



ANNUAL REPORT

City of Philadelphia BOARD OF PENSIONS AND RETIREMENT



FISCAL YEAR ENDING JUNE 30, 2004

John F. Street
Mayor

Janice D. Davis
Chairperson

Gwendolyn Bell
Executive Director

CITY OF PHILADELPHIA

BOARD OF PENSIONS AND RETIREMENT

ANNUAL REPORT

FISCAL YEAR JULY 1, 2003 - JUNE 30, 2004

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

To the People of the City of Philadelphia:

The Board of Pensions and Retirement hereby submits the Annual Report of the Retirement System for City of Philadelphia employees for the fiscal year ending June 30, 2004. 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 – 16th Floor, Philadelphia, PA 19102 or call 215-496-7418 or 1-800-544-1173.

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



INTRODUCTORY SECTION

CITY OF PHILADELPHIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Gwendolyn Bell

Executive Director

MEMBERS OF THE BOARD

Janice D. Davis

Chairperson, Director of Finance
Appointed May 15, 2000.

Philip R. Goldsmith

Managing Director
Appointed February 3, 2003.

Pedro Ramos, Esquire

City Solicitor
Appointed March 1, 2004.

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

Fiduciary Investment Solutions, Inc.
Philadelphia, Pennsylvania

REAL ESTATE CONSULTANT

Pension Consulting Alliance
Portland, Oregon

ALTERNATIVE INVESTMENT CONSULTANT

Franklin Parks
Bala Cynwid, Pennsylvania

CUSTODIAN BANK

State Street Bank
Quincy, Massachusetts

INVESTMENT MANAGERS

U. S. Equities

Ariel Capital Management, Inc.
Chicago, Illinois

Aronson + Johnson + Ortiz, LLC
Philadelphia, Pennsylvania

Chicago Equity Partners
Chicago, Illinois

Lord, Abnett & Company
Jersey City, New Jersey

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

Turner Investment Partners
Berwyn, Pennsylvania

Wells Capital Management
Minneapolis, Minnesota

Ark Asset Management
New York, New York

Boston Partners Asset Management
Boston, Massachusetts

Cooke & Bieler
Philadelphia, Pennsylvania

Navellier & Associates
Yardley, Pennsylvania

Seneca Capital Management
San Francisco, California

Wellington Management
Company, LLP
Boston, Massachusetts

International Equities

Delaware International Advisers
London, England

Philadelphia International Advisers
Philadelphia, Pennsylvania

Global Fixed Income

Deutsche Asset Management
Investment Services Limited
Philadelphia, Pennsylvania

Earnest Partners
Atlanta, Georgia

Fidelity Investments
Boston, Massachusetts

MDL Capital Management
Pittsburgh, Pennsylvania

Western Asset Management Co.
Pasadena, California

Tactical Asset Allocation

Mellon Capital Management Corp.
San Francisco, California

Cash Management

State Street Bank
Quincy, Massachusetts

Relative Return Bond

AIG Global Investors Corp.
Wilton, Connecticut

Opportunity Fund

FIS Funds Management, Inc.
Philadelphia, Pennsylvania

PFM Advisors
Philadelphia, Pennsylvania

Alternative Investments

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

Asian Financial Bank
Philadelphia, Pennsylvania

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

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

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

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

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

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

Falcon Mezzanine Partners, L.P.
Needham, Maryland

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

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

GS Capital, L.P.
Wayne, Pennsylvania

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

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

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

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

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

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

MGIC Mortgage Marketing Corp.
Milwaukee, Wisconsin

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

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

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

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

Quaker BioVentures, L.P.
Philadelphia, Pennsylvania

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

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

United Bank of Philadelphia
Philadelphia, Pennsylvania

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

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

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

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

The Retail Initiative
New York, New York

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

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

Thomas Weisel Capital
Partners, LP
San Francisco, California

State of Israel Jubilee ISS
Israel Bonds

Real Estate Investments

AEW Capital Management
Boston, Massachusetts

Heitman Capital Management Corp.
Chicago, Illinois

CIGNA Realty Corp.
Hartford, Connecticut

MISSION

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

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

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

The Executive Director, aided by a staff of 71 personnel, administers the day-to-day activities of the Retirement System.

MEMBERSHIP

The Public Employees Retirement System provides benefits to police, fire and civilian workers of the City of Philadelphia through the administration of 18 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 2004, the Public Employees Retirement System had 31,026 active members and 32,562 retired members, including 8,696 survivors and 4,624 people receiving disability benefits.

During fiscal year 2004, the Board approved 2,396 pension applications submitted by retiring employees, surviving spouses, beneficiaries and disabled members. The Board processed 1,177 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 2004 was \$73,654,396. The total unfunded accrued liability for fiscal year 2004 was \$196,302,460, including \$2,024,000 for the *Dombrowski* annual payment.

Under the City's funding policy, the recommended contribution for the City for the current year amounted to \$247,618,909. The City's actual contribution was \$196,601,890. The City's contribution did meet the Minimum Municipal Obligation (MMO) as required by the Commonwealth of Pennsylvania's Acts 205 and 189. However, the contribution was made after December 31, 2003, so the City was required to include 9% interest on the payment.

INCOME

The City of Philadelphia is the largest single contributor to the Public Employees Retirement System. The City contributed \$196,601,890 or 23.1% of the total additions to the Retirement System's net assets in fiscal year 2004. Employees contribute a percentage of their pay, and the percentage varies with plan membership.

Employee contributions totalled \$50,534,513 or 5.9% of additions. Contributions from the quasi-public agencies amounted to \$6,224,986 or 0.7% of additions.

A major source of income is the earnings of the System's investment portfolio. Interest and dividends amounted to \$68,375,744 or 8.0% of total additions, while securities lending revenue increased plan net assets by \$3,608,267 or 0.4% of additions. Normal investing activity contributed \$539,661,188 in capital gains or 63.5% of the additions. Miscellaneous sources provided \$1,269,700 or 0.1% towards the additions. Together the contributions and earnings added \$866,276,288 to the plan net assets.

Investment expenses of \$13,033,850 and securities lending expenses of \$2,803,286 resulted in a decrease to the plan net assets of \$15,837,136. After investment expenses, the plan net assets increased by \$597,077,763 in fiscal year 2004.

INVESTMENTS

The 9-member Board of Pensions and Retirement plays an active role in the determination of investment policy and strategy. All major decisions with regard to the portfolio are approved by the Board based upon the recommendations of its investment consultant and managers and the Board's in-house investment staff. Fiduciary Investment Solutions, Inc., the Board's Investment Consultant, oversees the management of the portfolio by investment management firms (a listing of these firms is presented on Pages 2-5). 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: 40.97% Domestic Equities; 14.11 % International Equities; 27.31% Global Fixed Income; 5.17% Tactical Asset Allocation (TAA) Balanced Portfolio of Stocks and Bond (Target of 60/40); 3.28% Opportunity Fund; 3.10% Relative Return Bond; 5.57% Alternative Investments; 0.03% Real Estate; and 0.43% Cash.

As of the fiscal year ending June 30, 2004, the total market value of Pension Fund investments was \$4,012,424,872 (a 2.1% increase over fiscal year 2003) vs. the value at cost of \$3,670,977,767 (a 6.6% decrease over fiscal year 2003). 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 \$668,033,391 in fiscal 2004, \$657,549,075 or 98.4% were pension payments. Other expenses included \$4,100,253 for the refund of members' contributions and \$6,384,063 for administrative expenses.

AMENDMENTS TO CITY OF PHILADELPHIA PUBLIC EMPLOYEES RETIREMENT CODE

Section 22-305 - Maximum Benefit Limitations - Bill No. 030827 (Approved by the Mayor on December 31, 2003)

Section 22-305 was amended to incorporate maximum benefit limitations imposed by the Internal Revenue Code.

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, 2004, 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, 2004 and City contributions for the fiscal year ending June 30, 2006. This section summarizes the valuation results and discusses changes in the System's costs and liability arising from demographic and economic experience for the year ending June 30, 2004.

Findings summary

Table 1 shows actuarial valuation results for all divisions as of July 1, 2004.

1. July 1, 2004 actuarial valuation (dollars in thousands)

Participants	
Active	28,634
Retired	19,243
Beneficiaries	8,648
Disabled	4,574
Terminated vested	809
DROP	<u>2,853^c</u>
Total	64,761
Total annual salaries	\$ 1,265,953
Actuarial accrued liability	\$ 7,247,743
Unfunded actuarial accrued liability	\$ 2,914,687
Assets for valuation purposes	\$ 4,333,057
Funding percent	59.8%
City normal cost as percent of payroll (beginning-of-year payment)	5.404%
Fiscal 2006 funding requirements (beginning-of-year payments)	
City's funding policy	\$ 380,738 ^{a, b}
Minimum municipal obligation	\$ 306,873 ^a

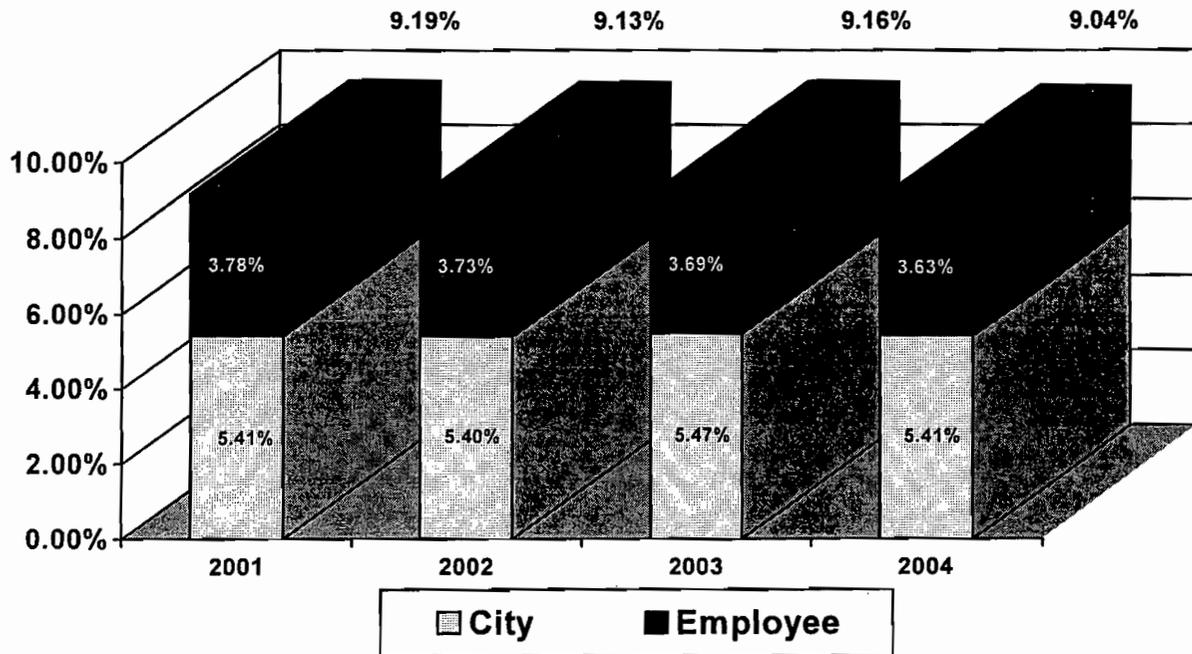
- a. The City may use general state aid and state cost-of-living reimbursements to meet this commitment. For fiscal 2005, these totaled \$49,802,833.
- b. Determined using estimated July 1, 2005 annual payroll. Final contribution will be based on actual fiscal 2006 payroll.
- c. While still active employees, the Deferred Retirement Option Plan (DROP) participants are treated as retired for valuation purposes since they no longer accrue benefits.

EXECUTIVE SUMMARY

Normal cost

The total normal cost is the cost of one year's accrual of projected benefits plus administrative expenses. The City's normal cost equals the total normal cost *less* expected employee contributions. The total normal cost percentage decreased due to lower assumed administrative expenses and the ongoing shift of active participants to the less expensive Plan 87. 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, 2003 through June 30, 2004, the unfunded actuarial accrued liability increased \$274,549,000 from \$2,640,138,000 to \$2,914,687,000 because:

- The valuation assets had a return of 4.6% during the year. We assume the valuation assets will have a 9% return. This was the primary cause for the increase in unfunded liability.
- The City contributed the amount required under the MMO, which is less than the amortization payment under the City's funding policy.

EXECUTIVE SUMMARY

- The funding policy has a one-year delay in making its plan year contribution. So the unfunded liability receives a year of interest from any new amortization bases in the prior year's valuation.
- Other non-economic experience, such as mortality and retirement experience, resulted in a small loss.
- Salary increases were less than our 5% assumption, resulting in a gain.

The impact of these factors is illustrated in Table 3.

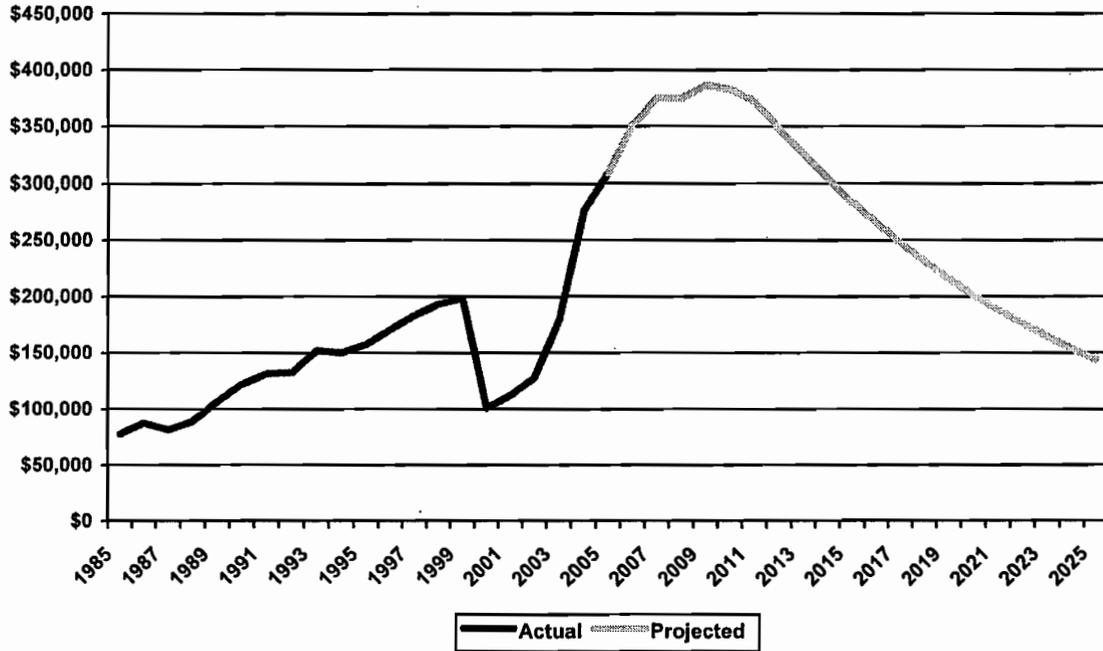
3. Unfunded liability (millions)		
2003 Unfunded liability		\$ 2,640
Change due to:		
Plan changes	\$ 0	
Payment schedule	42	
Salary increases	(41)	
Investment return	200	
Assumption changes	0	
Smaller contribution than scheduled	51	
Nonactive mortality	46	
Other actuarial experience	(23)	
Total of all changes		<u>275</u>
2004 Unfunded liability		\$ 2,915

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 2010, and then decrease. 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 59.8% funded and the alternative amortization schedule is not expected to result in a lower cost to the City until fiscal year 2012.

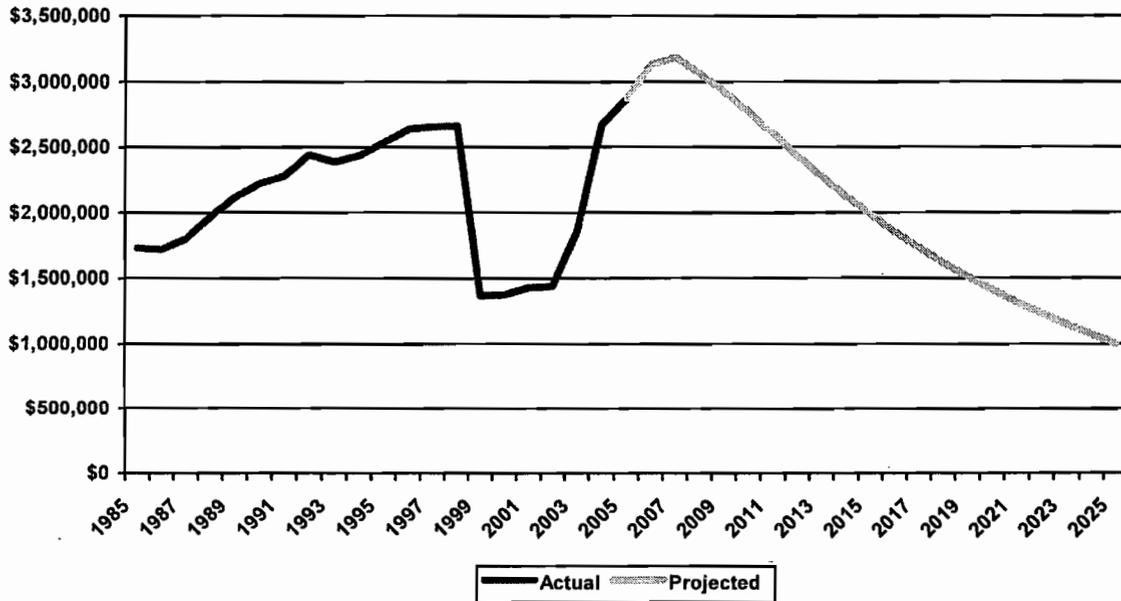
Graph 3(A) illustrates changes in the amortization payment through 2025. Graph 3(B) tracks the unfunded liability through 2025. The red lines indicate actual past changes in the amortization payment or unfunded liability and include scheduled increases and changes because of previous plan amendments, 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 two 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 of payments (\$'s in thousands)



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



EXECUTIVE SUMMARY

City funding policy

The report shows the recommended City contributions, assuming they're paid at the beginning of the fiscal year (July 1, 2005). If paid after July 1, the City's funding policy has been to pay interest at 9% from July 1, 2005 to the date paid.

The resulting estimated City contributions for fiscal years 2005 and 2006 are shown in Table 4(A).

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

	Fiscal 2005	Fiscal 2006
Normal cost	\$ 72,596	\$ 71,491 ^a
Amortization payment	<u>276,555</u>	<u>309,247</u>
Total City cost	\$ 349,151	\$ 380,738 ^b

- Based on estimated July 1, 2005 annual payroll. Actual normal cost will be based on actual fiscal 2006 payroll. This payroll does not include DROP participants.
- The City may use general state aid and state COLA reimbursements to meet this commitment. For fiscal year 2005, they totaled \$49.8 million.

Table 4(B) shows July 1, 2005 employee contribution rates.

4(B). Employee contribution rates effective July 1, 2005 (based on July 1, 2004 results)

	Municipal	Elected	Police	Fire
1967 Plan	3.75% ^a	N/A	6.00%	6.00%
Plan 87	1.99%	6.92%	5.00%	5.00%

- 6.00% on wages over the Social Security maximum taxable wage base — \$90,000 in 2005.

Quasi agency funding

Table 4(C) shows the quasi agencies funding rate as a percent of payroll for fiscal years 2005 and 2006.

EXECUTIVE SUMMARY

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

	Fiscal 2005	Fiscal 2006
Valuation date	July 1, 2003	July 1, 2004
Normal cost	5.249%	5.146% ^a
Amortization rate	<u>38.445%</u>	<u>48.112%</u> ^b
Total, year-end rate	43.694%	53.258%
Total, adjusted for quarterly payments	42.622%	51.951% ^c

a. End of year normal cost rate, page 11, Municipal 1967 Plan.

b. $\$175,386 \div \$364,534$, see pages 15 and 11.

c. $.97546$ (quarterly adjustment factor) \times 53.258%.

Minimum municipal obligation

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

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

- The City uses a 34-year increasing amortization of its July 1, 1985 unfunded actuarial accrued liability, while Act 205 allows a 40-year increasing amortization schedule.
- Act 205 was amended in July 2004 to allow for a 30-year amortization of the portion of the July 1, 2003 unfunded liability attributable to the 2001 and 2002 calendar year investment returns. Investment losses are usually amortized over 15 years.
- The City applies the normal cost rates to the fiscal year's actual payroll. The MMO is based on the prior year's estimated payroll.
- No interest accumulates on the MMO if the payment is made by plan (fiscal) year-end. This was confirmed in a telephone conversation with the Public Employee Retirement Commission (PERC).
- The City's funding policy and the MMO use a one-year delay in applying actuarial valuation results to fiscal years. This July 1, 2004 valuation report determines the City's fiscal 2006 MMO and funding contribution. For the MMO, however, no interest is added for the one-year delay.
- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.

Table 46 of this report summarizes the City's unfunded liability payment for its fiscal 2006 MMO. These payments reflect the 40-year funding from July 1, 1985 with increasing payments at 4.5%.

The resulting fiscal 2006 MMO is summarized in Table 4(D).

EXECUTIVE SUMMARY

4(D). Fiscal 2006 minimum municipal obligation (thousands)

Valuation report	July 1, 2004
Normal cost	\$ 112,744
Amortization payment	235,673
Expected administrative expense	<u>6,500</u>
Subtotal	\$ 354,917
Expected member contributions	<u>(48,044)</u>
Minimum municipal obligation	\$ 306,873
Interest	<u>0^a</u>
Total	<u>\$ 306,873^b</u>

a. Interest applies if the MMO is not paid before the plan year-end (June 30th).

b. The City may use general state aid and state COLA reimbursement, estimated at \$49.8 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, 2003 and July 1, 2004 is shown in Table 4(E).

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

	2003	2004
Actuarial value of assets	\$ 4,548,145	\$ 4,333,057
Actuarial accrued liability	\$ 7,188,283	\$ 7,247,743
Funding ratio	63.3%	59.8%

EXECUTIVE SUMMARY

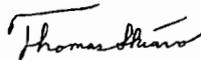
Certification

Mercer Human Resource Consulting has prepared the actuarial valuation of the City of Philadelphia Municipal Retirement System as of July 1, 2004 to determine contributions for the fiscal year ending June 30, 2006. The valuation is based on employee and financial data which were provided by the City of Philadelphia Board of Pensions and Retirement, and are summarized in this report.

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

There have been no changes in valuation procedures or actuarial cost methods since the last valuation of the Plan as of July 1, 2003.

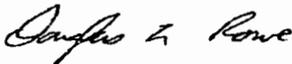
We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.



Thomas Skiavo, EA, MAAA
Enrollment Number: 02-6727

April 1, 2005
Date

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



Douglas Rowe, FSA, EA, MAAA
Enrollment Number: 02-2626

April 1, 2005
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, 2006. 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, 2004, using an actuarial asset method that spreads investment experience over a five-year period to minimize the impact of investment volatility on the Retirement System's costs. The method measures the market value of assets' gains or losses against the assumed 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 valuation assets are limited to be no more than 120% and no less than 80% of the market assets.

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

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

The portion of the unfunded actuarial accrued liability attributable to the Dombrowski class action suit is amortized in level dollar payments over 40 years ending June 30, 2009. The remaining July 1, 1985 unfunded actuarial accrued liability is amortized over 34 years ending June 30, 2019 in annual payments increasing 4.5% 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, 2006.

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

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

COST DERIVATION

16. Schedule of annual payments to fund the anticipated July 1, 2004 unfunded actuarial accrued liability (dollars in thousands)

Plan Year Beginning July 1	Annual Beginning-of-Year Payment										Total	Progress of Unfunded Actuarial Accrued Liability	Estimated Annual Payroll	Annual Payments as a Percent of Pay
	1967 Plan					Plan 87								
	Municipal	Police	Fire	Municipal	Elected	Police	Fire	Municipal	Elected	Police				
2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$2,914,687	\$1,265,953	N/A
2005	\$160,904	\$111,840	\$35,266	\$ (184)	\$201	\$ 1,322	\$ (102)	\$ 1,322	\$ 1,322	\$ (102)	\$309,247	2,875,564	1,322,921	23.4%
2006	186,389	118,160	39,326	2,798	300	4,232	585	4,232	4,232	585	351,791	3,135,185	1,382,452	25.4%
2007	197,566	124,979	42,281	4,164	297	5,504	890	5,504	5,504	919	375,681	3,186,499	1,444,663	26.0%
2008	194,396	127,188	43,153	4,065	242	5,622	926	5,622	5,622	926	375,513	3,063,791	1,509,673	24.9%
2009	200,121	130,958	44,673	4,135	252	5,489	969	5,489	5,489	969	386,688	2,930,224	1,577,608	24.5%
2010	197,116	130,097	44,997	4,345	173	5,518	998	5,518	5,518	998	383,186	2,772,454	1,648,600	23.2%
2011	198,728	131,921	46,050	4,280	189	5,622	1,060	5,622	5,622	1,060	387,684	2,604,302	1,722,787	22.5%
2012	200,799	133,441	46,990	4,328	232	5,987	1,120	5,987	5,987	1,120	392,471	2,416,114	1,800,313	21.8%
2013	210,594	137,924	49,529	4,604	231	6,229	1,227	6,229	6,229	1,227	409,989	2,205,771	1,881,327	21.8%
2014	216,990	135,876	50,218	4,805	266	13,978	3,222	6,229	6,229	1,227	415,611	1,957,402	1,965,986	21.1%
2015	228,317	129,526	54,842	12,677	556	14,216	3,367	13,978	13,978	3,222	443,119	1,680,552	2,054,456	21.6%
2016	233,091	126,799	54,613	12,872	552	14,060	3,300	14,216	14,216	3,367	445,509	1,348,802	2,146,906	20.8%
2017	237,390	132,420	54,020	13,336	558	10,937	2,923	14,060	14,060	3,300	455,084	984,590	2,243,517	20.3%
2018	215,797	122,664	50,870	10,737	505	7,175	1,852	10,937	10,937	2,923	414,431	577,161	2,344,475	17.7%
2019	45,616	23,153	9,327	5,072	321	5,966	1,398	7,175	7,175	1,852	92,516	177,375	2,449,977	3.8%
2020	29,359	14,089	6,904	4,055	162	3,306	747	5,966	5,966	1,398	61,934	92,496	2,560,226	2.4%
2021	10,097	5,328	2,767	1,166	64	999	232	3,306	3,306	747	23,476	33,312	2,675,436	0.9%
2022	1,745	2,735	1,705	(14)	-	998	233	999	999	232	7,403	10,721	2,795,830	0.3%
2023	-	1,588	801	-	-	998	233	998	998	233	3,620	3,620	2,921,643	0.1%
2024	-	-	-	-	-	-	-	-	-	-	-	-	3,053,117	0.0%

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

MINIMUM MUNICIPAL OBLIGATION

The minimum municipal obligation (MMO) is the minimum required City contribution under state law (Acts 205 and 189). The City's MMO for the year ending June 30, 2006 is \$306,872,602. This amount is summarized by division in Table 45 and is based on the July 1, 2004 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 2005, the total state payments are \$49,802,833. Amounts received during fiscal 2006 may be used to meet the \$306,872,602 obligation.

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

- The City uses a 34-year increasing amortization of its July 1, 1985 unfunded actuarial accrued liability, while Act 205 allows a 40-year increasing amortization schedule. The City chose to amortize the July 1, 1985 unfunded actuarial accrued liability over the 34 years remaining in their then-existing schedule, rather than adopting the 40-year phased-in schedule permitted under Act 205. The City's more aggressive funding policy has resulted in larger contributions than Act 205 requires.
- Act 205 was amended in July 2004 to allow for a 30-year amortization of the portion of the July 1, 2003 unfunded liability attributable to the 2001 and 2002 calendar year investment returns. Investment losses are usually amortized over 15 years.
- The City applies the normal cost rates to the fiscal year's actual payroll. The MMO uses the prior year's estimated payroll.
- The City's actual contribution includes interest at 9% from July 1 to the payment date. However, no interest accumulates on the MMO if the payment is made by plan year-end as confirmed in conversations with the Public Employee Retirement Commission (PERC).
- The MMO reflects amortization of prior years' City contributions above past MMOs as actuarial gains.

MINIMUM MUNICIPAL OBLIGATION

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

45. MMO calculation for fiscal 2006 (July 1, 2004 valuation report)

	Fiscal 2006 (dollars in thousands)			
	Non-Uniformed	Police	Fire	Total
Estimated FY 2005 payroll	\$ 872,222	\$ 346,412	\$ 104,286	\$ 1,322,921
Normal cost percent	6.943%	11.444%	12.027%	8.522%
Normal cost	\$ 60,559	\$ 39,642	\$ 12,543	\$ 112,744
Amortization payment ^a	123,657	87,427	24,589	235,673
Administrative expense	<u>4,278</u>	<u>1,670</u>	<u>552</u>	<u>6,500</u>
Subtotal	\$ 188,494	\$ 128,739	\$ 37,684	\$ 354,917
Expected member contributions	<u>(24,200)</u>	<u>(18,223)</u>	<u>(5,621)</u>	<u>(48,044)</u>
MMO ^b	\$ 164,294	\$ 110,516	\$ 32,063	\$ 306,873

- 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 2005, the total is \$49,803 (thousands). Also includes quasi agencies.

MINIMUM MUNICIPAL OBLIGATION

46. Unfunded liability payments toward MMO for fiscal 2006 (thousands) — July 1, 2004 valuation report

	Municipal			Police			Fire		
	July 1, 2004 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2004 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2004 Remaining Balance	Years Remaining	Amortization Payment
Original July 1, 1985 unfunded actuarial accrued liability	\$ 919,669	21	\$ 64,633 ^a	\$ 590,375	21	\$ 41,491 ^a	\$ 235,430	21	\$ 16,546 ^a
July 1, 1986 additional amounts									
Active plan change	\$ 650	3	\$ 236	\$ 56	3	\$ 20	\$ 28	3	\$ 10
July 1, 1989 additional amounts									
Active plan change	\$ 3,512	2	\$ 2,816	\$ 982	2	\$ 787	\$ 457	2	\$ 366
Assumption change	(3,833)	2	(3,073)	(1,115)	2	(894)	(447)	2	(358)
Subtotal ^b	\$ (321)		\$ (258)	\$ (133)		\$ (107)	\$ 10		\$ 8
July 1, 1992 additional amounts									
Active plan change	\$ 234	4	\$ 63	\$ 0		\$ 0	\$ 0		\$ 0
(Gain)/loss	4,102	1	4,102	(484)	1	(484)	(200)	1	(200)
Subtotal ^b	\$ 4,336		\$ 4,164	\$ (484)		\$ (484)	\$ (200)		\$ (200)
July 1, 1993 additional amounts									
Active plan change	\$ (720)	6	\$ (163)	\$ (479)	6	\$ (108)	\$ 0		\$ 0
(Gain)/loss	(5,611)	2	(3,381)	(4,422)	2	(2,665)	(1,782)	2	(1,074)
Assumption change	(7,088)	6	(1,605)	57	6	13	(1,320)	6	(299)
Subtotal ^b	\$ (13,419)		\$ (5,150)	\$ (4,844)		\$ (2,760)	\$ (3,103)		\$ (1,373)
July 1, 1994 additional amounts									
(Gain)/loss	\$ (3,711)	3	\$ (1,471)	\$ (568)	3	\$ (225)	\$ (2,200)	3	\$ (872)
July 1, 1995 additional amounts									
Active plan change	\$ 353	11	\$ 48	\$ 0		\$ 0	\$ 0		\$ 0
(Gain)/loss	(4,565)	6	(934)	307	6	63	(1,981)	6	(405)
Subtotal ^b	\$ 4,918		\$ 981	\$ 307		\$ 63	\$ (1,981)		\$ (405)
July 1, 1996 additional amounts									
(Gain)/loss	\$ 3,550	7	\$ 647	\$ 1,742	7	\$ 318	\$ (1,515)	7	\$ (276)
July 1, 1997 additional amounts									
Assumption change	\$ 40,281	13	\$ 4,936	\$ 4,929	13	\$ 604	\$ 2,076	13	\$ 254
(Gain)/loss	(40,601)	8	(6,730)	(15,583)	8	(2,583)	(10,417)	8	(1,727)
Subtotal ^b	\$ (320)		\$ (1,794)	\$ (10,653)		\$ (1,979)	\$ (8,341)		\$ (1,472)
July 1, 1998 additional amounts									
(Gain)/loss	\$ (12,454)	9	\$ (1,906)	\$ (10,167)	9	\$ (1,556)	\$ (9,139)	9	\$ (1,398)

MINIMUM MUNICIPAL OBLIGATION

	Municipal			Police			Fire		
	July 1, 2004 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2004 Remaining Balance	Years Remaining	Amortization Payment	July 1, 2004 Remaining Balance	Years Remaining	Amortization Payment
July 1, 1999 additional amounts									
(Gain)/loss	\$ (109,041)	10	\$ (15,588)	\$ 802	10	\$ 115	\$ (39,582)	10	\$ (5,658)
Active plan change	13,276	15	1,511	0		0	0		0
Nonactive plan change	26,512	5	6,253	11,800	5	2,783	4,380	5	1,033
Subtotal ^b	\$ (69,253)		\$ (7,824)	\$ 12,602		\$ 2,898	\$ (35,202)		\$ (4,625)
July 1, 2000 additional amounts									
(Gain)/loss	\$ (22,635)	11	\$ (3,052)	\$ 31,483	11	\$ 4,244	\$ 645	11	\$ 87
July 1, 2001 additional amounts									
Assumption change	\$ (3,858)	17	\$ (414)	\$ (2,201)	17	\$ (236)	\$ (5,005)	17	\$ (537)
(Gain)/loss	(17,384)	12	(2,227)	(20,817)	12	(2,667)	10,401	12	1,333
Subtotal ^b	\$ (21,242)		\$ (2,642)	\$ (23,017)		\$ (2,903)	\$ 5,396		\$ 795
July 1, 2002 additional amounts									
Assumption change	\$ 15,156	18	\$ 1,588	\$ 10,050	18	\$ 1,053	\$ 7,911	18	\$ 829
Calendar year 2001 investment loss ^c	19,833	29	1,784	10,573	29	951	4,506	29	405
Other (Gain)/loss	141,507	13	17,340	94,064	13	11,526	26,311	13	3,224
Subtotal ^b	\$ 176,496		\$ 20,712	\$ 114,687		\$ 13,531	\$ 38,728		\$ 4,458
July 1, 2003 additional amounts									
Calendar year 2002 investment loss ^c	\$ 338,919	29	\$ 30,489	\$ 178,845	29	\$ 16,089	\$ 76,882	29	\$ 6,916
Other (Gain)/loss	77,949	14	9,185	11,148	14	1,314	8,294	14	977
Active plan change	0	19	0	23,145	19	2,372	9,256	19	949
Nonactive plan change	0	9	0	32,745	9	5,011	9,790	9	1,498
Subtotal ^b	\$ 416,868		\$ 39,674	\$ 245,883		\$ 24,786	\$ 104,222		\$ 10,340
July 1, 2004 additional amounts									
(Gain)/loss	\$ 146,771	15	\$ 16,705	\$ 88,662	15	\$ 10,091	\$ 26,074	15	\$ 2,968
Total^a	\$ 1,529,902		\$ 123,657	\$ 1,035,932		\$ 87,427	\$ 348,852		\$ 24,589

a. Level dollar amortization payment (21 years remaining).

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

b. Numbers may not add because of rounding.

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

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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

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

- A *statement of plan net assets* including information about plan assets and liabilities at the reporting date. This information is shown in the Financial Experience of the Fund section of the report.
- A *statement of changes in plan net assets* including receipts and disbursements. This information is also contained in the Financial Experience of the Fund section of the report.
- A *schedule of funding progress* including historical information about the actuarially determined funded status of the plan and the progress made in accumulating sufficient assets. This information should be provided for each of the past six plan years. For the transition year and the following five years the schedules should show information for the current year and as many prior years as available. This schedule is shown in Table 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 Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/92	\$1,981.8	\$4,425.5	\$2,443.7	44.78%	\$ 993.3	246.02%
7/1/93	2,113.9	4,502.1	2,388.2	46.95%	975.0	244.94%
7/1/94	2,225.2	4,662.6	2,437.4	47.72%	974.3	250.17%
7/1/95	2,312.1	4,850.8	2,538.7	47.66%	1,006.4	252.26%
7/1/96	2,457.2	5,098.1	2,640.9	48.20%	1,068.3	247.21%
7/1/97	2,660.9	5,318.1	2,657.2	50.03%	1,067.7	248.87%
7/1/98	2,921.3	5,586.1	2,664.8	52.30%	1,128.2	236.19%
7/1/99	4,496.8	5,862.1	1,365.3	76.71%	1,178.6	115.84%
7/1/00	4,765.0	6,193.4	1,428.4	76.94%	1,142.8	124.99%
7/1/01	4,943.4	6,379.8	1,436.4	77.49%	1,180.4	121.69%
7/1/02	4,891.3	6,727.2	1,835.9	72.71%	1,207.3	152.06%
7/1/03	4,548.1	7,188.3	2,640.2	63.27%	1,269.3	208.00%
7/1/04	4,333.1	7,247.7	2,914.7	59.79%	1,266.0	230.23%

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%
2003	\$ 195,514	91.9%
2004	\$ 253,844	79.9%

- 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. Historically, the ARC has been shown as the contribution derived from the City's funding policy.

Your valuation method conforms to the entry age cost method as defined in Section B of Statement 27. Unfunded actuarial accrued liabilities are funded on average over 17 years from July 1, 2004. Assets are valued as a five-year smoothing of gains and losses on the market value.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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

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

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

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

The following table summarizes the GASB Statement disclosure for fiscal years 1994 through 2004.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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

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

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

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FINANCIAL SECTION

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
STATEMENT OF PLAN NET ASSETS
JUNE 30, 2004

ASSETS

Cash on Deposit and on Hand	\$ 9,916,549
Investments at Fair Value	4,012,424,872
Securities Lending	376,596,754
Accounts Receivable	6,145,642
Due from Brokers	33,018,157
Interest and Dividends Receivable	10,497,357
Due from Other Funds	9,767,890
Due from Other Governmental Units	2,464,962
Other Assets	<u>11,220</u>
<u>Total Assets</u>	<u>\$ 4,460,843,403</u>

LIABILITIES

Vouchers Payable	\$ 96,806
Accounts Payable	2,864,503
Salaries and Wages Payable	96,987
Due on Securities Lending	376,596,754
Due to Brokers	102,518,440
Accrued Expenses	901,908
Funds Held in Escrow and Advance Deposits	-
Deferred Revenue	4,327,348
Other Liabilities	<u>233,976</u>
<u>Total Liabilities</u>	<u>487,636,722</u>

Net Assets Held in Trust for Pension Benefits	<u>\$ 3,973,206,681</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, 2004 AND 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Additions:		
Contributions:		
Employer's Contributions	\$ 202,826,876	\$ 179,756,512
Employees' Contributions	50,534,513	52,545,414
Other Contributions	-	-
	<hr/>	<hr/>
Total Contributions	253,361,389	232,301,926
Investment Income:		
Interest and Dividends	68,375,744	74,402,243
Gain (Loss) from Sale of Investments	539,661,188	7,338,709
(Less) Investment Expenses	(13,033,850)	(11,293,483)
Securities Lending Revenue	3,608,267	4,954,813
(Less) Securities Lending Expenses	(2,803,286)	(3,921,326)
Net Investment Income	<hr/> 595,808,063	<hr/> 71,480,956
Miscellaneous Operating Revenues	1,269,700	2,381,918
	<hr/>	<hr/>
<u>Total Additions</u>	850,439,152	306,164,800
Deductions:		
Personal Services	3,251,517	3,030,023
Purchase of Services	1,375,320	1,968,759
Materials and Supplies	122,348	109,945
Employee Benefits	1,244,307	1,194,503
Pension Benefits	657,549,075	462,327,355
Refunds of Members' Contributions	4,100,253	4,880,715
Securities Lending Expenses	-	-
Other Operating Expenses	390,571	362,455
	<hr/>	<hr/>
<u>Total Deductions</u>	668,033,391	473,873,755
	<hr/>	<hr/>
<u>Net Increase</u>	182,405,761	(167,708,955)
	<hr/>	<hr/>
Net Assets Held in Trust for Pension Benefits - July 1, 2003	3,790,800,920	3,958,509,875
Prior Period Adjustment	-	-
	<hr/>	<hr/>
Revised Net Assets Held in Trust for Pension Benefits - July 1, 2003	3,790,800,920	3,958,509,875
	<hr/>	<hr/>
Net Assets Held in Trust for Pension Benefits - June 30, 2004	<u>\$ 3,973,206,681</u>	<u>\$ 3,790,800,920</u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
ANALYSIS OF MEMBERS' CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Municipal Division - Old	Municipal Division - New	Fire Division - New	Police Division - New
Balance, July 1, 2003	<u>\$ 203,351</u>	<u>\$ 341,290</u>	<u>\$ 71,092,950</u>	<u>\$ 122,399,304</u>
Additions:				
Regular Payroll Deductions	-	1,904	2,413,067	5,420,067
Installment Repurchase Deductions	-	-	89,566	77,173
Payments Through City Treasurer	-	-	597,789	433,980
Retirees' Pension Payments	-	-	164	16,624
Net Change in Liability for Deceased Pensioners	-	-	-	57,862
Net Change In Liability for Pensioners' Unexpended Contributions	-	(11,737)	5,265,904	6,699,077
Adjustments to Members' Contribution Accounts	-	-	-	-
Unclaimed Withdrawal Checks Deposited	-	-	-	-
Total Additions	<u>-</u>	<u>(9,833)</u>	<u>8,366,490</u>	<u>12,704,783</u>
Deductions:				
Withdrawals	-	-	36,925	216,972
Retirements	-	-	13,131,150	20,579,265
Adjustments to Members' Contribution Accounts	-	-	-	-
Total Deductions	<u>-</u>	<u>-</u>	<u>13,168,075</u>	<u>20,796,237</u>
Net Change in Year	<u>-</u>	<u>(9,833)</u>	<u>(4,801,585)</u>	<u>(8,091,454)</u>
Balance, June 30, 2004	<u>\$ 203,351</u>	<u>\$ 331,457</u>	<u>\$ 66,291,365</u>	<u>\$ 114,307,850</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>\$1,883,527</u>	<u>\$ 286,631,782</u>	<u>\$7,229,601</u>	<u>\$43,146,946</u>	<u>\$ 16,810,515</u>	<u>\$68,743,253</u>	<u>\$ 618,482,519</u>
184,496	13,994,516	6,690	9,230,626	2,863,400	11,505,962	45,620,728
1,305	184,040	-	398,511	145,871	149,553	1,046,019
-	1,982,476	10,962	480,679	167,815	86,947	3,760,648
-	49,784	9,181	-	-	-	75,753
82,623	171,205		(8,348)		(42,240)	261,102
	4,455,784		85,317	10,781	58,097	16,563,223
-	-	-	-	-	-	-
-	30,560	-	609	-	195	31,364
<u>268,424</u>	<u>20,868,365</u>	<u>26,833</u>	<u>10,187,394</u>	<u>3,187,867</u>	<u>11,758,514</u>	<u>67,358,837</u>
1,662	1,411,981	3,125	1,588,802	147,946	692,840	4,100,253
82,623	27,416,907	9,317	643,500	142,146	354,910	62,359,818
-	-	-	-	-	-	-
<u>84,285</u>	<u>28,828,888</u>	<u>12,442</u>	<u>2,232,302</u>	<u>290,092</u>	<u>1,047,750</u>	<u>66,460,071</u>
184,139	(7,960,523)	14,391	7,955,092	2,897,775	10,710,764	898,766
<u>\$2,067,666</u>	<u>\$ 278,671,259</u>	<u>\$7,243,992</u>	<u>\$51,102,038</u>	<u>\$19,708,290</u>	<u>\$79,454,017</u>	<u>\$ 619,381,285</u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
ANALYSIS OF FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Reserve for Members' Contributions	Reserve for Payment of Pensions and All Other Purposes	Total Reserves
Balance, July 1, 2003	\$ 618,482,519	\$ 3,172,318,401	\$ 3,790,800,920
Additions:			
Contributions:			
Employees	\$ 50,503,148	\$ -	
Quasi-Public Agencies	-	6,224,986	
City Appropriations	-	196,601,890	
Commonwealth of Pennsylvania	-	-	
Total Contributions	<u>50,503,148</u>	<u>202,826,876</u>	
Interest:			
Members' Reinstatements	-	178,607	
Interest on Long-Term Investments	-	67,827,705	
Interest on Short-Term Investments	-	369,433	
Accrued Interest as of June 30, 2003	-	-	
Total Interest	<u>-</u>	<u>68,375,745</u>	
Members' Contributions Transferred to Reserve for Retirements	-	62,359,818	
Adjustments for Liability to Deceased Pensioners	261,102	-	
Adjustments to Members' Unexpended Contributions	16,563,223	-	
Adjustments for Accrued Death Benefits	-	160,273	
Net Income (Loss) from Investment Managers	-	198,333,975	
Net Appreciation(Depreciation)/Fair Value of Investments	-	341,327,212	
Other Additions:			
Unclaimed Withdrawal Checks Deposited	31,364	-	
Refunds and Cancelled Checks - Prior Years' Pensions	-	321,119	
Miscellaneous Receipts	-	987,013	
Miscellaneous Fund Balance Adjustment	-	505,447	
Adjustments to Members' Contributions	-	-	
Total Other Additions	<u>31,364</u>	<u>1,813,579</u>	
Total Additions	<u>67,358,837</u>	<u>875,197,478</u>	<u>942,556,315</u>
Deductions:			
Withdrawals	4,100,253	-	
Retirements	62,359,818	-	
Adjustments to Members' Contributions	-	-	
Administrative Expenses	-	6,272,809	
Payments to Pensions and Benefits	-	657,549,075	
Investment Manager Expenses	-	13,194,123	
Net Appreciation(Depreciation)/Fair Value of Investments	-	-	
Adjustments for Liability to Deceased Pensioners	-	-	
Adjustments for Accrued Death Benefits	-	-	
Adjustments to Members' Unexpended Contributions	-	16,563,223	
Adjustments for Employees Unexpended Vacation Time	-	33,350	
Miscellaneous Fund Balance Adjustment	-	77,903	
Total Deductions	<u>66,460,071</u>	<u>693,690,483</u>	<u>760,150,554</u>
Balance, June 30, 2004	<u>\$ 619,381,285</u>	<u>\$ 3,353,825,396</u>	<u>\$ 3,973,206,681</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, 2004

EXHIBIT A-5

<u>Balance, July 1, 2003</u>	\$	<u>16,927,127</u>
Receipts:		
From Members:		
Contributions		48,645,256
Interest		166,322
Repayment Fees		8,301
Payroll Deductions Accrued at June 30, 2003		<u>1,249,816</u>
Total Receipts - Members		50,069,695
From Operating Funds Appropriations-Current Year's Requirements		186,834,000
From Pension Bond Proceeds		-
Prior Year's Appropriations		-
PA Act 205 Grant		-
Revenue from Police and Firemen's Pension Funds		-
Interest on Long-Term Debt Securities		-
Interest on Short-Term Debt Securities		369,433
Accrued Interest Receivable at June 30, 2003		-
Sale or Maturity of Long-Term Debt Securities		10,796,387
Sale or Maturity of Equity/Debt Securities		536,949,935
Gain(Loss) on Sale of Investments		90
Refunds and Cancelled Checks Deposited		504,045
Reimbursement for Normal City Costs, Quasi-Public Agencies		3,760,024
Accrual Due from Quasi-Public Agencies at June 30, 2003		2,151,439
Other Receipts		<u>1,352,877</u>
<u>Total Receipts</u>		<u>792,787,925</u>
<u>Total Available for Disbursement</u>		<u>809,715,052</u>
Disbursements:		
Pensions and Benefits		657,414,940
Withdrawals		4,100,253
Administrative Expenses		17,336,938
Equity/Debt Securities Purchased		106,000,000
Long-Term Investments Purchased		<u>14,946,372</u>
<u>Total Disbursements</u>		<u>799,798,503</u>
<u>Balance, June 30, 2004</u>	\$	<u>9,916,549</u>

CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
SUMMARY SCHEDULE OF INVESTMENTS
JUNE 30, 2004

	<u>Par Value</u>	<u>Cost</u>	<u>Market Value</u>
Repurchase Agreements	\$ -	\$ -	\$ -
U.S. Government Securities	152,689,483	160,805,548	160,376,229
U.S. Government Agency Securities	254,045,664	255,783,653	254,932,813
Corporate Bonds	371,584,054	375,079,079	394,724,245
Corporate Equity	-	2,459,501,646	2,826,804,615
Mutual Funds	-	-	-
Collateralized Mtg Obligations	29,078,913	29,336,792	29,280,095
Other Bonds and Investments	51,876,780	52,388,287	54,653,215
Short Term Investment Pools	107,725,406	106,704,047	106,717,369
Non-Categorized Mutual Funds	-	-	-
Real Estate	31,329,515	31,329,015	19,473,292
Financial Agreements	200,126,132	200,049,700	165,462,999
<u>Total Municipal Pension Fund</u>	<u>\$ 1,198,455,947</u>	<u>\$ 3,670,977,767</u>	<u>\$ 4,012,424,872</u>

City of Philadelphia
 Year-End Pension Contribution
 Pension Contributions By Division
 Fiscal Year Ending June 30, 2004

Rangename to print: COSTS BY DIV

	<u>Payroll Used To Determine Normal Cost</u>	<u>Normal Costs</u>	<u>Unfunded Liability</u>	<u>Less Quasi Contributions</u>	<u>Plus Total Interest Charges</u>	<u>Total Pension Contribution</u>
Police - 1967 Plan	88,626,981.53	7,680,414.22	83,581,200.00		(5,380,336.25)	85,881,277.97
Police - 1987 Plan	221,514,779.18	14,808,262.99	(5,126,270.00)		(570,802.72)	9,111,190.27
Fire - 1967 Plan	38,896,507.88	3,287,143.88	21,820,710.00		(1,480,235.67)	23,627,618.21
Fire - 1987 Plan	54,757,768.87	3,952,415.76	(2,055,740.00)		(111,818.68)	1,784,857.08
Municipal - 1967 Plan	372,203,649.29	19,131,267.57	105,703,840.00	(4,813,210.72)	(7,075,901.17)	112,945,995.68
Municipal - 1987 Plan Y	444,130,666.33	22,655,105.29	(7,540,620.00)		(891,075.77)	14,223,409.52
Municipal - 1987 Plan M	155,692.75	7,941.89	0.00		(468.21)	7,473.67
Municipal Elected - 1987 Plan	2,303,288.52	120,070.43	(80,660.00)		(2,323.45)	37,086.99
Quasi-Governmental Agencies	27,466,437.73	1,411,774.90		(1,411,774.90)		0.00
	<u>1,250,055,772.07</u>	<u>73,054,396.92</u>	<u>196,302,460.00</u>	<u>(6,224,985.62)</u>	<u>(15,512,961.92)</u>	<u>247,618,909.38</u>

CITY OF PHILADELPHIA
MUNICIPAL RETIREMENT SYSTEM

APPLICATIONS PROCESSED DURING JULY 2002 THROUGH JUNE 2003

<u>DIVISION</u>	<u>WITHDRAWAL APPLICATIONS</u>			<u>PENSION APPLICATIONS</u>				<u>GRAND TOTAL APPLICATIONS</u>
	<u>Members</u>	<u>Deaths</u>	<u>Total</u>	<u>Regular</u>	<u>Disabled</u>	<u>Survivors of Employees</u>	<u>Pensioners</u>	
MUNICIPAL	975	42	1,017	573	98	46	219	936
FIRE	22	-	22	49	3	4	47	103
POLICE	103	-	103	133	20	16	89	258
<u>GRAND TOTAL</u>	<u>1,100</u>	<u>42</u>	<u>1,142</u>	<u>755</u>	<u>121</u>	<u>66</u>	<u>355</u>	<u>1,297</u>

APPLICATIONS PROCESSED DURING JULY 2003 THROUGH JUNE 2004

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

CITY OF PHILADELPHIA

MUNICIPAL RETIREMENT SYSTEM

COMPARATIVE STATEMENT OF RETIREMENT BENEFITS IN FORCE

AS OF JUNE 30, 2003 AND JUNE 30, 2004

	<u>NUMBER RECEIVING BENEFITS</u>				<u>MONTHLY RATE OF PENSION BENEFITS IN FORCE</u>			
	<u>Retired Members</u>				<u>Retired Members</u>			
	<u>Regular</u>	<u>Disabled</u>	<u>Survivors</u>	<u>TOTAL</u>	<u>Regular</u>	<u>Disabled</u>	<u>Survivors</u>	<u>TOTAL</u>
<u>JUNE 30, 2003</u>								
<u>MUNICIPAL DIVISION</u>	11,415	2,056	5,468	18,939	\$14,597,918	\$2,386,494	\$2,563,797	\$19,548,209
<u>FIRE DIVISION</u>	1,587	502	969	3,058	2,935,914	759,106	522,541	4,217,561
<u>POLICE DIVISION</u>	5,163	2,115	2,179	9,457	9,023,894	2,914,779	1,246,571	13,185,244
<u>GRAND TOTAL</u>	<u>18,165</u>	<u>4,673</u>	<u>8,616</u>	<u>31,454</u>	<u>\$26,557,726</u>	<u>\$6,060,379</u>	<u>\$4,332,909</u>	<u>\$36,951,014</u>
<u>JUNE 30, 2004</u>								
<u>MUNICIPAL DIVISION</u>	11,914	2,048	5,530	19,492	\$16,303,837	\$2,440,868	\$2,694,207	\$21,438,912
<u>FIRE DIVISION</u>	1,819	489	959	3,267	3,707,222	749,758	556,314	5,013,294
<u>POLICE DIVISION</u>	5,509	2,087	2,207	9,803	10,152,389	2,899,964	1,322,961	14,375,314
<u>GRAND TOTAL</u>	<u>19,242</u>	<u>4,624</u>	<u>8,696</u>	<u>32,562</u>	<u>\$30,163,448</u>	<u>\$6,090,590</u>	<u>\$4,573,482</u>	<u>\$40,827,520</u>

CITY OF PHILADELPHIA
PUBLIC EMPLOYEES RETIREMENT SYSTEM
ANALYSIS OF MEMBERSHIP

ACTIVE MEMBERS

<u>DIVISION</u>	<u>6/30/03</u>	<u>6/30/04</u>
MUNICIPAL	22,063	21,717
FIRE	2,452	2,297
POLICE	7,126	7,012
<u>TOTAL</u>	<u>31,641</u>	<u>31,026</u>

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