



**FEDERATED  
CITY  
EMPLOYEES'  
RETIREMENT  
SYSTEM**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

For The Fiscal Year Ended June 30, 2002

**A Pension Trust Fund of  
the City of San Jose,  
California**

**CITY OF SAN JOSE**  
**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**  
A Pension Trust Fund of the City of San Jose, California

**Comprehensive Annual  
Financial Report**  
**For the Fiscal Year Ended June 30, 2002**

**Edward F. Overton**  
**Director**

City of San Jose  
Department of Retirement Services  
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*Department of Retirement Services*  
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

October 5, 2002

The Honorable Mayor and City Council  
Members of the Federated City Employees' Retirement System  
City of San José  
San José, California

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. Some significant events worthy of note during this fiscal year were as follows:

- The Plan was awarded the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for its 2000-01 Comprehensive Annual Financial Report. This is the second year the Plan received the award.
- The Plan earned -1.68% on investments, compared to -3.39% for its benchmark and -5.82 for the Trust Universe Comparison Service Public Fund Median.
- The City Council appointed two new Board members, increasing the membership from five to seven.
- The Board approved new Asset Allocation Targets following an Asset Liability Modeling Study.
- The Board changed the definition for final compensation to highest year.
- The Board approved allowing retirees to return to work on a limited basis.
- The Board also approved medical coverage to be available to members who have been appointed guardians of minor children.
- The Board still remains committed to complying with the California Pension Protection Act (Prop 162).

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, and the Fund performance evaluators have produced a sound fund capable of continued growth. The Board of Administration and its staff are available to provide additional information when requested.

Sincerely,

JEFFREY PERKINS, Chair  
Board of Administration

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I.  
INTRODUCTORY  
SECTION



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## LETTER OF TRANSMITTAL



*Department of Retirement Services*  
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

October 1, 2002

Board of Administration  
Federated City Employees' Retirement System  
1737 North First Street, Suite 580  
San Jose, CA 95112

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Federated City Employees' Retirement System ("Plan") for the fiscal year ended June 30, 2002. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. Macias, Gini & Company LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules and tables are fairly presented and free from material misstatement.

The Plan was established in 1941 and this is the third year the Plan is using a CAFR format. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. I encourage you to review the narrative introduction, overview and analysis located in Management's Discussion and Analysis beginning on page 21.

### Structure of the Report

This report is presented in five sections:

- ◆ The Introductory Section contains the chairman's report, the letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, description of the Plan's management and organizational structure, a summary of the plan provisions and a listing of the professional services used.
- ◆ The Financial Section contains the report from the independent auditor, Macias, Gini & Company LLP, and the financial statements of the Plan and certain required supplementary information and other supplementary information.

## LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal

10/01/02 Page 2 of 4

- ◆ The Investment Section contains the Investment Consultant's statement produced by the Bank of New York, the Plan's investment consulting firm, along with investment policies and graphs and schedules regarding asset allocation, asset diversification and performance.
- ◆ The Actuarial Section contains the certification letter produced by the independent actuary, Gabriel, Roeder, Smith & Company, along with the results of the Plan's last valuation (2001).
- ◆ The Statistical Section contains graphs and schedules with comparative data related to revenue, expenses, benefits, and membership.

I trust that you and the members of the Plan will find this CAFR helpful in understanding the Federated Retirement System – a plan that continues to maintain a strong and positive financial future.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal years ended June 30, 2000 and June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. The Plan has received the certificate for two consecutive years. The Plan first received the certificate for its fiscal year ended June 30, 2000 CAFR with its first application. We believe our current report continues to conform to the Certificate of Achievement Program Requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard Board. Transactions of the Plan are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

**LETTER OF TRANSMITTAL (Continued)**

Letter of Transmittal

10/01/02 Page 3 of 4

**Major Initiatives**

The Board of Administration approved new asset allocation targets following completion of an asset liability modeling study. The new asset allocation adds an allocation to private markets and increases its allocation to developed international equities while reducing its allocation to real estate. Transition to the new asset allocation targets will continue through the 2002-03 fiscal year.

**Changes in Plan Memberships**

Plan membership changes for the defined benefit pension plan for FY2002 were as follows:

	2002	2001	Increase (Decrease)	Change
Active Members*	5,304	4,813	491	10%
Retired Members	1,690	1,620	70	4%
Survivors**	410	338	72	21%
<b>TOTAL</b>	<b>7,404</b>	<b>6,771</b>	<b>633</b>	<b>9%</b>

\* Active members include deferred vested members, members who have left City service but remain a member of the Plan.

\*\* Survivor total includes ex-spouses.

**Financial and Economic Summary**

Economic growth decelerated during 2000 and early 2001, but even by mid-2001 it was still not clear that the weakness was sufficient to merit the designation of a recession. Once the effects of September 11 were evident in the economic data, however, the National Bureau of Economic Research, the recognized authority for dating business cycles, announced that a recession had begun in March 2001.

The outlook for the next few years, as the Federal Reserve tries to steer the economy towards a period of less robust economic growth while trying to avoid a recession, investment returns can be expected to be considerably less than were evident in the late 1990's. The Plan is well structured to meet its investment objectives as defined in the Investment Policy Statement.

## LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal

10/01/02 Page 4 of 4

### **Investment Summary**

The Board of Administration has exclusive control of all investments of the Retirement Plan and is responsible for the establishment of investment objectives, strategies and policies. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to the Plan and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and defraying the reasonable cost of administration.

Compared to the Trust Universe Comparison Service ("TUCS") Public Fund Universe, the Plan's investment turned in an above-average performance during FY 2002. The portfolio earned a total return of -1.68% versus -3.39% for TUCS, which placed the Fund's total return in the fifth percentile of TUCS Public Fund Universe. Over long-term periods, the portfolio has earned a total return of 1.84% over the past three years and 6.33% over the past five years. On a fair value market basis, the total plan net assets decreased from \$1,174,160,557 to \$1,152,723,948 net of pending purchases and sales.

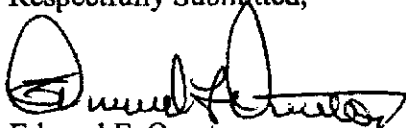
### **Funding**

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the funding ratio of the Plan was approximately at 99%. A six-year history of the Plan's funding progress is presented on page 38. The net decrease in Plan assets for FY 2002 was \$25,442,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 27.

### **Conclusion**

I would like to take this opportunity to thank the members of the Plan for their confidence in the plan management during the past year. I also want to express my thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,



Edward F. Overton  
Director, Retirement Services

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Federated City  
Employees Retirement  
System, California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2001

A Certificate of Achievement for Excellence in Financial  
Reporting is presented by the Government Finance Officers  
Association of the United States and Canada to  
government units and public employee retirement  
systems whose comprehensive annual financial  
reports (CAFRs) achieve the highest  
standards in government accounting  
and financial reporting.



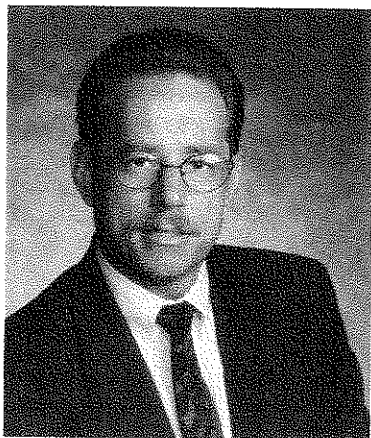
*Thomas J. O'Connell*  
President

*Jeffrey L. Esser*  
Executive Director

## BOARD OF ADMINISTRATION

The Retirement Plan is administered by a seven-member Board of Administration composed of two City Council members, a member of from the Civil Service Commission, two City employees elected by members of the system, a Retiree Representative, and a public member who is not connected with the City and has significant banking or investment experience selected by the four Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San Jose Municipal Code.

As of June 30, 2002, the members of the Board were as follows:

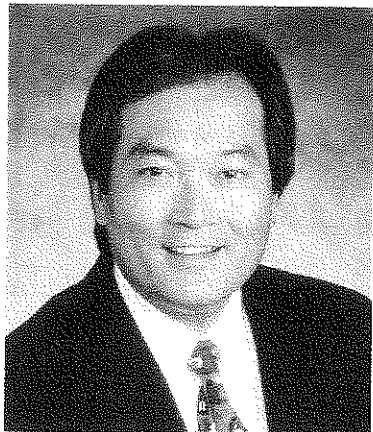


**Jeffrey Perkins, Chair**

Public member appointed to the Board in June 1996. His current term expires November 30, 2002.



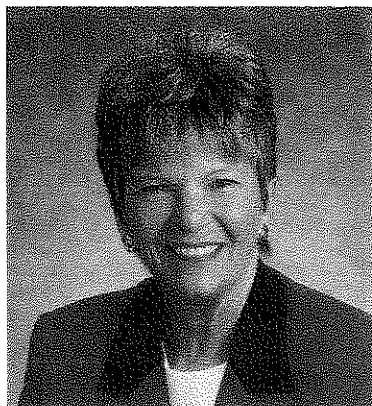
**Linda LeZotte, Vice Chair**  
City Council member appointed to the Board in January 1999.



**Bradley Imamura**

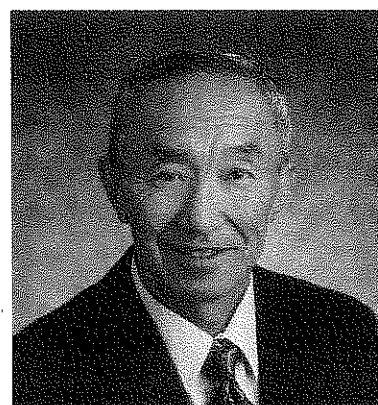
Employee Representative elected to the Board in November 1993. His current term expires November 30, 2005.

## BOARD OF ADMINISTRATION (Continued)



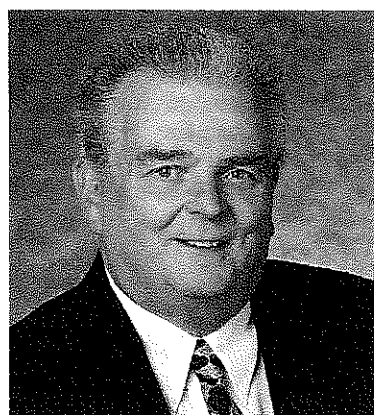
**Sharon Hightower**

Civil Service Commission member appointed in December 1999. Her current term expires December 1, 2003.



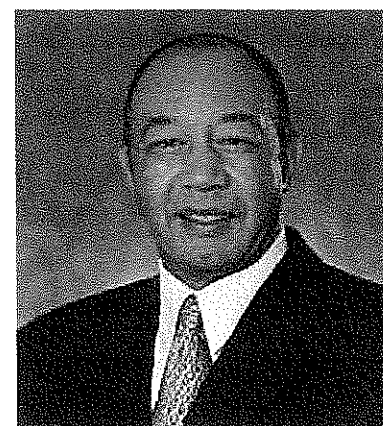
**Mike Yoshimoto**

Employee Representative appointed to the Board in December 1999. His current term expires November 30, 2003.



**William A. Thomas**

Retired Plan member appointed in August 2001. His current term expires November 30, 2004.



**Forrest Williams**

City Council member appointed to the Board in August 2001.



## OUTSIDE CONSULTANTS

ACTUARY	Gabriel, Roeder, Smith & Company Roseville, CA
ATTORNEY, CONFLICTS	Saltzman & Johnson San Francisco, CA
ATTORNEY, REAL ESTATE	Bingham McCutchen, LLP East Palo Alto, CA
AUDITOR	Macias, Gini & Company, LLP Walnut Creek, CA

## STANDING PUBLIC MEETINGS

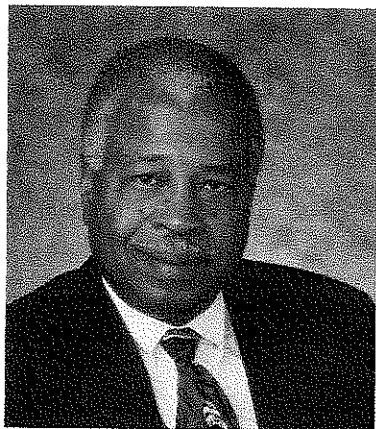
Board Meetings: Second Thursday of the Month  
8:30 AM - City Hall Council Chambers

Subcommittee for Investments: Quarterly

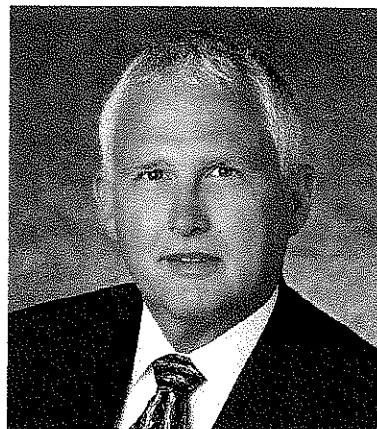
Real Estate Subcommittee: Quarterly

Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at [www.ci.san-jose.ca.us/retire/retirement.htm](http://www.ci.san-jose.ca.us/retire/retirement.htm) or they can be obtained in the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. **Meeting times and locations are subject to change, please call our office at 408-392-6700 for current information.**

## DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

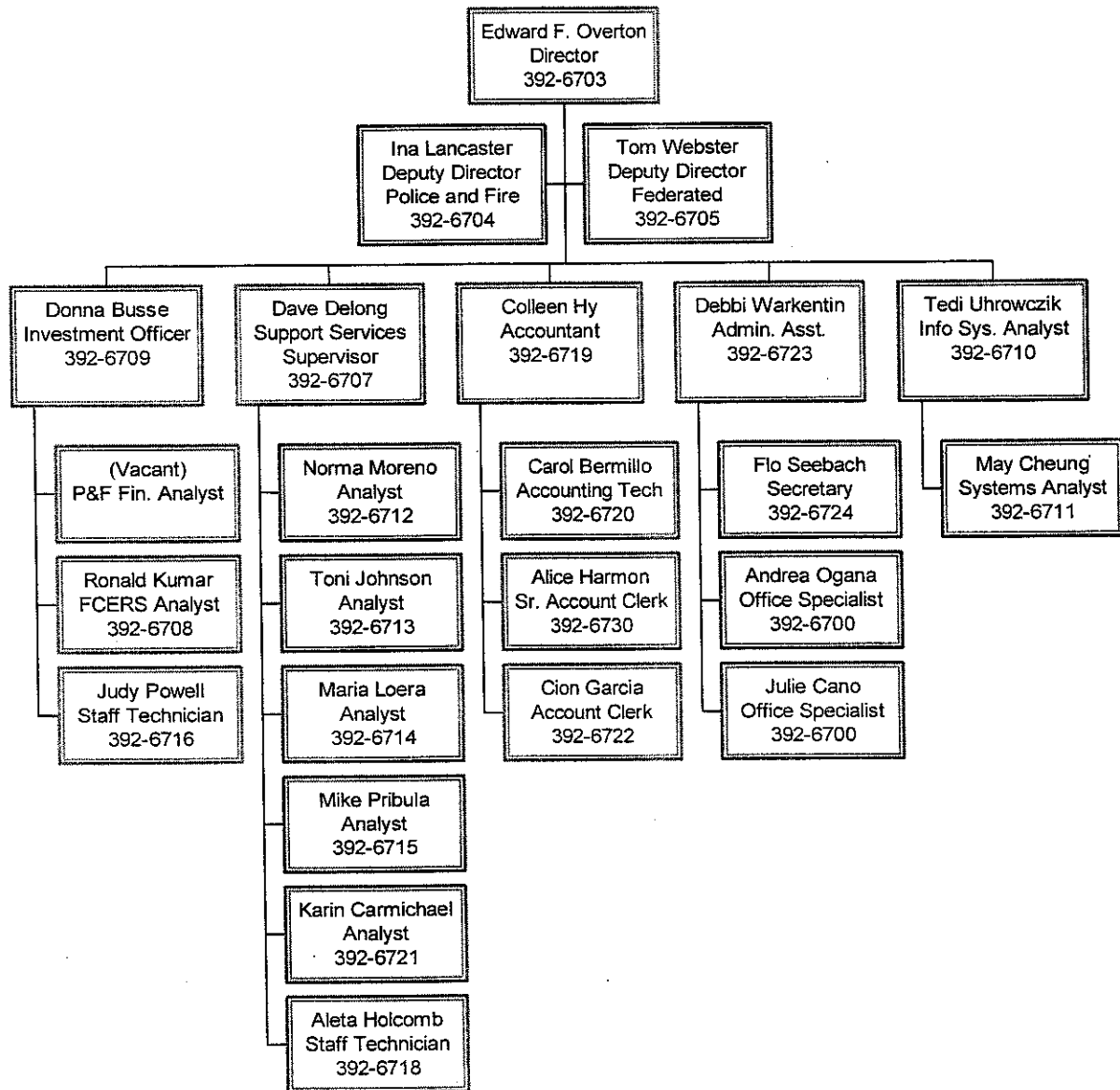


Edward F. Overton  
Director, Retirement Services



Thomas J. Webster  
Deputy Director

## DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART



### DEPARTMENT OF RETIREMENT SERVICES

1737 North First Street, Suite 580

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## **SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS**

### **MEMBERSHIP**

Mandatory for all full-time non-safety employees.

### **MEMBER CONTRIBUTION**

All members contribute 4.76% of base salary.

### **CITY'S CONTRIBUTION**

The City contributes 16.09% of the base salary. The financing is designed to provide reserves sufficient to meet the accrued and accruing liabilities under the prescribed benefit schedule. (Rates are reviewed following each actuarial survey.)

### **RETIREMENT**

Members may retire at age 55 with five or more years of service or at any age with 30 years of service.

### **RETIREMENT ANNUITY**

The retirement annuity payable is the Final Average Salary multiplied by 2 1/2% per year of service (75% of the Final Average Salary maximum).

### **FINAL AVERAGE SALARY**

The average monthly salary for the highest twelve (12) consecutive months.

### **DISABILITY RETIREMENT**

#### **Non-Service Connected**

A non-service connected disability annuity is available to members with five (5) or more years of service if the disability is permanent and prevents the member from performing any work in his/her present classification. The base non-service connected disability annuity is the greater of 40% of the Final Average Salary or the earned retirement allowance (Final Average Salary X 2 1/2% X Number of Years of Service). The annuity will be reduced by .5% for each year of age under 55.

For those entering the system September 1, 1998 or later, the calculation is as follows:

20% of Final Average Salary for 6 years of service;  
add 2% for each year of service in excess of 6 years but less than 16 years;  
add 2 1/2% for each year of service in excess of 16 years of service.

## **SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)**

### **Service-Connected**

A service connected disability is available if the disability is permanent and directly due to and caused by actual performance of employment within the City. The minimum service-connected disability annuity is 40% of the final average salary. There is no minimum service requirement for a service-connected disability nor reduction factor due to age. The disability benefit is offset by certain workers' compensation payments.

### **TERMINATION BENEFITS**

Upon termination, the member will be paid all of his or her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement System except that a member terminating with at least five (5) years of service may elect to leave the accumulated contributions and interest on deposit.

### **DEFERRED RETIREMENT**

Contributions left on deposit by a member terminating with at least five (5) years of service (vesting) entitle the employee to a retirement annuity upon attaining age 55.

### **RECIPROCITY**

Effective December 9, 1994, the City entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

### **COST OF LIVING**

The Board of Administration determines the change in the cost of living (COL) each year using the most current December Consumer Price Index. This Index is in accordance with San Jose Municipal Code "for all urban consumers (CPI-U) San Francisco-Oakland Metropolitan Area" as published by the Bureau of Labor Statistics of the United States Department of Labor. The Board determines the change to be effective beginning April first each year. A maximum of 3% is granted with any excess accumulated for use in future years. A retiree receives no COL adjustment for the first year, then receives a pro-rated adjustment for the months before the next April first. Survivors will be paid their next COL adjustment at the same time it would have been paid to the retiree. There is no break in the COL schedule.

### **DEATH BEFORE RETIREMENT**

The surviving spouse of an eligible employee who dies before retirement will receive a retirement allowance determined by the years of service times  $2\frac{1}{2}\%$  times the final average salary (minimum of 40% and maximum of 75%). Unmarried children are entitled to an allowance to age 18 (22 if they are full time students) if there is no spouse. The allowance is as follows:

- 1 child receives 25% of the spousal benefit
- 2 children share 50% of the spousal benefit
- 3+ children share 75% of the spousal benefit

## **SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)**

The beneficiary, in the event that no family members are eligible for a monthly allowance, is entitled to a return of the member's contributions and interest plus a death benefit of one month's salary for each year of service (up to six years).

If the employee is 55 and has 20 or more years of service at the time of death, his/her spouse will retain the survivorship allowance for life. If not, the spouse loses the allowance upon a remarriage.

### **DEATH AFTER RETIREMENT**

The surviving spouse receives one-half\* of the member's retirement allowance until death and a \$500 death benefit (\* At the time of retirement, the member may select an alternative option allowing for a survivorship allowance of up to 100% of the member's allowance). If there is no surviving spouse, dependent children are eligible for an allowance. The allowance is:

- 1 child receives 25% of spousal benefit
- 2 children share 50% of spousal benefit
- 3+ children share 75% of spousal benefit

### **MANAGEMENT**

The Plan is under the management of a seven (7) member Board of Administration consisting of two City Council members, a Civil Service Commissioner, a public member with significant banking or investment experience, a retiree representative, and two elected employees who are members of the Retirement System.

### **ADMINISTRATION**

A full-time Director is employed by the Board. He serves as Secretary and Chief Executive Officer to the Board of Administration.

The Fund pays the cost of the personnel who are employed for the purpose of managing the Retirement Plan. It also pays any directly related administrative costs.

Bank of New York is employed as custodian of fund assets and collector of investment income.

### **ACTUARIAL SOUNDNESS**

Gabriel, Roeder, Smith & Company is retained for regular, continuing actuarial services. Plan and benefit provisions are periodically reviewed to assure continuing soundness.

**SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)****INVESTMENT AUTHORITY AND POLICY**

The investment authority is broad and allows maximum utilization of the Plan's resources. Nationally known investment advisory services including Zurich Scudder; Dodge and Cox; Bank of Ireland; Julius Baer; Atlanta Capital Management; Brandywine Asset Management; Eagle Asset Management; Northern Trust; Paradigm Asset Management; MIG Realty Advisors; TimesSquare Real Estate Investors (Formally Cigna Investment Management), DRA Advisors, Inc. and Fidelity Investments are retained for full-time investment counsel. Bank of New York is retained as the investment performance consultant.

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## II.

# FINANCIAL SECTION



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## INDEPENDENT AUDITOR'S REPORT



Partners  
 Kenneth A. Macias, Managing Partner  
 Ernest J. Gini  
 Kevin J. O'Connell  
 Richard A. Green  
 Jan A. Rosati  
 James V. Gadsby

Mt. Diablo Plaza  
 2375 N. California Boulevard  
 Suite 620  
 Walnut Creek, CA 94596-3565  
 925-274-4150  
 925-274-3819 fax  
 www.maciasgini.com

The Board of Administration  
 City of San José Federated City Employees'  
 Retirement System

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Federated City Employees' Retirement System (System), as of June 30, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(a), the financial statements of the System are intended to present only the plan net assets and changes in plan net assets, of the System. They are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2002 and 2001, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information as listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion and Analysis, data designated as other supplementary information and data designated as investment, actuarial and statistical sections in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Management's Discussion and Analysis and the investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on them.

*Macias, Gini & Company LLP*  
 Certified Public Accountants

Walnut Creek, California  
 September 13, 2002

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## MANAGEMENT'S DISCUSSION AND ANALYSIS



*Department of Retirement Services*  
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM  
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

### MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System ("the Plan") for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 3 of this report.

#### Financial Highlights

- ❖ The net assets of the Plan at the close of the fiscal year 2002 are \$1,148,434,000 (net assets held in trust for pension benefits and post-employment healthcare benefits). All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- ❖ The Plan's total net assets held in trust for pension benefits and post-employment healthcare benefits decreased by \$25,442,000, or 2.2%, primarily as a result of market declines.
- ❖ The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of our last actuarial valuation, the funded ratio for the Plan was approximately 99%. In general, this indicates that for every dollar of benefits due we have approximately \$.99 of assets to cover it.
- ❖ Revenues (Additions to Plan Net Assets) for the year were \$33,298,000, which includes member and employer contributions of \$58,996,000, an investment loss of \$25,874,000, and net securities lending income of \$176,000.
- ❖ Expenses (Deductions in Plan Net Assets) increased from \$53,702,000 to \$58,740,000 over the prior year, or approximately 9.38% due to an increase in retirement and healthcare benefits which was attributable to enhanced benefits and an increased number of beneficiaries along with increased health premium costs.

#### Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements, which are comprised of these components:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis  
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Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.

*The Statement of Plan Net Assets* is a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

*The Statement of Changes in Plan Net Assets*, on the other hand, provides a view of current year additions to and deductions from the plan.

Both statements are in compliance with Governmental Generally Accepted Accounting Principals ("GAAP"). GAAP requires certain disclosures and that state and local governments report using the full accrual method of accounting. The Plan complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about the Plan's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current years' revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the Plan's net assets held in trust for pension benefits and post-employment healthcare benefits (net assets)—the difference between assets and liabilities—as one way to measure the Plan's financial position. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall health. (See the Plan's financial statement on pages 27-28 of this report.)

*Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 29-36 of this report.)

*Other Information.* In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Plan's progress in funding its obligations to provide pension benefits to members (see Required Supplementary Information beginning on page 37 of this report.)

The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information on pensions.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Management's Discussion and Analysis

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#### Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see table below). The assets of the Plan exceeded its liabilities at the close of fiscal year 2002.

Currently \$1,148,434,000 in total net assets is held in trust for pension benefits and post-employment healthcare benefits. All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries.

As of June 30, 2002, total net assets decreased by 2.2% over the prior year primarily due to decrease in market value of securities, which decreased \$30,699,000 from last year.

Despite variations in the stock market, the Plan's management and actuary concur that the Plan remains in a financial position to meet its obligations to the plan participants and beneficiaries.

#### Reserves

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see Table on page 32). The Defined Benefit Pension Plan Net Assets are allocated between the Retirement Fund, which includes post-employment healthcare benefits, and the Cost-of-Living Fund.

Under GASB 25, investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in an account called "unrealized gains on investments held", established in 1996.

The decline in the fair value of investments and the five-year smoothing of investment gains and losses resulted in an "unrealized loss on investments held" of approximately \$51 million as of June 30, 2002.

#### FCERS' Net Assets (Table 1)

For the Years Ended June 30, 2002 and 2001

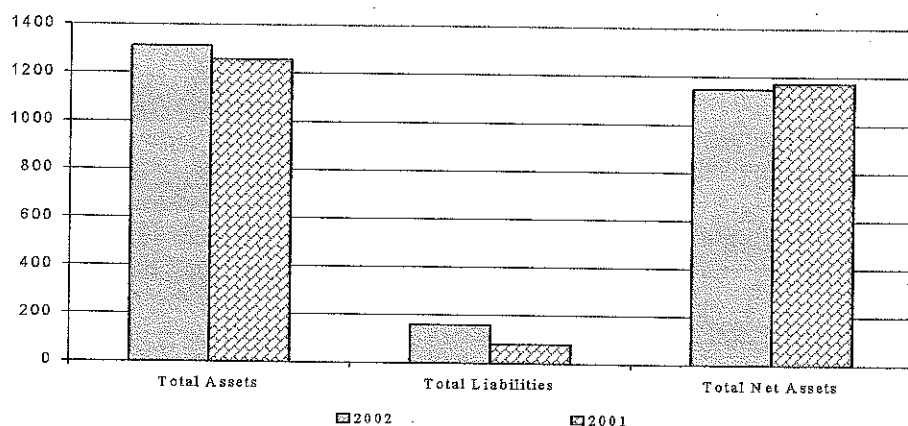
	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	\$ 17,296,000	\$ 9,244,000	\$ 8,052,000	87.1%
Investments at Fair Value	1,292,619,000	1,245,246,000	\$ 47,373,000	3.8%
<b>Total Assets</b>	<b>\$ 1,309,915,000</b>	<b>\$ 1,254,490,000</b>	<b>\$ 55,425,000</b>	<b>4.4%</b>
Current Liabilities	\$ 161,481,000	\$ 80,614,000	\$ 80,867,000	100.3%
<b>Total Liabilities</b>	<b>\$ 161,481,000</b>	<b>\$ 80,614,000</b>	<b>\$ 80,867,000</b>	<b>100.3%</b>
<b>Net Assets</b>	<b>\$ 1,148,434,000</b>	<b>\$ 1,173,876,000</b>	<b>\$ (25,442,000)</b>	<b>(2.2%)</b>

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis  
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### FCERS' Net Assets (Dollars in Millions)



### Revenues – Additions to Plan Net Assets (Table 2) For the Years Ended June 30, 2002 and 2001

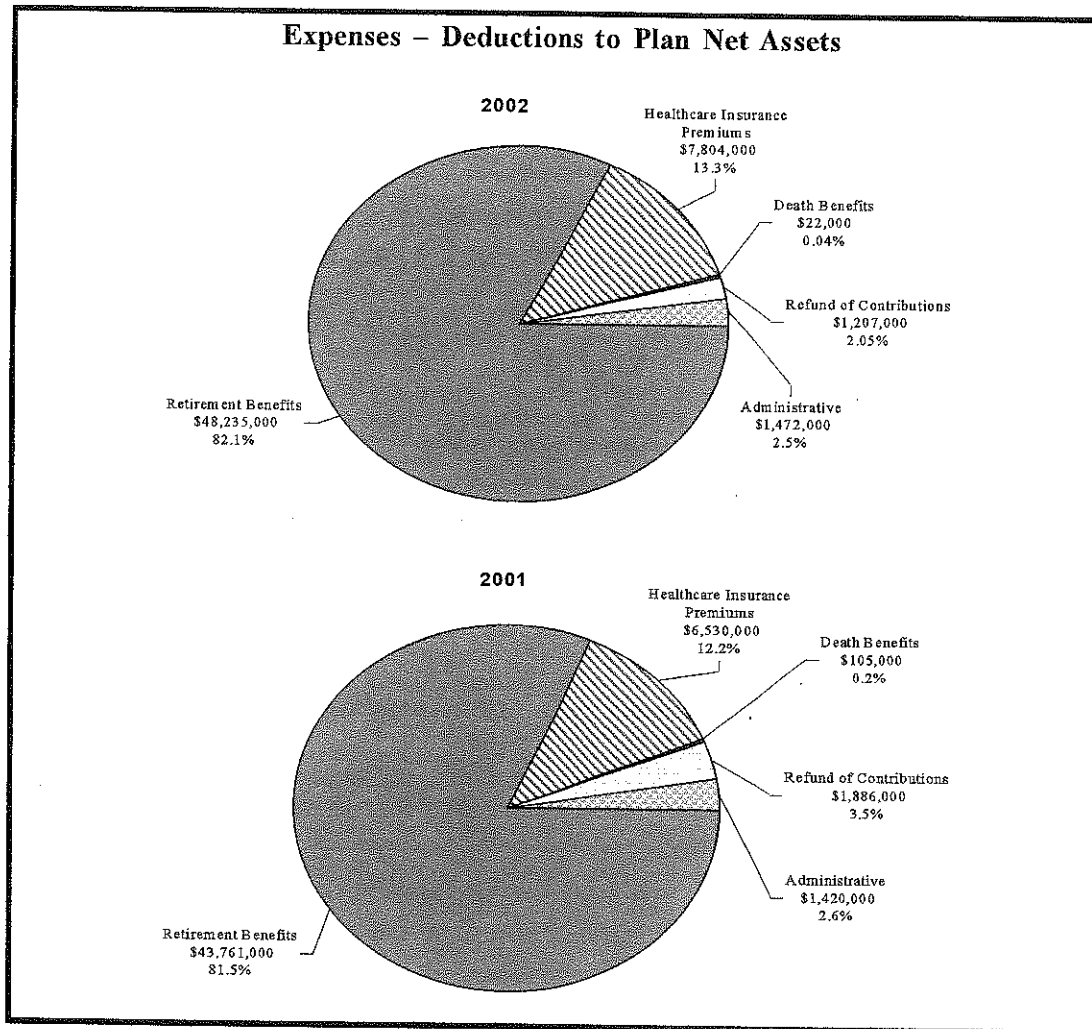
	2002	2001	Increase/ (Decrease) Amount
Employer Contributions	\$ 13,858,000	\$ 11,768,000	\$ 2,090,000
Employee Contributions	45,138,000	37,034,000	8,104,000
Net Investment Loss*	(25,874,000)	(3,656,000)	(22,218,000)
Net Securities Lending Income	176,000	186,000	(10,000)
<b>Total Additions</b>	<b>\$ 33,298,000</b>	<b>\$ 45,332,000</b>	<b>\$ (12,034,000)</b>

### Expenses – Deductions to Plan Net Assets (Table 3) For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount
Retirement Benefits	\$ 48,235,000	\$ 43,761,000	\$ 4,474,000
Healthcare Insurance Premiums	7,804,000	6,530,000	1,274,000
Death Benefits	22,000	105,000	(83,000)
Refund of Contributions	1,207,000	1,886,000	(679,000)
Administrative	1,472,000	1,420,000	52,000
<b>Total Deductions</b>	<b>\$ 58,740,000</b>	<b>\$ 53,702,000</b>	<b>\$ 5,038,000</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis  
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### FCERS' ACTIVITIES

The market decline resulted in decreased net assets by \$25,442,000, thereby accounting for a 2.2% decrease over the prior year. Key elements of this decrease are described in the sections that follow.

#### **Revenues—Additions to Plan Net Assets**

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Additions for the fiscal year ended June 30, 2002, totaled \$33,298,000. (See Table 2 on page 24.)



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Management's Discussion and Analysis

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By fiscal year-end, overall revenues had decreased by \$12,034,000, or 26.5%, from the prior year due primarily due to investment losses. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2002.

### Expenses—Deductions from Plan Net Assets

The Plan was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refund of contributions to terminated employees, and the cost of administering the system.

Deductions for the fiscal year ended June 30, 2002 totaled \$58,740,000, an increase of 9.4% over June 30, 2001 (see Table 3 on page 25). Increases in retirement benefits, healthcare insurance premiums and administrative expenses were the main reasons for increased expenses. Retirement benefits expense increased due to benefit enhancements and increased number of beneficiaries. Administrative expenses increased primarily as a result of an increase in payroll costs due to increased staffing and health insurance costs increased due to higher premiums. The Plan has consistently met its administrative expense budget. There were no material variances between budgeted and actual expenditures.

### The Plan's Fiduciary Responsibilities

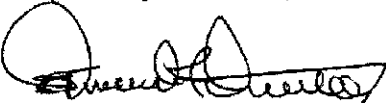
The Plan's Board and Management Staff are fiduciaries of the pension trust fund. Under the California Constitution the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

### Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, taxpayers, and investment managers with a general overview of the Plan's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Federated City Employees' Retirement System  
1737 North First Street, Suite 580  
San Jose, California 95112-4505

Respectfully Submitted,



Edward F. Overton  
Director, Retirement Services

1737 N. First St., Suite 580 San José, CA 95112-4505 tel (408) 392-6700 fax (408) 392-0771 [www.ci.san-jose.ca.us](http://www.ci.san-jose.ca.us)

**STATEMENTS OF PLAN NET ASSETS**  
**June 30, 2002 and 2001**  
**(In Thousands)**

	2002			
	Pension benefits	Post-Employment healthcare benefits	Total	2001
<b>ASSETS:</b>				
<b>Receivables:</b>				
Employee contributions	\$ 245	\$ 63	\$ 308	\$ 228
Employer contributions	805	80	885	744
Brokers and others	7,224	449	7,673	770
Accrued investment income	7,937	493	8,430	7,502
Total receivables	16,211	1,085	17,296	9,244
<b>Investments, at fair value:</b>				
Securities and other	975,196	59,385	1,034,581	1,065,280
Real estate	103,367	6,421	109,788	103,144
Securities lending collateral investment pool	139,579	8,671	148,250	76,822
Total investments	1,218,142	74,477	1,292,619	1,245,246
Total assets	1,234,353	75,562	1,309,915	1,254,490
<b>LIABILITIES:</b>				
Payable to brokers	11,290	702	11,992	1,982
Securities lending collateral due to borrowers	139,579	8,671	148,250	76,822
Other liabilities	1,165	74	1,239	1,810
Total liabilities	152,034	9,447	161,481	80,614
<b>NET ASSETS HELD IN TRUST FOR:</b>				
Pension benefits	1,082,319	-	1,082,319	1,105,219
Postemployment healthcare benefits	-	66,115	66,115	68,657
Total net assets (A schedule of funding progress is presented on page 38.)	<u>\$ 1,082,319</u>	<u>\$ 66,115</u>	<u>\$ 1,148,434</u>	<u>\$ 1,173,876</u>

See accompanying notes to financial statements.

**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**For the Fiscal Years Ended June 30, 2002 and 2001**  
**(In Thousands)**

	2002			
	Pension	Post-Employment		2001
	benefits	healthcare	Total	
	benefits	benefits		
<b>ADDITIONS:</b>				
Contributions:				
Employee	\$ 11,071	\$ 2,787	\$ 13,858	\$ 11,768
Employer	41,011	4,127	45,138	37,034
Total contributions	52,082	6,914	58,996	48,802
Investment income (loss):				
Net appreciation (depreciation)				
in fair value of investments	(66,404)	(4,204)	(70,608)	(47,967)
Interest income	29,373	1,840	31,213	31,745
Dividend income	7,717	483	8,200	8,253
Net rental income	8,392	525	8,917	7,925
Less investment expense	(3,383)	(213)	(3,596)	(3,612)
Net investment income (loss)				
before securities				
lending income	(24,305)	(1,569)	(25,874)	(3,656)
Securities lending income (loss):				
Earnings	2,356	148	2,504	4,459
Rebates	(2,082)	(130)	(2,212)	(4,149)
Fees	(109)	(7)	(116)	(124)
Net securities lending				
income (loss)	165	11	176	186
Net investment income (loss)	(24,140)	(1,558)	(25,698)	(3,470)
Total additions	27,942	5,356	33,298	45,332
<b>DEDUCTIONS:</b>				
Retirement benefits	48,235	-	48,235	43,761
Healthcare insurance premiums	-	7,804	7,804	6,530
Death benefits	22	-	22	105
Refund of contributions	1,207	-	1,207	1,886
Administrative expenses and other	1,378	94	1,472	1,420
Total deductions	50,842	7,898	58,740	53,702
Net increase (decrease)	(22,900)	(2,542)	(25,442)	(8,370)
<b>NET ASSETS HELD IN TRUST FOR PENSION &amp; POST-EMPLOYMENT HEALTHCARE BENEFITS</b>				
Beginning of year	1,105,219	68,657	1,173,876	1,182,246
End of year	\$ 1,082,319	\$ 66,115	\$ 1,148,434	\$ 1,173,876

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### For the Fiscal Years Ended June 30, 2002 and 2001

#### NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San José Federated City Employees' Retirement System (System) is provided for general information purposes only. Employees and members should refer to the City of San José Municipal Code for more complete information.

*(a) General*

The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 and last amended June 15, 2001, to provide retirement benefits for certain employees of the City of San José (City). The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The System is administered by the Director of Retirement, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration (Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs except for certain support services, which are provided by the City.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System. Total payroll, except for Police and Fire employees, amounted to approximately \$276,072,000 and \$244,780,000 for 2002 and 2001, respectively. Covered payroll amounted to approximately \$261,745,000 and \$230,024,000 for 2002 and 2001, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2002 and 2001, employee membership data related to the System was as follows:

	2002	2001
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	2,100	1,958
Terminated vested members not yet receiving benefits	360	295
Active members	4,944	4,518
Total	<u>7,404</u>	<u>6,771</u>
Post-employment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,877	1,810
Terminated vested members not yet receiving benefits	50	43
Active members	4,944	4,518
Total	<u>6,871</u>	<u>6,371</u>

The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2002 and 2001

#### NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

**(b) Pension Benefits**

An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2.5% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 12 months of consecutive service. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year.

If employees terminate employment before completing five years of service, the right to receive their portion of the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, the member may leave contributions in the System with less than five years of service.

Effective December 9, 1994, the System entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

**(c) Death Benefits**

If an employee's death before retirement is service related, or is non-service related and the employee has at least five years of service, a surviving spouse is paid an annual annuity benefit equal to 2.5% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation) until he or she remarries or dies. Deferred vested members are not eligible for the 40% minimum. The allowance will continue even if the spouse remarries if the member was at least 55 years old and had at least 20 years of service. If there is no surviving spouse, unmarried children up to 18 years of age, or up to 22 years of age if a full-time student, are entitled to a benefit payment based on the spousal benefit such that no one child shall receive more than 25% of the spousal benefit and the sum for all eligible children shall not exceed 75% of the spousal benefit. If no family members are eligible, the employee's contributions plus one month's salary for each year of service up to a maximum of six years of service are returned to the employee's beneficiary or estate.

If an employee dies after retirement, \$500 is paid to the employee's beneficiary or estate. In addition, the employee's surviving spouse continues to receive, for life, 50% of the employee's annual pension benefit as defined above. If there is no surviving spouse, 25% of the spouse's benefit payment is made to each eligible child as defined above, but the maximum benefit to children cannot exceed 75% of the benefit that would have been paid to a surviving spouse.

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **For the Fiscal Years Ended June 30, 2002 and 2001**

#### **NOTE 1 – DESCRIPTION OF THE PLAN (Continued)**

**(d)     *Disability Benefits***

If an employee suffers a service related disability before retirement, the employee may retire regardless of length of service. The annual disability benefit paid for a service related disability is 2.5% of final compensation multiplied by the number of years of service. The maximum benefit is 75% and the minimum benefit is 40% of final compensation. The benefit is offset by workers' compensation payments.

If an employee with at least five years of service suffers a non-service related disability, the annual disability benefit is equal to the greater of: (1) 2.5% of final compensation multiplied by the number of years of service, up to a maximum of 30 years; or (2) 40% of final compensation. The benefit is reduced by 0.5% of final compensation for each year an employee's age is under 55.

If an employee was hired on or after September 1, 1998, the benefit is calculated using the following formula: 20% of final compensation, plus 2% for each year of service in excess of six but less than 16, plus 2.5% for years of service in excess of 16.

**(e)     *Postemployment Healthcare Benefits***

The City of San José Municipal Code provides that retired employees with 15 or more years of service, their survivors, or those retired employees who are receiving at least 37.5% of final compensation are entitled to payment of 100% of the lowest priced medical insurance plan available to an active federated City employee. Members and eligible survivors must pay for the difference between the amount of the premium for their selected plan and the portion paid by the System. However, the System pays the entire premium cost for dental insurance coverage.

**(f)     *Plan Termination***

In the event the System is terminated, there is no provision for the distribution of net assets.

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

**(a)     *Basis of Presentation***

The financial statements of the System present only the financial activities of the System and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

**(b)     *Basis of Accounting***

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2002 and 2001

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are accounted for separately. It is required that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

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

#### (c) *Investments*

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of real estate investments is based on independent appraisals.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

#### (d) *Plan Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits*

The System is required by the City of San José Municipal Code to establish various reserves in the plan net assets. The Defined Benefit Pension Plan Net Assets are allocated between the Retirement Fund (which includes the Post Employment Healthcare Benefits Fund) and the Cost-of-Living Fund. As of June 30, 2002, the net assets, totaling \$1,148,434,000 on a combined basis for both the Retirement Fund and the Cost-of-Living Fund, is allocated as follows (in thousands):

#### (e) *Interest Crediting/Allocation of the Contingency Reserve and General Reserve Accounts*

Realized earnings on investments, as well as gains and losses on the sale of investments are re-

	Retirement Fund	Cost-of- Living Fund	Total	
			2002	2001
Employee contributions	\$ 164,746	\$ 45,898	\$ 210,644	\$ 213,606
Employer contributions	310,558	150,320	460,878	422,404
Retired employees' annuity	136,175	(9,023)	127,152	138,201
Benefits payable	303,249	-	303,249	294,352
Supplemental retiree benefits	14,695	-	14,695	16,234
Contingency reserve	(2,991)	-	(2,991)	3,371
Unrealized gains (loss) on investments held	(57,998)	6,748	(51,250)	258
General reserve	-	86,057	86,057	85,450
Total	<u>\$ 868,434</u>	<u>\$ 280,000</u>	<u>\$ 1,148,434</u>	<u>\$ 1,173,876</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2002 and 2001

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

corded in the contingency reserve category of net assets for the Retirement Fund and in the general reserve category of net assets for the Cost-of-Living Fund.

Except for the contingency reserve and general reserve accounts, interest is credited to the other reserve accounts of both the Retirement and Cost-of-Living funds based on the average balances of the accounts multiplied by the crediting rate established by the Retirement Board, which was 3.0% and 7.25%, during fiscal year 2002 and 2001, respectively. For the Retirement Fund, interest is allocated from the contingency reserve category of fund balance and is credited to the following reserve categories: employee contributions, employer contributions, retired employees' annuity, benefits payable, and supplemental retiree benefits. For the Cost-of-Living Fund, interest is allocated from the general reserve account and is credited to the following reserve categories: employee contributions, employer contributions, and the retired employees' annuity.

*(f) "Excess Earnings" in the Contingency Reserve*

Within 90 days of completion of the annual audit of the System's financial statements, any excess earnings as defined by the San José Municipal Code remaining in the contingency reserve category of net assets are to be transferred 90% to the benefit payable and 10% to the supplemental retiree benefits categories of net assets. Based on the net decrease of net plan assets for fiscal 2002, there were no "excess earnings" to transfer.

*(g) Reclassifications*

Certain amounts in 2001 have been reclassified to conform to the 2002 presentation.

#### NOTE 3 – INVESTMENTS

The System's investments for both the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are categorized to give an indication of the level of custodial risk assumed by the System at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a qualified financial institution's trust department or agent, in the System's name, where the financial institution acts as the System's counterparty. Category 3 includes uninsured and unregistered investments for which the securities are held by a broker or dealer, or by its agent, or by a qualified financial institution's trust department or agent, but not in the System's name. There were no investments in Categories 2 or 3, as of June 30, 2002 and 2001.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2002 and 2001

#### NOTE 3 – INVESTMENTS (Continued)

The categorization of the System's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2002 and 2001, was as follows (in thousands):

	Fair Value	
	June 30, 2002	June 30, 2001
Category 1:		
U.S. Treasury notes and bonds	\$ 6,503	\$ 4,418
U.S. government securities:		
Not on securities loan	126,037	154,747
Loaned securities for non cash collateral	630	-
Foreign government bonds:		
Not on securities loan	69,449	56,166
Loaned securities for non cash collateral	-	3,653
Domestic corporate bonds	133,433	162,135
Foreign corporate bonds	10,398	12,173
Domestic equity securities	212,518	232,231
Foreign equity securities	78,490	90,313
Uncategorized:		
Investments held by broker-dealers under securities		
loans for cash collateral:		
U.S. Treasury bonds and notes	103,767	39,457
Domestic corporate bonds	15,139	12,504
Domestic equity securities	13,746	15,236
Foreign equity securities	10,848	6,661
Short-term foreign currency investments	(607)	(657)
Collective short-term investment funds	254,230	276,243
Real estate investments	109,788	103,144
Securities lending collateral investment pool	148,250	76,822
Total investments	<u>\$ 1,292,619</u>	<u>\$ 1,245,246</u>

The following table presents the System's investments as presented on the accompanying statement plan net assets as of June 30, 2001 and 2000 (in thousands):

	June 30, 2002	June 30, 2001
Investments:		
Defined Benefit Pension Plan	\$ 1,218,142	\$ 1,172,346
Postemployment Healthcare Plan	74,477	72,900
	<u>\$ 1,292,619</u>	<u>\$ 1,245,246</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2002 and 2001

#### NOTE 3 – INVESTMENTS (Continued)

The collective short-term investment fund is used for overnight investment of all excess cash in the System's funds. It is invested by the System Custodian, and held in the System Custodian's name. This fund consists of:

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and the payment of interest;
- Repurchase agreements with major banks and with broker-dealers registered under the Securities and Exchange Act of 1934; and
- Fully insured bank deposits.

The loaned securities represent securities on loan to brokers or dealers or other borrowers. The municipal code and the investment policy, adopted by the Board, permit the use of a securities lending program with its principal custodian bank. (The investment policy requires that loan maturities cannot stretch beyond one year, and no more than 15% of the portfolio can be lent longer than six months.) The custodial agreement with the System Custodian authorizes such custodian to loan securities in the System's investment portfolio under such terms and conditions as the System Custodian deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The System receives a fee from the borrower for the use of the loaned securities. If the lent securities are not returned by the borrower, the System Custodian is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the System Custodian is required to credit the System's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the System or borrowers.

The loaned securities as of June 30, 2002 and 2001, consisted of U.S. Treasury bonds and notes, domestic corporate bonds, foreign government bonds, domestic equity securities, and foreign equity securities. In return, the System receives collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment.

Securities lent at year-end for cash collateral are presented as uncategorized in the preceding categorization of the System's investments.

Securities lending collateral investment pool represents investments purchased with cash collateral, as well as securities collateral that the System may not pledge or sell without a borrower default. The System does not match the maturities of investments made with cash collateral with the securities on loan.

As of June 30, 2002, the underlying securities loaned by the System as a whole amounted to approximately \$144,130,000. The cash collateral and the non-cash collateral totaled \$148,250,000 and \$641,000, respectively. As of June 30, 2001, the underlying securities loaned by the System as a whole amounted to approximately \$77,512,000. The cash collateral and the non-cash collateral totaled \$76,822,000 and \$3,773,000, respectively. The System has no exposure to credit risk related to the securities lending transactions as of June 30, 2002 and 2001.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### For the Fiscal Years Ended June 30, 2002 and 2001

#### NOTE 3 – INVESTMENTS (Continued)

Real estate investments include a warehouse, retail center, and office building located in Northern California; an industrial complex, office building, and retail center in Southern California, apartment complexes in Florida; and an interest in three real estate funds managed by third parties. The properties located in California are jointly owned with the City's other retirement fund. The properties have leases with various terms.

The System has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of foreign currency. The System utilizes these contracts to hedge the currency risk of foreign investments. At June 30, 2002, the System's net position in these contracts is recorded at fair value as short-term foreign currency investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2002, total commitments in forward currency contracts to purchase and sell foreign currencies were \$24,955,000 and \$24,955,000, respectively, with market values of \$24,939,000 and \$24,331,000, respectively. As of June 30, 2001, total commitments in forward currency contracts to purchase and sell foreign currencies were \$26,187,000 and \$26,187,000, respectively, with market values of \$26,447,000 and \$25,789,000, respectively. The System's commitments relating to forward currency contracts are settled on a net basis.

#### NOTE 4 – CONTRIBUTIONS - FUNDING POLICY

Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due, over the next 15 years. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see page 38).

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2002 and 2001, were as follows:

Period	City		Employee	
	Pension	Healthcare	Pension	Healthcare
7/01/00 – 8/18/01	15.33%	0.76% <i>14.09</i>	4.17%	0.59%
8/19/01 – 6/22/02	16.64	0.76 <i>17.40</i>	4.37	0.59
6/23/02 – 6/30/02	13.82	1.38 <i>16.20</i>	4.04	1.04

#### NOTE 5 – CONCENTRATIONS

No investments in any one organization represent 5% of the Plan's net assets.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS**  
**DEFINED BENEFIT PENSION PLAN**  
**(Unaudited - See accompanying independent auditor's report)**  
**(In Thousands)**

**Funding Progress – GASB No 25**

Actuarial valuation date	Actuarial value of assets <sup>(d)</sup>	Actuarial accrued liability (AAL)	Unfunded (over funded) AAL	Funded ratio	Annual covered payroll <sup>(e)</sup>	Unfunded (over funded) AAL as a percentage of annual covered payroll
June 30, 1996 <sup>(a)</sup>	622,528	696,974	74,446	89%	165,101	45%
June 30, 1997	678,954	735,772	56,818	92%	176,284	32%
June 30, 1998 <sup>(b)</sup>	741,907	798,999	57,092	93%	182,842	31%
June 30, 1999	804,860	862,226	57,366	93%	196,178	29%
June 30, 2000 <sup>(c)</sup>	932,502	967,280	34,778	96%	224,437	16%
June 30, 2001	1,060,144	1,072,333	12,189	99%	252,696	5%

Actuarial valuations have been performed biennially through June 30, 2001.

- (a) Average of the June 30, 1995 and June 30, 1997 results.
- (b) Average of the June 30, 1997 and June 30, 1999 results.
- (c) Average of the June 30, 1999 and June 30, 2001 results.
- (d) Reported at "smoothed market" value determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a five-year period.

Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**DEFINED BENEFIT PENSION PLAN**  
**(Unaudited - See accompanying independent auditor's report)**  
**(In Thousands)**

Fiscal year ended June 30,	Annual required employer contributions	Percentage Contributed
1997 <sup>(a)</sup>	\$ 29,455	92%
1998 <sup>(a)</sup>	30,367	96%
1999	30,139	100%
2000	34,146	100%
2001	35,284	100%
2002	41,011	100%

- (a) The difference between the annual required employer contributions and the actual contributions for the fiscal years ended June 30, 1997 and 1998, was due to the System's selection of lower contribution rates from among allowable alternatives.

**SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS**  
**DEFINED BENEFIT PENSION PLAN**  
**(Unaudited - See accompanying independent auditor's report)**  
**Year Ended June 30, 2002**

Description	Method/Assumption
Valuation date	June 30, 2001
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	19 years, closed
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8.25% per annum
Postretirement mortality	The 1983 Group Annuity Mortality Table for males, with one-year setback is used for male members. The 1983 Group Annuity Mortality Table for females, with one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Tables based on current experience
Salary increases	Total System payroll is assumed to increase 4.5% per year. Graded increases ranging from 8.00% at age 25 to 5.0% at ages 65 and over. Of the total salary increases 4.50% is for inflation and merit and longevity.
Cost-of-living adjustments	3.0% a year

**OTHER SUPPLEMENTAL INFORMATION**



**COMBINING SCHEDULE OF DEFINED BENEFIT  
PENSION PLAN NET ASSETS  
June 30, 2002  
(In Thousands)**

	Retirement Fund	Cost-of-Living Fund	Total
<b>ASSETS:</b>			
Receivables:			
Employee contributions	\$ 177	\$ 68	\$ 245
Employer contributions	613	192	805
Brokers and others	5,446	1,778	7,224
Accrued investment income	5,990	1,947	7,937
Total receivables	12,226	3,985	16,211
Investments, at fair value:			
Securities and other	721,491	253,705	975,196
Real estate	78,014	25,353	103,367
Securities lending collateral investment pool	105,345	34,234	139,579
Total investments	904,850	313,292	1,218,142
Total assets	917,076	317,277	1,234,353
<b>LIABILITIES:</b>			
Payable to brokers	8,521	2,769	11,290
Securities lending collateral due to borrowers	105,345	34,234	139,579
Other liabilities	891	274	1,165
Total liabilities	114,757	37,277	152,034
Net assets held in trust for pension benefits	\$ 802,319	\$ 280,000	\$ 1,082,319

# **COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS**

**For the Fiscal Year Ended June 30, 2002**

**(In Thousands)**

	Retirement Fund	Cost-of-Living Fund	Total
<b>ADDITIONS:</b>			
Contributions:			
Employee	\$ 7,825	\$ 3,246	\$ 11,071
Employer	31,486	9,525	41,011
Total contributions	<u>39,311</u>	<u>12,771</u>	<u>52,082</u>
Investment income (loss):			
Net appreciation (depreciation)			
in fair value of investments	(50,637)	(15,767)	(66,404)
Interest income	22,170	7,203	29,373
Dividend income	5,824	1,893	7,717
Net rental income	6,333	2,059	8,392
Less investment expense	<u>(2,561)</u>	<u>(822)</u>	<u>(3,383)</u>
Net investment income (loss)			
before securities lending income	<u>(18,871)</u>	<u>(5,434)</u>	<u>(24,305)</u>
Securities lending income (loss):			
Earnings	1,778	578	2,356
Rebates	(1,572)	(510)	(2,082)
Fees	<u>(82)</u>	<u>(27)</u>	<u>(109)</u>
Net securities lending income (loss)	<u>124</u>	<u>41</u>	<u>165</u>
Net investment income (loss)	<u>(18,747)</u>	<u>(5,393)</u>	<u>(24,140)</u>
Total additions	<u>20,564</u>	<u>7,378</u>	<u>27,942</u>
<b>DEDUCTIONS:</b>			
Retirement benefits	37,984	10,251	48,235
Death benefits	22	-	22
Refund of contributions	946	261	1,207
Administrative expenses and other	<u>1,123</u>	<u>255</u>	<u>1,378</u>
Total deductions	<u>40,075</u>	<u>10,767</u>	<u>50,842</u>
Net increase (decrease)	<u>(19,511)</u>	<u>(3,389)</u>	<u>(22,900)</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:</b>			
Beginning of year	821,830	283,389	1,105,219
End of year	<u>\$ 802,319</u>	<u>\$ 280,000</u>	<u>\$ 1,082,319</u>

## SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

### For the Fiscal Years Ended June 30, 2002 and 2001

	2002			2001
	Original Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>Personnel services:</b>				
Permanent staff expense	\$ 976,438	\$ 871,595	\$ 104,843	\$ 718,057
Temporary staff expense	3,500	-	\$ 3,500	2,931
Total personnel services	979,938	871,595	108,343	720,988
<b>Professional services:</b>				
Actuarial services	55,000	54,493	507	42,900
Medical services	52,500	37,115	15,385	27,354
Audit	30,000	19,712	10,288	23,882
Legal counsel	12,500	7,298	5,202	2,445
Network consultant	-	-	-	2,920
Software development consultant	25,000	24,892	108	32,808
Business processes & procedures	-	-	-	120,582
Pension benefit information	2,890	2,088	802	1,151
Total professional services	177,890	145,598	32,292	254,042
<b>Communication:</b>				
Postage	10,600	16,098	(5,498)	10,685
Printing	13,250	15,284	(2,034)	13,204
Duplicating	5,000	748	4,252	4,172
Data processing	8,000	5,243	2,757	7,908
Travel	88,000	48,706	39,294	32,886
Total communication	124,850	86,079	38,771	68,855
<b>Structure and Equipment:</b>				
Copier lease	11,900	6,005	5,895	3,865
Copier maintenance	3,800	742	3,058	1,908
Furniture	20,000	13,043	6,957	45,191
Moving Service	5,000	2,610	2,390	2,610
Equipment	43,500	36,087	7,413	36,087
Equipment repair & miscellaneous services	5,400	5,643	(243)	5,643
Software enhancements	42,425	19,563	22,862	19,563
Computer hardware/software	50,000	43,453	6,547	43,453
Total structure and equipment	182,025	127,146	54,879	158,320
<b>Miscellaneous:</b>				
Office expense	30,000	29,193	807	29,193
Dues/subscriptions	4,000	2,354	1,646	3,354
Training	30,000	34,462	(4,462)	34,462
Rent on building	136,800	131,349	5,451	150,426
Tenant improvements	50,000	44,218	5,782	-
Total miscellaneous	250,800	241,576	9,224	217,435
Total administrative expenses and other	\$ 1,715,503	\$ 1,471,994	\$ 243,509	\$ 1,419,640

## SCHEDULES OF INVESTMENT EXPENSES

### For the Fiscal Years Ended June 30, 2002 and 2001

	2002	2001
Equity:		
Domestic equity	\$ 1,159,029	\$ 1,183,513
International equity	443,036	505,799
Total equity	1,602,065	1,689,312
Fixed income:		
Domestic fixed income	508,884	509,709
Global fixed income	261,383	246,526
Total fixed income	770,267	756,235
Real estate	967,242	979,935
Total investment managers' fees	3,339,574	3,425,482
Other investment service fees:		
Investment consultant	45,000	32,500
Proxy voting	8,940	6,525
Real estate legal fees	79,903	60,106
Real estate appraisal fees	23,250	-
Custodian	99,285	87,445
Total other investment service fees	256,378	186,576
<b>TOTAL INVESTMENT EXPENSES</b>	<b>\$ 3,595,952</b>	<b>\$ 3,612,058</b>

**SCHEDULE OF PAYMENTS TO CONSULTANTS**  
**For the Fiscal Years Ended June 30, 2002 and 2001**

<b>Firm</b>	<b>Nature of Service</b>	<b>FEES</b>	
		<b>2002</b>	<b>2001</b>
Deloitte & Touche	Policies and Procedures Consultant	\$ -	\$ 120,582
Levi, Ray & Shoup	PensionGold Software Developers	24,892	32,808
LanMinds	Network Maintenance/Consultant	-	2,920
Macias, Gini & Company	External Auditors	19,712	23,882
Palo Alto Medical/Other Medical	Medical Consultant	37,115	27,354
Pension Benefit Information	Reports on Beneficiary Deaths	2,088	1,151
Saltzman & Johnson	Legal Counsel	7,298	2,445
Gabriel, Roeder, Smith & Company	Actuarial Consultant	54,493	42,900
Total		<u>\$ 145,598</u>	<u>\$ 254,042</u>

# III. INVESTMENT SECTION

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## REPORT ON INVESTMENT ACTIVITY

### THE BANK OF NEW YORK

NEW YORK'S FIRST BANK - FOUNDED 1784 BY ALEXANDER HAMILTON

ONE WALL STREET, NEW YORK, N.Y. 10286  
September 24, 2002

Mr. Edward F. Overton  
Director, Retirement Services  
Federated City Employees' Retirement System  
1737 N. First Street, Suite 580  
San Jose, California 95112-4505

Dear Mr. Overton:

This letter reviews the investment activity of the Federated City Employees' Retirement System of San Jose during the fiscal year ended June 30, 2002 for the Comprehensive Annual Report.

#### **Background**

The objectives of the System, as indicated in the Investment Policy Statement, are to assure sufficient funding for disbursements; to attempt to insure that investment earnings are sufficiently high, along with employee and City contributions, to offset liabilities in perpetuity; to strive for the highest total returns consistent with safety in accordance with accepted investment practices; to maintain an appropriate asset allocation; and to control costs. The Board has established an investment structure and process that effectively meets these goals.

The Board has selected an asset allocation policy that provides for a mix of domestic and international equities, domestic and international fixed income investments, and real estate, with targets for each asset class. Staff periodically reviews the asset allocation and rebalances the asset classes to keep them within established ranges in accordance with Investment Policy.

Quarterly performance reports are provided by The Bank of New York, the System's custodian, based on plan accounting data. The Bank of New York adheres to the Association for Investment Management and Research (AIMR) performance presentation standards and also assists the Board in a consultative capacity in monitoring the performance of the investment managers.

#### **The Economy and the Capital Markets**

The fiscal year ended June 30, 2002 was marked by recession, a continued sharp retrenchment in the stock market, and, most notably, the tragic events of September 11. Economic growth decelerated during 2000 and early 2001, but even by mid-2001 it was still not clear that the weakness was sufficient to merit the designation of a recession. Once the effects of September 11 were evident in the economic data, however, the National Bureau of Economic



## REPORT ON INVESTMENT ACTIVITY (Continued)

### THE BANK OF NEW YORK

Research, the recognized authority for dating business cycles, announced that a recession had begun in March 2001. Real GDP declined during the first three quarters of 2001 and then rose during the following three quarters, although the recovery was clearly much slower than normal. Real GDP rose 2.1% during the fiscal year ended June 30, 2002, compared to a (revised) decline of 0.1% during the prior fiscal year. As many corporations continued to attempt to control costs in order to restore profitability, the employment situation remained troubled. The unemployment rate rose to 5.9% at the end of the fiscal year, compared to 4.6% a year earlier.

The weakest component of GDP during and immediately after the recession was nonresidential fixed investment. Spending on technology and telecommunications equipment experienced sharp declines and reflected problems in these industries that will not be quickly resolved. On the positive side, the automobile and housing industries have maintained high levels of activity, aided by continued low interest rates. At the end of the fiscal year, the federal funds rate was 1.75%, compared to 3.75% a year earlier. Partly as a reflection of falling oil prices, the consumer price index rose only 1.1% during the fiscal year.

Equity prices fell dramatically immediately following September 11 but then began to revive later in the fall. The Enron bankruptcy filing in December, though widely anticipated by then, weighed heavily on the markets. During the spring of 2002, as numerous reports of other accounting scandals, financial irregularities, and major bankruptcy filing continued to hit the market, equity prices retrenched sharply once again. The total return of the Russell 1000 was -17.89% during the fiscal year ended June 30, 2002, compared to a return of -14.96% a year earlier. Small capitalization stocks fared somewhat better. The total return of the Russell 2000 was -8.60%. Value once again substantially outperformed growth. The total return of the Russell 1000 Value index was -8.95%, compared to -26.49% for Growth, while the total return of the Russell 2000 Value index was +8.50%, compared to -25.01% for Growth.

Bond prices rallied as the economy continued to display signs of weakness and as investors sought a safe harbor from the turmoil in the equity markets. The Lehman Brothers Aggregate bond index had a total return of 8.63% during the fiscal year, compared to 11.23% a year earlier. The performance of foreign stock markets was quite similar to the experience in the United States. The total return of the EAFE (Europe, Australia, and far East) index in local currency terms was -18.76%, compared to -18.00% for the S&P 500. Returns to U. S. investors in foreign securities were helped by the depreciation of the U. S. dollar against the euro, the yen and other currencies. As a result, the total return of the EAFE index in U. S. dollar terms was -9.50%. Of the major asset classes, the highest return was provided by foreign bonds. The total return of the Salomon Smith Barney World Government Non-U. S. bond index in U. S. dollar terms was 15.75%, compared to -7.45% during the prior fiscal year.

### Investment Results

The total return of the System during the twelve months ended June 30, 2002, was -1.68%. In view of the double-digit declines in the broad equity markets, this result is quite respectable. As was the case in the prior fiscal year, the return is below the actuarial assumed rate of 8.25%. The annualized total returns (gross of investment manager fees) were 1.84% for the last three years and 6.33% for the last five years. These returns reflect the favorable

## REPORT ON INVESTMENT ACTIVITY (Continued)

### THE BANK OF NEW YORK

performance of the System relative to its policy benchmark, as well as the relatively conservative asset allocation of the System. The significant exposure to fixed income investments and real estate helped offset the declines in the equities markets.

To put the System's performance into a broader perspective, we can compare its performance to that of other institutional investors. Our data source for peer group comparisons is the Trust Universe Comparison Service (TUCS), a consortium of large custody banks that provide performance data for their master trust and master custody clients. During the fiscal year ended June 30, 2002, the total return of the San Jose Federated City Employees' Retirement System was in the first quartile in the TUCS Master Trust Universe, which includes various types of pension plans, foundations, and endowments. The System also had high first quartile performance in the Public Funds universe. These are extremely favorable results. They show that the System's approach to investing allows it to perform relatively well even in troubled equity markets. The System's rank is first quartile for the last three years and high second quartile for the last five years in the Master Trust universe. Its rank is first quartile for both the last three and five years in the Public Funds universe. Moreover, the System's relatively conservative approach to investing is reflected in the low volatility of its returns. The annualized standard deviation of its returns, a widely accepted measure of risk, has been consistently among the lowest in the TUCS Master Trust and Public Funds universes.

The System has both active and passive domestic equity managers. As of the end of the fiscal year, 18.0% of total assets were in a Russell 3000 index fund, which encompasses large, mid, and small cap stocks. To achieve further diversification in style and size, the System has active managers for growth and value for large and small cap stocks. During the past fiscal year, the large and small cap growth managers both substantially outperformed their benchmarks and achieved first quartile performance. Although their relatively conservative orientations hurt their performance and peer group rankings in the late 1990s when the market was focusing primarily on growth, their adherence to their disciplines paid off once the market began to refocus on fundamentals.

The large cap value manager outperformed his benchmark by about a percentage point during the past year and ranks in the second quartile. The small cap value manager holds a large number of stocks with very low price to earnings ratios, a reflection of the manager's strong value orientation. During the last year, the manager significantly outperformed his benchmark and achieved first quartile performance.

Although the international equities manager slightly outperformed the benchmark, performance was in the third quartile. One of the domestic fixed income managers outperformed his benchmark and achieved first quartile performance. After several changes in ownership during the last few years, the other domestic fixed income manager had clear performance problems and has subsequently been replaced. Although the international fixed income manager underperformed the benchmark by about a percentage point during the last year, this asset class benefited dramatically from the depreciation of the dollar and provided a source of positive returns for the System.

## REPORT ON INVESTMENT ACTIVITY (Continued)

### THE BANK OF NEW YORK

The System has a relatively high exposure to real estate, which has provided relatively steady, positive returns in a period of turmoil in the capital markets. The composite real estate return was 7.19% during the past year (lagged one quarter) and has exceeded its benchmark for the last one, three, and five years.

As an institutional investor, the System must maintain a long-term presence in equities to be able to meet its long-term liabilities. Although this has been an unusually protracted retrenchment in the equities market, at some point corporations' attempts to restore profitability will be visible in improving earnings reports, and the market will begin to revive. The steady, disciplined approach to investing that the System's managers have demonstrated will allow it to perform well in favorable equity market environments as well as the difficult ones we have been experiencing.

Yours truly,

*Bernard Schoenfeld*

Bernard Schoenfeld  
Vice President

**INVESTMENT POLICY STATEMENT  
BOARD OF ADMINISTRATION  
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's Board (Board) and its delegate in effectively supervising, monitoring and evaluating the investment of the System's assets. The System's investment program is defined in the various sections of the IPS by:

- \* Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- \* Setting forth an investment structure for managing all the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- \* Providing guidelines for the investment System that control the level of overall risk and liquidity assumed in that System, so that all the System's assets are managed in accordance with stated objectives.
- \* Encouraging effective communications between the Board, the investment consultant (consultants) and the money managers.
- \* Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- \* Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements. The Board shall:

- (1) Require that the Retirement System be sufficiently funded to assure that all disbursement obligations will be met.
- (2) Attempt to insure that the investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.

## INVESTMENT POLICY STATEMENT (Continued)

- (3) Strive for the highest total return on investment funds consistent with safety in accordance with accepted investment practices and maintain an appropriate asset allocation policy that is compatible with the objectives of the System.
- (4) Control costs of administering the System's assets and managing the investments.

### Asset Allocation Policy

The following policy has been identified by the Board as having the greatest expected investment return and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds.

It shall be the Policy of the System to invest its assets in accordance with the maximum and minimum range, valued at market value, for each asset class as stated below:

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic Equity	37%	42%	47%
• Large Cap Equity	N/A	32%	N/A
• Small Cap Equity	N/A	10%	N/A
International Equity	6%	10%	14%
Domestic Bonds	29%	34%	39%
International Bonds	3%	6%	9%
Real Estate	5%	8%	11%

The Investment Policy is expected to have a high likelihood of meeting the objectives outlined in the "Statement of Investment Objectives" section which preceded this section.

### (Procedure 453)

The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

The Investment Policy and the asset allocation are generated using certain market assumptions. These assumptions include the expected median return and standard deviation for each asset category and the expected correlation coefficients among the asset classes. When these presumptions change, the policy needs to be modified to compensate for those changes so that the Retirement System remains sufficiently funded to meet all distribution needs.

## INVESTMENT POLICY STATEMENT (Continued)

### Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature. The Administrator will review the asset mix of the Plan on a semi-monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in Procedure 454. Additionally, the Board will review the strategic asset allocation on an annual basis to determine if there is a need to make any changes.

### Risk Tolerances and Volatility

The Board recognizes the difficulty of achieving the System's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the System's long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

Consistent with the desire for adequate diversification, the Investment Policy is based on the expectation that the volatility (the standard deviation of returns) of the total System will be similar to that of the market. Consequently, it is expected that the volatility of the total System will be reasonably close to the volatility of a commitment weighted composite of market indices.

### Re-balancing of Strategic Allocation

(Procedure 454)

The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the System.

General guidelines for re-balancing the portfolio are as follows:

- (1) When the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum, the fund will be re-balanced to the target over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. **If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.**
- (2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset

## INVESTMENT POLICY STATEMENT (Continued)

class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient, then the manager will be requested to liquidate that portion of the portfolio which will result in the manager's portfolio coming within the specific target range.

- (3) Transfers shall first be made to asset classes below the minimums, then to asset classes below the targets, unless the managers in those classes are already holding excess cash or they feel it would be imprudent to increase their size.
- (4) Transfers to or from the Domestic Stock asset class should be made such that the asset class remains style neutral. The portfolio should remain biased towards large capitalization over small capitalization. Transferred assets shall first consist of cash in the portfolios. If the cash is not sufficient, then the managers will be requested to liquidate that portion of the portfolios which will result in the asset class coming within the specific target range and remaining balanced between Growth and Value.
- (5) Since the Domestic Equity Class represents a large part of the Fund, it can be balanced internally through the use of secondary targets established within the class. The table below provides an example of how balances within the class are maintained. To determine whether the target is met for each of these categories, a subtotal is computed for the assets held by each group of managers. The percentage of the total portfolio that each group represents is determined, and compared against the target levels. When the allowable variation is exceeded, the procedures for adjustments between asset classes are then applied within the domestic equities class to meet the secondary target levels.

<b>Asset Allocation Model Secondary Targets Within the Domestic Equity Class</b>			
<i>Portfolio Category: Form of Investment Management</i>	<i>As a Percentage of the Domestic Equity Portfolio</i>	<i>As the Equivalent Percentage of the Total Portfolio</i>	<i>Allowable Variation from the Percentage of Total Portfolio</i>
Index Fund	50%	21%	+/- 4.5%
Large Cap Value	18%	7.5%	+/- 2.5%
Large Cap Growth	18%	7.5%	+/- 2.5%
Small Cap Value	7%	3.0%	+/- 1.5%
Small Cap Growth	7%	3.0%	+/- 1.5%

- (6) All transfers should be made in accordance with the cash management policy.

### Liquidity

The Board has authorized the Plan administrator to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous section. If additional funds are required from the System's equity managers, the Administrator will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

## INVESTMENT POLICY STATEMENT (Continued)

### Diversification

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries.

Specifically, no single investment shall exceed the guidelines established under the Manager and Securities Guidelines section.

As a general rule, System assets placed with an investment manager will not represent more than 10% of that manager's assets.

### Supervision

The Investment Manager shall continually supervise the investment securities in the Fund, and shall purchase, sell, substitute, redeem, or convert securities as they should deem advisable.

(This section is currently under consideration and is subject to change.)

### Brokerage Policy

All transactions effected for the System will be "subject to the best price and execution." The lowest commission rate need not mean the best realized price. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the System's assets without prior written approval by the Board.

If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

The Plan's investment managers shall follow the direction of the Board. It is the policy of the Board to instruct the investment managers to direct transaction orders to particular broker-dealers, including equity, fixed income, both domestic and international. The instructions from the Board currently is for the investment managers to direct as much as possible of the Plan's commission business as is practicable, subject to the best price and execution. The instruction and direction is to be construed within the normal activity of the investment manager, with no increased or decreased trading activity to occur because of the instruction. Where given discretion to establish and execute transactions through accounts with one or more broker-dealer firms as it may select, the manager must attempt to obtain "best available price and most favorable execution" with respect to all of the portfolio transactions.

Soft Dollars accumulated through the System's brokerage program may be used to pay for any Sys-



## INVESTMENT POLICY STATEMENT (Continued)

tem expense permitted under the regulations of the Department of Labor (including, but not limited to, legal, accounting, education, management, etc.) and approved by the Board.

### Performance Objectives

Investment performance will be measured quarterly but it is not expected that the performance goals identified below will be satisfied in any single quarter or year. It is expected that these goals will be satisfied over a rolling five-year period or a full market cycle. However, action by the Board with regard to retention or dismissal of investment managers is not precluded by virtue of these time periods.

### Total Fund Investments

The total Fund's performance, in aggregate, will be expected to achieve a rate of return which exceeds a fund benchmark representative of the Asset Allocation objective as follows:

Russell 1000	32%
Russell 2000	10%
Morgan Stanley Capital International EAFE	10%
Lehman Aggregate Bond Index	34%
Salomon Brother World Govt. Non-Dollar Bond Index	6%
NCREIF Property Index	8%

### (Procedure 452)

Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return which exceeds an appropriate index over rolling five year periods.

Managers are considered to have achieved this objective if their performance meets all guidelines on a cumulative five year annualized period. If the performance is longer than five years, the manager is expected to satisfy the performance objectives in a majority of the rolling five year periods.

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception. Their performance in any period should not be below the 62nd percentile.

If managers with less than five years experience with the Fund fail to meet any investment objectives, the following should be applied:

- If a manager fails to meet investment objectives for one or two consecutive quarters, this may not be a cause for concern.

## INVESTMENT POLICY STATEMENT (Continued)

- If a manger fails to meet investment objectives for three consecutive quarters, they merit probationary status.
- If a manger fails to meet investment objectives for four consecutive quarters, they should be critically reviewed by the Board and considered for termination. The Board may grant the manager an extended probation after officially recognizing the substandard performance.

### Fixed-Income Investments

The objectives for investment managers of the domestic fixed-income component of the total portfolio are:

- (1) Earn an average annual return from income and capital appreciation which exceeds the Lehman Aggregate Bond Index over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad fixed-income manager data base.
- (3) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

### Domestic Equity Investments

The objectives for investment managers of the domestic equity component of the total portfolio are:

- (1) Achieve returns which exceed an appropriate index, (i.e. S&P 500, NASDAQ, etc.) over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve returns that will rank in the top half of a broad database of domestic equity managers.
- (3) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

### Passive Equity Investment

The objective for investment managers of the passive domestic equity component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

## INVESTMENT POLICY STATEMENT (Continued)

### International Equity Investments

The objectives for investment managers of the international equity component of the total portfolio are:

- (1) Achieve returns which exceed that of the Morgan Stanley Capital International Europe, Australia, Far East Index over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve returns that rank in the top half of a broad international equity manager database.
- (3) Achieve performance results in the top half of investment managers which utilize a similar style of investment.

### International Fixed-Income Investments

The objective for the investment managers of the international fixed-income component of the total portfolio are :

- (1) Achieve rates of return which exceed the Salomon Brothers World Government Non-Dollar Bond Index over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad international fixed income manager database.
- (3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

### Real Estate Investments

- (1) Achieve returns which exceed an appropriate index , (i.e. NCRIF) net of fees over a market cycle.
- (2) The real estate manager(s) will be expected to achieve returns that rank in the upper half of a broad universe of real estate funds.

**INVESTMENT PROFESSIONALS****INVESTMENT MANAGERS****DOMESTIC EQUITIES:**

Atlanta Capital Management  
Large Cap Growth  
Atlanta, GA

Brandywine Asset Management  
Small Cap Value  
Wilmington, DE

Eagle Asset Management, Inc.  
Small Cap Growth  
St. Petersburg, FL

Northern Trust Quantitative Advisors  
Russell 3000 Index  
Chicago, IL

Paradigm Asset Management Co.  
Large Cap Value  
New York, NY

**INTERNATIONAL EQUITIES:**

Bank of Ireland Asset Management  
Dublin, Ireland

**DOMESTIC FIXED INCOME:**

Dodge & Cox  
San Francisco, CA

Zurich Scudder Investments, Inc.  
Chicago, IL

**INTERNATIONAL FIXED INCOME:**

Julius Baer  
Los Angeles, CA

**REAL ESTATE:**

DRA Advisors, Inc.  
New York, NY

Fidelity Investments  
Boston, MA

MIG Realty Advisors  
Cleveland, OH

TimeSquare Real Estate Investors  
(Formerly CIGNA)  
Hartford, CT

**CONSULTANT**

The Bank of New York  
New York, NY

**CUSTODIAN**

The Bank of New York  
New York, NY

**PROXY VOTING**

Investor Responsibility Research Center  
Washington, DC

## GROSS PERFORMANCE SUMMARY BY ASSET CLASS

### Periods Ended June 30, 2002

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
<b>TOTAL FUND</b>	<b>-1.7%</b>	<b>1.8%</b>	<b>6.3%</b>
Benchmark	-3.4%	0.7%	6.2%
TUCS All Master Trust Median	-6.0%	-0.3%	5.7%
TUCS Public Fund Universe Median	-5.8%	-0.3%	5.2%
 <b>TOTAL DOMESTIC FIXED INCOME</b>	 <b>7.0%</b>	 <b>7.5%</b>	 <b>7.2%</b>
Lehman Brothers Aggregate Bond Index	8.6%	8.1%	7.6%
TUCS Domestic Fixed Income Median	8.0%	7.9%	7.5%
 <b>TOTAL INTERNATIONAL FIXED INCOME</b>	 <b>14.7%</b>	 <b>2.5%</b>	 <b>3.5%</b>
Salomon Brothers World Gov't Non-US Bond	15.8%	3.1%	3.0%
TUCS International Fixed Income Median	15.3%	3.3%	3.5%
 <b>TOTAL DOMESTIC EQUITY</b>	 <b>-12.2%</b>	 <b>-4.3%</b>	 <b>5.1%</b>
S&P 500 Index	-18.0%	-9.2%	3.7%
TUCS Equity Median	-15.8%	-3.4%	5.8%
 <b>TOTAL INTERNATIONAL EQUITY</b>	 <b>-8.9%</b>	 <b>-3.1%</b>	 <b>2.1%</b>
EAFE Index	-9.5%	-6.8%	-1.6%
TUCS International Equity Median	-6.5%	-3.2%	1.1%
 <b>TOTAL REAL ESTATE</b>	 <b>7.2%</b>	 <b>11.7%</b>	 <b>12.2%</b>
NCREIF Property Index	5.6%	9.6%	11.8%
TUCS Real Estate Median	6.2%	9.5%	9.7%

## GROSS PERFORMANCE SUMMARY BY INVESTMENT MANAGER

### Periods Ended June 30, 2002

The table below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed. Source: Bank of New York Investment Performance Evaluation Report June 30, 2002.

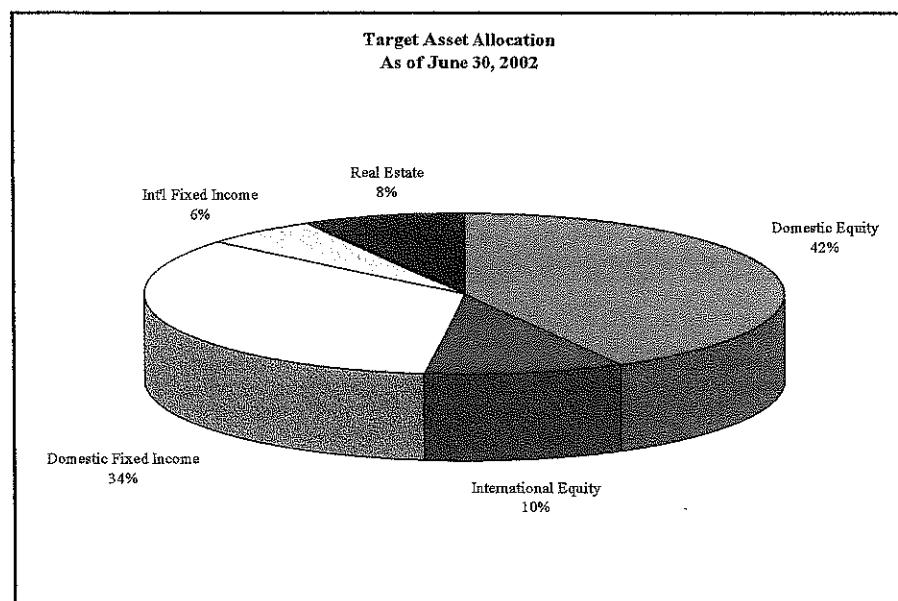
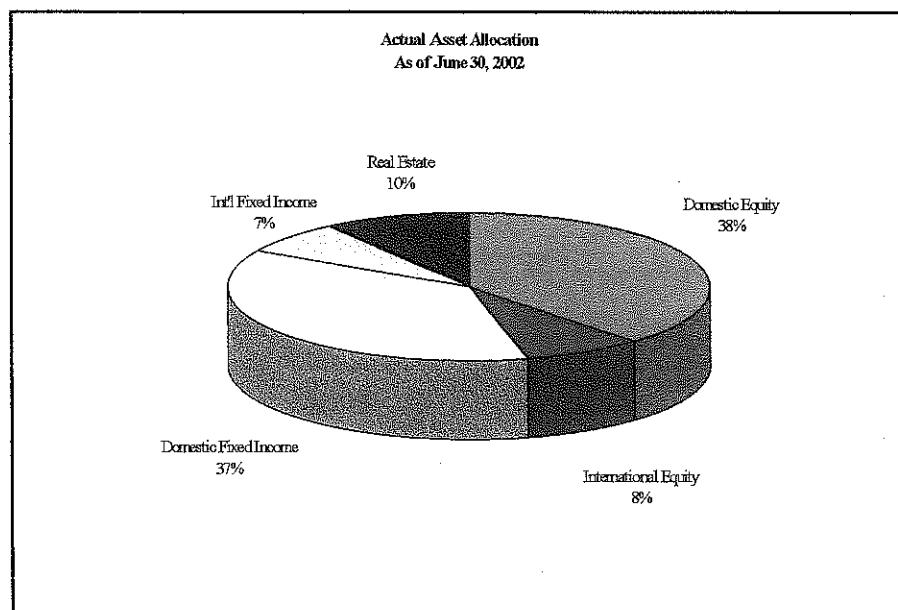
	<u>One Year</u>	<u>Three Years</u>	<u>5 Years</u>
<b>DOMESTIC FIXED INCOME</b>			
Zurich Scudder	5.9%	7.0%	6.9%
Lehman Brothers Aggregate Bond Index	8.6%	8.1%	7.6%
TUCS Fixed Income Core Median	8.0%	7.9%	7.5%
 Dodge and Cox	 9.1% ++	 N/A	 N/A
Lehman Brothers Aggregate Bond Index	8.6%	8.1%	7.6%
TUCS Fixed Income Core Median	8.0%	7.9%	7.5%
 <b>INTERNATIONAL FIXED INCOME</b>			
Julius Baer	14.7%	2.5%	3.5% +
Salomon Brothers World Gov't Non-US Bond	15.8%	3.1%	3.0%
TUCS International Fixed Income Median	15.3%	3.3%	3.5%
 <b>DOMESTIC EQUITY</b>			
Northern Trust (Index)	-17.2% +	-7.9%	4.7%
Russell 3000	-17.3%	-7.9%	4.7%
TUCS Equity Median	-15.8%	-3.4%	5.8%
 Atlanta Capital (Large Cap Growth)	 -17.4% ++	 -6.5% ++	 N/A
S&P 500	-18.0%	-9.2%	3.7%
TUCS Large Cap Growth Median	-23.5%	-10.9%	4.0%
TUCS Equity Median	-15.8%	-3.4%	5.8%
 Paradigm (Large Cap Value)	 -8.0% +++	 N/A	 N/A
Russell 1000 Value Index	-9.0%	-2.9%	6.5%
TUCS Large Cap Value Median	-11.0%	-1.7%	6.6%
TUCS Equity Median	-15.8%	-3.4%	5.8%
 Eagle Asset Management (Small Cap Growth)	 -7.1% +++	 0.1% +++	 N/A
Russell 2000 Growth	-25.0%	-9.6%	-2.0%
TUCS Small Cap Growth Median	-21.5%	-0.8%	4.6%
TUCS Equity Median	-15.8%	-3.4%	5.8%
 Brandywine (Small Cap Value)	 16.6% +++	 12.5% +++	 N/A
Russell 2000 Value	8.5%	12.0%	9.7%
TUCS Small Cap Value Universe Median	10.3%	10.6%	11.9%
TUCS Equity Median	-15.8%	-3.4%	5.8%

## GROSS PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
<b>INTERNATIONAL EQUITY</b>			
Bank of Ireland Asset Management	-8.9% +	-3.1% ++	2.1% ++
EAFE Index	-9.5%	-6.8%	-1.6%
TUCS International Equity Median	-6.5%	-3.2%	1.1%
<b>REAL ESTATE</b>			
MIG Realty Advisors	8.2% ++	12.4% ++	12.6% ++
TimesSquare (Formally, CIGNA)	2.5%	8.9%	N/A
DRA	11.3% ++	13.4% ++	N/A
NCREIF Property Index	13.3% ++	N/A	N/A
TUCS Real Estate Median	5.6%	9.6%	11.8%
	6.2%	9.5%	9.7%

## ASSET ALLOCATION

### Target Vs. Actual



### ACTUAL ASSET ALLOCATION

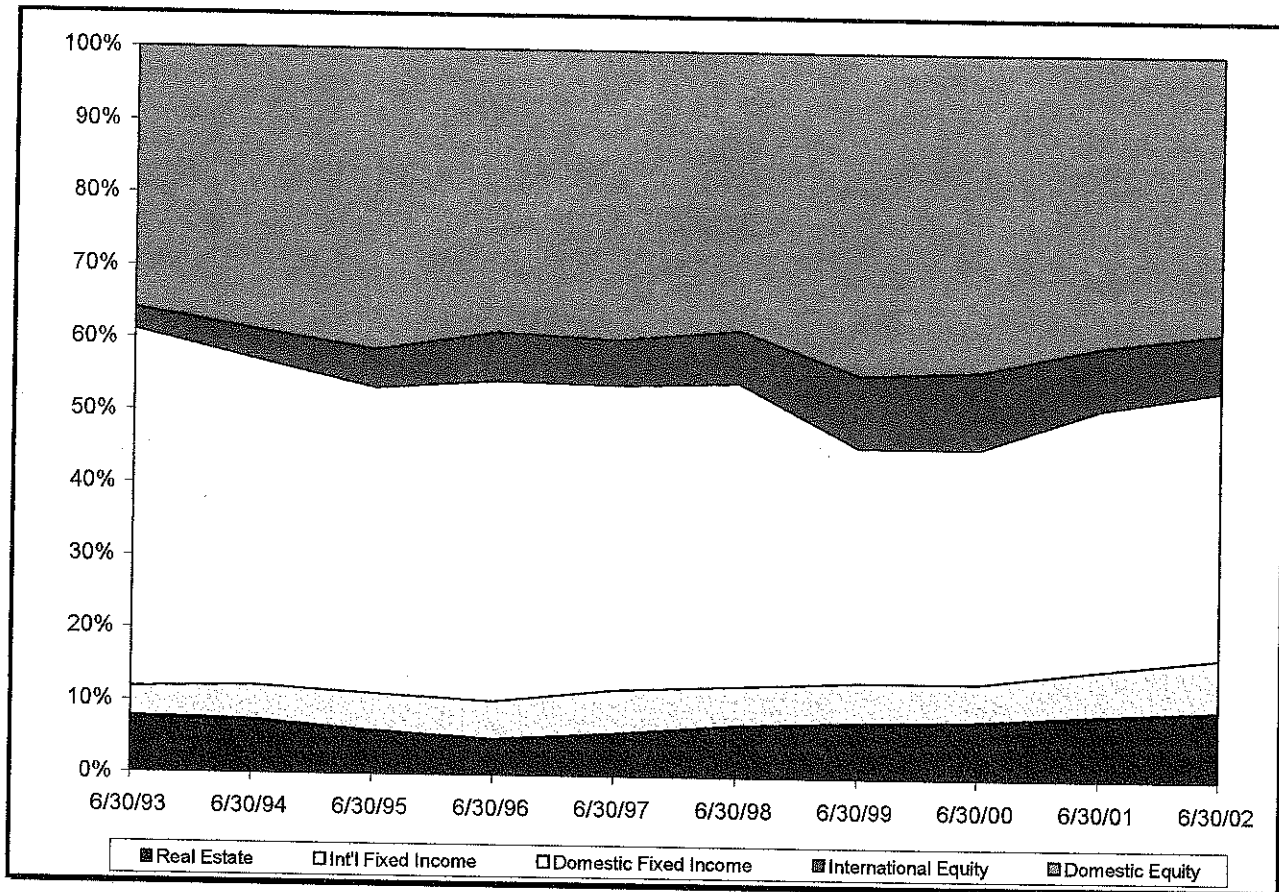
As of June 30, 2002 (In Millions)

Domestic Equity	\$ 437.68
International Equity	91.93
Domestic Fixed Income	423.99
Global Fixed Income	82.71
Real Estate	111.77
Cash	4.64
<b>TOTAL</b>	<b>\$ 1,152.72</b>

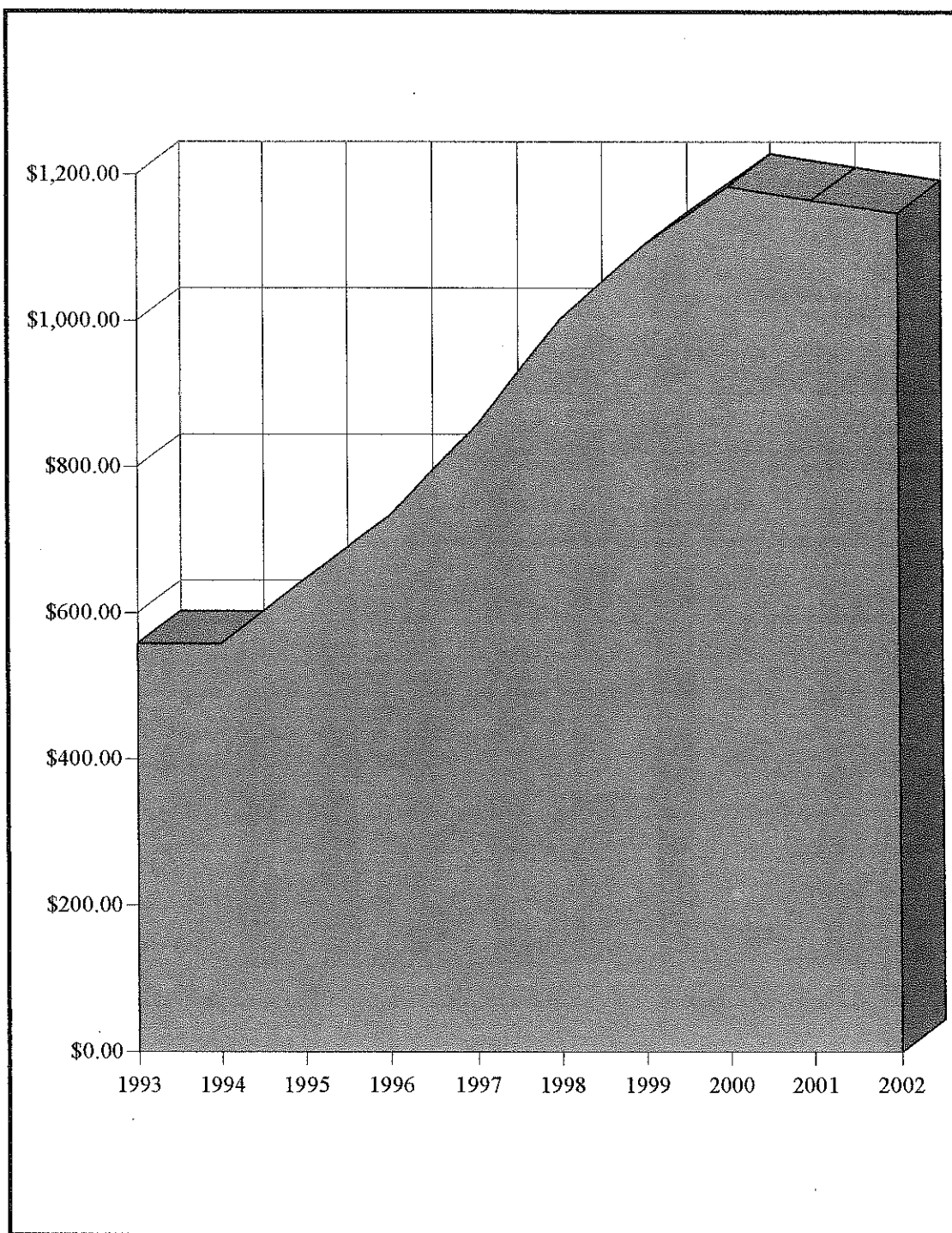


## HISTORICAL ASSET ALLOCATION (Actual)

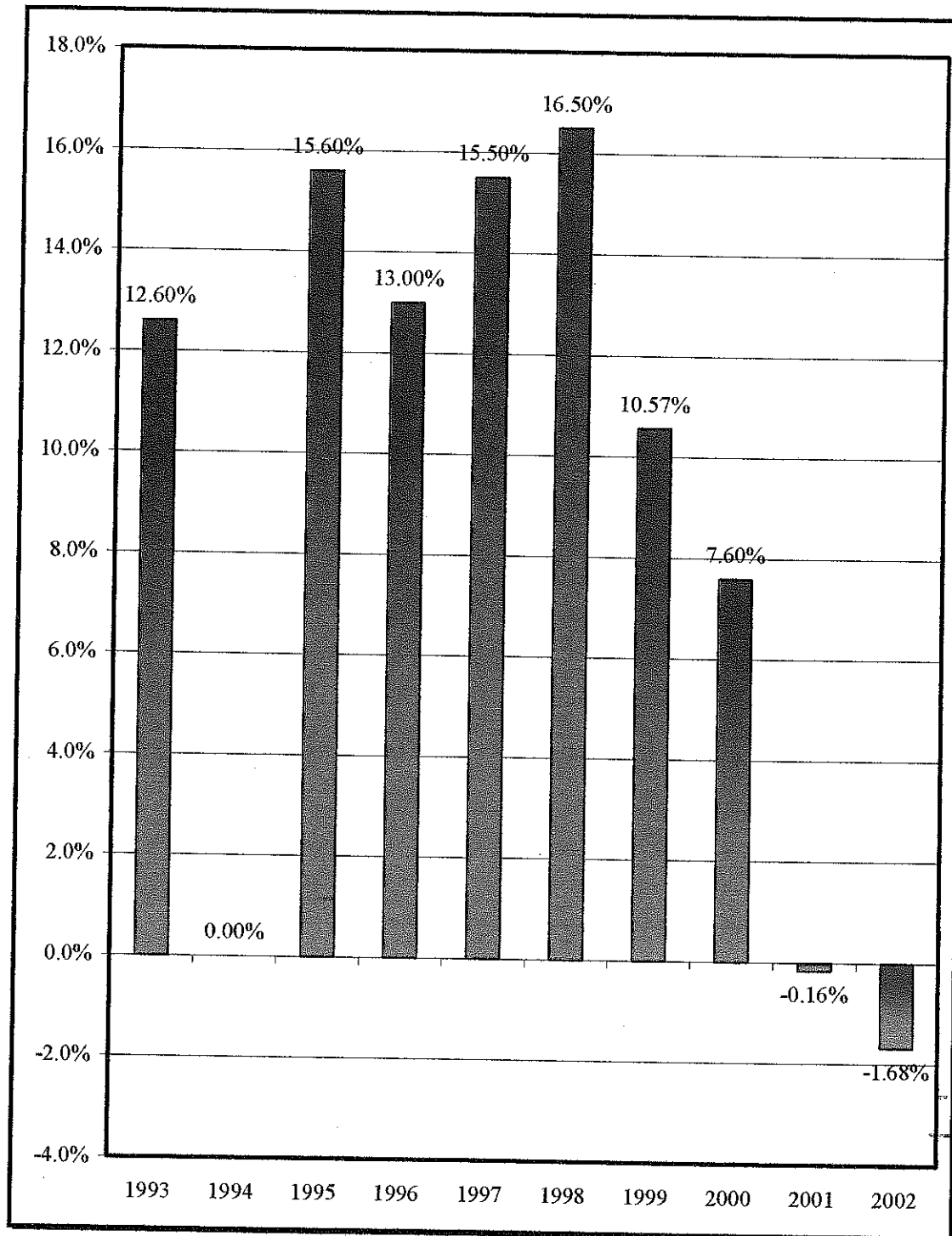
### June 1993 - June 2002



**MARKET VALUE GROWTH OF PLAN ASSETS**  
**For Ten Years Ended June 30, 2002**  
**(In Millions)**



**HISTORY OF PERFORMANCE**  
**(Based on Market Value)**  
**For Fiscal Years 1993 - 2002**



## LIST OF LARGEST ASSETS HELD

### LARGEST STOCK HOLDINGS (By Market Value)

June 30, 2002

	<u>Shares</u>	<u>Country</u>	<u>Description</u>	<u>Market Value</u>
1)	13,960.00	SWITZERLAND	NESTLE SA	\$ 2,996,546.90
2)	19,980.00	FRANCE	TOTAL FINA ELF SA EUR 10.0FRF50	\$ 2,849,526.24
3)	114,753.00	NETHERLANDS	ING GROEP NV CVA EUR 0.24	\$ 2,505,543.68
4)	72,000.00	JAPAN	CANON INCY50	\$ 2,465,795.02
5)	124,479.00	UNITED KINGDOM	GLAXOSMITHKLINE PLC 25P	\$ 2,341,684.15
6)	325,496.00	UNITED KINGDOM	BARCLAYS ORD GBP0.25	\$ 2,336,481.18
7)	38,590.00	FRANCE	AVENTIS EUR 3.82SER A FRF25	\$ 2,273,005.89
8)	185,058.00	UNITED KINGDOM	DIAGEO 28.93518P	\$ 2,238,789.54
9)	248,787.00	UNITED KINGDOM	LLOYDS TSB GROUP PLC ORD 25PPLC ORD	\$ 2,151,484.11
10)	41,039.00	GERMANY	E ON AG NPV	\$ 2,105,286.61

### LARGEST BOND HOLDINGS (By Market Value)

June 30, 2002

<u>Description</u>	<u>Country</u>	<u>Maturity Date</u>	<u>Par Value</u>	<u>Market Value</u>
1) GERMANY(FED REP) 6 1/2 BDS	GERMANY	7/15/03	11,570,000.00	\$ 11,744,281.41
2) FED'L HOME LOAN MTGE CORP GRP # C01245	U.S.	9/1/31	9,440,000.00	\$ 9,075,248.77
3) U S TREASURY BONDS	U.S.	2/15/27	7,916,000.00	\$ 8,888,183.75
4) UNITED STATES TREAS NTS	U.S.	11/15/04	8,065,000.00	\$ 8,571,582.81
5) U S TREASURY NOTES	U.S.	5/15/06	7,502,000.00	\$ 8,329,564.38
6) GERMANY(FED REP) 5.0 19AUG2005	GERMANY	8/19/05	7,870,000.00	\$ 7,935,298.30
7) FED'L HOME LOAN MTGE CORP GRP # C48590	U.S.	3/1/31	10,518,838.00	\$ 7,472,393.84
8) UNITED STATES TREAS NTS	U.S.	8/15/11	6,458,000.00	\$ 6,546,797.50
9) FED'L HOME LOAN MTGE CORP GRP # E85117	U.S.	8/1/16	7,900,000.00	\$ 6,433,346.49
10) U S TREASURY NOTES	U.S.	8/31/02	6,000,000.00	\$ 6,045,000.00

A complete list of portfolio holdings is available upon request.

## SCHEDULE OF FEES AND COMMISSIONS

### For the Year Ended June 30, 2002

#### INVESTMENT FEES

	Assets Under Mgt. at Market Value *	Fees	Basis Points
<b>Investment Managers' Fees:</b>			
Domestic Equity Managers	\$ 437,679,330	\$ 1,159,029	26
International Equity Managers	91,929,077	443,036	48
Domestic Fixed Income Managers	423,993,887	508,884	12
International Fixed Income Managers	82,713,360	261,383	32
Real Estate Managers	111,773,177	967,242	87
Cash	4,635,117	-	N/A
<b>Total Investment Managers' Fees</b>	<b>\$ 1,152,723,948</b>	<b>\$ 3,339,574</b>	<b>29</b>
<b>Other Investment Service Fees:</b>			
Investment Consultant	N/A	\$ 45,000	N/A
Proxy Voting	N/A	8,940	N/A
Custodian	N/A	99,285	N/A
Real Estate Legal Fees	N/A	79,903	N/A
Real Estate Appraisals	N/A	23,250	N/A
<b>Total Other Investment Service Fees</b>	<b>N/A</b>	<b>\$ 256,378</b>	<b>N/A</b>

\* Includes Cash in Managers' Accounts

#### COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
A.B. WATLEY INC	23,200	\$ 786.00	0.03388
ABN AMRO BANK NV, SYDNEY	10,920	\$ 20.34	0.00186
ABN AMRO EQUITIES (AUST), SYDNEY	2,900	\$ 34.62	0.01194
ABN AMRO EQUITIES (UK) LTD LONDON	122,472	\$ 2,347.48	0.01917
ABN AMRO SECURITIES LLC	9,000	\$ 540.00	0.06000
ARCHIPELAGO BCC CAPITAL CLEAR	26,800	\$ 536.00	0.02000
AUTRANET, INC.	3,500	\$ 140.00	0.04000
BAIRD ROBERT W & CO INC	2,000	\$ 120.00	0.06000
BANC OF AMERICA SECURITIES LLC	31,700	\$ 1,681.00	0.05303
BANQUE NATIONAL DE PARIS, LDN BRANCH	15,463	\$ 8.72	0.00056
BEAR STEARNS & CO INC	70,700	\$ 4,079.00	0.05769
BEAR STEARNS CO SECS NEW YORK	11,571	\$ 348.48	0.03012
BERNSTEIN, SANFORD C., & CO	2,800	\$ 140.00	0.05000
BHF SECURITIES CORPORATION	800	\$ 48.00	0.06000
BROCKHOUSE AND COOPER MONTREAL CANA	22,900	\$ 521.59	0.02278
B-TRADE SERVICES LLC	391,450	\$ 9,685.50	0.02474
CANTOR, FITZGERALD & CO., INC	157,500	\$ 8,822.00	0.05601
CAPITAL INSTITUTIONAL SVCS, INC	67,480	\$ 4,048.80	0.06000

## SCHEDULE OF FEES AND COMMISSIONS (Continued)

### COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
CAZENOVE AND CO, LONDON	204,188	\$ 775.45	0.00380
CAZENOVE ASIA LTD HK	14,000	\$ 161.69	0.01155
CAZENOVE INC USA - DTC 5117	1,400	\$ 97.87	0.06991
CHARLES, SCHWAB & CO., INC	12,700	\$ 365.00	0.02874
CIBC WORLD MARKETS CORP	106,075	\$ 5,604.25	0.05283
CITATION GROUP CHASE NYC	49,900	\$ 2,569.00	0.05148
CLSA LTD, HONG KONG	40,500	\$ 45.20	0.00112
COMMERZBANK AG LONDON	132,400	\$ 391.74	0.00296
CORRESPONDENT SERVICES CORP	6,900	\$ 207.00	0.03000
COWEN & COMPANY	28,000	\$ 1,680.00	0.06000
CRED SUISSE 1ST BOSTON HK BRCH, HK	2,000	\$ 0.56	0.00028
CREDIT LYONNAIS SECS (SING) PTE LTD	9,000	\$ 70.90	0.00788
CREDIT SUIS FST BOST , LN KV 7283	48,345	\$ 1,199.92	0.02482
CREDIT SUISSE FIRST BOS EQUIT LDN	87,755	\$ 1,229.61	0.01401
CREDIT SUISSE FIRST BOSTON	124,900	\$ 6,631.00	0.05309
CREDIT SUISSE FIRST BOSTON EQUITIES	120,878	\$ 1,557.16	0.01288
CREDIT SUISSE FIRST BOSTON HK	21,619	\$ 4.69	0.00022
CROIX SECURITIES BCC CLEARING	209,100	\$ 7,333.10	0.03507
CSFB AUSTRALIA SECURITIES LTD	42,384	\$ 149.73	0.00353
DAIN RAUSCHER INC BK NYC/	1,100	\$ 66.00	0.06000
DEUTSCHE BANC/ALEX BROWN	15,200	\$ 827.00	0.05441
DEUTSCHE BANK AG SYDNEY	3,740	\$ 23.41	0.00626
DEUTSCHE MORGAN GRENFELL SEC AU LTD	44,811	\$ 84.47	0.00188
DONALDSON LUFKIN & JENRETTE	555,450	\$ 27,017.50	0.04864
DRESDNER KLEINWORT WASSERSTEIN SEC	47,980	\$ 683.73	0.01425
EDWARDS, A.G., & SONS, INC.	99,300	\$ 5,000.00	0.05035
ESI SECURITIES COMPANY	2,087,324	\$ 110,684.77	0.05303
FACTSET DATA SYSTEMS, INC.	6,700	\$ 402.00	0.06000
FIRST ANALYSIS SECS CORP	16,000	\$ 960.00	0.06000
FIRST CLEARING CORP	4,400	\$ 264.00	0.06000
FIRST UNION SECURITIES INC	24,900	\$ 1,466.00	0.05888
FULCRUM GLOBAL PARTNERS LLC	6,000	\$ 360.00	0.06000
GERARD, KLAUER, MATTISON & CO	10,000	\$ 600.00	0.06000
GOLDMAN SACHS INTL LONDON	108,399	\$ 2,156.62	0.01990
GOLDMAN, SACHS & CO	70,300	\$ 3,316.00	0.04717
HIBERNIA SOUTHCOAST CAPITAL	52,000	\$ 2,820.00	0.05423
HONGKONG AND SHANGHAI BK/LONDON	11,700	\$ 205.53	0.01757
HSBC INVESTMENT BANK PLC LDN	47,359	\$ 188.01	0.00397
INSTINET CORPORATION	520,400	\$ 11,081.16	0.02129
INVESTMENT TECHNOLOGY GROUP,	985,626	\$ 19,690.52	0.01998
ISI GROUP, INC.	17,500	\$ 875.00	0.05000
J B WERE AND SON, MELBOURNE	20,630	\$ 112.02	0.00543
J P MORGAN INVT MGMT, NEW YORK	48,700	\$ 2,812.00	0.05774
JACKSON SECURITIES INC.	16,800	\$ 1,008.00	0.06000
JANNEY MONTGOMERY SCOTT INC.	14,100	\$ 846.00	0.06000
JEFFERIES & COMPANY, INC.	155,337	\$ 8,255.22	0.05314
JONES & ASSOCIATES	126,204	\$ 5,167.46	0.04095
JP MORGAN SEC SYDNEY AUSTRALIA	3,400	\$ 56.51	0.01662
JP MORGAN SECS LTD, LONDON SEGA	15,980	\$ 648.07	0.04055

**SCHEDULE OF FEES AND COMMISSIONS (Continued)****COMMISSIONS**

<b>BROKERAGE FIRM</b>	<b>NUMBER OF SHARES TRADED</b>	<b>TOTAL COMMISSIONS</b>	<b>COMMISSION PER SHARE</b>
JP MORGAN SECS, LONDON (DKV 7290)	820	\$ 38.21	0.04659
JP MORGAN SECURITIES AUSTRALIA LTD	9,400	\$ 88.68	0.00943
KNIGHT SECURITIES	1,900	\$ 95.00	0.05000
LEGG MASON WOOD WALKER, INC	20,000	\$ 1,098.00	0.05490
LEHMAN BROTHERS INC, USA	90,300	\$ 4,440.00	0.04917
LEHMAN BROTHERS INTL EUROPE LDN	74,418	\$ 1,422.56	0.01912
LIQUIDNET INC	233,429	\$ 7,304.58	0.03129
LYNCH JONES & RYAN INC	32,800	\$ 1,968.00	0.06000
MAGNA SECURITIES CORPORATION	2,185,664	\$ 109,283.20	0.05000
MERRILL LYNCH AND CO INC NEW YORK	1,600	\$ 104.52	0.06533
MERRILL LYNCH AND CO, INC, NEW YORK	15,700	\$ 1.77	0.00011
MERRILL LYNCH INTL LTD/LONDON	127,117	\$ 1,817.46	0.01430
MERRILL LYNCH PIERCE FENNER &	94,800	\$ 5,190.00	0.05475
MERRILL LYNCH PIERCE FENNER + SMITH	30,647	\$ 229.00	0.00747
MERRILL LYNCH PROFESSIONAL	1,900	\$ 28.50	0.01500
MORGAN GRENFELL AND CO	242,942	\$ 2,539.23	0.01045
MORGAN GRENFELL AND CO. LIMITED	40,170	\$ 358.13	0.00892
MORGAN STANLEY & CO	25,000	\$ 1,250.00	0.05000
MORGAN STANLEY AND CO INTL LTD,LDN	104,555	\$ 1,439.97	0.01377
MORGAN STANLEY CO INC NEW YORK	42,493	\$ 125.66	0.00296
ORD MINNETT LTD (INC IN UK)	32,026	\$ 61.41	0.00192
PACIFIC AMERICAN SECURITIES	39,500	\$ 1,802.00	0.04562
PRUDENTIAL SECURITIES INC	13,300	\$ 760.00	0.05714
RAYMOND, JAMES & ASSOC., INC.	10,000	\$ 600.00	0.06000
SALOMON BROTHERS INTL LTD LONDON	255,053	\$ 2,219.72	0.00870
SALOMON BROTHERS INTL LTD LONDON	6,800	\$ 489.40	0.07197
SALOMON SMITH BARNEY HONG KONG	60,500	\$ 70.26	0.00116
SBC WARBURG DILLON READ INC	76,600	\$ 3,980.00	0.05196
SCOTT & STRINGFELLOW, INC	17,000	\$ 1,020.00	0.06000
SMITH BARNEY INC (SALOMON)	106,025	\$ 5,431.25	0.05123
SOUNDVIEW TECHNOLOGY GROUP	3,400	\$ 204.00	0.06000
SOUTHWEST SECURITIES, INC.	13,800	\$ 828.00	0.06000
SPEAR, LEEDS & KELLOGG (GOLD)	19,000	\$ 570.00	0.03000
SPEAR,LEEDS & KELLOGG CAP MKTS	10,100	\$ 497.00	0.04921
SUN TRUST CAPITAL MKTS INC	172,700	\$ 9,445.00	0.05469
THOMSON INSTITUTIONAL SVCS INC	24,700	\$ 1,482.00	0.06000
U.S. BANCORP PIPER JAFFRAY INC	7,500	\$ 450.00	0.06000
UBS AG (LONDON BRANCH)	405,982	\$ 2,811.16	0.00692
UBS AG LONDON EQUITIES	3,599	\$ 329.59	0.09158
UBS AUSTRALIA LIMITED SYDNEY	2,940	\$ 35.65	0.01212
UBS WARBURG (HONG KONG) LIMITED	15,000	\$ 16.68	0.00111
UBS WARBURG(ASIA)LTD HONG KONG, HK	46,144	\$ 211.53	0.00458
UTENDAHL CAPITAL PARTNERS	23,500	\$ 1,410.00	0.06000
VERITAS SECURITIES	85,269	\$ 3,620.45	0.04246
WEEDEN & CO	39,600	\$ 1,950.00	0.04924
WESTMINSTER RESEARCH	13,400	\$ 804.00	0.06000
WILLIAMS CAPITAL GROUP, L.P.	10,300	\$ 618.00	0.06000
WILSHIRE ASSOCIATES INCORP	24,000	\$ 1,440.00	0.06000
<b>TOTAL:</b>	<b>12,285,933</b>	<b>\$ 453,637.97</b>	<b>0.03692</b>

**INVESTMENT SUMMARY****As of June 30, 2002**

<b>TYPE OF INVESTMENT</b>	<b>MARKET VALUE</b>	<b>% OF PORTFOLIO</b>
<b>Equities</b>		
Consumer Non-Durables	\$ 42,816,028	3.71%
Consumer Durables	\$ 4,580,994	0.40%
Materials & Services	\$ 59,086,736	5.13%
Capital Goods & Services	\$ 11,273,169	0.98%
Technology	\$ 32,508,132	2.82%
Energy	\$ 18,852,331	1.64%
Transportation	\$ 2,857,084	0.25%
Utilities	\$ 12,713,573	1.10%
Financial	\$ 40,172,928	3.49%
Miscellaneous	\$ 90,542,601	7.85%
Commingled Equity Funds	\$ 206,272,448	17.89%
<b>Total Equities</b>	<b>\$ 521,676,023</b>	<b>45.26%</b>
<b>Fixed Income</b>		
Corporate Bonds	\$ 141,858,122	12.31%
US Treasuries	\$ 110,269,963	9.57%
US Agencies	\$ 126,666,778	10.99%
Other Bonds	\$ 6,713,500	0.58%
International Bonds	\$ 79,438,496	6.89%
Commingled High Yield Inv Trust	\$ 19,229,072	1.67%
<b>Total Fixed Income</b>	<b>\$ 484,175,931</b>	<b>42.00%</b>
<b>Real Estate</b>		
Separate Account	\$ 62,699,998	5.44%
Commingled Funds	\$ 47,088,320	4.08%
<b>Total Real Estate</b>	<b>\$ 109,788,317</b>	<b>9.52%</b>
<b>Other Investments</b>		
Short Term Investments	\$ 34,178,558	2.97%
<b>Pendings</b>	<b>\$ (4,711,310)</b>	<b>-0.41%</b>
<b>Accrued Income</b>	<b>\$ 7,616,428</b>	<b>0.66%</b>
<b>Total Portfolio</b>	<b>\$ 1,152,723,948</b>	<b>100%</b>

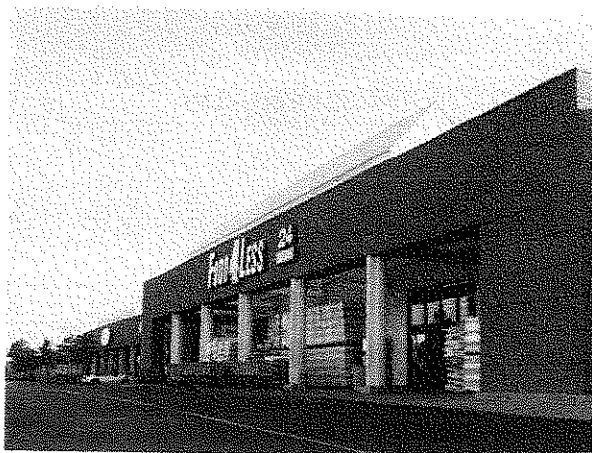


## INVESTMENT PROPERTIES



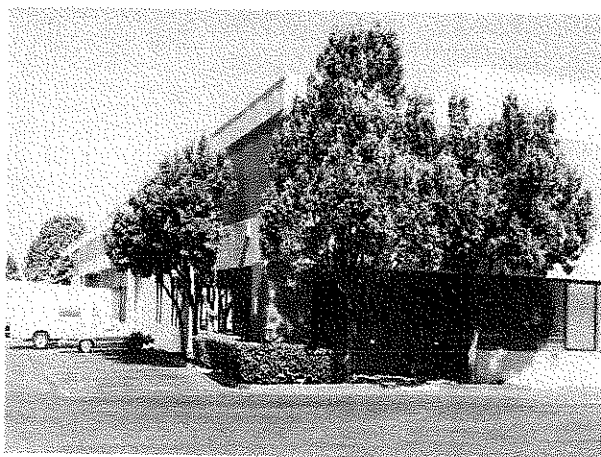
### **Airport Commercenter**

278,470 s.f. industrial complex consisting of four one-story buildings located in Ontario, CA. Acquired jointly with the Police and Fire Retirement Plan in April 1989.



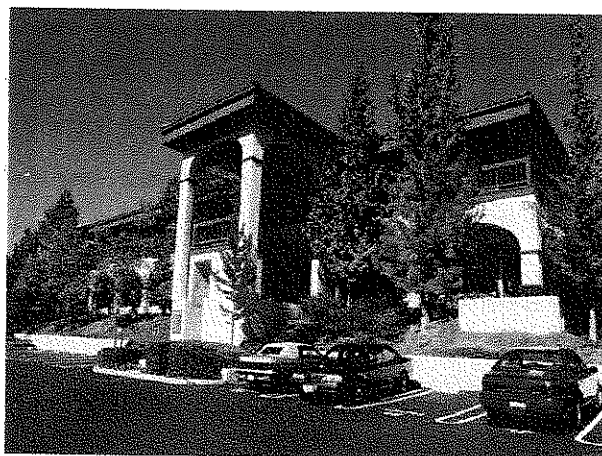
### **Copperwood Square Shopping Center**

138,990 s.f. retail shopping center in Citrus Heights, CA. Acquired jointly with the Police and Fire Retirement Plan in June 1987.



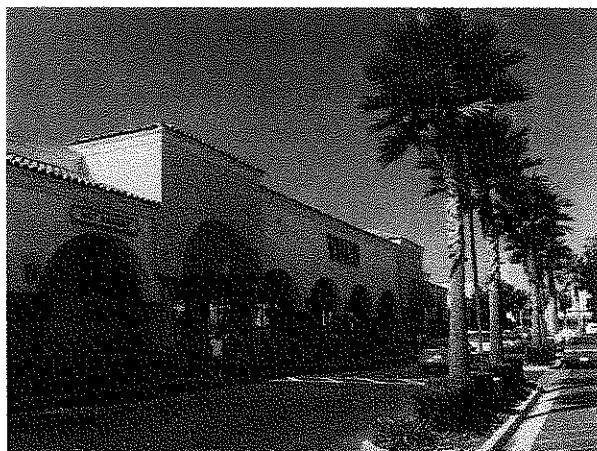
### **Milpitas Warehouse**

145,152 s.f. warehouse/distribution building, equally divided into four bays. Acquired jointly with the Police and Fire Retirement Plan in February 1986.



### **Pine Grove Office Complex**

85,956 s.f. five-building office complex located in Orinda, CA. Acquired jointly with the Police and Fire Retirement Plan in September 1990.



**Plaza Paseo Real**

147,213 s.f. retail shopping center located in Carlsbad, CA. Acquired jointly with the Police and Fire Retirement Plan in May 1993.



**Saddleback Financial Center**

72,711 s.f. mid-rise office building located in Laguna Hills, CA. Acquired jointly with the Police and Fire Retirement Plan in January 1988.



**The Manors at Providence Lakes**

266,236 s.f. apartment complex with 260 luxury apartments located in Brandon (Tampa), Florida. Acquired in September 1997

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# IV. ACTUARIAL SECTION

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## ACTUARY CERTIFICATION LETTER



**GABRIEL, ROEDER, SMITH & COMPANY**  
CONSULTANTS & ACTUARIES

3017 Douglas Boulevard • Suite 300 • Roseville, CA 95661 • Phone (916)774-7580 • Fax (916)774-7581

September 3, 2002

Board of Administration  
City of San Jose - Federated City Employees' Retirement System  
1737 N First St  
Suite 580  
San Jose CA 95112-4505

**RE: ACTUARIAL VALUATION CERTIFICATION**

**Members of the Board:**

The actuarial valuation report for the City of San Jose Federated City Employees' Retirement System, completed as of June 30, 2001, reveals that the Federated Retirement System is an actuarially sound system based on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

In support of this opinion and certification, we have included the following information:

- The funding objective of the plan
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation
- The source and degree of verification of the data used in the actuarial valuation
- Supporting schedules that we have prepared and attached
- The extent of our responsibility for the trend data schedules in the financial section of the report
- The assumptions and methods used to value plan assets and liabilities relative to the Government Accounting Standards Board (GASB) Statement No. 25
- Other disclosure information.

**The Funding Objective of the Plan**

Chapters 3.28 and 3.44 of the San Jose Municipal Code and related ordinances establish that the required annual contribution to the plan, shared by the city and members is such that contribution rates, over time, shall remain level as a percentage of payroll.

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a combination of 20 years and the present value of future salaries.

**The Frequency of the Plan's Actuarial Valuations and Date of the most Recent Actuarial Valuation**

This plan is valued on a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2001.

## ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration

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### The Source and Degree of Verification of the Data Used in the Actuarial Valuation

Computer files containing data on System membership of June 30, 2001 were provided by the City of San Jose Department of Retirement Services. While the participant data were not audited, the data was checked thoroughly, reconciling last year's data with the new data. This reconciliation accounted for all changes to the covered population. All data was checked for internal consistency and for consistency with the data for the prior valuation.

Asset-related data were also received from the City of San Jose Department of Retirement Services and were used without further audit in the development of the actuarial value of assets.

### Supporting Schedules

We have prepared and attached the following supporting schedules:

- Summary of actuarial assumptions and methods
- Schedule of active member valuation data
- Schedule of retirants and beneficiaries added to and removed from rolls
- Solvency test
- Analysis of financial experience.

### Trend Data Schedules in the Financial Section

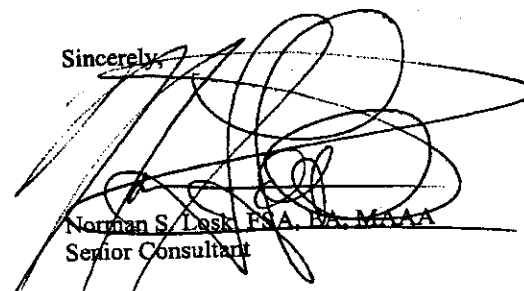
All of the trend data information in the financial section of the report was calculated and summarized by Watson Wyatt Worldwide and Gabriel, Roeder, Smith & Co.

### Actuarial Assumptions and Methods Used for Funding Purposes

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*. In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

I am a Fellow of the Society of Actuaries and an Enrolled Actuary. I am a Member of the American Academy of Actuaries and have 32 years of experience in performing valuations for public retirement systems.

Sincerely,



Norman S. Lask, FSA, EA, MAAA  
Senior Consultant

## SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

*The following assumptions have been adopted by the Retirement Board as of June 30, 2001.*

Interest Rate: 8.25% per year. The rate credited to Member contributions is 3%.

Salary Increases: Total System payroll is assumed to increase 4.5% per year.

Annual salary increases for individuals vary by age reflecting 4.5% inflation, merit and longevity. Sample rates are shown below.

<u>Age</u>	<u>Annual Salary Increase</u>
25	8.0%
35	7.0%
45	6.0%
55	5.0%
65	5.0%

Cost-of-Living Increases: 3.0% per year.

Mortality: A. For Pensioners on Service Retirement and Beneficiaries

The 1983 Group Annuity Mortality Table for males with one year setback is used for male Members. The 1983 Group Annuity Mortality Table for females, with a one year set forward, is used for female Members.

Sample Rates

<u>Age</u>	<u>Deaths per 1,000</u>	
	<u>Males</u>	<u>Females</u>
45	1.9	1.3
50	3.1	2.0
55	4.6	2.7
60	6.2	4.0
65	8.2	5.3
70	10.2	7.1



## SUMMARY OF ASSUMPTIONS AND FUNDING METHOD (Continued)

### B. For Pensioners on Disability Retirement:

#### 1981 Disability Mortality Table

#### Sample Rates

<u>Age</u>	<u>Deaths per 1,000</u>
45	20.8
50	24.4
55	28.4
60	33.0
65	37.9
70	43.7

**Rehire for Former Employees:**

All former employees are assumed not to be rehired.

**Disability:**

Valuation of disability benefits are assumed to not be offset by Worker's Compensation.

**Prior Service Benefits:**

The liability for benefits attributed to pre-1975 service is assumed in proportion to its liability as of June 30, 1997, adjusted for changes in demographics.

**Proportion of Members  
with Spouses at Retirement:**

85% of male employees and 60% of female employees are assumed married at retirement. Wives are assumed three years younger than husbands.

**Funding Method: For retirement benefits:**

The Entry Age Normal Cost Method.

**Asset Valuation Method:**

The Actuarial Value of Assets recognizes 20% of unrealized and realized gains and losses each year. The Actuarial Value of Assets cannot be less than 80% of the Market Value of Assets or greater than 120% of the Market Value of Assets.

## **SUMMARY OF ASSUMPTIONS AND FUNDING METHOD**

### **Used For Valuation of Health Subsidy Benefits**

<b>Increase in Retiree Population:</b>	The covered Retiree population is assumed to increase 6.10% per year.
<b>Covered Payroll Increase</b>	4.5% per year.
<b>Initial Health Subsidy:</b>	\$3,898 per year.
<b>Initial Dental Subsidy:</b>	\$1,096 per year.

## RATES OF SEPARATION FROM ACTIVE SERVICE - MALES

AGE	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Death While Eligible	Service Disability	Deferred Vested
20	0.0660	0.0003	0.0000	0.0000	0.0000	0.0005	0.0150
21	0.0600	0.0003	0.0000	0.0000	0.0000	0.0005	0.0160
22	0.0540	0.0003	0.0000	0.0000	0.0000	0.0005	0.0170
23	0.0520	0.0003	0.0000	0.0000	0.0000	0.0005	0.0180
24	0.0500	0.0003	0.0000	0.0000	0.0000	0.0005	0.0190
25	0.0480	0.0003	0.0002	0.0000	0.0002	0.0005	0.0243
26	0.0450	0.0003	0.0002	0.0000	0.0002	0.0005	0.0236
27	0.0420	0.0003	0.0002	0.0000	0.0002	0.0005	0.0230
28	0.0390	0.0003	0.0002	0.0000	0.0002	0.0006	0.0226
29	0.0360	0.0004	0.0002	0.0000	0.0002	0.0006	0.0223
30	0.0330	0.0004	0.0002	0.0000	0.0002	0.0006	0.0219
31	0.0300	0.0004	0.0002	0.0000	0.0002	0.0006	0.0214
32	0.0270	0.0004	0.0002	0.0000	0.0002	0.0006	0.0209
33	0.0240	0.0004	0.0003	0.0000	0.0003	0.0006	0.0201
34	0.0210	0.0005	0.0003	0.0000	0.0003	0.0007	0.0194
35	0.0180	0.0005	0.0004	0.0000	0.0003	0.0007	0.0187
36	0.0156	0.0005	0.0004	0.0000	0.0004	0.0007	0.0170
37	0.0140	0.0005	0.0005	0.0000	0.0004	0.0007	0.0153
38	0.0132	0.0006	0.0005	0.0000	0.0004	0.0008	0.0137
39	0.0124	0.0006	0.0006	0.0000	0.0005	0.0008	0.0121
40	0.0124	0.0006	0.0006	0.0000	0.0005	0.0008	0.0103
41	0.0128	0.0007	0.0007	0.0000	0.0006	0.0009	0.0105
42	0.0112	0.0007	0.0007	0.0000	0.0006	0.0009	0.0100
43	0.0096	0.0007	0.0008	0.0000	0.0007	0.0009	0.0096
44	0.0088	0.0007	0.0008	0.0000	0.0009	0.0009	0.0092
45	0.0090	0.0008	0.0009	0.0000	0.0011	0.0009	0.0091
46	0.0081	0.0008	0.0010	0.0000	0.0013	0.0010	0.0089
47	0.0072	0.0008	0.0011	0.0000	0.0015	0.0011	0.0087
48	0.0068	0.0009	0.0012	0.0000	0.0017	0.0012	0.0082
49	0.0063	0.0009	0.0014	0.0000	0.0019	0.0013	0.0074
50	0.0061	0.0010	0.0016	0.0100	0.0021	0.0015	0.0065
51	0.0060	0.0011	0.0019	0.0050	0.0023	0.0018	0.0055
52	0.0055	0.0012	0.0022	0.0050	0.0025	0.0022	0.0043
53	0.0050	0.0013	0.0027	0.0050	0.0027	0.0027	0.0030
54	0.0050	0.0014	0.0033	0.0100	0.0029	0.0033	0.0015
55	0.0050	0.0015	0.0039	0.1700	0.0031	0.0040	0.0000
56	0.0050	0.0015	0.0046	0.0800	0.0033	0.0047	0.0000
57	0.0050	0.0016	0.0054	0.0800	0.0035	0.0056	0.0000
58	0.0050	0.0017	0.0063	0.0800	0.0037	0.0068	0.0000
59	0.0050	0.0018	0.0074	0.0800	0.0040	0.0084	0.0000
60	0.0000	0.0019	0.0085	0.1000	0.0043	0.0104	0.0000
61	0.0000	0.0020	0.0098	0.1300	0.0046	0.0124	0.0000
62	0.0000	0.0021	0.0112	0.2000	0.0049	0.0149	0.0000
63	0.0000	0.0022	0.0127	0.1700	0.0052	0.0181	0.0000
64	0.0000	0.0023	0.0143	0.2200	0.0055	0.0220	0.0000
65	0.0000	0.0024	0.0160	0.2500	0.0058	0.0260	0.0000
66	0.0000	0.0025	0.0000	0.4000	0.0061	0.0000	0.0000
67	0.0000	0.0026	0.0000	0.4000	0.0064	0.0000	0.0000
68	0.0000	0.0027	0.0000	0.4500	0.0067	0.0000	0.0000
69	0.0000	0.0028	0.0000	0.5000	0.0070	0.0000	0.0000
70	0.0000	0.0029	0.0000	1.0000	0.0073	0.0000	0.0000

**RATES OF SEPARATION FROM ACTIVE SERVICE - FEMALES**

<u>AGE</u>	<u>Ordinary Withdrawal</u>	<u>Ordinary Death</u>	<u>Ordinary Disability</u>	<u>Service Retirement</u>	<u>Death While Eligible</u>	<u>Service Disability</u>	<u>Deferred Vested</u>
20	0.0820	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
21	0.0740	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
22	0.0700	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
23	0.0660	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
24	0.0620	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
25	0.0580	0.0001	0.0002	0.0000	0.0001	0.0003	0.0210
26	0.0540	0.0001	0.0002	0.0000	0.0001	0.0003	0.0214
27	0.0500	0.0001	0.0002	0.0000	0.0001	0.0003	0.0220
28	0.0460	0.0002	0.0002	0.0000	0.0001	0.0003	0.0228
29	0.0420	0.0002	0.0002	0.0000	0.0001	0.0004	0.0238
30	0.0380	0.0002	0.0002	0.0000	0.0001	0.0004	0.0246
31	0.0348	0.0002	0.0002	0.0000	0.0001	0.0004	0.0249
32	0.0324	0.0002	0.0002	0.0000	0.0001	0.0004	0.0250
33	0.0308	0.0003	0.0002	0.0000	0.0001	0.0004	0.0249
34	0.0292	0.0003	0.0002	0.0000	0.0001	0.0004	0.0248
35	0.0224	0.0003	0.0002	0.0000	0.0001	0.0004	0.0247
36	0.0211	0.0003	0.0002	0.0000	0.0002	0.0005	0.0246
37	0.0198	0.0003	0.0002	0.0000	0.0002	0.0005	0.0245
38	0.0185	0.0004	0.0002	0.0000	0.0002	0.0005	0.0246
39	0.0172	0.0004	0.0002	0.0000	0.0002	0.0005	0.0247
40	0.0159	0.0004	0.0002	0.0000	0.0002	0.0005	0.0237
41	0.0148	0.0004	0.0002	0.0000	0.0003	0.0005	0.0212
42	0.0137	0.0005	0.0002	0.0000	0.0004	0.0005	0.0187
43	0.0133	0.0005	0.0003	0.0000	0.0005	0.0005	0.0162
44	0.0129	0.0005	0.0003	0.0000	0.0006	0.0005	0.0137
45	0.0125	0.0006	0.0003	0.0000	0.0007	0.0005	0.0111
46	0.0116	0.0006	0.0004	0.0000	0.0008	0.0006	0.0115
47	0.0107	0.0006	0.0004	0.0000	0.0009	0.0006	0.0120
48	0.0098	0.0007	0.0005	0.0000	0.0010	0.0007	0.0125
49	0.0089	0.0007	0.0005	0.0000	0.0011	0.0007	0.0130
50	0.0087	0.0008	0.0006	0.0025	0.0012	0.0008	0.0135
51	0.0085	0.0008	0.0008	0.0025	0.0013	0.0009	0.0130
52	0.0083	0.0008	0.0011	0.0025	0.0014	0.0010	0.0125
53	0.0081	0.0009	0.0015	0.0050	0.0015	0.0012	0.0120
54	0.0079	0.0009	0.0020	0.0050	0.0016	0.0015	0.0115
55	0.0084	0.0009	0.0026	0.1000	0.0018	0.0018	0.0050
56	0.0084	0.0010	0.0033	0.0400	0.0020	0.0022	0.0000
57	0.0084	0.0010	0.0041	0.0600	0.0022	0.0027	0.0000
58	0.0084	0.0011	0.0050	0.0600	0.0024	0.0033	0.0000
59	0.0084	0.0011	0.0060	0.0600	0.0026	0.0040	0.0000
60	0.0000	0.0012	0.0071	0.0700	0.0028	0.0018	0.0000
61	0.0000	0.0012	0.0083	0.0800	0.0030	0.0060	0.0000
62	0.0000	0.0013	0.0096	0.1500	0.0032	0.0073	0.0000
63	0.0000	0.0013	0.0110	0.0750	0.0034	0.0089	0.0000
64	0.0000	0.0014	0.0125	0.0750	0.0036	0.0120	0.0000
65	0.0000	0.0015	0.0140	0.2500	0.0038	0.0160	0.0000
66	0.0000	0.0016	0.0000	0.2500	0.0040	0.0000	0.0000
67	0.0000	0.0017	0.0000	0.3500	0.0042	0.0000	0.0000
68	0.0000	0.0018	0.0000	0.3500	0.0045	0.0000	0.0000
69	0.0000	0.0019	0.0000	0.4000	0.0048	0.0000	0.0000
70	0.0000	0.0020	0.0000	1.0000	0.0051	0.0000	0.0000

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
June 30, 2001	4,466	\$252,696,000	\$56,582	7.9%
June 30, 1999	3,694	\$193,650,000	\$52,423	8.3%
June 30, 1997	3,642	\$176,284,000	\$48,403	6.8%
June 30, 1995	3,397	\$153,918,000	\$45,310	4.4%
June 30, 1993	3,360	\$145,781,000	\$43,387	-

## RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

Two-Year Period	<u>Beginning of Period</u>		<u>Added to Rolls</u>		<u>Removed from Rolls <sup>1</sup></u>		<u>End of Period</u>		<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowances</u>
	<u>Count</u>	<u>Annual Allowances</u>	<u>Count</u>	<u>Annual Allowances</u>	<u>Count</u>	<u>Annual Allowances</u>	<u>Count</u>	<u>Annual Allowances</u>		
1999-2001	1,824	\$37,137,000	230	\$6,655,000	24	\$268,000	2,030	\$45,208,000	21.7%	\$22,270
1997-1999	1,745	\$32,630,000	202	\$4,642,000	123	\$1,514,000	1,824	\$37,137,000	13.8%	\$20,360
1995-1997	1,636	\$29,029,000	190	\$4,143,000	81	\$946,000	1,745	\$32,630,000	12.4%	\$18,699
1993-1995	1,497	\$25,642,000	210	\$4,420,000	71	\$801,000	1,636	\$29,029,000	13.2%	\$17,744

<sup>1</sup> This column consists of the following categories:

- (a) Retirees and disabled retirees who die during the period and have no survivor benefits
- (b) Expiration of certain period benefits for deceased retirees.

**ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE**

	<u>Change in Contribution Rate</u>
<b>For Plan Year Ended June 30, 2001</b>	
Investment Performance	-0.46%
Liability Experience	-1.62%
Change in Assumptions	0.00%
Change in Benefit Provisions	1.51%
Total	<u>-0.57%</u>
<b>For Plan Year Ended June 30, 1999</b>	
Investment Performance	-2.75%
Liability Experience	0.98%
Change in Assumptions	0.79%
Total	<u>-0.98%</u>
<b>For Plan Year Ended June 30, 1997</b>	
Investment Performance	-1.55%
Liability Experience	-1.04%
Change in Assumptions	-2.23%
Total	<u>-4.82%</u>

**SOLVENCY TEST**

Year Ended	(1) Active Members Contributions	(2) Retirants and Beneficiaries Accrued Liability	(3) Active Members Accrued Liability (Employer Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
2001	\$210,377,000	\$529,853,000	\$332,103,000	\$1,060,144,000	100%	100%	96%
1999	\$196,887,000	\$441,573,000	\$223,766,000	\$804,860,000	100%	100%	74%
1997	\$167,837,000	\$383,574,000	\$184,361,000	\$678,954,000	100%	100%	69%
1995	\$133,805,000	\$364,159,000	\$160,211,000	\$566,102,000	100%	100%	43%
1993	\$104,098,000	\$308,922,000	\$170,099,000	\$489,865,000	100%	100%	45%

## SUMMARY OF RETIREMENT BENEFITS

1. Eligibility: Members are eligible on their first day of City employment.
2. Final Compensation: Highest 12-month average salary (this provision was changed from the highest 36-month average salary, effective July 1, 2001).
3. Service Retirement:
  - A) Eligibility: Age 55 with five years of service, or any age with 30 years of service.
  - B) Benefit: 2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation.
  - C) Form of Payment: Monthly benefit payable for the life of the member.
4. Disability Retirement:
  - A) Eligibility: Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service.
  - B) Benefit: 2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Any Workers' Compensation benefits are offset from the benefits under this system. If the disability was not service-connected, then the benefit is reduced by .5% of Final Compensation for each year of age under 55.
  - C) Form of Payment: Monthly benefit payable for the life of the member.
5. Deferred Service Retirement:
  - A) Eligibility: Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement.
  - B) Benefit: Same as Service Retirement, payable anytime after age 55.
  - C) Form of Payment: Same as Service Retirement.



## SUMMARY OF RETIREMENT BENEFITS (Continued)

6. Pre-Retirement Death Benefits:

A) Non-Service Connected with less than five years of service, or No Family Members Eligible for Allowance:

Member's beneficiary or estate receives (i), and (ii) where:

(i) = Accumulated contributions with interest.

(ii) = Lump sum benefit of one month's salary for each year of service, up to six years.

B) Service-Connected, or Non-Service Connected with five years of service

Member's eligible survivor receives 100% of the benefit the Member would have received if he or she had been granted a disability benefit on the day before death, payable until the spouse remarries. If the Member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the Member's spouse.

7. Post-Retirement Death Benefits:

Member's eligible survivor receives (i) and (ii), where:

(i) = 50% continuance to surviving eligible spouse; if there is no surviving spouse, certain benefits are paid to the children.

(ii) = \$500 death benefit allowance for burial expenses at death of retired member.

8. Post-retirement Cost-of-Living Benefits:

Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

If the benefit has been paid less than 12 months, the 3% increase is proportionately decreased.

9. Employee Contributions:

The Members' contribution rates are recalculated on an actuarial basis at each actuarial study. Contributions are credited with 3% interest annually (the interest crediting provision was changed from 7.25% to 3% effective July 1, 2001).

## SUMMARY OF HEALTH SUBSIDY BENEFITS

1. Eligibility:

A) Medical

Fifteen years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City medical insurance plan at retirement.

B) Dental

Five years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City dental insurance plan at retirement.

2. Benefit

A) Medical

The Retirement System pays the premium for the lowest cost medical plan offered by the City for single and family coverage. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System.

B) Dental

The Retirement System pays the entire cost of dental insurance coverage.

3. Contributions

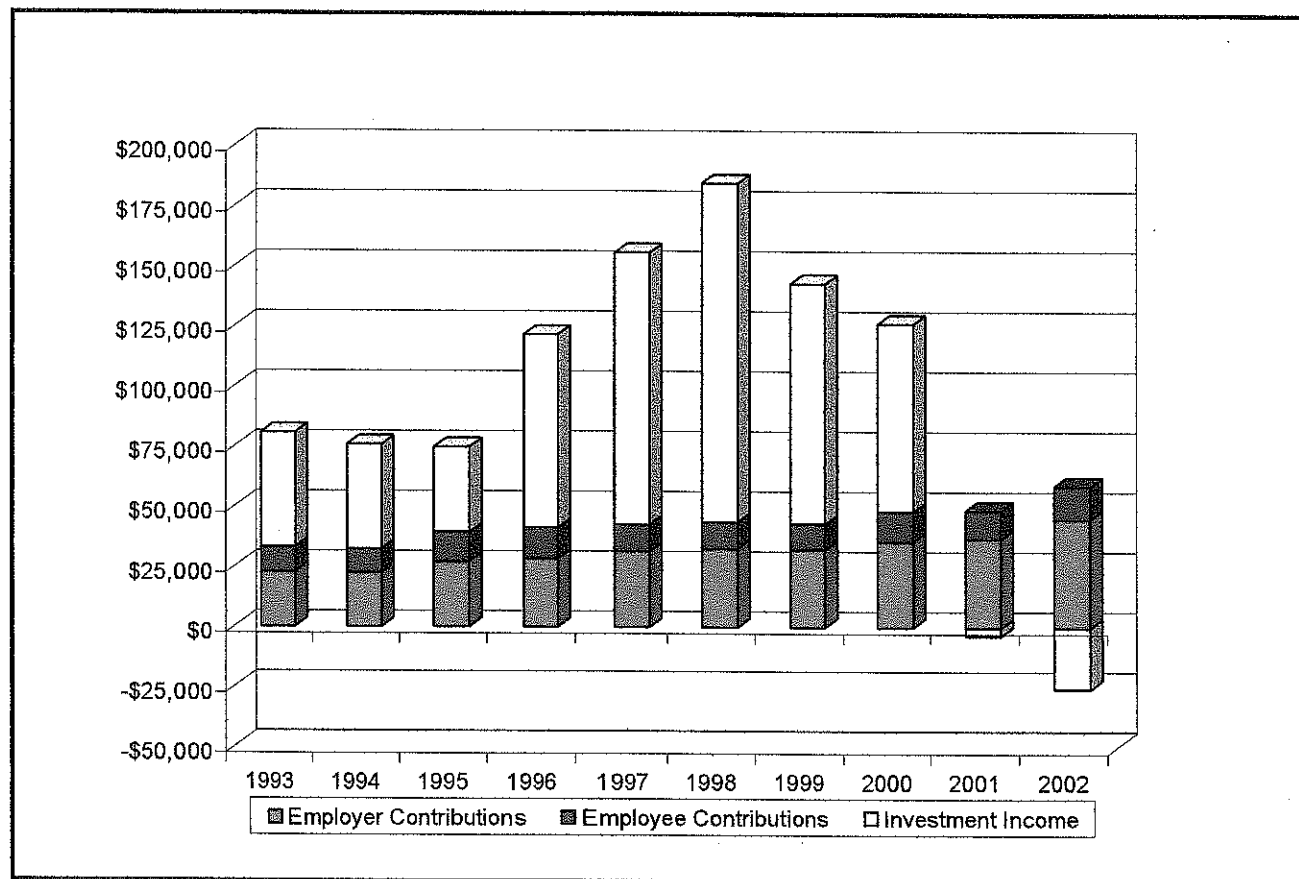
Both the City and the Members contribute to the Retirement System fund for medical and dental insurance benefits.

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V.  
STATISTICAL  
SECTION

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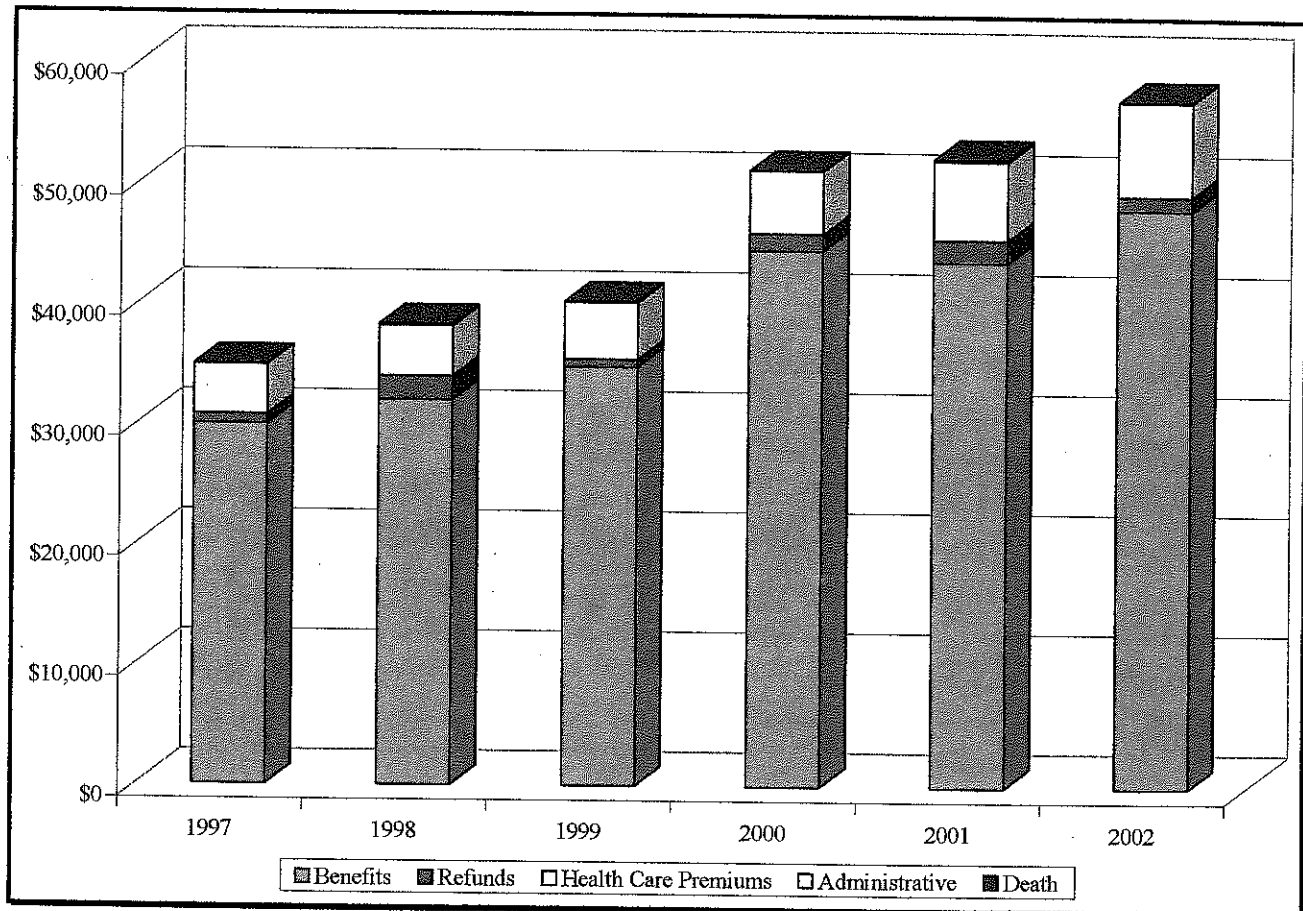
### ADDITIONS BY SOURCE For Fiscal Years 1993 - 2002 (In Thousands)



Year Ending	Employer Contributions	% of Annual Payroll	Employee Contributions	% of Annual Payroll	Investment Income *	Total
1993	\$22,801	14.68%	\$10,391	6.88%	\$47,498	\$80,690
1994	\$22,348	18.01%	\$10,086	8.12%	\$43,362	\$75,796
1995	\$27,111	18.01%	\$12,269	8.12%	\$35,353	\$74,733
1996	\$28,411	18.59%	\$12,876	6.70%	\$80,420	\$121,707
1997	\$31,441	19.22%	\$11,376	6.70%	\$113,039	\$155,856
1998	\$32,693	16.52%	\$11,129	5.31%	\$140,928	\$184,750
1999	\$32,387	16.52%	\$10,733	5.31%	\$99,907	\$143,027
2000	\$35,825	16.09%	\$12,400	4.76%	\$77,971	\$126,196
2001	\$37,034	16.09%	\$11,768	4.76%	-\$3,470	\$45,332
2002	\$45,138	15.20%	\$13,858	5.08%	-\$25,698	\$33,298

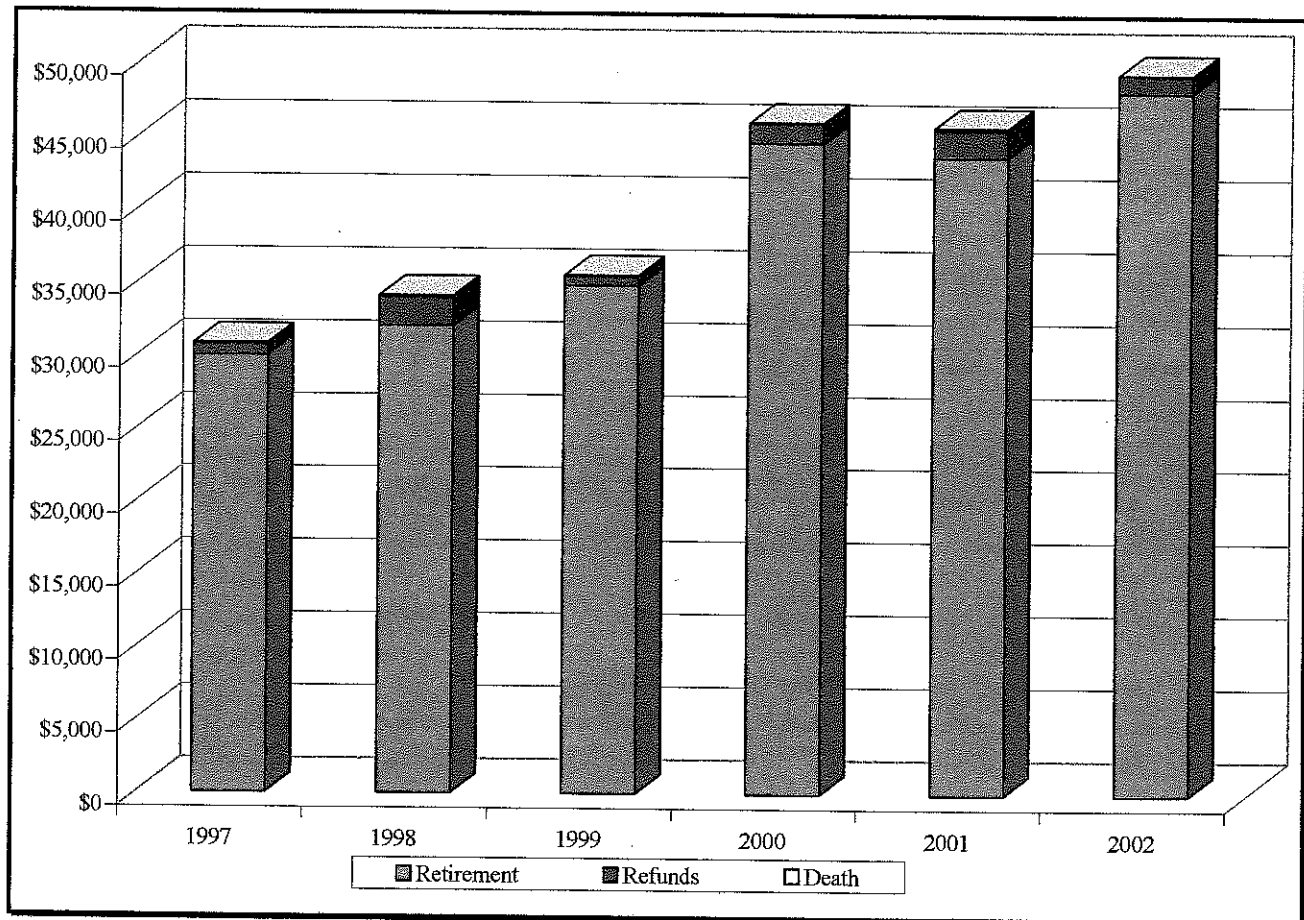
\* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

**DEDUCTIONS BY TYPE**  
**For Fiscal Years 1997 - 2002**  
(In Thousands)



	1997	1998	1999	2000	2001	2002
Benefits	\$29,979	\$32,035	\$34,846	\$44,655	\$43,761	\$48,235
Refunds	\$789	\$1,980	\$646	\$1,386	\$1,886	\$1,207
Health Care Premiums	\$4,145	\$4,161	\$4,711	\$5,236	\$6,530	\$7,804
Death	\$20	\$84	\$47	\$20	\$105	\$22
Administrative	\$726	\$841	\$778	\$1,136	\$1,420	\$1,472
<b>TOTAL</b>	<b>\$35,659</b>	<b>\$39,101</b>	<b>\$41,028</b>	<b>\$52,433</b>	<b>\$53,702</b>	<b>\$58,740</b>

**BENEFIT EXPENSES BY TYPE**  
**For Fiscal Years 1997 - 2002**  
**(In Thousands)**



	1997	1998	1999	2000	2001	2002
Retirement	\$29,979	\$32,035	\$34,846	\$44,655	\$43,761	\$48,235
Refunds	\$789	\$1,980	\$646	\$1,386	\$1,886	\$1,207
Death	\$20	\$84	\$47	\$20	\$105	\$22
<b>TOTAL</b>	<b>\$30,788</b>	<b>\$34,099</b>	<b>\$35,539</b>	<b>\$46,061</b>	<b>\$45,752</b>	<b>\$49,464</b>



## RETIRED MEMBERS BY TYPE OF BENEFIT

### As of June 30, 2002

Amount Monthly Benefit	Number of Retirees	Type of Retirement						Option Selected			
		1	2	3	4	5	6	Unmod.	Option 1	No Surv.	Total
\$1 - 500	208	105	51	1		7	44	165	17	26	208
501 - 1000	317	132	105	13	12	19	36	243	17	57	317
1001 - 1500	409	203	94	45	30	3	34	339	28	42	409
1501 - 2000	330	227	45	26	13	2	17	300	11	19	330
2001 - 2500	237	191	15	16	8		7	220	11	6	237
2501 - 3000	173	153	5	6	3		6	161	8	4	173
3001 - 3500	163	142	9	3	1	1	7	151	5	7	163
3501 - 4000	92	87	2	1			2	84	7	1	92
4001 - 4500	82	80	2					79	2	1	82
4501 - 5000	25	24		1				24	1	0	25
Over \$5000	64	63		1				63	1	0	64
<b>Total</b>	<b>2100</b>	<b>1407</b>	<b>328</b>	<b>113</b>	<b>67</b>	<b>32</b>	<b>153</b>	<b>1829</b>	<b>108</b>	<b>163</b>	<b>2100</b>

- |   |                                  |                                     |
|---|----------------------------------|-------------------------------------|
| 1 | Service                          | Unmodified - 50% Continuance        |
| 2 | Survivor                         | Option 1: 100% Continuance/         |
| 3 | Service Connected Disability     | reduced pension                     |
| 4 | Non-Service Connected Disability | Single/No Survivor - No Continuance |
| 5 | Ex-Spouse                        |                                     |
| 6 | Deferred Vested                  |                                     |

## AVERAGE BENEFIT PAYMENT AMOUNTS

Age	Survivor Single Life Annuity		Disabled Retiree Joint and Survivor Annuity		Disabled Retiree Single Life Annuity		Retiree Joint and Survivor Annuity		Retiree Single Life Annuity		Total Count
	Count	Average	Count	Average	Count	Average	Count	Average	Count	Average	
Under 30	9	\$ 2,773	-	\$ -	-	\$ -	-	\$ -	-	\$ -	9
30 to 34	2	23,223	3	15,447	-	-	-	-	-	-	5
35 to 39	-	-	4	14,058	1	17,707	-	-	-	-	5
40 to 44	6	18,025	4	15,210	-	-	-	-	-	-	10
45 to 49	11	17,067	15	17,535	3	18,488	-	-	1	-	30
50 to 54	13	21,881	22	17,648	3	21,782	13	44,492	4	47,106	55
55 to 59	31	12,960	22	18,787	1	45,617	169	30,678	49	26,256	272
60 to 64	36	12,585	28	19,674	1	13,457	276	29,956	17	24,928	358
65 to 69	54	12,978	22	18,261	1	12,746	272	25,917	12	22,680	361
70 to 74	45	11,878	14	21,085	4	13,355	255	24,036	10	13,061	328
75 to 79	63	11,726	15	17,778	-	-	238	20,953	9	9,859	325
80 to 84	45	10,496	7	16,035	2	10,243	129	17,780	4	9,614	187
85 to 89	25	11,425	3	10,752	1	12,172	34	15,521	7	17,985	70
90 and Up	2	10,616	-	-	-	-	4	16,830	9	13,894	15
Summary	342	\$12,455	159	\$ 18,157	17	\$ 17,436	1,390	\$ 25,241	122	\$ 21,965	2,030

Average Annual Benefit \$ 22,270

Data as of last actuarial valuation, June 30, 2001

**RETIREMENTS DURING THE FISCAL YEAR ENDED JUNE 30, 2002****SERVICE RETIREMENTS**

ABERNATHY, DONALD L	GARCIA, LUIS	NORTON, RITA A
ANDERSON, JACK W	GILBERT, EVERETT H	ONG, ANITA D
ANDERSON, ROBERT T	GRAY, JEANNE A	PERSICO, RAY W
BALDWIN, RONALD G	GREENE, ROBERT J	PHAGAN, WILLIAM A
BALGA, ROBERT J	HALENBECK, GEORGE R	POPE, DONNA L
BARTON, ERLE G	HARTMAN, STEVEN	PRIDEMORE, MARIANNE J
BATINICH, JESSICA A	HERNANDEZ, LINDA JEAN	QUIGLEY, RICHARD A
BEAUDOIN, MARK W	HERNANDEZ, RALPH A	RAFFERTY, PENNY D
BERMUDEZ, CLAYTON R	HEWITT, WILLIAM	RAMIREZ, MANUEL E
BORDEN, SHARON L	HOANG, JOSEPH	REED, CAROL L
BOYD, RICHARD M	HOWSMON, WILLIAM D	RICHERT, GARY J
BOYDEN, JEAN R	JACOBO, MANUEL	RITZ, SHIRLEY A
BRADFORD-MOORE, SUSAN	JOHNSON, DENNIS E	ROBERTSON, GREGORY D
BRASWELL, SHARON	KAY, WENDY I	ROBERTSON, JUDITH A
BRAY, MARY ELLEN	KLIS, GAIL	ROSAMOND, DOLORES T
BROWN, ELIZABETH B	KUCZYNSKI, MICHAEL	SAKAI, CHARLOTTE T
CAIN, JOHN D	KUHAR, JAMES J	SHEA, MARTIN D
CARRANZA, PRISCILLA	KUNOLD, CAROL D	SHYNNE, SUZANNE T
CASEY, DORIS H	KWOK, MAUREEN M	SIMMONS, VIRGINIA E
CHAMBERS, DENNIS E	LA ROCCA JR, LOUIS J	SMITH, CHARLOTTE A
CHUNGLO, PAUL E	LAMANCE, CHARLES L	SMITH, JOAN L
CINTAS, BETTY A	LAN, VICTORIA T	SMITH, MICHAEL D
CLAUDIO, ERNESTO C	LEININGER, ROBERT A	SOWARD, LEONA V
COHEN, MARGARET H	LERMA, VALENTE G	SPEIDEL, ARLEEN B
COLLA, JOHN D	LEVIN, EILEEN M	SPEIDEL, ARLEEN B
CONN, RONALD D	MAC MURRAY, MARY L	TANDA, WAYNE K
DA ROSA, MARY N	MACK, STEPHEN J	TARKINGTON, WILLIAM J
DAMEY, TERESA M	MANCUS, CAROLYN J	TAYLOR, SHARON T
DAY, JAMES E	MARTINEZ, RAY A	TAYLOR, SHIRLEY G
DE LAERE, SYLVIA G	MATHIS, MARIA	TENORIO, FLORENCIO
DERRYBERRY, JAMES R	MC LAIN, RONALD B	TERRASAS, ROBERT C
DOTTER, JOHN C	MC QUADE, LYNDIA F	THEROUX, GARRY H
DOWDLE, MICHAEL D	MILLER, JUDITH L	TOKUNAGA, ALAN Y
DURKIN, PATRICIA	MISKE, JUDITH M	TONE-ADAMS, DIANA S
DYER, TIM W	MOODY, BERNICE	TURNER, STANLEY R
EATON, MICHAEL E	MOORE, LARRY	VALLEE, KATHRYN
EBERHARDT, TERRY J	MUZZIO, JOHN D	VIERRA, JONNIE B
EDENS, LARRY K	NANQUIL, JOSE G	VISCO, MARY G
EY TALIS, VERONICA E	NASHELSKY, DAVID N	WHEATLEY, DONALD E
FAHEY, JAMES M	NAVARRO, RAYMOND R	WILL, CHARLES D
GARCIA, JOSE	NILGES, PAUL E	WRIGHT, ALTON L

## RETIREMENTS DURING THE FISCAL YEAR ENDED JUNE 30, 2002 (Continued)

### DEFERRED VESTED RETIREMENTS

ALLEN, ROBERT BART, KRYST BONKOWSKI, SHIRLEY R CALDWELL, PHYLLIS L CARRILLO, LIONEL J DEE, GENIE DOLAN, KATHLEEN ELLIOTT, DONNA K	FISH, JAMES H GAWF, GEORGE E GILL, CHARLES D HANNIGAN, LINDA E LIU, GRACE F LORKOWSKI, CHRISTINE M PACHECO, SHERI SUMMERS RUCKLE, GARY D	SANCHEZ, ALEXANDER A SCRIBNER, SARA A SIMMONS, MIKE R TAYLOR, JOAN D THEODORE, PAUL J TORRES, RODOLFO D VARNER, EILEEN M YESNEY, MICHELLE S
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### SERVICE-CONNECTED DISABILITY RETIREMENTS

LEONG, MAY F MAUPIN, NOLA N MENDOZA, ANTHONY R	MOLANO, RICHARD MOORE, DAVID A	VASQUEZ, NESTOR V WELSH, GEORGE D
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### NON-SERVICE CONNECTED DISABILITY RETIREMENTS

GIBSON, MARTHA C GINNE, CARROLL L GREER, ARTHUR J KEY, MICHAEL D	MAGAHIZ, LILY T OVERSON, DIANA L ROBASCIOTTI, LINDA M SOLEH, SHELAINA H	TOCCHINI, CAROL J TOVAR, JAVIER VON HAAS, DARRELL J
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## DEATHS DURING THE FISCAL YEAR ENDED JUNE 30, 2002

### DEATHS AFTER RETIREMENT

ALLEN, WILLIAM M BELLAMY, EVELYN S. BILLARD, GERARD BRAGER, ARTHUR BUCHNER, RAYMOND J BURROWS, CHARLOTTE S CAROTTA, SHIRLEY CATANIA, TOSCA L CHRISTIE, NEIL A CONROY, THOMAS L DUGGAN, MARGARET E EDWARDS, JACK E FERGUSON, JAMES T FORSTER, JAMES	FRYE, WALTER R GAMES, MARIETTA S GOGGIANO, ALESSANDRO F GUIDOTTI, JOSEPH HAUGHEY, GERALDINE M HENRY, NORMA A HUMMER, MERRIL E JACOLIK, RAYMOND KOSLOSKE, FRED C KYLE, JAMES W LAGUNA, SALVADORE C LEWIS, KENNETH D MAGSAYSAY, MARIO V MEAGHER, FREDERIC W	MORRIS, JAMES F PICAZO, PABLO RAPOZA, ARNOLD C ROBERSON, VIOLET SANCHEZ, GILBERT SELVA, JOHN P TOCCHINI, CAROL J TRUJILLO, LEOVIA M VASQUEZ, NESTOR V VON HAAS, DARRELL J WALLACE, CARLLEN R WOOD, BETTY M ZAPPIA, MANUEL M ZUILL, CLAUDE F
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### DEATHS BEFORE RETIREMENT

POWERS, JOAN G	DUNNE, CHRISTOPHER C	ARRUDA, TERESA M
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