funds Appropriations-Current Year's Requirements		174,166,994
From Pension Bond Proceeds		-
Prior Year's Appropriations		-
PA Act 205 Grant		-
Revenue from Police and Firemen's Pension Funds		5,463
Interest on Long-Term Debt Securities		37,140
Interest on Short-Term Debt Securities		1,296,645
Accrued Interest Receivable at June 30, 2001		-
Sale or Maturity of Long-Term Debt Securities		5,564,679
Sale or Maturity of Equity/Debt Securities		455,697,022
Gain(Loss) on Sale of Investments		-
Refunds and Cancelled Checks Deposited		639,663
Reimbursement for Normal City Costs, Quasi-Public Agencies		2,920,714
Accrual Due from Quasi-Public Agencies at June 30, 2001		1,036,375
Other Receipts		<u>2,599,346</u>
<u>Total Receipts</u>		<u>695,058,010</u>
<u>Total Available for Disbursement</u>		<u>710,890,948</u>
Disbursements:		
Pensions and Benefits		450,322,754
Withdrawals		4,195,321
Administrative Expenses		19,122,658
Equity/Debt Securities Purchased		194,999,995
Long-Term Investments Purchased		<u>19,826,963</u>
<u>Total Disbursements</u>		<u>688,467,691</u>
<u>Balance, June 30, 2002</u>		\$ <u><u>22,423,257</u></u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
SUMMARY SCHEDULE OF INVESTMENTS
JUNE 30, 2002

	<u>Par Value</u>	<u>Cost</u>	<u>Market Value</u>
Repurchase Agreements	\$ -	\$ -	\$ -
U.S. Government Securities	137,689,458	142,913,825	144,384,275
U.S. Government Agency Securities	358,030,905	330,637,314	336,769,521
Corporate Bonds	385,572,901	398,236,300	414,631,474
Corporate Equity	-	3,004,067,907	2,821,505,660
Mutual Funds	-	-	-
Collateralized Mtg Obligations	32,933,203	33,314,665	33,965,406
Other Bonds and Investments	28,362,667	36,702,441	35,931,524
Short Term Investment Pools	43,251,022	42,999,721	43,354,731
Non-Categorized Mutual Funds	-	-	-
Real Estate	56,180,485	56,180,485	36,317,745
Financial Agreements	159,483,427	159,414,547	125,810,562
	<hr/>	<hr/>	<hr/>
<u>Total Municipal Pension Fund</u>	<u>\$ 1,201,504,068</u>	<u>\$ 4,204,467,205</u>	<u>\$ 3,992,670,898</u>

City of Philadelphia
 Year-End Pension Contribution
 Pension Contributions By Division
 Fiscal Year Ending June 30, 2002

	<u>Payroll Used To Determine Normal Cost</u>	<u>Normal Costs</u>	<u>Unfunded Liability</u>	<u>Less Quasi Contributions</u>	<u>Plus Total Interest Charges</u>	<u>Total Pension Contribution</u>
Police - 1967 Plan	108,783,730.78	8,974,657.79	66,140,110.00		(6,011,539.40)	69,103,228.38
Police - 1987 Plan	191,113,032.51	11,633,050.29	(9,621,430.00)		(160,992.77)	1,850,627.52
Fire - 1967 Plan	49,695,672.56	4,006,465.12	11,961,660.00		(1,277,951.28)	14,690,173.85
Fire - 1987 Plan	45,071,778.60	2,955,356.52	(2,722,820.00)		(18,610.22)	213,926.30
Municipal - 1967 Plan	431,554,737.07	21,702,887.73	66,391,900.00	(2,985,537.51)	(6,811,411.74)	78,297,838.47
Municipal - 1987 Plan Y	365,737,696.40	20,225,294.61	(9,318,410.00)		(872,893.15)	10,033,991.46
Municipal - 1987 Plan M	514,885.25	28,473.15	0.00		(2,278.75)	26,194.41
Municipal Elected - 1987 Plan	1,650,299.50	93,902.04	(147,150.00)		4,261.51	(48,986.45)
Quasi-Governmental Agencies	21,612,574.24	1,086,896.36		(1,086,896.36)		0.00
	<u>1,215,734,406.92</u>	<u>70,706,983.62</u>	<u>122,683,860.00</u>	<u>(4,072,433.87)</u>	<u>(15,151,415.81)</u>	<u>174,166,993.94</u>

CITY OF PHILADELPHIA
MUNICIPAL RETIREMENT SYSTEM

APPLICATIONS PROCESSED DURING JULY 2000 THROUGH JUNE 2001

DIVISION	WITHDRAWAL APPLICATIONS			PENSION APPLICATIONS					GRAND TOTAL APPLICATIONS
	Members	Deaths	Total	Regular	Disabled	Survivors of Employees	Pensioners	Total	
MUNICIPAL	1,023	25	1,048	434	78	50	275	837	1,885
FIRE	20	1	21	33	1	4	38	76	97
POLICE	107	1	108	106	17	12	76	211	319
<u>GRAND TOTAL</u>	<u>1,150</u>	<u>27</u>	<u>1,177</u>	<u>573</u>	<u>96</u>	<u>66</u>	<u>389</u>	<u>1,124</u>	<u>2,301</u>

APPLICATIONS PROCESSED DURING JULY 2001 THROUGH JUNE 2002

DIVISION	WITHDRAWAL APPLICATIONS			PENSION APPLICATIONS					GRAND TOTAL APPLICATIONS
	Members	Deaths	Total	Regular	Disabled	Survivors of Employees	Pensioners	Total	
MUNICIPAL	1,074	42	1,116	533	65	75	243	916	2,032
FIRE	16	-	16	49	4	2	35	90	106
POLICE	107	2	109	122	25	16	92	255	364
<u>GRAND TOTAL</u>	<u>1,197</u>	<u>44</u>	<u>1,241</u>	<u>704</u>	<u>94</u>	<u>93</u>	<u>370</u>	<u>1,261</u>	<u>2,502</u>

CITY OF PHILADELPHIA
MUNICIPAL RETIREMENT SYSTEM

COMPARATIVE STATEMENT OF RETIREMENT BENEFITS IN FORCE

AS OF JUNE 30, 2001 AND JUNE 30, 2002

	NUMBER RECEIVING BENEFITS				MONTHLY RATE OF PENSION BENEFITS IN FORCE			
	Regular	Disabled	Survivors	TOTAL	Regular	Disabled	Survivors	TOTAL
Retired Members								
<u>JUNE 30, 2001</u>								
<u>MUNICIPAL DIVISION</u>	11,144	2,071	5,440	18,655	\$13,550,584	\$2,288,784	\$2,438,172	\$18,277,540
<u>FIRE DIVISION</u>	1,579	521	994	3,094	2,676,465	733,459	511,059	3,920,983
<u>POLICE DIVISION</u>	5,089	2,153	2,183	9,425	8,390,146	2,777,911	1,200,839	12,368,896
<u>GRAND TOTAL</u>	<u>17,812</u>	<u>4,745</u>	<u>8,617</u>	<u>31,174</u>	<u>\$24,617,195</u>	<u>\$5,800,154</u>	<u>\$4,150,070</u>	<u>\$34,567,419</u>
Retired Members								
<u>JUNE 30, 2002</u>								
<u>MUNICIPAL DIVISION</u>	11,096	2,072	5,466	18,634	\$13,569,172	\$2,307,382	\$2,463,404	\$18,339,958
<u>FIRE DIVISION</u>	1,566	520	988	3,074	2,659,076	734,100	515,216	3,908,392
<u>POLICE DIVISION</u>	5,089	2,147	2,180	9,416	8,417,187	2,789,372	1,204,813	12,411,372
<u>GRAND TOTAL</u>	<u>17,751</u>	<u>4,739</u>	<u>8,634</u>	<u>31,124</u>	<u>\$24,645,435</u>	<u>\$5,830,854</u>	<u>\$4,183,433</u>	<u>\$34,659,722</u>

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

ACTIVE MEMBERS

<u>DIVISION</u>	<u>6/30/01</u>	<u>6/30/02</u>
MUNICIPAL	22,248	22,165
FIRE	2,460	2,425
POLICE	7,061	6,967
<u>TOTAL</u>	<u>31,769</u>	<u>31,557</u>

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

